

FINANCIAL REVIEW



(Figures in millions of Ptas.)

**SELECTED
FINANCIAL
DATA**

	1986	1987	1988	1989	1990	1990 \$ (in millions)
Operating revenue	468,011	540,727	614,829	714,839	852,542	8,797.4
Operating expenses	216,349	240,151	304,193	358,787	424,214	4,377.4
Financial expenses	91,637	97,180	99,519	114,149	159,308	1,643.9
Depreciation and amortization (*)	138,204	164,442	213,247	233,563	269,118	2,777.0
Net income	45,252	53,247	62,845	68,898	75,788	782.1
Cash flow	183,456	217,689	276,092	302,461	344,906	3,559.1
Share capital	411,793	415,368	460,620	462,482	463,479	4,782.6
Shareholders' equity	1,040,558	1,163,058	1,245,071	1,267,925	1,294,504	13,357.9
Long-term debt	549,001	570,770	627,161	862,173	1,051,693	10,852.4
Interest-bearing debt	701,455	746,977	807,220	1,104,010	1,478,303	15,254.5
Capital expenditure (**)	211,514	260,183	357,815	583,762	703,697	7,261.4

Exchange rate (28-12-90): 1\$ = 96.909 Ptas.

(*) Including write-off of dismantled plant pending depreciation

(**) Including advances to suppliers

Last year was a period of inflexion in the recent development of the Spanish economy. The surge in economic growth, which began in the second half of 1985, upset the basic balance mechanisms and the government was forced to implement a tight monetary policy and reduce budgetary expansion for the year. In addition, the exchange rate discipline of the European Monetary System and the forthcoming European economic union tended to keep domestic interest rates high, and led to the continuation throughout 1990 of the Bank of Spain's policy of restricting foreign debt, initiated at the beginning of 1989.

T ELEFONICA AND THE SPANISH ECONOMY

Added to the effects of this restrictive economic policy was the fall off in economic prospects brought about by the Gulf crisis. The result was a lower growth rate in the Spanish economy and a slowing down in the job creation process.

Growth in domestic demand decreased considerably, 4.6% in 1990 compared with 7.8% in 1989. This was basically due to the fall in investment demand, particularly investment in capital goods, while the construction industry had to rely heavily on public works.

Rises in real salaries helped to stimulate growth in private consumption, although this trend was offset by a fall in job creation which caused a moderate fall off in this area of demand.

Spain's G.D.P. rose by 3.7% in real terms, which was nearer to the growth in global demand than in previous years, thus showing a more balanced performance by the Spanish economy.

Exports were well up, despite a fall in revenue from tourism, while the import growth rate fell back sharply to roughly half the 1989 figure. These factors were

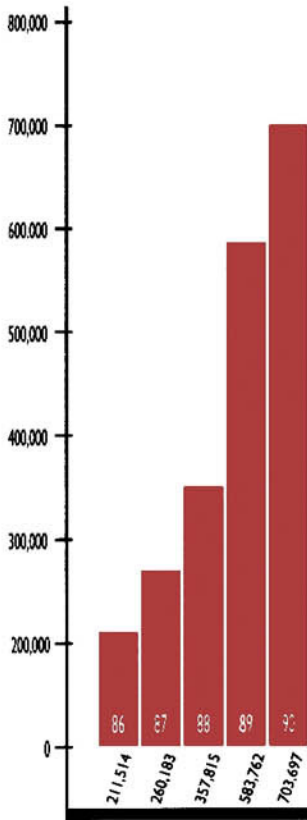
reflected in a slight reduction in the current account deficit as a proportion of the G.D.P. (3.1% in 1990 as opposed to 3.2% the year before). The continuing inflow of capital into the Spanish economy through foreign investment, along with short term capital attracted by high domestic interest rates, resulted in a large balance of payments surplus, with foreign reserves rising by 8,683 million dollars, 91% up on 1989.

The pressure of labour costs, and the inflationary impact of oil price rises caused by the Gulf crisis are key factors in analysing the performance of the G.D.P. deflator, which rose by 7.3%, rather more than in 1989. Consumer prices, on the other hand, witnessed an annual average growth similar to that of the year before.

Within this economic context, Telefónica continued to step up its participation in the Spanish economy during 1990. The value added generated by our company grew by 9.3%, a higher growth rate in real terms than the G.D.P., and represented 1.79% of this figure. There were similar trends in Telefónica's gross operating profit, which now accounts for 2.13% of the national total.

Telefónica's fixed assets investment grew last year in macroeconomic terms by 21.1%, in marked contrast with the figure for the Spanish economy as a whole, which stood at 6.7%. The continuing investment drive in 1990 brought Telefónica's contribution to Spain's gross capital formation up from 5.14% in 1989 to 5.49% in 1990. The difficult prevailing conditions in the domestic financial markets last year, and the corresponding effect on the company's financial expenses hindered similar progress in Telefónica's contribution to national gross savings.

Finally, Telefónica made a positive contribution to the performance of the Spanish economy in two more areas: employment, which saw a net growth 6.8% in 1990 as opposed to 2.7% in the Spanish economy as a whole, and prices, with tariffs showing a 6.4% average increase, nearly a point less than the G.D.P. deflator.



CAPITAL EXPENDITURE
(Millions of Ptas.)

	(as a % of the national total, except prices)				
	1986	1987	1988	1989	1990
Gross value added	1.66	1.72	1.68	1.72	1.79
Wages and related benefits	1.21	1.18	1.19	1.25	1.28
Gross operating profit	2.05	2.19	2.00	2.03	2.13
Gross savings	2.56	2.91	2.56	2.64	2.55
Gross capital formation	4.30	4.49	3.70	5.14	5.49
Prices					
G.D.P. deflator	10.42	5.86	5.64	6.95	7.32
Telefónica (1)	6.52	4.58	1.00	2.70	6.40

(1) Average yearly effect on service prices due to tariff increases.
Source: I.N.E. and Telefónica.

In December 1990 the new General Accounting Plan was approved, under the Commercial Legislation Partial Reform and Adaptation to E.E.C. Directives Act. Telefónica has therefore presented the 1990 Annual Accounts according to the formats laid down in the General Accounting Plan for balance sheets, statements of income and the annual report. This new presentation brings our financial statements into line with E.E.C. accounting norms, especially with the Fourth Directive.

M ANAGEMENT'S DISCUSSION

In 1990, Telefónica's revenue from operations was 852,542 million pesetas, representing an annual growth of 19.3%. Operating profit was 237,475 million pesetas, 21.4% up on the year before. After taking into account financial expenses and net extraordinary items, income before tax reached 93,188 million pesetas. After applying provision for corporate tax, net income for the year was 75,788 million pesetas, an increase of 10.0% over 1989. Earnings per share were 81.8 pesetas, 9.8% more than the previous year.

The proposal for the distribution of profits, with 50,983 million pesetas set aside for the payment of dividends and 24,805 million going to increase reserves, represents a pay-out ratio of 67.3%. This is a continuation of the policy aimed at strengthening the company's equity base, initiated in 1987.

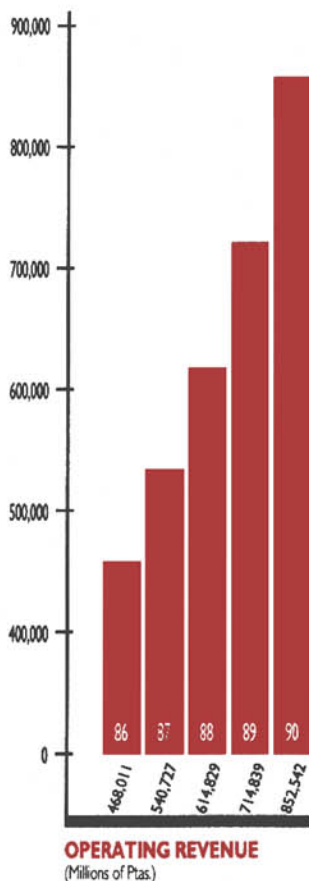
Operating revenue

The 19.3% growth in operating revenue reflects the high rate of activity carried out in 1990. This revenue totalled 852,542 million pesetas.

The average rises in service charges in 1989 (3.4%) and 1990 (7.3%), which came into effect on the 12th and 20th of March respectively, resulted in an estimated effect on the year's operating revenue of 6.4%.

The most dynamic revenue components were terminals, mobile services and data and image transmission, which grew by 180.5%, 89.7% and 26.6% respectively. Revenue from mobile services, at 8,696 million pesetas, almost equalled the rapid pace of growth attained in 1989. As a result, its contribution to the revenue structure rose to 1%. Revenue from data and image transmission, at 87,628 million pesetas, also continued to increase as a percentage of the total, reaching 10.3% compared with 9.7% in 1989.

Revenue from the domestic automatic service rose by 18.9% to 374,472 million pesetas, accounting for 44% of total operating revenue. International service revenue went up by 17.5% to 113,857 million pesetas, representing 13.3% of the total. The notable growth in revenue from international traffic during last year is especially



significant bearing in mind that the rise in tariffs had no overall effect on this revenue item.

Revenue from subscriber service charges increased by 12.6% to 207,119 million pesetas, although it fell as a proportion of total operating revenue from 25.7% in 1989 to 24.3% in 1990. Revenue from connection fees grew by 19.1%, reaching 38,895 million pesetas. Finally, revenue from advertising in directories and yearbooks was 8,500 million pesetas, 16.5% more than the year before.

Operating expenses

Excluding local taxes and provision for the setting up of a pension fund, operating expenses rose to 387,829 million pesetas, 18.3% up on the year before. The main component was personnel expenses, which increased from 253,439 million pesetas in 1989 to 293,603 million in 1990. The average number of employees rose from 68,609 to 73,253, up by 6.8%. At the end of 1990, Telefónica's workforce stood at 75,350, of which 5,803 were temporary workers.

Expenses for subcontractors, supplies and services were 93,709 million pesetas, 26.8% more than in 1989. This increase was a consequence of the surge in Telefónica's activity in 1990, both in installation of plant and provision of services.

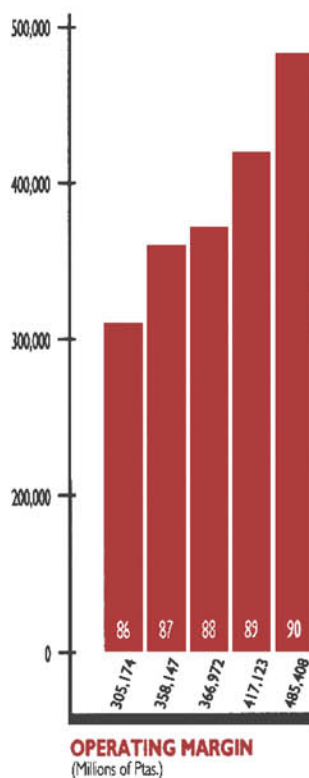
Local taxation rose to 16,085 million pesetas, up 19.6% on 1989. The transfer to the provision for the setting up of a pension fund went up by 16.0% to 20,300 million pesetas. Finally, internal expenditure capitalized in fixed assets fell by 6.5%, due to the fact that staff efforts were increasingly dedicated to network conservation tasks. This maintained the downward trend in recent years of this expenditure item as a percentage of operating expenses.

Operating margin

The operating margin went up from 417,123 million pesetas in 1989 to 485,408 million pesetas in 1990, representing an increase of 16.4% and accounting for 56.9% of operating revenue. This trend in operating margin can in large part be put down to the reduction in internal expenditure capitalized in fixed assets, which dropped from 61,071 to 57,080 million pesetas between 1989 and 1990.

Other operating revenue and expenses

Depreciation of fixed assets rose to 250,615 million pesetas, 15.0% up on 1989. Practically all of this figure (99%) was accounted for by plant depreciation, with an average depreciation rate of 7.4% as opposed to 7.0% in 1989.



(Figures in %, unless otherwise indicated)

FINANCIAL RATIOS

	1986	1987	1988	1989	1990
Operating margin/Operating revenue (1)	65.2	66.2	59.7	58.4	56.9
Financial expenses/Operating revenue (2)	19.6	18.0	16.2	16.0	18.7
Operating margin/Av. net plant (3)	18.4	19.6	18.3	18.3	18.2
Fixed assets coverage (4)	89.3	89.4	90.1	87.1	82.5
Guarantee ratio (5)	55.7	56.9	56.5	49.3	43.9
Self-financing ratio (6)	62.7	60.7	60.3	41.1	41.5
Financial debt ratio (7)	40.0	38.5	38.3	44.0	50.3
Debt repayment capacity (years) (8)	5.6	4.9	3.6	4.4	5.0
Financial expenses coverage (times) (9)	1.1	1.2	1.3	1.3	1.2

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

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

(3) Operating margin/Average net capital expenditure in fixed assets.

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

(5) Shareholders' equity + Deferred income + Provisions/Assets.

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

(7) Interest bearing debt/Shareholders' equity + Deferred income + Provisions + Financial debt - Capital increase expenses - Deferred expenses (except promissory note interest).

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

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

(9) Net income + Financial expenses + Exchange losses + Amortization of deferred charges - Internal expenditure capitalized in fixed assets/Financial expenses + Exchange losses + Amortization of deferred charges.

Note: Shareholders' equity for each year is calculated after the distribution of profits has been carried out.

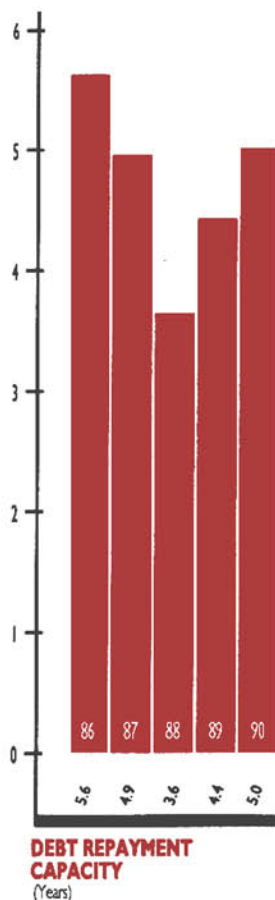
Operating provisions and charges totalled 9,382 million pesetas, 30.7% more than the 7,179 million set aside for this item in 1989, with 86.7% of the total being accounted for by provision for bad debt. The remaining 1,246 million pesetas went to provision for stock depreciation and contingencies.

Other operating revenue totalled 13,887 million pesetas, representing an annual growth of 65.9%. External contributions were particularly significant, accounting for 50% of the total and showing an increase of over 85%.

Finally, other operating expenses stood at 1,823 million pesetas, 60.7% down on the year before. The above figures resulted in an operating income of 237,475 million pesetas, an increase of 21.4% over 1989.

Financial expenses and extraordinary items

Telefónica's high level of capital expenditure, with a powerful investment drive carried out mainly through external financing, resulted in financial expenses rising to 159,308 million pesetas in 1990, an increase of 39.6% over the previous year. Deferred charges rose by 42.3% to 149,362 million pesetas, and at 93.8% of the total was by far the largest component of financial expenses. This trend was the consequence of the financial demands made on the company by the extensive installations programme, financed in a macroeconomic climate dominated by a restrictive monetary policy which affected interest rates and limited the availability of financial resources in foreign currency. Consequently, the average cost of new debt incorporated into total liabilities rose from 14.2% in 1989 to 14.5% in 1990. Exchange losses were 6,815 million pesetas, as opposed



to 7,331 million pesetas the year before. The remaining 3,131 million pesetas were accounted for by the amortization of deferred charges.

Extraordinary items produced a surplus of 3,991 million pesetas. In extraordinary revenue, special mention should be made of the capital gains of 3,321 million pesetas from the sale of the 44.1% holding in ENTEL, and the 2,713 million received from the Insurance Clearing Consortium. As for extraordinary expenses, they rose to 6,786 million pesetas, 32.1% more than the previous year. The write-off of dismantled plant pending depreciation reached 15,372 million pesetas, compared with 13,678 million in 1989. This item, being by its very nature an accelerated depreciation item, can be added to the depreciation of fixed assets, bringing this total to 265,987 million pesetas, 14.8% up on the previous year.

RESULTS - PROFIT MARGINS 1986/ 1990

(In millions of Ptas.)

Description	1986		1987		1988		1989		1990		1990 \$ (in millions)	Increases %		
	Amount	% Struct.	Amount	% Struct.	Amount	% Struct.	Amount	% Struct.	Amount	% Struct.		over 89	86-90*	
+ Revenue from operations	468,011	100.0	540,727	100.0	614,829	100.0	714,839	100.0	852,542	100.0	8,797.4	19.3	16.2	
- Operating expenses														
Personnel, external services and other expenses	216,349	(46.2)	240,151	(44.4)	277,168	(45.1)	327,837	(45.9)	387,829	(45.5)	4,002.0	18.3	15.7	
Local taxes	-	-	-	-	12,210	(2.0)	13,450	(1.9)	16,085	(1.9)	166.0	19.6	-	
Provision for pension fund	-	-	-	-	14,815	(2.4)	17,500	(2.4)	20,300	(2.4)	209.5	16.0	-	
+ Internal expenditure capitalized in fixed assets	53,512	11.4	57,571	10.6	56,336	9.2	61,071	8.5	57,080	6.7	589.0	(6.5)	1.6	
= Operating margin	305,174	65.2	358,147	66.2	366,972	59.7	417,123	58.3	485,408	56.9	5,008.9	16.4	12.3	
+ Other operating revenue	7,178	1.5	6,022	1.1	9,811	1.6	8,373	1.2	13,887	1.6	143.3	65.9	17.9	
- Depreciation of fixed assets	135,398	(28.9)	161,650	(29.9)	201,244	(32.7)	218,002	(30.4)	250,615	(29.3)	2,586.1	15.0	16.6	
- Other operating expenses	1,426	(0.3)	1,357	(0.3)	2,152	(0.4)	4,636	(0.5)	1,823	(0.1)	18.8	(60.7)	6.3	
- Other provisions and charges	23,910	(5.1)	40,701	(7.5)	1,330	(0.2)	7,179	(1.0)	9,382	(1.1)	96.8	30.7	(20.9)	
= Operating profit	151,618	(32.4)	160,461	(29.7)	172,057	(28.0)	195,679	(27.4)	237,475	(27.9)	2,450.5	21.4	11.9	
+ Interest during construction	6,580	1.4	8,373	1.5	-	-	-	-	-	-	-	-	-	
+ Financial revenue	5,228	1.1	7,598	1.4	8,880	1.4	11,726	1.6	13,868	1.6	143.1	18.3	27.6	
- Financial expenses	77,781	(16.6)	84,094	(15.5)	84,866	(13.8)	104,935	(14.7)	149,362	(17.5)	1,541.3	42.3	17.7	
- Exchange losses	11,050	(2.4)	10,294	(1.9)	12,046	(2.0)	7,331	(1.0)	6,815	(0.8)	70.3	(7.0)	(11.4)	
- Amortization of deferred charges	2,806	(0.6)	2,792	(0.5)	2,607	(0.4)	1,883	(0.3)	3,131	(0.4)	32.3	66.3	2.8	
- Provision for investments depreciation	-	-	-	-	254	0.0	187	0.0	2,838	(0.4)	29.3	n/s	-	
= Profit from ordinary activities	71,789	15.3	79,252	14.7	81,164	13.2	93,069	13.0	89,197	10.5	920.4	(4.2)	5.6	
+ Extraordinary revenue	1,033	0.2	6,150	1.1	4,194	0.7	5,142	0.7	10,777	1.3	111.2	109.6	79.7	
- Extraordinary expenses	714	(0.2)	1,080	(0.2)	1,270	(0.2)	5,138	(0.7)	6,786	(0.8)	70.0	32.1	75.6	
= Income before tax	72,108	15.4	84,322	15.6	84,088	13.7	93,073	13.0	93,188	10.9	961.6	0.1	6.6	
- Provision for corporate tax (state levy 1986 and 1987)	26,856	(5.7)	31,075	(5.7)	21,243	(3.5)	24,175	(3.4)	17,400	(2.0)	179.5	(28.0)	n/s	
= Net income	45,252	9.7	53,247	9.9	62,845	10.2	68,898	9.6	75,788	8.9	782.1	10.0	13.8	
+ Net income	45,252	9.7	53,247	9.9	62,845	10.2	68,898	9.6	75,788	8.9	782.1	10.0	13.8	
+ Amortization of deferred charges	2,806	0.6	2,792	0.5	2,607	0.4	1,883	0.3	3,131	0.4	32.3	66.3	2.8	
+ Depreciation of fixed assets	135,398	28.9	161,650	29.9	201,244	32.6	218,002	30.4	250,615	29.3	2,586.1	15.0	16.6	
+ Dismantled plant pending depreciation	-	-	-	-	9,396	1.5	13,678	1.9	15,372	1.8	158.6	12.4	-	
= Cash-flow	183,456	39.2	217,689	40.3	276,092	44.9	302,461	42.3	344,906	40.5	3,559.1	14.0	17.1	
+ Provision for exchange losses	11,050	2.4	10,294	1.9	12,046	2.0	7,331	1.0	6,815	0.8	70.3	(7.0)	(11.4)	
+ Provisions and charges	23,910	5.1	40,701	7.5	16,399	2.7	24,866	3.5	32,520	3.8	335.6	30.8	8.0	
= Gross cash-flow	218,416	46.7	268,684	49.7	304,537	49.4	334,658	46.7	384,241	45.0	3,965.0	14.8	15.2	

Exchange rate (28-12-90): 1\$ = 96.909 Ptas.

* 86-90 compound rate

Taxes

Taxes charged to Telefónica in 1990 amounted to 16,602 million pesetas, showing an annual growth of 19.0%. Local taxes accounted for 16,085 million pesetas (96.9% of the total).

The provision for corporate tax was 17,400 million pesetas, 28.0% down on the year before, representing an effective corporate tax rate of 18.7%, as opposed to 26.0% in 1989 and 25.3% in 1988. This decline was mainly due to the deductions in corporate tax owing to the company's expenditure on installations for the 1992 Seville World Fair and Barcelona Olympics, and to the growth in employment already referred to.

Net income and cash flow

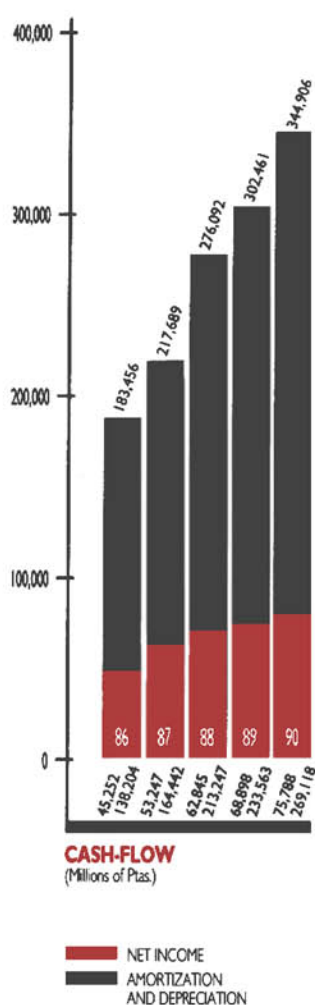
Net income, at 75,788 million pesetas, showed a 10.0% growth over 1989. After adding depreciation of fixed assets and deferred charges, cash flow stood at 344,906 million pesetas, 14.0% more than the year before. Earnings per share were 81.8 pesetas, and cash flow per share reached 372.1 pesetas, representing an annual growth of 9.8% and 13.8% respectively.

Capital expenditure and financing

In 1990, Telefónica's capital expenditure in tangible and intangible fixed assets and investments reached 734,514 million pesetas, compared with 615,647 millions in 1989. 95.8% of this total, 703,697 million pesetas, went on capital expenditure in tangible fixed assets and advances for plant, representing a 20.5% annual increase on the 583,762 million pesetas invested in these items in 1989.

Gross investments in affiliates last year totalled 32,931 million pesetas. Disposal of investments totalled 6,962 million pesetas, leaving a net investment in affiliates of 25,969 million pesetas which, despite Telefónica's significant international expansion in 1990, accounted for 3.5% of the total capital expenditure in fixed assets.

As a consequence of the high level of capital expenditure, the rate of self-financing showed little variation over the previous year (41.5% in 1990 as opposed to 41.1% in 1989). In 1990, we once again relied heavily on external financing, with the result that interest-bearing debt rose significantly, standing at 50.3% of the Company's real capital employed at year-end. This represented an annual increase of 6.3 percentage points in the financial debt ratio.



BALANCE SHEETS
1986/1990

(In millions of Ptas.)

ITEMS	1986	1987	1988	1989	1990	1990 \$ (in millions)
Fixed assets	1,767,210	1,961,415	2,136,854	2,518,894	2,977,228	30,721.9
Capital increase expenses	920	1,200	4,352	3,251	2,170	22.4
Net intangible assets	3,997	718	6,281	10,665	17,812	183.8
Property, plant and equipment	2,828,586	3,162,385	3,462,255	3,985,031	4,575,823	47,217.7
Depreciation of fixed assets	(1,097,404)	(1,234,045)	(1,373,388)	(1,527,442)	(1,689,133)	(17,430.1)
Property, plant and equipment - net	1,731,182	1,928,340	2,088,867	2,457,589	2,886,690	29,787.6
Investments	31,111	31,157	37,354	47,389	70,556	728.1
Deferred expenses	73,121	53,477	34,961	59,451	66,213	683.2
Current assets	121,490	147,056	179,192	214,331	249,394	2,573.5
Consumable inventories	5,692	4,146	6,512	8,320	8,161	84.2
Accounts receivable	111,599	138,897	169,799	202,449	236,151	2,436.8
Cash and banks	2,332	2,772	2,044	936	2,562	26.5
Prepayments	1,867	1,241	837	2,626	2,520	26.0
Assets = Liabilities and shareholders' equity	1,961,821	2,161,948	2,351,007	2,792,676	3,292,835	33,978.6
Shareholders' equity (1)	1,040,558	1,163,058	1,245,071	1,267,925	1,294,504	13,357.9
Paid-in share capital	411,793	415,368	460,620	462,482	463,479	4,782.6
Reserves	603,803	715,190	743,154	759,667	778,411	8,032.4
Net income for the year	45,252	53,247	62,845	68,898	75,788	782.1
Interim dividend	(20,290)	(20,747)	(21,548)	(23,122)	(23,174)	(239.2)
Deferred income (2)	4,644	11,313	14,649	25,147	50,000	515.9
Provisions for liabilities and charges (3)	71,394	80,226	93,802	111,246	129,741	1,338.9
Long term debt (4)	549,001	570,770	627,161	862,173	1,051,693	10,852.4
Debentures, bonds and promissory notes issued	272,036	264,348	247,050	279,827	383,732	3,959.7
Debts with credit institutions	201,303	222,823	283,269	466,204	539,956	5,571.8
Other creditors	75,662	83,599	96,842	116,142	128,005	1,320.9
Permanent capital (1+2+3+4)	1,665,597	1,825,367	1,980,683	2,266,491	2,525,938	26,065.0
Short term debt	296,224	336,581	370,324	526,185	766,897	7,913.6
Debentures, bonds and promissory notes issued	101,813	109,622	123,909	160,478	347,656	3,587.5
Debts with credit institutions	50,641	66,585	56,150	81,359	78,954	814.7
Other creditors	125,792	144,704	177,236	264,217	318,595	3,287.6
Prepayment	17,978	15,670	13,029	20,131	21,692	223.8
Unused credit facilities	97,965	92,789	102,090	29,979	86,084	888.3

Exchange rate (28-12-90): 1\$ = 96.909 Ptas.

OPERATING
REVENUE

(In millions of Ptas)

	1986	1987	1988	1989	1990	1990 \$ (in millions)	Increases (%) over 89 86-90*	
Subscriber service charges	141,894	157,073	166,726	184,001	207,119	2,137.3	12.6	9.9
Data and image transmission	35,859	43,052	52,393	69,230	87,628	904.2	26.6	25.0
Domestic automatic service	196,526	236,491	271,770	314,984	374,472	3,864.2	18.9	17.5
Trunk calls through operator	1,882	1,597	1,249	988	1,642	16.9	66.2	(3.4)
International service	61,787	72,948	87,497	96,902	113,857	1,174.9	17.5	16.5
Mobile land and maritime services	1,634	1,646	2,417	4,583	8,696	89.7	89.7	51.9
Advertising	10,216	7,598	6,164	7,299	8,506	87.8	16.5	(4.5)
REVENUE FROM SERVICES	449,798	520,405	588,216	677,987	801,920	8,275.0	18.3	15.6
Connection fees and other items	18,213	20,322	26,613	36,852	50,622	522.4	37.4	29.1
OPERATING REVENUE	468,011	540,727	614,829	714,839	852,542	8,797.4	19.3	16.2

Exchange rate (28-12-90): 1\$ = 96.909 Ptas.

* 86-90 compound rate

AUDITED FINANCIAL STATEMENTS*

* Submitted for approval to the Ordinary General Meeting of Shareholders



Free translation from the original in Spanish

Independent auditor's report on the annual accounts

To the Shareholders of Telefónica de España, S.A., by appointment of the Board of Directors

We have audited the annual accounts of Telefónica de España, S.A. consisting of the balance sheets at December 31, 1990 and 1989, the profit and loss accounts and the notes corresponding to the years then ended, whose preparation is the responsibility of the company's management. Our responsibility is to express an opinion on the aforementioned annual accounts as a whole, based on our audit work carried out in accordance with generally accepted auditing standards, which included selected tests to the supporting evidence of the underlying records of the annual accounts, an assessment of their presentation and of the accounting principles and the estimates applied.

As indicated in Note 1 to the annual accounts, tariffs corresponding to the services provided by Telefónica are submitted to the Spanish Government for approval, with the prior intervention of the Government Delegate in the Company and agreement of the Price Control Board. Consequently, Telefónica falls within the group of regulated entities whose peculiarities permit that income and expenses may be attributable to each period not only on the accrual basis but also when the related specific concepts of revenue and cost are computed as part of the approved tariffs. On this basis, the recovery of the amounts invested or deferred in the assets of the Company, will depend upon the adequate future consideration, in tariffs, of these concepts.

Notes 18 and 19 to the annual accounts include a detailed explanation of the characteristics of the pension scheme by which the employees of Telefónica are covered through the mutual pension fund "Institución Telefónica de Previsión" (ITP), as well as the current going concern problems, negotiations held and the Company's present position in respect of these.

There exist opinions of independent legal counsel which reconfirm Telefónica's compliance with all its contractual obligations to ITP, as well as the legal independence of the latter as regards Telefónica and the nonexistence of any other subsidiary responsibility for Telefónica than that started in Note 18.

In our opinion, the attached annual accounts for the years 1990 and 1989 present fairly, in all material respects, the equity and financial positions of Telefónica de España, S.A. at December, 31 1990 and 1989 and the results of their operations and the resources obtained and applied during the year ended on that date, and they contain the necessary and relevant information in order to adequately interpret and understand them, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The accompanying Directors' Report for 1990 contains the information that management considers relevant to the company's situation, the evolution of their business and of other matters and does not form an integral part of the annual accounts. We have verified that the accounting information contained in the aforementioned Directors' Report coincides with that of the annual accounts for 1990. Our work as auditors is limited to verifying the Directors' Report within the scope already mentioned in this paragraph and it does not include the review of information other than that obtained from the company's audited accounting records.

Price Waterhouse Auditores, S.A.
ROAC Registration Number: 193


Augusto San Segundo
Partner

Madrid, March 21, 1991

Audiberia, S.A.
ROAC Registration number: 12


Juan Manuel Osorio
Partner

ASSETS	1990	1989
A) LONG TERM ASSETS		
I. COSTS OF NEW EQUITY CAPITAL	2,170	3,251
II. INTANGIBLE ASSETS (Note 5)	17,812	10,665
Research and development expenses	15,853	23,071
Other intangible assets	5,812	2,714
Accumulated amortization	(3,853)	(15,120)
III. FIXED ASSETS (Note 6)	2,886,690	2,457,589
Land	45,480	40,467
Buildings	247,919	204,125
Power equipment	83,520	69,733
Telephone installations	3,408,984	3,028,974
Other fixed assets	64,186	43,805
Fixed assets under construction:		
Construction in progress	646,434	490,166
Advances to suppliers	22,447	40,041
Stocks for fixed assets	56,853	67,720
Accumulated depreciation	(1,689,133)	(1,527,442)
IV. INVESTMENTS (Note 7)	70,556	47,389
Investments in group companies	40,502	16,281
Investments in associated companies	17,320	12,864
Other investments	12,436	14,765
Loans to employees	2,136	2,637
Guarantees and deposits	1,441	1,283
Provisions for depreciation of investments	(3,279)	(441)
TOTAL A	2,977,228	2,518,894
B) DEFERRED EXPENSES (Note 8)	66,213	59,451
TOTAL B	66,213	59,451
C) CURRENT ASSETS		
I. INVENTORIES	8,161	8,320
II. ACCOUNTS RECEIVABLE	236,151	202,449
Subscribers (Note 10)	195,685	160,756
Group company	8,060	10,134
Associated company	80	112
Miscellaneous receivables	28,580	25,534
Advances to employees	5,757	4,957
Taxes receivable (Note 16)	10,705	10,100
Provisions:		
Provision for bad debts (Note 10)	(9,191)	(6,834)
Provision for sundry debtors	(3,525)	(2,310)
III. CASH	2,562	936
Cash and banks	916	872
Funds intransit and other in transit	1,646	64
IV. ACCRUALS AND PREPAYMENTS	2,520	2,626
TOTAL C	249,394	214,331
TOTAL ASSETS	3,292,835	2,792,676

Notes 1 to 23 form an integral part of these annual accounts.

LIABILITIES AND SHAREHOLDERS' EQUITY

	1990	1989
A) SHAREHOLDERS' EQUITY (Note 11)		
I. SHARE CAPITAL	463,479	462,482
II. SHARE PREMIUM	33,467	32,752
III. REVALUATION RESERVE	653,780	653,780
IV. OTHER RESERVES	91,069	73,042
V. UNAPPROPRIATED PROFIT	95	93
VI. UNDISTRIBUTED EARNINGS FOR THE YEAR	75,788	68,898
VII. INTERIM DIVIDEND	(23,174)	(23,122)
TOTAL A	<u>1,294,504</u>	<u>1,267,925</u>
B) DEFERRED INCOME (Note 12)		
Capital grants	17,000	8,880
Deferred unrealized exchange gains (Note 9)	21,059	14,025
Deferred taxes and other	11,941	2,242
TOTAL B	<u>50,000</u>	<u>25,147</u>
C) PROVISIONS FOR RISKS AND EXPENSES (Note 13)	129,741	111,246
TOTAL C	<u>129,741</u>	<u>111,246</u>
D) LONG TERM DEBT		
I. DEBT ISSUES (Note 14)	383,732	279,827
Debentures and convertible bonds		25,419
Debentures and non-convertible bonds	371,640	253,808
Commercial paper	12,092	600
II. LOANS AND CREDIT FACILITIES (Note 15)	539,956	466,204
III. OTHER DEBTS	125,018	109,870
Notes payable to suppliers	508	1,113
Loans from the Institución Telefónica de Previsión (ITP)	66,151	59,834
Collective insurance for employees (Note 19)	43,439	35,939
Payable to mutual funds	6,443	5,782
Other	8,477	7,202
IV. PAYMENTS PENDING ON SUBSCRIBED SHARES (Note 7)	2,987	6,272
of subsidiaries	487	2,391
of associates	2,500	3,881
TOTAL D	<u>1,051,693</u>	<u>862,173</u>
E) SHORT TERM DEBT		
I. DEBT ISSUES (Note 14)	347,656	160,478
Debentures and non-convertible bonds	40,096	39,800
Commercial paper	293,478	107,072
Interest payable	14,082	13,606
II. LOANS AND CREDIT FACILITIES (Note 15)	78,954	81,359
Loans and credit facilities	65,659	72,015
Interest payable	13,295	9,344
III. DEBTS WITH GROUP AND ASSOCIATED COMPANIES	71,773	41,075
Debts with group companies	24,646	14,876
Debts with associated companies	47,127	26,199
IV. TRADE CREDITORS	129,788	102,541
Debts on purchases or provision of services	88,409	99,818
Notes payable to suppliers	41,379	2,723
V. OTHER CREDITORS	117,034	120,601
Taxes payable (Note 16)	25,266	37,075
Sundry creditors (Note 17)	91,768	83,526
VI. ACCRUALS	21,692	20,131
TOTAL E	<u>766,897</u>	<u>526,185</u>
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	<u>3,292,835</u>	<u>2,792,676</u>

*Notes 1 to 23 form an integral part of these annual accounts.

DEBIT	1990	1989
Salaries and related costs (Note 21.2)	293,603	253,439
Depreciations of fixed assets	250,615	218,002
Variations in provisions	29,682	24,679
Variation in the provisions for stock (Note 6.10)	800	-
Variation in the provisions and losses of relating to bad debts	8,136	7,179
Variation in other provisions (Note 13)	446	-
Provision for constituting a pension fund pension plan (Note 13)	20,300	17,500
Other operating expenses	112,134	92,484
Subcontracts supplies and services	93,709	73,895
Taxes	16,602	13,953
Other expenses	1,823	4,636
I. OPERATING PROFIT	237,475	195,679
Interest expenses	149,362	104,935
Amortization of debenture issue expenses	3,131	1,883
Variation in the provisions for investments	2,838	187
Exchange losses (Note 9)	6,815	7,331
II. FINANCIAL INCOME	-	-
III. PROFIT BEFORE NON-OPERATING ACTIVITIES	89,197	93,069
Loss on sale of fixed assets	4,936	3,695
Other non-operating expenses (Note 21.3)	1,850	1,443
IV. PROFIT NON-OPERATING ACTIVITIES	3,991	4
V. PROFIT BEFORE TAX	93,188	93,073
Corporate income tax (Note 20)	17,400	24,175
VI. NET INCOME FOR THE YEAR (PROFIT)	75,788	68,898

Notes 1 to 23 form an integral part of these annual accounts.

ANNUAL ACCOUNT TO THE YEARS ENDED AT DECEMBER 31, 1990 AND 1989

NOTES TO ANNUAL ACCOUNTS

NOTE I-ACTIVITY AND CONTRACT WITH THE STATE

I.1 Activity

Telefónica de España, S.A. (Telefónica) was incorporated in Madrid in April 18, 1924. Its main corporate purpose is to provide and operate all types of public and private telecommunication services, according to condition 4 of the statutes approved by the general meeting of shareholders held on June 15, 1990.

I.2 Conditions of the State Contract

The Telecommunications Law, dated December 18, 1987, stipulates that basic telecommunication services will be provided by monopoly through 30-year concessionary contract with the State. The Telecommunication Law contemplates that a new contract will be signed between the Company and the Spanish State. On December 31, 1990, the new contract was still being negotiated, thus the current state contract defined by the Law of December 31, 1945 and the Decree of October 31, 1946 remains in force. The Company is a limited liability corporation whose operations are regulated by the provisions of the State Contract.

I.3 Regulation of tariffs

According to the State Contract, tariffs will be reviewed at Telefónica's request when, for two consecutive years, they do not give a sufficiently high yield to cover all operating expenses (including the depreciation of Company installations and properties, to accumulate and maintain the statutory reserve referred to in Condition 7 of the State Contract or any other required by law) and to obtain an amount of net income in each fiscal year of not less than 5% of the paid-in share capital plus reserves as defined in the State Contract.

CREDIT

	1990	1989
Sales (Note 21.1)	852,542	714,839
Revenue from services	801,920	677,987
Connection fees and other	50,622	36,852
Internal expenditure capitalized in fixed assets	57,080	61,071
Other operating income	13,887	8,373
Other income	13,380	8,099
Subsidies	507	274
I. OPERATING LOSS	-	-
Income from capital investments	3,197	1,517
In group companies	1,200	-
In associated companies	694	441
In other	1,303	1,076
Interest income	10,671	10,209
From group	1,348	1,320
From associated	1,066	84
From other	8,257	8,805
II. FINANCIAL LOSS	148,278	102,610
III. LOSS BEFORE NON-OPERATING ACTIVITIES	-	-
Profit on sale of fixed assets	3,524	1,606
Capital grants (Note 12)	911	234
Other non-operating income (Note 21.3)	6,342	3,302
IV. EXTRAORDINARY LOSS	-	-
V. LOSS BEFORE TAX	-	-
VI. NET INCOME FOR THE YEAR (LOSS)	-	-

1.4 Tax

According to the Telefónica Taxation Law of July 30, 1987 and to Royal Decree 1334/1988 of November 4, 1988, beginning January 1, 1988, Telefónica became subject to certain specific local property taxes (Contribución Territorial Rústica Urbana) and that it would pay a yearly levy equal to two percent of gross revenues in lieu of local and regional taxes other than property taxes.

By the Ministry Order dated December 27, 1989 has obtained from the Spanish tax authorities, the right to file consolidated income tax returns during 1990, 1991 and 1992. This concession is subject to compliance with certain requirements of the Law (Decree Law 15/1977 of February 25 and Law 18/82 of May 26).

NOTE 2 -BASES OF PRESENTATION OF THE ANNUAL ACCOUNTS

a) The annual accounts have been prepared on the basis of the accounting records of Telefónica for each year and have been prepared in conformity with accounting principles generally accepted in Spain, as stipulated by the law. The financial statements are shown in accordance with the new General Accounting Plan approved by the Royal Decree of December 20, 1990. For comparative purposes, the 1989 financial statements have been restated to conform with the 1990 General Accounting Plan. The most significant changes are as follows:

- Shareholders' equity includes the profit of the year, net of the interim dividend approved by the board of directors.

- Long and short term debts.

Regarding long and short term debts, and for the purposes of the balance sheet presentation, debts are classified according to their maturity dates, from the time they are contracted. Long term debts are reclassified into short term debts when they become due within 12 months of the balance sheet date.

Are registered at their nominal value except for debentures and bonds issuances which are registered at par value plus accrued interest.

b) Except as otherwise indicated, all amounts shown in the balance sheet, profit and loss accounts and notes to the annual accounts are expressed in millions of pesetas.

NOTE 3 -PROPOSED DISTRIBUTION OF PROFITS

The following proposal for distribution of profits will be submitted by the Board of Directors for approval at the shareholder's Annual General Meeting:

BASIS OF DISTRIBUTION

Net income after corporate income tax	75,788
Unappropriated profit	95
To be distributed	<u>75,883</u>

DISTRIBUTION

5% interim dividend on shares n° 1 to 926,958,077, payable as from February 15, 1991	23,174
6% final dividend on shares n° 1 to 926,958,077, pending approval	27,809
To dividends	50,983
To legal reserves	7,600
To voluntary reserve	17,150
Unappropriated profit carried forward	150
Total proposed distribution	<u>75,883</u>

INTERIM DIVIDEND

The meeting of the Board of Directors held on December 26, 1990, based on economic and financial data and in accordance with Art. 216 of the law of corporations, distribution of an interim dividend of 25 pesetas per share, n° 1 to 926.958.077, before tax withholding on dividends.

Budgetary situation - cash forecast for the year

Collections forecast of credits for the period from December 26, 1990 to December 26, 1991	1,776,603
Payments forecast of payments for the period from December 26, 1990 to December 26, 1991	1,726,201

Financial statement supporting the distribution of an interim dividend:

Profits for the period from January 1, 1990 to November 30, 1990	71,061
Unappropriated profit brought forward from 1989	95
Accumulated losses-	-
Compulsory allocation to reserves	(7,107)
Profits for distribution	<u>64,049</u>
Proposed interim dividend	<u>23,174</u>

Financial situation:

Funds available for distribution:

Cash assets	454
Loans granted	47,772
Proposed interim dividend	(23,174)
Difference	<u>25,052</u>

NOTE 4 -SIGNIFICANT ACCOUNTING PRINCIPLES

The accounting standards applied in the preparation of the annual accounts were:

a) Cost of new equity capital

Issuance expenses of bonds converted to share capital and expenses related to the issuance of share capital are valued at cost and are amortized on straight line basis over five years from the date of each share capital increase or conversion.

b) Intangible assets and amortization

Intangible assets include costs incurred in developing new product lines capable of being marketed or utilized in the telephone network. Finished projects with the possibility of commercial or industrial use are amortized over five years and rejected projects are written off immediately.

This heading also encompasses the acquired rights to use of equipment and plant owned by others and the cost of licenses for the indefinite use of software. These assets are amortized on a straight-line basis over 25 years and 3 years, respectively.

c) Fixed assets and method of depreciation

Property additions are valued at cost including installation cost, direct labor and material used, together with allocable share of overhead costs.

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

Type of fixed asset	Years of useful life
Buildings	40
Power equipment	18-19
Exchange equipment	14-23
Transmission equipment	13-16
Local and domestic long distance networks	18-22
Suscriber sets and other related installations	4-8
Furniture, office and other equipment	5-10

Fixed asset maintenance and repair costs not representing an increase of value or improvement are expensed when incurred.

d) Investments - net shareholdings in companies

The financial statements do not present the consolidated financial position of Telefónica and its majority-owned subsidiaries. No significant impact on the Company's annual accounts would result from consolidation of these entities.

New investments are recorded at cost, including related expenses, and are adjusted for reductions in the proportional equity value of the investment, with a charge against income. The most recent balance sheet as approved by the shareholders at the Annual General Meeting is used for the valuation adjustment, if any.

e) Deferred charges

Deferred charges comprise:

- a) Debenture issue expenses: valued at selling price and are amortized based on the respective principals outstanding at each year end.
- b) Interest on commercial paper: reflects the difference between the issue price and repayment price and is accounted for over the period during which the commercial paper is outstanding, with the charge to results being calculated using the capital outstanding method.
- c) Exchange losses or gains: see Note 4.j).

f) Inventories and stocks for fixed assets

Inventories and stocks are generally valued at their weighted average cost.

g) Capital grant

Capital grants are registered at their nominal amount, and are charged to results on a straight-line basis over 10 years. This period of time is similar to that of the fixed assets linked to these grants. The main sources for such funds are:

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

In all cases, Telefónica fulfils all the requirements to receive the grants.

h) Retirement pensions and endowment insurance

Retirement pensions of Telefónica's employees are covered by the Institución Telefónica de Previsión (ITP), whose relationship with the Company is described in Note 18.

Endowment insurance is accrued against income by applying the actuarially calculated coefficients to the base salaries paid; these coefficients include current and past service cost (See Note 19).

i) Corporate income tax

Corporate income tax is charged against results of the corresponding year considering deferred or prepaid taxes resulting from timing differences between book and taxable income.

j) Valuation of foreign currency accounts

As general rule, operations in foreign currency are translated to pesetas, at the official exchange rate quoted by the Bank of Spain. At the end of the year, these operations are translated to pesetas at the official exchange rate for the last day of the year. Unrealized exchange gains or losses are classified in groups according to the following criteria:

- 1) According to foreign convertible currencies
- 2) According to maturities

Unrealized exchange gains or losses are calculated for each group. Unrealized losses are recorded as expense for the year and gains are recorded at the balance sheet date as unrealized income. Under this criteria, unrealized losses at December 31, 1989 are amortized, according to the transitory provisions of Royal Decree 1643/90 of December 20, over a 3 year period (1990 to 1992), the maturities of each operation.

NOTE 5 -INTANGIBLE ASSETS

Composition and movements

	Research and development expenses	Rights of indefinite use of software	Other intangible assets	Total
Balance December 31, 1988	18,703	735	967	20,405
Additions	4,368	994	18	5,380
Balance December 31, 1989	23,071	1,729	985	25,785
Additions	5,995	3,091	7	9,093
Retirements	(13,213)	-	-	(13,213)
Balance December 31, 1990	15,853	4,820	992	21,665

Variation in accumulated amortization:

	Research and development expenses	Rights of indefinite use of software	Other intangible assets	Total
Balance December 31, 1988	13,219	-	905	14,124
Additions	597	576	72	1,245
Transfers	-	-	(249)	(249)
Balance December 31, 1989	13,816	576	728	15,120
Additions	621	1,253	72	1,946
Retirements	(13,213)	-	-	(13,213)
Balance December 31, 1990	<u>1,224</u>	<u>1,829</u>	<u>800</u>	<u>3,853</u>

NOTE 6 - FIXED ASSETS

6.1 Composition and movements

	Balance December 31, 1988	Additions	Retirements	Balance December 31, 1989	Additions	Retirements	Balance December 31, 1990
Land	38,640	1,865	38	40,467	5,043	30	45,480
Building	187,430	16,813	118	204,125	43,799	5	247,919
Power equipment	61,613	8,701	581	69,733	16,443	2,656	83,520
Exchange equipment	964,891	94,811	3,798	1,055,904	148,361	22,830	1,181,435
Transmission equipment	326,460	51,870	2,245	376,085	122,020	3,954	494,151
Local and domestic long distance networks	1,324,934	121,677	52,290	1,394,321	165,302	55,811	1,503,812
Subscriber sets and other related installation	174,573	45,114	17,023	202,664	43,325	16,403	229,586
Furniture, office and other equipment	37,209	8,050	1,454	43,805	20,730	349	64,186
Fixed asset in service	<u>3,115,750</u>	<u>348,901</u>	<u>77,547</u>	<u>3,387,104</u>	<u>565,023</u>	<u>102,038</u>	<u>3,850,089</u>
Net variation of:							
Construction in progress	274,840	215,986	660	490,166	156,268	-	646,434
Advances to suppliers of fixed assets	21,166	18,875	-	40,041	(17,594)	-	22,447
Stock for fixed assets	50,499	17,221	-	67,720	(10,867)	-	56,853
Total book amount	<u>3,462,255</u>	<u>600,983</u>	<u>78,207</u>	<u>3,985,031</u>	<u>692,830</u>	<u>102,038</u>	<u>4,575,823</u>

Variation of the accumulated depreciation were as follows:

	Balance December 31, 1988	Additions	Retirements	Balance December 31, 1989	Additions	Retirements	Balance December 31, 1990
Building	57,299	4,887	99	62,087	5,669	2	67,754
Power equipment	33,099	3,499	66	36,532	4,511	1,595	39,448
Exchange equipment	430,376	51,768	1,575	480,569	74,993	19,762	535,800
Transmission equipment	187,012	24,271	1,101	210,182	26,507	3,020	233,669
Local and domestic long distance networks	569,263	84,432	45,510	608,185	85,809	47,255	646,739
Subscriber sets and other related installation	81,012	42,225	12,255	110,982	44,143	14,027	141,098
Furniture, office and other equipment	15,327	4,144	566	18,905	5,933	213	24,625
Total	<u>1,373,388</u>	<u>215,226</u>	<u>61,172</u>	<u>1,527,442</u>	<u>247,565</u>	<u>85,874</u>	<u>1,689,133</u>

6.2 Detail of fixed assets amount completely amortized at December 31, 1990:

	1990	1989
Power equipment	3,326	2,167
Exchange equipment	77,213	77,375
Transmission equipment	86,072	35,909
Local and domestic long distance networks	35,386	28,542
Subscriber sets and other related installation	26,030	23,958
Furniture, office and other equipment	7,449	6,155
Total	<u>235,476</u>	<u>174,106</u>

6.3 As of December 31, 1990 of the local balance of 'Subscriber sets and other related installations', amounting to Ptas 11,005 million (in 1989, Ptas 11,550 million), Ptas 4,245 million net of accumulated depreciation (in 1989, Ptas 6,355 million) became subject to sale in accordance with the Ministry Order dated December 2, 1987. During the year equipment was sold for gross amount of Ptas 545 million, Ptas 230 million net of accumulated depreciation (in 1989, Ptas 876 million, Ptas 482 million net of accumulated depreciation).

6.4 The investment budget for 1991 amounts to Ptas 593,000 million, of which Ptas 572,000 million is to be invested in fixed assets and the remainder largely in companies. The continuous and long-term nature of Telefónica's investments means that a part of this budget is related to the completion of projects initiated in previous years.

6.5 Telefónica's fixed assets used to provide telephone services may not be mortgaged.

6.6 At December 31, 1990, assets amounting to Ptas 176,891 million were subject to legal regulations (mainly inspection by relevant authorities) under Decree Law 19/1961 and Law 61/1978, which regulate the benefits obtained for the reduction of withholding tax on interest on loans and borrowings indicated in Notes 14 and 15.

6.7 Insurance policies contracted by Telefónica cover all assets owned by the Company with the exception of the deductibles applicable to local and trunk networks and the subscriber sets, to which corresponding selfinsurance provisions are applied.

6.8 Revaluations made to 1987 (last one), have yielded the following results:

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

The effect of these revaluations on the annual depreciation charge was Ptas 62,881 million (in 1989, Ptas 58,907 million).

6.9 The useful lives of the different elements of Telefónica's fixed assets are calculated based on technical studies carried out by the Company, periodically revised on the basis of technological development and renewal programs. These useful lives are as described in Note 4.c).

6.10 Inventories and stocks are shown net of reserve for obsolescence. The total provision as of December 31, 1990 was Ptas 5,896 million (in 1989, Ptas 6,238 million). The charge to the provision in 1990, based on technical studies, was Ptas 800 million.

NOTE 7 - INVESTMENTS

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

a) Variation of investments:

	Balance December 31, 1988			Balance December 31 1989			Transfers	Balance December 31,
	Balance December 31, 1988	Additions	Retirements	Balance December 31 1989	Additions	Retirements		1990
Investments in group companies	13,956	4,262	1,937	16,281	10,626	520	-	26,387
Advances for capital increases	-	-	-	-	14,115	-	-	14,115
Investments in associated companies	7,689	5,175	-	12,864	-	-	4,456	17,320
Other investments	12,185	2,580	-	14,765	4,446	2,319	(4,456)	12,436
Loans to employees	2,963	264	590	2,637	255	756	-	2,136
Guarantees and deposits	815	502	34	1,283	203	45	-	1,441
Total	37,608	12,783	2,561	47,830	29,645	3,640	-	73,835

b) Variations in the provision for depreciation of investments:

	Balance December 31, 1988			Balance December 31 1989			Balance December 31,
	Balance December 31, 1988	Additions	Retirements	Balance December 31 1989	Additions	Retirements	1990
Investments in subsidiaries	93	209	31	271	1,399	106	1,564
Investments in associates	-	2	-	2	1,083	2	1,083
Other investments	161	7	-	168	465	1	632
Total	254	218	31	441	2,947	109	3,279

c) Variation in payments pending on shares:

	Balance December 31, 1988			Balance December 31 1989			Balance December 31,
	Balance December 31, 1988	Additions	Retirements	Balance December 31 1989	Additions	Retirements	1990
Investments in group companies	731	2,359	699	2,391	600	2,504	487
Investments in associates	400	4,481	1,000	3,881	-	1,381	2,500
Total	1,131	6,840	1,699	6,272	600	3,885	2,987

7.2 Detail of subsidiaries, associated and participated companies

(In millions of pesetas)	SHARE CAPITAL	TELEFONICA HOLDING		TELEFONICA NET BOOK VALUE
		DIR.	INDIR.	
Subsidiaries				
Telefónica Internacional de España, S.A. R.O.: Paseo de Recoletos, 41 (MADRID) - 28004	(*) 11,196	100		11,200
Sistemas e Instalaciones de Telecomunicación, S.A (SINTEL) R.O.: Rafael Calvo, 18 (MADRID) - 28010	(*) -1,100	100		2,935
Telefonía y Finanzas, S.A. (TELFISA) R.O.: Paseo de la Castellana, 151 (MADRID) - 28046	(*) 500	100		1,535
Telecomunicaciones Marinas, S.A. (TEMASA) R.O.: Silva, 2 (MADRID) - 28013	(*) 1,376	100		1,326
Telefónica Investigación y Desarrollo, S.A. (TIDSA) R.O.: Emilio Vargas, 6 (MADRID) - 28043	(*) 1,000	100		1,000
T.S.-I, Telefónica de Servicios, S.A. R.O.: Manuel Tovar, 35 (MADRID) - 28034	1,600	100		999
Telefónica Sistemas, S.A. R.O.: Sor Angela de la Cruz, 9 (MADRID) - 28020	(*) 534	43.82	56.18	898
Compañía Española de Tecnología, S.A. (COMET) R.O.: Paseo de la Castellana, 83-85 (MADRID) - 28006	(*) 1,100	100		755
Compañía Publicitaria Exclusivas Telefónicas, S.A. (CETESA) R.O.: Avenida Brasil, 17 (MADRID) - 28020	(*) 434	97.33	2.67	695
Compañía Española de Telecomunicaciones, S.A. (ENTEL) R.O.: Paseo de la Castellana, 141 (MADRID) - 28046	650	55.87		659
Seguros de Vida y Pensiones Antares, S.A. R.O.: General Perón, 38 (MADRID) - 28020	920	100		520
Casiopea Reaseguradora, S.A. R.O.: 1 Rue Schiller L-2519 (LUXEMBURGO)	498	100		498
Servicios de Teledistribución, S.A. (S.T. HILO) R.O.: Covarrubias, 1 (MADRID) - 28010	(*) 210	99.17	0.83	293
Maptel, S.A. R.O.: Orense, 11 (MADRID) - 28020	150	76		220
Cabinas Telefónicas, S.A. (CABITEL) R.O.: Plaza de Carlos Trías Bertrán, 7 (MADRID) - 28020	(*) 200	100		201
Pabellón de Operadores Europeos de Telecomunicaciones, S.A. R.O.: Plaza de España, 4 (MADRID) - 28008	800	25	75	162
Ecotel, S.A. R.O.: Bravo Murillo, 60 (MADRID) - 28003	200	60		120
THM, Control Electrónico Integrado, S.A. R.O.: General Arrando, 40-B (MADRID) - 28010	320	80.25		111
Estrategias Telefónicas, S.A. (ESTRATEL) R.O.: Paseo de la Castellana, 83-85 (MADRID) - 28046	150	100		90
Playa de Madrid, S.A. R.O.: Paseo de la Castellana, 83-85 (MADRID) - 28046	(*) 40	100		54
Teleinformática y Comunicaciones, S.A. (TELYCO) R.O.: Raimundo Fdez. Villaverde, 28 (MADRID) - 28003	(*) 50	100		50
Urbana Ibérica, S.A. R.O.: General Yagüe, 11 (MADRID) - 28020	330	100		14
Telefonica North America, Inc. R.O.: C.Trust Center J209 Orange St. Wilm. Delaware (U.S.A.)	1	100		1
Total subsidiaries				24,336

(*) Companies included in the consolidated corporate income tax declaration

SHAREHOLDERS EQUITY AT DECEMBER 31, 1990	EQUITY INCOME PROFIT (LOSS)	ACTIVITY
10,352	(873)	Export of Telecommunication equipment and services
6,529	1,504	Telecommunication cable, line laying and equipment installation
1,448	(87)	Investment management
2,058	332	Surveying, laying, and repairing submarine cables.
1,429	141	Research and development
90	(918)	Marketing of value added services
351	(548)	Engineering of systems
590	(169)	Promotion and investment in new companies
1,619	685	Attract publicity for telephone guides and mailing services
1,011	188	Development and implementation of projects in data processing
618	73	Life insurance and pensions
498	0	Reinsurance
373	53	Marketing of Teledistribution equipments and services music, voice, imagen, ..., etc
117	9	Computing consulting and digital cartography
1,002	271	Collection, and repair of public telephones
158	(4)	Design installation operation and management of the telecommunications European Operators Arena, in the exposition of Sevilla, 1992
121	22	Marketing, audience and Opinion research
294	180	Engineering of security systems
85	25	Marketing of added services and publicity
165	30	Recreational and social activities
1,069	113	Promotion and marketing of telephonic and data transmitting equipment
188	(1)	Real Estate activities
1	0	Financial investment agent

30,166

(In millions of pesetas)	SHARE CAPITAL	TELEFONICA HOLDING		TELEFONICA NET BOOK VALUE
		DIR.	INDIR.	
Associated companies				
Fujitsu España, S.A. R.O.: Paseo de la Castellana, 95 (MADRID) - 28046	8,000	40		3,500
Alcatel Standard Eléctrica, S.A. R.O.: Ramírez de Prado, 5 (MADRID) - 28045	25,975	21.14		3,229
Hispasat, S.A. R.O.: Gobelás, 41 (MADRID) - 28023	20,000	25		2,486
Amper, S.A. R.O.: Torrelaguna, 75 (MADRID) - 28027	6,977	7.50	7.84	1,560
ATT Microelectrónica, S.A. R.O.: Colmenar Viejo (MADRID) - 28770	12,481	20		1,427
Sistemas Técnicos de Loterías del Estado, S.A. R.O.: María de Molina, 48-50 (MADRID) - 28006	2,000	31.75		635
Telettra Española, S.A. R.O.: Raimundo Fdez. Villaverde, 65 (MADRID) - 28003	2,800	10	9	400
Torre de Collserola, S.A. R.O.: Balmes, 150 (BARCELONA) - 08008	1,000	35		350
Industria Electrónica de Comunicaciones, S.A. (INDELEC) R.O.: Avda. Pinoá, 8 Zamudio (VIZCAYA) - 48016	600	30		150
Total associated companies				13,737
Participating companies				
Telettra, S.p.A. R.O.: Via Comelia, 19 (MILAN)	4,816	10		3,990
Iniciatives, S.A. R.O.: Paseo de Gracia, 2 (BARCELONA) - 08007	3,100	3.23		140
Promoció de Ciutat Vella, S.A. R.O.: Rambles, 77 (BARCELONA) - 08002	2,800	3.57		95
Other investments				14
Total participating companies				4,239
Total Group				42,312

(**) Information corresponding to 1989.

SHAREHOLDERS EQUITY AT DECEMBER 31, 1990	EQUITY INCOME PROFIT (LOSS)	ACTIVITY
2,593	(1,475)	Data transmission and data processing equipment
5,849	1,017	Manufacture of telephone and telegraph transmission and exchange systems
2,500	0	Operation of telecommunication satellite
2,116	5	Development, manufacture and repair of telephone and telematic terminals: manufacture of components (hybrid and flexible circuits)
575	(648)	Design, manufacture, assembling and marketing of high technology integrated circuits
525	(127)	Installation maintenance and operation of lottery systems through terminals
1,845	902	Development, manufacture and installation of electronic telecommunication equipment, especially in transmission and radio
353	2	Communication towers
486	28	Manufacturing of portable communication equipment
16,842		
4,026 (**)	1,733 (**)	Development manufacture and installation of electronic telecommunication equipment
128	(2)	The development of initiatives to generate wealth and a general well-being of the communicate
93	(4)	Rehabilitation of "Ciutat Vella"
14		
4,261		
51,269		

7.3 The consolidation exercise has been carried out, the results of which show an increase in the profits of the year of Ptas 968 million and Ptas 9,624 million in the net equity in relation with those of Telefónica.

7.4 In 1990 the company sold 44,1% of its interest in the Compañía Española de Telecomunicaciones S.A. (Entel) which has generated a capital gain of Ptas 3,321 million. This transaction was in connection with the merger agreement between Entel and Eria.
On december 12, 1990 an agreement was reached whereby Telefónica could sell to Alcatel NV its interest in Telettra S.p.a. (5,556,000 shares) for a price of Ptas 21,600 million. This agreement is pending of a final resolution by the E.E.C.

7.5 An on account payment has been made by Telefónica to Telefónica Internacional in the amount of Ptas 14,115 million. This payment has been made in anticipation of a share issue by Telefónica Internacional to Telefónica. This transaction is pending the final resolution.

7.6 The most relevant operations recorded during the year between Telefónica and group companies were as follows:

	1990	1989
Dividends received	1,894	441
Purchases of good services by Telefónica	280,967	273,384

7.7 The company Amper, S.A, is listed in the stock exchange. Its average share price during the last quarter was Ptas 958.94 and the price at the year end was 830 ptas per share.

7.8 All the acquisitions of share holdings for the year have been made in accordance Art. 86, of the Spanish Company Law.

NOTE 8 - DEFERRED EXPENSES

The balances and amortization schedule are as follows:

	Maturities					Subsequent	Balance 12-31-90	Balance 12-31-89
	1991	1992	1993	1994	1995			
Debenture issue expenses	3,021	2,524	2,198	1,937	1,105	2,663	13,448	6,861
Exchange losses	9,558	4,070	-	-	-	-	13,628	16,067
Interest on long term debentures	3,145	3,158	3,566	3,423	3,155	7,901	24,348	27,391
Interest on commercial paper	14,437	352	-	-	-	-	14,789	9,132
Total	30,161	10,104	5,764	5,360	4,260	10,564	66,213	59,451

NOTE 9 - DEFERRED EXCHANGE

The balances and amortization schedule with respect to deferred exchange loss and gains are as follows:

	Maturities				Balance 12-31-90	Balance 12-31-89
	1991	1992	1993	Subsequent		
Deferred realized exchange losses	9,558	4,070	-	-	13,628	16,067
Deferred exchange unrealized gains	-	(46)	(110)	(20,903)	(21,059)	(14,025)
Total	9,558	4,024	(110)	(20,903)	(7,431)	2,042

For the year ended 1991 the company expects the application of Ptas 3,000 million that is scheduled in the provisions for net worth contingencies.

The details of the charge to expenses for the year are summarized as follows:

	1990	1989
Repayments of loans and other debts	5,992	7,189
Service charge in foreign currency	823	142
Total	6,815	7,331

NOTE 10 - ACCOUNTS RECEIVABLE FROM SUBSCRIBERS

Year-end subscribed accounts receivable were as follows:

	1990	1989
Subscriber services billed		
Private subscriber	10,889	18,816
Public entity subscribers	52,823	36,268
Ex-subscribers	8,385	5,872
Other and pending classification	2,095	1,145
	74,192	62,101
Unbilled services:	121,493	98,655
	195,685	160,756
Provision for bad debts	(9,191)	(6,834)
Total	186,494	153,922

During the year the cancelled bad debts was Ptas. 4,414 million (1989, Ptas. 3,963 million).

NOTE 11 - SHAREHOLDER'S EQUITY

The amount and movements in the shareholder's equity during the years ended at December 31, 1989, and 1990 were as follows:

	1988	Distribution of profits 1988	Issuance of share capital 1989	Other transfers	1989	Distribution of profits 1989	Issuance of share capital 1990	Other transfers	1990
Share capital	460,620	-	1,862	-	462,482	-	997	-	463,479
Revaluation reserve	653,780	-	-	-	653,780	-	-	-	653,780
Share premium	31,677	-	1,075	-	32,752	-	715	-	33,467
Statutory reserve	16,005	-	-	(16,005)	-	-	-	-	-
Legal reserve	-	8,409	-	16,005	24,414	9,307	-	-	33,721
Voluntary reserve	41,600	7,028	-	-	48,628	8,720	-	-	57,348
Unappropriated profit	92	1	-	-	93	2	-	-	95
Profits and losses	62,845	(62,845)	-	68,898	68,898	(68,898)	-	75,788	75,788
Interim dividend	(21,548)	21,548	-	(23,122)	(23,122)	23,122	-	(23,174)	(23,174)
Total	1,245,071	(25,859)	2,937	45,776	1,267,925	(27,747)	1,712	52,614	1,294,504

All of the outstanding shares of the Company at December 31, 1990, have been fully subscribed and paid-in, and are bearer shares at a per value of Ptas 500. Telefónica shares are listed on the four Spanish Stock Exchanges, as well as the Stock Exchange of Frankfurt, London, Paris, Tokyo and New York. At December 31, 1990, the State had an approximate 32.29% (32.4% in 1989) direct shareholding together with a further interest estimated at 2.71% (3.9% in 1989) through official institutions. Under Spanish legislation, total foreign shareholdings cannot exceed 25% of the share capital.

The table below reflects the movements of share capital from December 31, 1988 through December 31, 1990.

	Number of shares	Par Value	Price as a percentage of par value	Paid in
Balance December 31, 1988	921,240,693	460,620		
Issue of January 1989	3,571,252	1,786	156.477%	2,794
Issue of July 1989	151,506	76	188.581%	143
Balance December 31, 1989	924,963,451	462,482		
Issue of January 1990	1,994,626	997	171.687%	1,712
Balance December 31, 1990	926,958,077	463,479		

All of the above issuances were in connection with convertible bonds.

The General Meeting of Shareholders held on June 15, 1990 gave power to the Board of Directors to issue share without further notice to the approval of the shareholders. Share Capital may be increased up to Ptas 695,218 million, over a maximum 5 year period.

The General Meeting of Shareholders held on June 30, 1989 approved the transfer of the Statutory reserve balance (constituted in accordance with conditions 7 and 24 of the State Contract) to the legal reserve account.

The revaluation reserve can be used to offset future losses or to issue additional share capital once checked and approved. The balance of the revaluation reserve can be transferred to freely distributable reserves within five years from the date of the last revalued balance sheet.

The Company makes free use of the remaining reserve whenever operating or financial requirements warrant.

NOTE 12 - DEFERRED INCOME

12.1 The composition at December 31 is as follows:

	1990	1989
Capital grants	17,000	8,880
Deferred unrealized exchange gains (See Note 9)	21,059	14,025
Deferred taxes and others:		
Deferred taxes	7,140	-
External contribution no repayable	2,134	2,242
Differences on tax profit consolidation	2,667	-
Total	50,000	25,147

12.2 Movements of Capital Grants from December 31, 1988 to December 31, 1990.

	Balance 12.31.88	Additions	Amortization	Balance 12.31.89	Additions	Amortization	Balance 12.31.90
From official organisations	2,326	3,409	232	5,503	3,934	573	8,864
From European Economic Community:							
RACE Programme	22	59	2	79	11	8	82
SPRIT Programme	-	47	-	47	48	5	90
STAR Programme	-	3,249	-	3,249	4,983	325	7,907
Other	-	2	-	2	55	-	57
	<u>2,348</u>	<u>6,766</u>	<u>234</u>	<u>8,880</u>	<u>9,031</u>	<u>911</u>	<u>17,000</u>

12.3 Deferred taxes, as a consequence of temporary differences arising during the year (Note 20), will be cancelled in accordance with their reversal.

The consolidated tax profit generated from offset bases, will be transferred to group companies in periods in which they obtain positive results, while the ones that come from the write off of inter-group profits will be input to future taxes.

NOTE 13 -PROVISIONS FOR RISKS AND EXPENSES

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

	1988	Charges	Applications	1989	Charges	Applications	1990
Self insurance for damages in plant	4,491	-	56	4,435	-	682	3,753
Contingencies	55,667	-	-	55,667	446	1,569	54,544
Eventual contributions to the employee benefit system (Note 18.2)	18,829	-	-	18,829	-	-	18,829
Provision for constituting pension funds (Note 18)	14,815	17,500	-	32,315	20,300	-	52,615
Total	<u>93,802</u>	<u>17,500</u>	<u>56</u>	<u>111,246</u>	<u>20,746</u>	<u>2,251</u>	<u>129,741</u>

NOTE 14 -ISSUES

14.1 Composition and movements of issues from December 31, 1988 to December 31, 1990 are as follows:

	Debentures and bonds in national currency		Debentures and bonds in foreign currency	Commercial paper	Total
	Non- convertible	Convertible and/or exchangeable			
Balance 12.31.88	260,450	29,073	29,532	37,974	357,029
New issues	38,000	-	-	292,799	330,799
Repayments	(35,637)	(3,785)	-	(223,101)	(262,523)
Revaluations and other movements	950	131	313	-	1,394
Balance 12.31.89	<u>263,763</u>	<u>25,419</u>	<u>29,845</u>	<u>107,672</u>	<u>426,699</u>
New issues	161,111	-	-	711,307	872,418
Repayments	(69,765)	(2,891)	-	(513,409)	(586,065)
Revaluations and other movements	6,120	-	(1,866)	-	4,254
Transfers	22,528	(22,528)	-	-	-
Balance 12.31.90	<u>383,757</u>	<u>-</u>	<u>27,979</u>	<u>305,570</u>	<u>717,306</u>
Detail of maturities:					
Long-term	343,661	-	27,979	12,092	383,732
Short-term	40,096	-	-	293,478	333,574
Accrued expenses pending of maturity	13,439	-	643	-	14,082

14.2 There are two issue commercial paper programmes, with the following characteristics:

	Exposure limit	Nominal value	Contract
Public issues	200,000 million	500,000 pesetas	Monthly competitive action
Institutional issues	200,000 million	100 million minimum	Punctual operations

14.3 The detail of the Bonds and debentures outstanding at December 31, 1990 and the relevant characteristics are listed as follows:

DATE OF ISSUE	INTEREST (%)	AMOUNT	MATURITIES					SUBSEQUENT
			1991	1992	1993	1994	1995	
DEBENTURES								
MARCH 1976	9.3623	1,545	1,545					
DECEMBER 1976	9.3623	909	454	455				
APRIL 1977	9.3623	1,818	909	909				
JULY 1977	9.3623	909	454	455				
MARCH 1978	11.6397	3,000	1,000	1,000	1,000			
JUNE 1978	11.6397	1,250	417	417	416			
OCTOBER 1978	12.1457	1,250	417	417	416			
MARCH 1979	12.50	1,667	1,667					
SEPTEMBER 1979	12.75	833	833					
FEBRUARY 1981	13.75	4,429	4,429					
MAY 1982	14.25	5,500	2,750	2,750				
NOVEMBER 1982	14.25	3,000	1,000	1,000	1,000			
APRIL 1983	15.00	9,375	3,125	3,125	3,125			
FEBRUARY 1984	15.00	2,935		2,935				
APRIL 1984	VARIABLE	13.50	5,500	2,500	3,000			
JUNE 1984	COUPON ZERO	14.87	7,178			7,178		
AUGUST 1984 SERIE A	VARIABLE	14.04	2,750	1,250	1,500			
AUGUST 1985 SERIE B		14.75	8,250	3,750	4,500			
JUNE 1986	VARIABLE	13.15	15,000					15,000
JULY 1987	VARIABLE	13.00	25,000					25,000
JANUARY 1988		12.50	30,000					30,000
JULY 1989		12.00	10,060					10,060
DECEMBER 1989	VARIABLE	13.3261	7,200	800	800	800	800	3,200
JANUARY 1990		12.00	71					71
FEBRUARY 1990 SERIE A		12.60	9,351					9,351
FEBRUARY 1990 SERIE B		12.60	1,367					1,367
FEBRUARY 1990 SERIE C		12.60	626					626
FEBRUARY 1990 SERIE D	COUPON ZERO	12.8896	7,069					7,069
FEBRUARY 1990 SERIE E	COUPON ZERO	12.8531	2,308					2,308
FEBRUARY 1990 SERIE F	COUPON ZERO	12.5793	258					258
JUNE 1990	COUPON ZERO	14.00	32,153				32,153	
JULY 1990	COUPON ZERO	14.4420	31,885					31,885
DECEMBER 1990	COUPON ZERO	13.5761	20,028					20,028
BONDS								
MARCH 1984	14.75	10,575	10,575					
DECEMBER 1984	14.00	15,058		15,058				
NOVEMBER 1985	11.75	5,035					5,035	
MAY 1986	VARIABLE	9.00	10,000			10,000		
JULY 1986	9.00	315	315					
DECEMBER 1986	9.25	5,717	1,906	1,906	1,905			
JANUARY 1988	COUPON ZERO	10.00	1,583			1,583		
OCTOBER 1989	12.75	20,000						20,000
SEPTEMBER 1990	14.25	60,000				60,000		
NOVEMBER 1990	14.0625	600						600
NOVEMBER 1990	VARIABLE	15.2575	400					400
DEBENTURES FOREIGN CURRENCY								
EUROBONOS FRANKFURT MAY 1983	8.25	6,398			6,398			
LONDON JULY 1988	VARIABLE	8.35	21,581					21,581
TOTAL ISSUES		411,736	40,096	40,227	25,060	69,561	37,988	198,804

14.4 Additional information

	1990	1989
Interest expenses	43,649	36,611
The amount of issues subject to tax benefits is as follows:		
Debentures in local currency	26,110	45,986
Debentures in foreign currency	25,803	28,454

The average cost of the debentures and bonds outstanding is 12.01% for 1990 (11.48% in 1989)

14.5 Foreign currency debentures amount to Deutsche Marks 100 million and to US dollars 200 million.

Outstanding debentures are valued at the official closing exchange rate of each currency at year end quoted by the Bank of Spain. The exchange differences credited in 1990 to unrealized exchange losses account amounted to Ptas 2,651 million (in 1989 Ptas 663 million).

The issue in US dollars gives the holders the right to exercise, in established periods, the right to convert the debentures into ordinary shares of the Company, according to the terms and conditions of the issue deed.

14.6 Conversion options for a total amount of Ptas 1,712 millions were exercised during January 1990, corresponding to the issue of December 1986.

NOTE 15 - LOANS AND CREDIT FACILITIES

15.1 As mentioned in Note 2.a), these accounts are classified in the balance by its maturity. The balances at December 31 1990 and 1989 are summarized as follows:

	1990			1989		
	Long term	Short term	Total	Long term	Short term	Total
Commercial paper (face value)	45,000	5,000	50,000	50,000	-	50,000
Loans in foreign currencies	218,364	5,003	223,367	163,351	574	163,925
Loans and credit facilities	276,592	55,656	332,248	252,853	71,441	324,294
Total	<u>539,956</u>	<u>65,659</u>	<u>605,615</u>	<u>466,204</u>	<u>72,015</u>	<u>538,219</u>

15.2 The detail of maturities is as follows:

	Maturities						
	1991	1992	1993	1994	1995	Subsequents	31-12-90
Loans in foreign currencies	5,003	3,198	-	9,716	14,595	190,855	223,367
Loans and credits facilities	55,656	26,320	23,022	11,475	15,025	200,750	332,248
Commercial paper	5,000	-	-	7,402	-	37,598	50,000
Total	<u>65,659</u>	<u>29,518</u>	<u>23,022</u>	<u>28,593</u>	<u>29,620</u>	<u>429,203</u>	<u>605,615</u>

15.3 Additional information:

	Financial Charges		Interest accrual (Deferral)		Interest rates (Average)	
	1990	1989	1990	1989	1990	1989
Loans in foreign currencies	17,437	10,350	4,425	2,109	8.12	7.84
Loans and credits facilities	45,146	37,385	8,869	7,235	14.59	14.29
Commercial paper	3,043	3,117	-	-	15.84	14.91

15.4 The loans and credit facilities accounts reflect only amounts actually borrowed. Unused facilities are disclosed in Note 22.

15.5 At December 31, 1990 of the total foreign currency loans, Ptas 48,541 million are covered by the tax benefits of Decree Law 19/1961 and law 61/1978.

15.6 In accordance with the accounting criteria set forth in Note 4 (j), the exchange losses arising from these loans in 1990 resulted in a charge to the account of unrealized exchange losses of Ptas 5,754 million (in 1989 Ptas 4,395 million).

15.7 The composition of foreign currencies debt is shown below:

	1990	1989
US Dollars	450.0	375.0
Deutsche Marks	255.5	255.5
Swiss Francs	422.5	153.3
Dutch Florins	176.8	71.7
Yen	26,020.6	17,000.0
French Francs	649.9	650.0
ECUs	654.4	504.6

15.8 Loans denominated in foreign currencies include:

The Company has multi-option financing facility in the amount to US dollars 250 million represented as of December 31, 1990 by Telefónica's notes in euro commercial paper amounting to US dollars 225 million with maturities of less than six months and US dollars 25 million in a line of credit supporting the euro commercial paper notes with the same maturity terms. When they become due, the Company may opt to:

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

The company has loan agreement with its subsidiary, Telefónica North America, Inc., with a limit of US dollars 125 million. As of December 31, 1990, US dollars 125 million were drawn down. This loan derives from a commercial paper program, supported by a subsidiary credit line issued to the US subsidiary and guaranteed by Telefónica.

The company has received loan granted by the European Investment Bank made through the Spanish Official Credit Institute (I.C.O.) amounting to ECUs 1,200 million, repayable in 15 years, with a grace

period of five years. Repayment will be in 20 half-yearly installments. Interest is fixed during the first five years and revisable at the end of the 5th and 10th year. The loan also has a multicurrency option.

NOTE 16 - TAXES PAYABLES AND RECEIVABLES

The composition at December 31, is as follows:

	1990	1989
Taxes Payable:		
Payroll withholding tax	5,615	4,614
Treasury credit for VAT	185	(2,002)
Tax withholdings on dividends and interest and other	1,317	1,413
Corporation Income Tax	8,051	24,388
Local Taxes	2,421	1,894
Social Security	7,677	6,768
	<u>25,266</u>	<u>37,075</u>
Taxes Receivable:		
Payments on account Corporation Tax:		
Tax withholdings on capital returns	581	340
Payments on account on consolidated income tax returns.....	9,602	9,202
Taxes and Surcharges to recoup	522	531
Social Security entities - Claims	-	27
	<u>10,705</u>	<u>10,100</u>

NOTE 17 - OTHER CREDITORS

This consists of the following accounts:

	1990	1989
Staff bonus provision	15,148	13,091
Telephone service interchange	11,359	7,273
Guarantees and deposits	11,285	7,023
Accrued charges	10,476	10,057
Dividends payable	29,955	28,852
Other creditors	13,545	17,230
Total	<u>91,768</u>	<u>83,526</u>

NOTE 18 - PENSIONS

18.1 Telefónica's employees benefit from pensions that substitute for and complement those provided in Spain by the Social Security and from a Group Endowment Insurance program (the latter is explained in Note 19).

All benefits, other than the Group Endowment Insurance, are provided by the "Institución Telefónica de Previsión (ITP)", a mutual pension fund created under the "Ley de Montepíos y Mutualidades de Previsión Social" (Social Service Mutual Fund Law) of December 6, 1941 and the regulations pertaining thereto of May 26, 1943. In accordance with this legal framework, ITP is an entity with a completely independent legal status, and as such is governed by its own regulations as approved by the Sub-secretary of Social Security on January 28, 1977.

Benefits provided by ITP to its members are of various types, as detailed in Article 4 of the ITP's Revised Text of Regulations, and include primarily retirement pensions, permanent disability, widowhood and pension bonus payments. Pension benefits are calculated in relation to length of service, applying a percentage scale to the pension-base salary, up to a limit of 90% of such base salary.

The members covered by this plan number approximately 12,708 retired persons (pensioners) and 75,350 members currently on the payroll, whose current pension contributions represent 4.3% of their total gross salary (pension-base salary).

To meet the above-mentioned combination of benefits, ITP relies principally on the profits earned on its assets, and on the contributions of Telefónica and its members. During 1990 the contributions of Telefónica amounted to Ptas 17,809 million (Ptas 15,463 million in 1989) and those of its employees Ptas 8,509 million (Ptas 7,388 million in 1989).

The financial policy of ITP is governed by the regulations in force and requires the establishment of reserve funds necessary to meet the benefits of its retired members. Studies carried out show a shortfall in reserves and the insufficiency of income to cover medium and long-term commitments.

18.2 Telefónica has a provision of Ptas 18,829 million charged in 1982 against the revaluation surplus and which, as indicated in Note 13, was originally set up unilaterally on the part by Telefónica for if it should so decide in the future, covering eventual shortages in the complementary pension benefits that have to be met by ITP. In 1988, 1989 and 1990 Telefónica established the provisions of Ptas 14,815, 17,500 and 20,300 million respectively, for the possible creation of a Pension Fund (see Note 13).

18.3 ITP has not carried out the legally required accounting and economic separation of its substitutive and complementary pensions. The three year period established by Law 33/1984 for this separation expired in 1987.

In addition, while Law 33/1984 requires that regulations be issued to guarantee the solvency, liquidity and liabilities of ITP, no such regulations have been issued.

18.4 Telefónica has shown its willingness to collaborate in the development of a future system that would make viable the pension system of its employees. Consequently, negotiations have been held since 1985 without an agreement being reached. These negotiations, which have recently been carried out within the framework provided in Spanish legislation ("Legislación sobre Planes y Fondos de Pensiones"), have been based on the premise that if a solution is reached it must include a definitive and global agreement with respect to the pension plans of Telefónica's employees.

In order to reach such global agreement, and taking into account that the current pension system of Telefónica's employees has unique characteristics (it is a system that substitutes for Social Security with complementary benefits), the participation of the Company, representatives of its employees and the Spanish Government is required. Without the agreement of any one of these parties, no solution would be viable.

As of the date hereof, no definitive agreement has been reached with the employee's representatives nor have regulations been issued for the required accounting and financial separation of the substitutive and complementary schemes, or for inclusion of the assets and liabilities of the current complementary system in the Social Security system and the liquidation of the current complete inventory system.

In November 1990 a new phase of the negotiation process began which should lead to a global and definitive agreement as previously described. If no definitive agreement to create a pension fund is reached, the amount of income tax payable by Telefónica will increase, at such time, due to the provisions previously made by Telefónica but not contributed to such a fund.

As a result, as of the date hereof, Telefónica's only obligations are those it has to ITP under the current system which amount to 9% of an employee's salary as stipulated by regulation. Nevertheless, Telefónica has reiterated its willingness to continue to negotiate a global agreement so long as the effect of such agreement on its stockholders' equity and results of operations can be absorbed over future years during normal operations of the Company and in a manner consistent with the interests of its shareholders.

NOTE 19 -ENDOWMENT INSURANCE

Telefónica's employees have the right on reaching 65 years of age, whether still at work or retired, to receive a single payment for endowment insurance, the amount of which depends on the situation of each employee.

To cover payment of these benefits, funds have been established and placed both with an insurance company and in Telefónica that, at December 31, 1990, amounted to Ptas 958 million and Ptas 43,439 million, respectively. In 1990 the Company made provision for a total of Ptas 11,545 million to these funds (in 1989 Ptas 9,060 million).

Based on the actuarial calculations that have been carried out it is possible to conclude that the annual charge for 1990, which incorporates the amortization in 15 years of the difference between the obligations for projected benefits (Ptas 86,369 million) and the constituted funds, is considered sufficient to finance the benefits.

NOTE 20 -TAXATION

Years open to tax inspection are as follows:

Tax	Years open to Inspection
-Corporate income tax	1988-1990
-Local taxes	1988-1990
-Value Added Tax (VAT)	1986-1990
-Capital transfer tax	1988-1990
-Interest withholding tax	1985-1990
-Withholding on account personal	1985-1990

RECONCILIATION OF PROFIT BEFORE TAX AND ESTIMATED TAXABLE INCOME

Profit before tax			93,188
	Increases	Decreases	
Permanent differences	168	5,077	(4,909)
Adjusted profit			88,279
Temporary differences:			
Arising from the year	-	20,400	(20,400)
Estimated taxable income			<u>67,879</u>

CORPORATE TAX

	Accrued	Payable	Deferred
Overall rate 35%:			
Of the profit before tax adjusted	30,898	-	30,898
Of the estimated taxable income	-	23,758	(23,758)
Reductions			
Double taxation	(625)	(625)	-
Allowances	(255)	(255)	-
Investment tax credit	(11,285)	(11,285)	-
Job creation	(1,333)	(1,333)	-
	<u>17,400</u>	<u>10,260</u>	<u>7,140</u>

After the applications for the year, since the company did not have a sufficient quota to apply for deductions on investments, the following amounts remain as tax credits in 1988 Ptas 16,192 million; 1989 Ptas 27,954 million and 1990 Ptas 34,398 million. The amount of the tax benefit for reinvestment, is Ptas 1,021 million. The temporary differences are due to a free amortization estimate, consistent with the final disposition 7^a at the law 1643/90 at December, 20.

Payments on account Corporation tax, amounted to Ptas 9,754 million.

NOTE 21 -INCOME AND EXPENSES

21.1 The composition of sales is as follows:

Classification	1990	1989
Payment fees	207,119	184,001
Transmission of data	87,628	69,230
Direct local service	374,472	314,984
Operator trunk calls	1,642	988
International service	113,857	96,902
Marine and portable service	8,696	4,583
Advertising	8,506	7,299
Connection fees	38,895	32,671
Marketing of terminal and other	11,727	4,181
OPERATING PROFIT	852,542	714,839

21.2 The composition of the average number of employees, by professional categories, and staff expenses is as follows:

Average number of employees:			Staff expenses:		
Category	1990	1989	Classification	1990	1989
Area Managers	1,044	1,017	Salaries, wages and scholarships	222,081	193,195
Qualified staff, and specialized technicians	3,638	3,293	Staff welfare expenses	71,522	60,244
Assistant to qualified staff and technicians	6,466	5,679		293,603	253,439
Supervisors and workers external plant	16,502	14,647			
Supervisors and workers internal plant	21,411	20,842			
Computer analysts and assistants	1,620	1,584			
Clerical staff	10,126	9,722			
Subscribers service	3,353	3,053			
Labourers	6,284	6,063			
Warehouse staff and mechanics	1,722	1,574			
Apprentices	1,049	1,092			
Others	38	43			
	73,253	68,609			

21.3 Extraordinary income and expenses are detailed below:

<u>EXTRAORDINARY INCOME</u>		<u>EXTRAORDINARY EXPENSES</u>	
Classification	1990	Classification	1990
Insurance compensation consortium	2,713	Donations article 131 of the Regulation at Corporate Income Tax	760
Indemnities for materials non fulfilment of contracts	814	Deferred expenses from participating in	
Sale of scrap in RALF and payments without specification	795	expositions, and other asset accounts	212
Rental of property and computerized equipment	548	Settlement of the supplement to the retired employees of ENTEL	185
Compensation, in accordance with the sales		Payment to TESYS for the readjustments to invoiced amounts	177
of shares in "Cables de Comunicaciones"	488	Complementary settlement to the Social Security	
Bills for damages, and modifications to installations	253	for the charge in the payment groups	160
The refund of improper tax withholdings on capital earnings	173	Irrecoverable expenses of rejected investments	142
Allowances for Insurance Policies	50	Various	214
Technical certificates and royalties	260		
Company store and medical services	50	Total	1,850
The transfer of staff to other entities	36		
Various	162		
Total	6,342		

NOTE 22 - OTHER INFORMATION

22.1 Remuneration of Directors

During the year ended 1990, the salaries and expense allowance paid to the Members of the Directors Board increased to Ptas 111 million.

Telefónica has not conceded any loan or credit, and has not incurred any pension or insurance payments obligation in favour of the members of the Board of Directors.

22.2 Unused Credit Facilities

	1990	1989
Available credit - long term	40,093	18,178
Floating rate credit facilities	12,046	11,500
Available credit - short term	1,146	301
Commercial paper	32,799	-
	86,084	29,979

22.3 Commitments and diverse rights

Guarantees of financial operations	22,509	2,917
Guarantees granted to employees	3,372	3,656

Guarantees of financial operations refers primarily to guarantees given by the Company to banks in connection with financial operations of group companies.

NOTE 23 -SUBSEQUENT EVENTS

On January 2nd 1991, Private Limited Company TAETEL, SL was established with a share capital of Ptas 4,700 million, fully subscribed by Telefónica and paid with the contribution of shares of Telettra S.p.a., owned by Telefónica, and Ptas 59 million in cash.

On March 13th 1991, a definitive interchange agreement was formalized whereby 20% of the shares of Telefónica in ATT Microelectrónica de España, SA, would be traded for a 6% participation in ATT Network Systems International.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED 1990 AND 1989

APPLICATIONS	1990	1989	SOURCES	1990	1989
1. Debt arrangement expenses	9,741	1,258	1. Funds from operating activities	392,115	331,046
2. Acquisition of fixed assets			2. Funds from shareholders		
a) Intangible fixed assets	9,093	5,380	a) From issuance of common stock	997	1,862
b) Tangible fixed assets	721,291	564,887	b) Share premium	715	1,075
c) Investments	32,931	9,284	3. Deferred income	16,065	13,646
d) Advances to supplier	(17,594)	18,875	4. Long term debts		
e) Stock for fixed assets	(11,207)	17,221	a) Debentures loan and other similar liabilities	160,112	38,000
3. Dividends paid	50,921	48,981	b) Other debts	178,871	239,327
4. Cancellations and transfer of long term debts			5. Sale proceeds of fixed assets		
a) Debentures and other similar liabilities	40,096	72,005	a) Tangible fixed assets	477	4,437
b) Other debts	110,855	136,686	b) Investments	6,962	4,962
5. Provisions	15,836	7,388	TOTAL SOURCES	756,314	634,355
TOTAL APPLICATIONS	961,963	881,965	EXCESS OF APPLICATIONS OVER SOURCES	205,649	247,610
EXCESS OF SOURCES OVER APPLICATIONS (INCREASE IN WORKING CAPITAL)	961,963	881,965	(DECREASE IN WORKING CAPITAL)	961,963	881,965

CHANGES IN WORKING CAPITAL FOR THE YEAR ENDED DECEMBER 31					
1990	Increases	Decreases	1989	Increases	Decreases
1. Inventories		159	1. Inventories	1,808	
2. Debtors	33,702		2. Debtors	24,433	
3. Creditors		239,151	3. Creditors		257,414
4. Short term investments	1,582		4. Short term investments		1,573
5. Cash and banks	44		5. Cash and banks	465	
6. Prepayments		1,667	6. Prepayments		15,329
TOTAL	35,328	240,977	TOTAL	26,706	274,316
CHANGES IN WORKING CAPITAL	205,649		CHANGES IN WORKING CAPITAL	247,610	
	240,977	240,977		274,316	274,316

The reconciliation net income to funds from operating activities.

FUNDS FROM OPERATING ACTIVITIES	1990	1989
Net income for the year	75,788	68,898
Depreciation fixed assets	247,565	215,226
Amortization of intangible assets	1,946	1,245
Amortization of intangible expenses add debts formalization	4,236	3,414
Reduction in the proportional investments equity value	2,838	187
Exchange losses	6,815	7,331
Provision for pension fund	20,300	17,500
Other provision	446	-
Non amortized dismantled plant	15,509	13,678
Provision for inventories	800	-
Capital grant	(911)	-
Increase in interest payable	10,608	5,173
Deferred taxes and other	9,699	-
Profit in exchange of investment interest	(3,321)	(759)
Profit in sales of assets	(203)	(847)
TOTAL	392,115	331,046

MANAGEMENT REPORT

Business trends and situation of the Company

Telefónica's net income in 1990 was 75,788 million pesetas, that is 10% more than in 1989. Cash flow (net income and depreciation and amortization) rose in the same period to 326,403 million pesetas, with a 13.8% growth over 1989. Capital expenditure in fixed assets reached 692,830 million pesetas, representing an increase of 15.3% over the year before.

The telephone service

The high level of investment carried out last year enabled Telefónica to install 1,564,624 local lines (98% digital), an increase of 6.3% over 1989. This brought the number of lines installed to 14,476,587, 10.0% more than in 1989, with 28.4% digitization, 8.8% up on December 1989. 1,137,367 demands for telephone lines were met, bringing the number of lines in service at the end of the year to 12,602,640, 6.8% more than the previous year. The demand for new lines was down on 1989, and the number of applications dropped by 5.5% to 1,316,945. The waiting list stood at 379,892 applications, showing an annual decrease of 28.5%.

Revenue

Operating revenue reached 852,542 million pesetas, 19.3% up on the year before. The most dynamic revenue component was terminals, with an annual growth of 180.5%, followed by mobile services, which grew by 89.7%. Revenue from data and image transmission services rose to over 87,600 million pesetas, an increase of 26.6%.

Revenue from the domestic automatic service (44.1% of the total) grew by 19.0%, while that of the international service rose to 113,857 million pesetas, an increase of 17.5%, considerably higher than the previous year's figure of 10.7%.

Subscriber service charges, which account for 24.3% of operating revenue, showed the most moderate increase, with a growth of 12.6%.

Internal expenditure capitalized in fixed assets was down by 6.5%, due to the fact that staff efforts were increasingly dedicated to maintenance tasks.

Expenses

Operating expenses rose to 686,034 million pesetas, an increase of 16.6% over 1989. Personnel expenses, the largest item under this heading, reached a total of 293,603 million pesetas, with an annual growth of 15.8%. The company's work force increased by 4,195 employees, representing a 5.9% growth over 1989. At the end of the year, the work force totalled 75,350 employees, of whom 69,547 were permanent and 5,803 were temporary workers.

Depreciation of fixed assets reached 250,615 million pesetas, an increase of 15.0% over the year before.

Current assets provision totalled 29,682 million pesetas, 20.3% more than the year before. 68.4% of this total went on the provision for the constitution of a pension fund. The level of quality achieved in Telefónica's assets enabled the company to keep other provisions and charges to a minimum.

The largest increase in this area was produced by other operating expenses, which grew by 21.2%. This was mainly due to external services, which at 93,709 million pesetas were 26.8% up on the year before. The reason for this increase was the intense activity carried out by Telefónica in 1990. Financial expenses amounted to 149,362 million pesetas, 42.3% more than in 1989. This negative trend can be put down to two main factors: the restrictive monetary policy, with its effect on interest rates, and the limitations on obtaining funds in foreign currency in a year which saw an extensive capital expenditure programme financed almost entirely through debt.

Profit margins and Results

Operating profit rose to 237,475 million pesetas, 21.4% up on 1989. Financial income produced a negative result of 148,278 million pesetas, extraordinary income was 3,991 million pesetas and provision for corporate tax was 17,400 million pesetas (28.0% less than in 1989, mainly due to tax incentives for expenditure on installations for the 1992 Seville World Fair and Barcelona Olympics). This left a net income after tax of 75,788 million pesetas, an increase of 10.0% over 1989. Earnings and cash flow per share were 81.8 and 352.1 pesetas, representing growth of 9.8% and 13.5% respectively.

International Activities

Telefónica plays an active role in the international telecommunications sector through its subsidiary Telefónica Internacional de España, S.A. (T.I.). Telefónica Internacional's main activities are the acquisition of holdings in overseas operators, participation in the advanced services market, especially mobile and value added services, and the formation of strategic alliances for the operation of high capacity international networks.

In line with this policy, Telefónica Internacional has the following holdings in basic telephone service operators:

- * 42.8% in the Compañía de Teléfonos de Chile (C.T.C.), which supplies local telephone services in Chile.
- * 20% in the Empresa Nacional de Telecomunicaciones (Entel), which operates international and long distance telephone services in Chile.
- * 6% in Telefónica de Argentina (TASA), which supplies the telephone service in the south of Argentina, and which has a 50% holding in the companies licensed to provide international and advanced services.

T.I. also has a 5.38% holding in Infonet, a company which supplies international data and image transmission services, and holdings of 2.92% and 0.69% respectively in the mobile services companies Geostar and Locstar.

Future trends

Telefónica expects a net demand for new lines in 1991 of 630,000, which, if confirmed, will be 10.6% lower than in 1990. A programme of over a million connections to the network is planned, thus reducing the waiting list to 330,000 applications, an annual decrease of 13%. Plant in service will be increased by 6.8%.

The capital expenditure in fixed assets planned for 1991 is 571,600 million pesetas. 842,000 local lines and 412,000 trunk lines are scheduled to be installed.

Research and development

During 1990, Telefónica spent a total of 5,995 million pesetas on research and development. 2,000 million pesetas went on new developments in operating assistance such as the EOC (Conservation and Operation Structure). Over 1,000 million pesetas was devoted to Networks and Services Projects such as the Broadband Communications Experimental Network, Advanced Audiotex Systems and other European projects. The remaining research money went to Packet Switching projects (improvements to Tsys-B, Electronic Registers for Electromechanical Systems) and other Public Telephony projects.

Acquisition of own shares

During 1990 Telefónica did not acquire any of its own shares.

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

Certain accounting practices applied by Telefónica in its financial statements prepared for use in Spain, together with others required or allowed under the Conditions of Concession of Telefónica as a regulated entity (Note 2)*, may not conform with generally accepted accounting principles in the United States. As a result of Telefónica's shares being traded in the New York Stock Exchange, where they have been listed since the middle of 1987, the Company is requested to adjust its net income and shareholders' equity based on American accounting principles. The most significant differences between these accounting practices are summarized below:

Present practice for local Spanish purposes

1. Intangible assets (see note 4.b)*
2. Income tax (see note 1.4)*
3. Property, plant and equipment (see note 4.c)*
4. Investments (see note 4.d)*
5. Costs of new equity capital
6. Income per share is not required to be in the financial statements nor in any other obligatory financial information
7. Endowment insurance (see note 4.h)*
8. Allowance for funds during construction

Treatment for U.S. GAAP purposes

Research and development costs are expenses as incurred. The effect is shown below.

Deferred taxes arising from timing differences between income and taxable income must be accounted for.

Revaluation of fixed assets is not permitted. Property, plant and equipment and related accumulated depreciation are stated at historical cost values.

Investments in subsidiaries should generally be accounted for as follows:

- More than 50% holding:
Consolidated or equity method of accounting.
- Between 20% and 50% holding:
Equity method of accounting.
- Less than 20% holding:
At the lower of cost value or net realizable value.

US GAAP requires expenses of raising capital to be deducted from the proceeds of the new capital.

Per share computations are required to be shown.

From January 1, 1989 the FASB nº 87 has been applied to record the costs for past services. Interest accrued up to the time when the assets are placed in service are accounted for.

The total effect on the statement of income and on the statement of charges in shareholders' equity is as follows (in millions of pesetas)

	1989	1990
Net income for the year as reported in the Spanish statutory accounts at December 31	68,898	75,788
Adjustments for US GAAP purposes:		
Reversal of depreciation of revalued portion of fixed assets	58,907	62,643
Research and development expenses - Net effect between prior write-offs and current amortization	(3,772)	(5,374)
Reversal of self-insurance	(56)	(682)
Reversal of amortization of costs of new equity capital	1,203	1,104
Adjustment of investments to net equity value	1,102	1,834
Adjustment of endowment insurance cost	(330)	0
Allowance for funds during construction	26,306	38,485
Less amount due to effect of fixed assets revaluations, of the retired plant not depreciated	5,853	8,056
Deferred taxes due to adjustments	(7,878)	(11,589)
Reversal of charges to provisions		(7,425)
Approximate net income for the year in accordance with US GAAP	<u>150,233</u>	<u>162,840</u>
Shareholders' equity as reported in the Spanish statutory accounts at December 31	1,267,925	1,294,504
Interim dividend	<u>23,122</u>	<u>23,174</u>
	1,291,047	1,317,678
Adjustments for US GAAP purposes:		
Reversal of net effect of revaluation of fixed assets and related accumulated depreciation	(357,681)	(295,038)
Charges to provisions	30,689	22,582
Research and development expenses - Net effect between prior write-offs and current amortization	(9,255)	(14,629)
Costs of new equity capital	(3,251)	(2,170)
Investments:		
Reversal of revaluation	(734)	(3,216)
Adjustments to equity value	7,443	11,759
Accrual of past service costs of endowment insurance	(1,606)	(1,606)
Allowance for funds during construction	41,275	79,760
Less amount due to effect of fixed assets revaluations, of the retired plant not depreciated	9,427	17,483
Deferred tax due to US GAAP adjustments	(10,646)	(22,235)
Approximate shareholders' equity in accordance with US GAAP	<u>996,708</u>	<u>1,110,368</u>

* Notes in brackets refer to the financial statements on pages 41 to 62 of this Annual Report.