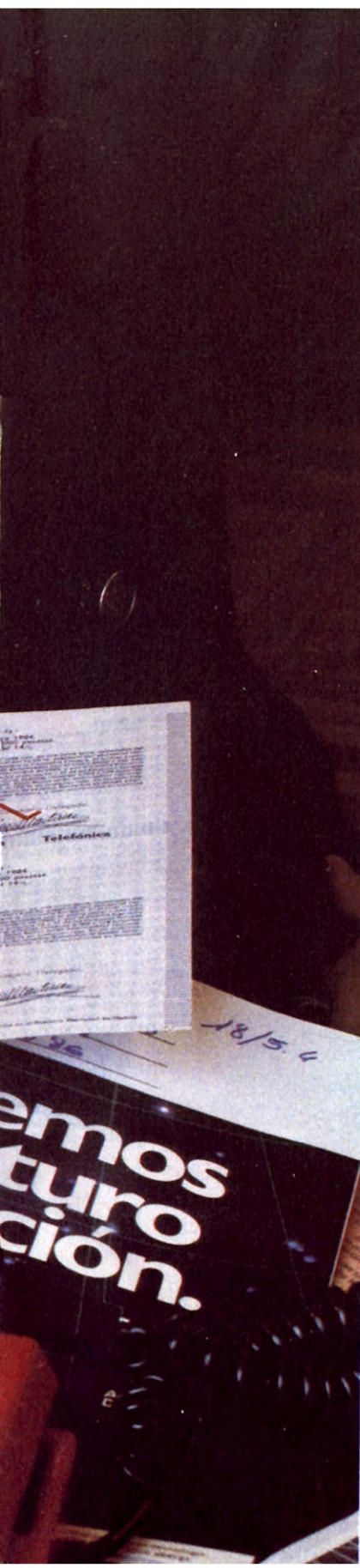
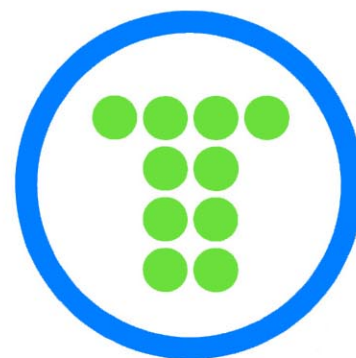


ECONOMY AND FINANCE

49



*Favourable investment opinion on **Telefónica** shares in 1985 was best demonstrated during the capital increases carried out in March and December for a nominal amount of 80,104 million pesetas.*

I. ECONOMIC ENVIRONMENT

50

Despite an unfavourable world economic environment (lower growth rate for world trade) the Spanish economy has certainly had satisfactory results in 1985. Growth rates similar to and more balanced than those obtained in 1984 have been achieved, being comparable to

those obtained by the European economies. Simultaneously, basic economic data have continued to improve, particularly the change to the trend of increasing unemployment initiated in 1975.

The following figures demonstrate the results achieved:

- The **real growth rate** in G.D.P. terms was 2.1%, with the 2.5% growth in internal demand being most significant after (after falling by 1.1% in 1984).

This positive behaviour of internal demand has been sustained by the recovery in private consumption, fundamentally resting on the relative improvement in employment trends and the falling inflation rate. Investment, in turn, has staged a major recovery, due to the increase in business profits and from the fall in interest rates and an improving general economic climate.

- With regard to **finance and income generated**, the transfer of resources to profits and national savings has continued, although less intensely than in previous years. Gross profits have grown by 11.8% in 1985, compared to a growth rate for salaries and gross national income of 9% and 10.8%, respectively. The ratio of gross profits from operations in gross disposable income has risen from 43.5% in 1980 to 49.7% in 1985.

National savings have grown by 15% in 1985, continuing the trend of previous years. Their share in gross disposable national income reached 21.2% this year, when it was 18.8% in 1980.

This increase in national savings has not only allowed for a real investment growth rate of 5.5%, in open contrast to the previous year when investment fell, but has also allowed the position of net loans abroad to be maintained, improving the net position of the Spanish economy abroad compared to the rest of the world for the second year running.

- The **balance of payments on current account** has recorded a surplus of 2,847 million dollars, for the second year running, allowing a start to be made to early foreign debt repayment, expanding on the improvements that commenced in 1984 to the liquidity and solvency indicators of the Spanish economy.
- **Inflation**, measured with the annual average C.P.I., was 8.7% as opposed to 11.3% in 1984, which meant a price differential reduction with the E.E.C. of 1.6 percentage points and 2 points with respect to the OECD countries overall.
- With regard to **employment**, the fall in the working population has been detained for the first time since 1975, increasing by 53,000 persons, with a slow-down in the acceleration in the increase of the unemployment rate of previous years.
- In contrast to the above aspects, **budget deficit** trends have not been positive (at 6.2% of G.D.P.), although it should be considered that most factors indicated a lower negative impact in the future.

Overall, the results obtained by the Spanish economy in 1985, together with the encouraging international prospects, enable it to make maximum use of the benefits resulting from favourable international trends.

In this context, **Telefónica** has maintained and improved the activity levels of previous years. Good demand behaviour should be emphasized, on maintaining telephone line applications near the 1983 record and having increased telematic circuit applications by 43.7%, together with capacity utilisation trend of plant in service, recording an average consumption per line of 3.3% as opposed to 1.6% in 1984, with this level being the highest for the last six years.

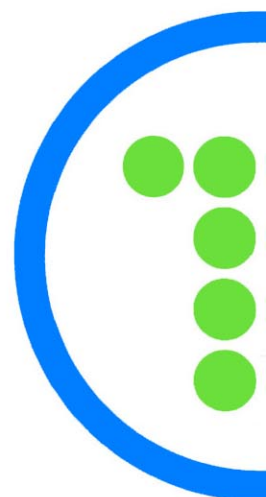
This behaviour of productive activity has enabled real growth of 7% to be achieved for the production of goods and services, maintaining growth rate differentials with the national economy and the services sector, as in previous years, showing greater growth potential, meaning that its weighting in the national economy continues to increase.

The price component of the production of goods and services was 6.2%, as opposed to 9% of the total output of the domestic economy, contributing to the major reduction in inflation.

With regard to employment although the policy of previous years of holding fixed employment stable has continued, new flexible labour contracting instruments have been used, in order to reinforce modernization policies for management instruments, hiring 2,551 people on a temporary basis.

While real investment growth continued, gross savings increased by 19%, allowing financing requirements to fall by 16%, which has now occurred for the third year running.

In conclusion, **Telefónica** is presently in a very solid financial situation, which allows the Company an adequate capacity for expansion in order to cover the new investments that it will be required to make in the future.



SIGNIFICANT Telefónica-SPANISH ECONOMY VARIABLES 1984-1985 (Thousands of Millions of Pesetas)

	Telefónica		Spain		Telefónica/Spain	
	1984	1985	1984	1985	1984	1985
Total gross value added	371.8	422.1	25,401.6	28,270.0	1.46	1.49
Gross value added: Service sector	371.8	422.1	13,375.0	14,939.9	2.78	2.83
Gross capital formation	173.6	190.5	5,144.5	5,833.9	3.37	3.27
Employment (thousands)	66.8	69.3(1)	10,359.0	10,411.5	0.64	0.67
Employment in Telefónica and Industrial Group (Thousands)	94.6	97.4(1)	10,359.0	10,411.5	0.91	0.94

(1) Including 2,551 temporary employees on one-year training contracts.
Figures in terms of National Accounts.

2. FINANCIAL ACTIVITY

The general trend of the Spanish economy described in the previous section allowed a looser monetary policy to be put into practice, within the gently restrictive approach adopted since 1983. This ensured that money markets did not suffer serious tensions, in a general climate of continually falling interest rates.

In this context, **Telefónica** continued with its finance activities, having the basic objectives of widening and diversifying its fund-raising sources, reinforcing capital raising channels, reducing foreign borrowings and making overall debt management more flexible.

These activities, initiated in preceding years, allowed the growth in financial expenses to be strongly contained, as announced in last year's annual report, while financial balances generally improved, as discussed in the following section in greater detail.

Telefónica has been present in practically all Spanish capital markets.

Two aspects of the raising of long-term funds are worthy of special mention:

- On the one hand, traditional bank financing instruments have been made flexible to allow complete adaptation to interest rate trends while extending average maturities.
- On the other hand, **Telefónica** has consolidated its presence in the bond markets achieving a major penetration that has allowed assimilation, at no detriment whatsoever, of the loss of institutional markets that traditionally comprised a basic source of fund raising for the Company due to changes in financial system regulations. The significant reduction in interest rates of the issues launched are worthy of attention, falling from 14% to 11.75%.

With regard to short and medium term fi-

Telefónica-ISSUES OF FIXED INTEREST SECURITIES (Millions of pesetas)

Years	Total Issued	(1)		(2)		Net Placings	
		Total Placed	Redemptions	Saving Banks	Others Markets	Total (1)-(2)	
1980	28,000	25,600	4,000	20,900	700	21,600	
1981	31,000	20,400	2,503	15,095	2,803	17,897	
1982	30,000	36,700	15,201	16,900	4,599	21,499	
1983	25,000	31,300	19,697	2,200	9,403	11,603	
1984	67,455	47,536	25,364	4,672	17,500	22,172	
1985	40,000	59,919	34,662	(34,662)	59,919	25,257	

nance, several instruments available in the market continued to be used, enabling coordinated access to different money and capital markets, to ensure maximum cash management efficiency.

The appearance of the "Ley de Régimen Fiscal de Determinados Activos Financieros" (Law on

Taxation of Certain Securities) required the adaptation of **Telefónica** Promissory Note issues to the new legal framework, which, together with the abundant liquidity existing in the second half of the year, explains the reduction in the issue volumes of this instrument.

Telefónica -COMPANY PROMISSORY NOTES (Millions of pesetas)

	1983	1984	1985
Direct placing	17,843.5	26,136.5	11,660
Stock Exchange placing	4,743	7,999.5	921.5
TOTAL PLACINGS IN THE YEAR	22,586.5	34,136.0	12,581.5
BALANCE OUTSTANDING AT DEC. 31	22,586.5	34,041.5	13,493
DISCOUNT RATES APPLIED (%)			
Direct Placing	14.2-13.4	14.0-12.2	11.35
Stock Exchange Placing	14.0-13.2	14.0-11.0	10.8-10.0

With regard to **foreign borrowings**, as mentioned last year, **Telefónica's** policy has basically consisted in reducing this type of debt. An early repayment programme was therefore established for financial operations in foreign currencies, that was partially executed during the later half of 1985. Early repayments for an equivalent amount of 29,397 million pesetas were made, without any operations involving new borrowing in foreign currencies.

As a result, the weight of foreign borrowings in the Company's total liabilities has fallen from 14% in 1984 to 11% in 1985.

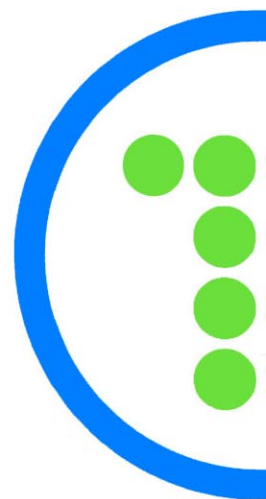
Simultaneously, part of the existing borrowings were replaced by new debt at lower interest rates and with longer maturities.

The intensification of these activities in 1986 will allow the weighting and conditions of this type of debt to be better adapted to the financial characteristics of **Telefónica**.

Lastly, as was normal practice, the structure of borrowings in foreign currencies continued to be adapted (by use of the multicurrency options or instruments such as swaps) to interest and exchange rate trends.

Although not reducing the importance of the previous aspects, the major protagonist of **Telefónica's** financial activity in 1985 was the **share market**. This was due to several reasons:

Firstly, due to positive of trend **Telefónica** share prices on the Spanish Stock Exchanges within a generally positive context and a recovery situation, with a strong increase in foreign investment.



One of the most relevant aspects of 1985 was the official listing of **Telefónica** shares on Stock Exchanges in London, Paris, Frankfurt and Tokyo. The photo shows the display panel at the presentation in the London Stock Exchange.

On the Madrid Stock Exchange, the average increase in share price was 35.78%, turnover has exceeded historic levels on increasing by 72.2% and the market capitalization of the listed share capital has grown by 31.2%; all of this has allowed the volume of shares issued to increase by 36.4%. This favourable trend has strongly attracted foreign investors. A highly significant presence of these foreign investors was consolidated on our Stock Exchanges in 1985, on having multiplied the volume of operations by foreign investors 7.5 times over the last two years, with their net purchases growing by 296% throughout 1985.

With regard to the developments of **Telefónica**, the following table shows the relevant major indicators. The figures speak for themselves and require no further comment.

STOCK EXCHANGE PARAMETERS OF Telefónica 1984/1985

	1984	1985
— Average share price increase	32.8 %	44.3%
— Effective overall return	50.7 %	51.3%
— Dealing frequency	100 %	100 %
— Increase in market capitalization	47.6 %	54.2%
— Percent of total Madrid Stock Exchange Capitalization	11.67%	15.2%
— Effective increase in turnover	66.4 %	410 %
— % Telefónica to total Madrid Stock Exchange turnover	7 %	20 %
— Liquidity	6.5 %	21.4%
— Price/Cash-Flow	1.8	2.5
— P.E.R.	8.4	11.5

The favourable opinion that investors have formed of **Telefónica** shares in 1985, demonstrated by the above figures, was best shown in the reaction to the capital increases carried out, the first of which was in March and the second in December 1985/January 1986, for a total nominal amount of 80,104 million pesetas and an effective value of 68,089 million pesetas. The price trend of share subscription rights and the turnover recorded throughout the subscription periods ratified the very favourable position of shareholders and investors with respect to the Company.

Another important aspect, although it finally materialised in 1986, was the offer in combination with the last capital increase for the purchase of shares in our subsidiary, AMPER, thus putting a new innovative industrial holding philosophy into practice, directly translating benefits generated by this activity to our shareholders.

Lastly, the most relevant factor of 1985 was the official listing of **Telefónica** shares on the London, Paris, Frankfurt and Tokyo Stock Exchanges, combined with a share placing in each of these markets totalling 47.5 million shares, equivalent at that time to 6.6% of the company's share capital, with a total market value of around 30,000 million pesetas. The placing was carried out between nearly 10,000 investors (more than 70% small investors and individuals) which gives an idea of the high degree of diversification achieved.

Apart from the novelty of this complex operation and its great success, the favourable trend that has been recorded on these Stock Exchanges since then should be emphasized. Consolidation of the presence of our shares on these markets has been achieved in all cases and wide-based liquid secondary markets have developed, with high dealing frequency and turnover levels.

From a general point a view, the positive appraisal of this process is reinforced. Therefore, looking to the future, the fundamental objective of



these operations was to diversify and expand the capital-raising bases and to widen and deepen the secondary markets in our shares, which has the benefit of improving market stability which is to the shareholders' gain, while properly channeling foreign demand for our shares, which has been occurring within the general context of a greater presence of foreign investors on the Spanish Stock Exchanges.

Of equal benefit to the shareholder was the international comparison involved with the listing on these foreign Stock Exchanges, not only in terms of price but also with regard to information at the strictest levels of requirements and transparency.

For the Company, there is the additional effect of improving and consolidating its rating as a prime risk at an international level.

Telefónica AND WORLD BOURSES-1985

	Share Price/ Book Value	Share Price/ Cash-Flow	PER	Dividend Yield	Annual Index(*) (DEC.31-84=100)	Turnover/Stock Exchange Capit.
FRANKFURT	2.8	6.0	16.7	2.7	176.14	42.2
LONDON	1.5	6.8	12.1	4.4	118.81	21.4
NEW YORK	1.7	6.9	13.7	3.8	127.66	49.6
PARIS	1.6	4.3	15.3	3.4	146.53	22.7
TOKYO	2.7	9.0	25.9	1.0	114.72	35.3
ZURICH	1.7	7.4	14.4	1.9	152.38	—
MADRID	0.5	2.9	10.8	7.9	135.78	16.38
INTERNATIONAL INDICES FOR TELECOMMUNICATIONS SECTOR	1.5	5.0	12.5	5.2	137.1	—
Telefónica-MADRID	0.5	2.57	11.5	8.6	144.28	21.42

(*) Local Indices

Source: Capital International Perspective



3. MANAGEMENT ANALYSIS

As a complement to the audited financial statements included herein and the notes attached thereto, management indicators and detailed data are given in this section for the last five years.

Without pretending to comment on them exhaustively, the main conclusions obtained from global analysis should be underlined, that ratify the favourable trend and improvement recorded by **Telefónica** in 1985.

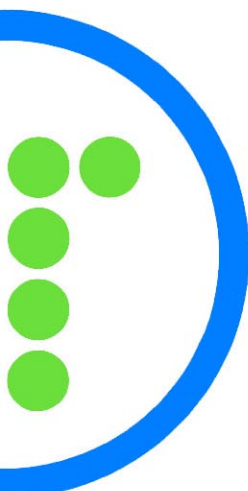
From the economic management point of view:

- The improvement in the **Gross Operating Margin** recorded in previous years has been consolidated.
- Particularly worthy of attention is the very low growth rate in **financial expenses**, that breaks the trend of earlier years, as stated in 1984 (the growth rate was 3.1% in 1985 as opposed to 19.4% in the period 1981/1984), reducing its net weighting in revenue from services by more than 4 points.
- This has meant that costs continue to be strictly identified in the results and **provisions** are made at a high level employing criteria of maximum prudence, for similar amounts to those of last year.
- Furthermore, **depreciations** continue to be made as necessary to maintain productive assets at their proper net values, growing by 18.8% over 1984. The depreciation rate has increased to 5.3%, thus reducing the average period over which assets are depreciated. Fixed assets were 40.4% depreciated at December 31, 1985.
- As a result of the above, **self-financing** has continued to grow significantly, amounting to 66.6% of investment made. The accumulated annual growth rate for this variable from 1982 was therefore 19%.
- **Cash-flow** grew by 22.5% over last year, being translated into an improvement in operating profitability.

Financial management activities have led to a generally positive trend in basic financial data: **financial autonomy** improved very significantly. **Borrowings** were reduced both short and long term, also significantly, reaching the lowest levels of the last five years. **Fixed asset coverage** and the **current ratio** also improved, stabilising at adequate levels.

RESULTS - PROFIT MARGINS 1981/1985 (In Millions of Pesetas)

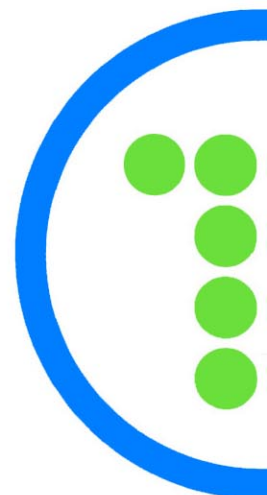
+ Revenue from services
— Levy and taxes
= Net revenue from services
+ Internal expenditure capitalised in fixed assets
— Salaries and related costs
— Other costs and expenses
= Gross operating margin
+ Connection fees
+ Nominal investment contributions and other
+ Surcharges
= Resources provided by operations
+ Other income
— Financial expenses
— Non-operating expenses
— Extraordinary items and others
— Exchange loss provisions
— Transfer to provisions
= Gross operating profit
— Depreciation of fixed assets
= Net operating profit



Lastly, two aspects should be emphasized that, as a consequence of the above, reflect the reinforcement of **Telefonica's** growth potential and expansion capacity on firm financial foundations:

- The **debt repayment capacity** improved by over 30%: whereas in the initial years of the five considered 5.5 years were necessary to repay the debt with costs, only 3.8 years were necessary in 1985.
- **Resources generated** presently cover 2.2 times financial expenses, whereas this was only 1.8 times at the start of the period; i.e. the degree of coverage has grown by 22%.

	1981	1982	1983	1984	1985	Yearly Growth Rate	GROWTH RATE %	
						1981/1985	1985/84	1984/83
	204,856	244,925	296,883	349,226	393,506	17.7	12.7	17.6
	12,269	14,845	17,959	21,117	23,710	17.9	12.3	17.6
	192,587	230,080	278,924	328,109	369,796	17.7	12.7	17.6
	32,956	39,296	43,959	47,634	51,863	12.0	8.9	8.4
	99,134	117,439	132,765	144,686	159,572	12.6	10.3	9.0
	20,340	27,004	33,637	38,346	43,491	20.9	13.4	14.0
	106,069	124,933	156,481	192,711	218,596	19.8	13.4	23.2
	11,914	11,925	11,785	12,118	13,922	4.0	14.9	2.8
	4,385	5,300	5,287	4,902	5,259	4.6	7.3	(7.3)
	1,852	1,805	1,953	1,842	2,274	5.3	23.5	(5.7)
	124,220	143,963	175,506	211,573	240,051	17.9	13.5	20.5
	6,714	7,578	8,676	13,143	14,257	20.7	8.5	51.5
	47,180	53,654	65,090	77,655	80,070	14.1	3.1	19.3
	202	351	275	381	1,019	49.9	167.5	38.5
	3,000	3,000	5,330	14,230	9,277	32.6	(34.8)	167.0
			3,569	3,802	10,690	n/a	181.1	6.5
	80,552	94,536	109,918	128,648	153,252	17.4	19.1	17.0
	56,674	67,989	82,382	96,028	114,103	19.0	18.8	16.6
	23,878	26,547	27,536	32,620	39,149	13.2	20.0	18.5



INCOME (In Millions of Pesetas)								
ITEM	1981	1982	1983	1984	1985	Yearly Growth rate 1981/1985	Growth rate %	
							1985/84	1984/83
Revenue from Services	204,855	244,925	296,883	349,226	393,506	17.7	12.7	17.6
Connection fees and others	16,299	17,225	17,072	17,020	19,181	4.2	12.7	(0.3)
Investment income	942	1,481	1,964	6,183	7,283	66.8	17.8	214.8
Other income	7,625	7,902	8,665	8,802	9,248	4.9	5.1	1.6
INCOME	229,721	271,533	324,584	381,231	429,218	16.9	12.6	17.4
Breakdown of Revenue from Services								
Subscriber service charges	55,059	65,337	74,916	111,086	126,834	23.2	14.2	48.3
National Telematic service	11,758	14,722	21,245	24,568	32,252	28.7	31.3	15.6
National Automatic Service	102,295	122,054	148,023	149,646	163,063	12.4	9.0	1.1
Trunk calls through operator	2,252	2,554	2,201	2,217	2,186	(0.7)	(1.4)	0.7
International service	28,040	32,620	40,299	51,149	57,505	19.7	12.4	26.9
Mobile and maritime Services	772	983	1,087	1,437	1,595	19.9	11.0	32.2
Directories and Year books	4,679	6,655	9,112	9,123	10,071	21.1	10.4	0.1

EXPENSES (In Millions of Pesetas)								
ITEM	1981	1982	1983	1984	1985	Yearly Growth Rate 1981/1985	Growth rate %	
							1985/84	1984/83
Operating expenses	86,116	104,592	121,809	134,779	150,719	15.0	11.8	10.6
Financial expenses	47,180	53,654	65,090	77,655	80,070	14.1	3.1	19.3
Depreciation and amortization	56,674	67,989	82,382	96,028	114,103	19.0	18.8	16.6
Levy and taxes	12,269	14,845	17,959	21,117	23,710	17.9	12.3	17.6
Transfer to exchange loss provision	3,000	3,000	5,330	14,230	9,277	32.6	(34.8)	167.0
Transfer to self-insurance provision and others	604	906	909	1,000	3,600	56.2	260.0	10.0
Transfer to bad debt provision	—	—	2,000	3,507	4,746	n/a	35.3	75.4
Transfer to provision for contingencies and others	—	—	1,569	295	3,844	n/a	n/a	(81.2)
Total Costs and Expenses	205,843	244,986	297,048	348,611	390,069	17.3	11.9	17.4
Breakdown of Operating Expenses								
Salaries and related costs	99,134	117,439	132,765	144,686	159,572	12.6	10.3	9.0
Outside work, Supplies and Services	19,090	25,443	30,540	35,375	41,240	21.2	16.6	15.8
Other operating charges	848	1,006	1,075	1,744	2,165	26.4	24.1	62.2
Provision for accrued expenses not accounted for	—	—	1,388	608	(395)	—	n/a	(56.2)
Investment expenses	(32,956)	(39,296)	(43,959)	(47,634)	(51,863)	12.0	8.9	8.4

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR 1981/1985

(Millions of Pesetas)
(After Profit Distribution)

	1981	1982	1983	1984	1985
Depreciation and amortization	56,674	67,989	82,382	96,028	114,103
+ Net variations in reserves and provisions	2,682	6,584	4,542	5,556	11,151
= Net self-financing (1).....	59,356	74,573	86,924	101,584	125,254
Non-reimbursable contributions for irrevocable rights of use.....	193	(30)	13	477	(191)
+ Capital increase.....	13,351	—	33,644	22,387	32,084
+ Debentures and bonds issued	35,092	34,384	30,537	47,280	60,621 (a)
+ Other medium and long-term loans	57,170	51,252	74,569	93,085	89,573 (b)
= Increase in net capital employed (2).....	105,806	85,606	138,763	163,229	182,087
= Total source of funds (1+2).....	165,162	160,179	225,687	264,813	307,341
Debentures redeemed	2,503	15,201	19,699	25,364	34,662
+ Amortización of medium and long-term loans.....	18,684	21,913	31,819	53,278	112,827
= Applications of finance (3).....	21,187	37,114	51,518	78,642	147,489
Investment in fixed assets	131,753	146,379	159,861	175,417	187,881
+ Other investments.....	(3,069)	5,318	15,659	(14,835)	(6,117)
= Total Gross investments (4).....	128,684	151,697	175,520	160,582	181,764
Inventories for fixed assets (5).....	1,955	2,252	4,256	4,538	5,615
= Total Applications (3 + 4 + 5)	151,826	191,063	231,294	243,762	334,868
Variation	13,336	(30,884)	(5,607)	21,051	(27,527)
+ Variation in unused facilities	2,064	6,570	8,760	32,910	29,271
= Total variation	15,400	(24,314)	3,153	53,961	1,744

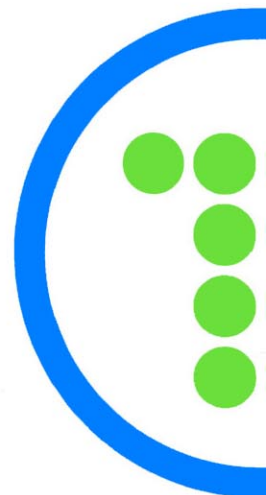
NOTES

— The difference between the Total Variation indicated in this table and that audited is as follows:

• Total variation	1,744
• Increase in inventories	5,615
• Increase in 1985 dividends.....	6,435
• Increased inventory provision	(2,031)
TOTAL	11,763

— These amounts (a and b) include time period adjustments for Promissory Notes and Zero Coupon bond expenses that figure in the audited statement of changes in financial position as self-financing, in accordance with the following breakdown:

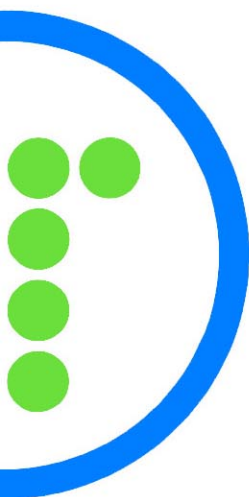
• Debentures and bonds.....	478
• Medium and Long Term Loans	4,123
SUMA.....	4,601



BALANCE SHEETS 1981/1985

(After Profit Distribution)

ITEMS	1981	1982	1983	1984	1985
Paid-in share capital	240,312	240,312	288,374	320,416	360,468
Revaluation surplus	279,897	281,090	344,722	419,719	486,574
Other reserves and unappropriated profits	25,568	30,628	35,620	40,318	44,378
Provisions and others	6,594	47,664	50,307	52,090	56,384
Shareholders' equity	552,371	599,694	719,023	832,543	947,804
Debentures and bonds in pesetas	222,479	247,942	255,529	277,445	303,403
Debentures and bonds in foreign currency	4,092	11,598	19,356	19,743	22,299
Other medium and long-term debt	168,398	222,212	285,584	335,609	328,967
Medium and long-term debt finance ..	394,969	481,752	560,469	632,797	654,669
Net capital employed	947,340	1,081,446	1,279,492	1,465,340	1,602,473
Fixed assets	1,451,190	1,667,754	1,903,232	2,182,144	2,429,520
Accumulated depreciation	(553,823)	(659,630)	(754,311)	(868,250)	(982,606)
Fixed assets under construction	53,018	59,036	76,179	76,742	95,794
Advanced payments on plant	5,663	9,988	14,531	12,756	13,556
Inventories for fixed assets	15,093	17,494	22,251	26,441	29,991
Net Fixed Asset	971,141	1,094,642	1,261,882	1,429,833	1,586,255
Net intangible assets	878	2,256	3,797	4,803	5,042
Investments	20,687	22,054	37,677	33,895	32,987
Deferred charges	6,284	7,884	9,186	13,461	12,898
Unrealised exchange losses	20,855	54,378	75,972	58,164	66,132
Total net assets	1,019,845	1,181,214	1,388,514	1,540,156	1,703,314
Consumable inventories	1,799	2,051	2,523	2,993	3,650
Subscriber accounts payable	43,494	52,022	61,587	65,895	75,859
Other receivables	15,020	12,764	21,583	21,016	15,583
Cash and banks	5,565	2,592	12,388	34,297	7,981
Short-term liabilities	138,383	169,197	207,103	199,017	203,914
Working capital	(72,505)	(99,768)	(109,022)	(74,816)	(100,841)
Total net assets	1,085,723	1,250,643	1,486,595	1,664,357	1,806,387
Unused credit facilities	26,902	35,329	53,607	88,680	121,300



FINANCIAL RATIOS

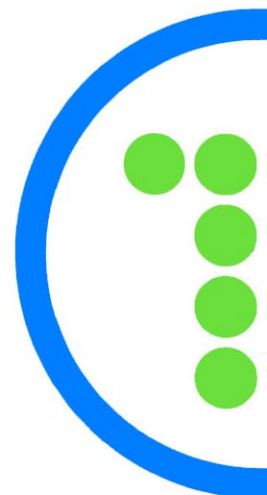
	1981	1982	1983	1984	1985
A — Gross Operating Margin Ratio	51.8	51.0	52.7	55.2	55.6
B — Self-Financing Capacity/Revenue from Services ..	41.1	40.2	40.8	42.5	44.4
C — Self-Financing Rate	45.1	50.9	54.4	57.9	66.6
D — Rate of Return from Operations					
1. On average shareholders' equity	15.6	17.3	18.6	19.3	19.6
2. On average net capital employed	9.5	9.8	10.3	10.8	11.4
3. On average fixed assets employed	12.5	13.4	14.0	15.0	16.0
E — Effective Rate of Return from Capital Employed	11.1	11.0	11.2	11.1	11.1
F — Financial Autonomy	79.6	76.2	77.3	82.4	92.3
G — Fixed asset coverage	54.2	50.8	51.8	54.1	55.6
H — Borrowing Ratio	41.3	43.3	42.9	40.8	37.2
1. Long-term	36.4	38.5	37.7	38.0	36.2
2. Short-term	4.9	4.8	5.2	2.8	1.0
I — Current Ratio	51.7	47.9	57.4	83.5	85.0
J — Debt repayment capacity	5.5	5.6	5.2	4.8	3.8
K — Resources generated/Financial expenses	1.8	1.8	1.9	1.9	2.2

Definitions:

A — (%) $\frac{\text{Gross operating margin}}{\text{Revenue from services}}$	F — (%) $\frac{\text{Shareholders' equity}}{\text{Remunerated liabilities}}$
B — (%) $\frac{\text{Self-financing capacity}}{\text{Revenue from services}}$	G — (%) $\frac{\text{Shareholders' equity}}{\text{Net fixed assets}}$
C — (%) $\frac{\text{Annual self-financing}}{\text{Investment in fixed assets}}$	H — (%) $\frac{\text{M. and l.-term debts} + \text{short-term finance}}{\text{Total liabilities}}$
D.1 — (%) $\frac{\text{Net cash flow}}{\text{Average shareholders' equity}}$	H.1 — (%) $\frac{\text{Medium and long term debts}}{\text{Total Liabilities}}$
D.2 — (%) $\frac{\text{Net cash flow}}{\text{Average Net capital employed}}$	H.2 — (%) $\frac{\text{Short term finance} + \text{Company promissory notes}}{\text{Total Liabilities}}$
D.3 — (%) $\frac{\text{Funds generated by operations}}{\text{Average Net fixed assets}}$	I — (%) $\frac{\text{Current Assets}}{\text{Current liabilities}}$
E — (%) $\frac{\text{Net profit}}{\text{Average paid in share capital}}$	J (years) $\frac{\text{Remunerated external funds}}{\text{Resources generated}}$
	K (times) $\frac{\text{Resources generated}}{\text{Financial expenses}}$

Self-financing capacity

Comprises net profit, depreciation and amortization (except deferred expenses), exchange loss and other provisions.



VALUE ADDED IN THE LAST FIVE YEARS

(Millions of Pesetas)

	1981	1982	1983	1984	1985
Total income (1).....	+262,677	+310,829	+368,542	+428,865	+481,081
Outside work, supplies and services.....	19,090	25,443	30,540	35,375	41,240
Other operating charges.....	848	1,006	1,075	1,744	2,165
Total external costs and charges.....	-19,938	-26,449	-31,615	-37,119	-43,405
Value added.....	242,739	284,380	336,927	391,746	437,676
Salaries and related costs.....	99,134	117,439	132,765	144,686	159,572
Remuneration and interest.....	69,917	79,142	90,885	108,031	115,859
— Remuneration to shareholders (dividend).....	23,497	26,434	27,095	32,214	38,649
— Financial expenses (on loans).....	46,420	52,708	63,790	75,817	77,210
State levy and taxes.....	12,269	14,845	17,958	21,117	23,710
Upkeep of production facilities (depreciation charges, provisions, reserves, etc.).....	61,419	72,954	95,319	117,912	138,535

(1) Includes work carried out by the Company on its fixed assets.

ACCRUALS TO THE TREASURY, AUTONOMOUS GOVERNMENT TREASURY DEPARTMENTS AND SOCIAL SECURITY.

(Millions of Pesetas)

	1985	1984	Variation	
			Absolute	Relative
I. PAYMENTS TO THE TREASURY AND AUTONOMOUS GOVERNMENT TREASURY DEPARTMENTS.....	122,328	112,222	10,106	9
AS OBLIGOR.....	114,111	105,181	8,930	8.5
TAXPAYER				
— Levy.....	23,435	20,846	2,589	12.4
WITHHELD AS INTERMEDIARY				
— Tax on telephone use.....	64,233	58,533	5,700	9.7
— Income tax.....	18,036	16,472	1,564	9.5
— Capital tax.....	8,084	9,153	(1,069)	(11.7)
— Non-resident corporation tax.....	323	177	146	82.5
PAID BY OBLIGORS ACTING AS INTERMEDIARY FOR Telefónica	8,217	7,041	1,176	16.7
AS TAXPAYER				
— Turnover Tax.....	7,489	6,770	719	10.6
— Capital Tax.....	728	271	457	168.6
II. PAYMENTS TO SOCIAL SECURITY.....	19,307	17,159	2,148	12.5
— Net payments.....	19,307	17,159	2,148	12.5
TOTAL PAYMENTS.....	141,635	129,381	12,254	9.5