
SECURITIES AND EXCHANGE COMMISSION
FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2001

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission file number: 1-9531

TELEFÓNICA, S.A.

(Exact name of registrant as specified in its charter)

KINGDOM OF SPAIN

(Jurisdiction of incorporation of organization)

Gran Vía, 28, 28013 Madrid, Spain

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Shares, nominal value one euro each, listed on the New York Stock Exchange not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the New York Stock Exchange.

American Depositary Shares, each representing the right to receive three shares, listed on the New York Stock Exchange.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

The number of issued shares of each class of stock of Telefónica, S.A. at December 31, 2001 was:

Shares, nominal value one euro each: 4,671,915,885

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

Table of Contents

| | <u>Page</u> |
|--|-------------|
| Cautionary Statement Regarding Forward-Looking Statements..... | 1 |
| Certain Terms and Conventions..... | 1 |
| Presentation of Certain Financial Information..... | 2 |
| PART I | |
| Item 1. Identity of Directors, Senior Management and Advisors..... | 3 |
| A. Directors and Senior Management..... | 3 |
| B. Advisers..... | 3 |
| C. Auditors..... | 3 |
| Item 2. Offer Statistics and Expected Timetable..... | 3 |
| Item 3. Key Information..... | 3 |
| A. Selected Financial Data..... | 3 |
| B. Capitalization and Indebtedness..... | 7 |
| C. Reasons for the Offer and Use of Proceeds..... | 7 |
| D. Risk Factors..... | 7 |
| Item 4. Information on the Company..... | 14 |
| A. History and Development of the Company..... | 14 |
| B. Business Overview..... | 18 |
| C. Organizational Structure..... | 72 |
| D. Property, Plants and Equipment..... | 72 |
| Item 5. Operating and Financial Review and Prospects..... | 75 |
| A. Operating Results..... | 75 |
| B. Liquidity and Capital Resources..... | 105 |
| C. Research and Development..... | 110 |
| Item 6. Directors, Senior Management and Employees..... | 111 |
| A. Directors and Senior Management..... | 111 |
| B. Compensation..... | 115 |
| C. Board Practices..... | 118 |
| D. Employees..... | 119 |
| E. Share Ownership..... | 120 |
| Item 7. Major Shareholders and Related Party Transactions..... | 121 |
| A. Major Shareholders..... | 121 |
| B. Related Party Transactions..... | 121 |
| C. Interests of Experts and Counsel..... | 121 |
| Item 8. Financial Information..... | 122 |
| Item 9. The Offering and Listing..... | 123 |
| A. Offer and Listing Details..... | 123 |
| B. Plan of Distribution..... | 127 |
| C. Markets..... | 127 |
| D. Selling Shareholders..... | 128 |
| E. Dilution..... | 128 |
| F. Expenses of the Issue..... | 128 |

| | |
|---|-----|
| Item 10. Additional Information | 128 |
| A. Share Capital | 128 |
| B. Memorandum and Articles of Association..... | 128 |
| C. Material Contracts..... | 130 |
| D. Exchange Controls | 131 |
| E. Taxation | 133 |
| F. Dividends and Paying Agents | 138 |
| G. Statements by Experts | 138 |
| H. Documents on Display | 138 |
| Item 11. Quantitative and Qualitative Disclosures About Market Risk | 138 |
| Item 12. Description of Securities Other than Equity Securities..... | 143 |

PART II

| | |
|--|-----|
| Item 13. Defaults, Dividend Arrearages and Delinquencies | 143 |
| Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds..... | 143 |
| Item 15. Reserved..... | 143 |
| Item 16. Reserved..... | 143 |

PART III

| | |
|-------------------------------------|-----|
| Item 17. Financial Statements | 143 |
| Item 18. Financial Statements | 143 |
| Item 19. Exhibits | 143 |

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this Annual Report and include statements regarding our intent, belief or current expectations with respect to, among other things:

- the effect on our results of operations of the introduction of competition in the Spanish telecommunications market
- trends affecting our financial condition or results of operations
- acquisitions or investments which we may make in the future
- our capital expenditures plan
- supervision and regulation of the Spanish telecommunications sector
- our strategic partnerships
- the potential for growth and competition in current and anticipated areas of our business

Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those in the forward-looking statements as a result of various factors. The risks and uncertainties involved in our businesses that could affect the matters referred to in such forward-looking statements include but are not limited to:

- changes in general economic, business, or political conditions in the domestic or international markets in which we operate or have material investments that may affect demand for our services
- changes in currency exchange rates and interest rates
- the impact of current, pending or future legislation and regulation in Spain and other countries where we operate
- the actions of existing and potential competitors in each of our markets
- the outcome of pending litigation
- the potential effects of technological changes

Some of these and other important factors that could cause such differences are discussed in more detail under “Item 3—Key Information—Risk Factors”, “Item 4—Information on the Company”, “Item 5—Operating and Financial Review and Prospects” and “Item 11—Quantitative and Qualitative Disclosures about Market Risk”.

Readers are cautioned not to place undue reliance on those forward-looking statements, which speak only as of the date of this Annual Report. We undertake no obligation to release publicly the result of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date of this Annual Report including, without limitation, changes in our business or acquisition strategy or planned capital expenditures, or to reflect the occurrence of unanticipated events.

CERTAIN TERMS AND CONVENTIONS

Our ordinary shares, nominal value one euro each, are currently listed on each of the Madrid, Barcelona, Bilbao and Valencia stock exchanges under the symbol “TEF”. They are also listed on various foreign exchanges such as the London, Frankfurt, Paris, Buenos Aires and Tokyo stock exchanges and are quoted through the Automated Quotation System of the Spanish stock exchanges and through the SEAQ International System of the London Stock Exchange. American Depositary Shares (“ADSs”), each representing the right to receive three ordinary shares, are

listed on the New York Stock Exchange under the symbol “TEF” and on the Lima Stock Exchange. ADSs are evidenced by American Depositary Receipts (“ADRs”) issued under a Deposit Agreement with Citibank, N.A., as Depositary. Brazilian Depositary Shares (“BDSs”), each representing the right to receive one ordinary share, are listed on the São Paulo Stock Exchange. BDSs are evidenced by Brazilian Depositary Receipts (“BDRs”) issued under a Deposit Agreement with Banco Bradesco, S.A., as Depositary.

As used herein:

- “Telefónica” and terms such as “we,” “us” and “our” mean Telefónica, S.A. and its consolidated subsidiaries unless the context otherwise requires
- “Telefónica de España” means Telefónica de España, S.A., our subsidiary that conducts our fixed-line telecommunications services business in Spain, and its consolidated subsidiaries
- “Telefónica Móviles” means Telefónica Móviles, S.A., our subsidiary that conducts our worldwide wireless communications services business, and its consolidated subsidiaries
- “Admira Media” means Grupo Admira Media, S.A. (formerly known as “Telefónica Media, S.A.”), our subsidiary that conducts our worldwide audiovisual content and media business, and its consolidated subsidiaries
- “Telefónica Internacional” means Telefónica Internacional, S.A., our subsidiary that conducts our fixed-line telecommunications business in Latin America, and its consolidated subsidiaries
- “Telefónica Data” means Telefónica DataCorp, S.A., our subsidiary that conducts our worldwide data transmission business, and its consolidated subsidiaries
- “Terra Networks” means Terra Networks, S.A., our subsidiary that conducts our worldwide Internet-related business, and its consolidated subsidiaries

PRESENTATION OF CERTAIN FINANCIAL INFORMATION

In this Annual Report, references to “dollars” or “\$” are to United States dollars and references to “euro” or “€” are to the single currency of the participating member states in the Third Stage of the European Economic and Monetary Union pursuant to the treaty establishing the European Community, as amended from time to time. We historically published our financial statements in Spanish pesetas (“pesetas” or “Ptas”). Beginning January 1, 1999, we began publishing our financial statements in both Spanish pesetas and euro. We have translated financial information presented in this Annual Report for periods prior to January 1, 1999 from Spanish pesetas into euro using the official irrevocably-fixed conversion rate of Ptas 166.386 = €1.00. Financial information for periods prior to January 1, 1999 reported in euro depicts the same trends that would have been presented had we continued to present such financial information in Spanish pesetas. However, financial information for periods prior to January 1, 1999 is not comparable with that of other companies reporting in euro that restated these amounts from a currency other than the Spanish peseta.

For the convenience of the reader, some of the financial information in this Annual Report has been translated from euro into United States dollars at an assumed rate of €1.00 = \$0.8901, the Noon Buying Rate in New York City for cable transfers in euro as certified for customs purposes by the Federal Reserve Bank of New York (the “Noon Buying Rate”) on December 31, 2001. These convenience translations should not be construed as representations that the euro amounts actually represent such dollar amounts or could be converted into dollars at the rate indicated. The assumed rate also differs from the rates used in the preparation of our consolidated financial statements. Further information about recent rates of exchange between the euro and dollar appears in “Item 3—Key Information”.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

A. DIRECTORS AND SENIOR MANAGEMENT

Not applicable.

B. ADVISERS

Not applicable.

C. AUDITORS

On April 1, 2002, Arthur Andersen y Cia entered into an agreement with the French and Spanish national practices of Deloitte Touche Tohmatsu ("DTT") that provides for the association of Arthur Andersen y Cia with those national practices (and therefore with DTT), subject to regulatory approval which is currently under consideration. Until such time as this approval is granted and this relationship becomes final, Deloitte & Touche has agreed to perform the quality control procedures required for foreign associated firms that are embodied in the requirements of the SEC Practice Section of the American Institute of Certified Public Accountants. Deloitte & Touche has performed such quality control procedures with respect to Arthur Andersen y Cia's audit of the financial statements for the year ended December 31, 2001 included in this Annual Report.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

The information in this section should be read in conjunction with our consolidated financial statements, and the notes thereto, included elsewhere in this Annual Report. Our consolidated financial statements have been prepared in accordance with Spanish GAAP, which differ in certain respects from U.S. GAAP. Please refer to note 25 to our consolidated financial statements for a discussion of these differences.

The basis of presentation and principles of consolidation are described in detail in note 2 to our consolidated financial statements.

| | At and for the Year ended December 31, | | | | | 2001 (millions of dollars, except per share and per ADS data)(2) |
|--------------------------------|---|-----------|-----------|-----------|-----------|---|
| | 1997(1) | 1998(1) | 1999 | 2000 | 2001 | |
| | (millions of euro, except per share and per ADS data) | | | | | |
| INCOME STATEMENT DATA | | | | | | |
| Spanish GAAP: | | | | | | |
| Revenue from operations | 14,202.5 | 17,465.5 | 22,957.0 | 28,485.5 | 31,052.6 | 27,639.9 |
| Other operating revenue..... | 248.2 | 116.5 | 199.2 | 266.7 | 254.7 | 226.7 |
| Internal expenditures | | | | | | |
| capitalized..... | 708.8 | 747.1 | 835.0 | 899.1 | 730.4 | 650.1 |
| Increase (decrease) in | | | | | | |
| inventories, net..... | 18.2 | 50.8 | 74.5 | 112.3 | (103.9) | (92.5) |
| Goods purchased..... | (2,007.8) | (2,203.8) | (4,093.1) | (6,045.2) | (7,111.9) | (6,330.3) |
| External services and local | | | | | | |
| taxes | (1,800.2) | (2,225.5) | (3,975.6) | (5,786.1) | (5,534.3) | (4,926.1) |
| Personnel costs..... | (3,431.2) | (3,907.6) | (4,411.5) | (5,111.7) | (5,390.3) | (4,797.9) |
| Provision for depreciation and | | | | | | |
| amortization | (3,622.0) | (4,360.0) | (6,108.8) | (6,960.8) | (7,374.0) | (6,563.6) |
| Trade provisions | (214.9) | (637.7) | (565.8) | (761.1) | (1,023.8) | (911.3) |

| | At and for the Year ended December 31, | | | | | |
|---|---|------------|------------|------------|------------|---|
| | 1997(1) | 1998(1) | 1999 | 2000 | 2001 | 2001 |
| | (millions of euro, except per share and per ADS data) | | | | | (millions of dollars, except per share and per ADS data)(2) |
| Other operating expenses | (132.2) | (145.5) | (134.3) | (140.7) | (69.3) | (61.7) |
| Total operating costs before financial expenses and goodwill amortization | (11,208.3) | (13,480.0) | (19,289.0) | (24,805.6) | (26,503.5) | (23,590.8) |
| Operating profit..... | 3,969.4 | 4,899.9 | 4,776.6 | 4,958.0 | 5,430.3 | 4,833.5 |
| Financial income (expense) | (1,050.6) | (1,339.6) | (1,490.4) | (1,611.8) | (1,608.4) | (1,431.7) |
| Exchange gains (losses), net | (77.7) | (40.6) | 434.3 | (248.5) | (782.7) | (696.7) |
| Income (loss) from associated companies | 59.9 | 73.3 | (3.9) | (161.4) | (376.5) | (335.1) |
| Amortization of goodwill on consolidation..... | (200.2) | (127.0) | (194.3) | (500.6) | (841.6) | (749.1) |
| Profit from ordinary activities..... | 2,700.8 | 3,466.1 | 3,522.3 | 2,435.7 | 1,821.1 | 1,620.9 |
| Extraordinary income | 310.5 | 329.2 | 2,029.4 | 4,302.3 | 1,167.1 | 1,038.8 |
| Losses on sale of fixed assets..... | (165.4) | (157.9) | (235.6) | (239.9) | (233.0) | (207.4) |
| Extraordinary expenses | (816.6) | (1,221.3) | (5,348.7) | (3,630.5) | (721.3) | (642.0) |
| Income before tax and minority interest..... | 2,029.3 | 2,416.1 | (32.7) | 2,867.6 | 2,033.9 | 1,810.4 |
| Corporate income tax | (442.0) | (552.2) | 758.0 | (242.2) | (198.1) | (176.3) |
| Minority interest | (445.0) | (556.2) | (655.7) | (120.6) | 271.0 | 241.2 |
| Net income | 1,142.3 | 1,307.7 | 69.6 | 2,504.8 | 2,106.8 | 1,875.3 |
| Net income per share(3)..... | 0.35 | 0.37 | 0.02 | 0.63 | 0.45 | 0.40 |
| Dividends per share | 0.18 | — | — | — | — | — |
| Weighted average number of shares (thousands)..... | 3,276,060 | 3,532,281 | 3,532,282 | 3,980,218 | 4,674,378 | 4,674,378 |
| Net income per ADS(3)(4)..... | 1.05 | 1.11 | 0.06 | 1.89 | 1.35 | 1.20 |
| Dividends per ADS(4) | 0.53 | — | — | — | — | — |
| Weighted average number of ADSs (thousands) | 1,092,020 | 1,177,427 | 1,177,427 | 1,326,739 | 1,558,126 | 1,558,126 |
| U.S. GAAP | | | | | | |
| Total revenues..... | 13,226.4 | 15,866.4 | 21,190.4 | 27,326.1 | 31,577.2 | 28,106.9 |
| Total costs and expenses..... | (10,669.7) | (13,189.6) | (16,813.1) | (23,977.8) | (37,492.9) | (33,372.4) |
| Profit from ordinary activities..... | 2,556.8 | 3,006.4 | 4,377.3 | 3,348.3 | (5,915.7) | (5,265.6) |
| Income (loss) before tax..... | 1,359.4 | 1,636.4 | (367.2) | 1,765.5 | (6,707.0) | (5,969.9) |
| Corporate income tax | 170.0 | 340.7 | 921.4 | 294.1 | (475.3) | (423.0) |
| Net income | 1,189.4 | 1,288.9 | 554.2 | 1,856.0 | (7,182.3) | (6,392.9) |
| Net income per share(3)(5) | 0.36 | 0.36 | 0.16 | 0.47 | (1.54) | (1.37) |
| Net income per ADS(3)(4)(5)..... | 1.09 | 1.09 | 0.47 | 1.40 | (4.61) | (4.10) |

BALANCE SHEET DATA

Spanish GAAP:

| | | | | | | |
|------------------------------------|----------|----------|----------|----------|----------|----------|
| Cash | 62.7 | 143.0 | 186.1 | 765.6 | 621.9 | 553.5 |
| Property plant and equipment | 24,930.7 | 27,821.6 | 35,754.9 | 38,721.9 | 36,606.1 | 32,583.1 |
| Total assets..... | 37,411.6 | 48,593.6 | 64,114.0 | 92,377.3 | 86,422.6 | 76,924.7 |
| Total long-term debt | 11,519.2 | 13,695.4 | 17,788.3 | 24,692.9 | 27,692.4 | 24,649.0 |
| Total shareholders' equity..... | 11,968.4 | 15,295.1 | 14,544.7 | 25,930.5 | 25,861.6 | 23,019.4 |

U.S. GAAP:

| | | | | | | |
|-------------------------------------|----------|----------|----------|-----------|----------|----------|
| Cash | 42.4 | 131.4 | 239.2 | 678.7 | 619.6 | 551.5 |
| Property, plant and equipment | 19,706.3 | 23,474.1 | 30,079.1 | 38,277.9 | 36,231.6 | 32,249.7 |
| Total assets..... | 30,705.3 | 43,113.8 | 59,306.5 | 108,017.1 | 91,041.1 | 81,035.7 |
| Total long-term debt | 9,150.8 | 13,695.4 | 15,385.0 | 20,618.5 | 27,771.2 | 24,719.1 |
| Total shareholders' equity..... | 11,607.5 | 14,937.3 | 16,926.5 | 44,357.8 | 31,769.8 | 28,278.3 |

| | At and for the Year ended December 31, | | | | | |
|---|---|-----------|-----------|------------|-----------|---|
| | 1997(1) | 1998(1) | 1999 | 2000 | 2001 | 2001 |
| | (millions of euro, except per share and per ADS data) | | | | | (millions of dollars, except per share and per ADS data)(2) |
| CASH FLOW DATA | | | | | | |
| Spanish GAAP: | | | | | | |
| EBITDA(6) | 7,591.5 | 9,259.9 | 10,885.4 | 11,918.8 | 12,804.3 | 11,397.1 |
| Net cash provided by operating activities..... | 6,111.5 | 6,735.7 | 7,758.9 | 8,996.9 | 8,828.8 | 7,858.5 |
| Net cash used in (provided by) investing activities(7) | 6,620.7 | 11,765.8 | (9,600.9) | (17,719.5) | (9,895.4) | (8,807.9) |
| Net cash used in (received from) financing activities..... | 1,027.4 | 4,630.2 | 2,332.0 | 14,320.9 | (1,321.1) | (1,175.9) |
| U.S. GAAP: | | | | | | |
| EBITDA(6) | 5,443.5 | 7,986.9 | 9,447.7 | 10,825.6 | 13,169.7 | 11,722.4 |
| Net cash provided by operating activities..... | 5,293.2 | 5,556.0 | 6,661.7 | 16,370.1 | 8,995.8 | 8,007.1 |
| Net cash used in (provided by) investing activities(7) | 5,642.6 | 12,228.7 | 7,633.3 | (25,572.6) | (9,528.5) | (8,481.3) |
| Net cash used in (received from) financing activities..... | (1,023.6) | (3,902.2) | (1,839.9) | 14,689.4 | (1,347.0) | (1,199.0) |

- (1) The consolidated financial statements at December 31, 1997 and 1998 and for the years then ended were prepared in Spanish pesetas and have been translated into euro at the irrevocably-fixed rate of exchange of Ptas 166.386 = €1.00.
- (2) Translated into U.S. dollars from euro at the Noon Buying Rate of \$0.8901 = €1.00 on December 31, 2001.
- (3) The per-share and per-ADS computations for all periods presented have been adjusted to reflect the stock split and stock dividends which occurred during the periods presented and after the close of the 2001 period but before issuance of the financial statements.
- (4) Each ADS represents the right to receive three ordinary shares. Figures do not include any charges of the Depositary.
- (5) U.S. GAAP earnings per share and per ADS have been computed using the weighted average number of shares outstanding for each period.
- (6) Earnings before interest, taxation, depreciation and amortization. EBITDA has been included to provide additional information relating to our ability to generate cash from operations. EBITDA is not a measure of financial performance under Spanish or U.S. GAAP and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles. Management believes EBITDA is useful to an investor in evaluating our company because it is widely used in the telecommunications industry as a measure to evaluate a company's operating performance before debt expense and its cash flow. EBITDA is not calculated identically by all companies and the presentation here may not be comparable to other similarly titled measures of other companies. Management's discretionary use of funds depicted by EBITDA may be limited by working capital, debt service and capital expenditure requirements and by restrictions related to legal requirements, commitments and uncertainties.
- (7) Includes net cash outflow for capital expenditures and for investments in affiliates.

Exchange Rate Information

The following table sets forth certain information concerning the Noon Buying Rate for dollars expressed in pesetas per \$1.00.

| Year ended December 31, | Noon Buying Rate | | | |
|-------------------------|------------------|------------|--------|--------|
| | Period End | Average(1) | High | Low |
| 1997 | 152.40 | 147.14 | 158.80 | 129.80 |
| 1998 | 142.15 | 149.42 | 157.41 | 136.80 |

Source: Federal Reserve Bank of New York.

(1) The average of the Noon Buying Rates on the last day of each full month during the relevant period.

Effective January 1, 1999, the following 11 European Union member states adopted the euro as a common currency: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, The Netherlands, Portugal and Spain. They also established fixed conversion rates between their respective sovereign currencies and the euro. On January 1, 2001, Greece joined the European Economic and Monetary Union. The exchange rate at which the Spanish peseta has been irrevocably fixed against the euro is Ptas 166.386 = €1.00. On January 1, 2002, the participating member states began issuing new euro-denominated bills and coins for use in cash transactions. As of March 1, 2002, the participating member states have withdrawn the bills and coins denominated in their respective currencies from circulation, and they are no longer legal tender for any transactions.

The Noon Buying Rate for the euro on June 27, 2002 was \$0.9885 = €1.00. The following tables describe, for the periods and dates indicated, information concerning the Noon Buying Rate for the euro. Amounts are expressed in U.S. dollars per €1.00.

| Year ended December 31, | Noon Buying Rate | | | |
|-------------------------|------------------|------------|--------|--------|
| | Period End | Average(1) | High | Low |
| 1999 | 1.0070 | 1.0588 | 1.1812 | 1.0016 |
| 2000 | 0.9388 | 0.9207 | 1.0335 | 0.8270 |
| 2001 | 0.8901 | 0.8909 | 0.9535 | 0.8370 |

Source: Federal Reserve Bank of New York.

(1) The average of the Noon Buying Rates for the euro on the last day of each month during the relevant period.

| Month ended | Noon Buying Rate | |
|---|------------------|--------|
| | High | Low |
| December 31, 2001 | 0.9044 | 0.8773 |
| January 31, 2002 | 0.9031 | 0.8594 |
| February 28, 2002 | 0.8778 | 0.8613 |
| March 31, 2002 | 0.8836 | 0.8652 |
| April 30, 2002 | 0.9028 | 0.8750 |
| May 31, 2002 | 0.9373 | 0.9022 |
| June 30, 2002 (through June 27, 2002) | 0.9885 | 0.9692 |

Source: Federal Reserve Bank of New York.

Monetary policy within the member states of the euro zone is set by the European Central Bank. The European Central Bank has set itself the objective of containing inflation and will adjust interest rates in line with this policy without taking account of other economic variables such as the rate of unemployment. It has further declared that it will not set an exchange rate target for the euro.

Our ordinary shares are quoted on the Spanish stock exchanges in euro. Currency fluctuations may affect the dollar equivalent of the euro price of our shares listed on the Spanish stock exchanges and, as a result, the market price of our ADSs, which are listed on the New York Stock Exchange. Currency fluctuations may also affect the dollar amounts received by holders of ADRs on conversion by the Depositary of any cash dividends paid in euro on the underlying shares.

Our consolidated results are affected by fluctuations between the euro and the currencies in which the revenues and expenses of some of our consolidated subsidiaries are denominated (principally the Brazilian real, the Argentine peso, the Chilean peso, the Peruvian nuevo sol and the U.S. dollar). See "Item 11—Quantitative and Qualitative Disclosures about Market Risk".

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

A material portion of our foreign operations and investments is located in Latin America, and we are therefore exposed to risks inherent in operating and investing in Latin America.

At December 31, 2001, approximately 50% of our assets were located in Latin America. In addition, approximately 43% of our EBITDA for 2001 was derived from our Latin American operations. Our foreign operations and investments in Latin America are subject to various risks, including risks related to the following:

- government regulations and administrative policies may change quickly
- currencies may be devalued or currency restrictions and other restraints on transfer of funds may be imposed
- the government may expropriate assets
- the government may impose burdensome taxes or tariffs
- political changes may lead to changes in the business environment in which we operate
- our operations are dependent on concessions and other agreements with the government
- economic downturns, political instability and civil disturbances may negatively affect our operations

In addition, revenues from operations of our Latin American subsidiaries, their market value and the dividends and management fees received from them are exposed to material country risk as a result of adverse economic conditions in the region that may adversely affect demand, consumption and exchange rates. For example, in January 1999, as a result of adverse economic conditions in Brazil, Telefónica Internacional wrote down the book value of its investments in Brazil in the amount of €717.5 million.

The recent devaluation of the Argentina peso and the adverse macroeconomic conditions currently prevailing in Argentina and recent emergency measures adopted by the Argentine government have had, and may continue to have, a material adverse effect on our results of operations and financial condition.

As a result of the devaluation of the Argentine peso in January 2002, in accordance with Spanish accounting regulations we created various provisions and allowances against our net income for 2001 and adjusted the “translation differences in consolidation” account in our consolidated balance sheet at December 31, 2001. Accordingly, the devaluation of the Argentine peso resulted in a decrease in net income of €369.0 million in 2001 and a reduction in shareholders’ equity of €1,793.1 million at December 31, 2001 (including the decrease in net income). These provisions and allowances were made applying the rate of exchange of €1.00 = 1.5149 Argentine pesos, which is equivalent to the rate of U.S.\$1.00 = 1.7 Argentine pesos at January 11, 2002, which is the date the Argentine currency markets first opened following the decision by the Argentine Central Bank to close such markets on December 21, 2001. At March 31, 2002, the rate of exchange had fallen to €1.00 = 2.4862 Argentine pesos, resulting in a decrease in net income of €25.4 million during the first quarter of 2002 and a reduction in shareholders’ equity of €1,093.0 million at March 31, 2002. On June 25, 2002, the rate of exchange was €1.00 = 3.78 Argentine pesos. Our financial condition and results of operations may be adversely affected by this subsequent decline and any further declines in the value of the Argentine peso or declines in the values of the currencies of other Latin American countries (including the Brazilian real, which has experienced some recent depreciation) where we operate.

In addition, the deepening recession and mounting unemployment has led to a reduction of wages in real terms and a reduction in disposable income across all class sectors of the Argentine population. This has resulted in and may continue to result in lower use of our services in Argentina and a deterioration in the collection of accounts receivable, as a result of which our revenues from operations and cash flows in Argentina may decrease further. Further, as part of the measures adopted by the Argentine government in response to the economic crisis, the government annulled the semi-annual adjustments in accordance with the U.S. Consumer Price Index applied to the rates we charge in Argentina for measured services and authorized the government to renegotiate these rate agreements. If future rates evolve at a pace below increases in general price levels as a result of inflation, this would adversely affect our future financial condition and results of operations as well as the recoverability of the value of our fixed assets in Argentina through cash flows.

Furthermore, in light of recent macroeconomic developments in Argentina, sources of third-party financing may no longer be available to our Argentine fixed-line operator in amounts sufficient for it to meet its debt obligations. Should no third-party financing be available to it, or if we do not provide additional financing to it, or if it does not succeed in refinancing its indebtedness, our Argentine fixed-line operator may be unable to meet its current obligations with local and foreign creditors and may be unable to continue as a going concern.

Additionally, the Central Bank of Argentina has imposed a prohibition on transfers of funds outside Argentina by private sector parties, without its prior authorization, when such transfers relate to debt principal repayments and distributions of income or dividends, except for certain debts, including those involving multilateral lending entities and official or officially-recognized credit agencies. This prohibition remains in effect as of the date of this Annual Report. If the restrictions on funds transfers remain in effect and the Central Bank does not authorize the remittance of funds abroad by our Argentine fixed-line operator, its debt obligations may become immediately due and payable, unless new financing is funded outside Argentina and is available for it to pay its foreign creditors or it is able to refinance the indebtedness that is subject to the restrictions. If our Argentine fixed-line operator fails to secure such financing, or it does not succeed in refinancing such indebtedness, it may not be able to continue as a going concern.

We face intense competition in most of our markets, which could result in decreases in current and potential customers, revenues and profitability.

We face significant competition in all of the markets in which we operate. Governmental authorities in many of the countries in which we operate continue to grant new licenses and concessions to new market entrants, which will result in increased competition in those countries and markets. In addition, technological developments are increasing cross-competition in certain markets, such as between wireless providers and fixed-line telephony operators.

Although we continue to have a significant market share in most segments of the fixed-line telecommunications market in Spain, telecommunications regulators are promoting competition in fixed-line telecommunications services through policies that favor other fixed-line telecommunications operators. We may lose market share as a result of these policies, which could adversely affect our results of operations and the profitability of our Spanish fixed-line telecommunications operator.

These competitors could:

- offer lower prices, more attractive discount plans or better services and features
- develop and deploy more rapidly new or improved technologies, services and products
- bundle offerings of one type of service with others
- in the case of the wireless industry, subsidize handset procurement
- expand and enhance more rapidly their networks

Some of our competitors in certain markets have, and some potential competitors may enjoy, competitive advantages, including the following:

- greater name recognition

- greater financial, technical, marketing and other resources
- larger customer bases
- well-established relationships with current and potential customers

To compete effectively with our competitors, we will need to market our services effectively and anticipate and respond to various competitive factors affecting the relevant market, including the introduction of new products and services by our competitors, pricing strategies adopted by our competitors, changes in consumer preferences and general economic, political and social conditions. If we are unable to compete effectively with our competitors, it could lead to price reductions, lower revenue, under-utilization of our services, reduced operating margins and loss of market share

The industry in which we conduct our business is subject to rapid technological changes and such changes could have a material adverse effect on our ability to provide competitive services.

The telecommunications industry is in a period of rapid technological change. Our future success depends, in part, on our ability to anticipate and adapt in a timely manner to technological changes. We expect that new products and technologies will emerge and that existing products and technologies will further develop. These new products and technologies may reduce the prices for our services or they may be superior to, and render obsolete, the products and services we offer and the technologies we use, and may consequently reduce the revenues generated by our products and services and require investment in new technology. As a result, our most significant competitors in the future may be new entrants to our markets which would not be burdened by an installed base of older equipment. It may be very expensive for us to upgrade our products and technology in order to continue to compete effectively.

Our business depends substantially on the upgrading of our existing networks.

We must continue to upgrade our existing wireless and fixed-line networks in a timely and satisfactory basis in order to retain and expand our customer base in each of our markets, to enhance our financial performance and to satisfy regulatory requirements. Among other things, we must:

- upgrade the functionality of our networks to permit increased customization of services
- fill in coverage gaps and increase coverage in buildings in some of our markets
- expand and maintain customer care, network management and administrative systems
- upgrade older systems as new technologies become available.

Many of these tasks are not entirely under our control. If we fail to successfully execute them, our services and products may be less attractive to new customers and we may lose existing customers to our competitors, which would adversely affect our results of operations.

Our future revenue growth and profitability depends in part upon the development of UMTS technology and upon demand for UMTS services and products, which are unproven.

Telefónica Móviles, our subsidiary that conducts our worldwide wireless communications services business, has made substantial investments to acquire UMTS licenses in Spain, Germany, Italy, Austria and Switzerland. Substantial additional investments will be required over the next several years if it is to establish a customer base, gain market share and develop new services and products in each of Germany, Italy, Austria and Switzerland. Telefónica Móviles may elect in the future to make substantial investments in order to build its UMTS networks and develop related services and products.

Telefónica Moviles' future revenue growth and profitability is dependent, in large measure, upon the capabilities and widespread market acceptance of UMTS technology. UMTS technology, however, is unproven. It has developed more slowly than initially anticipated, and has not been commercially rolled-out in its markets in a timely manner and, if developed, it may not provide the expected advantages over existing technologies. In addition, demand is unproven for UMTS-based services and products, and may not develop and be rolled out as we anticipate. If UMTS technology is not developed and rolled out on a timely basis, or if it does not deliver the

anticipated advantages or gain widespread acceptance, we would be materially and adversely affected because revenues of UMTS-related services would fail to offset related financial costs and operating expenses.

In addition, Telefónica Móviles depends upon a small number of major suppliers for essential products and services, such as handsets and network infrastructure. Although Telefónica Móviles has not been materially affected by supply problems in the past, these suppliers may, among other things, extend delivery times, raise prices and limit supply due to their own shortages and business requirements. If these suppliers fail to deliver products and services on a timely basis, or fail to develop and deliver to Telefónica Móviles handsets that are comparable with or better than handsets otherwise available in its markets, Telefónica Móviles could be negatively affected. Similarly, interruptions in the supply of telecommunications equipment for Telefónica Móviles' networks could impede network development and expansion. Although these equipment supply risks are no longer significant in relation to Telefónica Móviles' existing networks, they could be substantial in relation to the build-out of UMTS networks as multiple operators seek to construct networks in multiple countries at the same time.

Telefónica Móviles may be required to adjust the value of its investments in UMTS licenses.

Telefónica Móviles has acquired UMTS licenses in Spain, Germany, Italy and Switzerland. Although this technology is not yet commercially available, there are specific plans in each of these countries to develop the related businesses. These plans are based on certain assumptions Telefónica Móviles has made, and its actual results may vary. Accordingly, management of the companies plans to periodically update its business plans and make, where appropriate, any necessary adjustments to the carrying value of such licenses.

Due to the variety of concerns relating to the development of the UMTS network and services, Telefónica Móviles regularly performs a review of the value of its investments in UMTS licenses. There can be no assurance that a change of strategy or business plans of these companies or changes in the telecommunications industry will not require Telefónica Móviles to write-down the value of these investments in the future, which could adversely affect our business, financial condition or results of operations.

We operate in a highly regulated industry and could become subject to more burdensome regulation, which could adversely affect our businesses.

As a multinational telecommunications company, we are subject to different laws and regulations in each of the jurisdictions in which we provide services. Furthermore, the licensing, construction, operation and interconnection arrangements of our communications systems are regulated to varying degrees by national, state, regional or local, and supra-national authorities, such as the European Union. These authorities could adopt regulations or take other actions that could adversely affect us and our companies, including revocation of any of our licenses or concessions to offer services in a particular market, failure to renew a license or concession, modification of the terms of a license or concession or the granting of new licenses or concessions to competitors.

Most of our operating companies require licenses or concessions from the governmental authorities of the countries in which they operate. These licenses and concessions specify the types of services permitted to be offered by our operating companies. The continued existence and terms of our licenses and concessions are subject to review by regulatory authorities in each country and to interpretation, modification or termination by these authorities. Many of these licenses and concessions are revocable for public interest reasons. The rules of some of the government regulatory authorities having jurisdiction over our operating companies require us to meet specified network build-out requirements and schedules. In particular, our wireless licenses and concessions typically require that we satisfy certain obligations, including minimum specified quality, service and coverage conditions and capital investment. Failure to comply with these obligations in a given license area could result in the imposition of fines, or revocation or forfeiture of the license for that area. In addition, the need to meet scheduled deadlines may cause our company to expend more resources than otherwise budgeted for a particular network build-out. We cannot assure you that our operating companies will be able to comply fully with the terms and conditions of their licenses and concessions.

Increased or significant changes in the regulation of the activities of our operating companies, including the regulation of rates that may be charged to customers for services, could have a material adverse effect on our company. New regulations could also increase the costs of regulatory compliance.

We are subject to evolving regulatory policies which favor increased competition and which could expose us to additional competition in our markets.

Regulatory policies of many of the countries in which we operate generally favor increasing competition in most of the segments of the market in which we operate, especially in the fixed-line and wireless services industry, including by granting new licenses in existing licensed territories in order to permit the entry of new competitors. These regulatory policies are likely to have the effect, over time, of reducing our market shares in the service territories in which we currently operate. For example, Spanish telecommunications regulators have attempted to promote competition in fixed-line telecommunications services through policies that favor other fixed-line telecommunications operators. Regulations introduced in recent years in Spain have allowed other operators to locate their equipment in or adjacent to our exchanges (i.e., local loop unbundling) and made it easier for our customers to route some or all of their calls over our competitors' networks (i.e., carrier pre-selection).

We may lose market share as a result of these policies, which could adversely affect our revenues from operations and our profitability. Additional regulatory changes resulting in increased competition could have a further adverse effect on our business, results of operations, financial condition and prospects.

In addition to this, because we hold leading market shares in many of the countries in which we have operations, we could face regulatory actions by national or, in the case of Europe, European Union antitrust or competition authorities if it is determined that we have prevented, restricted or distorted competition. These authorities could prohibit us from making further acquisitions or continuing to engage in particular practices or impose fines or other penalties on us, which if significant, could harm our financial performance and future growth.

We must successfully implement our business plans as planned, but factors beyond our control may prevent us from doing so, which could have a material adverse effect on our business.

Our ability to increase our revenues and maintain our position as a leading European and Latin American provider of advanced telecommunications and Internet services will depend in large part on the successful, timely and cost-effective implementation of our business plan, including our plan to operate our various businesses along global business lines.

Factors beyond our control that could affect the implementation and completion of our business plan include:

- difficulties in developing and introducing new technologies
- declining prices for some of our services
- our ability to manage costs
- the effect of adverse economic trends on our principal markets
- the effect of foreign exchange fluctuations on our results of operations
- our ability to obtain applicable government, shareholder and other approvals
- our ability to enter into necessary contracts with third parties
- the growth of free Internet access in many core markets that may increase competition
- the need to establish and maintain strategic relationships
- difficulties in integrating our acquired businesses
- the effect of future acquisitions on our financial condition and results of operations
- our ability to secure the timely performance of independent contractors hired to engineer, design and construct portions of our network
- the potential lack of attractive investment targets

- our ability to attract and retain highly-skilled and qualified personnel
- the effect of unanticipated network interruptions

The development of our business could be hindered if we fail to maintain satisfactory working relationships with partners.

Some of our operations are conducted through joint ventures in which our company owns a significant, but often less than controlling, ownership interest. In these operations, our company does not have absolute control over the operations of the venture. In addition, in some cases where we own a majority of the venture, we may be subject to provisions in shareholders' agreements restricting our control over the venture. The particular corporate governance provisions affecting our company vary from venture to venture, and often depend upon the size of our investment relative to that of other investors, our experience as a telecommunications operator compared to that of the other investors and the preferences or requirements of foreign governments that local owners hold an interest in licensed telecommunications operators. As a result, we must generally obtain the cooperation of our partners in order to implement and expand upon our business strategies and finance and manage our operations.

Telefónica Móviles has acquired UMTS licenses in some Western European countries through consortia involving partners with established local and international market presences. The success of these consortia will depend, in part, upon the cooperation of the partners and will be subject to risks comparable to those affecting its other joint ventures.

Our financial condition and results of operations may be adversely affected if we do not effectively manage our exposure to interest rate and foreign currency exchange rate risk.

We are exposed to various types of market risk in the normal course of business, including the impact of interest rate changes and foreign currency exchange rate fluctuations. We employ risk management strategies to manage this exposure, in part through the use of financial derivatives such as interest rate swap agreements, foreign currency forwards and currency swap agreements. Our risk management strategies may not be successful, however, in limiting our exposure to changes in interest rates and foreign currency exchange rates, which could adversely affect our financial condition and results of operations.

In order to limit our exposure to Latin American currency exchange rate fluctuations, we use financial derivatives and other instruments. If the financial derivatives market is not sufficiently liquid for our risk management purposes or if we cannot enter into arrangements of the type and for the amounts necessary to limit our exposure to Latin American currency exchange rate fluctuations, such failure could adversely affect our financial condition and results of operations.

The costs and difficulties of acquiring and integrating businesses could impede our future growth and adversely affect our competitiveness.

We intend to evaluate, and may enter into, acquisition transactions in order to, among other things, provide services in countries in which we do not currently have operations or enhance our product portfolio. Any such acquisitions may expose us to the following risks:

- the difficulty of identifying appropriate acquisition candidates in the countries in which we do business or intend to do business
- the difficulty of assimilating the operations and personnel of the acquired entities
- the potential disruption to our ongoing business caused by senior management's focus on the acquisition transactions
- our failure to incorporate successfully licensed or acquired technology into our network and product offerings
- the failure to maintain uniform standards, controls, procedures and policies

- the impairment of relationships with employees as a result of changes in management and ownership

We cannot assure you that we would be successful in overcoming these risks, and our failure to overcome these risks could have a negative effect on our financial condition.

We have recorded an impairment charge to goodwill and may be required to make additional write offs in the future.

Goodwill represents the purchase price of an acquisition in excess of the fair value of the assets acquired less liabilities assumed. We have generated substantial amounts of goodwill from some of our acquisitions. At December 31, 2001, under Spanish GAAP we had goodwill of €9,128.9 million, equal to 10.6% of our total assets and 35.3% of our shareholders' equity at that date, and at December 31, 2000, we had goodwill of €7,714.8 million, equal to 8.4% of our total assets and 29.8% of our shareholders' equity at that date. At December 31, 2001, under U.S. GAAP we had goodwill of €14,100.6 million, equal to 15.5% of our total assets and 44.4% of our shareholders' equity at that date, and at December 31, 2000, we had goodwill of €21,500.2, equal to 19.9% of our total assets and 48.5% of our shareholders' equity at that date.

In December 2001, we performed an analysis of projected discounted cash flows from Lycos, Inc., Endemol Entertainment Holding, N.V., Tele Sudeste Celular Participações and Telefónica del Perú as a result of which we determined that such projected cash flows were not adequate to support the value of goodwill related to these companies under U.S. GAAP. Accordingly, we determined under U.S. GAAP that goodwill related to these companies was impaired, and we recorded a goodwill impairment charge in an aggregate amount of approximately €8,452.0 million in 2001.

We cannot be certain that we will be able to recover all of the goodwill that we now carry as an asset or that we will not have to write off additional goodwill in the future under U.S. GAAP or Spanish GAAP. We could be forced to write off goodwill because of rapid technological change, intense competition, significant declines in sales, earnings or cash flows and other factors that in the future indicate that the fair value of our acquisitions is not worth their carrying value.

Loss of key personnel could weaken our business expertise and delay the completion of our network and other business plans.

Our operations throughout the world are managed by a small number of key executive officers. The loss of our key executive officers in the future could significantly impede our financial plans, product development, network completion, marketing and other objectives. We believe that the growth and future success of our business will depend in large part on our continued ability to attract and retain highly skilled and qualified personnel. Competition for qualified personnel in the telecommunications industry is intense. We cannot assure you that we will be able to hire or retain necessary personnel.

We may be adversely affected by unanticipated network interruptions.

Unanticipated network interruptions as a result of system failures whether accidental or otherwise, including network, hardware or software failures, that cause an interruption in our service could result in reduced revenues and costly repairs and could bring harm to our reputation. Although we carry business interruption insurance, this policy may not be in amounts sufficient to compensate us for any losses we incur.

Forward-looking statements may not be realized.

All statements in this Annual Report that are not clearly historical in nature are forward-looking. Examples of forward-looking statements include:

- statements concerning our operations and prospects
- the size of European and Latin American telecommunications markets
- estimated demand forecasts

- our ability to secure and maintain telecommunications infrastructure licenses, rights of way and other regulatory approvals
- our strategic initiatives and plans for business growth
- plans for entering into strategic relationships and joint ventures
- possible bids for additional licenses or concessions
- industry conditions
- funding needs and financing sources
- network completion and product development schedules
- strategy, plans and timing for the introduction or enhancement of our services and products
- expected characteristics of competing networks, products and services
- our Argentine fixed-line operator's ability to meet its debts as they come due and to continue as a going concern
- other statements of our expectations, beliefs, future plans and strategies, anticipated developments and other matters that are not historical facts

These forward-looking statements are uncertain, and we cannot assure you that any such statements will prove to be correct. Actual results and developments may be materially different from those expressed or implied by such statements. Readers should carefully review the other risk factors set forth in this section and the information under "Item 4—Information on the Company", "Item 5—Operating and Financial Review and Prospects" and "Item 11—Quantitative and Qualitative Disclosures about Market Risk" for a discussion of factors which could result in any of these forward-looking statements proving to be inaccurate.

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

Overview

We are a limited liability company duly organized and existing under the laws of the Kingdom of Spain. We are:

- a diversified telecommunications and multimedia group which currently provides a comprehensive range of services in Spain and Latin America through one of the world's largest and most modern telecommunications networks
- the leading provider of fixed-line public voice telephone services, wireless communications services, Internet access services and data transmission services in Spain
- one of the largest telecommunications operators in Latin America, with operations principally in Brazil, Argentina, Chile, Peru, Mexico, El Salvador, Guatemala and Puerto Rico
- a leading Spanish multinational corporation

We have also expanded our presence in Europe through the acquisition, alone or as part of consortia, of UMTS licenses in Germany, Italy, Switzerland and Austria.

At December 31, 2001, we managed companies that had approximately 42.3 million access lines in service, 29.8 million wireless subscribers and 1.1 million pay television subscribers, including approximately 342,000 cable subscribers and 806,000 direct-to-home satellite television subscribers.

The following table reflects the development of our customer base since 1999.

| | At December 31, | | |
|---|-----------------|-------------|----------|
| | 1999 | 2000 | 2001 |
| | | (thousands) | |
| Access lines in service in Spain(1) | 19,226.2 | 20,317.8 | 20,646.9 |
| Access lines in service in other countries(2)..... | 18,194.1 | 19,374.7 | 21,649.7 |
| Total access lines in service | 37,420.3 | 39,692.5 | 42,296.6 |
| Wireless subscribers in Spain | 9,052.3 | 13,669.1 | 16,793.4 |
| Wireless subscribers in other countries(3) | 6,455.7 | 9,545.1 | 13,001.4 |
| Total wireless subscribers | 15,508.0 | 23,214.2 | 29,794.8 |
| Pay television subscribers in Spain..... | 440.1 | 633.1 | 806.4 |
| Pay television subscribers in other countries(4)..... | 597.0 | 349.4 | 341.7 |
| Total pay television subscribers..... | 1,037.1 | 982.5 | 1,148.1 |

- (1) Includes third-party private automatic branch exchange services that use Telefónica de España's network access services.
- (2) Includes 100% of the access lines of our subsidiaries in Argentina, Brazil (including Companhia Riograndense de Telecomunicações in 1999), Chile, El Salvador, Guatemala and Perú.
- (3) Includes 100% of the wireless subscribers of our subsidiaries in Argentina, Brazil, Chile, El Salvador, Germany, Guatemala, Mexico and Perú. Also includes 100% of the wireless subscribers of the wireless operations in Puerto Rico and Morocco (in 2000 only) in which we have minority interests but which we solely or jointly manage.
- (4) Includes Telefónica del Perú's pay television subscribers. Also includes Compañía de Telecomunicaciones de Chile's pay television subscribers in 1999.

In January 2000, we announced a reorganization of our business along global business lines to enhance our strategic and competitive position globally and in each of these business lines. As part of this reorganization, our Board of Directors formed two new global business divisions, Telefónica Móviles and Telefónica Data. Some or parts of some of our then-existing lines of business were combined with other business lines in connection with the reorganization. As a result of this reorganization, our group is now organized according to six principal lines of business, each of which is headed by an operating subsidiary that is under our direct control. These six principal lines of business are:

- fixed-line telecommunications services in Spain conducted through Telefónica de España
- worldwide wireless communications services conducted through Telefónica Móviles
- fixed-line telecommunications services in Latin America conducted through Telefónica Internacional
- worldwide corporate data transmission conducted through Telefónica Data
- worldwide Internet-related services conducted through Terra Networks
- worldwide audiovisual content and media conducted through Admira Media

In addition, we have several other lines of business, including:

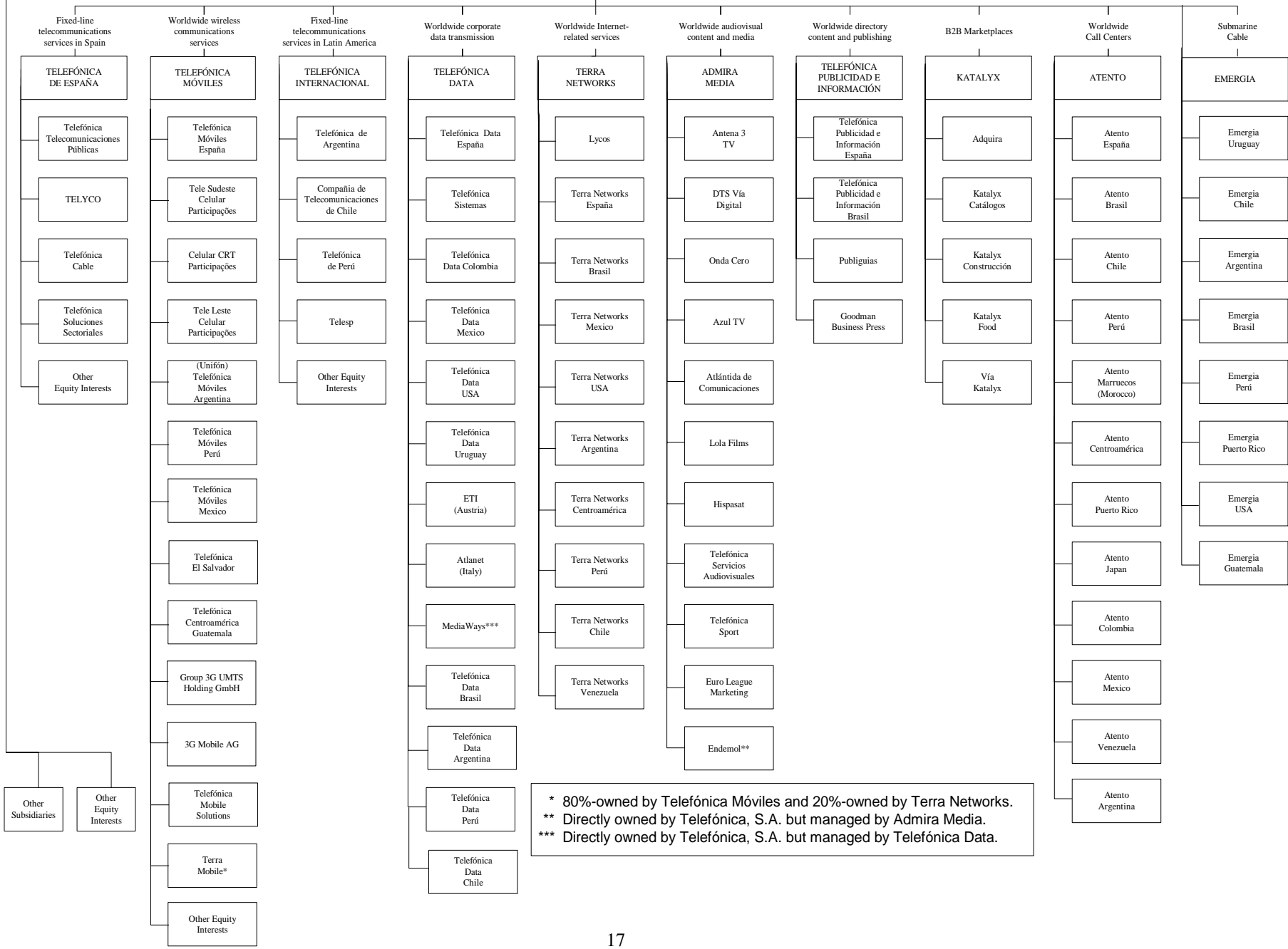
- publishing, development and sale of advertising in telephone directories conducted through Telefónica Publicidad e Información, S.A.
- operation of call centers in Europe (Spain), Latin America, Northern Africa (Morocco) and Asia (Japan) conducted through Atento Holding Telecomunicaciones, S.A.
- development of business-to-business (B2B) marketplaces conducted through Katalyx, S.A.

- provision of broadband communications through submarine fiber optic cable conducted through Emergia, S.A.

We may create new business lines in the future.

As part of the reorganization of our business along global business lines, during 2000 and 2001 we spun-off or transferred the wireless operations, data operations and directory publishing businesses of certain of our integrated Latin American operators to our respective companies which head those lines of business. The following chart shows the organizational structure of the principal companies of the Telefónica Group at December 31, 2001.

TELEFÓNICA, S.A.



* 80%-owned by Telefónica Móviles and 20%-owned by Terra Networks.
 ** Directly owned by Telefónica, S.A. but managed by Admira Media.
 *** Directly owned by Telefónica, S.A. but managed by Telefónica Data.

In addition, we operate a corporate center. Our corporate center's objectives are to:

- coordinate the group's activities
- allocate resources efficiently among the group
- provide managerial guidelines for the group
- manage the portfolio of businesses
- provide cohesion within the group
- foster synergies among the group's subsidiaries

Our principal executive offices are located at Gran Vía, 28, 28013 Madrid, Spain and our telephone number is (34) 91-584-0306. Our agent for service of process in the United States is Telefónica Internacional USA, Inc., 1001 Brickell Bay Drive, Miami, FL 33131.

B. BUSINESS OVERVIEW

Fixed-Line Telecommunications Services in Spain – Telefónica de España

Our fixed-line telecommunications services in Spain are managed by Telefónica de España. The principal services offered by Telefónica de España are:

- fixed-line telecommunications services, including access lines and local and long-distance calling
- integrated services digital network, which provides high speed transmission of voice, data and video through existing fixed-line infrastructure
- public telephone services from phone booths
- circuit leasing
- value-added services, including call waiting, call barring and conference calling
- private automatic branch exchange services for companies, under the trade name Ibercom, which, through a telephone switch located on a customer's premises, provides voice-grade circuits with advanced features for the local premises, including features such as least-cost routing and call-detail recording
- leasing and sale of terminal equipment and exchanges
- interconnection services
- intelligent network services, including services such as caller identification, phone-messaging and call-forwarding
- Internet access services, including asymmetrical digital subscriber ("ADSL") line services

Historically, fixed-line telecommunications services in Spain has been our leading business in terms of total revenues. However, its relative contribution to total revenues has decreased in recent years, principally due to the integration of our Brazilian operating subsidiaries in 1998, the adverse effects of competition, tariff reductions and discount plans in Spain and the rapid growth of our wireless operations in recent years.

Telefónica de España is developing a multi-dimensional strategy in order to continue to compete effectively in the Spanish telecommunications market. This strategy involves:

- developing a commercial strategy that:

- creates customer loyalty through incentive programs
- increases revenues by introducing new and attractive services
- offers global solutions through integrated approaches contributed by our affiliates
- maintains income levels
- improves the efficiency of the network by increasing the volume of traffic
- decreasing the unit cost of the network and achieving a higher level of asset turnover

Operations

The following table shows the development of Telefónica de España's domestic telecommunications network and growth in usage of that network since 1999:

| | At December 31, | | |
|---|-----------------|----------|----------|
| | 1999 | 2000 | 2001 |
| Spanish access lines in service(1) (thousands)..... | 18,315.7 | 19,003.0 | 20,646.9 |
| Fixed telephone service, including payphones (thousands)..... | 16,480.4 | 16,373.0 | 17,487.6 |
| Ibercom(2) (thousands)..... | 856.5 | 955.9 | 1,074.1 |
| Integrated services digital network (thousands)..... | 978.8 | 1,674.1 | 2,094.2 |
| Growth in fixed telephone lines in service, including payphones | 1.2% | (0.7)% | 6.8% |
| Fixed-lines in service, including payphones, Ibercom and integrated services digital networks, per 100 inhabitants(3) | 49.0 | 52.5 | 53.4 |
| Fixed telephone lines, payphones, Ibercom and integrated services digital network lines in service per employee | 412.4 | 493.2 | 505.4 |
| Degree of digitalization..... | 86.5% | 86.6% | 86.8% |
| Average days between application and installation | 7.2 | 8.8 | 7.7 |
| Average line usage (minutes per day)(4) | 13.4 | 16.8 | 21.1 |
| Growth in average line usage(4) | 11.9% | 25.6% | 25.6% |
| Internet access users (thousands) | 1,579.0 | 2,504.0 | 3,109.0 |
| Growth of outgoing international traffic | 9.2% | 30.7% | 18.4% |
| Growth of incoming international traffic | 16.0% | 9.4% | 24.4% |
| Fixed telephone lines installed and billed (thousands)..... | 16,998.7 | 17,101.7 | 17,238.1 |
| Coaxial cable (km)..... | 5,059.0 | 4,787.0 | 4,756.0 |
| Fiber optic cable (km)..... | 52,511.0 | 54,920.0 | 58,156.0 |
| Copper cable in domestic long-distance lines (km) | 57,430.0 | 57,259.0 | 57,095.0 |
| Subscriber networks (thousand km-par)(5)..... | 66,713.0 | 67,554.0 | 68,563.0 |

- (1) Does not include third party private automatic branch exchange services that use Telefónica de España's network access services.
- (2) Ibercom is the tradename for Telefónica de España's private automatic branch exchange service. The number of Ibercom lines is presented on the basis of extensions.
- (3) Includes third-party private automatic branch exchange services that use Telefónica de España's network access services.
- (4) Includes interconnection with wireless networks.
- (5) The transmission cables in the subscriber networks contain a variable number of conducting filaments, which are insulated from each other and grouped in pairs. Each such pair is called a "par".

Line usage continued to increase in 2001. The number of minutes consumed increased 30.2% to 138,580 million from 106,400 million in 2000, which in turn represented a 28.9% increase from 1999. The increase in line usage in 2001 was mainly due to a 5.6% increase in the number of calls to 39,169 million and a 21.5% increase in

the average duration per call to 3.54 minutes. Increases in Internet access traffic, provincial and interprovincial calls and traffic with other fixed-line operators were the most significant factors contributing to these increases, more than offsetting the 5.0% decrease in metropolitan calls to 37,470 million minutes in 2001 from 39,440 million minutes in 2000. During 2001, calls for Internet access increased 47.8% to 35,499 million minutes in 2001 from 24,020 million minutes in 2000, provincial calls increased 26.5% to 7,640 million minutes in 2001 from 6,040 million minutes in 2000, interprovincial calls increased 0.4% to 7,996 million minutes in 2001 from 7,964 million minutes in 2000 and traffic with other fixed-line operators increased 134.8% to 29,995 million minutes in 2001 from 12,775 million minutes in 2000. The increase in line usage in 2000 was mainly due to a 7.9% increase in the number of calls to 36,248 million and a 19.4% increase in the average duration per call to 2.94 minutes. Calls to and from wireless telephones, Internet access traffic and traffic with other fixed-line operators were the most significant factors contributing to these increases. During 2000, calls to and from wireless telephones increased approximately 29.5% to 9,844 million minutes in 2000 from 7,600 million minutes in 1999, calls for Internet access increased 112.6% to 24,020 million minutes in 2000 from 11,300 million minutes in 1999 and traffic with other fixed-line operators increased 209.0% to 12,775 million minutes in 2000 from 4,134 million minutes in 1999.

Services such as voice mail are also an important factor in increasing line usage. At December 31, 2001, almost all of Telefónica de España's lines in service were capable of using network-based voice mail, and more than 10.1 million customers took advantage of this service during 2001 compared to 9.1 million customers in 2000.

Despite the growth in Telefónica de España's domestic telecommunications network in recent years, the level of penetration of fixed telephone service in Spain of approximately 53.4 access lines in service per 100 inhabitants at December 31, 2001, remains relatively low compared to other Western European countries.

International Traffic

Currently, 99.9% of all international traffic originating in Spain is dialed direct. Total revenues from international incoming and outgoing calls increased by 13.2% in 2001 and 8.1% in 2000. The increases in 2001 and 2000 were principally a result of a 21.6% increase in 2001 and an 18.2% increase in 2000 in the number of minutes of international traffic, offset in part by tariff reductions and discounts in each of those years.

Revenues from outgoing calls are usually derived from tariffs paid by customers in Spain, net of our payments to foreign carriers for the portion of the calls carried over such carriers' networks. Revenues from incoming calls are derived from payments made by foreign carriers. Payment rates and currencies are agreed upon bilaterally under the general auspices of the International Telecommunications Union. Due to Spain's geographic location between the United States and the Middle East and between Northern Europe and Africa, we also derive revenues from the use of our network to retransmit voice and data traffic and television signals between such regions.

Digitalization

At December 31, 2001, 86.8% of urban lines were digital. In addition, Telefónica de España has completed the upgrade of its telephone exchanges. As a result, Telefónica de España is able to provide basic digital services, such as itemized billing, to 100% of its customers. The high degree of digitalization of Telefónica de España's network also enables it to provide a broad range of digital services to satisfy customer demands. Telefónica de España's international switching exchanges and domestic and international transmission links are 100% digitalized.

Cable Telecommunications

Telefónica de España, through Telefónica Cable, currently provides cable telecommunications services on a pre-commercial basis in the Spanish regions of Extremadura, Castilla La Mancha, Cataluña, Castilla Leon and Cadiz. Telefónica de España has provided cable telecommunications services in Menorca through Telefónica Cable Menorca, S.A. (Tecamesa) since 1998. Under the pre-commercial service, subscribers are not required to pay for such services. Telefónica Cable may commence providing cable television services in all Spanish regions due to the fact that the applicable waiting period has expired, subject to certain conditions. See "—Regulation—Cable Telecommunications". Our strategy regarding the offer of cable telecommunications services will depend upon the competitive environment and the obligations we would be required to undertake in order to receive the necessary license for each particular region.

On January 31, 2002, the Secretary of State for Telecommunications and Information Society approved a resolution which transformed Telefónica Cable's concessions into a Type B1 license for the provision of fixed-line

telecommunications services, a Type C license for the transmission of data, a provisional authorization for the offering of video-on-demand services and a concession for the provision of broadcast services.

Regulation

Overview

Below is a description of the current Spanish telecommunications regulatory framework. This description should be considered in light of certain developments currently underway in the regulatory and competitive environment that will have a material impact on Telefónica de España's business and operations in future years.

Prior to efforts that began in 1987 and culminated in full market liberalization in December 1998, we operated as the exclusive provider of telecommunications services in Spain pursuant to government concessions dating to 1946. At present, all telecommunications services provided by us are subject to competition. Retevisión and Lince were our first two competitors licensed to provide nationwide fixed-line public voice telephone services, consisting of local, domestic long-distance and international long-distance telephone services and the corresponding carrier services. Retevisión launched its services in January 1998, and Lince commenced operations under the trade name UNI2 in December 1998. Since January 1998, licensed cable telecommunications operators have been permitted to offer fixed-line public voice telephone services that originate and terminate within their regions, using their own networks. Also, since December 1998, the provision of fixed-line public voice telephone services has been open to competition from all sources, subject to basic regulatory licensing requirements.

The Spanish government undertook a process of revising the legislative and regulatory scheme applicable to participants in the telecommunications industry in preparation for the liberalization of the telecommunications market in December 1998. As the main step in this process, on April 24, 1998, the Spanish Parliament passed the new General Law on Telecommunications (Law 11/1998). This law was published in the Official Gazette on April 25, 1998 and took effect on April 26, 1998.

The General Law on Telecommunications repealed and replaced nearly all the existing laws and regulations on telecommunications (including laws regulating satellite and cable telecommunications). However, the General Law on Telecommunications does not govern television and radio broadcasting and cable television, and therefore, certain provisions of previous telecommunications statutes dealing with radio and television broadcasting and cable television remain in effect. In general terms, the General Law on Telecommunications adopted all European Union directives mandating the liberalization of telecommunications services, some of which had already been implemented in Spain. Among other things, the General Law on Telecommunications addresses the following matters relating to our business:

- conditions for granting licenses to provide telecommunications services
- the obligation of telecommunications providers to extend service to rural areas and the financing of associated capital expenditures

Since 1991, we have provided telecommunications services under a state contract entered into with the Spanish government in that year, in accordance with the Telecommunications Regulation Law of 1987. The state contract was approved by the Spanish government on November 21, 1991 and published in the Official Gazette on January 23, 1992. As of the date of this Annual Report, the state contract remains in effect solely with respect to fixed-line telecommunications services.

On August 27, 1998 we requested the Spanish government to transform our concession into a Type B1 license to provide fixed-line telecommunications services through the operation of a fixed telephone network. As of the date of this Annual Report, the Spanish government has not granted our request, and we continue to provide fixed-line telecommunications services under the state contract.

The State Contract

Generally, the state contract specifies the terms and conditions under which we are authorized to provide telecommunications services in Spain. The contract may be amended or modified in accordance with the legal regime established by the Spanish General Law of Public Contracts and other regulations governing agreements

entered into by the government. The state contract may be superseded by European Union directives. Below is a summary of the material provisions of the state contract.

Term. We and the government entered into the current state contract in 1991 for an initial term of 30 years, subject to the standard termination provisions under Spain's General Law of Public Contracts (i.e., breach of contract, expiration of term, pre-emption of services by the Spanish government, cancellation of services for reasons of public interest, bankruptcy or suspension of payments and mutual agreement).

Services. The state contract provides that we may continue to render all services that we provided prior to market liberalization, as long as we fulfill the technological and service requirements set forth in the relevant regulations. This provision in effect grants us a non-exclusive concession to provide any service we have provided in the past, including fixed-line services, data transmission services, wireless communications services and other value-added services.

Other Obligations. The state contract requires us to:

- pay taxes as required by general tax regulations
- adopt whatever measures are necessary to guarantee privacy in communications
- prepare plans to establish technical conditions, investments and goals for improvement of services and network upgrades and to present such plans to the Ministry of Science and Technology
- present information to the Secretary of State for Telecommunications and Information Society regarding internal procedures, an annual audit by independent accountants and financial statements that segregate our industrial activities from our investments in other companies and segregate services provided on a monopoly basis from services open to competition
- pay certain royalties

European Union Regulations

Since 1995, the European Union has adopted a number of directives that regulate the provision of telecommunications services in European Union member states, including:

- regulations designed to ensure the full liberalization of the telecommunications sector
- regulations which impose standard conditions throughout member states for granting individual licenses and general authorizations
- regulations regarding access and interconnection between competing operators
- regulations dealing with the universal service obligation
- regulations requiring member states to allocate wireless radio based services according to the DCS-1800 standard and the UMTS standard
- regulations relating to telecommunications data protection and privacy regulations
- regulations for unbundled access to the local loop

The General Law on Telecommunications and other applicable Spanish law were designed to implement all applicable European Union directives with respect to the provision of telecommunications services. In 1999, the European Union began to revise the directives in force with respect to the provision of telecommunications services. We anticipate that the Spanish government will need to revise its regulatory framework in 2002 and 2003 to comply with the revised directives.

Regulatory Framework

The provision of telecommunications services in Spain is regulated and overseen by the Spanish government through the Secretary of State for Telecommunications and Information Society, a unit of the Ministry of Science and Technology. The Ministry of Science and Technology has various powers, including in certain cases the authority to grant licenses or authorizations, if applicable, for telecommunications services and to impose sanctions for certain infringements of the General Law on Telecommunications. An additional independent oversight body, the Telecommunications Market Commission, was created in 1996. The Telecommunications Market Commission supervises the activities of telecommunications operators and has the authority to grant licenses for telecommunications services and to arbitrate any conflicts that may arise between operators, subject to the consent of the interested parties. The Telecommunications Market Commission is also responsible for safeguarding free competition in the telecommunications market, particularly with regard to a plurality of service offerings, access to networks and network interconnection. With regard to interconnection, the Telecommunications Market Commission may make a binding decision in respect of any conflict between operators and may fix tariffs (other than for regulated services), such as interconnection charges, in the event of disputes.

The Telecommunications Market Commission has advisory and arbitration responsibilities with respect to tariffs for end user services. It issues reports on all proposed tariffs and the regulation of prices for telecommunications services. It also issues reports on proposed tariffs for exclusive services or services for which a dominant operator exists.

The General Law on Telecommunications

The General Law on Telecommunications culminates the liberalization process initiated in 1987 with the enactment of the Telecommunications Regulation Law and establishes a regulatory framework for telecommunications services in accordance with applicable European Union directives. The General Law on Telecommunications provides for free competition with respect to all telecommunications services and with respect to the construction and operation of telecommunications networks, subject to individual licensing or general authorization requirements. Individual licenses are required:

- to construct or operate public telecommunications networks
- to provide fixed-line telephony services to the general public
- to provide telecommunications services or construct or operate telecommunications networks using radio spectrum

The Spanish Government may determine pursuant to a Royal Decree other activities and services that require individual licenses. In all other cases where the type of service or network does not fall within the scope of the individual license regime, only a general authorization is required. A general authorization is automatically granted to any party who fulfills basic licensing requirements.

The Ministry of Science and Technology may, in order to guarantee the most efficient use of radioelectric spectrum, limit the number of individual licenses it will grant, in which case individual licenses will be granted to the winner of a bidding contest administered by the Ministry of Science and Technology.

In accordance with the General Law on Telecommunications, Telefónica de España has requested that the state contract be converted into individual licenses. Telefónica de España is currently negotiating the rights and obligations under the state contract which will exist under individual licenses that may be granted to Telefónica de España. These rights and obligations may not afford Telefónica de España any competitive advantage.

Tariffs. Under the general principles of the General Law on Telecommunications, operators are free to fix tariffs. Nevertheless, the Spanish government's Delegate Commission for Economic Affairs has the authority, subject to the issuance of a report by the Telecommunications Market Commission, to establish fixed, maximum or minimum tariffs, or to determine the criteria by which to establish tariffs and the mechanism for their control. In doing so, the government's Delegate Commission for Economic Affairs must take into account:

- the effective cost of the applicable service

- the degree of competition in the market for the applicable service

The General Law on Telecommunications recognized the existence of an imbalance in the tariffs charged for fixed-line telephone services as of the date of its enactment and the need to rebalance such tariffs. The General Law on Telecommunications further recognized the possibility of compensating the dominant operator (Telefónica de España) for the access deficit which may result from the existing rate imbalance. Because the access deficit problem had not been resolved, on December 1, 1998, the date the market was fully liberalized, we filed a complaint against the Spanish government with the European Commission alleging that the Spanish government failed to comply with European Union directives that require rates to be rebalanced prior to the liberalization of a telecommunications market. In November 1999, we also filed a complaint against the Spanish government seeking compensation for the imbalance in tariffs. The Spanish government has initiated the process of denying our claim.

On January 29, 2001, the European Commission issued an opinion addressed to the Kingdom of Spain in which it concludes that the Spanish government failed to comply with the relevant European Union directives because the Spanish government did not allow Telefónica de España to raise tariffs sufficiently to cover its costs. In June 2001, the Delegate Commission for Economic Affairs of the Spanish government approved rate rebalancing measures, which we believe will eliminate the access deficit by 2003. See “—The Tariff Structure and Pricing for Principal Services” below. The Spanish government has also informed the European Commission of these measures, which have been adopted in order to comply with the European Union directives related to the access deficit and with the above-mentioned opinion of the European Commission. Telefónica de España has also advised the European Commission that it believes these measures will eliminate the access deficit by 2003. Nonetheless, the European Commission has initiated a formal sanction proceeding against the Kingdom of Spain before the European Community Court of Justice based on the Kingdom of Spain’s failure to comply with its obligations under the relevant European Union directives.

Interconnection. The General Law on Telecommunications requires owners of public telecommunications networks to allow competitors to interconnect with their networks and services at non-discriminatory rates and under non-discriminatory conditions. The General Law on Telecommunications provides that the conditions for interconnection are to be freely agreed among the parties while the government has the authority to establish the minimum conditions for interconnection agreements, which must be included in all interconnection agreements. On July 24, 1998, the government issued a Royal Decree elaborating the regulations relating to interconnection. Where the parties are unable to reach an agreement, the Telecommunications Market Commission may impose the obligation to interconnect upon the conditions it dictates. Similarly, the Telecommunications Market Commission may release certain network owners, temporarily and on a case-by-case basis, from the obligation to interconnect where there are technical or commercial alternatives to such interconnection.

Although under the General Law on Telecommunications interconnection prices may be freely negotiated, prices charged by Telefónica de España, as the dominant operator, are determined by an Interconnection Offer Framework approved by the government. In 1998, we proposed an initial Interconnection Offer Framework, which was subsequently modified and approved by the Ministry of Science and Technology. Under our proposal and in accordance with the principles set forth in the Interconnection Offer Framework, interconnection prices charged to Telefónica de España’s competitors would be consistent with Telefónica de España’s actual costs. However, the Ministerial Order dated October 29, 1998, which approved the Interconnection Offer Framework, and its subsequent modifications provide for interconnection prices that are below Telefónica de España’s actual costs. Because Telefónica de España continues to provide interconnection services to its competitors at prices below its costs, Telefónica de España’s ability to compete is effectively limited which has contributed to its decline in market share for certain services, such as domestic long-distance and international long-distance, since 1999. Consequently, Telefónica de España has filed an appeal with the *Sala de lo Contencioso Administrativo de la Audiencia Nacional Sección VII* against the Interconnection Offer Framework.

In August 2001, the Telecommunications Market Commission approved modifications to the Interconnection Offer Framework, which include among other things, new interconnection prices that are between 20% and 30% below previously existing interconnection prices. Consequently, on September 11, 2001, Telefónica de España filed a petition with the Telecommunications Market Commission against the new interconnection prices, claiming that they are below Telefónica de España’s actual costs, as measured in accordance with accounting criteria approved by the Telecommunications Market Commission. On November 2, 2001, the Telecommunications Market Commission dismissed Telefónica de España’s petition, except with respect to interconnection rates in connection with Internet

access. As a result, Telefónica de España is seeking relief through administrative litigation. See “—Interconnection Prices”.

The modifications to the Interconnection Offer Framework approved in August 2001 provide for interconnection based on capacity as well as time. In early 2002, the Telecommunications Market Commission introduced further modifications to the Interconnection Offer Framework with respect to intelligent network services and the establishment of prices for the interconnection of circuits, which were reduced by approximately 25%.

Service Standards. Quality of service standards are governed by the state contract of 1991, the General Law on Telecommunications, the Ministerial Order dated October 14, 1999 on Quality and the Ministerial Order dated December 21, 2001 on Universal Service. This regulatory framework establishes quality of service standards for a range of telecommunications services, including fixed-line telephony, mobile telephony and Internet access services.

Public Service Obligation. The General Law on Telecommunications provides that the owners of public telecommunications networks, as well as operators rendering telecommunications services on the basis of an individual license, are subject to certain public service obligations. In addition, some of these obligations may be imposed on operators whose services require a general authorization.

The public service obligations include:

- the universal service obligation, which is elaborated in the Royal Decree of July 31, 1998
- the compulsory services obligation
- other public service obligations

The universal service obligation consists of the obligation to provide basic telephony to all end users within Spain, free telephone directory services, sufficient public pay phones throughout Spain and access to telephony services for disabled people. These services must be provided by the dominant operator in each territory, or in certain cases, by another operator, pursuant to regulations yet to be issued. As of the date of this Annual Report, we are the dominant operator in each territory and, according to the General Law on Telecommunications, we will be considered to be the dominant operator until at least 2005. If meeting the universal service obligation in a particular territory is loss-producing, all operators in that territory could be obligated to contribute to meeting this obligation through the National Fund for Universal Service.

The compulsory services obligation enables the government to appoint a telecommunications operator to provide certain essential telecommunications services, such as emergency call services and telex, telegraphic and maritime communications. We were designated as the provider of maritime communications services through April 2002, and we are currently negotiating the extension of our contract with the government pursuant to which we provide these services. We may in the future be designated as the provider of other telecommunications services. The Spanish government may establish further public service obligations to the extent that the government determines that such services are not adequately provided, are in the public interest or are necessary for national defense.

In December 2001, the Spanish government adopted a ministerial order that governs certain aspects of the universal service obligation, including among others:

- maximum time periods for the provision of initial interconnection to telecommunications networks
- requirements with respect to the guarantee of continuing fixed-line telephone service to the public
- criteria with respect to the information included in public telephone directories
- standards for the quality of service and systems for measuring the quality of services

Terminal Equipment. The General Law on Telecommunications provides that consumers may freely purchase or lease any terminal equipment, including telephone sets, and connect that equipment to the telecommunications network. All terminal equipment is required by the General Law on Telecommunications to meet certain technical

specifications and safety requirements and is subject to the prior approval of the Secretary of State for Telecommunications and Information Society.

Ownership Limitations. Pursuant to the General Law on Telecommunications, direct or indirect investments in us and Telefónica Móviles by foreign persons may not exceed 25% of our and its respective share capital unless otherwise provided for by the applicable international treaties or agreements, including the Fourth Protocol of the General Agreement on Trade in Services (GATS), or authorized by the Spanish government. Pursuant to European Union directives, citizens of other European Union member states, including entities domiciled in such countries, are not considered foreign persons for the purposes of this provision. However, under Spanish law any foreign investment by non-European Union governments and state-owned and state-controlled entities (regardless of the amount of such investment) requires the Council of Ministers' prior approval unless otherwise provided for in the applicable treaties. See "Item 10—Additional Information—Exchange Controls—Exchange Controls and Other Limitations Affecting Security Holders". For purposes of computing the 25% threshold, only holdings of capital stock in excess of 5% and holdings that would entitle the foreign investor to designate a member of our or Telefónica Móviles' Board of Directors are taken into account. The 25% threshold does not apply to our subsidiaries generally. However, certain of our subsidiaries may be subject independently to similar constraints. For example, pursuant to the Private Television Law, no person may own, directly or indirectly, more than 49% of the capital stock of any private commercial television station. Antena 3 holds a private commercial television station license, and is therefore subject to this ownership limitation. Foreign persons who are not residents or citizens of a European Union member state may hold an interest in a commercial television licensee only if the member state in which such person resides, or of which such person is a citizen, permits residents and citizens of Spain to hold similar interests in such state's commercial television licensees. Foreign persons permitted to hold interests in commercial television licensees are subject to the 49% limitation described above.

Cable Telecommunications

Law 42/1995, the Cable Telecommunications Law, formerly governed the exchange of video, audio and other telecommunications over the cable telecommunications network. The Cable Telecommunications Law has been repealed by the General Law on Telecommunications, except for those provisions dealing with cable television, which remain in effect. As part of the repeal of the Cable Telecommunications Law, the licenses pursuant to which telecommunications services via cable were previously provided have been amended to authorize the provision of telecommunications services via cable under the General Law on Telecommunications.

Spain has been divided into 43 geographic regions for cable television regulatory purposes. We may commence providing cable television in all 43 regions due to the fact that the applicable 24-month waiting period has expired, so long as the technology we will use to provide the cable television services complies with the relevant regulations.

Royal Decree 7/2000

In June 2000, the government issued a new Royal Decree relating to the provision of and prices for certain telecommunication services. Under the decree, we are required, as a dominant operator, to:

- as of January 2001, facilitate segregated and shared access to our local loop pursuant to the conditions and prices established by separate ministerial orders
- as of November 1, 2000, offer 600 minutes of local calls between 6:00 p.m. and 8:00 a.m. for approximately €4.21 per month and 600 minutes of local calls during all hours for approximately €8.41 per month
- as of November 1, 2000, offer Internet access between 6:00 p.m. and 8:00 a.m. Monday through Friday and all weekend for approximately €16.53 per month

Competition

In June 1997, Retevisión, S.A. received a national license to provide fixed-line telephone services. It began providing domestic and international long-distance services in January 1998. Retevisión is controlled by a consortium consisting of Endesa, S.A., Unión Eléctrica Fenosa, S.A. and Banco Santander Central Hispano. In April 1999, the Spanish government sold its remaining 30% stake in Retevisión, completing its privatization.

Retevisión provides domestic and international long-distance services to residential and business customers in Spain. Retevisión reaches local customers by interconnecting with Telefónica de España's network pursuant to the terms of an interconnection agreement finalized in December 1997. Retevisión will have to build its own local loop in order to provide local service.

As of December 1, 1998, fixed-line public voice telephone services in Spain have been open to competition, subject to basic licensing requirements as provided for in the General Law on Telecommunications. In May 1998, the consortium Lince, comprised of France Telecom and Editel, S.A., a consortium which includes Multitel Cable, S.A. and Ferrovial Telecomunicaciones, received the third license for the provision of fixed-line telephone services in Spain. Lince commenced operations in December 1998 under the trade name UNI2. In 2001, France Telecom acquired its consortium partners' interests in Lince, as a result of which Lince is now wholly-owned by France Telecom. Although cable operators have been permitted to use their networks to provide local telephone service since January 1998, they only began to operate on a limited scale in 2000. Cable operators have acquired approximately 4% of the local telephone service market as of the date of this Annual Report.

The Ministerial Order dated September 22, 1998 sets forth the rules applicable to individual licensees for telecommunications services and networks in addition to the terms and conditions applicable to such licensees. The Ministerial Order provides for two different types of licenses for the provision of fixed-line public voice telephone services:

- *Type B license:* This license authorizes the provision of fixed-line telephone service through the establishment or operation of a fixed public telephone network by the licensee. This type of license also permits the licensee to lease its circuits to third parties. Two different categories of Type B licenses are contemplated:
 - a Type B1 license for fixed-line public voice telephone services through the establishment or operation of a fixed telephone network
 - a public Type B2 license for the provision of such services through the establishment or operation of a wireless network
- *Type A license:* This license authorizes the provision of fixed-line public voice telephone service through the use of third-party switching and transmission equipment without the corresponding obligation or right to establish and operate a network as in the case of the Type B license. The Ministerial Order CTE/601/2002 dated March 14, 2002, which modifies certain provisions of the Ministerial Order dated September 22, 1998 relating to licenses, introduced a new type of license for the provision of mobile telephony to the public (i.e., a virtual mobile operator), as a result of which there are now two categories of Type A licenses:
 - a Type A1 license for the provision of fixed-line public telephone voice services
 - a Type A2 license for the provision of public mobile telephone services

In addition, a third type of license, a Type C license, authorizes the establishment or operation of public networks, but the holder of such license may not provide fixed-line telephone services to the public. Type C licensees will compete with Telefónica de España in providing network access to Type A and B licensees.

At January 2, 2002, the following licenses had been granted:

- 45 Type A licenses
- 17 Type B1 national licenses
- 58 Type B1 restricted licenses
- 6 Type B2 licenses
- 123 Type C1 licenses

- 31 Type C2 licenses

The government has also granted 75 licenses to the cable operators formerly operating under concessions. Each of these operators received Type B1 licenses.

Telefónica de España is currently the only significant provider of comprehensive local service. This is expected to change gradually as cable operators develop their networks. In addition, in March 2000, the government issued six new licenses (in addition to those previously awarded to Retevisión and Lince) for the provision of local multipoint distribution services (LMDS), and the new licensees have begun to deploy their networks. The new licensees are expected to compete with Telefónica de España in the local access market.

Pursuant to a Royal Decree adopted in December 2000, Telefónica de España is required to implement local loop unbundling, line sharing and sub loop unbundling. Local loop unbundling enables other telecommunications operators to provide telecommunications services, including DSL-type services, to end customers using Telefónica de España's existing local loop (i.e., the connections between the customers' premises and the exchange) to connect with their customers. Other operators may install their own equipment either in Telefónica de España's exchanges or in nearby buildings to provide this service. Telefónica de España has offered local loop unbundling since January 2001. Line sharing similarly enables other telecommunications operators to provide telecommunications services using a high frequency portion of Telefónica de España's copper loop on an unbundled basis. Therefore, shared access to the local loop enables a consumer to retain Telefónica de España for voice services and use a competing operator for high speed data services. Telefónica de España introduced line sharing in January 2001.

In January 2001, Telefónica de España published its local loop unbundling offer. The tariffs were initially approved by the Delegate Commission for Economic Affairs of the Spanish government and later revised by the Telecommunications Market Commission in certain respects. The monthly tariff for direct access to the local loop is €12.6, the monthly tariff for shared access is €4.8 and the monthly tariff for indirect access is between €22 and €90 depending on the speed of the connection.

As of the date of this Annual Report, there has been limited demand for direct and shared access to Telefónica de España's local loop. The greatest demand has been for indirect access to the local loop for the provision of data transmission services, particularly Internet access. In April 2002, there were more than 500,000 indirect access connections, approximately 100,000 of which were maintained by competitors of Telefónica de España.

Competition in domestic and international long-distance services, particularly in the residential segment, is based on access through interconnection with Telefónica de España. Since 2001, Telefónica de España's customers have been able to select alternative providers of domestic and international long-distance services without having to dial a designated code prior to making each call. Preselection allows customers to choose their preferred local, long-distance, international long-distance and fixed-to-mobile carrier. As of December 31, 2001, 1,342,854 Spanish customers had preselected alternative providers of one or more services. Approximately 844,000 of these customers had preselected alternative providers for all services (local, long-distance, data services and Internet access).

Telefónica de España also faces indirect competition in international long-distance services from a number of sources, including calling cards, call-back services and call rerouting by other international operators. In addition, Telefónica de España competes with a number of international operators for the provision of closed user group communications services to multinational and large corporate customers and with a number of providers of data transmission services.

Competition in the market for fixed-line public voice telephone services is likely to be based on such distinct factors as:

- the financial strength and operating capacity of competitors
- market conditions, applicable Spanish and European Union regulations with respect to telecommunications services and basic telecommunications infrastructure
- regulations in effect with respect to tariff structures and interconnection rates
- the effectiveness of our efforts to withstand increased competition

Because our capacity to compete will be affected by factors not fully within our control, we cannot predict the degree of any resulting adverse effect on our business and results of operations.

Telefónica de España is fortifying its ability to compete in fixed-line telecommunications services by:

- improving its customer service
- expanding its catalog of products and services and improving the quality of its services
- modernizing its network infrastructure and management systems
- streamlining its investments
- containing costs, particularly personnel expenses which have been reduced significantly during the past several years through workforce reductions

The Tariff Structure and Pricing for Principal Services

Tariff Structure

The state contract established a structure for tariffs and regulated prices intended to ensure the overall financial balance under the contract while safeguarding the principle of universality in the rendering of services. In this context, historically, Telefónica de España's rates were structured so that local telephone services and access lines were subsidized by domestic long-distance and international services. Under the framework of the state contract and prior to the adoption of the General Law on Telecommunications, rates for basic telephone service were approved by the Spanish government at the proposal of the Ministry of Science and Technology and, since the creation of the Telecommunications Market Commission, after a hearing of the Telecommunications Market Commission.

The General Law on Telecommunications established in principle the freedom of telecommunications operators to set tariffs. However, it also provided that the Delegate Commission for Economic Affairs, at the proposal of the Ministry of Development and after a hearing of the Telecommunications Market Commission, could establish fixed tariffs, maximum or minimum tariffs, or the criteria by which tariffs are established, taking into account the actual costs of rendering the services and the degree of competition in the market for the relevant services.

The General Law on Telecommunications also recognized the existence of an imbalance in the rates in effect as of the date of its publication and the need to rebalance the rates, as well as the possibility of compensating the dominant operator (i.e., Telefónica de España) for the access deficit which may result from the existing rate imbalance. In view of the rate imbalance, the Ministerial Order of July 31, 1998 established new prices for basic telephone services and approved a plan for discounting principal services. Per-line monthly charges and local tariffs were increased by an average of 16% and 13%, respectively, while prices for provincial, interprovincial and international long-distance calls were decreased by 5%, 15% and 12%, respectively.

We believed that the then-existing rate imbalance was not offset by the prices established in the Ministerial Order of July 31, 1998, which we considered to have been only the first step in the rate rebalancing required for a fully competitive market. In October 1998, the Spanish government adopted a Ministerial Order which approved the interconnection offer framework proposed by the Telecommunications Market Commission. This Ministerial Order of October 29, 1998 also granted to the Ministry of Development the authority to determine how to compensate Telefónica de España for its access deficit. Accordingly, we presented to the Spanish government an estimate of our access deficit and sought further tariff adjustments in order to avoid harming our competitive position. See “—Regulation—The General Law on Telecommunications—Tariffs”.

In 1999, tariffs for local calls, domestic and international long-distance calls and fixed-to-mobile tariffs continued to decrease through the adoption of Decree-Law 6/99, issued in April 1999, and Decree 16/99, issued in October 1999. Decree 16/99 was adopted in order to combat inflation and to foster competition. Decree 16/99 nevertheless featured a rate rebalancing measure which provided for three separate increases of €0.60 each in the per-line monthly charge, which increases took effect in August 2000, March 2001 and August 2001.

The Urgent Measures Decree Law of April 16, 1999 granted jurisdiction to the Ministry of Development to develop a new framework for the regulation of Telefónica de España's prices. During a transitional period, these

prices will be subject to price ceilings, also known as “price caps”, that may be revised on an annual basis. Accordingly, the Ministerial Order of July 31, 2000, established new tariffs for fixed-line telephone services, fixed-to-mobile calls and leased lines, featuring limits on annual price increases for these services during 2001 and 2002. In May 2001, the period during which the “price caps” would apply was extended through 2003 by the Ministerial Order of May 10, 2001.

In addition, in May 2001, the following measures adopted by the Delegate Commission for Economic Affairs of the Spanish government at its meeting in April 2001 became effective. Among other things, the Delegate Commission for Economic Affairs approved the following rate rebalancing measures, which we believe will eliminate the access deficit by 2003:

- aggregate tariff reductions of 14.3% through 2003, due in part to the following reductions in the consumer price index percentage increases per year: a 9 percentage point reduction in 2001, an 8 percentage point reduction in 2002 and a 4 percentage point reduction in 2003
- an increase in the monthly subscription rate to €12.62 in 2003
- the elimination of mandatory reductions for fixed-to-mobile tariffs in 2003

Additionally, the Delegate Commission for Economic Affairs of the Spanish government approved:

- the establishment of a two-month period for the review and approval of discount plans relating to Internet connection, service packages, subscription fees, metropolitan service and discounts of more than 25% for interprovincial and international long-distance services and the approval of new services
- the reduction in the time period for the communication of prices to 10 days from 15 days and the “price cap” to 25 days from 30 days
- the introduction of more flexibility in the approval of discount plans relating to provincial, interprovincial and international long-distance services, including the reduction of the approval period to 25 days if the discounts are less than 15%
- the postponement to January 1, 2002 of the change in billing for public pay telephones to seconds from minutes

Pricing for Principal Services

In 2001, the first year in which the “price cap” mechanism was applied, prices for Telefónica de España’s services were significantly reduced. For example, the price per minute for

- provincial and interprovincial calls each decreased by an aggregate of 30.0%
- international long-distance calls decreased by an aggregate of 19.9%

In addition, the price per minute for fixed-to-mobile calls terminating in Telefónica Móviles’ networks decreased by an aggregate of approximately 14.4%.

The tables below show the tariffs in effect for Telefónica de España’s principal services at year-end 2001 and at or for the other periods indicated. The prices at year-end 2001 are the nominal prices set by Telefónica de España in accordance with the “price cap” mechanism. Telefónica de España may apply discounts to these prices through calling plans which have been approved by the regulatory authorities.

The following table sets forth fees (excluding value-added taxes) for access to Telefónica de España’s most common services at the dates indicated.

| Rate Category | At December 31, | | |
|--|-----------------|----------|----------|
| | 1999 | 2000 | 2001 |
| | (euro) | | |
| Connection fee: | | | |
| Individual telephone line and integrated service | | | |
| digital network link..... | 127.72 | 127.72 | 95.00 |
| Primary access | 3,606.07 | 3,606.07 | 3,606.07 |
| Basic access | 168.28 | 168.28 | 168.28 |
| Monthly subscription fee: | | | |
| Individual telephone line..... | 8.67 | 9.27 | 10.47 |
| Integrated service digital network: | | | |
| Primary access | 342.58 | 342.58 | 342.58 |
| Basic access | 22.84 | 22.84 | 22.84 |
| 4 Km 64KB/s digital circuit..... | 263.06 | 263.06 | 255.31 |

On January 1, 2002, the monthly subscription fee for individual telephone lines increased approximately 11.5% to €11.68 in accordance with the “price cap” mechanism.

The table below sets forth Telefónica de España’s pricing structure at December 31, 2001 for local and domestic long-distance calls.

| | Connection Charge | Euro cents for Three-Minute Calls(1)(2) | |
|----------------------|-------------------|---|-----------------|
| | (euro cents) | Standard Rate(3) | Reduced Rate(4) |
| Local | 6.85(5) | 7.65 | 7.18 |
| Provincial | 8.33 | 25.24 | 20.41 |
| Interprovincial..... | 8.33 | 39.72 | 27.05 |

(1) Includes call connection charge.

(2) Calls are billed per second.

(3) For local calls weekdays from 8 a.m. to 6 p.m., and for provincial and interprovincial calls from 8 a.m. to 8 p.m. on weekdays.

(4) For remaining time periods and national holidays.

(5) Includes 160 seconds of talk time.

As of January 1, 2002, the price per minute for provincial calls during business hours (i.e., 8:00 a.m. to 8:00 p.m.) on weekdays decreased approximately 14.7%, and interprovincial calls during business hours on weekdays decreased approximately 19.6%. As of that date, during other weekday times and weekends, the price per minute for provincial calls decreased approximately 8.1%, and the price per minute for interprovincial calls decreased approximately 5.0%.

During 2001, prices for fixed-to-mobile calls decreased an average of 13.3%. The following table sets forth prices at December 31, 2001 for fixed-to-mobile calls originating in Telefónica de España’s network and terminating in the respective networks of the two dominant operators, Telefónica Móviles and Vodafone.

| Network | Connection Charge | Euro cents Per Minute(1) | | |
|--------------------------|-------------------|--------------------------|-------------|-------------|
| | (euro cents) | Tariff A(2) | Tariff B(3) | Tariff C(3) |
| Telefónica Móviles | 6.85 | 23.25 | 23.25 | 13.22 |
| Vodafone..... | 6.85 | 26.25 | 25.54 | 13.22 |

(1) First minute is billed in full. Subsequent minutes are billed per second.

(2) For weekday calls from 8 a.m. to 10 p.m. and Saturdays from 8 a.m. to 2 p.m.

(3) For remaining time periods and national holidays.

The table below sets forth Telefónica de España’s average prices for a three-minute international call to the indicated regions at peak hours at the dates specified.

| | At December 31, | | | | | |
|---------------------------------------|----------------------|----------------------|----------------------|----------------------|-------------------|----------------|
| | 1999 | | 2000 | | 2001 | |
| | Standard Rates(1)(2) | Discount Rates(1)(3) | Standard Rates(1)(2) | Discount Rates(1)(3) | Standard Rates(1) | Discount Rates |
| | (euro) | | | | | |
| Western Europe..... | 1.02 | 0.91 | 1.02 | 0.91 | 0.65 | n.a. |
| Rest of Europe and North Africa | 1.71 | 1.42 | 1.71 | 1.42 | 1.37 | n.a. |
| United States..... | 1.18 | 1.09 | 1.18 | 1.09 | 0.65 | n.a. |
| Latin America | 2.45 | 2.09 | 2.45 | 2.09 | 1.87 | n.a. |
| Japan and Australia..... | 3.22 | 2.95 | 3.22 | 2.95 | 2.93 | n.a. |
| Rest of the world..... | 3.62 | 3.29 | 3.62 | 3.29 | 3.29 | n.a. |

(1) Includes flat connection charge.

(2) Applies weekdays from 8 a.m. to 8 p.m.

(3) Applies weekdays from 8 p.m. to 8 a.m., weekends and national holidays.

Telefónica de España's marketing efforts in response to competition have focused on quality of service and relied on discount plans and the introduction of new services in order to increase consumption. Accordingly, since 1998, Telefónica de España has introduced a number of discount plans for its residential and business segment customers. During 2001, the number of calling plans subscribed by Telefónica de España's customers increased by 1,372,089 to 15,517,153 at December 31, 2001. Because the plans are not necessarily exclusive, the same customer can take advantage of more than one plan. Each discount plan must be submitted by Telefónica de España to the regulatory agency for prior administrative approval.

The following table sets forth the composition of Telefónica de España's revenues for 1999, 2000 and 2001 for the categories shown below.

| | Percentage of Telefónica de España's Revenue | | |
|---|--|------|------|
| | 1999 | 2000 | 2001 |
| | (Percentages) | | |
| Monthly subscription fee and connection fee | 32.9 | 35.3 | 37.0 |
| Local calls(1) | 17.4 | 18.1 | 16.5 |
| Provincial calls..... | 6.2 | 5.8 | 3.8 |
| Interprovincial calls | 12.8 | 10.6 | 7.2 |
| International calls(2) | 7.3 | 11.1 | 10.2 |
| Fixed-to-mobile | 14.5 | 16.3 | 15.0 |
| Other(3)..... | 8.9 | 2.8 | 10.3 |

(1) Metropolitan calls and calls to access the Internet.

(2) Includes incoming international calls.

(3) Includes sales of terminals, surcharges from calls placed from public pay telephones, intelligent network calls, maritime service and other revenues, deducting discounts in connection with calling plans.

During 1999, revenues from interprovincial and international calls were adversely affected by increased competition and discounted pricing. The trend continued in 2000 with respect to provincial and interprovincial calls, but revenues from international calls improved in 2000 due to a strong increase in traffic. In 2001, revenues from monthly subscription fees increased relative to revenues from network traffic. In addition, other revenues increased as a percentage of total revenues. These revenues include principally the sale of terminals, services to other telecommunications operators and other traffic-related revenues such as mobile-to-fixed traffic, international carrier services and interconnection charges. Since the beginning of 1999, following the introduction of competition, Telefónica de España has experienced some loss of market share for provincial and fixed-to-mobile calls.

Comparative Pricing Information

The table below provides comparative monthly subscription fee pricing information (excluding value-added taxes) with respect to the other principal European operators at December 31, 2001.

| | Telefónica | Deutsche Telekom | France Telecom | Telecom Italia | British Telecom(1) |
|-------------------|------------|------------------|----------------|----------------|--------------------|
| | | | (euro) | | |
| Residential | 10.47 | 10.94 | 10.49 | 10.69 | 14.68 |
| Business | 10.47 | 10.94 | 12.65 | 14.62 | 22.32 |

Source: Eurodata, Tarifica and the operators.

(1) Prices translated into euro from British pounds at the average exchange rate for December 2001.

The table below shows the prices (excluding value-added taxes) for three minute calls during business hours of other principal European operators at December 31, 2001.

| | Telefónica | Deutsche Telekom | France Telecom | Telecom Italia | British Telecom(1) |
|----------------------------------|------------|------------------|----------------|----------------|--------------------|
| | | | (euro) | | |
| Local | 0.08 | 0.11 | 0.13 | 0.10 | 0.17 |
| Domestic long-distance..... | 0.40 | 0.32 | 0.27 | 0.35 | 0.33 |
| International long-distance..... | 0.65 | 0.32 | 0.62 | 0.80 | 1.16 |

Source: Eurodata, Tarifica and the operators.

(1) Prices translated into euro from British pounds at the average exchange rate for December 2001.

The table above shows that rates charged by Telefónica de España are generally higher than those charged by the other principal European operators for domestic long-distance calls and lower for local calls. This reflects the failure to complete the rate rebalancing prior to the liberalization of the fixed-line telecommunications market in accordance with European Union directives. Nevertheless, the prices Telefónica de España charges for international long-distance calls and its monthly access line subscription fee are now more in line with the median prices and fees charged by the other principal European operators as a result of the rate rebalancing measures adopted by the Spanish government in 2001.

Interconnection Prices

Under the General Law on Telecommunications, interconnection prices may be freely negotiated between telecommunications operators. However, prices charged by Telefónica de España, as the dominant operator, are determined by the Interconnection Offer Framework, which was initially proposed by us in 1998 and subsequently modified and approved by the Ministry of Science and Technology. Under our proposal, interconnection prices charged to Telefónica de España's competitors were consistent with Telefónica de España's costs. However, the Ministerial Order dated October 29, 1998, which approved the Interconnection Offer Framework, and its subsequent amendments or modifications, provide for interconnection prices that are below Telefónica de España's actual costs. In addition, pursuant to a Ministerial Order dated November 26, 1998, interconnection prices charged to wireless operators for terminating calls in Telefónica de España's network were brought in line with those approved for the fixed-line operators, effective as of July 1, 1999. Because Telefónica de España continues to provide interconnection services to its competitors at prices below its own costs, Telefónica de España is not able to compete as effectively since the prices these companies can therefore charge their customers may be below that which Telefónica de España charges its customers. This has contributed to Telefónica de España's loss of market share for such services since 1999.

The table below sets forth interconnection prices per minute for switched traffic established by the Ministerial Order dated October 29, 1998. These prices, which have been converted into euro at the irrevocably-fixed rate of exchange as of January 1, 1999, were in effect through June 16, 2000.

| | Peak Rate(1) | Standard Rate(2) | Discounted Rate(3) |
|----------------------------|----------------------|------------------|--------------------|
| | (hundredths of euro) | | |
| Type B licenses: | | | |
| Local | 0.99 | 0.99 | 0.63 |
| Single transit(4)..... | 1.59 | 1.39 | 0.97 |
| Double transit(5)(6) | 3.07 | 2.67 | 1.87 |
| Type A licenses: | | | |

| | <u>Peak Rate(1)</u> | <u>Standard Rate(2)</u> | <u>Discounted Rate(3)</u> |
|------------------------|---------------------|-------------------------|---------------------------|
| | | (hundredths of euro) | |
| Single transit(4)..... | 2.07 | 1.80 | 1.26 |
| Double transit(5)..... | 3.99 | 3.47 | 2.43 |

- (1) Applies weekdays and Saturdays during peak hours.
- (2) Applies weekdays during off-peak hours.
- (3) Applies Sundays and national holidays, Saturdays (except peak hours) and other weekdays at night.
- (4) Principally provincial service.
- (5) Principally interprovincial service.
- (6) Applies only to operators with a Type B national license.

On May 25, 2000, the Telecommunications Market Commission approved new interconnection tariffs, which became effective on June 17, 2000, and which established uniform interconnection tariffs for operators with Type A and B licenses. These tariffs, which were in effect through August 18, 2001, are set forth below.

| | <u>Interconnection Tariffs (Access and Termination) per minute</u> | |
|----------------------|--|---------------------------|
| | <u>Standard Rate(1)</u> | <u>Discounted Rate(2)</u> |
| | (hundredths of euro) | |
| Local | 0.90 | 0.63 |
| Single transit | 1.50 | 1.17 |
| Double transit..... | 2.16 | 1.86 |

| | <u>Interconnection Tariffs (Transit) per minute</u> | |
|------------------------------------|---|---------------------------|
| | <u>Standard Rate(1)</u> | <u>Discounted Rate(2)</u> |
| | (hundredths of euro) | |
| Unicentral | 0.41 | 0.32 |
| National..... | 1.86 | 1.45 |
| National with local extension..... | 2.16 | 1.86 |

- (1) Applies weekdays from 8:00 a.m. to 8:00 p.m.
- (2) Applies on Saturdays, Sundays and national holidays, and weekdays from 8:00 p.m. to 8:00 a.m.

On August 9, 2001, the Telecommunications Market Commission approved new interconnection prices which include

- volume discounts
- new interconnection rates for local traffic
- interconnection rates in connection with flat rate Internet access plans
- interconnection rates based on capacity rather than time

The interconnection prices approved by the Telecommunications Market Commission are between 20% and 30% below previously existing interconnection prices. Consequently, on September 11, 2001, Telefónica de España filed a petition with the Telecommunications Market Commission against the new interconnection prices, claiming that they are below Telefónica de España's actual costs, as measured in accordance with accounting criteria approved by the Telecommunications Market Commission. On November 2, 2001, the Telecommunications Market Commission dismissed Telefónica de España's petition, except with respect to interconnection prices in connection with Internet access. As a result, Telefónica de España is seeking relief through administrative litigation.

The tables below set forth the new interconnection prices approved by the Telecommunications Market Commission on August 9, 2001, which became effective on August 19, 2001.

| Interconnection Tariffs (Access and Termination) per minute | | |
|--|-------------------------|---------------------------|
| | Standard Rate(1) | Discounted Rate(2) |
| (hundredths of euro) | | |
| Local | 0.76 | 0.46 |
| Single transit | 1.16 | 0.70 |
| Double transit..... | 2.22 | 1.33 |
| Metropolitan | 1.05 | 0.63 |

| Interconnection Tariffs (Access and Termination) per minute | | |
|--|-------------------------|---------------------------|
| | Standard Rate(1) | Discounted Rate(2) |
| (hundredths of euro) | | |
| Unicentral | 0.42 | 0.23 |
| National..... | 1.91 | 1.04 |
| National with local extension..... | 2.22 | 1.33 |

(1) Applies weekdays from 8:00 a.m. to 8:00 p.m.

(2) Applies on Saturdays, Sundays and national holidays, and weekdays from 8:00 p.m. to 8:00 a.m.

| Interconnection Tariffs by Capacity per month | | |
|--|----------------------------------|------------------------------------|
| | Price for 64 Kbps circuit | Price for 2 Mbps local loop |
| (euro) | | |
| Local | 44.17 | 1,326.11 |
| Metropolitan | 55.83 | 1,675.29 |
| Single transit | 67.58 | 2,027.58 |
| Double transit..... | 129.12 | 3,873.80 |

Telefónica de España expects that the application of interconnection charges based on capacity will adversely affect its competitive position beginning in mid-2002, when it anticipates that new interconnection agreements will be entered into with its competitors based on this new pricing model.

Customer Service

In order to adequately respond to the new competitive environment, we have undertaken considerable efforts since 1998 to improve the quality of our customer service. We have segmented our customers so that the specific needs of each segment could be served best. In addition, we have increased our call-center capacity to focus further on customer service. In connection with our efforts to improve customer service and meet the needs of our customers, in 2001 we introduced 103 new products and services. Most notably, we introduced a number of limited flat rate plans for various types of calls (e.g., metropolitan, provincial, interprovincial and certain international calls). Telefónica de España has also introduced a variety of Internet access plans, including flat rate Internet access plans. Together, these plans have helped mitigate Telefónica de España's loss of market share due to increased competition. In 2001, Telefónica de España has also concentrated its efforts on expanding its offering of asymmetric digital subscriber lines, or ADSL, service. At December 31, 2001, Telefónica de España was capable of providing this service through approximately 16.5 million lines, and at that date, 187,025 customers subscribed to this service, an increase of approximately 316% from year-end 2000.

The business customer service model developed by Telefónica de España, which is aimed at achieving the highest degree of efficiency in customer service, includes the following:

- A 24-hour personal customer service line for purchasing any type of product and service, as well as for handling customer queries
- The *Tiendas Telefónica* ("Telefónica stores") where customers can test and buy all of the products marketed by Telefónica

- Telefónica's "virtual" store, accessible from the Internet, which offers the ability to order and purchase online all of the services and products offered by Telefónica
- Catalog sales through which any customer can buy a product by placing a toll-free call to a commercial customer service number

Telefónica is devoting special attention to the corporate customer market, with a sales force that exclusively handles this segment and seeks customized solutions for each type of customer.

Telefónica Telecomunicaciones Públicas

Telefónica Telecomunicaciones Públicas, S.A. is a wholly-owned subsidiary of Telefónica de España, S.A. which operates pay telephones in outdoor and indoor locations, including airports, bus stations, train stations, recreational parks, hospitals and gas stations. In addition, Telefónica Telecomunicaciones Públicas:

- manages phone booths in public thoroughfares and public payphones that are contracted from Telefónica de España
- markets prepaid telephone cards
- generates revenues from advertising on public phone booths and prepaid telephone cards

Telefónica de España continues to own the public phone booths although such assets may be transferred to Telefónica Telecomunicaciones Públicas in the future.

Public telephone services on private premises are open to full competition and are not subject to price regulation. The provider is under no obligation to extend this service beyond what the provider considers to be in its business interest, and the provider is free to choose the terminal used, provided that it meets European Union specifications.

At December 31, 2001, Telefónica Telecomunicaciones Públicas had 35,476 pay telephones installed in indoor locations and 64,557 pay telephones installed in outdoor locations.

For the year ended December 31, 2001, Telefónica Telecomunicaciones Públicas sold 6.8 million prepaid cards for a net total of €51.2 million, a decrease from €70.8 million for the year ended December 31, 2000. Revenues from advertising totaled €10.2 million for the year ended December 31, 2001, a decrease from €11.20 million for the year ended December 31, 2000.

As a result of the decrease in revenues from Telefónica Telecomunicaciones Públicas' historical products and services due to increased competition from Type A and B licensees as well as from wireless communications operators and the resulting decrease in traffic, Telefónica Telecomunicaciones Públicas is attempting to diversify its business. For example, it opened a total of six Internet centers in some of the major Spanish cities in 2001.

Worldwide Wireless Communications Services – Telefónica Móviles

We conduct our worldwide wireless operations principally through Telefónica Móviles. Telefónica Móviles is a leading provider of wireless communications services in Spain and Latin America and one of the ten largest wireless operators in the world, based upon its total customers at December 31, 2001. Telefónica Móviles was incorporated in February 2000 as the holding company for the Telefónica Group's wireless communications operations. In November 2000, Telefónica Móviles completed an initial public offering of approximately 8% of its ordinary shares. At December 31, 2001, Telefónica, S.A. and other Telefónica Group companies held an aggregate of 92.7% of Telefónica Móviles' outstanding share capital.

Telefónica Móviles has operating companies in Spain, Brazil, Mexico, Perú, Argentina, El Salvador and Guatemala and holds non-controlling interests in other wireless companies that it solely or jointly manages in Brazil and Morocco. Telefónica Móviles also manages the Telefónica Group's wireless operations in Chile and Puerto Rico. Telefónica Móviles has significant interests in the consortia that acquired UMTS licenses in Germany and Italy and owns wireless companies that acquired UMTS licenses in Austria and Switzerland.

The following table provides a summary overview of our wireless operations.

| Country | Name of Company | Service Territory | Ownership Interest at December 31, 2001(1) | POPS (in millions) | Total Customers at December 31, 2001 (in millions) |
|-------------|--|---|--|-----------------------|---|
| Spain | Telefónica Móviles España .. | Nationwide | 92.70% | 40 | 16.8 |
| Germany | Group 3G..... | Nationwide | 53.02% | 83 | - |
| Italy | IPSE 2000..... | Nationwide | 46.34% | 58 | - |
| Austria | 3G Mobile GmbH..... | Nationwide | 92.70% | 8 | - |
| Switzerland | 3G Mobile AG..... | Nationwide | 92.70% | 7 | - |
| Brazil | Tele Sudeste Celular..... | Rio de Janeiro/ Espírito Santo | 77.17% | 18 | 3.0 |
| | Celular CRT | Rio Grande do Sul | 27.44% | 10 | 1.8 |
| | Tele Leste Celular | Bahia/Sergipe | 23.55% | 15 | 0.8 |
| Mexico | Baja Celular Mexicana | Four wireless regions (Northern Mexico) | | | |
| | Movitel del Noroeste | | | | |
| | Telefonia Celular del Norte | | | | |
| | Celular de Telefonía | | 92.70%(2) | 21 | 1.2 |
| El Salvador | Telefónica Móviles El Salvador..... | Nationwide | 42.69% | 7 | 0.2 |
| Guatemala | Telefónica Centroamérica | | | | |
| | Guatemala | Nationwide | 47.28% | 12 | 0.2 |
| Morocco | Medi Telecom | Nationwide | 28.27% | 29 | 1.1 |
| Perú | Telefónica Móviles Perú | Nationwide | 90.82% | 26 | 1.1 |
| Argentina | Telefónica Comunicaciones Personales..... | Nationwide | 90.78% | 38 | 1.8 |
| Chile | Telefónica Móvil(3) | Nationwide | 43.64% | 16 | 1.6 |
| Puerto Rico | Newcomm Wireless Services(4)..... | Intra island | n.a. | 4 | 0.2 |
| Total | | | n.a. | 392 | 29.7 |

- (1) Represents the ownership interest of the Telefónica Group.
- (2) Except for Movitel del Noroeste, in which we hold a 83.42% interest.
- (3) Startel, which operates under the trade name Telefónica Móvil, is a subsidiary of Compañía Telecomunicaciones de Chile in which we held a 43.6% interest at December 31, 2001 through Telefónica Internacional. Startel's operations are managed by Telefónica Móviles.
- (4) Our interest is in the form of a note convertible into up to 49.9% of the capital stock of Newcomm Wireless Services, subject to the receipt of necessary U.S. regulatory authorizations. Newcomm Wireless Services' operations are managed by Telefónica Móviles. We plan to transfer our investment in Newcomm Wireless Services, which is held through Telefónica Internacional, to Telefónica Móviles as soon as practicable.

Services and Products

Telefónica Móviles' operating companies and managed operations offer a wide variety of wireless and related services and products to consumer and business customers. Although the products available vary from country to country, the following are Telefónica Móviles' principal services and products:

- **Wireless Voice Services.** Telefónica Móviles' principal service in all of its markets is mobile wireless telephony, and most of Telefónica Móviles' other services and products involve enhancements and additional features for its wireless customers. Telefónica Móviles offers convenient and affordable wireless service with a variety of payment plans and packages, including payment on a contract and pre-paid basis. Telefónica Móviles' networks are designed and managed to provide high quality wireless voice services throughout its markets.
- **Enhanced Calling Features.** Customers in most of Telefónica Móviles' markets now have access to a range of enhanced calling features including voice mail, call hold, call waiting, call forwarding and three-way calling. Customers may receive a number of these services bundled

with basic voice service, while other customers may choose to order them as optional supplements to their basic voice service.

- *Wireless Data Transmission.* Telefónica Móviles' networks and systems allow customers to use their handsets for data transmission, including to send messages to other customers, to receive selected information, such as news, sports scores and stock quotes and to provide wireless connectivity for devices such as laptops and personal digital assistants. These offerings are at different stages of development in each of Telefónica Móviles' markets.
- *Wireless Internet.* As part of Telefónica Móviles' strategy to become a leader in the wireless Internet sector, Telefónica Móviles offers Internet access using wireless application protocol technology in a growing number of its service areas, primarily under the *e-moción* brand. *e-moción* was the first wireless Internet access service in the Spanish language and, in Brazil, the first wireless Internet access service in Portuguese. Through wireless Internet access, Telefónica Móviles' customers are able to send and receive e-mail, browse web pages, purchase goods and services in m-commerce transactions and use Telefónica Móviles' other data services. Telefónica Móviles launched GPRS services in Spain for customers in 2001. Additionally, Terra Mobile offers services and applications through its wireless Internet portal.
- *M-payment.* On May 30, 2001, Telefónica Móviles, Banco Bilbao Vizcaya Argentaria, Banco Santander Central Hispano and Vodafone agreed to integrate their respective mobile payment systems to form a single mobile payment standard. The new payment system is an open system, which other financial institutions, wireless operators (such as Amena) and payment processing companies in Spain have joined. This system is being developed in Spain through Mobipay España, S.A. and outside Spain through Mobipay International, S.A.
- *Corporate Services.* Telefónica Móviles provides business solutions, including wireless infrastructure in offices, private networking and portals for corporate customers that provide flexible on-line billing. This market is rapidly developing in Spain through *MoviStar Corporativo 2000*, a service creating wireless virtual private networks for companies.
- *Trunking and Paging.* Telefónica Móviles provides digital wireless services for closed user groups of clients in Argentina and paging services in Spain and Guatemala.
- *Roaming.* Telefónica Móviles has roaming agreements that allow its customers to use their handsets when they are outside of their service territories, including on an international basis. Telefónica Móviles' Spanish operating company was the first operator worldwide to offer international roaming services to pre-paid customers.
- *Other Services.* Telefónica Móviles also has the technology available to provide other value-added wireless services such as location-based services and telematics. Location-based services permit the precise location of the handset to be determined by Telefónica Móviles' networks, which will permit users to receive and access information specific to such location. Telefónica Móviles believes that this technology will be widely used in fleet management, logistics, security monitoring and consumer markets. Telematics applications enable data to be collected from machines such as cars, trucks and vending machines.

Telefónica Móviles' Operations

Telefónica Móviles' operations currently are conducted in three distinct geographic areas:

- Western Europe
- Latin America
- the Mediterranean basin (Morocco).

Western Europe

Spain

Telefónica Móviles is the leading wireless operator in Spain with approximately 16.8 million customers at December 31, 2001.

The following table presents, at the dates and for the periods indicated, selected statistical data relating to Telefónica Móviles' operations in Spain:

| | Year ended December 31, | | |
|--|-------------------------|-------|--------|
| | 1999 | 2000 | 2001 |
| Total customers (in millions at period end) | 9.1 | 13.7 | 16.8 |
| Pre-paid customers (in millions at period end) | 5.5 | 8.9 | 11.5 |
| Average monthly revenue per customer (euro)..... | 44 | 34 | 31 |
| Average monthly revenue per customer increase (decrease) compared to prior year | n.a. | (23)% | (9.5)% |
| Population in service territory (in millions at period end) | 40 | 40 | 40 |

We have offered wireless services in Spain since 1982 with the launch of analog wireless services. Digital wireless services were launched in 1995 under the *MoviStar* brand name, which has since become one of the most widely recognized brands in Spain. In March 2000, having achieved the highest rating in the awards process, Telefónica Móviles was awarded a third generation wireless, or UMTS, license covering the Spanish national territory for €131 million. In 2001 Telefónica Móviles launched GPRS commercial services.

Network and Technology. Telefónica Móviles' licenses and concessions in Spain permit it to operate both analog and digital networks. Telefónica Móviles also holds one of four nationwide licenses for UMTS services in the country.

Telefónica Móviles' digital network in Spain is based upon the GSM standard, which has been adopted by more than 130 countries worldwide, including all member countries of the European Union. The prevalence of the GSM standard, together with Telefónica Móviles' international roaming agreements, enables its *MoviStar* customers to make and receive calls throughout Western Europe and in more than 100 countries worldwide. Telefónica Móviles' GSM-based network provides its customers with access to many of the most advanced wireless handsets and a full panoply of services and products.

Telefónica Móviles' concessions and licenses entitle it to 52 MHz of spectrum in the 900 MHz band and 26 MHz of spectrum in the DCS-1800 MHz band, which Telefónica Móviles may increase to up to 50 MHz by 2003. Telefónica Móviles believes that this spectrum is adequate for its requirements. Pursuant to the terms of Telefónica Móviles' GSM 1800 license, which provides that by December 31, 2002, the 25 MHz of spectrum must have been made available to it, Telefónica Móviles received 5 MHz from the Spanish authorities, pending receipt of the remaining 5 MHz. Under the terms of Telefónica Móviles' UMTS license, Telefónica Móviles is authorized to operate using two paired, or two-way, 15 MHz channels plus one unpaired, or one-way, 5 MHz channel.

Regulation. Prior to the enactment of the General Law on Telecommunications, wireless telephone services were considered to be public services and, as such, were provided pursuant to a system of administrative concessions, which granted to operators the right to provide wireless telephone services and construct and operate the networks required to do so. One of Telefónica Móviles' rights is still held in the form of an administrative concession that is governed by legislation applicable prior to the enactment of the General Law on Telecommunications. Telefónica Móviles has requested to the relevant authorities the early termination of this concession.

At present, Telefónica Móviles holds an administrative concession to provide wireless services in the analog form on the 900 MHz band. Telefónica Móviles' analog service concession expires on January 1, 2007. Under this concession, Telefónica Móviles is required to maintain quality standards and respect the principles of neutrality and non-discrimination. Telefónica Móviles is also subject to certain obligations under each of its concessions, including the payment of certain fees to the Spanish government, contributions to the universal service fund, notification of its rates, and the avoidance of cross subsidization between its services, among others.

The Ministry of Science and Technology is empowered to amend Telefónica Móviles' concession, for public interest reasons, subject to the Spanish Public Procurement Law and regulations thereunder. However, if an amendment is financially harmful to Telefónica Móviles, it may be entitled to compensation. This compensation would not, however, cover any harm resulting from the authorization of new competitors.

A concession is subject to revocation or fines and lesser sanctions, upon the occurrence of certain events such as the bankruptcy of the company, transfer of the concession without administrative authorization, failure to abide by the terms of the concession, laws or regulations or reallocation of allotted frequencies on the radioelectric spectrum (in which latter case, Telefónica Móviles would be entitled to compensation).

Telefónica Móviles holds 18 individual licenses under the General Law on Telecommunications, covering the following:

- nationwide digital services
- nationwide UMTS services
- trunking, or closed user group, services
- paging services
- fixed-line telephony

Telefónica Móviles' digital licenses expire in 2010 and 2023, its UMTS license in 2020, its trunking licenses in 2014, 2016 and 2020, its paging license in 2012 and its fixed-line license in 2019. Telefónica Móviles' licenses can be extended for at least 10 years, except its digital licenses, which may be extended for a period of five years. In March 2002, Telefónica Móviles requested to the relevant authority that its trunking licenses be terminated due to changes in technical, economic and market conditions since the licenses were granted.

Telefónica Móviles' rights and obligations under the individual licenses are similar to those under its administrative concessions, though they generally require more disclosure of rates and product information to the Spanish regulatory authorities and the public and also require Telefónica Móviles to keep separate accounts for each of its activities and services. Telefónica Móviles' licenses also impose some additional obligations, including an obligation to provide bank guarantees totaling €1,100 million to secure commitments assumed in its UMTS license application. Telefónica Móviles will forfeit all or part of these bank guarantees if it does not satisfy these assumed commitments.

In the case of Telefónica Móviles' UMTS license, Telefónica Móviles paid to the Spanish Treasury a one-time fee of €131 million in connection with the issuance of that license in 2001. The Spanish government adopted legislation imposing additional fees totaling approximately €233.3 million for the year 2001 for use of spectrum both for new UMTS licenses as well as existing analog and digital concessions and other uses. In 2001, the Spanish government adopted new legislation reducing such fees by 75% for the year 2002 and setting a framework for the determination of the amount of such fees for the next five years. In June 2002, Telefónica Móviles fulfilled the Spanish government's requirements regarding initial roll-out of its UMTS network. In addition, the Spanish government has announced that it may, when UMTS technology is a reality, award additional licenses permitting the offer of wireless services, subject to spectrum availability.

Telefónica Móviles' licenses may be amended or revoked. Telefónica Móviles' licenses may be amended only for "objective" cause, including a change in law or for "public interest" reasons. Telefónica Móviles would not be entitled to any compensation in the event of an amendment to a license. Amendments to the applicable laws may also result in changes to the obligations of a license holder. Telefónica Móviles' licenses may be revoked if it fails to comply with any of the specified obligations or commitments in these licenses as well as for reasons similar to those applicable to its administrative concessions, as discussed above. In addition, any infringements defined in the General Law on Telecommunications may result in the imposition of sanctions including fines.

Under the General Law on Telecommunications, non-European Union individuals or entities cannot own, directly or indirectly, more than 25% of Telefónica Móviles' assets or share capital, unless such ownership is permitted by authorization of the Spanish government, in cases of reciprocal treatment between Spain and a non-

European Union country, or by specific agreement between Spain and a non-European Union country. Spain has ratified the Telecoms Annex to the General Agreement on Trade in Services, or GATS, pursuant to which specific authorization will not be required so long as direct or indirect control of 25% or more of Telefónica Móviles' assets or share capital is owned by persons or entities domiciled in countries party to the Telecoms Annex to GATS. Until 2007, the Spanish government holds approval rights for specified fundamental corporate transactions affecting Telefónica Móviles and its Spanish operating company. These approval rights, which were adopted by several European governments in the context of the privatization of major national enterprises, are currently subject to challenge by the European Commission before the European Court of Justice.

Rates. Wireless operators are generally free to fix customer rates for the provision of services under the General Law on Telecommunications, except with respect to analog wireless services for which the Government Commission for Economic Affairs has prescribed maximum rates. In accordance with the General Law on Telecommunications, the Government Commission for Economic Affairs may prescribe temporary fixed, maximum and minimum rates, or criteria for establishing rates, based on actual costs of the services rendered and the degree of competition in the market. The Government Commission for Economic Affairs has imposed rate regulations for analog wireless services but it has not regulated rates of digital wireless services to date. The Ministry of Science and Technology is reviewing methods of promoting increased competition in the Spanish telecommunications market. We cannot assure you that the Ministry of Science and Technology will not make recommendations affecting the pricing of wireless services in Spain or other aspects of Telefónica Móviles' business.

Interconnection. Because Telefónica Móviles has been classified by the Telecommunications Market Commission as an operator with "significant market power" in the wireless communications and interconnection markets (a classification that is generally defined as the attainment of a market share of more than 25% measured by income tax generated by networks and services in the previous year), Telefónica Móviles is required, among other obligations, to facilitate cost-oriented interconnection rates on a non-discriminatory and transparent basis and report to the Ministry of Economy and the Ministry of Science and Technology regarding its compliance.

Competition. Telefónica Móviles currently has two competitors in the Spanish market for wireless communications service: Vodafone, a subsidiary of Vodafone AirTouch, and Retevisión Móvil, which operates under the trade name *Amena* and in which Endesa and Unión Fenosa have significant interests. At December 31, 2001, Telefónica Móviles' Spanish operating company had approximately 16.8 million customers. According to figures published by the Telecommunications Market Commission, in June 2001, Telefónica Móviles' Spanish operating company had a 56.1% market share. Although Telefónica Móviles anticipates that its market share will continue to decline as its competitors pursue new customers, Telefónica Móviles believes that, to date, it has been successful in preserving and expanding its advantage in terms of absolute numbers of customers and quality of average customer in terms of minutes of usage. In 2001 Telefónica Móviles' customers in Spain increased by 22%, mainly due to its customer loyalty and retention programs.

In early 2000, the Spanish government awarded four third generation wireless, or UMTS, licenses, which cover the entire country of Spain. Telefónica Móviles was awarded one of these licenses, while the others were awarded to Amena, Vodafone and the Xfera consortium, which Vivendi controls and in which Sonera has a minority stake. Telefónica Móviles' UMTS network in Spain fulfilled as of June 2002 the minimum coverage requirements of the Spanish authorities as of that date. The Spanish government has announced that it may, when UMTS technology is a reality, award additional licenses permitting the offer of wireless services, subject to spectrum availability. Telefónica Móviles is likely to seek compensation from the government if the government reallocates to new licensees spectrum previously licensed to Telefónica Móviles.

Germany

Group 3G UMTS Holding GmbH ("Group 3G") a consortium in which Telefónica Móviles holds a 57.2% interest, was awarded through its subsidiary Group 3G UMTS GmbH a UMTS license in Germany in August 2000 for a total purchase price of €8,471 million. Sonera Oy, the leading Finnish wireless communications company, holds the other 42.8% interest in Group 3G through Sonera 3G Holding B.V. Telefónica Móviles' pro rata share of the total purchase price for the UMTS license was €4,845 million.

Business Plan. Since the UMTS license was awarded to Group 3G in August 2000, the wireless sector and the German wireless market have experienced significant changes. In this context, Group 3G has reviewed its strategy

and business plan, adapting them to the new scenario and gaining flexibility for the future. Telefónica Móviles and Sonera have continued to revise Group 3G's business plan, in order to improve the company's financial projections.

The new strategy has been reflected in the commercial launch of operations prior to the dates initially anticipated through the provision of GSM/GPRS services under a nationwide roaming agreement with E-Plus. Group 3G expects to subsequently roll-out UMTS-based services when the UMTS technology is available, and commercially viable.

Group 3G, which operates under the brand name *Quam*, has carried out a soft commercial launch targeted at specific market segments to position its brand name and to attract and build an initial customer base. Group 3G began offering its products and services in November 2001 through a sales network with 15 proprietary stores and more than 2,000 points of sale. Group 3G has designed a multichannel distribution strategy to reach targeted segments.

Group 3G's current business plan incorporates the benefits derived from the network sharing agreement entered into with E-Plus in 2001. The agreement involves sharing radio network sites and radio equipment and area sharing of network deployment in certain areas. This agreement is expected to reduce both companies' initially estimated capital expenditures and operating expenses in UMTS-related infrastructure. Under the agreement, Group 3G will own 50% of one of the three main UMTS networks that will likely be built in Germany. Group 3G has entered into non-recourse vendor financing agreements with its UMTS suppliers in Germany, which will finance a significant portion of its capital expenditures and reduce its financial exposure.

Telefónica Móviles periodically reviews the performance of its operations in Germany to align the level of activity with its objectives.

Concession. Under the terms of Telefónica Móviles' nationwide UMTS license in Germany, Telefónica Móviles is authorized to operate using two paired, or two-way, 5 MHz channels to provide wireless services, including voice and data. Telefónica Móviles is also authorized to operate a single unpaired, or one-way, 5 MHz channel which can be used for wireless data applications. Telefónica Móviles' UMTS license is valid for a term of 20 years.

Agreements. Under its shareholders' agreement with Sonera (as amended in November 2001), upon a change of control of either party that results in that party being controlled by a competitor of the other party, a call right is triggered under which the party which was not the subject of the change of control may, provided that it holds more than 50% of Group 3G, purchase the other party's interest. Sonera has agreed to be acquired by Telia, a Swedish telecommunications company. Since Telia would qualify as a competitor of Telefónica Móviles, such acquisition would entitle Telefónica Móviles to exercise such purchase right. In addition, the shareholders' agreement provides that, if the acquiring competitor holds a UMTS license and the German regulator issues an order stating that it will revoke Group 3G's license unless the party which was the subject of the change of control divests from Group 3G, this party may, provided that it holds less than 51% of Group 3G, compel the party which was not the subject of the change of control to acquire its interest in Group 3G at fair market value, as determined by an independent expert.

In 2001, Group 3G entered into an agreement with E-Plus for the sharing of infrastructures and the division of the territory to deploy the UMTS network, which will generate significant savings in Telefónica Móviles' initially estimated investments and operating costs. Group 3G has also entered into national roaming agreements with E-Plus that have enabled the launch of GSM/GPRS services.

On April 10, 2002, Telefónica Móviles entered into agreements for the provision of UMTS infrastructure and network construction services with Ericsson and Nortel, and related non-recourse financing agreements. These agreements will provide Telefónica Móviles with a total of between €500-600 million for the period 2002-2003.

Competition. In addition to the license awarded to Telefónica Móviles through Group 3G, five other UMTS licenses were awarded in August 2000, including four UMTS licenses that were awarded to the incumbent wireless service providers in Germany. The other wireless service providers in Germany are:

- T-Mobil, owned by Deutsche Telekom
- Mannesmann A.G., owned by the Vodafone Group

- E-Plus, which KPN N.V. owns
- Viag Interkom, which is controlled by mmO2
- Mobilcom, owned principally by Gerhard Schmid and France Telecom

Mannensmann and T-Mobil are the two market leaders in Germany with in the aggregate over three quarters of the wireless market at December 31, 2001.

Italy

The IPSE 2000 consortium, in which Telefónica Móviles holds a 45.6% interest, was awarded one of the two UMTS licenses with broadcast bandwidth in Italy in November 2000 for a total payment of €3,269 million, to which Telefónica Móviles contributed its pro rata share of €1,490 million. We have an additional indirect 4.1% interest in IPSE 2000 through our holding in Atlanet, an Italian company. Telefónica Móviles' partners in this consortium include the following: Sonera, Telefónica Móviles' partner in Group 3G in Germany, which has a 12.55% interest; Banca di Roma, which has 10%; Xera, a technology company, which has 5%; Syntek, a financial company with strategic investments in the technology field, which has 4.8%; Acea, an Italian multi-utility company, which has 3.96% through Atlanet; Fiat, which has 3.96% through Atlanet; Montedison, which has 5%; e-planet, which has 0.5%; and 29 other partners, which have an aggregate of 4.55%.

Business Plan. In January 2002, the shareholders of IPSE 2000 decided to implement a business model based on UMTS technologies and services. The decision was based on prevailing market conditions. Delaying the launch of operations until UMTS is commercially viable allows IPSE 2000 to continue exploring roaming and network sharing agreements that could significantly improve IPSE 2000's business plan.

In the meantime, IPSE 2000 is reviewing its activities and structure so that they meet the needs of the new business model. IPSE 2000 has established a budget for 2002 adjusted to the new business model. The shareholders of IPSE 2000 have agreed that the company will initially be financed through shareholder loans. Telefónica Móviles' subsidiary, Telefónica Móviles España, has agreed with IPSE 2000 to loan up to €250 million to it in order to preserve its activities and permit the launching of UMTS services in Italy when the technology becomes commercially feasible. However, the smaller size and decreased activity of IPSE 2000 prior to the launch of commercial operations will limit the financing needs for the project in the short-term.

Telefónica Móviles intends to continue to manage its operations in Italy and other Western European countries in order to obtain improvements in the business plans in each country, reduce significantly the resources required, maintain the necessary flexibility to face changes in the regulatory and competitive environment and improve the optionality of the positions taken in each country.

Concession. Under the terms of the nationwide UMTS license which IPSE 2000 won in the auction, it will be authorized to operate using two paired, or two-way, 10 MHz channels, a further two paired 5 MHz channels and one unpaired, or single, 5 MHz channel to provide wireless services, including voice and data services. The UMTS license in Italy is valid for a term of 15 years and its extension to 20 years is underway.

Agreements. Under the terms of Telefónica Móviles' consortium agreement in Italy (as amended on January 30, 2002), a change of control affecting Sonera and a finding by the Italian regulator that such change of control would be prejudicial to the holding of the UMTS license and that, consequently, the person acquiring such control cannot hold an interest in the consortium, would trigger a right for Telefónica Móviles to purchase Sonera's interest and a right for Sonera to sell its interest to Telefónica Móviles, in both cases at terms agreed upon between Telefónica Móviles and Sonera at such time. In addition, Telefónica Móviles is permitted by the terms of the agreement to transfer up to 5% of its interest in IPSE 2000 to Suez Lyonnaise des Eaux.

Competition. In addition to the license awarded to IPSE 2000, four other UMTS licenses were awarded in November 2000, including three UMTS licenses that were awarded to the incumbent wireless service providers in Italy. The other wireless service providers in Italy are:

- Telecom Italia Mobile, owned by Telecom Italia
- Omnitel, owned by the Vodafone Group

- Wind, owned by Enel, France Telecom and a consortium consisting of Tiscali, Hutchinson and CIR
- H3G, owned by Hutchinson Whampoa and other shareholders

Telecom Italia Mobile and Omnitel are the two market leaders in Italy with in the aggregate over three quarters of the wireless market at December 31, 2001.

Austria

On November 2, 2000, Telefónica Móviles was awarded a UMTS license in Austria at a cost of €117 million. Telefónica Móviles holds a 100% interest in this license.

Business Plan. Given the geographical proximity, Telefónica Móviles is currently analyzing the possibility of managing its activities in this country with its German operations to achieve synergies. Telefónica Móviles is waiting to progress with roaming and network sharing agreements to assess the advisability of launching commercial operations. Telefónica Móviles intends to continue to manage its operations in Austria and other Western European countries in order to obtain improvements in the business plans in each country, reduce significantly the resources required, maintain the necessary flexibility to face changes in the regulatory and competitive environment and improve the optionality of the positions taken in each country.

Concession. Under the terms of the UMTS license, Telefónica Móviles is authorized to operate two sets of two paired 5 MHz channels to provide wireless services in Austria.

Competition. In addition to the UMTS license awarded to Telefónica Móviles, six other UMTS licenses were awarded in November 2000, including three licenses that were awarded to incumbent wireless service providers in Austria. The principal wireless service providers are:

- Mobilkom, owned by Austria Telecom and Telecom Italia
- max.mobil, owned by Deutsche Telekom through T-Mobil
- Connect Austria/One, owned by Viag, Orange, TeleDanmark, Telenor and other shareholders
- tele.ring, owned by Western Wireless
- Hutchinson 3G, owned by Hutchinson Whampoa, NTT DoCoMo and KPN

At December 31, 2001, Mobilkom and max.mobil were the two market leaders within the aggregate over three quarters of the wireless market.

Switzerland

In January 2001, Telefónica Móviles was awarded, through 3G Mobile AG, following an auction process, a UMTS license in Switzerland for a total payment of €32.5 million.

Business Plan. Given the geographic proximity, Telefónica Móviles is currently analyzing the possibility of managing its activities in this country with its German operations to achieve synergies. Telefónica Móviles is waiting to progress with roaming and network sharing agreements to assess the advisability of launching commercial operations. Telefónica Móviles intends to continue to manage its operations in Switzerland and other Western European countries in order to obtain improvements in the business plans in each country, reduce significantly the resources required, maintain the necessary flexibility to face changes in the regulatory and competitive environment and improve the optionality of the positions taken in each country.

Concession. Under the terms of the UMTS license, Telefónica Móviles is authorized to operate using two sets of two paired 15 MHz channels to provide wireless services in Switzerland. Telefónica Móviles is also authorized to operate a single unpaired, or one-way, 5 MHz channel which can be used for wireless data applications.

Competition. In addition to the license awarded to Telefónica Móviles, three other licenses were awarded in January 2001 to the incumbent wireless service providers in Switzerland. These three incumbent wireless service providers are:

- Sunrise, owned by TeleDanmark and other shareholders
- Orange
- SwissCom Mobile, owned by Swisscom and the Vodafone Group

At December 31, 2001, SwissCom Mobile was the market leader in Switzerland with an estimated market share of approximately two-thirds.

Latin America

Brazil

Telefónica Móviles is the leading wireless operator in Brazil based upon the total number of customers of companies that it controls or manages. At December 31, 2001, the companies in which Telefónica Móviles had interests and managed had approximately 5.6 million wireless customers. The population of the wireless regions in which Telefónica Móviles' operating companies and an additional company in which Telefónica Móviles had an interest in totals approximately 41 million. At December 31, 2001, Telefónica Móviles' interests in wireless companies in Brazil consist of the following:

| <u>Region</u> | <u>Company</u> | <u>Interest</u> | <u>Economic Ownership Interest</u> | <u>Customers at December 31, (millions)</u> | <u>Managers</u> |
|-----------------------------------|----------------------|-----------------|--|---|-----------------|
| Rio de Janeiro/Espírito Santo.... | Tele Sudeste Celular | 75.73% | 82.02% | 3.0 | Yes |
| Rio Grande do Sul..... | Celular CRT | 60.01% | 38.20% | 1.8 | Yes |
| Bahia/Sergipe..... | Tele Leste Celular | 21.89% | 10.75% | 0.8 | Yes |

Telefónica Móviles manages Telerj, Telest, Telebahía, Telergipe and Celular CRT, its five operating companies. Tele Sudeste Celular, Tele Leste Celular and Celular CRT are publicly held companies.

Brazil is one of the largest countries in the world, with a surface area of 8.5 square million kilometers and a population of approximately 173 million people. At December 31, 2001, with 28.5 million wireless subscribers, Brazil ranked first in Latin America in terms of number of wireless telephone users. At that date, Brazil had a wireless penetration rate of 16.5% and a fixed line penetration of 21%. Brazil experienced a 55% increase in the number of wireless telephone users in 2001.

The Brazilian wireless communications market is highly fragmented with 18 wireless service providers operating under wireless licenses at December 2001. Nine of these wireless operators are former incumbent operators of which eight were created in the 1998 privatization of Telebrás, the former Brazilian state-sponsored monopoly telecommunications provider.

Agreement with Portugal Telecom. On January 23, 2001, we, Telefónica Móviles, S.A., Portugal Telecom and PT Moveis, S.G.P. agreed to create a joint venture to consolidate our wireless businesses in Brazil with those of Portugal Telecom. Our goal is to create the leading wireless operator in Brazil, benefiting from expected synergies, enhanced market positioning and improved valuations derived from the combination of our wireless businesses. If fully consummated, including the anticipated contribution of Telefónica Móviles' interest in Tele Leste Celular as discussed below, the joint venture will be the leading wireless operator in Brazil based on the total number of customers at December 31, 2001 with a total of 11.6 million controlled customers and covering a potential market of 56% of Brazil's population. Its licensed areas include five of the six largest regions in Brazil in terms of gross domestic product and regions accounting for approximately 71% of Brazil's gross domestic product.

Each of the Telefónica Group and the Portugal Telecom Group has agreed to contribute to a 50:50 joint venture certain of our respective wireless businesses in Brazil, including interests in operating companies and holding companies that own cellular or wireless licenses in Brazil as well as other assets or business that are operated for the benefit of those companies. The wireless assets to be contributed by the Telefónica Group include our direct and

indirect interests in Tele Sudeste Celular Participações S.A. , Celular CRT Participações S.A and Tele Leste Celular Participações S.A. The wireless assets to be contributed by Portugal Telecom include its direct and indirect interests in Telesp Celular S.A. and Global Telecom S.A. If there is a difference in the value of the contributions in-kind represented by the wireless businesses contributed by the Telefónica Group and the Portugal Telecom group, the party whose contribution in-kind is of a lower value will contribute cash to make up such difference.

The consummation of the joint venture is subject to significant regulatory approvals, including the approval of Anatel, the Brazilian telecommunications commission. We cannot assure you that we will obtain the necessary approvals or that the failure to obtain these approvals will not have a material adverse effect on our results of operations. In addition, we, Telefónica Móviles, S.A. and Portugal Telecom are currently negotiating definitive documentation relating to the joint venture. This definitive documentation may contain provisions or obligations different from or in addition to those of the joint venture framework agreement.

Agreement with Iberdrola. On April 15, 2001, Telefónica, S.A. entered into an agreement with Iberdrola, S.A. and certain of its affiliates pursuant to which Telefónica, S.A. acquired in December 2001 and March 2002 in exchange for shares of Telefónica, S.A., the Iberdrola group's shares in the Brazilian wireless operators, or the holding companies that control such wireless operators, in which we and Iberdrola each participate. In accordance with this agreement, Telefónica, S.A. acquired:

- 7% of TBS Celular Participações S.A., the holding company that controls Celular CRT Participações S.A.
- 7% of SudesteCel Participações S.A., the holding company that controls Tele Sudeste Celular Participações S.A., as well as an additional interest in Tele Sudeste Celular Participações S.A.
- 62% of Iberoleste Participações S.A., the holding company that controls Tele Leste Celular Participações S.A., as well as an additional direct interest of 3.38% of Tele Leste Celular Participações S.A.

In May 2002, we transferred the shares in the Brazilian wireless operators that we acquired from Iberdrola, S.A. to Telefónica Móviles in exchange for 26,801,494 Telefónica Móviles ordinary shares. We expect Telefónica Móviles to contribute the shares it acquired from us to the joint venture with Portugal Telecom.

Rio de Janeiro/Espírito Santo—Tele Sudeste Celular Participações S.A.

Telefónica Móviles is the leading wireless operator in the Rio de Janeiro/Espírito Santo region of Brazil with approximately 3.0 million customers at December 31, 2001, which represents one million customers more than its competitor. Telefónica Móviles' operations in the region are conducted through Telerj Celular S.A. and Telest Celular S.A., the two wholly-owned operating subsidiaries of Tele Sudeste Celular Participações S.A. and Tele Sudeste Celular, which is Telefónica Móviles' 83.56%-owned subsidiary.

The remaining ownership interest in Tele Sudeste Celular is held, indirectly, by Itochu Corporation and NTT DoCoMo, Inc., as well as other minority shareholders. Telefónica Móviles holds its ownership interest in Tele Sudeste directly, as well as through Sudestecel, a consortium that it controls, and through Tagilo Participações, S.A., one of Telefónica Móviles' wholly-owned subsidiaries. Telefónica Móviles is subject to a shareholders' agreement with Itochu Corporation and NTT DoCoMo.

Telefónica Móviles manages Tele Sudeste Celular's two operating subsidiaries in exchange for an annual fee of 1% of its net revenues from wireless operations.

The following table presents, at the dates and for the years indicated, selected statistical data relating to Telefónica Móviles' operations in Rio de Janeiro/ Espírito Santo:

| | Year ended December 31, | | |
|---|-------------------------|---------|--------|
| | 1999 | 2000 | 2001 |
| Total customers (in millions at period end) | 1.9 | 2.5 | 3.0 |
| Pre-paid customers (in millions at period end) | 0.8 | 1.5 | 2.0 |
| Average monthly revenue per customer (euro)..... | 38 | 31 | 23 |
| Average monthly revenue per customer increase (decrease) compared to previous year (in local currency)..... | n.a. | (27.8)% | (7.6)% |
| Population in service territory (in millions at period end) | 17 | 17 | 18 |

Network and Technology. Telefónica Móviles' licenses in Rio de Janeiro/Espírito Santo permit it to operate both an analog network and a digital network, which is based upon the CDMA standard. Due to the absence of nationwide licenses in Brazil and current regulations restricting ownership of licenses by a single entity in multiple regions, roaming agreements within Brazil are important for operators. Telefónica Móviles' roaming agreements with other networks in Brazil and abroad enable its customers to make and receive calls throughout Brazil and in over 100 countries worldwide.

Telefónica Móviles' licenses entitle it to 25 MHz of spectrum in the 800 MHz band. Telefónica Móviles believes that this spectrum is adequate for its requirements.

Telefónica Móviles invested a total of approximately €481.4 million in building out and enhancing its network in Rio de Janeiro/Espírito Santo in 2000 and 2001.

Competition. Telefónica Móviles currently has one competitor in the Rio de Janeiro/Espírito Santo market for wireless communications service: Algar Telecom Leste S.A., or ATL, which is controlled by Telecom Americas Ltd. ATL began operations in December 1998 using the TDMA D-AMPS digital standard. At December 31, 2001, Telefónica Móviles's Rio de Janeiro/Espírito Santo operations had 3.0 million customers, compared to an estimated 1.8 million for ATL.

Rio Grande do Sul—Celular CRT Participações S.A.

Telefónica Móviles is the leading wireless operator in the Rio Grande do Sul region of Brazil through Celular CRT, S.A, in which Telefónica Móviles, directly and indirectly, holds a 38.6% equity interest but controls through its ownership of the majority of ordinary shares. The remaining ownership interest in Celular CRT is held, directly or indirectly, by us, subsidiaries of Portugal Telecom and Banco Bilbao Vizcaya Argentaria, S.A., as well as various minority shareholders. Celular CRT had approximately 1.8 million customers at December 31, 2001, representing, according to Telefónica Móviles' estimates, more than two times the number of customers of the other wireless operator in the region.

Telefónica Móviles manages Celular CRT under a Services Agreement with TBS Celular Participações, S.A., which entitles Telefónica Móviles to an annual fee of 1% of Celular CRT's net revenues, provided that Telefónica Móviles meets certain network quality standards set out in the agreement.

The following table presents, at the dates and for the periods indicated, selected statistical data relating to Telefónica Móviles' operations in Rio Grande do Sul:

| | Year ended December 31, | | |
|--|-------------------------|---------|---------|
| | 1999 | 2000 | 2001 |
| Total customers (in millions at period end) | 1.0 | 1.4 | 1.8 |
| Pre-paid customers (in millions at period end) | 0.4 | 0.9 | 1.2 |
| Average monthly revenue per customer (euro)..... | 32 | 28 | 20 |
| Average monthly revenues per customer increase (decrease) compared to previous year (in local currency)..... | n.a. | (23.6)% | (12.6)% |
| Population in service territory (in millions at period end) | 10 | 10 | 10 |

Network and Technology. Telefónica Móviles' licenses in Rio Grande do Sul permit it to operate both an analog network and digital network, which is based upon the TDMA standard. Telefónica Móviles' roaming

agreements with other networks in Brazil and abroad enable its customers to make and receive calls throughout Brazil and in over 100 countries worldwide.

Telefónica Móviles' licenses entitle it to 25 MHz of spectrum in the 800 MHz band. Telefónica Móviles believes that this spectrum is adequate for its requirements.

Competition. Telefónica Móviles currently has one competitor operating in the Rio Grande do Sul market for wireless communications services: Telet S.A., which is owned by Bell Canada International, Tele Systems International and Telecom Americas, as well as other minority shareholders. At December 31, 2001, Telefónica Móviles' Rio Grande do Sul operations had approximately 1.8 million customers compared to 0.8 million for Telet. Telet began its operations in March 1999. Telefónica Móviles estimates that during 2001 the overall Rio Grande do Sul market for wireless communications increased at a rate of 30.4%.

Bahia/Sergipe—Tele Leste Celular Participações S.A.

Tele Leste Celular, in which Telefónica Móviles currently holds directly and indirectly a 27.71% equity interest, is the leading wireless operator in the Bahia/Sergipe region of Brazil with approximately 0.8 million customers at December 31, 2001, or, according to Telefónica Móviles' estimates, approximately 77% more customers than the other wireless operator in the region. Tele Leste Celular's operations in Bahia/Sergipe are conducted through its two operating subsidiaries, Telebahia Celular S.A. and Telergipe Celular S.A. Tele Leste Celular Participações is 21.9% owned by Iberoleste Participações S.A., an equity investment company that Telefónica Móviles wholly owns. In addition, Telefónica Móviles holds a further 2.42% through its wholly-owned subsidiary Tagilo Participações, Ltda., and the remaining 3.38% directly. Telefónica Móviles manages Tele Leste Celular's two operating subsidiaries under management agreements that entitle it to 1% of net revenues from wireless operations.

As described above, we transferred to Telefónica Móviles Iberdrola Investimentos Sociedade Unipessoal, Ltda.'s 62% interest in Iberoleste Participações, the holding company which controls Tele Leste Celular as well as an additional 3.4% interest in Tele Leste Celular Participações S.A. in March 2002. See “—Brazil—Agreement with Iberdrola” above.

The following table presents, at the dates and for the periods indicated, selected statistical data relating to Tele Leste Celular's operations in Bahia/Sergipe. Telefónica Móviles accounts for its interest in Tele Leste Celular under the equity method.

| | Year ended December 31, | | |
|---|-------------------------|---------|--------|
| | 1999 | 2000 | 2001 |
| Total customers (in millions at period end) | 0.5 | 0.7 | 0.8 |
| Pre-paid customers (in millions at period end) | 0.2 | 0.3 | 0.5 |
| Average monthly revenue per customer (euro)..... | 28 | 28 | 21 |
| Average monthly revenue per customer increase (decrease) compared to previous year (in local currency) | n.a. | (14.5)% | (4.7)% |
| Population in service territory (in millions at period end) | 15 | 15 | 15 |

Network and Technology. Tele Leste Celular operates both analog and digital networks. Tele Leste Celular's digital network is based upon the CDMA standard. Tele Leste Celular invested a total of approximately €132 million in building out and enhancing its network in Bahia/Sergipe in 2000 and 2001. At December 31, 2001, Tele Leste Celular's network consisted of four digital switching centers, 267 digital radio base stations, five analog switching centers and 273 analog base stations, giving coverage to over 62% of the population.

Competition. Telefónica Móviles currently has one competitor in the Bahia/Sergipe market for wireless communications service: Maxitel, which is controlled by Telecom Italia. At December 31, 2001, Tele Leste Celular operations had approximately 0.8 million customers, representing approximately 75% more customers than the other wireless operator in the region at that date.

Perú

Telefónica Móviles, S.A.C., or Telefónica Móviles Perú, is the leading wireless operator in Perú with approximately 1.1 million customers at December 31, 2001, or approximately 62% more than the number of customers of the other three operators in the country combined.

In accordance with the resolution of the shareholders of Telefónica del Perú to divide the company along business lines, Telefónica del Perú spun-off its wireless operations in the form of shares of Telefónica Móviles, S.A.C. and its data operations in June 2001. Telefónica Móviles had agreed previously with other members of the Telefónica Group who were shareholders of Telefónica del Perú to exchange, following such spin-offs, the shares of such data operations that Telefónica Móviles received in its spin-off, as well as the shares Telefónica Móviles held in Telefónica del Perú, for the shares in Telefónica Móviles, S.A.C. that they received in its spin-off. Following the spin-off and share exchanges, and additional share purchases Telefónica Móviles holds indirectly a 97.97% interest in Telefónica Móviles, S.A.C. and does not hold any interest in such data operations or Telefónica del Perú.

The following table presents, at the dates and for the periods indicated, selected statistical data relating to Telefónica Móviles Perú.

| | Year ended December 31, | | |
|--|-------------------------|------|---------|
| | 1999 | 2000 | 2001 |
| Total customers (in millions at period end) | 0.7 | 0.9 | 1.1 |
| Pre-paid customers (in millions at period end) | 0.5 | 0.7 | 0.9 |
| Average monthly revenue per customer (euro)..... | n.a. | 25 | 20 |
| Average monthly revenue per customer increase (decrease) compared to previous year (in local currency) | n.a. | n.a. | (15.3)% |
| Population in service territory (in millions at period end) | 25 | 26 | 26 |

Network and Technology. Telefónica Móviles Perú operates both analog and digital networks. Its digital network is based upon the CDMA standard. It has roaming agreements enabling Telefónica Móviles Perú's contract customers to make and receive calls in over 100 countries, including most of the Americas.

Telefónica Móviles Perú's licenses entitle it to 25 MHZ of spectrum in the 800 MHZ band. Telefónica Móviles Perú believes that this spectrum is adequate for its requirements.

Competition. Telefónica Móviles Perú currently has three competitors in the Peruvian market for wireless communications service: BellSouth; Stet Mobile Holdings Perú; and Nextel Perú. At December 31, 2001, Telefónica Móviles Perú had approximately 1.1 million customers, compared to approximately 420,000 customers for BellSouth, 150,000 customers for Stet Mobile Holdings Perú and 100,000 for Nextel Perú.

Argentina

Telefónica Comunicaciones Personales S.A. is the second largest wireless operator in Argentina with approximately 1.8 million customers at December 31, 2001.

In accordance with the resolution of the shareholders of Telefónica de Argentina S.A. to divide the company along business lines, Telefónica de Argentina S.A. spun-off its wireless operations in the form of shares of Telefónica Comunicaciones Personales S.A. and its data operations in November 2001. Telefónica Móviles had agreed previously with other members of the Telefónica Group who are shareholders of Telefónica de Argentina S.A. to exchange, following such spin-offs, the shares of such data operations that it receives in the spin-off, as well as the shares Telefónica Móviles holds in Telefónica de Argentina S.A., for the shares of Telefónica Comunicaciones Personales that the other members of the Telefónica Group receive in the spin-off. Following the spin-offs and share exchanges, Telefónica Móviles holds a 97.93% interest in Telefónica Comunicaciones Personales S.A. and does not hold any interest in such data operations or Telefónica de Argentina S.A.

For a discussion of general macroeconomic conditions in Argentina, as well as the impact of the macroeconomic and political crisis in Argentina on our results of operations, see "Item 5—Operating and Financial Review and Prospects—Operating Results—Recent Developments—Argentina".

The following table presents, at the dates and for the period indicated, selected statistical data relating to Telefónica Comunicaciones Personales.

| | Year ended December 31(1), | | |
|--|----------------------------|---------|---------|
| | 1999(2) | 2000(2) | 2001(2) |
| Total customers (in millions at period end) | 1.1 | 1.7 | 1.8 |
| Pre-paid customers (in millions at period end) | 0.5 | 1.0 | 1.2 |
| Average monthly revenue per customer (euro)..... | n.a. | 42 | 30 |
| Average monthly revenue per customer increase (decrease) compared to previous year (in local currency) | n.a. | n.a. | (33.8)% |
| Population in service territory (in millions at period end) | 37 | 37 | 37.5 |

- (1) In the fourth quarter of 2001, the fiscal year end of Telefónica Comunicaciones Personales was changed from September 30 to December 31. As a result, our consolidated financial statements for the year ended December 31, 2001 incorporate the financial statements of Telefónica Comunicaciones Personales for the same period. This change does not give rise to material differences.
- (2) Information for prior periods has been provided based on the 12 months ended December 31, 1999 and 2000, as the case may be.

Telefónica Comunicaciones Personales provides wireless services in each of Argentina's three service regions: Greater Buenos Aires; Southern Argentina; and Northern Argentina.

Network and Technology. Telefónica Comunicaciones Personales operates both analog and digital networks. Its digital network is based upon the TDMA standard. It has roaming agreements enabling its customers to make and receive calls in over 100 countries worldwide.

Telefónica Comunicaciones Personales' licenses entitle it to 12.5 MHz of spectrum in the 800 MHz band and 30 MHz of spectrum in the 1900 MHz band in Greater Buenos Aires, 25 MHz of spectrum in the 800 MHz band and 20 MHz of spectrum in the 1900 MHz band in Southern Argentina and 40 MHz of spectrum in the 1900 MHz band in Northern Argentina. Telefónica Móviles believes that Telefónica Comunicaciones Personales' spectrum is adequate for its requirements.

Competition. Telefónica Comunicaciones Personales is the second largest wireless operator in Argentina with approximately 1.8 million customers at December 31, 2001. Telefónica Comunicaciones Personales currently has three competitors in the Argentine market for wireless communications service, each of which provides services on a nationwide basis: Telecom Personal, which is controlled by France Telecom and Telecom Italia through Telecom Argentina, BellSouth's Movicom and CTI Móvil.

Mexico

In July 2001, we transferred to Telefónica Móviles interests in four wireless operators in Mexico, which we acquired from Motorola, Inc. in June 2001. We acquired such operators in exchange for an aggregate of U.S.\$1,835.5 million in our shares and U.S.\$10.5 million in cash, and transferred them to Telefónica Móviles in exchange for approximately 203 million of Telefónica Móviles' shares. At December 31, 2001, these operating companies had an aggregate of approximately 1.2 million wireless customers. The operating companies in Mexico, which operate primarily in the north of the country, are Baja Celular Mexicana, S.A. de C.V., or Bajacel; Movitel del Noroeste, S.A. de C.V., or Movitel; Telefonía Celular del Norte, S.A. de C.V., or Norcel; and Celular de Telefonía, S.A. de C.V., or Cedetel. Telefónica Móviles' interests in these wireless operations consist of the following:

| Region | Company | Ownership Interest |
|--|---------|--------------------|
| Baja California/Baja California Sur/parts of Sonora..... | Bajacel | 100% |
| Sinaloa/parts of Sonora | Movitel | 90% |
| Chihuahua/Durango/parts of Coahuila..... | Norcel | 100% |
| Nuevo León/Tamaulipas/parts of Coahuila | Cedetel | 100% |

The following table presents, at the dates and for the period indicated, selected statistical data relating to Telefónica Móviles Mexico:

| | July 1 to December 31, 2001 |
|---|--|
| Total customers (in millions at period end) | 1.2 |
| Pre-paid customers (in millions at period end) | 1.0 |
| Average monthly revenue per customer (euro)..... | 30 |
| Population in service territory (in millions at period end) | 21.3 |

Network and Technology. Telefónica Móviles Mexico offers both analog and digital networks. Its digital networks are based upon the CDMA standard. At December 31, 2001, Telefónica Móviles' digital network in Mexico consisted of 11 switching centers and 263 network sites, and its analog network sites consisted of 408 network sites, providing coverage to approximately 86% of the population.

Acquisition of Pegaso Telecomunicaciones, S.A. de C.V. On April 26, 2002, Telefónica Móviles signed agreements to purchase, subject to regulatory approval, 65% of Pegaso Telecomunicaciones, S.A. de C.V., a wireless operator with approximately 800,000 customers at December 31, 2001, from Sprint, Leap Wireless, Qualcomm and other financial investors. The purchase price under the agreements is comprised of \$87 million and a commitment to subscribe to 65% of a capital increase of between \$326 million and \$488 million to be carried out by Pegaso. Telefónica Móviles has also agreed to cause Pegaso to pay approximately \$586 million in existing debt obligations and any amount drawn down from \$100 million in additional interim financing provided by a third party within 30 to 60 days of the closing of the acquisition. The total value of Pegaso has been set at \$1,360 million, including existing debt obligations. Telefónica Móviles plans to contribute its entire interest in Pegaso and its current Mexican operations to a newly formed entity of which it will own between 90% and 92%, depending on the definitive amount of Pegaso's capital increase. The Burillo Group, which owns 35% of Pegaso, will own the remaining percentage. After these transactions are consummated, Telefónica Móviles will become Mexico's second-largest wireless operator, with over two million active customers and access to the entire Mexican territory through a distribution network of more than 3,500 points of sale and presence in 12 of the main Mexican cities. Pegaso operates a digital network based upon the CDMA standard and uses spectrum in the 1900 MHz band, the same technology Telefónica Móviles uses in Mexico. These factors are expected to give rise to economies of scale and synergies in aspects such as brand name, network deployment and technology or services development. The consummation of these transactions is subject to receipt of regulatory approvals and certain other conditions. The transactions are expected to close in the third or fourth quarter of 2002.

Competition. The Mexican wireless operators currently have a variety of competitors in the region for wireless telecommunications services, several of which are affiliated with international telecommunications companies. Its principal competitor is Telcel, which is owned by América Móvil.

Chile

Although we may elect to do so in the future, we have elected not to transfer our wireless operations in Chile to Telefónica Móviles due to business considerations relating to the minority shareholders of that operation. Telefónica Móviles instead manages our wireless operations in Chile pursuant to a management agreement.

Our Chilean wireless operator, which operates under the trade name Telefónica Móvil, is the second largest wireless operator in Chile with approximately 1.6 million customers at December 31, 2001 or 400,000 fewer customers than the leading operator.

The following table presents, at the dates and for the period indicated, selected statistical data relating to Telefónica Móvil.

| | Year ended December 31, | |
|--|--------------------------------|-------------|
| | 2000 | 2001 |
| Total customers (in millions at period end) | 1.2 | 1.6 |
| Pre-paid customers (in millions at period end) | 0.9 | 1.2 |
| Average monthly revenue per customer (euro)..... | 23 | 18 |
| Average monthly revenue per customer increase (decrease) compared to previous year (in local currency) | n.a. | (7.9%) |

| | Year ended December 31, | |
|---|-------------------------|------|
| | 2000 | 2001 |
| Population in service territory (in millions at period end) | 15.3 | 15.5 |

Network and Technology. Telefónica Móvil operates a fully digital nationwide network based upon the TDMA standard. It has roaming agreements enabling its contract customers to make and receive calls in over 100 countries including most of the Americas.

Telefónica Móvil's licenses entitle it to 25 MHz of spectrum in the 800 MHz band.

Competition. Telefónica Móvil currently has three competitors in the Chilean market for wireless communications service: Bell South, Entel, an affiliate of Telecom Italia, and Smartcom, an affiliate of Endesa, S.A.

Central America

Telefónica Móviles operates in El Salvador and Guatemala through TES Holdings, S.A. and TCG Holding, S.A., respectively, two holding companies in which Telefónica Móviles participates jointly with Mesoamérica Telecom, a private fund of Central American investors. These holding companies hold Telefónica Móviles' interests in its operating companies in these countries. Telefónica Móviles' strategy is to enter the region's market as a new competitor offering state-of-the-art technology and a broad range of services.

In August 2001, Telefónica Móviles entered into an agreement with Mesotel de Costa Rica, S.A., a subsidiary of Mesoamérica Telecom, to acquire its direct and indirect interests in Telefónica Móviles El Salvador and Telefónica Centroamérica Guatemala, Telca Gestión, S.A. and Telca Gestión Guatemala, S.A., and other companies in which Telefónica Móviles has shared holdings in exchange for approximately 21.9 million of Telefónica Móviles' ordinary shares. In January 2002 Telefónica Móviles amended this agreement and acquired one-third of Mesotel de Costa Rica, S.A.'s interests in exchange for 7.3 million of Telefónica Móviles' ordinary shares. As a result of this acquisition Telefónica Móviles now holds 60.7% of Telefónica Móviles El Salvador and 67.3% of Telefónica Centroamérica Guatemala. The remaining two-thirds will be delivered by Mesotel de Costa Rica, S.A. no later than August 2, 2002, at which time Telefónica Móviles will issue and transfer the remaining 14.6 million of its ordinary shares to Mesotel de Costa Rica, S.A. Following consummation of such transaction, Telefónica Móviles will hold a 90.3% indirect interest in Telefónica Móviles El Salvador and a 100% indirect interest in Telefónica Centroamérica Guatemala.

El Salvador

Telefónica Móviles is the second largest of the three wireless operators in El Salvador, with approximately 239,000 customers at December 31, 2001, or an estimated 40,000 customers fewer than the largest operator. Telefónica Móviles' operations in El Salvador are conducted through Telefónica Móviles El Salvador, S.A. de C.V., in which Telefónica Móviles indirectly holds a 46.05% interest.

The following table presents, at the dates and for the periods indicated, selected statistical data relating to Telefónica Móviles' operations in El Salvador:

| | Year ended December 31, | | |
|--|-------------------------|---------|---------|
| | 1999 | 2000 | 2001 |
| Total customers (at period end) | 132,052 | 230,319 | 238,605 |
| Pre-paid customers (at period end) | 33,007 | 83,292 | 91,293 |
| Average monthly revenue per customer (euro)..... | 27 | 29 | 22 |
| Average monthly revenue per customer increase (decrease) compared to previous year (in local currency) | n.a. | (5.6)% | (26.1)% |
| Population in service territory (in millions at period end) | 6.2 | 6.2 | 6.3 |

Network and Technology. Telefónica Móviles' digital network in El Salvador is based upon the CDMA standard. Telefónica Móviles' licenses entitle it to 25 MHz of spectrum in the 800 MHz band. During 2000 and 2001, Telefónica Móviles has invested a total of approximately €127 million in building out and enhancing its networks in El Salvador. At December 31, 2001, Telefónica Móviles' digital network in El Salvador consisted of one switching center and 130 network sites giving coverage to over 80% of the population. In August 2000, Telefónica Móviles launched wireless application protocol services in El Salvador under the *e-moción* brand name.

Competition. Telefónica Móviles currently competes in the El Salvador market for wireless communications service with Telemóvil, which is controlled by Millicom, and CTE Telecom which is controlled by France Telecom. At December 31, 2001, Telefónica Móviles had an approximately 35% market share of the El Salvador wireless market, compared to approximately 41% for Telemovil. Telemovil began operations in 1992, and CTE Telecom began operations in 1999. Telefónica Móviles estimates that, during 2001, the overall El Salvador market for wireless communications increased by 38%.

Guatemala

Telefónica Móviles had approximately 156,000 customers in Guatemala at December 31, 2001, representing approximately 15% of the existing wireless customers in Guatemala at that date. Telefónica Móviles' Guatemala operations are conducted through Telefónica Centroamérica Guatemala, S.A.

The following table presents, at the dates and for the periods indicated, selected statistical data relating to Telefónica Móviles' operations in Guatemala:

| | Year ended December 31, | |
|---|--------------------------------|-------------|
| | 2000 | 2001 |
| Total customers (at period end) | 141,915 | 156,178 |
| Pre-paid customers (at period end) | 22,597 | 31,309 |
| Average monthly revenue per customer (euro)..... | 25 | 37 |
| Average monthly revenue per customer increase (decrease) compared to previous year (in local currency)..... | (12.1)% | (34.9)% |
| Population in service territory (in millions at period end) | 12 | 12.3 |

Network and Technology. In Guatemala Telefónica Móviles operates a digital network, which is based upon the CDMA standard. Telefónica Móviles' licenses entitle it to 30 MHz of spectrum in the 900 MHz band. In 2000 and 2001, Telefónica Móviles invested a total of approximately €117 million in building out and enhancing its network in Guatemala. At December 31, 2001, Telefónica Móviles' digital wireless network in Guatemala consisted of two switching centers and 221 network sites giving coverage to over 76% of the population. In August 2000, Telefónica Móviles launched wireless application protocol services in Guatemala under the *e-moción* brand name.

Competition. Telefónica Móviles currently has three competitors in the Guatemala wireless market. At December 31, 2001, Comcel, which is controlled by Millicom, had an approximately 37% market share in Guatemala, followed by Telgua, which is controlled by Telmex, with approximately 34% and BellSouth, which commenced operations in the fourth quarter of 2000. At such date, Telefónica Móviles had an approximately 20% market share. Comcel began operations in Guatemala in 1989, and Telgua began operations in 1999. During 2001, the overall Guatemalan market for wireless communications grew by 47%.

Puerto Rico

We plan to transfer to Telefónica Móviles, after receipt of regulatory approval and resolution of a pending regulatory proceeding, our investment (through Telefónica Internacional, S.A.) in NewComm Wireless Services, Inc., a Puerto Rican wireless operator with approximately 187,000 customers at December 31, 2001. This investment has been made through several convertible securities in an aggregate amount of a U.S.\$44 million that are convertible into up to 49.9% of the capital stock of NewComm Wireless, subject to receipt of necessary U.S. regulatory authorizations. In addition, we, with a view to holding a controlling interest in NewComm Wireless Services, have entered into an agreement with ClearComm to purchase a further 0.2% interest in NewComm Wireless Services. Telefónica Móviles currently manages the day-to-day operations of NewComm Wireless under a management agreement entered into between Telefónica Internacional and NewComm Wireless.

Mediterranean Basin (Morocco)

Medi Telecom, S.A., in which Telefónica Móviles holds a 30.5% interest and shares management responsibilities, is the second largest wireless operator in Morocco with approximately 1.1 million customers at December 31, 2001, compared with an estimated approximately 1.8 million for the former monopoly telecommunications provider.

The following table presents, at the dates and for the periods indicated, selected statistical data relating to Médi Telecom:

| | Year ended December 31, | |
|--|-------------------------|---------|
| | 2000 | 2001 |
| Total wireless customers (in millions at period end) | 0.50 | 1.1 |
| Pre-paid customers (in millions at period end) | 0.49 | 1.0 |
| Average monthly revenue per customer (euro)..... | 28 | 22 |
| Average monthly revenue per customer increase (decrease) compared to previous year (in local currency) | n.a. | (19.7)% |
| Population in service territory (in millions at period end) | 29 | 29 |

Network and Technology. Médi Telecom’s network in Morocco is based upon the GSM standard. Telefónica Móviles’ licenses entitle us to 50 MHz spectrum in the 900 MHz band. In 2000 and 2001, Médi Telecom invested a total of approximately €400 million in building out and enhancing its digital network in Morocco. At December 31, 2001, Médi Telecom’s digital network in Morocco consisted of nine switching centers and 120 base stations giving coverage to over 80% of the population.

Competition. Médi Telecom currently competes with Maroc Telecom, the former state monopoly provider of all telecommunications services in Morocco. At December 31, 2001, Maroc Telecom had an estimated approximately 1.8 million customers, compared to an estimated approximately 1.1 million for Médi Telecom. Telefónica Móviles estimates that in the twelve months of Médi Telecom’s operations through December 31, 2001, the overall Moroccan market for wireless communications increased by 47%.

Wireless Internet and Data Initiatives

E-moción—Wireless Internet Service Provider

In June 2000, Telefónica Móviles launched *e-moción*, its wireless Internet service provider. *E-moción* offers Telefónica Móviles’ customers wireless access to the Internet, including the ability to browse any wireless application protocol site and access to a broad and fast growing menu of links to wireless content providers, which, in the case of Spain, number more than 250 at December 31, 2001. All of Telefónica Móviles’ operating companies have launched *e-moción*.

Terra Mobile—Wireless Portal

Terra Mobile is a joint venture between Telefónica Móviles, which currently holds an 80% interest, and Terra Networks, which holds the remaining 20% interest, to create a major wireless Internet portal with presence in the United Kingdom, Germany, Spain and Brazil. In December 2001, Terra Mobile adopted a new business model focused on

- offering products and services and developing applications that take greater advantage of synergies with wireless networks
- significantly reducing costs
- concentrating on the most significant markets (i.e., Spain, Germany and the United Kingdom).

Accordingly, Terra Mobile has reorganized its global structure to concentrate its European operations on markets with larger customer bases and discontinued operations in certain smaller markets. In addition, Terra Mobile reduced its headcount by 50%. At December 31, 2001, Terra Mobile had approximately 5.8 million registered users.

Wireless Data Services

m-Payment Services. Telefónica Móviles is working with merchants and financial institutions to develop m-payment services that will increase the use of its network.

Mobile Payment System. Telefónica Móviles, Banco Bilbao Vizcaya Argentaria, S.A., Banco Santander Central Hispano, S.A., Vodafone (formerly Airtel) and Amena and other financial institutions are jointly developing a new, simple, fast, low cost and secure mobile payment system under the *Mobipay* brand. See “—Services and Products” above.

Worldwide Audiovisual Content and Media – Admira Media

Admira Media, formerly known as Telefónica Media, conducts our worldwide audiovisual content and media business. Admira Media is a premier producer and distributor of audiovisual content and provider of audiovisual services to the Spanish- and Portuguese-speaking world. The Admira Media group develops and distributes audiovisual content through traditional media and new technology platforms. Admira Media is divided into three business areas:

- Free-to-air television and radio
- Audiovisual content
- Pay television

Free-to-air television and radio

Antena 3

At December 31, 2001, Admira Media directly owned 47.5% of Antena 3, one of the leading private commercial television stations in Spain. In 2001, Antena 3’s operating margin was adversely affected by decreased advertising revenues as a result of soft demand in the advertising market and increased competition from TVE, another leading Spanish station. Consequently, Antena 3’s operating margin decreased to €96.5 million in 2001 from €180.3 million in 2000. In addition, Antena 3’s net profits decreased to €67.9 million in 2001 from €128.5 million in 2000. We account for our interest in Antena 3 by the equity method.

Antena 3’s objectives are three-fold:

- strengthen its leadership among private Spanish television stations, especially among the most attractive audiences for advertisers. According to market research conducted by Sofres, Antena 3 had a market share of 20.5% in 2001, which is similar to that held by the other private Spanish television stations in the free-to-air segment. In 2001, Antena 3 was the leader among viewers who are 44 years of age and under and those who are in the middle class. As a result, Antena 3 was able to capture 27.4% of the television advertising market in 2001 and improved its power ratio (i.e., its share of the television advertising market divided by its total viewer market share) to 1.34.
- improve Antena 3’s cost structure
- diversify into new areas of business such as theme channels and interactive television

The development of new audiovisual broadcasting technologies such as digital terrestrial television as well as the granting of licenses to new television operators may adversely affect Antena 3’s advertising revenues as advertisers reallocate their advertising budgets.

Antena 3 and Vía Digital entered into an agreement in April 2002 under which Antena 3 obtained the rights to broadcast certain World Cup matches, including the opening match, all matches in which Spain plays and the final. Antena 3 is the first private commercial television station in Spain to broadcast World Cup matches.

Telefé

In 1998, the Telefónica Group acquired an initial stake in Atlántida de Comunicaciones, an Argentine holding company, which owns the publishing company Atlántida and the Argentine television channels, Telefé and Televisoras Provinciales, as well as Radio Continental. In 2000, we acquired in several steps the remaining interest in Atlántida de Comunicaciones in exchange for our shares.

Telefé is the principal television network operating in the free-to-air segment in the greater Buenos Aires area. In 2001 Telefé had an estimated average audience share of 40.6% and captured an estimated 43.0% of television advertising spending in Argentina. In addition, Telefé operates seven free-to-air television stations in Argentina's interior provinces. Telefé's signal reaches over 12 million homes in Argentina through its open signal, its broadcasting affiliates and subscription television. Telefé also produces motion pictures and television programming, some of which is distributed throughout Latin America and in the United States and Europe. The free-to-air television market in Argentina depends to a significant extent on advertising revenues. The advertising market generally, and the television advertising market specifically, has been characterized by softness of demand due to the general macroeconomic and political crisis in Argentina. As a result, spending on advertising has decreased, which has had and continues to have an adverse effect on Telefé's results of operations. For a discussion of the impact of the macroeconomic and political crisis in Argentina, see "Item 5—Operating and Financial Review and Prospects—Operating Results—Recent Developments—Argentina".

Azul TV

At December 31, 2001, Admira Media held a 50.0% stake in Telearte, S.A., which is commercially known as Azul TV. Azul TV is the third largest free-to-air television network in Argentina. Admira Media must sell its stake in Azul TV by year-end 2002 in order to comply with the requirements of the Argentine Broadcasting Commission. Softness in demand in the Argentine television advertising market has had and continues to have an adverse effect on Azul TV's result of operations. For a discussion of the impact of the macroeconomic and political crisis in Argentina, see "Item 5—Operating and Financial Review and Prospects—Operating Results—Recent Developments—Argentina".

Onda Cero Radio Network

In 1999, we acquired all of the shares of Uniprex, which owns the Onda Cero radio network, and Cadena Voz de Radiofusión, S.A. These companies maintain radio network coverage through more than 200 proprietary or affiliated radio stations which carry the programming of Onda Cero Radio, Europa FM, Onda Melodía, Onda Cero Radio Internacional, Radio Voz and Onda Rambla. In 2001, according to a survey by Estudio General de Medios, Onda Cero Radio ranked second in the Spanish conventional radio station market in terms of listening audience. In July 2001, Onda Cero entered into an alliance with Radio Blanca for the development of new projects in the commercial radio segment. As a result of this agreement, Onda Cero expanded its urban coverage in the FM band to an additional 70 radio stations operated by Radio Blanca in Spain's provincial capitals. The alliance has a term of 10 years.

At the end of 2001, Admira Media entered into an agreement to sell its 100% interest in Uniprex, S.A. to Antena 3 Televisión. This acquisition by Antena 3 Televisión will permit it to achieve synergies as a result of extending Antena 3's management experience and technological advances to Onda Cero's operations, as well as from the resulting joint control of content and commercial activities. This acquisition is in the process of finalization.

Radio Continental

Admira Media owns 100.0% of Radio Continental, a chain of AM and FM radio stations in Argentina that it acquired in connection with its acquisition of Atlántida de Comunicaciones S.A. See "—Telefé" above.

Audiovisual content

Endemol Entertainment

In July 2000, we acquired 99.2% of Endemol Entertainment Holding N.V., one of Europe's leading television producers, through an exchange offer outside the United States. See "—Public Takeover Offers" below. Endemol develops and produces audiovisual programming for free-to-air television, pay television and the Internet.

Telefónica Sport

Through Telefónica Sport, Admira Media holds certain sports-related rights. In particular, Admira Media owns 70% of Euroleague Marketing which owns broadcasting, merchandising and other rights relating to Euroleague basketball pursuant to an agreement which expires at the end of the 2007/2008 season, unless terminated earlier at

the end of the 2004/2005 season by Euroleague Marketing. In addition, Admira Media has a 40% interest in Audivisual Sport which owns audiovisual rights to certain European soccer matches, which rights expire at the end of the 2002/2003 season. Audiovisual Sport offers these matches on a pay-per-view basis and also licenses the broadcast rights to other companies.

Torneos y Competencias

Torneos y Competencias, in which Admira Media held a 20% stake at December 31, 2001, holds broadcasting rights for certain Argentine soccer matches.

Other Interests

Admira Media owns a 100.0% interest in ST-Hilo which produces and transmits specialized audio channels and a 70.0% interest in Lola Films, one of Spain's leading motion picture production companies. Admira Media also holds a 25% interest in Media Park, a Spanish production company, and a 51% interest in the Venezuelan company, Rodven, S.A., which owns a record label, Líderes, and sponsors artistic events.

Pay Television

We offer direct-to-home ("DTH") satellite television service in Spain through DTS Distribuidora de Televisión Digital, S.A. ("DTS"), a joint venture along with a number of television broadcasters. DTS markets its services under the Vía Digital trademark. At December 31, 2001, Vía Digital had approximately 806,000 subscribers compared to 633,059 subscribers at December 31, 2000. For the year ended December 31, 2001, Vía Digital had operating revenues of €272.3 million and a net loss of €334.3 million compared to operating revenues of €213.0 million and a net loss of €254.0 million for the year ended December 31, 2000. In order to achieve profitability, Vía Digital must acquire a sufficient number of subscribers to offset the high cost of content in this area of business. We account for our interest in Vía Digital by the equity method.

During 1999, we increased our ownership interest in Vía Digital to 68.6%. In January 2000, Vía Digital issued additional ordinary shares. We purchased some of these shares, but fewer than our proportionate interest in the company. As a result, our interest in Vía Digital declined to 48.6%. As part of the capital increase, we gave three shareholders of Vía Digital who subscribed for the majority of the capital increase the right to require that we either repurchase, if legally permitted, or identify a buyer who will purchase, their respective interest in Vía Digital at the price paid by each of them plus interest, as provided in the agreement. In the case of one of these shareholders, we may be required to purchase its shares on June 30, 2003, while in the case of the other two shareholders we may be required to purchase their shares between June 30, 2003 and June 30, 2004.

Vía Digital offers more than 65 television broadcast channels and 30 audio channels, as well as interactive services through its nationwide DTH satellite television service. Vía Digital's programming offerings and interactive television service provide its subscribers with an integrated offering of high-quality entertainment, information and services.

In March 1999, Vía Digital acquired the exclusive rights to broadcast the United European Football Association Champions League on pay per view through the 2002/2003 season. In June 1999, Sogecable and Admira Media entered into an agreement relating to joint broadcast rights for the "National Championship Soccer League" and the "King's Cup of Spain" through the 2008-2009 season. As part of this agreement, Admira Media granted to Sogecable joint rights to broadcast the United European Football Association Champions League.

In May 2002, Admira Media entered into an agreement with Sogecable to integrate Vía Digital and Canal Satelite Digital, which is the pay television and satellite broadcast platform of Sogecable. Sogecable's shareholders include Grupo Prisa, a Spanish media company, Canal Plus France and other financial shareholders. The integration is subject to the satisfaction of certain conditions, including the approval of 100% of the shareholders of Vía Digital to subscribe a capital increase through a share exchange and the receipt of several administrative authorizations. Under the agreement, Sogecable will issue 28,981,121 new shares in exchange for the total issued and outstanding shares of Vía Digital at the date of the exchange. Existing Sogecable shareholders will own 77% of the resulting company, and existing Vía Digital shareholders, including Admira Media, will own 23% of the resulting company.

Telefónica Servicios Audiovisuales and Hispasat

Telefónica Servicios Audiovisuales is the principal provider in Spain and Latin America of satellite and television audiovisual technical services and signal compression and up-links for satellites. Admira Media also holds a 17.3% interest in Hispasat, Spain's satellite communications system.

Other Investments

In 1999, we acquired a 5% stake in Pearson plc for €621.4 million and sold our 20% stake in Recoletos Compañía Editorial to Pearson plc. We have announced our intention to sell our stake in Pearson plc.

Fixed-Line Telecommunications Services in Latin America – Telefónica Internacional

Our fixed-line telecommunications services business in Latin America is conducted through Telefónica Internacional. The following tables set forth information with respect to the fixed-line telecommunications services provided by the telecommunications operators that are members of the Telefónica Internacional group. Information is given at December 31, 2001, unless otherwise specified.

| <u>Company</u> | <u>Country</u> | <u>Population at December 31, 2001(1)</u> (millions) | <u>Principal Fixed-Line Telecommunications Services Provided</u> | <u>Competition</u> |
|---|----------------|---|---|---|
| Telecomunicações de São Paulo–TELESP | Brazil | 37.4 | Data transmission Basic telephony Intrastate long-distance Public telephony Value-added services | All existing telephone services in Brazil are deregulated. |
| Compañía de Telecomunicaciones de Chile | Chile | 15.5 | Basic telephony Domestic long-distance International long-distance Public telephony Leasing and sale of equipment and terminals | All existing telephone services in Chile are deregulated. |
| Telefónica de Argentina | Argentina | 37.6 | Basic telephony Domestic long-distance International long-distance Value-added services Internet Paging | All existing telephone services in Argentina are deregulated. |
| Telefónica del Perú | Perú | 26.1 | Basic telephony Domestic long-distance International long-distance Cable television Data transmission Paging | All existing telephone services in Perú are deregulated, except for new PCS licenses which have been awarded on an exclusive basis for a three-year period. |
| Telefónica Larga Distancia de Puerto Rico | Puerto Rico | 4.0 | Long-distance services | Free competition. |

(1) Population of coverage area.

The following table sets forth additional information regarding the principal telecommunications operators that are members of the Telefónica Internacional group. Information is at December 31, 2001.

| Company | Year Acquired | Interest | Management |
|---|---------------|----------|--|
| Telecomunicações de São Paulo—TELESP | 1998 | 86.7% | Telefónica Internacional manages Telesp pursuant to a management contract. |
| Compañía de Telecomunicaciones de Chile | 1990 | 43.6% | Telefónica Internacional appoints a majority of board members. |
| Telefónica de Argentina | 1990 | 98.0% | Telefónica Internacional controls Telefónica de Argentina through its stake in COINTEL. In addition, Telefónica Internacional manages Telefónica de Argentina pursuant to a management contract. |
| Telefónica del Perú | 1994 | 97.1% | Telefónica Internacional appoints a majority of board members and manages Telefónica del Perú pursuant to a management contract. |
| Telefónica Larga Distancia de Puerto Rico | 1992 | 98.0% | Telefónica Internacional appoints a majority of board members. |

Telecomunicações de São Paulo—Telesp

Telesp provides fixed-line and other telecommunications services in the Brazilian state of São Paulo under concessions and licenses from Brazil’s federal government. We acquired our initial interest in Telesp in 1998 as part of a consortium that acquired a majority interest in Telesp in connection with the privatization of Telebrás, the former Brazilian state-owned telecommunications monopoly. In mid-2000, we completed an exchange offer for the Telesp shares and ADSs held by minority investors. In July 2000, we agreed to exchange our interest in Portelcom Participações S.A., the holding company which controls Telesp Celular, for Portugal Telecom’s minority interest in SP Telecomunicações S.A., the holding company through which we control Telesp. In addition, we paid an aggregate of approximately U.S.\$60 million to Portugal Telecom pursuant to the terms of the agreement. In December 2001, we acquired an additional 3.5% of SP Telecomunicações S.A. from the Iberdrola group. See “—Worldwide Wireless Communications Services—Telefónica Móviles—Latin America—Brazil—Agreement with Iberdrola”. As a result, at December 31, 2001, we held an 86.7% interest in Telesp.

At December 31, 2001, Telesp managed approximately 12.6 million access lines in service, representing an increase of 19.1% over 2000. During 2001, Telesp installed an average of 309,000 lines per month. In 2001, the digitalization of Telesp’s network increased to 96.0% and its productivity ratio increased to 1,198 lines in service per employee at December 31, 2001 from 790 lines in service per employee at December 31, 2000, principally due to the significant increase in lines in service and workforce reductions in 2001.

The following table provides information with respect to Telesp’s fixed-line telecommunications network at and for the periods indicated.

| | At December 31, | | | Percentage |
|---|-----------------|--------|--------|---------------------|
| | 1999 | 2000 | 2001 | Increase/(Decrease) |
| Lines installed (thousands) | 9,548 | 12,480 | 14,347 | 14.9% |
| Lines in service (thousands)..... | 8,251 | 10,596 | 12,616 | 19.1% |
| Penetration rate in São Paulo | 23.8% | 29.5% | 33.8% | 4.3 p.p. |
| Lines in service per employee..... | 566 | 790 | 1,198 | 51.7% |
| Average days between application and installation | 34 | 12 | 0.5 | (95.0)% |

Telesp is subject to competition for local telephone services from a “mirror” license holder, who was granted rights similar to those granted to Telesp as part of the privatization of Telebrás. It is subject to competition for interprovincial long-distance services from a “mirror” license holder, Embratel and Embratel’s “mirror” license holder.

Anatel, the Brazilian telecommunications regulator, certified in Law No. 1/3/2002, published in the *Diário Oficial da União* on March 4, 2002, that Telesp achieved the quality and expansion targets established in Telesp’s

concession contract. As a result, according to Brazilian regulation, the Telefónica Internacional group has the right to operate fixed-line telecommunications services throughout the entire national territory of Brazil.

Telefónica Internacional has entered into a management contract pursuant to which Telefónica Internacional received 1% of Telesp's revenues until 2000, which amount was reduced to 0.5% through 2002, and will then be reduced to 0.2% beyond that date. The contract expires December 31, 2003 and may be renewed.

Equity securities of Telesp trade on the New York Stock Exchange under the symbol "TSP" and on the principal Brazilian stock exchanges under the symbol "TLPP".

Compañía de Telecomunicaciones de Chile

Compañía de Telecomunicaciones de Chile, in which we held a 43.6% stake at December 31, 2001, is the largest telecommunications operator in Chile. As of December 31, 2001, Compañía de Telecomunicaciones de Chile owns approximately 82% of all telephone lines in Chile. Compañía de Telecomunicaciones de Chile provides a broad range of telecommunication and other services throughout Chile, including local telephone service, mobile telephone service, mobile communications services (including paging, radio trunking and mobile data transmission), domestic long-distance service and international long-distance service, data transmission, dedicated lines, terminal equipment sales and leasing, public telephone service, directory advertising, interconnection services and certain value-added services. For a description of Compañía de Telecomunicaciones de Chile's wireless operations, see "—Worldwide Wireless Communications Services—Telefónica Móviles—Latin America—Chile".

Compañía de Telecomunicaciones de Chile holds licenses to provide local telephone service and data transmission services throughout Chile. It also holds licenses to provide long-distance service throughout Chile and internationally through certain of its subsidiaries. Compañía de Telecomunicaciones de Chile provides local telephone service, interconnection of domestic and international long-distance telecommunications providers to central switches, and other services provided to carriers through its own digital telecommunications network.

Compañía de Telecomunicaciones de Chile managed approximately 2.7 million lines in service at December 31, 2001 and had an access line penetration rate of approximately 23% at that date. Compañía de Telecomunicaciones de Chile's productivity ratio increased to 803 lines per employee in 2001 from 582 lines per employee in 2000, principally as a result of a 20.0% decrease in personnel due to workforce reductions in 2001.

In 2000, Compañía de Telecomunicaciones de Chile sold its 40% stake in Metrópolis-Intercom, the second largest cable TV provider in Chile, to Cordillera.

Equity securities of Compañía de Telecomunicaciones de Chile trade on the Santiago and New York stock exchanges under the symbol "CTC".

Telefónica de Argentina

Telefónica de Argentina is a leading provider of fixed-line public telecommunications services and basic telephone services in Argentina. Telefónica de Argentina is licensed to provide local and domestic long-distance and international services and domestic and international telex services throughout Argentina. During 2000, we increased our stake in Telefónica de Argentina through a public exchange offer for Telefónica de Argentina shares and ADSs held by minority investors and our acquisition of 50% of Compañía de Inversiones en Telecomunicaciones (COINTEL), which held a 52.9% stake in Telefónica de Argentina. At December 31, 2001, we held a 98.0% interest in Telefónica de Argentina.

As part of our reorganization along global lines of business, in 2001 we spun off the wireless operations of Telefónica de Argentina, held by Telefónica Comunicaciones Personales, S.A., to Telefónica Móviles Argentina in exchange for shares of Telefónica de Argentina. Additionally, we spun off the data transmission operations of Telefónica de Argentina (held by Advance Telecommunications S.A.) to Telefónica Data.

At December 31, 2001, Telefónica de Argentina's telecommunications network had approximately 4.6 million lines in service, an increase of 5.3% from approximately 4.3 million at December 31, 2000, and an access line penetration rate of 12.2%. At that date, its estimated market share for local telephony was 52%, its market share for domestic long-distance was 40% and its estimated market share for international long-distance was 47% compared to estimated market shares of approximately 52%, 41% and 47%, respectively, at December 31, 2000.

We have a management contract with Telefónica de Argentina under which we have agreed to manage Telefónica de Argentina's business and provide services and expertise regarding Telefónica de Argentina's entire range of activities in return for a percentage of Telefónica de Argentina's operating margin equivalent to 9% of its gross margin prior to amortization and interest expense. This contract is due to expire in 2003, unless it is extended through 2008 pursuant to its terms.

Telefónica de Argentina provides basic telephone services throughout Argentina. Similarly, Telecom Argentina, Compañía de Teléfonos del Interior S.A., an affiliate of GTE Mobile International Inc., and Compañía de Teléfonos del Plata S.A., an affiliate of BellSouth, were awarded licenses to provide the same basic telephone services throughout Argentina as of October 10, 1999. Since November 2000, other principal competitors, including Impset Corp. and AT&T, have also entered the market as well as smaller regional competitors.

The Argentine telecommunications market was fully liberalized in November 2000. Interconnection prices were reduced by 50%, and in order to increase competition in the long-distance market, consumers are permitted to select their long-distance carrier. Telefónica de Argentina expects that the introduction of full competition in the Argentine telecommunications market will result in a loss of market share.

Telefónica de Argentina's results of operations in 2001 have been materially adversely affected by the impact of the liberalization of the telecommunications market in November 2000 and the political and economic crisis currently affecting the country and emergency measures adopted by the Argentine government in response to this crisis. Due to the continuing economic instability in Argentina and in order to manage its liquidity risk, in May 2002 Telefónica de Argentina, S.A. commenced an exchange offer outside the United States for certain outstanding debt obligations, which exchange offer expired on June 21, 2002. On that date, Telefónica de Argentina, S.A. announced that it would accept all validly tendered notes. For a discussion of the risks associated with these events and the impact on our results of operations, see "Item 3—Key Information—Risk Factors" and "Item 5—Operating and Financial Review and Prospects—Operating Results—Recent Developments—Argentina".

Equity securities of Telefónica de Argentina trade on the Buenos Aires and New York stock exchanges under the symbol "TAR".

Telefónica del Perú

Telefónica del Perú is the leading global telecommunications operator in Perú. Telefónica del Perú offers fixed local and domestic and international long-distance services throughout Perú as well as a wide range of other telecommunication services including public telephone, cable television and data communications.

At May 31, 2002, the Peruvian government had granted 57 concessions for long-distance service, 29 concessions for local carrier service and 8 concessions for local fixed telephony service. Within the Lima metropolitan area, Telefónica del Perú had approximately 94% market share with BellSouth as its only competitor. Outside the Lima metropolitan area, Telefónica del Perú is the only provider of public telephone service. In addition, Telefónica del Perú provides cable television in the Lima metropolitan area and seven other cities through its wholly-owned subsidiary, Telefónica Multimedia S.A.C.

In mid-2000, we completed an exchange offer for the Telefónica del Perú shares and ADSs held by minority investors. Following our acquisition in September 2001 of an additional 10% interest in Telefónica del Perú Holding from Wiese Telefónica S.A. and IGM Teléfonos, S.A. for a total of €227.3 million, we held an approximately 97.1% interest in Telefónica del Perú at December 31, 2001.

As part of our reorganization along global lines of business, in 2001 we spun-off the data transmission business of Telefónica del Perú to Telefónica Data. In addition, we spun-off the wireless business of Telefónica del Perú to Telefónica Móviles.

At December 31, 2001, Telefónica del Perú had approximately 1.7 million lines in service, including public telephone lines operated by Telefónica del Perú, and 341,700 cable television subscribers. Telefónica del Perú's access line penetration rate was 6.6% at December 31, 2001. The increase in the number of access lines in service was due to the successful marketing of prepaid products such as "*teléfono popular*" which offers fixed-line service with limited consumption. In 2001, the degree of digitalization of Telefónica del Perú's network remained unchanged at 96%.

Under a management contract between Telefónica Internacional and Telefónica del Perú, Telefónica Internacional provides Telefónica del Perú with management and technical support in exchange for management and technology transfer fees equivalent to 9% of its operating margin before depreciation and amortization and 1% of its revenues. This contract expires in 2014.

Telefónica Larga Distancia de Puerto Rico

At December 31, 2001, we held a 98% interest in Telefónica Larga Distancia de Puerto Rico, Inc. In 2001, Telefónica Larga Distancia's customers consumed 425.4 million minutes compared to 429.3 million minutes in 2000.

Other Investments

Compañía Anónima de Teléfonos de Venezuela (CANTV).

CANTV, in which the Telefónica Group held a 6.9% stake at December 31, 2001, is the leading provider of telecommunications services in Venezuela. At December 31, 2001, CANTV had approximately 2.7 million access lines in service and approximately 2.5 million wireless customers.

Cablevisión S.A.

In May 2001, we exercised our option to sell and sold our shares of Cablevisión, an Argentine cable company, to an affiliate of Citicorp Equity Investments for approximately U.S.\$712 million.

Infonet Services Corporation.

At December 31, 2001, we held a 14.3% stake in Infonet Services Corporation, a data telecommunications firm that uses telecommunications tools to electronically link offices within a multinational company and to speed the transfer of information between them. The remaining shares in Infonet are publicly held.

Worldwide Corporate Data Transmission – Telefónica Data

Telefónica Data manages our data transmission business on a global basis. As part of our reorganization along global lines of business, in 2000 we transferred to Telefónica Data, Acea Telefónica, our joint venture to provide voice, data and Internet services in Lazio, Italy, and the data transmission operations of European Telecom International in Austria. In addition, in 2001 we spun off the data transmission operations of our integrated telecommunications operators in Brazil, Argentina and Perú to Telefónica Data. Together with Telefónica Data's other operations in Colombia, Mexico, Uruguay and the United States, Telefónica Data offers a unique network platform for the provision of corporate data transmission services to multinational clients in Latin America. With the acquisition in January 2001 of mediaWays, the operator of the second largest communications network based on the Internet Protocol (IP) in Germany and a provider of IP network services in the United Kingdom, Telefónica Data has also expanded its presence in Europe.

At December 31, 2001, Telefónica Data had operations in 14 countries. Telefónica Data's strategy in each country depends on the state of development of its network and its market share. In those countries in which the Telefónica Group holds a leading position, Telefónica Data concentrates on offering "one-stop shopping" services and customized communications solutions to corporate customers, with particular emphasis on value-added services, such as hosting, content delivery and e-solutions. We refer to these markets as our "incumbent markets". In those countries where Telefónica Data is a new entrant, Telefónica Data offers a complete portfolio of IP services and packaged solutions to the most attractive market segments, such as small or medium-sized enterprises, Internet service providers and other Telefónica Group companies. We refer to these markets as our "expansion markets".

As part of its strategy to increase the level of value-added services that it provides, Telefónica Data began operating in September 2001 a data center in Miami from which it provides network services and hosting services, principally to large corporate customers and new technology companies. This center, together with the connectivity provided by the Telefónica de España Group's network, offers Telefónica Data's customers high levels of security and redundancy.

Incumbent Markets

Spain

Telefónica Data provides a variety of corporate communication services such as:

- *Iberpac Básico* – a data transmission service based on X.25 protocol which enables a reliable interchange of information between multiple destinations
- *UNO Service* – a data transmission service based on the X.25 protocol and on the Virtual Private Network (VPN), which is marketed to large corporate customers such as banks and insurance companies
- *Frame Relay* – a data transmission service designed to satisfy the use and interconnection requirements of Local Area Networks (LAN)
- *InfoInternet* – a gateway to Internet service using the IP Network. Users access the Internet through a permanent connection to the IP Network
- *UNO IP Voz* – enables the transportation of voice and data using an exclusive line on the IP Network
- *Data&Voz* – permits integration of voice and data transmission in one single line

In June 1998, Telefónica Data launched the new Internet Protocol network, which enhances our ability to market value-added services such as e-mail and other messaging and posting services. Telefónica Data has established itself as a leading provider of global services based on the Internet Protocol and value-added services for corporate customers. In addition, Telefónica Data is responsible for traditional data transmission services, maximizing their value and managing service migration within the Internet Protocol environment.

In July 1999, Telefónica Data España, Telefónica Data's operating subsidiary in Spain, obtained an individual Type A license, which permits it to offer its corporate customers bundled voice and data services packages via one single connection. The license also allows interconnection with other operators and their users. Telefónica Data España also holds a Type C license, which permits it to render data transmission services.

At December 31, 2001, Telefónica Data's network in Spain had wide geographic coverage with 395 points of presence (POPs) and approximately 160,000 end user connections. In addition, Telefónica Data had 41,100 ADSL subscribers at December 31, 2001. Most data transmission services are currently provided through a switch network that is independent from our fixed-line network.

Other Incumbent Markets

Telefónica Data's other incumbent markets include Brazil, Argentina, Chile and Perú. In Chile, Telefónica Data manages the data operations of the Telefónica Group. During 2001, Telefónica Data increased its catalog of services in each of these countries and expanded its network. At December 31, 2001, Telefónica Data had 211 POPs and approximately 91,000 end user connections in Brazil, 88 POPs and approximately 13,000 end user connections in Argentina, 21 POPs and 6,000 end user connections in Peru and 64 POPs and 32,000 end user connections in Chile.

In June 2001, the Telefónica Group and Banco Itaú, one of Brazil's largest financial institutions, formed an alliance for the provision of telecommunications services. As part of this agreement, we began managing Banco Itaú's corporate communications network, thereby increasing our presence in the Latin American market for corporate data transmission. Pursuant to our 2001 business plan, we expect to invest up to €18 million to improve Banco Itaú's corporate communications network as well as to roll out its services outside of the São Paulo metropolitan area over the next three years. Banco Itaú's customer base includes over 500,000 corporate clients and 7 million individuals.

Expansion Markets

Rest of Europe

Telefónica Data's expansion markets in Europe include Germany, Austria, Italy and the United Kingdom. At December 31, 2001, Telefónica Data had 403 points of presence (POPs) in Europe and more than 302,000 end user connections. In addition, Telefónica Data had approximately 19,000 ADSL lines in service outside Spain, principally in Italy and Germany.

In 2000, Acea Telefónica merged with Telexis, a member of the Fiat group. As a result of the merger, we own 34% of the resulting company, Atlanet, and have management control. We invested approximately €100 million as part of the transaction. In Italy, Telefónica Data has continued to develop its network in order to offer a complete catalog of data and voice services for corporate customers.

In January 2001, we acquired from Bertelsmann AG its affiliate, mediaWays GmbH, for a total purchase price of €1,479.2 million. mediaWays specializes in Internet services, data transmission and other value-added services for businesses. Its product portfolio is comprised of one-stop solutions for Internet service providers, full-scale application hosting and corporate communications solutions. mediaWays has provided services in Germany since 1996 and in the United Kingdom since 2001.

Rest of Latin America and the United States

Telefónica Data's other expansion markets include Colombia, Mexico, Uruguay, Puerto Rico and the United States. At December 31, 2001, Telefónica Data had 76 points of presence (POPs) and 9,528 end user connections in these expansion markets. Despite the commencement of operations at Telefónica Data's data center in Miami in September 2001, which has enabled Telefónica Data to begin providing hosting services in the United States (principally in Florida), Telefónica Data's results of operations in these expansion markets were adversely affected by the decline of new technology companies and the economic recession in the United States.

Certain Agreements

In October 2000, Telefónica Data entered into an agreement with Banco Santander Central Hispano to manage the banking group's international data network, which covers more than 20 countries throughout Europe and Latin America. Telefónica Data has also entered into agreements with respect to the management of Repsol YPF's international data network and Banco Bilbao Vizcaya Argentaria's international data back-up network.

In December 2000, Telefónica Data entered into an agreement with America Online to provide network services (national switched access and international network capacity) to America Online's principal companies in key markets in Latin America and Europe.

In February 2001, Telefónica Data entered into an agreement with Akamai Technologies to provide enhanced infrastructure capabilities to enable Akamai to optimize the speed, functionality and availability of its value-added services.

In May 2001, Telefónica Data entered into an agreement with Sol Meliá to develop its "SolNet" network that will connect all of Sol Meliá's hotels and corporate offices worldwide. Pursuant to the agreement, Telefónica Data and Sol Meliá will also engage in joint sales and marketing activities.

In June 2001, Telefónica Data España, a member of the Telefónica Data Group, which provides corporate communication services in Spain, entered into an agreement with Fiat Auto España to develop a data transmission network which will link more than 100 Fiat dealerships in Spain and Andorra.

Worldwide Internet-Related Services – Terra Networks

Our worldwide Internet-related services business is led by Terra Networks. Terra Networks is one of the most popular Internet networks in the United States, Europe and Asia and the leading portal to Spanish and Portuguese-speaking markets. It is the result of the combination in October 2000 of Terra Networks, a global Internet company and the leading provider of Internet access and interactive content and services to the Spanish and Portuguese-speaking world, and Lycos, Inc., the Internet's leading multi-brand network.

We created Terra Networks in December 1998 to operate the Spanish residential and small office/home office Internet access business carried on by the Telefónica group since December 1995. In November 1999, Terra Networks completed an initial public offering of approximately 30% of its ordinary shares. In 2000, Terra Networks acquired Lycos, Inc. in a share exchange. We account for our interest in Terra Networks on a consolidated basis because we exercise effective control over Terra Networks as a result of our 37.03% ownership interest at December 31, 2001.

Terra Networks offers a suite of Internet services in a variety of languages that provides its users throughout its core markets in Europe, Latin America, North America and Asia with:

- access to the Internet (in Spain and certain countries in Latin America)
- portal and network services that incorporate a wide variety of content individually-tailored for each market and featuring enhanced functionality
- a range of online advertising, marketing and e-commerce opportunities
- multiple solutions for customers' Internet needs, such as web design and hosting and communication

Through its portals and network of separately-branded websites and joint venture partnerships, Terra Networks has the largest global footprint of any Internet portal or network with portals in 43 countries and more than 120 websites. Its portals and network of separately-branded sites generated more than 500 million average daily page views in December 2001. Terra Networks currently holds a leading position in the following markets:

- Spain
- Latin America
- the U.S. Hispanic market

Through its joint ventures and other interests, Terra Networks also holds a leading position in:

- Europe (Lycos Europe)
- Canada (Sympatico-Lycos)
- Asia (Lycos Asia)
- Japan (Lycos Japan)

Terra Networks is also a leading interactive services provider in Spain and Latin America, offering Internet access and local-language interactive content and services to more than 4.3 million customers in Spain, Brazil, Mexico, Peru, Chile and Guatemala. In 2001, Terra Networks was one of the leading broadband services and content providers in Spain, Brazil and Mexico.

Terra Networks has achieved growth through:

- its assumption of direct management responsibility for the Internet activities of the Telefónica group companies in Spain in April 1999, and in Chile and Perú in October 1999
- its acquisition of strong local providers of Internet services, including:
 - the leading Spanish portal, which was acquired in April 1999
 - a leading Brazilian portal and Internet service provider and an e-commerce provider, which was acquired in June 1999

- a leading Mexican portal and an Internet service provider and e-commerce provider, which Terra Networks agreed to acquire in October 1999
- most significantly, 100% of Lycos, Inc., the Internet's leading multi-brand network, in October 2000
- the growth of the business lines that it operates

In connection with Terra Networks' acquisition of Lycos, we, Terra Networks and Bertelsmann, one of the largest media companies in the world, entered into strategic alliance agreements pursuant to which Bertelsmann agreed to pay \$325 million to Terra Networks for services (on terms no less than terms provided to third parties) during the first and second years from the date of the combination of Terra Networks and Lycos. During the third, fourth and fifth years after the date of such combination, Bertelsmann has agreed to purchase up to \$675 million of services from Terra Networks. As described in our Annual Report on Form 20-F for the fiscal year ended December 31, 2000, we have agreed to purchase, if necessary, any portion of those services that Bertelsmann does not buy, up to \$675 million. In addition, in connection with such acquisition we agreed to underwrite a €2.2 billion rights offering completed by Terra Networks in September 2000. Pursuant to such rights offering, we acquired 35,380,101 newly-issued shares of Terra Networks for an aggregate of approximately €2.2 billion.

In 2001, Terra Networks adopted a new business strategy and model in order to enhance its profitability. A key component of this strategy is to monetize its services by migrating customers from free services to value-added pay services such as multimedia content offerings through the implementation of the "Open, Basic and Premium" model across each of its businesses.

Other Lines of Business

Telefónica Publicidad e Información — Directory Publishing

Telefónica Publicidad e Información publishes and develops and sells advertising in telephone directories. In addition to printed directories, it offers directories online and in telephone-based format. Telefónica Publicidad e Información has operations in Spain, Brazil and Chile, and in February 2002 acquired the directory publishing business of Telefónica del Perú for U.S.\$31.2 million. Telefónica Publicidad e Información also manages the directory publishing business of Telinver, a wholly-owned subsidiary of Telefónica Internacional, in Argentina. In June 1999, Telefónica Publicidad e Información completed an initial public offering of approximately 35% of its ordinary shares to institutional and retail investors. Telefónica Publicidad e Información's shares trade on the Spanish stock exchanges under the symbol "TPI". Telefónica Publicidad e Información was the first Spanish advertising company and Internet service provider to be traded publicly. At December 31, 2001, we held a 59.87% interest in Telefónica Publicidad e Información.

Spain

Telefónica Publicidad e Información's core products in Spain are:

- *Páginas Amarillas* ("Yellow Pages"), an annual advertising directory containing certain information on all companies, businesses and professionals in a particular geographical area classified by sector, location and alphabetical order. The directory contains approximately 1.6 million listings and 305,000 paid advertisements. *Páginas Amarillas* was consulted by over 21 million users (over 20 million residential users and over one million businesses) in 2001, according to market research carried out by Emer GfK on behalf of Telefónica Publicidad e Información. According to this research, there were more than 1 million daily consultations during 2001. In 2001, there were a total of 64 books published and over 15 million copies printed.
- In 2001, Telefónica Publicidad e Información introduced a new product known as *Páginas Amarillas de Bolsillo* ("Pocket Yellow Pages") through the initial distribution on a limited basis in Madrid and the area of Sevilla-Cádiz-Huelva. This new product is designed for use outside the home and permits the user to carry conveniently the directory. The objective of this new product is to increase the use of the yellow pages directories, through new modes of usage and increased frequency of usage, and to increase the number of paid advertisers.

- *Páginas Blancas* (“White Pages”), which includes residential, professional and business telephone numbers in a particular geographic area, classified by location and alphabetical order. The directory has been redesigned and new content and information has been added, offering information of general interest to users. In 2001, approximately 24 million users consulted the directory, of which 23 million were residential users and one million were businesses. During 2001, there was a total of 61 white page guides published and 15 million copies printed.
- *Páginas Amarillas Online* (PAOL) (“Yellow Pages Online”) is one of the largest and most complete online databases of Spanish businesses in terms of number of listings. The number of *Páginas Amarillas Online* advertisers quadrupled in 2001 to 245,000. The number of page views in 2001 increased 95% to 452.4 million, while the number of registered visits increased 76.6% to 19.9 million. *Páginas Amarillas Online* also offers supplementary information, including job listings, international directory listings (with access to yellow page listings in other countries) and street guides to more than 300 Spanish cities.
- *Páginas Amarillas Habladas* (operator-assisted Yellow Pages) offers 24-hour operator-assisted information over the telephone for all companies, businesses, professionals, products and services located in the *Páginas Amarillas*. This service also provides a wide range of additional information, including stock quotes, weather reports and theater listings. In 2001, this service received 1.5 million calls, representing an increase of 9.6% over 2000.
- *Europages*, available in paper, CD-Rom and over the Internet is the most comprehensive trans-European directory containing information on major European export companies, classified by activity and then grouped by country of origin. The *Europages* are edited annually by Euredit, a company in which Telefónica Publicidad e Información has a 5% stake. Telefónica Publicidad e Información is responsible for managing the advertising business and the distribution of the directory in Spain.

In May 1999, Telefónica Publicidad e Información entered into an agreement with us to publish, distribute, market and sell advertising in *Páginas Blancas*. Under this agreement, Telefónica Publicidad e Información pays us a commission based on the revenues generated from advertising and the costs associated with the *Guías Básicas de Referencia* (“Basic Guides”). Such fees were approximately €28.0 million in 2000 and €27.2 million in 2001. Additionally, Telefónica Publicidad e Información pays us a variable fee based on the number of registers and individual updates. Such fees were approximately €3.2 million in 2000 and €3.5 million in 2001.

Latin America

Brazil. Telefónica Publicidad e Información commenced its operations in Brazil in 1999. Telefónica Publicidad e Información publishes a yellow pages directory in the Brazilian cities of São Paulo, Guarulhos, Riberão Preto and Curitiba under the name “GuiaMais”, and in 2002, it began publishing “GuiaMais” in Osasco-Barueri and the ABCD region. It also offers its directories online, in telephone-based format and through wireless access protocol (WAP).

Telefónica Publicidad e Información also publishes a white pages directory in Brazil. It published eight of these directories in 2001 for Telesp, our fixed-line operator in the Brazilian state of São Paulo. In July 2001, Anatel, the Brazilian telecommunications regulator, temporarily suspended for a period of six months to one year the telecommunications operators’ obligation to distribute printed copies of white pages directories to its customers so long as it offers an alternative service and its customers do not request a printed copy. Consequently, Telesp has reduced significantly the number of orders for white pages directories in 2002. In 2001, Telefónica Publicidad e Información had revenues of €17.1 million from the publication of the white pages directory for Telesp, which revenue will decrease substantially for as long as the suspension is in place.

In 2001, Telefónica Publicidad e Información published 24 white pages directories and 31 yellow pages directories pursuant to its agreement with Listel, a Brazilian publisher of directories and an affiliate of BellSouth Corporation. In August 2001, Listel announced its intention to terminate this contract beginning in 2002. As of the date of this Annual Report, Listel has not yet terminated the contract, but Telefónica Publicidad e Información does not expect to obtain any revenue from the contract in 2002.

Chile. At December 31, 2001, Telefónica Publicidad e Información held a 51.0% interest in Impresora y Comercial Publiciguías, S.A. Compañía de Telecomunicaciones de Chile, our fixed-line operator in Chile, held another 9.0% of Impresora y Comercial Publiciguías, S.A. at that date. In 2001, Impresora y Comercial Publiciguías, S.A. and Compañía de Telecomunicaciones de Chile renegotiated the contract governing the publication, marketing and sale of yellow pages and white pages directories in Chile. In connection with this agreement, Compañía de Telecomunicaciones de Chile will provide billing and collection services for its sale of advertising in the yellow pages and white pages directories and will receive a percentage of the revenues generated by Impresora y Comercial Publiciguías, S.A. as a result of such sales. In addition Impresora y Comercial Publiciguías, S.A. will pay Compañía de Telecomunicaciones de Chile a variable fee based on the number of directories published and the number of individual updates. The agreement has a term of five years, expiring in June 2006. As a result of the early termination of the preexisting contract between the companies that was scheduled to expire in December 2002, Impresora y Comercial Publiciguías, S.A. paid Compañía de Telecomunicaciones de Chile a one-time fee of approximately U.S.\$31.6 million. We expect that the new contract will enable Impresora y Comercial Publiciguías, S.A. to improve its profitability.

In early 2001, the Chilean regulatory authority modified the requirement to publish and distribute annually white pages directories to its customers. As a result, white pages directories are only required to be published every other year with a supplement being distributed in the year of non-publication. Impresora y Comercial Publiciguías, S.A. and Compañía de Telecomunicaciones de Chile believe that this new regulation applies only with respect to the distribution of residential white pages directories in Santiago, Chile. In 2001, Telefónica Publicidad e Información published an addendum to the Santiago residential white pages directories, and it plans to publish a complete directory in 2002.

Peru. Telefónica Publicidad e Información purchased the directory publishing business of Telefónica del Peru in February 2002 for U.S.\$31.2 million.

Argentina. Telefónica Publicidad e Información also conducts the directory publishing business of Telinver in Argentina.

Atento — Call Centers

We formed Atento in 1999 to hold and develop our call center business. Atento offers integrated telephone assistance services as well as sophisticated “customer relationship management” services such as the development and implementation of customer loyalty programs, telemarketing services and market research. In addition, Atento provides staff and rents call center positions to third parties. Atento currently operates in 13 countries on four continents, including Europe (Spain), Latin America, Northern Africa (Morocco) and Asia (Japan).

In 2001, Banco Bilbao Vizcaya Argentaria agreed to transfer its telephonic customer services operations in Spain and its telephonic banking and telesales services business outside Spain to Atento in exchange for up to a 9% stake in Atento. See “—International Strategic Partnerships—Our Strategic Alliance with Banco Bilbao Vizcaya Argentaria”.

Business-to-Business Marketplaces — Katalyx

In 2000, we created Katalyx to develop and operate electronic business-to-business (B2B) marketplaces, known as e-marketplaces, in Spain and Latin America. In 2001, we undertook a restructuring of Katalyx’s operations in Spain, Argentina, Brazil and Mexico, significantly reducing costs in response to the adverse market conditions affecting new technology companies and the slowdown in the implementation of B2B initiatives. Nevertheless, in 2001, Katalyx participated in the following initiatives:

- *Adquira* – a horizontal e-marketplace for indirect goods and services with operations in Spain, Argentina, Mexico and Brazil.
- *Vía Katalyx* – an initiative aimed at providing supply chain management services, utilizing sophisticated modular technology.
- *Katalyx Food* – a vertical e-marketplace for the food industry with operations in Spain, Argentina and Mexico.

- *Katalyx Catalogs* – a company that develops and manages e-catalogs in Spanish and Portuguese for Spanish and Latin American companies that want to participate in e-commerce activities.
- *Katalyx Construcción* – a vertical e-marketplace for the construction industry in Spain and Latin America.

Submarine Cable — Emergia

We formed Emergia to provide broadband telecommunications services through a high capacity fiber optic submarine cable that will seamlessly connect Latin America, the United States and the Caribbean. The first phase of the network commenced operating in the third quarter of 2000. During the first quarter of 2001, Emergia completed the installation of its fiber optic ring, consisting of more than 25,000 terrestrial and submarine kilometers of fiber optic cable and representing an investment of more than €1,400 million. Emergia's network has the capacity to deliver initially up to 40 gigabits per second which may be increased to 1.9 terabits per second. Following the completion of the fiber optic ring, Emergia sought to expand its network by entering into capacity exchange agreements that will permit Emergia to offer connections to Europe. Emergia also expanded its fiber optic network in Rio de Janeiro in Brazil.

In addition to its fiber optic network, Emergia provides broadband infrastructure services to the wholesale market, including international carriers, Internet service providers and communications-intensive businesses, providing city-to-city and door-to-door connectivity between Latin America, the United States and Europe. Emergia is also conducting tests for the transmission of television signals through its fiber optic network.

The market for fiber optic capacity has been characterized by softness in demand in 2002. One Emergia customer has confirmed to Emergia that it will not renew its agreement with Emergia to lease fiber optic capacity when the current agreement expires, and additional Emergia customers may do the same in the future. As a result, Emergia has implemented a cost containment plan to reduce operating expenses, pursuant to which Emergia has reduced travel and other expenses, as well as decreased its marketing budget for the second half of 2002. In addition, Emergia has renegotiated its agreements with local loop providers and with its maintenance suppliers.

International Strategic Partnerships

Portugal Telecom

In January 2001, we and Telefónica Móviles entered into a joint venture agreement with Portugal Telecom to consolidate certain of our wireless operations in Brazil with those of Portugal Telecom. For a description of the terms of the joint venture agreement, which is subject to regulatory and other approvals, see “—Worldwide Wireless Communications Services—Telefónica Móviles—Latin America—Brazil—Agreement with Portugal Telecom”.

Our Strategic Alliance with Banco Bilbao Vizcaya Argentaria

In February 2000, we announced a broad strategic global alliance with Banco Bilbao Vizcaya Argentaria, S.A., which we believe was the first of its kind between a major telecommunications company and a bank. The strategic alliance provides a broad framework that must be implemented under specific agreements in order to pursue the identified projects. We describe below the most significant developments as of the date of this Annual Report.

Mobile Payment Systems

On May 30, 2001, Telefónica Móviles, Banco Bilbao Vizcaya Argentaria, Banco Santander Central Hispano and Vodafone agreed to integrate their respective mobile payment systems to form a single mobile payment standard. For a description of the new payment system, see “—Worldwide Wireless Communications Services—Telefónica Móviles—Services and Products”.

Uno-e Bank

In August 2001, Terra Networks acquired a 49% share in Uno-e for €160 million. Uno-e bank, Spain's first Internet bank, was launched in March 2000 and pursues a financial supermarket strategy, offering its own financial products as well as those of third parties. At December 31, 2001, Uno-e bank had over 100,000 customers and managed a total of approximately €750 million in assets. In May 2002, Banco Bilbao Vizcaya Argentaria and Terra

Networks executed a memorandum of understanding relating to a merger of Uno-e with BBVA Finanzia, Banco Bilbao Vizcaya Argentaria's consumer finance business. Following the merger, Uno-e expects to have more than 2.2 million customers and managed assets of approximately €1.4 billion. Banco Bilbao Vizcaya Argentaria will own approximately 67% of the merged entity and Terra Networks will own the remaining approximately 33%.

Call Centers

In December 2001, Banco Bilbao Vizcaya Argentaria agreed to transfer its domestic and international call center business to Atento, our subsidiary that conducts our call center business, in exchange for up to a 9% stake in Atento. The parties are in the process of effecting the transfer of Banco Bilbao Vizcaya Argentaria's call center operations to Atento through the formation of a new holding company, Atento N.V., a company organized under the laws of the Netherlands. In connection with this transfer, Atento will enter into contracts for the provision of call center services to the Banco Bilbao Vizcaya Argentaria group in Spain, Portugal and nine Latin American countries. Banco Bilbao Vizcaya Argentaria's anticipated 9% interest in Atento may be subject to adjustment based upon such contracts and the amount of business transacted between the parties pursuant to such contracts.

Electronic Ticketing

In September 2001, we acquired through Admira Media a 47.5% stake in Tick Tack BBVA Ticket, Banco Bilbao Vizcaya Argentaria's electronic ticketing business, which sells tickets to entertainment events.

E-commerce

Banco Bilbao Vizcaya Argentaria acquired a 40% interest in Adquira España, S.A., our business-to-business electronic commerce subsidiary, which is part of the Katalyx Group.

Other

Banco Bilbao Vizcaya Argentaria has one vice-chairman on our Board of Directors and we have one board member on Banco Bilbao Vizcaya Argentaria's Board of Directors. For a list of all our directors, including additional directors nominated by Banco Bilbao Vizcaya Argentaria, see "Item 6—Directors, Senior Management and Employees—Directors and Senior Management".

Microsoft

In December 2001, we and Microsoft entered into a strategic agreement to collaborate in the development of technology (including wireless, broadband and software) and the marketing of products and services.

Capital Expenditures and Divestitures

We have invested over €36,860 million in capital expenditures since January 1, 1999 (€46,580 million including financial investments). Of this amount, €8,420.9 million was invested in 2001 (€11,344 million including financial investments). Tangible (property and equipment) and intangible asset divestitures in 1999, 2000 and 2001 were not material.

Year Ended December 31, 2001

Our principal capital expenditures in 2001 were investments made by Telefónica de España in the development of its broadband services, investments made by Telefónica Data in the development of its emerging businesses in Europe and Latin America and investments made by Telesp in connection with the roll-out of its network:

- intangible investments (€1,650.1 million)
- tangible investments made by Telefónica Internacional (€3,123.7 million)
- tangible investments made by Telefónica de España (€1,560.4 million)
- tangible investments made by Telefónica Móviles (€1,419.3 million)

- tangible investments made by Atento (€71.6 million)

Year Ended December 31, 2000

Our principal capital expenditures in 2000 were investments made by Telefónica Móviles in connection with the acquisition of licenses to provide UMTS services in Western Europe, investments made by Telesp in connection with the roll-out of its network and investments made by our fixed-line operators to upgrade their networks to facilitate the provision of broadband services:

- intangible investments (€13,112.0 million), including €12,171.6 million paid in the aggregate by Telefónica Móviles and the relevant consortia for the acquisition of UMTS licenses by Telefónica Móviles in Spain, Germany, Italy and Austria, €105.90 million in research and development expenses and €515.0 million in software licenses and development
- tangible investments made by Telefónica Internacional (€4,045.2 million)
- tangible investments made by Telefónica de España (€1,436.5 million)
- tangible investments made by Telefónica Móviles (€1,002.8 million)
- tangible investments made by Atento (€722.5 million)

In 2000, Telefónica Móviles had capital expenditures of approximately €6,611.1 million related to its acquisition alone or through consortia of UMTS licenses in Germany, Italy, Spain and Austria. Telefónica Móviles expects to make substantial additional capital expenditures to build out UMTS networks and roll-out operations in countries in which it has been awarded licenses. Telefónica Móviles' participation in additional competitions for UMTS licenses in other countries would require significant additional funding requirements. Because UMTS technology is new and has not yet been built-out for commercial operations, there remains significant uncertainty regarding the final cost of network build-outs. See "Item 3—Key Information—Risk Factors".

Financial Investments and Divestitures

Our principal financial investments in 2001 were made by Telefónica Data (€1,534.5 million), Telefónica Móviles (€1,166.1 million), Telefónica, S.A. (€756.2 million), Admira Media (€676.4 million) and Terra Networks (€198.2 million). Our principal financial divestitures in 2001 were divestitures by Admira Media of 5.4% of its holding in Hispasat, S.A. for €35.2 million and by Telefónica Internacional of its 35.86% holding in Cablevisión, S.A., which we did not consolidate in our financial statements for 2001, for €255.9 million. Admira Media maintains a 17.34% holding in Hispasat, S.A.

Public Takeover Offers

In mid-2000 we completed separate exchange offers under which we offered to exchange our shares and ADSs for the outstanding ordinary shares, preferred shares and American depositary receipts of Telecomunicações de São Paulo S.A. — TELESP, Tele Sudeste Celular Participações S.A., Telefónica de Argentina S.A. and Telefónica del Perú, S.A. In connection with these exchange offers, we issued 700,774,917 new shares (in the form of shares and ADSs).

In July 2000, we acquired approximately 99.2% of Endemol Entertainment Holding N.V., one of Europe's leading television producers, in an exchange offer outside the United States for 100% of the outstanding shares of Endemol Entertainment Holding N.V. We issued 6.2 of our shares for each Endemol share for an aggregate amount of 213,409,097 new shares. See "—Worldwide Audiovisual Content and Media—Admira Media—Audiovisual Content—Endemol Entertainment".

In October 2000, Terra Networks acquired Lycos, Inc., a leading web media company and the owner of Lycos Network, one of the most visited hubs on the Internet, for 302,031,974 shares of Terra Networks. See "—Worldwide Internet-Related Services—Terra Networks".

In February 2001, Telefónica Móviles announced its intention to launch an exchange offer under which Telefónica Móviles would offer to exchange its Brazilian depositary receipts or American depositary shares for

100% of the outstanding ordinary shares and preferred shares of Celular CRT Participações S.A. not owned by Telefónica Móviles or its affiliates. As a result of the significant change in the normal functioning of the international capital markets following September 11, 2001 and the subsequent market volatility, Telefónica Móviles cancelled the proposed exchange offer in September 2001.

C. ORGANIZATIONAL STRUCTURE

Please see “—History and Development of the Company—Overview”.

D. PROPERTY, PLANTS AND EQUIPMENT

Description of Property

Domestic Network

Fixed-line Network

In order to provide residential and other telecommunications services in Spain, we operate a full service telecommunications network. We benefit from an intensive capital investment program carried out over the last decade, which focused on network expansion as well as network upgrading. As a result, we now have:

- a network consisting of fiber optic cable to the curb in every Spanish city with a population of more than 50,000
- switching including synchronous digital hierarchy
- an asynchronous transfer mode roll-out
- System 7 signaling throughout

Our infrastructure development objective is to achieve a fully-digital system which permits simultaneous voice, data, text and image transmission, and which permits cost-efficient network management and maintenance. Consistent with this aim, we are moving towards a simplified two-level network hierarchy through the use of remote units, and we are presently increasing operational efficiencies through centralization of our network monitoring and management functions. The local digitalization rate in our network has increased from 56.7% in 1995 to 86.8% at December 31, 2001, and our long-distance lines are now 100% digitalized. All international services are also 100% digitalized.

We have continued to increase the number of integrated service digital network lines in our network. At December 31, 2001, we had approximately 2.1 million integrated service digital network lines, a 25.1% increase compared with the number of integrated service digital network lines in service at December 31, 2000. This will enable provision of a further range of services over the network, including simultaneous image transmission and voice telephony over the same line. Currently, we are marketing integrated service digital network primarily to commercial and high-usage residential customers. We expect that integrated service digital network costs will decline significantly in the coming years, thereby making integrated service digital network services more attractive to a larger customer base and increasing overall traffic over our network.

In carrying out our infrastructure development program, we have increased the use of fiber optic cables in our network. The table below shows the total length of the four basic types of cable in our network as of the dates indicated.

| | At December 31, | | | | |
|---|-----------------|--------|--------|--------|--------|
| | 1997 | 1998 | 1999 | 2000 | 2001 |
| Coaxial cable (km)..... | 10,120 | 9,990 | 5,059 | 4,787 | 4,756 |
| Fiber optic cable (km)..... | 47,030 | 49,653 | 52,511 | 54,920 | 58,156 |
| Copper cable in domestic long-distance lines (km) | 58,141 | 57,802 | 57,430 | 57,259 | 57,095 |
| Subscriber networks (thousand km-par)(1)..... | 65,490 | 66,237 | 66,713 | 67,554 | 68,563 |

- (1) The transmission cables in the subscriber networks contain a variable number of conducting filaments, which are insulated from each other and grouped in pairs. Each such pair is called a “par”.

In carrying out our infrastructure development program we have consistently used a core group of primary equipment suppliers, including AT&T/Lucent Technologies, Ericsson and Alcatel, in order to maintain technological compatibility while at the same time decreasing dependence on any one vendor. We believe that our relationships with our primary vendors are stable and exhibit a high degree of cooperation with respect to our particular infrastructure needs.

Spain’s demographic makeup and topography present significant challenges to the provision of basic telephone service throughout the country, particularly in rural areas. Our continuing rural expansion program has been funded in part by local Spanish authorities. We are able to use alternative technologies in order to extend service into remote and thinly populated areas in compliance with our universal service obligation, and we have installed wireless access where this is more cost-efficient than extending fixed-line service.

Wireless Network

Telefónica Móviles España’s digital network in Spain is based upon the GSM standard, which has been adopted by more than 130 countries worldwide, including all member countries of the European Union. The prevalence of the GSM standard, together with its international roaming agreements, enables Telefónica Móviles España’s customers to make and receive calls throughout Western Europe and in more than 100 countries worldwide. Telefónica Móviles España’s GSM-based network provides its customers with access to many of the most advanced wireless handsets and a full panoply of services and products. In addition, in 2001 Telefónica Móviles España launched general packet radio service, or GPRS, which permits faster packet-based technology for the transmission of data and improved network utilization than circuit-switched technology.

At December 31, 2001, Telefónica Móviles España’s network in Spain, which consisted of approximately 110 switching centers and more than 13,300 base stations, provided coverage to approximately 99% of the population and 97% of the national territory.

Telefónica Móviles España offers analog service on the ETACS 900, or extended total access communications system, in Spain. Its analog network has 29 switching centers and over 3,000 base stations.

International Network

Fixed-Line Networks

Telefónica Internacional operates full service telecommunications networks in Argentina, Brazil, Chile, Peru and Puerto Rico through its subsidiaries. Telefónica Internacional’s principal properties consist of numerous buildings and telecommunications installations, including exchanges of various sizes, transmission equipment, cable networks, base stations for cellular networks and equipment for radio communications. Telefónica Internacional intends to digitalize its telecommunications networks fully. In Brazil, Telefónica Internacional’s subsidiaries have digitalized 96% of their access lines. As of December 31, 2001, Telefónica Internacional had approximately 12.6 million access lines in service in the Brazilian state of São Paulo, 4.6 million access lines in service in Argentina, 2.7 million access lines in service in Chile and 1.7 million access lines in service in Peru.

Wireless Networks

Telefónica Móviles owns or leases numerous properties used to provide wireless communications services, including switching centers and network sites, in the countries in which it provides or plans to provide wireless communications services. Telefónica Móviles currently provides GSM digital service in Germany and Morocco. In addition, Telefónica Móviles, either independently or through consortia, has secured UMTS licenses in Germany, Italy, Austria and Switzerland. Substantial additional investments will be required over the next several years if Telefónica Móviles is to establish a customer base, gain market share and develop new services and products in each of Germany, Italy, Austria and Switzerland.

Telefónica Móviles operates its digital networks based on the CDMA standard in Peru, Mexico, El Salvador, Guatemala and the Brazilian regions of Rio de Janeiro/Espírito Santo and Bahia/Sergipe. Telefónica Móviles also controls digital networks based on the TDMA standard in Argentina and the Brazilian region of Rio Grande do Sul.

Telefónica Móvil, a subsidiary of Compañía de Telecomunicaciones de Chile, operates our wireless digital network in Chile based on the TDMA standard, and our digital network in Puerto Rico is based on the CDMA standard. In each Latin American market in which Telefónica Móviles operates or manages our wireless operations, except Chile, El Salvador, Guatemala and Puerto Rico, it also provides analog wireless services.

Satellite Communications

We have interests in five international satellite communications organizations or companies, including:

- Intelsat (0.7%), the global satellite consortium
- Inmarsat (1.2%), the maritime satellite organization
- Eutelsat (2.1%), the European regional satellite organization
- Hispasat (16.5%), the communications satellite organization which carries the Vía Digital direct-to-home (DTH) satellite television service and has a license to operate a new satellite system in Brazil (Amazonas)
- New Skies Satellites (0.8%), the communications satellite company that was formerly part of Intelsat

Submarine Cable

We are also one of the world's leading submarine cable operators. We are currently participating in the following projects: SAT-3/WASC/SAFE/PENCAN-7, ALPAL-2 and TAT 14. We currently participate in 46 international underwater cable systems (13 of which are moored in Spain) and own 14 domestic fiber optic cables.

The SAT-3, a fiber optic undersea cable system linking southern Europe, the West Coast of Africa and the South Coast of Asia, was built by a consortium which consists of Telefónica de España, Marconi, Telekom South Africa, Concert and more than 20 other carriers. We funded \$34.5 million of the estimated \$665 million cost of the project, which will span 14,580 nautical miles. The system commenced operations in April 2002.

The ALPAL-2, a fiber optic undersea cable system linking Argel (Algeria) and Mallorca (Spain), was built by a consortium which consists of Telefónica de España, France Telecom, Telecom Italia and the Algerian Ministry of Post and Telecommunications. We funded €2.0 million of the €16.1 million cost of the project, which spans 164 nautical miles. The system commenced operations in April 2002.

In July 1999, Tyco Submarine Systems Ltd. agreed with Telefónica Internacional to build and install a fiber optic network comprised of submarine and terrestrial cable. The ring covers approximately 25,000 kilometers, including 1,600 kilometers of terrestrial fiber optic cables, with landing stations in major cities throughout Latin America, the United States and Puerto Rico.

The SAM-1, a submarine cable, handles optical transport in and around South, Central and North America. This cable will start in Las Toninas, Argentina and Valparaiso, Chile and end in Boca Raton, Florida. Pursuant to an agreement dated December 22, 1999, the submarine cable is owned and operated by our affiliate, Emergia, S.A., in which Tyco Submarine Systems Ltd. currently has a 6.0% stake and in which we hold the remaining stake. The total cost for the marine and terrestrial parts of this installation reached \$1.25 billion, of which we provided a capital contribution of \$300 million and a line of credit of \$1.1 billion, of which amount \$993 million has been used at December 31, 2001. Cable operations began in March 2001. In 2002, Emergia has begun to expand its fiber optic ring and has entered into capacity exchange arrangements which will permit Emergia to offer connection to Europe.

Transfers of Real Property

In November 2001, we requested authorization from the Ministry of Science and Technology to transfer from Telefónica de España, S.A. to our wholly-owned subsidiary Telefónica Inmobiliaria all of Telefónica de España's real property, including office buildings, commercial sites, storage space, garages and other real property. As part of such transfer, Telefónica de España will not transfer any strategic assets of the Telefónica de España Group. We are currently in negotiations with the Ministry of Science and Technology with respect to the conditions which may be

imposed by such Ministry on the proposed transfer to ensure Telefónica de España fulfills its Universal Service obligations and its obligations relating to its designation as the dominant provider of fixed-line telephony services in Spain.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. OPERATING RESULTS

Presentation of Financial Information

The information in this section should be read in conjunction with our consolidated financial statements, and the notes thereto, included elsewhere in this Annual Report. Our consolidated financial statements have been prepared in accordance with Spanish GAAP, which differ in certain respects from U.S. GAAP. Please refer to note 25 to our consolidated financial statements for a discussion of these differences.

Changes in the Composition of the Group Affecting the Comparison of our Results

During 2000 and 2001, several changes occurred in the composition of the Telefónica Group that affect the comparability of our historical operating results. Please see note 2 to our consolidated financial statements for a discussion of the principles of consolidation and a description of the principal changes in the composition of the group affecting our financial statements during the periods covered by the consolidated financial statements.

Year ended December 31, 2001

In January 2001, pursuant to an agreement entered into in May 2000, we acquired all the shares of mediaWays, GmbH for €1,473.1 million from the German company Bertelsmann AG, giving rise to goodwill of €1,474.7 million. As a result, we consolidated this company in our financial statements for 2001.

In June 2001, we acquired from Motorola certain wireless operators in Mexico in exchange for approximately 122.6 million of our ordinary shares. As a result, we consolidated these companies in our financial statements for 2001 as from the date of their acquisition.

Telefónica Internacional acquired an additional holding of 10% in Telefónica Perú Holding, S.A. for €227.3 million, giving rise to goodwill in consolidation of €46.3 million. As a result of this acquisition, Telefónica Internacional became the sole stockholder of this company, which continues to be consolidated by us.

In August 2001, Terra Networks acquired a 49% holding in Uno-e Bank, S.A. for €160.4 million, giving rise to goodwill of €130.3 million. We carry Uno-e Bank by the equity method.

In addition, in the third quarter of 2001, Telefónica Móviles changed the method by which it accounts for its interest in IPSE 2000 from the global integration method to the equity method because it more accurately reflects Telefónica Móviles' participation in IPSE 2000's decision-making process. As a result, in 2001, we did not deduct for minority interests in the losses of this company.

Year ended December 31, 2000

In 2000, as a result of the completion of exchange offers for some of our Latin American affiliates, we increased our shareholdings in Telesp to approximately 86.6%, Tele Sudeste to approximately 75.6%, Telefónica de Argentina to approximately 92.9% (including shares acquired indirectly outside the exchange offer in 2000) and Telefónica del Perú to approximately 93.2%. Although we previously consolidated these entities, the increase in our ownership interest resulted in a reduction in minority interests.

We also made several other acquisitions during 2000, the most significant of which were our acquisition of 99.2% of Endemol Entertainment Holding N.V., Terra Networks' acquisition of 100.0% of Lycos, Inc. and our acquisition of 80.9% of CEI Citicorp Holdings S.A., which held 50% of COINTEL, which in turn held 52.8% of Telefónica de Argentina S.A.

Other Significant Accounting Changes

In 2001, Telefónica de Argentina changed its fiscal year end from September 30 to December 31. As a result, our results of operations for the year ended December 31, 2001 include a non-recurring extraordinary three-month period of results from Telefónica de Argentina for October 1, 2000 to December 31, 2000. Under U.S. GAAP the effect of this change in respect of the additional three-month period is a credit to retained earnings. See note 25 to our consolidated financial statements.

Critical Accounting Policies

The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Consequently, our reported financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of our financial statements. The profile of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors you should consider in connection with your review of our financial statements and the discussion of our financial condition and results of operations below. We consider the following policies to be most critical in understanding the judgments that are involved in preparing our financial statements and the uncertainties that could impact our financial condition, results of operations and cash flow.

The accounting policies under Spanish and U.S. GAAP applied by Telefónica are described in notes 4 and 25, respectively, to our consolidated financial statements. Our management has discussed the development and selection of these critical accounting estimates with the audit committee of our Board of Directors, and the audit committee has reviewed the company's disclosure relating to these critical accounting policies in this Management's Discussion and Analysis of Financial Condition and Results of Operations.

Accounting for Long-lived Assets, Including Goodwill

Property, plant and equipment and purchased intangible assets other than goodwill are recorded at acquisition cost. The acquisition cost of UMTS licenses includes the financial expenses incurred directly for their acquisition, from the granting of the license to the time when the technology required to operate the service becomes available, provided such costs do not exceed the realizable value of such assets. The financial expenses capitalized in 2001 amounted to €271.4 million for financing arranged by Telefónica, S.A. and Telefónica Móviles, S.A. and to €236.4 million for the financing granted by other stockholders of the companies holding the UMTS licenses. A total amount of €172.1 million were capitalized in this connection in 2000. The acquisition costs of these licenses and such financial expenses will begin being amortized upon commencement of commercial operations. If such assets are acquired in a business combination, the purchase price is allocated to the estimated fair value of the acquired property, plant and equipment and intangible assets. Property, plant and equipment are depreciated or amortized on a straight-line basis over their estimated useful lives, and licenses included in the intangible assets are depreciated or amortized using an amortization method based on the estimated capacity to generate revenues during the concession period.

Accounting for long-lived assets and intangible assets involves the use of estimates for determining: (a) the fair value at the acquisition date, especially in the case of such assets acquired in a business combination, and (b) the useful lives of the assets over that will be used to determine the future amortization to be charged to the income statement.

When an impairment in the value of assets occurs, nonscheduled write-downs are made. We assess the impairment of identifiable intangibles and long-lived assets whenever there is reason to believe that the carrying value may exceed the fair value and where a permanent impairment in value is anticipated. The determination if impairments of long-lived and intangible assets is necessary involves the use of estimates that include but are not limited to the determination of its cause, its timing and estimation of the amount of the impairment. The determination if an impairment is necessary is based on a broad measure of factors. Among other things, we typically consider technological obsolescence, discontinuance of services and other changes in circumstances that indicate an impairment.

A significant change in the above mentioned facts and circumstances may trigger the requirement of recording an impairment and may have a material adverse impact on our operating results and financial condition.

Goodwill resulting from business combinations is amortized on a straight-line basis over its useful life. The consideration paid for acquisitions in excess of the underlying book value of each acquired subsidiary at the purchase date and not directly allocable to the companies' assets is recorded as goodwill in consolidation and amortized on a straight-line basis during the period in which such goodwill contributes to the obtainment of revenues by the companies for which the goodwill was recorded. The maximum goodwill amortization period is 20 years.

Nonscheduled write-downs are provided when an impairment in the value of goodwill occurs. We review, on a regular basis, the performance of our subsidiaries. When there is reason to believe that the goodwill arising from the acquisition of that subsidiary is impaired and that the impairment is of a permanent nature, we compare the carrying amount of that subsidiary to its fair value. The determination of the fair value of a subsidiary involves extensive use of estimates, depending on the method used. Significant management judgment is involved. Methods commonly used by us for valuations include discounted cash flow methods and quoted stock market prices, if available.

Factors affecting estimated fair values typically include discount rates, future cash flows, market prices and control premiums. These estimates, including the methodologies used, are important in determining fair value and ultimately the amount of any goodwill write-down.

A significant reduction in these estimates may have a material adverse impact on our operating results and financial condition.

To assess impairment of intangible assets and property, plant and equipment and related goodwill under U.S. GAAP, we apply SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". If management has concluded that impairment indicators exist, we test for impairment by comparing the sum of the future undiscounted cash flows derived from an asset or a group of assets to their carrying value. If the carrying value of the asset or the group of assets exceeds the sum of the future undiscounted cash flows, impairment is considered to exist. If an impairment is considered to exist on the basis of undiscounted cash flows, the impairment charge is measured using an estimation of the assets' fair value, typically using a discounted cash flow method. The identification of impairment indicators, the estimation of future cash flow and the determination of fair values for assets or groups of assets requires management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows and applicable discount rates. If actual results differ from these estimates, or if we adjust these estimates in future periods, operating results could be significantly affected.

Nevertheless, according to APB 17, "Intangible Assets", any goodwill which is not identified with assets that are subject to an impairment loss should be tested for recoverability at the enterprise level by a comparison with its fair value according to discounted cash flows, a method which is similar to the one applied under Spanish GAAP.

Any carrying amounts that exceed its fair value should be immediately written off. Provisions under Spanish GAAP considered temporary or which did not qualify as goodwill impairment under U.S. GAAP were reverted and any other impairment according to U.S. GAAP requirements were recorded.

Devaluation in Argentina

In view of its international presence, the Telefónica Group, like other corporations, has been affected by the economic situation in Argentina through the various Telefónica Group companies operating there. As of December 31, 2001, the Telefónica Group's exposure at the various Argentine companies amounted to €3,582.0 million, including the asset value assignable to those investments, related goodwill and intercompany financing.

Argentine exchange markets closed on December 23, 2001 and remained closed through January 11, 2002, during which period the official exchange rate remained at 1.0 pesos/US\$1.00. Accordingly, as of December 31, 2001, the closing date of our consolidated financial statements for 2001, there was no explicit Argentine peso/euro exchange rate that could be taken as representative.

Taking into account Spanish accounting legislation, the express communications from the Spanish Accounting and Audit Institute (ICAC) regarding the way in which this devaluation should be treated at year-end 2001 and the international accounting rulings in force, in preparing its consolidated financial statements the Telefónica Group used peso/euro and peso/U.S. dollar exchange rates of 1.5149 pesos/€1.00 and 1.70 pesos/U.S.\$1.00 at year-end as the initial representative exchange rates prevailing in the market after December 31, 2001, following the

aforementioned devaluation. This exchange rate corresponds, approximately, to the highest price reached by the dollar during the first session of the Argentine exchange markets in 2002, when the one-to-one peg of the peso to the dollar ended. These exchange rates were used to include in the consolidated financial statements the assets and liabilities of the Argentine subsidiaries and associated companies and to assess the status of their assets as regards their solvency, the value of their investments, their viability and the recoverability of goodwill, among others.

In accordance with the foregoing, these consolidated financial statements reflect an adverse impact on consolidated earnings and on the “Stockholders’ Equity - Translation Differences in Consolidation” caption of €369.0 million and €1,424.1 million, respectively. The effect of using more up-to-date exchange rates is detailed in note 23 to our consolidated financial statements.

The matters still not resolved include the necessary renegotiations with the Argentine government of the future rates due to the effect of the provisions of Law 25.561. Accordingly, although the book value of the operating fixed assets was maintained on the basis of estimates based on the information currently available, neither the results of the negotiations relating to rate levels nor, therefore, the future sales revenues and cash flows can be predicted.

Also, the measures adopted by the Argentine government and the effect thereof on the financial statements may lead, in certain circumstances, to financial and net worth imbalances such as situations of negative net worth, the inability to meet short-term foreign currency loan repayment obligations due to limitations on exchanging pesos and the need to make early repayments of the financing received.

Given that the aforementioned circumstances had not occurred at the date of preparation of the consolidated financial statements and that it is not certain that they will occur, it was not possible to quantify their effect, if any, on the consolidated financial statements as of December 31, 2001.

Facts, circumstances and uncertainties that may affect economies and currencies of the countries in which we operate could have a material impact on our operating results and financial condition.

Net investment hedge

In order to reduce foreign currency exposure of net investments in foreign operations, Telefónica, as a matter of policy, attempts to finance its activities in the same currencies as those used for its foreign investments. This policy is implemented either by financing in the related currency or using derivatives, such as currency swaps, which provide a synthetic effect of a foreign currency loan, thereby reducing the exchange risk.

For the year ended December 31, 2001, we recorded under Spanish GAAP approximately €322.5 million of net losses related to the effective portion of non-derivative instruments and derivative instruments used as net investment hedges included as a cumulative translation adjustment in equity. These net gains or losses principally offset the net gains (losses) recorded on the respective net investments in foreign currencies being hedged. Under Spanish GAAP, the requirements to qualify a net investment differ from those of U.S. GAAP. The main differences relate to the measurement of the hedge ineffectiveness. We re-designated all hedging relationships anew for U.S. GAAP purposes at December 31, 2000. Those economic hedge instruments under Spanish GAAP that were not assigned as a net investment hedge under U.S. GAAP were recorded at fair value through earnings. Additionally, all differences relating to net investment hedges under Spanish GAAP and U.S. GAAP (economic hedges not assigned and ineffectiveness) were recorded in earnings for the year ended December 31, 2001. Both of these impacts represented a loss of €193.4 million, gross of tax and minority interests. We have calculated the ineffectiveness of our net investment hedges by comparing an appropriate “hypothetical” derivative and non-derivative contracts with the actual instruments being used.

The determination of the fair value of each derivative and the assessment of hedge effectiveness require the use of estimates regarding discount rates and market prices, among others. A significant change in these estimates may preclude our ability to assign hedging relationships and/or increase the amounts of ineffectiveness and, therefore, produce a material adverse impact on our operating results and financial condition.

Recent Developments – Argentina

Argentina’s economy is in its fourth straight year of recession. In January 2002, the Argentine government removed the peg of the Argentine peso to the U.S. dollar, resulting in a significant devaluation of the peso against the dollar. The Argentine government has also defaulted on the payment of its debt obligations. Whether

companies doing business in Argentina will default on their obligations depends upon their own financial condition, and, in the case of U.S. dollar obligations, continued access to the foreign exchange markets. The default by the Argentine government and its decision to devalue the currency have resulted in considerable uncertainty about the government's political stability, its management of the economy and the current exchange rate regime. Economic activity slowed sharply in the last weeks of 2001, and real GDP declined 3.9% for the year. Argentina's economic outlook is poor for 2002 with real GDP expected to decrease another 8.0% - 9.0%. Argentina is also likely to experience significantly increased inflation as a consequence of the currency devaluation.

As described above, as a result of the devaluation of the Argentine peso in January 2002, in accordance with Spanish accounting regulations we created various provisions and allowances against our net income for 2001 and adjusted the "translation differences in consolidation" account in our consolidated balance sheet at December 31, 2001. Accordingly, the devaluation of the Argentine peso resulted in a decrease in net income of €369.0 million in 2001 and a reduction in shareholders' equity of €1,793.1 million at December 31, 2001 (including the decrease in net income). These provisions and allowances were made applying the rate of exchange of €1.00 = 1.5149 Argentine pesos, which is equivalent to the rate of U.S.\$1.00 = 1.7 Argentine pesos at January 11, 2002, which is the date the Argentine currency markets first opened following the decision by the Argentine Central Bank to close such markets on December 21, 2001. At March 31, 2002, the rate of exchange had fallen to €1.00 = 2.4862 Argentine pesos, resulting in a decrease in net income of €25.4 million during the first quarter of 2002 and a reduction in shareholders' equity of €1,093.0 million at March 31, 2002. Our financial condition and results of operations may be adversely affected by any further declines in the value of the Argentine peso or declines in the values of the currencies of other Latin American countries where we operate.

Due to the continuing economic instability in Argentina and in order to manage its liquidity risk, in May 2002 Telefónica de Argentina, S.A. commenced an exchange offer outside the United States for certain outstanding debt obligations, which exchange offer expired on June 21, 2002. On that date, Telefónica de Argentina, S.A. announced that it would accept all validly tendered notes.

In addition, the deepening recession and mounting unemployment has led to a reduction of wages in real terms and a reduction in disposable income across all class sectors of the Argentine population. This has resulted in and may continue to result in lower use of our services in Argentina and a deterioration in the collection of accounts receivable, as a result of which our revenues from operations and cash flows in Argentina may decrease further. Further, as part of the measures adopted by the Argentine government in response to the economic crisis, the government annulled the semi-annual adjustments in accordance with the U.S. Consumer Price Index applied to the rates we charge in Argentina for measured services and authorized the government to renegotiate these rate agreements. If future rates evolve at a pace below increases in general price levels as a result of inflation, this would adversely affect our future financial condition and results of operations as well as the recoverability of the value of our fixed assets in Argentina through cash flows.

Furthermore, sources of third-party financing are no longer available to our Argentine fixed-line operator in amounts sufficient for it to meet its debt obligations. Should no third-party financing be available, or if we do not provide additional financing to it, or it does not succeed in refinancing its indebtedness, our Argentine fixed-line operator may be unable to meet its current obligations with local and foreign creditors and may be unable to continue as a going concern.

Additionally, the Central Bank of Argentina has imposed a prohibition, without its prior authorization, on transfers of funds outside Argentina by private sector parties when such transfers relate to debt principal repayments and distributions of income or dividends, except for certain debts, including those involving multilateral lending entities and official or officially-recognized credit agencies. This prohibition remains in effect as of the date of this Annual Report. If the restrictions on funds transfers remain in effect and the Central Bank does not authorize the remittance of funds abroad by our Argentine fixed-line operator, its debt obligations may become immediately due and payable, unless new financing is funded outside Argentina and is available for it to pay its foreign creditors or it is able to refinance the indebtedness that is subject to the restrictions. If our Argentine fixed-line operator fails to secure such financing or it does not succeed in refinancing such indebtedness, it may not be able to continue as a going concern.

Operating Environment and Business Trends

The discussion below should be considered in light of the following important economic, business and regulatory and competitive developments that affected our group during the periods discussed below and that may affect our future financial condition and results of operations.

Economic Developments and Outlook

Spain

Our results of operations are dependent, to a large extent, on the level of demand for our services in Spain. As of December 31, 2001, revenues from our operations in Spain represented 50.2% of our consolidated revenues. Demand for our services in Spain is related to the performance of the Spanish economy. Spain's real gross domestic product (GDP) growth slowed to 2.8% in 2001, and real GDP is estimated to be around 2% in 2002, reflecting weaker domestic and external demand. Inflation is expected to decrease to 2.4% in 2002 from 3.6% in 2001. The current-account deficit, which stood at 2.7% of GDP in 2000, is expected to decrease as a proportion of GDP in 2002 and beyond. The unemployment rate was 13.6% at December 31, 2001.

Latin America

Results of operations from our Latin American operations are impacted by macroeconomic conditions in the region. Since the United States economy entered into a recession in March 2001, economic conditions in Latin America have worsened. As of December 31, 2001, revenues from our Latin American operations represented approximately 43.4% of our consolidated revenues. The depreciation of several Latin American currencies against the euro, in particular the Brazilian real, which declined 21.8% against the euro during the 2001 fiscal year, resulted in a 4.8% decrease in revenues from our Latin American operations in 2001. Our future results of operations from our Latin American operations will depend in part on the evolution of economic conditions in Latin America.

Brazil

Brazil's GDP growth slowed markedly in the second half of 2001 due mostly to a decline in industrial production during the third quarter. Real GDP growth for the year was approximately 1.5%. Monetary policy has been kept tight by the Brazilian government in order to limit inflation and to bolster the currency. The Brazilian real depreciated approximately 40.0% relative to the U.S. dollar in mid-2001, but rebounded to finish the year down 17.0%. Economic growth of approximately 1.5% is expected in 2002.

Argentina

Economic activity slowed sharply in the last weeks of 2001, and real GDP declined 3.9% for the year. For a discussion of general macroeconomic conditions in Argentina, as well as the impact of the macroeconomic and political crisis in Argentina on our results of operations, see "—Recent Developments—Argentina".

Chile

Chile's real GDP growth slowed to 2.8% in 2001 from 5.4% growth in 2000. In 2001, inflation stood at 2.6%, as opposed to a 4.5% inflation rate in 2000. The Chilean peso, which floats freely, depreciated approximately 12.5% against the U.S. dollar in 2001. Chile's unemployment rate remained in the 8-10% range in 2001. Despite Chile's recent labor troubles, wages have on average risen faster than inflation over the last several years as a result of higher productivity, boosting national living standards. Real GDP growth in 2002 is expected to be approximately 2.0%.

Peru

Peru's real GDP growth slowed to 0.2% in 2001 from 3.6% growth in 2000. Peru experienced deflation in 2001, with prices declining 0.1% as measured by the "IPC", the Peruvian equivalent of the U.S. Consumer Price Index, and the Peruvian central bank cut interest rates significantly in the second half of 2001 without a corresponding depreciation in the Peruvian nuevo sol. Unemployment averaged approximately 9.4% in 2001 and reached approximately 10.0% at year-end 2001. Real GDP growth is expected to reach approximately 3.3% in 2002.

Significant Business Developments

Year ended December 31, 2001

- As a result of the devaluation of the Argentine peso in January 2002, in accordance with Spanish accounting regulations we recorded an exchange loss and created various allowances against our net income for 2001 and adjusted the “translation differences in consolidation” account in our consolidated balance sheet at December 31, 2001. Accordingly, the devaluation of the Argentine peso resulted in a decrease in net income of €369.0 million in 2001 and a reduction in translation differences in consolidation of €1,424.1 million at December 31, 2001. For a discussion of general macroeconomic conditions in Argentina, as well as the impact of the macroeconomic and political crisis in Argentina on our results of operations, see “—Recent Developments—Argentina”.
- Due to the revision of existing estimates and projections during 2001, we wrote down goodwill associated with our acquisition of mediaWays in the amount of €249 million.
- Terra Networks generated substantial amounts of goodwill from its acquisitions, most importantly its acquisition of Lycos, Inc. In 2001, Terra Networks conducted a study of the evolution of the business plans of its acquired companies, as a result of which it wrote down goodwill related to its prior acquisitions by €35.0 million. At December 31, 2001, it had goodwill of €1,819 million, equal to 29.8% of its total assets at that date. As from July 1, 2001, Terra Networks amortizes the goodwill of its acquired businesses on a straight-line basis over 10 years. Previously, it amortized goodwill over a five-year period.
- Due to technological difficulties relating to the development and deployment of UMTS services, the commercial launch of UMTS services has been delayed.

Year ended December 31, 2000

- The Spanish market for wireless communications services grew significantly during 2000. Our wireless subscribers in Spain increased by approximately 51.0% to 13.7 million at December 31, 2000 from 9.1 million at December 31, 2000.
- In 2000, we acquired newly-issued UMTS licenses, individually or as part of consortia, in Germany, Italy, Austria and Switzerland, at an aggregate cost of approximately €6,611.1 million. We may make substantial additional capital expenditures to build our UMTS networks and roll out operations in countries in which we have been awarded UMTS licenses.
- In 2000, Telefónica Móviles conducted an initial public offering, and we divested some non-strategic assets.

Valuation of Selected Investments

In line with the recommendations made by the SEC, we may obtain the assistance of competent and knowledgeable independent third parties to cooperate with us in the assessment and verification of the valuations of selected investments. This process may start in the second half of 2002.

As a result of this process we may be required to review the carrying value of selected investments, which could adversely affect our business, financial condition or result from operations.

Regulatory and Competitive Developments

The discussion below should be considered in light of recent changes in the regulatory framework and the competitive environment for fixed-line public telephone services (which consists of local, long-distance and international telephone services) and wireless communications services in Spain. See “Item 4—Information on the Company”.

Fixed-Line Public Telephone Services. In 1998, Retevisión commenced providing domestic and international long-distance services and local telephone services in Spain, marking the end of our monopoly in such services.

Additionally, in 1998 regionally-licensed cable operators began providing cable television as well as offering local telephone service and access lines. In December 1998, a second domestic operator, Lince, commenced offering national and international long-distance telephone services in Spain under the trade name UNI2. During 1999 new competitors entered the market such as Jazztel, RSL Com, British Telecom, Comunitel, and COLT, among others.

Since December 1, 1998, the provision of fixed-line services has been open to competition from all market entrants, subject to basic regulatory licensing requirements. Also as of that date, the Telecommunications Market Commission has the exclusive responsibility for regulating the telecommunications market. At December 31, 2001, the Telecommunications Market Commission had granted:

- 45 Type A licenses
- 17 Type B1 national licenses
- 58 Type B1 restricted licenses
- 6 Type B2 licenses
- 123 Type C1 licenses
- 31 Type C2 licenses

The government has also granted 75 licenses to the cable operators formerly operating under concessions. Each of these operators received Type B1 licenses. See “Item 4—Information on the Company—Business Overview—Fixed-line Telecommunications Services in Spain—Telefónica de España—Competition”. In addition, in March 2000, the government issued six new licenses for the provision of local multipoint distribution services (LMDS). The new licensees are expected to compete with Telefónica de España in the local access market, though as of the date of this Annual Report the amount of competition has not been significant. Moreover, certain of our competitors, including Retevisión and Lince, have common shareholders with the cable operators and have entered into collaboration agreements.

The Telecommunications Market Commission has tended to apply policies favoring new entrants into the telecommunications market. Moreover, as the dominant operator, we will be subject to certain obligations through December 31, 2005, including the requirement to provide our competitors access to our network. Interconnection prices which we charge our competitors for access to our network are currently lower than our costs, and our competitive position may be further harmed by the new interconnection pricing model based on capacity approved by the Telecommunications Market Commission in August 2001. Consequently, our competitors have been able to obtain a sufficient operating margin for long-distance services and capture a large volume of traffic with limited investment.

The full liberalization of the telecommunications market was undertaken in December 1998 without the rate rebalancing that we considered necessary. As a result, tariffs have not been in line with our real costs. Instead, tariffs are presently below our real costs for those services for which competition does not yet exist and above our costs for those services, such as long-distance, that are highly competitive. The maintenance of a charge for access lines below our costs has led to an access deficit. We believe, however, that rate rebalancing measures approved by the Delegate Commission for Economic Affairs of the Spanish government in June 2000 will eliminate the access deficit by 2003. See “Item 4—Information on the Company—Business Overview—Fixed-line Telecommunications Services in Spain—Telefónica de España—The Tariff Structure and Pricing for Principal Services”.

Further, in June 2000 the Spanish government issued a new Royal Decree relating to the provision of and prices for certain telecommunication services. Under this decree, we are required, as a dominant operator, to:

- facilitate segregated and shared access to our local loop pursuant to the conditions and prices established by separate ministerial orders
- facilitate the use of alternative carriers by persons placing local telephone calls

- offer 600 minutes of local calls between 6:00 p.m. and 8:00 a.m. for €4.21 per month and 600 minutes of local calls during all hours for €8.41 per month
- offer Internet access between 6:00 p.m. and 8:00 a.m. Monday through Friday and all weekend for €16.53 per month

In order to maintain competitive prices, we have applied discounts which totaled over €270 million in 1999, €630 million in 2000 and €440 million in 2001. We anticipate that in the near future we will lose some market share in access lines and local traffic when cable operators deploy their networks and other operators begin to lease their connections to Telefónica de España's local loop in significant amounts. Additionally, loss of market share for domestic and international telephone services may be significant if we remain subject to restrictions by virtue of our position as the dominant operator and as long as the current tariff structure remains in place.

We also anticipate that, as a consequence of competition, prices for liberalized services will decline and operating margins may diminish. The exact scope of increased competition and any adverse effects on our results and market share will depend on a variety of factors that cannot be assessed with precision and that are beyond our control.

Wireless Communications Services. We face competition in the market for wireless communications services from Vodafone (formerly known as Airtel) and Retevisión Móvil, which operates under the trade name Amena. Since Amena entered the market in January 1999, our market share has declined from an estimated approximately 70% market share to an estimated approximately 56.6% market share at December 31, 2001. We will face competition from a fourth competitor, Xfera, a consortium in which Sonera and Vivendi are participants, under the UMTS standard, beginning when handsets and equipment are available. On April 8, 2002, the Secretary of State for Telecommunications and Information Society approved a definitive resolution setting forth the criteria with which wireless communications operators must comply in order to roll out their UMTS services in cities with more than 250,000 inhabitants. As of June 1, 2002, wireless communications operators may launch their UMTS services commercially at any time so long as they comply with the relevant minimum services standards.

Telefónica Móviles and Vodafone have been declared dominant operators in the wireless communications and interconnection markets by the Telecommunications Market Commission. As a result, the price Telefónica Móviles and Vodafone charge to other operators terminating calls in their respective networks must be related to the costs of providing the service. In addition, the Telecommunications Market Commission may set the maximum price that Telefónica Móviles may charge such operators. On March 20, 2002, a Ministerial Order was published, which provides that virtual mobile operators will negotiate the terms and conditions of their use of network mobile operators' networks, including Telefónica Móviles España's network, directly with such mobile network operator. In the case of any dispute regarding access, the Telecommunications Market Commission may intervene to resolve the dispute.

In 2000, Telefónica Móviles paid a one-time fee of €131 million in connection with Telefónica Móviles' acquisition of a new third generation wireless license in Spain, which will allow Telefónica Móviles to deploy the new UMTS technology. Telefónica Móviles is required to pay the Spanish treasury an annual fee for the use of the radioelectric spectrum. During 2000, Telefónica Móviles paid approximately €19 in such fees to the Spanish treasury. In 2000, the Spanish government increased substantially the fees for use of radioelectric spectrum both for new UMTS license as well as Telefónica Móviles' existing analog and digital concessions and other uses. As a result, Telefónica Móviles paid fees of approximately €236 million in 2001 for the use of the radioelectric spectrum. Telefónica Móviles and its competitors have filed claims with the *Audiencia Nacional* challenging the increase in fees. As of the date of this Annual Report, the *Audiencia Nacional* has not ruled on such claims.

Pursuant to Law 23/2001 dated December 27, 2001, new fees were adopted for use of radioelectric spectrum for 2002 through 2006, subject to annual increases of 5% for mobile services and LMDS and 2% for other services. These new fees represent an approximately 75% decrease over the fees which Telefónica Móviles paid in 2001 for similar use of radioelectric spectrum. The largest decrease relates to the fees which Telefónica Móviles pays in connection with its UMTS license. In 2002, Telefónica Móviles is required to pay fees of €21 million in connection with its UMTS licenses, which represents a decrease of over 87% from the fees of €162 million in 2001, which represented more than 68.7% of the total licensing fees Telefónica Móviles paid in 2001. Additionally, the Spanish government has adopted uniform pricing for MHz. See "Information on the Company—Worldwide Wireless Communications Services—Telefónica Móviles—Spain—Regulation".

Results of Operations

A summary of our results of operations during 1999, 2000 and 2001 are shown below.

| | Year ended December 31, | | |
|--|--|----------|----------|
| | 1999 | 2000 | 2001 |
| | (in millions of euro, except per share data) | | |
| Revenue from operations | 22,957.0 | 28,485.5 | 31,052.6 |
| EBITDA(1) | 10,885.4 | 11,918.8 | 12,804.2 |
| Operating profit..... | 4,776.6 | 4,958.0 | 5,430.3 |
| Pretax income (loss)..... | (32.7) | 2,867.7 | 2,033.9 |
| Net income | 69.6 | 2,504.8 | 2,106.8 |
| Net income per share | 0.02 | 0.58 | 0.45 |
| Number of shares outstanding (millions)..... | 3,262.8 | 4,340.7 | 4,671.9 |

- (1) Earnings before interest, taxation, depreciation and amortization. EBITDA has been included to provide additional information relating to our ability to generate cash from operations. EBITDA is not a measure of financial performance under Spanish or U.S. GAAP and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles. Management believes EBITDA is useful to an investor in evaluating our company because it is widely used in the telecommunications industry as a measure to evaluate a company's operating performance before debt expense and its cash flow. EBITDA is not calculated identically by all companies and the presentation here may not be comparable to other similarly titled measures of other companies. Management's discretionary use of funds depicted by EBITDA may be limited by working capital, debt service and capital expenditure requirements and by restrictions related to legal requirements, commitments and uncertainties.

The table below sets forth certain consolidated revenue and expense items as a percentage of consolidated revenue from operations for the periods indicated.

| | Year ended December 31, | | |
|--|-------------------------|--------|--------|
| | 1999 | 2000 | 2001 |
| Revenue from operations | 100.0% | 100.0% | 100.0% |
| Goods purchased..... | (18.0) | (21.0) | (23.2) |
| External services and local taxes | (17.0) | (20.0) | (17.8) |
| Personnel costs..... | (19.0) | (18.0) | (17.0) |
| Provision for depreciation and amortization | (27.0) | (24.0) | (24.0) |
| Trade provisions | (2.0) | (3.0) | (3.2) |
| Other operating revenue..... | 5.0 | 4.2 | 3.1 |
| Other operating expenses..... | (1.0) | (0.4) | (0.2) |
| Total operating costs before financial expenses and goodwill amortization | (84.0) | (87.0) | (86.0) |
| Operating profit..... | 21.0 | 17.0 | 17.4 |
| Financial income (expense) | (6.0) | (6.5) | (5.1) |
| Exchange gains (losses) | 2.0 | (0.9) | (2.5) |
| Income (loss) from associated companies..... | 0.0 | (0.6) | (1.2) |
| Amortization of goodwill on consolidation | (1.0) | (1.8) | (2.7) |
| Profit from ordinary activities..... | 15.0 | 8.6 | 5.9 |
| Extraordinary income | 9.0 | 15.1 | 3.1 |
| Losses on sale of fixed assets..... | (1.0) | (0.7) | (0.7) |
| Extraordinary expenses | (23.0) | (13.6) | (1.7) |
| Income (loss) before tax and minority interests | (0.1) | (10.1) | (6.5) |
| Corporate income tax | 3.0 | (0.9) | (0.6) |
| Minority interests..... | 3.0 | (0.4) | 0.8 |
| Net income | 0.3 | 8.8 | 6.8 |

Year Ended December 31, 2001 Compared with Year Ended December 31, 2000

Prior to the year ended December 31, 2001, the results of operations of our different lines of business were presented on the basis of the legal entities owned by the holding companies that head our respective lines of

business. The fiscal year ended December 31, 2001 marked the first full year following the reorganization of our business along global business lines. For the year ended December 31, 2001, the results of operations of each consolidated operating subsidiary are presented under the line of business to which it relates, regardless of whether the legal entity has been transferred to the holding company that heads such line of business, except for the results of Startel, our Chilean wireless operator, and our Puerto Rican wireless operations, both of which are included under “Other subsidiaries”. Solely for purposes of our comparison of results of operations for the fiscal year ended December 31, 2001 versus the fiscal year ended December 31, 2000, we have modified the results of operations of our different lines of business for the fiscal year ended December 31, 2000 to reflect our new business structure and make such results of operations comparable to those for the year ended December 31, 2001. Therefore the tables and the discussion of our results of operations by line of business included under “—Year Ended December 31, 2001 Compared with Year Ended December 31, 2000” show the results of operations of each consolidated operating subsidiary under the line of business to which it relates, regardless of whether the legal entity has been transferred to the holding company that heads such line of business, except for the results of Startel, our Chilean wireless operator, and our Puerto Rican wireless operations, both of which are included under “Other subsidiaries”. The above modification has no effect on the consolidated results of operations of the Telefónica Group. However, the results shown for our different lines of business may differ from those reported by our subsidiaries such as Telefónica Móviles and Terra Networks, which are reporting companies in the United States. They will also differ from the results of operations reported by those companies because they are not wholly-owned by us and because certain transactions they enter into with other members of the Telefónica Group are eliminated in consolidation. We intend to continue to use this presentation in the future because it more accurately reflects the way in which management evaluates the performance of our different lines of business. We have retained the historical comparison of results of operations for the fiscal year ended December 31, 2000 versus December 31, 1999 included below under “—Year Ended December 31, 2000 Compared with Year Ended December 31, 1999” because the comparison correctly reflects our historical business structure and the restatement of operating results by line of business for 1999 on the same basis of presentation as the results of operations for 2001 (and the results of operations for 2000 for purposes of the comparison of results of operations for the fiscal year ended December 31, 2001 versus the fiscal year ended December 31, 2000) is not practicable.

The table below sets forth an analysis of consolidated revenue from operations for each of our principal lines of business for 2000 and 2001 before and after adjustments for sales to other members of the Telefónica Group.

| | Year ended December 31, | | | |
|---|-------------------------|-----------|----------|----------|
| | 2000(1) | 2001(1) | 2000(2) | 2001(2) |
| | (millions of euro) | | | |
| Basic fixed-line telephone service (3)..... | 4,831.8 | 4,658.2 | n.a. | n.a. |
| Leased circuits (3) | 973.8 | 933.2 | n.a. | n.a. |
| Interconnection (3) | 295.1 | 427.9 | n.a. | n.a. |
| ISDN (3) | 1,128.5 | 1,368.3 | n.a. | n.a. |
| Pay telephone service (3) | 723.7 | 604.8 | n.a. | n.a. |
| Other (3) | 2,230.0 | 2,227.9 | n.a. | n.a. |
| Total revenue from operations for | | | | |
| Telefónica de España | 10,182.9 | 10,220.4 | 9,194.3 | 9,208.5 |
| Telefónica Internacional | 10,371.3 | 10,137.4 | 10,218.6 | 9,821.5 |
| Telefónica Móviles | 7,401.2 | 8,411.1 | 6,064.3 | 7,080.2 |
| Telefónica Data..... | 1,123.7 | 1,849.7 | 814.3 | 1,244.1 |
| Admira Media | 723.9 | 1,403.1 | 721.2 | 1,395.5 |
| Terra Networks | 304.0 | 690.0 | 277.4 | 660.7 |
| Telefónica Publicidad e Información..... | 607.7 | 619.5 | 521.4 | 559.5 |
| Atento | 526.9 | 643.8 | 165.7 | 219.6 |
| Other subsidiaries (4)..... | 816.9 | 1,145.3 | 508.2 | 862.9 |
| Total revenue from operations for consolidated | | | | |
| subsidiaries | 32,058.5 | 35,120.2 | 28,485.5 | 31,052.6 |
| Intercompany sales | (3,573.1) | (4,067.6) | - | - |
| Total revenue from operations | 28,485.4 | 31,052.6 | 28,485.5 | 31,052.6 |

- (1) Includes revenue from operations before adjustments for sales to other members of the Telefónica Group.
- (2) Includes revenue from operations after adjustments for sales to other members of the Telefónica Group.
- (3) Telefónica de España does not calculate revenue from this line item after adjustment for sales to other members of the Telefónica Group.
- (4) Includes revenue from operations from Katalyx, Emergia and other subsidiaries.

The table below shows the contribution to our total revenue from operations of each of our principal lines of business for 2000 and 2001 before and after adjustments for sales to other members of the Telefónica Group.

| | Year ended December 31, | | | |
|--|-------------------------|---------------|---------------|---------------|
| | 2000(1) | 2001(1) | 2000(2) | 2001(2) |
| Basic fixed-line telephone service (3)..... | 17.0% | 15.0% | n.a. | n.a. |
| Leased circuits(3) | 3.4% | 3.0% | n.a. | n.a. |
| Interconnection(3) | 1.0% | 1.4% | n.a. | n.a. |
| ISDN(3) | 2.5% | 1.9% | n.a. | n.a. |
| Pay telephone service(3) | 4.0% | 4.4% | n.a. | n.a. |
| Other(3) | 7.8% | 7.2% | n.a. | n.a. |
| Revenues from operations for Telefónica de España..... | 35.7% | 32.9% | 32.3% | 29.7% |
| Telefónica Internacional | 36.4% | 32.6% | 35.9% | 31.6% |
| Telefónica Móviles | 26.0% | 27.1% | 21.3% | 22.8% |
| Telefónica Data..... | 3.9% | 6.0% | 2.9% | 4.0% |
| Admira Media | 2.5% | 4.5% | 2.5% | 4.5% |
| Terra Networks | 1.1% | 2.2% | 1.0% | 2.1% |
| Telefónica Publicidad e Información..... | 2.1% | 2.0% | 1.8% | 1.8% |
| Atento | 1.8% | 2.1% | 0.6% | 0.7% |
| Other subsidiaries(4) | 2.9% | 3.7% | 1.8% | 2.8% |
| Total revenue from operations for consolidated subsidiaries | 112.5% | 113.1% | 100.0% | 100% |
| Intercompany sales | (12.5)% | (13.1)% | - | - |
| Total revenue from operations | 100.0% | 100.0% | 100.0% | 100.0% |

- (1) Includes revenue from operations before adjustments for sales to other members of the Telefónica Group.
(2) Includes revenue from operations after adjustments for sales to other members of the Telefónica Group.
(3) Telefónica de España does not calculate revenue from this line item after adjustment for sales to other members of the Telefónica Group.
(4) Includes revenue from operations from Katalyx, Emergia and other subsidiaries.

The table below shows the contribution to our consolidated net income of each of our principal business lines in 2000 and 2001.

| | Year ended December 31, | |
|--|-------------------------|---------|
| | 2000 | 2001 |
| | (millions of euro) | |
| Telefónica de España | 216.6 | 1,077.6 |
| Telefónica Internacional | 447.4 | 1,274.9 |
| Telefónica Móviles | 590.7 | 893.4 |
| Telefónica Data..... | (49.1) | (486.2) |
| Admira Media | (627.4) | (347.3) |
| Terra Networks | (555.2) | (566.3) |
| Telefónica Publicidad e Información..... | 55.0 | 48.0 |
| Atento | (111.8) | (109.5) |
| Katalyx..... | (69.5) | (31.4) |
| Emergia..... | (27.2) | (183.6) |
| Holding and other subsidiaries..... | (202.4) | (93.3) |
| Adjustments in consolidation..... | 2,837.9 | 630.5 |
| Consolidated net income..... | 2,504.8 | 2,106.8 |

Revenue from operations

Our revenue from operations, which accounted for 96.9% and 95.9% of our consolidated total revenue for 2001 and 2000, respectively, increased 9.0% to €31,052.6 million in 2001 from €28,485.4 million in 2000. The growth in revenue from operations was primarily attributable to increased revenues from operations of Telefónica Móviles, Telefónica Data and Admira Media, offset in part by decreased revenues from operations of Telefónica Internacional. Whereas we calculate revenues from operations both before and after adjustments for sales to other

members of the Telefónica Group, our analysis of revenue from operations is strictly limited to revenues from operations before adjustments for sales to other members of the Telefónica Group. Accordingly, in the following sections we disclose revenues from operations both before and after adjustments for sales to other members of the group and limit our discussion solely to revenues before adjustments for sales to other members of the Telefónica Group. In the aggregate, we believe that sales to other members of the Telefónica Group did not have a significant impact on the percentage fluctuations during the periods discussed.

Telefónica de España. Telefónica de España's revenues from operations (including sales to other members of the Telefónica Group) increased 0.4% to €10,220.4 million in 2001 from €10,182.9 million in 2000. This increase was principally due to an increase in revenues from ISDN, other revenues and revenues from interconnection, offset in part by a decrease in revenues from basic fixed-line telephone service and pay telephone service.

- Revenues from basic fixed-line telephone service include revenues received from customers for connection fees, subscription fees and traffic charges. Revenues from basic fixed-line telephone service decreased 3.6% to €4,658.2 million in 2001 from €4,831.8 million in 2000 mainly due to tariff reductions, discounts in connection with calling plans (including volume discounts and flat rate plans) and decreased revenues from local traffic as a result of increased competition. This decrease was offset in part by:
 - an increase in revenues from monthly subscription fees as a result of the €0.60 increase in per-line monthly subscription fees implemented in March 2001, followed by a further €0.60 increase in August 2001;
 - a 47.8% increase in dial-up traffic for Internet access to 35,499 million minutes in 2001 from 24,020 million minutes in 2000; and
 - a 10.1% increase in fixed-to-mobile traffic to 5,470 million minutes in 2001 from 4,968 million minutes in 2000.
- Revenues from leased circuits include revenues received from leasing our circuits, both domestic and international, to customers and other telecommunications operators. Revenues from leased circuits decreased 4.2% to €933.2 million in 2001 from €973.8 million in 2000.
- Revenues from interconnection include revenues received from charges to other telecommunications operators for interconnection with our fixed-line network. Revenues from interconnection increased 45.0% to €427.9 million in 2001 from €295.1 million in 2000, principally as a result of the 209.0% increase in the volume of interconnection traffic with other fixed-line operators to 29,995 million minutes in 2001 from 12,775 million minutes in 2000, offset in part by an approximately 21.0% decrease in interconnection prices effective as of August 2001. We expect that revenues from interconnection in the second half of 2002 will be adversely affected as we enter into new interconnection agreements with other operators based on capacity. See "Item 4—Information on the Company—Business Overview—Fixed-line Telecommunications Services in Spain—Telefónica de España—Interconnection Prices".
- Revenues from integrated services digital network, or ISDN, include revenues from connection fees, subscription fees and traffic charges relating to our ISDN lines. Revenues from ISDN increased 21.2% to €1,368.3 million in 2001 from €1,128.5 million in 2000, mainly due to a 25.1% increase in the number of ISDN lines to approximately 2.1 million in 2001 from approximately 1.7 million in 2000.
- Revenues from pay telephone service include revenues received from calls made from public telephone booths owned by us and public telephones operated by us on private premises. Revenues from pay telephone service decreased 16.4% to €604.8 million in 2001 from €723.7 million in 2000, mainly due to a decrease in traffic as a result of increased competition from wireless communications services and increased competition from other operators. We expect that revenues from pay telephone service will continue to be adversely affected by increased competition from wireless communications service providers.

- Other revenues include revenues from the lease, sale and maintenance of terminals and other equipment that connects to our fixed-line network, as well as operating revenues from other subsidiaries of Telefónica de España. Other revenues decreased 0.1% to €2,227.4 million in 2001 from €2,230.0 million in 2000 due in part to a 28.5% decrease in operating revenue at Telefónica Telecomunicaciones Públicas and a 23.7% decrease in operating revenue at Telyco offset in part by a 10.6% increase in revenues from the lease, sale and maintenance of terminals to €700.8 million in 2001 from €633.7 million in 2000 principally as a result of the sale of single line terminals.

Telefónica de España's revenues from operations (excluding sales to other members of the Telefónica Group) increased 0.15% to €9,208.5 million in 2001 from €9,194.3 million in 2000.

Telefónica Móviles. Telefónica Móviles' revenue from operations (including sales to other members of the Telefónica Group) increased 13.6% to €8,411.1 million in 2001 from €7,401.2 million in 2000. This increase was principally due to a 28.6% increase in its customer base, a 26.7% increase in the number of minutes consumed and a 178% increase in short messaging revenue, partially offset by a 14.7% decrease in average revenue per user. Net revenues from Telefónica Móviles' operations in Spain (including sales to other members of the Telefónica Group) increased 19.6% to €5,736.0 million in 2001 from €4,796.5 million in 2000 due to an increase of 22.9% in wireless subscribers to 16.8 million at December 31, 2001 from 13.7 million at December 31, 2000, partially offset by a 9% decline in average revenue per user to €31 in 2001 from €34 in 2000 which was principally attributable to rate reductions and to a change in the customer mix as the number of pre-paid customers increased to 68% of Telefónica Móviles' customer base in Spain at December 31, 2001. Net revenues from Telefónica Móviles' Latin American wireless operations (including sales to other members of the Telefónica Group) increased 4.3% as measured in euro (or 14.4% excluding the impact of the devaluations of local currencies) to €2,686.0 million in 2001 from €2,574.1 million in 2000 due to an increase of 33.2% in wireless subscribers to approximately 9.3 million at December 31, 2001 from 7.0 million at December 31, 2000, partially offset by lower average revenues per user as measured in local currencies and the depreciation of the Latin American currencies relative to the euro. In 2001, average revenues per user, as measured in local currency, decreased 7.6% at Tele Sudeste Celular, 12.6% at Celular CRT, 4.7% at Tele Leste Celular, 15.3% at Telefónica Móviles Perú, 33.8% at Telefónica Comunicaciones Personales, 26.1% at Telefónica Móviles' El Salvador operations and 34.9% at Telefónica Móviles' Guatemala operations.

Telefónica Móviles' revenue from operations (excluding sales to other members of the Telefónica Group) increased 16.8% to €7,080.2 million in 2001 from €6,064.3 million in 2000.

Telefónica Internacional. Telefónica Internacional's revenues from operations (including sales to other members of the Telefónica Group) decreased 2.3% to €10,137.4 million in 2001 from €10,371.3 million in 2000 principally as a result of the devaluation of the Brazilian real and the Chilean peso during 2001 and the effect of Argentina's economic crisis, offset in part by increased revenues from operations of Telesp and Compañía de Telecomunicaciones de Chile, as measured in local currency.

- Revenue from operations generated by Telesp denominated in euro decreased 0.4% to €4,311.3 million in 2001 from €4,326.6 million in 2000, principally due to the depreciation of the Brazilian real against the euro of approximately 24.4% on average. This decrease was offset in part by a 24% increase in revenues from operations, as measured in Brazilian reais, mainly due to a 28% increase in average number of lines in service, a 10.4% increase in tariffs for local calls (as measured in local currency) effected in June 2001, an 11.1% increase in long-distance traffic to 7,509.6 million minutes in 2001 and a 385% increase in the number of ADSL lines in service to 198,306 lines.
- Revenue from operations generated by Compañía de Telecomunicaciones de Chile denominated in euro decreased 4.8% (an increase of 5.4% as measured in Chilean pesos) to €1,421.1 million in 2001 from €1,492.8 million in 2000, principally due to the depreciation of the Chilean peso against the euro of approximately 10.7% on average. This increase in revenues from operations, as measured in Chilean pesos, was mainly due to:
 - a 23% increase in revenues from domestic long-distance services as a result of a 12.2% increase in domestic long-distance traffic to 779.3 million minutes in 2001 and the introduction of new products such as semi-flat rate plans, which resulted in an increase of

493.8% in the number of customers and a significant increase in domestic long-distance traffic through semi-flat rate plans to 167.6 million minutes in 2001 from 14.5 million minutes in 2000; and

- a 0.8% increase in the number of lines in service, particularly the number of prepaid lines in service which grew by 197%.
- Revenue from operations generated by Telefónica de Argentina denominated in euro decreased 5.5% (8.3% as measured in Argentine pesos) to €2,981.4 million in 2001 from €3,154.9 million in 2000, principally due to:
 - lower revenues from measured service (including mainly local and domestic long-distance) as a result of the introduction of discount plans for domestic long-distance service in response to the new competitive environment, a decrease in the effective rate for certain local and long-distance segments and decreases in the average number of billable domestic long-distance lines and billable local lines in service as a result of the entry of new competitors; and
 - lower revenues from international long-distance services as a result of a decrease in average tariffs and commercial discounts pursuant to discounted calling plans introduced in response to the new competitive environment.

Telefónica de Argentina's results of operations were also adversely affected by Argentina's economic crisis.

- Revenue from operations generated by Telefónica del Perú denominated in euro increased approximately 1.7% (a decrease of 3.6% as measured in Peruvian nuevo soles) to €1,334.2 million in 2001 from €1,311.9 million in 2000, principally due to the appreciation of the Peruvian nuevo sol against the euro of approximately 5.1% on average. The decrease in revenues from operations, as measured in Peruvian nuevo soles, was mainly due to:
 - an average reduction of 3% in tariffs as a result of the implementation of the new price cap in September 2001;
 - a 42% reduction in interconnection prices effected in January 2001 and an additional reduction of 17% in June 2001; and
 - lower revenues from long-distance services as a result of the loss of market share due to increased competition and the introduction of reduced tariffs pursuant to discounted calling plans adopted in response to the new competitive environment.

Telefónica Internacional's revenue from operations (excluding sales to other members of the Telefónica Group) decreased 3.9% to €9,821.5 million in 2001 from €10,218.6 million in 2000.

Telefónica Data. Telefónica Data's revenue from operations (including sales to other members of the Telefónica Group) increased 64.6% to €1,849.7 million in 2001 from €1,123.7 million in 2000 principally due to increased revenues from high margin services in Spain, including Internet traffic carried through Telefónica Data's network, Internet hosting services and IP solutions, and the inclusion of the results of operations of mediaWays which we acquired in January 2001 for financial reporting purposes. These increases were offset by lower revenues from international services in 2001 as a result of lower amounts of international IP traffic and a downward trend in rates.

Telefónica Data's revenue from operations (excluding sales to other members of the Telefónica Group) increased 52.8% to €1,244.1 million in 2001 from €814.3 million in 2000.

Terra Networks. Terra Networks' revenue from operations (including sales to other members of the Telefónica Group) increased 127.0% to €690.0 million in 2001 from €304.0 million in 2000. This increase was principally due to:

- a 71.7% increase in access revenues (which include subscription fees paid by Terra Networks' customers for dial-up and ADSL access to Terra Networks' Internet access service and value-added service fees) to €203.8 million in 2001 from €118.7 million in 2000 as a result of a 58.0% increase in the average number of subscribers to 4.4 million in 2001 from 2.8 million in 2000 due in part to greater market penetration as a result of the increase in online users in the countries where Terra Networks offers Internet access services; and
- a 206.4% increase in advertising revenues to €405.8 million in 2001 from €132.4 million in 2000, mainly due to the inclusion of a full year of advertising revenues of Lycos, Inc., which Terra Networks acquired in October 2000 for financial reporting purposes.

At December 31, 2001, Terra Networks had approximately 4.35 million subscribers compared to approximately 4.10 million subscribers at December 31, 2000. It generated more than 500 million average daily page views during December 2001.

Terra Networks' revenue from operations (excluding sales to other members of the Telefónica Group) increased 138.2% to €660.7 million in 2001 from €277.4 million in 2000.

Admira Media. Admira Media's revenue from operations (including sales to other members of the Telefónica Group) increased 93.8% to €1,403.1 million in 2001 from €723.9 million in 2000, principally due to the inclusion of a full year of results of operations of each of Endemol, which we acquired in August 2000 for financial reporting purposes, and Atlántida de Comunicaciones, which we acquired in May 2000 for financial reporting purposes, offset in part by decreased revenues from advertising as a result of adverse macroeconomic conditions and a decrease in revenues from the Admira Media group's production companies due to decreases in prices charged for programming as a result of the soft advertising market.

Admira Media's revenue from operations (excluding sales to other members of the Telefónica Group) increased 93.5% to €1,395.5 million in 2001 from €721.2 million in 2000.

Operating expenses

Operating expenses, which consist of increase in inventories (net), goods purchased, external services, local taxes, personnel costs and other operating expenses (provisions), increased 7.4% to €18,146 million in 2001 from €16,883.5 million in 2000, principally due to increased operating expenses at Terra Networks, Telefónica Data and Admira Media, offset in part by decreased operating expenses at Telefónica de España.

Telefónica de España. Telefónica de España's operating expenses decreased 3.1% to €5,703.4 million in 2001 from €5,884.8 million in 2000, mainly due to decreased operating expenses at Telyco and Telefónica Comunicaciones Públicas as a result of a decrease in commercial activity due to lower sales as a result of increased competition from wireless communications services, offset in part by expenses of €188.6 million related to the expansion of Telefónica de España's ADSL network in connection with the development of its retail ADSL business. Telefónica de España expects to continue to incur significant expenses in connection with the expansion of this business during the next two to three years. Goods purchased by Telefónica de España's fixed-line operator in Spain increased 2.8% to €2,226.9 million in 2001 from €2,166.9 million in 2000, principally due to a 98.9% increase in interconnection costs related to fixed-to-fixed interconnections as a result of increased traffic with other networks and the purchase of ADSL modems. External services increased 7.3% to €908.4 million in 2001 from €846.5 million in 2000, due to the increased use of outsourcing of activities as a result of workforce reductions. Personnel expenses decreased 5.3% to €2,039.9 million in 2001 from €2,154.6 million in 2000, as a result of the streamlining of Telefónica de España's workforce, which had 40,856 employees at December 31, 2001, a slight decrease of 0.8% from the number of employees at December 31, 2000, which resulted in a decrease of 9.7% in payroll offset in part by a 3.4% increase in wages in accordance with the Spanish consumer price index pursuant to the collective bargaining agreement in effect at Telefónica de España. As a result, Telefónica de España had a productivity ratio of 505 lines per employee at December 31, 2001, a 2.5% improvement over the productivity ratio of 493 lines per employee at December 31, 2000.

Telefónica Móviles. Operating expenses at Telefónica Móviles increased 1.8% to €5,029.4 million in 2001 from €4,942.6 million in 2000, principally due to a 56.2% increase in personnel costs to €533.8 million in 2001 from €341.8 million in 2000, which is mainly due to the personnel costs associated with our new wireless operations in

Mexico and Europe and a 5.9% increase in the costs of goods purchased to €1,899.3 million in 2001 from €1,793.8 million in 2000.

- Goods purchased (including interconnection costs) at Telefónica Móviles' Spanish operations increased 26.5% to €1,236 million from €977 million in 2000, mainly due to the introduction of the centralized handset procurement model, in which Telefónica Móviles buys and sells handsets in the market in connection with its customer expansion and customer loyalty activities. As a percentage of net revenues from operations generated by Telefónica Móviles' Spanish operations, goods purchased increased to 21.5% for 2001 from 20.4% for 2000. External services at Telefónica Móviles' Spanish operations decreased 19% to €1,521 million in 2001 from €1,871.1 million in 2000, principally due to a 36% increase in subscriber acquisition costs, including advertising costs and distributor commissions. As a percentage of net revenues from operations generated by Telefónica Móviles' Spanish operations, external services decreased to 27% for 2001 from 39% for 2000. Personnel expenses at Telefónica Móviles' Spanish operations increased 29.3% to €212 million in 2001 from €164 million in 2000, principally due to a 10% increase in personnel to 4,372 people at year-end 2001 from 3,982 people at year-end 2000. As a percentage of net revenues from operations generated by Telefónica Móviles' Spanish operations, personnel expenses increased to 3.7% for 2001 from 3.4% for 2000.
- Goods purchased (including interconnection costs) at Telefónica Móviles' Latin American operations decreased 24% to €581 million in 2001 from €723 million in 2000 mainly due to lower commercial activity. As a percentage of net revenues from operations generated by Telefónica Móviles' Latin American operations, goods purchased decreased to 21.6% in 2001 from 28% in 2000. External services at Telefónica Móviles' Latin American operations increased 11.8% to €1,023 million in 2001 from €915 million in 2000 mainly due to increased costs due to the inclusion of the results of operations of Bajacel, Movitel, Norcel and Cedetel, which we acquired in July 2001 for financial reporting purposes. As a percentage of net revenues from operations generated by Telefónica Móviles' Latin American operations, external services increased to 38% in 2001 from 35% in 2000. Personnel expenses at Telefónica Móviles' Latin American operations increased 38% to €220 million in 2001 from €159 million in 2000 principally due to the inclusion of the wireless operations in Mexico, which resulted in a 59.7% increase in the number of personnel to 8,115 people at year-end 2001 from 5,081 people at year-end 2000. As a percentage of net revenues from operations generated by Telefónica Móviles' Latin American operations, personnel expense increased to 8.2% in 2001 from 6.2% in 2000.

Telefónica Internacional. Telefónica Internacional's operating expenses remained flat at €5,246.9 million in 2001 compared with €5,230.7 million in 2000, principally as a result of the devaluation of the Brazilian real and the Chilean peso during 2001 and a decrease in operating expenses at Telesp and Compañía de Telecomunicaciones de Chile due to decreases in personnel expenses as a result of workforce reductions. As a percentage of Telefónica Internacional's net revenues from operations, Telefónica Internacional's operating expenses increased to 51.8% for 2001 from 50.4% for 2000. The percentage increases or decreases below were calculated based on local currency amounts as opposed to amounts that have been converted into euro.

- Telesp's operating expenses increased 29.3% in 2001, mainly due to a 49.6% increase in interconnection expense as a result of increased traffic with other networks and an increase in the provision for bad debt as a result of the application in 2001 of a more conservative policy relating to provisions for bad debt. This increase was partially offset by a decrease of 12.2% in personnel expenses due to a reduction in Telesp's workforce in the fourth quarter of 2001.
- Compañía de Telecomunicaciones de Chile's operating expenses decreased 5.4% in 2001 mainly due to a 6% decrease in personnel expenses as a result of workforce reductions which reduced the number of employees by 22% in 2001 and cost control and rationalization measures implemented during 2001. This reduction was partially offset by an increase in interconnection expense of 6.2%.
- Telefónica de Argentina's operating expenses decreased 1.2% in 2001, principally due to cost reduction efforts, including a decrease in personnel expenses of 11.1% and a decrease in goods purchased of 28%, offset in part by a significant increase of 99.2% in provisions for bad debt to 181.8 million Argentine pesos in 2001 from 91.3 million Argentine pesos in 2000.

- Telefónica del Perú's operating expenses remained flat in 2001, principally as a result of a 13.8% increase in goods purchased, offset by a 6.2% decrease in personnel expenses and a 3.8% decrease in external expenses.

Telefónica Data. Telefónica Data's operating expenses increased 70.9% to €1,841.6 million in 2001 from €1,077.5 million in 2000, mainly due to the inclusion of results of operations of mediaWays which we acquired in January 2001 for financial reporting purposes and increases in goods purchased and personnel expenses in connection with the expansion of operations into new markets in Europe (Germany, Austria, Italy and the United Kingdom) and the Americas (Colombia, Mexico, Uruguay, Puerto Rico and the United States).

Terra Networks. Terra Networks' operating expenses increased 43.0% to €953.6 million in 2001 from €666.9 million in 2000, principally due to the inclusion of a full twelve months of operating expenses of Lycos, Inc., whose operating expenses are included as of the date of its acquisition for financial reporting purposes in October 2000. Goods purchased increased 81.8% to €352.0 million in 2001 from €193.6 million in 2000, principally due to the inclusion of a full twelve months of costs of goods purchased of Lycos, Inc. and increased communication costs in Spain to €108.6 million in 2001 from €29.0 million in 2000, principally due to the increase in Terra Networks' average number of access subscribers. As a percentage of net revenues from operations generated by Terra Networks, goods purchased decreased to 50.8% for 2001 from 63.0% for 2000. Personnel expenses increased 75.4% to €205.0 million in 2001 from €116.9 million in 2000, principally due to an increase in the total number of employees, principally due to a full year of Lycos, Inc. personnel expenses, offset in part by workforce reductions. As a percentage of net revenues from operations, personnel expenses decreased to 29.6% for 2001 from 38.0% for 2000. Other operating expenses increased 11.3% to €396.5 million in 2001 from €356.3 million in 2000. As a percentage of net revenues from operations generated by Terra Networks, other operating expenses decreased to 57.2% for 2001 from 115.9% for 2000, principally due to successful cost containment measures.

Admira Media. Admira Media's operating expenses increased approximately 77% to €1,258 million in 2001 from €709 million in 2000, principally due to the inclusion of a full year of results of operations of each of Endemol, which we acquired in August 2000 for financial reporting purposes, and Atlántida de Comunicaciones, which we acquired in May 2000 for financial reporting purposes.

EBITDA

EBITDA consists of revenue from operations plus other operating revenue and internal expenditures capitalized, less operating expenses, trade provisions and other operating expenses. Our EBITDA increased 7.4% to €12,804.2 million in 2001 from €11,918.7 million in 2000, principally due to increased revenues from operations, despite a slowdown in the rate of growth of such revenues, and strict control of operating expenses, offset in part by the negative effect of exchange rate variations as a result of decreases in local Latin American currencies relative to the euro and increased provisions for bad debt, particularly in Latin America. An increase in EBITDA from Telefónica Móviles, Telefónica de España and new lines of business helped to offset a decrease in EBITDA from Telefónica Internacional as a result of adverse exchange rate fluctuations and Telefónica Data as a result of its expansion into new markets and the cost of developing its international network.

Telefónica de España. Telefónica de España's EBITDA increased 1.3% to €4,508.2 million in 2001 from €4,448.4 million in 2000. This increase was mainly due to decreases in operating expenses, in particular a 5.8% decrease in personnel costs.

Telefónica Móviles. Telefónica Móviles' EBITDA increased 36.0% to €3,333.7 million in 2001 from €2,451.1 million in 2000. As a percentage of net revenues from operations, EBITDA increased to 39.6% for 2001 from 33.1% for 2000. EBITDA for Telefónica Móviles' Spanish operations increased 57.3% to €2,816.9 million for 2001 from €1,790.6 million for 2000. As a percentage of net revenues from Telefónica Móviles' Spanish operations, EBITDA for Telefónica Móviles' Spanish operations increased to 49.1% for 2001 from 37.3% for 2000. EBITDA for Telefónica Móviles' Latin American operations accounted for 20.5% of Telefónica Móviles' EBITDA in 2001 compared to 28.4% of Telefónica Móviles' EBITDA in 2000. As a percentage of net revenues from Latin American operations, EBITDA for Telefónica Móviles Latin American operations decreased to 25.5% for 2001 from 27.1% in 2000.

Telefónica Internacional. Telefónica Internacional's EBITDA decreased 3.7% to €5,163.0 million in 2001 from €5,359.3 million in 2000, principally as a result of the decrease in EBITDA from Telefónica de Argentina due

to the adverse economic and competitive environment in Argentina, offset in part by increased EBITDA from Compañía de Telecomunicaciones de Chile.

- Telesp's EBITDA decreased 1.6% in 2001 to €2,314.5 million in 2001 from €2,352.3 million in 2000 (an increase of 22.5% as measured in Brazilian reais), principally due to higher interconnection expenses and provisions for bad debt, offset in part by the growth in the average number of lines in service, tariff increases that became effective in June 2001 and increased revenues from long-distance traffic.
- Compañía de Telecomunicaciones de Chile's EBITDA increased 11.5% in 2001 to €600.5 million in 2001 from €538.5 in 2000 (an increase of 23.5% as measured in Chilean pesos), principally due to increased revenues from long-distance services and increased traffic and decreases in operating expenses.
- Telefónica de Argentina's EBITDA decreased 12.9% in 2001 to €1,457.9 million in 2001 from €1,674.6 million in 2000 (a decrease of 15.6% as measured in Argentine pesos), principally due to increased competition, the adverse regulatory environment and the macroeconomic crisis in Argentina.
- Telefónica del Perú's EBITDA decreased 0.4% in 2001 to €611.8 million in 2001 from €614.4 million in 2000 (a decrease of 5.6% as measured in Peruvian nuevo soles), principally due to the new regulatory environment, including the introduction of new price caps in September 2001, and loss of market share as a result of increased competition.

Telefónica Data. Telefónica Data's EBITDA decreased 68.5% to €23.6 million in 2001 from €75.0 million in 2000, mainly due to start-up costs in connection with the expansion of operations into new markets and decreased earnings as a result of a reduction in technology-related investments by corporate customers in light of the adverse macroeconomic environment and the combined effect of a decrease in international IP traffic and a reduction in rates for such services.

Terra Networks. Terra Networks had negative EBITDA of €260.0 million in 2001 compared to negative EBITDA of €359.2 million in 2000 due to the inclusion of a full year of results of operations of Lycos, Inc., which we acquired for financial reporting purposes in October 2000.

Admira Media. Admira Media's EBITDA increased significantly to €152.5 million in 2001 from €13.6 million in 2000, mainly due to the inclusion of a full year of results of operations of Endemol, which we acquired in August 2000 for financial reporting purposes and Atlántida de Comunicaciones, which we acquired in May 2000 for financial reporting purposes.

Operating profit

Operating profit, which consists of revenue from operations, internal expenditures capitalized, operating expenses, other operating revenue, provision for depreciation and amortization (but not amortization of goodwill on consolidation), other operating expenses and trade provisions, increased 9.5% to €5,430.3 million in 2001 from €4,958.0 million in 2000 principally due to increased operating profit from Telefónica Móviles and Telefónica de España due in part to a decrease in amortization expense as a result of a decrease in investments, offset in part by increased operating losses at Telefónica Data and Telefónica Internacional.

Telefónica de España. Operating profit of Telefónica de España increased 10.1% to €1,703.7 million in 2001 from €1,547.2 million in 2000, mainly due to a 1.3% increase in EBITDA and a 3.3% decrease in the depreciation of fixed assets as a result of the write-off or acceleration of the amortization of certain assets in 1999.

Telefónica Móviles. Operating profit of Telefónica Móviles increased 47.0% to €2,076.0 million in 2001 from €1,412.0 million in 2000, mainly due to a 36.0% increase in EBITDA, offset in part by a 21% increase in depreciation expense.

Telefónica Internacional. Operating profit at Telefónica Internacional decreased 6.2% to €2,537.3 million in 2001 from €2,705.9 million in 2000, mainly due to a 3.7% decrease in EBITDA, offset in part by a 1% decrease in depreciation and amortization expense.

Telefónica Data. Telefónica Data's operating loss in 2001 was approximately €166.2 million compared to an operating loss of €16.1 million during 2000 mainly due to the fact that EBITDA decreased by 68.5% and

amortization expense increased as a result of our acquisition of mediaWays in January 2001 for financial reporting purposes and certain investments in Brazil in connection with its data service business.

Terra Networks. Terra Networks' operating loss in 2001 was €417.4 million compared to an operating loss of €442.8 million during 2000, mainly due to the decrease in negative EBITDA.

Admira Media. Operating profit of Admira Media was €77.1 million in 2001 compared to an operating loss of €35.2 million in 2000, mainly due to the inclusion of a full year of results of operations of Endemol, which we acquired in August 2000 for financial reporting purposes.

Profit from ordinary activities

Profit from ordinary activities, which consists of operating profit, amortization of goodwill on consolidation, financial income (expense), exchange (losses) gains and income (loss) from associated companies, decreased 25.2%, to €1,821.1 million in 2001 from €2,435.7 million in 2000, mainly due to:

- a significant increase of 133.3% in losses from associated companies to €376.5 million in 2001 from €161.4 million in 2000, principally related to losses from Lycos Europe, Vía Digital, Antena 3 and Medi Telecom;
- a 68.1% increase in amortization of goodwill in consolidation to €841.6 million in 2001 from €500.6 million in 2000 principally related to the inclusion of a full year of amortization of goodwill related to our acquisitions of Lycos, Endemol, Atlántida de Comunicaciones and mediaWays. This increase was offset in part by the change in the amortization period for goodwill to 10 years from 5 years at Terra Networks, beginning in the second half of 2001, which resulted in €197.1 million less of goodwill amortization expense than if the goodwill amortization period had not been changed; and
- a 28.5% increase in financial expense to €2,391.1 million in 2001 from €1,860.3 in 2000, principally due to the effect of the devaluation of the Argentine peso, which amounted to €528.8 million in financial expense in 2001, without which financial income would have been similar to that of 2000. Our average indebtedness increased 21% in 2001, principally due to the inclusion of new companies in consolidation and certain investments made in 2000 and 2001, offset in part by the 1.3% decrease in average cost of debt.

Income (loss) before tax and minority interest

Income (loss) before tax and minority interest consists of profit from ordinary activities, extraordinary income, losses on sales of fixed assets and extraordinary expenses. Income before tax and minority interest decreased 29.1% to €2,033.9 million in 2001 from €2,867.7 million in 2000, principally due to the decrease in net extraordinary results which were €212.8 million in 2001 compared to net extraordinary results of €431.9 million in 2000. In 2001, extraordinary income was €1,167.1 million, including gains due to the sales of Cablevision S.A. (€255.9 million) and Hispasat, S.A. (€35.2 million) and the receipt of certain indemnity payments totaling €63.1 million. Losses on sales of fixed assets were €233.0 million in 2001 compared to €239.9 million in 2000, and extraordinary expenses were €721.3 million in 2001 compared to €3,630.5 million in 2000 as a result of writeoffs of the value of certain fixed assets, fines and other penalties paid and amounts paid to executive management personnel upon termination of their service contracts.

Corporate income tax

Provision for corporate income tax expense at the consolidated level was €198.1 million in 2001 compared to €242.2 million in 2000, principally due to reductions relating to deferred capital gains taxes.

Minority interests

Loss attributable to minority interests was €271.0 million in 2001 compared to income attributable to minority interests of €120.6 million in 2000, primarily due to our decreased participation in the losses of Terra Networks as a result of the increase in the ownership interest of third parties following Terra Networks' acquisition of Lycos and a reduction in minority interests in the income of Telesp, Compañía de Telecomunicaciones de Chile, Telefónica de

Argentina and Telefónica del Perú due to the increase in our interests in such entities, offset in part by the change in the method by which we account for our interest in IPSE 2000 from the global integration method to the equity method in the third quarter of 2001.

Net income

Consolidated net income decreased €398.0 million, to €2,106.8 million in 2001 from €2,504.8 million in 2000. This increase was due to the various factors described above.

Year Ended December 31, 2000 Compared with Year Ended December 31, 1999

The tables and discussion below reflect the historical comparison of our results of operations by line of business for 2000 and 1999 consistent with the presentation in our Annual Report on Form 20-F for the fiscal year ended December 31, 2000. This presentation is not comparable to the tables presented and the discussion above of results of operations by line of business for 2001 and 2000 for the reasons stated above. See “—Year Ended December 31, 2001 Compared with Year Ended December 31, 2000”.

The tables below set forth an analysis of consolidated revenue from operations for each of our principal lines of business for 1999 and 2000.

| | Year ended December 31, | |
|--|--------------------------------|-----------------|
| | 1999 | 2000 |
| | (millions of euro) | |
| Basic fixed-line telephone service | 5,518.8 | 5,167.9 |
| Leased circuits | 436.9 | 475.0 |
| Interconnection | 264.6 | 295.0 |
| ISDN | 760.9 | 1,142.5 |
| Pay telephone service..... | 775.1 | 724.3 |
| Other | 1,887.1 | 1,788.0 |
| Total revenue from operations for Telefónica de España | 9,643.6 | 9,592.9 |
| Telefónica Internacional | 9,708.7 | 12,583.8 (1) |
| Telefónica Móviles | 3,738.9 | 5,249.1 (1) |
| Telefónica Data..... | 574.7 | 920.2 |
| Admira Media | 96.5 | 723.9 |
| Terra Networks | 40.1 | 303.9 |
| Telefónica Publicidad e Información | 334.8 | 409.3 |
| Atento | 202.0 | 526.9 |
| Other subsidiaries | 1,681.4 | 1,748.2 |
| Total revenue from operations for consolidated subsidiaries | 26,021.1 | 32,058.5 |
| Intercompany sales | (3,064.1) | (3,573.1) |
| Total revenue from operations | 22,957.0 | 28,485.5 |

The table below shows the contribution to our total revenue from operations of each of our principal lines of business for 1999 and 2000.

| | Year ended December 31, | |
|--|--------------------------------|-------------|
| | 1999 | 2000 |
| Basic fixed-line telephone service | 21.2% | 16.1% |
| Leased circuits | 1.7% | 1.5% |
| Interconnection | 1.0% | 0.9% |
| ISDN | 2.9% | 3.6% |
| Pay telephone service..... | 3.0% | 2.3% |
| Data transmission(1) | — | — |
| Other | 7.3% | 5.6% |
| Revenues from operations for Telefónica de España..... | 37.1% | 29.9% |
| Telefónica Internacional | 37.3% | 39.3% |
| Telefónica Móviles | 14.5% | 16.4% |
| Telefónica Data..... | 2.2% | 2.9% |
| Admira Media | 0.4% | 2.3% |

| | Year ended December 31, | |
|--|-------------------------|--------|
| | 1999 | 2000 |
| Terra Networks | 0.2% | 0.9% |
| Telefónica Publicidad e Información..... | 1.3% | 1.3% |
| Atento | 0.8% | 1.6% |
| Other subsidiaries | 6.5% | 5.5% |
| Total revenue from operations for consolidated subsidiaries..... | 100.0% | 100.0% |

- (1) During 2000, as part of the reorganization of the Telefónica group along global business lines, Telefónica Internacional transferred to Telefónica Móviles shares representing its interest in: Tele Sudeste Celular; Celular CRT; Tele Leste Celular; and two holding companies that own 86.7% and 100.0% of Telefónica El Salvador and Telefónica Centroamérica Guatemala, respectively. In addition, Telefónica Intercontinental transferred to Telefónica Móviles shares representing its interest in Medi Telecom.

The table below shows the contribution to our consolidated net income of each of our principal business lines in 1999 and 2000.

| | Year ended December 31, | | |
|--|-------------------------|---------|--------|
| | 1999 | 2000 | |
| | (millions of euro) | | |
| Telefónica de España | (1,896.4) | 245.2 | |
| Telefónica Internacional | 380.8 | 694.5 | (1) |
| Telefónica Móviles | 562.7 | 643.1 | (1)(2) |
| Telefónica Data..... | 35.4 | (50.3) | |
| Admira Media | (103.0) | (622.1) | |
| Terra Networks | (77.5) | (555.2) | |
| Telefónica Publicidad e Información..... | (12.8) | - | (2) |
| Holding and other subsidiaries..... | 666.9 | (98.2) | |
| Adjustments in consolidation..... | 513.3 | 2,247.8 | |
| Consolidated net income..... | 69.6 | 2,504.8 | |

- (1) During 2000, as part of the reorganization of the Telefónica group along global business lines, Telefónica Internacional transferred to Telefónica Móviles shares representing its interest in: Tele Sudeste Celular; Celular CRT; Tele Leste Celular; and two holding companies that own 86.7% and 100.0% of Telefónica El Salvador and Telefónica Centroamérica Guatemala, respectively.
- (2) During 2000, as part of the reorganization of the Telefónica group along global business lines, Telefónica Intercontinental transferred to Telefónica Móviles shares representing its interest in Medi Telecom.

Revenue from operations

Our revenue from operations, which accounted for 95.9% and 95.5% of our consolidated total revenue for 2000 and 1999, respectively, increased 24.1% to €28,485.5 million in 2000 from €22,957.0 million in 1999. The growth in revenue from operations was primarily attributable to increased results of operations from Telefónica Internacional (particularly Telesp and Telefónica de Argentina) and Telefónica Móviles.

Whereas we calculate revenues from operations both before and after adjustments for sales to other members of the Telefónica Group, our analysis of revenues from operations is strictly limited to revenues from operations before adjustments for sales to other members of the Telefónica Group. Accordingly, in the following sections we disclose revenues from operations both before and after adjustments for sales to other members of the group and limit our discussion solely to revenues before adjustments for sales to other members of the Telefónica Group. In the aggregate, we believe that sales to other members of the Telefónica Group did not have a significant impact on the percentage fluctuations during the periods discussed.

Telefónica de España. Telefónica de España's revenues from operations (including sales to other members of the Telefónica Group) decreased 0.5% to €9,592.9 million in 2000 from €9,643.6 million in 1999. This decrease was principally due to a decrease in revenues from basic fixed-line telephone service and other revenues, offset in part by an increase in revenues from ISDN and revenues from interconnection.

- Revenues from basic fixed-line telephone service include revenues received from customers for connection fees, subscription fees and traffic charges. Revenues from basic fixed-line telephone service decreased 6.4% to €5,167.9 million in 2000 from €5,518.8 million in 1999, mainly due to tariff reductions, discounts in connection with calling plans (including volume discounts and flat rate plans) and decreased revenues from local traffic as a result of increased competition. This decrease was offset in part by an increase in revenues from monthly subscription fees as a result of the €0.60 increase in the per-line monthly subscription fees implemented in August 2000, a 112.6% increase in dial-up traffic for Internet access to 24,020 million minutes in 2000 from 11,300 million minutes in 1999 and a 96.1% increase in incoming traffic from other telecommunications operators to 20,600 million minutes in 2000 from 10,500 million minutes in 1999.
- Revenues from leased circuits include revenues received from leasing our circuits, both domestic and international, to customers and other telecommunications operators. Revenues from leased circuits increased 8.7% to €475.0 million in 2000 from €436.9 million in 1999.
- Revenues from interconnection include revenues received from charges to other telecommunications operators for interconnection with our fixed-line network. Revenues from interconnection increased 11.5% to €295.0 million in 2000 from €264.6 million in 1999, principally as a result of the 209.0% increase in the volume of interconnection traffic with other fixed-line operators to 12,775 million minutes in 2000 from 4,134 million minutes in 1999, offset in part by an approximately 20.0% decrease in interconnection prices effective August 2000.
- Revenues from ISDN include revenues from connection fees, subscription fees and traffic charges relating to our ISDN lines. Revenues from ISDN increased 50.2% to €1,142.5 million in 2000 from €760.9 million in 1999 mainly due to a 71.0% increase in the number of ISDN lines to approximately 1.7 million in 2000 from approximately 1.0 million in 1999.
- Revenues from pay telephone service include revenues received from calls made from public telephone booths owned by us and public telephones operated by us on private premises. Revenues from pay telephone service decreased 6.6% to €724.3 million in 2000 from €775.1 million in 1999, mainly due to a decrease in traffic, principally due to increased competition from wireless communications devices, and increased competition from other operators.
- Other revenues include revenues from the lease, sale and maintenance of terminals and other equipment that connects to our network. Other revenues decreased 5.3% to €1,788.0 million in 2000 from €1,887.1 million in 1999, mainly due to a decrease of 31.9% in revenues from the lease, sale and maintenance of terminals.

Telefónica de España's revenues from operations (excluding sales to other members of the Telefónica Group) decreased 1.1% to €8,567.4 million in 2000 from €8,660.6 million in 1999.

Telefónica Móviles. Telefónica Móviles' revenue from operations (including sales to other members of the Telefónica Group) increased 40.4% to €5,249.1 million in 2000 from €3,738.9 million in 1999. This increase was principally due to the consolidation in 2000 of Tele Sudeste Celular and Celular CRT, which were transferred to Telefónica Móviles by other members of the Telefónica Group. Revenues from the Latin American operations transferred to Telefónica Móviles by other Telefónica Group companies are included as of their respective date of transfer in October 2000. Net revenues from Telefónica Móviles' operations in Spain (including sales to other members of the Telefónica Group) increased 29.7% to €3,506.9 million in 2000 from €2,703.6 million in 1999 due to an increase of 51% in wireless subscribers to approximately 13.7 million at December 31, 2000 compared with approximately 9.1 million at December 31, 1999, partially offset by a 23% decline in average revenue per user which was principally attributable to rate reductions and to a change in the customer mix as the number of pre-paid customers increased to 65.1% of Telefónica Móviles' customer base in Spain. Due to lower average minutes of use than contract customers, prepaid customers generally contribute to lower average revenue per customer.

Telefónica Móviles' revenue from operations (excluding sales to other members of the Telefónica Group) increased 45.3% to €3,955.8 million in 2000 from €2,722 million in 1999.

Telefónica Internacional. Telefónica Internacional's revenues from operations (including sales to other members of the Telefónica Group) increased 29.6% to €12,583.8 million in 2000 from €9,708.7 million in 1999. Telefónica Internacional's revenues from operations in 2000 include the results from its Latin American wireless operations transferred to Telefónica Móviles through their respective date of transfer in October 2000. The increase in 2000 was principally due to the following:

- Revenue from operations generated by Telefónica del Perú denominated in euro increased 24% to €1,440.2 million in 2000 from €1,165.7 million in 1999. Revenues from operations denominated in local currency increased 7.9% in 2000. The increase in revenues in euro was higher than the increase in local currency due to the appreciation of the U.S. dollar against the euro, which was partially offset by the depreciation of the Peruvian nuevo sol against the U.S. dollar of approximately 0.5% on average. The increase in revenues from operations was mainly due to a 12% increase in local fixed-line traffic and a 26% increase in the number of wireless subscribers, offset partially by the decrease in long-distance traffic.
- Revenue from operations generated by Telefónica de Argentina denominated in euro increased 43.1% to €3,924.1 million in 2000 from €2,734.6 million in 1999, while revenue denominated in local currency increased 23.9% in 2000. The increase in revenues in euro was higher than the increase in local currency due to the appreciation of the U.S. dollar against the euro. The increase in revenue from operations was mainly due to a 67.2% increase in wireless subscribers and, to a lesser extent, an 8.3% increase in fixed-line customers. Revenues from operations were offset in part by negative macroeconomic conditions in Argentina and the entry of new competitors into the marketplace.
- Revenue from operations generated by Compañía de Telecomunicaciones de Chile denominated in local currency decreased 0.7% in 2000, while revenues in euro increased 5.9% to €1,572.3 million in 2000 from €1,484.5 million in 1999. This 0.7% decrease was due principally to a 2.3% decrease in revenues from fixed-line telephony principally due to a 13.1% decrease in revenues from long-distance services. The decrease was offset in part by a 1.1% increase in revenues from wireless communications services as a result of a 35.1% increase in interconnection revenues due to the growth in the number of wireless subscribers. Revenues, as measured in euro, increased due to the appreciation of the U.S. dollar against the euro of approximately 15.5% on average, which was partially offset by the depreciation of the Chilean peso against the U.S. dollar of approximately 8.3% on average.
- Revenue from operations generated by Telesp denominated in Brazilian reais increased 37.4% in 2000, while revenues in euro increased 57.2% to €4,349.6 million in 2000 from €2,767.8 million in 1999. This increase was due principally to a 28.4% increase in the number of lines in service and an increase in local fixed-line traffic. The increase in revenues in euro was higher than the increase in the local currency due to the appreciation of the U.S. dollar against the euro, which was partially offset by the depreciation of the Brazilian real against the U.S. dollar of approximately 1% on average.

Telefónica Internacional's revenue from operations (excluding sales to other members of the Telefónica Group) increased 32.3% to €12,554.0 million in 2000 from €9,486.8 million in 1999.

Telefónica Data. Telefónica Data's revenue from operations (including sales to other members of the Telefónica Group) increased 60.1% to €920.2 million in 2000 from €574.7 million in 1999, principally due to increases in the number of end user connections and Internet traffic through its network.

Terra Networks. Terra Networks' revenue from operations (including sales to other members of the Telefónica Group) increased 657.9% to €303.9 million in 2000 from €40.1 million in 1999. This increase was principally due to a 530.6% increase in access revenues to €119.0 million and a 2,916.5% increase in advertising revenues to €109.0 million. These increases were due in part to the inclusion of a full year of financial results of companies Terra Networks acquired in 1999 and the results of Lycos, Inc., which was acquired in October 2000 for financial reporting purposes. At December 31, 2000, Terra Networks had approximately 4.1 million subscribers. It generated more than 350 million average daily page views during December 2000.

Terra Networks' revenue from operations (excluding sales to other members of the Telefónica Group) increased 635.7% to €277.4 million in 2000 from €37.7 million in 1999.

Operating expenses

Operating expenses, which consist of increase in inventories (net), goods purchased, external services and local taxes and personnel costs, increased 35.3% to €16,883.5 million in 2000 from €12,443.1 million in 1999, principally due to increased expenses at our operating companies that are in the development and expansion phase of their business and the consolidation of companies we acquired or in which we increased our stakes during 2000, including Atlántida de Comunicaciones S.A. and Endemol Entertainment Holding N.V., and newly-formed companies, including Katalyx, Emergia and Terra Mobile.

Telefónica de España. The Telefónica de España Group's operating expenses increased 9.2% in 2000 to €5,883.9 million from €5,391.1 million in 1999. Telefónica de España's operating expenses increased 7.4% to €5,335.1 million in 2000 from €4,967.5 million in 1999. Goods purchased at Telefónica de España increased 26.5% to €2,166.9 million in 2000 from €1,713.2 million in 1999, principally due to a 25.1% increase in interconnection costs related to fixed-to-mobile interconnections. External services increased 11.6% to €846.5 million in 2000 from €758.4 million in 1999, mainly due to the outsourcing of activities as a result of workforce reductions. Personnel expenses decreased 7.0% to €2,154.6 million in 2000 from €2,316.3 million in 1999, principally as a result of the streamlining of Telefónica de España's workforce, which had 41,193 employees at December 31, 2000, a decrease of 11.6% from the number of employees at December 31, 1999. As a result, Telefónica de España had a productivity ratio of 493 lines per employee at December 31, 2000, a 19.6% improvement over the productivity ratio of 412 lines per employee at December 31, 1999.

Telefónica Móviles. Operating expenses at Telefónica Móviles increased 45.4% to €3,551.5 million in 2000 from €2,443.9 million in 1999, principally due to the consolidation in 2000 of companies transferred to Telefónica Móviles by members of the Telefónica Group. Operating expenses at the Latin American operations transferred to Telefónica Móviles by other Telefónica Group companies are included as of their respective date of transfer in October 2000.

- Goods purchased at Telefónica Móviles' Spanish operations increased 24.3% to €986.2 million in 2000 from €793.5 million in 1999, mainly due to the higher cost of handsets, interconnection costs and roaming costs as a result of the increase in the number of customers. As a percentage of net revenues from operations generated by Telefónica Móviles' Spanish operations, goods purchased decreased to 28.1% for 2000 from 29.3% for 1999. External services at Telefónica Móviles' Spanish operations increased to 25.4% to €1,844.6 million in 2000 from €1,471.3 million in 1999, principally due to higher commercial activity and distributor incentives. As a percentage of net revenues of operations generated by Telefónica Móviles' Spanish operations, external services decreased to 52.6% for 2000 from 54.1% for 1999. Personnel expenses at Telefónica Móviles' Spanish operations increased 40.9% to €164.3 million in 2000 from €116.6 million for 1999, principally due to an 18.1% increase in personnel to 3,937 people at year-end 2000 from 3,372 people at year-end 1999. As a percentage of net revenues from operations generated by Telefónica Móviles' Spanish operations, personnel expenses increased to 4.7% for 2000 from 4.3% for 1999.
- Goods purchased at Telefónica Móviles' Latin American operations were €171.0 million in 2000. Goods purchased represented 39% of net revenues from operations generated by Telefónica Móviles' Latin American operations in 2000. External services at Telefónica Móviles' Latin American operations were €88.6 million in 2000. External services represented 20.2% of net revenue from operations generated by Telefónica Móviles' Latin American operations in 2000. Personnel expenses at Telefónica Móviles' Latin American operations were €26.3 million in 2000. Personnel expense represented 6% of net revenues from operations generated by Telefónica Móviles' Latin American operations in 2000.

Telefónica Internacional. Telefónica Internacional's operating expenses increased 24.2% to €6,458.3 million in 2000 from €5,200.8 million in 1999, principally for the reasons described below. Telefónica Internacional's operating expenses in 2000 include the operating expenses of its Latin American wireless operations transferred to Telefónica Móviles through their respective date of transfer in October 2000. The percentage increases or decreases

below were calculated based on local currency amounts as opposed to amounts that have been converted into pesetas.

- Telefónica del Perú's operating expenses increased 4.5% in 2000, principally as a result of a 7.3% increase in external services, mainly due to a 77% increase in marketing expenses relating to the fixed-line telephony business and a 16.4% increase in professional services related to its wireless business.
- Telefónica de Argentina's operating expenses increased 33.8% in 2000, principally due to a 266.9% increase in goods purchased mainly due to expenses incurred as a result of the liberalization of the telecommunications market, which resulted in a 267.1% increase in interconnection costs.
- Telesp's operating expenses increased 31.3% in 2000, mainly due to an increase in goods purchased as a result of an increase in interconnection costs due to the growth in fixed-to-mobile traffic.

The increase in operating expenses of Telefónica Internacional was partially offset by an 8.0% decrease in Compañía de Telecomunicaciones de Chile's operating expenses in 2000, mainly due to a 10.6% decrease in personnel expenses and a 33.8% decrease in external services. The decrease in personnel expenses was due in part to a reduction in the number of employees in Compañía de Telecomunicaciones de Chile's fixed-line telephony business.

Telefónica Data. Telefónica Data's operating expenses increased 99.0% in 2000 to €908.0 million from €454.0 million in 1999, mainly due to:

- a 177% increase in personnel expenses due to a 169% increase in headcount to 2,292 individuals at December 31, 2000 compared to 850 individuals December 31, 1999; and
- an 84% increase in external services in 2000, principally due to increased marketing expenses.

Terra Networks. Terra Networks' operating expenses increased by 431.4% to €750.3 million in 2000 from €141.2 million in 1999, principally due to:

- a 524.5% increase in goods purchased to €193.6 million in 2000 from €31.0 million in 1999;
- a 487.4% increase in personnel expenses to €116.9 million in 2000 from €19.9 million in 1999; and
- a 324.7% increase in other operating expenses to €356.3 million in 2000 from €83.9 million in 1999.

These increases were due in part to the inclusion of a full year of operating expenses of companies Terra Networks acquired in 1999 and the operating expenses of Lycos, Inc., which was acquired in October 2000 for financial reporting purposes.

EBITDA

EBITDA consists of revenue from operations plus other operating revenue and internal expenditures capitalized, less operating expenses, trade provisions and other operating expenses. Our EBITDA increased 9.5% to €11,918.8 million in 2000 from €10,885.4 million in 1999, principally due to the growth of our wireless operations and fixed-line telephony in Latin America, offset by decreased margins in fixed-line telephony in Spain and increased expenses in connection with development costs.

Telefónica de España. Telefónica de España's EBITDA decreased 10.6% to €4,492.5 million in 2000 from €5,026.7 million in 1999. This decrease was mainly due to tariff reductions affecting Telefónica de España's results.

Telefónica Móviles. Telefónica Móviles' EBITDA increased 36.0% to €1,834.1 million in 2000 from €1,348.6 million in 1999. As a percentage of net revenues from operations, EBITDA decreased to 46.4% for 2000 from 49.5% for 1999. EBITDA for Telefónica Móviles' Spanish operations increased 32.3% to €1,790.6 million for 2000 from €1,353.5 million for 1999. As a percentage of net revenues from Telefónica Móviles' Spanish operations, EBITDA for Telefónica Móviles' Spanish operations increased to 51.1% for 2000 from 50.1% for 1999. EBITDA for Telefónica Móviles' Latin America operations accounted for 7.7% of Telefónica Móviles' EBITDA in 2000. EBITDA for Telefónica Móviles' Latin American operations represented 32.2% of net revenues from Telefónica Móviles' Latin American operations.

Telefónica Internacional. Telefónica Internacional's EBITDA increased 35.6% to €6,005.9 million in 2000 from €4,427.6 million in 1999. Telefónica de Argentina's EBITDA increased 28.0% to €1,815.4 million in 2000 from €1,418.4 million in 1999. As measured in local currency, EBITDA of Telefónica Argentina increased 10.8% to 1,674 million Argentine pesos in 2000 due to increased operating revenues as a result of the increase in the number of wireless subscribers and an increase in local fixed-line traffic, offset partially by an increase in operating expenses as a result of the introduction of competition for fixed-line telephony, higher connection charges and an increase in advertising, sales and equipment expenses. Telefónica del Perú's EBITDA increased 28.3% to €734.1 million in 2000 from €572.2 million in 1999. As measured in local currency, EBITDA of Telefónica del Perú increased 11.6% to 2,386 million nuevo soles in 2000 due to a 7.5% increase in operating income as a result of an increase in local fixed-line traffic and an increase in the number of wireless subscribers. Compañía de Telecomunicaciones de Chile's EBITDA increased 10.8% to €627.4 million in 2000 from €566.3 million in 1999. As measured in local currency, EBITDA of Compañía de Telecomunicaciones de Chile decreased 0.2% to 332,039 million Chilean pesos in 2000 due to the 2.3% decrease in revenues from local fixed-line telephony as a result of tariff reductions and the negative impact of the change from billing in minutes to billing in seconds which took effect in February 2000 and mainly affected revenues from wireless and long-distance services, offset in part by the 8.0% decrease in expenses as a result of the company's cost control efforts. Telesp's EBITDA increased 63% to €2,327.9 million in 2000 from €1,428.4 million in 1999. As measured in local currency, EBITDA of Telesp increased 42.5% to 3,934 million Brazilian reais in 2000 due to a 28.4% increase in the number of lines in service.

Telefónica Data. Telefónica Data's EBITDA decreased 63% to €44.8 million in 2000 from €120.0 million in 1999, mainly due to the inclusion of subsidiaries that are still in their start-up phases, which have yet to generate income.

Terra Networks. Terra Networks had negative EBITDA of €359.2 million in 2000 compared to negative EBITDA of €84.7 million in 1999, mainly due to the inclusion of a full year of results of operations of companies Terra Networks acquired in 1999 and three months of results of operations of Lycos, Inc., which was acquired in October 2000 for financial reporting purposes.

Operating profit

Operating profit, which consists of revenue from operations, internal expenditures capitalized, operating expenses, other operating revenue, provision for depreciation and amortization (but not amortization of goodwill on consolidation), other operating expenses and trade provisions, increased 3.8% in 2000 to €4,958.0 million from €4,776.6 million in 1999, principally due to a 9.5% increase in EBITDA, offset in part by a 13.9% increase in depreciation costs in connection with our fixed-line operations in Latin America.

Telefónica de España. Operating profit of Telefónica de España decreased 14.9% to €1,591.3 million in 2000 from €1,870.4 million in 1999.

Telefónica Móviles. Operating profit of Telefónica Móviles increased 30.6% to €1,173.4 million in 2000 from €898.6 million in 1999.

Telefónica Internacional. Operating profit of Telefónica Internacional increased 43.7% to €2,859.9 million in 2000 from €1,991.2 million in 1999.

Telefónica Data. Telefónica Data's operating loss in 2000 was €30.3 million during 2000 compared to an operating profit of €62.3 million in 1999.

Terra Networks. Terra Networks' operating loss in 2000 was €442.8 million during 2000 compared to an operating loss of €90.9 million in 1999.

Profit from ordinary activities

Profit from ordinary activities, which consists of operating profit, amortization of goodwill on consolidation, financial income (expense), exchange (losses) gains and income (loss) from associated companies, decreased 30.9% to €2,435.7 million in 2000 from €3,522.3 million in 1999. Losses from associated companies increased significantly to €161.4 million in 2000 from €3.9 million in 1999 as a result of negative contributions by companies associated with Telefónica Móviles, Admira Media and Terra Networks, respectively. Amortization of goodwill on consolidation increased 158% to €500.6 million in 2000 from €194.3 million in 1999 principally due to acquisitions by Terra Networks and Admira Media during 2000. Financial expense increased 8.2% to €1,611.8 million in 2000 from €1,490.4 million in 1999 due to the increase in debt related to the acquisition of UMTS licenses and the strengthening of the U.S. dollar, in which the majority of the debt of the Telefónica Group's Latin American subsidiaries is denominated, together with an increase in U.S. interest rates.

Income (loss) before tax and minority interest

Income (loss) before tax and minority interest consists of profit from ordinary activities, extraordinary income, losses on sales of fixed assets and extraordinary expenses. Income before tax and minority interest was €2,867.7 million in 2000 compared to a loss before tax and minority interest of €32.7 million in 1999, principally due to extraordinary gains of €2,898.1 million realized in connection with the revaluation of our interest in Telefónica Móviles in connection with its initial public offering and €453.6 million from our sale of 3% of Terra Networks, offset in part by the recording of pre-retirement and early retirement provisions of €1,610.6 million in 2000. Loss before tax and minority interest of €32.7 million in 1999 was due principally to the recording of pre-retirement and early retirement provisions of €2,669.5 million.

Corporate income tax

Provision for corporate income tax at the consolidated level was €242.2 million in 2000 compared to a corporate income tax credit of €758.0 million in 1999, principally due to an increase in non-deductible expenses such as the amortization of goodwill and the inability to deduct the losses of companies accounted for by the equity method from our taxable income.

Minority interests

Income attributable to minority interests decreased 81.6% to €120.6 million in 2000 from €655.7 million in 1999, primarily due to the increase in our ownership interest in Telesp, Tele Sudeste, Telefónica de Argentina and Telefónica de Perú as a result of the completion of our exchange offers for these Latin American affiliates.

Net income

Consolidated net income increased significantly to €2,504.8 million in 2000 from €69.6 million in 1999. This increase was due to the various factors described above.

Principal Differences Between U.S. GAAP and Spanish GAAP

The principal differences between U.S. GAAP and Spanish GAAP relevant to us are discussed below. See also note 25 to the consolidated financial statements included elsewhere herein.

- We have performed in 2001 and prior years some business combinations accounted for under Spanish GAAP using the pooling of interest method. Under U.S. GAAP, these acquisitions were recorded using the purchase accounting method. In the case where a capital increase in a subsidiary is carried out to effect a business combination that is part of a broader corporate reorganization and which is accounted for using the purchase accounting method, under U.S. GAAP Telefónica recognizes the increase in its investment as a result of the capital increase by crediting shareholders' equity.
- Prior to 1988, Spanish GAAP permitted the revaluation of fixed assets. As a result of such revaluation, in years prior to 1988, we stated our property, plant and equipment at the then current replacement cost less accumulated depreciation, and credited the revaluations to the surplus account shown on the balance sheet under "other reserves". Depreciation was calculated each

year based on the then current gross replacement cost using estimated remaining useful lives. Between 1988 and 1995, Spanish GAAP did not permit such revaluations, and we used historical cost basis accounting. In 1996, new legislation permitted us to write-up the value of certain of our assets. This write-up was reversed in the reconciliation to U.S. GAAP of shareholders' equity.

- In accordance with Spanish GAAP, interest incurred during periods exceeding 12 months in which assets are under construction may be capitalized. However, interest incurred during periods in which qualifying assets are under construction are capitalized and amortized over such qualifying asset's expected life under U.S. GAAP.
- Start-up costs are capitalized under Spanish GAAP, but expensed under U.S. GAAP.
- Spanish GAAP requires that research and development expenses and capital increase expenses be capitalized and amortized over a period not exceeding five years. Such expenses are expensed in current periods and reduced from capital proceeds, respectively, under U.S. GAAP.
- Under Spanish GAAP, provisions are recorded for early retirement expenses in the period during which management announces the early retirement programs. Under U.S. GAAP, early retirement provisions are recorded in the period during which an agreement is reached with the employee.
- Under Spanish GAAP exchange gains may be deferred. Under U.S. GAAP, exchange gains are included in income on a current basis.
- Under Spanish GAAP, revenues and expenses are recognized on accrual basis, i.e., when the goods and services are actually provided, regardless of when the resulting monetary or financial flow occurs. Under U.S. GAAP, according to SAB 101, some revenues and related costs must be deferred.
- SFAS No. 115 requires certain investments in financial assets to be classified on the basis of the purpose for which they were acquired (held-to-maturity securities, trading securities or available-for-sale securities). The treatment of the unrealized gains and losses differs depending on the classification:
 - unrealized gains and losses (other than permanent diminutions in value) on securities that we consider held-to-maturity are not recorded
 - unrealized gains and losses on securities considered available-for-sale are not recorded in the income statement but included as a separate equity caption
 - unrealized gains or losses on trading securities are recorded in the income statement

These criteria differ from Spanish GAAP.

- Under Spanish GAAP derivatives not assigned as hedge are accounted at lower of their cost or market value and those assigned as hedge, basically are considered a change in hedge item characteristics. Under U.S. GAAP all derivatives are accounted at fair value through earnings and all derivatives assigned as hedge instruments may have a different accounting or require its hedge item also to be accounted at fair value. Additionally, measuring hedge ineffectiveness differs in Spanish and U.S. GAAP.

Under U.S. GAAP, shareholders' equity was €31,769.8 million at December 31, 2001 compared with €25,861.6 million under Spanish GAAP. Under U.S. GAAP, shareholders' equity was €44,357.8 million at December 31, 2000 compared with €25,930.5 million under Spanish GAAP.

Under U.S. GAAP, net loss was €7,182.3 million for the year ended December 31, 2001 compared with net income of €2,106.8 million under Spanish GAAP. Under U.S. GAAP, net income was €1,856.0 million for the year ended December 31, 2000 compared with €2,504.8 million under Spanish GAAP.

For additional information concerning significant differences between U.S. GAAP and Spanish GAAP, as well as a reconciliation of net income and shareholders' equity to U.S. GAAP, please see note 25 to the consolidated financial statements included elsewhere herein.

New U.S. Accounting Pronouncements

Accounting for Business Combinations, Goodwill and other Intangible Assets

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations* and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 141 replaces Accounting Principles Board Opinion No. 16 (APB 16), *Business Combinations*, and requires business combinations initiated after June 30, 2001, to be accounted for using the purchase method of accounting, and broadens the criteria for recording intangible assets separate from goodwill. Recorded goodwill and intangible assets will be evaluated against this new criteria and may result in certain intangibles being subsumed into goodwill, or alternatively, amounts initially recorded as goodwill may be separately identified and recognized apart from goodwill. SFAS No. 142 requires the use of a non-amortization approach to account for purchased goodwill and certain intangibles. Under a non-amortization approach, goodwill and certain intangibles will not be amortized into results of operations, but instead would be reviewed for impairment and written down and charged to results of operations in the periods in which the recorded value of goodwill and certain intangibles exceeds its fair values. The provisions of SFAS No. 141 and SFAS No. 142, which apply to goodwill and intangible assets acquired prior to June 30, 2001, will be adopted by us on January 1, 2002. We are currently assessing the potential impact of these standards on our financial position and results of operations. In addition, goodwill on prior business combinations will cease to be amortized for U.S. GAAP reporting purposes. Had we adopted SFAS No. 142 at January 1, 2001, we would not have recorded a goodwill amortization charge of €1,970.0 million under U.S. GAAP.

Accounting for Asset Retirement Obligations

In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. An entity shall measure changes in the liability for an asset retirement obligation due to passage of time by applying an interest method of allocation to the amount of the liability at the beginning of the period. The interest rate used to measure that change shall be the credit-adjusted risk-free rate that existed when the liability was initially measured. That amount shall be recognized as an increase in the carrying amount of the liability and as an expense classified as an operating item in the statement of income. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. We do not anticipate that adoption of SFAS No. 143 will have a material impact on our results of operations or financial position.

Accounting for Impairment and Disposal of Certain Assets

In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment and Disposal of Long-Lived Assets*, which supersedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*, and certain provisions of Accounting Principles Board Opinion No. 30 (APB 30), *Reporting Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*. SFAS No. 144 requires that long-lived assets to be disposed of by sale, including discontinued operations, be measured at the lower of the carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. SFAS No. 144 also broadens the reporting requirements of discontinued operations to include all components of an entity that have operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. The provisions of SFAS No. 144, which are effective for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years, with early adoption permitted, will be adopted by us on January 1, 2002. We have not yet estimated whether the adoption of SFAS No. 144 will have a material impact on our financial position or results of operations.

Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections

In April 2002, the FASB issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections*. SFAS No. 145 rescinds SFAS No. 4, *Reporting Gains and Losses from Extinguishments of Debt*, SFAS No. 64, *Extinguishments of Debt made to Satisfy Sinking Fund Requirements*, and SFAS No. 44, *Accounting for Intangible Assets of Motor Carriers*. The statement also amends SFAS No. 13, *Accounting For Leases*, to eliminate certain inconsistencies within that statement. SFAS 145 also makes certain technical corrections or clarifications to other authoritative pronouncements. Certain provisions of SFAS No. 145 are effective for transactions occurring after May 15, 2002. We do not anticipate that adoption of SFAS No. 145 will have a material impact on our results of operations or financial position.

Introduction of the Euro

In April 1997, we created the Office for the Euro Project, which was responsible for determining and evaluating the potential impact of the conversion to the euro as well as planning and coordinating the necessary changes.

The majority of our information systems and applications were modified during 1998 in order to offer information in both pesetas and euro as of January 1, 1999. In addition, during 1999 we began developing a plan to modify such systems and applications in order to commence operating exclusively in euro as of January 1, 2002. These modifications were successfully introduced throughout 2001.

The total cost of changes to our information systems and applications made in order to accommodate the conversion to the euro amounted to €24 million. In addition, we were required to modify our approximately 67,000 outdoor pay phones and our approximately 35,000 indoor pay phones in order for them to accept euro coins. These modifications were completed by the end of January 2002. The cost associated with these modifications totaled approximately €24.9 million.

B. LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Analysis

The table below sets forth our consolidated cash flows for the periods indicated. Positive figures refer to cash inflows and negative figures or those in brackets refer to cash outflows.

| | Year ended December 31, | | | |
|--|-------------------------|----------------|------------------|-----------------------|
| | 1999 | 2000 | 2001 | 2001 |
| | (millions of euro) | | | (millions of dollars) |
| Net cash inflow from operating activities | 9,540.5 | 10,511.9 | 10,685.8 | 9,522.1 |
| Net cash outflow for interest paid less dividends and interest charged | (1,781.6) | (1,515.0) | (1,857.1) | (1,654.8) |
| Net cash outflow for capital expenditures..... | (7,523.2) | (17,513.1) | (8,348.0) | (7,438.9) |
| Net cash outflow for investments in affiliates..... | (2,077.7) | (206.4) | (1,547.4) | (1,378.8) |
| Net cash outflow before financing activities..... | (1,842.0) | (8,722.6) | (1,066.6) | (950.5) |
| Net cash inflow (outflow) from financing activities | 2,332.0 | 14,320.9 | (1,321.1) | (1,177.3) |
| Effects of exchange rate changes on cash..... | (111.9) | (319.2) | (107.0) | (95.4) |
| Net increase (decrease) in cash and cash equivalents | <u>378.1</u> | <u>5,279.2</u> | <u>(2,494.8)</u> | <u>(2,223.1)</u> |

Net Cash Inflow from Operating Activities

Net cash inflow from operating activities increased 1.6% to €10,685.8 million in 2001 from €10,511.9 million in 2000, principally due to the increase in EBITDA from Telefónica Móviles and the increase in EBITDA from Telefónica de España, partially offset by a 3.7% decrease in EBITDA from Telefónica Internacional. Net cash inflow from operating activities increased 10.2% to €10,511.9 million in 2000 from €9,540.5 million in 1999. The increase in 2000 was principally due to the positive performance of Telefónica Móviles and Telefónica Internacional.

Net Cash Outflow for Interest Paid Less Dividends and Interest Charged

Net cash outflow for interest paid less dividends and interest charged increased 22.6% in 2001 to €1,857.1 million from €1,515.0 million in 2000, principally due to the increase in net interest paid, the main component of net cash outflow, to €2,304.7 million in 2001 from €2,022.9 million in 2000. Net cash outflow for interest paid less dividends and interest charged decreased 15.0% to €1,515.0 million in 2000 from €1,781.6 million in 1999. The decrease was principally due to the decrease in net interest paid to €2,022.9 million in 2000 from €2,203.3 million in 1999.

Net Cash Outflow for Capital Expenditures

Net cash outflow for capital expenditures decreased 52.3% to €8,348.0 million from €17,513.1 million in 2000. Tangible capital expenditure payments for 2001 amounted to €6,369.6 million, mainly consisting of investments made by Telefónica Internacional (particularly Telesp), Telefónica Móviles and Telefónica de España. Intangible capital expenditures for 2001 amounted to €1,171.8 million, principally consisting of investments by Telefónica de España and investments by Telefónica Móviles in connection with its acquisition of UMTS licenses. Net cash outflow for capital expenditures increased by 132.8% to €17,513.1 million in 2000 from €7,523.2 million in 1999. Tangible capital expenditure payments for 2000 amounted to €8,016.6 million, mainly consisting of capital expenditures by Telefónica Internacional, Telefónica de España and Emergia. Intangible capital expenditures for 2000 amounted to €9,229.7 million, principally consisting of investments by Telefónica Móviles in connection with its acquisition of UMTS licenses.

Net Cash Outflow for Investments in Affiliates

Net cash outflow for investments in affiliates increased in 649.7% to €1,547.4 million 2001 from €206.4 million in 2000. Our main investments in affiliates during 2001 were our acquisition of 100% of the shares of mediaWays GmbH for €1,473.1 million and our subscription of shares in connection with a capital increase by mediaWays for €62.5 million.

The principal transaction in 2001 which generated cash inflow from affiliates was the sale by Telefónica Internacional of its 35.9% holding in the Argentine company Cablevisión, S.A. which amounted to €731.7 million.

Net cash outflow for investments in affiliates decreased 90.1% to €206.4 million in 2000 from €2,077.7 million in 1999.

Our main investments in affiliates during 2000 were:

- the acquisition of an additional interest in DTS Distribuidora de Televisión Digital, S.A., which resulted in a cash outflow of €189.3 million
- the acquisition of an additional interest in Media Park, S.A., which resulted in a cash outflow of €63.1 million
- the acquisition of a 51% stake in the Venezuelan Rodven Group, which resulted in a cash outflow of €51.3 million
- the acquisition of a 27.7% interest in OneTravel.com, which resulted in a cash outflow of €16.0 million

The principal transactions in 2000 which generated cash inflow from affiliates were:

- the public offering of 7.9% of Telefónica Móviles, S.A. which resulted in cash inflow of €3,304.9 million
- the sale of a 3% interest in Terra Networks, which resulted in a cash inflow of €453.6 million
- the sale of a 16.7% interest in Companhia Riograndense de Telecomunicações S.A., which resulted in a cash inflow of €60.0 million

- the sale of shares of Emergia Holding, N.V., which resulted in a cash inflow of €33.2 million
- the sale of a 0.3% stake in Infonet Services Corporation, which resulted in a cash inflow of €24.1 million
- the sale of a 6.1% stake in Amper, S.A., which resulted in a cash inflow of €5.4 million

Net Cash Outflow Before Financing Activities

In 2001, net cash outflow before financing activities decreased 87.8% to €1,066.6 million in 2001 from €8,722.6 million in 2000, principally due to the significant decrease in capital expenditures following the unusually high levels in 2000 as a result of the acquisition of UMTS licenses by Telefónica Móviles and expenditures by Telefónica Internacional, Telefónica de España and Emergia. In 2000, net cash outflow before financing activities increased 373.5% to €8,722.6 million in 2000 from €1,842.0 million in 1999, principally due to the significant increase in net cash outflow for capital expenditures in 2000 as a result of the above, which more than offset the increase in cash inflow from operating activities and the decrease in net cash outflow for investments in affiliates.

Net Cash Inflow (Outflow) from Financing Activities

Net cash outflow from financing activities amounted to an outflow of €1,321.1 million in 2001 compared to net cash inflow of €14,320.9 million in 2000. Net cash outflow from financing activities in 2001 was principally the result of repayments of loans, credit facilities and notes payable in the amount of €7,773.4 million. Net cash inflow from financing activities amounted to an inflow of €14,320.9 million in 2000 compared to an inflow of €2,332.0 million in 1999. Net cash inflow from financing activities in 2000 was principally the result of debenture issues of U.S.\$10 billion, €650 million and 66,200 million Japanese yen. We had net cash inflow from financing activities in 1999 principally as a result of debenture issues in the Spanish market of €500 million, €300 million and €30 million, respectively, and floating rate notes totaling €500 million with one year maturity and an interest rate linked to 3-month EURIBOR outside Spain. Of our €28,941.6 million of consolidated debt at December 31, 2001, approximately 2.0% represented zero-coupon obligations, and the average interest rate on net debt was 6.34%.

Anticipated Uses of Funds

Capital Requirements

We expect to spend 57% of our capital expenditures budget for 2002 on our fixed-line telephony and data services businesses (including broadband services which are expected to account for approximately 24% of our fixed-line telephony expenditures in 2002 compared to 13.6% in 2001), 34% on our wireless services business and 13% on our other lines of business. Our anticipated amounts of capital expenditures and investments in affiliates and the underlying assumptions are subject to risks and uncertainties, and actual capital expenditures and investments in affiliates may be less than or exceed these amounts. See “Cautionary Statement Regarding Forward-Looking Statements”.

Contractual Obligations and Commercial Commitments

The following table aggregates our contractual obligations and commitments with definitive payment terms which may require significant cash outlays in the future. The amounts payable are as of December 31, 2001.

| | Payments Due by Period | | | | |
|---|------------------------|------------------|----------------|----------------|----------------|
| | Total | Less than 1 year | 1-3 years | 4-5 years | After 5 years |
| | (millions of euro)(1) | | | | |
| Contractual Obligations | | | | | |
| Debentures and bonds | 15,325.0 | 944.1 | 3,224.1 | 2,980.6 | 8,176.2 |
| Other negotiable instruments | 1,680.3 | 1,600.3 | 80.0 | — | — |
| Notes payable..... | 120.9 | 7.2 | 14.0 | 6.7 | 92.9 |
| Loans and credits | 7,561.9 | 4,254.8 | 1,413.1 | 745.7 | 1,148.4 |
| Loans in foreign currency | 6,559.8 | 1,901.5 | 2,579.6 | 923.4 | 1,155.4 |
| Financial guarantees(2)..... | 712.9 | 102.5 | 145.4 | 146.9 | 318.1 |
| Terra Networks purchase obligation(3) | 758.3 | — | 758.3 | — | — |
| Total..... | <u>32,719.1</u> | <u>8,810.4</u> | <u>8,214.5</u> | <u>1,822.7</u> | <u>2,714.8</u> |

- (1) Contractual commitments denominated in dollars have been translated into euro at U.S.\$0.8901= €1.00, the noon buying rate for euro on December 31, 2001. Actual amounts paid in dollars may differ at the payment date.
- (2) We have provided guarantees to secure certain financial transactions totaling €712.9 million, mainly our financing commitments with respect to certain of IPSE 2000's accounts payable, which IPSE 2000 incurred in connection with the acquisition of its UMTS license in Italy. Under certain conditions, we could be obligated to pay up to an aggregate of €712.9 million over the next five years.
- (3) In connection with Terra Networks' acquisition of Lycos, Inc., Bertelsmann entered into an agreement to purchase advertising, placement and integration services from Terra Networks during the five-year period following the consummation of the acquisition, which occurred in October 2000. As described in our Annual Report on Form 20-F for the fiscal year ended December 31, 2000, according to this agreement, we agreed to purchase from Terra Networks, if necessary, any portion of the services that Bertelsmann does not buy pursuant to its agreement during the third, fourth and fifth years following the consummation of the acquisition, up to \$675 million (\$200 million in the third year, \$225 million in the fourth year and \$250 million in the fifth year).

Telefónica Móviles initially provided certain guarantees in an aggregate amount of €1,100 million to the Spanish government in connection with its acquisition of a UMTS license in Spain. These guarantees support certain network build-out, research and development and job creation requirements. Telefónica Móviles is released from these guarantees from time to time, as specified milestones are reached. Phase I of the build-out requirement has been completed, and we are currently in negotiations with the Spanish government to release Telefónica Móviles from a significant portion of these guarantees. At June 30, 2002, the aggregate amount of Telefónica Móviles' guarantees to the Spanish government in connection with its acquisition of a UMTS licence in Spain totalled €781 million.

For details of the composition of, and changes in, our debt, see notes 15 and 16 to our consolidated financial statements.

We are also party to certain contractual arrangements that could require us to make payments under certain circumstances, including the exercise of options by third parties that require us to purchase securities held by them. Our material commercial commitments are described below.

On April 26, 2002, Telefónica Móviles signed agreements to purchase, subject to regulatory approval, 65% of Pegaso Telecomunicaciones, S.A. de C.V. from Sprint, Leap Wireless and other financial investors. Under these agreements, Telefónica Móviles has agreed to pay \$87 million in cash and to cause Pegaso to pay approximately \$586 million in existing debt obligations and any amount drawn down from \$100 million in additional interim financing provided by a third party, within 30 to 60 days of the closing of the acquisition. In addition, \$280 million of Pegaso's existing non-recourse vendor financing would accelerate and become immediately due if Pegaso were to implement a change in its wireless technology. The payment of the accelerated vendor debt is guaranteed by Telefónica Móviles. In connection with the Pegaso acquisition, Telefónica Móviles has agreed to contribute its

interest in Pegaso and its other Mexican operators to a new company (“Newco”) formed with Pegaso’s other shareholder and subscribe for 65% of a capital increase of between \$326 million and \$488 million to be carried out by Pegaso simultaneously with the closing of the Pegaso acquisition.

Telefónica Móviles’ agreement to create Newco and combine its interests in Pegaso and its other Mexican operators with the Burillo Group’s interest in Pegaso includes exit mechanisms for its local partners. These exit mechanisms operate via certain put rights for the Burillo Group relating to the Burillo Group’s Newco shares. In addition, Telefónica Móviles also has call rights with regard to the Burillo Group’s Newco shares. The Burillo Group will have the right to require Telefónica Móviles to purchase its shares in Newco in 2007 or 2008, or if its interest in Newco decreases to less than 50% of its original holding, after the occurrence of the event that results in such a dilution of its interest. If the Burillo Group does not exercise its put rights, Telefónica Móviles has the right, after November 14, 2008, to require it to sell to Telefónica Móviles its entire interest in Newco. In each such case, the purchase price will be determined based on a valuation of Newco performed pursuant to specified procedures at the time the related right is exercised. If Telefónica Móviles is required to purchase the Burillo Group’s Newco shares under its put right, or if Telefónica Móviles purchases its Newco shares under its call right, Telefónica Móviles has agreed to pay a portion of the purchase price in cash in an amount based on the Burillo Group’s original investment of \$160 million to \$216 million in Newco, plus the annual cost of carry (which is equal to the annual U.S. dollar swap rate), less any cash distributions received by the Burillo Group, and any remaining amount, if any, in, at Telefónica Móviles’ option, cash or Telefónica Móviles shares or a combination thereof. Because the amounts payable by Telefónica Móviles pursuant to the foregoing put and call rights are based on a valuation of Newco at the time the related right is exercised in 2007 or 2008, and the actual interest of the Burillo Group (either 8% or 10%), we are not able to determine as of the date of this Annual Report Telefónica Móviles’ potential commitment pursuant to such rights.

Telefónica Móviles’ subsidiary, Telefónica Móviles España, has agreed with IPSE 2000 to loan up to €250 million to it in order to preserve its activities and permit the launching of UMTS services in Italy when the technology becomes commercially feasible.

Pursuant to an agreement dated September 29, 2000, between Telefónica, S.A. and Tyco, if Emergia Holding, N.V. has not initiated the process for launching a public offering of its shares on the New York Stock Exchange prior to December 31, 2002, Tyco will have the right to require Telefónica, S.A., or one of its subsidiaries, to purchase Tyco’s entire interest in Emergia Holding, N.V. at a purchase price equal to the amount paid by Tyco in connection with the acquisition of its interest in Emergia Holding, NV., which is equal to approximately €48.4 million.

In January 2000, Vía Digital issued additional ordinary shares. As part of the capital increase, we gave three shareholders of Vía Digital who subscribed for the majority of the capital increase the right to require that we either (i) repurchase, if legally permitted, or (ii) identify a buyer who will purchase, their respective interest in Vía Digital at the price paid by each of them (€143.4 million in the aggregate) plus interest, as provided in the agreement. In the case of one of these shareholders, we may be required to purchase its shares on June 30, 2003, while in the case of the other two shareholders we may be required to purchase their shares between June 30, 2003 and June 30, 2004.

Notwithstanding significant future cash outlays in connection with the repayment of our debt, we believe that we will be able to gradually reduce the level of this consolidated debt. In order to achieve this objective, we expect to:

- make future borrowings on significantly more favorable terms than in the past when much of our debt was at fixed rates substantially above current market rates and
- increase our reliance on self-financing.

Anticipated Sources of Liquidity

Cash flows from operations are our primary source of cash funding for existing operations, capital expenditures and debt interest and principal payments. We also rely on external borrowings, including a variety of short- and medium-term financial instruments, principally bonds and debentures, and borrowings from financial institutions. We believe that our medium term note program and available lines of credit will provide us with substantial flexibility for our future capital requirements as existing debt is retired.

As of December 31, 2001, we had credit facilities provided by more than 40 banks for an aggregate amount of €4,600 million.

Our credit facilities require amortization payments of €2,000 million in 2002 and €2,588 million in 2003. An amount of €12 million of our credit facilities has no amortization schedule and is of indefinite duration. All of our credit facilities bear interest at a floating rate based on market indices, principally the Euro Interbank Offered Rate (EURIBOR), the London Interbank Offered Rate (LIBOR), the Madrid Interbank Offered Rate (MIBOR) and the Brazilian Selic, Brazil's prime rate.

The table below sets forth the ratings of our short-term and long-term debt as of the date of this Annual Report.

| <u>Rating Agency</u> | <u>Issuer (1)</u> | <u>Long-Term Debt</u> | <u>Short-Term Debt</u> | <u>Outlook</u> | <u>Last Update</u> |
|----------------------|-------------------|-----------------------|------------------------|----------------|--------------------|
| Standard & Poor's | Telefónica, S.A. | A | A-1 | Stable | February 5, 2002 |
| Moody's | Telefónica, S.A. | A2 | P-1 | Negative | May 20, 2002 |
| Fitch | Telefónica, S.A. | A+ | F1 | Negative | January 11, 2002 |

(1) Long-term and short-term debt issued by Telefónica Europe, B.V. is similarly rated to long-term and short-term debt issued by Telefónica, S.A.

Our ability to use external sources of financing will depend in large part on our credit ratings. We believe that we are well-positioned to raise capital in the public debt markets. However, a downgrade of any of the ratings of our debt by any of Moody's, Standard & Poor's or Fitch may increase the cost of our future borrowing or may make it more difficult to access the public debt markets. In connection with the credit rating agencies' review of our debt ratings, the rating agencies may give considerable weight to the general macroeconomic and political conditions in Latin America given our high degree of exposure in such region, the performance of our businesses in our domestic market, our financial exposure to development costs in connection with the expansion of our wireless business in Europe, particularly costs related to our UMTS licenses, and our ability to turn around our non-profitable businesses.

Intragroup Loans

Telefónica, S.A. lends funds to its operating subsidiaries, directly or through holding companies that head its different lines of business. These funds are derived from retained cash flows, loans, bonds and other sources (such as asset disposals). Some of the subsidiaries receiving funds are located in Latin America countries. In fact, most of the Telefónica Group's exposure to Argentina, amounting to €3,581.9 million at December 31, 2001 (according to Spanish accounting criteria), is due to intragroup loans.

C. RESEARCH AND DEVELOPMENT

Our research and development policy is aimed at:

- developing new products and services in order to gain market share
- fostering customer loyalty
- increasing revenues
- improving management
- improving business practices
- increasing the quality of our infrastructure and services to improve customer service
- reducing costs

Our research and development activities are principally conducted by Telefónica Investigación y Desarrollo, S.A.U. Telefónica Investigación y Desarrollo conducts experimental and applied research and product development to increase the range of our services and reduce operating costs. It also provides technical assistance to our Latin American operations. Telefónica Investigación y Desarrollo's activities include the following:

- the development of telephone services, particularly the development of new value-added services such as broadband, wireless communications and Internet services for the public, corporate, wireless and multimedia sectors, and the automation of customer services
- the development of interactive services, focusing on the development of information services and new infrastructure to provide such services, primarily in the Internet Protocol environment
- the development of management systems designed to strengthen infrastructure and its quality and to develop innovative solutions for the management of Telefónica's networks and services
- the development of business support systems intended to provide innovative solutions for business processes
- innovation in business services intended to reinforce technological skills in the areas of networks, software and information technologies

Approximately 52% in 2001 and 52% in 2000 of Telefónica Investigación y Desarrollo's research and development was for the benefit of Telefónica de España, while approximately 44% in 2001 and 40% in 2000 was for the benefit of the Telefónica Group's other subsidiaries, particularly Telefónica Móviles, Telefónica Data, Atento, Terra Lycos, Admira and Telefónica Internacional.

Our total research and development expenses (including those of Telefónica Investigación y Desarrollo) totaled €90.3 million, €105.9 million and €170.8 million in 1999, 2000 and 2001, respectively. These expenses represented 0.4%, 0.4% and 0.6% of our consolidated revenues in each of those years, respectively.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

We are managed by our Board of Directors, which consists of a minimum of five and a maximum of 20 members. All members of the Board of Directors are elected to five-year terms by our shareholders during a general meeting of shareholders. Between general meetings, the Board of Directors may appoint directors to fill vacancies on the Board of Directors, subject to ratification at the next general meeting. The Board of Directors, which meets monthly, elects from among its own members the chairman and the vice chairmen, and delegates day-to-day management of the group to a standing committee of the Board of Directors which meets bi-weekly. The Board of Directors has also constituted an audit and control committee, a hiring and compensation committee, a human resources committee, a regulatory committee and a service quality and customer care committee, each of which is composed of between a minimum of three directors and a maximum of five directors, most of whom are independent directors.

Board of Directors

At June 26, 2002, the directors of Telefónica, S.A., their respective positions on the Board of Directors and the year they were appointed to such positions were as follows:

| Name | Age | First Appointed | Current Term Ends | Current Position and Present Principal Occupation or Employment; Material Positions Held During Past Five Years* |
|-------------------------------|-----|-----------------|-------------------|---|
| César Alierta Izuel(1)..... | 56 | 1997 | 2007 | Chairman and Chief Executive Officer, Telefónica, S.A. (since 2000); Director, Altadis, S.A. |
| Isidro Fainé Casas(1)(2)..... | 59 | 1994 | 2006 | Vice Chairman, Telefónica, S.A.; General Manager, Caja de Ahorros y Pensiones de Barcelona; Chairman, Autopistas Concesionaria Española, S.A.; Vice Chairman, Sociedad General de Aguas de Barcelona, S.A.; Director, Banco Herrero, S.A.; Director, Gas Natural, S.A.; Director, |

| Name | Age | First Appointed | Current Term Ends | Current Position and Present Principal Occupation or Employment; Material Positions Held During Past Five Years* |
|---|-----|-----------------|-------------------|--|
| José Ignacio Goirigolzarri Tellaache(3)..... | 48 | 2000 | 2005 | Sociedad de Aparcamientos de Barcelona, S.A.; Director, Inmobiliaria Colonial, S.A. Vice Chairman, Telefónica, S.A.; Managing Director, Banco Bilbao Vizcaya Argentaria, S.A.; Vice Chairman, Repsol YPF, S.A. |
| Fernando Abril-Martorell Hernández(1)..... | 40 | 2000 | 2006 | Managing Director, Telefónica, S.A.; Director, Telefónica Móviles, S.A.; former General Manager of Finance, Telefónica, S.A. |
| Maximino Carpio García(1)(4)(5) | 56 | 1997 | 2007 | Director, Telefónica, S.A.; Director, Economic and Social Council of Spain; Director, Telefónica Móviles, S.A.; Professor of Applied Economics, Universidad Autónoma de Madrid |
| Carlos Colomer Casellas(1)(8) | 58 | 2001 | 2006 | Director, Telefónica, S.A.; Chairman, The Colomer Group; Director, Altadis, S.A. |
| José Antonio Fernández Rivero(3)(4)(7) | 52 | 2002 | 2007 | Director, Telefónica, S.A.; General Manager, Banco Bilbao Vizcaya Argentaria, S.A. |
| Alfonso Ferrari Herrero(5)(9)..... | 60 | 2001 | 2006 | Director, Telefónica, S.A.; Director, Telefónica Móvil de Chile, S.A.; Director, Compañía de Telecomunicaciones de Chile, S.A. |
| Luiz Fernando Furlán..... | 55 | 2000 | 2006 | Director, Telefónica, S.A.; Chairman, Sadia, S.A.; Director, Panamco Pan American Beverages; Director, IBM Latin America; Director, ABN AMRO Bank (Brazil) |
| Gonzalo Hinojosa Fernández de Angulo(4)(8)..... | 56 | 2002 | 2007 | Director, Telefónica, S.A.; Chairman and Managing Director, Cortefiel, S.A.; Director, Altadis, S.A.; Director, Portland Valderrivas, S.A. |
| Miguel Horta e Costa(6) | 54 | 1998 | 2003 | Director, Telefónica, S.A.; Vice Chairman, Portugal Telecom, S.A.; President, Executive Committee of Portugal Telecom, S.A.; President, Executive Committee of Portugal Telecom International, S.A.; Director, Portugalia Airlines |
| Pablo Isla Álvarez de Tejera(5)(9)..... | 38 | 2002 | 2007 | Director, Telefónica, S.A.; Chairman, Altadis, S.A.; Chairman, Logista, S.A.; Director, Iberia Líneas Aéreas de España, S.A.; Director, Red Eléctrica de España, S.A. |
| Luis Lada Díaz..... | 53 | 2000 | 2006 | Director, Telefónica, S.A.; Chairman, Telefónica Móviles, S.A. |
| José Maldonado Ramos(1)(3)(7)(8)..... | 50 | 1999 | 2004 | Director, Telefónica, S.A.; Director-General Secretary, Banco Bilbao Vizcaya Argentaria, S.A. |
| Antonio Massanell Lavilla(2)(4)(8)(9) | 47 | 1995 | 2006 | Director, Telefónica, S.A.; Assistant General Manager, Caja de Ahorros y Pensiones de Barcelona; Director, Telefónica Móviles, S.A.; Director, Inmobiliaria Colonial, S.A. |
| Enrique Used Aznar(7)(9)..... | 60 | 2002 | 2007 | Director, Telefónica, S.A.; Chairman Amper, S.A.; Director, Terra Networks, |

| Name | Age | First Appointed | Current Term Ends | Current Position and Present Principal Occupation or Employment; Material Positions Held During Past Five Years* |
|--|-----|-----------------|-------------------|---|
| Mario Eduardo Vázquez | 66 | 2000 | 2006 | S.A. Director, Telefónica, S.A.; Director, Banco Río de la Plata, S.A.; Chairman, Río Compañía de Seguros, S.A.; Director, Ríobank International; Director, Corporación Metropolitana de Finanzas, S.A.; Director, Heller Financiera Argentina, S.A.; Director, Heller-Sud Servicios Financieros, S.A.; Director, Motorcare Argentina, S.A.; Director, Acsa Loss Control, S.A.; Director, Central Puerto, S.A. |
| Antonio Viana-Baptista(1)(6) | 44 | 2000 | 2005 | Director, Telefónica, S.A., Chairman, Telefónica Internacional, S.A.; Director, Terra Networks, S.A., representing Telefónica DataCorp, S.A. |
| Gregorio Villalabeitia Galarraga(1)(3)(5)..... | 51 | 2002 | 2007 | Director, Telefónica, S.A.; General Manager, Banco Bilbao Vizcaya Argentaria, S.A.; Director, Iberia Líneas Aéreas de España, S.A.; Director, Metrovacesa, S.A.; Director, Repsol YPF, S.A.; Director, IBV; Director, Gas Natural S.A. |
| Antonio Jesús Alonso Ureba(1)(7) | 44 | 2001 | 2006 | Director, Telefónica, S.A.; Secretary of the Board, Telefónica, S.A; former Secretary to the Board of the Spanish Securities Commission (<i>Comisión Nacional del Mercado de Valores</i>). |
| Joaquín de Fuentes Bardají | 48 | 2001 | — | Vice Secretary of the Board, Telefónica, S.A. Non-Director |

- (1) Member of the Standing Committee of the Board of Directors.
- (2) Nominated by Caja de Ahorros y Pensiones de Barcelona.
- (3) Nominated by Banco Bilbao Vizcaya Argentaria, S.A.
- (4) Member of the Audit and Control Committee of the Board of Directors.
- (5) Member of the Hiring and Compensation Committee of the Board of Directors.
- (6) Citizen of Portugal.
- (7) Member of the Regulatory Committee of the Board of Directors.
- (8) Member of the Service Quality and Customer Care Committee of the Board of Directors.
- (9) Member of the Human Resources Committee of the Board of Directors.

* Where no position is shown, principal occupation for past five years was as director of Telefónica.

Spanish law permits limited liability companies to serve as members of the Board of Directors. A company serving in such a capacity must appoint a natural person to represent it at the meetings of the Board of Directors.

A significant majority (15) of our current directors are non-managing directors. In accordance with the regulations of our Board of Directors, a minority of these directors (6) are appointed by our significant shareholders.

The Standing Committee is a body empowered to make decisions on general matters on behalf of the Board of Directors and has the delegated authority to carry out our Board of Directors' powers as permitted by our by-laws and Spanish corporate law. The members of the Standing Committee are César Alierta Izuel, Isidro Fainé Casas, Fernando Abril-Martorell Hernández, Maximino Carpio García, Carlos Colomer Casellas, José Maldonado Ramos, Antonio Viana-Baptista, Gregorio Villalabeitia Galarraga and Antonio Alonso Ureba.

The Audit and Control Committee is responsible for providing support to the Board of Directors in supervising the correct application of generally accepted accounting principles, reviewing compliance with internal control systems and maintaining the integrity of the preparation of individual and consolidated audits. The Audit and Control Committee is also responsible for retaining and terminating the company's independent auditors, subject to shareholder approval, and the monitoring of such auditors' qualifications and independence. The members of the Audit and Control Committee are Antonio Massanell Lavilla (president), Maximino Carpio García, José Antonio Fernández Rivero and Gonzalo Hinojosa Fernández de Angulo.

The Hiring and Compensation Committee is responsible for informing the Board of Directors of the proposals for naming Board of Directors members, members of Board of Directors committees and top members of management of Telefónica and its subsidiaries. In addition, the Hiring and Compensation Committee is responsible for approving contracts and compensation packages for top members of management, determining Directors' compensation, determining the basic criteria for the Chairman's compensation, informing the Board of Directors of incentive plans and developing and maintaining a register of information concerning Directors and top members of management. The members of the Hiring and Compensation Committee are Alfonso Ferrari Herrero (president), Maximino Carpio García, Pablo Isla Álvarez de Tejera and Gregorio Villalabeitia Galarraga.

The Human Resources Committee is responsible for making proposals to the Board of Directors regarding the adoption of agreements with personnel. The members of the Human Resources Committee are Pablo Isla Álvarez de Tejera (president), Alfonso Ferrari Herrero, Antonio Massanell Lavilla and Enrique Used Aznar.

The Regulatory Committee is responsible for making proposals to the Board of Directors regarding the adoption of policies in connection with regulatory matters. The members of the Regulatory Committee are Enrique Used Aznar (president), Antonio Jesús Alonso Ureba, José Antonio Fernández Rivero and José Maldonado Ramos.

The Service Quality and Customer Care Committee is responsible for assuring and monitoring the standards of quality of all services provided by the Telefónica Group and is committed to focusing on the customer satisfaction of all of its clients. The members of the Service Quality and Customer Care Committee are Gonzalo Hinojosa Fernández de Angulo (president), Carlos Colomer Casellas, José Maldonado Ramos and Antonio Massanell Lavilla.

Executive Committee

The members of our executive management committee at May 29, 2002, and the years of their appointments to their respective positions were as follows:

| Name | Position | Appointed | Age |
|--|--|------------------|------------|
| César Alierta Izuel | Chairman of the Board of Directors and Chief Executive Officer, Telefónica, S.A. | 2000 | 56 |
| Fernando Abril-Martorell Hernández | Managing Director, Telefónica, S.A. | 2000 | 40 |
| Luis Abril Pérez | Chairman of the Board of Directors and Chief Executive Officer, Admira Media | 2002 | 53 |
| Joaquim Agut Bonsfills | Chairman of the Board of Directors and Chief Executive Officer, Terra Networks, S.A. | 2000 | 46 |
| José María Alvarez-Pallete Lopez | General Manager of Corporate Finance, Telefónica, S.A. | 1999 | 38 |
| Francisco de Bergia González | General Manager, Assistant to the Chairman, Telefónica, S.A. | 2000 | 53 |
| Joaquín Faura Batlle | General Manager of Content, Telefónica, S.A. | 2002 | 51 |
| Guillermo Fernández Vidal..... | General Manager, Assistant to the Managing Director of Telefónica, S.A. | 1998 | 56 |
| Alberto M. Horcajo Aguirre | Chairman of the Board of Directors and Chief Executive Officer, Atento | 2001 | 38 |
| Luis Lada Díaz..... | Chairman of the Board of Directors and Chief Executive Officer, Telefónica Móviles, S.A. | 2000 | 53 |
| Julio Linares López..... | Chairman of the Board of Directors and Chief | 1998 | 56 |

| Name | Position | Appointed | Age |
|--|--|-----------|-----|
| | Executive Officer, Telefónica de España, S.A. | | |
| Oscar Maraver Sánchez-Valdepeñas | General Manager of Human Resources, Telefónica, S.A. | 2001 | 52 |
| Antonio Palacios Esteban | General Manager of Resources, Telefónica, S.A. | 2000 | 51 |
| Calixto Ríos Pérez | General Manager of Institutional Relations, Telefónica, S.A. | 2000 | 58 |
| Antonio Viana-Baptista | Chairman of the Board of Directors and Chief Executive Officer, Telefónica Internacional, S.A. | 1998 | 44 |
| Angel Vilá Boix | General Manager of Corporate Development, Telefónica, S.A. | 2000 | 37 |
| Antonio Jesús Alonso Ureba..... | General Secretary and Secretary of the Board of Directors, Telefónica, S.A. | 2001 | 44 |
| Eduardo Caride | Chairman of the Board of Directors, Telefónica DataCorp, S.A. | 2001 | 46 |

In addition to the above, the senior management of Telefónica, S.A. is comprised of one general manager, 11 deputy general managers and 26 assistant general managers of Telefónica, S.A.

B. COMPENSATION

The following table shows the amounts of compensation to the Board of Directors of Telefónica, S.A. by Telefónica, S.A. and other members of the Telefónica Group in 2000 and 2001.

| Type of Compensation | Year ended December 31, | | | |
|--------------------------------|-------------------------|---------------|------------------|---------------|
| | 2000 | | 2001 | |
| | Telefónica, S.A. | Rest of Group | Telefónica, S.A. | Rest of Group |
| | (millions of euro) | | | |
| Salary(1) | 2.2 | 1.2 | 2.4 | 1.2 |
| Variable Compensation(1) | 1.5 | 1.6 | 2.0 | 0.40 |
| Fees and allowances..... | 2.2 | 1.2 | 2.6 | 1.1 |
| In-kind compensation | 0.04 | 0.3 | 0.03 | 0.2 |
| Total..... | 6.0 | 4.4 | 7.1 | 2.9 |

(1) Corresponds to directors with executive functions only.

We provide pension, retirement or similar benefits to our directors and executive officers. We set aside or accrued approximately €0.3 million (€0.26 million at Telefónica, S.A. and €0.04 million at other members of the Telefónica Group) during 2001 and €0.3 million (€0.2 million at Telefónica, S.A. and €0.1 million at other members of the Telefónica Group) during 2000 for these benefits.

In addition, the cost to the Telefónica Group of compensation plans linked to the market price of our shares in which directors participate as executives amounted to €1.3 million in 2001 and €1.1 million in 2000.

The following table shows the amounts of compensation paid to members of the Executive Committee (excluding those who are also members of the Board of Directors of Telefónica, S.A.) and senior management of Telefónica, S.A. by Telefónica, S.A. and other members of the Telefónica Group in 2000 and 2001.

| Type of Compensation | Year ended December 31, | | | |
|----------------------------|-------------------------|---------------|------------------|---------------|
| | 2000 | | 2001 | |
| | Telefónica, S.A. | Rest of Group | Telefónica, S.A. | Rest of Group |
| | (millions of euro) | | | |
| Salary | 5.9 | 2.4 | 9.3 | 2.4 |
| Variable Compensation..... | 2.1 | 1.9 | 3.6 | 1.0 |
| Fees and allowances..... | — | 0.1 | 0.03 | 0.1 |

| Type of Compensation | Year ended December 31, | | | |
|----------------------------|-------------------------|---------------|------------------|---------------|
| | 2000 | | 2001 | |
| | Telefónica, S.A. | Rest of Group | Telefónica, S.A. | Rest of Group |
| | (millions of euro) | | | |
| In-kind compensation | 0.1 | 0.1 | 0.3 | 0.1 |
| Total..... | <u>8.2</u> | <u>4.5</u> | <u>13.2</u> | <u>3.5</u> |

We provide pension, retirement or similar benefits to our directors with executive functions and to our executive officers. We set aside or accrued approximately €0.3 million (€0.3 million at Telefónica, S.A. and €0.04 million at other members of the Telefónica Group) during 2001 and approximately €0.2 million (€0.2 million at Telefónica, S.A. and €0.1 million at other members of the Telefónica Group) during 2000 for these benefits.

Incentive Plans

We currently have two incentive compensation plans, approved by our general meeting of shareholders on April 7, 2000, in order to retain and motivate our officers and employees. The TOP plan, which is directed exclusively towards officers of the Telefónica group, requires eligible officers to purchase our shares in the open market at market prices and hold these shares for specified periods in order to receive additional cash compensation calculated on the basis of any increase in the value of our shares. The TIES plan, which is directed to all employees of the Telefónica group, requires eligible employees to purchase our shares at below market prices and to receive options, based on the number of shares purchased by each eligible employee, whose value will depend on any increase in the value of our shares over an initial reference value. In addition, we have a stock option plan for employees of Endemol, S.A. (the “EN-SOP Program”), which grants eligible employees at Endemol options on our shares. Finally, Telefónica Publicidad e Información, Terra Networks and Telefónica Móviles have incentive plans for their respective employees.

TOP

In May 1999, our Board of Directors approved a stock option plan called TOP proposed by its Hiring and Compensation Committee. This stock option plan is effective for a period of four years and three months from its June 28, 1999 commencement date and is open to up to 500 officers throughout the Telefónica Group. Our shareholders approved the TOP plan at our annual general shareholders’ meeting in April 2000.

All beneficiaries are required to acquire in the open market at market prices and hold, during the entire effective period, a specified number of shares in an amount corresponding to the beneficiary’s management responsibility. If all eligible officers elect to participate in the plan, the total number of shares acquired by them would be 270,237 shares, or 810,711 shares after giving effect to stock splits and anti-dilution provisions of the plan.

Under this management incentive plan, participating officers will receive the following number of options over our shares for each share acquired by such person and deposited under the plan:

- 10 type A options, with an exercise price of €46.18, which is equal to the market price of the shares on the date that the plan was initiated, as adjusted from time to time for stock splits and anti-dilution provisions
- 10 type B options, with an exercise price of €69.27, which is equal to the market price described above plus 50% of the market price

At December 31, 2001, the exercise price for the type A options initially granted adjusted for stock splits and anti-dilution provisions was equal to €14.50, and the exercise price for the type B options initially granted adjusted for stock splits and anti-dilution provisions was €21.75.

In October 2000 and February and April 2001, we granted new options under the TOP plan from the pool of remaining options under the plan. The general shareholder’s meeting of June 2001 approved these grants and granted authority to the Board of Directors to issue further new grants under the plan from the remaining pool, subject to certain restrictions. These options have the same characteristics as the options previously granted under the TOP plan, except that the exercise price for the type A options was fixed at the market price on the respective date of grant.

Participants in the plan may exercise these options:

- beginning in its second year following effectiveness in an amount equal to one-third of the total options granted
- again in each of the third and fourth years following effectiveness in an amount equal to one-third of the total options granted

As adjusted for all stock splits and stock dividends, a plan participant will, upon exercise of an option, receive, at our election, either:

- cash in an amount based on the difference between the average price of our shares on the Madrid Stock Exchange during the 10 business days prior to August 28, 2002 and September 28, 2003, depending on when the option was exercised, and the exercise price of such option; or
- one of our shares

Options granted under this plan are neither listed nor transferable. This incentive plan is subject to anti-dilution and other provisions customary for transactions of this type and to the condition that the participant not terminate his employment with the Telefónica group voluntarily and unilaterally prior to the exercise date.

At December 31, 2001, a total of 14,966,640 options had been granted under the TOP plan to 453 beneficiaries. Because of the incorporation of some of these beneficiaries under Telefónica Móviles' new stock option plan on January 2, 2002, as a result of which they are no longer eligible under the TOP plan, the number of options outstanding under the TOP plan was reduced to 12,158,820 and the number of beneficiaries decreased to 335 at that date.

In order to cover the economic exposure derived from the implementation of the TOP plan we have entered into hedging contracts with two financial institutions. The maximum total cost to us of the plan, assuming all eligible participants fully participate in the plan, will be approximately €72.1 million. Currently, there are 344 beneficiaries of the TOP plan, who hold in the aggregate 14,424,454 options. Consequently, the maximum total cost to us would be approximately €23.9 million as of June 5, 2002.

TIES

In February 2000, our Board of Directors approved a new stock option plan called Telefónica Incentive Employee Shares, which we refer to as TIES. The TIES plan is open to all eligible employees of Telefónica, S.A. and certain affiliates. Employees who participate in any other similar incentive plan or who are managers or general managers may not participate in the TIES plan.

The TIES plan, which was implemented in February 2001, consisted of two parts:

- *The Initial Allocation.* At the commencement of the TIES plan, eligible employees were able to subscribe for shares at the discounted price of €5 per share. The number of shares an eligible employee was able to subscribe for in the initial allocation was based on such employee's wage level. Such shares may not be sold during the entire life of the TIES plan. As part of the initial allocation, we offered 1,197,880 shares, of which 1,123,072 were subscribed.
- *The Variable Allocation.* Each eligible employee was able to receive a certain number of options to purchase shares of Telefónica, S.A., which the employee will be able to exercise in order to purchase an additional number of shares at the same discounted price of €5 per share. The options are non-negotiable and may not be assigned or transferred by the employee. The maximum number of shares issuable in respect of options assigned to employees is 31,504,244, of which a reserve of 4.5% is held for new beneficiaries.

The TIES plan will have a duration of four years from the date of delivery of the options. Participants in the plan may exercise the options in three stages:

- *First Stage:* on the first business day following the second anniversary of the date of delivery of the options.
- *Second Stage:* on the third anniversary of the date of the delivery of the options.
- *Third Stage:* on the first business day following the fourth anniversary of the date of the delivery of the options.

The number of options exercisable at each stage will be a function of:

- the revaluation of the price per share determined on the open market on each date of exercise with respect to an initial reference value of €20.50, such that the greater the revaluation per share on the exercise date, the greater the number of options the beneficiary will be able to exercise on that date; and
- the number of shares which make up the beneficiary's initial allocation

The following basic conditions, among others, apply to the exercise of the options:

- the beneficiary must retain the initial allocation until the relevant date of exercise of the options
- the beneficiary must not participate in any other similar incentive plan
- the beneficiary must have rendered his or her services continuously through the date of exercise of the options, as a permanent employee, except in certain circumstances

As of June 5, 2002, 80,310 persons participate in the TIES plan, with options to purchase 31,603,807 of our shares.

EN-SOP

In order to satisfy certain obligations in connection with our acquisition in 2000 of Endemol Entertainment Holdings, N.V., in April 2001 our Board of Directors approved the establishment of a new stock option plan, which we refer to as the "EN-SOP program", that is open to all permanent employees of Endemol Entertainment N.V. and its affiliated companies at January 1, 2001 who do not participate in a similar compensation plan. As part of the EN-SOP program, we will deliver to each eligible employee who is employed on January 1 of 2001, 2002, 2003 and 2004 a variable number of options to purchase shares of Telefónica, S.A. based on such employee's level and salary.

The options expire four years from their respective date of grant and may be exercised in equal amounts beginning in the third and fourth years from such date of grant. The total number of options granted each year pursuant to the plan will be determined by dividing €27.5 million by the exercise price, which price shall be equal to the weighted average of the price per ordinary share of Telefónica, S.A. on the automated quotation system of the Spanish stock exchanges during the five trading days prior to the meeting of the Board of Directors which convenes the annual shareholders' meeting.

The EN-SOP program is subject to anti-dilution and other provisions customary for stock option plans of this type and to the condition that the participant not terminate his employment voluntarily and unilaterally prior to the exercise date.

Pursuant to the EN-SOP program, in 2001 a total of 976 participants received an aggregate of 1,294,440 options with an exercise price of €19.2898 per share. In 2002, the exercise price will be €12.61 for all options granted under the EN-SOP program, which amount shall not exceed 2,180,809 options.

C. BOARD PRACTICES

Please see "—Directors and Senior Management" above

D. EMPLOYEES

Employees and Labor Relations

The table below sets forth the number of employees at the dates indicated for the parent company of the Telefónica Group, each of the consolidated companies of the groups which comprise our different lines of business and other consolidated subsidiaries. The number of employees at year-end 2001 for some of groups which comprise our different lines of business, particularly Telefónica Internacional, may not be comparable to figures at year-end 2000 because of the reorganization of our business pursuant to which we spun off or transferred the wireless operations, data operations and directory publishing businesses of certain of our integrated Latin American operators to the respective groups which comprise those lines of business. The table below also reflects the growth in the number of employees of the Telefónica Móviles group, the Telefónica Data group and the Atento group as a result of their expansion in 2001 through organic growth and acquisitions.

| Line of Business | Year Ended December 31, | | |
|--|-------------------------|----------------|----------------|
| | 1999 | 2000 | 2001 |
| Telefónica, S.A. | 542 | 641 | 727 |
| Telefónica de España Group..... | 48,709 | 43,009 | 42,425 |
| Telefónica Móviles Group..... | 3,364 | 7,093 | 13,459 |
| Telefónica Internaciona Group..... | 44,638 | 40,848 | 30,425 |
| Telefónica Data Group..... | 1,329 | 2,627 | 4,952 |
| Admira Media Group..... | 1,194 | 5,888 | 6,698 |
| Terra Networks Group..... | 2,119 | 3,170 | 2,907 |
| Atento Group..... | 23,985 | 40,773 | 49,940 |
| Katalyx Group..... | - | 368 | 220 |
| Emergia Group..... | - | 81 | 156 |
| Telefónica Publicidad e Información Group..... | 1,183 | 2,134 | 2,815 |
| Other..... | 130 | 2,075 | 6,803 |
| Total Employees..... | <u>127,193</u> | <u>148,707</u> | <u>161,527</u> |

Management believes that labor relations are generally good. In July 1999, Telefónica de España entered into a collective bargaining agreement that provided for increases in wage levels in accordance with anticipated increases in the Indices de Precios de Consumo (IPC), the Spanish consumer price index, and an additional productivity bonus per employee. In accordance with this agreement, in 1999 wage levels increased 2.9% and employees received an additional productivity bonus of approximately €300.5 per active employee and in 2000 wage levels increased 4.0% and employees received an additional productivity bonus of approximately €312.5 per active employee. In May 2001, Telefónica de España entered into a new two-year collective bargaining agreement that provides for similar increases in wages and productivity bonuses. Accordingly, in 2001 wage levels increased 2.7% and employees received an additional productivity bonus of approximately €372.6 per active employee.

Telefónica Móviles España and Telefónica Data España also entered into new collective bargaining agreements in 2001.

Our retired employees are provided with certain pension benefits. While Telefónica de España contributes the required amounts to fund these benefits over time, there remains an unfunded past service liability, which is estimated to be approximately €460 million. We have agreed to fund this obligation over a period ending in 2007.

In order to adapt to the new competitive environment, we have, among other things, implemented voluntary pre-retirement and early retirement plans in recent years. As a result of the agreements reached individually with Telefónica de España's personnel and as a result of the Labor Force Reduction Plan approved by the Ministry of Labor and Social Affairs and implemented in 1999 and 2000, an aggregate of 10,841 employees were terminated in 1999 and 2000.

In connection with our voluntary retirement programs, we recorded provisions of €168.5 million in 1999, €1,197.1 million in 2000 and €375.8 million in 2001, which were charged to results of operations in each respective year. The provision for pre-retirements and early retirements recorded at December 31, 2001, covers all the obligations assumed at that date in connection with our voluntary pre-retirement and early retirement plans.

E. SHARE OWNERSHIP

At June 5, 2002, the following members of our Board of Directors beneficially owned an aggregate of 348,485 shares, representing approximately 0.007% of our capital stock.

| Name | No. of Shares Beneficially Owned |
|--|-------------------------------------|
| César Alierta Izuel | 162,706 |
| Isidro Fainé Casas | 1,533 |
| José Ignacio Goirigolzarri Tellaeche | — |
| Fernando Abril-Matorell Hernández | 30,895 |
| Antonio Jesús Alonso Ureba | 8,111 |
| Maximino Carpio García | 5,610 |
| Carlos Colomer Casellas | 500 |
| José Antonio Fernández Rivero | 111 |
| Alfonso Ferrari Herrero | 1,675 |
| Luiz Fernando Furlán | 12,010 |
| Gonzalo Hinojosa Fernández de Angulo | 36,485 |
| Miguel Horta e Costa | 318 |
| Pablo Isla Alvarez de Tejera | 372 |
| Luiz Lada Díaz | 28,600 |
| José Maldonado Ramos | 30 |
| Antonio Massanell Lavilla | 2,499 |
| Enrique Used Aznar | 37,438 |
| Mario Eduardo Vázquez | 10 |
| Antonio Viana-Baptista | 19,532 |
| Gregorio Villalabeitia Galarraga | 50 |

At June 5, 2002, members of or executive committee (excluding members of our Board of Directors listed above), our general managers, deputy general managers and assistant general managers beneficially owned an aggregate of 569,655 shares, representing approximately 0.011% of our capital stock.

None of our directors and executive officers beneficially owned shares representing one percent or more of our share capital at that date.

At June 5, 2002, the following members of our Board of Directors and executive officers held options to acquire our ordinary shares pursuant to our TOP plan. For a description of the terms of this plan, see Item 6.B above.

| Name | No. of Type A Options | Exercise Price for each Type A Option | No. of Type B Options | Exercise Price for each Type B Option |
|--|--------------------------|--|--------------------------|--|
| | | (euro) | | (euro) |
| César Alierta Izuel | 175,000 | 22.69 | 175,000 | 30.63 |
| Fernando Abril-Martorell Hernández | 125,000 | 22.69 | 125,000 | 30.63 |
| Antonio Viana-Baptista | 77,970 | 14.51 | 77,970 | 21.76 |
| Antonio J. Alonso Ureba | 77,970 | 18.20 | 77,970 | 24.57 |
| José María Alvarez-Pallete López | 77,970 | 14.5052 | 77,970 | 21.7554 |
| Guillermo Fernández Vidal | 77,970 | 14.5052 | 77,970 | 21.7554 |
| Rafael Hernández García | 77,970 | 14.5052 | 77,970 | 21.7554 |
| Julio Linares López | 77,970 | 14.5052 | 77,970 | 21.7554 |
| Angel Vilá Boix | 77,970 | 14.5052 | 77,970 | 21.7554 |
| Antonio Palacios Esteban | 77,970 | 14.5052 | 77,970 | 21.7554 |
| Francisco Bergia González | 45,270 | 14.5052 | 45,270 | 21.7554 |
| | 32,700 | 18.45 | 32,700 | 24.9075 |
| Oscar Maraver Sánchez-Valdepeñas | 45,270 | 14.5052 | 45,270 | 21.7554 |
| | 32,700 | 18.45 | 32,700 | 24.9075 |
| Calixto Rios Pérez | 77,970 | 18.45 | 77,970 | 24.9075 |
| Luis Abril Pérez | 77,970 | 13.50 | 77,970 | 18.22 |
| Alberto M. Horcajo Aguirre | 77,970 | 13.50 | 77,970 | 18.22 |

| | | | | |
|----------------------------|--------|---------|--------|---------|
| Joaquín Faura Batlle | 45,270 | 18.45 | 45,270 | 24.9075 |
| Eduardo Caride | 45,270 | 15.0912 | 45,270 | 22.6343 |
| | 32,700 | 13.50 | 32,700 | 18.22 |

None of our Directors and executive officers held options in respect of shares representing one percent or more of our share capital at that date.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

General

At June 6, 2002, we had 4,860,661,286 shares outstanding, each having a nominal value of €1 per share. All outstanding shares have the same rights.

At June 6, 2002, according to information publicly available to Telefónica, S.A. beneficial owners of 5% or more of our voting stock were as follows:

| Name of Beneficial Owner | Shares | |
|---|-------------|---------|
| | Number | Percent |
| Banco Bilbao Vizcaya Argentaria, S.A.(1)..... | 263,022,186 | 5.519% |
| Chase Manhattan Bank, N.A.(2)..... | 395,199,496 | 8.131% |

(1) Based on information obtained from a communication made to the CNMV on June 5, 2002.

(2) Held by Chase Manhattan Bank, N.A. on behalf of beneficial owners. Based on information obtained from a communication made to the CNMV on June 4, 2002.

As part of our strategic alliance with Banco Bilbao Vizcaya Argentaria, Banco Bilbao Vizcaya Argentaria agreed to increase its interest in us to up to 10% less one share through open market purchases of additional Telefónica shares. According to Banco Bilbao Vizcaya Argentaria's most recent public disclosure in respect of its ownership of our shares, no such purchases have been made.

Limitations on Certain Transactions

In January 1997, in connection with the final phase of our privatization, the Spanish government adopted a requirement of prior government approval with respect to a limited number of fundamental corporate and control transactions affecting us, including the acquisition of 10% or more of our capital stock or the capital stock of Telefónica Móviles and the sale of assets material to the provision of fixed telephone services. The approval requirement applied in connection with the transfer of certain assets of Telefónica, S.A. to our subsidiary Telefónica de España in November 1998 and will apply to subsequent transfers by Telefónica de España. This approval requirement expires in February 2007.

B. RELATED PARTY TRANSACTIONS

As described in our Annual Report on Form 20-F for the year ended December 31, 2000, in February 2000, we entered into a strategic alliance with our significant shareholder, Banco Bilbao Vizcaya Argentaria, pursuant to which we entered into several transactions in 2001. These transactions are described in "Item 4—Information on the Company—Business Overview—International Strategic Partnerships—Our Strategic Alliance with Banco Bilbao Vizcaya Argentaria".

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

ITEM 8. FINANCIAL INFORMATION

Consolidated Financial Statements

Please see Item 18.

Legal Proceedings

We and various members of the Telefónica Group are party to various lawsuits arising in the ordinary course of our business. We do not believe that the outcome of any of these lawsuits, individually or in the aggregate, will have a significant effect on our consolidated financial position or results of operations.

One of our shareholders has initiated a legal proceeding to contest the validity of the resolutions adopted by our extraordinary shareholders' meeting of February 4, 2000. This proceeding derives from our alleged failure to comply with the shareholder plaintiff's right to information, our alleged failure to comply with the regulations relating to the celebration of shareholders' meetings and our alleged failure to comply with the necessary requirements to validly exclude pre-emptive rights in connection with the capital increases. We believe that this proceeding will be resolved in a manner satisfactory to Telefónica, S.A. This same shareholder has also brought another legal proceeding to contest the validity of certain resolutions adopted by our annual general shareholders' meeting held on June 15, 2001. In particular, the shareholder plaintiff seeks to nullify the resolutions relating to the approval of the annual accounts for the fiscal year ended December 31, 2000 and the management of the company during such year, the capital increase in connection with the acquisition of the Northern Mexico wireless operators from Motorola and the capital increase in connection with the company's stock option plan. The shareholder plaintiff alleges our failure to comply with the necessary requirements to validly exclude pre-emptive rights in connection with capital increases. We also believe that this proceeding will be resolved in a manner satisfactory to us.

In 2001, International Discount Telecommunications Corporation, Terra Networks' former joint venture partner, filed a lawsuit in the state court of New Jersey against us, Terra Networks, S.A., Terra Networks USA, Inc. and Lycos, Inc. alleging the breach of the joint venture agreement between Terra Networks and International Discount Telecommunications Corporation dated October 1999, the breach of the termination agreement between such parties, fraud and violation of U.S. securities laws. International Discount Telecommunications Corporation seeks damages in an unspecified amount in its amended complaint. We believe that the outcome of this litigation will not be unfavorable to us or Terra Networks. Nonetheless, we do not believe that an adverse resolution of this claim would materially affect our business. In 2001, International Discount Telecommunications Corporation also brought a demand for arbitration against Telefónica Internacional, S.A. before the American Arbitration Association. This demand for arbitration is based on the alleged breach of a letter of intent dated August 11, 1999 between International Discount Telecommunications Corporation and Telefónica Internacional, S.A. International Discount Telecommunications Corporation seeks an award in the amount of at least \$2.0 billion and specific performance in connection with the letter of intent. We believe that the outcome of this proceeding will not be unfavorable to us or Telefónica Internacional, S.A. Nevertheless, we also do not believe that an adverse resolution of this proceeding would materially affect our business or financial condition.

Proceedings and Convictions

During the last five years, neither we nor, to the best of our knowledge, any person listed in Item 6 above:

- has been convicted in a criminal proceeding, excluding traffic violations or similar misdemeanors
- has been a party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, United States federal or state laws or finding any violation with respect to such laws

Dividend Information

At the extraordinary general meeting of shareholders held in June 1998 we announced our dividend policy aimed at providing an alternative to cash dividend payments. The objective of this policy is to strengthen our

capacity to finance value-creating projects while enabling our shareholders to obtain liquidity by trading their shares. In connection with this policy during 1999 we carried out three capital increases charged to freely disposable reserves. At the annual general shareholders' meeting in April 2000, our shareholders approved two capital increases charged to freely disposable reserves. These capital increases were carried out in January 2001 and March 2001. At our annual general shareholders' meeting in June 2001, our shareholders approved two capital increases charged to freely disposable reserves. The first of these capital increases was carried out in January 2002 and the second was carried out in March 2002. The ratio for each of the share dividends has been one new share for every 50 then outstanding.

The table below sets forth the annual cash dividends per share paid by us during the past five years.

| Fiscal Year ended December 31, | Cash Dividends per Share | |
|--------------------------------|--------------------------|---------|
| | Pesetas (1) | \$ (2) |
| 2001 | — | — |
| 2000 | — | — |
| 1999 | — | — |
| 1998 | — | — |
| 1997 (3)..... | 102 | .66 (4) |

- (1) Peseta amounts reflect nominal amounts at date of payment.
- (2) Translated to dollars at the Noon Buying Rate on the date of payment. See "Item 3—Key Information—Selected Financial Data—Exchange Rate Information".
- (3) An interim dividend in respect of the fiscal year ended December 31, 1997 was paid in January 1998, and a final dividend was paid in May 1998.
- (4) The interim dividend payment has been translated into dollars at the Noon Buying Rate for the day following the interest payment date because the interest payment date was a national holiday in the United States as a result of which a Noon Buying Rate was not available on such date.

ITEM 9. THE OFFERING AND LISTING

A. OFFER AND LISTING DETAILS

General

Our ordinary shares, nominal value one euro each, are currently listed on each of the Madrid, Barcelona, Bilbao and Valencia stock exchanges under the symbol "TEF". They are also listed on various foreign exchanges such as the London, Frankfurt, Paris, Buenos Aires and Tokyo stock exchanges and are quoted through the Automated Quotation System of the Spanish stock exchanges and through the SEAQ International System of the London Stock Exchange. Our shares are eligible for deposit in the Euroclear system. Our BDSs are listed on the São Paulo Stock Exchange. Our ADSs are listed on the New York Stock Exchange and the Lima Stock Exchange.

The table below sets forth, for the periods indicated, the reported high and low quoted closing prices, as adjusted for all stock splits, for the shares on the Madrid Stock Exchange, which is the principal Spanish market for our shares.

| | Per Share | |
|----------------------|-----------|-------|
| | High | Low |
| | (euro) | |
| 1997(1) | 9.71 | 5.95 |
| 1998(1) | 16.05 | 9.00 |
| 1999 | 26.20 | 11.61 |
| 2000 | | |
| First Quarter..... | 32.60 | 22.85 |
| Second Quarter | 26.78 | 20.15 |
| Third Quarter | 25.50 | 20.88 |
| Fourth Quarter | 23.80 | 17.50 |
| 2001 | | |
| First Quarter..... | 21.10 | 15.95 |

| | Per Share | |
|------------------------------|-----------|-------|
| | High | Low |
| | (euro) | |
| Second Quarter | 20.10 | 14.29 |
| Third Quarter | 15.16 | 10.11 |
| Fourth Quarter | 16.20 | 11.45 |
| 2002 | | |
| First Quarter..... | 15.04 | 12.04 |
| January..... | 15.04 | 12.72 |
| February..... | 13.71 | 12.04 |
| March..... | 14.10 | 12.51 |
| April..... | 13.40 | 11.71 |
| May..... | 12.06 | 10.52 |
| June (through June 27) | 11.42 | 7.73 |

(1) Euro equivalent of the share price in pesetas translated at the irrevocably-fixed rate of exchange of Ptas 166.386 = €1.00.

On June 27, 2002, the closing price of our shares on the Automated Quotation System of the Spanish stock exchanges was €8.19 per share, equal to \$8.70 at the Noon Buying Rate for cable transfers in euro as certified for customs purposes by the Federal Reserve Bank of New York on that date.

Our ADSs are listed on the New York Stock Exchange under the symbol “TEF” and are quoted through SEAQ International. Citibank, N.A. is the Depository issuing ADRs evidencing the ADSs pursuant to the Deposit Agreement dated as of November 13, 1996, as amended as of December 3, 1999 and as of June 23, 2000, among Telefónica, the Depository and the holders from time to time of ADRs. Each ADS represents the right to receive three shares.

The table below sets forth, for the periods indicated, the reported high and low sales prices, as adjusted for all stock splits, of our ADSs on the New York Stock Exchange:

| | Per ADS | |
|------------------------------|-----------|--------|
| | High | Low |
| | (dollars) | |
| 1997 | 28.266 | 20.016 |
| 1998 | 46.797 | 25.906 |
| 1999 | 76.766 | 38.109 |
| 2000 | | |
| First Quarter..... | 91.250 | 66.688 |
| Second Quarter | 73.828 | 51.484 |
| Third Quarter | 69.563 | 53.344 |
| Fourth Quarter | 60.500 | 44.281 |
| 2001 | | |
| First Quarter..... | 61.641 | 44.016 |
| Second Quarter | 56.125 | 48.375 |
| Third Quarter | 37.971 | 27.961 |
| Fourth Quarter | 42.559 | 29.912 |
| 2002 | | |
| First Quarter..... | 41.912 | 31.422 |
| January..... | 41.912 | 34.127 |
| February..... | 35.490 | 31.422 |
| March..... | 37.010 | 32.990 |
| April..... | 35.650 | 31.590 |
| May..... | 33.110 | 29.000 |
| June (through June 27) | 31.950 | 23.470 |

Source: Dow Jones.

At December 31, 2001, approximately 266,997,654 of our shares were held in the form of ADSs by 1,203 holders of record, including Cede & Co., the nominee of The Depository Trust Company. The number of ADSs outstanding was 124,365,863 at December 31, 2001.

Securities Trading in Spain

The Spanish securities market for equity securities consists of four stock exchanges located in Madrid, Bilbao, Barcelona and Valencia and the Automated Quotation System, or *Mercado Continuo*. During 2001, the Automated Quotation System accounted for the majority of the total trading volume of equity securities on the Spanish stock exchanges.

Automated Quotation System

The Automated Quotation System links the four Spanish stock exchanges, providing those securities listed on it with a uniform continuous market that eliminates certain of the differences among the local exchanges. The principal feature of the system is the computerized matching of buy and sell orders at the time of entry of the order. Each order is executed as soon as a matching order is entered, but can be modified or canceled until executed. The activity of the market can be continuously monitored by investors and brokers. The Automated Quotation System is operated and regulated by Sociedad de Bolsas, S.A., a corporation owned by the companies that manage the stock exchanges. All trades on the Automated Quotation System must be placed through a brokerage firm, an official stock broker or a dealer firm that is a member of a Spanish stock exchange. Beginning January 1, 2000, Spanish banks were able to become members of a Spanish stock exchange and are therefore able to place trades on the Automated Quotation System.

In a pre-opening session held from 8:30 a.m. to 9:00 a.m. each trading day, an opening price is established for each security traded on the Automated Quotation System based on a real-time auction in which orders can be entered, modified or cancelled but are not executed. During this pre-opening session, the system continuously displays the price at which orders would be executed if trading were to begin. Market participants only receive information relating to the auction price (if applicable) and trading volume permitted at the current bid and offer price. If an auction price does not exist, the best bid and offer price and associated volumes are shown. The auction terminates with a random period of 30 seconds in which share allocation takes place. Until the allocation process has finished, orders cannot be entered, modified or cancelled. In exceptional circumstances (including the inclusion of new securities on the Automated Quotation System) and after giving notice to the National Securities and Markets Commission (the "CNMV"), the Sociedad de Bolsas may establish an opening price without regard to the reference price (the previous trading day's closing price), alter the price range for permitted orders with respect to the reference price and modify the reference price.

The computerized trading hours are from 9:00 a.m. to 5:30 p.m. During the trading session, the trading price of a security is permitted to vary up to a maximum so-called "static" range of the reference price, provided that the trading price for each trade of such security is not permitted to vary in excess of a maximum so-called "dynamic" range with respect to the trading price of the immediately preceding trade of the same security. If, during the trading session, there exist matching bid and ask orders over a security within the computerized system which exceed any of the above "static" and "dynamic" ranges, trading on the security is automatically suspended and a new auction is held where a new reference price is set, and the "static" and "dynamic" ranges will apply over such reference price. The "static" and "dynamic" ranges applicable to each particular security are set up and reviewed periodically by the Sociedad de Bolsas.

Between 5:30 p.m. and 8:00 p.m., trades may occur outside the computerized matching system without prior authorization of the Sociedad de Bolsas, at a price within the range of 5% above the higher of the average price and closing price for the day and 5% below the lower of the average price and closing price for the day if there are no outstanding bids or offers, respectively, on the system matching or bettering the terms of the proposed off-system transaction and, if, among other things, the trade involves more than €300,000 and more than 20% of the average daily trading volume of the stock during the preceding three months. These trades must also relate to individual orders from the same person or entity and be reported to the Sociedad de Bolsas before 8:00 p.m. At any time trades may take place (with the prior authorization of the Sociedad de Bolsas) at any price if:

- the trade involves more than €1.5 million and more than 40% of the average daily volume of the stock during the preceding three months
- the transaction derives from a merger or spin-off process, or from the reorganization of a group of companies

- the transaction is executed for the purposes of settling a litigation or completing a complex group of contracts or
- the Sociedad de Bolsas finds other justifiable cause

Information with respect to the computerized trades between 9:00 a.m. and 5:30 p.m. is made public immediately, and information with respect to trades outside the computerized matching system is reported to the Sociedad de Bolsas by the end of the trading day and published in the *Boletín de Cotización* and in the computer system by the beginning of the next trading day.

Clearance and Settlement System

Transactions carried out on the Spanish stock exchanges are cleared and settled through the *Servicio de Compensación y Liquidación de Valores, S.A.* (the “SCL”). Only members of the system are entitled to use it, and membership is restricted to authorized broker members of the Spanish stock exchanges, the Bank of Spain (when an agreement, approved by the Spanish Ministry of Economy and Finance, is reached with the SCL) and, with the approval of the CNMV, other brokers not members of the Spanish stock exchanges, banks, savings banks and foreign settlement and clearing systems. The SCL is owned by its members (excluding, if applicable, the Bank of Spain) and by the companies which manage the local exchanges. The clearance and settlement system and its members are responsible for maintaining records of purchases and sales under the book entry system. Shares of listed Spanish companies are held in book entry form. The SCL, which manages the clearance and settlement system, maintains a registry reflecting the number of shares held by each of its member entities (each, an *entidad adherida*) as well as the amount of such shares held on behalf of beneficial owners. Each member entity, in turn, maintains a registry of the owners of such shares. Spanish law considers the legal owner of the shares to be:

- the member entity appearing in the records of the SCL as holding the relevant shares in its own name or
- the investor appearing in the records of the member entity as holding the shares

The SCL has approved certain regulations introducing the so-called “T+3 Settlement System” by which the settlement of any transactions must be made three business days following the date on which the transaction was carried out.

Obtaining legal title to shares of a company listed on a Spanish stock exchange requires the participation of a Spanish official stockbroker, broker-dealer or other entity authorized under Spanish law to record the transfer of shares. To evidence title to shares, at the owner’s request the relevant member entity must issue a certificate of ownership. In the event the owner is a member entity, the SCL is in charge of the issuance of the certificate with respect to the shares held in the member entity’s name.

Brokerage commissions are not regulated. Brokers’ fees, to the extent charged, will apply upon transfer of title of shares from the Depositary to a holder of ADRs in exchange for such ADSs, and upon any later sale of such shares by such holder. Transfers of ADSs do not require the participation of an official stockbroker. The Deposit Agreement provides that holders depositing shares with the Depositary in exchange for ADSs or withdrawing shares in exchange for ADSs will pay the fees of the official stockbroker or other person or entity authorized under Spanish law applicable both to such holder and to the Depositary.

Securities Market Legislation

The Securities Market Act of July 28, 1988 (Law 24/1988) which became effective in 1989, restructured the organization and supervision of the Spanish securities markets. This legislation and the regulations implementing it:

- established an independent regulatory authority, the CNMV, to supervise the securities markets
- established a framework to regulate trading practices, public offerings, tender offers and insider trading
- required stock exchange members to be corporate entities

- required companies listed on a Spanish stock exchange to file annual audited financial statements and to make public quarterly financial information
- established the legal framework for the Automated Quotation System
- exempted the sale of securities from transfer and value-added taxes
- deregulated brokerage commissions and
- provided for transfer of shares by book-entry or by delivery of evidence of title

Effective in November 1998, Law 24/1988 was amended by Law 37/1998, of November 16, 1998. The amendment introduced the following changes:

- The concept of the “investment services company” was created. Brokers, dealers and portfolio managing companies are considered to be investment services companies. These companies are entitled to render investment services and complementary activities. Banks are not considered to be investment services companies, although they may render investment services upon becoming members of the Spanish stock exchanges.
- An investment services company must be authorized by the Ministry of Treasury in order to render investment services and complementary activities. Once authorization is obtained, the founders of the investment services company must incorporate the company as a corporation (*sociedad anónima*) or a limited liability company (*sociedad de responsabilidad limitada*) and, once incorporated, the company must be registered with the Commercial Registry and the CNMV Registry. This registration must be published in the State Official Gazette.
- The European principle of “single passport” or “single license” was introduced within the Spanish legal system. Under this principle, an investment services company may render investment services and complementary activities within European Union member countries, either through a branch or directly. Any necessary authorizations and licenses must be obtained from the authorities of the country of domicile (the “home country principle”), but the applicable market conduct rules are those set forth in the legislation of the country in which the investment services company renders its services (the “host country principle”).
- Spanish investment services companies wishing to render their services overseas must be authorized to do so. However, in the event that they wish to provide services within the European Union, they need only give prior notice to the CNMV.
- An investment guarantee fund was created to protect investors from the insolvency of any investment services company. This fund has the same purpose as the deposit guarantee fund, which is currently in charge of refunding deposits made in insolvent Spanish financial entities. Spanish investment services companies are obligated to maintain a stake in the investment guarantee fund through participation in the share capital of the managing company of the fund.
- Finally, a number of amendments to the Spanish Corporations Law were included. Rights to issue preferred and non-voting stock were extended broadly. In addition, the amendments provided for the possibility of a new redeemable class of stock to be issued by listed companies.

B. PLAN OF DISTRIBUTION

Not applicable.

C. MARKETS

Please see “—Offer and Listing Details”.

D. SELLING SHAREHOLDERS

Not applicable.

E. DILUTION

Not applicable.

F. EXPENSES OF THE ISSUE

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not applicable.

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

The following summary describes certain material considerations concerning our capital stock and briefly describes certain provisions of our by-laws (*estatutos*) and Spanish law.

Corporate Objects

Section 4 of Part I of our by-laws sets forth our corporate objects:

- delivery and exploitation of any and all kinds of public and private telecommunication services and, to such end, to design, install, preserve, repair, improve, acquire, dispose of, connect, administer, manage and perform whatever other activities other than those mentioned above with respect to any types of networks, lines, satellites, items of equipment, systems and items of technical infrastructure, both existing or to be created in the future, including the property upon which any and all of the above items are set up
- delivery and exploitation of any and all types of ancillary or supplementary services, as well as of any services that may stem from communication activities
- research and development, promotion and application of any and all component principles, items of equipment and systems which are directly or indirectly used in telecommunications
- manufacturing, production and, generally, any and all forms of industrial activities related to telecommunications
- acquisition, disposal and, generally, any and all forms of trade activities related to telecommunications

Director Qualification

In order to be elected as a Director, a person must have held a number of our shares representing a par value of no less than €3,000 for at least three years prior to his or her election. These shares may not be transferred so long as such person remains a Director. This requirement does not apply to any person who, at the time of his or her appointment, has either a labor or professional relationship with the company or is expressly exempted from such requirement by a vote of at least 85% of the Board of Directors.

A Director must retire upon reaching the age of 70. Such retirement shall take effect at the first board meeting following the general shareholders' meeting that approves the financial statements for the year in which such Director turned 70.

Description of Telefónica Capital Stock

Description of Share Capital

At June 6, 2002, our issued share capital consisted of 4,860,661,286 ordinary registered shares with a nominal value of €1.00 each. Our shareholders have delegated to the board of directors the authority to increase the share capital by up to 2,274,677,655. The board's authorization to increase the share capital expires on June 15, 2006.

Meetings and Voting Rights

We hold our ordinary general shareholders' meeting during the first six months of each fiscal year on a date fixed by the board of directors. Extraordinary general shareholders' meetings may be called, from time to time, at the discretion of our board of directors or upon the request of shareholders representing 5% of our paid-in share capital. We publish notices of all ordinary and extraordinary general shareholders' meetings in the Official Gazette of the Commercial Registry and in at least one newspaper in Madrid at least fifteen days before the relevant meeting.

Each share of Telefónica entitles the holder to one vote. However, only registered holders of shares representing a par value of at least €300, which currently equals at least 300 shares because our shares have a par value of €1 each, are entitled to attend a general shareholders' meeting. Holders of shares representing a par value of less than €300, meaning less than 300 shares, may aggregate their shares by proxy and select a representative that is a shareholder to attend a general shareholders' meeting or delegate his or her voting rights by proxy to a shareholder who has the right to attend the shareholders' meeting. However, under our by-laws no shareholder may vote a number of shares exceeding 10% of the total outstanding voting capital.

Any share may be voted by proxy. Proxies must be in writing and are valid only for a single meeting.

Only holders of record five days prior to the day on which a general meeting of shareholders is scheduled to be held may attend and vote at the meeting. Under the deposit agreement for the ADSs, our depository accepts voting instructions from holders of ADSs. The depository executes such instructions to the extent permitted by law and by the terms governing the shares. The depository or its nominee, whichever is applicable, will be entitled to vote by proxy the shares represented by the ADSs.

Shareholders representing, in person or by proxy, at least 25% of our subscribed voting capital constitute a quorum for a general meeting. If a quorum is not present at the first meeting, then the meeting can be held on second call. Regardless of the number of shareholders present at the second meeting, they are deemed to constitute a quorum.

Shareholders representing, in person or by proxy, at least 50% of our subscribed voting capital constitute a quorum on a first call for shareholders' meetings at which shareholders will be voting on any of the following actions:

- issuance of bonds
- increase or reduction of share capital
- amendment of corporate purpose
- any other amendment of our by-laws
- merger, split or spin-off of Telefónica

When a quorum is present on the first call, these special resolutions must be adopted by the affirmative vote of shareholders representing a majority of our present subscribed voting capital.

If a quorum for the meeting is not present after the first call, upon a second call for the meeting, 25% of our subscribed voting capital will constitute a quorum. When shareholders representing less than 50% of the subscribed voting capital are in attendance, these special resolutions must be adopted by a vote of two-thirds of those shareholders present.

A shareholder who owns shares on the record date will not be entitled to vote his/her shares in a general meeting of shareholders if the shareholder, individually or as part of a group, has not complied with the notification requirements relating to the acquisition of additional shares beyond certain threshold amounts.

Dividends

Shareholders vote on final dividend distributions at the shareholders' meeting. Distributable profits are equal to:

- net profits for the year; plus
- profits carried forward from previous years; plus
- distributable reserves; minus
- losses carried forward from previous years; minus
- amounts allocated to reserves as required by law or by our by-laws.

The Board of Directors can make interim dividend payments without a prior shareholder vote on the issue. However, under those circumstances, the dividend is limited to distributable net profits of the current year and is subject to certain legal requirements.

Registration and Transfers

Our shares are in registered book-entry form. Transfers executed through stock exchange systems are implemented pursuant to the stock exchange clearing and settlement procedures carried out by the Spanish clearing institution. Transfers executed outside of stock exchange systems, that is over the counter, are implemented pursuant to the general legal regime for book-entry transfer, including registration by the Spanish clearing institution.

There are no restrictions with respect to the transfer of our shares.

Liquidation Rights

Under Spanish law, upon our liquidation the shareholders would be entitled to receive, on a pro rata basis, any assets remaining after the payment of our debts and taxes and liquidation expenses.

C. MATERIAL CONTRACTS

Material Contracts

In October 2000, we entered into an agreement to acquire the following interests in Motorola, Inc.'s wireless operators in Mexico: 100% of Baja Celular Mexicana, S.A. de C.V., or Bajacel, which has licenses to operate in the Mexican States of Baja California, Baja California Sur, and parts of Sonora; 90% of Movitel del Noroeste, S.A. de C.V., or Movitel, which has licenses to operate in the Mexican States of Sinaloa and parts of Sonora; 100% of Telefonía Celular del Norte, S.A. de C.V., or Norcel, which has licenses to operate in the Mexican States of Chihuahua, Durango, and parts of Coahuila; and 100% of Celular de Telefonía, S.A. de C.V., or Cedetel, which has licenses to operate in the Mexican States of Nuevo Leon, Tampaulipas, and parts of Coahuila. In June 2001, we issued 122,560,575 new shares to Motorola, Inc. in exchange for Motorola, Inc.'s Mexican wireless operators. These transactions are described in "Item 4—Information on the Company—Business Overview—Worldwide Wireless Communications Services—Telefónica Móviles—Latin America—Mexico".

In January 2001, we, Telefónica Móviles, S.A. and Portugal Telecom announced an agreement to create a joint venture to consolidate our wireless assets in Brazil with those of Portugal Telecom, subject to the approval of Anatel, the Brazilian telecommunications commission. The terms of the joint venture are described in "Item 4—Information on the Company—Business Overview—Worldwide Wireless Communications Services—Telefónica Móviles—Latin America—Brazil—Agreement with Portugal Telecom". In addition, as part of this agreement, we and Portugal Telecom expressed an interest in increasing our reciprocal shareholdings, subject to compliance with applicable statutory and by-laws requirements.

Other Important Agreements

On April 26, 2002, Telefónica Móviles signed agreements to purchase, subject to regulatory approval, approximately 65% of Pegaso Telecomunicaciones, S.A. de C.V., a wireless operator with approximately 800,000 customers at December 31, 2001, from Sprint, Leap Wireless and other financial investors. The terms of these agreements are described in “Item 4—Information on the Company—Business Overview—Worldwide Wireless Communications Services—Telefónica Móviles—Latin America—Mexico” and “Item 5—Operating and Financial Review and Prospects—Liquidity and Capital Resources—Contractual Obligations and Commercial Commitments”.

In May 2002, Admira Media entered into an agreement with Sogecable to integrate Vía Digital and Canal Satelite Digital, which is the pay television and satellite broadcast platform of Sogecable. The integration is subject to the satisfaction of certain conditions, including the approval of 100% of the shareholders of Vía Digital to subscribe a capital increase through a share exchange and the receipt of several administrative authorizations. Under the agreement, Sogecable will issue 28,981,121 new shares in exchange for the total issued and outstanding shares of Vía Digital at the date of the exchange. Existing Sogecable shareholders will own 77% of the resulting company, and existing Vía Digital shareholders, including Admira Media, will own 23% of the resulting company. See “Item 4—Information on the Company—Worldwide Audiovisual Content and Media—Admira Media”.

D. EXCHANGE CONTROLS

Exchange Controls and Other Limitations Affecting Security Holders

Restrictions on Foreign Investment

Pursuant to the General Law on Telecommunications, direct or indirect investments in us by foreign persons may not exceed 25% of our share capital, unless otherwise provided for in any of the applicable treaties or authorized by the Spanish government. Pursuant to European Union directives, citizens of other European Union member states, including entities domiciled in such countries, are not considered foreign persons for the purposes of this provision. For purposes of computing the 25% threshold, only holdings of capital stock in excess of 5% and holdings that would entitle the foreign investor to designate a member of our Board of Directors are taken into account. See “Item 4—Information on the Company—Business Overview—Fixed-line Telecommunications Services in Spain—Telefónica de España—Regulation—The General Law on Telecommunications—Ownership Limitations”.

The Spanish stock exchanges and securities markets are open to foreign investors. Pursuant to Law 18/1992 on Foreign Investments and Royal Decree 664/1999, foreign investors may invest freely in shares of Spanish companies. Royal Decree 664/1999 provided for the liberalization of the legal regime for foreign investments in Spain. The only requirement is to give notice to the Foreign Investments Registry of the Treasury Ministry after making the investment, except that prior notice is required if the investor is domiciled in a tax haven.

Pursuant to a decree adopted in January 1997 in connection with our privatization, prior approval from the Spanish government is required for a limited number of fundamental corporate and control transactions affecting us, including the acquisition of 10% or more of our and Telefónica Móviles’ capital stock and the sale of assets material to the provision of fixed telephone services. The approval requirement applied in connection with the transfer of certain of our assets in Spain to our subsidiary Telefónica de España in November 1998 and will apply to subsequent transfers by Telefónica de España. These approval rights, which were adopted by several European governments in the context of the privatization of major national enterprises, are currently subject to challenge by the European Commission before the European Court of Justice.

Trading by Telefónica in its own Shares or Shares of Companies under its Control

At December 31, 2001, we held 45,440,901 shares of treasury stock, representing 0.97% of our capital stock. At May 30, 2002, we held 53,969,331 shares of treasury stock, representing 1.1% of our capital stock.

The Spanish Corporations Law prohibits the purchase by us and our subsidiaries of shares in the secondary market except in the following limited circumstances:

- the purchase of shares must be authorized by a general meeting of shareholders of Telefónica and, in the case of a purchase of shares by a subsidiary, also by a general meeting of shareholders of the subsidiary
- the shares so purchased have no economic or voting rights while held by Telefónica and have no voting rights while held by its subsidiaries
- the purchaser must create reserves equal to the purchase price of any shares that are purchased and, if a subsidiary is the acquirer, the reserve must also be recorded by the parent company and
- the total number of shares held by Telefónica and its subsidiaries may not exceed 5% of the total capital of Telefónica

Any acquisition of shares of Telefónica exceeding, or that causes Telefónica's and its subsidiaries' holdings to exceed, 1% of Telefónica's share capital must be reported to the CNMV.

At a general meeting of shareholders held in April 2002, Telefónica's shareholders authorized the Board of Directors to acquire shares of Telefónica for a period of 18 months from the date of authorization. This authorization supersedes the unexecuted previous authorization to acquire up to 159,942,445 shares, which authorization was granted by the shareholders at the general meeting of shareholders held in June 2001. The new authorization also applies to companies under our control. Pursuant to the new authorization, the aggregate nominal value of the shares held by us or any of our subsidiaries cannot exceed 5% of our shareholders' equity. Consistent with applicable Spanish laws and regulations and the authorization of our shareholders, from time to time we or our affiliates engage in transactions involving securities of members of the Telefónica Group. These transactions may include purchases of shares of group members, forward contracts with respect to these shares and other similar transactions.

Other Restrictions on Acquisitions of Shares

A person or group of persons that directly or indirectly exercises beneficial ownership or control of 5% or more of the outstanding shares, or which increases or decreases the number of shares which it owns or controls to an amount which equals or exceeds any multiple of 5% of such outstanding shares, must inform the following entities of such ownership:

- Telefónica
- the Stock Exchange Management Companies of the Spanish stock exchanges on which the shares are listed
- the CNMV
- in the case of a foreign person or group of persons, the General Directorate of Commercial Policy and Foreign Investments

A person or group that is a member of our Board of Directors must report any acquisition or transfer, regardless of size, of our capital stock. A person or group of persons that fails to inform any of the above entities after reaching any of the indicated thresholds may incur fines and penalties. Additionally, if a company fails to inform us after reaching ownership or control of 10% of the outstanding shares or increases the shares it controls to equal or exceed any successive multiple of 5%, the rights corresponding to those shares will be suspended until a proper notification to us is made. For reporting requirements concerning acquisitions by us or our affiliates of our shares, see "— Trading by Telefónica in its own Shares or Shares of Companies under its Control" above.

Dividend and Liquidation Rights

At the extraordinary general meeting of shareholders held in June 1998, we announced a new dividend policy aimed at providing an alternative to cash dividend payments. The objective of this policy is to strengthen our capacity to finance value-creating projects while enabling our shareholders to obtain liquidity by trading their shares.

Payment of a final dividend is proposed by our Board of Directors but must be authorized by our shareholders at the general meeting of shareholders. According to Spanish law and our by-laws, dividends may only be paid out of profits or distributable reserves if the value of our net worth is not, and as a result of such distribution would not be, less than its capital stock. Pursuant to Spanish law, we are required to reserve 10% of our fiscal year net income until the amount in its legal reserve reaches 20% of our capital. Our legal reserve is currently at 20%.

Dividends payable by us to non-residents of Spain are subject to a Spanish withholding tax at the rate of 18%. The Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income entered into between Spain and the United States provides that certain holders of ADRs or shares that are residents for purposes of that treaty in the United States may be entitled to a reduced withholding tax and, therefore, a refund of any withholding levied in excess. See “—Taxation”.

Upon a liquidation of us, our shareholders would be entitled to receive pro rata any assets remaining after the payment of our debts and taxes and expenses of the liquidation. Any change in the rights of shareholders to receive dividends and payment upon liquidation would require an amendment to our by-laws by resolution adopted by a general meeting of shareholders. If there were more than one class of shares, such amendment would also require the approval of each class of shareholders affected by the amendment.

Preemptive Rights and Increases of Share Capital

Pursuant to the Spanish Corporations Law, shareholders and holders of convertible bonds have preemptive rights to subscribe for any new shares and for bonds convertible into shares. Such rights may not be available under special circumstances if precluded by a resolution passed at a general meeting of shareholders in accordance with Article 159 of the Spanish Corporations Law, or the Board of Directors, if authorized. Further, such rights, in any event, will not be available in the event of an increase in capital to meet the requirements of a convertible bond issue or a merger in which shares are issued as consideration. Such rights

- are transferable
- may be traded on the Automated Quotation System
- may be of value to existing shareholders because new shares may be offered for subscription at prices lower than prevailing market prices

Shares issuable upon exercise of rights must be registered under the Securities Act of 1933 in order to be offered to holders of ADRs. If we decided not to register the shares, the rights would not be distributed to holders of ADRs. Pursuant to the Deposit Agreement, however, holders of ADRs are entitled to receive their proportionate share of the proceeds, if any, from the sale by the Depository of any rights accruing to holders of ADRs.

E. TAXATION

Spanish Tax Considerations

The following summary describes the material Spanish tax consequences to United States Residents (as defined below) of the acquisition, ownership and disposition of ADSs or shares of Telefónica, S.A. This summary does not address all tax considerations that may be relevant to all categories of United States Residents, some of whom (such as life insurance companies, tax-exempt entities, dealers in securities or financial institutions) may be subject to special rules. In particular, the summary deals only with United States Residents that hold ADSs or shares as capital assets and who do not at any time own individually, nor are treated as owning, 10% or more of the shares, including ADSs, of Telefónica, S.A.

As used herein, the following terms have the following meanings:

- (1) “Treaty” means the Convention between the United States and Spain for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on income together with a related Protocol.
- (2) “United States Resident” means a U.S. Holder (as defined below under “U.S. Tax Considerations”) that is a resident of the United States for purposes of the Treaty and entitled to the benefits of such

Treaty, whose holding is not effectively connected with (1) a permanent establishment in Spain through which such U.S. Holder carries on or has carried on a business, or (2) a fixed base in Spain from which such U.S. Holder performs or has performed independent personal services.

Holders of ADSs or shares who are not United States Residents should also consult their own tax advisors, particularly as to the applicability of any tax treaty. The statements regarding Spanish tax laws and the Treaty set out below are based on interpretations of those laws in force as of date of this Annual Report. Such statements also assume that each obligation in the Deposit Agreement and any related agreement will be performed in full accordance with its terms.

Taxation of Dividends

Under Spanish law, dividends paid by a Spanish resident company to a holder of shares or ADRs not residing in Spain for tax purposes and not operating through a permanent establishment in Spain are subject to an income tax withheld at source on the gross amount of dividends, currently at an 18% tax rate. However, under the Treaty, a United States Resident is subject to the Treaty-reduced rate of 15%.

To benefit from the Treaty-reduced rate of 15%, a United States Resident must provide:

- a certificate from the United States Internal Revenue Service (the “IRS”) that to the best knowledge of the IRS such holder is a United States Resident and
- a certificate from the Depository (in the case of holder of ADSs) or the holder’s broker (in the case of holders of shares) representing that, at the dividend payment date, such holder is the beneficial owner of the ADSs or shares

To get direct application of the Treaty-reduced rate of 15%, the certificates referred to above must be provided to us no later than the tenth day of the month next succeeding the relevant dividend payment date. Otherwise we will apply the normal 18% rate. Before dividends are paid, we will notify the Depository of the dividend to be paid and the steps to be followed to obtain the benefit of the reduced tax rate available under the Treaty.

If the certificates referred to above are not provided to us on or before the dividend payment date, the United States Resident may afterwards obtain a refund of the 3% withheld in excess.

Spanish Refund Procedure

The Royal Decree 326/1999 and Order of December 22, 1999 (the “Order”) prescribe the procedure for requesting from the Spanish taxing authorities a refund of the amount of income taxes withheld in excess of the Treaty-reduced rate. To pursue the refund claim, the Order requires the United States Resident to file:

- a Spanish “210 Form”
- the two certificates referred to above and
- a certificate issued by Telefónica, S.A. providing that Spanish income tax was withheld with respect to such United States Resident

The refund claim must be filed within two years from the date in which the withheld tax was collected by the Spanish tax authorities.

United States Residents are urged to consult their own tax advisors regarding refund procedures and any U.S. tax implications thereof.

Taxation of Capital Gains

Under Spanish law, any capital gains derived from securities issued by persons residing in Spain for tax purposes are considered to be Spanish source income and, therefore, are taxable in Spain. Spanish income tax is generally levied at a 35% tax rate on capital gains obtained by non-residents of Spain who are not entitled to the benefit of any applicable treaty for the avoidance of double taxation and who do not operate through a fixed base or

a permanent establishment in Spain. Spanish income tax will be levied at an 18% tax rate on capital gains if such gains arise from:

- dividends and other earnings derived from the participation in a company's equity
- interest and other earnings derived from the assignment of goods and
- earnings derived from the transfer or refund of shares and investments in "collective investment schemes" such as investment companies or investment funds

Capital gains realized by United States Residents arising from the disposition of shares or ADSs will not be taxed in Spain provided that the seller has not maintained a direct or indirect holding of at least 25% in our capital during the twelve months preceding the disposition of the stock. United States Residents may be required to establish that they are entitled to this exemption by providing to the relevant Spanish tax authorities an IRS certificate of residence in the United States, together with the corresponding Spanish tax form.

Spanish Wealth Tax

Individuals who hold shares or ADRs located in Spain are subject to the Spanish Wealth Tax (Spanish Law 19/1991), which imposes tax on property located in Spain on the last day of any year. Individuals who hold shares or ADRs located outside of Spain are not subject to the Spanish Wealth Tax. However, the Spanish tax authorities may argue that all shares of Spanish corporations and all ADRs representing such shares are located in Spain for Spanish tax purposes. If such a view were to prevail, non-residents of Spain who held shares or ADRs on the last day of any year would be subject to the Spanish Wealth Tax for such year at marginal rates varying between 0.2% and 2.5% of the average market value of such shares or ADRs during the last quarter of such year, as published by the Spanish Ministry of Economic Affairs. Non-residents of Spain should consult their tax advisors with respect to the Spanish Wealth Tax.

Spanish Inheritance and Gift Taxes

Transfers of shares or ADRs on death and by gift are subject to Spanish inheritance and gift taxes, respectively, if the transferee is a resident of Spain for tax purposes, or if the shares or ADRs are located in Spain at the time of death, regardless of the resident beneficiary. However, the Spanish tax authorities may seek to tax inheritances or gifts of shares or ADRs independently of the place or residence of the beneficiary. The applicable tax rate, after applying all relevant factors, ranges between 0% and 81.6% for individuals. Gifts of shares granted to corporations are subject to corporate tax which is generally levied at the rate of 35%.

Expenses of Transfer

Transfers of shares or ADRs will be exempt from any transfer tax (*Impuesto sobre Transmisiones Patrimoniales*) or value-added tax. Additionally, no stamp tax will be levied on such transfers.

U.S. Tax Considerations

The following summary describes material United States federal income tax consequences to U.S. Holders (as defined below) of the acquisition, ownership and disposition of ADSs or shares, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to acquire such securities. The summary applies only to U.S. Holders that hold ADSs or shares as capital assets for tax purposes and does not address special classes of holders, such as:

- certain financial institutions
- insurance companies
- dealers in securities or foreign currencies
- holders holding ADSs or shares as part of a hedge, straddle or other conversion transaction
- holders whose "functional currency" for U.S. federal income tax purposes is not the U.S. dollar

- holders liable for alternative minimum tax
- tax-exempt organizations
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes or
- a holder that owns or is deemed to own 10% or more of the ADSs or shares of Telefónica, S.A.

In addition, the summary is based in part on representations of the Depositary and assumes that each obligation provided for in or otherwise contemplated by the Deposit Agreement or any other related document will be performed in accordance with its terms. The U.S. Treasury has expressed concern that parties to whom ADRs are released may be taking action that are inconsistent with the claiming of foreign tax credits. Accordingly, the analysis of the creditability of Spanish taxes described below could be affected by actions that may be taken the U.S. Treasury.

The summary is based upon tax laws of the United States including the Internal Revenue Code of 1986, as amended to the date hereof (the “Code”), administrative pronouncements, judicial decisions and final, temporary and proposed Treasury Regulations, changes to any of which may affect the tax consequences described herein, possibly with retroactive effect. U.S. Holders of ADSs or shares should consult their own tax advisors as to the United States, Spanish or other tax consequences of the purchase, ownership and disposition of such securities in their particular circumstances, including the effect of any state or local tax laws.

As used in this particular section, a “U.S. Holder” is a beneficial owner of ADSs or shares that is, for United States federal income tax purposes:

- a citizen or resident of the United States
- a corporation created or organized in or under the laws of the United States or of any political subdivision thereof or
- an estate or trust the income of which is subject to United States federal income taxation regardless of its source.

For United States federal income tax purposes, U.S. Holders of ADSs will be treated as the owners of the underlying shares.

Taxation of Distributions

To the extent paid out of current or accumulated earnings and profits of Telefónica, S.A. (as determined in accordance with United States federal income tax principles), distributions made with respect to ADSs or shares (other than certain distributions of capital stock of Telefónica, S.A. or rights to subscribe for shares of capital stock of Telefónica, S.A.) will be includible in the income of a U.S. Holder as ordinary dividend income before reduction for any Spanish income tax withheld by us or our paying agent. Such dividends will not be eligible for the “dividends received deduction” generally allowed to corporations under the Code. To the extent that a distribution exceeds Telefónica, S.A.’s current and accumulated earnings and profits, it will be treated as a nontaxable return of capital to the extent of the U.S. Holder’s tax basis in the ADSs or shares, and thereafter as capital gain. The amount of the distribution will equal the U.S. dollar value of the pesetas or euro received, calculated by reference to the exchange rate in effect on the date such distribution is received (which, for holders of ADSs, will be the date such dividend is received by the Depositary), whether or not the Depositary or U.S. Holder in fact converts any pesetas or euro received into U.S. dollars at that time. Any gains or losses resulting from the conversion of pesetas or euro into U.S. dollars will be treated as ordinary income or loss, as the case may be, of the U.S. Holder and will be U.S. source. Dividends generally will constitute foreign source “passive” income for U.S. foreign tax credit purposes.

Subject to certain generally applicable limitations, a U.S. Holder will be entitled to a credit against its U.S. federal income tax liability, or a deduction in computing its U.S. federal taxable income, for Spanish income taxes withheld by us or our paying agent. However, any taxes withheld in excess of the rate provided in the Tax Treaty will not be eligible for credit against the U.S. Holder’s federal income tax liability unless such holder exhausts all remedies to recover such excess withholding, including the seeking of competent authority assistance from the

Internal Revenue Service, without obtaining a refund. See “—Spanish Tax Considerations—Taxation of Dividends and—Spanish Refund Procedure” above for a description of how a U.S. Holder can secure the Tax Treaty rate for withholding on dividends paid by us or obtain a refund if amounts withheld on dividends paid by us exceed the Tax Treaty rate. A U.S. Holder may be required to recognize ordinary income or loss attributable to currency fluctuations upon its receipt of a refund in respect of Spanish withholding tax to the extent that the U.S. dollar value of the refund differs from the U.S. dollar equivalent of the refund amount on the date the underlying dividend was received.

A U.S. Holder must satisfy minimum holding period requirements in order to be eligible to claim a foreign tax credit for foreign taxes withheld on dividends. A foreign tax credit is not allowed for foreign taxes withheld on dividends in circumstances where the U.S. Holder is under an obligation to make related payments in connection with positions in “substantially similar or related property”. U.S. Holders should consult their own tax advisers to determine whether they are subject to any special rules that may limit their ability to claim or make effective use of foreign tax credit.

Taxation of Capital Gains

Gain or loss realized by a U.S. Holder on (i) the sale or exchange of ADSs or shares or (ii) the Depository’s sale or exchange of shares received as distributions on the ADSs will be subject to United States federal income tax as capital gain or loss in an amount equal to the difference between the U.S. Holder’s tax basis in the ADSs or shares and the amount realized on the disposition. Gain or loss, if any, will be U.S. source. U.S. Holders should consult their tax advisers regarding the United States federal tax treatment of capital gains, which may be taxed at lower rates than ordinary income for individuals, and losses, the deductibility of which is subject to limitations.

Deposits and withdrawals of shares in exchange for ADSs will not result in taxable gain or loss for United States federal income tax purposes.

Passive Foreign Investment Company Rules

We believe that we have not been, are not, and are not likely to become a “passive foreign investment company” (“PFIC”) for United States federal income tax purposes. However, since PFIC status depends upon the composition of a company’s income and assets and the market value of its assets (including, among others, less than 25 percent owned equity investments) from time to time, we cannot assure you that we will not be considered a PFIC for any taxable year.

If we were treated as a PFIC for any taxable year during which a United States Holder held an ADS or ordinary share, certain adverse consequences could apply to the United States Holder. If we are treated as a PFIC for any taxable year, gain recognized by such United States Holder on a sale or other disposition of the ADS or ordinary share would be allocated ratably over the United States Holder’s holding period for the ADS or ordinary share. The amounts allocated to the taxable year of the sale or other exchange and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, and an interest charge would be imposed on the amount allocated to such taxable year. Further, any distribution in respect of ADSs or ordinary shares in excess of 125 percent of the average of the annual distributions on ADSs or ordinary shares received by the United States Holder during the preceding three years or the United States Holder’s holding period, whichever is shorter, would be subject to taxation as described above. Certain elections may be available (including a mark to market election) to United States persons that may mitigate the adverse consequences resulting from PFIC status.

Information Reporting and Backup Withholding

Payment of dividends or sales proceeds in connection with the ADSs or shares within the United States or through a U.S.-related financial intermediary are generally subject to information reporting and backup withholding unless the U.S. Holder (1) is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact or (2) provides a correct taxpayer identification number on a properly completed Form W-9 or a substitute form and certifies that no loss of exemption from backup withholding has occurred and that such holder is a U.S. person. Any amount withheld under these rules will be creditable against the U.S. Holder’s federal income tax liability, and may entitle the U.S. Holder to a refund, provided that the required information is furnished to the

Internal Revenue Service. A U.S. Holder who does not provide a correct taxpayer identification number may be subject to certain penalties.

F. DIVIDENDS AND PAYING AGENTS

Not applicable.

G. STATEMENTS BY EXPERTS

Not applicable.

H. DOCUMENTS ON DISPLAY

Where You Can Find More Information

We file Annual Reports on Form 20-F and furnish periodic reports on Form 6-K to the SEC. You may read and copy any of these reports at the SEC's public reference room in Washington, D.C. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our SEC filings are also available to the public from commercial document retrieval services. Some SEC filings of ours are also available at the website maintained by the SEC at "<http://www.sec.gov>".

Our ADSs are listed on the New York Stock Exchange under the symbol "TEF." You may inspect any periodic reports and other information filed with the SEC by us at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

We, as a foreign private issuer, are exempt from the rules under the Exchange Act which prescribe the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act.

We are also subject to the informational requirements of the Spanish securities commission and the Spanish stock exchanges, and we file reports and other information relating to our business, financial condition and other matters with the Spanish securities commission and the Spanish stock exchanges. You may read such reports, statements and other information, including the annual and biannual financial statements, at the public reference facilities maintained in Madrid and Barcelona. Some of our Spanish securities commission filings are also available at the website maintained by the Spanish securities commission at <http://www.cnmv.es>.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Telefónica Group is exposed to various types of market risk in the normal course of its business, including the impact of changes in interest rates, foreign currency exchange rates and equity investment prices. Telefónica actively manages interest rate risk and foreign currency exchange rate risk, in part with financial derivatives. All of Telefónica's financial derivative transactions are entered into for hedging purposes. However, Telefónica is required to classify some of its exchange rate forward contracts and currency options as held for trading purposes if (1) these financial derivatives are being used to hedge expected foreign income or (2) the hedges are put in place in holding companies (mainly Telefónica, S.A., Telefónica Móviles, S.A. and Telefónica Internacional, S.A.) while the underlying debt is kept in their respective Latin American subsidiaries. Instruments that are classified as held for trading purposes are carried at market prices, and gains or losses arising therefrom are recorded immediately in the income statement as financial revenue or expense, as appropriate.

Telefónica pursues several derivative strategies, including the use of options or swaps in order to hedge either the debt's fair value or cash flows for interest expenses. In some cases, when we determine to swap debt from fixed rates into floating rates (or vice versa) at certain target levels, we sell to financial institutions the right to enter into the swap at some future date. The sale of such options is classified as held for trading purposes. All other financial derivatives held by Telefónica at December 31, 2001 and at December 31, 2000, were classified as hedges under Spanish GAAP. Gains or losses on these instruments are recorded as adjustments to the underlying transactions. In general, Telefónica's counterparties in its financial derivatives transactions are financial institutions.

Interest rate risk

Telefónica uses several derivative strategies, including swaps and options to manage its exposure to interest rate fluctuations. Giving effect to these derivative transactions, at December 31, 2001 approximately 46.5% of Telefónica's long-term debt portfolio bore interest at a fixed rate and at December 31, 2000 approximately 52% of Telefónica's long-term debt portfolio bore interest at a fixed rate. Telefónica's floating rate debt portfolio is principally subject to fluctuations in the London Interbank Offered Rate (particularly for the U.S. dollar LIBOR), the European Interbank Offered Rate (EURIBOR) and the Brazilian Selic, Brazil's prime rate.

Exchange rate risk

The exchange rate risk to which Telefónica is exposed derives principally from (1) its long-term debt portfolio that is denominated in (or swapped into) currencies other than the euro and (2) the fact that Telefónica conducts a substantial amount of business in, and has substantial investments in, countries outside of Spain, principally Latin American countries. Telefónica has incurred foreign currency-denominated debt obligations in order to fund investments outside Spain, primarily in Latin America. Consequently, over 98% of Telefónica's foreign debt obligations at December 31, 2001 and at December 31, 2000 was denominated in U.S. dollars or Latin American currencies. Telefónica hedges its debt-related exchange rate exposure to the extent that it considers necessary and hedges are commercially available. Telefónica from time to time hedges its exchange rate exposure arising from foreign-currency dividend streams, management fees and attributed net income from its principal non-Spanish subsidiaries. Telefónica uses swaps, options and exchange rate forward contracts to manage its exposure to exchange rate fluctuations. Giving effect to these derivative transactions, Telefónica was exposed to foreign currency fluctuations on approximately 49.3% of its long-term debt at December 31, 2001 and on approximately 69% of its long-term debt at December 31, 2000.

Equity Price Risk

We hold investments in equity securities. These securities are subject to risks due to changes in the market values of such securities. Telefónica from time to time uses equity swaps to hedge the risks arising from these investments.

Tabular description of market rate sensitive instruments

The tables below describe the financial instruments bearing interest or exchange rate risk for the companies consolidated in the Telefónica Group.

The tables below have been prepared as follows:

- The debt obligations are ordered according to their final characteristics and taking into account the effect of the associated derivative instruments. They are classified according to the currency in which they are denominated, within the following categories:
 - Euro
 - European currencies other than the euro
 - U.S. dollar
 - Latin American currencies
 - Asian currencies
- Each such group is further divided into:
 - Floating rate interest
 - Fixed rate interest
 - Interest rate bounded with options

- Each column shows the notional amount of each debt obligation maturing in the year indicated at the top of the column through a five-year period. The notional amount outstanding after such five-year period is shown in the next column. The column “Total” sums all of the notional amounts.
- Notional amounts do not include accrued interest, except for zero coupon bonds, which include accrued interest from inception to the date of each table.
- The fair value columns show the value for (1) the underlying debt, (2) the derivatives linked to the underlying debt and (3) the total (the sum of the two previous values).

**SENSITIVITY TO INTEREST RATES AND EXCHANGE RATES OF DEBT OBLIGATIONS AT
DECEMBER 31, 2001**

| | Maturity Dates | | | | | | Total | Fair Value | | | Book Value |
|------------------------------------|--------------------|--------|---------|-------|-------|------------|--------|-----------------|------------------------|--------|------------|
| | 2002 | 2003 | 2004 | 2005 | 2006 | Subsequent | | Underlying Debt | Associated Derivatives | Total | |
| | (millions of euro) | | | | | | | | | | |
| Euro | 1,726 | 856 | 3,189 | 3,197 | 1,441 | 3,136 | 13,546 | 13,696 | 212 | 13,908 | 13,546 |
| Floating Rate..... | 363 | 522 | 1,478 | 1,579 | 393 | 833 | 5,169 | 6,219 | (996) | 5,223 | 5,169 |
| Spread Ref Euribor..... | 0.63% | 0.40% | 0.59% | 0.41% | 0.57% | 1.02% | 0.59% | | | | |
| Fixed Rate..... | 1,363 | 334 | 1,711 | 1,619 | 1,047 | 1,741 | 7,815 | 6,915 | 1,208 | 8,123 | 7,815 |
| Interest Rate..... | 4.83% | 5.36% | 4.46% | 8.63% | 5.17% | 5.46% | 5.74% | | | | |
| Other Assets and Liabilities..... | - | - | - | - | - | 562 | 562 | 562 | - | 562 | 562 |
| Other European Currencies.. | 89 | 7 | 326 | - | - | - | 422 | 14 | 421 | 435 | 422 |
| Instruments in GBP..... | 82 | - | 326 | - | - | - | 408 | - | 421 | 421 | 408 |
| Floating Rate..... | 82 | - | 196 | - | - | - | 277 | - | 283 | 283 | 277 |
| Spread | - | - | - | - | - | - | - | - | - | - | - |
| Fixed Rate..... | - | - | 131 | - | - | - | 131 | - | 137 | 137 | 131 |
| Interest Rate..... | - | - | 6.25% | - | - | - | 6.25% | - | - | - | - |
| Instruments in CHF..... | 7 | 7 | - | - | - | - | 14 | 14 | - | 14 | 14 |
| Fixed Rate..... | 7 | 7 | - | - | - | - | 14 | 14 | - | 14 | 14 |
| Interest Rate..... | 2.18% | 2.18% | - | - | - | - | 2.18% | - | - | - | - |
| America..... | 3,780 | 1,837 | 917 | 1,172 | 1,761 | 5,473 | 14,940 | 14,192 | 1,436 | 15,629 | 14,940 |
| Instruments in USD..... | 1,313 | 1,172 | (345) | 1,007 | 1,621 | 5,248 | 10,016 | 11,427 | (568) | 10,859 | 10,016 |
| Floating Rate..... | (3,140) | (453) | 1,206 | (198) | 1,240 | 1,534 | 190 | 1,338 | (1,094) | 244 | 190 |
| Spread | (0.19) | 0.42% | 0.38% | 3.58% | 0.11% | (0.12) | 0.54% | | | | |
| Fixed Rate..... | 3,611 | 407 | (1,551) | 643 | 381 | 3,490 | 6,982 | 6,932 | 436 | 7,367 | 6,982 |
| Interest Rate..... | 3.26% | 4.38% | 1.71% | 6.81% | 8.81% | 8.76% | 7.05% | | | | |
| Bounded Rate..... | 842 | 1,218 | - | 561 | - | 224 | 2,845 | 3,157 | 90 | 3,247 | 2,844 |
| Interest Rate..... | 5.20% | 5.33% | - | 6.20% | - | 5.00% | 5.44% | | | | |
| Instruments in CAD..... | 0 | 0 | 0 | 0 | - | - | 0 | 0 | - | 0 | 0 |
| Fixed Rate..... | 0 | 0 | 0 | 0 | - | - | 0 | 0 | - | 0 | 0 |
| Interest Rate..... | 1.45% | 1.45% | 1.45% | 1.45% | - | - | 1.45% | | | | |
| Instruments in ARS..... | 198 | - | 113 | - | - | - | 311 | 17 | 177 | 193 | 311 |
| Floating Rate..... | 217 | - | - | - | - | - | 217 | (19) | 177 | 158 | 217 |
| Spread | - | - | - | - | - | - | - | - | - | - | - |
| Fixed Rate..... | (19) | - | 113 | - | - | - | 94 | 36 | - | 36 | 94 |
| Interest Rate..... | 3.24% | - | 10.38% | - | - | - | 11.82% | | | | |
| Instruments in BRL..... | 448 | 350 | 822 | 86 | 11 | 40 | 1,757 | 1,652 | 106 | 1,757 | 1,757 |
| Floating Rate..... | 448 | 350 | 822 | 86 | 11 | 40 | 1,757 | 1,652 | 106 | 1,757 | 1,757 |
| Spread | - | - | - | - | - | - | - | - | - | - | - |
| Fixed Rate..... | - | - | - | - | - | - | - | - | - | - | - |
| Interest Rate..... | - | - | - | - | - | - | - | - | - | - | - |
| Instruments in CLP..... | 62 | - | - | - | - | - | 62 | - | 60 | 60 | 62 |
| Floating Rate..... | 62 | - | - | - | - | - | 62 | - | 60 | 60 | 62 |
| Interest Rate..... | - | - | - | - | - | - | - | - | - | - | - |
| Instruments in PEN..... | 862 | 56 | - | - | 67 | 15 | 1,000 | 617 | 369 | 986 | 1,000 |
| Floating Rate..... | 373 | - | - | - | 67 | 15 | 455 | 81 | 367 | 448 | 455 |
| Spread | - | - | - | - | 6.57% | - | 0.96% | | | | |
| Fixed Rate..... | 489 | 56 | - | - | - | - | 545 | 537 | 2 | 538 | 545 |
| Interest Rate..... | 8.43% | 10.99% | - | - | - | - | 8.69% | | | | |
| Instruments in UF..... | 895 | 256 | 321 | 79 | 49 | 170 | 1,770 | 455 | 1,293 | 1,748 | 1,770 |
| Floating Rate..... | 811 | 28 | 114 | 3 | 22 | - | 978 | 41 | 890 | 931 | 978 |
| Spread | 1.17% | 1.00% | 0.76% | 0.73 | 0.94% | - | 1.11% | | | | |
| Fixed Rate..... | 84 | 228 | 207 | 76 | 27 | 170 | 792 | 414 | 403 | 817 | 792 |
| Interest Rate..... | 5.17% | 6.04% | 6.12% | 6.19% | 6.29% | 6.45% | 6.08% | | | | |
| Instruments in COP..... | - | - | - | - | 13 | - | 13 | 13 | - | 13 | 13 |
| Floating Rate..... | - | - | - | - | 13 | - | 13 | 13 | - | 13 | 13 |
| Spread | - | - | - | - | 0.05% | - | 0.05% | | | | |
| Instruments in GTQ..... | 1 | 3 | 7 | - | - | - | 11 | 11 | - | 11 | 11 |
| Fixed Rate..... | 1 | 3 | 7 | - | - | - | 11 | 11 | - | 11 | 11 |
| Interest Rate..... | 15.00% | 14.43% | 14.43% | - | - | - | 14.50% | | | | |
| Asia..... | (0) | - | - | - | - | - | (0) | 876 | (877) | (1) | (0) |
| Instruments in JPY..... | (0) | - | - | - | - | - | (0) | 876 | (877) | (1) | (0) |
| Floating Rate..... | - | - | - | - | - | - | - | 258 | (259) | (1) | - |
| Interest Rate..... | - | - | - | - | - | - | - | - | - | - | - |
| Fixed Rate..... | (0) | - | - | - | - | - | (0) | 618 | (618) | (0) | (0) |
| Interest Rate..... | 14.55% | - | - | - | - | - | 14.55% | | | | |
| Africa..... | 34 | - | - | - | - | - | 34 | - | 35 | 35 | 34 |
| Instruments in MAD..... | 34 | - | - | - | - | - | 34 | - | 35 | 35 | 34 |
| Fixed Rate..... | 34 | - | - | - | - | - | 34 | - | 35 | 35 | 34 |
| Interest Rate..... | 10.35% | - | - | - | - | - | 10.35% | | | | |
| Total..... | 5,629 | 2,701 | 4,433 | 4,369 | 3,202 | 8,608 | 28,942 | 28,779 | 1,227 | 30,005 | 28,942 |
| Exchange Rate Options..... | 1,568 | - | - | - | - | - | 1,568 | - | - | - | - |

**SENSITIVITY TO INTEREST RATES AND EXCHANGE RATES OF DEBT OBLIGATIONS AT
DECEMBER 31, 2000**

| | Maturity Dates | | | | | | Total | Fair Value | | | |
|-----------------------------------|--------------------|----------|----------|----------|----------|------------|----------|-----------------|------------------------|--------|------------|
| | 2001 | 2002 | 2003 | 2004 | 2005 | Subsequent | | Underlying Debt | Associated Derivatives | Total | Book Value |
| | (millions of euro) | | | | | | | | | | |
| Euro | (651) | 169 | 796 | 907 | 2,971 | 2,928 | 7,120 | 12,154 | (4,637) | 7,516 | 7,120 |
| Floating Rate..... | (1,513) | (58) | 99 | 525 | 1,485 | 1,829 | 2,368 | 6,980 | (4,618) | 2,362 | 2,368 |
| Spread | 0.02% | (10.12%) | 0.16% | 0.28% | 0.44% | 0.03% | 0.61% | | | | |
| Fixed Rate..... | 861 | 227 | 697 | 382 | 1,486 | 1,099 | 4,752 | 5,174 | (19) | 5,155 | 4,752 |
| Interest Rate..... | 12.95% | 8.21% | 5.47% | 6.68% | 7.79% | 5.42% | 7.77% | | | | |
| Other European Currencies. | 7 | 7 | 7 | 382 | - | - | 338 | 21 | 328 | 349 | 338 |
| Instruments in GBP..... | - | - | - | 317 | - | - | 317 | - | 328 | 328 | 317 |
| Floating Rate..... | - | - | - | 190 | - | - | 190 | - | 196 | 196 | 190 |
| Spread | - | - | - | - | - | - | - | - | - | - | - |
| Fixed Rate..... | - | - | - | 127 | - | - | 127 | - | 132 | 132 | 127 |
| Interest Rate | - | - | - | 6.25% | - | - | 6.25% | - | - | - | - |
| Instruments in CHF..... | 7 | 7 | 7 | - | - | - | 21 | 21 | - | 21 | 21 |
| Fixed Rate..... | 7 | 7 | 7 | - | - | - | 21 | 21 | - | 21 | 21 |
| Interest Rate | 2.18% | 2.18% | 2.18% | - | - | - | 2.18% | - | - | - | - |
| America..... | 1,304 | 4,813 | 2,163 | 1,623 | 1,883 | 6,738 | 17,895 | 13,742 | 5,085 | 18,828 | 18,082 |
| Instruments in USD..... | (1,520) | 3,699 | 1,545 | 772 | 1,751 | 6,034 | 12,281 | 10,099 | 3,183 | 13,277 | 12,461 |
| Floating Rate..... | 2,214 | 2,753 | 674 | 284 | 516 | 1,698 | 8,138 | 6,435 | 1,720 | 8,156 | 8,142 |
| Spread | 1.93% | 0.21% | 0.35% | 0.34% | 1.18% | 0.68% | 0.85% | | | | |
| Fixed Rate..... | (3,734) | 946 | 871 | 488 | 1,235 | 4,124 | 3,930 | 3,416 | 1,467 | 4,883 | 4,106 |
| Interest Rate | 5.92% | 6.94% | 6.90% | 7.90% | 7.78% | 7.88% | 9.27% | | | | |
| Bounded Rate | - | - | - | - | - | 212 | 212 | 242 | (4) | 238 | 212 |
| Less than 3 years | | | | | | 212 | 212 | | | | |
| More than 3 years | | | | | | | | | | | |
| Instruments in CAD..... | 0 | 0 | 0 | 0 | 0 | - | 1 | 1 | - | 1 | 1 |
| Fixed Rate..... | 0 | 0 | 0 | 0 | 0 | - | 1 | 1 | - | 1 | 1 |
| Interest Rate | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | - | 3.00% | - | - | - | - |
| Instruments in ARS..... | 1,382 | - | - | 188 | - | 186 | 1,756 | 316 | 1,412 | 1,729 | 1,756 |
| Floating Rate..... | 1,437 | - | - | - | - | - | 1,437 | - | 1,412 | 1,412 | 1,437 |
| Spread | - | - | - | - | - | - | - | - | - | - | - |
| Fixed Rate..... | (55) | - | - | 188 | - | 186 | 319 | 316 | - | 316 | 319 |
| Interest Rate | 9.51% | - | - | 10.38% | - | 11.25% | 11.03% | | | | |
| Instruments in BRL..... | 623 | 63 | 61 | 372 | 77 | 52 | 1,248 | 1,151 | 79 | 1,230 | 1,255 |
| Floating Rate..... | 476 | 63 | 61 | 372 | 77 | 52 | 1,101 | 1,141 | (58) | 1,083 | 1,109 |
| Spread | 100% CDI | 100% CDI | 100% CDI | 100% CDI | 100% CDI | 100% CDI | 100% CDI | | | | |
| Fixed Rate..... | 147 | - | - | - | - | - | 147 | 10 | 137 | 147 | 146 |
| Interest Rate | 10.38% | - | - | - | - | - | 10.38% | | | | |
| Instruments in CLP..... | 23 | - | - | - | - | - | 23 | - | 26 | 26 | 23 |
| Fixed Rate..... | 23 | - | - | - | - | - | 23 | - | 26 | 26 | 23 |
| Interest Rate | 10.98% | - | - | - | - | - | 10.98% | | | | |
| Instruments in PEN..... | 480 | 21 | - | - | - | 45 | 546 | 180 | 350 | 531 | 546 |
| Floating Rate..... | 236 | - | - | - | - | 45 | 281 | 74 | 196 | 270 | 281 |
| Spread | 0.83% | - | - | - | - | 6.96% | 1.82% | | | | |
| Fixed Rate..... | 244 | 21 | - | - | - | - | 265 | 106 | 154 | 260 | 265 |
| Interest Rate | 14.20% | 13.81% | - | - | - | - | 14.17% | | | | |
| Instruments in UF..... | 275 | 400 | 556 | 291 | 55 | 421 | 1,998 | 2,000 | (6) | 1,994 | 1,998 |
| Floating Rate..... | 310 | 349 | 509 | 141 | 23 | - | 1,332 | 1,332 | (4) | 1,328 | 1,332 |
| Spread | 0.85% | 0.85% | 0.85% | 0.85% | 0.85% | - | 0.85% | | | | |
| Fixed Rate..... | (34) | 51 | 47 | 150 | 32 | 421 | 667 | 668 | (2) | 667 | 667 |
| Interest Rate | (1.00%) | 6.36% | 6.38% | 6.37% | 6.36% | 6.36% | 6.74% | | | | |
| Instruments in VEB..... | 42 | - | - | - | - | - | 42 | - | 41 | 41 | 42 |
| Floating Rate..... | 42 | - | - | - | - | - | 42 | - | 41 | 41 | 42 |
| Spread | - | - | - | - | - | - | - | | | | |
| Asia..... | - | - | - | - | - | - | - | (200) | 197 | (3) | - |
| Instruments in JPY..... | - | - | - | - | - | - | - | (200) | 197 | (3) | - |
| Fixed Rate..... | - | - | - | - | - | - | - | (200) | 197 | (3) | - |
| Interest Rate | - | - | - | - | - | - | - | | | | |
| Africa..... | 22 | - | - | - | - | - | 22 | - | 22 | 22 | 22 |
| Instruments in MAD..... | 22 | - | - | - | - | - | 22 | - | 22 | 22 | 22 |
| Fixed Rate..... | 22 | - | - | - | - | - | 22 | - | 22 | 22 | 22 |
| Interest Rate | 11.00% | - | - | - | - | - | 11.00% | | | | |
| Total..... | 682 | 4,359 | 2,966 | 2,847 | 4,856 | 9,666 | 25,375 | 25,717 | 996 | 26,713 | 25,562 |
| Exchange Rate Options..... | 222 | - | - | - | - | - | 222 | - | - | - | - |

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

ITEM 15. RESERVED

Not applicable.

ITEM 16. RESERVED

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

We have responded to Item 18 in lieu of responding to this Item.

ITEM 18. FINANCIAL STATEMENTS

Please see pages F-1 through F-113.

ITEM 19. EXHIBITS

Exhibits

| <u>Exhibit Number</u> | <u>Description</u> |
|------------------------------|--|
| 1.1 | Amended and Restated Articles of Association.** |
| 1.2 | Amended and Restated Articles of Association (English translation). ** |
| 4.1 | Framework Agreement dated January 12, 2000, by and between Caja de Ahorros y Pensiones de Barcelona and Grupo Telefónica.* |
| 4.2 | Framework Agreement dated January 12, 2000, by and between Caja de Ahorros y Pensiones de Barcelona and Grupo Telefónica (English translation).* |
| 4.3 | Framework Agreement dated February 11, 2000, by and between Banco Bilbao Vizcaya Argentaria, S.A. and Telefónica, S.A.* |
| 4.4 | Framework Agreement dated February 11, 2000, by and between Banco Bilbao Vizcaya Argentaria, S.A. and Telefónica, S.A. (English translation).* |
| 4.5 | Amended and Restated Rights Offering Agreement dated May 16, 2000, among Telefónica, S.A., Terra Networks, S.A., and Lycos, Inc.** |
| 4.6 | Amended and Restated Agreement and Plan of Reorganization dated September 20, 2000, among Terra Networks, S.A., Lycos, Inc. and Lycos Virginia, Inc.** |
| 4.7 | Strategic Alliance Memorandum of Understanding dated May 16, 2000, among Bertelsmann AG, |

**Exhibit
Number**

Description

| | |
|------|---|
| | Telefónica, S.A., Terra Networks, S.A. and Lycos, Inc.** |
| 4.8 | Mexican Stock Purchase Agreement among Motorola, Inc., Telefónica, S.A. and Telefónica Móviles, S.A. dated as of October 10, 2000.* * |
| 4.9 | Global option plan (TIES).*** |
| 4.10 | Joint Venture Agreement dated as of January 23, 2001 among Telefónica, S.A., Telefónica Móviles, S.A., Portugal Telecom SGPS S.A. and PT Móveis SGPS, S.A.**† |
| 8.1 | List of Subsidiaries. |

* Incorporated by reference to the registration statement of Telefónica, S.A. on Form F-4, registration number 333-11356.

** Incorporated by reference to Telefónica's Annual Report on Form 20-F for the fiscal year ended December 31, 2000.

*** Incorporated by reference to the registration statement on Form S-8, registration number 333-13902.

† Confidential material appearing in this document has been omitted and filed separately with the Securities and Exchange Commission in accordance with the Securities Exchange Act of 1934, as amended, and Rule 24b-2 promulgated thereunder. Omitted information has been marked through.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

| | Page |
|---|------|
| Independent Auditors' Report..... | F-2 |
| Consolidated Balance Sheets as of December 31, 2000 and 2001..... | F-4 |
| Consolidated Statements of Income for the three years ended December 31, 2001 | F-6 |
| Notes to the Consolidated Financial Statements for 2000 and 2001..... | F-7 |
| Exhibits to the Consolidated Financial Statements for 2000 and 2001..... | E-1 |

Independent Auditors' Report

To the Shareholders of Telefónica, S.A.:

We have audited the accompanying consolidated balance sheets of Telefónica, S.A. and the Telefónica Group Companies comprising the Telefónica Group detailed in Note 1 as of December 31, 2001 and 2000, and the related consolidated statements of income for the years ended December 31, 2001, 2000 and 1999. These consolidated financial statements are the responsibility of the Group's directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As explained in note 2, the consolidated statement of income for the year ended December 31, 1999 is based on the Spanish statutorily approved statement of income of the Group prepared by the Company's management. Our Auditors' Report dated February 24, 2000 on the Spanish statutorily approved financial statements was qualified with respect to the effect in 1999 of a provision recorded in 1998 debiting reserves relating to voluntary pre-retirements and early retirements expected to take place in subsequent years. United States securities regulations do not currently allow the use of financial statements in filings with the Securities and Exchange Commission on which the Auditors' Report is qualified with respect to a material departure from generally accepted accounting principles. The accompanying consolidated statement of income for the year ended December 31, 1999 reflects an adjustment of the Spanish statutorily approved financial statements of the Group solely for purposes of complying with the United States securities regulations which consists of a decrease in corporate income tax expense of Euro 934 million and an increase in extraordinary expenses of Euro 2,670 million, respectively.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Telefónica, S.A. and the Telefónica Group Companies comprising the Telefónica Group as of December 31, 2001 and 2000, and the results of their operations for each of the years ended December 31, 2001, 2000 and 1999, in conformity with accounting principles generally accepted in Spain.

As indicated in Note 1, certain Telefónica Group companies have acquired third-generation wireless telephony (UMTS) licenses in various countries. This technology is not yet commercially available, although in each country there are specific plans approved by the stockholders for the development of these businesses. These business plans make it possible to verify the recoverability of the investments already made and of those planned for the future. Since these plans are based on assumptions, variances may arise in the future, and, accordingly, management of the companies plans to periodically update them and make, where appropriate, the necessary value adjustments.

Due to the changes in the economic situation in Argentina, the Argentine government decided to amend the Convertibility Law, which had been in force since March 1991, and adopted certain measures the main effects of which were the devaluation of the Argentine peso with respect to the U.S. dollar and the passification of certain assets and liabilities in Argentina denominated in foreign currency, the introduction of restrictions on the withdrawal of funds deposited at financial institutions, restrictions on making transfers abroad of financial loan servicing payments and dividends and an increase in domestic prices.

The Telefónica Group's net investment in the various businesses in which it has a presence in Argentina (mainly in companies operating in the wireline telephony, wireless telephony and media businesses, see Exhibit I) amounts to €3,682 million (see Note 2-d). The consolidated financial statements include an estimate of the quantifiable impact of these measures on the accompanying consolidated stockholders'

equity (translation differences in consolidation) as of December 31, 2001 and on the consolidated statement of income for the year 2001, amounting to €1,424 million and €339 million, respectively. This impact reflects mainly the loss arising from valuing at a year-end exchange rate of ARP 1,5140/€1 the Group's assets and liabilities in Argentina and the exchange losses derived from adjusting to the year-end exchange rate of ARP 1.7/US\$ 1 the loans arranged by the Argentine companies in this currency, after considering the related hedging transactions (see Note 2-d). It is not possible to predict the future evolution of the country, or, accordingly, the impact that the uncertainties described in Note 2-d might have on these holdings, relating mainly to the normal course of operations and the coverage of the companies' financial needs, through either borrowings or capital increases, since this will depend on the success of the economic measures adopted in Argentina. The consolidated financial statements do not include any further adjustments that might result from the outcome of these uncertainties.

Accounting principles generally accepted in Spain vary in certain significant respects from accounting principles generally accepted in the United States of America. The application of the latter would have affected the determination of consolidated net income for each of the three years in the period ended December 31, 2001 and the determination of shareholders' equity as of December 31, 2001 and 2000, to the extent summarized in Note 25.

Our audits also comprehended the translation of euro amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2. Such U.S. dollar amounts are presented solely for the convenience of readers in the United States of America.

Arthur Andersen y Cia., S. Com.

(A member firm of Andersen Worldwide until April 1, 2002.
Arthur Andersen y Cia., S. Com. has entered into an agreement to associate with Deloitte Touche
Tohmatsu, which will become final upon receipt of antitrust clearance.)

Madrid, Spain

March 14, 2002 (except with respect to the note 25 as to which the date is June 4, 2002)

TELEFÓNICA GROUP

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31, 2000 AND 2001

| Assets | Amounts in millions | | |
|--|---------------------|------------------|-----------------------------|
| | Euros | | U.S. Dollars (Note 2.e.) |
| | 2000 | 2001 | 2001 |
| Property, plant and equipment (net) (Note 7) | 38,721.93 | 36,606.09 | 32,583.08 |
| Land and structures | 7,203.17 | 7,097.90 | 6,317.84 |
| Technical installations and machinery | 1,729.40 | 3,365.73 | 2,995.84 |
| Telephone installations | 62,140.40 | 62,975.46 | 56,054.46 |
| Furniture, equipment and other | 3,498.37 | 3,851.74 | 3,428.43 |
| Construction in progress | 5,669.76 | 3,034.89 | 2,701.36 |
| Advance payments for fixed assets | 53.02 | 53.20 | 47.35 |
| Installation materials | 351.24 | 154.12 | 137.18 |
| Accumulated depreciation | (41,923.43) | (43,926.95) | (39,099.38) |
| Capital increase expenses | 495.49 | 730.45 | 650.17 |
| Intangible assets (net) (Note 6) | 19,693.10 | 16,959.14 | 15,095.33 |
| Research and development expenses | 1,108.16 | 1,049.59 | 934.24 |
| Rights on leased assets | 150.81 | 137.69 | 122.55 |
| Administrative concessions | 17,855.95 | 15,011.19 | 13,361.46 |
| Other intangible assets | 2,905.24 | 4,087.57 | 3,638.35 |
| Accumulated amortization | (2,327.06) | (3,326.90) | (2,961.27) |
| Goodwill (Note 5) | 7,714.80 | 9,128.94 | 8,125.67 |
| Subscribed shares not paid-in (uncalled payments) | 528.35 | 370.10 | 329.43 |
| Financial assets | 8,631.51 | 10,391.01 | 9,249.04 |
| Long term financial investments (Note 8) | 5,230.40 | 5,922.29 | 5,271.43 |
| Deferred expenses (Note 9) | 735.00 | 710.94 | 632.81 |
| Long term prepaid taxes (Notes 18) | 2,666.11 | 3,757.78 | 3,344.80 |
| Current assets | 16,592.14 | 12,236.84 | 10,892.01 |
| Due from stockholders for capital calls | 0.00 | 2.25 | 2.00 |
| Inventories | 791.49 | 754.10 | 671.22 |
| Accounts receivable | 8,527.18 | 8,003.99 | 7,124.35 |
| Credits and other investments | 6,094.35 | 2,306.53 | 2,053.04 |
| Prepayments | 348.44 | 287.39 | 255.81 |
| Short-term treasury stock (Note 11) | 65.04 | 260.70 | 232.05 |
| Cash | 765.64 | 621.88 | 553.54 |
| Total assets | 92,377.32 | 86,422.57 | 76,924.73 |

The accompanying notes 1 to 25 and exhibits I to VI
are an integral part of these consolidated financial statements

TELEFÓNICA GROUP

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31, 2000 AND 2001

| Liabilities and shareholders' equity | Amounts in millions | | |
|--|---------------------|------------------|-----------------------------|
| | Euro | | U.S. Dollars (Note 2.e.) |
| | 2000 | 2001 | 2001 |
| Shareholders' equity (Note 11) | 25,930.55 | 25,861.62 | 23,019.43 |
| Capital stock | 4,340.71 | 4,671.92 | 4,158.48 |
| Paid-in surplus | 10,987.99 | 11,670.02 | 10,387.48 |
| Revaluation reserve | 3,235.66 | 3,059.64 | 2,723.39 |
| Retained earnings | 0.00 | 0.00 | 0.00 |
| Other reserves | 4,861.38 | 4,353.23 | 3,874.81 |
| Net income for the year | 2,504.81 | 2,106.81 | 1,875.27 |
| Minority interests (Note 12) | 9,329.80 | 7,433.55 | 6,616.60 |
| Stockholders ownership | 35,260.35 | 33,295.17 | 29,636.03 |
| Provisions for contingencies and expenses (Note 11) | 6,887.80 | 5,862.70 | 5,218.39 |
| Negative goodwill | 15.38 | 7.95 | 7.08 |
| Deferred revenues (Note 13) | 1,442.01 | 1,145.75 | 1,019.83 |
| Long term liabilities | 24,692.91 | 27,692.41 | 24,649.02 |
| Long term creditors | 23,303.49 | 26,151.33 | 23,277.30 |
| Deferred taxes (Note 18) | 1,389.42 | 1,541.08 | 1,371.72 |
| Current liabilities | 24,078.87 | 18,418.59 | 16,394.38 |
| Trade creditors | 5,937.53 | 5,231.44 | 4,656.50 |
| Non trade creditors | 17,664.85 | 12,794.50 | 11,388.38 |
| Accruals | 476.49 | 392.65 | 349.50 |
| Total liabilities and shareholders' equity | 92,377.32 | 86,422.57 | 76,924.73 |

The accompanying notes 1 to 25 and exhibits I to VI are an integral part of these consolidated financial statements

TELEFÓNICA GROUP

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001

| | Amounts in millions | | | |
|--|---------------------|------------------|------------------|---------------------|
| | Euros | | | U.S. Dollars |
| | 1999 | 2000 | 2001 | (Note 2.e.) 2001 |
| Revenues from operations (Note 20) | 22,957.00 | 28,485.50 | 31,052.60 | 27,639.92 |
| Other operating revenues | 199.18 | 266.74 | 254.74 | 226.74 |
| Internal expenditures capitalized | 834.98 | 899.05 | 730.37 | 650.10 |
| Increase in inventories (net) | 74.46 | 112.26 | (103.91) | (92.49) |
| Total revenues | 24,065.62 | 29,763.55 | 31,933.80 | 28,424.27 |
| Goods purchased | 4,093.07 | 6,045.22 | 7,111.86 | 6,330.27 |
| External services and local taxes | 3,975.59 | 5,786.07 | 5,534.31 | 4,926.09 |
| Personnel expenses (Note 20) | 4,411.45 | 5,111.73 | 5,390.26 | 4,797.87 |
| Provision for depreciation and amortization | 6,108.80 | 6,346.89 | 7,373.98 | 6,563.58 |
| Trade provisions | 565.81 | 761.09 | 1,023.80 | 911.28 |
| Other operating expenses | 134.28 | 140.68 | 69.31 | 61.69 |
| Total operating costs before financial expenses and goodwill amortization | 19,289.00 | 24,191.68 | 26,503.52 | 23,590.78 |
| Operating profit | 4,776.62 | 5,571.87 | 5,430.28 | 4,833.49 |
| Amortization of goodwill (Note 5) | (194.33) | (500.58) | (845.19) | (752.30) |
| Reversal of negative goodwill | 0.00 | 0.00 | 3.57 | 3.18 |
| Financial income (expense) | (1,490.41) | (1,611.83) | (1,608.44) | (1,431.67) |
| Exchange (losses) gains | 434.29 | (248.49) | (782.68) | (696.66) |
| Income (losses) from associated companies | (3.88) | (161.35) | (376.49) | (335.11) |
| Profit from ordinary activities | 3,522.29 | 3,049.62 | 1,821.05 | 1,620.93 |
| Extraordinary revenues | 2,029.35 | 3,688.41 | 1,167.13 | 1,038.86 |
| Losses on fixed assets | (235.60) | (239.89) | (232.99) | (207.38) |
| Extraordinary expenses | (5,348.70) | (3,630.47) | (721.31) | (642.04) |
| Income before tax & minority interests | (32.66) | 2,867.67 | 2,033.88 | 1,810.37 |
| Corporate income tax (Note 18) | 757.96 | (242.22) | 343.94 | 306.14 |
| Minority interests (Note 12) | (655.70) | (120.64) | (271.01) | (241.23) |
| Net income | 69.60 | 2,504.81 | 2,106.81 | 1,875.28 |
| Net income per share (Euros./Dollars) (Note 25.11) | 0.02 | 0.63 | 0.45 | 0.40 |

The accompanying notes 1 to 25 and exhibits I to VI are an integral part of these consolidated financial statements

TELEFÓNICA, S.A. AND COMPANIES COMPOSING

THE TELEFÓNICA GROUP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

(1) INTRODUCTION AND GENERAL INFORMATION

Telefónica Group companies

Telefónica, S.A. and its subsidiaries and investees make up an integrated group of companies (“the Telefónica Group”) operating mainly in the telecommunications, media and entertainment industries.

The Parent Company of this Group is Telefónica, S.A. (“Telefónica”), a corporation that was incorporated for an indefinite period of time on April 19, 1924. Its registered office is at Gran Vía 28, Madrid (Spain).

Exhibit I hereto lists the dependent, associated and investee companies in which the Telefónica Group has direct or indirect holdings, their lines of business, their location, net worth and earnings at year-end, their gross book value, their contribution to the reserves of the Consolidated Group and their registered offices.

Corporate structure of the Group

Telefónica’s basic corporate purpose, per Article 4 of its bylaws, is the provision of all manner of public and private telecommunications services, and all manner of ancillary or supplementary telecommunications services or the services derived therefrom. All the business activities that constitute the corporate purpose may be performed either in Spain or abroad and may be carried on either wholly or partially by the Company, or through shareholdings or other equity interests in other companies or legal entities with an identical or similar corporate purpose.

The main groups of dependent companies through which Telefónica carries out its corporate purpose and manages its business areas or basic lines of business are as follows:

- The wireline telecommunications business in Spain centered at the Telefónica de España Group.
- The cellular telephony business is centralized in Spain and abroad at the Telefónica Móviles Group, following a business restructuring process initiated in 2000.
- The main business activity of the Telefónica Internacional Group is to make and manage investments in the wireline telecommunications industry in the Americas.
- The Admira Group (formerly the Telefónica Media Group) groups together the Group’s interests in the media and entertainment area.
- The main business activity of the Telefónica Datacorp Group is the integral provision of data transmission services for companies.

-
- Internet access and other Internet-related services and interactive services in general are provided by the Terra Networks Group.
 - The Atento Group carries on the call center activity.
 - The Telefónica Publicidad e Información Group handles the telephone directory business.
 - Also, in 2001, the Group completed the construction of an underwater broadband fiber optic system which will form a ring around Latin America and the connection with the U.S., through the Emergia Group.
 - Lastly, the Katalyx Group focuses on the development of businesses in the business to business network.

Certain business activities carried on by the Telefónica Group, mainly those performed in the Internet, third-generation wireless telephony (UMTS) or business to business, are currently at the development or start-up phase. In order to be able to take decisions regarding the investments made, management of the various Group companies prepared the related business plans, approved by shareholders, the results of which enable the recoverability of the investments made to be verified. Since these analyses and studies are based on assumptions, variances may arise and, accordingly, they are analyzed periodically in order to monitor the results obtained and, where appropriate, to make any value adjustments that might be required.

The business activities carried on by most of the Telefónica Group companies are regulated by various pieces of legislation, under which authorizations or licenses must be obtained in certain circumstances in order to be able to provide the various services.

Also, certain business activities, such as wireline and wireless telephony, are carried on under regulated rate and price systems.

The Group company Telefónica de España, S.A.U., which carries on its business activities in a new regulatory and legislative framework as a result of the deregulation of the telecommunications industry in Spain initiated in 1987, is a special case.

One of the main problems of the ratemaking system applicable to this company (determined through a resolution adopted by the Government Standing Committee on Economic Affairs on April 19, 2001, and published pursuant to a Ministerial Order dated May 10, 2001, modifying the Government Standing Committee on Economic Affairs resolution dated July 27, 2000, and published pursuant to a Ministerial Order dated July 31, 2000) is that derived from the License Contract entered into with the Spanish State in 1991 in relation to the guarantee to maintain the overall financial balance of the license. Neither the rate imbalance nor the access shortfall nor the interconnection rates have yet been satisfactorily resolved.

The General Telecommunications Law establishes as a general principle that operators may freely set their rates. Transitional Provision Four of the Law provides that the Government Standing Committee on Economic Affairs, acting on the basis of a report issued by the Telecommunications Market Commission, may establish, on a transitional basis, maximum or minimum fixed prices or the methods for establishing them, based on the actual cost of providing the service and on the degree of competition among of operators in the market for the various services.

It also acknowledges the existence of the imbalance in the rates currently in force and the need to rectify this, as well as the possibility of compensating the dominant operator for the access shortfall that might arise for it as a result of this imbalance.

It should be noted in this regard that Telefónica filed a complaint with the European Commission against the Spanish State for its failure to comply with EU legislation establishing the need to resolve the rate rebalancing problem prior to the opening up of the market to free competition. On January 29, 2001, the European Commission delivered a Reasoned Opinion addressed to the Kingdom of Spain, in which it concluded that the Spanish Administration had failed to comply with Directives 90/388/EEC and 96/19/EEC by not having authorized Telefónica de España to increase its monthly charges sufficiently to cover costs and by not having provided sufficient information to the Commission. Also, in November 1999 Telefónica, S.A. and Telefónica de España, S.A. filed a claim with the Council of Ministers requesting economic compensation for the losses derived from breakdown of the financial equilibrium under the 1991 license contract or, alternatively, for the Government's failure to fulfill the rate rebalancing obligation. This claim has not yet been resolved by the Government.

(2) BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

a) *True and fair view*

The accompanying consolidated financial statements of the Telefónica Group were prepared from the accounting records of Telefónica, S.A. and of each of the companies composing the Telefónica Group. The respective individual financial statements were prepared in accordance with the accounting principles and standards regulated in Spain by the Commercial Code as implemented by the Spanish National Chart of Accounts and in the applicable regulations in the different countries in which the companies composing the Consolidated Group are located. The accompanying consolidated financial statements are presented in accordance with the regulations for the preparation of consolidated financial statements, as approved by Royal Decree 1815/1991 and, accordingly, they give a true and fair view of the net worth, financial position, results of operations and funds obtained and applied in 2001 and 2000.

The consolidated statement of income for the year ended December 31, 1999 is based on the Spanish statutorily approved statement of income of the Group prepared by the Company's management. Our Auditors' Report dated February 24, 2000 on the Spanish statutorily approved financial statements was qualified with respect to the effect in 1999 of a provision recorded in 1998 debiting reserves relating to voluntary preretirements and early retirements expected to take place in subsequent years. United States securities regulations do not currently allow the use of financial statements in filings with the Securities and Exchange Commission on which the Auditors' Report is qualified with respect to a material departure from generally accepted accounting principles. The accompanying consolidated statement of income for the year ended December 31, 1999 reflects an adjustment of the Spanish statutorily approved financial statements of the Group solely for purposes of complying with the United States securities regulations which consists of a decrease in corporate income tax expense of Euro 934 million and an increase in extraordinary expenses of Euro 2,670 million, respectively.

b) *Accounting policies*

The consolidation methods applied were as follows:

-
- The companies over which effective control is exercised or in relation to which the Company has entered into agreements with the other stockholders were consolidated by the global integration method.
 - The companies which are managed jointly with third parties were consolidated by the proportional integration method.
 - The companies in which there is significant influence but not ownership of a majority of the voting rights or joint management with third parties are carried by the equity method.
 - The investees which are either not included in the foregoing points or which, although included, do not have a material impact on consolidation, are carried at the lower of cost or market.

In certain circumstances, at some of the Group's investees a qualified majority of the voting rights may be required to adopt certain resolutions.

All material accounts and transactions between the consolidated companies were eliminated in consolidation.

In the case of Group companies whose accounting and valuation methods differed from those of Telefónica, adjustments were made in consolidation in order to present the consolidated financial statements on a uniform basis.

The margins included in the invoices issued by dependent companies to other Telefónica Group companies for capitalizable assets or services were eliminated in consolidation.

The consolidated statement of income includes the revenues and expenses of the companies that are no longer in the Group up to the date on which the related holding was sold or the company was liquidated, and those of the new companies included in the Group from the date on which the holding was acquired or the company was formed through year-end.

The equity of minority interests in the net worth and results of the dependent companies consolidated by the global integration method is recorded under the "Minority Interests" and "Income/Loss Attributed to Minority Interests" captions, respectively (see Note 12).

In accordance with standard practice in Spain, the accompanying consolidated financial statements do not include the tax effect, if any, of transferring the reserves of the consolidated dependent companies and of the companies carried by the equity method to the Controlling Company's accounts, since it is considered that such reserves will be used to finance these companies' operations and that those that may be distributed would not give rise to a material additional tax cost.

c) *Comparative information and changes in the scope of consolidation*

Comparative information

The 2000 consolidated financial statements were prepared in pesetas. However, in order to facilitate their comparison with the 2001 consolidated financial statements, the figures in the consolidated balance sheet as of December 31, 2000, and in the consolidated statement of income for the years ended December 31, 2000 and 1999, were translated to millions of

euros at the exchange rate established by Article 2 of Law 46/1998 on the introduction of the euro, applied to the Group's accounting entries recorded in pesetas and taking into account the related rounding off.

The figures in these consolidated financial statements are expressed in millions of euros unless otherwise stated.

There were no changes in the structure of the consolidated balance sheet and consolidated statement of income with respect to those presented in the previous year 2000 (balance sheet) or 2000 and 1999 (statement of income).

As permitted by the legislation in force, in 2000 the financial information of Telefónica de Argentina, S.A., Telefónica Data Argentina, S.A. and Telefónica Comunicaciones Personales, S.A. was included in the Group's consolidated financial statements with a difference of three months, i.e. through September 30, 2000. In 2001 the fiscal year-end of these companies was changed for legal purposes and brought into line with that of the Group. In the case of Compañía de Inversiones en Telecomunicaciones, S.A. (Cointel), although its fiscal year-end was not changed for legal purposes, it was also brought into line with that of the Group. The accompanying consolidated financial statements include these companies' balance sheets as of December 31, 2001, and their statements of income for the 12-month period then ended, and their earnings for the period from October 1 to December 31, 2000, are recorded under the "Extraordinary Revenues" caption, since the amount thereof is not material.

Changes in the scope of consolidation

The main variations in the scope of consolidation in 2001 and 2000 were as follows (the full detail of all the variations is included in Exhibit II):

2001

Telefónica

In January 2001, pursuant to an agreement entered into in May 2000, Telefónica, S.A. acquired all the shares of Mediaways, GmbH Internet Services for €1,473.08 million from the German company Bertelsmann AG, giving rise to goodwill of €1,474.66 million. This company was consolidated in the Telefónica Group by the global integration method. Also, in December 2001 Telefónica, S.A. subscribed a capital increase of €2.5 million at this company.

In June Telefónica, S.A. increased capital by 122,560,575 shares of €1 par value each and additional paid-in capital of €4.5 per share. As consideration for this capital increase, Telefónica received as a nonmonetary contribution from Motorola certain investments in the wireless business in Mexico. As of the transaction date the market value of the holdings acquired was €2,173.44 million. The companies acquired were included in the scope of consolidation of the Telefónica Group by the global integration method.

Exhibit II shows all the holdings acquired and their stockholder structure, the most noteworthy investments being the acquisitions of all the shares of the following companies:

- Corporación Integral de Comunicación, S.A. de C.V.
- Grupo Corporativo del Norte, S.A.

-
- Telefonía Celular del Norte, S.A. de C.V.
 - Celular de Telefonía, S.A. de C.V.
 - Baja Celular Mejicana, S.A. de C.V.
 - Baja Celular Servicios Compartidos, S.A. de C.V.
 - Tamcel, S.A. de C.V.

Also, holdings of 90% were acquired in:

- Movitel del Noroeste, S.A. de C.V.
- Moviservicios, S.A. de C.V.
- Movicelular, S.A. de C.V.

Lastly, to complement this transaction, Telefónica contributed €2.33 million in cash. The goodwill that arose is detailed in Note 5 and Exhibit II.

In 2001 Telefónica, S.A. acquired from Iberdrola, S.A. various holdings in Brazilian operators which were already Group investees, the most noteworthy investments being the acquisition of additional stakes of 3.48% in SP Telecomunicações Holding, S.A., 7% in TBS Celular Participações, S.A., 7% in Sudestecel Participações, S.A., 62.02% in Iberoleste Participações, S.A. and 0.66% in Celular CRT Participações, S.A.

Terra Networks Group

Pursuant to the agreements entered into with Banco Bilbao Vizcaya Argentaria, S.A. (BBVA), in August 2001 Terra Networks, S.A. (“Terra”) acquired a 49% holding in Uno-e Bank, S.A. for a disbursement of €60.43 million. This transaction gave rise in the consolidated financial statements of the Telefónica Group to goodwill amounting to €30.25 million. This company is carried by the equity method.

Telefónica Internacional Group

In 2001 Telefónica Internacional, S.A. sold its 35.86% holding in the Argentine company Cablevisión, S.A., giving rise to a capital gain of €55.92 million. The investee was excluded from the Telefónica Group’s scope of consolidation.

Telefónica Internacional, S.A. acquired an additional holding of 10% in Telefónica Perú Holding, S.A. for €27.34 million, giving rise to goodwill in consolidation of €46.27 million. As a result of this acquisition, Telefónica Internacional became the sole stockholder of this company, which continues to be consolidated in the Telefónica Group’s consolidated financial statements by the global integration method.

In 2001, following the requisite authorization by the regulatory body Anatel, the sale to Telefónica Internacional, S.A. of shares of São Paulo Telecomunicações Holding, S.A., which owns the shares of Telesp Participações, S.A., under a sale option executed by BBVA in December 2000, was concluded. This transaction increased the ownership interest in SPT Holding by 0.5292%, and a disbursement of €80.10 million was made in this connection. This company continues to be consolidated in the Telefónica Group by the global integration method.

The ownership interests of the parent company Telefónica Internacional, S.A. in the subsidiaries Telefónica de Perú, Telefónica de Argentina, Telesp and CEI Citicorps Holdings were increased as a result of the aforementioned contributions of shareholdings by Telefónica. Capital was reduced at CEI through the reimbursement of contributions to the other stockholders in order to have a 99.96% holding in this company.

Telefónica Móviles Group

Since October 1, 2001, Ipse 2000 S.p.A. (a company which holds the Italian UMTS license) has been carried by the equity method in the consolidated financial statements. Under Article 11.2.b of Royal Decree 1815/1991 approving the regulations for the preparation of consolidated financial statements, this method is the most appropriate, because since October 1, 2001, certain difficulties have been progressively disclosed which, in practice, have substantially affected the Telefónica Group's effective control over the management of Ipse 2000 S.p.A.

Admira Media Group

In January the Endemol Group acquired the remaining 50% of the capital of Endemol France for €159.3 million, giving rise to goodwill of €27.86 million and making the Endemol Group the sole stockholder of this company, which was consolidated in the Telefónica Group's consolidated financial statements by the global integration method.

Also, in 2001 the Admira Media Group sold 15,740 shares representing 5.40% of the capital stock of Hispasat, S.A., giving rise to a gain of €35.17 million. As of December 31, 2001, the Admira Media Group had a 17.34% holding in that company.

2000

In July the tender offers launched in January for the acquisition of shares of the subsidiaries *Telecomunicações de São Paulo, S.A.* (Telesp), *Tele Sudeste Celular Participações, S.A.* (Telesudeste), *Telefónica de Argentina, S.A.* (TASA) and *Telefónica del Perú, S.A.A.* concluded with the exchange of the shares and American Depositary Shares (ADS) held by minority stockholders for shares of Telefónica with the following results:

- **Telesp:** 61.96% of the capital stock was acquired. At the date of the related tender offer this holding was valued at approximately €3,763.87 million. The transaction increased Telefónica's direct and indirect holding in this company to 86.61% as of December 31, 2000.
- **Telesudeste:** 68.41% of this company's capital stock was acquired, bringing Telefónica's direct and indirect holding in this company to 75.57% at 2000 year-end. At the transaction date the holding acquired was valued at approximately €2,136.23 million.
- **TASA:** a 44.27% holding was acquired. At year-end, after the acquisition of an 80.91% holding in CEI Citicorp Holdings, S.A., Telefónica had a direct and indirect ownership interest in this company of 92.87%. At the transaction date the holding acquired was valued of approximately €3,727.65 million.

-
- **Telefónica del Perú:** 53.12% of the capital stock of this company was acquired, bringing Telefónica's direct and indirect holding to 93.22% as of December 31, 2000.

For the exchange of these shares, Telefónica carried out four capital increases (described in Note 11), for an amount equal to the underlying book values of the shareholdings acquired. Accordingly, no significant negative goodwill or goodwill in consolidation were recorded.

In December the exchange of shares of *CEI Citicorp Holdings, S.A.* (CEI), now Telefónica Holding Argentina, S.A., through a capital increase at Telefónica, S.A. was completed (see Note 11). As a result of this transaction, an 80.91% holding was acquired in this company, whose main assets are its 50% holding in Cointel (which in turn owns 52.88% of the capital of TASA), its 26.82% holding in Atlantida de Comunicaciones, S.A. (ATCO) and its 26.82% holding in AC Inversora, S.A., valued at approximately €2,289.61 million for the purposes of the share exchange.

Under the agreements reached, the former stockholders of CEI reduced the financial debt recorded by CEI and included in the accompanying consolidated financial statements by €51.77 million.

In October the subsidiary *Terra Networks, S.A.* acquired all the shares of *Lycos Virginia, Inc.*, the successor of Lycos, Inc., through a capital increase. As of the date of the tender offer, the holding in Lycos was valued at approximately €1,088.72 million.

Prior to this acquisition, and in the framework of the agreements with Lycos, Terra increased the par value of its capital stock by €70,967,742 through the issuance of 35,483,871 shares of €2 par value each and additional paid-in capital of €60 per share. Telefónica subscribed to and paid 35,380,101 shares.

Telefónica's 2000 year-end direct and indirect holding in Terra Networks was 36.87%.

On February 14 *Telefónica Móviles, S.A.* ("Telefónica Móviles") was incorporated with an initial capital stock of €3,005,060 to centralize all the Telefónica Group's interests in the wireless telephony business. This process was carried out in 2000 through several capital increases performed with nonmonetary contributions of other Telefónica Group companies, a process which continued in 2001. The companies contributed are listed in Exhibit I. Subsequently, in November 2000 the company requested and obtained the listing of its shares through a public offering for subscription of shares through which the Telefónica Group reduced its direct and indirect holding in this company to the 92.15% held by it as of December 31, 2000. This transaction gave rise to a gain of €2,899.31 million, which was recorded in the consolidated statement of income (see Note 8).

In the second half of 2000 *Telefónica Móviles* (through its wholly-owned subsidiary Telefónica Intercontinental, S.A., which was absorbed in 2001 by Telefónica Móviles España, S.A.) formed consortiums with other operators, which obtained the following licenses to provide *UMTS* services in Germany, Italy and Austria:

- **Germany:** in August the consortium Orla (Group 3G UMTS Holding, GmbH), 57.2% owned by Telefónica Móviles, obtained one of the six licenses granted for €3,414.17 million.

-
- **Italy:** in October the consortium Ipse 2000 led by Telefónica Móviles obtained one of the two licenses for broader band granted for €3,268.99 million. The Telefónica Group's effective ownership interest in this consortium is 46.09%.
 - **Austria:** in November 3G Mobile Telecommunications, a wholly-owned investee of Telefónica Móviles, obtained a two-band frequency license for €17.40 million.

The Group's ownership interests in these consortiums were consolidated by the global integration method in 2000.

In August Telefónica acquired a 99.22% holding in *Endemol Entertainment Holding, N.V.* through a tender offer carried out in exchange for shares of Telefónica, S.A. issued in a capital increase (see Note 11). At the date of the tender offer the shares acquired were valued at approximately €5,435.53 million.

In May Telefónica acquired all the shares of *Vigil Corp, S.A.*, which owns 77.85% of the capital stock of *Ambit, S.A.*, and 22.15% of the shares of the latter company in exchange for shares of Telefónica, S.A. issued in a capital increase (see Note 11). These acquisitions increased the shareholding in *Atlantida Comunicaciones, S.A. (ATCO)* by 35.76%. As of the transaction date these holdings amounted to approximately €259.63 and €73.87 million, respectively.

The Group company *Terra Mobile* acquired all the shares of *Iobox* for €16.20 million.

In July, in compliance with the legislation in force in Brazil, all the shares owned of *CRT Fija*, representing 16.7% of the capital stock, were sold, giving rise to a gain of €60 million (see Note 8).

In January 2000 Telefónica sold 3% of the capital stock of *Terra* to Banco Bilbao Vizcaya Argentaria, S.A., giving rise to a gain of €453.61 million (see Note 8).

In September Telefónica sold in the market 3.1% of the capital stock of *Telefónica Publicidad e Información, S.A.* for a gain of €105.63 million (see Note 8).

In June all the shares of *Telefónica Sistemas Ingeniería de Productos, S.A.* were sold, giving rise to a gain of €41.85 million (see Note 8).

d) Devaluation in Argentina

In view of its international presence, the Telefónica Group, like other corporations, has been affected by the economic situation in Argentina through the various Group companies operating there. As of December 31, 2001, the Telefónica Group's exposure at the various Argentine companies amounted to €3,581.98 million, including the asset value assignable to those investments, the related goodwill and intercompany financing. The most significant amounts relate to Telefónica de Argentina (€2,585.83 million), Telefónica Móviles Argentina (€507.66 million) and the *Admira Media Group* in Argentina (€413.71 million).

In recent months in Argentina there have been wide-reaching changes in the economic model and the Convertibility Law, which had been in force since March 1991. The main consequences of the measures adopted by the Argentine Government were (a) the devaluation of the Argentine peso with respect to the U.S. dollar and the mandatory

conversion to local currency of certain assets and liabilities in Argentina denominated in foreign currency; (b) the introduction of restrictions on the withdrawal of funds deposited at financial institutions; (c) restrictions on making transfers abroad of financial loan servicing payments and dividends without the prior authorization of the Central Bank of the Argentine Republic; and (d) an increase in domestic prices.

As of the date of approval of these consolidated financial statements the Argentine Government was still analyzing supplementary policies which must define, inter alia, the way in which loans secured in U.S. dollars relating to the local phase of the government debt security exchange will be converted to pesos and how external private debt payments will be instrumented.

As a result of the changes made, per the Argentine National Statistics and Census Institute, in January there was an increase of 2.3% in the C.P.I. and domestic wholesale prices rose by 6.6%.

As of December 31, 2001, the closing date of these consolidated financial statements, there was no explicit Argentine peso/euro exchange rate that could be taken as representative. Also, pursuant to an executive decision, in early 2002 the Argentine peso was devalued with respect to the euro, an event to which the market reacted subsequently.

Taking into account Spanish accounting legislation, the express communications from the Spanish Accounting and Audit Institute regarding the way in which this devaluation should be treated at 2001 year-end and the international accounting rulings in force, in preparing its consolidated financial statements the Telefónica Group used peso/euro and peso/U.S. dollar exchange rates of 1.5149 pesos/€1 and 1.7 pesos/US\$ 1 at year-end as the initial representative exchange rates prevailing in the market after December 31, 2001, following the aforementioned devaluation. These exchange rates were used to include in the consolidated financial statements the assets and liabilities of the Argentine dependent and associated companies and to assess the status of their assets as regards their solvency, the value of their investments, their viability, the recoverability of goodwill, etc.

In accordance with the foregoing, these consolidated financial statements reflect an adverse impact on consolidated earnings and on the "Stockholders' Equity - Translation Differences in Consolidation" caption of €69.00 million and €1,424.10 million, respectively. The impact on the consolidated statement of income relates mainly to the effect of the financial items amounting to €28.76 million, after considering the related hedging transactions arranged for this purpose (see Note 20), and to the positive tax effect of the aforementioned financial losses. The effect of using more up-to-date exchange rates is detailed in Note 23, "Subsequent Events".

The matters still not resolved include the necessary renegotiation with the Argentine Government of the future rates due to the effect of the provisions of Law 25.561. Accordingly, although the book value of the operating fixed assets was maintained on the basis of estimates based on the information currently available, neither the results of the negotiations relating to rate levels nor, therefore, the future sales revenues and cash flows can be predicted.

Also, the measures adopted by the Argentine government and the effect thereof on the financial statements may lead, in certain circumstances, to financial and net worth imbalances such as situations of negative net worth, the inability to meet short-term foreign

currency loan repayment obligations due to limitations on exchanging pesos, the need to make early repayments of the financing received, etc.

Given that the aforementioned circumstances had not occurred at the date of preparation of the consolidated financial statements and that it is not certain that they will occur, it was not possible to quantify their effect, if any, on the consolidated financial statements as of December 31, 2001.

e) Information in dollars (unaudited)

The financial information expressed in U.S. dollars is presented for the convenience of the readers and is based on the Noon Buying Rate in New York City for cable transfer in euros as certified for customers purposes by the Federal Reserves Bank of New York on December 31, 2001 which was 0,8901 euros for each dollar. No representation is made that euros amounts could have been, or could be, converted into U.S dollars at the rate on December 31, 2000 or at any other rate.

(3) PROPOSED DISTRIBUTION OF THE INCOME OF THE CONTROLLING COMPANY

The proposed distribution of 2001 income that the Board of Directors of the Controlling Company will submit for approval by the Stockholders' Meeting is to appropriate the income, amounting to €54.18 million, to the "Stockholders' Equity - Distributable Reserves" caption.

(4) VALUATION STANDARDS

The main valuation methods used in preparing the 2001 and 2000 consolidated financial statements were as follows:

a) Goodwill in consolidation

The accompanying consolidated balance sheets include goodwill, net of amortization, arising from the positive difference in consolidation between the amounts paid to acquire the shares of the dependent companies consolidated or carried by the equity method and their underlying book values plus the unrealized gains allocable to these companies' assets at the acquisition date and that still existed at year-end.

The Group amortizes existing goodwill over 20 years except when it is considered that it will be recovered in a shorter period (see Exhibit III).

The amortization periods are those for which the estimated income attributable to the Group by the companies at which goodwill exists is at least equal to the unamortized amount of the goodwill at these companies.

In the case of the Internet businesses, in 2001, following the significant write-downs made in 2000 (see Note 5), the studies of the evolution of the business plans were reviewed, taking into account the economic situation of the businesses acquired, the current rate of maturation of the industry and the structural changes in the business. Following this analysis, the goodwill amortization period was changed from five years to ten years from June 30, 2001, the date on which the analysis was completed and the appropriate write-down made. Also, €400 million were allocated to goodwill as a result of the acquisition of Lycos, Inc. to be recovered through the revenues that will be generated under the agreement

entered into on May 16, 2000, by Bertelsmann AG, Telefónica, S.A. and Terra Networks, S.A. over the five-year term of the agreement. The rest of the goodwill that arose on the acquisition of Lycos is being amortized over a maximum period of ten years. The effect of these changes on the accompanying consolidated financial statements was not material.

b) *Translation methods (year-end exchange rate method)*

The financial statements of the Group companies abroad were translated to euros at the exchange rates ruling at year-end, except for:

1. Capital stock and reserves, which were translated at historical exchange rates.
2. Income statement accounts, which were translated at the average exchange rates for the year.

The exchange difference arising from application of this method is included under the "Stockholders' Equity - Translation Differences in Consolidation" caption in the accompanying consolidated balance sheets, net of the portion of said difference relating to minority interests, which is recorded under the "Minority Interests" caption on the liability side of the accompanying consolidated balance sheets.

The companies using accounting methods that include inflation adjustments apply the accounting standards in force in their respective countries, which consist of valuing monetary assets and liabilities at face value and adjusting the historical cost of nonmonetary assets and liabilities by the inflation from the date of inclusion of the asset or liability in the company's balance sheet to year-end. The effect of the inflation for the year on the monetary assets and liabilities is included in the statement of income for the year under the "Exchange Losses" or "Exchange Gains" captions. The amounts thus adjusted are translated to U.S. dollars at the year-end exchange rates and the subsequent translation to euros is made by the year-end exchange rate method described in paragraphs 1 and 2 above.

c) *Start-up expenses*

Start-up expenses, which comprise incorporation, capital increase and preopening expenses, are recorded at cost and are amortized on a straight-line basis over five years.

d) *Intangible assets*

This caption in the accompanying consolidated balance sheets relates mainly to the following items:

Research and development expenses

These relate to the costs incurred in developing new products to be marketed or used for the Group's own network, which are amortized by the straight-line method over three years from the date of completion. Costs incurred in projects which are not viable for the future are charged to income in the year in which this circumstance becomes known.

Rights on leased assets

The rights under financial lease contracts are recorded at the cost of the related assets, and the total debt for lease payments plus the amount of the purchase option are recorded as a liability. The difference between the two amounts, which represents the interest expenses on the transaction, is recorded as a deferred charge and is allocated to income each year by the interest method. The existing contracts, which relate mainly to computer hardware, are amortized on a straight-line basis over five years, which coincides with the years of useful life of the hardware.

Software licenses and developments

These items are recorded at cost and are amortized on a straight-line basis over three years.

Administrative concessions

This caption relates to the acquisition cost of the licenses for the provision of telephony services granted to the Group by various public authorities, and to the value assigned to the licenses held by certain companies at the time they were acquired by the Telefónica Group.

The acquisition cost includes the expenses incurred directly for obtainment of these licenses and, in the case of the licenses to operate the Universal Mobile Telecommunications System (UMTS) obtained in Spain, Germany, Italy, Austria and Switzerland, the financial expenses incurred from the granting of the license to the time when the technology required to operate the service becomes available, provided the value thus obtained does not exceed the realizable value. The financial costs capitalized in 2001 amounted to €271.39 million for financing arranged by Telefónica, S.A. and Telefónica Móviles, S.A. and to €236.39 million for the financing granted by other stockholders of the companies holding the UMTS licenses. A total amount of €172.12 million were capitalized in this connection in 2000.

Amortization starts to be taken when commercial operation of these licenses commences and continues to be taken over the term thereof based on the estimated capacity to generate revenues in each period, which normally coincides with the number of lines installed or the average revenues per customer, depending on the type of services provided under the license.

Other intangible assets

This caption includes, among other items, the costs incurred in acquiring capacity and rights of use of other operators' cables, mainly underwater cables. These rights are amortized on a straight-line basis over 25 years, which is generally the duration of the rights acquired.

e) Property and equipment

Property and equipment is carried at cost revalued pursuant to the applicable enabling legislation (see Note 7). If the regulations applicable in a particular country so require, the property and equipment is valued at cost or appraisal value adjusted for inflation.

Cost includes external costs plus internal costs comprising warehouse materials used, direct labor used in installation work and the allocable portion of the indirect costs required for the

related investment. The latter two items are recorded as a revenue under the “Capitalized Expenses of In-House Work on Fixed Assets” caption.

The interest and other financial expenses incurred during the construction of property and equipment in connection with the start-up of a new activity, when the construction period exceeds one year, and the exchange differences arising over this period on long-term loans to finance these assets, are capitalized, provided that the resulting amount does not exceed realizable value. €18.27 million and €39.77 million were capitalized in this connection in 2001 and 2000, respectively, mainly in relation to the construction of underwater cables in Latin America.

The costs of expansion, modernization or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalized.

Upkeep and maintenance expenses are expensed currently.

The Group records the necessary value adjustments to reduce the cost of each item of property and equipment to its market value at each year-end, provided that the book value of the asset is not recoverable through the generation of sufficient revenues to cover all the costs and expenses, including depreciation.

A provision must be recorded for lasting diminution in value that is deemed to be reversible. This provision will be deducted in the valuation of the asset in question; in this case the lower value will not be maintained if the causes which prompted the value adjustment have ceased to exist.

When the diminution in value of the assets is irreversible and differs from the result of systematic depreciation, the loss and the diminution in value of the related asset will be directly recorded.

The companies depreciate their property and equipment by the straight-line method at annual rates based on the years of estimated useful life of the assets, calculated in accordance with technical studies which are reviewed periodically based on technological advances and the rate of dismantling, as follows.

| | Years of Estimated Useful Life |
|--|--------------------------------|
| Buildings and structures | 25 – 50 |
| Technical installations and machinery | 10 – 15 |
| Telephone installations, networks and subscriber equipment | 5 – 25 |
| Furniture, office equipment and other | 2 – 10 |

The increases in value resulting from the revaluations are depreciated over the years of residual useful life of the revalued assets.

f) Long- and short-term financial investments

Shareholdings which were not consolidated or which are carried by the equity method are recorded in the consolidated balance sheet at the lower of cost or market.

The market value was determined as follows:

1. Listed securities:

The market value was taken to be the lower of average market price in the last quarter or market price at year-end.

2. Unlisted securities and holdings in companies carried by the equity method:

The market value was taken to be the underlying book value at year-end plus the unrealized gains disclosed at the time of the acquisition and still existing at year-end.

Unrealized losses (cost higher than market or underlying book value at year-end) are recorded under the "Provisions" caption.

The "Short-Term Financial Investments" caption includes mainly the investment of cash surpluses arising at Telefónica and other Group companies in short term assets and the investment of the net level premium reserves of the Group's insurance companies (see Note 8), which amounted to €1.4 million (relating to Telefónica) and €276.23 million, respectively, as of December 31, 2001, and to €3,706.01 million and €265.47 million, respectively, as of December 31, 2000. Also noteworthy as of December 31, 2001 and 2000, were the short-term investments of the Terra Group and the Telefónica Internacional Group recorded under the "Short-Term Investment Securities" and "Other Loans" captions. In the case of the Terra Group these investments amount to €91.59 million (€31.76 million in 2000) and in the case of the Telefónica Internacional Group to €706.99 million (€1,003.36 million in 2000).

g) *Deferred charges*

This caption in the accompanying consolidated balance sheets includes mainly the following items:

Supplementary pension payments to retired employees (shortfall)

These relate to the shortfall in the provisions recorded for the commitments assumed by Telefónica de España to retired employees as of June 30, 1992. Since then, the shortfall has been allocated to income over 15 years by the straight-line method, in accordance with the communication received from the Spanish Accounting and Audit Institute (ICAC) dated March 1, 1993, at a rate of €1.59 million per year. On November 1, 1997, coverage of these commitments was externalized (see Notes 9 and 14).

Debt arrangement expenses

These relate to long-term debt arrangement expenses and issuance premiums on debentures and bonds and are amortized by the interest method on the basis of the principal amounts outstanding.

Executive loyalty-building program

This caption relates to the unaccrued costs relating to the Telefónica Group's "Top Plan" stock option plan (see Notes 9 and 20).

Interest on promissory notes

This relates to the difference between the face value and the effective value of the promissory notes issued at over one year. This interest is charged to income by the interest method.

Interest on financial lease contracts

This relates to the interest expenses on financial lease contracts, which are charged to income by the interest method (see Note 4-d).

h) Inventories

Warehouse materials for installation in capital expenditure projects and consumables and replacement parts are valued at the lower of weighted average cost, adjusted by the effect of inflation in the countries whose local legislation so requires, or market.

Obsolete, defective or slow-moving inventories have been reduced to realizable value. The allowance for diminution in value of inventories is recorded on the basis of inventory age and turnover.

i) Treasury stock

Treasury stock is valued at the lower of cost, comprising the total amount paid for acquisition, or market. Since these shares were acquired without any resolution having been adopted to reduce capital, they are assumed to be intended for subsequent sale and, accordingly, market value is taken to be the lowest of average official market price in the last quarter of the year, year-end market price, or the related underlying book value. As a result of application of this valuation method, the consolidated balance sheets as of December 31, 2001 and 2000, include the acquisition cost of the treasury stock (€74.73 million and €198.19 million, respectively) net of provisions of €14.03 million and €33.15 million, respectively. These provisions were recorded in accordance with the accounting legislation in force for 2001, in order to reduce the value of the treasury stock to its underlying book value, with a charge to consolidated income in respect of its valuation at market value (€6.28 million), and with a charge to unrestricted reserves in respect of the amount by which the market value exceeded the underlying book value (€87.74 million) (see Notes 11 and 20).

The Company has recorded the related restricted reserve as required by Article 79.3 of the revised Corporations Law (see Note 11-a).

j) Capital subsidies

Capital subsidies are valued at the amount granted and are allocated to income on a straight-line basis over a maximum period of ten years, which does not differ materially from the estimated useful life of the subsidized assets.

Most of the aforementioned subsidies were granted to Telefónica de España and the conditions under which the subsidies were granted are being met in all cases (see Note 13).

k) Foreign currency transactions

Fixed-income securities and receivables and payables denominated in foreign currencies are translated to euros at the exchange rates ruling at the transaction date, and are adjusted at year-end to the exchange rates then prevailing (see Note 4-b).

Exchange differences arising on adjustment of foreign currency fixed-income securities and receivables and payables to year-end exchange rates are classified by currency and due date, and for this purpose currencies which, although different, are officially convertible are grouped together.

The positive net differences in each group of currencies are recorded under the "Deferred Revenues" caption on the liability side of the consolidated balance sheet, unless exchange losses in a given group have been charged to income in prior years, in which case the net positive differences are credited to period income up to the limit of the negative net differences charged to income in prior years.

The positive differences deferred in prior years are credited to income in the year in which the related accounts receivable and payable fall due or are repaid early, or as negative exchange differences for the same or a higher amount are recognized in each homogeneous group.

Exchange gains or losses arising from specific-purpose financing of foreign currency investments in investee companies to hedge the exchange risk to which these investments are exposed are recorded under the "Translation Differences in Consolidation" caption in the consolidated balance sheet.

These transactions are deemed to be hedging transactions when they meet certain requirements, most notably that the foreign currency in which the financing is denominated is the same as, or largely matches, the functional currency of the investment and of the flows generated by it, and that the timing of recognition of the anticipated revenues from dividends and management fees matches the loan repayment schedule.

l) Pension and other commitments to employees

At year-end the Group records in the consolidated balance sheet the provisions required to cover the accrued liability for the existing commitments, based on actuarial calculations at an appropriate discount rate.

The Group's main commitments in this connection are detailed in Note 14.

m) Technical reserves

This caption relates mainly to the net level premium reserves, which represent the amount by which the present value of life insurance, pension and reinsurance commitments exceed the net premiums to be paid by the policyholders to Seguros de Vida y Pensiones Antares, S.A. and Casiopea Re. These reserves are credited when the commitments covered are paid.

n) Accounts payable

Accounts payable are recorded at repayment value, except for zero-coupon debenture and bond issues, which are recorded in the consolidated balance sheet at issue value plus the related accrued interest (see Note 15).

o) Derivatives

Transactions aimed at eliminating or significantly reducing exchange, interest rate or market risks on asset and liability positions or on other transactions are treated as hedging transactions. The gains or losses arising over the life of these derivatives are taken to income using the same recognition method as that used for gains or losses on the related asset or liability and the underlying transaction hedged by the derivatives (see Note 17).

Transactions which, exceptionally, were not assigned to hedge risks, are not treated as hedging transactions. In transactions of this kind, the differences in market price are recorded for accounting purposes when the transactions are canceled or finally settled. However, if potential losses are anticipated at period-end, the related provision is recorded with a charge to the consolidated statement of income.

p) Corporate income tax and other taxes

These captions in the consolidated statements of income include all the debits and credits arising from Spanish corporate income tax and similar taxes applicable to the Group companies abroad.

The expense for corporate income tax of each year is calculated on the basis of book income before taxes, increased or decreased, as appropriate, by the permanent differences from taxable income, defined as those arising between taxable income and book income before taxes that are not reversed in subsequent periods.

Tax relief and tax credits, excluding tax withholdings and prepayments, are deducted from the corporate income tax charge in the year in which they are definitively taken, except in the case of investment tax credits earned since 1996, which, at the time when they are taken, are deferred over the average life of the assets which gave rise to them. The difference between the accrued tax expense and the tax paid is due to the above-mentioned deferral and to revenue and expense recognition timing differences giving rise to deferred tax assets and liabilities, provided that they have a certain reversal period (see Note 18).

q) Recognition of revenues and expenses

Revenues and expenses are recognized on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

The revenues from telephony and other services are recognized on an accrual basis. Unbilled revenues from the beginning of the billing cycle to the end of each month are estimated or recorded as soon as they are known. The differences between the estimated revenues and those subsequently billed are not material and are recognized in the following period. In accordance with the accounting principle of prudence, only realized income is recorded at year-end, whereas foreseeable contingencies and losses, including possible losses, are recorded as soon as they become known (see Notes 10 and 20).

(5) **GOODWILL IN CONSOLIDATION**

The variations in the “Goodwill in Consolidation” caption and in the related accumulated amortization in 2001 and 2000 were as follows:

| | Millions of Euros |
|----------------------------|-------------------|
| Balance at 12/31/99 | 4,206.99 |
| Additions | 5,213.63 |
| Amortization | (500.58) |
| Write-offs | (804.05) |
| Net retirements | (441.81) |
| Net transfers | 11.04 |
| Translation differences | 29.58 |
| Balance at 12/31/00 | 7,714.80 |
| Additions | 3,018.72 |
| Amortization | (845.19) |
| Write-offs | (249.00) |
| Net retirements | (461.93) |
| Net transfers | 161.89 |
| Translation differences | (210.35) |
| Balance at 12/31/01 | 9,128.94 |

The goodwill arising on the acquisition of companies abroad is translated to euros at the exchange rates prevailing at the time the goodwill arises, except for goodwill arising on the acquisition of companies by foreign companies, which is recorded in local currency and is affected by exchange rate fluctuations. The resulting differences are recorded under the “Translation Differences in Consolidation” caption.

Per the estimates and projections available to the directors, the projected income attributable to the Group that will be earned by the companies at which goodwill had arisen at year-end is at least equal to the unamortized balance of the related goodwill in the related periods.

Based on these estimates and projections, in 2000 €804.05 million of goodwill was written off and recorded under the “Extraordinary Expenses and Losses” caption in the accompanying consolidated statement of income (see Note 20). These write-offs of goodwill included most notably that of the goodwill of Terra arising in the capital increase performed by Telefónica (see Note 2) in September 2000 in compliance with the agreements entered into on the occasion of the acquisition of Lycos, for €472.09 million. In addition, the goodwill relating to the investees of Atlántida de Comunicaciones, S.A. (ATCO) amounting to €199.03 million was written off because the amortization period used by this subgroup was brought into line with the maximum amortization period permitted in Spain (20 years), which is more consistent with the period in which the investment is expected to be recovered envisaged in its business plans.

In 2001 the existing estimates and projections were once again reviewed, and goodwill amounting to €249 million relating to the investment in Mediaways, GmbH was written-off.

Positive differences in consolidation allocable to the assets of the company acquired give rise to an increase in the value of the related assets up to their market value, once the related valuation has been carried out.

The detail of the balances of the goodwill at each company and the related accumulated amortization, and of the variations therein is shown in Exhibit III.

2001

The main additions to the goodwill in consolidation as of December 31, 2001, related to the following companies:

| | Millions of Euros |
|---|--------------------------|
| Mediaways, GmbH | 1,474.66 |
| Endemol Group (*) | 268.61 |
| Telefónica Data Brasil | 233.55 |
| Grupo Corporativo del Norte, S.A. | 230.51 |
| Celular de Telefonía, S.A. de C.V. | 137.86 |
| Investees of G. Corporativo del Norte, S.A. and other companies acquired (*) | 135.14 |
| Uno-e | 130.25 |
| Telefónica Móviles, S.A. | 113.21 |
| Portugal Telecom, S.A. | 76.00 |
| Other additions | 218.93 |
| Total | 3,018.72 |

(*) Goodwill included in the consolidated financial statements relating to the investees of the companies acquired.

2000

The main additions to the goodwill in consolidation as of December 31, 2000, related to the following companies:

| | Millions of Euros |
|------------------------|--------------------------|
| Lycos | 964.01 |
| Lycos Group (*) | 881.99 |
| Endemol | 802.27 |
| ATCO Group (*) | 642.03 |
| Terra Networks | 482.12 |
| CEI Citicorp Group (*) | 436.35 |
| Iobox | 233.45 |
| Quatro C. Atendimento | 143.59 |
| CEI Citicorp Holdings | 135.55 |
| Other companies | 492.27 |
| Total | 5,213.63 |

(*) Goodwill included in the consolidated financial statements relating to the investees of the companies acquired.

The retirements included most notably the retirements of €65.38 million in 2001 due to the sale of the holding in Cablevisión and of €63.36 million in 2000 due to the sale of CRT Fija.

(6) INTANGIBLE ASSETS

The detail of the balances of the intangible asset accounts and of the variations therein in 2001 and 2000 is as follows:

| | Millions of Euros | | | | | | | Balance at 12/31/01 |
|---|---------------------|-----------------|-----------------|------------------------|------------------------|-------------------------|-------------------|---------------------|
| | Balance at 12/31/00 | Additions | Retire-ments | Inclusion of Companies | Exclusion of Companies | Translation Differences | Transfers | |
| Cost: | | | | | | | | |
| Research and development expenses | 1,108.16 | 170.79 | (6.62) | - | - | 3.64 | (226.38) | 1,049.59 |
| Rights on leased assets | 150.81 | 27.76 | (10.28) | - | - | (4.09) | (26.51) | 137.69 |
| Software licenses and developments | 1,666.79 | 606.44 | (16.09) | 21.07 | (8.38) | (0.96) | 40.26 | 2,309.13 |
| Administrative concessions | 17,855.95 | 472.82 | (35.22) | 80.14 | (33.84) | (157.03) | (3,171.63) | 15,011.19 |
| Other intangible assets | 1,238.45 | 372.28 | (89.56) | 50.71 | (8.01) | (44.61) | 259.18 | 1,778.44 |
| Total intangible assets, gross | 22,020.16 | 1,650.09 | (157.77) | 151.92 | (50.23) | (203.05) | (3,125.08) | 20,286.04 |
| Accumulated amortization: | | | | | | | | |
| Research and development expenses | 717.72 | 174.63 | (4.70) | - | - | 1.40 | (26.33) | 862.72 |
| Rights on leased assets | 56.27 | 15.88 | (2.93) | - | - | (1.61) | (6.61) | 61.00 |
| Software licenses and developments | 740.93 | 402.90 | (4.31) | 4.55 | (3.02) | 1.02 | (8.13) | 1,133.94 |
| Administrative concessions | 507.44 | 247.67 | (5.73) | 21.26 | (18.84) | (5.49) | (1.09) | 745.22 |
| Other intangible assets | 302.90 | 188.40 | (41.53) | 41.59 | (13.31) | (17.23) | 43.55 | 504.37 |
| Total accumulated amortization | 2,325.26 | 1,029.48 | (59.20) | 67.40 | (35.17) | (21.91) | 1.39 | 3,307.25 |
| Provisions for diminution in value | 1.80 | 25.29 | (0.31) | - | - | (7.13) | - | 19.65 |
| Intangible assets, net | 19,693.10 | 595.32 | (98.26) | 84.52 | (15.06) | (174.01) | (3,126.47) | 16,959.14 |

| | Millions of Euros | | | | | | | Balance at 12/31/00 |
|---|---------------------|------------------|----------------|------------------------|------------------------|-------------------------|----------------|---------------------|
| | Balance at 12/31/99 | Additions | Retire-ments | Inclusion of Companies | Exclusion of Companies | Translation Differences | Transfers | |
| Cost: | | | | | | | | |
| Research and development expenses | 948,15 | 105,90 | - | 65,71 | (3,04) | (6,67) | (1,89) | 1,108.16 |
| Rights on leased assets | 128,97 | 18,37 | (2,72) | 0,99 | (0,69) | 2,88 | 3,01 | 150.81 |
| Software licenses and developments | 1,229,47 | 515,01 | (6,82) | 18,43 | (3,81) | (0,28) | (85,21) | 1,666.79 |
| Administrative concessions | 5,765,76 | 12,211,31 | (20,42) | 73,76 | (750,66) | 32,23 | 543,97 | 17,855.95 |
| Other intangible assets | 565,80 | 261,41 | (48,33) | 303,94 | (95,69) | 4,13 | 247,19 | 1,238.45 |
| Total intangible assets, gross | 8,638.15 | 13,112.00 | (78.29) | 462.83 | (853.89) | 32.29 | 707.07 | 22,020.16 |
| Accumulated amortization: | | | | | | | | |
| Research and development expenses | 571,79 | 121,98 | (0,29) | 24,59 | (1,05) | 1,57 | (0,87) | 717.72 |
| Rights on leased assets | 44,51 | 11,80 | (1,74) | 0,72 | (0,02) | 0,19 | 0,81 | 56.27 |
| Software licenses and developments | 488,02 | 244,46 | (0,25) | 5,78 | (2,01) | (0,26) | 5,19 | 740.93 |
| Administrative concessions | 381,07 | 196,07 | (0,58) | - | - | 1,04 | (70,16) | 507.44 |
| Other intangible assets | 145,94 | 95,69 | (10,62) | 55,43 | (20,15) | 4,45 | 32,16 | 302.90 |
| Total accumulated amortization | 1,631.33 | 670.00 | (13.48) | 86.52 | (23.23) | 6.99 | (32.87) | 2,325.26 |
| Provisions for diminution in value | 0.69 | 13.04 | (12.39) | - | - | - | 0.46 | 1.80 |
| Intangible assets, net | 7,006.13 | 12,428.96 | (52.42) | 376.31 | (830.66) | 25.30 | 739.48 | 19,693.10 |

The “Administrative Concessions” caption includes mainly the following items:

- Licenses for the provision of UMTS services in Spain, Germany and Austria, which are recorded as 2000 additions, and €2.51 million relating to 2001 for the license awarded in Switzerland. The term of these licenses is 20 years in Spain, Germany and Austria and 15 years in Switzerland. As of December 31, 2001, these licenses amounted to €9,254.58 million. The effect of carrying Ipse 2000, by the equity method (see Note 2-c), which holds the UMTS license in Italy for a period of 15 years, is included in the “Transfers” column for 2001. The term of this licence, whose cost totaled €3,269 million, is under revision by the Italian government in order to approve an additional 5-year period.
- A 25-year concession granted by the Peruvian State to Telefónica del Perú, S.A.A. when these companies were acquired in April 1994 by Telefónica Internacional.

- Licenses to operate wireline and wireless services of the companies awarded in the privatization of the Telebras system (Telesp, Tele Sudeste and Tele Leste), assigned as an addition to the value of these assets when they were acquired (July 1998). The term of these licenses is 27 years.
- 25-year DCS 1800 MHz licenses recorded at the amount paid to the Spanish Government plus the amount set aside to defray the costs relating to the radio spectrum cleaning process required for the implementation and development of these licenses.

The projections that the directors had as of December 31, 2001 and 2000, regarding business performance and the income to be generated by these concessions are at least equal to the unamortized balance thereof as of that date.

(7) PROPERTY AND EQUIPMENT

The detail of the balances of property and equipment accounts and of the related accumulated depreciation and of the variations therein in 2001 and 2000 is as follows:

| | Millions of Euros | | | | | | | |
|--|---------------------|-----------------|-------------------|------------------------|------------------------|-------------------------|-----------------|---------------------|
| | Balance at 12/31/00 | Additions | Retire-ments | Inclusion of Companies | Exclusion Of Companies | Translation Differences | Transfers | Balance at 12/31/01 |
| Cost: | | | | | | | | |
| Land and structures | 7,203.17 | 117.58 | (11.65) | 38.40 | (1.48) | (475.87) | 227.75 | 7,097.90 |
| Technical installations and machinery | 1,729.40 | 301.54 | (44.08) | 93.75 | (19.53) | (43.11) | 1,347.76 | 3,365.73 |
| Telephone installations | 62,140.40 | 1,931.93 | (1,250.94) | 677.09 | (41.95) | (4,599.51) | 4,118.44 | 62,975.46 |
| Furniture, tools, etc. | 3,498.37 | 580.25 | (214.90) | 145.52 | (40.22) | (276.58) | 159.30 | 3,851.74 |
| Total property and equipment in service | 74,571.34 | 2,931.30 | (1,521.57) | 954.76 | (103.18) | (5,395.07) | 5,853.25 | 77,290.83 |
| Construction in progress | 5,669.76 | 3,551.30 | (186.61) | 67.35 | (53.03) | (213.14) | (5,800.74) | 3,034.89 |
| Advances to fixed asset suppliers | 53.02 | 9.90 | (9.96) | 20.23 | (20.68) | (13.27) | 13.96 | 53.20 |
| Installation materials in warehouses | 351.24 | 278.30 | (42.17) | 0.32 | (6.53) | (159.41) | (267.63) | 154.12 |
| Property and equipment, gross | 80,645.36 | 6,770.80 | (1,760.31) | 1,042.66 | (183.42) | (5,780.89) | (201.16) | 80,533.04 |
| Accumulated depreciation: | | | | | | | | |
| Structures | 2,147.42 | 236.59 | (5.13) | 15.45 | 65.78 | (145.60) | 17.93 | 2,332.44 |
| Technical installations and machinery | 1,012.04 | 231.96 | (24.08) | 40.87 | (22.45) | (56.32) | 14.18 | 1,196.20 |
| Telephone installations | 35,974.46 | 5,210.54 | (1,100.10) | 201.15 | 30.88 | (2,488.49) | 147.84 | 37,976.28 |
| Furniture, tools, etc. | 2,074.89 | 548.01 | (103.11) | 88.43 | (50.13) | (196.97) | (34.09) | 2,327.03 |
| Total accumulated depreciation | 41,208.81 | 6,227.10 | (1,232.42) | 345.90 | 24.08 | (2,887.38) | 145.86 | 43,831.95 |
| Provisions for diminution in value | 714.62 | 24.95 | (669.25) | - | (0.91) | (9.26) | 34.85 | 95.00 |
| Property and equipment, net | 38,721.93 | 518.75 | 141.36 | 696.76 | (206.59) | (2,884.25) | (381.87) | 36,606.09 |

| | Millions of Euros | | | | | | | |
|--|---------------------|-----------------|-------------------|------------------------|------------------------|-------------------------|-----------------|---------------------|
| | Balance at 12/31/99 | Additions | Retire-ments | Inclusion of Companies | Exclusion Of Companies | Translation Differences | Transfers | Balance at 12/31/00 |
| Cost: | | | | | | | | |
| Land and structures | 6,773.89 | 73.51 | (8.73) | 106.36 | (10.75) | 96.08 | 172.81 | 7,203.17 |
| Technical installations and machinery | 1,457.62 | 106.81 | (19.32) | 118.49 | (3.03) | 24.72 | 44.11 | 1,729.40 |
| Telephone installations | 57,329.56 | 1,004.31 | (1,574.47) | 377.07 | (46.08) | 868.94 | 4,181.07 | 62,140.40 |
| Furniture, tools, etc. | 2,815.30 | 476.07 | (352.36) | 170.95 | (42.84) | 65.46 | 365.79 | 3,498.37 |
| Total property and equipment in service | 68,376.37 | 1,660.70 | (1,954.88) | 772.87 | (102.70) | 1,055.20 | 4,763.78 | 74,571.34 |
| Construction in progress | 4,182.04 | 6,060.62 | (36.79) | 20.81 | (7.34) | 109.25 | (4,658.83) | 5,669.76 |
| Advances to fixed asset suppliers | 22.69 | 17.20 | (0.87) | 3.76 | - | (15.25) | 25.49 | 53.02 |
| Installation materials in warehouses | 367.52 | 266.78 | (34.10) | 0.82 | - | 8.29 | (258.07) | 351.24 |
| Property and equipment, gross | 72,948.62 | 8,005.30 | (2,026.64) | 798.26 | (110.04) | 1,157.49 | (127.63) | 80,645.36 |
| Accumulated depreciation: | | | | | | | | |
| Structures | 1,891.32 | 222.30 | (3.08) | 31.61 | (1.06) | 11.97 | (5.64) | 2,147.42 |
| Technical installations and machinery | 813.67 | 133.78 | (14.93) | 98.46 | (2.33) | 2.35 | (18.96) | 1,012.04 |
| Telephone installations | 31,349.96 | 5,396.98 | (1,097.11) | 58.61 | (0.16) | 231.15 | 35.03 | 35,974.46 |
| Furniture, tools, etc. | 1,783.28 | 457.72 | (318.09) | 76.99 | (2.39) | 34.23 | 43.15 | 2,074.89 |
| Total accumulated depreciation | 35,838.23 | 6,210.78 | (1,433.21) | 265.67 | (5.94) | 279.70 | 53.58 | 41,208.81 |
| Provisions for diminution in value | 1,355.50 | 2.13 | (615.41) | 0.24 | (27.76) | - | (0.08) | 714.62 |
| Property and equipment, net | 35,754.89 | 1,792.39 | 21.98 | 532.35 | (76.34) | 877.79 | (181.13) | 38,721.93 |

The installation materials in warehouses are recorded net of provisions, which amounted to €35.68 million as of December 31, 2001 (€8.28 million in 2000). The retirements from “Telephone Installations, Networks and Equipment” relate mainly to the dismantling of telephony plant (see Note 20).

Noteworthy in both 2001 and 2000 were the investments made by Group companies, mainly in wireline telephony both in Spain and Latin America and in wireless telephony as a result of UMTS technology, which represent most of the additions to and related subsequent transfers from the “Construction in Progress” caption.

The “Translation Differences” column includes both the effect of the variation in exchange rates on the beginning balances and the monetary adjustment applied by certain companies to their balances to adjust for inflation, in accordance with the accounting practices in their respective countries. The effect of exchange rates on the period variations is included in the appropriate column for each variation. As indicated in Note 2-d, the effect of the devaluation of the Argentine peso should be noted in 2001.

As of December 31, 2001 and 2000, the following items had been fully depreciated:

| | Millions of Euros | |
|--|-------------------|------------------|
| | 12/31/01 | 12/31/00 |
| Buildings and structures | 229.37 | 168.51 |
| Technical installations, machinery and tools | 328.27 | 899.51 |
| Telephone installations | 15,716.39 | 14,928.92 |
| Other property and equipment | 6,302.27 | 1,223.79 |
| Total | 22,576.30 | 17,220.73 |

Telefónica de España’s fixed assets used to provide services currently regulated by a concession cannot be mortgaged without prior administrative authorization.

The Telefónica Group companies have taken out insurance policies to cover the possible risks to which their property and equipment used in operations are subject, except for the franchise existing in policies in force for local and domestic long-distance networks and subscriber equipment.

On December 31, 1996, Telefónica de España revalued its property and equipment pursuant to Royal Decree-Law 7/1996. The Company had previously revalued its assets pursuant to the enabling legislation specifically applicable to Telefónica de España.

The net increase in value resulting from these revaluations will be depreciated over the tax periods in the remaining useful lives of the revalued assets. The increase in period depreciation as a result of the 1996 revaluation is not material with respect to the total depreciation recorded by the Group.

The detail of the property and equipment owned by Group companies consolidated by the global integration method located abroad is as follows:

| | Millions of Euros | |
|--------------------------|-------------------|------------------|
| | 12/31/01 | 12/31/00 |
| Cost | 38,680.82 | 42,948.52 |
| Accumulated depreciation | (17,869.88) | (18,379.50) |
| Total | 20,810.94 | 24,569.02 |

Provisions for diminution in value

The telecommunications market in Spain became fully deregulated on December 1, 1998. In 1999 certain regulatory measures were adopted, the main consequence of which was to accelerate the opening up to competition of the basic telephony service in Spain. These measures include most notably the approval of reductions in the regulated rates for local, long-distance and wireline-to-wireless services, although, per Group management estimates, the envisaged increase in monthly charges will not enable the effects of the current rate imbalance to be eliminated at medium term. Also approved on the same date were significant reductions in regulated circuit lease prices, to which must be added the entry into force in 2000 of obligatory operator pre-selection and number portability. In July 1999 the general application of the prices and conditions of the Reference Interconnection Offer (RIO), of particular relevance to wireless operators, came into force. Lastly, measures were taken to bring forward the introduction of competition in the local loop through application of ADSL technology and the immediate award of radio spectrum licenses for use in the local loop (LMDS technology).

The Group has analyzed the impact at Telefónica de España of these measures on the recoverability of the value of certain assets, the investment in which was made in the past taking into account the prevailing regulatory framework, and above all in fulfillment of the obligations for the provision of the universal service provided for in the State Contract entered into in 1991. As a result, at 1999 year-end the Company recorded a provision of €1,322.56 million for asset write-downs, with a charge to the “Variations in Fixed Asset and Control Portfolio Provisions” caption.

This provision was recorded for assets that have to be replaced because they do not comply with the obligations associated with the provision of the new services or assets the projected returns on which, based on the aforementioned circumstances, do not enable the investment made to be recovered.

The return on these assets was measured by projecting the cash flows that they will foreseeably generate taking into account the forecasts then existing and adopting a stance of utmost prudence regarding the evolution of competition and the regulatory framework of prices and rates.

In 2001 and 2000 the impact of the regulatory measures adopted in Spain in prior years and their effect on the Group's forecasts for the quantification of the fixed asset provision required were reassessed, for which purpose the amount of the monthly charges provided for in the Ministerial Order dated May 10, 2001, was taken into account.

As a result of all the foregoing, as of December 31, 2001 and 2000, the provision required amounted to €40.27 million and €708.68 million, respectively, after inclusion in the financial statements of the losses arising as a result of the difference between the revenues, expenses and depreciation relating to these assets. Accordingly, €668.41 million and €13.89 million were reversed in 2001 and 2000, respectively, and these amounts were recorded under the "Variations in Fixed Asset and Control Portfolio Provisions" caption.

(8) LONG-TERM FINANCIAL INVESTMENTS

8.1. The detail of the balances of long-term financial investments as of December 31, 2001 and 2000, and of the related provisions for diminution in value, and of the variations therein in the years then ended is as follows:

| | Millions of Euros | | | | | | |
|----------------------------|----------------------------------|-----------------|-----------------|-------------------------|-----------------|-----------------|-----------------|
| | Holdings in Associated Companies | Other Holdings | Other Loans | Guarantees and Deposits | Tax Receivables | Provisions | Total |
| Balance at 12/31/99 | 1,567.43 | 1,002.52 | 1,793.97 | 19.55 | 2,364.78 | (157.80) | 6,590.45 |
| Additions | 391.11 | 1,154.60 | 1,416.93 | 27.34 | 601.83 | (87.27) | 3,504.54 |
| Sale of companies | (162.33) | (21.23) | (588.07) | (2.79) | (331.13) | 1.22 | (1,104.33) |
| Inclusion of companies | 1,681.78 | 122.83 | 250.27 | 0.44 | 28.87 | (22.21) | 2,061.98 |
| Exclusion of companies | (59.98) | (45.89) | (11.29) | - | (15.07) | 5.72 | (126.51) |
| Translation differences | 10.95 | 8.02 | 4.06 | 0.01 | 9.88 | (1.12) | 31.80 |
| Losses | (161.35) | - | - | - | - | - | (161.35) |
| Dividends | (25.15) | - | - | - | - | - | (25.15) |
| Transfers | (940.83) | (837.94) | (1,271.78) | (8.71) | 6.95 | 177.39 | (2,874.92) |
| Balance at 12/31/00 | 2,301.63 | 1,382.91 | 1,594.09 | 35.84 | 2,666.11 | (84.07) | 7,896.51 |
| Additions | 353.70 | 30.43 | 656.70 | 273.24 | 1,582.81 | (68.85) | 2,828.03 |
| Sale of companies | (365.65) | (10.54) | (145.87) | (19.60) | (423.83) | 2.07 | (963.42) |
| Inclusion of companies | 8.63 | (43.71) | 34.11 | 0.10 | 9.23 | - | 8.36 |
| Exclusion of companies | (2.43) | (50.14) | (25.60) | (0.02) | (39.79) | 0.52 | (117.46) |
| Translation differences | (6.70) | (3.40) | (104.80) | 0.85 | (98.43) | 9.96 | (202.52) |
| Losses | (376.50) | - | - | - | - | - | (376.50) |
| Dividends | (48.27) | - | - | - | - | - | (48.27) |
| Transfers | 1,234.73 | (434.77) | 29.49 | (57.43) | 61.68 | (178.36) | 655.34 |
| Balance at 12/31/01 | 3,099.14 | 870.78 | 2,038.12 | 232.98 | 3,757.78 | (318.73) | 9,680.07 |

The additions to and retirements from the "Holdings in Associated Companies" and "Other Holdings" accounts reflect the amount of the investments detailed in the variations in the consolidated Group as of December 31, 2001 and 2000, described in Exhibit II. The transfers of associated companies in 2001 relate mainly to Ipse 2000, which holds the Italian UMTS license (see Note 2-c).

The "Other Loans" caption includes mainly the investment of the net level premium reserves of the Group's insurance companies, mainly in government debentures,

government debt securities and long-term deposits amounting to €743.55 million and €547.81 million as of December 31, 2001 and 2000, respectively, which earn returns of between 4.07% and 13.08% (between 3.29% and 3.56% in the case of money market assets). The “Short-Term Financial Investments - Short-Term Investment Securities” caption in the consolidated balance sheet as of December 31, 2001, includes €11.71 million (€193.17 million in 2000) recorded to cover commitments, which are accounted for as “Technical Reserves” (see Note 14).

As of December 31, 2001 and 2000, this caption also includes the tax asset that arose as a result of the corporate restructuring of Telesp, S.A., the initial amount of which was €710.34 million, of which €233.73 million and €113.78 million, respectively, mature at long term and are recorded under the “Other Receivables” caption, and €31.36 million and €44.62 million, respectively, are recorded under the “Short-Term Financial Investments – Other Receivables” caption.

The “Tax Receivables” caption includes the long-term deferred tax assets which are grouped together under the “Long-Term Financial Investments” caption on the asset side of the consolidated balance sheet, in accordance with an ICAC Resolution on Valuation Standard 16 of the Spanish National Chart of Accounts (see Note 18).

In 2001 the Telefónica Group sold the following holdings in various companies with the results detailed below:

| | Percentage of Capital Stock Sold | Millions of Euros |
|---|-------------------------------------|-------------------|
| | | Gain |
| Dependent and associated companies: | | |
| Cablevisión, S.A. (Note 2-c) | 35.86 | 255.92 |
| Hispasat, S.A. | 5.40 | 35.17 |
| Telefónica Sistemas de Información Geográfica, S.A. | 100.00 | 5.02 |
| Other | - | 5.98 |
| Total | | 302.09 |

In 2000 the Telefónica Group sold the following holdings in various companies with the results detailed below:

| | Percentage of Capital Stock Sold | Millions of Euros |
|--|-------------------------------------|-------------------|
| | | Gain (Note 2-c) |
| Dependent and associated companies: | | |
| Telefónica Móviles, S.A. | 7.85 | 2,899.31 |
| Terra Networks, S.A. | 3.0 | 453.61 |
| T. Sistemas Ingeniería de Productos, S.A. | 100.0 | 141.85 |
| T. Publicidad e Información, S.A. | 3.1 | 105.63 |
| CRT Fija | 16.7 | 60.00 |
| Helkon | 25.1 | 45.49 |
| Other | - | 201.31 |
| Total | | 3,907.20 |

The Group and associated companies listed on stock markets are as follows:

- Telefónica, S.A.
- Telefónica Móviles, S.A.

- Telefónica Publicidad e Información, S.A.
- Terra Networks, S.A.
- Amper, S.A.
- Compañía de Telecomunicaciones de Chile, S.A.
- Telefónica de Argentina, S.A.
- Telefónica del Perú, S.A.A.
- Compañía Anónima Nacional de Teléfonos de Venezuela, C.A.
- Portugal Telecom, S.A.
- Telecomunicações de Sao Paulo, S.A. (Telesp).
- Tele Sudeste Celular Participações, S.A.
- Tele Leste Celular Participações, S.A.
- Celular CRT Participações, S.A.
- Pearson P.L.C.
- Infonet Services Corporation.
- Telefónica El Salvador, S.A. de C.V.
- Telefónica Data Brasil Holding, S.A.
- CTC Trans Regionales
- Fastibex, S.A.
- Telefónica Móviles Argentina, S.A.
- Telefónica Holding de Argentina, S.A.
- Advance Telecomunicaciones, S.A.
- Telefónica Data Perú Holding, S.A.A.
- Telefónica Móviles Perú Holding, S.A.A.

(9) DEFERRED CHARGES

The breakdown of the balance of this caption and the amortization schedule are as follows:

| | Millions of Euros | | | | | | | | |
|---|-------------------|---------------|---------------|--------------|--------------|---------------|---------------------|------------------------|------------------------|
| | Maturity | | | | | | Subsequent Years | Balance at 13/31/01 | Balance at 12/31/00 |
| | 2002 | 2003 | 2004 | 2005 | 2006 | | | | |
| Supplementary pension payments to retired employees (shortfall) (Note 14) | 61.59 | 61.59 | 61.59 | 61.59 | 61.59 | 30.78 | 338.73 | 400.32 | |
| Debt arrangement expenses | 32.53 | 26.15 | 23.62 | 17.49 | 6.84 | 12.67 | 119.30 | 154.12 | |
| Executive loyalty-building program (Note 20) | 14.21 | 9.68 | - | - | - | - | 23.89 | 38.18 | |
| Interest on long-term promissory notes | 10.79 | 7.06 | 7.00 | 7.00 | 7.05 | 30.44 | 69.34 | 1.10 | |
| Interest on financial lease contracts | 1.73 | 1.05 | 0.96 | 0.93 | 0.92 | 7.97 | 13.56 | 14.36 | |
| Other deferred charges | 72.76 | 18.67 | 10.71 | 6.99 | 7.64 | 29.35 | 146.12 | 126.92 | |
| Total | 193.61 | 124.20 | 103.88 | 94.00 | 84.04 | 111.21 | 710.94 | 735.00 | |

(10) CUSTOMER RECEIVABLES

The detail of the balances of this caption as of December 31, 2001 and 2000, is as follows:

| | Millions of Euros | |
|-------------------------------|---------------------|---------------------|
| | Balance at 12/31/01 | Balance at 12/31/00 |
| Services billed | | |
| Customer receivables billed | 3,005.49 | 3,688.67 |
| Doubtful customer receivables | 1,606.11 | 1,340.97 |
| Other receivables | 47.16 | 46.09 |
| | 4,658.76 | 5,075.73 |
| Unbilled services | 2,124.48 | 1,903.33 |
| | 6,783.24 | 6,979.06 |
| Allowance for bad debts | (1,692.89) | (1,449.76) |
| Total | 5,090.35 | 5,529.30 |

The “Unbilled Services” account includes the connection, monthly and metered service charges not yet billed by the Group operators. This amount arises because these companies’ subscriber billing schedules do not coincide with December 31 (see Note 4-q).

The balance of the public-sector customer receivables in the countries in which the Group operates amounted to €10.16 million as of December 31, 2001 (€186.29 million as of December 31, 2000).

In 2001 provisions amounting to €1,032.62 million (€701.09 million in 2000) were charged under “Allowance for bad debts” caption.

(11) STOCKHOLDERS’ EQUITY

The detail of the balances of equity accounts and of the variations therein in 2001 and 2000 is as follows:

| | Millions of Euros | | | | | | | | |
|--|---------------------|-----------------------------|------------------|------------------|---------------------|-----------------------------|------------------|------------------|---------------------|
| | Balance at 12/31/99 | Distribution of 1999 Income | Other Variations | Capital Increase | Balance at 12/31/00 | Distribution of 2000 Income | Other Variations | Capital Increase | Balance at 12/31/01 |
| Capital stock | 3,262.83 | - | - | 1,077.88 | 4,340.71 | - | - | 331.21 | 4,671.92 |
| Additional paid-in capital | 2,568.73 | - | - | 8,419.26 | 10,987.99 | - | - | 682.03 | 11,670.02 |
| Revaluation reserve | 3,235.66 | - | - | - | 3,235.66 | - | - | (176.02) | 3,059.64 |
| Distributable reserves | 2,354.22 | 527.97 | 905.29 | - | 3,787.48 | (57.11) | (350.39) | - | 3,379.98 |
| Undistributable reserves | 615.97 | 36.60 | - | - | 652.57 | - | - | - | 652.57 |
| Restricted reserves | 5.40 | - | - | - | 5.40 | - | - | - | 5.40 |
| Reserve for treasury stock | 1.67 | - | 196.52 | - | 198.19 | - | 62.51 | - | 260.70 |
| Consolidation reserve | 1,061.83 | 1,240.23 | (1,101.81) | - | 1,200.25 | 2,561.92 | (429.30) | - | 3,332.87 |
| Translation differences in consolidation | (426.31) | - | (556.20) | - | (982.51) | - | (2,295.78) | - | (3,278.29) |
| Income for the year | 1,804.80 | (1,804.80) | 2,504.81 | - | 2,504.81 | (2,504.81) | 2,106.81 | - | 2,106.81 |
| Total | 14,484.80 | - | 1,948.61 | 9,497.14 | 25,930.55 | - | (906.15) | 837.22 | 25,861.62 |

a) Capital stock

As of December 31, 2001, Telefónica, S.A.’s capital stock amounted to €4,671,915,885 and consisted of 4,671,915,885 fully paid common shares of a single series and of €1 par value each, all recorded by the book-entry system of trading and listed on the Spanish Continuous

Market (in the selective “Ibex 35” Index) and on the four Spanish Stock Exchanges (Madrid, Barcelona, Valencia and Bilbao) and on the New York, London, Paris, Frankfurt, Tokyo, Buenos Aires, São Paulo and Lima Stock Exchanges.

Pursuant to Royal Decree 8/1997, the prior administrative authorization system applies to certain corporate resolutions that might be adopted by Telefónica, S.A., Telefónica Móviles, S.A. and Telefónica de España, S.A. (Sole-Stockholder Company), and to certain others which may give entitlement to the direct or indirect acquisition, including third-party trusts or interposed third parties, of shares or certain assets of Telefónica, S.A., Telefónica Móviles, S.A. or Telefónica de España, S.A. (Sole-Stockholder Company). The administrative authorization system will remain in force for ten years from February 18, 1997.

On June 15, 2001, the Stockholders’ Meeting authorized the Board of Directors to increase the Company’s capital, at one or several times within a maximum period of five years from that date, under the terms provided by Article 153.1 b) of the Spanish Corporations Law (authorized capital) up to a maximum of €2,274,677,655, by issuing for this purpose the related new common shares, be they redeemable or of any other type permitted by the Law, with a fixed or variable premium, with or without preemptive subscription right and, in all cases, with disbursements for the new shares issued in the form of monetary contributions. As of December 31, 2001, the Board of Directors had not made use of this authorization.

Also, On June 15, 2001, the Stockholders’ Meeting approved two successive capital increases with a charge to unrestricted reserves, each for an amount equal to 2% of the subscribed and paid-in capital stock, through two successive issues of new shares totally free of charge to the Stockholders that will be assigned free of charge to the Company’s stockholders at a ratio of one new share for every 50 shares held by them, and empowered the Board of Directors accordingly to execute the resolution in question within one year from the date on which it was adopted. Before December 31, 2001, the Board of Directors resolve to carry out the first of the two capital increases, consisting of 93,438,317 shares, in January and February 2002. Also, on February 13, 2002, the Standing Committee of the Board of Directors of Telefónica, S.A. resolved to carry out the second capital increase consisting of 95,307,084 shares.

In addition, on June 15, 2001, the Stockholders’ Meeting resolved to empower the Board of Directors to issue, within a maximum period of five years, at one or several times, fixed-income securities convertible into or exchangeable for Company shares, up to a maximum amount of €2,000 million or an equal amount in another currency, and to increase capital by the amount required to cater for such conversion requests as might be made. As of December 31, 2001, the Board of Directors had not made use of these powers.

In addition, on June 15, 2001, the Stockholders’ Meeting resolved to issue fixed-income securities convertible into or exchangeable for Company shares, with exclusion of the preemptive subscription right, for a total maximum amount of €2,000 million or an equal amount in another currency, and to increase capital by the amount required to cater for such conversion requests as might be made. It also granted the Board of Directors the necessary powers to implement the resolution adopted by the Stockholders’ Meeting and to determine the features of the issue and capital increase not specified by the latter, with express powers to not implement or to only partially implement this resolution. As of December 31, 2001, the Board of Directors had not made use of these powers to implement this resolution.

In addition, on June 15, 2001, the Stockholders' Meeting resolved to increase capital by €1,425,624 through the issuance of new common shares with additional paid-in capital of €8.2898 per share to cater for the needs derived from the establishment of a stock option plan for the employees of the Endemol Group. It also granted the Board of Directors the necessary powers to implement the capital increase resolution, with express powers to not implement the resolution. In a resolution dated September 26, 2001, the Board of Directors expressly decided not to implement the aforementioned resolution to increase capital, and opted to cover the stock option plan referred to above by a means other than through a capital increase with the issuance of new shares (specifically through the acquisition of stock options in the market).

Also, on June 15, 2001, the Stockholders' Meeting authorized the Board of Directors to derivatively acquire treasury stock, for consideration, up to the limits and pursuant to the terms and conditions established by the Stockholders' Meeting, within a maximum period of 18 months from that date. However, it established that in no case could the par value of the shares acquired, added to that of the treasury stock already held by Telefónica, S.A. and any of its controlled subsidiaries, exceed 5% of the capital stock of Telefónica.

As of December 31, 2001 and 2000, the Telefónica Group companies held the following shares of the Parent Company, Telefónica, S.A.:

| | Number of Shares | Cost per Share (*) | Market Value | % |
|-----------------------------------|-------------------------|---------------------------|---------------------|----------------|
| <i>Treasury stock at 12/31/01</i> | 45,440,901 | €14.22 | €646.17 | 0.97264 |
| <i>Treasury stock at 12/31/00</i> | 10,987,564 | €16.58 | €182.23 | 0.25313 |

(*) Lower of the market value of the treasury stock at year-end or the average market price in the last quarter. As indicated in Note 4-i, a drop in the market value of the shares would lead to the recording of additional provisions with a charge to consolidated income, but would not affect the total amount of consolidated equity.

In 2001 the Company acquired for consideration 70,063,409 shares of treasury stock and 2,747 shares were assigned to it in the capital increases at no charge to stockholders. Also, 18,987,111 shares were used to acquire holdings in certain Brazilian companies from Iberdrola, S.A. (see Note 2-c), and 16,625,708 shares were sold, giving rise to a gain of €20.30 million. The average cost of the shares of treasury stock as of December 31, 2001 and 2000, was €14.85 and €18.04 per share, respectively.

The Company recorded the related restricted reserve for the amount of these shares of treasury stock. Also, it recorded a provision of €87.74 million with a charge to the "Distributable Reserves" caption to reflect the underlying book value of the treasury stock on the asset side of the accompanying consolidated balance sheet (see Note 4-i)

Variations in capital stock and additional paid-in capital in 2001

The variations in 2001 in the “Capital Stock” and “Additional Paid-in Capital” captions were as follows:

| | Share Issue | Number of Shares | Millions of Euros | |
|--|-------------|----------------------|-------------------|----------------------------|
| | | | Capital Stock | Additional Paid-in Capital |
| Beginning balance | | 4,340,710,735 | 4,340.71 | 10,987.99 |
| Capital increase at no cost to stockholders | 01/25/01 | 86,814,214 | 86.82 | - |
| TIES program | 02/14//01 | 1,123,072 | 1.13 | 4.49 |
| TIES program | 02/20/01 | 31,504,244 | 31.51 | 126.02 |
| Capital increase at no cost to stockholders | 04/03/01 | 89,203,045 | 89.20 | - |
| Acquisition of wireless business in Mexico from Motorola | 06/19/01 | 122,560,575 | 122.55 | 551.52 |
| Ending balance | | 4,671,915,885 | 4,671.92 | 11,670.02 |

The capital increases carried out and formalized in 2001 were as follows:

- In January 2001 the first of the two capital increases of Telefónica, S.A. approved by the Stockholders’ Meeting on April 7, 2000, and which the Board of Directors agreed to implement on December 20, 2000, was carried out with a charge to unrestricted reserves. Under the capital increase 86,814,214 Telefónica, S.A. common shares of €1 par value each were issued, thereby increasing the capital stock by €86,814,214. The new shares issued were assigned to the stockholders at a ratio of 1 new share for every 50 shares already held by them.

The capital increase was executed in a public deed and registered with the Mercantile Register on January 25, 2001, and the new shares were admitted to listing on the official markets from February 2, 2001.

- A first capital increase at Telefónica, S.A., for a par value of €1,123,072, through the issuance of the same number of new common shares of Telefónica, S.A., of the same class and series and carrying the same rights as the outstanding shares, and with additional paid-in capital of €1 per share, was executed in a public deed on February 14, 2001. The new shares were fully subscribed and paid through a monetary contribution by the employees of several Telefónica Group companies who decided to participate in the stock option plan known as the TIES Program aimed at Group employees (see Note 20).

Following registration with the Mercantile Register of the aforementioned capital increase deed, the new shares were admitted to listing on official markets from February 16, 2001.

- On February 20, 2001, the notarial deed of formalization and execution of a second capital increase at Telefónica, S.A. was executed. The par value of the capital was increased by €31,504,244, through the issuance of an equal number of common shares of the same class and series and carrying the same rights as the outstanding shares of the Company and with additional paid-in capital of €1 per share. The new shares were fully subscribed and paid, through a monetary contribution, by Banco Bilbao Vizcaya Argentaria, S.A. (50%) and Caja de Ahorros y Pensiones de Barcelona "La Caixa" (50%) as the agent banks of the aforementioned TIES program (see Note 20).

Following registration with the Mercantile Register of the public deed for this second capital increase covering the TIES Program, the new shares issued were admitted to listing on official markets from March 1, 2001.

- In March 2001 the second of the capital increases of Telefónica, S.A. approved by the Stockholders' Meeting on April 7, 2000, and which the Board of Directors agreed to implement on January 24, 2001, was carried out with a charge to unrestricted reserves. Under the capital increase 89,203,045 Telefónica, S.A. common shares of €1 par value each were issued, thereby increasing the capital stock by €89,203,045. The new shares issued were assigned to the stockholders at a ratio of 1 new share for every 50 shares already held by them.

The capital increase was executed in a public deed on March 30, 2001, and registered with the Mercantile Register on April 3, 2001, and the new shares were admitted to listing on the official markets from April 9, 2001.

- On June 18, 2001, the notarial deed of formalization and execution of the capital increase at Telefónica, S.A. approved by the Company's Stockholders' Meeting on June 15, 2001 was executed. Capital was increased through the issuance of 122,560,575 common shares of Telefónica, S.A. of €1 par value each, of the same series and carrying the same rights as the outstanding shares of the Company and with additional paid-in capital of €4.50 per share; these shares were subscribed and their par value and additional paid-in capital paid in full through a nonmonetary contribution to Telefónica, S.A. of various Mexican companies owned by the Motorola Group, which entailed the direct or indirect acquisition by Telefónica, S.A. of all the shares of Telefónica Celular del Norte, S.A. de C.V., Celular de Telefonía, S.A. de C.V. and Baja Celular Mejicana, S.A. de C.V., and of holdings of 90% in Movitel del Noroeste, S.A. de C.V., Moviservicios, S.A. de C.V. and Movicelular, S.A. de C.V. (see Note 2-c and Exhibit II).

The number of shares issued, subscribed and paid by the persons or entities that transferred the aforementioned Mexican cellular companies was determined by applying the following variables defined by the meetings of the Stockholders and Board of Directors of Telefónica, S.A. on June 15, 2001.

- Value of the contributed assets for the purpose of their exchange for shares of Telefónica: €2,173,742,973.96. This amount is the result of applying the U.S. dollar/euro exchange rate of US\$ 0.8492/€1 prevailing on June 14, 2001, to the amount of US\$ 1,857,300,000 (initial valuation), less US\$ 14,123,000 (debt adjustment), plus US\$ 2,765,533.49 (interest accrued through the exchange transaction date).
- Value of the Telefónica shares to be exchanged: €7.6355 each, i.e. an amount equal to the average market price of the Company's shares in the 20 trading sessions prior to the date on which the Stockholders' Meeting which approved the capital increase was held (June 15, 2001).
- Cash disbursement: €2,325,950.35, equal to 10% of the result of dividing the value of the assets by the value of each Telefónica share.

The aforementioned public deed of capital increase stated that, solely for the purpose of evidencing the full payment of the capital increase and the additional paid-in capital, pursuant to Article 133.1 of the Mercantile Register Regulations, independently from the criteria used to determine the exchange ratio, it attributed a total value of €674,083,162.50 to the nonmonetary contribution, which value is lower than that established by the independent appraiser appointed by the Madrid Mercantile Register, and is also lower than that used as a reference for setting the exchange ratio.

This capital increase was registered in the Madrid Mercantile Register on June 19, 2001, and the new shares issued were admitted to listing on official markets from June 25, 2001.

Variations in capital stock and additional paid-in capital in 2000

The variations in 2000 in the “Capital Stock” and “Additional Paid-in Capital” captions were as follows:

| | Share Issue | Number of Shares | Millions of Euros | |
|---|-------------|----------------------|-------------------|----------------------------|
| | | | Capital Stock | Additional Paid-in Capital |
| Beginning balance | | 3,262,826,901 | 3,262.83 | 2,568.73 |
| Conversion of 589,482 debentures | N/A | 60,278,067 | 60.28 | 512.71 |
| Acquisition of Ambit and Vigil | 05/30/00 | 14,477,109 | 14.48 | 123.06 |
| Acquisition of Telefónica de Argentina | 07/06/00 | 157,951,446 | 157.95 | 1,283.99 |
| Acquisition of Tele Sudeste Celular Participações | 07/12/00 | 90,517,917 | 90.52 | 271.10 |
| Acquisition of Telesp | 07/12/00 | 371,350,753 | 371.35 | 4,051.43 |
| Acquisition of Telefónica del Perú | 07/13/00 | 80,954,801 | 80.95 | 653.47 |
| Acquisition of Endemol | 08/09/00 | 213,409,097 | 213.41 | 613.55 |
| Acquisition of CEI | 12/20/00 | 88,944,644 | 88.94 | 909.95 |
| Ending balance | | 4,340,710,735 | 4,340.71 | 10,987.99 |

In 2000 new shares of the Company were issued on various different occasions to cater for the applications for conversion and subsequent redemption of convertible debentures of Telefónica, S.A. The shares were issued at US\$ 1,000 par value each, as resolved by the Board of Directors’ Meeting on June 25, 1997, pursuant to the authorization granted by the Stockholders’ Meeting on March 21, 1997.

The acquisitions described above relate to various tender offers and other acquisitions made by the Parent Company through the exchange of shares of the Company, as approved by the Stockholders’ Meeting held on February 4, 2000, except for that relating to Endemol, which was approved at the Stockholders’ Meeting held on April 7, 2000. These transactions are described in Note 2-c. The number of shares issued in each case is equal to the valuation made at the date of the related transaction of the holding acquired.

b) Legal reserve

Under the revised Corporations Law, 10% of income for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of capital stock. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased capital stock amount. Otherwise, until the legal reserve exceeds 20% of capital stock, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

c) Revaluation reserves

The balance of the “Revaluation Reserves” caption arose as a result of revaluations made from 1946 to 1987 and of the revaluation made pursuant to Royal Decree-Law 7/1996.

The detail as of December 31, 2001 and 2000, of the balances of the revaluation reserves, which amounted to €3,059.64 million and €3,235.66 million, respectively, and of the variations therein in 2001 and 2000 is as follows:

| | Millions of Euros |
|--|-------------------|
| Revaluations made from 1946 to 1987 | 4,478.76 |
| Revaluation made pursuant to Royal Decree-Law 7/1996 | 1,357.40 |
| Amounts used: | |
| Capital increases from 1977 to 1986 | (447.68) |
| Transfer to provisions in 1982 | (113.16) |
| Single tax on revaluation, Royal Decree-Law 7/1996 | (40.72) |
| Other variations from 1981 to 1986 | (15.45) |
| Amount used in 1998 | (1,795.07) |
| 1999 capital increase | (188.42) |
| Balance at 12/31/00 | 3,235.66 |
| Capital increase on January 25, 2001 | (86.82) |
| Capital increase on April 3, 2001 | (89.20) |
| Balance at 12/31/01 | 3,059.64 |

The balance of the “Revaluation Reserve Royal Decree-Law 7/1996” account can be used, free of tax, to offset recorded losses which might arise in the future, and to increase capital stock. From January 1, 2007 (ten years from the date of the balance sheet reflecting the revaluations), the balance of this account can be taken to unrestricted reserves, provided that the monetary surplus has been realized. The surplus is deemed to be realized in respect of the portion relating to the depreciation recorded for accounting purposes or when the revalued assets have been transferred or retired from the accounting records.

d) Consolidation reserve

The detail of the consolidation reserve as of December 31, 2001, and of the variations therein in 2001 is as follows:

| | Millions of Euros | | | |
|---|---------------------|-----------------|-------------------|---------------------|
| | Balance at 12/31/00 | Increase | Decrease | Balance at 12/31/01 |
| Companies consolidated by the global integration method | 1,045.78 | 4,727.86 | (2,000.29) | 3,773.35 |
| Companies carried by the equity method | 154.47 | 313.75 | (908.70) | (440.48) |
| Total | 1,200.25 | 5,041.61 | (2,908.99) | 3,332.87 |

The detail of the consolidation reserve as of December 31, 2000, and of the variations therein in 2000 is as follows:

| | Millions of Euros | | | |
|---|---------------------|-----------------|-------------------|---------------------|
| | Balance at 12/31/99 | Increase | Decrease | Balance at 12/31/00 |
| Companies consolidated by the global integration method | 894.17 | 1,364.10 | (1,212.49) | 1,045.78 |
| Companies carried by the equity method | 167.66 | 119.01 | (132.20) | 154.47 |
| Total | 1,061.83 | 1,483.11 | (1,344.69) | 1,200.25 |

The variations shown in the foregoing tables relate mainly to prior years' retained earnings (increases) and to dividends paid by the companies (decreases).

The detail of the contribution made by the Group companies to the consolidated reserves is shown in Exhibit I.

e) *Translation differences in consolidation*

The translation differences relate mainly to the effect of exchange rate fluctuations on the net assets of the companies located abroad after elimination of intercompany transactions and balances (see Note 4-b). This caption also includes the exchange differences resulting from specific-purpose foreign-currency financing transactions relating to investments in investees and which hedge the exchange risk on these investments.

The detail of the contribution made by the Group companies to the translation differences in consolidation is shown in Exhibit I.

(12) **MINORITY INTERESTS**

This caption relates to the share of minority stockholders in the equity and income/loss for the year of the Group companies consolidated by the global integration method. The variations in 2001 and 2000 in the balances of this caption in the consolidated balance sheets were as follows:

| | Millions of Euros |
|---|-------------------|
| Balance at 12/31/99 | 10,614.38 |
| Capital contribution and inclusion of companies | 6,822.30 |
| Income for the year | 120.64 |
| Variation in translation differences | 480.71 |
| Other variations | (383.10) |
| Capital reduction and exclusion of companies | (7,774.55) |
| Dividend paid | (550.58) |
| Balance at 12/31/00 | 9,329.80 |
| Capital contribution and inclusion of companies | 215.55 |
| Income for the year | (271.01) |
| Variation in translation differences | (215.49) |
| Other variations | (1,130.20) |
| Capital reduction and exclusion of companies | (373.23) |
| Dividend paid | (121.87) |
| Balance at 12/31/01 | 7,433.55 |

The detail of the balances of this caption and of the variations relating to the main Group companies is shown in Exhibit IV. The most significant amount in 2000 relates to the decrease due to the investments made in the year at Telefónica de Argentina, Telesp, Tele Sudeste and Telefónica del Perú, which amounted to €7,082.90 million. The main additions related to the formation of Orla and Ipse 2000 (holders of UMTS licenses) for €906.48 million and €1,169.70 million, respectively, and to the €3,803.41 million resulting from the investments made by Terra Networks. Noteworthy in 2001 was the decrease of €1,165.79 million in “Other Variations” as a result of carrying Ipse 2000 by the equity method, as described in Note 2-c.

(13) DEFERRED REVENUES

The detail of the balances of this caption in the accompanying consolidated balance sheets and of the variations therein in 2001 and 2000 is as follows:

| | Millions of Euros | | | | |
|--------------------------------|-------------------|----------------|----------------------------------|---------------|-----------------|
| | Capital Subsidies | Exchange Gains | Accrual of Tax Expense (Note 18) | Other | Total |
| Balance at 12/31/99 | 383.81 | 4.24 | 218.15 | 449.06 | 1,055.26 |
| Additions | 61.60 | 1.48 | 1.30 | 77.78 | 142.16 |
| Transfers | - | - | - | 523.91 | 523.91 |
| Allocation to income | (77.16) | (1.49) | (58.62) | (142.05) | (279.32) |
| Balance at 12/31/00 | 368.25 | 4.23 | 160.83 | 908.70 | 1,442.01 |
| Additions | 12.88 | 60.85 | 0.05 | 231.15 | 304.93 |
| Transfers and other variations | 0.01 | (0.51) | 4.67 | (3.19) | 0.98 |
| Allocation to income | (80.03) | (63.02) | (63.63) | (395.49) | (602.17) |
| Balance at 12/31/01 | 301.11 | 1.55 | 101.92 | 741.17 | 1,145.75 |

The “Other” caption includes €25.00 million and €303.82 million as of December 31, 2001 and 2000, respectively, relating to the revenue to be collected in the five years following 1999 for the future deduction at Telesp of amortization of goodwill, which is tax deductible at that company.

The transfers relating to the “Other” caption in the foregoing table include in 2000 €523.76 million transferred from the “Provisions for Contingencies and Expenses” caption (see Note 14) as a result of the negotiations between certain Brazilian dependent companies and their employees, which disclosed the possibility of allocating the related amounts to income over the remaining years of working life of the employees covered by the new plan. The revaluation of the terms existing at 2001 year-end in connection with these employees led to the allocation of €172.16 million to the “Extraordinary Revenues” caption in the consolidated statement of income (see Note 20).

Capital subsidies

The detail of the capital subsidies not yet allocated to income is as follows:

| Grantor | Millions of Euros | |
|--|-------------------|---------------|
| | 13/31/01 | 12/31/00 |
| Official agencies, autonomous community governments , provincial and municipal governments and other | 70.42 | 91.84 |
| <i>EU-</i> | | |
| STAR Programme | 10.39 | 21.83 |
| ERDF Programme | 10.56 | 16.98 |
| IRTA Programme | 2.34 | 4.27 |
| ERDF 94/95 Operating Programme | 199.96 | 219.83 |
| Other | 7.44 | 13.50 |
| Total | 301.11 | 368.25 |

(14) PROVISIONS FOR CONTINGENCIES AND EXPENSES

The detail of the balances of the provisions for contingencies and expenses and of the variations therein is as follows:

| | Millions of Euros | | | | | | | | | | |
|--|---------------------|-----------------|-------------------|--------------------|-----------------|---------------------|---------------|-------------------|--------------------|-----------------|---------------------|
| | Balance at 12/31/99 | Provisions | Amounts Used | Incl. of Companies | Other | Balance at 12/31/00 | Provisions | Amounts Used | Incl. of Companies | Other | Balance at 12/31/01 |
| Provisions for Rebalancing Plan | 109.41 | 421.75 | (531.16) | - | - | - | - | - | - | - | - |
| Provision for supplementary pension payments to retired employees (Note 9) | 461.55 | 28.36 | (107.86) | - | - | 382.05 | 23.52 | (108.03) | - | - | 297.54 |
| Group insurance | 93.45 | 8.97 | (0.87) | - | - | 101.55 | 10.48 | (0.95) | - | - | 111.08 |
| Provision for voluntary preretirement and early retirement | 3,607.78 | 991.49 | (599.06) | - | - | 4,000.21 | 220.91 | (731.80) | - | - | 3,489.32 |
| Technical reserves (Note 4-m) | 849.14 | 42.98 | - | - | - | 892.12 | 61.55 | - | - | - | 953.67 |
| Provision for pension funds of Telesp and Tele Sudeste | 760.86 | - | (0.17) | - | (524.73) | 235.96 | 19.89 | (4.03) | 0.05 | (70.00) | 181.87 |
| Other provisions | 874.11 | 716.22 | (396.17) | 134.85 | (53.11) | 1,275.91 | 174.63 | (589.90) | (0.01) | (31.41) | 829.22 |
| Total | 6,756.30 | 2,209.77 | (1,635.29) | 134.85 | (577.84) | 6,887.80 | 510.98 | (1,434.71) | 0.04 | (101.41) | 5,862.70 |

The main provisions and commitments to personnel recorded under this caption in the accompanying consolidated balance sheets are as follows:

Inclusion in the general social security system

Since January 1, 1992, Telefónica de España and its employees, who were formerly covered by a company employee welfare system, have been contributing to the general social security system.

As a result of the inclusion of serving employees in the social security system, Telefónica de España must make additional contributions to the social security system until the year 2016, based on the serving employees' effective contribution bases applicable at any time. These contributions consist of the payment of 2.2% over the regulatory base salary, and the related amount is recorded under the "Personnel Expenses" caption. €26.09 million were recorded in this connection in 2001 (€27.60 million in 2000).

Supplementary pension plan for serving employees as of June 30, 1992 and for those hired since that date (Provisions for Rebalancing Plan)

Telefónica de España has arranged an occupational pension plan pursuant to Pension Plans and Funds Law 8/1987. Under this plan there is a defined contribution of 6.87% of the participating employees' regulatory base salary (for employees who joined Telefónica after June 30, 1992, the contribution is 4.51% of the regulatory base salary). The obligatory contribution of the participant is a minimum of 2.2% of the employee's regulatory base salary. The system is an individual and financial capitalization system.

In 2000 Telefónica de España paid in advance the full amount of the outstanding contributions to the pension fund, amounting to €31.16 million, thereby fulfilling its obligations by externalizing these commitments. As a result of this advance payment, an additional provision of €13.45 million was recorded (see Note 20).

69,756 employees had joined Telefónica de España's Plan as of December 31, 2001 (69,971 as of December 31, 2000). Vested retirement, disability and death benefits had accrued to a total of 8,562 participants in 2001 (9,068 in 2000).

Supplementary pension payments to employees who retired before June 30, 1992

On July 8, 1992, Telefónica reached an agreement with its employees whereby it recognized supplementary pension payments for employees who had retired as of June 30, 1992, equal to the difference between the pension payable by the social security system and that which would be paid to them by ITP. Once the aforementioned supplementary pension payments have been quantified, they become fixed, lifelong and non-updateable. 60% of the payments are transferable to the surviving spouse recognized as such as of June 30, 1992, and to underage children.

In accordance with an actuarial study conducted by Telefónica, applying GRM-80 tables and an assumed interest rate of 8%, as of June 30, 1992, the discounted present value of the commitments amounted to €793.49 million, and this amount was recorded under the "Provisions for Contingencies and Expenses" caption. Through that date, the Company had recorded provisions totaling €6.28 million in this connection. The resulting underprovision (€707.21 million) was recorded under the "Deferred Charges" caption and has been allocated to income since that date by the straight-line method over 15 years, the estimated remaining average life of the retired employees (1992-2007). Subsequently, in 1996 and 1997, the assumed interest rate was reduced to 6.3%, and the calculation of the necessary provision was readjusted. As of December 31, 2001, the amount yet to be charged to income was €38.73 million (€400.32 million in 2000) (see Note 9).

In accordance with Private Insurance Law 30/1995, on November 1, 1997, these commitments were externalized through an insurance policy (which must be adapted before November 16, 2002, pursuant to Private Insurance Law 30/1995, Law 50/1998 on Tax, Administrative, Labor and Social Security measures and Royal Decree 1588/1999 enacting the regulations on the instrumentation of employers' pension commitments to employees and beneficiaries) taken out with the Group company Seguros de Vida y Pensiones Antares, S.A.

The discounted present value of the payments outstanding amounted to €97.54 million as of December 31, 2001 (€382.05 million as of December 31, 2000).

Group life insurance (internal allowance for survivorship benefits)

Serving employees who did not join the pension plan continue to be entitled to receive survivorship benefits at the age of 65. Telefónica de España has recorded an internal allowance to cover these commitments, based on the actuarial calculations made under the following assumptions: GRM/F-95 mortality table and an assumed interest rate of 4%. As of December 31, 2001 and 2000, this allowance amounted to €111.08 million and €101.55 million, respectively. These commitments must be externalized before November 16, 2002.

Provisions for voluntary preretirements and early retirements of Telefónica de España, S.A.U.'s employees

In order to adapt to the competitive environment, Telefónica has implemented voluntary preretirement, early retirement and technology renewal plans in recent years in order to adapt its cost structure to the new environment, and has taken certain strategic decisions relating to its sizing and organization policy.

As a result of the agreements reached individually with Telefónica de España's personnel and of the Labor Force Reduction Plan approved on July 16, 1999, by the Ministry of Labor and Social Affairs to be applied in 1999 and 2000, in 1999 11,273 employees were terminated. To cover the present value of the accrued cost of these agreements as of December 31, 1999, as of that date the Group recorded a provision of €2,761.65 million with a charge of €1,795.07 million to "Extraordinary Expenses" and of €66.58 million to "Deferred Tax Assets".

In 2000 the terminations envisaged in the Labor Force Reduction Plan were met with the voluntary severance of a total of 6,062 employees, as a result of which a provision was recorded with a charge to extraordinary expenses of €52.66 million. In 2001 provisions of €20.91 million for updating to present value were recorded, and payments totaling €731.80 million were made. Accordingly, the provision for preretirements and early retirements recorded as of December 31, 2001, covers all the obligations assumed in this connection as of that date.

Technical reserves

This caption includes the provisions recorded by the Group's insurance companies. The balancing items for these provisions are recorded under the "Financial Investments" captions for a similar amount.

Provision for the pension funds of Telesp and Tele Sudeste

The dependent company Telecomunicações de São Paulo, S.A. (Telesp) had various pension plan and medical and life insurance commitments to its employees. In 2000 this company, like the other companies formerly composing the Brazilian telecommunications system, Telebrás, carried out a process of negotiation with its employees which culminated in October 2000 with the transformation of the former defined-benefit Pension Plan into a new defined-contribution Pension Plan, and the cancellation of the Life Insurance Plan. Substantially all these companies' serving employees availed themselves of the new plan. As a result of this change, since a provision had been recorded in prior years to cover the actuarial liabilities accrued through that date, management of the Controlling Company calculated the new liability to be recorded for the benefits payable to its employees at €229.11 million, which were recorded under the "Provisions for Contingencies and Expenses" caption, and reclassified the resulting

overprovision recorded in prior years (€500.38 million) to the “Deferred Revenues” caption (see Note 13).

The amount (€23.38 million) relating to other Group companies (Telerj Celular, S.A. and Telest Celular, S.A.) was also transferred to the “Deferred Revenues” caption (see Note 13). The actuarial liability accrued at year-end amounted to €4.90 million. Both these transfers are recorded in the “Other” column relating to 2000.

The variations in the “Other” column in 2001 relate mainly to translation differences.

Other provisions

The period provisions and amounts used recorded under the “Other Provisions” caption in 2001 and 2000 include, inter alia, the provisions recorded or used by the Group companies to cover risks relating to the realization of certain assets, contingencies deriving from these companies’ business activities and risks arising from commitments acquired in other transactions.

Also, the balance sheet as of December 31, 2001, includes various provisions recorded by the Telefónica Group companies, including most notably €72.00 million from the Telefónica Internacional subgroup relating to provisions for indemnity payments for the employees’ years of service at the respective companies, in accordance with the legislation applicable in each country or with the contractual agreements entered into (€170.19 million as of December 31, 2000), and €141.54 million from Telefónica de España relating to the accrued amount of long-service bonuses paid to personnel after 25 years of service (€138.46 million in 2000).

(15) DEBENTURES, BONDS AND OTHER MARKETABLE DEBT SECURITIES

The variations in the years ended December 31, 2001 and 2000, in the balances relating to debentures, bonds and other marketable debt securities were as follows:

| | Issues | | | | |
|--|--------------------------------|----------------------------------|------------------------------|------------------|-------------------|
| | Non-Convertible Local Currency | Non-convertible Foreign Currency | Convertible Foreign Currency | Promissory Notes | Total |
| Balance at 12/31/99 | 4,077.25 | 3,329.99 | 645.12 | 824.44 | 8,876.80 |
| New issues | 1,649.78 | 5,981.25 | - | 1,178.22 | 8,809.25 |
| Redemptions, conversions and exchanges | (1,049.19) | (84.51) | (674.05) | (1,552.52) | (3,360.27) |
| Inclusion of companies | - | 572.82 | - | - | 572.82 |
| Revaluations and other variations | 158.18 | 305.42 | 28.93 | 1.39 | 493.92 |
| Transfers | - | - | - | - | - |
| Balance at 12/31/00 | 4,836.02 | 10,104.97 | - | 451.53 | 15,392.52 |
| New issues | 2,189.52 | 1,600.51 | - | 3,754.31 | 7,544.34 |
| Redemptions, conversions and exchanges | (1,131.86) | (1,995.04) | - | (2,486.20) | (5,613.10) |
| Inclusion of companies | - | 16.25 | - | - | 16.25 |
| Revaluations and other variations | 119.21 | (414.60) | - | (39.37) | (334.76) |
| Balance at 12/31/01 | 6,012.89 | 9,312.09 | - | 1,680.27 | 17,005.25 |
| Maturity: | | | | | |
| Long term | 5,896.81 | 8,484.05 | - | 80.00 | 14,460.86 |
| Short term | 116.08 | 828.04 | - | 1,600.27 | 2,544.39 |
| Unmatured accrued interest | 313.33 | - | - | - | 313.33 |

The main issues in 2001 were as follows:

| | Date | Face Value (Millions) | Currency | Maturity | Interest Rate |
|-------|----------|-----------------------|----------|--------------|------------------------|
| Notes | 07/09/01 | 30,000 | Yen | 2003 | Floating Libor (0.22%) |
| Notes | 07/12/01 | 22,000 | Yen | 2002 | 0.15% |
| Notes | 09/12/01 | 50,000 | Yen | 2002 | 0.04% |
| Notes | 10/30/01 | 2,000 | Euros | Tranches (a) | - |
| Notes | 08/20/01 | 150 | Euros | 2003 | Floating Eonia (0.26%) |
| Notes | 07/25/01 | 39.5 | Euros | 2004 | 4.91% |

| (a) | Amount | Maturity | Interest Rate |
|------------------|----------------|----------|--------------------------------|
| Tranche 1 | €1,000 million | 2004 | Floating 3-m Euribor + (0.70%) |
| Tranche 2 | €1,000 million | 2006 | 5.13% |

The main issues in 2000 were as follows:

| | Date | Face Value (Millions) | Currency | Maturity | Interest Rate |
|------------|----------|-----------------------|------------|--------------|------------------|
| Debentures | 02/04/00 | 50 | Euros | 2015 | Floating (6.79%) |
| Debentures | 03/08/00 | 100 | Euros | 2001 | Floating (4.25%) |
| Debentures | 03/08/00 | 500 | Euros | 2007 | 5.625% |
| Notes | 03/17/00 | 6,200 | Yen | 2004 | 1.232% |
| Notes | 05/30/00 | 60,000 | Yen | 2001 | 0.27% |
| Bonds | 05/31/00 | 10,000 | US Dollars | Tranches (a) | - |

| (a) | Amount | Maturity | Interest Rate |
|------------------|--------------------|----------|---------------|
| Tranche 1 | €1,000 million | 09/21/05 | 6.12% |
| Tranche 2 | US\$ 1,250 million | 09/15/05 | 7.35% |
| Tranche 3 | US\$ 2,500 million | 09/15/10 | 7.75% |
| Tranche 4 | US\$ 1,250 million | 09/15/30 | 8.25% |

The debentures and bonds are shown in greater detail in Exhibit V.

Corporate promissory notes

The features of the main corporate promissory note issue program as of December 31, 2001, are as follows:

| Millions of Euros | Addressed to: | Euros | Method of Sale |
|-------------------|------------------------|------------|-----------------------|
| Limit Outstanding | | Face Value | |
| 2,000 | Participating entities | 1,000 | Monthly auctions |
| | | 1,000,000 | Specific transactions |

Commercial paper

The features of Telefónica Europe, BV's commercial paper issue program are as follows:

| Millions of Euros | Addressed to: | Face Value | Method of Sale |
|-------------------|---------------|--------------|-----------------------|
| Limit Outstanding | | | |
| 2,000 | Investors | US\$ 500,000 | Specific transactions |
| | | €500,000 | Specific transactions |
| | | ¥100,000,000 | Specific transactions |
| | | £100,000 | Specific transactions |

(16) PAYABLE TO CREDIT ENTITIES

The detail of the accounts payable to credit entities is as follows:

| | Millions of Euros | | | | | |
|----------------------------|---------------------|-----------------|------------------|---------------------|-----------------|------------------|
| | Balance at 12/31/01 | | | Balance at 12/31/00 | | |
| | Short Term | Long Term | Total | Short Term | Long Term | Total |
| Corporate promissory notes | 7.23 | 113.65 | 120.88 | 74.57 | - | 74.57 |
| Loans and credits | 4,254.85 | 3,307.05 | 7,561.90 | 2,389.58 | 4,766.10 | 7,155.68 |
| Foreign currency loans | 1,901.46 | 4,658.38 | 6,559.84 | 5,053.14 | 4,505.08 | 9,558.22 |
| Total | 6,163.54 | 8,079.08 | 14,242.62 | 7,517.29 | 9,271.18 | 16,788.47 |

The average interest rates in 2001 to the accounts payable described above, were 13.52%, 4.42% and 3.76%, respectively.

The most significant financial transactions in 2001 and 2000 were as follows:

| | Date | Amount (Millions) | Currency | Maturity |
|-------------------------------|----------|-------------------|----------|----------|
| Obtainment of loan | 07/09/01 | 282.00 | Euros | 2003 |
| Obtainment of loan | 07/12/01 | 208.58 | Euros | 2002 |
| Obtainment of loan | 09/12/01 | 460.00 | Euros | 2002 |
| Repayment of net debt | 2001 | (1,364.20) | Euros | 2001 |
| Obtainment of syndicated loan | 09/01/00 | 1,470.00 | Euros | 2001 |
| Obtainment of syndicated loan | 09/01/00 | 445.00 | Euros | 2001 |
| Repayment of net debt | 2000 | (1,084.00) | Euros | 2001 |

The claimability of certain financing arranged by various Telefónica Group companies may be subject to compliance with certain financial covenants. All the covenants are being complied with.

The scheduled maturities for repayment of the debt as of December 31, 2001, were as follows:

| | Millions of Euros | | | | | | |
|----------------------------|-------------------|-----------------|-----------------|-----------------|-----------------|------------------|------------------|
| | 2002 | 2003 | 2004 | 2005 | 2006 | Subsequent Years | Total |
| Corporate promissory notes | 7.23 | 7.09 | 6.92 | 6.74 | 6.57 | 86.33 | 120.88 |
| Loans and credits | 4,254.85 | 577.74 | 835.31 | 745.65 | 913.57 | 234.78 | 7,561.90 |
| Foreign currency loans | 1,901.46 | 1,423.77 | 1,155.83 | 923.35 | 283.40 | 872.03 | 6,559.84 |
| Total | 6,163.54 | 2,008.60 | 1,998.06 | 1,675.74 | 1,203.54 | 1,193.14 | 14,242.62 |

As of December 31, 2001, the Telefónica Group had financing sources of various types exceeding €7,000 million and the possibility of negotiating the maturity dates of various of the existing financing commitments and, accordingly, any need of the Group arising from its short-term commitments is adequately covered.

Foreign currency loans

The detail of the foreign-currency loans as of December 31, 2001 and 2000, is as follows:

| Currency | Outstanding Balance (in Millions) | | | |
|----------------------------|-----------------------------------|----------|-----------------|-----------------|
| | Foreign Currency | | Euros | |
| | 12/31/01 | 12/31/00 | 12/31/01 | 12/31/00 |
| U.S. dollars | 4,860 | 7,714 | 5,454.30 | 8,182.97 |
| Brazilian reais | - | 382 | - | 207.91 |
| Swiss francs | 21 | 32 | 14.50 | 21.02 |
| Argentine pesos | 48 | 136 | 31.67 | 144.18 |
| Bolivares | 4,227 | - | 6.25 | - |
| Yen | 18,629 | 18,777 | 158.99 | 214.83 |
| UF | 129,144 | 135,831 | 221.36 | 282.54 |
| New Soles | 583 | 83 | 189.75 | 25.07 |
| Colones | 3,077 | 20 | 1.52 | 20.66 |
| Swaps | - | - | 366.72 | 456.31 |
| Pounds sterling | 19 | - | 31.77 | - |
| Mexican pesos | 571 | - | 70.14 | - |
| Other currencies | - | - | 12.87 | 2.73 |
| Total for the Group | | | 6,559.84 | 9,558.22 |

(17) DERIVATIVES

In 2001 the Group continued to use derivatives both to limit interest rate and exchange risks on unhedged positions and to adapt its debt structure to market conditions.

As of December 31, 2001, the total outstanding balance of hedging transactions arranged to eliminate balance sheet exposure to interest rate and exchange risks was €39,430.49 million (€27,624.77 million as of December 31, 2000), of which €18,444.25 million related to interest rate risk and €20,537.39 million to exchange risk (see Exhibit VI).

The increased use of derivatives in 2001 was the result of the decisions taken within the financial liability management centralization process, in order to provide the Group with a greater degree of coverage of the risks to which it is exposed.

(18) TAX MATTERS

Pursuant to a Ministerial Order dated December 27, 1989, since 1990 Telefónica, S.A. has filed consolidated tax returns with certain Group companies. 73 companies formed the consolidated tax group in 2001.

Deferred tax assets and liabilities

The detail as of December 31, 2001 and 2000, of the Telefónica Group's deferred tax assets and liabilities, and of the variations therein in 2001 and 2000, is as follows:

| | Millions of Euros | | | | |
|--|---------------------|-----------------|--------------------------|-----------------|------------------------|
| | Deferred Tax Assets | | Deferred Tax Liabilities | | |
| | Short Term | Long Term | Short Term | Long Term | Intercompany Long Term |
| Balance at December 31, 1999 | 42.26 | 2,364.78 | 0.29 | 1,059.28 | 58.54 |
| Reversal | (2.39) | (331.13) | (0.10) | (157.10) | (11.27) |
| Arising in the year | 112.44 | 601.83 | 3.17 | 237.59 | 7.58 |
| Net international variations | 0.37 | - | - | 177.58 | - |
| Inclusion/Exclusion of companies and other | - | 30.63 | - | 17.22 | - |
| Balance at December 31, 2000 | 152.68 | 2,666.11 | 3.36 | 1,334.57 | 54.85 |
| Reversal | (100.32) | (423.83) | (4.70) | (622.49) | (2.75) |
| Arising in the year | 224.85 | 1,582.81 | 241.51 | 525.65 | 6.37 |
| Net international variations | - | (98.43) | - | - | - |
| Inclusion/Exclusion of companies and other | (1.94) | 31.12 | - | 244.72 | 0.16 |
| Balance at December 31, 2001 | 275.27 | 3,757.78 | 240.17 | 1,482.45 | 58.63 |

The deferred intercompany taxes relate to the differences arising from the elimination of unrealized gains on intercompany transactions, plus the cumulative differences between the net tax payable reported in the Telefónica Group's consolidated corporate income tax return and the sum of the net tax charges per the individual corporate income tax returns of the Telefónica Group companies.

In 2001 the income that qualified for tax deferral due to reinvestment in prior years was reversed, since the Group availed itself of a new tax credit for reinvestment of extraordinary income pursuant to Transitional Provision Three of Law 24/2001 on Tax, Administrative, Labor and Social security Measures, which increased the Group's taxable income by €1,324.75 million.

The deferred tax assets relate mainly to the timing differences arising in relation to the provisions for early retirement recorded and the tax effect of the losses incurred by Group companies.

Accrued taxes payable and tax receivables

The detail of the "Other Nontrade Payables - Accrued Taxes Payable" and "Accounts Receivable - Tax Receivables" captions as of December 31, 2001 and 2000, is as follows:

| | Millions of Euros | |
|---|---------------------|---------------------|
| | Balance at 12/31/01 | Balance at 12/31/00 |
| Accrued taxes payable: | | |
| Personal income tax withholdings | 96.00 | 71.37 |
| VAT and Canary Islands general indirect tax | 160.26 | 84.62 |
| Corporate income tax | 113.97 | 163.20 |
| Accrued social security taxes | 155.38 | 150.37 |
| Deferred tax liabilities | 240.17 | 3.36 |
| Foreign taxes | 825.34 | 837.07 |
| Other | 33.03 | 30.39 |
| Total | 1,624.15 | 1,340.38 |

| | Millions of Euros | |
|---|------------------------|------------------------|
| | Balance at 12/31/01 | Balance at 12/31/00 |
| Tax receivables: | | |
| Withholdings at source from income from movable capital | 3.49 | 3.28 |
| Installment payments on consolidated income tax returns | - | 54.57 |
| Installment payments on individual income tax returns | 25.23 | 26.31 |
| Foreign withholding tax | 155.75 | 87.06 |
| Corporate income tax refundable | 66.63 | 96.25 |
| Taxes, surcharges and other payments recoverable | 42.28 | 43.42 |
| Deferred tax assets | 275.27 | 152.68 |
| VAT and Canary Islands general indirect tax | 116.16 | 41.89 |
| VAT deductible | 70.66 | 69.42 |
| Tax group corporate income tax receivable | - | 154.06 |
| Foreign taxes | 1,322.01 | 846.00 |
| Total | 2,077.48 | 1,574.94 |

Reconciliation of income per books to the taxable income and determination of the tax expense incurred

The reconciliation of the income per books to the taxable income for corporate income tax purposes as of December 31, 2001 and 2000, and the determination of the corporate income tax expense incurred and the net tax payable for the two years are as follows:

| | Millions of Euros | |
|--|-------------------|-------------------|
| | 2001 | 2000 |
| Income per books | 2,033.88 | 2,867.67 |
| Permanent differences | (3,580.95) | (3,884.92) |
| Timing differences | 2,079.40 | (52.34) |
| Taxable income | 532.33 | (1,069.59) |
| Gross tax payable | 186.31 | (374.35) |
| Tax credits and tax relief | (278.79) | - |
| Corporate income tax payable (receivable) | 92.48 | (374.35) |
| Tax effect of timing differences and deferred revenues | (719.66) | 25.23 |
| Spanish corporate income tax expense | (812.14) | (349.12) |
| Recognition of deferred tax liabilities in consolidation | (4.18) | 156.96 |
| Accrued foreign taxes and other | 1,014.40 | 434.38 |
| Total income tax | 198.08 | 242.22 |

The permanent differences arose mainly from the results obtained by the companies located abroad, the amortization of goodwill in consolidation (see Note 5), the results attributable to associated companies and the income recorded as a result of the process of consolidation (see Note 8).

The main timing differences arose from the inclusion in the tax base of gains on fixed asset disposals which qualified for reinvestment deferral in prior years, and from the provision for diminution in value of tangible fixed assets.

The Telefónica Group recognized long-term deferred tax liabilities of €80.29 million and €98.95 million as of December 31, 2001 and 2000, respectively, in order to eliminate from the accounts

the duplicate accounting entry resulting from the aggregation of the individual tax assets already taken into account by means of the portfolio provision recorded by the Group companies.

In 2001 the tax group took tax credits totaling €278.79 million, whereas in 2000, since the tax Group incurred consolidated tax losses, no tax credits were taken. The amount of the credits taken by the other non-Group companies was not material.

As of December 31, 2001, the Telefónica tax group had €67.95 million (€44.75 million in 2000) of unused tax credits, relating mainly to 1999 (€56.98 million), 2000 (€127.46 million) and 2001 €233.37 million. The tax losses available for carryforward in Spain at the main Group companies total €3,360.31 million, of which €1,010.03 million were incurred in 2001 and the remainder, relating mainly to 2000, can be offset within 15 years.

The years open for review by the tax inspection authorities for the main applicable taxes vary from one consolidated company to another, based on each country's tax legislation, taking into account their respective statute-of-limitations periods. In Spain the years open for review for the main taxes are as follows: corporate income tax 1997 to 2001; VAT 1998 to 2001; personal income tax withholdings 1998 to 2001. However, the Spanish companies that file consolidated corporate income tax returns have been audited by the Spanish tax authorities for four years' taxes and no significant matters were disclosed as a result of these tax audits. These companies have the years since 1999 open for review for personal income tax and VAT and the years since 1998 for corporate income tax.

The variations in the accrual of the investment tax credit is detailed in Note 13.

(19) OTHER LONG-TERM PAYABLES AND OTHER SHORT-TERM NONTRADE PAYABLES

The "Other Accounts Payable" caption, which is non-financial and recorded at long term, includes €2,983.53 million as of December 31, 2001, relating to accounts payable by certain Group companies to their other stockholders for the acquisition of UMTS licenses.

The detail of the balances of the "Current Liabilities - Other Nontrade Payables" caption in the consolidated balance sheets as of December 31, 2001 and 2000, is as follows:

| | Millions of Euros | |
|---|------------------------|------------------------|
| | Balance at 12/31/01 | Balance at 12/31/00 |
| Accrued expenses payable | 767.08 | 867.96 |
| Group company dividends payable | 68.48 | 202.76 |
| Exchange of telephone service with other operators | 44.31 | 127.70 |
| Guarantees and deposits | 55.57 | 75.62 |
| Compensation payable | 294.57 | 265.28 |
| Provisions | 5.77 | 36.57 |
| Accounts payable to other UMTS stockholders for purchases of licenses | - | 2,807.22 |
| Other nonfinancial nontrade payables | 747.00 | 786.99 |
| Total | 1,982.78 | 5,170.10 |

(20) REVENUES AND EXPENSES**Sales and services**

The detail, by business line, of net sales and services is as follows:

| | Millions of Euros | | |
|---|-------------------|------------------|------------------|
| | 12/31/01 | 12/31/00 | 12/31/99 |
| Wireline telephony business in Spain | 10,220.37 | 10,182.92 | 9,970.80 |
| Atento business | 643.87 | 526.92 | 202.08 |
| Telefónica Internacional business | 10,137.37 | 12,583.82 | 9,708.79 |
| Terra Networks business | 689.96 | 303.99 | 40.15 |
| Móviles business | 8,408.02 | 5,249.19 | 3,738.97 |
| Data business | 1,849.69 | 920.23 | 574.73 |
| Admira business | 1,403.07 | 723.91 | 96.50 |
| Telephone directories business | 619.54 | 409.33 | 334.82 |
| Instrumentality companies | 1,132.15 | 967.86 | 744.55 |
| Other companies | 16.11 | 190.42 | 609.73 |
| Group revenues before intercompany sales | 35,120.15 | 32,058.59 | 26,021.12 |
| Intercompany sales | (4,067.55) | (3,573.09) | (3,064.12) |
| Total revenues from Group operations | 31,052.60 | 28,485.50 | 22,957.00 |

Personnel expenses

The detail of the personnel expenses is as follows:

| | Millions of Euros | | |
|--|-------------------|-----------------|-----------------|
| | 12/31/01 | 12/31/00 | 12/31/99 |
| Compensation | 3,958.37 | 3,713.21 | 3,092.58 |
| Provisions to the pension allowance and other commitments to employees | 103.32 | 103.52 | 127.02 |
| Accrual for the cost of the loyalty-building programs tied to share market price | 14.29 | 18.13 | 15.83 |
| Employee welfare expenses and other | 1,314.28 | 1,276.87 | 1,176.02 |
| Total | 5,390.26 | 5,111.73 | 4,411.45 |

Number of employees

| | 12/31/01 | | 12/31/00 | |
|--------------------------------|----------------|----------------|----------------|----------------|
| | Average | Year-End | Average | Year-End |
| Telefónica, S.A. | 680 | 727 | 608 | 641 |
| Telefónica de España Group | 42,627 | 42,425 | 47,251 | 43,009 |
| Telefónica Móviles Group | 13,857 | 13,459 | 6,161 | 7,093 |
| Telefónica Internacional Group | 32,983 | 30,425 | 41,569 | 40,848 |
| Telefónica Data Group | 4,674 | 4,952 | 2,382 | 2,627 |
| Directorios Group | 2,774 | 2,815 | 1,961 | 2,134 |
| Admira Group | 6,623 | 6,698 | 5,037 | 5,888 |
| Atento Group | 47,465 | 49,940 | 36,576 | 40,773 |
| Terra Group | 3,133 | 2,907 | 2,324 | 3,170 |
| Kataly Group x | 287 | 220 | 107 | 368 |
| Emergia Group | 134 | 156 | 70 | 81 |
| Other | 5,792 | 6,803 | 1,684 | 2,075 |
| Total | 161,029 | 161,527 | 145,730 | 148,707 |

The figures in the foregoing table relate to the companies consolidated by the global integration method.

Compensation systems tied to share market price

Telefónica, S.A. currently has in place two compensation systems tied to the share market price, one of which (the TOP plan) is aimed exclusively at executive personnel of Telefónica, S.A. and of several of its subsidiaries in Spain and abroad, including the executive directors of Telefónica, S.A., while the second (TIES Program) is aimed at all the personnel of Telefónica, S.A. and its Spanish and foreign subsidiaries. Both systems were approved by the Stockholders' Meeting held on April 7, 2000.

The subsidiaries Telefónica Móviles, Telefónica Publicidad e Información, S.A. and Terra Networks, S.A. have also established their own compensation systems tied to the market price of their respective shares.

Lastly, there is a program of options on Telefónica, S.A. shares targeted at the employees of Endemol ("EN-SOP Program").

Following is a detailed account of each of these two plans.

a) Top Plan relating to options on Telefónica, S.A. shares targeted at executives of Telefónica Group companies

At its meeting on May 26, 1999, Telefónica, S.A.'s Board of Directors approved a compensation system tied to the market price of Telefónica, S.A.'s shares (the "TOP Plan"), through the grant of options on the Company's shares. The term of this plan is four years and three months from the launch date (June 28, 1999).

The implementation of the Plan and the exercise and sale of the related stock option rights were approved by the aforementioned Stockholders' Meeting of Telefónica, S.A. on April 7, 2000.

The approval and implementation of this incentive Plan was notified to the Spanish National Securities Market Commission (CNMV) and published in the Complete Prospectus, which was verified and registered in the CNMV's Official Register on June 29, 1999; in the Continued Prospectus, which was verified and registered on June 23, 2000; and in the Specific Prospectus on the compensation systems tied to the market price of Telefónica's shares in force prior to January 1, 2000, which was verified and registered in the CNMV's Official Register on April 18, 2000.

Also, the CNMV was notified in due time and form of the assignment of options derived from this compensation system to executive directors, general managers and persons of a similar rank of Telefónica, S.A.

The TOP Plan, which is targeted at approximately 500 beneficiary executives of several Telefónica Group companies, consists of the grant to each beneficiary covered thereby of ten type-A options and ten type-B options on Telefónica, S.A. shares for every Telefónica, S.A. share assigned by each beneficiary to the Plan and which the beneficiaries must keep throughout the term of the Plan. The beneficiaries may exercise the stock option

rights from the second year of the term of the Plan onwards at a rate of one-third of the total number of type-A options and one-third of the type-B options in arrears, i.e. in three equal portions in the second, third and fourth year of the Plan; the Company reserves the right to settle the Plan at each of the aforementioned maturity dates by paying the beneficiaries the result of the settlement in the form of shares or in cash. One share equals one option.

At the launch date, the exercise price of the options granted was as follows: for the type-A options, the exercise price was established on the basis of the market price of the shares when the compensation system was introduced (€46.18 per share); whereas the exercise price for the type-B options was set at the same price plus 50% (€69.27 per share). These figures related to the par value of the Telefónica, S.A. shares when the Plan was launched and, accordingly, prior to the three-way share split, consisting of three new shares for every old share, carried out in July 1999. Therefore, following this split and taking into account the antidilution clauses in the Plan, the type-A and type-B option exercise prices were €15.09 and €22.63 as of December 31, 2000, respectively, and €14.50 and €21.75 as of December 31, 2001, respectively.

Originally 411 Telefónica Group executives were the beneficiaries of the TOP Plan (including four executive directors and nine general managers and similar). Consequently, although initially the TOP Plan was only partially awarded to executives, if all the executives (approximately 500) at whom the Plan was aimed availed themselves of it the total number of shares assigned to the Plan would be 270,237 and, consequently, the total number of options granted would be 5,404,740, prior to the aforementioned three-way share split carried out in July 1999.

Clearly, the TOP Plan provided for the possibility of assigning new options at dates subsequent to that on which it was introduced, particularly to cater for the needs which were disclosed as a result of the executive compensation policies and of new executive hirings. This possibility was expressly approved by the Stockholders' Meeting of Telefónica, S.A. in a resolution adopted on June 15, 2001.

In October 2000 and February and April 2001 new options were assigned under the TOP Plan to a further three executive directors and to executives who joined the Group after the launch of the Plan, or who, as a result of promotion, now hold positions of responsibility which carry a higher level of option assignments than that at which they joined the Plan.

The new option assignments made in October 2000 and February and April 2001 (which were expressly ratified through a resolution adopted by the Stockholders' Meeting of Telefónica, S.A. on June 15, 2001) did not entail an extension of the TOP Plan, but rather in order to make these assignments the remaining options that had been held by the Company throughout the term of the Plan were used. Accordingly, the terms and conditions of the options assigned on the aforementioned dates are the same as those of the TOP Plan, except for the price thereof. In the case of the type-A options the exercise price was set at the Telefónica, S.A. share market price when the new assignments were approved by the competent corporate governing body.

Also, on June 15, 2001, the Stockholders' Meeting of Telefónica, S.A. empowered the Board of Directors to make, within the total volume of options under the TOP Plan, additional assignments of options to executive directors and general managers and persons of a similar rank, provided that the maximum number of options to be assigned to each director or senior executive does not exceed 175,000 type-A options or 175,000 type-B

options. The exercise price for the type-A options must in no case be lower than the market price of the Company shares when the options were granted, and the exercise price of the type-B options must in no case be lower than that amount increased by a percentage of between 25% and 50%.

On December 31, 2001 (taking into account the fact that, as indicated above, the Board of Directors had not exercised the powers granted to it by the Stockholders' Meeting on June 15, 2001, by that date), there were 453 beneficiaries of the TOP Plan (including five executive directors of Telefónica, S.A. and ten general managers or similar), who held a total of 14,966,640 purchase options on Telefónica, S.A. shares.

Subsequently, because, effective January 2, 2002, certain beneficiaries of the TOP Plan who work for dependent companies of Telefónica Móviles, S.A. were included under the latter's stock option plan known as the MOS Program, which was set up after the TOP Plan, which led to their automatic exclusion from the latter Plan because of the total incompatibility of the two Plans, the number of beneficiaries of the TOP Plan and the number of options assigned thereunder was significantly reduced. Therefore, as of that date (January 2, 2002) there were 335 beneficiaries of the TOP Plan (including four executive directors of Telefónica, S.A. and ten general managers or similar), who held a total of 12,158,820 purchase options on Telefónica, S.A. shares.

In order to cover the risks and economic obligations derived from the TOP Plan, the Group arranged hedging contracts with BBV and Argentaria, at a total cost for the Telefónica Group of €72.12 million. €3.89 million of this cost have not yet been taken to income (see Note 9).

b) Telefónica, S.A. stock option plan targeted at all the employees of certain Telefónica Group companies ("TIES Program").

On February 23, 2000, the Board of Directors of Telefónica, S.A. approved the establishment of a new compensation system tied to the market price of the Company's shares, with the grant of options on Company shares, known as the TIES Program. This Program is aimed at all the employees of Telefónica, S.A. and its Spanish and foreign subsidiaries who meet the requirements established in the rules governing the Program and who are not participating in any other similar stock or stock option plan.

The aim of the TIES Program is identical to those achieved by other similar programs implemented in the past by Telefónica, S.A. or its subsidiaries and is broadly similar to programs which have been introduced in several European countries and in the U.S. Its main purpose is to introduce a system of global incentives and to reward the past and future services of all the employees of Telefónica, S.A. and its subsidiaries in the coming years. The TIES Program will basically motivate all its beneficiaries by giving them access to Telefónica, S.A. shares under highly favorable terms and conditions.

In order to achieve the purposes of the Program, on April 7, 2000, the Stockholders' meeting of Telefónica, S.A. approved two capital increases with disapplication of pre-emption subscription rights, for a par value of €1,197,880 and €31,504,244, respectively, through the issuance of 1,197,880 and 31,504,244 new shares, respectively, of €1 par value each, with additional paid-in capital of 400% of the par value.

The main features of the TIES Program are as follows:

1. Number of shares offered for initial acquisition by the beneficiaries: 1,197,880.
2. Issue price: €.
3. Maximum no. of shares under option assigned to beneficiaries: 31,504,244. This figure, which is the maximum amount necessary to cover the total rights carried by the shares initially assigned, also includes a reserve for new beneficiaries of the Program equal to 4.5% of the initial beneficiaries.
4. Method of assignment of shares under option: depends on the appreciation of Telefónica, S.A. shares with respect to an initial reference value to be set by the Board of Directors and on the number of shares of Telefónica, S.A. initially acquired.
5. Exercise price: €.

At its meeting on June 28, the Board of Directors of Telefónica, S.A. resolved to commence implementation of the TIES Program (the features and general terms of which had been established on February 23, 2000, by the Board of Directors' Meeting that approved the creation of the Program), and established the requirements to be met by the employees of the subsidiaries of Telefónica, S.A. in order to become beneficiaries of the TIES Program.

Subsequently, on November 29, 2000, the Board of Directors of Telefónica, S.A. adapted to the date on which the Program was ultimately launched the conditions and requirements to be met by the employees of the companies participating in the Program in order to become beneficiaries of the Program and the reference value initially set.

On February 14, 2001, the notarial deed of formalization and execution of the first capital increase at Telefónica indicated above was executed. The par value of the capital was increased by €1,123,072, through the issuance of an equal number of common shares with additional paid-in capital of €4 per share. The new shares were fully subscribed and paid, through a monetary contribution, by the beneficiaries of the TIES Program.

On February 20, 2001, the notarial deed of formalization and execution of the second capital increase to cater for the TIES Program was executed. The par value of the capital was increased by €31,504,244, through the issuance of an equal number of common shares with additional paid-in capital of €4 per share. The new shares were fully subscribed and paid, through a monetary contribution, by BBVA (50%) and La Caixa (50%).

On December 31, 2001, 76,932 persons were participating in the TIES program, who held a total of 29,220,372 purchase options on Telefónica, S.A. shares.

c) Telefónica Móviles, S.A. stock option plan ("MOS Program")

On October 26, 2000, the Special Stockholders' Meeting of Telefónica Móviles, S.A. authorized the establishment of a corporate stock option plan for the executives and employees of Telefónica Móviles, S.A. and its subsidiaries and, in order to facilitate coverage of the Company's obligations to the beneficiaries of the Plan, resolved to increase

the capital stock of Telefónica Móviles, S.A. by €1,400,000 through the issuance of 22,800,000 shares of €0.50 par value each.

Subsequently, on June 1, 2001, the Stockholders' Meeting of Telefónica Móviles, S.A. approved the introduction of certain modifications and clarifications of the stock option plan with a view to making it more attractive and a more efficient mechanism for the motivation and loyalty building of its beneficiaries.

Lastly, on September 21, 2001, the Board of Directors of Telefónica Móviles resolved to develop and establish, in conformity with the aforementioned resolutions of the Stockholders' Meetings on October 26, 2000 and June 1, 2001, the terms and conditions of the stock option plan. The main features of this plan are as follows:

1. The Plan is open to all the executive directors, executives (including general managers or similar) and employees who on December 1, 2001 were working for companies in which Telefónica Móviles directly or indirectly, during the term of the Plan (i) has a holding with voting rights of over 50%, or (ii) has the right to appoint over 50% of the members of the Board of Directors.

Without prejudice to the above, the MOS Program envisages the possibility of awarding new options at dates subsequent to its initial implementation.

2. There are three types of Option:
 - Type-A options, with an exercise price of €1.
 - Type-B options, with an exercise price of €6.5.
 - Type-C options, with an exercise price equal to the arithmetic mean of the closing prices of the Telefónica Móviles, S.A. shares on the Spanish Continuous Market for the last ten trading days prior to March 1, 2002.
3. Each beneficiary of the Program will receive an equal number of type-A and type-B options and a number of type-C options equal to the sum of the type-A and type-B options received.
4. The executive directors and executives who are beneficiaries of the MOS Program must place a deposit on one share of Telefónica Móviles for every 20 options assigned to them.
5. Each option, regardless of type, will entitle its holder to receive one share of Telefónica Móviles.
6. The options may be exercised at a rate of one-third each year from the day after the day on which two, three and four years have elapsed since the date on which the options were granted (January 2, 2002).
7. At the exercise date, the options may be settled, at the beneficiary's request, either (i) through delivery of shares of Telefónica Móviles, once the beneficiary has paid the option exercise price, or (ii) through cash differences.

On January 2, 2002 (the date on which the type-A and type-B options were effectively granted and the class-C options were preassigned), there were 5,896 beneficiaries of the MOS Program, of whom one is an executive director of Telefónica Móviles, S.A. and eight are general managers or similar. In this initial phase, not all the options under the Program were assigned.

In order to provide coverage for the MOS Program, on September 21, 2001, the Board of Directors resolved to carry out the capital increase approved by the Stockholders' Meeting on October 26, 2000, through the issue of 21,445,962 shares of €0.50 par value each, which were subsequently subscribed and paid by BBVA (50%) and La Caixa (50%).

On September 27, 2001, Telefónica Móviles, S.A., of the one part, and BBVA and La Caixa, of the other part, entered into the related share subscription and purchase option contracts under which the two aforementioned finance entities granted Telefónica Móviles, S.A. a purchase option on each of the shares subscribed in order to enable Telefónica Móviles, S.A. to meet its commitments to the beneficiaries of the MOS Program, as described earlier.

The implementation of this Telefónica Móviles, S.A. stock option plan (the MOS Program) and the capital increase at Telefónica Móviles, S.A. to provide coverage for the Program were notified to the Spanish National Securities Market Commission (CNMV) and published in the Abridged Prospectus, which was verified and registered in the CNMV's Official Register on November 2, 2001.

d) Telefónica Publicidad e Información, S.A. stock option plan

Telefónica Publicidad e Información, S.A. (TPI) has set up a stock option plan on TPI shares targeted at TPI executives and employees who, provided they meet the preestablished requirements, wish to participate in and be beneficiaries of the Plan. A given number of TPI shares must be bought by the executives and employees for their own account on the market and must be held for the whole term of the Plan.

The stock option Plan consists of granting to each beneficiary thereof 15 options to purchase TPI shares for every share assigned to the Plan. The stock option Plan had been partially assigned as of December 31, 2001.

Of the total number of stock options issued, and taking into account that split of TPI's shares on June 19, 2000 (7,212,147 shares representing approximately 2% of the total capital stock), as of December 31, 2001, 4,489,335 options had been assigned.

The beneficiaries may exercise the rights under the Plan from the first half of November 2001 at a rate of one-third each year in arrears from the following year (2001, 2002 and 2003), except in the case of one recently-hired executive, for whom the exercise periods, like those of the Plan currently in force, will be counted from the related option contract date.

As is customary in compensation systems of this nature, the stock option Plan was subject to the generally applicable antidilution and other contractual clauses. Accordingly, as indicated above, the Plan was modified as a result of the three-way split of the company's shares authorized by the Stockholders' Meeting on April 17, 2000, and carried out in June 2000.

On April 28, 1999, the Stockholders' Meeting of TPI approved a capital increase of €20,202.454, through the issuance of new shares, exclusively to create and provide coverage for a stock option plan for company executives.

All the new shares were subscribed and paid in full through a monetary contribution by Caja de Ahorros y Pensiones de Barcelona (La Caixa), the Agent Bank for the Plan, which had entered for this purpose into a contract with TPI under which the former granted the latter an irrevocable purchase option right on the new shares issued (2,404,049 new shares, which were converted into 7,212,147 shares following the aforementioned share split subsequently carried out).

On April 17, 2000, the Stockholders' Meeting, in accordance with current legislation, approved the execution, the exercise in the envisaged periods and the sale of the stock option rights under this compensation system, and empowered the Company's Board of Directors to assign, at the proposal of the Appointments and Compensation Committee, the options on shares not yet assigned to the employees and executives who form or are going to form part of TPI. It empowered the Board of Directors to establish the terms and conditions it deemed fit relating to the exercise of the options and, specifically, to extend the exercise period and increase the purchase price of the shares.

Exercising the powers granted by the aforementioned Stockholders' Meeting, on April 17, June 9 and 29, August 30 and November 13, 2000, the Board of Directors assigned new stock options to executives and employees.

Subsequently, on April 26, 2001, the Board of Directors, exercising the powers granted by the Stockholders' Meeting on April 17, 2000, decided to extend the stock option Plan to all TPI employees who met the preestablished requirements. The Plan was extended in accordance with the periods, terms and conditions of the Plan in force, and the exercise price was set at €5.

On June 2, 2001, the Stockholders' Meeting ratified, in the terms in which it was performed, the assignment of options carried out to implement the Plan after the Stockholders' Meeting on April 17, 2000, and, specifically, with respect to the persons who have the status of executive director and senior executive, as provided for in Additional Provision Fifteen of the Securities Market Law.

Also, on June 2, 2001, the Stockholders' Meeting resolved to empower Board of Directors to assign, in order to implement and develop the stock option Plan in force, at the proposal of the Appointments and Compensation Committee, up to the limit of the total number of options under the Plan, additional options to executive directors and senior executives, under the following terms and conditions:

- Number of options to be delivered: a maximum of 450,000 options will be delivered to each executive director or senior executive.
- Option exercise price: the option exercise price will be the lower of the closing market price of the Telefónica Publicidad e Información, S.A. shares on the day on which the options are granted or the weighted average market value of the Telefónica Publicidad e Información, S.A. shares on the 20 calendar days immediately preceding the day on which the options are granted.

-
- Term: the options will have a term of four years from the date on which they are granted and can be exercised partially at the same rate as that envisaged in the stock option Plan in force.

As of December 31, 2001, 750 persons were participating in the Plan, one of whom is an executive director of the company and six are general managers or similar.

e) Terra Networks, S.A. stock option plan

The Terra Networks, S.A. Stock Option Plan was approved by the Stockholders' Meeting on October 1, 1999, and implemented by Board of Directors' resolutions adopted on October 18, 1999, and December 1, 1999.

The Plan provides, through the exercise of the stock options by their holders, for the ownership by the employees and executives of the Terra Group companies of a portion of the capital of Terra Networks, S.A. up to a maximum of 14,000,000 shares.

On October 5, 1999, Banco Zaragozano, S.A., Caja de Ahorros y Pensiones de Barcelona and Terra Networks, S.A. entered into a contract under which these entities granted to Terra Networks, S.A. an irrevocable purchase option on 14,000,000 issued shares, which may be exercised at any time prior to April 30, 2004, to cover the Stock Option Plan approved.

The approval and implementation of this compensation system were notified to the Spanish National Securities Market Commission (CNMV) and were made public through the complete information memorandum verified and registered in the CNMV Official Register on October 29, 1999, and in the Prospectus presented to the Securities and Exchange Commission (SEC) in the U.S.

On December 1, 1999 and June 8, 2000, the Board of Directors, pursuant to the powers granted to it by the Stockholders' Meeting, implemented the First Phase of the Plan by granting options to employees of the Terra Group. The main features of these options are as follows:

1. Each of the stock options under the Plan entitles the holder to acquire one share of Terra Networks, S.A. at an exercise price of €1.81 per share.
2. Duration of four years and three months, and the options may be exercised at a rate of one-third of those granted each year from the second year onwards.
3. The exercise of the options is conditional upon the beneficiary remaining a Terra Group employee.

In 2001 the Board of Directors implemented the Second Phase of the Terra Networks, S.A. Stock Option Plan, which was approved by the Stockholders' Meeting on June 8, 2000, and launched pursuant to a resolution adopted by the Board of Directors on December 22, 2000, through the assignment of options to executives and employees who were already beneficiaries of the stock option Plan, in addition to the assignment of options to new employees who had joined the Group.

The main features established by the Board of Directors for this assignment were as follows:

-
1. Each of the stock options under the Plan entitles the holder to acquire one share of Terra Networks, S.A. at an exercise price of €19.78 per share.
 2. The duration of the Plan was modified by a resolution adopted by the Stockholders' Meeting on June 8, 2000, and was set at six years with a two-year grace period. The options can be exercised at a rate of one-quarter of those granted each year from the third year through the sixth year.
 3. The exercise of the options is conditional upon the beneficiary remaining a Terra Group employee.
 4. Options were granted to one executive director and four general managers and persons of a similar category, and this was duly notified to the CNMV on December 29, 2000.

On February 21, 2001, the Board of Directors resolved to modify the resolution adopted on December 22, 2000, in respect of the duration and method of accrual of the stock options. Accordingly, the period for the exercise of the options assigned was set at five years, and the options may be exercised at a rate of one-quarter each year from the end of the first year.

In 2001, at the recommendation of the Appointments and Compensation Committee, the Board of Directors approved, each quarter (specifically at its meetings on May 10, July 25 and November 6) the assignment of options to new company employees, and set the exercise price at the market price of the shares during the related quarter and with the same terms and conditions as regards exercise period and duration as those envisaged for the Second Phase of the Plan.

On June 7, 2001, the Stockholders' Meeting of Terra Networks, S.A. resolved to partially modify the resolution relating to the Stock Option Plan which was ratified and approved by the Stockholders' Meeting on June 8, 2000, as regards the extension of the Stock Option Plan to executives and directors, and extended the option exercise period to ten years from that in which they were granted, stipulating that a portion of the options could be exercised each year during this period. As of the date of preparation of these financial statements, the Board of Directors had not implemented the extension of the option exercise period.

As of December 31, 2001, options on 9,600,246 shares had been assigned to Group employees, executives and directors, of which 2,311,863 relate to the First Phase of the Plan and the remainder to the Second Phase. The average stock option exercise price is €1.45.

As of December 31, 2001, the Group's executives and directors held 1,924,215 stock options under the Terra Networks, S.A. Stock Option Plan, the average exercise price of which was €6.50.

f) Terra Networks, S.A. stock option plan resulting from the acquisition of the stock option plans of Lycos, Inc.

Under the agreements entered into for the acquisition of Lycos, it was agreed to exchange options on the shares of Lycos, Inc. for options on the shares of Terra Networks, S.A.

On June 8, 2000, the Stockholders' Meeting of Terra Networks, S.A. resolved to acquire the stock option plans of Lycos, Inc., provided that the two companies merged.

On October 25, 2000, the Board of Directors of Terra Networks, S.A. approved (i) the exchange of options on Lycos, Inc. shares existing prior to the conclusion of the transaction for options on Terra Networks, S.A. shares; (ii) the transfer to Citibank NA (Agent Bank) of all the options on Lycos, Inc. shares for their early exercise; and (iii) the entering into of a contract between Terra Networks, S.A. and the Agent Bank in connection with the new Terra Networks, S.A. stock option plan.

As a result of the exercise of the options on Lycos, Inc. shares by the Agent Bank, the latter subscribed to 29,088,488 shares of Lycos, Inc. which, pursuant to the resolutions adopted by the Stockholders' Meeting of Lycos Inc. on October 27, 2000, were converted into 29,088,488 shares of Lycos Virginia, Inc. and contributed in the exchange, together with the other shares of Lycos Virginia, Inc. As a result of the exchange of Lycos, Inc. stock options for Terra Networks, S.A. stock options, the employees, executives and directors of Lycos Virginia, Inc. received purchase options on 62,540,249 shares of Terra Networks, S.A. owned by the Agent Bank.

On June 7, 2001, the Stockholders' Meeting of Terra Networks, S.A. resolved to partially modify the resolution relating to the stock option Plan which was ratified and approved by the Stockholders' Meeting on June 8, 2000, as regards the obligations arising from the assumption of the Lycos Virginia, Inc. stock options by Terra Networks, S.A., following the exchange of shares between the latter and Lycos Virginia, Inc., which may be covered with Terra Networks, S.A. shares held by Citibank, NA, as a result of the exchange of Lycos Virginia, Inc. shares, held by Citibank, NA to cover the stock options of the employees and executives of Lycos Virginia, Inc.

As of December 31, 2001, the former employees, executives and directors of Lycos had exercised 14,110,082 options, and 35,324,581 options had been committed at an average exercise price of US\$ 18.50.

As of December 31, 2001, the directors and executives of Lycos held stock option rights on 10,692,652 Terra Networks, S.A. shares, derived from the Lycos stock option Plans set up prior to the acquisition of Lycos by Terra. The average exercise price of the stock options granted to executives and directors derived from the Lycos Plan is US\$ 18.62.

More specifically, the directors hold 8,267,026 options on Terra Networks, S.A. shares derived from the Lycos Plans, the average exercise price of which is US\$ 19.49, with the price ranging from a minimum of US\$ 6.28 to a maximum of US\$ 30.41.

As of December 31, 2001, the directors held 8,717,026 options on Terra Networks, S.A. shares derived from the Terra Networks, S.A. and Lycos, Inc. Plans, the average exercise price of which is €1.70.

g) Telefónica, S.A. stock option plan aimed at executives of Endemol (“EN-SOP Program”)

In order to fulfill the commitments assumed by Telefónica, S.A. in the acquisition of the Dutch company Endemol (in mid-2000), and in order to establish a competitive compensation system similar to that in place at other companies in the industry in which Endemol operates, on April 25, 2001, the Standing Committee of the Board of Directors of Telefónica, S.A. approved the establishment on a Telefónica, S.A. stock option plan

targeted at the employees of Endemol Entertainment N.V. (Endemol) and its subsidiaries (Endemol Group), known as the EN-SOP Program.

This Program consists of the grant to the beneficiaries (all the Endemol Group's permanent employees on January 1, 2001, who are not participating in another similar stock or stock option plan), effective January 1, 2001, 2002, 2003 and 2004, of a variable number (based on the various wage and functional categories) of purchase options on Telefónica, S.A. shares. The duration of the options will be four years from the grant date, and the options may be exercised at a rate of one-half each year three and four years after the related grant date.

The total number of options to be delivered each year will be determined by dividing €7.500.000 euros by the annual reference value of the Telefónica, S.A. shares, which will be taken to be the arithmetic mean of the closing prices of the Telefónica, S.A. shares on the Spanish Continuous Market for the last five trading days prior to that on which the Board of Directors of Telefónica, S.A. hold the Meeting calling the Annual Stockholders' Meeting.

The option exercise price will be the related annual reference value, and the exercise terms will be the customary terms in programs of this nature. The beneficiaries must remain uninterruptedly permanent employees of Endemol until the options are exercised, without prejudice to the regulation of cases of early settlement of the options in certain cases in which the employment relationship is interrupted prior to the exercise of the options.

The options may be settled through the acquisition by the beneficiary of the underlying shares or, alternatively, in the form of shares or cash.

In order to cover each annual grant of options, it was provided that Telefónica: (i) would increase capital by the amount necessary to cater for the delivery of the shares derived from the exercise of the options by the beneficiaries or, alternatively, (ii) would acquire on the market the purchase options on Telefónica, S.A. shares.

Accordingly, in order to cover the annual grant of options in 2001, on June 15, 2001, the Stockholders' Meeting of Telefónica, S.A. approved a capital increase at Telefónica, S.A. of €1,425,624, through the issuance of an equal number of common shares with additional paid-in capital of €18.2898 per share, and granted the necessary powers to the Board of Directors to carry out the capital increase, with express powers, where appropriate, to not carry it out (see Note 11).

As a result of the significant change in stock market conditions in the second half of 2001, on September 26, 2001, the Board of Directors decided not to implement the aforementioned capital increase approved by the Stockholders' Meeting, and decided that, instead of the capital increase, the annual grant of options for 2001 under the EN-SOP Program would be covered through the acquisition on the market of purchase options on Telefónica, S.A. shares. The total cost of the coverage amounted to €2.92 million.

Under the EN-SOP Program, in 2001 1,294,440 purchase options on Telefónica, S.A. shares were delivered to the employees of the Endemol Group (with the distribution agreed on by the Appointments and Compensation Committee of the Board of Directors of Telefónica, S.A., the governing body responsible for this as established when the resolution

to set up this Program was adopted), at an exercise price of €9.2898 per share (annual reference value). 976 persons are participating in the Program.

Other interest on accounts payable and similar expenses and revenues from other securities and loans

The detail of the “Other Interest on Accounts Payable and Similar Expenses” and “Revenues from Other Securities and Loans” captions is as follows:

| | Millions of Euros | | |
|--|-------------------|-----------------|-----------------|
| | 12/31/01 | 12/31/00 | 12/31/99 |
| Debentures, bonds and other marketable debt securities | 933.50 | 797.96 | 587.38 |
| Loans and credits | 692.44 | 1,260.19 | 250.20 |
| Other | 362.08 | 85.29 | 943.50 |
| Total other financial expenses | 1,988.02 | 2,143.44 | 1,781.08 |
| Associated companies | 15.38 | 24.60 | 16.55 |
| Other companies | 419.81 | 466.99 | 358.62 |
| Total other financial revenues | 435.19 | 491.59 | 375.17 |

Exchange differences

The detail of the exchange losses charged to income is as follows:

| | Millions of Euros | | |
|-------------------------------|-------------------|---------------|---------------|
| | 12/31/01 | 12/31/00 | 12/31/99 |
| Adjustment of loans | 1,342.51 | 171.82 | 16.98 |
| Continuing operations | 664.57 | 242.44 | 328.13 |
| Translation losses (Note 4-b) | 19.80 | 57.98 | 212.66 |
| | 2,026.88 | 472.24 | 557.77 |

As a result of the devaluation of the Argentine peso (see Note 2-d), exchange losses amounting to €28.76 million were recorded.

€16.44 million of the exchange gains recorded in 2001 relate to the adjustment of loans.

Extraordinary revenues

The detail of the extraordinary revenues is as follows:

| | Millions of Euros | | |
|---|-------------------|---------------|---------------|
| | 12/31/01 | 12/31/00 | 12/31/99 |
| Prior years' revenues | 65.74 | 85.45 | 19.28 |
| Indemnity payments for breach of contract | 63.07 | 54.71 | 2.14 |
| Insurance settlement consortium | 14.04 | 6.70 | 0.03 |
| Gain on sale of shares | - | 2.04 | - |
| Recovery of taxes and supplier indemnity payments | - | 60.98 | 111.27 |
| Allocation of deferred revenues to income (Note 13) | 172.16 | - | - |
| Provisions for treasury stock (Note 4-i) | 106.87 | - | - |
| Other extraordinary revenues earned in the year | 349.12 | 54.27 | 213.61 |
| | 771.00 | 264.15 | 346.33 |

The “Other Extraordinary Revenues” caption includes the extraordinary revenues earned by all the Group companies, the amounts of which taken individually were not material.

Extraordinary expenses and losses

| | Millions of Euros | | |
|--|-------------------|-----------------|-----------------|
| | 12/31/01 | 12/31/00 | 12/31/99 |
| Supplementary pension payments to retired employees (Note 14) | 85.10 | 413.45 | 95.16 |
| Provision for contingencies | 50.67 | 304.33 | 183.95 |
| Preretirements and early retirements (Note 14) | 375.87 | 1,197.12 | 2,838.05 |
| Write-offs of goodwill and administrative concessions (Note 5) | 249.00 | 804.05 | 373.26 |
| Provisions for treasury stock (Note 4-i) | - | 133.15 | - |
| Fraud suffered and court claims | 98.56 | - | - |
| Other extraordinary expenses | 457.81 | 1,285.92 | 523.46 |
| | 1,317.01 | 4,138.02 | 4,013.88 |

The “Other Extraordinary Expenses” caption includes extraordinary expenses incurred by the numerous Telefónica Group companies, including most notably permanent diminutions in value of fixed assets, fines and penalties, prior years’ losses, etc. Also, in accordance with accounting legislation, this caption also includes, due to the extraordinary nature of these expenses, indemnity payments paid to senior executives for termination of contracts for services, for the amounts established therein, subject to approval by the Board of Directors’ Appointments and Compensation Committee.

Losses on fixed assets

This caption includes net amounts of €2.24 million and €9.08 million and €35.51 million as of December 31, 2001, 2000 and 1999, respectively, recorded as a result of the dismantling of Telefónica de España’s plant for network digitalization (see Note 7).

(21) DIRECTORS’ COMPENSATION AND OTHER BENEFITS

The compensation of the directors of Telefónica, S.A. is regulated by Article 28 of the Company’s Corporate Bylaws, the current wording of which was approved through a resolution adopted by the Company’s Board of Directors on April 7, 2000.

Accordingly, the aforementioned Article 28 of the Corporate Bylaws now reads as follows:

“Article 28.” - Compensation.

1. The directors’ compensation shall consist of a set monthly payment and of attendance fees for attending meetings of the Board of Directors and of its standing and advisory committees. The amount of the compensation the Company can pay its directors as a whole in both connections shall be equal to 0.50% of the net income obtained by the Consolidated Group in the immediately preceding year. The Board of Directors shall be responsible for defining the exact amount to be paid within this limit and for distributing it among the directors.

2. In addition, independently from the compensation described in the preceding paragraph, it is planned to establish director compensation systems tied to the share market price of the shares or involving the assignment of shares or stock options. The application of these compensation systems must be agreed upon by the Stockholders' Meeting, which shall define the reference share value, the number of shares to be assigned to each Director, the option exercise price, the duration of this compensation scheme and any other conditions they deem fit.

Also, subject to compliance with legal requirements, similar compensation systems may be established for executive or non-executive Company employees.

3. The compensation systems described above for members of the Board of Directors shall be compatible with the other compensation received by directors, either in their professional capacity or as employees, for any other executive or advisory functions discharged by them for the Company other than the supervisory and Board decision duties specific to their position as Directors, which shall be subject to the applicable legal regime.”

The members of the Board of Directors of Telefónica, S.A. earned €0.04 million and €0.37 million in 2001 and 2000, respectively.

The breakdown of these amounts in 2001 and 2000 is as follows:

| | Millions of Euros | |
|-------------------------------|-------------------|--------------|
| | 2001 | 2000 |
| Salaries (1) (3) | 3.62 | 3.44 |
| Variable compensation (1) (3) | 2.41 | 3.16 |
| Attendance fees (2) | 3.74 | 3.45 |
| Compensation in kind | 0.27 | 0.32 |
| Total | 10.04 | 10.37 |

- (1) Fixed and variable compensation received by the members of the Board of Directors of Telefónica, S.A. with executive duties. The figures include all the amounts received by these directors, whether they were paid by Telefónica, S.A. or by other Group companies.
- (2) This item includes not only the attendance fees received by the directors in their capacity as members of the Board of Directors of Telefónica, S.A., but also those received by them in their capacity as members of the Board of Directors of the other Telefónica Group companies.
- (3) The amount for 2001 includes €0.81 million paid by Telefónica, S.A. and allocated to other Group companies.

Telefónica's pension and life insurance commitments to directors with executive duties arise solely from their status as employees and amounted to €0.03 million in 2001 and €0.04 million in 2000.

The cost for the Telefónica Group of the compensation plans linked to share market price in which certain executive directors are participating (see Note 20) amounted to €1.26 million in 2001 and €1.11 million in 2000.

(22) **OTHER INFORMATION**

a) Litigation in progress

Telefónica, S.A. and its Group companies are party to various civil, labor, administrative, tax and antitrust lawsuits. The Company considers it reasonably certain that any adverse outcome of these lawsuits will not materially affect the Group's economic and financial position or solvency.

These lawsuits include most notably a court proceeding in progress contesting the resolutions adopted by the Special Stockholders' Meeting of Telefónica, S.A. on February 4, 2000.

The aforementioned proceeding has been filed by a stockholder who owns 300 shares of the Company and is based on the purported contravention of this stockholder's right to information, on the purported contravention of the rules regulating the holding of the Meeting and on the purported contravention of the rules for disapplication of pre-emption rights in capital increases.

The Company is convinced that the outcome of the aforementioned court proceeding will be wholly satisfactory for the Company and, since there has been no court decision in this connection, the complaint filed does not in any way signify holding in abeyance the possible implementation of the company resolutions approved by the Stockholders' Meeting and contested in this court proceeding.

Also, another lawsuit has been filed contesting the resolutions adopted by the Special Stockholders' Meeting of Telefónica, S.A. on June 15, 2001.

This proceeding was brought by virtue of a complaint filed by the stockholder who contested the resolutions adopted by the Stockholders' Meeting on February 4, 2000, as indicated above.

By filing this new complaint contesting the corporate resolutions, the objective of the stockholder concerned is to have the resolutions adopted by the Stockholders' Meeting in relation to the points on the Agenda indicated below declared null and void: point I (approval of the financial statements for 2000 and of the Board of Director's conduct of business in that year); point X (capital increase for the acquisition of the shares of various Mexican cellular companies owned by Motorola); and point XII (capital increase to cover the Company's stock option plan for Endemol employees).

The aforementioned proceeding is based on the purported contravention of this stockholder's right to information and on the purported contravention of the rules for disapplication of pre-emption rights in capital increases.

The Company is convinced that the outcome of the aforementioned court proceeding will also be wholly satisfactory for the Company.

Also, it should be noted that complaint filed against the aforementioned resolutions adopted by the Stockholders' Meeting on June 15, 2001, does not in any way signify holding in abeyance the possible implementation of those resolutions.

Regard should also be had to a complaint filed with the State Courts of New Jersey (USA) by International Discount Telecommunications Corporation (IDT) against Telefónica, S.A., Terra Networks, S.A., Terra Networks U.S.A., Inc. and Lycos, Inc. seeking the payment of damages amounting to approximately US\$ 6,600 million.

This complaint is based on the purported breach of the joint venture agreement entered into between IDT and Terra in October 1999, on purported nonperformance of the obligations deriving from the agreement to terminate the aforementioned agreement, on purported fraud and contravention of the legislation regulating the issuance of securities (Federal Securities Exchange Act), and on purported fraudulent concealment of information.

After the complaint had been filed, IDT modified its complaint by eliminating all explicit reference to a claim for damages of a specific amount, since this contravenes the U.S. legislation applicable to the claim. Accordingly, the lawsuit is for an unspecified amount, without prejudice to the possibility of the damages being specified and quantified in the course of the proceeding.

The Company is convinced that the outcome of the aforementioned lawsuit resulting from the complaint filed by IDT will not be unsatisfactory for Telefónica or for Terra and that, if it were, the economic and financial impact on the Telefónica Group would not be material.

It should also be noted that in 2001 International Discount Telecommunications Corporation (IDT) filed a request for arbitration against Telefónica Internacional, S.A. at the American Arbitration Association (AAA).

This request is based on the purported breach of a memorandum of understanding entered into by IDT and Telefónica Internacional on August 11, 1999. IDT is seeking in its complaint damages of no less than US\$ 2,000 million, as well as fulfillment of the aforementioned memorandum of understanding.

The Company is convinced that the outcome of the arbitration proceeding resulting from the complaint filed will not be unsatisfactory for Telefónica Internacional and that, if it were, the economic and financial impact on the Telefónica Group would not be material.

Lastly, the Company reiterates that in connection with the other lawsuits and claims filed against various Telefónica Group companies for different amounts, the risk that these companies will be ordered to pay the amounts claimed will not affect the Group's solvency.

b) Commitments

Agreements with Iberdrola

On April 5, 2001, Telefónica and Iberdrola entered into an agreement whereby Telefónica, after having obtained the necessary prior regulatory authorizations, would acquire all the shares owned by the Iberdrola Group of the Brazilian telecommunications operators of which the Telefónica and Iberdrola Groups were stockholders, as consideration for which the Iberdrola Group would receive shares of Telefónica, S.A. The transaction falls within the framework of the Telefónica Group's strategy of increasing its ownership interests in the operators which it manages, and it intends to subsequently transfer these assets to the respective lines of business, particularly to Telefónica Móviles.

Since the necessary prior regulatory authorizations were obtained, on December 14, 2001, the transaction was carried out substantially in full, except in respect of the Brazilian telecommunications operator Tele Leste Celular Participações, S.A.

The Iberdrola Group's ownership interest in Tele Leste Celular Participações, S.A. is expected to be transferred to Telefónica, S.A. before the end of 2002.

Agreements with Portugal Telecom

On January 23, 2001, Telefónica, S.A. and its subsidiary Telefónica Móviles, S.A., of the one part, and Portugal Telecom SGPS, S.A. and its subsidiary PT Móveis SGPS, S.A., of the other, entered into an agreement to group together all their wireless telephony businesses in Brazil. Accordingly, they undertook to contribute, to a newly-formed company (a subsidiary 50% owned by each of the two Groups), after the relevant regulatory authorizations had been obtained, all the Groups' wireless telephony assets in Brazil. Also, under this agreement, the two parties expressed their interest in increasing their reciprocal shareholdings, subject to compliance with the applicable statutory and bylaw requirements.

Since the Brazilian regulator authorized the initial contribution of 19.99% of the common shares of the Brazilian operators owned by the two Groups, these operators are currently being valued so that the definitive documents for the implementation of the agreement can be formalized.

Agreements with Mesotel

On August 2, 2001, Telefónica Móviles, S.A. entered into a share exchange agreement with Mesotel de Costa Rica, S.A. Under this agreement, Mesotel de Costa Rica, S.A. undertook to transfer to Telefónica Móviles, S.A. in 2002 all its shares of certain Central American companies, which will enable Telefónica Móviles to indirectly increase its ownership interest in the following operators: Telefónica del Salvador, S.A. de C.V. (to 90.3%) and Telefónica Centroamérica Guatemala, S.A. (to 100%).

In exchange, Telefónica Móviles, S.A. agreed to deliver, within certain specified time periods, a total of 21,890,226 common shares of Telefónica Móviles, S.A.

Telefónica Internacional

- 1) On December 22, 1992, Telefónica International Holding B.V. entered into a stockholders' agreement with the Puerto Rico Telephone Authority (ATPR) to regulate their relations with Telecomunicaciones Ultramarinas de Puerto Rico (TUPR), and acquired a 15% holding in the latter, plus a purchase option on the remaining 85%. Pursuant to the agreement, on May 21, 1999, Telefónica announced its intention to exercise this purchase option on 85% of the capital stock of TUPR. The option cannot be exercised until the mandatory procedural formalities with the FCC (U.S. Federal Communications Commission) have been carried out. The deadline for exercising the option is December 22, 2002.
- 2) On February 4, 2000, Telefónica Larga Distancia de Puerto Rico (TLD) and ClearCom, L.P. entered into a joint venture agreement to carry on the cellular telephone business in Puerto Rico through a new company (Newcomm). Under the agreement, TLD was given an option to acquire a 50.1% holding in Newcomm. TLD has expressed its

intention to exercise this option, which it will do by entering into a share purchase agreement for shares representing 0.2% of Newcomm's capital stock and the conversion of a promissory note representing the remaining 49.9%.

- 3) On October 12, 2001, Telefónica CTC Chile, S.A. granted to two other stockholders of Sonda S.A. a purchase option, exercisable at any time prior to June 30, 2005, on 60% of that company's capital stock currently owned by CTC. The price will be set in accordance with the process provided for in the related agreement and will be paid in cash.
- 4) Telefónica Argentina, S.A. and Alto Palermo, S.A. each have 50% ownership interests in E-Commerce Latina, S.A. The two stockholders have undertaken to make an irrevocable capital contribution of US\$ 12 million, of which Telefónica Argentina, S.A. must pay 75%.

Emergia

Pursuant to an agreement dated September 29, 2000, between Telefónica, S.A. and the Tyco Group, if as of December 31, 2002, Emergia Holding, N.V. has not initiated the proceedings required to launch a public offering of shares on the New York Stock Exchange, Tyco will be entitled to sell to Telefónica, or to a Telefónica subsidiary, the full amount of its holding in Emergia Holding, N.V. The price payable by the buyer will be the amount of the disbursements made by Tyco to acquire its holding in Emergia Holding, N.V.

Atento

Within the framework of the strategic agreement entered into on February 11, 2000, by BBVA and Telefónica, on December 4, 2001, the two entities signed an agreement establishing the procedure and conditions for the integration in Atento, a Telefónica Group subsidiary, of the BBVA Group's Spanish and international call center business.

The transaction agreed on consists of: (i) the initial contribution by Telefónica S.A. of all its call center business (now carried on by Atento Holding Inc.) to a newly-formed subsidiary (Atento N.V.); and (ii) the subsequent inclusion of the BBVA Group in the stockholder structure of Atento N.V. through various monetary and nonmonetary contributions of all the shares of the Spanish companies Procesos Operativos, S.A. and Leader Liner, S.A. These contributions will entail the transfer to Atento of all the BBVA Group's Spanish and international call center business and the subscription by BBVA of up to 9% of the capital stock of Atento N.V.

The transaction also envisages the signing of various specific agreements for the provision to the BBVA Group by Atento of call center services in Spain and Portugal and in ten Latin American countries. BBVA's ownership interest in Atento N.V. may be adjusted on the basis of whether these agreements are actually entered into and the volume of business actually contributed by the BBVA Group to Atento in 2002.

The agreement referred to in this section is expected to be executed in the first half of 2002.

Antena 3 de Televisión, S.A.

In 1997 and 2000 Telefónica provided guarantees to the entity that is now Banco Santander Central Hispano, S.A. to ensure the liquidity and value of the investments made by it in

Antena 3 de Televisión, S.A. To execute these agreements, in 1999 Telefónica Media (now Grupo Admira Media) acquired 6,478 shares of Antena 3 de Televisión, S.A. Additional acquisitions have yet to be formalized and the guarantee on certain of the shares has yet to be executed. There are different options with respect to the execution of the guarantees so that statutory requirements such as limitation of percentage of ownership can be met.

Vía Digital

The commitments in connection with this investment are as follows:

- 1) Certain of the commitments acquired with regard to the acquisition of audiovisual rights by the investee DTS Distribuidora de Televisión Digital, S.A. (Vía Digital) are guaranteed by Grupo Admira Media, S.A., through the provision of a guarantee of €0.02 million plus the related variable consideration.
- 2) As a result of the loan granted by a syndicate of banks to DTS Distribuidora de Televisión Digital, S.A. (Vía Digital), Grupo Admira Media, S.A. has undertaken to contribute or guarantee the contribution of funds to Vía Digital for a maximum amount of €500 million as a participating loan or capital increase if: i) Vía Digital could not draw down any amount against the loan as a result of noncompliance with the terms of the loan agreement; ii) Vía Digital could not settle the loan repayments or the related interest; or iii) the borrower entered into any of the situations whereby the loan became repayable early.

Through December 31, 2001, Grupo Admira Media, S.A. had paid €71.4 million in this connection.

- 3) Telefónica has provided to third parties, including other stockholders of DTS Distribuidora de Televisión Digital, S.A. (Vía Digital), guarantees of the liquidity of the investments made which grant the beneficiaries a sale option and Telefónica a purchase option, which can be exercised if certain conditions are met, including that relating to the statutory limitations of percentage of ownership of the capital stock.
- 4) As a result of the agreement for the acquisition of the audiovisual rights relating to the Soccer World Cup in Japan and Korea in 2002, Grupo Admira Media, S.A. has assumed commitments totaling 248,246,800 Swiss francs.

Euroleague Basketball, S.L.

Under a framework contract dated August 24, 2000 (amended on November 14, 2001), regulating the exploitation of audiovisual rights on the European basketball competition, the "Euroleague", Grupo Admira Media, S.A. has provided a guarantee to Euroleague Basketball, S.L., the company assigning the rights, for up to US\$ 27.4 million for the 2001/2002 season, US\$ 25 million for the 2002/2003 season and US\$ 20 million for the remainder, if Euroleague Marketing, S.L., a 70%-owned investee of Grupo Admira Media, S.A., does not obtain the minimum level of revenues required to meet the related payment obligations.

If Euroleague Marketing, S.L. can make the payments relating to the first season, Grupo Admira Media, S.A. will recover the amounts paid in this connection.

Audiovisual Sport

Grupo Admira Media, S.A. has provided a bank guarantee to secure payment of 40% of the syndicated loan of €300.51 million granted by several finance entities to Audiovisual Sport, S.L., a 40%-owned investee of Gestora de Medios Audiovisuales Fútbol, S.L., a Grupo Admira Media subsidiary.

Hispasat

Grupo Admira Media, S.A. has undertaken to sell 7,796 shares of Hispasat, S.A. to Eutelsat and EADS Casa for approximately €2.75 million.

Financial guarantees

Telefónica, S.A. has provided to Ipse 2000, which holds the Italian UMTS license, guarantees securing financial transactions totaling €12.87 million, mainly to secure its financing commitments relating to the accounts payable due to the acquisition of the license.

It is not necessary to record any contingent liability in the accompanying consolidated financial statements in connection with the aforementioned commitments.

(23) SUBSEQUENT EVENTS

Capital increase in progress with a charge to reserves

February 2002 saw the first of the Company's two capital increases with a charge to unrestricted reserves, approved by the Stockholders' Meeting on June 15, 2001, and which the Board of Directors resolved to carry out at its Meeting on December 19, 2001.

The capital increase was carried out through the issuance of 93,438,317 new common shares of the Company of €1 par value each, thereby increasing the capital stock by €3,438,317 to €4,765,354.202. These new shares were assigned free of charge to the stockholders in the proportion of one new share for every 50 shares already owned.

The deed of capital increase was executed on February 13, 2002, and registered in the Mercantile Register on February 19, 2002.

Also, on February 13, 2002, the Standing Committee of the Board of Directors of Telefónica, S.A., making use of the powers granted to it by the Board of Directors on January 30, 2002, resolved to carry out the second capital increase with a charge to unrestricted reserves approved by the Stockholders' Meeting on June 15, 2001, through the issuance of 95,307,084 new common shares of the Company, of the same series and carrying the same rights as the outstanding shares, of €1 par value each, which will be assigned free of charge to the stockholders in the proportion of one new share for every 50 shares already owned.

The period for the assignment free of charge of the shares relating to the second capital increase is scheduled to commence in the second half of March 2002, and the new shares will foreseeably be admitted to official listing in mid-April 2002.

Acquisition of HighwayOne Germany

In early February 2002 Telefónica DataCorp acquired the German company HighwayOne Germany, one of the leading ADSL broadband service providers for corporate customers in Germany, whose current range of services includes broadband Internet access, traditional voice services and value-added services, such as virtual private networks, firewall solutions, web-hosting and e-mail management services.

The acquisition of HighwayOne Germany complements the acquisition of Mediaways in 2001, making it possible for the latter to become the most attractive broadband alternative to Deutsche Telecom in the German market.

Modification of Telefónica's holding in CANTV

On February 1, 2002, the Stockholders' Meeting of Venworld Telecom C.A. resolved to dissolve and liquidate this company. When the liquidation process has been completed, Telefónica Internacional, S.A., through Telefónica Venezuela Holding B.V., will own approximately 7% of the shares of Compañía Anónima Nacional de Teléfonos de Venezuela (CANTV).

Acquisition of the directories business in Perú

In February 2002, the Group company Telefónica Publicidad e Información, S.A. (TPI-Páginas Amarillas) acquired in full for US\$ 31.2 million the directories business owned by Telefónica del Perú, which is the leading publisher of directories in Peru with a market share of 80% in 2001.

As part of this transaction, TPI and Telefónica del Perú established a contractual framework for the publishing and marketing of "White Pages" telephone directories, in similar terms to those established in the past by TPI and Telefónica de España.

Ipse 2000, S.p.A.

The stockholders of Ipse 2000, S.p.A., through the signing of agreements, decided to apply a business model based on the preparation of a marketing campaign to coincide with the commercial availability of UMTS technologies and services in Italy. The Company's activities will make it possible to study new strategies and the exploitation of commercial developments in the Italian market. Based on the aforementioned agreements, Ipse 2000, S.p.A. revised its budget for 2002 and, its business plan. The company will be financed with loans from stockholders, which is why the grant of a loan by the Telefónica Móviles Group for a maximum amount of €250 million was approved.

Devaluation of the Argentine peso

As indicated in Note 2-d, the Telefónica Group, acting on the ICAC recommendation to apply a reference exchange rate of US\$ 1/1.7 pesos, included in these consolidated financial statements the effect of the devaluation of the Argentine peso. The effect of using more recent exchange rates (those prevailing as of February 20, 2002, were €1/1.8477 pesos and US\$ 1 /2.0735 pesos) on the consolidated statement of income and "Translation Differences in Consolidation" amounts to €103.86 and €363.15 million, respectively.

This additional effect and any that might arise in the future will have an effect on the consolidated financial statements for 2002.

(24) CONSOLIDATED STATEMENTS OF CHANGES
IN FINANCIAL POSITION

| APPLICATION OF FUNDS | 12/31/01 | 12/31/00 | SOURCE OF FUNDS | 12/31/01 | 12/31/00 |
|---|------------------|------------------|---|------------------|------------------|
| - Funds applied in operations | - | - | - Funds obtained from operations | 11,615.74 | 9,233.32 |
| - Start-up and debt arrangement expenses | 783.10 | 717.46 | - Stockholder contributions | | |
| - Fixed asset additions | | | a) Capital increase | 32.64 | - |
| a) Intangible assets | 1,650.09 | 13,111.99 | b) Additional paid-in capital | 130.51 | - |
| b) Property and equipment | 6,770.80 | 8,016.64 | c) Minority interests | 158.18 | 4,862.91 |
| c) Long-term financial investments | 2,923.82 | 3,698.79 | - Deferred revenues | - | 139.37 |
| - Deferred tax assets | 1,582.81 | 7.90 | - Long-term deferred tax liabilities | - | 1.89 |
| - Deferred tax liabilities | 655.03 | - | - Long-term debt | 8,781.66 | 8,124.17 |
| - Dividends | 121.87 | 550.58 | | | |
| - Deferred revenues | 21.73 | | | | |
| Repayment or transfer of long-term debt | 6,153.88 | 1,771.15 | - Fixed asset disposals | | |
| | | | a) Intangible assets | 90.13 | 52.40 |
| | | | b) Property and equipment | 401.17 | 390.40 |
| | | | c) Long-term financial investments | 1,080.11 | 3,250.02 |
| - Provisions | 888.73 | 1,637.64 | - Increase in working capital due to disposal of holdings | 158.90 | 36.14 |
| - Decrease in working capital due to acquisition of holdings | 216.21 | - | - Increase in working capital due to inclusion of subsidiaries | - | 894.38 |
| - Variation in working capital due to translation differences | - | 1,053.12 | - Variation in working capital due to translation differences | 493.70 | - |
| TOTAL FUNDS APPLIED | 21,768.07 | 30,565.27 | TOTAL FUNDS OBTAINED | 22,942.74 | 26,985.00 |
| FUNDS OBTAINED IN EXCESS OF FUNDS APPLIED (INCREASE IN WORKING CAPITAL) | 1,174.67 | - | FUNDS APPLIED IN EXCESS OF FUNDS OBTAINED (DECREASE IN WORKING CAPITAL) | - | 3,580.27 |
| | 22,942.74 | 30,565.27 | | 22,942.74 | 30,565.27 |

VARIATIONS IN WORKING CAPITAL

| INCREASE IN WORKING CAPITAL | 12/31/01 | 12/31/00 | DECREASE IN WORKING CAPITAL | 12/31/01 | 12/31/00 |
|---|-----------------|------------------|---|-----------------|------------------|
| - Due from stockholders for capital calls | 2.25 | - | - Due from stockholders for capital calls | - | - |
| - Inventories | - | 315.44 | - Inventories | 37.41 | - |
| - Accounts receivable | - | 1,465.08 | - Accounts receivable | 934.35 | - |
| - Accounts payable | 5,576.42 | - | - Accounts payable | - | 10,473.34 |
| - Short-term financial investments | - | 4,699.64 | - Short-term financial investments | 3,311.28 | - |
| - Cash | - | 579.54 | - Cash | 143.74 | - |
| - Accrual accounts | 22.78 | - | - Accrual accounts | - | 166.63 |
| TOTAL | 5,601.45 | 7,059.70 | TOTAL | 4,426.78 | 10,639.97 |
| VARIATION IN WORKING CAPITAL | - | 3,580.27 | VARIATION IN WORKING CAPITAL | 1,174.67 | - |
| | 5,601.45 | 10,639.97 | | 5,601.45 | 10,639.97 |

The reconciliation of the balances in the consolidated statements of income to the funds obtained from operations is as follows:

| | Millions of Euros | |
|---|-------------------|-----------------|
| | 12/31/01 | 12/31/00 |
| Income | 2,106.81 | 2,504.81 |
| Income (Loss) attributable to minority interests | (271.01) | 120.64 |
| Income of associated companies | 376.49 | 161.35 |
| | 2,212.29 | 2,786.80 |
| Add: | | |
| Dividends of companies carried by the equity method | 8.52 | 25.15 |
| Period depreciation and amortization | 7,373.98 | 6,960.78 |
| Provision for property and equipment | 24.95 | - |
| Amortization of debt arrangement expenses | 55.42 | 75.21 |
| Amortization of goodwill and reversal of negative goodwill | 841.62 | 500.58 |
| Amortization of other deferred charges | 55.41 | 291.16 |
| Write-off of goodwill | 249.00 | 804.05 |
| Provision for diminution in value of financial investments | 68.85 | 87.27 |
| Exchange differences | 313.60 | 1.80 |
| Undepreciated plant dismantled | 62.24 | 117.94 |
| Provision for inventory adjustment | 9.24 | 11.33 |
| Period provisions | 428.36 | 2,224.29 |
| Provisions to technical reserves of insurance companies | 61.56 | 42.98 |
| Deferred interest | 291.77 | 113.60 |
| Deferred tax liabilities and other | 1,479.55 | - |
| Property and equipment and intangible assets | 164.91 | 140.81 |
| Financial provision and supplementary pension payments to retired employees | 61.59 | 89.94 |
| Loss on disposal of consolidated companies | - | 19.07 |
| Less: | | |
| Gain on disposal of property and equipment and intangible assets | 29.29 | 53.58 |
| Capital subsidies | 80.03 | 77.16 |
| Nonrefundable third-party contributions | 53.15 | 84.45 |
| Long-term deferred tax assets and liabilities | - | 225.20 |
| Gain on disposal of consolidated companies | 302.69 | 3,926.27 |
| Fixed asset provisions used | 668.41 | 613.89 |
| Other provisions used | 1,026.91 | 81.88 |
| Other | (12.75) | (2.99) |
| Funds obtained from operations | 11,615.74 | 9,233.32 |

(25) DIFFERENCES BETWEEN SPANISH AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND OTHER REQUIRED DISCLOSURES

The consolidated financial statements of Telefónica, S.A. were prepared in accordance with generally accepted accounting principles in Spain ("Spanish GAAP"), which differ in some respects from generally accepted accounting principles in the United States ("U.S. GAAP"). A reconciliation of net income and shareholders' equity from Spanish GAAP to U.S. GAAP is provided below.

Reconciliation of Net Income and Shareholders' Equity to Generally Accepted Accounting Principles in the United States

The following table ("Reconciliation Table") sets forth the most significant adjustments to consolidated net income and shareholders' equity that would have been required had U.S. GAAP been applied instead of Spanish GAAP:

| | Millions of Euros | | In Millions of U.S. Dollars (Note 2.e.) 2001 |
|--|-------------------|------------------|--|
| | 2000 | 2001 | |
| Shareholders' equity under Spanish GAAP | 25,930.54 | 25,861.62 | 23,019.43 |
| Additions (deductions) for U.S. GAAP purposes: | | | |
| Reversal of net effect of revaluation of fixed assets and related accumulated depreciation (Note 25.1) | (821.58) | (768.86) | (684.36) |
| Research and development expenses (Note 25.2) | (390.45) | (186.87) | (166.33) |
| Foreign currency exchange gains (Note 25.3.e) | 4.23 | 1.55 | 1.38 |
| Capital increase expenses (Note 25.3.a) | (227.81) | (325.59) | (289.81) |
| Start-up costs (Note 25.3.b) | (267.67) | (348.76) | (310.43) |
| Income recognized from PRIDES (Note 25.3.d) | (17.75) | (11.05) | (9.84) |
| Reflagging expenses (Note 25.3.f) | (24.07) | (15.05) | (13.40) |
| Goodwill, amortization, and impairments (Note 25.9) | 18,614.92 | 6,785.86 | 6,040.09 |
| Capitalized interest (Note 25.3.c) | 500.59 | 522.55 | 465.12 |
| Pension Plan of the Brazilian investees (Note 25.11) | 454.93 | 276.11 | 245.77 |
| Unrealized gains on marketable securities – SFAS No. 115 (Note 25.10) | 761.89 | 6.54 | 5.82 |
| Consolidation method and others (Note 25.7) | (86.67) | (68.42) | (60.90) |
| Adjustment of valuation account under SFAS No. 109 due to current period events (Note 25.6) | 580.99 | 617.24 | 549.41 |
| Revenue recognition (SAB 101) – (Note 25.4) | (260.02) | (1,253.35) | (1,115.61) |
| Treasury stock (Note 25.12) | (65.04) | (260.70) | (232.05) |
| Derivatives and hedging activities (SFAS No. 133) – effect in period (Note 25.13) | - | (100.00) | (89.01) |
| Stock options plans (Note 25.14) | - | (157.52) | (140.21) |
| Other U.S. GAAP adjustments (Note 25.15) | 10.51 | (20.45) | (18.19) |
| Deferred taxes related to U.S. GAAP adjustments (Note 25.6) | 652.79 | 1,174.48 | 1,045.40 |
| Total additions (deductions), before cumulative effect of a change in accounting principle | 19,419.79 | 5,867.71 | 5,222.85 |
| Cumulative effect of a change in accounting principle: | | | |
| Revenue recognition (SAP 101), as of January 1, 2000 (Note 25.4) | (992.58) | - | - |
| Derivatives and hedging activities (SFAS No. 133), as of January 1, 2001 (Note 25.13) | - | 40.50 | 36.05 |
| Shareholders' equity under U.S. GAAP | 44,357.75 | 31,769.83 | 28,278.33 |

| | Millions of Euros | | | In Millions Of U.S. Dollars (Note 2.e.) |
|---|-------------------|-----------------|-------------------|--|
| | 1999 | 2000 | 2001 | 2001 |
| Net income under Spanish GAAP | 69.60 | 2,504.81 | 2,106.81 | 1,875.27 |
| Additions (deductions) for U.S. GAAP purposes: | | | | |
| Reversal of depreciation on revalued portion of fixed assets (Note 25.1) | 170.19 | 124.87 | 52.71 | 46.92 |
| Research and development expenses (Note 25.2) | 80.41 | 16.08 | 205.82 | 183.20 |
| Foreign currency exchange gains (Note 25.3.e) | (19.34) | (0.01) | (2.68) | (2.39) |
| Reversal of amortization of capital expenses (Note 25.3.a.) | 19.27 | 15.27 | 84.78 | 75.46 |
| Start-up costs (Note 25.3.b) | (98.74) | (162.52) | (263.45) | (234.50) |
| Reflagging expenses (Note 25.3.f) | (2.25) | (6.18) | 7.26 | 6.46 |
| Capitalized interest, net of amortization (Note 25.3.c) | (82.07) | (77.79) | (67.87) | (60.41) |
| Goodwill, amortization, and impairments (Note 25.9): | | | | |
| - Goodwill arising from acquisitions, net of amortization and translation adjustment | (4.98) | 187.98 | (1,128.43) | (1,004.42) |
| - Impairment of goodwill | - | - | (8,452.00) | (7,523.13) |
| Early retirement (Note 25.5) | 445.44 | (505.32) | - | - |
| Pension Plan of the Brazilian investees (Note 25.11) | | 454.93 | (129.21) | (115.01) |
| Unrealized gains (losses) on marketable securities – SFAS No. 115 (Note 25.10) | 82.38 | (88.55) | (0.41) | (0.36) |
| Consolidation method and others (Note 25.7) | (76.00) | (30.78) | 20.01 | 17.81 |
| Adjustment of valuation account under SFAS No. 109 due to current period events (Note 25.6) | 152.05 | 86.34 | 36.25 | 32.27 |
| Revenue recognition (SAB 101) – effect in period (Note 25.4) | - | (260.02) | 23.94 | 21.31 |
| Treasury stock (Note 25.12) | - | 133.15 | (127.17) | (113.19) |
| Reclassification of cumulative currency translation adjustment of disposed investees (Note 25.9) | - | (130.90) | 35.45 | 31.55 |
| Derivative instruments and hedging activities (SFAS No. 133) – effect in period (Note 25.13) | - | - | (261.70) | (232.94) |
| Change in subsidiaries' fiscal year end (Note 25.8) | - | - | (51.05) | (45.44) |
| Stock options plan (Note 25.14) | - | - | (14.89) | (13.25) |
| Other U.S. GAAP adjustments (Note 25.15) | - | 7.74 | (33.92) | (30.19) |
| Deferred taxes related to U.S. GAAP adjustments (Note 25.6) | (181.75) | 579.41 | 162.68 | 144.80 |
| Income, under U.S. GAAP, before cumulative effect of a change in accounting principle | 554.21 | 2,848.51 | (7,797.07) | (6,940.18) |
| Cumulative effect of a change in accounting principle: | | | | |
| Revenue recognition (SAB 101), as of January 1, 2000 (Note 25.4) | - | (992.58) | - | - |
| Derivatives and hedging activities (SFAS No. 133), as of January 1, 2001 (Note 25.13) | - | - | 614.80 | 547.23 |
| Net income under U.S. GAAP | 554.21 | 1,855.93 | (7,182.27) | (6,392.95) |

| | Euros per Share | | | U.S. Dollars per Share (Note 2.e.) |
|---|-----------------|--------|--------|--|
| | 1999 | 2000 | 2001 | 2001 |
| Income per share, under U.S. GAAP, before cumulative effect of changes in accounting principles (Euros/Dollars) | 0.16 | 0.72 | (1.67) | (1.49) |
| Cumulative effect of changes in accounting principles | - | (0.25) | 0.13 | 0.12 |
| Basic net income per share under U.S. GAAP (Euros/Dollars) | 0.16 | 0.47 | (1.54) | (1.37) |
| Income per share, under U.S. GAAP, before cumulative effect of changes in accounting principles assuming Dilution (Euros/Dollars) | 0.15 | 0.71 | (1.66) | (1.48) |
| Cumulative effect of changes in accounting principles | - | (0.25) | 0.13 | 0.12 |
| Diluted net income per share, under U.S. GAAP (Euros/Dollars) | 0.15 | 0.46 | (1.53) | (1.36) |
| Basic income per ADS (*), under U.S. GAAP, before cumulative effect of changes in accounting principles (Euros/Dollars) | 0.47 | 2.15 | (5.00) | (4.45) |
| Cumulative effect of changes in accounting principles | - | (0.75) | 0.39 | 0.35 |
| Basic net income per ADS (*), under U.S. GAAP (Euros/Dollars) | 0.47 | 1.40 | (4.61) | (4.10) |
| Diluted net income per ADS (*), under U.S. GAAP, before cumulative effect of changes in accounting principles (Euros/Dollars) | 0.46 | 2.13 | (4.97) | (4.43) |
| Cumulative effect of changes in accounting principles | - | (0.74) | 0.39 | 0.35 |
| Diluted net income per ADS (*), under U.S. GAAP (Euros/Dollars) | 0.46 | 1.39 | (4.58) | (4.08) |

(*) Each ADS represents three ordinary shares of Telefónica, S.A.

Basic net income per share was calculated based upon net income in each year divided by the weighted average number of shares for the relevant period.

Diluted net income per share was calculated based upon net income in each year divided by the weighted average number of shares for the relevant period considering the future or current events that may change the number of shares.

The per-share and per-ADS computations for all periods presented have been adjusted to reflect the stock dividend occurred after the close of the period but before issuance of the financial statements (see note 23).

The statement of changes in shareholders' equity under U.S. GAAP at December 31, 2001, 2000 and 1999, is as follows:

| | Millions of Euros | | | Millions of U.S. Dollars (Note 2.e.) |
|--|-------------------|------------------|------------------|--------------------------------------|
| | 1999 | 2000 | 2001 | 2001 |
| Shareholders' equity under U.S.GAAP at January 1 | 14,937.32 | 16,926.48 | 44,357.75 | 39,482.83 |
| Variations: | | | | |
| Net income, under U.S. GAAP, for the year | 554.21 | 1,855.93 | (7,182.27) | (6,392.95) |
| Capital Increase | 0.01 | 9,497.14 | 837.22 | 745.21 |
| Goodwill arising from acquisitions and change in parent interest, net of taxes (Note 25.9) | 33.22 | 18,398.71 | (2,578.06) | (2,294.73) |
| Stock options plan | - | - | (142.63) | (126.95) |
| Redemption of capital stock | (16.94) | - | - | - |
| Consolidation method and others | 0.20 | 23.99 | (2.21) | (1.97) |
| Interest capitalized during construction | (0.34) | 0.34 | - | - |
| Capital increase expenses | (0.44) | (178.11) | (0.19) | (0.17) |
| Treasury stock | - | (198.19) | (456.23) | (406.09) |
| Change in subsidiaries' fiscal year end | - | - | 51.05 | 45.44 |
| Accumulated other comprehensive income (loss): | | | | |
| Currency translation adjustments | | | | |
| Under Spanish GAAP | (803.10) | (556.20) | (2,295.78) | (2,043.47) |
| Additional under U.S. GAAP, net of tax | (7.19) | (31.72) | (24.46) | (21.77) |
| Reclassification of cumulative currency translation adjustment of disposed investees (Note 25.9) | - | 130.90 | (35.45) | (31.55) |
| Derivatives and hedging activities, net of tax (SFAS No. 133), (Note 25.13) | - | - | (268.2) | (238.72) |
| Unrealized gains (losses) on marketable securities, net of tax (SFAS 115), (Note 25.10) | 2,229.53 | (1,511.52) | (490.71) | (436.78) |
| Shareholders' equity under U.S.GAAP at December 31 | 16,926.48 | 44,357.75 | 31,769.83 | 28,278.33 |

Shareholders' rights and all dividend distributions are based on the financial statements as reported for local Spanish statutory purposes by Telefónica S.A.

The differences included in the Reconciliation Tables above are explained in the following paragraphs:

1. Restatement of tangible assets.

As described in Note 7, some assets related to property, plant and equipment have been restated. Such restatements are not permitted under U.S. GAAP. The adjustments shown in

the reconciliation tables above include a reduction in shareholders' equity to eliminate these restatements and an increase in income for the year resulting from the recalculation of the period depreciation on a historical cost basis.

2. Research and development expenses.

In accordance with Spanish GAAP, research and development expenses are capitalized and amortized over a period not exceeding five years. Under U.S. GAAP, research and development expenses are expensed as incurred.

3. Accruals and deferrals.

Different criteria are applied under Spanish GAAP and U.S. GAAP to accrue certain items and, accordingly, the related adjustments have to be made in the reconciliations of shareholders' equity and net income:

a. Capital increase expenses

In accordance with Spanish GAAP, expenses associated with the issuance of equity securities are capitalized and amortized over five years. Under U.S. GAAP, capital increase expenses must be deducted from the proceeds of the new capital.

b. Start-Up costs

In accordance with Spanish GAAP, period costs incurred during the start-up of a business that will contribute to the obtainment of future revenues may be capitalized and are amortized over five years.

Under U.S. GAAP, all costs incurred during the start-up period should be expensed in accordance with SOP 98-5, *Reporting on the Costs of Start-Up Activities*, except for those costs that are directly related to and specifically identifiable with the system construction or those that are clearly related to asset acquisitions. Start-up costs expensed include pre-operating costs such as organizational costs, advertising and promotion, market research and administrative costs.

c. Capitalized interest

In accordance with Spanish GAAP, interest incurred during periods exceeding 12 months in which assets were under construction may be capitalized.

Under U.S. GAAP, interest incurred during periods in which qualifying assets, as defined by SFAS No. 34, *Capitalization of Interest Costs*, are under construction, are capitalized and amortized over the expected life of the assets.

d. Under Spanish GAAP the Company recognized in 1994 the profit from the PRIDES (Provisionally Redeemable Income Debt Exchangeable for Stock) issue carried out by Cointel. That profit represents the difference between the cash received from the debt holders and the carrying amount of the Class B shares of Telefónica de Argentina S.A. (TASA), which is the consideration to pay at the maturity of the PRIDES.

That profit would be recognized, under U.S. GAAP, only at the maturity of the PRIDES.

e. Foreign currency exchange gains

Spanish GAAP requires unrealized foreign currency exchange gains in excess of recorded foreign currency exchange loss to be deferred. Under U.S. GAAP, foreign currency exchange gains are included in income, in accordance with SFAS No. 52, *Foreign Currency Translation*.

f. Reflagging expenses

As a result of increasing competition in wireless communications, Telefónica has invested certain amounts in reflagging and remodeling the stores in its distributor network, in order to increase distributor loyalty and to assure that they continue to sell Telefónica's wireless products exclusively.

Under Spanish GAAP, such expenses have been deferred for a period of three years, which is the term of the exclusive distribution agreement for Telefónica products entered into with these distributors. Under U.S. GAAP, reflagging expenses are recognized as incurred.

4. Revenue recognition – SAB 101

Under Spanish GAAP, revenues and expenses are recognized on an accrual basis, i.e., when the goods and services are actually provided, regardless of when the resulting monetary or financial flow occurs. Connection fees and monthly fees are recorded up-front since they are nonrefundable.

Under U.S. GAAP, and before the Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements* (SAB 101), there was no difference between Spanish GAAP and U.S. GAAP.

After this accounting bulletin became effective (2000), the Company has changed its accounting principles under U.S. GAAP in order to comply with this new rule. The effects of this change in accounting principle on earnings per share are presented in the EPS table presented earlier in this Note. The principal differences in Spanish GAAP and U.S. GAAP, after this change in accounting principle, are set forth below:

Wireless

Under Spanish GAAP, the Group recognizes initial connection fees, revenues and related costs from sales of handsets and commissions paid to agents related to new subscription upon signing of the contract with customers.

Under U.S. GAAP, if costs, such as commissions payable to agents for obtaining wireless customers on behalf of the Group, are greater than revenues, such as initial

connection fees and net revenues from sales of handsets as part of contracts, then those costs can be deferred up to the total amount of revenues in the average length of the subscription. The excess over the revenues is deferred up to the minimum contract life. Otherwise, if revenues are greater than costs, costs will be deferred up to the revenues in the average length of a subscription.

Wireline

Under Spanish GAAP, the Group recognizes initial connection fees upon signing of the contract with customers and defers costs related to activation for 5 years.

Under U.S. GAAP, the initial connection fees are deferred in the average length of the subscription. Costs related to activation are deferred up to the connection fees revenues over the same time, and any excess over the revenues are directly expensed.

5. Early retirement and voluntary severance.

The Company registered accruals for early retirements and voluntary severance in 2000 and 1999 in accordance with Spanish GAAP, which followed a prudence methodology, by which the Company recorded this accrual whenever there is a formal decision for the early retirement plan by the Board of Directors. U.S. GAAP requires formal agreements with the employees involved prior to expensing such amounts. Therefore, part of the provision recorded under Spanish GAAP for 1999 was considered excessive during that period and was reversed under U.S. GAAP. For the period ended December 31, 2000, those agreements had being formally produced and therefore, a provision was accounted for under U.S. GAAP. At December 31, 2001 and 2000, the amounts recorded as accruals for early retirements and voluntary severance are in compliance with both Spanish GAAP and U.S. GAAP requirements.

6. Corporate income tax.

Under Spanish GAAP, deferred income taxes are recorded for timing differences between book and taxable income.

For U.S. GAAP purposes, the Company utilizes the liability method as set forth in SFAS No. 109, *Accounting for Income Taxes*. Under the liability method, deferred taxes are determined based on differences between financial statement and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. Valuation allowances are provided for deferred tax assets when it is determined that it is more likely than not that such assets are not expected to be realized.

The Spanish accounting principles for recording income taxes differ from those applicable under U.S. GAAP as regards to the period in which certain deferred taxes assets and liabilities must be recorded and with respect to the required disclosures. In this connection, the differences affecting the Telefónica Group are as follows:

- a. Under Spanish GAAP, deferred tax assets arising from tax loss carryforwards are recognized only when their future realization is assured "beyond any reasonable

doubt”, as opposed to the criteria of “more likely than not” under U.S. GAAP. However, at December 31, 2001 and 2000 Telefónica did not have tax loss carryforwards that were not recognized under Spanish GAAP.

- b. Under Spanish GAAP, deductible temporary differences that are expected to reverse in more than ten years from the balance sheet date are not recorded as deferred tax assets. U.S. GAAP requires deferred taxes to be provided for all temporary differences between financial reporting and tax bases of assets and liabilities.
- c. Under Spanish GAAP, until December 31, 2000, tax credits were not recognized until they were utilized, as opposed to U.S. GAAP, where they are recorded when generated and provisioned, if not expected to be recovered, through a valuation allowance. During 2001, effective as of January 1, 2002, this accounting principle in Spain has changed, recording those deductible temporary differences are recorded when their future realization is assured.
- d. Under Spanish GAAP, for certain investment tax credits generated subsequent to January 1, 1996, the reduction in income tax payments for financial reporting purposes is reflected over the life of the related fixed asset. The amortization begins in the year the investment tax credit is used. Under U.S. GAAP, to the extent such credits are non-refundable, the Company records investment tax credits in the year generated.
- e. Tax effects are computed on the differences arising from taxable adjustments to U.S. GAAP, since they are considered to be temporary differences to be accounted for under SFAS No. 109.

In 1997, as a consequence of the liquidation of Institución Telefónica de Previsión (ITP), the Company was able to deduct a loss provided for in previous years in the amount of € 335.74 million, and such loss was considered a permanent difference in the year in which the provision was made. For Spanish GAAP purposes, the respective tax benefit has been recognized by an accrual method between 1997 and 2001 (only € 32.26 million were considered as a tax benefit in 1997). Under U.S. GAAP, it was considered that the tax benefit should be recognized in full in 1997. As the entire tax benefit was recognized in 1997 under U.S. GAAP, but deferred under Spanish GAAP, the benefit recognized in 1999 under Spanish GAAP has been reversed under U.S. GAAP.

The amount of income taxes, under Spanish GAAP, of the Telefónica Group is the following:

| | Millions of Euros | | |
|-------------------------|-------------------|---------------|---------------|
| | 1999 | 2000 | 2001 |
| Domestic Income Tax | (1,005.90) | (192.16) | (816.32) |
| Foreign Income Tax | 247.94 | 434.38 | 1,014.40 |
| Total Income Tax | (757.96) | 242.22 | 198.08 |

The provision for income tax under Spanish GAAP consists of the following:

| | Millions of Euros | | |
|---------------------------|-------------------|-----------------|-----------------|
| | 1999 | 2000 | 2001 |
| Current Provision | 772.43 | 1,000.27 | 939.31 |
| Domestic | 24.53 | 163.20 | 113.97 |
| Foreign | 747.90 | 837.07 | 825.34 |
| Deferred Provision | (1,530.39) | (758.05) | (741.23) |
| Domestic | (1,030.44) | (355.37) | (930.29) |
| Foreign | (499.95) | (402.68) | 189.06 |
| Total Provision | (757.96) | 242.22 | 198.08 |

A reconciliation setting forth the difference between the effective income tax rate of the Telefónica Group and the Spanish domestic statutory income tax rate under Spanish GAAP is as follows:

| | Millions of Euros | | |
|---------------------------|-------------------|---------------|---------------|
| | 1999 | 2000 | 2001 |
| Tax as enacted rate (35%) | (11.43) | 1,003.68 | 711.86 |
| Permanent differences | (131.36) | (756.16) | (203.07) |
| Tax credits | (1,267.79) | (441.47) | (998.45) |
| Foreign additional taxes | 652.62 | 436.17 | 687.74 |
| Total Income Tax | (757.96) | 242.22 | 198.08 |

An analysis of the investment tax credits generated and the amounts recognized in income in 2001 and 2000 under U.S. GAAP are presented below:

| | Millions of Euros | | | |
|---|--|---|---|--------------------------------|
| | Tax Asset Increase (Decrease) (note c) | Valuation Allowance (Increase) Decrease | Deferred Tax (Increase) Decrease (note d) | Net Income (Increase) Decrease |
| Balance at January 1, 2000 | 358.08 | (81.57) | 218.14 | (152.05) |
| Adjustment to beginning balance due to additional credits | (41.98) | - | - | 41.98 |
| Credits arising in 2000 | 185.64 | - | - | (185.64) |
| Credits taken in 2000 | - | - | 1.30 | (1.30) |
| Credit taken from previous years | - | - | (47.26) | 47.26 |
| Difference of accounting and tax value of assets | (8.02) | 8.02 | - | - |
| Release of provisions due to dissolution of ITP | - | - | (11.36) | 11.36 |
| Balance at December 31, 2000 | 493.72 | (73.55) | 160.82 | (86.34) |
| Adjustment to beginning balance due to additional credits | (28.04) | - | - | 28.04 |
| Credits arising in 2001 | 401.99 | - | - | (401.99) |
| Credits taken in 2001 | (278.80) | - | 4.72 | 274.08 |
| Credit taken from previous years | - | - | (51.35) | 51.35 |
| Release of provisions due to dissolution of ITP | - | - | (12.27) | 12.27 |
| Other | (13.36) | 13.36 | - | - |
| Balance at December 31, 2001 | 575.51 | (60.19) | 101.92 | (36.25) |

Deferred tax assets and liabilities as required under SFAS No. 109 include the following (in millions of Euros):

| | Tax Credits |
|---|--------------------|
| Tax Credits for investment in new fixed assets | 164.77 |
| Export activities deduction | 251.28 |
| Deductions for the reinvestment of operating assets | 151.90 |
| Prior year losses | 7.56 |
| Total | 575.51 |

| | Valuation Allowance |
|--|----------------------------|
| Tax Credits for investment in new fixed assets | 52.63 |
| Prior year losses | 7.56 |
| Total | 60.19 |

| | Deferred Liabilities |
|---|-----------------------------|
| Tax Credits for investment in new fixed assets taken and not recorded as income | 79.80 |
| Difference of accounting and tax value of assets | 22.12 |
| Total | 101.92 |

7. Consolidation method.

Under Spanish GAAP, companies in which significant influence is maintained over the management are carried by the equity method and investments in companies in which the Company owns less than 50% but has the majority of the common voting stock or are controlled by the Company must be consolidated.

Under Spanish GAAP, a holder of at least 20% or 3%, for listed investments, presumes significant influence. In general, under U.S. GAAP, only companies in which a holding of between 20% and 50% is owned are carried by the equity method, unless there is evidence that significant influence is exercised over their management. Investee companies in which a participation above 50% and control rights exist are consolidated.

Following Spanish GAAP, Portugal Telecom, Pearson Plc., Infonet Services Corporation, Inc. and Amper, S.A. were accounted for under the equity method because they are listed companies and Telefónica owns 4.69%, 4.87%, 14.30% and 6.10%, respectively, of their capital stock. However, since there is no additional evidence of significant influence over these investee companies' management, these investments were accounted for as available for sale equity securities at their market value, if available, under U.S. GAAP.

The Company has consolidated under Spanish GAAP certain companies of which it owns less than 50% of the common voting stock, which, in accordance with U.S. GAAP, should be carried by the equity method. The following summarizes the effect under U.S. GAAP for consolidation purposes:

- Telefónica de Argentina S.A. and COINTEL S.A., for the period ended December 31, 1999 and until mid 2000, have been consolidated under Spanish GAAP. For U.S. GAAP purposes these investments were accounted by the equity method for such periods. The difference in this accounting procedure did not have an impact on shareholders' equity or net income for such periods, however, the balance sheet and cash flow captions for the year ended December 31, 1999 and the results of operations for the periods ended December 31, 1999 and 2000 would have been different in Spanish GAAP and U.S. GAAP. The tables below set forth these effects.
- During 2000, the Orla and IPSE 2000 consortiums have been consolidated under Spanish GAAP because the subsidiary Telefónica Móviles, S.A. has access to a greater than 50% of voting interest in these consortiums. However, under U.S. GAAP, the Group was not able to consolidate these consortiums in 2000, since the minority interest holders had significant participating rights in the operating decisions of these companies, including, for example, approval of any managing directors nominated by Telefónica Móviles, S.A., and the financial budget. Moreover, most actions of the consortiums required a 75% vote of the Advisory Board, of which Telefónica Móviles, S.A. had the ability to appoint only two of four directors, in the case of 3G, and only six of ten directors in the case of IPSE 2000.

Since October 1, 2001, the investment in IPSE 2000, S.p.A. has also been carried by the equity method under Spanish GAAP, because since that date certain difficulties have been disclosed which, in practice, have substantially affected management of Ipse 2000, S.p.A. by the Telefónica Móviles Group. Therefore, the difference in consolidation between Spanish and U.S. GAAP related to this affiliate is reflected only through September 30, 2001.

On November 8, 2001 Telefónica Móviles, S.A. signed a new Shareholder's agreement with Sonera where most actions of Group 3G consortium can be adopted by simple majority, except for certain transactions which are considered to be protective rights (capital reductions, distribution of earnings or the Company's clearance sale). As a result of this new agreement, Group 3G has, starting on November 8, 2001, been consolidated under U.S. GAAP. Therefore, the difference in consolidation between Spanish and U.S. GAAP related to this affiliate is reflected only through November 8, 2001.

- Additionally, Terra Networks, for which the Company reduced its participation in the year 2000 from 70.47% to under 50%, is being consolidated under Spanish GAAP, since the Company has its control rights by having the majority of the votes in the Board of Directors. For U.S. GAAP, since the Company does not have an agreement that guarantees these control rights for a minimum period of 10 years, this investment is accounted for by the equity method as of December 31, 2001 and 2000.

- Finally, Atlanet, S.p.a., which is being consolidated under Spanish GAAP, has been carried under the equity method for U.S. GAAP purposes, since the Company does not have control for all decisions of such entity.

The difference in these accounting procedures did not have an impact in shareholders' equity or net income for the periods presented. However, the balance sheet, statements of income and cash flow captions for the respective periods are different under Spanish GAAP and U.S. GAAP. The tables below demonstrate the effects of these consolidations in the Spanish GAAP financial statements:

| | Million of Euros (a) | | |
|---|-----------------------------|------------------|-----------------|
| | 12/31/99 | 12/31/00 | 12/31/01 |
| Abridged balance sheets | | | |
| Due from stockholders | - | 524.82 | 367.01 |
| Tangible fixed assets | 5,307.41 | 123.06 | 128.21 |
| Intangible assets and start-up expenses | 275.99 | 12,220.48 | 243.94 |
| Holdings in associated companies | (442.79) | (4,191.54) | (1,816.25) |
| Other financial investments | 169.31 | 328.34 | 851.21 |
| Goodwill | 101.77 | 2,266.09 | 1,819.19 |
| Deferred expenses | 28.46 | 11.83 | 8.82 |
| Current assets | 1,344.78 | (706.23) | 692.84 |
| | <u>6,784.92</u> | <u>10,576.85</u> | <u>2,294.98</u> |
| Minority Interests | 2,017.78 | 5,943.47 | 3,469.08 |
| Deferred income | 132.62 | 2.55 | 4.73 |
| Provisions for contingencies and expenses | 153.34 | 27.87 | 31.30 |
| Long term debt | 2,234.04 | 1,230.42 | 78.75 |
| Current liabilities | 2,247.13 | 3,372.53 | (1,288.88) |
| | <u>6,784.92</u> | <u>10,576.85</u> | <u>2,294.98</u> |

(a) Figures included in the year 2001 correspond to the effects related to Terra Networks and Atlanet S.p.a. Figures included in 2000 correspond to the effects related to Terra Networks, Orla and IPSE 2000 consortiums. Figures included in the year 1999 relate to Telefónica de Argentina (TASA) and COINTEL.

| | Millions of Euros (a) | | |
|--|-----------------------|-----------------|-------------------|
| | 12/31/99 | 12/31/00 | 12/31/01 |
| Abridged income statements | | | |
| Net revenues from operations | 2,875.20 | 2,140.72 | 484.41 |
| Operating Expenses | 1,253.51 | 1,356.43 | 801.84 |
| Personnel expenses | 455.56 | 375.66 | 227.27 |
| External services | 797.95 | 980.77 | 574.57 |
| Period depreciation and amortization | 678.77 | 743.31 | 541.54 |
| Other expenses | 374.73 | 312.62 | 24.11 |
| Operating income | 568.19 | (271.64) | (883.08) |
| Financial income (expense) | - | 33.68 | (80.99) |
| Extraordinary expenses | 94.85 | 132.12 | 75.93 |
| Income (loss) before tax | 473.34 | (370.08) | (1,040.00) |
| Corporate income tax | 193.12 | (129.42) | (460.15) |
| Minority interest | 260.60 | (36.99) | (335.80) |
| Income (loss) from associated companies | (19.62) | 203.67 | 244.05 |
| Net income for the year | - | - | - |

(a) The table above presents the effects of TASA and COINTEL for the period ended December 31, 1999, for the period in 2000 until its full acquisition and also Orla and IPSE 2000 consortiums for year 2000 and for Terra Networks since October, 2000. Figures included in year 2001 present the effects of Orla up to November 2001, IPSE 2000 up to October 2001, Terra Networks and Atlanet, S.p.a for the full year.

| | Millions of Euros (a) | | |
|--|-----------------------|--------------|-----------------|
| | 12/31/99 | 12/31/00 | 12/31/01 |
| Abridged statements of cash flow | | | |
| Net Cash provided by operating activities | 1,097.20 | (4,565.95) | (166.97) |
| Net Cash used in investing activities | (552.58) | 3,823.57 | (366.94) |
| Net Cash used in financing activities | (504.87) | 853.93 | 25.88 |
| Effects of exchange rate changes on cash | 12.72 | (118.93) | 24.77 |
| Net change in cash an cash equivalents | 52.47 | (7.38) | (483.26) |
| Cash and cash equivalents at beginning of year | 79.71 | 20.44 | 2,673.38 |
| Cash and cash equivalents at year-end | 132.18 | 13.06 | 2,190.12 |

(a) Figures included presents the effects of TASA and COINTEL for the period ended December 31, 1999, for the period in 2000 until its full acquisition and also Orla and IPSE 2000 consortiums for year 2000 and for Terra Networks since October, 2000.

Figures included in year 2001 present the effects of Orla up to November 2001, IPSE 2000 up to October 2001, Terra Networks and Atlanet S.p.a for the full year.

8. Change in Subsidiaries' Fiscal Year End

As explained in note 2.c, during 2001 since the Group and some of its subsidiaries had different fiscal year-ends, the Parent Company decided to change the fiscal year-end of those subsidiaries in order to match the Group's fiscal year end. Under Spanish GAAP, the impact of this change was recorded as extraordinary revenue. For U.S. GAAP, the effects of this change for any periods in excess of 12 months were credited directly to retained earnings.

9. Goodwill, amortization, impairments, and disposals

Acquisitions

- Under Spanish GAAP, business combinations that are realized through the issuance of shares are normally accounted for under the pooling of interests method. Under U.S. GAAP, when equity securities (including any warrants, rights or options) are issued as consideration in business combinations, their fair value should be based on current market prices in order to determine the purchase price.
- In March 1999, Terra Networks, S.A. acquired 100% of OLÉ from INFOSEARCH HOLDINGS, S.A. for € 12.02 million in cash and agreed to sell to INFOSEARCH HOLDINGS, S.A. 4,928,000 of Terra Networks' shares for € 20.8 million. The estimated fair value of the shares sold were €54 million. For U.S. GAAP purposes, the difference between the fair value of these shares and the amount received from the sale of € 33.2 million would be considered additional purchase price of OLÉ. This additional consideration would result in the same amount of goodwill, which will be amortized according to the accounting procedures for goodwill described in Note 4a. For Spanish GAAP purposes the shares sold are recorded at the amount received and such amount would not be considered to be additional purchase price. In the fourth quarter of 2001, the Company determined that such additional goodwill (for U.S. GAAP purposes) was impaired (see below).
- As described in Note 2.c, during the year 2000 the Group performed the exchange of minority shareholders' shares of Telefónica de Argentina, S.A., Telecomunicações de Sao Paulo, S.A. (Telesp), Tele Sudeste Celular Participações, S.A. (Telesudeste), Telefónica de Perú, S.A.A., CEI Citicorp Holdings, S.A. (renamed Telefónica Holding Argentina, S.A.), Endemol Entertainment Holding, N.V., Ambit, S.A. and Vigil Corp, S.A.. for Telefónica's shares. These transactions were recorded under Spanish GAAP at the same price of the issue of Telefónica's capital stocks (see notes 2.c and 11), which is the same as the net equity of the acquired Companies and were accounted for under the pooling of interest method for Spanish GAAP purposes. Under U.S. GAAP, these acquisitions were recorded in accordance with the purchase accounting method. By this criterion, the purchase prices were valued considering the market value of the shares at each date. This additional consideration was recorded as additional goodwill under U.S. GAAP, which will be amortized according to the accounting procedures for goodwill described in note 4a.

- During, 2000 Terra Networks acquired Lycos, Inc and IDT, for approximately € 10,998.52 million and € 170.09 million, respectively, by the issuance of Terra Networks shares. As a result of these acquisitions, the Company's ownership in Terra Networks was reduced from 71% to 37% after the transaction. All these acquisition by subsidiaries are part of the Company's plan of business reorganization announced on January 12, 2000, by which the Company will be organized along global business lines, which does not have as an intent the realization of gains. As a result of these transactions by Terra Networks (a subsidiary), the Company's investment in Terra under U.S. GAAP was increased by an aggregate €4,119.60 million. Correspondingly, Telefónica accounted for this as a capital transaction in the consolidated financial statements by a credit to stockholders' equity under U.S. GAAP of €4,119.60 millions. The amount represented the increase in the Company's net worth in Terra, primarily due to additional paid in capital by Lycos and IDT, through the accounting at fair value of these business combinations by the purchase method by the investee.
- In June 2001, Telefónica, S.A. acquired a 100% holding in Baja Celular Mexicana, S.A. de C.V., Celular de Telefonía, S.A. de C.V. and Telefonía Celular del Norte, S.A. de C.V. and a 90% holding in Movitel del Noroeste, S.A. de C.V. in exchange of 122,560,575 new Telefónica, S.A.'s ordinary shares of €1 par value each and additional paid-in capital of €4.5 per share. This transaction was recorded in U.S. GAAP under the purchase accounting method as mentioned before, which generated additional goodwill under U.S. GAAP of €1,550.56 million.
- Also in 2001, as described in Note 2c, the Company subsidiary Telefónica Holding Argentina, S.A. acquired its own stock from minority shareholders at a higher price than the corresponding equity value and amortized it. Under Spanish GAAP it was recorded as a reduction of equity. Under U.S. GAAP, this acquisition was treated in consolidation in the same way as the purchase of a minority interest by the parent/investor. Therefore, this difference of € 329.43 million, was recorded as additional goodwill for U.S. GAAP purposes.
- Finally, in August 2001, the Company's subsidiary Terra Networks, S.A. acquired a 49% holding in Uno-e Bank, S.A. for an aggregate purchase price of €160.43 million. For Spanish GAAP purposes, the goodwill arising in the acquisition of Uno-e Bank, S.A. is being amortized over a period of ten years. Under U.S. GAAP, according to SFAS No. 142, *Goodwill and Other Intangible Assets*, the use of a non-amortization approach to account for purchased goodwill and certain intangibles is required, as Uno-e Bank, S.A. was acquired after June 30, 2001, and therefore an adjustment is included in the reconciliation of net income and shareholders' equity.
- The following unaudited proforma information presents a summary of the effect in the Company's consolidated results of operations as if the acquisitions described above had occurred on January 1, 2001 and 2000.

| | Millions of Euros | |
|-------------------|---------------------------------|---------------------------------|
| | Year ended December 31, 2000 | Year ended December 31, 2001 |
| Revenues | 299.74 | 141.35 |
| Net income | (679.61) | (5.23) |
| Basic EPS (Euros) | (0.17) | (0.00) |

These unaudited proforma results have been prepared for comparative purposes only and include certain adjustments, such as amortization of goodwill and investees' results of operations for each entire period. They do not purport to be indicative of the results of operations that actually would have resulted had these operations occurred at January 01, 2001 and 2000, or future results of operations of the consolidated entities.

Goodwill and Impairments

Spanish GAAP allow some temporary provisions to be accounted as impairment of goodwill. Additionally, under Spanish GAAP, the impairment of goodwill is always measured by the comparison of its fair value and recorded amounts. Under U.S. GAAP, long-lived assets and intangible assets and their associated goodwill (in case they were acquired in a business combination) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of those assets to be held and used is evaluated by a comparison of the carrying amount of the assets and their associated goodwill to the future undiscounted net cash flows expected to be generated by the related asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of these assets exceeds the fair value of the assets (calculated by discounting the expected net cash-flows). Assets to be disposed of are reported at the lower of the carrying amount or fair value less the cost to sell.

Any additional goodwill not identified with long-lived assets arising in a business combination should be tested for recoverability at the enterprise level according to APB 17, *Intangible Assets*, by a comparison with its estimated fair value. Any amounts that exceed its fair value should be immediately written off. Provisions under Spanish GAAP considered temporary or which did not qualify as goodwill impairment under U.S. GAAP were reverted and any other impairment according to U.S. GAAP requirements were recorded. The Company estimates the fair value of each enterprise through discounted cash flows.

Due to the uncertainty related to the telecommunications, media and internet markets throughout 2001, in December 2001, a goodwill impairment analysis was performed on the Company's recorded goodwill. From this analysis, the Company determined that the goodwill related to some subsidiaries was impaired, and thus reduced the goodwill by approximately €8,452.00 million. Of this amount, the following represents the impairment charges by entity:

| | Millions of Euros |
|--|--------------------------|
| | 12/31/01 |
| Endemol | 4,282.13 |
| Lycos – Terra (1) | 2,467.36 |
| Tele Sudeste Celular Participações | 335.38 |
| Atlantida Comunicaciones, S.A. | 117.73 |
| Telefónica del Perú | 491.66 |
| Other | 757.74 |
| Total Impairment and Equity investee reduction | <u>8,452.00</u> |

(1) This amount relates to our participation in the impairment recorded by our equity investee Terra Networks on its US GAAP goodwill, basically arising from the acquisition of Lycos.

Translation Adjustment Related to Goodwill

Under Spanish GAAP, the translation of financial statements from the functional currency to the reporting currency involves multiplying all assets and liabilities, except for goodwill in certain cases, by the current exchange rate on the balance sheet date. Goodwill is translated using the historical exchange rate on the date the acquisition was consummated and recorded in Euros. Under U.S. GAAP, after a business combination accounted for by the purchase method, the amount allocated at the date of acquisition to the assets acquired and the liabilities assumed (including goodwill or an excess of acquired net assets over cost as those terms are used in APB Opinion No. 16, *Business Combinations*) should be translated at the current exchange rate as of the balance sheet date, in conformity with the requirements of SFAS No. 52, *Foreign Currency Translation*.

Reclassification of Cumulative Currency Translation Adjustment of Disposed Investees

As described in Note 2.c, during 2001 and 2000, the Group sold all of its foreign investments in the subsidiaries Cablevisión, S.A. and CRT Fija, respectively. Under Spanish GAAP, the cumulative balance of currency translation adjustment related to these investments has been reclassified to retained earnings for a total of €35.45 million and €(130.90) million, as of December 31, 2001 and 2000, respectively. Under U.S. GAAP these corresponding balances must be recorded in results of operations as part of the investment cost.

10. Accounting for certain investments in debt and equity securities (SFAS No. 115)

SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, requires certain investments in financial assets to be classified on the basis of the purpose for which

they were acquired (held-to-maturity securities, trading securities or available-for-sale securities). The treatment of the unrealized gains and losses differs depending on the classification: unrealized gains and losses (other than permanent diminutions in value) on securities that the Company considers held-to-maturity are not recorded; unrealized gains and losses on securities considered available-for-sale are not recorded in the income statement but included as other comprehensive income; and unrealized gains or losses on trading securities are recorded in the income statement. These criteria differ from Spanish GAAP.

As of December 31, 2001 and 2000, the classification of these investments under U.S. GAAP was as follows:

| | Millions of Euros | | |
|-------------------------------|---------------------------|---|---------------------|
| | Historical Amortized Cost | Fair value of Available for Sale Securities | Unrealized Net Gain |
| December 31, 2001: | | | |
| Held-to-maturity | - | - | - |
| Available-for-sale-securities | 2,607.24 | 2,613.39 | 6.15 |
| Trading securities | 142.65 | 143.07 | 0.42 |
| December 31, 2000: | | | |
| Held-to-maturity | - | - | - |
| Available-for-sale-securities | 2,584.45 | 3,345.51 | 761.06 |
| Trading securities | 180.93 | 181.76 | 0.82 |

11. Pension Plan of the Brazilian Investees

The dependent companies Telecomunicações de Sao Paulo, S.A., Telerj Celular, S.A. and Telest Celular, S.A. and the associated companies Telebahia Celular, S.A. and Telergipe Celular, S.A. had various commitments with its employees as pension plans and medical and life insurance. In 2000, these companies, like the other companies composing the former Brazilian telecommunications system, Telebrás, carried out a process of negotiation with their employees, which culminated in October 2000, to the transformation of the former pension plan into a new defined-contribution pension plan, and the cancellation of the life insurance plan. Substantially all the employees availed themselves in the new plan. As a result of this change, since a provision had been recorded in prior years to cover the actuarial liabilities accrued through that date, under Spanish GAAP, for December 31, 2000, management of the Group calculated the new liability to be recorded for the benefits payable to its employees and reclassified the resulting over-provision to the "Deferred Revenues" caption. Also, as of December 31, 2000, under Spanish GAAP, the Telefónica Group deferred the effect on the income statement of the over-provision recorded in prior years (Note 13). As explained in Note 13, the Group has made a revaluation of terms in connection with this matter and decided to allocate some of this revenue to income. Under U.S. GAAP, and according to SFAS 88, *Employers' Accounting and Settlements and Curtailments of Defined Benefit Pension Plans and for the Termination Benefits*, this over-provision should be recognized as income in the period in which it was generated.

12. Treasury Stock

Under Spanish GAAP, treasury stock acquired without special purpose of redemption should be recorded as a current asset at the lower of the acquisition cost or market value.

Under U.S. GAAP, treasury stock has to be shown as a reduction of equity at its acquisition cost, and any transactions involving treasury stock do not affect net income under U.S. GAAP. Any profit or loss accounted for under Spanish GAAP, including any allowances, have to be eliminated under U.S. GAAP and recorded to additional paid in capital.

13. Derivative Instruments and Hedging Activities

Under U.S. GAAP the Company has, effective January 1, 2001, adopted SFAS No. 133 ("SFAS No. 133"), *Accounting for Derivative Instruments and Hedging Activities*, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (embedded derivatives) and for hedging activities. SFAS No. 133 requires that all derivatives, whether designated in hedging relationships or not, be recorded on the balance sheet at fair value. The difference between a derivative's previous carrying amount and its fair value shall be reported as a transition adjustment in net income or other comprehensive income, as appropriate, as the effect of a change in accounting principle. The accounting for changes in fair value of a derivative instrument depends on its intended use and the resulting designation.

If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive income ("OCI") and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings. The gain or loss on a hedging derivative instrument that is designated as, and is effective as, an economic hedge of the net investment in a foreign operation shall be reported in the same manner as a translation adjustment to the extent it is effective as a hedge. The ineffective portion of net investment hedges shall be reported in earnings.

Upon adoption of SFAS 133 on January 1, 2001, the Company designated all its hedging relationships anew. The adoption resulted in a pre-tax and minority increase to income of € 622.6 million (€ 396.9 million after-tax and minority interests) and a pre-tax and minority interests reduction to OCI of € 574.2 million (€ 373.3 million after-tax and minority interests). For the amounts classified as OCI, €7.5 million related to the effective portion of cash flow hedges, of which €1.8 million were expected to be reclassified into earnings during 2001. Also, the pro forma effect of this change in accounting principle for the year ended December 31, 2000 would be the following:

| | Millions of Euros, except per share amounts |
|--|---|
| | <u>2000</u> |
| <i>Historical U.S. GAAP amounts</i> | |
| Net income for the year ended December 31, | 1,855.94 |
| Net income per basic share..... | 0.47 |
| <i>Pro forma U.S. GAAP amounts</i> | |
| Net income for the year ended December 31, | 2,470.74 |
| Net income per basic share..... | 0.62 |

Fair Value Hedges

As part of its overall risk management strategy, the Company uses derivatives to convert its non-prepayable fixed-rate notes into variable-rate debt and some swap contracts on products to hedge against certain forward contracts on products. These derivatives are typically designated as fair value hedges, to manage the interest rate. These derivatives generally include interest rate swap agreements and sales of interest rate caps.

Under Spanish GAAP those derivatives designated as fair value hedges are not recorded at fair value and the respective hedged item is recorded taking into consideration the characteristics of the hedging instrument. Under U.S. GAAP, all derivatives, whether designated in hedging relationships or not, are recorded on the balance sheet at fair value. Additionally, those hedging relationships designated as fair value hedges under U.S. GAAP have their respective hedge items recorded at fair value and all hedging ineffectiveness is included in earnings.

At December 31, 2001, the Company has recorded a loss of €121 million that related to the recognition of the respective hedged item at fair value (a loss of €94.9 million as of January 1, 2001). This adjustment offsets the respective recognition at fair value of those derivatives designated as fair value hedges. All ineffectiveness has been recorded in earnings but has not been significant for the year. The Company does not exclude any components of the derivative gains and losses from the assessment of hedge effectiveness.

Net Investment Hedges

The Company's policy is to attempt to finance its activities in the same currencies as those used for its foreign investments in order to hedge foreign currency exposure of net investments in foreign operations. This policy is implemented either by financing in the related currency or using derivatives, such as currency swaps, which provide a synthetic effect of a foreign currency loan, thereby reducing the exchange risk.

For the year ended December 31, 2001, the Company recorded under Spanish GAAP approximately € 322.50 million of net losses related to the effective portion of non-derivative instruments and derivative instruments used as net investment hedges included as a cumulative translation adjustment in equity. These net gains or losses principally offset the net gains (losses) recorded on the respective net investments in foreign currencies being hedged. Under Spanish GAAP, the requirements to qualify a net investment differ from those of U.S. GAAP. The main differences relate to the measurement of the hedge ineffectiveness. The Company re-designated all hedging relationships anew for U.S. GAAP purposes at December 31, 2000. Those economic hedge instruments under Spanish GAAP that were not assigned as a net investment hedge under U.S. GAAP were recorded at fair value through earnings. Additionally, all differences relating to net investment hedges under Spanish GAAP and U.S. GAAP (economic hedges not assigned and ineffectiveness) were recorded in earnings for the year ended December 31, 2001. Both of these impacts represented a loss of €193.4 million, gross of tax and minority interests. The Company has calculated the ineffectiveness of its net investment hedges by comparing an appropriate “hypothetical” derivative and non-derivative contracts with the actual instruments being used.

Cash Flow Hedges

As part of its overall risk management strategy, the Company uses derivatives to convert its variable-rate notes into fixed-rate debt. Most of these derivatives, considered effective according to SFAS No. 133, are designated as cash flow hedges to manage the cash flow exposure due to interest rate fluctuations.

Under Spanish GAAP those derivatives designated as cash flow hedges of interest rate and foreign currency risk are not recorded at fair value and the respective hedged item is recorded taking into consideration the characteristics of the hedging instrument.

Under U.S. GAAP, all derivatives, whether designated in hedging relationships or not, are recorded on the balance sheet at fair value. Additionally, those hedging relationships which are designated as cash flow hedges under U.S. GAAP have their respective effective portion of the gain or loss recorded in other comprehensive income until it is necessary to be adjusted against net income in order to offset the respective change in expected future cash flows on the hedged transaction. All of the ineffective portion and excluded component of the derivative instruments is included in earnings.

All components of each derivative’s gain or loss were included in the assessment of hedges effectiveness, except the time value of option contracts. The Company did not reclassify any gain or losses into earnings from accumulated other comprehensive income as a result of the discontinuance of cash flow hedges because it determined that it was still probable that original forecasted transactions would occur by the end of the originally specified time period or within an additional two-month’s thereafter.

As of December 31, 2001 a total loss of € 5.3 million is expected to be reclassified into earnings during the next twelve months. The events that are expected to occur in the next twelve months that will trigger the reclassification of these components into earnings includes the termination of the hedging relationships. The maximum time over which the Company is hedging exposure to variability of cash flow is 55 months.

Other Derivative Contracts

The Company holds various interest rate and foreign exchange derivative instruments, which were not formally designated under SFAS No. 133 for the application of hedge accounting. The purpose of entering into these derivative contracts is to provide the Company with economic hedges of exposed risks.

Under Spanish GAAP these derivatives are recorded at the lower of cost or market value. Under U.S. GAAP, all derivatives are recorded on the balance sheet at fair value with all changes in fair value being recorded as a component of income from continuing operations during the period that such contracts remain outstanding.

Derivative instruments are reported on a net-by-counterparty basis on the consolidated balance sheet where management believes a legal right of setoff exists under an enforceable netting agreement. The approximate impact to record these derivatives at fair value for the year ended December 31, 2001 represented a loss of approximately € 83 million, before tax and minority interests.

14. Stock Option Plans

TIES Program

On February 23, 2000, the Board of Directors approved the establishment of a new compensation plan tied to the market price of the Company's share, with the grant of options on Company shares, known as the TIES Program (Note 20b). In order to achieve the purposes of the program, two capital increases were approved. The method of assignment of shares under the option plan depends on the appreciation of Telefónica, S.A.'s shares with respect to an initial reference value to be set by the Board of Directors and on the number of shares of Telefónica S.A. initially acquired by each employee.

On February 14, 2001, the first capital increase indicated above was executed. The par value of the capital was increased by €1,123,072, through the issuance of an equal number of common shares with additional paid in capital of €4 per share. The new shares were fully subscribed and paid, through a monetary contribution, by the beneficiaries of the TIES program. On February 20, 2001, the second capital increase was executed. The par value of the capital was increased by €1,504,244, through the issuance of an equal number of common shares with additional paid in capital of €4 per share. The new shares were fully subscribed and paid, through a monetary contribution, by BBVA (50%) and La Caixa (50%).

Under US GAAP, the first capital increase under the TIES Plan would qualify as a compensatory fixed plan, in accordance with APB 25, which would require a fixed compensation charge based on the intrinsic value (fair value less stock price to employee) to be recorded against income and credited to additional paid in capital. The total compensation cost of €14.89 million has been expensed in full in 2001 under U.S. GAAP, since there is not a requirement for a vesting period or the performance of future services.

The grant of options on Company shares represents a compensatory variable plan under APB 25, since the number of shares to be granted are not known until the performance period has been completed. As of December 31, 2001, the Company has not recorded any compensation on this part of the Plan, as compensation for shares payable upon achieving a target stock price generally should be recorded in total when the target is achieved, and the target had not been achieved at such date.

The capital increase made by BBVA and La Caixa of € 157.52 million is treated as a finance transaction under U.S. GAAP, and thus reclassified as a liability, since the Banks do not have the right to pledge or exchange the shares and the Company maintains control over the shares through the agreement that entitles and obligates it to repurchase them. This adjustment has been considered in the computation of basic and diluted weighted average number of shares.

15. Other U.S. GAAP Adjustments

This adjustment refers to other U.S. GAAP adjustments from subsidiaries, which consists, primarily, of the same matters described above.

Additional Disclosures Required Under U.S. GAAP

1. Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from such estimates.

2. Net Incomer per Share

Spanish GAAP does not require the net income per share to be disclosed in the financial statements.

Net income per share for U.S. GAAP purposes was computed using the weighted average number of shares outstanding for all periods. SFAS No.128, *Earnings per Share*, requires the computation of diluted EPS considering the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued.

Additionally, the number of shares outstanding has increased as a result of stock dividends and a stock split during the periods presented and after the close of the period but prior of

the issuance of the financial statements, so the computation of basic and diluted EPS has been adjusted retroactively for all years presented.

3. Comprehensive Income

SFAS No. 130, *Reporting Comprehensive Income*, defines Comprehensive Income as a measure of all changes in equity of an enterprise during a period that result from transactions and other economic events of the period other than transactions with owners. Under Spanish GAAP, comprehensive income components are recorded as separate items in shareholders' equity, since a Comprehensive Income caption does not exist.

The following is a Statement of Comprehensive Income prepared using U.S. GAAP amounts:

| Statement of Comprehensive Income | Millions of Euros | | | In Millions of U.S. Dollars (Note 2.e.) 2001 |
|--|-------------------|-----------------|--------------------|--|
| | 1999 | 2000 | 2001 | |
| Net Income per U.S. GAAP | 554.21 | 1,855.93 | (7,182.27) | (6,392.95) |
| Other Comprehensive Income (Loss): | | | | |
| Foreign currency translation adjustments, net of tax | (810.29) | (587.92) | (2,320.24) | (2,065.25) |
| Translation differences related to disposals * | - | 130.9 | (35.45) | (31.55) |
| Unrealized gain (loss) on securities available for sale, net of tax | 2,229.53 | (1,511.52) | (490.71) | (436.78) |
| Derivatives and hedging activities: | | | | |
| Cumulative effect of a change in accounting principle (SFAS 133), net of tax | - | - | (373.30) | (332.27) |
| Deferred gain on SFAS 133 hedges, net of tax | - | - | 105.10 | 93.55 |
| Comprehensive Income | 1,973.45 | (112.61) | (10,296.87) | (9,165.25) |

* There is no tax effect on this adjustment

The table below displays changes in Accumulated Other Comprehensive Income (Loss):

| Accumulated Other Comprehensive Income (Loss) | Millions of Euros | | | In Millions of U.S. Dollars (Note 2.e) |
|--|-------------------|-----------------|-------------------|--|
| | 1999 | 2000 | 2001 | 2001 |
| Beginning balance, January 1, | 419.85 | 1,839.09 | (129.45) | (115.22) |
| Foreign currency translation adjustments, net of tax | (810.29) | (587.92) | (2,320.24) | (2,065.25) |
| Translation differences related to disposals * | - | 130.90 | (35.45) | (31.55) |
| Unrealized gain (loss) on securities available for sale, net of tax | 2,229.53 | (1,511.52) | (490.71) | (436.78) |
| Derivatives and hedging activities: Cumulative effect of a change in accounting Principle (SFAS 133), net of tax | - | - | (373.30) | (332.27) |
| Deferred gain on SFAS 133 hedges, net of tax | - | - | 105.10 | 93.55 |
| Ending balance, December 31 | 1,839.09 | (129.45) | (3,244.05) | (2,887.52) |

* There is no tax effect on this adjustment

4. Disclosure about fair value of financial instruments

SFAS No. 107, *Disclosures About Fair Value of Financial Instruments*, requires that the Company disclose the estimated fair value of its financial instruments as of December 31, 2001 and 2000. The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such fair value:

a. Cash and cash equivalents

Short-term securities portfolio. The fair value of these investments is estimated based on listed market prices for those or similar investments.

Cash and other short-term investments carrying value approximate fair value because of the short maturity of those instruments.

b. Current assets and short-term creditors

The carrying value for most of the current assets approximates fair value because of the relatively short period of time between the origination of the instruments and their expected realization.

c. Long-term financial investments

The fair value of certain investments is estimated based on listed market prices for those or similar investments. For investments for which there are no market prices, a reasonable estimate of fair value could not be made without incurring excessive costs. In view of the limited volume of these investments considered individually, the cost of their valuation based on an estimate of future cash flows discounted at market interest rates for investments of this type would be disproportionate with respect to the additional information to be gained thereby, and the Company's management considers that the difference between the book value and the fair value is not material.

d. Debentures and bonds

Debentures and bonds are estimated based on market prices for those or similar financial instruments.

e. Debts with financial institutions

The fair value of these debts was estimated based on the discounted value of future cash flows expected to be paid, using discount rates that reflect the relative risks involved.

f. Off-balance sheet risks and derivatives

The differential to be paid or received is accrued as an interest rate change and is recognized over the life of the agreements.

The fair value of these agreements is estimated as follows:

- a) Swap agreements: the fair value is the estimated amount that the Company would receive or pay to terminate the swap agreements at the reporting date.

The Company is exposed to credit losses in the event of nonperformance by the other parties to the interest rate swap agreements. However, the Company does not anticipate nonperformance by the counterparts.

- b) Foreign currency contracts: the fair value has been estimated by obtaining quotes from brokers.

- c) Options: the fair value is calculated as the amount that the Company would receive or pay to terminate such contracts.

The estimated fair values as of December 31, 2001 and 2000 of the financial instruments are as follows:

| | Millions of Euros | | | |
|--|---------------------|------------|---------------------|------------|
| | Balance at 31/12/00 | | Balance at 31/12/01 | |
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Assets: | | | | |
| Cash and cash equivalents: | | | | |
| Short term financial investments | 6,159.39 | 6,346.09 | 2,567.23 | 2,989.51 |
| Cash and other short term financial Investments | 765.64 | 765.64 | 621.88 | 621.88 |
| Long-term financial investments for which It is: | | | | |
| Practicable to estimate fair value | 4,095.50 | 4,856.58 | 2,422.13 | 2,566.18 |
| Not practicable | 48.39 | 48.39 | 406.80 | 406.80 |
| Current assets | 9,667.11 | 9,667.11 | 9,047.72 | 9,047.72 |
| Liabilities: | | | | |
| Short-term payables | 24,078.86 | 24,013.33 | 18,418.59 | 15,915.13 |
| Bonds and debentures | 12,401.88 | 14,060.89 | 14,380.86 | 16,592.87 |
| Payable to credit entities: | | | | |
| Notes payable | - | - | 80.00 | 60.93 |
| Loans and credits | 9,271.19 | 10,139.00 | 8,079.08 | 8,112.02 |
| Derivative financial instruments: | | | | |
| Foreign currency swaps | N/A | (1,220.00) | N/A | (1,339.45) |
| Interest rate swaps | N/A | 80.00 | N/A | 152.97 |
| Forwards | N/A | (157.00) | N/A | 195.60 |
| Foreign currency options | N/A | 46.00 | N/A | 90.53 |
| Interest rate options | N/A | (57.00) | N/A | (173.17) |
| Shares options | N/A | N/A | N/A | N/A |

5. Stock option plans

Accounting Policy

Under Spanish GAAP, the Company has accounted for stock-based awards to employees as described in Note 20.

Under U.S. GAAP, the Company accounts for stock-based awards to employees using the intrinsic value method in accordance with APB 25, *Accounting for Stock Issued to Employees*. Compensation cost for stock options granted to employees is measured as the excess of the quoted market price of the Company's stock on the measurement date over the amount an employee must pay to acquire the stock (the "intrinsic value"), and is recognized over the vesting period.

Stock Compensation Plans

The Company has issued three stock option plans to its employees, the TOP Plan, TIES Program and the EN-SOP Program based on Telefónica's stock, which are fully described in Note 20. Company subsidiaries under U.S. GAAP TPI and Telefónica Móviles have established their own stock option plan to its employees. Additionally, Terra Networks, a Company equity investee under U.S. GAAP have also established their own stock option plan to its employees. A full description of the characteristics of each of these plans is

given in Note 20 to the financial statements. The additional U.S. GAAP disclosures relating to each applicable stock option plan are presented below.

TOP Plan

According to the accounting policies described above, the Company did not record any compensation expense relating to the Plan TOP for the year ended December 31, 2000 and 2001, since Plan TOP is a fixed plan with no intrinsic value at the measurement date.

Had compensation expense for options granted under Plan TOP been determined based on fair value at the grant dates in accordance with SFAS No. 123, *Accounting for Stock Based Compensation*, the Company's charge for the years ended December 31, 2000 and 2001 would not have been material in net income or basic earnings per share. The fair value of each option granted was estimated using the Black-Scholes option pricing model, for each option with the same vesting period, using the following average assumptions: risk-free interest rate of 3.3%; expected life of 3 years; expected dividend yield of zero percent; and assumed volatility of 32.39%.

TIES Program

According to the accounting policies described above, the Company did not record any compensation expense relating to the TIES Program for the year ended December 31, 2001, since this Plan contains a floating conversion ratio based upon the Company's stock price, and it was not feasible to estimate at December 31, 2001 the quantities of shares that could probably vest in the future.

Had compensation expense for options granted under the TIES Program been determined based on fair value at the grant dates in accordance with SFAS No. 123, the Company would not have recorded any compensation expense for the same factors indicated above.

The weighted average fair value of options granted during the year ended December 31, 2001 was approximately Euros 14.01 per share.

EN-SOP Program

According to the accounting policies described above, the Company did not record any compensation expense relating to the EN-SOP Program for the year ended December 31, 2001, since this plan did not have an intrinsic value at the measurement date.

Had compensation expense for options granted under EN-SOP Program been determined based on fair value at the grant dates in accordance with SFAS No. 123, the Company's charge for the years ended December 31, 2001 would not have been material in net income or basic earnings per share. The fair value of each option granted was estimated using the Black-Scholes option pricing model, for each option with the same vesting period, using the following average assumptions: risk-free interest rate of 4.55%; expected life of 3.5 years; expected dividend yield of zero percent; and assumed volatility of 46%.

The weighted average fair value of options granted during the year ended December 31, 2001 was approximately Euros 5.29 per share.

TPI Plan

According to the accounting policies described above, the Company did not record any compensation expense relating to the TPI Plan since for the year ended December 31, 2000 and 2001, this plan did not have an intrinsic value at the measurement date.

Had compensation expense for options granted under TPI Plan been determined based on fair value at the grant dates in accordance with SFAS No. 123, Accounting for Stock Based Compensation, the Company's charge for the years ended December 31, 2001 would not have been material in net income or basic earnings per share. The fair value of each option granted was estimated using the Black-Scholes option pricing model, for each option with the same vesting period, using the following average assumptions: risk-free interest rate of 4.99%; expected life of 2.2 years; expected dividend yield of zero percent; and assumed volatility of 86.06%.

The weighted average fair value of options granted during the year ended December 31, 2001 was approximately Euros 0.96 per share.

Telefónica Móviles Plan (MOS)

The Company did not record any compensation expense relating to the Telefónica Móviles Plan (MOS) at December 31, 2001 since the options regarding this plan were only granted at January 02, 2002.

All options from all programs not exercised after the last vesting period will expire.

The status of the Company's stock option plans is summarized below as of December 31, 2001:

| | Number of Stock Options | | | |
|----------------------------------|--------------------------------|-------------------|-----------------------|------------------|
| | TOP Plan | TIES Plan | EN-SOP Program | TPI Plan |
| Outstanding at December 31, 2000 | 16,214,220 | - | - | 4,400,265 |
| Granted | - | 29,220,372 | 1,294,440 | 195,000 |
| Forfeited/Expired | (1,247,580) | - | - | (132,960) |
| Outstanding at December 31, 2001 | <u>14,966,640</u> | <u>29,220,372</u> | <u>1,294,440</u> | <u>4,462,305</u> |

None of the outstanding options at December 31, 2001 are exercisable. All options vest between June 2002 and February 2005.

6. Financial Statement Classifications

Capitalized expenses of in-house work on fixed assets consist of the internal direct labor and allocable portion of the indirect costs. Under Spanish GAAP internal expenditures capitalized are recorded as revenue. For U.S. GAAP purposes, costs capitalized should be netted against the related cost.

Increase in inventories, net, represents the net change in inventories during the period. This includes beginning inventory plus purchases less sales and obsolescence provisions. Under Spanish GAAP, the net change in inventories is included in revenue. Under U.S. GAAP the net change in inventories is included in expenses.

For U.S. GAAP purposes, the amortization of goodwill must be shown as a deduction from operating income. In the Spanish GAAP financial statements, this amount is shown separately below operating income.

For U.S. GAAP, all goodwill related to investments accounted for under the equity method would be included within the carrying amount of the investment in the equity method investee rather than being shown as part of the separate goodwill balance on the balance sheet as is done under Spanish GAAP. Exhibit III shows those effects in detail. This difference would increase the carrying amount of equity investments and decrease goodwill under U.S. GAAP by 10,792.33 million in 2000, net of accumulated amortization and after impairments, with no effects in 2001 as it has been totally written off.

Spanish GAAP requires certain revenues/expenses which are not ordinary revenues/expenses to be classified as extraordinary in the statement of operations. Under U.S. GAAP, a transaction must be both unusual in nature and infrequent in occurrence in order to be classified as extraordinary. Accordingly, no revenue or expenses included as extraordinary revenues and expenses in Spanish GAAP would be considered extraordinary under U.S. GAAP.

7. Fixed and Other Non-Current Assets

Since several U.S. GAAP differences affect fixed and other noncurrent assets, shown below is a reconciliation between this caption under Spanish GAAP and U.S. GAAP:

| | Millions of Euros | | | | | | | | | |
|--|-------------------------------|------------------|--------------------|------------------|-----------------------------|------------------|------------------|------------------|---|------------------|
| | Property, Plant and Equipment | | Intangible Assets | | Other Long-term Investments | | Goodwill | | Total fixed and other noncurrent assets | |
| | 2000 | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 | 2001 |
| Data per Spanish GAAP | 38,721.95 | 36,606.09 | 19,693.14 | 16,959.14 | 8,631.51 | 10,391.01 | 7,699.41 | 9,120.99 | 74,746.01 | 73,077.23 |
| Additions (deductions) for U.S. GAAP purposes: | | | | | | | | | | |
| Reversal of net effect of revaluation of fixed assets and related accumulated depreciation (Note 25.1) | (821.58) | (768.86) | | | | | | | (821.58) | (768.86) |
| Goodwill arising from acquisitions (Note 25.2) | | | (390.45) | (186.87) | | | 16,051.48 | 6,785.86 | 16,051.48 | 6,785.86 |
| Research and development expenses (Note 25.2) | | | | | | | | | (390.45) | (186.87) |
| Interest capitalized during construction (Note 25.4) | 500.60 | 522.55 | | | | | | | 500.60 | 522.55 |
| Consolidation method (Note 25.7) | (123.06) | (128.21) | (12,220.48) | (243.94) | 10,705.66 | 1,747.83 | (2,250.69) | (1,806.28) | (3,888.57) | (430.60) |
| Total additions (deductions) | (444.04) | (374.52) | (12,610.93) | (430.81) | 10,705.66 | 1,747.83 | 13,800.79 | 4,979.58 | 11,451.48 | 5,922.08 |
| Data per U.S. GAAP | 38,277.91 | 36,231.57 | 7,082.21 | 16,528.33 | 19,337.17 | 12,138.84 | 21,500.20 | 14,100.57 | 86,197.49 | 78,999.31 |

Additionally, the effect of the reversal of the consolidated information of the Telefónica subsidiaries Terra Networks, Orla and IPSE 2000 Consortiums in the balance sheet captions are shown in note 25.7.

8. Statements of cash flows

Spanish GAAP do not require presentation of a statement of cash flows.

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments (or investments) purchased with a maturity of three months or less to be cash equivalents, i.e., "cash and banks" and "short-term investments".

The following are consolidated statements of cash flows under SFAS No. 95, *Statement of Cash Flows*, based on the financial statement amounts reported under Spanish GAAP:

| | Millions of Euros | | | In Millions of U.S. Dollars (Note 2.e.) |
|--|-------------------|--------------------|-------------------|---|
| | 1999 | 2000 | 2001 | 2001 |
| | | | | |
| Cash flows from operating activities: | | | | |
| Cash received from customers | 22,409.24 | 26,990.82 | 31,235.55 | 27,802.76 |
| Dividends from associated companies | 30.75 | 25.15 | 8.52 | 7.58 |
| Interest and other financial income | 390.98 | 482.70 | 439.12 | 390.86 |
| Cash paid to suppliers and employees (net of amount capitalized) | (12,096.01) | (15,320.75) | (19,587.68) | (17,434.99) |
| Interest paid | (2,203.32) | (2,022.87) | (2,304.70) | (2,051.41) |
| Payment for income taxes | (772.77) | (1,158.14) | (962.05) | (856.32) |
| Net cash provided by operating activities | 7,758.86 | 8,996.91 | 8,828.76 | 7,858.48 |
| Cash flow from investing activities: | | | | |
| Proceeds from investments in affiliates | 2,401.39 | 2,381.27 | 1,059.36 | 942.94 |
| Proceeds from sale of property, plant and equipment | 91.55 | 390.40 | 401.16 | 357.07 |
| Proceeds from capital grants | 109.25 | 139.37 | 12.88 | 11.46 |
| Capital expenditures | (6,354.71) | (8,016.64) | (6,770.78) | (6,026.67) |
| Purchase of new investments, net of cash acquired | (4,588.30) | (2,727.04) | (2,619.59) | (2,331.70) |
| Payments for intangible assets and deferred charges | (1,260.08) | (9,886.83) | (1,978.44) | (1,761.01) |
| Net cash used in investing activities | (9,600.89) | (17,719.47) | (9,895.41) | (8,807.90) |
| Cash flow from financing activities: | | | | |
| Proceeds from issuance of common stock | 992.33 | 4,862.91 | 319.07 | 284.00 |
| Proceeds from debentures and bonds | 1,430.47 | 6,968.40 | 3,278.98 | 2,918.62 |
| Proceeds from other loans, credit facilities and notes payable | 2,976.37 | 1,155.77 | 5,502.68 | 4,897.94 |
| Debentures and bonds redeemed | (795.67) | (1,638.42) | (867.34) | (772.02) |
| Repayments of other loans, credit facilities and notes payable | (1,488.29) | (132.73) | (7,773.35) | (6,919.06) |
| Repayments of short term loans | (551.38) | 3,592.06 | (1,456.52) | (1,296.45) |
| Dividends paid | (231.18) | (487.05) | (324.63) | (288.95) |
| Net cash provided by financing activities | 2,332.02 | 14,320.94 | (1,321.11) | (1,175.92) |
| Effects of exchange rate changes on cash | (111.88) | (319.20) | (107.00) | (95.24) |
| Net change in cash and cash equivalents | 378.11 | 5,279.18 | (2,494.76) | (2,220.59) |
| Cash and cash equivalents at beginning of year (*) | 1,267.74 | 1,645.85 | 6,925.02 | 6,163.96 |
| Cash and cash equivalents at end of year | 1,645.85 | 6,925.02 | 4,430.26 | 3,943.37 |

The following is a reconciliation between the net income and the cash provided by operations based on the financial statement amounts reported under Spanish GAAP:

| | Millions of Euros | | | In Millions of U.S. Dollars (Note 2.e.) |
|--|-------------------|-----------------|-----------------|---|
| | 1999 | 2000 | 2001 | 2001 |
| Net income under Spanish GAAP | 69.60 | 2,504.81 | 2,106.81 | 1,875.27 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Participation in results of associated companies | 3.88 | 161.35 | 376.48 | 335.10 |
| Minority interests | 655.70 | 120.64 | (271.01) | (241.23) |
| Dividends | 30.75 | 25.15 | 8.52 | 7.58 |
| Depreciation and amortization | 8,208.98 | 8,017.89 | 7,683.01 | 6,838.65 |
| Provision for pension plan and other provisions | (131.43) | 1,403.81 | (140.56) | (125.11) |
| Deferred tax | (144.92) | (286.56) | 1,479.55 | 1,316.95 |
| Exchange losses | (949.53) | 1.80 | 313.60 | 279.14 |
| Reduction in the proportional investment equity value | 11.76 | 87.27 | 68.85 | 61.28 |
| Gain on sale of fixed assets | (33.54) | (53.58) | (29.29) | (26.07) |
| Loss on disposal of plant | 215.63 | 258.75 | 227.15 | 202.19 |
| Loss on sale of consolidated companies | 0.49 | 19.07 | - | - |
| Gain on sale of consolidated companies | (1,584.55) | (4,051.39) | (302.69) | (269.42) |
| Change in operating assets and liabilities, net of effects from purchase of new investments: | | | | |
| (Increase) decrease in inventory | (240.23) | (464.30) | 51.06 | 45.45 |
| (Increase) decrease in accounts receivable | (571.21) | (1,270.08) | 994.67 | 885.36 |
| (Increase) decrease in prepayments | (92.19) | 91.29 | (15.81) | (14.07) |
| Increase (decrease) in accounts payable and accrued expenses | 646.50 | 2,380.53 | (1,866.26) | (1,661.16) |
| Increase (decrease) in interest payable | (63.85) | 224.99 | (128.66) | (114.52) |
| (Decrease) in income tax payable | (1.82) | (187.32) | (1,654.66) | (1,472.81) |
| Capital grants | (101.52) | (77.16) | (80.03) | (71.23) |
| Financial provisions and pension supplements for retired employees | 95.15 | 89.94 | 8.03 | 7.15 |
| Provision for commitments with employees | 1,735.19 | - | - | - |
| Total adjustments | 7,689.26 | 6,492.09 | 6,721.95 | 5,983.21 |
| Net cash provided by operating activities | 7,758.86 | 8,996.91 | 8,828.76 | 7,858.48 |

9. Business Segment Data

The company operates in five main business segments: wireline operator, cellular, international, media and internet.

Descriptions of the segments:

Wireline Operator. Providing and operating public or private wireline telephone services.

Cellular Operator. Providing and operating cellular services, and other services in Spain.

Telefónica Internacional Management and control of investments in capital of foreign companies in Latin America in the wireline Telecommunications Sector.

Telefónica Media. Organization and exploitation of the activities and businesses with multimedia and television services.

Internet. Operating internet Portal, providing ISP services and other interactive services.

The main figures by segment in Spanish GAAP in 2001 and 2000 were as follows:

| | Millions of Euros | | | | | | | |
|---|----------------------------|-------------------|--------------------------|------------------|----------|--------------------|----------|------------|
| | Wireline Operator in Spain | Cellular Operator | Telefónica Internacional | Telefónica Media | Internet | Telefónica Holding | Other | Total |
| December 31, 2001 | | | | | | | | |
| Total Assets | 20,402.21 | 25,226.95 | 31,902.79 | 5,103.35 | 6,115.87 | 52,721.65 | 8,764.48 | 150,237.30 |
| Profit or loss of the segment | 1,077.64 | 893.36 | 1,274.90 | (347.24) | (566.30) | (354.18) | (744.54) | 1,233.64 |
| Sales to external clients | 9,208.51 | 7,080.24 | 9,821.54 | 1,395.54 | 660.72 | - | 2,886.05 | 31,052.60 |
| Sale of services to other segments of the company | 1,011.86 | 1,327.78 | 315.83 | 7.52 | 29.23 | 140.50 | 1,234.83 | 4,067.55 |
| Interest paid (interest expenses) | 565.75 | 368.34 | 1,040.83 | 109.83 | 10.48 | 1,450.50 | 214.97 | 3,760.70 |
| Interest received (interest revenues) | 173.32 | 138.33 | 256.61 | 17.70 | 136.33 | 2,452.49 | 40.80 | 3,215.58 |
| Depreciation and amortization expenses | 2,804.44 | 1,258.16 | 2,625.70 | 75.42 | 157.43 | 48.56 | 398.96 | 7,368.67 |
| Income tax expenses | 506.61 | 628.77 | (136.20) | (57.99) | (363.35) | (264.91) | (49.95) | 262.98 |
| Extraordinary gains or losses | 286.11 | (100.70) | 164.60 | (69.63) | (74.85) | (1,397.52) | (302.84) | (1,494.83) |
| Capital expenditures | 1,879.18 | 2,121.98 | 3,211.52 | 133.17 | 107.29 | 56.84 | 910.92 | 8,420.90 |
| Gain or losses of associated companies | (1.82) | (119.19) | 8.38 | (184.46) | (181.73) | - | (7.95) | (486.77) |

| | Millions of Euros | | | | | | | |
|---|----------------------------|-------------------|--------------------------|------------------|----------|--------------------|----------|------------|
| | Wireline Operator in Spain | Cellular Operator | Telefónica Internacional | Telefónica Media | Internet | Telefónica Holding | Other | Total |
| December 31, 2000 | | | | | | | | |
| Total assets | 21,239.72 | 21,262.50 | 36,274.37 | 4,677.09 | 6,740.89 | 47,936.39 | 7,814.32 | 145,945.28 |
| Profit or loss of the segment | 245.22 | 77.89 | 694.56 | (622.13) | (555.21) | (120.90) | 476.24 | 195.66 |
| Sales to external clients | 9,194.30 | 1,357.31 | 12,561.47 | 721.24 | 277.41 | - | 4,373.78 | 28,485.50 |
| Sale of services to other segments of the company | 988.63 | 317.38 | 22.35 | 2.66 | 26.58 | 163.20 | 2,609.61 | 4,130.43 |
| Interest paid (interest expenses) | 630.66 | 80.55 | 1,403.67 | 87.74 | 6.58 | 965.74 | 126.09 | 3,301.10 |
| Interest received (interest revenues) | 149.68 | 48.07 | 253.08 | 10.28 | 51.75 | 998.73 | 90.15 | 1,601.74 |
| Depreciation and amortization expenses | 2,901.21 | 236.91 | 3,102.37 | 48.81 | 83.51 | 30.52 | 574.01 | 6,977.35 |
| Income tax expenses | 59.00 | 76.00 | 191.07 | (226.76) | (248.14) | 66.72 | (176.78) | 258.88 |
| Extraordinary gains or losses | (806.79) | (49.14) | 360.20 | (606.52) | (134.19) | (775.26) | 2,443.67 | 431.95 |
| Capital expenditures | 1,834.88 | 13,317.39 | 4,185.71 | 96.85 | 233.97 | 22.02 | 1,285.56 | 20,960.38 |
| Gain or losses of associated companies | 0.13 | (58.50) | (8.29) | (86.08) | (31.95) | - | 23.35 | (161.35) |

The main segments included in the caption "Other" are:

- Directories and yellow pages business
- Call centers
- Insurance business
- Data transmission

| | RECONCILIATIONS | |
|-------------------------------|-------------------|------------------|
| | Millions of Euros | |
| | 2000 | 2001 |
| Sales: | | |
| Total sales of the segments | 32,615.92 | 35,120.15 |
| Eliminations | (4,130.43) | (4,067.55) |
| TOTAL | 28,485.50 | 31,052.60 |
| Income or Loss: | | |
| Profit or loss of the segment | 195.66 | 1,233.64 |
| Eliminations | 2,309.15 | 873.17 |
| TOTAL | 2,504.81 | 2,106.81 |
| Assets: | | |
| Total assets of the segments | 145,945.28 | 150,237.30 |
| Eliminations | (53,567.97) | (63,814.73) |
| TOTAL | 92,377.30 | 86,422.57 |

Accounting principles:

All transactions between segments are made at market prices or at prices which have been approved and published by the regulatory authority.

The accounting principles used in the accounting for the segments is the same as that used in the elaboration of the consolidated financial statement.

10. External services

The Company advertises its branded services and products through national and regional media in the countries in which it operates. These advertising costs are expensed as incurred, and are charged against “external services”. Advertising expenses for 1999, 2000 and 2001 amounted to € 417.46 millions, € 772.79 millions and € 1,003.52 millions, respectively. Accounting for such costs is consistent with US GAAP.

11. New accounting standards

Accounting for Business Combinations, Goodwill and Other Intangible Assets-

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations* and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 141 replaces Accounting Principles Board Opinion No. 16 (APB 16), *Business Combinations*, and requires business combinations initiated after June 30, 2001, to be accounted for using the purchase method of accounting, and broadens the criteria for recording intangible assets separate from goodwill. Recorded goodwill and intangible assets will be evaluated against this new criteria and may result in certain intangibles being subsumed into goodwill, or alternatively, amounts initially recorded as goodwill may be separately identified and recognized apart from goodwill. SFAS No. 142 requires the use of a non-amortization approach to account for purchased goodwill and certain intangibles. Under a non-amortization approach, goodwill and certain intangibles will not be amortized into results of operations, but instead would be reviewed for impairment and written down and charged to results of operations in the periods in which the recorded value of goodwill and certain intangibles exceeds its fair values. The provisions of SFAS No. 141 and SFAS No. 142, which apply to goodwill and intangible assets acquired prior to June 30, 2001, will be adopted by the Company on January 1, 2002. The Company is currently assessing the potential impact of these standards on its financial position and results of operations. In addition, goodwill on prior business combinations will cease to be amortized for U.S. GAAP reporting purposes. Had the Company adopted SFAS No. 142 at January 1, 2001, the Company would not have recorded a goodwill amortization charge of €1,970.00 million under U.S. GAAP.

Accounting for Asset Retirement Obligations-

In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. An entity shall measure changes in the liability for an asset retirement obligation due to passage of time by applying an interest method of allocation to the amount of the liability at the beginning of the period. The interest rate used to measure that change shall be the credit-adjusted risk-free rate that existed when the liability was initially measured. That amount shall be recognized as an increase in the

carrying amount of the liability and as an expense classified as an operating item in the statement of income. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Company is still assessing the impact of the adoption of SFAS No. 143 on its results of operations or its financial position.

Accounting for Impairment and Disposal of certain Assets-

In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment and Disposal of Long-Lived Assets*, which supersedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*, and certain provisions of Accounting Principles Board Opinion No. 30 (APB 30), *Reporting Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*. SFAS No. 144 requires that long-lived assets to be disposed of by sale, including discontinued operations, be measured at the lower of the carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. SFAS No. 144 also broadens the reporting requirements of discontinued operations to include all components of an entity that have operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. The provisions of SFAS No. 144, which are effective for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years, with early adoption permitted, will be adopted by the Company on January 1, 2002. The Company does not anticipate that the adoption of SFAS No. 144 will have a material impact on the Company's financial position.

Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections

In April 2002, the FASB issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections*. SFAS No. 145 rescinds SFAS No. 4, *Reporting Gains and Losses from Extinguishments of Debt*, SFAS No. 64, *Extinguishments of Debt made to Satisfy Sinking Fund Requirements*, and SFAS No. 44, *Accounting for Intangible Assets of Motor Carriers*. The statement also amends SFAS No. 13, *Accounting For Leases*, to eliminate certain inconsistencies within that statement. SFAS 145 also makes certain technical corrections or clarifications to other authoritative pronouncements. Certain provisions of SFAS No. 145 are effective for transactions occurring after or financial statements issued after May 15, 2002. The Company does not anticipate that adoption of SFAS No. 145 will have a material impact on its results of operations or its financial position.

EXHIBIT I.**Contribution of the Group companies to the consolidated financial statements**

The contribution of the Group companies to consolidated reserves and translation differences as of December 31, 2001 and 2000, was as follows:

| Companies | Millions of Euros | | | |
|---|-------------------|----------------------------|------------------|----------------------------|
| | 12/31/01 | | 12/31/00 | |
| | To Reserves | To Translation Differences | To Reserves | To Translation Differences |
| Fonditel Group | 20.94 | - | 15.03 | (0.02) |
| Atento Group | (94.06) | 19.10 | 19.17 | (7.41) |
| Casiopea Group | 45.33 | 0.79 | 32.61 | 0.22 |
| Comet Group | (6.16) | - | (6.11) | - |
| Telefónica DataCorp Group | (65.58) | (49.02) | (34.25) | (1.03) |
| Telefónica de España Group | 102.21 | (0.01) | (105.06) | - |
| Telefónica Internacional Group | 906.52 | (2,703.90) | 973.06 | (856.46) |
| Admira Media Group | (875.13) | (188.23) | (228.23) | 9.63 |
| Telefónica Publicidad e Informac. Group | 47.73 | (1.18) | 28.93 | (0.99) |
| Telefónica Móviles Group | 3,597.32 | (354.80) | 90.04 | (48.63) |
| Terra Networks Group | (355.71) | (45.90) | 427.81 | (43.39) |
| Venturini Group | (0.84) | - | 0.90 | - |
| Inmobiliaria Telefónica | (0.29) | - | (1.42) | - |
| Playa de Madrid | 0.34 | - | 0.17 | - |
| Taetel | 10.81 | - | 9.27 | - |
| Telefónica Europe B.V. | 3.76 | 0.02 | 1.69 | 0.01 |
| Telfisa | 1.37 | - | 0.93 | - |
| Tidsa | 32.17 | - | 31.38 | - |
| Urbana Ibérica | 0.55 | - | 0.55 | - |
| Katalyx Group | (69.54) | (0.93) | - | 1.50 |
| Emergia Group | 7.73 | (5.21) | - | 8.04 |
| Telefónica and associated companies | 19,145.79 | 50.98 | 18,931.79 | (43.98) |
| Total Telefónica Group | 22,455.26 | (3,278.29) | 20,188.26 | (982.51) |
| Intercompany fixed asset transactions | (94.08) | - | (120.72) | - |
| Total contribution | 22,361.18 | (3,278.29) | 20,067.54 | (982.51) |

DETAIL OF DEPENDENT, ASSOCIATED AND INVESTEE COMPANIES AS OF DECEMBER 31, 2001 (millions of euros)

| DEPENDENT COMPANIES AND THEIR HOLDINGS | OWNERSHIP | | | CAPITAL STOCK | RESERVES | INTERIM DIVIDEND | INCOME (LOSS) | GROSS BOOK VALUE | CONSOLIDATION METHOD | VALUE IN CONSOLIDATION (1) |
|---|-----------|----------|------------------|---------------|----------|------------------|---------------|------------------|----------------------|----------------------------|
| | DIRECT | INDIRECT | TELEFÓNICA GROUP | | | | | | | |
| Communicapital Inversiones, S.A.U. (SPAIN) (*) (**) (1) <i>Global telecommunications fund</i> <i>Gran Vía, 28 - 28013 Madrid</i> | 100.00% | | 100.00% | 6.00 | (32.10) | - | (9.98) | 6.00 | C. | 6.00 |
| Communicapital Gestión, S.A.U. (SPAIN) (*) (**) (1) <i>Global telecommunications fund</i> <i>Gran Vía, 28 - 28013 Madrid</i> | 100.00% | | 100.00% | 0.06 | - | - | - | 0.06 | I. G. | - |
| CAFITEL, S.L. (SPAIN) (**) <i>Granting of loans, guarantees and financial assistance to the Telefónica Group</i> <i>Alcalde Mandillo Tejero, 8 - Edificio Simón Bolívar - Santa Cruz de Tenerife</i> | 100.00% | | 100.00% | 0.01 | - | - | - | 0.01 | C. | 0.01 |
| Casiopea Reaseguradora, S.A. (LUXEMBOURG) (3) <i>Reinsurance</i> <i>73, Rue du Fort Neipperg - L-2230 Luxembourg</i> | 100.00% | | 100.00% | 2.99 | 7.24 | - | - | 2.99 | I. G. | - |
| Pléyade Peninsular Correduría de Seguros del Grupo Telefónica, S.A. (SPAIN) (3) <i>Distribution, promotion or preparation of insurance contracts, operating as a broker</i> <i>Avda. General Perón, 38 Master II - 17ª P. - 28020 Madrid</i> | 16.67% | 83.33% | 100.00% | 0.36 | 1.28 | - | 2.00 | 0.36 | I. G. | - |
| Seguros de Vida y Pensiones Antares, S.A. (SPAIN) (3) <i>Life insurance, pensions and health insurance</i> <i>Avda. General Perón, 38 Master II - 17ª P. - 28020 Madrid</i> | 21.33% | 78.67% | 100.00% | 11.12 | 33.92 | - | 8.27 | 11.78 | I. G. | - |
| Fonditel Entidad Gestora de Fondos de Pensiones, S.A. (SPAIN) (3) | | 3.78% | | | | | | | | |
| Compañía Española de Tecnología, S.A. (SPAIN) (*) (**) (3) <i>Promotion of business initiatives and disposition of marketable securities</i> <i>Villanueva, 2 duplicado planta 1ª Oficina 23 - 28001 Madrid</i> | 100.00% | | 100.00% | 3.99 | (0.05) | - | (0.06) | 10.10 | I. G. | - |
| Cleon, S.A. (SPAIN) (3) <i>Property development</i> <i>Villanueva, 2 duplicado planta 1ª Oficina 23 - 28001 Madrid</i> | | 50.00% | 50.00% | 8.23 | (0.43) | - | (0.09) | 4.12 | I. G. | - |
| Fonditel Entidad Gestora de Fondos de Pensiones, S.A. (SPAIN) (3) <i>Pension fund management</i> <i>Pedro Teixeira nº 8 - 3ª P. - 28020 Madrid</i> | 77.22% | 3.78% | 81.00% | 15.70 | 23.64 | - | 7.66 | 12.71 | I. G. | - |
| Playa de Madrid, S.A. (SPAIN) (*) (**) (12) <i>Distribution of all manner of goods, operation of sporting and hospitality facilities</i> <i>Complejo Deportivo y Social Playa de Madrid, Km. 1,700 carretera de El Pardo - 28035 Madrid</i> | 100.00% | | 100.00% | 0.48 | 0.84 | - | 0.52 | 0.32 | I. G. | - |
| Taetel, S.L. (SPAIN) (*) (**) (1) <i>Acquisition, holding and disposal of shares and ownership interests in other companies</i> <i>Beatriz de Bobadilla, 3 - 28040 Madrid</i> | 100.00% | | 100.00% | 28.25 | 10.81 | (0.75) | 1.17 | 28.25 | I. G. | - |
| Telefonía y Finanzas, S.A. (TELFISA) (SPAIN) (*) (**) (3) <i>Integrated cash management, counseling and financial support for Group companies</i> <i>Gran Vía, 30 - 4ª Pta. - 28013 Madrid</i> | 100.00% | | 100.00% | 3.01 | 3.38 | - | 2.07 | 12.62 | I. G. | - |
| Telefónica B2B Licencing, Inc. (USA) | 100.00% | | 100.00% | 0.01 | - | - | - | 0.01 | I. G. | - |

(*) Companies filing consolidated corporate income tax returns in 2000.

(**) Companies filing consolidated corporate income tax returns in 2001.

| DEPENDENT COMPANIES AND THEIR HOLDINGS | OWNERSHIP | | | CAPITAL STOCK | RESERVES | INTERIM DIVIDEND | INCOME (LOSS) | GROSS BOOK VALUE | CONSOLIDATION METHOD | VALUE IN CONSOLIDATION (10) |
|---|-----------|----------|------------------|---------------|----------|------------------|---------------|------------------|----------------------|-----------------------------|
| | DIRECT | INDIRECT | TELEFÓNICA GROUP | | | | | | | |
| Telefónica B2B, Inc. (U.S.A.) (9) <i>B2B e-commerce</i> <i>1001 Brickell Bay Drive - Miami, Florida 33131</i> | 100.00% | | 100.00% | 0.01 | (70.37) | - | (30.28) | 0.01 | I. G. | - |
| Katalyx, Inc. (USA) <i>Administrative management services</i> <i>1221 Brickell Avenue - Miami, Florida</i> | | 100.00% | 100.00% | - | (21.13) | - | (0.98) | - | I. G. | - |
| Katalyx España, S.L. (SPAIN) <i>Administrative management services</i> <i>Pl. Pablo Ruiz Picaso, s/n. Edif. Torre Picaso - Madrid</i> | | 100.00% | 100.00% | 0.01 | (2.70) | - | (1.12) | 0.01 | I. G. | - |
| Katalyx Argentina, S.A. (ARGENTINA) <i>Administrative management services</i> <i>Boulevard, 680 - Buenos Aires</i> | | 100.00% | 100.00% | 0.01 | (0.50) | - | (0.91) | 0.01 | I. G. | - |
| Katalyx Mexico, S.A. de C.V. (MEXICO) <i>Administrative management services</i> <i>Boulevard Avila Camacho, 24 - Mexico D.F.</i> | | 100.00% | 100.00% | 0.01 | (1.66) | - | 0.11 | 0.01 | I. G. | - |
| Katalyx Brasil, Ltd. (BRAZIL) <i>Administrative management services</i> <i>Rua Joaquim Floriano, 1052 - Sao Paulo</i> | | 100.00% | 100.00% | 0.86 | (1.17) | - | 0.05 | 0.86 | I. G. | - |
| Adquira, Inc. (USA) <i>E-commerce</i> <i>1221 Brickell Avenue - Miami, Florida</i> | | 100.00% | 100.00% | - | (19.81) | - | (2.95) | - | I. G. | - |
| Adquira Argentina, S.L. (ARGENTINA) <i>E-commerce</i> <i>Boulevard, 680 - Buenos Aires</i> | | 100.00% | 100.00% | 4.32 | (3.17) | - | (2.72) | 4.32 | I. G. | - |
| Adquira Mexico, Ltd. (MEXICO) <i>E-commerce</i> <i>Boulevard Avila Camacho, 24 - Mexico D.F.</i> | | 100.00% | 100.00% | 5.24 | (1.76) | - | (2.08) | 5.24 | I. G. | - |
| Adquira Brasil, Ltd. (BRAZIL) <i>E-commerce</i> <i>Rua Joaquim Floriano, 1052 - Sao Paulo</i> | | 97.00% | 97.00% | 5.91 | (2.91) | - | (2.77) | 5.91 | I. G. | - |
| Katalyx SIP, Llc. (USA) <i>E-commerce financial services</i> <i>1221 Brickell Avenue - Miami, Florida</i> | | 100.00% | 100.00% | - | (1.68) | - | (0.68) | - | I. G. | - |
| Mercador, S.A. (BRAZIL) <i>E-commerce</i> <i>Rua Joaquim Floriano, 1052 - Sao Paulo</i> | | 54.00% | 54.00% | 13.24 | (3.34) | - | (1.99) | 19.08 | E.M. | 4.79 |
| Hotelnet b2b, S.A. <i>E-commerce</i> | | 12.25% | 12.25% | 0.11 | 11.80 | - | (0.39) | 1.68 | C. | 1.68 |

(*) Companies filing consolidated corporate income tax returns in 2000.

(**) Companies filing consolidated corporate income tax returns in 2001.

| DEPENDENT COMPANIES AND THEIR HOLDINGS | OWNERSHIP | | | CAPITAL STOCK | RESERVES | INTERIM DIVIDEND | INCOME (LOSS) | GROSS BOOK VALUE | CONSOLIDATION METHOD | VALUE IN CONSOLIDATION (10) |
|---|-----------|----------|------------------|---------------|----------|------------------|---------------|------------------|----------------------|-----------------------------|
| | DIRECT | INDIRECT | TELEFONICA GROUP | | | | | | | |
| Katalyx Food Service, Llc (USA) <i>E-commerce</i> 1221 Brickell Avenue - Miami, Florida | | 100.00% | 100.00% | - | (1.42) | - | (1.82) | - | I. G. | - |
| Katalyx Food Service España, S.L. (SPAIN) <i>E-commerce</i> Pl. Pablo Ruíz Picaso, s/n. Edif. Torre Picaso - Madrid | | 100.00% | 100.00% | 0.01 | 0.01 | - | (2.12) | 0.01 | I. G. | - |
| Katalyx Food Service Argentina, S.R.L. (ARGENTINA) <i>E-commerce</i> Bouchard, 680 - Buenos Aires | | 100.00% | 100.00% | 0.01 | 0.12 | - | (1.42) | 0.01 | I. G. | - |
| Katalyx Food Service Mexico, S.R.L. de C.V. (MEXICO) <i>E-commerce</i> Boulevard Avila Camacho, 24 - Mexico D.F. | | 100.00% | 100.00% | - | (0.04) | - | (1.78) | - | I. G. | - |
| Katalyx Transportation, Llc. (USA) <i>E-commerce</i> 1221 Brickell Avenue - Miami, Florida | | 100.00% | 100.00% | - | 2.36 | - | (0.94) | - | I. G. | - |
| Katalyx Transportation España, S.L. (SPAIN) <i>E-commerce</i> Pl. Pablo Ruíz Picaso, s/n. Edif. Torre Picaso - Madrid | | 100.00% | 100.00% | 0.01 | 0.01 | - | (1.50) | 0.01 | I. G. | - |
| Katalyx Transportation Argentina, S.R.L. (ARGENTINA) <i>E-commerce</i> Bouchard, 680 - Buenos Aires | | 100.00% | 100.00% | 0.01 | 0.01 | - | (0.04) | 0.01 | I. G. | - |
| Katalyx Transportation Mexico, Llc. (MEXICO) <i>E-commerce</i> Boulevard Avila Camacho, 24 - Mexico D.F. | | 100.00% | 100.00% | - | (0.06) | - | (3.00) | - | I. G. | - |
| Katalyx Transportation Brasil, Ltd. (BRAZIL) <i>E-commerce</i> Rua Joaquim Floriano, 1052 - Sao Paulo | | 100.00% | 100.00% | - | (0.18) | - | (1.30) | - | I. G. | - |
| Katalyx Cataloguing, Inc. (USA) <i>E-commerce and cataloging</i> 1221 Brickell Avenue - Miami, Florida | | 100.00% | 100.00% | - | (3.21) | - | (1.75) | - | I. G. | - |
| Katalyx Cataloguing España, S.L. (SPAIN) <i>E-commerce and cataloging</i> Pl. Pablo Ruíz Picaso, s/n. Edif. Torre Picaso - Madrid | | 100.00% | 100.00% | 0.01 | - | - | (0.50) | 0.01 | I. G. | - |
| Katalyx Cataloguing Argentina, S.R.L. (ARGENTINA) <i>E-commerce and cataloging</i> Bouchard, 680 - Buenos Aires | | 100.00% | 100.00% | 0.01 | 0.16 | - | (0.41) | 0.01 | I. G. | - |
| Katalyx Cataloguing Mexico, S.R.L. de C.V. (MEXICO) <i>E-commerce and cataloging</i> Boulevard Avila Camacho, 24 - Mexico D.F. | | 100.00% | 100.00% | - | - | - | (0.07) | - | I. G. | - |
| Katalyx Cataloguing Brasil, Ltd. (BRAZIL) <i>E-commerce and cataloging</i> Rua Joaquim Floriano, 1052 - Sao Paulo | | 100.00% | 100.00% | - | (0.01) | - | (0.16) | - | I. G. | - |

(*) Companies filing consolidated corporate income tax returns in 2000.

(**) Companies filing consolidated corporate income tax returns in 2001.

| DEPENDENT COMPANIES AND THEIR HOLDINGS | OWNERSHIP | | | CAPITAL STOCK | RESERVES | INTERIM DIVIDEND | INCOME (LOSS) | GROSS BOOK VALUE | CONSOLIDATION METHOD | VALUE IN CONSOLIDATION (10) |
|--|----------------|----------|------------------|-----------------|-----------------|------------------|-----------------|------------------|----------------------|-----------------------------|
| | DIRECT | INDIRECT | TELEFONICA GROUP | | | | | | | |
| Katalyx Construction, Inc. (USA) <i>1221 Brickell Avenue - Miami, Florida</i> Katalyx Construction Argentina (ARGENTINA) | | 100.00% | 100.00% | 0.01 | (4.72) | - | (0.75) | 0.01 | I. G. | - |
| Telefónica Consultora de Proyectos, S.A. (SPAIN) (*) (**) (2) <i>Teleassistance and value-added services</i> <i>Condesa de Venadito, 1 - 28027 Madrid</i> | 100.00% | | 100.00% | 10.82 | (1.70) | - | (0.71) | 9.11 | I. G. | - |
| Telefónica Ingeniería de Seguridad, S.A. (SPAIN) (*) (**) (2) <i>Security services and systems</i> <i>Condesa de Venadito, 1 - 28027 Madrid</i> | | 100.00% | 100.00% | 0.90 | 0.99 | - | (0.22) | 3.58 | I. G. | - |
| Telefónica Engenharia de Segurança (BRAZIL) Telefónica Consultora y Servicios, S.A. (SPAIN) (*) (**) (2) <i>Network and administration outsourcing</i> <i>Condesa de Venadito, 1 - 28027 Madrid</i> | | 99.99% | 99.99% | 0.20 | 0.14 | - | 0.54 | 0.19 | I. G. | - |
| | | 100.00% | 100.00% | 0.30 | 0.82 | - | (0.11) | 0.63 | I. G. | - |
| Telefónica de España, S.A.U. (SPAIN) (*) (**) (1) (9) <i>Telecommunications services in Spain</i> <i>Gran Vía, 28 - 28013 Madrid</i> | 100.00% | | 100.00% | 1,023.67 | 2,107.12 | (820.58) | 1,077.03 | 3,033.86 | I. G. | - |
| Telefónica Soluciones Sectoriales, S.A. (SPAIN) (*) (**) (12) <i>Consulting services for companies in the communications and IT industries</i> <i>General Perón, 38 Master II - 17ª Pta.- 28020 Madrid</i> | | 100.00% | 100.00% | 13.73 | (3.78) | - | 0.02 | 10.72 | I. G. | - |
| Portel Servicios Telemáticos, S.A. (SPAIN) (1) <i>Systems engineering and telecommunications in port areas</i> <i>Avda. de Partenón, 10 Campo de las Naciones - 28042 Madrid.</i> | | 49.00% | 49.00% | 3.01 | 0.01 | - | 0.17 | 1.35 | E.M. | 1.56 |
| Bitel Baleares Innovación Telemática, S.A. (SPAIN) (6) <i>Provision of services and systems engineering in the IT and communications fields</i> <i>Paseo Marítimo, 38 A - 07005 Palma de Mallorca</i> | | 39.00% | 39.00% | 2.50 | (0.95) | - | (0.09) | 0.69 | E.M. | 0.57 |
| Incatel (SPAIN) <i>Provision of multimedia services</i> <i>Cebrián, 3 - 35003 Las Palmas de Gran Canaria</i> | | 40.00% | 40.00% | 0.30 | (0.02) | - | 0.03 | 0.03 | E.M. | 0.03 |
| Tecnología e Ingeniería de Sist. y Servicios Avanzados de Telec., S.A. (TISSAT) (S) <i>Systems engineering and marketing of advanced services</i> <i>Correos, 1 - 46002 Valencia</i> | | 30.77% | 30.77% | 0.78 | 2.21 | - | (0.19) | 0.17 | E.M. | 0.93 |
| Madrid 112, S.A. (SPAIN) (6) <i>Emergency services and citizen advice in the Autonomous Community of Madrid</i> <i>Carretera de La Coruña, Km. 22 - Las Rozas - Madrid</i> | | 24.50% | 24.50% | 6.01 | (0.94) | - | (0.19) | 1.36 | E.M. | 1.16 |
| Fitex (SPAIN) <i>Software research and development</i> <i>Carlos Callejo, 37 - 10001 Cáceres</i> | | 24.50% | 24.50% | 0.60 | (0.13) | - | (0.02) | 0.19 | E.M. | 0.13 |
| SEMCA (SPAIN) <i>Emergency services in the Autonomous Community of Cantabria</i> <i>Casimiro Sainz, 4 - Santander</i> | | 20.00% | 20.00% | 0.75 | (0.07) | - | (0.02) | 0.12 | C | 0.12 |

(*) Companies filing consolidated corporate income tax returns in 2000.

(**) Companies filing consolidated corporate income tax returns in 2001.

| DEPENDENT COMPANIES AND THEIR HOLDINGS | OWNERSHIP | | | CAPITAL STOCK | RESERVES | INTERIM DIVIDEND | INCOME (LOSS) | GROSS BOOK VALUE | CONSOLIDATION METHOD | VALUE IN CONSOLIDATION (10) |
|---|-----------|----------|------------------|---------------|----------|------------------|---------------|------------------|----------------------|-----------------------------|
| | DIRECT | INDIRECT | TELEFONICA GROUP | | | | | | | |
| ATENET (SPAIN) <i>Teaching via computer systems</i> <i>C/ Jorge Juan, 32</i> | | 16.00% | 16.00% | 0.75 | (0.35) | - | (0.25) | 0.12 | C | 0.12 |
| Other holdings | | N/A | N/A | N/A | N/A | N/A | N/A | 0.60 | C | 0.60 |
| Teleinformática y Comunicaciones, S.A. (TELYCO) (SPAIN) (*) (**) (3) <i>Promotion, marketing and distribution of telephone and telematic equipment and services</i> <i>Plaza Descubridor Diego de Ordás, 3 - Pta. 4ª - 28003 Madrid</i> | | 100.00% | 100.00% | 2.76 | 26.55 | - | (2.46) | 12.47 | I. G. | - |
| Telyco Maroc, S.A. (MOROCCO) <i>Promotion, marketing and distribution of telephone and telematic equipment and services</i> <i>88 Bd Aldeimoumen - Casablanca</i> | | 54.00% | 54.00% | 0.60 | (0.02) | - | (0.04) | 0.32 | I. G. | - |
| Telefónica Telecomunicaciones Públicas, S.A. (SPAIN) (*) (**) (1) <i>Installation of public telephones</i> <i>Plaza de Carlos Trías Bertrán, 7 - 28020 Madrid</i> | | 100.00% | 100.00% | 1.20 | 57.38 | - | 10.46 | 64.12 | I. G. | - |
| SODETEL, Comercial de Servicios de Telecomunicaciones, S.A. (SPAIN) <i>Consulting, installation and operation of telecommunications services</i> <i>Parque industrial y de servicios de Mairena del Aljarafe - Sevilla</i> | | 50.00% | 50.00% | 0.12 | - | - | 0.04 | 0.06 | E.M. | 0.08 |
| Andalucía Digital Multimedia, S.A. (SPAIN) <i>Development of the audiovisual industry in Andalucía</i> <i>Edificio Azul, Parque Tecnológico de Andalucía - Málaga</i> | | 24.00% | 24.00% | 12.02 | (3.28) | - | (4.98) | 8.89 | E.M. | 0.90 |
| Iniciativas de Mercados Interactivos, S.A.U. (SPAIN) <i>Development of telecommunications activities and, in particular, in the B2B sector</i> <i>Avda. de Manoteras, 12 - 28050 MADRID</i> | | 20.00% | 20.00% | 0.45 | 31.75 | - | (4.62) | 7.64 | E.M. | 4.57 |
| Other holdings | | N/A | N/A | N/A | N/A | N/A | N/A | 27.62 | C. | 27.62 |
| Telefónica Cable, S.A. (SPAIN) (*) (**) (1) <i>Cable telecommunications services</i> <i>Virgilio, 2 - Edificio 2 - Ciudad de la Imagen (*) - 28223 Madrid</i> | | 100.00% | 100.00% | 26.81 | (4.44) | - | (3.67) | 29.58 | I. G. | - |
| Telefónica Cable Cantabria, S.A. (SPAIN) (*) (**) (1) <i>Cable television systems and value-added services</i> <i>La Milagrosa, 2 - 39001 Santander</i> | | 100.00% | 100.00% | 0.60 | (0.38) | - | - | 0.52 | I. G. | - |
| Telefónica Cable Menorca, S.A. (SPAIN) (*) (**) (1) <i>Cable television systems and value-added services</i> <i>Santiago Ramón y Cajal, 13 - Mahón - Menorca</i> | | 100.00% | 100.00% | 0.60 | (0.08) | - | (0.04) | 0.56 | I. G. | - |
| Telefónica Cable Asturias, S.A. (SPAIN) (*) (**) (1) <i>Cable television systems and value-added services</i> <i>Gral. Etorza, 8 - 33001 Oviedo</i> | | 100.00% | 100.00% | 0.60 | 0.04 | - | 0.02 | 0.61 | I. G. | - |
| Telefónica Cable Euskadi, S.A. (SPAIN) (*) (**) (1) <i>Cable television systems and value-added services</i> <i>Gregorio de la Revilla, 27 - 48010 Bilbao</i> | | 100.00% | 100.00% | 0.32 | (0.11) | - | - | 0.52 | I. G. | - |
| Sociedad General de Cablevisión Cádiz, S.A. (SPAIN) (*) (**) (1) <i>Cable television systems and value-added services</i> <i>Santa María Soledad, 6 - 11006 Cádiz</i> | | 100.00% | 100.00% | 0.60 | - | - | 0.01 | 0.56 | I. G. | - |
| Telefónica Cable Galicia, S.A. (SPAIN) <i>Cable television systems and value-added services</i> <i>Ronda de Outeiro, 1-3 - A Coruña</i> | | 70.00% | 70.00% | 0.60 | 0.06 | - | 0.01 | 0.43 | I. G. | - |

(*) Companies filing consolidated corporate income tax returns in 2000.

(**) Companies filing consolidated corporate income tax returns in 2001.

| DEPENDENT COMPANIES AND THEIR HOLDINGS | OWNERSHIP | | | CAPITAL STOCK | RESERVES | INTERIM DIVIDEND | INCOME (LOSS) | GROSS BOOK VALUE | CONSOLIDATION METHOD | VALUE IN CONSOLIDATION (10) |
|--|-----------|----------|------------------|---------------|----------|------------------|---------------|------------------|----------------------|-----------------------------|
| | DIRECT | INDIRECT | TELEFÓNICA GROUP | | | | | | | |
| Telefónica Cable Aragón, S.A. (SPAIN) (*) (**) <i>Cable television systems and value-added services</i> <i>Vía Universitat, 10 - Zaragoza</i> | | 100.00% | 100.00% | 0.60 | (0.05) | - | - | 0.50 | I. G. | - |
| Sociedad General de Cablevisión Málaga, S.A. (SPAIN) (*) (**) <i>Cable television systems and value-added services</i> <i>Hilera, 2 - 29007 Málaga</i> | | 100.00% | 100.00% | 0.60 | 0.05 | - | 0.01 | 0.61 | I. G. | - |
| Telefónica Cable Murcia, S.A. (SPAIN) (*) (**) <i>Cable television systems and value-added services</i> <i>San Antón, 4 - 30005 Murcia</i> | | 100.00% | 100.00% | 0.40 | (0.13) | - | - | 0.53 | I. G. | - |
| Telefónica Cable La Rioja, S.A. (SPAIN) (*) (**) <i>Cable television systems and value-added services</i> <i>San Millán, 3 - 26004 Logroño</i> | | 100.00% | 100.00% | 0.60 | (0.28) | - | - | 0.61 | I. G. | - |
| Telefónica Cable Valencia, S.A. (SPAIN) (*) (**) <i>Cable television systems and value-added services</i> <i>San Vicente, 148 - 46007 Valencia</i> | | 100.00% | 100.00% | 1.20 | (0.59) | - | 0.01 | 1.15 | I. G. | - |
| Telefónica Cable Castilla la Mancha, S.A. (SPAIN) (*) (**) <i>Cable television systems and value-added services</i> <i>Cuesta de Carlos V, 5 - Toledo</i> | | 100.00% | 100.00% | 0.60 | 0.03 | - | 0.03 | 0.61 | I. G. | - |
| Telefónica Cable Balears, S.A. (SPAIN) (*) (**) <i>Cable television systems and value-added services</i> <i>Federico García Lorca, 2 - 07014 Palma de Mallorca</i> | | 100.00% | 100.00% | 0.35 | (0.11) | - | (0.01) | 0.51 | I. G. | - |
| Telefónica Cable Catalunya, S.A. (SPAIN) (1) <i>Cable television systems and value-added services</i> <i>Avda. Icaria, 136 - 08805 Barcelona</i> | | 90.00% | 90.00% | 0.06 | (0.02) | - | (0.01) | 0.91 | I. G. | - |
| Telefónica Cable Andalucía, S.A. (SPAIN) (1) <i>Cable television systems and value-added services</i> <i>Graham Bell, 5 - 41010 Sevilla</i> | | 73.00% | 73.00% | 6.01 | (0.93) | - | 0.02 | 4.33 | I. G. | - |
| Telefónica Cable Navarra, S.A. (SPAIN) (1) <i>Cable television systems and value-added services</i> <i>Monasterio Oliva, 9 - 31011 Pamplona</i> | | 89.00% | 89.00% | 0.50 | (0.17) | - | 0.01 | 0.67 | I. G. | - |
| Telefónica Cable Extremadura, S.A. (SPAIN) (1) <i>Cable television systems and value-added services</i> <i>Ptza. de la Soledad, 2 -06001 Badajoz</i> | | 61.00% | 61.00% | 0.60 | 0.06 | - | 0.01 | 0.37 | I. G. | - |
| Telefónica Cable Madrid, S.A. (SPAIN) (1) <i>Cable television systems and value-added services</i> <i>Virgilio, 12 - Edificio 2 - Ciudad de la Imagen (*) - 28223 Madrid</i> | | 90.00% | 90.00% | 0.47 | (0.16) | - | - | 0.43 | I. G. | - |
| Telefónica Cable Castilla y León, S.A. (SPAIN) (1) <i>Cable television systems and value-added services</i> <i>Avda. de los Reyes Católicos, 38 - 09005 Burgos</i> | | 51.00% | 51.00% | 6.01 | (0.79) | - | 0.02 | 3.08 | I. G. | - |
| Sociedad General de Cablevisión Canarias, S.A. (SPAIN) (1) <i>Cable television systems and value-added services</i> <i>Alcalde Mandillo Tejera, 8 - 38007 Santa Cruz de Tenerife</i> | | 51.00% | 51.00% | 1.23 | (1.15) | - | - | 0.58 | I. G. | - |

(*) Companies filing consolidated corporate income tax returns in 2000.

(**) Companies filing consolidated corporate income tax returns in 2001.

| DEPENDENT COMPANIES AND THEIR HOLDINGS | OWNERSHIP | | | CAPITAL STOCK | RESERVES | INTERIM DIVIDEND | INCOME (LOSS) | GROSS BOOK VALUE | CONSOLIDATION METHOD | VALUE IN CONSOLIDATION (10) |
|---|-----------|----------|------------------|---------------|----------|------------------|---------------|------------------|----------------------|-----------------------------|
| | DIRECT | INDIRECT | TELEFONICA GROUP | | | | | | | |
| Telefónica Internet, S.A. (SPAIN) (**) <i>Internet access provider</i> <i>Gran Vía, 28 - 28013 Madrid</i> | 100.00% | | 100.00% | 0.06 | - | - | - | 0.06 | I. G. | - |
| Terra Networks, S.A. (SPAIN) (1) (9) <i>Provision and operation of telecommunications services</i> <i>Nicaragua, 54 - 08029 Barcelona</i> | 37.03% | 0.60% | 37.63% | 1,242.53 | 4,880.55 | - | (566.30) | 2,756.12 | I. G. | - |
| Maptel Networks, S.A.U. (SPAIN) (**) <i>Design, development, implementation and marketing of digital cartography</i> <i>Rosario Pino, 5 - 28020 Madrid</i> | | 100.00% | 37.63% | 1.50 | - | - | 0.01 | 1.37 | I. G. | - |
| Lycos Virginia, Inc. (U.S.A.) (9) <i>Worldwide portal services</i> <i>400-2 Totten Pond Road - Waltham, MA 02451 - Massachusetts</i> | | 100.00% | 37.63% | 3.06 | 1,667.48 | - | (315.96) | 2,881.32 | I. G. | - |
| Other holdings | | N/A | N/A | N/A | N/A | N/A | N/A | 63.23 | E.M. | 238.11 |
| Other holdings | | N/A | N/A | N/A | N/A | N/A | N/A | 42.70 | C. | 42.70 |
| Terra Networks Perú, S.A.C. (PERU) (1) <i>Internet-access provider and portal</i> <i>Los Sauces, 374 - Torre Roja - San Borja - Lima</i> | | 99.99% | 37.63% | 2.04 | 32.41 | - | (9.34) | 47.82 | I. G. | - |
| Terra Networks Mexico Holding, S.A. De C.V. (MEXICO) (1) (9) <i>Holding company</i> <i>Antonio L. Rodríguez 1884, Monterrey - Nuevo Leon</i> | | 100.00% | 37.63% | 86.38 | 166.37 | - | (110.93) | 308.14 | I. G. | - |
| Terra Networks Mexico, S.A. De C.V. (MEXICO) (1) (9) <i>Internet-access provider, portal and real-time financial information provider</i> <i>Ciudad de Monterrey - Nuevo Leon</i> | | 99.99% | 37.63% | 5.10 | 207.16 | - | (94.67) | 109.44 | I. G. | - |
| Terra Networks USA, Inc. (U.S.A.) (1) (9) <i>Holding company</i> <i>1201 Hays Street, Tallahassee - Florida</i> | | 100.00% | 37.63% | 7.50 | (97.60) | - | (39.55) | 67.47 | I. G. | - |
| Terra Networks Operation, Inc. (U.S.A.) <i>Development and management of Terra's business in U.S.A</i> <i>1201 Brickell Avenue Suite 700 - 33.131 Miami - Florida</i> | | 100.00% | 37.63% | 0.01 | (0.28) | - | (100.41) | 0.01 | I. G. | - |
| Terra Networks Sales (U.S.A.) | | 100.00% | 37.63% | 0.01 | - | - | 0.01 | 0.01 | I. G. | - |
| Terra Networks Financial Services USA Llc. (U.S.A.) | | 100.00% | 37.63% | 0.01 | 39.60 | - | 1.16 | 39.59 | I. G. | - |
| Deremate.com, Inc. (USA) <i>Internet content and e-commerce</i> <i>1018 Centre Road, Wilmington - Delaware</i> | | 29.50% | 11.10% | - | - | - | - | 50.50 | E.M. | 5.64 |
| Terra Networks Guatemala, S.A. (GUATEMALA) (1) <i>Internet-access provider and portal</i> <i>C/ Diagonal, 6 Edificio Las Margaritas II - Ciudad de Guatemala</i> | | 100.00% | 37.63% | 8.49 | (2.26) | - | (3.89) | 13.85 | I. G. | - |
| Terra Networks El Salvador, S.A. (EL SALVADOR) <i>Development of the Internet service in El Salvador</i> <i>Nuevo San Salvador</i> | | 99.99% | 37.63% | 0.01 | N/D | N/D | N/D | 0.01 | I. G. | - |

(*) Companies filing consolidated corporate income tax returns in 2000.

(**) Companies filing consolidated corporate income tax returns in 2001.

| DEPENDENT COMPANIES AND THEIR HOLDINGS | OWNERSHIP | | | CAPITAL STOCK | RESERVES | INTERIM DIVIDEND | INCOME (LOSS) | GROSS BOOK VALUE | CONSOLIDATION METHOD | VALUE IN CONSOLIDATION (10) |
|---|-----------|----------|------------------|---------------|----------|------------------|---------------|------------------|----------------------|-----------------------------|
| | DIRECT | INDIRECT | TELEFONICA GROUP | | | | | | | |
| Centro de Investigación y Experimentación de la Realidad Virtual, S.L. (SPAIN) <i>Design of communications products</i> <i>Plaza de Canalejas, 3 - 28014 Madrid</i> | | 100.00% | 37.63% | 0.00 | - | - | (0.01) | 10.08 | I. G. | - |
| Corporation Real Time Team, S.L. (SPAIN) (9) <i>Development, programming, advertising and consulting on the Internet</i> <i>Almirante, 16 - Madrid</i> | | 35.16% | 13.23% | 0.02 | N/D | N/D | N/D | 12.40 | E.M. | - |
| Terra Networks Venezuela, S.A. (VENEZUELA) <i>Development of the Internet business in Venezuela</i> <i>Caracas - Venezuela</i> | | 100.00% | 37.63% | 5.02 | 7.61 | - | (6.11) | 16.89 | I. G. | - |
| Telefónica Interactiva Brasil, Ltda. (BRAZIL) (1) (9) <i>Holding company</i> <i>Rua de Consolação, 247, 6º - Sao Paulo</i> | | 99.99% | 37.63% | 202.90 | (113.93) | - | (134.93) | 393.74 | I. G. | - |
| Terra Networks Brasil, S.A. y subsidiarias (BRAZIL) (1) (9) <i>Internet-access provider and portal</i> <i>Porto Alegre</i> | | 100.00% | 37.63% | 394.05 | (146.23) | - | (131.43) | 365.20 | I. G. | - |
| Terra Networks Asociadas, S.L. (SPAIN) <i>Holding company</i> <i>Avda. Dos Castillas, 33 - Comp. Ática Ed. 1, 1ª Pta. Pozuelo de Alarcón - 28224 Madrid</i> | | 100.00% | 37.63% | 0.01 | - | - | - | 0.01 | I. G. | - |
| Iniciativas Residenciales en Internet, S.A. (ATREA) (SPAIN) | | 50.00% | 18.82% | N/D | N/D | N/D | N/D | 1.44 | C. | 1.44 |
| Terra Mobile, S.A. (SPAIN) (9) | | 20.00% | | 1.92 | (71.12) | - | (101.50) | 26.52 | I. G. | - |
| Terra Networks España, S.A. (SPAIN) (12) <i>Provider of Internet-access under the Teletline brand name</i> <i>Julían Camarillo, 6, 2ª P. - 28037 Madrid</i> | | 100.00% | 37.63% | 8.12 | (2.62) | - | (111.76) | 76.47 | I. G. | - |
| Terra Networks Mexico Holding, S.A. De C.V. (MEXICO) | | 18.00% | | | | | | | | |
| Terra Networks Colombia Holding, S.A. (COLOMBIA) | | 8.30% | | | | | | | | |
| Terra Networks Guatemala, S.A. (GUATEMALA) | | 1.66% | | | | | | | | |
| Ifigenia Plus, S.L. (SPAIN) <i>Culture and education software</i> <i>Plaza Alonso Martínez, 3 - Madrid</i> | | 100.00% | 37.63% | 0.14 | 0.62 | - | (0.15) | 11.95 | I. G. | - |
| Educaterra, S.L. (SPAIN) | | 100.00% | 37.63% | 0.06 | - | - | - | 0.06 | I. G. | - |
| Terra Lycos Intangibles, S.A. (SPAIN) (1) <i>Inactive company</i> <i>Avda. Dos Castillas, 33 - Comp. Ática Ed. 1, 1ª Pta. Pozuelo de Alarcón - 28224 Madrid</i> | | 100.00% | 37.63% | 0.06 | 0.01 | - | - | 0.06 | C. | 0.06 |
| Terra Networks Chile Holding Limitada (CHILE) (1) (9) <i>Holding company</i> <i>C/ Moneda, 970, piso 12 - Santiago</i> | | 99.99% | 37.63% | 93.48 | (26.39) | - | (17.26) | 93.48 | I. G. | - |
| Terra Networks Chile, S.A. (CHILE) (1) <i>Internet-access provider and portal</i> <i>C/ Moneda, 970, piso 12 - Santiago</i> | | 100.00% | 37.63% | 32.33 | (23.91) | - | (11.05) | 71.44 | I. G. | - |

(*) Companies filing consolidated corporate income tax returns in 2000.

(**) Companies filing consolidated corporate income tax returns in 2001.

| DEPENDENT COMPANIES AND THEIR HOLDINGS | OWNERSHIP | | | CAPITAL STOCK | RESERVES | INTERIM DIVIDEND | INCOME (LOSS) | GROSS BOOK VALUE | CONSOLIDATION METHOD | VALUE IN CONSOLIDATION (10) |
|--|-----------|----------|------------------|---------------|----------|------------------|---------------|------------------|----------------------|-----------------------------|
| | DIRECT | INDIRECT | TELEFÓNICA GROUP | | | | | | | |
| Terra Networks Argentina, S.A. (ARGENTINA) (1) <i>Internet-access provider and portal</i> <i>Tucumán, 1, piso 17 - Ciudad de Buenos Aires</i> | | 100.00% | 37.63% | 39.47 | (16.40) | - | (16.09) | 39.54 | I. G. | - |
| Ordenamiento de Links Especializados, S.L. (SPAIN) <i>Spanish-language Internet browser</i> <i>Nicaragua, 54 - Barcelona</i> | | 100.00% | 37.63% | 6.00 | (2.42) | - | 0.64 | 18.03 | I. G. | - |
| OLE de Contenidos Interactivos, S.A. (SPAIN) <i>Gathering, preparation and dissemination of all kinds of information</i> | | 100.00% | 37.63% | 0.09 | 0.15 | - | (0.23) | 6.01 | I. G. | - |
| Advertising Quality, S.L. (SPAIN) <i>Telematic media advertising and IT projects</i> <i>Paseo de la Castellana, 210 - 28046 Madrid</i> | | 100.00% | 37.63% | 0.01 | - | - | - | 0.01 | C. | 0.01 |
| Red Universal de Marketing y Bookings On-Line, S.A. (SPAIN) <i>Tourism, passenger transport and hospitality services through the Internet</i> <i>Proción 1 y 3 La Florida - Madrid</i> | | 50.00% | 18.82% | 9.00 | 2.86 | - | (6.91) | 7.50 | E.M. | 2.07 |
| Terra Networks Uruguay (URUGUAY) <i>Internet-access provider and portal</i> <i>Pje. Peat. Cont. Echevarriarza nº 3535 Torres del Puerto A 11300 Montevideo</i> | | 100.00% | 37.63% | 1.47 | 0.97 | - | (1.69) | 5.06 | I. G. | - |
| Terra Networks Maroc. (MOROCCO) <i>Inactive company</i> | | 100.00% | 37.63% | 0.01 | N/D | N/D | N/D | 0.02 | C. | 0.02 |
| Azeler Automoción, S.A. (SPAIN) <i>Motoring portal</i> | | 50.00% | 18.82% | 1.80 | 6.62 | N/D | N/D | 4.23 | E.M. | 2.77 |
| Terra Networks Caribe (REPÚBLICA DOMINICANA) <i>Portal</i> <i>Fantino Falco nº 24, Edif. J. Baez, 1er Piso, Santo Domingo</i> | | 99.98% | 37.63% | 1.03 | (0.01) | - | (0.84) | 1.29 | I. G. | - |
| Terra Networks Games, Co. (U.S.A.) | | 100.00% | 37.63% | N/D | N/D | N/D | N/D | 0.10 | C. | 0.10 |
| Terra Global Management, Inc. (U.S.A.) <i>Corporate management in USA</i> | | 100.00% | 37.63% | 0.01 | - | - | 0.01 | 0.10 | I. G. | - |
| Terra Networks Intangibles, S.A. (SPAIN) <i>Intangible asset holding and operating company</i> <i>Gran Vía, 28 - Madrid</i> | | 100.00% | 37.63% | 0.66 | 13.67 | - | (0.12) | 19.29 | I. G. | - |
| Terra Networks LATAM, S.A. (SPAIN) <i>Foreign securities holding company</i> <i>Avda. Dos Castillas, 33 - Comp. Ática Ed. 1, 1ª Pta. Pozuelo de Alarcón - 28224 Madrid</i> | | 100.00% | 37.63% | 251.78 | 33.75 | - | (326.87) | 41.25 | I. G. | - |
| Terra Networks Colombia Holding, S.A. (COLOMBIA) (1) <i>Holding company</i> <i>Avda. 100 nº 7-33 Torre 11 Of.301, Santa Fé de Bogotá</i> | | 100.00% | 37.63% | 0.03 | 24.33 | - | (9.86) | 27.92 | I. G. | - |
| Terra Networks Colombia, S.A. (La Ciudad.com)(COLOMBIA) (1) <i>Portal</i> <i>Avda. 100 nº 7-33 Torre 11 Of.301, Santa Fé de Bogotá</i> | | 65.00% | 24.46% | 0.69 | 6.18 | - | (4.62) | 26.66 | I. G. | - |
| Terra Networks Serviços de Acesso a Internet e Trading Ltd. (PORTUGAL) <i>Inactive company</i> <i>Avda. Arriaga, 73-2º andar, sala 112 - Freguesia de Se, Concelho do Funchal</i> | | 100.00% | 37.63% | N/D | N/D | N/D | N/D | 0.01 | C. | 0.01 |

(*) Companies filing consolidated corporate income tax returns in 2000.

(**) Companies filing consolidated corporate income tax returns in 2001.

| DEPENDENT COMPANIES AND THEIR HOLDINGS | OWNERSHIP | | | CAPITAL STOCK | RESERVES | INTERIM DIVIDEND | INCOME (LOSS) | GROSS BOOK VALUE | CONSOLIDATION METHOD | VALUE IN CONSOLIDATION (10) |
|---|----------------|----------|------------------|-----------------|--------------|------------------|-----------------|------------------|----------------------|-----------------------------|
| | DIRECT | INDIRECT | TELEFÓNICA GROUP | | | | | | | |
| UNO-E Bank, S.A. (SPAIN) <i>On line banking</i> | | 49.00% | 18.44% | 36.06 | 44.58 | - | (34.78) | 160.43 | E.M. | 22.47 |
| Bumeran Participaciones, S.L. (SPAIN) <i>Vertical employment and human resources portal</i> <i>Avda. Dos Castillas, 33 - Comp. Ática Ed. 1, 1ª Pta. Pozuelo de Alarcón - 28224 Madrid</i> | | 83.60% | 31.46% | 5.67 | 10.33 | - | (7.82) | 12.17 | I. G. | - |
| Inversis Networks, S.A. (SPAIN) <i>Computer and telematic systems and software</i> | | 9.00% | 3.39% | 24.04 | - | - | - | 5.84 | C. | 5.84 |
| Terra Meta4 (SPAIN) <i>Corporate portal</i> | | 50.00% | 18.82% | 2.40 | 2.57 | - | (3.62) | 5.02 | E.M. | 0.69 |
| One Travel.com, Inc. (USA) <i>Travel reservations portal</i> | | 27.73% | 10.44% | 0.01 | 2.48 | - | (8.58) | 15.99 | E.M. | - |
| A tu Hora, S.A. (SPAIN) <i>E-commerce</i> <i>Avda. de Europa, 24 - Parque empresarial La Moraleja - Madrid</i> | | 50.00% | 18.82% | 7.18 | 2.21 | - | (2.88) | 6.59 | E.M. | 3.25 |
| Telefónica Datacorp, S.A.U. (SPAIN) (*) (**) (1) (9) <i>Provision and operation of telecommunications services</i> <i>Gran Vía, 28 - 28013 Madrid</i> | 100.00% | | 100.00% | 2,016.29 | 35.49 | - | (214.41) | 493.48 | I. G. | - |
| Telefónica Data Mexico (MEXICO) (1) | | 37.11% | | | | | | | | |
| Telefónica Data Mexico Holding (MEXICO) (1) <i>Global Telecommunication services</i> <i>Mexico</i> | | 94.71% | 94.71% | 22.87 | 3.50 | - | (0.02) | 23.65 | I. G. | - |
| Telefónica Data Mexico (MEXICO) (1) <i>Global Telecommunication services</i> <i>Sierra Santa Rosa, 61 - Lomas de Chapultepec - 11.650 Mexico DF</i> | | 45.66% | 92.23% | 44.21 | (4.34) | - | (15.44) | 50.83 | I. G. | - |
| Telefónica Data Holding, S.L. (*) (**) (SPAIN) (1) <i>Holding company</i> <i>Gran Vía, 28 - Madrid</i> | | 100.00% | 100.00% | 65.25 | (47.80) | - | (23.96) | 65.25 | I. G. | - |
| Telefónica Data Mexico (MEXICO) (1) | | 11.88% | | | | | | | | |
| European Telecom International GmbH (AUSTRIA) (1) <i>Alternative telecommunications operator</i> <i>Floragasse 7, A-1040 - Viena</i> | | 100.00% | 100.00% | 0.07 | 26.94 | - | (29.43) | 77.81 | I. G. | - |
| Telefónica Data Colombia, S.A. (COLOMBIA) (1) <i>Global Telecommunication services</i> <i>Santa Fé de Bogotá</i> | | 50.01% | 50.01% | 9.53 | 2.45 | - | (4.06) | 2.31 | I. G. | - |
| Rey Moreno, S.A. (COLOMBIA) (1) <i>Global Telecommunication services</i> <i>101 AN 28-3F Santa Fé de Bogotá</i> | | 50.00% | 50.00% | N/D | N/D | N/D | N/D | 11.11 | I. G. | - |

(*) Companies filing consolidated corporate income tax returns in 2000.

(**) Companies filing consolidated corporate income tax returns in 2001.

| DEPENDENT COMPANIES AND THEIR HOLDINGS | OWNERSHIP | | | CAPITAL STOCK | RESERVES | INTERIM DIVIDEND | INCOME (LOSS) | GROSS BOOK VALUE | CONSOLIDATION METHOD | VALUE IN CONSOLIDATION (10) |
|---|-----------|----------|------------------|---------------|----------|------------------|---------------|------------------|----------------------|-----------------------------|
| | DIRECT | INDIRECT | TELEFONICA GROUP | | | | | | | |
| Telefónica Data Brasil, S.A. (BRAZIL) (1) <i>Telecommunications services</i> <i>Rua da Consolação, 247 - 6 - Sao Paulo</i> | | 100.00% | 100.00% | 249.87 | (7.28) | - | (1.76) | 249.62 | I. G. | - |
| Telefónica Datos de Venezuela, S.A. (VENEZUELA) (1) <i>Telecommunications services</i> <i>Avda. Las Palmas, 3º - 1050 Caracas</i> | | 99.99% | 99.99% | 0.01 | 0.41 | - | 0.11 | 0.02 | I. G. | - |
| Telefónica Data Canadá, Inc. (CANADA) (1) <i>Telecommunications services</i> | | 100.00% | 100.00% | 0.01 | - | - | - | 0.01 | I. G. | - |
| Telefónica Data Caribe (SPAIN) | | 10.00% | | | | | | | | |
| Telefónica Data USA (USA) (1) <i>Telecommunications services</i> <i>1221 Brickell Avenue - 33131 Miami - Florida</i> | | 100.00% | 100.00% | 30.41 | (0.79) | - | (23.02) | 29.70 | I. G. | - |
| Telefónica Data Licencing (USA) <i>Instrumentality company</i> <i>1221 Brickell Avenue - 33131 Miami - Florida</i> | | 100.00% | 100.00% | N/D | N/D | N/D | N/D | N/D | C. | - |
| Telefónica Data Business Commerce, Inc. (USA) <i>Instrumentality company</i> | | 100.00% | 100.00% | N/D | N/D | N/D | N/D | 0.01 | C. | 0.01 |
| Telefónica Data Uruguay, S.A. (URUGUAY) (1) <i>Provision and operation of telecommunications services</i> <i>Ituzaingo, 1393 Pta.3ª - 11.000 Montevideo</i> | | 100.00% | 100.00% | 0.12 | (2.52) | - | (6.92) | 0.13 | I. G. | - |
| Telefónica Data Atlas, S.A. (MOROCCO) <i>Provision and operation of telecommunications services</i> <i>Tour Bmce, Rond Point Hassan II - Casablanca</i> | | 59.86% | 59.86% | 300 m.DH | N/D | N/D | N/D | 0.02 | C. | 0.02 |
| Telefónica Data Caribe (*) (**) (SPAIN) (1) <i>Global Telecommunication services</i> <i>Beatriz de Bobadilla, 14 - 28040 Madrid</i> | | 90.00% | 100.00% | 0.06 | - | - | - | 0.05 | I. G. | - |
| Telefónica Data Cuba (CUBA) <i>Provision and operation of telecommunications services</i> | | 50.00% | 50.00% | 14.92 | - | - | - | 7.81 | C. | 7.81 |
| Agencia de Certificación Electrónica, S.A. (SPAIN) (2) <i>Development of "Electronic notary" business through SET technology</i> <i>Sor Angela de la Cruz, 3 - 28020 Madrid</i> | | 85.00% | 85.00% | 5.31 | (1.89) | - | (2.21) | 4.91 | I. G. | - |
| Atlantet, S.p.a. (ITALY) (1) <i>Telecommunications services</i> <i>Via Mario Bianchini, 60 - 00142 Roma</i> | | 34.00% | 34.00% | 120.57 | 169.47 | - | (82.65) | 170.74 | I. G. | - |
| Ipse - 2000 (ITALY) (1) | | 12.00% | 4.08% | 635.35 | 1,700.36 | - | (64.92) | 280.49 | E.M. | 276.72 |
| Telefónica Data Perú (PERU) (1) | | 97.07% | 97.07% | 31.25 | 2.57 | - | 1.09 | 18.16 | I. G. | - |
| Telefónica Servicios Financieros (PERU) | | 100.00% | 97.07% | N/D | N/D | N/D | N/D | N/D | I. G. | - |
| Telefónica Servicios Internet (PERU) | | 100.00% | 97.07% | N/D | N/D | N/D | N/D | N/D | I. G. | - |
| Telefónica Data Argentina (ARGENTINA) (11) | | 97.92% | 97.92% | 108.79 | (28.04) | - | (27.50) | 97.55 | I. G. | - |
| Tyssa, Telecomunicaciones y Sistemas, S.A. (ARGENTINA) (11) | | 80.00% | 98.34% | 4.36 | 0.12 | - | (17.57) | 0.19 | I. G. | - |
| Intelsat | | N/D | N/D | N/D | N/D | N/D | N/D | 1.38 | C. | 1.38 |

(*) Companies filing consolidated corporate income tax returns in 2000.

(**) Companies filing consolidated corporate income tax returns in 2001.

| DEPENDENT COMPANIES AND THEIR HOLDINGS | OWNERSHIP | | | CAPITAL STOCK | RESERVES | INTERIM DIVIDEND | INCOME (LOSS) | GROSS BOOK VALUE | CONSOLIDATION METHOD | VALUE IN CONSOLIDATION (10) |
|---|----------------|----------|------------------|---------------|-------------|------------------|---------------|------------------|----------------------|-----------------------------|
| | DIRECT | INDIRECT | TELEFÓNICA GROUP | | | | | | | |
| Telefónica Data Brasil Holding (BRAZIL) | | 86.61% | 86.61% | 113.04 | (12.74) | - | (1.00) | N/D | I. G. | - |
| Telefónica Empresas (BRAZIL) | | 100.00% | 86.61% | 127.97 | 79.60 | - | (13.61) | 191.89 | I. G. | - |
| Telefónica Data España, S.A.U. (SPAIN) (*) (**) (1) <i>Data transmission</i> <i>Beatriz de Bobadilla, 18 - 28040 Madrid</i> | | 100.00% | 100.00% | 39.26 | 82.89 | - | 35.59 | 130.81 | I. G. | - |
| Telefónica Sistemas, S.A. (SPAIN) (*) (**) (1) <i>Systems engineering, networks and telecommunications infrastructure</i> <i>Sor Angela de la Cruz, 3 - Pl. 9ª - 28020 Madrid</i> | | 100.00% | 100.00% | 8.43 | 19.61 | - | (13.04) | 30.18 | I. G. | - |
| Telefónica Sistemas Ingeniería de Productos Guatemala, S.A. (GUATEMALA) (1) <i>Telecommunications systems and equipment engineering</i> <i>Guatemala</i> | | 100.00% | 100.00% | 0.01 | (0.01) | - | (0.22) | 0.01 | I. G. | - |
| Telefónica Ingeniería de Comunicaciones, S.A. (SPAIN) (*) (**) (1) <i>Management and marketing of networks</i> <i>Goya, 4 - 28001 Madrid</i> | | 100.00% | 100.00% | 1.71 | (0.66) | - | (0.05) | 0.55 | I. G. | - |
| Telefónica Sistemas El Salvador, S.A. de C.V. (EL SALVADOR) (1) <i>Provision of engineering and systems services</i> <i>San Salvador</i> | | 100.00% | 100.00% | 0.03 | (0.25) | - | 0.27 | 0.02 | I. G. | - |
| T.S. Telefónica Sistemas de Portugal, S.A. (PORTUGAL) (8) <i>Communications systems equipment engineering</i> <i>Praça de Albalade, 6 - 2º A-1 - 1700 Lisboa</i> | | 87.50% | 99.99% | N/D | N/D | N/D | N/D | 0.26 | E.M. | 0.26 |
| Interdomain, S.A. (SPAIN) (*) (**) (12) <i>Fernando El Santo, 15 - 28.010 Madrid</i> | | 100.00% | 100.00% | 0.30 | 0.19 | - | 0.16 | 0.38 | I. G. | - |
| Segur Virtual (SPAIN) (3) <i>Virtual insurance market research</i> <i>Plaza de la Lealtad, 4 - 28014 Madrid</i> | | 49.00% | 49.00% | 3.49 | (1.24) | - | (1.52) | 1.59 | E.M. | (0.21) |
| Gestión del Conocimiento, S.A. (SPAIN) (1) <i>Consulting and installation of Virtual Campuses for teaching</i> <i>Avda. Tibidabo, 39-43 - Barcelona</i> | | 24.00% | 24.00% | 0.18 | 0.81 | - | (0.32) | 0.19 | E.M. | 0.32 |
| Casertel (SPAIN) (3) <i>Virtual insurance marketing</i> <i>Plaza de la Lealtad, 4 - 28014 Madrid</i> | | 15.00% | 15.00% | 3.01 | (0.01) | - | - | 0.45 | C | 0.45 |
| Euroinformarket, S.A. (SPAIN)(1) | | 5.00% | 5.00% | 3.01 | (0.20) | - | (0.38) | 0.15 | C | 0.15 |
| MediaWays GMBH Internet Services (GERMANY) <i>Provision and operation of telecommunications services</i> <i>Hülshorstweg, 30 - 33415 Verl</i> | 100.00% | | 100.00% | 62.53 | 2.73 | - | (2.46) | 1,535.58 | I. G. | - |
| MediaWays U.K. (UNITED KINGDOM) | | 100.00% | 100.00% | - | (0.06) | - | (4.35) | - | I. G. | - |
| Paderlinx (GERMANY) | | 100.00% | 100.00% | 0.05 | 0.08 | - | 0.08 | 1.74 | I. G. | - |

(*) Companies filing consolidated corporate income tax returns in 2000.

(**) Companies filing consolidated corporate income tax returns in 2001.

| DEPENDENT COMPANIES AND THEIR HOLDINGS | OWNERSHIP | | | CAPITAL STOCK | RESERVES | INTERIM DIVIDEND | INCOME (LOSS) | GROSS BOOK VALUE | CONSOLIDATION METHOD | VALUE IN CONSOLIDATION (10) |
|---|-----------|----------|------------------|---------------|----------|------------------|---------------|------------------|----------------------|-----------------------------|
| | DIRECT | INDIRECT | TELEFÓNICA GROUP | | | | | | | |
| Grupo Admira Media , S.A. (ESPAÑA) (*) (**) (1) (9) <i>Organization and operation of activities and businesses relating to multimedia services</i> <i>Paseo de la Castellana, 141 - 28046 Madrid</i> | 100.00% | | 100.00% | 2,163.60 | (950.77) | - | (347.23) | 2,241.88 | I. G. | - |
| Euroleague Marketing, S.L. (SPAIN) (1) <i>Exploitation of rights of the basketball Euroleague</i> <i>Paseo de la Castellana, 141 - 28046 Madrid</i> | | 70.00% | 70.00% | 0.06 | (11.71) | - | (5.78) | 0.04 | I. G. | - |
| Fieldy, B.V. (NETHERLANDS) (9) <i>Record label, audiovisual distribution and event organization</i> <i>Locatellikade, 1 1076 A-Z - Amsterdam</i> | | 51.00% | 51.00% | 0.05 | 17.45 | - | (6.97) | 42.44 | I. P. | - |
| Líderes Entertainment Group, Inc. (USA) <i>Management and marketing of artists rights</i> <i>3191 Coral Way - Miami</i> | | 49.00% | 49.00% | 0.01 | (0.25) | - | 0.84 | 19.96 | I. P. | - |
| Telefónica Sport, S.A. (SPAIN) (*) (**) <i>Management and use of audiovisual rights in any media</i> <i>Paseo de la Castellana, 141 - 28046 Madrid</i> | | 100.00% | 100.00% | 0.06 | (0.01) | - | (1.30) | 0.06 | I. G. | - |
| Telefónica Media Internacional y de Contenidos, S.A. (SPAIN) (*) (**) <i>Operator of media services in Latin America</i> <i>Gran Vía, 28 - 28013 Madrid</i> | | 100.00% | 100.00% | 0.60 | - | - | (2.46) | 13.56 | I. G. | - |
| Telefónica Media Internacional y de Contenidos USA, Inc. (USA) <i>Operator of media services in the USA</i> <i>1221 Brickell Av. - Miami</i> | | 100.00% | 100.00% | 21.50 | (16.88) | - | (3.28) | 20.93 | I. G. | - |
| Telefónica Media Argentina, S.A. (ARGENTINA) (1) <i>Holdings in businesses of areas related to media</i> <i>Tucumán, 1 Pta.17º - Buenos Aires</i> | | 100.00% | 100.00% | 203.64 | (18.34) | - | (4.84) | 453.19 | I. G. | - |
| AC Inversora, S.A. (ARGENTINA) (1) (9) <i>Holdings in free-to-air television channels</i> | | 100.00% | 100.00% | 104.91 | (70.09) | - | (22.81) | - | I. G. | - |
| Azul Tv (Telearte, S.A.) (ARGENTINA) (1) <i>Management of public T.V. Service</i> <i>Conde, 50 - C1426AYB - Buenos Aires</i> | | 50.00% | 50.00% | 204.08 | (138.91) | - | (124.89) | 30.42 | E.M. | 4.00 |
| Atlántida Comunicaciones, S.A. (ARGENTINA) (1) (9) <i>Free-to-air television and radio</i> <i>Tucumán, 1 Pta.20 - Buenos Aires</i> | | 100.00% | 100.00% | 492.26 | (453.02) | - | (347.49) | - | I. G. | - |
| Other holdings | | N/A | N/A | N/A | N/A | N/A | N/A | N/D | E.M. | 1.02 |
| Torneos y Competencias, S.A. (ARGENTINA) (3) <i>Television producer and advertising agency</i> <i>Balcarce 510 - Buenos Aires</i> | | 20.00% | 20.00% | 33.11 | 89.44 | - | 1.98 | 81.81 | E.M. | 15.13 |
| Admira Servicios Audiovisuales, S.A. (SPAIN) (*) (**) (1) <i>Audiovisual telecommunications services of all kinds</i> <i>Virgilio, 2 - Edificio 2 - Ciudad de la Imagen (*) - 28223 Madrid</i> | | 100.00% | 100.00% | 6.01 | 16.33 | - | 5.22 | 8.37 | I. G. | - |
| Cadena Voz de Radiodifusión, S.A. (SPAIN) (*) (**) <i>National chain of radio stations</i> <i>Concepción Arenal, 11-13 - A Coruña</i> | | 100.00% | 100.00% | 0.60 | (0.76) | - | (0.11) | 10.69 | I. G. | - |

(*) Companies filing consolidated corporate income tax returns in 2000.

(**) Companies filing consolidated corporate income tax returns in 2001.

| DEPENDENT COMPANIES AND THEIR HOLDINGS | OWNERSHIP | | | CAPITAL STOCK | RESERVES | INTERIM DIVIDEND | INCOME (LOSS) | GROSS BOOK VALUE | CONSOLIDATION METHOD | VALUE IN CONSOLIDATION (10) |
|---|-----------|----------|------------------|---------------|----------|------------------|---------------|------------------|----------------------|-----------------------------|
| | DIRECT | INDIRECT | TELEFONICA GROUP | | | | | | | |
| Telefónica Medios de Comunicación, S.A. (SPAIN) (*) (**) (1) <i>Holding of shares of companies in the media industry</i> <i>Paseo de la Castellana, 141 - 28046 Madrid</i> | | 100.00% | 100.00% | 21.20 | (0.01) | - | (12.42) | 92.18 | I. G. | - |
| Gestora de Medios Audiovisuales de Fútbol, S.L. (SPAIN) (*) (**) (1) <i>Soccer rights</i> <i>Paseo de la Castellana, 141 - 28046 Madrid</i> | | 100.00% | 100.00% | 50.33 | (0.01) | - | (14.39) | 278.43 | I. G. | - |
| Audiovisual Sport, S.L. (SPAIN) (3) <i>Holder of soccer rights</i> <i>Avda. Diagonal, 477 Pº. 7º - Barcelona</i> | | 40.00% | 40.00% | 124.80 | (60.52) | - | (21.35) | 113.99 | E.M. | 17.12 |
| Famosos, Artistas, Músicos y Actores, S.A. (SPAIN) | | 100.00% | 100.00% | 0.06 | 0.22 | - | (0.19) | 6.64 | I. G. | - |
| Hispatat, S.A. (SPAIN) (2) | | 17.34% | 17.34% | 110.06 | 36.17 | - | 19.02 | 20.81 | E.M. | 28.85 |
| Uniprex, S.A. (SPAIN) (*) (**) (1) <i>Concession and operation of concessions for radio broadcasting stations</i> <i>José Ortega y Gasset, 22 - Madrid</i> | | 100.00% | 100.00% | 6.20 | (14.16) | - | (11.09) | 108.36 | I. G. | - |
| Servicios de Teledistribución, S.A. (S.T. HILO) (SPAIN) (*) (**) (12) <i>Supply of services in the teledistribution industry</i> <i>Luchana, 23, 1º - 28010 Madrid</i> | | 100.00% | 100.00% | 1.26 | 3.67 | - | (1.77) | 1.79 | I. G. | - |
| DTS Distribuidora de Televisión Digital, S.A. (SPAIN) (1) <i>Digital satellite T.V. Services</i> <i>Virgilio, 2 - Edificio 1 - Ciudad de la Imagen (*) - 28223 Madrid.</i> | | 48.63% | 48.63% | 164.37 | (54.60) | - | (334.30) | 409.61 | E.M. | (109.08) |
| Interocio Games, S.A. (SPAIN) <i>Leisure-related technology for dissemination</i> <i>Paseo de la Castellana, 141 - 28046 Madrid</i> | | 50.00% | 50.00% | 1.50 | (0.01) | - | 0.01 | 0.75 | E.M. | 0.75 |
| Producciones Multitemáticas, S.A. (SPAIN) (*) (**) (12) <i>Production, distribution, sale and purchase and operation of television and film productions</i> <i>Virgilio, 2 - Edificio 2 - Ciudad de la Imagen (*) - 28223 Madrid.</i> | | 100.00% | 100.00% | 12.02 | (3.83) | - | (4.80) | 12.02 | I. G. | - |
| Factoría de Contenidos Digitales, S.A. (SPAIN) (*) (**) (12) <i>Interactive audiovisual content</i> <i>Jorge Manrique, 12 - 28006 Madrid</i> | | 100.00% | 100.00% | 0.60 | 0.32 | - | 0.63 | 0.60 | I. G. | - |
| Lola Films, S.A. (SPAIN) (1) (9) <i>Film production</i> <i>Velázquez, 12 - Madrid</i> | | 70.00% | 70.00% | 12.62 | 4.54 | - | (11.87) | 13.03 | I. G. | - |
| Other holdings (1) | | N/A | N/A | N/A | N/A | N/A | N/A | - | C | 0.07 |
| Antena 3 de televisión, S.A. (SPAIN) (1) <i>Management of public and satellite T.V. service.</i> <i>Avda. Isla Graciosa, s.n. - San Sebastián de los Reyes - 28700 Madrid</i> | | 47.52% | 47.52% | 166.67 | 294.95 | - | 52.52 | 319.22 | E.M. | 244.31 |
| Tick Tack Ticket, S.A. (SPAIN) (1) <i>Management, distribution and sale of tickets for shows and other events</i> <i>Almogáraves, 183 - Barcelona</i> | | 47.50% | 47.50% | 0.49 | 4.89 | - | (2.15) | 6.01 | E.M. | 1.53 |

(*) Companies filing consolidated corporate income tax returns in 2000.

(**) Companies filing consolidated corporate income tax returns in 2001.

| DEPENDENT COMPANIES AND THEIR HOLDINGS | OWNERSHIP | | | CAPITAL STOCK | RESERVES | INTERIM DIVIDEND | INCOME (LOSS) | GROSS BOOK VALUE | CONSOLIDATION METHOD | VALUE IN CONSOLIDATION (10) |
|--|---------------|----------|------------------|---------------|--------------|------------------|----------------|------------------|----------------------|-----------------------------|
| | DIRECT | INDIRECT | TELEFÓNICA GROUP | | | | | | | |
| Patagonik Film Group, S.A. (ARGENTINA) (2) <i>Production of audiovisual content</i> <i>Godoy Curz, 1540 - 1414 Buenos Aires</i> | | 30.00% | 30.00% | 2.95 | (0.10) | - | 0.14 | 8.58 | E.M. | 0.90 |
| Media Park, S.A. (SPAIN) (2) <i>Production of audiovisual content</i> <i>Pol.Ind., nº1 c/Bullidor S/N - 08960 Sant Just Desvern - Barcelona</i> | | 25.00% | 25.00% | 13.39 | 77.60 | - | (12.43) | 63.11 | E.M. | 19.67 |
| Pearson Plc. (REINO UNIDO) (2) (9) <i>Publishing</i> <i>3 Burlington Gardens, London W1X 1LE</i> | | 4.87% | 4.87% | 325.83 | 6,428.75 | (267.65) | 68.55 | 757.10 | E.M. | 319.34 |
| Endemol Entertainment Holding, N.V. (NETHERLANDS) (3) (9) <i>Production of audiovisual content</i> <i>Bonairelaan, 4 - 1213 Vh Hilversum - Netherlands</i> | 99.35% | | 99.35% | 0.79 | 75.51 | - | (11.47) | 838.03 | I. G. | - |
| Other holdings (3) | | N/A | N/A | N/A | N/A | N/A | N/A | - | E.M. | 5.69 |
| Telefónica Publicidad e Información, S.A. (SPAIN) (2) (9) <i>Publishing of directories and advertising in all types of media</i> <i>Avda. de Manoteras, 12 - 28050 MADRID</i> | 59.90% | | 59.90% | 18.41 | 55.25 | - | 64.90 | 4.06 | I. G. | - |
| Goodman Business Press, S.A. (SPAIN) <i>Publishing of technical and professional publications in several industries</i> <i>Goya, 115 - Madrid</i> | | 90.67% | 54.31% | 0.66 | 9.02 | - | (0.10) | 10.03 | I. G. | - |
| Cernet, S.L. (SPAIN) <i>Diffusion of computer communications networks and related services</i> <i>Claudio Coello, 76 - Madrid</i> | | 100.00% | 54.31% | 0.06 | (0.02) | - | (0.07) | 0.08 | I. G. | - |
| Iniciativas de Mercados Interactivos, S.A.U. (SPAIN) <i>Development of telecommunications activities and, in particular, in the B2B sector</i> <i>Avda. de Manoteras, 12 - 28050 MADRID</i> | | 20.00% | 11.98% | 0.45 | 31.75 | - | (4.63) | 3.17 | E.M. | - |
| Telefónica Publicidad e Información Internacional, S.A.U. (SPAIN) <i>Holding company</i> <i>Avda. de Manoteras, 12 - 28050 MADRID</i> | | 100.00% | 59.90% | 49.34 | - | - | (0.02) | 49.34 | I. G. | - |
| Directories Holding, B.V. (NETHERLANDS) | | 100.00% | 59.90% | 0.02 | 13.18 | - | (0.01) | 13.19 | I. G. | - |
| Publiguías Holding (CHILE) | | 100.00% | 59.90% | 13.73 | 0.75 | - | 0.02 | 14.51 | I. G. | - |
| Impresora y Comercial Publiguías, S.A. (CHILE) (4) <i>Telephone directory and related products and telephone files business</i> <i>Avda. de Santa María, 792 - 4º - Providencia. Santiago de Chile</i> | | 51.00% | 30.55% | 4.93 | 13.72 | - | 11.50 | 15.37 | I. G. | - |
| Other holdings | | N/A | N/A | N/A | N/A | N/A | N/A | 0.22 | C. | 0.22 |
| Telefónica Publicidade e Informação, Ltda. (BRAZIL) (2) <i>Publishing of directories and advertising in the states of Sao Paulo and Rio Grande do Sul</i> <i>Av. Paulista 1106 - Sao Paulo</i> | | 51.00% | 79.55% | 18.96 | (9.90) | - | (28.78) | 17.06 | I. G. | - |
| Buidnet, S.A. (SPAIN) (2) <i>Creation, development, management and provision of on-line services</i> <i>Claudio Coello, 76 - Madrid</i> | | 92.81% | 55.59% | 0.24 | (0.28) | - | (0.08) | 0.20 | I. G. | - |

(*) Companies filing consolidated corporate income tax returns in 2000.

(**) Companies filing consolidated corporate income tax returns in 2001.

| DEPENDENT COMPANIES AND THEIR HOLDINGS | OWNERSHIP | | | CAPITAL STOCK | RESERVES | INTERIM DIVIDEND | INCOME (LOSS) | GROSS BOOK VALUE | CONSOLIDATION METHOD | VALUE IN CONSOLIDATION (10) |
|---|----------------|--------------|------------------|-----------------|-----------------|------------------|-----------------|------------------|----------------------|-----------------------------|
| | DIRECT | INDIRECT | TELEFÓNICA GROUP | | | | | | | |
| Guia Local Network, S.A. (BRAZIL) (15) <i>City guide portal on the Internet</i> <i>Avda. Das Americas, 500 Bl. 6A - Rio de Janeiro</i> | | 20.00% | 11.98% | 3.70 | - | - | (2.93) | 1.57 | E. M. | 7.09 |
| Euredit, S.A. (FRANCE) <i>Publication of European yearbooks</i> <i>Avda. Friedland, 9 - 75008 Paris (*)</i> | | 5.00% | 2.99% | N/D | N/D | N/D | N/D | 0.23 | C. | 0.23 |
| Venturini España, S.A. (SPAIN) (*) (**) (2) <i>Printing, graphic arts and direct marketing</i> <i>Avda. de la Industria, 17 Tres Cantos - 28760 Madrid</i> | 100.00% | | 100.00% | 3.01 | (0.25) | - | 0.16 | 3.60 | I. G. | - |
| Venturini, S.A. (SPAIN) (*) (**) (2) <i>Direct marketing</i> <i>Via Augusta, 117, 2º 1º - 08006 Barcelona</i> | | 100.00% | 100.00% | 0.18 | 0.04 | - | - | 0.20 | I. G. | - |
| Other holdings | | N/A | N/A | N/A | N/A | N/A | N/A | 0.01 | C. | 0.01 |
| Telefónica Internacional, S.A. (SPAIN) (*) (**) (1) (9) <i>Investment in the telecommunications industry abroad</i> <i>C/ Gran Vía, 28 - 28013 Madrid</i> | 98.75% | 1.25% | 100.00% | 7,381.66 | (772.83) | - | 1,274.88 | 8,148.10 | I. G. | - |
| Telefónica Panamericana - MCI Holding, B.V. (NETHERLANDS) (1) <i>Holding company</i> | | 50.00% | 50.00% | 20 M.NLG | N/D | - | - | 4.82 | C. | 4.82 |
| Sao Paulo Telecomunicações Holding, S.A. (BRAZIL) Telesp Participações, S.A. - TELESP (BRAZIL) (1) | | 96.52% | 100.00% | 2,783.23 | (87.16) | - | 98.12 | 3,393.18 | I. G. | - |
| Telefónica Ibero Americana, Ltda. (BRAZIL) | | 86.72% | 86.72% | 2,727.75 | 3,631.80 | - | 749.46 | 4,320.37 | I. G. | - |
| Telefónica Finance Limited (ISLE OF MAN) (1) <i>Finance</i> | | 100.00% | 100.00% | 250.05 | (13.52) | - | 15.45 | 292.15 | I. G. | - |
| Telefónica del Perú Holding, S.A. (PERU) (1) <i>Holding company</i> | | 100.00% | 100.00% | 0.01 | 60.81 | - | - | 0.01 | I. G. | - |
| Telefónica del Perú, S.A. (PERU) (14) <i>Operator of local, long distance and internacional services in Peru</i> <i>Avda. Arequipa, 1155 Santa Beatriz - Lima</i> | | 100.00% | 100.00% | 2,138.90 | 108.89 | - | 15.35 | 1,674.12 | I. G. | - |
| Telefónica del Perú, S.A. (PERU) (14) <i>Operator of local, long distance and internacional services in Peru</i> <i>Avda. Arequipa, 1155 Santa Beatriz - Lima</i> | | 97.07% | 97.07% | 927.20 | 239.38 | (32.09) | (21.75) | 746.49 | I. G. | - |
| Telefónica Publicidade e Informação, S.A. (BRAZIL) | | 49.00% | | | | | | | | |
| Telefónica Internacional USA Inc. (USA) <i>1221 Brickell Avenue suite 600 - 33131 Miami - Florida</i> | | 100.00% | 100.00% | 0.01 | 0.14 | - | 0.45 | 0.01 | I. G. | - |
| Telefónica Larga Distancia de Puerto Rico, INC. (PUERTO RICO) (1) <i>Operator of telecommunications services</i> <i>Calle 1, Edificio nº 8, Metro Office Park, Sector de Buchanan, Guaynabo - Puerto Rico</i> | | 98.00% | 98.00% | 125.45 | (26.85) | - | 3.35 | N/D | I. G. | - |
| Telecomunicaciones Ultramarinas de Puerto Rico (PUERTO RICO) <i>Telecommunications operator</i> <i>P.O.Box 10955 - 00922-0955 San Juan de Puerto Rico</i> | | 14.90% | 14.90% | N/D | N/D | N/D | N/D | 19.71 | C. | 19.71 |

(*) Companies filing consolidated corporate income tax returns in 2000.

(**) Companies filing consolidated corporate income tax returns in 2001.

| DEPENDENT COMPANIES AND THEIR HOLDINGS | OWNERSHIP | | | CAPITAL STOCK | RESERVES | INTERIM DIVIDEND | INCOME (LOSS) | GROSS BOOK VALUE | CONSOLIDATION METHOD | VALUE IN CONSOLIDATION (10) |
|--|----------------|----------|------------------|----------------|---------------|------------------|---------------|------------------|----------------------|-----------------------------|
| | DIRECT | INDIRECT | TELEFONICA GROUP | | | | | | | |
| Telefónica International Holding, B.V. (NETHERLANDS) (1) <i>Holding company</i> | | 100.00% | 100.00% | 709.46 | 667.26 | - | 11.45 | 417.16 | I. G. | - |
| Telefónica Chile Holding, B.V. (NETHERLANDS) (1) <i>Holding company</i> | | 100.00% | 100.00% | 36.31 | 106.64 | - | (0.01) | - | I. G. | - |
| Telefónica Internacional de Chile, S.A. (CHILE) (4) <i>Holding company</i> | | 100.00% | 100.00% | 17.70 | 965.20 | - | 0.61 | - | I. G. | - |
| Compañía de Telecomunicaciones de Chile, S.A. (C.T.C.), (CHILE) (4) <i>Operator of telecommunications services in Chile</i> <i>Avenida Providencia, 111 piso 29 Santiago de Chile</i> | | 43.64% | 43.64% | 1,225.43 | 939.47 | - | 7.02 | - | I. G. | - |
| Impresora y Comercial Publiguías, S.A. (CHILE) (4) | | 9.00% | | | | | | | | |
| Compañía de Inver. en Telecomunicaciones, S.A.(ARGENTINA) <i>Holding company</i> <i>Tucumán, 1 P-18 Buenos Aires</i> | | 99.98% | 99.98% | 640.98 | 341.45 | - | (24.59) | 372.57 | I. G. | - |
| Telefónica Holding de Argentina, S.A. <i>Holding company</i> <i>Tucumán, 1 P-17 Buenos Aires</i> | | 99.96% | 99.96% | 330.06 | 286.86 | - | (13.27) | 998.90 | I. G. | - |
| Telefónica de Argentina, S.A. (ARGENTINA) <i>Telecommunications operator in southern Argentina</i> <i>Presidente Perón, 949 - piso 7 - 1038 Buenos Aires</i> | | 98.04% | 98.04% | 1,166.07 | 550.79 | (197.95) | 292.74 | 866.21 | I. G. | - |
| Telefónica Móviles, S.A. (SPAIN) | | 21.63% | | | | | | | | |
| Telefónica Venezuela Holding, B.V. (NETHERLANDS) (1) <i>Holding company</i> | | 100.00% | 100.00% | 0.02 | 36.51 | - | 47.23 | N/D | I. G. | - |
| Venworld Telecom, C.A. (VENEZUELA) (13) <i>Holding company</i> | | 20.98% | 20.98% | 114.420 M.Bol. | N/D | N/D | N/D | N/D | E.M. | - |
| Cía. Anónima N. de Teléfonos de Venezuela, C.A.(CANTV) (VENEZUELA) (13) <i>Telecommunications operator</i> <i>Avenida Libertador, Centro Nacional de Telecomunicaciones, Piso 1 - 1226 Caracas</i> | | 32.94% | 6.91% | 2,245.92 | 4,032.68 | - | 116.76 | N/D | E.M. | 320.30 |
| Infonet Services Corporation (USA) (5) <i>Operator of telecommunications services</i> <i>2100 East Grand Avenue, El Segundo, California 90245 - 1022 USA</i> | | 14.30% | 14.30% | 1,192.37 | (170.73) | - | 30.30 | N/D | E.M. | 150.39 |
| Fandem, Ltd. (IRELAND) <i>Holding company</i> <i>2 Harbour Master Place, Custom House Dock - Dublin</i> | | 100.00% | 100.00% | 0.11 | 0.01 | - | (0.13) | 0.08 | I. G. | - |
| Teléfonos de los Urales (TELUR) (RUSSIAN FEDERATION) <i>Telephone manufacturing</i> | | 5.00% | 5.00% | 6 M.Rub. | N/D | N/D | N/D | 0.32 | C. | 0.32 |
| Communication Technology, Inc. (USA) <i>Provider of long distance telecommunications services</i> | | 100.00% | 100.00% | - | 2.91 | - | 0.11 | 18.66 | I. G. | - |
| Other holdings | | N/A | N/A | N/A | N/A | N/A | N/A | N/D | E.M. | 20.21 |
| Other holdings | | N/A | N/A | N/A | N/A | N/A | N/A | N/D | C. | 169.18 |
| Zeleris España, S.A. (SPAIN) (*) (**) <i>Provision of mail, directories and parcel distribution services</i> <i>C/ Gran Vía, 28 - 28.013 Madrid</i> | 100.00% | | 100.00% | 0.45 | (0.37) | - | (1.19) | 1.98 | I. G. | - |

(*) Companies filing consolidated corporate income tax returns in 2000.

(**) Companies filing consolidated corporate income tax returns in 2001.

| DEPENDENT COMPANIES AND THEIR HOLDINGS | OWNERSHIP | | | CAPITAL STOCK | RESERVES | INTERIM DIVIDEND | INCOME (LOSS) | GROSS BOOK VALUE | CONSOLIDATION METHOD | VALUE IN CONSOLIDATION (10) |
|--|-----------|----------|------------------|---------------|----------|------------------|---------------|------------------|----------------------|-----------------------------|
| | DIRECT | INDIRECT | TELEFONICA GROUP | | | | | | | |
| Atento Holding Telecomunicaciones, S.A. (SPAIN) (*) (**) (1) <i>Holding company</i> <i>C/ Gran Vía, 28 - 28.013 Madrid</i> | 100.00% | | 100.00% | 6.12 | 50.31 | - | (6.61) | 107.58 | I. G. | - |
| Telepizza, S.A. (SPAIN) | | 4.89% | 4.89% | N/D | N/D | N/D | N/D | 102.02 | E.M. | 102.02 |
| Atento Holding, Inc. (USA) (1) (9) <i>Holding company</i> <i>1013 Center Road, Wilmington - Delaware</i> | 100.00% | | 100.00% | 0.01 | 232.02 | - | (107.73) | 282.71 | I. G. | - |
| Atento Telecomunicaciones España, S.A. (SPAIN) (12) <i>Services, promotion, marketing and market surveys relating to direct marketing</i> <i>Santiago de Compostela, 94 - 7ª - 28035 Madrid</i> | | 100.00% | 100.00% | 1.38 | 30.82 | - | 6.71 | 30.05 | I. G. | - |
| Tempotel, Empresa de Trabajo Temporal, S.A. (SPAIN) (12) <i>Temporary employment agency</i> <i>Príncipe de Vergara, 28 Madrid</i> | | 100.00% | 100.00% | 0.06 | 0.79 | - | 0.33 | 0.06 | I. G. | - |
| Gestión de Servicios de Emergencia y Atención al Ciudadano, S.A. (SPAIN) (12) <i>Information and communication systems for emergency situations</i> <i>Paseo Marítimo, 38 A - 1ª E - 07014 Palma de Mallorca</i> | | 100.00% | 100.00% | 0.60 | 0.23 | - | (0.52) | 0.81 | I. G. | - |
| Atento Brasil, S.A. (BRAZIL) (9) <i>Provision of call-center services</i> <i>Av. Maria Coelho de Aguiar, 215 - Bloco B, 8 - 05804-900 Sao Paulo</i> | | 100.00% | 100.00% | 249.76 | (49.27) | - | (30.80) | 104.05 | I. G. | - |
| Atento Puerto Rico Inc. (PUERTO RICO) <i>Provision of call-center services.</i> <i>Valencia Park calle 2 edificio 17 suite 600, Guaynabo - Puerto Rico 00968</i> | | 100.00% | 100.00% | 1.05 | (7.80) | - | (0.73) | 3.59 | I. G. | - |
| Atento Colombia, S.A. (COLOMBIA) <i>Provision of call-center services.</i> <i>Santa Fé de Bogotá</i> | | 38.82% | 99.98% | 1.54 | (1.63) | - | (2.57) | 10.18 | I. G. | - |
| Atento Maroc, S.A. (MOROCCO) <i>Provision of call-center services.</i> <i>Bd Abdelmoumen, Angle rue Errazi et Charles Lebrun - Casablanca</i> | | 99.95% | 99.95% | 0.07 | (2.12) | - | (0.29) | 0.08 | I. G. | - |
| Atento Argentina, S.A. (ARGENTINA) <i>Provision of call-center services.</i> <i>Avda. de Mayo, 645 P. 1º - Buenos Aires</i> | | 100.00% | 100.00% | 0.28 | 0.37 | - | (16.68) | 0.29 | I. G. | - |
| Atento Uruguay, S.A. (URUGUAY) (1) <i>Provision of call-center services.</i> | | 100.00% | 100.00% | 0.26 | 0.01 | - | (0.37) | - | I. G. | - |
| Atento USA Inc (USA) (9) <i>Provision of call-center services.</i> <i>1001 Brickell Bay Drive P. 32º - Miami - Florida 33131</i> | | 100.00% | 100.00% | 0.01 | (3.09) | - | (16.64) | 4.85 | I. G. | - |
| Atento Colombia, S.A. (COLOMBIA) | | 61.16% | | | | | | | | |
| Atento Perú, S.A.C. (PERU) <i>Provision of call-center services.</i> <i>C/ Jiron Camaná, 654 - 01 Lima</i> | | 100.00% | 100.00% | 8.90 | 2.84 | - | (7.90) | 18.85 | I. G. | - |

(*) Companies filing consolidated corporate income tax returns in 2000.

(**) Companies filing consolidated corporate income tax returns in 2001.

| DEPENDENT COMPANIES AND THEIR HOLDINGS | OWNERSHIP | | | CAPITAL STOCK | RESERVES | INTERIM DIVIDEND | INCOME (LOSS) | GROSS BOOK VALUE | CONSOLIDATION METHOD | VALUE IN CONSOLIDATION (10) |
|--|-----------|----------|------------------|---------------|----------|------------------|---------------|------------------|----------------------|-----------------------------|
| | DIRECT | INDIRECT | TELEFONICA GROUP | | | | | | | |
| Atento Centroamérica, S.A. (GUATEMALA) (9) <i>Provision of call-center services.</i> 14 Calle 3-51 Zona 10 Edificio Murano Center 18 Nivel - Departamento de Guatemala | | 100.00% | 100.00% | 3.01 | 0.05 | - | (2.09) | 3.14 | I. G. | - |
| Atento de Guatemala, S.A. (GUATEMALA) <i>Provision of call-center services.</i> Ciudad de Guatemala | | 100.00% | 100.00% | 13.71 | (6.58) | - | (2.10) | 14.27 | I. G. | - |
| Atento El Salvador, S.A. de C.V. (EL SALVADOR) <i>Provision of call-center services.</i> Ciudad de San Salvador | | 100.00% | 100.00% | 4.22 | (2.73) | - | (0.19) | 4.40 | I. G. | - |
| Atento Guatemala Comercial, S.A. (GUATEMALA) <i>Provision of call-center services.</i> Ciudad de San Salvador | | 99.98% | 99.98% | 0.01 | 0.18 | - | 0.04 | 0.01 | I. G. | - |
| Atento Holding Chile, S.A. (CHILE) <i>Holding company</i> Ciudad y Comuna de Santiago | | 100.00% | 100.00% | 38.85 | (1.15) | - | (1.47) | 40.40 | I. G. | - |
| Atento Chile, S.A. (CHILE) (9) <i>Provision of call-center services.</i> Diagonal Paraguay, 386 - Santiago de Chile | | 93.08% | 93.08% | 21.73 | (7.95) | - | 0.81 | 18.87 | I. G. | - |
| Nexcom (CHILE) (1) <i>Provision of call-center services.</i> | | 99.99% | 93.07% | 1.73 | (0.53) | - | (0.02) | 1.22 | I. G. | - |
| Atento Educación, Ltda. (CHILE) <i>Provision of call-center services.</i> Ciudad de Santiago de Chile | | 99.00% | 92.15% | 0.01 | (0.06) | - | 0.04 | 0.01 | I. G. | - |
| Atento Recursos, Ltda. (CHILE) <i>Provision of call-center services.</i> Ciudad de Santiago de Chile | | 99.00% | 91.23% | 0.01 | (0.43) | - | 0.16 | 0.01 | I. G. | - |
| Atento Asia Pacific (JAPÓN) <i>Provision of call-center services.</i> Chiyoda-Ku - Tokyo | | 99.50% | 99.50% | 0.10 | (0.01) | - | (0.01) | 0.10 | I. G. | - |
| Atento Pasona (JAPÓN) <i>Provision of call-center services.</i> Chiyoda-Ku - Tokyo | | 69.99% | 69.99% | 8.91 | (1.45) | - | (4.13) | 6.26 | I. G. | - |
| Atento Italia (ITALY) <i>Provision of call-center services.</i> Via Lamara, edif. D2 - Roma | | 100.00% | 100.00% | 0.01 | 0.08 | - | (7.45) | 1.35 | I. G. | - |
| Atento Mexico (MEXICO) (9) <i>Provision of call-center services.</i> | | 100.00% | 100.00% | 0.01 | (0.11) | - | (3.48) | 0.01 | I. G. | - |
| Atento Servicios Mexico (MEXICO) (1) <i>Provision of call-center services.</i> | | 99.99% | 99.99% | 0.01 | - | - | (0.05) | - | I. G. | - |
| Atento Norteamérica (USA) (1) 1221 Brickell Avenue - 33131 Miami (Florida) <i>Provision of call-center services.</i> | | 100.00% | 100.00% | 0.01 | - | - | - | 0.01 | I. G. | - |

(*) Companies filing consolidated corporate income tax returns in 2000.

(**) Companies filing consolidated corporate income tax returns in 2001.

| DEPENDENT COMPANIES AND THEIR HOLDINGS | OWNERSHIP | | | CAPITAL STOCK | RESERVES | INTERIM DIVIDEND | INCOME (LOSS) | GROSS BOOK VALUE | CONSOLIDATION METHOD | VALUE IN CONSOLIDATION (10) |
|--|-----------|----------|------------------|---------------|----------|------------------|---------------|------------------|----------------------|-----------------------------|
| | DIRECT | INDIRECT | TELEFÓNICA GROUP | | | | | | | |
| Atento Venezuela (VENEZUELA) <i>Provision of call-center services.</i> Caracas | | 100.00% | 100.00% | 0.34 | 0.22 | - | (5.55) | 0.34 | I. G. | - |
| Telefónica Investigación y Desarrollo, S.A. (TIDSA) (SPAIN) (*) (**) (3) <i>Telecommunications research activities and projects</i> Emilio Vargas, 6 - 28043 Madrid | 100.00% | | 100.00% | 6.01 | 32.43 | - | 3.22 | 6.01 | I. G. | - |
| Telefónica North America, INC (U.S.A.) (3) <i>Financial intermediation</i> 1209 Orange Street, 19.801 Wilmington/New Castle County Delaware | 100.00% | | 100.00% | 0.01 | 0.01 | - | - | 0.01 | I. G. | - |
| Telefónica Europe, B.V. (NETHERLANDS) (1) <i>Fund raising in capital markets.</i> Aert van Nesstraat 45, 4º 3000 AM Rotterdam - P.O. Box 548 | 100.00% | | 100.00% | 0.05 | 3.12 | - | 2.44 | 0.05 | I. G. | - |
| Inmobiliaria Telefónica, S.L. (SPAIN) (*) (**) (1) <i>Purchase, sale and lease of real estate</i> Gran Vía, 28 - 28013 Madrid | 100.00% | | 100.00% | 10.04 | 93.11 | - | (0.46) | 103.44 | I. G. | - |
| Telefónica Procesos y Tecnología de la Información, S.A. (SPAIN) (*) (**) (3) <i>IT services</i> José Abascal, 4 - 28003 Madrid | 100.00% | | 100.00% | 3.00 | 2.91 | - | 1.92 | 3.01 | I. G. | - |
| Urbana Ibérica, S.A. (SPAIN) (*) (**) (3) <i>Debt collection and management of the cash generated on the sale of land and buildings</i> C/ Gran Vía, 30 4ªPta. - 28.013 Madrid | 100.00% | | 100.00% | 1.59 | (0.25) | - | 0.01 | 0.08 | I. G. | - |
| Emergia Holding, N.V. (NETHERLANDS) (1) (9) <i>Holding company</i> Drentestraat, 24 bg - 1083 HK Amsterdam | 93.68% | 0.31% | 93.99% | 31.43 | 332.29 | - | (183.64) | 0.05 | G.I. | - |
| Emergia Hispana, S.A. (SPAIN) <i>Provision of telecommunications services</i> Francisco Silvela, 42 - Madrid | | 100.00% | 100.00% | 0.06 | - | - | - | 0.06 | G.I. | - |
| Emergia Uruguay, S.A. (URUGUAY) (11) <i>Provision of high bandwidth communications services</i> Luis A. de Herrera, 1248 Piso 4 - Montevideo | 100.00% | | 93.99% | 388.52 | (28.98) | - | (181.49) | 321.48 | G.I. | - |
| Emergia Argentina, S.A. (ARGENTINA) (11) <i>Provision of high bandwidth communications services</i> Paraguay, 1345 Piso 6 - Buenos Aires | | 99.99% | 93.98% | 6.27 | (2.65) | - | (11.46) | 6.27 | G.I. | - |
| Emergia Brasil, Ltd. (BRAZIL) (1) <i>Provision of high bandwidth communications services</i> Av. Brigadeiro Faria Lima, 2055 Piso 6 - San Pablo | | 99.00% | 93.05% | 30.67 | (4.76) | - | (7.85) | 30.67 | G.I. | - |
| Emergia Chile, S.A. (CHILE) (4) <i>Provision of high bandwidth communications services</i> Ricardo Lyon, 222 Piso 14 - Santiago de Chile | | 99.99% | 93.98% | 10.77 | (1.49) | - | (4.53) | 10.77 | G.I. | - |

(*) Companies filing consolidated corporate income tax returns in 2000.

(**) Companies filing consolidated corporate income tax returns in 2001.

| DEPENDENT COMPANIES AND THEIR HOLDINGS | OWNERSHIP | | | CAPITAL STOCK | RESERVES | INTERIM DIVIDEND | INCOME (LOSS) | GROSS BOOK VALUE | CONSOLIDATION METHOD | VALUE IN CONSOLIDATION (10) |
|--|-----------|----------|------------------|---------------|----------|------------------|---------------|------------------|----------------------|-----------------------------|
| | DIRECT | INDIRECT | TELEFONICA GROUP | | | | | | | |
| Emergia Perú, S.A. (PERU) (14) <i>Provision of high bandwidth communications services</i> <i>Av. de la Floresta, 497 Piso 5 - San Borja</i> | | 99.99% | 93.98% | 12.34 | (0.20) | - | (8.47) | 12.34 | G.I. | - |
| Emergia USA, Inc. (USA) (1) <i>Provision of high bandwidth communications services</i> <i>1221 Brickell Avenue, Piso 6 - 33131 Miami (Florida)</i> | | 100.00% | 93.99% | 36.76 | (3.00) | - | (12.63) | 36.76 | G.I. | - |
| Emergia Guatemala, S.A. (GUATEMALA) (1) <i>Provision of high bandwidth communications services</i> <i>Bld. Los Próceres, 5-56 Piso 11, zona 10 - Ciudad de Guatemala</i> | | 99.99% | 93.98% | 11.67 | (0.10) | - | (4.20) | 11.67 | G.I. | - |
| Emergia Puerto Rico, Inc. (PUERTO RICO) (1) <i>Provision of high bandwidth communications services</i> <i>Metro Office Park Edificio 17, Calle 2, Suite 600 - Guaynabo</i> | | 100.00% | 93.99% | 5.67 | (0.65) | - | (1.57) | 5.67 | G.I. | - |
| Zeleris Soluciones Integrales, S.L. (SPAIN) <i>Global management and development of e-commerce in Portuguese- and Spanish-speaking countries</i> | 100.00% | | 100.00% | 0.01 | N/D | N/D | N/D | 0.01 | C. | 0.01 |
| Telefónica Gestión de Servicios Compartidos, S.A. (SPAIN) <i>Provision of management and administration services</i> <i>Gran Vía, 28 - 28013 Madrid</i> | 100.00% | | 100.00% | 2.06 | - | - | (2.75) | 2.06 | I. G. | - |
| Telefónica USA, Inc. (USA) <i>E-commerce</i> <i>1221 Brickell Avenue - Miami - Florida 33131</i> | 100.00% | | 100.00% | 0.01 | (4.44) | - | 1.55 | 0.01 | I. G. | - |
| Telefónica Móviles, S.A. (SPAIN) (**) (1) (9) <i>Holding company</i> <i>Goya, 24 - Madrid</i> | 71.07% | 21.63% | 92.70% | 2,144.60 | 4,347.70 | - | 893.36 | 2,997.36 | I. G. | - |
| Telefónica de Centroamérica, S.A. (SPAIN) | | 51.00% | 47.28% | 0.50 | 0.01 | - | 0.04 | 0.26 | I. G. | - |
| Baja Celular Mexicana, S.A. de C.V. (MEXICO) <i>Provision of wireless local loop services</i> | | 100.00% | 92.70% | 154.73 | 55.70 | - | (14.29) | 206.98 | I. G. | - |
| Baja Celular Servicios Corporativos, S.A. de C.V. (MEXICO) <i>Provision of wireless local loop services</i> | | 100.00% | 92.70% | 0.01 | 0.28 | - | (0.19) | - | I. G. | - |
| Tamcel, S.A. de C.V. (MEXICO) <i>Provision of wireless local loop services</i> | | 99.99% | 92.69% | 62.42 | 11.24 | - | (5.66) | - | I. G. | - |
| Movitel de Noroeste, S.A. de C.V. (MEXICO) <i>Provision of wireless local loop services</i> | | 90.00% | 83.42% | 22.41 | 44.40 | - | (3.82) | 25.64 | I. G. | - |
| Movicelular, S.A. de C.V. (MEXICO) <i>Provision of wireless local loop services</i> | | 90.00% | 83.42% | 0.01 | (0.37) | - | - | 0.01 | I. G. | - |
| Moviservicios, S.A. de C.V. (MEXICO) <i>Provision of wireless local loop services</i> | | 90.00% | 83.42% | 0.01 | 0.02 | - | 0.38 | 0.01 | I. G. | - |
| Corporativo Integral Comunicación, S.A. de C.V. (MEXICO) <i>Provision of wireless local loop services</i> | | 100.00% | 92.70% | 10.92 | (8.25) | - | (2.47) | 31.29 | I. G. | - |
| Telefonía Celular del Norte, S.A. de C.V. (MEXICO) <i>Provision of wireless local loop services</i> | | 100.00% | 92.70% | 39.74 | (27.05) | - | (10.82) | 117.77 | I. G. | - |
| Todo para Celulares, S.A. de C.V. (MEXICO) <i>Provision of wireless local loop services</i> | | 100.00% | 92.70% | - | 0.05 | - | 0.08 | - | I. G. | - |

(*) Companies filing consolidated corporate income tax returns in 2000.

(**) Companies filing consolidated corporate income tax returns in 2001.

| DEPENDENT COMPANIES AND THEIR HOLDINGS | OWNERSHIP | | | CAPITAL STOCK | RESERVES | INTERIM DIVIDEND | INCOME (LOSS) | GROSS BOOK VALUE | CONSOLIDATION METHOD | VALUE IN CONSOLIDATION (10) |
|--|-----------|----------|------------------|---------------|----------|------------------|---------------|------------------|----------------------|-----------------------------|
| | DIRECT | INDIRECT | TELEFÓNICA GROUP | | | | | | | |
| Grupo Corporativo del Norte, S.A. de C.V. (MEXICO) <i>Provision of wireless local loop services</i> | | 100.00% | 92.70% | 8.28 | 10.66 | - | (3.40) | 79.79 | I. G. | - |
| Celular de Telefonía, S.A. De C.V. (MEXICO) <i>Provision of wireless local loop services</i> | | 100.00% | 92.70% | 71.55 | 0.11 | - | (13.50) | 226.44 | I. G. | - |
| Soluciones Celulares, S.A. de C.V. (MEXICO) <i>Provision of wireless local loop services</i> | | 100.00% | 92.70% | 2.88 | (2.22) | - | 0.52 | N/D | I. G. | - |
| Enlaces del Norte, S.A. de C.V. (MEXICO) <i>Provision of wireless local loop services</i> | | 49.00% | 45.42% | 0.01 | (0.04) | - | 0.21 | N/D | I. G. | - |
| Grupo de Telecomunicaciones Mexicanas, S.A. (MEXICO) <i>Provision of wireless local loop services</i> | | 100.00% | 45.42% | 0.02 | 11.49 | - | 0.19 | N/D | I. G. | - |
| Telefónica Móviles Argentina, S.A. (ARGENTINA) | | 97.93% | 90.78% | 586.19 | - | - | (634.52) | 495.78 | I. G. | - |
| Telefónica Comunicaciones Personales, S.A. (ARGENTINA) <i>Provision of wireless communications services</i> | | 100.00% | 90.78% | 600.42 | 4.76 | - | (274.19) | - | I. G. | - |
| Radioservicios, S.A. (ARGENTINA) | | 99.99% | 90.77% | 1.11 | (1.06) | - | (0.21) | N/D | I. G. | - |
| Radio Móvil Digital Argentina, S.A. (ARGENTINA) | | 99.99% | 90.77% | 0.01 | (0.06) | - | (1.73) | N/D | I. G. | - |
| TELCA Gestión Guatemala, S.A. (GUATEMALA) | | 51.00% | 47.28% | N/D | N/D | N/D | N/D | - | I. G. | - |
| TELCA Gestión, S.A. de C.V. (EL SALVADOR) | | 51.00% | 47.28% | N/D | N/D | N/D | N/D | 0.01 | I. G. | - |
| Telefónica Móviles Perú Holding, S.A.A. (PERU) <i>Holding company</i> <i>Avda. Arequipa, 1155 Lima, 01</i> | | 97.97% | 90.82% | 271.00 | - | - | 13.31 | 254.46 | I. G. | - |
| Telefónica Móviles, S.A.C. (PERU) <i>Provision of wireless communications services</i> <i>Avda. Arequipa, 1155 Lima, 01</i> | | 100.00% | 90.82% | 258.09 | 12.92 | - | 13.49 | - | I. G. | - |
| TCG Holdings, S.A. (GUATEMALA) <i>Holding company</i> <i>Bulevar Los Próceres 5-56 Zona 10 - Ciudad de Guatemala</i> | | 51.00% | 47.28% | 114.22 | (0.45) | - | (0.28) | 40.10 | I. G. | - |
| Telefónica Centroamérica Guatemala, S.A. (GUATEMALA) <i>Provision of wireless, wireline and paging communications services</i> <i>Bulevar Los Próceres 5-56 Zona 10 - Ciudad de Guatemala</i> | | 100.00% | 47.28% | 177.39 | (48.53) | - | (57.26) | 177.39 | I. G. | - |
| Telescucha, S.A. (GUATEMALA) | | 100.00% | 47.28% | 2.46 | (0.52) | - | (0.73) | 3.60 | I. G. | - |
| Telefónica El Salvador Holding, S.A. de C.V. (EL SALVADOR) <i>Holding company</i> <i>Alameda Roosevelt y Avenida Sur. Torre Telefónica nivel 10 - San Salvador</i> | | 51.00% | 47.28% | 144.00 | (1.80) | - | (1.59) | 59.99 | I. G. | - |
| Telefónica El Salvador, S.A. de C.V. (EL SALVADOR) <i>Provision of wireless and long distance communications services</i> <i>Alameda Roosevelt y Avenida Sur. Torre Telefónica nivel 10 - San Salvador</i> | | 90.30% | 42.69% | 133.48 | (46.09) | - | (26.73) | 143.48 | I. G. | - |
| Telefónica Brasil Sul Celular Participações, S.A. (BRAZIL) (1) <i>Holding company</i> <i>Avda. José Bonifácio, 245, parte, Porto Alegre - Rio Grande Do Sul</i> | | 66.27% | 68.43% | 283.02 | (1.44) | (2.82) | 5.64 | 318.60 | I. G. | - |

(*) Companies filing consolidated corporate income tax returns in 2000.

(**) Companies filing consolidated corporate income tax returns in 2001.

| DEPENDENT COMPANIES AND THEIR HOLDINGS | OWNERSHIP | | | CAPITAL STOCK | RESERVES | INTERIM DIVIDEND | INCOME (LOSS) | GROSS BOOK VALUE | CONSOLIDATION METHOD | VALUE IN CONSOLIDATION (10) |
|--|-----------|----------|------------------|---------------|----------|------------------|---------------|------------------|----------------------|-----------------------------|
| | DIRECT | INDIRECT | TELEFONICA GROUP | | | | | | | |
| Celular CRT Participações, S.A. (BRAZIL) (1) <i>Holding company</i> <i>Avda. José Bonifacio, 245, Farrroupilha, Porto Alegre - Rio Grande Do Sul</i> | | 45.69% | 27.44% | 63.03 | 242.08 | (10.72) | 48.93 | 112.99 | I. G. | - |
| Celular CRT, S.A. (BRAZIL) <i>Provision of wireless communications services</i> <i>Avda. José Bonifacio, 245, Farrroupilha, Porto Alegre - Rio Grande Do Sul</i> | | 100.00% | 27.44% | 208.86 | 89.83 | (12.94) | 50.14 | - | I. G. | - |
| Ibero Leste Participações, S.A. (BRAZIL) <i>Holding company</i> <i>Capital do Estado de Sao Paulo, na Rua da Consolação, 247-6º andar, sala 13-A</i> | | 38.00% | 97.23% | 214.47 | (0.05) | (0.50) | 0.56 | 126.69 | E.M. | - |
| Tele Leste Celular Participações, S.A. (BRAZIL) (1) <i>Holding company</i> <i>Avda. Antonio Carlos Magalhaes, 357, Pituba, na cidade de Salvador, Estado de Bahia</i> | | 24.33% | 23.55% | 147.70 | 65.02 | - | 2.72 | N/D | E.M. | 39.93 |
| Telebahia Celular, S.A. (BRAZIL) (1) <i>Provision of wireless communications services</i> <i>Avda. Antonio Carlos Magalhaes, 357, Pituba, na cidade de Salvador, Estado de Bahia</i> | | 100.00% | 23.55% | 173.05 | 18.57 | - | 2.25 | N/D | E.M. | - |
| Telergipe Celular, S.A. (BRAZIL) (1) <i>Provision of wireless communications services</i> <i>Avda. Francisco Porto, 686, 13 de julho - Aracaju, Sergipe</i> | | 100.00% | 23.55% | 16.76 | 0.69 | - | 0.70 | N/D | E.M. | - |
| SudesteCel Participações, S.A. (BRAZIL) <i>Holding company</i> <i>Avda. Brigadeiro Faria Lima, 3729-10º, andar-Parte, Sao Paulo</i> | | 82.50% | 83.48% | 653.11 | 0.13 | (6.55) | 6.65 | 754.11 | I. G. | - |
| Tele Sudeste Celular Participações, S.A. (Rio Celular) (BRAZIL) (1) <i>Holding company</i> <i>Avda. Brigadeiro Faria Lima, 3729-10º, andar-Edificio Birman-29, Itaim-Bibi, Sao Paulo</i> | | 82.02% | 77.17% | 288.11 | 497.01 | (24.32) | 77.96 | 372.68 | I. G. | - |
| Telerj Celular, S.A. (BRAZIL) (1) <i>Provision of wireless communications services</i> <i>Praia de Botafogo, 501-5º a 8º Andares, Botafogo - Rio de Janeiro</i> | | 100.00% | 77.17% | 403.29 | 227.33 | (19.63) | 67.04 | N/D | I. G. | - |
| Telest Celular, S.A. (BRAZIL) (1) <i>Provision of wireless communications services</i> <i>Avda. Nossa Senhora da Penha - Praia do Canto, Vitoria - Espiritu Santo</i> | | 100.00% | 77.17% | 66.41 | 49.33 | (3.47) | 10.30 | N/D | I. G. | - |
| Tagilo Participações, S.A. | | 100.00% | 92.70% | 170.36 | 4.24 | (4.42) | 8.90 | 195.00 | I. G. | - |
| Telefónica Móviles España, S.A.U. (SPAIN) (*) (**) (1) <i>Provision of wireless communications services</i> <i>Plaza de la Independencia, 6 - Pla. 5 - 28001 MADRID</i> | | 100.00% | 92.70% | 423.34 | 828.47 | - | 1,043.49 | 933.21 | I. G. | - |
| MobiPay España, S.A. (SPAIN) | | 13.33% | 12.36% | 20.49 | - | - | (1.03) | 2.73 | C. | 2.60 |
| Iberadvance, S.A. (PORTUGAL) <i>Management of holdings in companies, mainly in the telecommunications industry</i> <i>Avd. Alvaro Pais, 2 - Lisboa</i> | | 50.00% | 46.35% | 10 M.ESC | N/D | N/D | N/D | 0.02 | C. | 3.03 |
| Médi Telecom, S.A. (MOROCCO) <i>Provision of wireless communications services</i> <i>Tumbco, Rompoint Hassam II - Casablanca</i> | | 30.50% | 28.27% | 629.35 | (198.39) | - | (219.81) | 193.36 | E.M. | 64.77 |

(*) Companies filing consolidated corporate income tax returns in 2000.

(**) Companies filing consolidated corporate income tax returns in 2001.

| DEPENDENT COMPANIES AND THEIR HOLDINGS | OWNERSHIP | | | CAPITAL STOCK | RESERVES | INTERIM DIVIDEND | INCOME (LOSS) | GROSS BOOK VALUE | CONSOLIDATION METHOD | VALUE IN CONSOLIDATION (10) |
|---|-----------|----------|------------------|---------------|----------|------------------|---------------|------------------|----------------------|-----------------------------|
| | DIRECT | INDIRECT | TELEFÓNICA GROUP | | | | | | | |
| 3G Mobile Telecommunications, GmbH (AUSTRIA) <i>Provision of telecommunications services</i> | | 100.00% | 92.70% | 2.00 | 44.59 | - | (9.95) | 47.17 | I. G. | - |
| Spiral Investments, B.V. (NETHERLANDS) | | 100.00% | 92.70% | 38.54 | - | - | (2.56) | 38.75 | I. G. | - |
| 3G Mobile AG (SUIZA) | | 100.00% | 92.70% | 37.33 | - | - | (13.78) | 36.16 | I. G. | - |
| Solvella Investments, B.V. (NETHERLANDS) | | 100.00% | 92.70% | 880.70 | (0.01) | - | (12.71) | 880.66 | I. G. | - |
| Ipse 2000, S.p.A. (ITALY) <i>Installation and operation of third-generation wireless systems</i> | | 45.59% | 42.26% | 635.35 | 1,700.36 | - | (64.92) | 1,065.06 | E.M. | 1,039.86 |
| Group 3G UMTS Holding, GmbH (GERMANY) <i>Network development and provision of third-generation telecommunications services</i> | | 57.20% | 53.02% | 0.05 | 2,132.81 | - | 0.01 | 1,222.08 | I. G. | - |
| Group 3G UMTS, GmbH (GERMANY) | | 100.00% | 53.02% | 0.02 | 1,896.14 | - | (350.86) | 2,117.89 | I. G. | - |
| Opco (GERMANY) | | 100.00% | 53.02% | 0.02 | 22.20 | - | (16.77) | 25.08 | I. G. | - |
| Nuevo Cosmos (SPAIN) | | 100.00% | 92.70% | N/D | N/D | N/D | N/D | 0.06 | I. G. | - |
| Serea Investments, B.V. (NETHERLANDS) | | 100.00% | 92.70% | 0.05 | - | - | (0.02) | 0.05 | I. G. | - |
| ST 3G (FRANCE) | | 40.00% | 37.08% | N/D | N/D | N/D | N/D | 0.02 | I. G. | - |
| Telefónica UK (UNITED KINGDOM) | | 100.00% | 92.70% | N/D | N/D | N/D | N/D | N/D | I. G. | - |
| Setaber Investments, B.V. (NETHERLANDS) | | 100.00% | 92.70% | 0.05 | (0.01) | - | (0.01) | 0.05 | I. G. | - |
| Senda Investments, B.V. (NETHERLANDS) | | 100.00% | 92.70% | 0.05 | - | - | (0.64) | 0.03 | I. G. | - |
| Grupo 3G, S.p.A. (ITALY) | | 100.00% | 92.70% | N/D | N/D | N/D | N/D | 0.10 | I. G. | - |
| Stella Investments, B.V. (NETHERLANDS) | | 100.00% | 92.70% | 0.02 | - | - | (0.01) | 0.02 | I. G. | - |
| Main, S.A. | | 20.00% | 18.54% | N/D | N/D | N/D | N/D | 0.15 | I. G. | - |
| Tempos 21, S.A. | | 38.50% | 35.69% | N/D | N/D | N/D | N/D | 5.09 | C. | 5.09 |
| Telefónica Mobile Solutions, S.A.U. (SPAIN) (*) (**) <i>Consulting services in the Internet industry and wireless communications</i> <i>Gran Vía, 28 - Madrid</i> | | 100.00% | 92.70% | 0.06 | (0.05) | - | 0.38 | 0.06 | I. G. | - |
| Telefónica Mobile Solutions Chile, S.A.C. (CHILE) | | 99.90% | 92.61% | 0.19 | - | - | 0.02 | 0.19 | I. G. | - |
| Telefónica Mobile Solutions Perú, S.A.C. (PERU) | | 99.90% | 92.61% | - | - | - | 0.31 | - | I. G. | - |
| Telefónica Mobile Solutions Brasil, Ltda. (BRAZIL) | | 99.90% | 92.61% | 0.01 | - | - | 0.26 | 0.01 | I. G. | - |
| Telefónica Mobile Solutions Argentina (ARGENTINA) | | 99.90% | 92.61% | 0.01 | - | - | - | 0.01 | I. G. | - |
| Telefónica Móviles USA, Inc. (USA) <i>Telecommunications consulting services</i> <i>1221 Brickell Avenue - Miami - Florida</i> | | 100.00% | 92.70% | - | (0.73) | - | (0.56) | - | I. G. | - |
| Terra Mobile, S.A. (SPAIN) <i>Operation of content and services through WAP wireless telephony</i> <i>Gran Vía, 28 - Madrid</i> | | 80.00% | 81.69% | 1.92 | (71.12) | - | (101.50) | 67.66 | I. G. | - |
| I.O.Box OY, S.A. (FINLANDIA) (9) <i>Wireless portal and content provider</i> <i>Helsinki</i> | | 100.00% | 81.69% | 0.04 | 39.59 | - | (38.12) | 273.01 | I. G. | - |
| MobiPay Internacional, S.A. (SPAIN) <i>Provision of payment services through wireless telephony</i> | | 38.00% | 35.23% | 30.05 | (0.66) | - | (2.01) | 11.42 | E.M. | 10.41 |
| Other holdings | | N/A | N/A | N/A | N/A | N/A | N/A | N/D | E.M. | (2.20) |

(*) Companies filing consolidated corporate income tax returns in 2000.

(**) Companies filing consolidated corporate income tax returns in 2001.

| ASSOCIATED COMPANIES | OWNERSHIP | | | CAPITAL STOCK | RESERVES | INTERIM DIVIDEND | INCOME (LOSS) | GROSS BOOK VALUE | CONSOLIDATION METHOD | VALUE IN CONSOLIDATION (10) |
|--|-----------|----------|------------------|---------------|----------|------------------|---------------|------------------|----------------------|-----------------------------|
| | DIRECT | INDIRECT | TELEFÓNICA GROUP | | | | | | | |
| Telefónica Factoring Establecimiento Financiero de Crédito, S.A. (SPAIN) (1) <i>Loans and credits (consumer and mortgage loans and commercial transactions)</i> <i>Pedro Teixeira, 8 - 28020 Madrid</i> | 50.00% | | 50.00% | 5.11 | 1.23 | - | 0.86 | 2.64 | E.M. | 3.96 |
| Aliança Atlântica Holding B.V. (NETHERLANDS) <i>Holder of 5,225,000 Portugal Telecom, S.A. shares</i> <i>Strawinskylaan 1725, 1077 XX Amsterdam</i> | 50.00% | 43.37% | 93.37% | N/D | N/D | N/D | N/D | 21.97 | E.M. | 21.97 |
| Torre de Collçerola, S.A. (SPAIN) (2) <i>Operation of a telecommunications mast and technical assistance and consulting services.</i> <i>Ctra. Vallvidrera-Tibidabo, s/nº - 08017 Barcelona</i> | 42.00% | | 42.00% | 12.02 | 0.38 | - | - | 5.08 | E.M. | 5.21 |
| Sistemas Técnicos de Loterías del Estado, S.A. (SPAIN) (2) <i>Operation of a gaming terminal system for the Spanish State Gaming Organization</i> <i>Manuel Tovar, 9 - 28034 Madrid</i> | 31.75% | | 31.75% | 12.02 | 41.67 | - | - | 3.82 | E.M. | 17.04 |
| Amper, S.A. (SPAIN) (6) (9) <i>Development, manufacture and repair of telecommunications systems and equipment and related components</i> <i>Torrelaguna, 75 - 28027 Madrid</i> | 6.10% | | 6.10% | 27.91 | 68.70 | - | 2.13 | 11.82 | E.M. | 6.02 |
| Portugal Telecom, S.G.P.S., S.A. (PORTUGAL) (1) <i>Holding company</i> <i>Avda. Fontes Pereira de Melo, 40 - 1089 Lisboa</i> | 3.74% | 0.95% | 4.69% | 1,254.00 | 2,599.80 | - | 321.60 | 361.59 | E.M. | 175.38 |
| Rem Infográfica, S.A. (8) | N/D | | N/D | N/D | N/D | N/D | N/D | 0.94 | E.M. | 0.94 |

| INVESTEES | OWNERSHIP | | | CAPITAL STOCK | RESERVES | INTERIM DIVIDEND | INCOME | GROSS BOOK VALUE | CONSOLIDATION METHOD | VALUE IN CONSOLIDATION (10) |
|--|-----------|----------|------------------|---------------|----------|------------------|--------|------------------|----------------------|-----------------------------|
| | DIRECT | INDIRECT | TELEFÓNICA GROUP | | | | | | | |
| Promoció de Ciutat Vella, S.A. (SPAIN) <i>Urban improvements in the Ciutat Vella of Barcelona</i> <i>Rambles, 77 - 08002 Barcelona</i> | 3.57% | | 3.57% | 16.83 | N/D | | N/D | 0.07 | C. | 0.07 |
| Catalana D'Iniciatives, C.R., S.A. (SPAIN) <i>Promotion of nonfinance entities</i> <i>Passeig de Gracia, 2 - 2ºB - 08007 Barcelona.</i> | 5.99% | | 5.99% | 30.86 | N/D | | N/D | 2.81 | C. | 2.81 |
| Nexus Capital, S.A. (SPAIN) <i>Passeig de Gracia, 2 - 2ºB - 08007 Barcelona.</i> | 5.99% | | 5.99% | 15.43 | N/D | | N/D | 0.95 | C. | 0.95 |
| I-CO Global Communications (HOLDINGS) Limited (UNITED KINGDOM) | 0.03% | | 0.03% | N/D | N/D | | N/D | 6.02 | C. | 6.02 |
| Other holdings | N/A | N/A | N/A | N/A | N/A | | N/A | 885.16 | C. | 559.49 |

| | |
|-------------------------------------|----------|
| TOTAL ASSOCIATED COMPANIES (Note 8) | 3,099.14 |
| TOTAL INVESTEES (Note 8) | 870.78 |

(1) Company audited by Andersen.

(2) Company audited by Price & Cooper.

(3) Company audited by K.P.M.G. Peat Marwick.

(4) Company audited by Langton Clarke (Andersen Group).

(5) Company audited by Deloitte & Touche.

(6) Company audited by Ernst & Young.

(7) Company audited by Coopers & Lybrand.

(11) Company audited by Pistrelli, Díaz & Asociados (Andersen Group).

(12) Company audited by B.D.O. Audiberia

(13) Company audited by Piernavieja, Porta, Cachafeiro & Asociados (Andersen Group).

(14) Company audited by Medina, Zalzávar & Asociados (Andersen Group).

G. I. Companies consolidated by the global integration method

P. I. Companies consolidated by the proportional integration method

E.M. Companies carried by the equity method.

C. Investees.

N/D Information not available/No data.

N/A Not applicable.

(10) This figure relates to the contribution to the Telefónica Group and not to the subgroups to which the contributing companies belong.

(15) Data as of July 31, 2000.

(8) Companies in liquidation.

(9) Consolidated figures.

Amounts in foreign currencies: M=millions and m= thousands.

Provisional figures for associated companies and investees.

EXHIBIT II.

The changes in the consolidated Group in the periods ended December 31, 2001 and 2000, were as follows:

2001

Telefónica

As part of the plan to restructure the Telefónica Group by business line, Telefónica Móviles, S.A., Telefónica Datacorp, S.A. and Telefónica Internacional, S.A. carried out various capital increases in 2001. As consideration for these capital increases, Telefónica, S.A. made a nonmonetary contribution of the shares which it directly owned of the capital stock of Telefónica de Argentina, S.A., Telefónica del Perú, S.A.A. and Telecomunicações de Sao Paulo, S.A. (TELESP).

- On January 25, 2001, Telefónica Móviles, S.A. carried out one of the capital increases authorized by the Stockholders' Meeting on October 26, 2000, for €87,432,000. Telefónica, S.A. paid the new shares in full through the contribution of shares of the Argentine company Telefónica de Argentina, S.A. (TASA) representing 15.09% of its capital stock. At present, Telefónica Móviles owns 97.93% of the capital stock of Telefónica Móviles Argentina, S.A. which in turn owns all the shares of Telefónica Comunicaciones Personales, S.A.
- Also, as authorized by the aforementioned Stockholders' Meeting, on March 7, 2001, capital was increased by Ptas. 32,970,000, and shares representing a 16.45% holding in Telefónica del Perú, S.A.A. were received, signifying that the ownership interest in Telefónica Móviles Perú Holding, S.A.A., the sole stockholder of Telefónica Móviles, S.A.C., is now 97.97%.
- On March 7, 2001, Telefónica Intercontinental, S.A. (which was absorbed in 2001 by Telefónica Móviles España, S.A.) received official notification of the granting of the UMTS license in Switzerland for a period of 15 years at a cost of €2,508,000. The company which owns the license, 3G Mobile AG, was consolidated by the global integration method.
- Telefónica Datacorp, S.A. received shares of the capital stock of Telefónica Argentina and Telefónica Peru, representing 97.92% of the Argentine company Advance, S.A. and 93.22% of the Peruvian company Telefónica Data Perú, S.A.A., as well as the assets and liabilities assigned to the data business owned by Telefónica de Argentina and Telefónica del Peru.
- Telefónica Internacional, S.A., received shares of the capital stock of Telefónica de Argentina and Telefónica del Perú determined on the basis of the value of the wireline telephony and supplementary assets and liabilities owned by Telefónica de Argentina and Telefónica del Perú.
- Telefónica Internacional, S.A., received 306,211,253,813 shares representing 61.96% of the capital stock of the Brazilian company Telesp.

These contributions did not change the scope of consolidation with respect to the previous year.

Telefónica, S.A. acquired 4,713,015 shares of Terra Networks, S.A. for €53.96 million. As a result of these purchases, the Telefónica Group's percentage of ownership in Terra Networks is

37.63%. The company continues to be consolidated in the financial statements of the Telefónica Group by the global integration method.

In January 2001, pursuant to an agreement entered into in May 2000, Telefónica, S.A. acquired all the shares of Mediaways, GmbH Internet Services for €1,473.08 million from the German company Bertelsmann, A.G. The company was consolidated by the global integration method. Also, in December 2001 Telefónica, S.A. subscribed to a capital increase carried out by this company for €62.5 million.

In 2001, Telefónica, S.A. acquired a total of 8,289,305 shares of Telefónica Móviles, S.A. amounting to €68.68 million. The Telefónica Group's holding in this company is 92.70%. The company continues to be consolidated in the financial statements of the Telefónica Group by the global integration method.

In February, Telefónica, S.A. incorporated the wholly-owned subsidiary Telefónica Gestión de Servicios Compartidos, S.A., and paid in full the initial capital of this company, (€0.06 million). In December Telefónica Gestión de Servicios Compartidos, S.A. increased its capital by €2 million which was fully subscribed and paid by its parent company. The company was included in the financial statements of the Telefónica Group by the global integration method.

In June Telefónica, S.A. increased capital by 122,560,575 shares of €1 par value each and additional paid-in capital of €4.5 per share. As consideration for this capital increase, Telefónica received as a nonmonetary contribution from Motorola certain investments in the wireless business in Mexico: all the shares of Corporación Integral de Comunicación, S.A. de C.V.; all the shares of Grupo Corporativo del Norte, S.A.; 79% of the capital stock of Telefonía Celular del Norte, S.A. de C.V. (the remaining 21% is contributed indirectly through the acquisition of all the shares of Corporación Integral de Comunicación, S.A. de C.V.); 73.81% of the capital stock of Celular de Telefonía, S.A. de C.V. (the remaining 26.19% is contributed indirectly through the acquisition of all the shares of Grupo Corporativo del Norte, S.A. de C.V.); all the shares of Baja Celular Mejicana, S.A. de C.V.; 0.00001% of the capital stock of Baja Celular Servicios Compartidos, S.A. de C.V. (the remaining 99.99999% is contributed indirectly through the acquisition of all the shares of Baja Celular Mexicana, S.A. de C.V.); 0.00001% of the capital stock of Tamcel, S.A. de C.V. (the remaining 99.99999% is contributed indirectly through the acquisition of all the shares of Baja Celular Mexicana, S.A. de C.V.); 22% of the capital stock of Movitel del Noroeste, S.A. de C.V. (a further 68% is contributed indirectly through the acquisition of all the shares of Tamcel, S.A. de C.V.); 22% of the capital stock of Moviservicios, S.A. de C.V. (a further 68% is contributed indirectly through the acquisition of all the shares of Tamcel, S.A. de C.V.) and 22% of the capital stock of Movicelular, S.A. de C.V. (a further 68% is contributed indirectly through the acquisition of all the shares of Tamcel, S.A. de C.V.). Additionally, as a supplement to this transaction, Telefónica contributed €12.33 million. These holdings were contributed in July to Telefónica Móviles, S.A., which increased capital by 203 million shares which were fully subscribed by Telefónica, S.A. The market value of the holdings acquired on the date of the transaction was €2,173.74 million. The companies were consolidated in the Telefónica Group by the global integration method.

In August, Telefónica acquired 51,987 shares in Endemol Entertainment Holding, N.V. (Endemol), for €2.06 million, a transaction which generated goodwill in consolidation of €1.86 million. As a result of this transaction, the Telefónica Group's holding in Endemol is 99.35%. The company continues to be consolidated in the financial statements of the Telefónica Group by the global integration method.

In September, Telefónica, S.A. acquired 114,500 shares of the subsidiary Telefónica Publicidad e Información, S.A. (T.P.I.) for €0.36 million, a transaction which generated goodwill in consolidation of €0.32 million. As a result of this transaction, Telefónica's holding in T.P.I. is 59.9%. The company continues to be consolidated in the financial statements of the Telefónica Group by the global integration method.

Telefónica, S.A. and Iberdrola, S.A. have entered into an agreement for the acquisition by the Company of all the holdings which the Iberdrola Group owned in the Brazilian operators in which the two companies are direct or indirect stockholders. These holdings were acquired by Telefónica, S.A. in exchange for its own shares at the following exchange ratio:

- Holding of 3.48% in the capital stock of SP Telecomunicações Holding, S.A., the majority stockholder of Telecomunicações de São Paulo, S.A. (Telesp), for 6,638,157 shares of Telefónica, S.A.
- Holding of 7% in the capital stock of TBS Celular Participações, S.A., the majority stockholder of Celular CRT Participações, S.A., for 1,493,902 shares of Telefónica, S.A.
- Holding of 7% in the capital stock of Sudestecel Participações, S.A., the majority stockholder of Tele Sudeste Celular Participações, S.A., for 3,693,775 shares of Telefónica, S.A.
- Holding of 62.02% in the capital stock of Iberoleste Participações, S.A., the majority stockholder of Tele Leste Celular Participações, S.A., for 6,526,736 shares of Telefónica, S.A.
- Holding of 0.66% in the capital stock of Celular CRT Participações, S.A. for 634,541 shares of Telefónica, S.A.

Also, within the framework of this agreement, 3.38% of the capital stock of Tele Leste Celular Participações, S.A. will be acquired in exchange for 783,736 shares of Telefónica, S.A., once the prior regulatory authorizations have been obtained.

Telefónica, S.A. paid €248.05 million to fully subscribe the capital increase carried out by its wholly-owned investee Telefónica Datacorp, S.A.U., pursuant to the agreement entered into by the Telefónica Group and Banco Itáú de Brasil for the provision of services to the bank based on the management of its corporate telecommunications network.

Telefónica Publicidad e Información

Goodman Business Press, S.A., which was acquired in 2000, was consolidated in the Telefónica Group by the global integration method in 2001.

As a result, Goodman Business Press, S.A.'s wholly-owned investee Cernet, a company which engages in the design of web pages, was also consolidated in 2001, by the global integration method. Buildnet, S.A. in which Telefónica Publicidad e Información, S.A. has a holding of 46.35% and Goodman has a holding of 51.24%, was consolidated by the global integration method in 2001 (in 2000 it was carried by the equity method).

Terra Networks Group

Terra Networks, S.A. participated in the incorporation of the Spanish company Azeler Automoción, S.A. with initial capital of €8.41 million, 50 % subscribed and paid by Terra

Networks, S.A. The company was carried by the equity method in the Telefónica Group's consolidated financial statements.

Also in 2001, Terra Networks incorporated and is the sole stockholder of Terra Networks Financial Services USA Llc., and Terra Networks Caribe, paying €2.12 million and €1.29 million, respectively. The two companies were consolidated in the consolidated financial statements of the Telefónica Group by the global integration method.

In order to restructure the holdings in Spain of its associated companies, Terra Networks, S.A. formed Terra Networks Asociadas, S.L. with initial capital stock of €3,005, fully subscribed and paid by Terra Networks, S.A.

The Terra Networks Group has a 50% stake in the newly-incorporated Iniciativas Residenciales en Internet, S.A. ("ATREA", a real estate portal). The initial investment was €1,205,000. The company has been recorded in the Telefónica Group's consolidated financial statements at cost.

Inversis Valores y Bolsa, Sociedad de Valores S.A. (formerly Electronic Trading System Valores, S.A.), was sold for €4,500. The company, which was recorded at cost in the Group's consolidated financial statements, has been excluded from consolidation.

Maptel Networks, S.A.U. which was recorded at cost in 2000, was consolidated in the Telefónica Group's consolidated financial statements 2001 by the global integration method.

Pursuant to the agreements entered into with Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) in August 2001, Terra Networks, S.A. acquired a 49% holding in Uno-e Bank, S.A. for a disbursement of €60.43 million. This transaction gave rise to goodwill amounting to €30.25 million in the consolidated financial statements of the Telefónica Group. This company is carried by the equity method.

Telefónica Internacional Group

In 2001 Telefónica Internacional, S.A. sold its 35.86% holding in the Argentine company Cablevisión, S.A., giving rise to a capital gain of €255.92 million. The investee was excluded from the Telefónica Group's scope of consolidation.

Telefónica Internacional, S.A. acquired an additional holding of 10% in Telefónica Perú Holding, S.A. for €27.34 million, giving rise to goodwill in consolidation of €46.27 million. As a result of this acquisition, Telefónica Internacional became the sole stockholder of this company, which continues to be consolidated in the Telefónica Group's consolidated financial statements by the global integration method.

In 2001, following the requisite authorization by the regulatory body Anatel, the sale to Telefónica Internacional, S.A. of shares of São Paulo Telecomunicações Holding, S.A., which owns the shares of Telesp Participações, S.A., under a sale option executed by BBVA in December 2000, was concluded. This transaction increased the ownership interest in SPT Holding by 0.5292%, and a disbursement of €80.10 million was made in this connection. This company continues to be consolidated in the Telefónica Group by the global integration method.

The ownership interests of the parent company Telefónica Internacional, S.A. in the subsidiaries Telefónica de Perú, Telefónica de Argentina, Telesp and CEI Citicorps Holdings were increased as a result of the aforementioned contributions of shareholdings by Telefónica. Capital was

reduced at CEI through the reimbursement of contributions to the other stockholders in order to have a 99.96% holding in this company.

Telefónica Móviles Group

Since October 1, 2001, Ipse 2000 S.p.A. has been carried by the equity method in the consolidated financial statements. Under Article 11.2.b of Royal Decree 1815/1991 approving the regulations for the preparation of consolidated financial statements, this method is the most appropriate, because since October 1, 2001, certain difficulties have been progressively disclosed which, in practice, have substantially affected the Telefónica Group's effective control over the management of Ipse 2000 S.p.A.

The Spanish company MoviPay International, S.A., in which Telefónica Móviles has a 38% ownership interest which is recorded at cost in the Telefónica Móviles Group's 2001, consolidated financial statements was carried by the equity method in 2001.

Grupo Admira Media

In January the Endemol Group acquired the remaining 50% of the capital of Endemol France for €159.3 million. As a result of this acquisition, the Endemol Group has become the sole stockholder of this company, which was consolidated in the Telefónica Group's consolidated financial statements by the global integration method.

Also, in 2001 the Admira Media Group sold 15,740 shares representing 5.40% of the capital stock of Hispasat, S.A., giving rise to a gain of €5.17 million. As of December 31, 2001, the Admira Media Group had a 17.34% holding in that company.

Purchase of Antena 3 de TV shares from minority stockholders, for €1.79 million, increasing its holding to 47.51%. The company continues to be carried by the equity method in the Telefónica Group's consolidated financial statements.

In April, Grupo Admira Media, S.A. acquired all the shares of Famosos, Artistas, Músicos y Actores, S.A. (FAMA), which was formerly owned by Antena 3 de Televisión, S.A. The total cost of the transaction amounted to €6.21 million, generating goodwill in consolidation of €3.25 million. The company was consolidated in the Telefónica Group by the global integration method.

Capital increase at Rodven of €1.12 million. The company was consolidated in the Telefónica Group by the proportional integration method in 2001.

In September, Grupo Admira Media, S.A. acquired 47.5% of Tick Tack Ticket, S.A., for €6.01 million, a transaction which generated goodwill in consolidation of €4.15 million for the Telefónica Group. The company was carried by the equity method.

Telefónica Datacorp Group

On January 16, Telefónica Data México (formerly Optel) increased capital by 16,992,251 shares, which were all acquired by Telefónica Data Holding. On March 6 capital was increased by 16,743,904 shares of which 5,228,385 were acquired by Telefónica Data Holding and 11,515,519 by T. Datacorp. Following these capital increases the capital of Telefónica Data México amounts to MXP 241,738,667.8 and the stockholder structure is as follows:

T. Data Holding México 45.66%.

T. Data Holding 11.88%.

T. Datacorp 37.11%.

The Spanish company Telefónica Data Caribe, S.A., a wholly-owned investee of the Telefónica DataCorp Group, participated in the incorporation of Telefónica Data Cuba, by subscribing to 50% of the capital stock for €0.1 million. The company is recorded in the Telefónica Group's consolidated financial statements at cost.

Telefónica de España Group

In March all the shares of Telefónica Sistemas de Información Geográfica, S.A., a wholly-owned investee of Telefónica de España, S.A.U., were sold to Telecomunicaciones Sistemas de Ingeniería de Productos, S.A.U., S.A., for €1.38 million, generating a gain in the Telefónica Group's consolidated financial statements of €5.02 million. The company, which was consolidated in the Telefónica Group's consolidated financial statements by the global integration method, was excluded from consolidation.

In August Telyco Maroc S.A. in which Telyco S.A.U. has a holding of 53.988%, was incorporated with initial capital stock of MAD 6 million (€0.601 million). This company engages in the promotion, marketing and distribution in Morocco of equipment, systems and, in general, all manner of products related to telecommunications.

Atento Group

In June, Atento Chile, S.A., increased capital by 3,338,287 shares of 1,000 pesos each, which were fully subscribed by the Chilean companies Compañía de Telecomunicaciones de Chile, S.A. (CTC), a company in which the Telefónica Group has an indirect holding of 43.643% consisting of 3,049,998 shares, and which is consolidated in the consolidated financial statements of the Telefónica Group by the global integration method; Compañía de Teléfonos de Chile Transmisiones Regionales, S.A. (52,732 shares); Telefónica Empresas CTC Chile, S.A. (106,474 shares) and Sociedad Impresora y Comercial Publiguías, S.A. (129,083 shares).

Following this transaction, the Atento Group reduced its holding in Atento Chile from 99.99% to approximately 70%, as a result of which the remaining non-Group companies now own 29.99% of the capital stock of this company. Atento Chile continues to be consolidated in the Telefónica Group by the global integration method.

Emergia Group

In December the investee Emergia Holding, N.V. incorporated Emergia Hispana, S.A. with capital stock of €60,000, fully subscribed and paid by its parent company. The company was consolidated in the Telefónica Group by the global integration method.

2000

Telefónica

In December Telefónica, S.A. issued 88,944,644 shares of €1 par value each, with additional paid-in capital of €10.230562 per share (see Note 11), which were fully subscribed and paid through the contribution to Telefónica, S.A. of 404,555,475 shares of the Argentine company CEI Citicorp Holdings, S.A. (now Telefónica Holding Argentina, S.A.) of 1 Argentinian peso par value each. Of the total number of shares of CEI Citicorp Holdings, S.A. contributed, 301,946,570 were contributed by Ami Tesa Holdings, Ltd. and 102,608,905 by International

Equity Investments, Inc. Consequently, in proportion to their respective contributions, Ami Tesa Holdings, Ltd. and International Equity Investment, Inc. were allotted 66,385,284 and 22,559,360, respectively, of the new shares issued by Telefónica, representing 1.53% and 0.52%, respectively, of the capital stock of Telefónica. As a result of this transaction, Telefónica has an 80.91% direct holding in the capital stock of CEI Citicorp Holdings, S.A., which has a 50% ownership interest in the Argentine company Compañía de Inversiones de Telecomunicaciones, S.A., which in turn owns 52.88% of the capital stock of Telefónica de Argentina, S.A. and 26.82% of the capital stock of the Argentine companies Atlántida de Comunicaciones, S.A. and AC Inversora, S.A.

At year-end this company was consolidated by the global integration method.

Pursuant to the resolution adopted by the Board of Directors on January 12, 2000, on February 14, 2000, Telefónica Móviles S.A. was incorporated with an initial capital stock of €3,005,060. This company will group together all the Group's wireless communications businesses worldwide, which currently have a presence in Spain, Latin America, Europe and Maghreb, through an orderly process which continued in 2001. Subsequent to the admission to stock market listing of Telefónica Móviles in November 2000 through a public offering for subscription of shares, the Telefónica Group reduced its direct and indirect ownership interest in this company to the 92.15% it owned as of December 31, 2000. The gain on this transaction (€2,899.31 million) is recorded under the "Gains on Disposal of Holdings in Consolidated Companies" caption in the accompanying consolidated statement of income. This company is consolidated by the global integration method.

In September Telefónica sold 11,415,264 common shares of the subsidiary Telefónica Publicidad e Información, which represented 3.1% of its capital stock. This transaction gave rise to a gain for the Telefónica Group of €105.63 million, which is recorded under the "Gains on Disposal of Holdings in Consolidated Companies" caption in the accompanying consolidated statement of income. Following this transaction, Telefónica currently has a 59.87% ownership interest in the capital stock of this company, which continues to be consolidated by the global integration method.

In February Telefónica, S.A. sold a 6.1% holding in the capital stock of Amper, S.A. to the mutual funds European Renaissance Fund and European Strategic Investors Holdings managed by Arlington Capital Investors Limited. The gain obtained by the Telefónica Group on this transaction amounted to €5.43 million, and this amount is recorded under the "Gains on Disposal of Holdings in Consolidated Companies" caption in the accompanying consolidated statement of income. This company continues to be carried by the equity method on account of the 6.1% holding still owned by the Group.

In June 2000 Telefónica incorporated the U.S. company B2B Inc. with authorized capital stock of US\$ 10.

In June Media Park, S.A. increased capital through the issuance of 55,704 new shares of €60.10 par value each, with additional paid-in capital of €1,072.80 per share, which were subscribed in full by the Telefónica Group. As a result of this transaction, as of December 31, 2000, the Telefónica Media Group (now the Admira Group) had a 25% holding in Media Park, S.A. This company is carried by the equity method in the financial statements of the Telefónica Group.

In May capital was increased through the issuance of 14,477,109 shares of €1 par value each, with additional paid-in capital of €8.5 per share (see Note 11), paid through a nonmonetary contribution consisting of 163,395,785 shares of Vigil Corp and 35,562,211 shares of Ambit,

representing 100% and 22.15%, respectively, of the capital stock of the two companies. As a result of this transaction, the Telefónica Group increased its holding in the Argentine company Atlántida Comunicaciones, S.A. from 26.80% to 62.58%. Subsequently, the Admira Group acquired an additional 10.6% holding, thus bringing the Telefónica Group's total ownership interest in ATCO, including the portion owned by CEI, to 100%. Accordingly, this company was consolidated for the first time in the financial statements of the Telefónica Group by the global integration method.

On August 2 Telefónica, S.A. issued 213,409,097 new common shares of €1 par value each, with additional paid-in capital of €2.875 per share, which were assigned to the stockholders of Endemol Entertainment Holding, N.V., in exchange for shares representing 99.2% of the capital stock of this company (see Note 11), which was consolidated in the financial statements of the Telefónica Group by the global integration method.

In August and September the subsidiary Endemol Entertainment Holding, N.V. sold a 25.1% holding in German Film and TV Distributor Helkon, obtaining a gain of €45.49 million. Additionally, it sold a 26.44% holding in the Spanish internet portal I.P. Multimedia, S.A. (Telépolis), as a result of which it obtained a gain of 1.92 million. These gains are recorded under the "Gains on Disposal of Holdings in Consolidated Companies" caption in the accompanying consolidated statement of income.

On July 4 Telefónica, S.A. issued 157,951,446 new shares of €1 par value each, with additional paid-in capital of €8.129 per share, which were assigned to the stockholders and holders of American Depositary Shares (ADS) of Telefónica de Argentina, S.A. who accepted the exchange offer, and represented 44.27% of the capital stock of this company (see Note 11). As a result of this transaction and following the acquisition of CEI Citicorp Holdings, S.A., the Telefónica Group has a direct and indirect ownership of 92.87% in the capital stock of this company. This company continues to be consolidated by the global integration method in the consolidated financial statements of the Telefónica Group.

On July 6 Telefónica, S.A. issued 90,517,917 new shares of €1 par value each, with additional paid-in capital of €2.995 per share, which were assigned to the stockholders and holders of American Depositary Shares (ADS) of Tele Sudeste Celular Participações, S.A. who accepted the exchange offer, and represented 68.41% of the capital stock of this company (see Note 11). Additionally, a corporate restructuring process was initiated at this company and its subsidiaries. In this context, in 2000 Tele Sudeste Celular Participações, S.A. increased capital through nonmonetary contributions aimed at the minority stockholders of the operators in which it has an ownership interest, Telerj and Telest. Consequently, Tele Sudeste Celular Participações, S.A. now owns all the shares of these companies. As a result of these transactions, as of December 31, 2000, the Telefónica Group had a direct and indirect holding, through its subsidiary Telefónica Móviles, of 75.57% in the capital stock of Tele Sudeste Celular Participações, S.A. This company continues to be consolidated by the global integration method in the consolidated financial statements of the Telefónica Group.

Also, on July 6 Telefónica, S.A. issued 371,350,753 new shares of €1 par value each, with additional paid-in capital of €10.91 per share, which were assigned to the stockholders and holders of American Depositary Shares (ADS) of Telecomunicações de São Paulo, S.A. (Telesp) who accepted the exchange offer, representing 61.96% of the capital stock of this company (see Note 11). As a result of this transaction, the Telefónica Group has a direct and indirect holding of 86.61% in the capital stock of this company. This company continues to be consolidated by the global integration method in the consolidated financial statements of the Telefónica Group.

On July 11 Telefónica, S.A. issued 80,954,801 new shares of €1 par value each, with additional paid-in capital of €8.072 per share, which were assigned to the stockholders and holders of American Depositary Shares (ADS) of Telefónica del Perú, S.A.A. who accepted the exchange offer, and represented 53.12% of the capital stock of this company (see Note 11). As a result of this transaction, the Telefónica Group has a direct and indirect holding of 93.22% in the capital stock of this company. This company continues to be consolidated by the global integration method in the consolidated financial statements of the Telefónica Group

In July Telefónica, S.A. incorporated the Dutch company Emergia Holding, N.V. and subscribed and paid in full the initial capital stock of the new company, which amounted to €16,000.

On July 27, 2000, Telefónica, S.A. subscribed in full the capital increase at Emergia Holding, N.V. for €21.48 million, which was paid through a nonmonetary contribution consisting of all the shares of Emergia Uruguay, S.A.

On September 28, 2000, Emergia Holding, N.V. carried out an additional capital increase through the issuance of 18,876,405 shares of €0.10 par value each which, under the agreements entered into with Tyco Gamma Ltd., was subscribed and paid in full by the latter. The gain of €3.16 million arising from this transaction is recorded under the “Gains on Disposal of Holdings in Consolidated Companies” caption in the accompanying consolidated statement of income. Following this transaction, the capital stock of Emergia Holding consists of 298,876,415 shares of €0.10 par value each, in which Telefónica has a direct ownership interest of 93.68%. This company was included in the consolidated financial statements of the Telefónica Group by the global integration method.

Utilicare Servicios Asistenciales, S.A., in which Telefónica Consultora de Proyectos, S.A., a wholly-owned subsidiary of Telefónica, S.A., had a 70% ownership interest, was liquidated in the first quarter of 2000. The company, which was consolidated in the financial statements of the Telefónica Group by the global integration method, was excluded from the scope of consolidation of the Telefónica Group.

In January Telefónica, S.A., under the agreements entered into with Banco Bilbao Vizcaya Argentaria, S.A., sold to the latter a 3% holding in the capital stock of Terra. The gain on this transaction for the Telefónica Group amounted to €153.61 million and was recorded under the “Gains on Disposal of Holdings in Consolidated Companies” caption in the accompanying consolidated statement of income.

In December Telefónica acquired 3,386,172 shares of Terra Networks, representing 0.545% of the capital stock of this company. This company, in which the Telefónica Group has a direct and indirect holding of 36.87%, continues to be consolidated by the global integration method in the consolidated financial statements of the Telefónica Group.

Telefónica Publicidad e Información, S.A.

On January 20, 2000, Telefónica Publicidad e Información, S.A. (TPI) acquired the remaining 24.6% holding in TMP Worldwide España (TMP), making it the sole stockholder of this company. On November 23, 2000, TMP increased capital by €0.33 million, with additional paid-in capital of €9.26 million, and the increase was subscribed in full by TPI through a nonmonetary contribution consisting of 941 shares of International Publishing Group 2000, S.L. (IPG).

Previously, on July 19, 2000, TPI had acquired a 90.48% holding in IPG for €9.60 million through a monetary contribution of €2.12 million and a nonmonetary contribution consisting of 414,831 shares of TPI amounting to €0.02 million and additional paid-in capital of €7.46 million.

On December 29, 2000, International Publishing Group 2000, S.L. was merged into Goodman Business Press, S.A.U (Goodman), as a result of which the latter acquired all the assets and liabilities of the two companies. On that same date TMP merged with the post-merger company, acquired all its assets and liabilities and changed the company's name to Goodman.

TPI incorporated Telefónica Publicidad e Información Internacional, S.A.U. (TPI Internacional), a company which is wholly owned by TPI and whose corporate purpose is to manage securities representing the stockholders' equity of entities which are not resident in Spain.

As of December 31, 2000, TPI Internacional owned a 51% holding in the Chilean company Publiguías Chile (through its ownership interest in Publiguías Holding, S.A). Both companies are consolidated by the global integration method.

On October 30 Telefónica Publicidade e Informação Ltda. increased capital by 30 million Brazilian reais, 51% of which were subscribed by TPI.

Terra Networks Group

In March the Terra Group acquired an additional 5% of the capital stock of Terra Networks Guatemala, S.A., paying US\$500,000. As a result of this acquisition the Terra Group controls all the capital stock of the company, which continues to be included in the Telefónica Group's financial statements by the global integration.

In January the Terra Group participated in the incorporation of Electronic Trading System, S.A. Terra has a 10% holding in this company's capital stock, which amounts to €2,040,482. This company was recorded at acquisition cost.

Terra Networks Venezuela, S.A., a company wholly owned by Terra Networks, was incorporated on February 2, 2000, with an initial capital stock of 640,000 Venezuelan bolivares. Terra Networks Venezuela S.A. owns the Terra (formerly Chévere) portal in Venezuela, which was acquired for US\$ 4 million. Both companies are consolidated by the global integration method.

Terra Networks Colombia Holding, S.A. was incorporated on March 30, 2000. The Terra Networks Group owns, directly or indirectly, 99.9% of the capital stock of this company.

In July Terra Networks Colombia Holding, S.A. acquired a 65% holding in LaCiudad.com, S.A. for US\$ 20 million. Both companies are consolidated by the global integration method.

In March Terra, together with Amadeus Global Travel Distribution, S.A., incorporated Red Universal de Marketing y Bookings Online, S.A. (RUMBO), with a capital stock of €1 million. Terra and Amadeus Global Travel Distribution, S.A. each have a 50% holding in this company, for which they each paid €0.50 million. The company was included in the consolidated financial statements of the Telefónica Group by the global integration method.

In March Terra acquired all the shares of Terra Networks Uruguay, S.A. (which through this date had been called Stener, S.A.), whose capital stock totaled €6,010.12. This company is

consolidated by the global integration method.

In December 2000 capital was increased by US\$ 2,440 million through the conversion of accounts payable to Terra Networks, S.A. into capital.

In February 2000 the subsidiary Terra Networks USA, Inc. acquired for US\$ 45 million a minority interest in Aremate.com Inc., the leading on-line auction company in Latin America. DeRemate.com, a website where millions of people can contact each other in order to perform purchase and sale transactions, commenced operations in Argentina on August 31, 1999.

In April 2000 Terra entered into an agreement with TelePizza, S.A. to set up a joint venture to engage in the marketing, through communication networks such as the Internet or wireless telephony, of products such as books, videos, CDs, prepaid phonecards, entertainment products, etc., with distribution and delivery times ranging from 1 to 24 hours. The agreement also stipulates that Terra will participate in the telemarketing and telephone assistance services provided by the joint venture. In July 2000 Terra and TelePizza incorporated A Tu Hora, S.A., in which they each have a 50% holding, with a capital stock of €2.6 million and stockholders' equity of €5.6 million.

In June Terra, through its wholly-owned subsidiary Terra Networks España, S.A. (formerly Telefónica Servicios y Contenidos por la Red, S.A.), acquired an additional 90% holding in Ifigenia Plus for €1.95 million and consequently owns all the shares of this company. Ifigenia Plus is consolidated by the global integration method. In December 2000 capital was increased by US\$ 2,440 million through the conversion of accounts payable to Terra Networks into capital.

In July Terra increased capital through the issuance of 3,750,000 common shares of €2 par value each, with additional paid-in capital of €9 per share, subscribed and paid in full through nonmonetary contributions consisting of holdings of 49% and 10% in the capital stock of the U.S. companies Terra Networks Access Services USA Llc. and Terra Networks Interactive Services USA Llc., respectively. Following this transaction Terra owns all the shares of these two companies, which continue to be consolidated by the global integration method.

In September Terra Networks increased the par value of its capital stock by €70,967,742 through the issuance of 35,483,871 new ordinary shares of €2 par value each and additional paid-in capital of €60 per share. Telefónica S.A. subscribed and paid 35,380,101 shares.

In October Terra increased the par value of its capital stock by €604,063,948, through the issuance of 302,031,974 shares of €2 par value each, of the same series and carrying the same rights as the shares currently in circulation, with additional paid-in capital of €9 per share.

The purpose of this capital increase was to acquire the U.S. company Lycos Virginia, Inc., the successor of Lycos, Inc., through a share exchange transaction whereby Terra Networks acquired all the shares of Lycos Virginia, Inc. and the stockholders of this company received shares of Terra Networks at an exchange ratio of 2.15 Terra Networks shares for each share of Lycos Virginia. The acquisition cost of these shares amounted to €3,388,584,000. This company is consolidated by the global integration method.

Also, in September Ordenamiento de Links Especializados, S.L., a wholly-owned subsidiary of Terra Networks, acquired a 50% holding in Europa Press Comunicaciones, S.A. for €6.01 million. In turn, Europa Press Comunicaciones, S.A. has a 50% holding in Advertising Quality, S.L. and, accordingly, Terra Networks directly and indirectly owns all the shares of Advertising

Quality, S.L. Both this company and Europa Press Comunicaciones, S.A. are included in the consolidated financial statements of the Telefónica Group by the global integration method.

On December 13, 2000, Terra and Bumeran.com International Holdings, Ltd. entered into an agreement whereby Terra acquired 83.2% of this corporate group for €8.73 million. Bumeran.com, which is a vertical employment and human resources portal, was formed and officially launched in Argentina in August 1999. This company is consolidated by the global integration method.

In December 2000 Terra Networks acquired a 27.73% holding in OneTravel.com, Inc. for €5.96 million. This company is carried by the equity method.

On June 13, 2000, Terra Networks participated in the incorporation of Inversis Valores y Bolsa, Sociedad de Valores, S.A., in which it has a direct and indirect holding of 10%. This company is recorded at acquisition cost.

On July 1, 2000, Donde Latinoamericana, S.A. and Netgocios, S.A. were merged into Terra Networks Argentina, S.A., which continues to be consolidated by the global integration method.

In 2000 Terra Networks Operation, Inc. and Terra Networks Games Co., wholly-owned subsidiaries of the Terra Networks Group, were incorporated. Terra Networks Operation, Inc. was included in the consolidated financial statements of the Telefónica Group by the global integration method and Terra Networks Games Co. was recorded at acquisition cost.

Telefónica Internacional Group

The Telefónica Internacional Group sold a 0.27% holding in the U.S. company Infonet Services Corporation. The gain obtained by the Group on this transaction was €24.14 million, and this amount is recorded under the “Gains on Disposal of Holdings in Consolidated Companies” caption in the accompanying consolidated statement of income. This company continues to be carried by the equity method.

In June Telefónica de Argentina, S.A., a Telefónica Group subsidiary, sold all the shares of Radio Llamada SACI for a gain of €0.47 million, and this amount is recorded under the “Gains on Disposal of Holdings in Consolidated Companies” caption in the accompanying consolidated statement of income. This company was excluded from the scope of consolidation of the Telefónica Group.

In July Compañía de Telecomunicaciones de Chile, S.A., in which the Telefónica Internacional Group has a 43.64% holding, sold a 40% ownership interest in CTC Metrópolis-Intercom, for a gain of €14.38 million, and this amount is recorded under the “Gains on Disposal of Holdings in Consolidated Companies” caption in the accompanying consolidated statement of income. This company was excluded from the scope of consolidation of the Telefónica Group in 2000.

On August 7, 2000, the Telefónica Internacional Group sold its CRT Fija shares, which represented a 16.7% holding in the capital stock of this company, for a gain of €60 million, and this amount is recorded under the “Gains on Disposals of Holdings in Consolidated Companies” caption in the accompanying consolidated statement of income. This company was excluded from the scope of consolidation of the Telefónica Group.

In September Compañía de Telecomunicaciones de Chile, S.A., a Telefónica Internacional Group subsidiary, acquired a 20% holding in Empresas de Tarjetas Inteligentes, S.A. for €58.61 million. This company is carried by the equity method.

Pursuant to certain agreements entered into at the beginning of 2000 relating to the future sale of Cablevisión, S.A., in 2000 this company was recorded in the financial statements of the Telefónica Group at the underlying book value recorded in December 1999 (Cablevisión, S.A. was carried by the equity method in 1999).

In December 1999 Telesp acquired a 72.6% holding in CETERP (Centrais Telefonicas de Ribeirão Preto, S.A.), which was recorded at cost in the financial statements of the Telefónica Group. CETERP was consolidated by the global integration method from January 3, 2000, the date on which Telesp took control of the company. In December 2000 this company sold its subsidiary CETERP Celular for a gain of €46.85 million, and this amount is recorded under the “Gains on Disposal of Holdings in Consolidated Companies” caption. Subsequently, CETERP was merged into its parent company Telesp.

In November 2000 various corporate and restructuring transactions at SP Telecomunicações Holding, S.A. gave rise to increases in Telefónica Internacional, S.A.’s ownership interest in this company. The most noteworthy of these transactions was that carried out on November 27, when the stock swap agreement entered into on July 19, 2000, by Telefónica Internacional, S.A. and Portugal Telecom, S.A. was materialized, whereby Telefónica Internacional, S.A. acquired an additional 23% holding in SP Telecomunicações Holding, S.A. (which controls Telesp) that was owned by the Portugal Telecom Group, in exchange for its direct and indirect ownership interest of 35.8% in Portelcom Participações, S.A. (the holding company which controls Telesp Celular, S.A.) and for a cash payment of US\$ 59.8 million within the stipulated time periods.

In November 2000 Telefónica Internacional, S.A. acquired all the shares of Communication Technology Inc., a company whose registered office is in Miami (USA), for US\$ 16 million. This company was recorded at the acquisition cost of the shares and the effect of its consolidation in the accompanying financial statements was not material.

Grupo Admira Media Group

In 2000 DTS Distribuidora de Televisión Digital, S.A. increased capital by €89.25 million. Grupo Admira Media, S.A. (“Grupo Admira Media”), a wholly-owned subsidiary of Telefónica, S.A., subscribed to this capital increase, but acquired a number of shares lower than that which corresponded to it and, accordingly, its holding in DTS decreased to 48.63%. This company continues to be carried by the equity method.

In 2000 Grupo Admira Media acquired 344,625 shares of Antena 3 TV, thereby increasing its holding in the company to the current 47.42%. This company continues to be carried by the equity method.

In 2000 Interocio Games, S.A. and the Argentine company Patagonik Film Group, S.A., in which Grupo Admira Media has holdings of 50% and 30%, respectively, were carried by the equity method.

Producciones Multitemáticas, S.A., a wholly-owned subsidiary of Grupo Admira Media, incorporated Factoría de Contenidos Digitales, S.A., by subscribing and paying in full its initial capital stock, which amounted to €0.06 million. The company was consolidated in the financial statements of the Admira Group by the global integration method.

In 2000 the Admira Group subscribed and paid shares representing 70% of the capital stock of Euroleague Marketing, S.L. for €0.04 million. This company was included for the first time in the financial statements of the Telefónica Group by the global integration method.

Grupo Admira Media incorporated Telefónica Sport, S.A. by subscribing all the capital stock of this company and paying 25% thereof. This company was consolidated for the first time in the financial statements of the Telefónica Group by the global integration method.

Grupo Admira Media acquired shares representing 51% of the capital stock of the Venezuelan Rodven Group for €1.27 million. This company was recorded at acquisition cost in 2000.

Telefónica Datacorp Group

On February 22, 2000, Telefónica Data Atlas, S.A. was incorporated with a capital stock of 300,000 dirham, 60% of which was subscribed by Telefónica Datacorp, S.A. This company was recorded at acquisition cost.

On March 31, 2000, the Stockholders' Meeting of Telefónica Data México, S.A. de C.V. resolved to increase capital. As a result of this capital increase, as of December 31, 2000, the value of the company's holding in Telefónica Data México, S.A. de C.V. amounted to €15.94 million.

On April 27, 2000, Telefónica Data México, S.A. de C.V. acquired an 85% holding in Optel Telecomunicaciones, S.A. de C.V. for €16.41 million. On August 18, 2000, the Stockholders' Meeting of Optel Telecomunicaciones, S.A. de C.V. resolved to increase capital by 51,300,000 Mexican pesos. On December 15, 2000, the Stockholders' Meeting of the aforementioned company resolved to increase capital by a further 57,000,000 Mexican pesos. Telefónica Data Holding, S.L. and Telefónica Datacorp subscribed shares representing 10% and 15% of these capital increases, respectively. In 2001 the Controlling Company intends to transfer its holding to Telefónica Data Holding, S.L. Both companies are consolidated by the global integration method.

In 2000 the Colombian dependent companies Rey Moreno, S.A. and Telecomunicaciones Ganaderas, S.A., in which Telefónica Datacorp, S.A. has holdings of 50% and 50.01%, respectively, were consolidated by the global integration method (in 1999 they had been carried by the equity method).

In 2000 investments were made in Telefónica Data Brasil, S.A., Telefónica Data USA, Telefónica Data Canadá, Inc., and Telefónica Data Licensing, all of which are wholly owned by the Data Group. Telefónica Data Brasil, S.A. and Telefónica Data USA were consolidated in the financial statements of the Data Group by the global integration method. Telefónica Data Canadá, Inc. and Telefónica Data Licensing were recorded at acquisition cost.

Telefónica Datacorp, S.A., ACEA and the Fiat Group entered into an agreement to create the company ATLANET through the merger of ACEA and Telexis. Since December 28, the date on which ACEA and Telexis were merged into the single post-merger company ATLANET, Telefónica Datacorp, S.A., ACEA and Fiat-Ifil have had holdings in this new company of 34%, 33% and 33%, respectively. To this end, the following measures were taken:

- On September 1, 2000, Telefónica Datacorp, S.A. acquired a 30% holding in Telexis Spa., a Fiat Group company. On October 20 ACEA acquired 11.44% of its own shares from Telefónica Datacorp, S.A., which had a 49% ownership interest in ACEA (also acquired in 2000).

The company resulting from these transactions, ATLANET, Spa., was consolidated in 2000 by the global integration method.

On December 20 Telefónica Datacorp, S.A. subscribed 89.6% of the capital increase at Agencia de Certificación Electrónica (ACE), a company in which it had a 40% holding. Telefónica Datacorp, S.A. thus increased its ownership interest in ACE to 85%.

On October 17 Telefónica Data Holding, S.L. was formed. All the shares of the new company were subscribed by Telefónica Datacorp through a nonmonetary contribution consisting of holdings in European Telecom International, A.G., Rey Moreno, S.A., Telefónica Data Colombia, S.A., Telefónica Datos de Venezuela, S.A., Telefónica Data Brasil, Ltda. and an 11% holding in ACEA Telefónica, Spa. As of December 31, 2000, the total value of this contribution amounted to €55.25 million.

Telefónica de España Group

In June 2000, Telefónica de España, a company wholly-owned by Telefónica, S.A., sold to Radiotrónica, S.A. all the shares of Telefónica Sistemas Ingeniería de Productos, S.A. (TSIP) for €155.88 million, giving rise to a gain for the Group of €41.85 million, and this amount is recorded under the “Gains on Disposal of Holdings in Consolidated Companies” caption in the accompanying consolidated statement of income. This company was excluded from the scope of consolidation of the Telefónica Group.

In March Telefónica Soluciones Sectoriales, S.A., a wholly-owned subsidiary of Telefónica de España, sold its 71% holding in the capital stock of SOS Alzheimer, S.A. Accordingly, this company, which was consolidated in the financial statements of the Telefónica Group by the global integration method, was excluded from consolidation, giving rise to a loss of €0.35 million, and this amount was recorded under the “Losses on Disposal of Holdings in Consolidated Companies” caption.

Telefónica Soluciones Sectoriales, S.A. also sold all the shares it owned of ZZJ Mundovisión. In March and in June it sold holdings of 18.75% and 6.25%, respectively, giving rise to a loss for the Telefónica Group of €0.41 million, and this amount was recorded under the “Losses on Disposals of Holdings in Consolidated Companies” caption in the accompanying consolidated statement of income. This company was excluded from the scope of consolidation of the Telefónica Group.

Telefónica de España incorporated Iberwap, S.A.U. with an initial capital stock of €0.06 million. In December the company increased capital by €1.56 million, and the increase was fully subscribed and paid by Telefónica de España.

Telefónica Móviles Group

In the second half of 2000 Telefónica Móviles, directly and indirectly, through its wholly-owned subsidiary Telefónica Intercontinental, S.A. formed consortiums with other operators, which obtained the following licenses to provide third-generation wireless telephony (UMTS) services in Germany, Italy and Austria:

- **Germany:** in August the consortium Orla, through its subsidiary Marabu, which is 57.2% owned by Telefónica Móviles, obtained one of the six licenses granted for €3,471 million. The investment made by Telefónica Móviles amounted to approximately €1,210.98 million. Orla was consolidated by the global integration method.
- **Italy:** in October the consortium Ipse 2000, led by Telefónica Móviles with an ownership interest of 45.59%, obtained one of the two broader-band licenses granted for €3,269 million. Atlanet, which is 34% owned by the Telefónica Group, has a 12% ownership

interest in this consortium. Accordingly, the Telefónica Group's effective ownership interest in this consortium is 46.09%. The investments made by Telefónica Móviles and Atlanet, S.A. amounted to €980 million and €258 million, respectively.

Ipse 2000 is consolidated by the global integration method, since the Telefónica Group has the power to appoint a majority of the members of its Board of Directors.

- **Austria:** in November 3G Mobile Telecommunications GmbH, wholly-owned by Telefónica Móviles with a capital stock of approximately €0.04 million, obtained a two-band frequency license for €17.40 million.

This company was consolidated by the global integration method.

Telefónica Móviles incorporated Telefónica Móviles USA, S.A. with an initial capital stock of US\$ 10, subscribed and paid in full by Telefónica Móviles. This company is included in the consolidated financial statements of the Telefónica Group by the global integration method.

On April 14, 2000, Telefónica Mobile Solutions S.A. was incorporated with a capital stock of €60,110. This company, which is wholly owned by the Group, was consolidated by the global integration method.

At the end of 2000 Tele Sudeste Celular Participações, S.A. and Tele Leste Celular Participações, S.A. acquired, through a capital increase with a share exchange, the holdings in their operator subsidiaries owned by minority stockholders, thereby increasing their holdings in these companies to 100%. Following this transaction, Telefónica Móviles's holdings in Tele Sudeste Celular Participações, S.A. and Tele Leste Celular Participações, S.A. amounted to 82.01% and 10.75%, respectively.

Tele Sudeste Celular Participações, S.A., Telest Celular, S.A. and Telerj Celular, S.A. are consolidated by the global integration method. Tele Leste Celular Participações, S.A. and Telebahía Celular, S.A. are carried by the equity method.

On December 21, 2000, Mobilpay International, S.A., which is 50% owned by the Group, was incorporated with a capital stock of €30,050,600. This company is recorded in the Group's consolidated financial statements at acquisition cost.

In June Terra, in conjunction with Telefónica Móviles, incorporated Terra Mobile S.A. with a capital stock of €0.60 million. This company, which is owned 49% by Terra and 51% by Telefónica Móviles, was consolidated by the global integration method.

Terra Mobile acquired all the shares of the Finnish company Iobox, which engages in the development of technology and the provision of wireless Internet services, for €16.20 million. This company is consolidated in the financial statements of the Telefónica Group by the global integration method.

In January Telefónica Internacional, S.A., a wholly-owned subsidiary of Telefónica Móviles, which was merged into Telefónica Móviles España, S.A. in 2001, sold a 4% holding in Médi Telecom (Morocco) for its cost value. With this sale the Telefónica Group reduced its ownership interest in this company to 30.5%. In 2000 Médi Telecom was carried by the equity method.

Grupo Atento

In 2000 Atento Holding Inc., a company wholly-owned by Telefónica, S.A., incorporated the following companies:

- Atento Argentina, S.A., of which it owns all the shares, with an initial capital stock of US\$ 12,000.
- Atento Colombia, S.A., of which it owns all the shares, with an initial capital stock of 10 million Colombian pesos.
- Atento Maroc, S.A., in which it has a 99.87% holding, with an initial capital stock of 300,000 dirhams.
- Atento Venezuela, of which it owns all the shares, with an initial capital stock of US\$ 147.
- Atento Asia Pacific, a company with registered offices in Japan, in which it has a 99.5% holding, with an initial capital stock of 10 million yen.
- Atento Pasona, a company with registered offices in Japan, in which it has a 69.99% holding, with an initial capital stock of 500 million yen.
- Atento Holding Chile, of which it owns all the shares, with an initial capital stock of US\$ 36 million.
- Atento Puerto Rico, of which it owns all the shares, with an initial capital stock of US\$ 100 million.
- Atento Italia, of which it owns all the shares, with an initial capital stock of 20 million lira.
- Atento México, of which it owns all the shares, with an initial capital stock of 50,000 Mexican pesos.
- Atento Recursos, in which it has a 99% holding, with an initial capital stock of 1 million Chilean pesos.
- Atento Educación, in which it has a 99% holding, with an initial capital stock of 1 million Chilean pesos.

Trilha Sistemas de Comunicação Ltd., Quatro A Centrais de Atendimento e Telemarketing, S.A. and Quatro A Nordeste were merged into Atento Brasil, S.A.

In 2000 all these companies were consolidated by the global integration method.

On December 22, 2000, Atento Telecomunicaciones España, S.A. acquired an additional 24.5% holding in Gestión de Servicios de Emergencia y Atención al Ciudadano, S.A. for €0.35 million. This company, which is wholly owned by Atento Telecomunicaciones España, S.A., continues to be consolidated in the financial statements of the Atento Group by the global integration method.

EXHIBIT III

GOODWILL IN CONSOLIDATION

The detail of the balance of goodwill in consolidation, of the related accumulated amortization and of the variations therein as of December 31, 2001 and 2000, is as follows:

| <i>Goodwill in consolidation</i> | Millions of Euros | | | | | |
|---|------------------------|-----------------|-----------------|---------------|----------------------------|------------------------|
| | Balance at 12/31/00 | Additions | Retirements | Transfers | Translation Differences | Balance at 12/31/01 |
| Companies consolidated by the global integration method: | | | | | | |
| C.T.C. (Chile) | 33.10 | - | - | - | - | 33.10 |
| T. de Argentina y Filiales (Argentina) | 38.50 | 1.55 | (8.86) | - | (10.87) | 20.32 |
| T. Peru Holding (Peru) | 2.77 | 46.27 | - | - | - | 49.04 |
| Telefónica del Perú (Peru) | 204.32 | 76.94 | - | - | - | 281.26 |
| Telesp Participações (Brazil) | 96.05 | 8.22 | - | (1.26) | - | 103.01 |
| Grupo Cei Citicorp (Argentina) | 571.91 | - | - | 2.27 | - | 574.18 |
| Cti (USA) | - | 15.64 | - | - | - | 15.64 |
| Instacom (Chile) | 9.51 | - | - | - | (0.42) | 9.09 |
| Startel (Chile) | 340.69 | - | - | - | (15.15) | 325.54 |
| Sonda (Chile) | 50.11 | - | - | 0.16 | (2.12) | 48.15 |
| Sociedades de Sonda (Chile) | 10.49 | - | - | 3.07 | 1.71 | 15.27 |
| Cointel (Argentina) | 484.29 | - | - | - | - | 484.29 |
| Telefonica Multimedia (Peru) | 10.22 | - | - | - | 0.60 | 10.82 |
| Vtr (Chile) | 37.47 | - | - | - | (1.66) | 35.81 |
| Goodman | - | 7.96 | - | - | - | 7.96 |
| Telefonica Internacional | 281.66 | - | - | - | - | 281.66 |
| Telefonica Móviles | - | 113.21 | - | - | - | 113.21 |
| T. Data España | 154.96 | - | - | - | - | 154.96 |
| Atlantet (Italy) | 68.55 | - | (3.16) | - | - | 65.39 |
| Telefónica Data México | 15.70 | - | - | - | - | 15.70 |
| T. Data Brasil | - | 233.55 | - | - | (12.87) | 220.68 |
| Mediaways | - | 1,474.66 | (249.00) | - | - | 1,225.66 |
| Uniprex | 84.64 | - | - | (84.64) | - | - |
| Grupo Fieldy | - | 36.18 | - | - | (0.34) | 35.84 |
| Endemol | 802.27 | 23.93 | - | - | - | 826.20 |
| Grupo Endemol | 71.45 | 244.68 | (6.11) | - | 1.21 | 311.23 |
| Grupo Atco (Argentina) | 450.54 | 17.26 | - | - | (129.37) | 338.43 |
| Telefónica Media Argentina | 18.81 | - | - | - | - | 18.81 |
| Atento Perú | 6.96 | - | - | - | 0.62 | 7.58 |
| Atento Brasil | 149.30 | - | - | - | 8.14 | 157.44 |
| Terra Brasil Holding | 219.47 | - | - | - | - | 219.47 |
| Olé | 12.25 | - | - | - | - | 12.25 |
| Terra Networks Mexico | 214.42 | - | - | 51.84 | - | 266.26 |
| Infosel (Mexico) | 49.98 | - | - | (49.98) | - | - |
| Terra Chile Holding (Chile) | 25.05 | - | - | - | - | 25.05 |
| Terra Networks Argentina | 12.06 | - | - | - | - | 12.06 |
| Terra Networks USA | 9.63 | - | - | - | - | 9.63 |
| Ifigenia Plus | 11.17 | - | - | - | - | 11.17 |
| Terra Networks Colombia | 21.53 | - | - | - | - | 21.53 |
| Lycos | 964.01 | 11.05 | (150.16) | 840.64 | (54.12) | 1,611.42 |
| Sociedades Lycos | 881.99 | - | - | (881.99) | - | - |
| Bumeran | 5.78 | 2.35 | - | - | - | 8.13 |
| Filiales Terra Brasil Holding (Brazil) | 18.08 | - | (4.48) | - | 1.84 | 15.44 |
| Terra Networks | 10.03 | 7.75 | - | - | - | 17.78 |
| Telesudeste Celular | 117.05 | - | (0.02) | 57.37 | - | 174.40 |
| Crt Celular | 285.96 | - | - | 67.12 | - | 353.08 |
| T. Centroamerica Guatemala | 9.91 | - | - | (0.01) | 0.12 | 10.02 |
| Sociedades Dependientes De T.E.S.Holding | 61.35 | - | - | - | 3.37 | 64.72 |
| Móviles Mexico | - | 10.30 | - | 135.14 | (5.04) | 140.40 |
| Corporativo Del Norte | - | 230.51 | - | - | - | 230.51 |
| Celular de Telefonía | - | 137.86 | - | - | - | 137.86 |
| I.O.Box | 233.45 | - | - | - | - | 233.45 |
| Other companies | 66.62 | 8.92 | (1.39) | 3.95 | 0.07 | 78.17 |
| | 7,224.06 | 2,708.79 | (423.18) | 143.68 | (214.28) | 9,439.07 |

| | | | | | | |
|--|-----------------|-----------------|-----------------|---------------|-----------------|------------------|
| Companies carried by the equity method: | | | | | | |
| Venworld (Venezuela) | 134.21 | - | - | - | - | 134.21 |
| Cablevisión (Argentina) | 265.38 | - | (265.38) | - | - | - |
| Mercador (Brazil) | - | - | - | 11.12 | - | 11.12 |
| Portugal Telecom | 198.12 | 76.00 | - | - | - | 274.12 |
| Torneos y Competencias | 45.10 | - | - | - | - | 45.10 |
| Azul Televisión (Acisa Group) | 17.36 | - | - | - | (5.73) | 11.63 |
| Dts D ^a Tv Digital | 88.11 | - | - | - | - | 88.11 |
| Antena 3 | 208.19 | 1.29 | - | - | - | 209.48 |
| Pearson | 524.00 | - | (44.30) | - | - | 479.70 |
| Media Park | 38.16 | 1.89 | - | - | - | 40.05 |
| Patagonik (Argentina) | 7.31 | - | - | - | - | 7.31 |
| Lideres USA (Rodven) | - | - | - | 20.19 | - | 20.19 |
| Uno-e Bank | - | 130.25 | - | - | - | 130.25 |
| One Travel | 14.12 | - | - | - | - | 14.12 |
| Andalucia Digital Multimedia | 6.13 | - | - | - | - | 6.13 |
| Other companies | 26.27 | 100.50 | (3.25) | 40.38 | (1.99) | 161.91 |
| | 1,572.46 | 309.93 | (312.93) | 71.69 | (7.72) | 1,633.43 |
| Total goodwill | 8,796.52 | 3,018.72 | (736.11) | 215.37 | (222.00) | 11,072.50 |

| <i>Amortization of goodwill in consolidation</i> | Millions of Euros | | | | | |
|---|---------------------|---------------|----------------|--------------|-------------------------|---------------------|
| | Balance at 12/31/00 | Additions | Retirements | Transfers | Translation Differences | Balance at 12/31/01 |
| Companies consolidated by the global integration method: | | | | | | |
| C.T.C. (Chile) | 27.57 | 0.67 | - | - | - | 28.24 |
| T. De Argentina Y Filiales (Argentina) | 9.02 | 3.56 | (2.29) | 0.53 | (4.18) | 6.64 |
| T. Peru Holding (Peru) | 1.20 | 0.91 | - | - | - | 2.11 |
| Telefónica del Perú (Peru) | 9.69 | 17.75 | - | - | - | 27.44 |
| Telesp Participações (Brazil) | 7.31 | 2.15 | - | - | - | 9.46 |
| Grupo Cei Citicorp (Argentina) | - | 28.71 | - | - | - | 28.71 |
| Cti (USA) | - | 0.78 | - | - | - | 0.78 |
| Instacom (Chile) | 6.15 | 3.20 | - | - | (0.26) | 9.09 |
| Startel (Chile) | 52.22 | 16.23 | - | - | (2.31) | 66.14 |
| Sonda (Chile) | 4.87 | 3.26 | - | 0.20 | (0.20) | 8.13 |
| Sociedades De Sonda (Chile) | 2.64 | 1.14 | - | (0.09) | (0.14) | 3.55 |
| Cointel (Argentina) | 145.46 | 21.67 | - | - | - | 167.13 |
| Telefonica Multimedia (Peru) | 2.45 | 0.97 | - | - | 0.14 | 3.56 |
| Vtr (Chile) | 4.21 | 1.78 | - | - | (0.18) | 5.81 |
| Goodman | - | 0.42 | - | - | - | 0.42 |
| Telefonica Internacional | 44.42 | 14.02 | - | - | - | 58.44 |
| Telefonica Móviles | - | 3.97 | - | - | - | 3.97 |
| T. Data España | 104.26 | 2.98 | - | 0.01 | - | 107.25 |
| Atlanet (Italy) | 1.20 | 3.43 | - | - | - | 4.63 |
| Telefónica Data México | 0.47 | 15.23 | - | (0.01) | - | 15.69 |
| T.Data Brasil | - | 5.45 | - | (0.02) | - | 5.43 |
| Mediaways | - | 73.65 | - | 0.01 | - | 73.66 |
| Uniprex | 6.27 | 4.23 | (10.50) | - | - | - |
| Grupo Fieldy | - | 1.44 | - | - | - | 1.44 |
| Endemol | 16.71 | 41.72 | - | - | - | 58.43 |
| Grupo Endemol | 1.23 | 15.57 | - | - | - | 16.80 |
| Grupo Atco (Argentina) | 87.29 | - | - | - | - | 87.29 |
| Telefónica Media Argentina | 0.86 | 25.46 | - | - | - | 26.32 |
| Atento Perú | 0.55 | 0.37 | - | - | 0.05 | 0.97 |
| Atento Brasil | 6.26 | 7.84 | - | - | 0.37 | 14.47 |
| Terra Brasil Holding | 65.77 | 30.18 | - | - | - | 95.95 |
| Olé | 4.29 | 1.66 | - | - | - | 5.95 |
| Terra Networks Mexico | 46.69 | 58.33 | - | 11.38 | - | 116.40 |
| Infosel (Mexico) | 11.66 | - | - | (11.66) | - | - |
| Terra Chile Holding (Chile) | 7.20 | 4.18 | - | - | - | 11.38 |
| Terra Networks Argentina | 2.93 | 6.47 | - | (0.01) | - | 9.39 |
| Terra Networks USA | 0.80 | 8.83 | - | - | - | 9.63 |
| Ifígenia Plus | 1.12 | 1.62 | - | - | - | 2.74 |
| Terra Networks Colombia | 1.80 | 3.13 | - | - | - | 4.93 |
| Lycos | 32.14 | 254.03 | - | - | - | 286.17 |
| Sociedades Lycos | 41.34 | - | - | (41.34) | - | - |
| Bumeran | - | 3.64 | - | (0.01) | - | 3.63 |
| Filiales Terra Brasil Holding (Brazil) | 3.60 | 3.01 | - | (0.01) | (0.42) | 6.18 |
| Terra Networks | 10.03 | 1.28 | - | - | - | 11.31 |
| Telesudeste Celular | 1.59 | 6.33 | - | 0.25 | - | 8.17 |
| Crt Celular | 4.22 | 18.10 | - | - | - | 22.32 |
| T.Centroamerica Guatemala | 0.60 | 0.60 | - | - | 0.02 | 1.22 |
| Sociedades Dependientes De T.E.S.Holding | 3.01 | 4.39 | - | - | 0.57 | 7.97 |
| Móviles Mexico | - | 4.38 | - | 59.23 | (2.32) | 61.29 |
| Corporativo del Norte | - | 5.76 | - | - | - | 5.76 |
| Celular de Telefonía | - | 3.44 | - | - | - | 3.44 |
| I.O.Box | 23.34 | 33.72 | - | - | - | 57.06 |
| Other companies | 45.47 | 3.11 | - | (0.41) | 0.02 | 48.19 |
| | 849.91 | 774.75 | (12.79) | 18.05 | (8.84) | 1,621.08 |

| | | | | | | |
|--|-----------------|-----------------|-----------------|---------------|-----------------|-----------------|
| Companies carried by the equity method: | | | | | | |
| Venworld (Venezuela) | 92.91 | 4.13 | - | - | - | 97.04 |
| Cablevisión (Argentina) | 12.33 | - | (12.33) | - | - | - |
| Mercador (Brazil) | - | 1.11 | - | - | 0.01 | 1.12 |
| Portugal Telecom | 31.17 | 13.62 | - | - | - | 44.79 |
| Torneos y Competencias | 6.67 | 2.36 | - | - | - | 9.03 |
| Azul Televisión (Acisa Group) | 1.24 | 0.94 | - | - | - | 2.18 |
| Dts D ^a Tv Digital | 7.83 | 4.41 | - | - | - | 12.24 |
| Antena 3 | 29.16 | 10.33 | - | - | - | 39.49 |
| Pearson | 39.40 | 20.66 | - | - | - | 60.06 |
| Media Park | 0.96 | 2.05 | - | - | - | 3.01 |
| Patagonik (Argentina) | 0.37 | 0.37 | - | - | - | 0.74 |
| Lideres USA (Rodven) | - | 1.01 | - | - | - | 1.01 |
| Uno-e Bank | - | 4.34 | - | - | - | 4.34 |
| One Travel | - | 2.08 | - | - | - | 2.08 |
| Andalucia Digital Multimedia | 0.31 | 0.31 | - | - | - | 0.62 |
| Other companies | 9.46 | 2.72 | (0.06) | 35.43 | (2.82) | 44.73 |
| | 231.81 | 70.44 | (12.39) | 35.43 | (2.81) | 322.48 |
| Total accumulated amortization | 1,081.72 | 845.19 | (25.18) | 53.48 | (11.65) | 1,943.56 |
| Unamortized goodwill in consolidation | 7,714.80 | 2,173.53 | (710.93) | 161.89 | (210.35) | 9,128.94 |

| <i>Goodwill in consolidation</i> | Millions of Euros | | | | | |
|---|---------------------|-----------------|-----------------|----------------|-------------------------|---------------------|
| | Balance at 12/31/99 | Additions | Retirements | Transfers | Translation Differences | Balance at 12/31/00 |
| Companies consolidated by the global integration method: | | | | | | |
| C.T.C. (Chile) | 33.10 | - | - | - | - | 33.10 |
| Celular C.R.T. (Brazil) | 336.83 | 0.34 | (4.81) | (46.40) | - | 285.96 |
| Telefónica Centroamérica Guatemala | 4.95 | 4.83 | (3.46) | 3.37 | 0.22 | 9.91 |
| T.L.D. (Puerto Rico) | 72.58 | - | (43.54) | (29.04) | - | - |
| Telefónica del Perú | 139.17 | 65.15 | - | - | - | 204.32 |
| Telefónica El Salvador Holding | 4.67 | 0.67 | - | 60.16 | (4.15) | 61.35 |
| Telefónica de El Salvador | 50.94 | - | (53.29) | (2.82) | 5.16 | (0.01) |
| Telesp Participações (Brazil) | 97.77 | - | (1.72) | - | - | 96.05 |
| Tele Sudeste Celular (Brazil) | 15.16 | 2.88 | (6.85) | 105.86 | - | 117.05 |
| Telerj (Brazil) | 134.70 | - | (7.05) | (127.65) | - | - |
| Multicable T. V. (Chile) | 7.56 | - | (4.03) | (3.67) | 0.14 | - |
| Invercom | 95.58 | - | (69.78) | (27.94) | 2.13 | (0.01) |
| Instacom | 9.21 | - | - | - | 0.30 | 9.51 |
| Startel | 329.93 | - | - | - | 10.76 | 340.69 |
| Sonda (Chile) | 48.32 | - | - | - | 1.79 | 50.11 |
| Sociedades de Sonda (Chile) | 6.57 | - | (0.34) | 3.62 | 0.64 | 10.49 |
| Cointel | 484.29 | - | - | - | - | 484.29 |
| Advance Telecomunicaciones | 8.10 | - | - | - | 0.55 | 8.65 |
| Satlink | 10.26 | - | - | 0.14 | 0.69 | 11.09 |
| Aki | 9.14 | - | - | - | 0.61 | 9.75 |
| Telefónica Multimedia (Peru) | 9.27 | - | - | - | 0.95 | 10.22 |
| Vtr | 36.30 | - | - | - | 1.18 | 37.48 |
| Telefónica Internacional | 281.66 | - | - | - | - | 281.66 |
| T. Data España | 154.96 | - | - | - | - | 154.96 |
| Atlantet (Italy) | - | 64.22 | (1.97) | 6.30 | - | 68.55 |
| Optel Telecomunicaciones (Mexico) | - | 15.70 | - | - | - | 15.70 |
| Eti Austria | 29.31 | - | (29.31) | - | - | - |
| Uniprex | 84.64 | - | - | - | - | 84.64 |
| Cadena Voz Radiodifusión | 10.76 | - | (10.22) | - | - | 0.54 |
| G.M.A. Fútbol | 35.50 | - | - | - | - | 35.50 |
| Endemol | - | 802.27 | - | - | - | 802.27 |
| Grupo Endemol | - | 71.47 | (0.02) | - | - | 71.45 |
| Grupo Atco (Argentina) | - | 642.03 | (199.03) | - | 7.53 | 450.53 |
| Telefónica Media Argentina | - | 18.81 | - | - | - | 18.81 |
| Atento Perú | 5.69 | 0.25 | - | - | 1.03 | 6.97 |
| Quatro C Atendimiento | - | 143.59 | - | - | - | 143.59 |
| Terra Networks Brasil | 181.92 | 37.57 | - | - | (0.02) | 219.47 |
| Olé | 12.25 | - | - | - | - | 12.25 |
| Terra Networks México | 214.41 | - | - | - | 0.01 | 214.42 |
| Prov. De Servicios de Conectividad (Chile) | 25.42 | - | (0.38) | - | 0.01 | 25.05 |
| Infosel (Mexico) | 49.98 | - | - | - | - | 49.98 |
| Terra Networks Argentina | - | 3.12 | - | 8.94 | - | 12.06 |
| Terra Networks USA | - | 9.63 | - | - | - | 9.63 |
| Ifígenia Plus | - | 11.17 | - | - | - | 11.17 |
| Terra Networks Colombia | - | 21.53 | - | - | - | 21.53 |
| Lycos | - | 964.01 | - | 0.01 | - | 964.02 |
| Filiales Lycos | - | 881.99 | - | - | - | 881.99 |
| A Tu Hora | - | 1.50 | - | - | - | 1.50 |
| Filiales Nutec Informática (Brazil) | - | 7.70 | - | 10.65 | (0.27) | 18.08 |
| Terra Networks | - | 482.12 | (472.09) | - | - | 10.03 |
| Iobox | - | 233.45 | - | - | - | 233.45 |
| Cei Citicorp Holding | - | 135.55 | - | - | - | 135.55 |
| Grupo Cei Citicorp | - | 436.35 | - | - | - | 436.35 |
| Other companies | 40.07 | 23.16 | (15.68) | 3.55 | 1.26 | 52.36 |
| | 3,070.97 | 5,081.06 | (923.57) | (34.92) | 30.52 | 7,224.06 |

| Companies carried by the equity method: | | | | | | |
|--|-----------------|-----------------|-------------------|----------------|--------------|-----------------|
| Venworld (Venezuela) | 134.21 | - | - | - | - | 134.21 |
| C.R.T. Fija (Brazil) | 303.55 | - | (263.36) | (40.18) | - | (0.01) |
| Cablevisión (Argentina) | 265.38 | - | - | - | - | 265.38 |
| Amper | 11.18 | - | (5.59) | - | - | 5.59 |
| Portugal Telecom | 198.12 | - | - | - | - | 198.12 |
| Torneos y Competencias | 45.10 | - | - | - | - | 45.10 |
| Azul Televisión (Acisa Group) | - | 17.35 | - | - | 0.02 | 17.37 |
| Dts D ^a Tv Digital | 88.11 | - | - | - | - | 88.11 |
| Antena 3 | 206.03 | 2.16 | - | - | - | 208.19 |
| Pearson | 535.65 | - | (11.64) | - | - | 524.01 |
| Media Park | - | 38.16 | - | - | - | 38.16 |
| Patagonik (Argentina) | - | 7.31 | - | - | - | 7.31 |
| Atlanet (Italy) | - | 6.30 | - | (6.30) | - | - |
| Asociadas Nutec Informática (Brazil) | 10.65 | - | - | (10.65) | - | - |
| Teknoland | 12.06 | 5.77 | (15.06) | (0.05) | - | 2.72 |
| One Travel | - | 14.12 | - | - | - | 14.12 |
| Aremate | - | 33.90 | (28.81) | - | - | 5.09 |
| Andalucía Digital Multimedia | - | 6.13 | - | - | - | 6.13 |
| Other companies | 14.58 | 1.37 | (0.45) | (2.80) | 0.14 | 12.84 |
| | 1,824.62 | 132.57 | (324.91) | (59.98) | 0.16 | 1,572.46 |
| Total goodwill | 4,895.59 | 5,213.63 | (1,248.48) | (94.90) | 30.68 | 8,796.52 |

| <i>Amortization of goodwill in consolidation</i> | Millions of Euros | | | | | |
|---|---------------------|---------------|---------------|----------------|-------------------------|---------------------|
| | Balance at 12/31/99 | Additions | Retirements | Transfers | Translation Differences | Balance at 12/31/00 |
| Companies consolidated by the global integration method: | | | | | | |
| C.T.C. (Chile) | 26.90 | 0.67 | - | - | - | 27.57 |
| Celular C.R.T. (Brazil) | 33.98 | 16.64 | - | (46.40) | - | 4.22 |
| Telefónica Centroamérica Guatemala | 0.32 | 0.38 | - | (0.10) | (0.01) | 0.59 |
| T.L.D. (Puerto Rico) | 26.16 | 2.88 | - | (29.04) | - | - |
| Telefónica del Perú | 2.57 | 7.13 | - | - | - | 9.70 |
| Telefónica de Argentina | - | 0.01 | - | - | - | 0.01 |
| Telefónica El Salvador Holding | 0.23 | 0.50 | - | 2.48 | (0.22) | 2.99 |
| Telefónica de El Salvador | 1.56 | 1.16 | - | (2.82) | 0.10 | - |
| Telesp Participações (Brazil) | 2.31 | 5.00 | - | - | - | 7.31 |
| Tele Sudeste Celular (Brazil) | 0.44 | 1.75 | - | (0.60) | - | 1.59 |
| Telerj (Brazil) | 2.73 | 5.68 | - | (8.41) | - | - |
| Multicable T. V. (Chile) | 3.29 | 0.35 | - | (3.67) | 0.02 | (0.01) |
| Invercom | 25.43 | 2.31 | - | (27.94) | 0.20 | - |
| Instacom | 5.11 | 0.90 | - | - | 0.15 | 6.16 |
| Startel | 34.11 | 17.38 | - | - | 0.73 | 52.22 |
| Sonda (Chile) | 2.10 | 2.49 | - | - | 0.28 | 4.87 |
| Sociedades de Sonda (Chile) | 1.44 | 1.05 | - | 0.05 | 0.10 | 2.64 |
| Cointel | 123.80 | 21.67 | - | - | - | 145.47 |
| Advance Telecomunicaciones | 1.32 | 0.85 | - | - | 0.07 | 2.24 |
| Satlink | 1.69 | 1.14 | - | - | 0.09 | 2.92 |
| Aki | 0.56 | 0.90 | - | - | 0.02 | 1.48 |
| Telefónica Multimedia | 1.32 | 1.02 | - | - | 0.11 | 2.45 |
| Vtr | 2.27 | 1.91 | - | - | 0.03 | 4.21 |
| Telefónica Internacional | 30.39 | 14.03 | - | - | - | 44.42 |
| T. Data España | 101.28 | 2.98 | - | - | - | 104.26 |
| Atlantet (Italy) | - | 1.14 | - | 0.16 | (0.09) | 1.21 |
| Optel Telecomunicaciones (Mexico) | - | 0.47 | - | - | - | 0.47 |
| Eti Austria | 1.22 | 0.93 | (2.15) | - | - | - |
| Uniprex | 1.76 | 4.51 | - | - | - | 6.27 |
| Cadena Voz Radiodifusión | - | 0.54 | - | - | - | 0.54 |
| G.M.A. Fútbol | 16.49 | 19.00 | - | - | - | 35.49 |
| Endemol | - | 16.71 | - | - | - | 16.71 |
| Grupo Endemol | - | 1.26 | (0.03) | - | - | 1.23 |
| Grupo Atco (Argentina) | - | 22.02 | - | 65.28 | - | 87.30 |
| Telefónica Media Argentina | - | 0.86 | - | - | - | 0.86 |
| Atento Perú | 0.07 | 0.47 | - | - | - | 0.54 |
| Quatro C Atendimiento | - | 6.12 | - | - | (0.13) | 5.99 |
| Terra Networks Brasil | 18.19 | 47.58 | - | - | - | 65.77 |
| Olé | 1.84 | 2.45 | - | 0.01 | - | 4.30 |
| Terra Networks México | 3.81 | 42.88 | - | - | - | 46.69 |
| Prov. De Servicios de Conectividad (Chile) | 1.04 | 6.16 | - | - | - | 7.20 |
| Infosel (Mexico) | 1.66 | 9.99 | - | - | - | 11.65 |
| Terra Networks Argentina | - | 2.41 | - | 0.52 | - | 2.93 |
| Terra Networks USA | - | 0.80 | - | - | - | 0.80 |
| Ifigenia Plus | - | 1.12 | - | - | - | 1.12 |
| Terra Networks Colombia | - | 1.80 | - | - | - | 1.80 |
| Lycos | - | 32.14 | - | - | - | 32.14 |
| Filiales Lycos | - | 41.34 | - | - | - | 41.34 |
| Filiales Nutec Informática (Brazil) | - | 3.49 | - | 0.11 | - | 3.60 |
| Terra Networks | - | 10.03 | - | - | - | 10.03 |
| Iobox | - | 23.34 | - | - | - | 23.34 |
| Cei Citicorps Holding | - | - | - | - | - | - |
| Grupo Cei Citicorp | - | - | - | - | - | - |
| Other companies | 5.21 | 22.88 | - | (14.46) | (0.35) | 13.28 |
| | 482.60 | 433.22 | (2.18) | (64.83) | 1.10 | 849.91 |

| | | | | | | |
|--|-----------------|-----------------|-------------------|-----------------|--------------|-----------------|
| Companies carried by the equity method: | | | | | | |
| Venworld (Venezuela) | 88.78 | 4.13 | - | - | - | 92.91 |
| C.R.T. Fija (Brazil) | 40.18 | - | - | (40.18) | - | - |
| Cablevisión (Argentina) | 12.33 | - | - | - | - | 12.33 |
| Amper | 0.82 | 0.28 | (0.41) | - | - | 0.69 |
| Portugal Telecom | 21.34 | 9.83 | - | - | - | 31.17 |
| Torneos y Competencias | 4.42 | (0.09) | - | - | - | 4.33 |
| Azul Televisión (Acisa Group) | - | 0.60 | - | 0.65 | - | 1.25 |
| Dts D ^a Tv Digital | 3.43 | 4.41 | - | - | - | 7.84 |
| Antena 3 | 18.90 | 10.26 | - | - | - | 29.16 |
| Pearson | 13.49 | 25.91 | - | - | - | 39.40 |
| Media Park | - | 0.96 | - | - | - | 0.96 |
| Patagonik (Argentina) | - | 0.37 | - | - | - | 0.37 |
| Atlanet (Italy) | - | 0.16 | - | (0.16) | - | - |
| Asociadas Nutec Informática (Brazil) | 0.11 | - | - | (0.11) | - | - |
| Teknoland | 0.91 | 1.80 | - | - | - | 2.71 |
| One Travel | - | - | - | - | - | - |
| Aremate | - | 5.09 | - | - | - | 5.09 |
| Andalucía Digital Multimedia | - | 0.31 | - | - | - | 0.31 |
| Other companies | 1.29 | 3.34 | (0.03) | (1.31) | - | 3.29 |
| | 206.00 | 67.36 | (0.44) | (41.11) | - | 231.81 |
| Total accumulated amortization | 688.60 | 500.58 | (2.62) | (105.94) | 1.10 | 1,081.72 |
| Unamortized goodwill in consolidation | 4,206.99 | 4,713.05 | (1,245.86) | 11.04 | 29.58 | 7,714.80 |

EXHIBIT IV

MINORITY INTERESTS

Minority interests

This caption relates to the equity of minority stockholders in the net worth and results for the year of the Group companies consolidated by the global integration method.

As of December 31, 2001, the balance of this caption comprised the holdings of minority stockholders in the following companies:

| | % of Ownership | Millions of Euros | | | | |
|---|----------------|-------------------|-------------------------|-----------------|-----------------------------|---------------------|
| | | Net Worth | Translation Differences | Income (Loss) | Variation in % of Ownership | Balance at 12/31/01 |
| C.R.T. Celular Participações, S.A. | 59.58% | 147.56 | (17.89) | 25.83 | - | 155.50 |
| C.T.C. Chile, S.A. | 56.36% | 567.38 | 523.48 | 3.13 | - | 1,093.99 |
| Terra Networks España, S.A. | 62.37% | 3,937.29 | (76.08) | (353.42) | (67.13) | 3,440.66 |
| Fonditel, S.A. | 19.00% | 7.48 | - | 1.46 | - | 8.94 |
| Lola Films, S.A. | 30.01% | 5.14 | - | (3.56) | - | 1.58 |
| Publiguías, S.A. | 49.00% | 9.52 | (0.39) | 5.64 | - | 14.77 |
| Telefónica de Argentina, S.A. | 1.96% | 88.02 | (64.78) | 0.74 | - | 23.98 |
| Telefónica del Perú, S.A. | 2.93% | 27.15 | (4.02) | (1.66) | - | 21.47 |
| TES Holding, S.A. de C.V. | 49.00% | 53.55 | 3.02 | (18.27) | - | 38.30 |
| Telefónica Larga Distancia, Inc. | 2.00% | 2.50 | (1.11) | 0.09 | - | 1.48 |
| Telefónica Publicidad e Información, S.A. | 40.10% | 31.27 | (0.91) | 25.75 | - | 56.11 |
| Telesp Participações | 13.28% | 310.51 | 438.76 | 125.06 | - | 874.33 |
| Tele Sudeste Celular Participações, S.A. | 16.84% | 96.64 | (11.77) | 17.97 | - | 102.84 |
| Telefónica Móviles | 7.30% | 542.50 | (27.16) | 64.39 | (58.54) | 521.19 |
| Group 3G UMTS Holding, GmbH | 42.80% | 912.10 | - | (21.78) | - | 890.32 |
| Ipse 2000 | - | 4.20 | (0.01) | (4.19) | - | - |
| Atlant | 66.00% | 191.42 | - | (54.55) | - | 136.87 |
| Endemol | 0.65% | 12.80 | - | 3.06 | - | 15.86 |
| Telefónica Móviles Argentina, S.A. | 2.07% | 9.36 | 0.48 | (14.41) | - | (4.57) |
| T.C.G. Holding, S.A. | 49.00% | 26.85 | (2.28) | (26.70) | - | (2.13) |
| Movitel del Noroeste, S.A. de C.V. | 10.00% | 7.10 | (0.29) | (0.71) | - | 6.10 |
| Emergia Uruguay, S.A. | 6.01% | 23.61 | (0.33) | (11.26) | - | 12.02 |
| Other companies | | 60.65 | (3.09) | (33.62) | - | 23.94 |
| Total | | 7,074.60 | 755.63 | (271.01) | (125.67) | 7,433.55 |

As of December 31, 2000, the balance of this caption comprised the holdings of minority stockholders in the following companies:

| | % of Ownership | Millions of Euros | | | | |
|---|----------------|-------------------|----------------------------|---------------|-----------------------------|---------------------|
| | | Net Worth | Translation de Differences | Income (Loss) | Variation in % of Ownership | Balance at 12/31/00 |
| C.R.T. Celular Participações, S.A. | 63.35 | 145.37 | (2.06) | 21.01 | - | 164.32 |
| C.T.C. Chile, S.A. | 56.36 | 1,213.97 | 42.53 | (142.91) | - | 1,113.59 |
| Cleon, S.A. | 50.00 | 3.93 | - | - | - | 3.93 |
| Cointel | - | - | - | 63.02 | (63.02) | - |
| Fonditel, S.A. | 19.00 | 6.51 | - | 1.39 | - | 7.90 |
| Lola Films, S.A. | 30.00 | 5.08 | - | 0.13 | - | 5.21 |
| Publiguías, S.A. | 45.07 | 10.53 | (0.30) | (0.48) | - | 9.75 |
| Telefónica de Argentina, S.A. | 2.08 | (203.02) | 216.22 | 106.21 | (108.52) | 10.89 |
| Telefónica del Perú Holding | 10.00 | 176.81 | (11.07) | (0.85) | - | 164.89 |
| Telefónica del Perú, S.A. | 2.89 | 72.50 | (31.38) | (12.91) | 12.87 | 41.08 |
| Telefónica del Salvador Holding | 49.00 | 59.70 | 8.01 | (15.51) | - | 52.20 |
| Telefónica Larga Distancia, Inc. | 2.00 | 0.67 | 1.00 | (0.35) | - | 1.32 |
| Telefónica Publicidad e Información, S.A. | 40.13 | 19.97 | - | 26.94 | - | 46.91 |
| Telesp Participações | 13.39 | 1,672.14 | (1,277.35) | 380.87 | 138.03 | 913.69 |
| Tele Sudeste Celular Participações | 17.99 | 226.75 | (131.16) | 33.54 | (21.26) | 107.87 |
| Terra Networks | 63.13 | 4,164.18 | (74.94) | (246.14) | - | 3,843.10 |
| Telefónica Móviles | 7.85 | 405.61 | (6.12) | (1.90) | - | 397.59 |
| CEI | 19.09 | 203.68 | - | - | - | 203.68 |
| Orla Siebzehte | 42.80 | 906.48 | - | (0.75) | - | 905.73 |
| Ipse 2000 | 54.41 | 1,169.70 | - | 0.29 | - | 1,169.99 |
| Atlanet | 66.00 | 130.44 | 2.24 | (15.31) | - | 117.37 |
| Atco | - | - | - | (46.39) | 46.39 | - |
| Endemol | 0.80 | 11.56 | - | 2.07 | - | 13.63 |
| Other companies | - | 62.48 | 4.03 | (31.34) | (0.01) | 35.16 |
| Total | | 10,465.04 | (1,260.35) | 120.63 | 4.48 | 9,329.80 |

Variations in minority interests

The variations in minority interests as of December 31, 2001 were as follows:

| | Balance at 12/31/00 | Capital Contributions and Inclusion of Companies | Income (Loss) for the Year | Variation in Translation Differences | Other Variations | Acquisitions | Dividends Paid | Balance at 12/31/01 |
|---|------------------------|---|----------------------------------|--|---------------------|-----------------|-------------------|------------------------|
| C.R.T. Celular | 164.32 | - | 25.83 | (17.89) | (9.71) | - | (7.05) | 155.50 |
| C.T.C. Chile, S.A. | 1,113.59 | - | 3.13 | (14.49) | (1.99) | - | (6.25) | 1,093.99 |
| Terra Networks | 3,843.10 | - | (353.42) | (3.32) | (45.70) | - | - | 3,440.66 |
| Fonditel | 7.90 | - | 1.46 | - | - | - | (0.42) | 8.94 |
| Lola Films | 5.21 | - | (3.56) | - | (0.07) | - | - | 1.58 |
| Publiguías, S.A. | 9.75 | - | 5.64 | (0.67) | 0.05 | - | - | 14.77 |
| Telefónica de Argentina, S.A. | 10.89 | - | 0.74 | (77.74) | 96.93 | - | (6.84) | 23.98 |
| Telefónica del Perú Holding | 164.89 | - | - | 6.64 | (1.93) | (169.60) | - | - |
| Telefónica del Perú, S.A. | 41.08 | - | (1.66) | (48.44) | 35.53 | - | (5.04) | 21.47 |
| Telefónica del Salvador | 52.20 | - | (18.27) | 3.02 | 1.35 | - | - | 38.30 |
| Telefónica Larga Distancia, Inc. | 1.32 | - | 0.09 | 0.08 | (0.01) | - | - | 1.48 |
| Telefónica Publicidad e Información, S.A. | 46.91 | - | 25.75 | (0.52) | 1.11 | - | (17.14) | 56.11 |
| Telesp Participações | 913.69 | - | 125.06 | (23.75) | (66.22) | - | (74.45) | 874.33 |
| Tele Sudeste Celular Participações | 107.87 | - | 17.97 | (11.77) | (6.94) | - | (4.29) | 102.84 |
| Telefónica Móviles | 397.59 | 107.96 | 64.39 | (21.05) | (27.70) | - | - | 521.19 |
| CEI | 203.68 | - | - | - | - | (203.68) | - | - |
| Orla Siebzehte | 905.73 | - | (21.78) | - | 6.37 | - | - | 890.32 |
| Ipse 2000 | 1,169.99 | - | (4.19) | (0.01) | (1,165.79) | - | - | - |
| Atlant | 117.37 | 74.06 | (54.55) | - | (0.01) | - | - | 136.87 |
| Endemol | 13.63 | - | 3.06 | (0.25) | (0.19) | - | (0.39) | 15.86 |
| TCP Unifom | - | 12.00 | (14.41) | (2.03) | (0.13) | - | - | (4.57) |
| Telefónica Centroamerica Guatemala, S.A. | (1.28) | - | (26.70) | (2.28) | 28.13 | - | - | (2.13) |
| Movitel del Noroeste | - | 7.10 | (0.71) | (0.29) | - | - | - | 6.10 |
| Emergia | 23.94 | - | (11.26) | (0.66) | - | - | - | 12.02 |
| Other companies | 16.43 | 14.43 | (33.62) | (0.07) | 26.72 | 0.05 | - | 23.94 |
| Total | 9,329.80 | 215.55 | (271.01) | (215.49) | (1,130.20) | (373.23) | (121.87) | 7,433.55 |

The variations in minority interests in 2000 were as follows:

| | Balance at 12/31/99 | Capital Contributions and Inclusion of Companies | Income (Loss) for the Year | Variation in Translation Differences | Other Variations | Acquisitions | Dividends Paid | Balance at 12/31/00 |
|---|------------------------|---|----------------------------------|--|---------------------|-------------------|-------------------|------------------------|
| C.R.T. Celular | 145.66 | - | 21.01 | (2.35) | - | - | - | 164.32 |
| C.T.C. Chile, S.A. | 1,211.70 | - | (142.91) | 50.05 | (1.59) | - | (3.66) | 1,113.59 |
| Terra Networks | 323.86 | 3,803.41 | (246.14) | (74.39) | 36.36 | - | - | 3,843.10 |
| Cointel | 564.64 | - | 63.02 | 32.20 | - | (628.51) | (31.35) | 0.00 |
| Fonditel | 6.71 | - | 1.39 | - | - | - | (0.20) | 7.90 |
| Lola Films | 5.09 | - | 0.13 | - | (0.01) | - | - | 5.21 |
| Publiguías, S.A. | 10.08 | - | (0.48) | (0.63) | 0.78 | - | - | 9.75 |
| Telefónica de Argentina, S.A. | 1,294.99 | - | 106.21 | 71.66 | - | (1,461.65) | (0.32) | 10.89 |
| Telefónica del Perú Holding | 164.23 | - | (0.85) | 2.33 | (0.82) | - | - | 164.89 |
| Telefónica del Perú, S.A. | 726.15 | - | (12.91) | 63.19 | - | (680.30) | (55.05) | 41.08 |
| Telefónica del Salvador | 42.77 | - | (15.51) | 3.14 | 21.80 | - | - | 52.20 |
| Telefónica Larga Distancia, Inc. | 1.57 | - | (0.35) | 0.10 | - | - | - | 1.32 |
| Telefónica Publicidad e Información, S.A. | 27.51 | 2.18 | 26.94 | - | 3.50 | - | (13.22) | 46.91 |
| Telesp Participações | 5,631.83 | 37.55 | 380.87 | 320.02 | (445.10) | (4,568.85) | (442.63) | 913.69 |
| Tele Sudeste Celular Participações | 429.09 | - | 33.54 | 18.57 | 2.24 | (372.10) | (3.47) | 107.87 |
| Telefónica Móviles | - | 405.61 | (1.90) | (6.12) | - | - | - | 397.59 |
| CEI | - | 203.68 | - | - | - | - | - | 203.68 |
| Orla Siebzehte | - | 906.48 | (0.75) | - | - | - | - | 905.73 |
| Ipse 2000 | - | 1,169.70 | 0.29 | - | - | - | - | 1,169.99 |
| Atlant | - | 130.44 | (15.31) | 2.24 | - | - | - | 117.37 |
| Atco | - | 109.52 | (46.39) | - | - | (63.14) | - | (0.01) |
| Endemol | - | 12.39 | 2.07 | - | (0.16) | - | (0.67) | 13.63 |
| Other companies | 28.50 | 41.34 | (31.33) | 0.70 | (0.10) | - | (0.01) | 39.10 |
| Total | 10,614.38 | 6,822.30 | 120.64 | 480.71 | (383.10) | (7,774.55) | (550.58) | 9,329.80 |

EXHIBIT V

Debentures and bonds

The detail of the debentures and bonds outstanding as of December 31, 2001, and of the main features thereof, is as follows (in millions of euros):

| Telefónica and Instrumentality Companies | Currency | Interest Rate % | Maturing in | | | | | Subsequent Years | Total |
|--|----------|-----------------|---------------|---------------|-----------------|-----------------|-----------------|------------------|------------------|
| | | | 2002 | 2003 | 2004 | 2005 | 2006 | | |
| Debentures and bonds: | | | | | | | | | |
| FEBRUARY 1990 SERIES B | Euros | 12.60 | - | - | - | 8.22 | - | - | 8.22 |
| FEBRUARY 1990 SERIES C | Euros | 12.60 | - | - | - | - | 3.76 | - | 3.76 |
| FEBRUARY 1990 SERIES E | Euros | 12.85 | - | - | - | 52.45 | - | - | 52.45 |
| FEBRUARY 1990 SERIES F | Euros | 12.58 | - | - | - | - | 5.71 | - | 5.71 |
| DECEMBER 1990 | Euros | 13.58 | - | - | - | 488.31 | - | - | 488.31 |
| NOVEMBER 2002 C | Euros | 10.08 | 116.08 | - | - | - | - | - | 116.08 |
| OCTOBER 2004 C | Euros | 8.25 | - | - | 69.24 | - | - | - | 69.24 |
| APRIL 1999 | Euros | 4.50 | - | - | - | - | 500.00 | - | 500.00 |
| JUNE 1999 | Euros | 5.38 | - | - | - | - | 300.00 | - | 300.00 |
| JULY 1999 zero-cupon | Euros | 6.37 | - | - | - | - | 34.90 | - | 34.90 |
| MARCH 2000 | Euros | 6.79 | - | - | - | - | 50.00 | - | 50.00 |
| APRIL 2000 | Euros | 5.63 | - | - | - | - | 500.00 | - | 500.00 |
| Debentures subtotal: | | | 116.08 | - | 69.24 | 548.98 | - | 1,394.37 | 2,128.67 |
| EMTN ISSUE | PTE | Libor+0.07 | - | - | 74.82 | - | - | - | 74.82 |
| EMTN ISSUE | US\$ | 6.37 | - | 561.11 | - | - | - | - | 561.11 |
| MARCH 1998 | Euros | 4.84 | - | - | - | - | 420.71 | - | 420.71 |
| EMTN ISSUE | JPY | 1.23 | - | - | 53.13 | - | - | - | 53.13 |
| GLOBAL BOND | US\$ | 7.35 | - | - | - | 1,402.77 | - | - | 1,402.77 |
| GLOBAL BOND | US\$ | 7.75 | - | - | - | - | 2,805.54 | - | 2,805.54 |
| GLOBAL BOND | US\$ | 8.25 | - | - | - | - | 1,402.77 | - | 1,402.77 |
| GLOBAL BOND | EUR | 6.125 | - | - | - | 1,000.00 | - | - | 1,000.00 |
| EMTN ISSUE | JPY | Libor+0.22 | - | 257.10 | - | - | - | - | 257.10 |
| EMTN ISSUE | EUR | Cupon 0 | - | - | 39.50 | - | - | - | 39.50 |
| EMTN ISSUE | EUR | Eonia+0.26 | - | 150.99 | - | - | - | - | 150.99 |
| EMTN ISSUE | EUR | Euribor+0.70 | - | - | 1,000.00 | - | - | - | 1,000.00 |
| EMTN ISSUE | JPY | 0.15 | 188.54 | - | - | - | - | - | 188.54 |
| EMTN ISSUE | JPY | 0.04 | 428.50 | - | - | - | - | - | 428.50 |
| EMTN ISSUE | EUR | 5.12 | - | - | - | - | 1,000.00 | - | 1,000.00 |
| Bonds subtotal | | | 617.04 | 969.20 | 1,167.45 | 2,402.77 | 1,000.00 | 4,629.02 | 10,785.48 |
| Total issues: | | | 733.12 | 969.20 | 1,236.69 | 2,951.75 | 1,000.00 | 6,023.39 | 12,914.15 |

| Foreign Operators | Currency | Interest Rate % | Maturing in | | | | | Subsequent Years | Total |
|---|----------|-----------------|---------------|-----------------|-----------------|-----------------|-----------------|------------------|------------------|
| | | | 2002 | 2003 | 2004 | 2005 | 2006 | | |
| Debentures and bonds | | | | | | | | | |
| Yankee Bonds | US\$ | 7.63 | - | - | - | - | 224.44 | - | 224.44 |
| Yankee Bonds | US\$ | 8.38 | - | - | - | - | 224.44 | - | 224.44 |
| Eurobonds | Euros | 5.38 | - | - | 198.18 | - | - | - | 198.18 |
| Series E | UF | 6.00 | 8.71 | 4.36 | - | - | - | - | 13.07 |
| Series F | UF | 6.00 | 1.99 | 1.99 | 1.99 | 1.99 | 1.99 | 18.91 | 28.86 |
| Series H | UF | 5.80 | 13.94 | 13.94 | 13.94 | 13.94 | 6.97 | - | 62.73 |
| Series I | UF | 5.50 | 3.49 | 3.49 | 3.49 | 3.49 | 3.49 | 29.61 | 47.04 |
| Series J | UF | 6.75 | 8.35 | 8.36 | 8.36 | 8.36 | 8.36 | 29.26 | 71.05 |
| Series k 1998 | UF | 6.75 | - | - | 0.21 | 1.06 | 1.90 | 108.31 | 111.48 |
| CTC CHILE: | | | 36.48 | 32.14 | 226.17 | 28.84 | 471.59 | 186.09 | 981.29 |
| Bonds 1 st Program T. Peru (1) | N. Soles | VAC+ 6.93 | - | - | - | - | - | 34.23 | 34.23 |
| Bonds 1 st Program T. Peru (2) | N. Soles | VAC+ 7.00 | - | - | - | - | - | 14.89 | 14.89 |
| Bonds 1 st Program T. Peru (3) | US\$ | 7.69 | 22.44 | - | - | - | - | - | 22.44 |
| Bonds 1 st Program T. Peru (4) | US\$ | 8.13 | - | 39.28 | - | - | - | - | 39.28 |
| Bonds 1 st Program T. Peru (5) | N. Soles | 13.81 | 22.80 | - | - | - | - | - | 22.80 |
| Bonds 1 st Program T. Peru (6) | N. Soles | 12.69 | - | 16.28 | - | - | - | - | 16.28 |
| Bonds 1 st Program T. Peru (7) | N. Soles | 12.63 | - | 21.49 | - | - | - | - | 21.49 |
| Bonds 2 nd Program T. Peru (2) | N. Soles | 7.5 | - | 17.91 | - | - | - | - | 17.91 |
| Bonds 2 nd Program T. Peru (3) | N. Soles | VAC+ 6.19 | - | - | - | - | 32.46 | - | 32.46 |
| Telefónica del Perú: | | | 45.24 | 94.96 | - | - | 32.46 | 49.12 | 221.78 |
| Negotiable debentures | US\$ | 11.88 | - | - | 336.66 | - | - | - | 336.66 |
| Negotiable debentures | US\$ | 9.13 | - | - | - | - | 413.55 | - | 413.55 |
| Negotiable debentures | US\$ | 9.88 | 112.22 | - | - | - | - | - | 112.22 |
| TASA | | | 112.22 | - | 336.66 | - | - | 413.55 | 862.43 |
| Negotiable debentures | US\$ | 9.70 | 17.06 | - | - | - | - | - | 17.06 |
| CEI | | | 17.06 | - | - | - | - | - | 17.06 |
| Series A 1997 | US\$ | 8.85 | - | - | 212.74 | - | - | - | 212.74 |
| Series B 1997 | US\$ | 10.38 | - | - | 115.53 | - | - | - | 115.53 |
| Cointel | | | - | - | 328.27 | - | - | - | 328.27 |
| Total issues: | | | 211.00 | 127.10 | 891.10 | 28.84 | 594.05 | 648.76 | 2,410.83 |
| Total Group issues: | | | 944.12 | 1,096.30 | 2,127.79 | 2,980.59 | 1,504.05 | 6,672.15 | 15,324.98 |

The detail of the maturities and redemption values of the zero-coupon bonds and debentures as of December 31, 2001, is as follows (in millions of euros):

| Zero-coupon Debentures and Bonds (Issue value + Accrued Interest at 12/31/01) | Redemption Date | Redemption Rate | Book Value | Redemption Value |
|---|-----------------|-----------------|---------------|------------------|
| DEBENTURES | | | | |
| FEBRUARY-90 SERIES E | 02/26/05 | 613.338 % | 52.45 | 76.79 |
| FEBRUARY-90 SERIES F | 02/26/10 | 1,069.479 % | 5.71 | 15.04 |
| DECEMBER 90 | 12/28/05 | 675.000 % | 488.31 | 811.37 |
| JULY-99 | 07/21/29 | 637.638 % | 34.90 | 191.29 |
| Total issues | | | 581.37 | 1,094.49 |

EXHIBIT VI

The detail, by type of derivative, of the notional values of the derivatives arranged by the Group as of December 31, 2001, is as follows:

| Type of Risk | Millions | | | | |
|-----------------------------------|-----------------------|----------------|----------|------------|----------|
| | Equivalent Euro Value | Group Receives | | Group Pays | |
| | | Value | Currency | Value | Currency |
| Euro interest rate swaps | 4,375.76 | | | | |
| -from fixed to floating | 1,071.32 | 1,071.32 | EUR | 1,071.32 | EUR |
| -from floating to fixed | 2,239.22 | 2,239.22 | EUR | 2,239.22 | EUR |
| -from floating to floating | 1,065.22 | 1,064.73 | EUR | 1,065.22 | EUR |
| Cross-currency swaps | 7,374.11 | | | | |
| -from fixed to floating | 3,579.12 | | | | |
| BRL/BRL | 236.47 | 497.31 | BRL | 497.31 | BRL |
| US\$/US\$ | 3,342.65 | 2,990.00 | US\$ | 2,990.00 | US\$ |
| -from floating to fixed | 3,236.08 | 2,895.00 | US\$ | 2,895.00 | US\$ |
| -from floating to floating | 558.91 | 500.00 | US\$ | 500.00 | US\$ |
| Exchange rate swaps | 15,913.72 | | | | |
| -from fixed to fixed | 2,293.01 | | | | |
| EUR/US\$ | 124.29 | 95.69 | EUR | 111.18 | US\$ |
| EUR/GBP | 128.77 | 121.49 | EUR | 80.00 | GBP |
| EUR/MAD | 3.34 | 33.76 | EUR | 349.09 | MAD |
| JPY/US\$ | 262.21 | 25,698.50 | JPY | 234.57 | US\$ |
| US\$/EUR | 1,467.85 | 1,356.52 | US\$ | 1,467.85 | EUR |
| US\$/JPY | 306.55 | 286.00 | US\$ | 33,338.50 | JPY |
| -from fixed to floating | 3,261.32 | | | | |
| EUR/US\$ | 118.49 | 100.00 | EUR | 106.00 | US\$ |
| US\$/EUR | 173.12 | 157.16 | US\$ | 173.12 | EUR |
| JPY/EUR | 725.53 | 78,200.00 | JPY | 725.53 | EUR |
| JPY/BRL | 152.03 | 15,293.75 | JPY | 319.73 | BRL |
| JPY/US\$ | 152.02 | 16,456.00 | JPY | 136.00 | US\$ |
| US\$/BRL | 1,940.13 | 1,717.88 | US\$ | 4,080.28 | BRL |
| -from floating to fixed | 207.29 | 466.34 | BRL | 185.45 | US\$ |
| -from floating to floating | 10,152.10 | | | | |
| EUR/US\$ | 6,294.28 | 5,096.01 | EUR | 5,630.86 | US\$ |
| EUR/GBP | 273.64 | 265.59 | EUR | 170.00 | GBP |
| JPY/EUR | 282.00 | 30,000.00 | JPY | 282.00 | EUR |
| US\$/EUR | 3,302.18 | 3,013.23 | US\$ | 3,302.18 | EUR |
| Forwards | 3,055.61 | | | | |
| US\$/ARS | 401.74 | 342.50 | US\$ | 359.40 | ARS |
| US\$/PEN | 561.64 | 463.83 | US\$ | 1,731.42 | PEN |
| US\$/CLD | 61.57 | 50.00 | US\$ | 36,072.00 | CLP |
| US\$/EUR | 680.02 | 637.01 | US\$ | 680.02 | EUR |
| US\$/UFC | 1,350.64 | 1,262.80 | US\$ | 48.65 | UFC |
| Subtotal | 30,719.20 | | | | |

| Notional amounts of structd. products with options | Euros | Notional Amounts | |
|--|------------------|------------------|------|
| Interest rate options | 6,694.38 | | |
| -Caps & Floors | 3,949.21 | | |
| US\$ | 3,392.58 | 3,035.00 | US\$ |
| EUR | 556.63 | 556.63 | EUR |
| -Swaptions | 2,665.84 | | |
| US\$ | 2,403.31 | 2,150.00 | US\$ |
| EUR | 262.53 | 262.53 | EUR |
| -Interest rate options | 79.33 | 79.33 | EUR |
| Exchange rate options | 1,568.06 | | |
| EUR/BRL | 21.00 | 21.00 | EUR |
| US\$/ARS | 723.79 | 647.50 | US\$ |
| US\$/BRL | 725.46 | 649.00 | US\$ |
| US\$/CLP | 89.43 | 80.00 | US\$ |
| US\$/MXN | 8.38 | 7.50 | US\$ |
| Equity Swaps | 448.85 | 448.85 | EUR |
| Subtotal | 8,711.29 | | |
| Total | 39,430.49 | | |

The detail, by type of derivative, of the notional values of the derivatives arranged by the Group as of December 31, 2000, is as follows:

| Type of Risk | Millions | | | | |
|-----------------------------------|-----------------------|----------------|----------|------------|----------|
| | Equivalent Euro Value | Group Receives | | Group Pays | |
| | | Value | Currency | Value | Currency |
| Euro interest rate swaps | 2,005.37 | | | | |
| -from fixed to floating | 685.80 | | | 685.80 | EUR |
| -from floating to fixed | 1,277.20 | | | 1,277.20 | EUR |
| -from floating to floating | 42.37 | | | 42.37 | EUR |
| Cross-currency swap | 9,235.88 | | | | |
| -from fixed to floating | 3,773.17 | | | | |
| US\$/US\$ | 2,653.93 | 2,500 | US\$ | 2,500 | US\$ |
| EUR/EUR | 1,119.23 | 1,119 | EUR | 1,119 | EUR |
| -from floating to fixed | 4,154.57 | | | | |
| US\$/US\$ | 3,354.57 | 3,160 | US\$ | 3,160 | US\$ |
| EUR/EUR | 800.00 | 800 | EUR | 800 | EUR |
| -from floating to floating | 1,308.14 | | | | |
| US\$/US\$ | 530.79 | 500 | US\$ | 500 | US\$ |
| EUR/EUR | 702.54 | 703 | EUR | 703 | EUR |
| EUR/EUR | 74.82 | 15,000 | PTE | 15,000 | PTE |
| Interest rate options | 2,391.49 | | | | |
| -Caps & Floors | 3,999.40 | | | | |
| US\$ | 4,007.44 | | | 3,775 | US\$ |
| EUR | 132.22 | | | 132.22 | EUR |
| EUR | 149.63 | | | 30,000 | PTE |
| EUR | (289.90) | | | (290) | EUR |
| -Swaptions | (1,687.24) | | | | |
| US\$ | (1,486.20) | | | (1,400) | US\$ |
| EUR | (201.04) | | | (201.04) | EUR |
| Euro structured products | 79.33 | | | 79.33 | EUR |
| Exchange rate swap | 9,919.92 | | | | |
| -from fixed to fixed | 1,062.40 | | | | |
| EUR/US\$ | 235.27 | 235 | EUR | 247 | US\$ |
| EUR/EUR | 102.87 | 102.87 | EUR | 104 | EUR |
| JPY/US\$ | 249.01 | 25,699 | JPY | 235 | US\$ |
| US\$/JPY | 159.24 | 150 | US\$ | 16,883 | JPY |
| EUR/GBP | 121.49 | 121 | EUR | 80 | GBP |
| US\$/BRL | 131.90 | 124 | US\$ | 251 | BRL |
| US\$/CLP | 26.54 | 25 | CLP | 12,418 | CLP |
| US\$/MAD | 36.08 | 34 | US\$ | 349 | MAD |
| -from fixed to floating | 1,610.51 | | | | |
| US\$/BRL | 836.96 | 788 | US\$ | 1,461 | BRL |
| JPY/EUR | 673.55 | 66,200 | JPY | 674 | EUR |
| EUR/US\$ | 100.00 | 100 | EUR | 106 | US\$ |
| -from floating to floating | 7,247.01 | | | | |
| EUR/US\$ | 1,692.22 | 1,692.22 | EUR | 1,978 | US\$ |
| US\$/EUR | 428.71 | 487 | US\$ | 428.71 | EUR |
| EUR/EUR | 263.46 | 263 | EUR | 263.46 | EUR |
| US\$/EUR | 3,338.76 | 3,339 | EUR | 3,766 | US\$ |
| US\$/EUR | 1,249.13 | 1,078 | US\$ | 1,249 | EUR |
| EUR/FRT | 92.50 | 93 | EUR | 607 | FRF |
| EUR/GBP | 182.23 | 182 | EUR | 120 | GBP |
| Forwards | 3,740.59 | | | | |
| US\$/ARS | 1,393.84 | 1,313 | US\$ | 1,351 | ARS |
| US\$/EUR | 2.26 | 2 | US\$ | 2 | EUR |
| EUR/US\$ | 171.32 | 171 | EUR | 160 | US\$ |
| JPY/US\$ | 31.86 | 3,250 | JPY | 30 | US\$ |
| US\$/PEN | 396.08 | 373 | US\$ | 1,359 | PEN |
| US\$/UFC | 1,665.61 | 1,569 | US\$ | 55 | UFC |
| VEB/US\$ | 21.23 | 14,350 | VEB | 20 | US\$ |
| US\$/VEB | 58.39 | 55 | US\$ | 41,873 | VEB |
| Exchange rate options | 331.52 | | | | |
| US\$/BRL | 26.53 | 25 | US\$ | - | BRL |
| EUR/US\$ | 304.99 | 305 | EUR | 287 | US\$ |
| Total | 27,624.77 | | | | |

The detail, by maturity, of the hedging transactions arranged as of December 31, 2001, is as follows:

| Underlying Instrument Hedged | Millions of Euros | | | | |
|-----------------------------------|-------------------|------------------|------------------|-----------------|-----------------|
| | Amount | Up to 1 Year | 1 to 3 Years | 3 to 5 Years | Over 5 Years |
| With underlying instrument | | | | | |
| Promissory notes | - | - | - | - | - |
| Loans | 14,041.63 | 4,438.78 | 6,459.06 | 756.90 | 2,386.89 |
| In national currency | 5,044.04 | 206.18 | 1,883.40 | 662.10 | 2,292.36 |
| In foreign currencies | 8,997.59 | 4,232.60 | 4,575.66 | 94.80 | 94.53 |
| MTN debentures and bonds | 18,577.08 | 5,168.36 | 7,634.22 | 2,209.40 | 3,565.10 |
| In national currency | 5,016.50 | 958.42 | 2,248.95 | 864.61 | 944.52 |
| In foreign currencies | 13,560.58 | 4,209.94 | 5,385.27 | 1,344.79 | 2,620.58 |
| | | | | | |
| Liability | 6,362.93 | 4,648.00 | 1,338.32 | 16.51 | 360.10 |
| Swaps | 1,108.73 | 482.64 | 609.58 | 16.51 | - |
| Exchange rate options | 1,568.06 | 1,568.06 | - | - | - |
| Interest rate options | 1,210.55 | 121.71 | 728.74 | - | 360.10 |
| Forward | 2,475.59 | 2,475.59 | - | - | - |
| Shares | 448.85 | 448.85 | | | |
| Total | 39,430.49 | 14,703.99 | 15,431.60 | 2,982.81 | 6,312.09 |

The detail, by maturity, of the hedging transactions arranged as of December 31, 2000, is as follows:

| Underlying Instrument Hedged | Millions of Euros | | | | |
|-----------------------------------|-------------------|-----------------|-----------------|-----------------|-----------------|
| | Amount | Up to 1 Year | 1 to 3 Years | 3 to 5 Years | Over 5 Years |
| With underlying instrument | | | | | |
| Promissory notes | - | - | - | - | - |
| Loans | 7,525.17 | 885.63 | 1,384.81 | 1,366.49 | 3,888.24 |
| In national currency | 1,974.22 | 6.01 | 83.49 | 350.85 | 1,533.87 |
| In foreign currencies | 5,550.95 | 879.62 | 1,301.32 | 1,015.64 | 2,354.37 |
| MTN debentures and bonds | 6,865.45 | 657.36 | 760.00 | 2,406.75 | 3,041.34 |
| In national currency | 841.42 | - | - | - | 841.42 |
| In foreign currencies | 6,024.03 | 657.36 | 760.00 | 2,406.75 | 2,199.92 |
| | | | | | |
| Liability | 13,234.14 | 6,194.10 | 4,772.40 | 2,659.34 | (391.70) |
| Swaps | 7,355.17 | 2,488.14 | 3,286.20 | 1,580.83 | - |
| Exchange rate options | 331.52 | 331.52 | - | - | - |
| Interest rate options | 2,391.49 | 218.48 | 1,486.20 | 1,078.51 | (391.70) |
| Forward | 3,155.96 | 3,155.96 | - | - | - |
| Total | 27,624.76 | 7,737.09 | 6,917.21 | 6,432.58 | 6,537.88 |

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

TELEFÓNICA, S.A.

By: /s/ José María Alvarez-Pallete López
Name: José María Alvarez-Pallete López
Title: General Manager Corporate
Finance

TELEFÓNICA, S.A.

By: /s/ Antonio Alonso Ureba
Name: Antonio Alonso Ureba
Title: General Secretary and Secretary
of the Board of Directors

Date: July 1, 2002

EXHIBIT INDEX

| <u>Exhibit Number</u> | <u>Description</u> | <u>Page Number</u> |
|---------------------------|---|------------------------|
| 1.1 | Amended and Restated Articles of Association. ** | |
| 1.2 | Amended and Restated Articles of Association (English translation). ** | |
| 4.1 | Framework Agreement dated January 12, 2000, by and between Caja de Ahorros y Pensiones de Barcelona and Grupo Telefónica.* | |
| 4.2 | Framework Agreement dated January 12, 2000, by and between Caja de Ahorros y Pensiones de Barcelona and Grupo Telefónica (English translation).* | |
| 4.3 | Framework Agreement dated February 11, 2000, by and between Banco Bilbao Vizcaya Argentaria, S.A. and Telefónica, S.A.* | |
| 4.4 | Framework Agreement dated February 11, 2000, by and between Banco Bilbao Vizcaya Argentaria, S.A. and Telefónica, S.A. (English translation).* | |
| 4.5 | Amended and Restated Rights Offering Agreement dated May 16, 2000, among Telefónica, S.A., Terra Networks, S.A., and Lycos, Inc.** | |
| 4.6 | Amended and Restated Agreement and Plan of Reorganization dated September 20, 2000, among Terra Networks, S.A., Lycos, Inc. and Lycos Virginia, Inc.** | |
| 4.7 | Strategic Alliance Memorandum of Understanding dated May 16, 2000, among Bertelsmann AG, Telefónica, S.A., Terra Networks, S.A. and Lycos, Inc.** | |
| 4.8 | Mexican Stock Purchase Agreement among Motorola, Inc., Telefónica, S.A. and Telefónica Móviles, S.A. dated as of October 10, 2000.** | |
| 4.9 | Global option plan (TIES).*** | |
| 4.10 | Joint Venture Agreement dated as of January 23, 2001 among Telefónica, S.A., Telefónica Móviles, S.A., Portugal Telecom SGPS S.A. and PT Móveis SGPS, S.A.**† | |
| 8.1 | List of Subsidiaries. | |

| | |
|-----|--|
| * | Incorporated by reference to the registration statement of Telefónica, S.A. on Form F-4, registration number 333-11356. |
| ** | Incorporated by reference to Telefónica's Annual Report on Form 20-F for the fiscal year ended December 31, 2000. |
| *** | Incorporated by reference to the registration statement on Form S-8, as amended, registration number 333-13902. |
| † | Confidential material appearing in this document has been omitted and filed separately with the Securities and Exchange Commission in accordance with the Securities Exchange Act of 1934, as amended, and Rule 24b-2 promulgated thereunder. Omitted information has been marked through. |

EXHIBIT 8.1

SUBSIDIARIES

| NAME | JURISDICTION OF INCORPORATION |
|---|-------------------------------|
| Communicapital Inversiones, S.A.U. | Spain |
| Communicapital Gestión, S.A.U. | Spain |
| CAFITEL, S.L. | Spain |
| Casiopea Reaseguradora, S.A. | Luxembourg |
| Pléyade Peninsular Correduría de Seguros del Grupo Telefónica, S.A. | Spain |
| Seguros de Vida y Pensiones Antares, S.A. | Spain |
| Fonditel Entidad Gestora de Fondos de Pensiones, S.A. | Spain |
| Compañía Española de Tecnología, S.A. | Spain |
| Cleon, S.A. | Spain |
| Fonditel Entidad Gestora de Fondos de Pensiones, S.A. | Spain |
| Playa de Madrid, S.A. | Spain |
| Taetel, S.L. | Spain |
| Telefonía y Finanzas, S.A. (TELFISA) | Spain |
| Telefónica B2B Licencing, Inc. | U.S.A. |
| Telefónica B2B, Inc. | U.S.A. |
| Katalyx, Inc. | U.S.A. |
| Katalyx España, S.L. | Spain |
| Katalyx Argentina, S.A. | Argentina |
| Katalyx Mexico, S.A. de C.V. | Mexico |
| Katalyx Brasil, Ltd. | Brazil |
| Adquira, Inc. | U.S.A. |
| Adquira Argentina, S.L. | Argentina |

| NAME | JURISDICTION OF INCORPORATION |
|---|-------------------------------|
| Adquira Mexico, Ltd. | Mexico |
| Adquira Brasil, Ltd. | Brazil |
| Katalyx SIP, Llc. | U.S.A. |
| Mercador, S.A. | Brazil |
| Hotelnet b2b, S.A. | |
| Katalyx Food Service, Llc. | U.S.A. |
| Katalyx Food Service España, S.L. | Spain |
| Katalyx Food Service Argentina, S.R.L. | Argentina |
| Katalyx Food Service Mexico, S.R.L. de C.V. | Mexico |
| Katalyx Transportation, Llc. | U.S.A. |
| Katalyx Transportation España, S.L. | Spain |
| Katalyx Transportation Argentina, S.R.L. | Argentina |
| Katalyx Transportation Mexico, Llc. | Mexico |
| Katalyx Transportation Brasil, Ltd. | Brazil |
| Katalyx Cataloguing, Inc. | U.S.A. |
| Katalyx Cataloguing España, S.L. | Spain |
| Katalyx Cataloguing Argentina, S.R.L. | Argentina |
| Katalyx Cataloguing Mexico, S.R.L. de C.V. | Mexico |
| Katalyx Cataloguing Brasil, Ltd. | Brazil |
| Katalyx Construction, Inc. | U.S.A. |
| Katalyx Construction Argentina | Argentina |
| Telefónica Consultora de Proyectos, S.A. | Spain |
| Telefónica Ingeniería de Seguridad, S.A. | Spain |

| NAME | JURISDICTION OF INCORPORATION |
|---|-------------------------------|
| Telefónica Engenharia de Segurança | Brazil |
| Telefónica Consultora y Servicios, S.A. | Spain |
| Telefónica de España, S.A.U. | Spain |
| Telefónica Soluciones Sectoriales, S.A. | Spain |
| Portel Servicios Telemáticos, S.A. | Spain |
| Bitel Baleares Innovación Telemática, S.A. | Spain |
| Incatel | Spain |
| Tecnología e Ingeniería de Sist. y Servicios Avanzados de Telec., S.A. (TISSAT) | Spain |
| Madrid 112, S.A. | Spain |
| Fitex | Spain |
| SEMCA | Spain |
| ATENET | Spain |
| Teleinformática y Comunicaciones, S.A. (TELYCO) | Spain |
| Telyco Maroc, S.A. | Morocco |
| Telefónica Telecomunicaciones Públicas, S.A. | Spain |
| SODETEL, Comercial de Servicios de Telecomunicaciones, S.A. | Spain |
| Andalucía Digital Multimedia, S.A. | Spain |
| Iniciativas de Mercados Interactivos, S.A.U. | Spain |
| Telefónica Cable, S.A. | Spain |
| Telefónica Cable Cantabria, S.A. | Spain |
| Telefónica Cable Menorca, S.A. | Spain |
| Telefónica Cable Asturias, S.A. | Spain |

| NAME | JURISDICTION OF INCORPORATION |
|--|-------------------------------|
| Telefónica Cable Euskadi, S.A. | Spain |
| Sociedad General de Cablevisión Cádiz, S.A. | Spain |
| Telefónica Cable Galicia, S.A. | Spain |
| Telefónica Cable Aragón, S.A. | Spain |
| Sociedad General de Cablevisión Málaga, S.A. | Spain |
| Telefónica Cable Murcia, S.A. | Spain |
| Telefónica Cable La Rioja, S.A. | Spain |
| Telefónica Cable Valencia, S.A. | Spain |
| Telefónica Cable Castilla la Mancha, S.A. | Spain |
| Telefónica Cable Balears, S.A. | Spain |
| Telefónica Cable Catalunya, S.A. | Spain |
| Telefónica Cable Andalucía, S.A. | Spain |
| Telefónica Cable Navarra, S.A. | Spain |
| Telefónica Cable Extremadura, S.A. | Spain |
| Telefónica Cable Madrid, S.A. | Spain |
| Telefónica Cable Castilla y León, S.A. | Spain |
| Sociedad General de Cablevisión Canarias, S.A. | Spain |
| Telefónica Internet, S.A. | Spain |
| Terra Networks, S.A. | Spain |
| Maptel Networks, S.A.U. | Spain |
| Lycos Virginia, Inc. | U.S.A. |
| Terra Networks Perú, S.A.C. | Peru |
| Terra Networks Mexico Holding, S.A. de C.V. | Mexico |

| NAME | JURISDICTION OF INCORPORATION |
|--|-------------------------------|
| Terra Networks Mexico, S.A. de C.V. | Mexico |
| Terra Networks USA, Inc. | U.S.A. |
| Terra Networks Operation, Inc. | U.S.A. |
| Terra Networks Sales | U.S.A. |
| Terra Networks Financial Services USA, Llc. | U.S.A. |
| Deremate.com, Inc. | U.S.A. |
| Terra Networks Guatemala, S.A. | Guatemala |
| Terra Networks El Salvador, S.A. | El Salvador |
| Centro de Investigación y Experimentación de la Realidad Virtual, S.L. | Spain |
| Corporation Real Time Team, S.L. | Spain |
| Terra Networks Venezuela, S.A. | Venezuela |
| Telefónica Interactiva Brasil, Ltda. | Brazil |
| Terra Networks Brasil, S.A. y subsidiarias | Brazil |
| Terra Networks Asociadas, S.L. | Spain |
| Iniciativas Residenciales en Internet, S.A. | Spain |
| Terra Mobile, S.A. | Spain |
| Terra Networks España, S.A. | Spain |
| Ifigenia Plus, S.L. | Spain |
| Educaterra, S.L. | Spain |
| Terra Lycos Intangibles, S.A. | Spain |
| Terra Networks Chile Holding, Ltda. | Chile |
| Terra Networks Chile, S.A. | Chile |
| Terra Networks Argentina, S.A. | Argentina |

| NAME | JURISDICTION OF INCORPORATION |
|--|-------------------------------|
| Ordenamiento de Links Especializados, S.L. | Spain |
| OLE de Contenidos Interactivos, S.A. | Spain |
| Advertising Quality, S.L. | Spain |
| Red Universal de Marketing y Bookings On-Line, S.A. | Spain |
| Terra Networks Uruguay | Uruguay |
| Terra Networks Maroc | Morocco |
| Azeler Automoción, S.A. | Spain |
| Terra Networks Caribe | Dominican Republic |
| Terra Networks Games, Co. | U.S.A. |
| Terra Global Management, Inc. | U.S.A. |
| Terra Networks Intangibles, S.A. | Spain |
| Terra Networks LATAM, S.A. | Spain |
| Terra Networks Colombia Holding, S.A. | Colombia |
| Terra Networks Colombia, S.A. (La Ciudad.com) | Colombia |
| Terra Networks Serviços de Acesso a Internet e Trading, Ltd. | Portugal |
| UNO-E Bank, S.A. | Spain |
| Bumeran Participaciones, S.L. | Spain |
| Inversis Networks, S.A. | Spain |
| Terra Meta4 | Spain |
| One Travel.com, Inc. | U.S.A. |
| A tu Hora, S.A. | Spain |
| Telefónica Datacorp, S.A.U. | Spain |
| Telefónica Data Mexico | Mexico |

| NAME | JURISDICTION OF INCORPORATION |
|--|-------------------------------|
| Telefónica Data Mexico Holding | Mexico |
| Telefónica Data Holding, S.L. | Spain |
| European Telecom International, GmbH | Austria |
| Telefónica Data Colombia, S.A. | Colombia |
| Rey Moreno, S.A. | Colombia |
| Telefónica Data Brasil, S.A. | Brazil |
| Telefónica Datos de Venezuela, S.A. | Venezuela |
| Telefónica Data Canadá, Inc. | Canada |
| Telefónica Data Caribe | Spain |
| Telefónica Data USA | U.S.A. |
| Telefónica Data Licencing | U.S.A. |
| Telefónica Data Business Commerce, Inc. | U.S.A. |
| Telefónica Data Uruguay, S.A. | Uruguay |
| Telefónica Data Atlas, S.A. | Morocco |
| Telefónica Data Cuba | Cuba |
| Agencia de Certificación Electrónica, S.A. | Spain |
| Atlanet, S.p.A. | Italy |
| Ipe – 2000 | Italy |
| Telefónica Data Perú | Peru |
| Telefónica Servicios Financieros | Peru |
| Telefónica Servicios Internet | Peru |
| Telefónica Data Argentina | Argentina |
| Tyssa, Telecomunicaciones y Sistemas, S.A. | Argentina |

| NAME | JURISDICTION OF INCORPORATION |
|---|-------------------------------|
| Intelsat | |
| Telefónica Data Brasil Holding | Brazil |
| Telefónica Empresas | Brazil |
| Telefónica Data España, S.A.U. | Spain |
| Telefónica Sistemas, S.A. | Spain |
| Telefónica Sistemas Ingeniería de Productos Guatemala, S.A. | Guatemala |
| Telefónica Ingeniería de Comunicaciones, S.A. | Spain |
| Telefónica Sistemas El Salvador, S.A. de C.V. | El Salvador |
| T.S. Telefónica Sistemas de Portugal, S.A. | Portugal |
| Interdomain, S.A. | Spain |
| Segur Virtual | Spain |
| Gestión del Conocimiento, S.A. | Spain |
| Casertel | Spain |
| Euroinfomarket, S.A. | Spain |
| MediaWays GmbH Internet Services | Germany |
| MediaWays U.K. | United Kingdom |
| Paderlinx | Germany |
| Grupo Admira Media, S.A. | Spain |
| Euroleague Marketing, S.L. | Spain |
| Fieldy, B.V. | Netherlands |
| Líderes Entertainment Group, Inc. | U.S.A. |
| Telefónica Sport, S.A. | Spain |
| Telefónica Media Internacional y de Contenidos, S.A. | Spain |

| NAME | JURISDICTION OF INCORPORATION |
|--|-------------------------------|
| Telefónica Media Internacional y de Contenidos USA, Inc. | U.S.A. |
| Telefónica Media Argentina, S.A. | Argentina |
| AC Inversora, S.A. | Argentina |
| Azul Tv (Telearte, S.A.) | Argentina |
| Atlántida Comunicaciones, S.A. | Argentina |
| Torneos y Competencias, S.A. | Argentina |
| Admira Servicios Audiovisuales, S.A. | Spain |
| Cadena Voz de Radiodifusión, S.A. | Spain |
| Telefónica Medios de Comunicación, S.A. | Spain |
| Gestora de Medios Audiovisuales de Fútbol, S.L. | Spain |
| Audiovisual Sport, S.L. | Spain |
| Famosos, Artistas, Músicos y Actores, S.A. | Spain |
| Hispasat, S.A. | Spain |
| Uniprex, S.A. | Spain |
| Servicios de Teledistribución, S.A. (S.T. HILO) | Spain |
| DTS Distribuidora de Televisión Digital, S.A. | Spain |
| Interocio Games, S.A. | Spain |
| Producciones Multitemáticas, S.A. | Spain |
| Factoría de Contenidos Digitales, S.A. | Spain |
| Lola Films, S.A. | Spain |
| Antena 3 de Televisión, S.A. | Spain |
| Tick Tack Ticket, S.A. | Spain |
| Patagonik Film Group, S.A. | Argentina |

| NAME | JURISDICTION OF INCORPORATION |
|---|-------------------------------|
| Media Park, S.A. | Spain |
| Pearson Plc. | United Kingdom |
| Endemol Entertainment Holding, N.V. | Netherlands |
| Telefónica Publicidad e Información, S.A. | Spain |
| Goodman Business Press, S.A. | Spain |
| Cernet, S.L. | Spain |
| Iniciativas de Mercados Interactivos, S.A.U. | Spain |
| Telefónica Publicidad e Información Internacional, S.A.U. | Spain |
| Directories Holding, B.V. | Netherlands |
| Publiguías Holding | Chile |
| Impresora y Comercial Publiguías, S.A. | Chile |
| Telefónica Publicidade e Informaçao, Ltda. | Brazil |
| Buildnet, S.A. | Spain |
| Guia Local Network, S.A. | Brazil |
| Euredit, S.A. | France |
| Venturini España, S.A. | Spain |
| Venturini, S.A. | Spain |
| Telefónica Internacional, S.A. | Spain |
| Telefónica Panamericana - MCI Holding, B.V. | Netherlands |
| Sao Paulo Telecomunicações Holding, S.A. | Brazil |
| Telesp Participações, S.A. (TELESP) | Brazil |
| Telefónica Ibero Americana, Ltda. | Brazil |
| Telefónica Finance, Ltd. | Isle Of Man |

| NAME | JURISDICTION OF INCORPORATION |
|---|-------------------------------|
| Telefónica del Perú Holding, S.A. | Peru |
| Telefónica del Perú, S.A. | Peru |
| Telefónica Publicidade e Informaçao, S.A. | Brazil |
| Telefónica Internacional USA, Inc. | U.S.A. |
| Telefónica Larga Distancia de Puerto Rico, Inc. | Puerto Rico |
| Telecomunicaciones Ultramarinas de Puerto Rico | Puerto Rico |
| Telefonica International Holding, B.V. | Netherlands |
| Telefónica Chile Holding, B.V. | Netherlands |
| Telefónica Internacional de Chile, S.A. | Chile |
| Compañía de Telecomunicaciones de Chile, S.A. (C.T.C.) | Chile |
| Impresora y Comercial Publiguías, S.A. | Chile |
| Compañía de Inver. en Telecomunicaciones, S.A. | Argentina |
| Telefónica Holding de Argentina, S.A. | Argentina |
| Telefónica de Argentina, S.A. | Argentina |
| Telefónica Móviles, S.A. | Spain |
| Telefónica Venezuela Holding, B.V. | Netherlands |
| Venworld Telecom, C.A. | Venezuela |
| Cía. Anónima N. de Teléfonos de Venezuela, C.A. (CANTV) | Venezuela |
| Infonet Services Corporation | U.S.A. |
| Fandem, Ltd. | Ireland |
| Teléfonos de los Urales (TELUR) | Russia |
| Communication Technology, Inc. | U.S.A. |
| Zeleris España, S.A. | Spain |

| NAME | JURISDICTION OF INCORPORATION |
|--|-------------------------------|
| Atento Holding Telecomunicaciones, S.A. | Spain |
| Telepizza, S.A. | Spain |
| Atento Holding, Inc. | U.S.A. |
| Atento Telecomunicaciones España, S.A. | Spain |
| Tempotel, Empresa de Trabajo Temporal, S.A. | Spain |
| Gestión de Servicios de Emergencia y Atención al Ciudadano, S.A. | Spain |
| Atento Brasil, S.A. | Brazil |
| Atento Puerto Rico, Inc. | Puerto Rico |
| Atento Colombia, S.A. | Colombia |
| Atento Maroc, S.A. | Morocco |
| Atento Argentina, S.A. | Argentina |
| Atento Uruguay, S.A. | Uruguay |
| Atento USA, Inc. | U.S.A. |
| Atento Perú, S.A.C. | Peru |
| Atento Centroamérica, S.A. | Guatemala |
| Atento de Guatemala, S.A. | Guatemala |
| Atento El Salvador, S.A. de C.V. | El Salvador |
| Atento Guatemala Comercial, S.A. | Guatemala |
| Atento Holding Chile, S.A, | Chile |
| Atento Chile, S.A. | Chile |
| Nexcom | Chile |
| Atento Educación, Ltda. | Chile |
| Atento Recursos, Ltda. | Chile |

| NAME | JURISDICTION OF INCORPORATION |
|--|-------------------------------|
| Atento Asia Pacific | Japan |
| Atento Pasona | Japan |
| Atento Italia | Italy |
| Atento Mexico | Mexico |
| Atento Servicios Mexico | Mexico |
| Atento Norteamérica | U.S.A. |
| Atento Venezuela | Venezuela |
| Telefónica Investigación y Desarrollo, S.A. (TIDSA) | Spain |
| Telefónica North America, Inc. | U.S.A. |
| Telefónica Europe, B.V. | Netherlands |
| Inmobiliaria Telefónica, S.L. | Spain |
| Telefónica Procesos y Tecnología de la Información, S.A. | Spain |
| Urbana Ibérica, S.A. | Spain |
| Emergia Holding, N.V. | Netherlands |
| Emergia Hispana, S.A. | Spain |
| Emergia Uruguay, S.A. | Uruguay |
| Emergia Argentina, S.A. | Argentina |
| Emergia Brasil, Ltd. | Brazil |
| Emergia Chile, S.A. | Chile |
| Emergia Perú, S.A. | Peru |
| Emergia USA, Inc. | U.S.A. |
| Emergia Guatemala, S.A. | Guatemala |
| Emergia Puerto Rico, Inc. | Puerto Rico |

| NAME | JURISDICTION OF INCORPORATION |
|---|-------------------------------|
| Zeleris Soluciones Integrales, S.L. | Spain |
| Telefónica Gestión de Servicios Compartidos, S.A. | Spain |
| Telefónica USA, Inc. | U.S.A. |
| Telefónica de Centroamérica, S.A. | Spain |
| Baja Celular Mexicana, S.A. de C.V. | Mexico |
| Baja Celular Servicios Corporativos, S.A. de C.V. | Mexico |
| Tamcel, S.A. de C.V. | Mexico |
| Movitel de Noroeste, S.A. de C.V. | Mexico |
| Movicelular, S.A. de C.V. | Mexico |
| Moviservicios, S.A. de C.V. | Mexico |
| Corporativo Integral Comunicación, S.A. de C.V. | Mexico |
| Telefonía Celular del Norte, S.A. de C.V. | Mexico |
| Todo para Celulares, S.A. de C.V. | Mexico |
| Grupo Corporativo del Norte, S.A. de C.V. | Mexico |
| Celular de Telefonía, S.A. de C.V. | Mexico |
| Soluciones Celulares, S.A. de C.V. | Mexico |
| Enlaces del Norte, S.A. de C.V. | Mexico |
| Grupo de Telecomunicaciones Mexicanas, S.A. | Mexico |
| Telefónica Móviles Argentina, S.A. | Argentina |
| Telefónica Comunicaciones Personales, S.A. | Argentina |
| Radioservicios, S.A. | Argentina |
| Radio Móvil Digital Argentina, S.A. | Argentina |
| TELCA Gestión Guatemala, S.A. | Guatemala |

| NAME | JURISDICTION OF INCORPORATION |
|--|-------------------------------|
| TELCA Gestión, S.A. de C.V. | El Salvador |
| Telefónica Móviles Perú Holding, S.A.A. | Peru |
| Telefónica Móviles, S.A.C. | Peru |
| TCG Holdings, S.A. | Guatemala |
| Telefónica Centroamérica Guatemala, S.A. | Guatemala |
| Telescucha, S.A. | Guatemala |
| Telefónica El Salvador Holding, S.A. de C.V. | El Salvador |
| Telefónica El Salvador, S.A. de C.V. | El Salvador |
| Telefónica Brasil Sul Celular Participações, S.A. | Brazil |
| Celular CRT Participações, S.A. | Brazil |
| Celular CRT, S.A. | Brazil |
| Ibero Leste Participações, S.A. | Brazil |
| Tele Leste Celular Participações, S.A. | Brazil |
| Telebahía Celular, S.A. | Brazil |
| Telergipe Celular, S.A. | Brazil |
| SudesteCel Participações, S.A. | Brazil |
| Tele Sudeste Celular Participações, S.A. (Río Celular) | Brazil |
| Telerj Celular, S.A. | Brazil |
| Telest Celular, S.A. | Brazil |
| Tagilo Participações, S.A. | Brazil |
| Telefónica Móviles España, S.A.U. | Spain |
| MobiPay España, S.A. | Spain |
| Iberadvance, S.A. | Portugal |

| NAME | JURISDICTION OF INCORPORATION |
|---|-------------------------------|
| Médi Telecom, S.A. | Morocco |
| 3G Mobile Telecommunications, GmbH | Austria |
| Spiral Investments, B.V. | Netherlands |
| 3G Mobile AG | Switzerland |
| Solivella Investments, B.V. | Netherlands |
| Iipse 2000, S.p.A. | Italy |
| Group 3G UMTS Holding, GmbH | Germany |
| Group 3G UMTS, GmbH | Germany |
| Opco | Germany |
| Nuevo Cosmos | Spain |
| Serea Investments, B.V. | Netherlands |
| ST 3G | France |
| Telefónica U.K. | United Kingdom |
| Setaber Investments, B.V. | Netherlands |
| Senda Investments, B.V. | Netherlands |
| Grupo 3G, S.p.A. | Italy |
| Stella Investments, B.V. | Netherlands |
| Main, S.A. | |
| Tempos 21, S.A. | |
| Telefónica Mobile Solutions, S.A.U. | Spain |
| Telefónica Mobile Solutions Chile, S.A.C. | Chile |
| Telefónica Mobile Solutions Perú, S.A.C. | Peru |
| Telefónica Mobile Solutions Brasil, Ltda. | Brazil |

| NAME | JURISDICTION OF INCORPORATION |
|--|-------------------------------|
| Telefónica Mobile Solutions Argentina | Argentina |
| Telefónica Móviles USA, Inc. | U.S.A. |
| Terra Mobile, S.A. | Spain |
| I.O.Box OY, S.A. | Finland |
| MobiPay Internacional, S.A. | Spain |
| Telefónica Factoring Establecimiento Financiero de Crédito, S.A. | Spain |
| Aliança Atlântica Holding, B.V. | Netherlands |
| Torre de Collçerola, S.A. | Spain |
| Sistemas Técnicos de Loterías del Estado, S.A. | Spain |
| Amper, S.A. | Spain |
| Portugal Telecom, S.G.P.S., S.A. | Portugal |
| Rem Infográfica, S.A. | |
| Promoció de Ciutat Vella, S.A. | Spain |
| Catalana D'Iniciatives, C.R., S.A. | Spain |
| Nexus Capital, S.A. | Spain |
| I-CO Global Communications, Ltd. | United Kingdom |