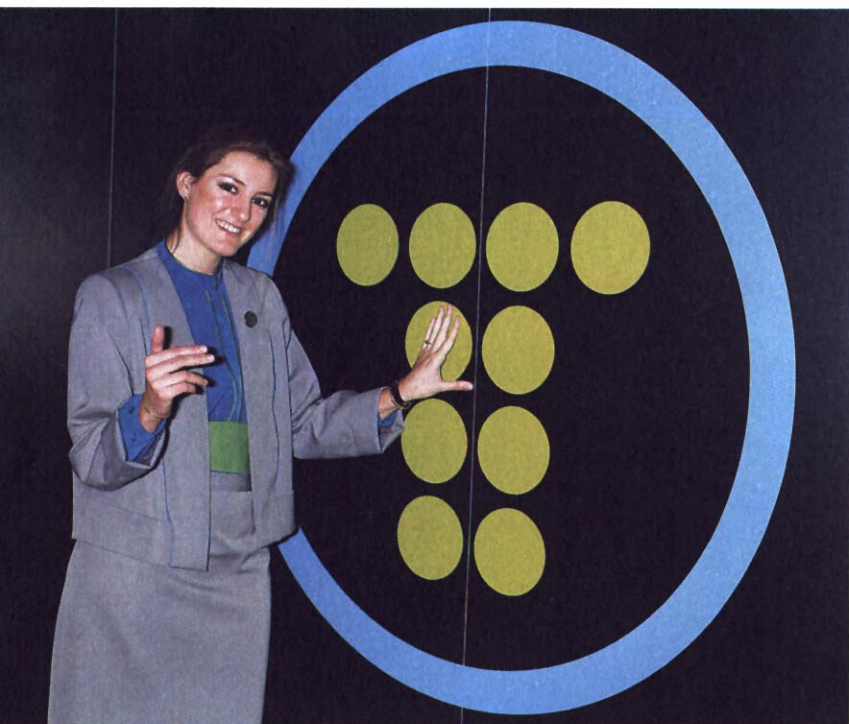


GENERAL INFORMATION ON THE COMPANY



In compliance with the requirements of Ministry Orders dated November 17, 1981 and February 26, 1982.

1. Compañía Telefónica Nacional de España has its registered offices in Madrid, Gran Vía, 28.
2. The Company was incorporated by a public document authorised by the Notary Public of the Illustrious College of Madrid, Mr. Alejandro Roselló y Pastors, on April 19, 1924, entered with number 141 in his official records and inscribed in the Madrid Register of Companies in Volume 152, page 122, sheet 5083, inscription I. By public document authorised in Madrid on April 28, 1953 by the Notary Public of Madrid, Mr. Alejandro Bérnago Lladrés, entered with number 1333 in his official records, the Articles of Association of Compañía Telefónica Nacional, S. A. were adapted to the Law on S. A. Companies (Spanish Companies Act) of July 17, 1951. This public document was inscribed in the Madrid Register of companies in Volume 818, book 368 of the 3rd section of the Book of Companies, page 102, sheet 5083, inscription 135.
3. In accordance with the provisions of Article 4 of the Articles of Association in force, "the object of this Company is the installation, repair, improvement, purchase, sale, operation and administration of all classes of telephone services, lines and networks and of any other telecommunications procedure used at present or that may be discovered in the future; the provision of other auxiliary telecommunications services; the purchase, sale and mortgaging of all classes of goods and chattels, buildings and real estate, rights and concessions and the manufacture, agreement, purchase or sale, negotiation, importation and operation of suitable materials, machines and tools, with no exception whatsoever, that may be useful for carrying out the functions described".
In accordance with the stipulations of Condition I I of the Contract of Concession approved by the Decree of October 31, 1946, Compañía Telefónica Nacional de España, S. A., is committed to establish, develop and operate a comprehensive and homogenous local and trunk telephone system throughout the Península, adjacent is-

lands and areas of Spanish sovereignty, with the appropriate complementary and auxiliary services. The Company is also committed, in accordance with Condition 15 of the Contract of Concession and to the extent that service requirements make this necessary, to successively install the most up-to-date equipment and materials.

4. Interested persons may consult the Articles of Association and the accounting and financial statements in the Shareholders' Offices that this Company has opened to the public in its registered offices. In the same office, anybody may request the brochures on the increases in capital and debentures issued over the last three years.
5. Article 16 of the Articles of Association establishes that the Annual General Meetings shall be held every year prior to June 30 in the place and on the day and hour fixed by the Board of Directors. Extraordinary General Meetings shall be held after giving prior notice that describes the cause thereof, and includes the agenda, either on the initiative of the Board of Directors itself or when the Board of Directors is so requested, in accordance with the relevant procedures and clearly expressing the objective thereof, by shareholders that can demonstrate a minimum holding of 1/10 of the paid-in share capital.

Information on Share Capital

1. As at January 15, the share capital is 400,519,495,000 pesetas, being fully paid in and subscribed.
2. The General meeting of shareholders held in Madrid on June 17, 1985, authorized the Board of Directors in the most wide-ranging and effective way and to the extent that business requirements in their opinion made this necessary, to increase the share capital without requiring the holding or later agreement of the General Meeting, issuing new shares for this purpose once the amount of previous issues

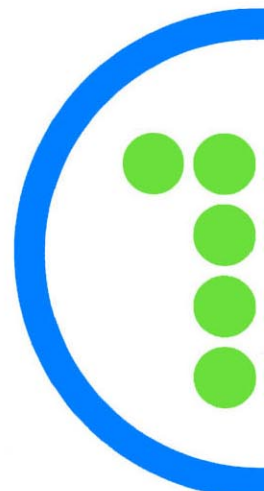
has been completely paid in, until the share capital of the Company reaches the amount of 540,701,318,000 pesetas.

Similarly, the General Meeting of Shareholders authorized the Board of Directors to issue debentures of any kind, including convertible debentures, up to the maximum authorized by the legislation in force at the time of issue, said authorization being in turn transferrable to the Executive Committee.

3. All of the shares forming the share capital of Compañía Telefónica Nacional de España are 500 pesetas nominal value bearer shares.
4. Article 6 of the Articles of Association requires that, if the new share issues were to exceed the maximum authorized for the Board of Directors in order to carry out new capital increases without the need of agreement from a General Meeting, the limit of which is at present that the share capital of the Company may reach the sum of five hundred and forty thousand seven hundred and one million three hundred and eighteen thousand pesetas, agreement to this shall be by the General Meeting and by the majority of the share capital, determined in accordance with the applicable legislation in force.
5. The share capital at December 31, 1983 was 288,374,036,500 pesetas and at December 31, 1985 amounted to 360,467,545,500 pesetas.

Since 1983 the following capital increases have taken place:

Year	Ratio	Type	Payment by Shareholder	Nominal Amount in Millions of Pesetas
1983	1 x 5	At par	70%	48,062.3
1984	1 x 9	At par	70%	32,041.6
1985	1 x 8	At par	80%	40,051.9
1985/86	1 x 9	At par	90%	40,051.9



Compañía Telefónica Nacional de España is the parent Company of the Group of 18 Companies listed earlier in the Annual Report with a 100% shareholding.

The Spanish State holds a 31.51% interest in the share capital of the Company.

The associate and affiliate companies hold a total interest of 0.77% in the capital of the Company.

As the shares in the Company are not registered, it is impossible to find out the number of shares held by the members of the Board of Directors or Managers of both the company and the affiliate and associate Companies.

COMPANY POLICY ON STAFF BENEFITS AND PARTICULARLY ON ALL CLASSES OF PENSIONS

On March 1, 1985 the XIII Collective Wage Agreement was signed, the basic contents of which are as follows:

The basic salaries agreed are given in the **Telefónica** Staff Table on page 96.

Bonus payments were increased by 6.5%.

Payments for child and school assistance were increased by 6%.

Other extra and compensation payments were increased by 5.5%.

A single level of expenses was established for all labour categories and groups, set at 2,150 and 3,200 pesetas for travel within and between provinces, respectively.

Social welfare funds were established at a total of 587 million pesetas.

Furthermore, **Telefónica** contributed 5,251 million pesetas to the Collective Endowment Insurance Scheme and 9,902 million pesetas to the ITP.

All of the expenses from the above items in 1985 are included in the Statement of Profit and Loss under the corresponding heading.

During 1985 the Company also granted advances of the following month's salary and advances of three months' salary, to be paid back over 24 months. These advances are interest-free and figure in the Company's Balance Sheet under the caption of Investments, in the "Loans to Employees" item.

We would not like to finish without paying our respects to the memory of our companions who lost their lives in accidents at work:

- Mr. Andrés Aparicio Marazuela.
- Mr. Balbino Borreguero Labajos.
- Mr. Rafael Castro Cascón.
- Mr. Eugenio Cubero Ruiz.
- Mr. Enrique Parra Arteaga.
- Mrs. M.^a Angeles Ribas Budios.
- Mr. Marino del Río de Blas.

And to whose families we reiterate our condolences.

