Selected operating data.

Telephone and data transmission services

	31-12-87	31-12-88	31-12-89	31-12-90	31-12-91
Local lines in service (thousands)	10,236.4	10,971.6	11,797.2	12,602.6	13,264.4
of which Public Telephony Services (thousands)	274.2	299.1	319.5	337.8	353.6
Cellular Mobile Services lines (thousands)	4.2	11.6	29.8	54.7	108.5
Ibercom lines in service (thousands)	21.6	68.9	145.9	255.5	375.0
Iberpac network connections (%growth)	23.6	33.7	22.6	15.9	11.7
Data transmission (D/T) circuits (%growth)	5.0	5.8	7.8	12.9	5.5
Dataphones (thousands of terminals) (*)	10.1	56.6	129.6	163.1	171.2
Ibertex (thousands of terminals) (*)	0.4	2.5	50.0	120.0	300.0
Mensatel (thousands of terminals)	-	-	1.6	18.8	34.2
Videoconferencing (number of Conference Rooms)	-	2	8	15	26
Automatic trunk circuits (thousands)	257.0	311.8	387.7	519.1	661.8
International circuits (thousands)	10.8	11.7	13.3	16.5	19.8

(*) Estimate

Infrastructure

	31-12-87	31-12-88	31-12-89	31-12-90	31-12-91
Local lines installed (thousands)	11,085.0	11,981.0	13,160.0	14,485.2	15,180.6
of which digital lines (thousands)	635.0	1,297.0	2,582.0	4.115.0	5,100.8
(% total)	5.7	10.8	19.6	28.4	33.6
Trunk lines (thousands)	1,066.0	1,356.0	1,831.0	2,311.0	2,644.0
of which digital (thousands)	197.0	452.0	867.0	1,377.0	1,989.4
(% total)	18.5	33.3	47.4	59.6	75.2
International trunk lines (thousands)	31.7	41.9	48.8	65.1	89.8
of which digital (thousands)	-	10.2	17.0	33.2	58.0
(% total)	-	24.4	34.8	51.1	64.6
Coaxial cable (km)	10,454	10,454	10,531	10,566	10,634
Fibre-optics cable (km)	1,159	3,664	8,018	15,131	20,290
Trunk pair cable (km)	49,040	53,140	56,492	57,280	58,034
Subscriber cables (circuits x kms)	38,295	41,833	47,003	51,591	54,928
Underwater cables (circuits x kms)	24,835	24,879	43,912	50,164	63,423
of which digital (circuits x kms)	822	917	19,950	26,202	39,461
(% total)	3.3	3.7	45.4	52.2	62.2
Satellite earth stations (number of stations)	11	27	36	46	64

Trends in usage per line and demand for new lines

	1987	1988	1989	1990	1991
Average growth in usage per line	8.2	8.6	5.1	2.3	4.1
Applications for new telephone lines (thousands)	1,093.2	1,289.1	1,394.1	1,316.9	1,118.0
(% annual growth rate)	14.6	17.9	8.2	-5.5	-15.1
Applications for new Ibercom lines (thousands)	42.2	67.3	100.3	127.6	119.8
(% annual growth rate)	365.0	59.3	49.0	27.3	-6.1

International broadcasting

	1987	1988	1989	1990	1991
Radio (thousands of minutes)	347.0	387.0	480.0	413.7	647.0
TV (thousands of minutes)	44.0	73.0	129.0	133.2	203.8

Financial Review

Selected financial data
Figures in millions of pesetas

	1987	1988	1989	1990	1991
Operating revenue	540,727	614,829	714,839	852,542	1,008,031
Operating expenses	240,151	304,193	358,787	424,214	477,507
Financial expenses	97,180	99,519	114,149	159,308	199,592
Depreciation and amortization (*)	164,442	213,247	233,563	269,118	321,302
Net income	53,247	62,845	68,898	75,788	80,847
Cash flow	217,689	276,092	302,461	344,906	402,149
Share capital	415,368	460,620	462,482	463,479	463,479
Shareholders' equity	1,163,058	1,245,071	1,267,925	1,294,504	1,324,368
Long-term debt	570,770	627,161	862,173	1,051,693	1,440,229
Interest-bearing debt	746,977	807,220	1,104,010	1,478,303	1,708,008
Capital expenditure (**)	265,567	372,960	600,983	692,830	601,417

(*) Including write-off of dismantled plant pending depreciation
(**) Including advances to suppliers and stocks for fixed assets

The economic scene.

In 1991 the growth rate of the Spanish economy fell back sharply and the job creation process came to a virtual standstill. It seemed clear that the upward trend which had marked the Spanish economy in recent years had come to an end, as shown by the stagnation in the investment demand which had led to high rates of growth in previous years.

Both private and public consumption, if compared with the previous year's trends, had hardly any negative effect on the growth in domestic product. The stagnation of the labour market had little effect on private consumption, due to the fact that wage increases continued to exceed the rate of growth of the G.D.P., and in terms of average wage per person, salaries rose at a faster rate than in 1990.

The most dynamic component of domestic demand last year was public consumption, with a higher rate of growth than in 1990. This contributed to a significant increase in the public deficit, which stood at 4.4% of G.D.P., as opposed to 4.0% in 1990. The reduction of the public deficit was one of the commitments for economic and monetary convergence made at the Council of Europe meeting at Maastricht, and the current figure is still some way off the 3% target set for member states at the meeting.

1991's balance of payments figures made a greater contribution than those of 1990 to a more balanced growth in the Spanish economy. This was due to the fact that exports performed well, with a rate of increase considerably up on the previous year, despite a decline in world trade. Given the ever-increasing importance of the European Community to Spain's foreign trade, this highly favourable export performance reflects the major efforts made in the sector towards adaptation.

On the domestic front, there were still signs of duality in the Spanish economy. The slow-down in economic activity was concentrated in the sectors most sensitive to economic policy, mainly the manufacturing industries with a cost structure similar to that of our Community partners. In other sectors the rate of economic growth scarcely fell and

consequently there was little contribution from these sectors to the easing of inflationary pressure brought about by lower productivity profits and the labour costs differential.

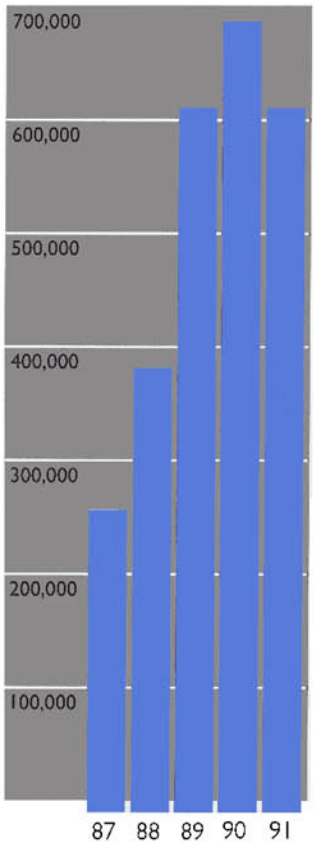
Long term capital investment continued to flow in, and was almost entirely responsible for the overall balance of payments surplus, and the build up of foreign reserves. This situation was reflected by the strength shown by the peseta during the year. The resulting impact on domestic liquidity and the need to comply with the exchange rate discipline of the European Monetary System forced the Bank of Spain to reduce its monetary intervention rate on various occasions. This fell by 2.25% over the year and led to a general reduction in the interest rate structure. An example of its effect was the fact that the differential between public sector borrowing interest rates and the corresponding EEC rates was reduced to an all time low.

Telefónica in the spanish economy.

Telefónica's contribution to the growth of the G.D.P. increased substantially, with its proportion rising from 1.65% in 1990 to 1.78% in 1991. The value added generated by Telefónica went up by 11.8% in real terms while the G.D.P rose by 2.4%.

The different components of the value added generated by Telefónica also strengthened their position as proportions of the corresponding national totals. Especially significant was the gross operating surplus, which represented 2.39% of the total as opposed to 2.14% in 1990. Gross savings were 2.96% of the national total, up on the previous year's figure of 2.57%. This significant growth was brought about by the aforementioned gross operating surplus, along with the maintenance of the dividend per share during the year and the slowing down of the growth of financial expenses.

Capital expenditure
millions of pesetas



Telefónica and the spanish economy (as a % of the national total, except prices)

	1987	1988	1989	1990	1991
Gross value added	1.57	1.51	1.58	1.65	1.78
Services sector G.V.A. deflator	2.98	2.91	2.97	3.01	3.18
Gross operating profit	2.19	2.01	2.05	2.14	2.39
Gross savings	2.90	2.58	2.69	2.57	2.96
Gross capital formation	4.49	3.69	5.10	5.45	4.29
Prices (1)					
• G.D.P. deflator	5.9	5.6	6.9	7.3	6.9
• Services sector G.V.A. deflator	6.4	6.4	6.9	9.5	8.4
• Telefónica (2)	4.6	1.0	2.7	6.4	5.8

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

Gross value added (Real growth rates)

	1987	1988	1989	1990	1991
National economy	5.6	5.2	4.8	3.6	2.4
Services sector	4.6	4.9	5.3	4.2	3.4
Telefónica	10.8	8.1	11.8	8.8	11.8

Source: I.N.E. and Telefónica.

During the past year Telefónica's investment needs lessened as a consequence of the reduction in demand for telecommunication services in Spain first noted in 1990. This was reflected in macroeconomic terms by a reduced share of Telefónica's investment in gross capital formation, though it continued to represent a significant proportion of the national total, 4.29%.

Finally, during the last year Telefónica continued its policy of international expansion, focussing mainly on Latin America, thus confirming its status as one of the first members of the international investment community to show renewed interest in this geographical area. After a decade of economic adjustment the Latin American economies saw in 1991 the recovery of growth rates and an appreciable drop in inflation aided by exchange rate support measures. In this new context it is significant that, for the first time since 1981, income from foreign capital investment exceeded the return on interest and profits. This situation points to the upturn in confidence in these economies, and the strengthening of the necessary base for the relaunching of economic activity in the region.

Management's discussion.

Telefónica.

Summary.

During 1991 Telefónica's operating revenue grew by 155,489 million pesetas, which in relative terms represents an annual increase of 18.2%. The total exceeded a billion pesetas for the first time. This positive trend, along with the maintenance of the expenditure control policy, allowed the operating margin to grow to an annual rate of 22.8%, 6.4% up on the previous year. There was also a marked improvement in the performance of financial expenses, especially for debt, which slowed down its rate of growth from 42.3% in 1990 to 26.1% in 1991.

Profit from operating activities reached 108,337 million pesetas, 21.5% more than in 1990. After deduction of negative extraordinary items to the value of 9,790 million pesetas, mainly due to charges for the accelerated depreciation of plant, the pre-tax profit was 98,547 million pesetas. After deduction of the provision for corporate tax, 17,700 million pesetas, the net profit for the year was 80,847 million pesetas, 6.7% higher than in 1990.

Operating revenue

Operating revenue was 1,008,031 million pesetas, 18.2% up on the previous year.

The new tariffs, with an average rise of 5.85%, came into effect on the 14th of April. Bearing in mind that the previous year's increase was 7.3%, with effect from the 20th of March, the estimated effect on operating revenue in 1991 was 5.8%, as opposed to 6.4% in 1990.

In 1,991 we continued our policy of progressively bringing prices into line with costs. The average prices of international calls and data transmission remained steady in 1990, but in 1991 we reduced them in order to make them more competitive. Thus the average international service tariff was cut by 9%, while local service rates were raised considerably in order to reduce the substantial difference with their cost.

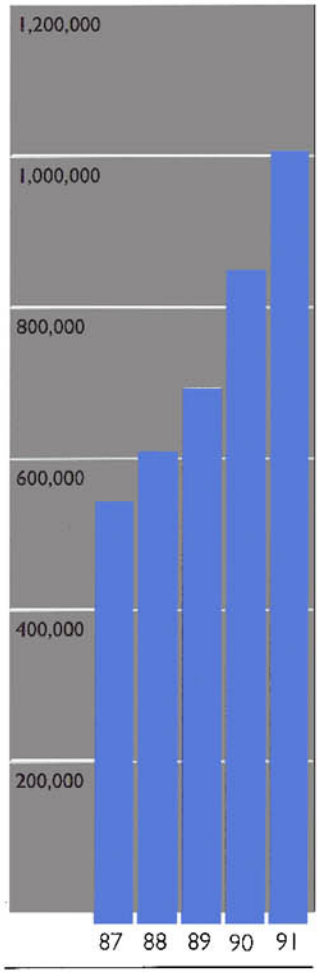
Average usage per line also showed a positive trend, with 4.1% growth. 2.4% of this increase was accounted for by a greater volume of traffic, while the rest was due to innovations in charging systems.

Operating revenue (In millions of pesetas)

	1987	1988	1989	1990	1991	Increases % over 90	87-91*
Subscriber service charges	157,073	166,726	184,001	207,119	230,885	11.5	10.1
Data and image transmission	43,052	52,393	69,230	87,628	103,852	18.5	24.6
Domestic automatic service	236,491	271,770	314,984	374,472	465,584	24.3	18.5
Trunk calls throughoperator	1,597	1,249	988	1,642	2,266	38.0	9.1
International service	72,948	87,497	96,902	113,857	124,492	9,.3	14.3
Mobile land and maritime services	1,646	2,417	4,583	8,696	14,255	63.9	71.5
Advertising	7,598	6,164	7,299	8,506	10,017	17.8	7.2
Revenue from services	520,405	588,216	677,987	801,920	951,351	18.6	16.3
Connection fees and other items	20,322	26,613	36,852	50,622	56,680	12.0	29.2
Operating revenue	540,727	614,829	714,839	852,542	1,008,031	18.2	16.8

*87-91 compound rate

Operating revenue
millions of pesetas



The mobile service grew by 63.9%, continuing the previous years' trend as the fastest growing item of operating revenue. It was followed by the domestic telephone service with 24.4% growth, and data transmission with 18.5%. Advertising revenue went up by 17.8% while the international service registered the lower figure of 9.3% due to the reduction in tariffs.

The domestic telephone service generated 46.4% of total operating revenue, with subscriber service charges representing 22.9%, and the international service 12.4%. The remaining 18.3% was accounted for by the other items of operating revenue, with data and image transmission making a significant contribution of 10.3% to the total.

This good revenue performance, in a year which saw a slackening in demand for the basic telephone service, can in large part be put down to Telefónica's high rate of activity during the year. In fact, demands for new lines were down by 10.6%, from 1,317,000 in 1990 to 1,178,000 in 1991. Taking into account cancelled applications and subscriptions, the net drop in demand was even greater, at 550,000, 21.0% down on the previous year.

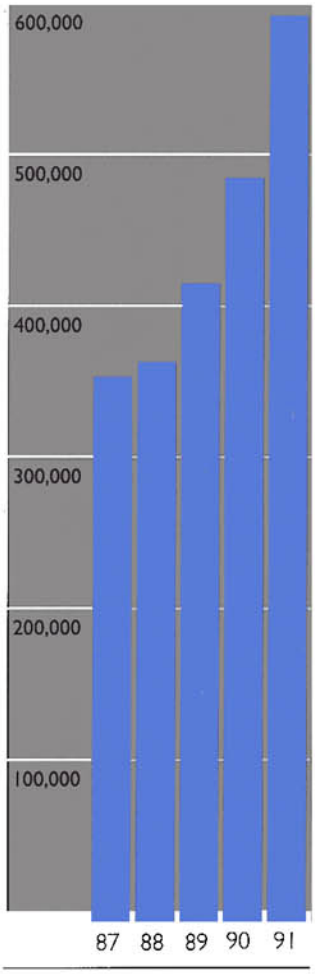
Financial ratios

Figures in %, unless otherwise indicated

	1987	1988	1989	1990	1991
Operating margin/Operating revenue (1)	66.2	59.7	58.4	56.9	59.1
Financial expenses/Operating revenue (2)	18.0	16.2	16.0	18.7	19.8
Operating margin/Av. net plant (3)	19.6	18.3	18.3	18.2	19.7
Fixed assets coverage (4)	89.4	90.1	87.1	82.5	87.7
Guarantee ratio (5)	53.2	52.5	45.3	40.0	37.5
Self-financing ratio (6)	60.7	60.3	41.1	41.5	56.3
Financial debt ratio (7)	40.1	40.1	46.1	52.7	55.9
Debt repayment capacity (years) (8)	4.9	3.6	4.4	5.0	5.1
Financial expenses coverage (times) (9)	1.2	1.3	1.3	1.2	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/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 + 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) Income before tax + Financial expenses + Exchange losses + Amortization of deferred charges - Internal expenditure capitalized in fixed assets/Financial expenses + Exchange losses + Amortization of deferred charges.

Operating margin
millions of pesetas



In spite of the above, there were 1,036,766 new subscribers to the telephone service, with the number of lines in service going up from 12,602,640 at the end of 1990 to 13,264,360 at the end of 1991. As a consequence, the waiting list was reduced by 35.7% during this period, with 244,000 applications pending at the end of 1991. This high rate of activity was also reflected in the Ibercom Network, where the lines in service went up by 45.0%, reaching 370,500 by the end of the year, while the number of subscribers to the Automatic Mobile Telephony service by December 31 was 108,450, representing an annual growth of 98%.

Operating expenses

Even more significant than the positive trends in operating revenue was the control exercised over operating expenses, with the resulting increase of 12.6%, as opposed to 18.2% the year before.

Personnel expenses, with 68.9%, and expenses for subcontractors, supplies and services with 22.0%, accounted for practically all of this total. The remaining items, local taxes and provision for the setting up of a pension fund, had a minor effect on the total.

Personnel expenses reached 328,824 million pesetas, representing a growth rate of 12.0%, 3.8% down on 1990. Of this 12% growth, 7% was due to the pay settlement and 2.5% was accounted for by the average growth of the workforce. The rest was due to other factors, including the restructuring of work groups.

The company's workforce showed hardly any variation compared with the previous year. The total number of employeees at the end of the

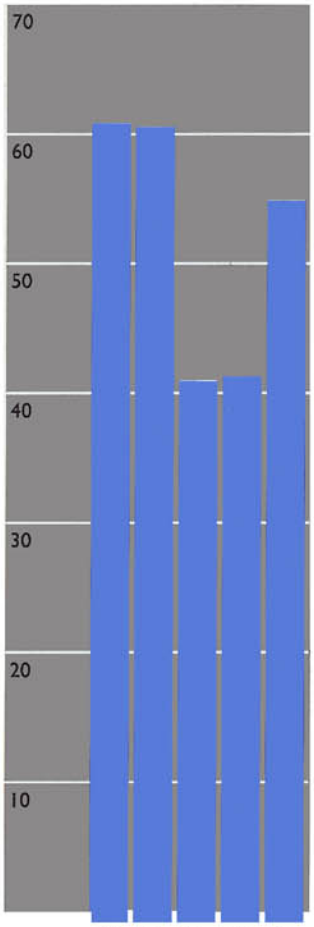
Results - Profit margins 1987/1991

In millions of pesetas

Description	1987	
	Amount	% Struct
+ Revenue from operations	540,727	100.0
- Operating expenses		
Personnel, external services and other expenses	240,151	(44.4)
Local taxes	-	-
Provision for pension fund	-	-
+ Internal expenditure capitalized in fixed assets	57,571	10.6
= Operating margin	**358,147**	**66.2**
+ Other operating revenue	6,022	1.1
- Depreciation of fixed assets	161,650	(29.9)
- Other operating expenses	1,357	(0.3)
- Other provisions and charges	40,701	(7.5)
= Operating profit	**160,461**	**29.7**
+ Interest during construction	8,373	1.5
+ Financial revenue	7,598	1.4
- Financial expenses	84,094	(15.5)
- Exchange losses	10,294	(1.9)
- Amortization of deferred charges	2,792	(0.5)
- Provision for investments depreciation	-	-
= Profit from ordinary activities	**79,252**	**14.7**
+ Extraordinary revenue	6,150	1.1
- Extraordinary expenses	1,080	(0.2)
= Income before tax	**84,322**	**15.6**
- Corporate tax (1987 state levy)	31,075	(5.7)
= Net income	**53,247**	**9.9**
+ Net income	53,247	9.9
+ Amortization of deferred charges	2,792	0.5
+ Depreciation of fixed assets	161,650	29.9
+ Dismantled plant pending depreciation	-	-
= Cash flow	**217,689**	**40.3**
+ Provision for exchange losses	10,294	1.9
+ Provisions and charges	40,701	7.5
= Gross cash flow	**268,684**	**49.7**

(1) 87-91 compound rate

% Self-financing of capital expenditure



year was 75,499, of which 73,485 were permanent and 2,014 temporary. As already mentioned, the average increase was 2.5%.

Expenses for subcontractors, supplies and services reached a total of 105,297 million pesetas, with a growth of 11.7%, 15.0% down on 1990's figure.

Operating margin

As a consequence of the favourable trends seen in operating revenue and expenses, the margin rose to 596,157 million pesetas, 22.8% up on the previous year, and significantly higher than the 1990 rise of 16.4%. Operating margin as a proportion of operating revenue also rose, going up from 56.9% in 1990 to 59.1% last year.

This trend was partly due to the increase in internal expenditure capitalized in fixed assets, which grew by 15.0% in 1991. However, if we

1988		1989		1990		1991		Increases %	
Amount	% Struct	Amount	% Struct	Amount	% Struct	Amount	% Struct	over 90	87-91 (1)
614,829	100.0	714,839	100.0	852,542	100.0	1,008,031	100.0	18.2	16.8
277,168	(45.1)	327,837	(45.9)	387,829	(45.5)	434,121	(43.1)	11.9	16.0
12,210	(2.0)	13,450	(1.9)	16,085	(1.9)	19,386	(1.9)	20.5	-
14,815	(2.4)	17,500	(2.4)	20,300	(2.4)	24,000	(2.4)	18.2	-
56,336	9.2	61,071	8.5	57,080	6.7	65,633	6.5	15.0	3.3
366,972	**59.7**	**417,123**	**58.3**	**485,408**	**56.9**	**596,157**	**59.1**	**22.8**	**13.6**
9,811	1.6	8,373	1.2	13,887	1.6	20,682	2.1	48.9	36.1
201,244	(32.7)	218,002	(30.4)	250,615	(29.3)	291,870	(29.0)	16.5	15.9
2,152	(0.4)	4,636	(0.5)	1,823	(0.1)	5,353	(0.5)	193.6	40.9
1,330	(0.2)	7,179	(1.0)	9,382	(1.1)	15,214	(1.5)	62.2	(21.8)
172,057	**28.0**	**195,679**	**27.4**	**237,475**	**27.9**	**304,402**	**30.2**	**28.2**	**17.4**
-	-	-	-	-	-	-	-	-	-
8,880	1.4	11,726	1.6	13,868	1.6	5,640	0.6	(59.3)	(7.2)
84,866	(13.8)	104,935	(14.7)	149,362	(17.5)	188,360	(18.7)	26.1	22.3
12,046	(2.0)	7,331	(1.0)	6,815	(0.8)	7,277	(0.7)	6.8	(8.3)
2,607	(0.4)	1,883	(0.3)	3,131	(0.4)	3,955	(0.4)	26.3	9.1
254	0.0	187	0.0	2,838	(0.4)	2,113	(0.2)	(25.5)	-
81,164	**13.2**	**93,069**	**13.0**	**89,197**	**10.5**	**108,337**	**10.7**	**21.5**	**8.1**
4,194	0.7	5,142	0.7	10,777	1.3	9,290	0.9	(13.8)	10.9
1,270	(0.2)	5,138	(0.7)	6,786	(0.8)	19,080	(1.9)	181.2	105.0
84,088	**13.7**	**93,073**	**13.0**	**93,188**	**10.9**	**98,547**	**9.8**	**5.8**	**4.0**
21,243	(3.5)	24,175	(3.4)	17,400	(2.0)	17,700	(1.8)	1.7	N/S
62,845	**10.2**	**68,898**	**9.6**	**75,788**	**8.9**	**80,847**	**8.0**	**6.7**	**11.0**
62,845	10.2	68,898	9 .6	75,788	8.9	80,847	8.0	6.7	11.0
2,607	0.4	1,883	0.3	3,131	0.4	3,955	0.4	26.3	9.1
201,244	32.6	218,002	30.4	250,615	29.3	291,870	28.9	16.5	15.9
9,396	1.5	13,678	1.9	15,372	1.8	25,477	2.5	65.7	-
276,092	**44.9**	**302,461**	**42.3**	**344,906**	**40.5**	**402,149**	**39.9**	**16.6**	**16.6**
12,046	2.0	7,331	1.0	6,815	0.8	7,277	0.7	6.8	(8.3)
16,399	2.7	24,866	3.5	32,520	3.8	41,327	4.1	27.1	0.4
304,537	**49.4**	**334,658**	**46.7**	**384,241**	**45.0**	**450,753**	**44.6**	**17.3**	**13.8**

exclude this item, the operating margin went up from 20.3% in 1990 to 23.9% in 1991, thus showing the favourable trends in the company's business.

Operating profit

Operating profit rose to 304,402 million pesetas, representing 28.2% annual growth, significantly higher than the 21.4% growth of the previous year. Provision for depreciation of fixed assets was 291,870 million pesetas, 16.5% more than in 1990. The growth rate of depreciation was 1.5% higher than in 1990, with an increase in the average rate of depreciation of plant in service from 7.4% to 7.5%.

In evaluating the significance of this increase in the average rate of depreciation we should bear in mind that the gross plant in service of the company rose from 3.85 trillion pesetas at the end of 1990 to 4.51

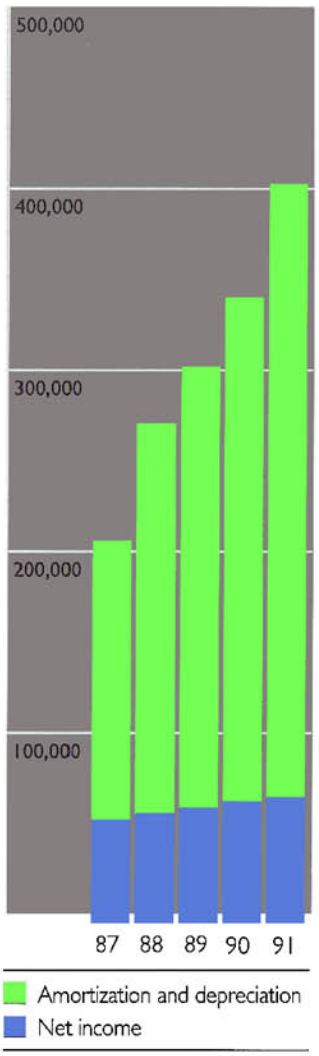
trillion pesetas at the end of 1991. This represented a net increase of 659,000 million pesetas over the year, or 17.1% growth.

Financial expenses

Throughout the last year Telefónica continued to raise the external funds necessary to finance its investments mainly through borrowing. However, several factors combined to allow a gradual slowing down of the growth of financial expenses. These were a marked improvement in the internal generation of funds, reduced investment needs due to the intensive installation programmes carried out in previous years, and the continuation of the downward trend in demand which began in 1990.

Another factor was the easing of the restrictive monetary policy which had been a feature of 1990, with resulting lower interest rates in nearly all types of borrowing. Also, the abolition of foreign debt restrictions in the first quarter of 1991 opened up this source of funds, with the consequent favourable effect on financial expenses.

Cash flow
millions of pesetas



These were the determining factors in the improvement in financing costs, with interest rates falling both on funds borrowed during the year and on floating rate debt contracted in previous years (the latter accounting for approximately 38% of the total). The result was that the average cost of new debt incorporated into total liabilities fell by 1 percentage point from 14.5% in 1990 to 13.5% in 1991.

The above mentioned circumstances meant that financial expenses slowed down steadily during the year, resulting in an increase of 26.1% as opposed to 42.3% the year before. The annual figure was 188,360 million pesetas.

The fall in financial revenue, due to the virtual elimination of advances to suppliers and the increases in exchange losses and the amortization of debenture issue expenses, was too small to have any effect on the upward trend in profit before non-operating activities. This figure rose to 108,337 million pesetas, with a 21.5% annual increase, as opposed to the 4.2% decrease recorded in 1990.

Net extraordinary items

While 1990 saw a profit from extraordinary items of 3,991 million pesetas, in 1991 an extraordinary loss of 9,790 million pesetas was recorded. The main reason for this trend was the fact that charges for dismantled plant pending depreciation rose from 15,372 million pesetas in 1990 to 25,477 million pesetas in 1991, an increase of 65.7%. This increase was a consequence of the large amount of dismantling of plant that was carried out during the year as part of a renovation programme, and which because of its nature as an accelerated depreciation item complemented the favourable effect of depreciation on the growth of cash flow during the year.

After allowing for the effect of extraordinary items, income before tax rose to 98,547 million pesetas. This represented a 5.8% growth, which contrasted with the zero growth shown by the figure for 1990.

Taxes, net income and cash flow

After the deduction of 17,700 million pesetas for the provision for corporate tax, net income totalled 80,847 million pesetas, an increase of 6.7% over the previous year's figure of 75,788 million pesetas.

This provision for corporate tax of 17,700 million pesetas was 1.7% higher than 1990's figure. The resulting effective tax rate was 18.0%, as opposed to 18.7% in 1990. These figures were much lower than the corresponding figures for 1989 and 1988, 26.0% and 25.3% respectively. This downward trend of the last two years is mainly due to tax reductions for investment in the World Fair in Seville and the Olympic Games in Barcelona.

Balance sheets 1987/1991

In millions of pesetas

Items	1987	1988	1989	1990	1991
Fixed assets	**1,961,415**	**2,136,854**	**2,518,894**	**2,977,228**	**3,303,059**
Capital increase expenses	1,200	4,352	3,251	2,170	1,219
Net intangible assets	718	6,281	10,665	17,812	28,248
Property, plant and equipment	3,162,385	3,462,255	3,985,031	4,575,823	5,016,908
Depreciation of fixed assets	(1,234,045)	(1,373,388)	(1,527,442)	(1,689,133)	(1,847,338)
Property, plant and equipment - net	1,928,340	2,088,867	2,457,589	2,886,690	3,169,570
Investments	31,157	37,354	47,389	70,556	104,022
Deferred expenses	**53,477**	**34,961**	**59,451**	**66,213**	**75,004**
Current assets	**147,056**	**179,192**	**214,331**	**249,394**	**290,152**
Consumable inventories	4,146	6,512	8,320	8,161	5,319
Accounts receivable	138,897	169,799	202,449	236,151	274,045
Cash and banks	2,772	2,044	936	2,562	4,579
Prepayments	1,241	837	2,626	2,520	6,209
Assets = Liabilities and shareholders' equity	**2,161,948**	**2,351,007**	**2,792,676**	**3,292,835**	**3,668,215**
Shareholders' equity (1)	**1,163,058**	**1,245,071**	**1,267,925**	**1,294,504**	**1,324,368**
Paid-in share capital	415,368	460,620	462,482	463,479	463,479
Reserves	715,190	743,154	759,667	778,411	803,216
Net income for the year	53,247	62,845	68,898	75,788	80,847
Interim dividend	(20,747)	(21,548)	(23,122)	(23,174)	(23,174)
Deferred income (2)	**11,313**	**14,649**	**25,147**	**50,000**	**80,972**
Provisions for liabilities and charges (3)	**80,226**	**93,802**	**111,246**	**129,741**	**149,593**
Long term debt (4)	**570,770**	**627,161**	**862,173**	**1,051,693**	**1,440,229**
Debentures, bonds and promissory notes issued	264,348	247,050	279,827	383,732	589,011
Debts with credit institutions	222,823	283,269	466,204	527,827	624,335
Debts with group and associated companies	-	-	-	12,129	91,849
Other creditors	83,599	96,842	116,142	128,005	135,034
Permanent capital (1+2+3+4)	**1,825,367**	**1,980,683**	**2,266,491**	**2,525,938**	**2,995,162**
Short term debt	**336,581**	**370,324**	**526,185**	**766,897**	**673,053**
Debentures, bonds and promissory notes issued	109,622	123,909	160,478	347,656	185,496
Debts with credit institutions	66,585	56,150	81,359	78,954	82,283
Other creditors	144,704	177,236	264,217	318,595	385,179
Prepayment	15,670	13,029	20,131	21,692	20,095
Unused credit facilities	**92,789**	**102,090**	**29,979**	**86,084**	**36,215**

Cash flow was 402,149 million pesetas, 16.6% up on the year before. This figure was obtained by adding to net income the figures for depreciation of fixed assets, provision for dismantled plant pending depreciation and amortization of deferred charges. Earnings per share were 87.2 pesetas and cash flow per share 433.8 pesetas, representing annual growth of 6.7% and 16.6% respectively.

Capital expenditure, self financing and borrowing

Telefónica's capital expenditure in fixed assets in 1991 totalled 600,863 million pesetas, 13.2% lower than the 692,490 million recorded in 1990. This represents a deviation from the continuous growth trend in this area of expenditure, as a result of the fall-off in demand which began in 1990 and continued in 1991. The figure of 600,863 million pesetas for capital expenditure comprises both investment in tangible fixed assets, 622,672 million pesetas, and variations in advances to suppliers and stocks for fixed assets, which had negative results of 9,293 and 12,516 million pesetas respectively. If we add expenditure in intangible fixed assets, at 14,609 million pesetas, and investments, at 23,187 million, the total investment carried out by Telefónica in 1991 was 638,659 million pesetas, 12.4% less than the previous year.

The effect of the reduction in capital expenditure in fixed assets and the increase in cash flow allowed the company to raise its rate of self financing from 41.5% in 1990 to 56.3% in 1991. In spite of this improvement, Telefónica had to resort to external financing to make good the deficit between its financial needs and the resources generated. As a consequence, the financial debt ratio grew by 3.2 percentage points, from 52.7% in 1990 to 55.9% at the end of 1991.

The Telefónica Group.

For the first time, Telefónica is including in its annual report the annual consolidated accounts of its group companies, for the year 1991. This is in accordance with the stipulations of the Partial Reform Act and the adaptation of commercial legislation to comply with EEC directives.

Valuation and group composition

At 1991 year end, the net book value of the group companies in Telefónica's balance sheet was 72,864 million pesetas. Subsidiary companies accounted for 68% of the total, while associated and participating companies accounted for 17% and 15% respectively.

At the end of 1991 the composition of the Telefónica group companies was the following:

Subsidiary companies: 38 companies in which the holding was over 50%, and which have been fully consolidated under the system of global integration. Of these 38 subsidiaries, Telefónica has direct holdings in 23 of them, while the remaining 15 were acquired through other subsidiaries. The following deserve special mention:

- Telefónica International, with a Telefónica holding of 76.22%, involved in investment in the foreign telecommunications sector and the management of holdings acquired.

■ Telefónica I + D, with a 100% holding, involved in research and development in the telecommunications field.

■ Companies whose function is complementary or auxiliary to Telefónica's main activity, namely the operation of telecommunications networks and services. Particular mention should be made of the following:

• Compañia Publicitaria de Exclusivas Telefónicas (Cetesa), with a 100% Telefónica holding, involved in the publication of telephone directories and advertising.

• Cabinas Telefónicas (Cabitel), with a 100% holding, and whose activity is the marketing, installation, management and operation of public telephones.

• Teleinformática y Comunicaciones (Telyco), with a 100% Telefónica holding, involved in the promotion, marketing and distribution of telephony and data transmitting equipment and services.

• Telefónica de Servicios (TSI), with a 100% Telefónica holding, involved in the operation of value added services.

■ Companies involved in the installation of telecommunications equipment and networks. The most significant are the following:

• Sistemas e Instalaciones de Telecomunicacíon (Sintel),in which Telefónica has a 100% holding, and whose activity is the laying of telecommunications lines and cables and equipment installation.

• Telefónica Sistemas, with a 100% Telefónica holding, involved in the engineering of telecommunications systems.

• Telecomunicaciones Marinas (Temasa), a 100% Telefónica holding, whose activity is the surveying, laying and repairing of submarine cables.

Associated companies: 24 companies in which the Telefónica holding ranges from 20% to 50% for those not quoted on the Stock Exchange, or 3% for those which are quoted, and which have been consolidated by application of the equity method. Of these 24 companies, Telefónica has direct holdings in 9, and in the other 15 through subsidiaries. In this subgroup the following are particularly significant:

■ Chilean telecommunications services operators: The Compañia de Teléfonos de Chile (CTC), which operates local telephone services, and in which Telefónica has an indirect holding of 43.63% acquired through Telefónica Internacional. Entel Chile, which operates long distance telephony services, with a 20% holding also acquired through Telefónica Internacional.

■ Hispasat, a company whose objective is the operation of a satellite communications system in Spain and Latin America, and in which Telefónica has a 25% holding.

■ Companies devoted to the development and manufacture of telecommunications equipment. Among these, special mention should be made of Alcatel Standard Eléctrica, in which Telefónica has a holding of 21.14%. This company manufactures telephone and telegraph transmission and exchange systems, and is one of Telefónica's main suppliers. Also significant

is Amper, which develops and manufactures telephone and telematic terminals and components, and in which Telefónica has a holding of 15.34%.

- Eritel, which develops software for data processing application, and in which Telefónica has a 38.71% holding.

Participating Companies: Telefónica has 34 investments in other companies, 12 directly and 22 through its subsidiary companies. These have been presented as financial investments, with the acquisition cost being entered in the parent company's accounts, or in the case of indirect investments, in those of the investing company. The most significant investments in this group are:

- Telefónica Argentina, which provides the telephone service in the southern half of the country, with an 8.07% Telefónica Internacional holding, 6.13% through the Cointel consortium, and the rest directly.

- The Venworld consortium, with a 16% holding through Telefónica Internacional, and which last December was the beneficiary of the privatization of 40% of the shares of the Venezuelan telephone service operator, the Compañía Anónima de Teléfonos de Venezuela (CANTV).

- The international consortiums Intelsat, Inmarsat and Eutelsat, which operate worldwide satellite telecommunications systems.

- A.T.T. Network Systems International, with a 5.84% holding, and which is involved in the marketing, development and manufacture of all types of network products, mainly in the field of public telecommunications.

The contribution of the Telefónica Group Companies to the profit and loss account

	Parent company	Telefónica Group	Total	Telefónica Group contibution as % of parent company total
Operating revenue	1,008,031	40,967	1,048,998	4,1
Internal expenditure capitalized in fixed assets	65,633	42,804	108,437	65.2
Operating expenses	477,507	75,409	552,916	15.8
Financial expenses	188,360	3,392	191,752	1.8
Net extraordinary items	(9,790)	19,842	10,052	n.s.
Profit before tax	98,547	29,972	128,519	30.4
Net profit	80,847	23,400	104,247	28.9

Figures in millions of pesetas unless otherwise indicated

Consolidated profit and loss

In 1991 the contribution of the group companies to the consolidated profit and loss account was the following:

Operating revenue: The subsidiary companies contributed 40,967 million pesetas, 4.1% of the parent company's corresponding figure. 51.6% of this total was contributed by the subsidiary Cetesa, whose main activities are the publication of telephone directories and advertising. The subsidiary Sintel, involved in the installation of equipment and the laying of telecommunications lines and cables, contributed 16.4% of this figure. Telyco, which promotes and markets telephone and data transmitting equipment and Telefónica Sistemas, involved in the engineering of telecommunications systems, contributed 3,936 and 3,241 million pesetas (9.6% and 7.9%) respectively.

Consolidated results - profit margins 1991
(In millions of pesetas)

Description	1991	
	Amount	**% Struct**
+ Operating revenue	1,048,998	100.0
- Operating expenses		
Personnel, external services and other services	509,100	(48.5)
Local taxes	19,816	(1.9)
Provision for pension fund	24,000	(2.3)
+ Internal expenditure capitalized in fixed assets	108,437	10.3
= Operating margin	**604,519**	**57.6**
+ Other operating revenue	18,082	1.7
- Depreciation of fixed assets	294,775	(28.1)
- Other operating expenses	5,855	(0.6)
- Other provisions and charges	16,740	(1.6)
= Operating profit	**305,231**	**(29.1)**
+ Interest during construction	6,333	0.6
- Financial expenses	191,752	(18.2)
- Exchange losses	6,094	(0.6)
- Amortization of deferred charges	3,991	(0.4)
- Provision for investments depreciation	(1,057)	0.1
+ Participation in associated companies' profit	7,683	0.7
= Profit from ordinary activities	**118,467**	**11.3**
+ Extraordinary revenue	32,726	3.1
- Extraordinary expenses	20,902	(2.0)
- Minority interest in earnings of consolidated subsidiaries	1,772	(0.2)
= Income before tax	**128,519**	**12.3**
- Corporate tax (1987 levy)	24,272	(2.3)
= Net income	**104,247**	**10.0**
+ Net income	104,247	10.0
+ Amortization of deferred charges	3,991	0.4
+ Depreciation of fixed assets	294,775	28.1
+ Dismantled plant pending depreciation	25,477	2.4
= Cash flow	**428,490**	**40.8**
+ Provision for exchange losses	7,361	0.7
+ Provisions and charges	39,626	3.8
= Gross cash flow	**475,477**	**45.3**

Internal expenditure capitalized in fixed assets: The subsidiary companies contributed 42,804 million pesetas to the parent company's figure of 65,633 million pesetas in internal expenditure capitalized in fixed assets, representing 65.2% of the Telefónica total. Of this total, 62.0% (26,538 million pesetas) was contributed by Sintel, (laying of telecommunications lines and cables and equipment installation) and 21.3% by Telefónica Sistemas (engineering of telecommunications systems). Telyco (promotion, marketing and distribution of telephony and data transmitting and services) and Telefónica I + D (telecommunications research and development) contributed 1,855 and 1,754 million pesetas respectively.

Operating expenses: The subsidiary companies' operating expenses in 1991 were 75,409 million pesetas, 15.8% of the parent company's corresponding figure. The main contributors to this figure were as follows: Sintel, 21,245 million pesetas; Telefónica Sistemas, 11,009 million; Cetesa, 8,517 million; Cabitel, 6,064 million; Telefónica I + D, 4,896 million and Telyco 4,736 million pesetas.

The performance of operating revenue and expenses resulted in an operating margin for the subsidiary companies of 8,362 million pesetas, representing 1.4% of the parent company's margin.

Financial expenses: The total for the group companies was 3,392 million pesetas, 1.8% of the corresponding Telefónica figure. This total was accounted for entirely by Telefonía y Finanzas (Telfisa), a subsidary in which Telefónica has a 100% holding, and which is involved in investment management.

Net extraordinary items: While the parent company recorded a loss of 9,790 million pesetas, the group companies in 1991 had a profit of 19,842 million pesetas, mainly due to the sale of the participation in Telettra S.p.A.

Profit before tax: The above figures resulted in a pre-tax profit for the group companies in 1991 of 29,972 million pesetas, which when added to Telefónica's figure of 98,547 million pesetas, gives a pre-tax profit for the consolidated group of 128,519 million pesetas, 30.4% higher than the parent company's figure. The group's total of 29,972 million pesetas was obtained in the following way:

• Through Taetel, a subsidiary whose purpose is the acquisition, possession and disposal of shares and holdings in other companies. This company contributed 18,811 million pesetas to the total (62.8%).

• Telefónica Internacional, mainly through its holdings in the Chilean operators CTC and Entel, contributed 7,450 million pesetas, representing 24.9% of the total.

• Of the remainder, significant contributions were made by Sintel, with 1,843 million pesetas, and Cetesa, with 1,520 million pesetas.

The total provision for corporate tax, at 24,272 million pesetas, was 37.1% higher than that of the parent company, and represented an effective tax rate for the year of 18.9%, as opposed to Telefónica's figure of 18.0%. The consolidated group's net profit was 104,247 million pesetas, 28.9% higher than the 80,847 million pesetas recorded by the parent company.

Consolidated balance sheet

The most outstanding feature of the consolidated balance sheet for 1991 is the similarity it offers to the Telefónica figures. Thus the total consolidated assets, at 3,719,263 million pesetas, were 1.4% higher than in the parent company, and the consolidated equity, at 1,330,273, was 0.4% higher than Telefónica's figure of 1,324,368 million pesetas.

Annual Accounts

Price Waterhouse Audiberia, S.A.

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

1. We have audited the annual accounts of Telefónica de España, S.A. at December 31, 1991 and 1990 and the consolidated annual accounts of Telefónica de España, S.A. and its subsidiaries at December 31, 1991 consisting of the balance sheets, 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 and 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 substantive tests of the underlying records of the annual accounts, an assessment of their presentation and of the accounting principles and the estimates applied.

2. As indicated in Note 1 to the annual accounts, Telefónica falls within the group of regulated entities whose peculiarities permit that income and expenses may be atributable 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 of referred in the assets of the Company, will depend upon the adequate future consideration, in tariffs, of these concepts.

3. As explained in Notes 19 and 20, the Company has been negotiating the establishment of an alternative benefit scheme to the actual pension plan applicable to its employees. On December 30, 1991 the active and retired employees of I.T.P. were incorporated into the National Social Security System, but with effect from January 1, 1992. As of the date of this opinion, no final agreement exists with respect to this alternative plan. Accordingly we do not know what implications the final terms and conditions will have for the Company.

4. In our opinion, subject to the effects, if any, of the matters described in the preceding paragraph, the attached annual accounts present fairly, in all material aspects, the shareholders' equity and financial position of Telefónica de España, S.A. at December, 31, 1991 and 1990 and the consolidated group at December 31, 1991 and the results of their operations and the resources obtained and applied for the year ended on those dates, and they contain the necessary and relevant information in order to adequately interpret and understand them, in conformity with generally accepted accounting principles consistently applied.

5. The accompanying Directors' Report for 1991 contains the information that mangement 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 1991. 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 Member no. S0242

Augusto San Segundo

Audiberia, S.A.
ROAC Member no. S06777

Juan Manuel Osorio

Telefónica de España, S.A. and Telefónica Consolidated Group.

In millions of pesetas	Parent Company		Consolidated group
ASSETS	**1991**	**1990**	**1991**
A. SUBSCRIBED SHARES NOT PAID-IN	-	-	20
B. LONG TERM ASSETS	3,303,059	2,977,228	3,308,224
I. Cost of new equity capital	1,219	2,170	1,496
II. Intangible assets (Note 5)	28,248	17,812	34,732
Research and development expenses	25,498	15,853	26,075
Finance leasing	-	-	5,080
Other intangible assets	10,776	5,812	13,358
Accumulated amortization	(8,026)	(3,853)	(9,781)
III. Fixed assets (Note 6)	3,169,570	2,886,690	3,153,515
Land and buildings	349,255	293,399	353,754
Technical installations and machinery	102,156	83,520	110,614
Telephone installations	3,969,124	3,408,984	3,933,074
Furniture, equipment and other	88,554	64,186	98,400
Construction in progress	449,774	646,434	446,829
Advance payments for fixed assets	13,154	22,447	13,275
Installation equipment	44,891	56,853	46,498
Accumulated depreciation	(1,847,338)	(1,689,133)	(1,848,929)
IV. Investments (Note 7)	104,022	70,556	118,481
Investments in group companies	81,382	40,502	-
Investments in associated companies	14,405	17,320	61,516
Other investments	11,211	12,436	51,791
Other credits	1,642	2,136	2,315
Long-term deposits and financial guarantees	774	1,441	4,456
Depreciation Reserve	(5,392)	(3,279)	(1,597)
C. GOODWILL ON CONSOLIDATION	-	-	6,437
D. DEFERRED EXPENSES (Note 8)	75,004	66,213	77,002
E. CURRENT ASSETS	290,152	249,394	327,580
I. Subscribed shares not paid-in	-	-	40
II. Inventories	5,319	8,161	20,419
Inventories	5,319	8,161	20,868
Advances	-	-	22
Provisions	-	-	(471)
III. Accounts receivable	274,045	236,151	287,918
Subscribers and customers (Note 10)	237,818	195,685	257,114
Group companies	7,810	8,060	-
Associated companies	141	80	716
Sundry accounts receivable	34,921	28,580	36,304
Personnel	6,554	5,757	6,969
Taxes receivable (Note 17)	4,796	10,705	8,216
Reserv for bad debts (Note 10)	(13,877)	(9,191)	(16,915)
Reserve for sundry accounts	(4,118)	(3,525)	(4,486)
IV. Short term investments	-	-	1,345
Short-term securities portfolio	-	-	1,024
Other credits	-	-	321
V. Cash and banks	4,579	2,562	6,712
VI. Prepayments	6,209	2,520	11,146
TOTAL ASSETS (A+B+C+D+E)	**3,668,215**	**3,292,835**	**3,719,263**

Balance sheets at December 31

LIABILITIES AND SHAREHOLDERS' EQUITY	Parent Company 1991	Parent Company 1990	Consolidated group 1991
A. SHAREHOLDERS' EQUITY (Note 11)	**1,324,368**	**1,294,504**	**1,330,273**
I. Stated capital	463,479	463,479	463,479
II. Capital surplus	33,467	33,467	33,467
III. Revaluation reserve	653,780	653,780	649,316
IV. Reserves	115,819	91,069	102,788
Legal reserve	41,321	33,721	41,321
Other reserves	74,498	57,348	52,920
Consolidation reserve	-	-	7,296
Differences on of foreign currency translation for consolidation	-	-	1,251
V. Unappropriated retained earnings	150	95	150
VI. Group profit and loss	80,847	75,788	104,247
Profit for year	80,847	75,788	98,335
Profit from associated companies	-	-	7,683
Profit attributed to outside shareholders	-	-	(1,771)
VII. Interim dividend	(23,174)	(23,174)	(23,174)
B. OUTSIDE SHAREHOLDER'S INTEREST (Note 11.2)	**-**	**-**	**21,780**
C. DEFERRED INCOME (Note 12)	**80,972**	**50,000**	**84,834**
Capital grants	34,029	17,000	34,029
Deferred unrealized exchange gains (Note 9)	24,717	21,059	20,082
Deferred taxes and other	22,226	11,941	30,723
D. PROVISIONS FOR RISKS AND EXPENSES (Note 13)	**149,593**	**129,741**	**153,119**
E. LONG TERM CREDITORS	**1,440,229**	**1,051,693**	**1,444,024**
I. Debentures, bonds and other issues (Note 14)	589,011	383,732	603,259
Debentures and convertible bonds	22,561	21,582	22,561
Debentures and non-convertible bonds	563,900	350,058	565,770
Other negotiable documents issued	2,550	12,092	14,928
II. Debts with financial institutions (Note 15)	624,335	527,827	714,566
III. Debts with group and associated companies (Note 16)	91,849	12,129	15,479
IV. Other accounts payable	103,693	124,510	106,435
V. Notes payable	2,599	508	2,762
VI. Uncalled subscriptions on shares	28,742	2,987	1,523
Group companies (Note 7)	27,252	487	-
Associated companies (Note 7)	1,490	2,500	1,490
Other companies	-	-	33
F. SHORT TERM CREDITORS	**673,053**	**766,897**	**685,233**
I. Debentures, bonds and other issues (Note 14)	185,496	347,656	162,200
Debentures	40,225	40,096	40,214
Other negotiable documents issued	125,815	293,478	102,494
Interest on debentures and other negotiable documents	19,456	14,082	19,492
II. Debts with financial institutions (Note 15)	82,283	78,954	116,548
Loans and other debts	67,790	65,659	101,122
Interest due	14,493	13,295	15,426
III. Debts with group and associated companies (Note 16)	85,163	71,773	47,887
Group companies	39,143	24,646	-
Associated companies	46,020	47,127	47,887
IV. Trade creditors	95,433	129,788	122,913
Advance payments received on orders	-	-	3,406
Debts for purchases and services rendered	55,700	88,409	77,299
Notes payable	39,733	41,379	42,208
V. Other non-trade debts	204,583	117,034	214,466
Taxes payable (Note 17)	30,543	25,266	34,464
Other (Note 18)	174,040	91,768	180,002
VI. Accruals	20,095	21,692	21,219
TOTAL LIABILITIES AND SHAREHOLDRES' EQUITY (A+B+C+D+E+F)	**3,668,215**	**3,292,835**	**3,719,263**

Telefónica de España, S.A. and Telefónica Consolidated Group.

In millions of pesetas	Parent Company		Consolidated group
DEBIT	**1991**	**1990**	**1991**
EXPENSES			
Reduction in inventories	-	-	2,335
Supplies	-	-	33,953
Other purchases	-	-	33,953
Personnel costs (Note 22.2)	328,824	293,603	367,516
Provision for depreciation and amortization	291,870	250,615	293,903
Trade provisions	39,214	29,682	40,683
Provisions for inventories (Note 6.10)	4,200	800	4,528
Provision for doubtful accounts receivable	10,779	8,136	11,057
Other provisions (Note 13)	235	446	1,098
Provision for pension fund (Note 13)	24,000	20,300	24,000
Other operating expenses	130,036	112,134	134,023
External services	104,123	93,709	107,178
Taxes	20,560	16,602	20,990
Other	5,353	1,823	5,855
I. OPERATING PROFIT	**304,402**	**237,475**	**306,160**
Financial expenses	188,360	149,362	191,752
Amortization of costs of formalizing debts	3,955	3,131	3,991
Variation in provisions for investments	-	-	57
Losses on exchange (Note 9)	7,277	6,815	7,361
II. FINANCIAL INCOME	-	-	-
Participation in losses of associated companies	-	-	661
Amortization of goodwill on consolidation	-	-	872
III. PROFIT FROM NORMAL OPERATIONS	**110,450**	**92,035**	**117,444**
Losses on fixed assets	14,011	4,936	14,050
Variation in investments provision for investments in group companies	2,113	2,838	(1,057)
Losses on disposal of investment in consolidated companies	-	-	1,497
Extraordinary expenses (Note 22.3)	5,069	1,850	5,355
IV. EXTRAORDINARY NET PROFIT	-	**1,153**	**12,847**
Losses attributed to the shareholders' interests	-	-	1,815
V. PROFIT BEFORE TAX	**98,547**	**93,188**	**128,519**
Corporate income tax (Note 21)	17,700	17,400	24,272
VI. NET PROFIT FOR YEAR	**80,847**	**75,788**	**104,247**

Annual accounts of Telefónica de España, S.A. for years ended December 31, 1991 and 1990 and

NOTE 1 - OPERATIONS AND GENERAL INFORMATION

1.1 Parent company

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

b) Concession

Telefónica is the concessionaire of the State supplying certain services and telecommunication transmission in accordance with the New State Contract entered into with the State Administration on December 26, 1991.

In accordance with the New State Contract, which has a minimum duration of 30 years, Telefónica assumes the management as concessionaire, under a monopoly arrangement, of end-user services and transmission services. End-user services include local, domestic long distance and international telephone service; automatic mobile telephone service; maritime mobile telephone service; public and radiotelegraphic communications; telefax, videotex and teletex services. Transmission services include support transmission service for the basic telephone service; data transmission services by the public packages exchange network and by the public telephone network; and circuits' rental service, except those used as a support for transmission services or for the transmission of images.

The New State Contract also establishes that the aforementioned list of end-user services and transmission services under the concession will be modified in accordance with the terms of European Community Standards, or if applicable Spanish legislation. The New State Contract also establishes that if any of the end-user or transmission services granted under the concession change their juridical regime from that of a monopoly to one of restricted free competition, Telefónica may continue to render the services under the new regime, if it so requests.

Profit and loss accounts for the years ended December 31

	Parent Company		Consolidated group
CREDIT	**1991**	**1990**	**1991**
INCOME			
Net sales and services rendered (Note 22.1)	1,008,031	852,542	1,048,998
Increase in inventories	-	-	3,056
Work carried out by Company on own fixed assets	65,633	57,080	108,437
Other operating income	20,682	13,887	18,082
Sundry trade income	20,511	13,380	17,518
Grants	171	507	379
Excess provision for risk and expenses	-	-	185
I. OPERATING LOSS	-	-	-
Income from shareholdings	2,195	3,197	1,476
Group companies	1,023	1,200	-
Associated companies	34	694	-
Other companies	1,138	1,303	1,476
Income from other negotiable documents and credits	3,445	10,671	4,857
Group companies	232	1,348	-
Associated companies	27	1,066	8
Other companies	3,186	8,257	4,849
Gains on exchange	-	-	1,267
II. FINANCIAL LOSS	**193,952**	**145,440**	**195,561**
Participation in profit of companies consolidated by the equity method	-	-	8,378
III. LOSS ON NORMAL OPERATIONS	-	-	-
Profit on sales of fixed assets	2,797	3,524	21,855
Capital grants (Note 12)	1,797	911	1,797
Extraordinary income (Note 22.3)	4,696	6,342	9,040
IV. EXTRAORDINARY LOSS	**11,903**	-	-
Profit attributed to the shareholders' interests	-	-	43
V. LOSS BEFORE TAX	-	-	-
VI. NET LOSS FOR YEAR	-	-	-

of Telefónica Consolidated Group

The New State Contract also gives Telefónica the right to maintain the overall financial balance of the contract in accordance with Article 74 and related provision of the State Contract Law.

c) Regulation of tariff

In accordance with the New State Contract the tariff regulations for services will allow the principle of universality for the supply basic services and the overall financial balance of the concession to be safeguarded. For that purpose, within the framework of costs and effective management of the productive resources of the concessionaire company, the tariff regulations must ensure that Telefónica can cover both its operating expenses and the requirements for reserves and capital contributions, in the context of an alignment of the tariff structure to that of costs.

The New State Contract also provides that existing tariffs approved by the Government will continue to apply until such time as they are modified in accordance with the principles established in the New State Contract.

d) Tax regime

According to the Telefónica Taxation Law 15/1987 of July 30, 1987 and Royal Decree 1334/1988 of November 4, 1988, from January 1, 1988 Telefónica is subject to the general tax regulations for State taxes. As regards local taxes Telefónica, is required to pay local property taxes but other local and Autonomous Community taxes are substituted by an annual payment equivalent to two per cent of gross invoiced income.

By Ministerial Order dated December 27, 1989 Telefónica obtained authorization from the Spanish tax authorities to file consolidated income tax returns for the years 1990, 1991 and 1992. Shuch authorization is subject to compliance with certain requirements established by current legislation (Royal Decree Law 15/1977 of February 25, 1977 and Law 18/1982 of May 26, 1982).

1.2 Subsidary companies

Cabinas Telefónicas, S.A. (CABITEL), Plaza de Carlos Trías Bertrán, s/n - 28020 MADRID
Marketing, installation, management and operation of local public telephones, support networks and related services. Operation for advertising purposes of any local support or service capable of being used for that purpose.

Casiopea Reaseguradora, S.A. - 1, Rue Schiller L-2519 (LUXEMBURGO)
Reinsurance.

Compañía Española de Tecnologías Avanzadas, S.A. (COMET), Pº de la Castellana, 83-85 - 28020 MADRID
Promotion of business initiatives
At the year end it has the following subsidiary and associated companies and shareholdings;
- 100% in Compactdata, S.A. - In liquidation
- 60% in Starnet, S.A. - In liquidation
- 50% in Cleon, S.A. - Property sales promotion
- 45% in Satel, S.A. - Inactive
- 30% in Semiconductores, S.A. - Purchase and sales of electronic components
- 30% in AFT; S.A. - Inactive
- 5.8% in Barcelona Tecnología, S.A. - Capital risk company
- 4.75% in Sociedad Catalana de Riesgos, S.A. - Promotion of non-finance companies

Compania Publicitaria de Exclusivas Telefónicas, S.A. (CETESA), Avenida Brasil, 17 - 28020 MADRID
Publishing guides, and advertising material on, all types of support equipment.
At the year end it has the following subsidiary and associated companies:
- 100% in Promotora de Mercados Telemáticos, S.A. - Marketing of advertising products and services.
- 100% in Central de Compras Papel, S.A. - Purchase of paper and graphic art material
- 25% in Venturini, S.A. - Printing and graphic art
- 5% in Euredit, S.C.E. - Publishing European annuals

Ecotel, S.A. C/ Bravo Murillo, 60 - 28003 MADRID
Market research to measure audience and opinion.
At the year end it has the following shareholdings:
- 60% in Ecotel Portugal - Market and commercial research to measure audience and opinion.

Estratégias Telefónicas, S.A. (ESTRATEL), Paseo de la Castellana, 83 - 85 - 28046 MADRID
Promotion, marketing and market research relating to direct marketing.

Maptel, S.A. C/ Orense, 11 - 28020 MADRID
Data processing consulting and digital cartography

Playa de Madrid, S.A. Paseo de la Castellana, 83 - 85 28046 MADRID
Social and recreational activities. Distribution of all types of articles, operation of sporting and hostel facilities and organization of tourist services.

Pleyade Peninsular, Correduría de Seguros, S.A. C/ General Perón, 38 - 28020 MADRID
Distribution, promotion and production of insurance contracts, operating as a broker.

Seguros de Vida y Pensiones Antares, S.A. - C/ General Perón 38 - 28020 MADRID
Life insurance and pensions.

Servicios de Teledistribución, S.A. (S.T. Hilo), Covarrubias, 1 - 28010 MADRID
Supply of services in the teledistribution sector for all types of signals, installation and maintenance of equipment.
At the year end it has the following associated company:
- 33% in S.A.P.E.C., S.A. - Manufacture of public address systems.

Sistemas e Instalaciones de Telecomunicación, S.A. (SINTEL), Rafael Calvo, 18 - 28004 MADRID
Installation of cable laying equipment in the telecommunications field.
At the year end it has the following subsidiary and associated companies and shareholdings:
- 75% in Sintelar, S.A. - Telecommunications installations
- 50% in Sietel, S.A. - Telecommunications installations
- 49% in Cotronic, S.A. - Telecommunications installations
- 49% in Incosa - Telecommunications installations
- 44% in Inalca, S.A. - Telecommunications installations
- 39% in Sistemas Avanzados de Control - Traffic control systems

Taetel, S.L. Beatriz de Bobadilla, 3 - 28040 MADRID
Acquisition, holding and disposing of shares in other companies.

Telecomunicaciones Marinas, S.A. (TEMASA), Silva 2 - 4º 4 - 28013 MADRID
Sounding and laying and repairing underwater cables.

Telefonía y Finanzas, S.A. (TELFISA), Paseo de la Castellana, 151 - 10º B 28046 MADRID
Treasury management and advisory and financial support services to Group companies:
At the year end it has the following subsidiary and associated companies:
- 56.18% in Telefónica Sistemas, S.A. - Systems engineering
- 7.84% in Amper, S.A. - Telecommunications and electronic systems and holding property and other assets.

Telefónica Internacional de España, S.A. Paseo de Recoletos, 41 - 28004 MADRID
Investment in foreign telecommunications and management of the holdings in the companies which channel these investments.
At the year end it has following subsidiary and associated companies and shareholdings:
- 100% in Telefónica International, S.A. (LUXEMBOURG) - Holding company
- 100% in Telefónica Internacional Holding B.V. (HOLLAND) - Holding company
- 100% in Telefónica Internacional Bermuda LTD - In liquidation
- 100% in Telefónica Bermuda LTD - In liquidation
- 100% in Telefónica USA, INC - Representation of Telefónica
- 100% in Telefónica Chile, S.A. - Holding company
- 100% in Telefónica Chile, B.V. - Holding company
- 100% in Telecomunicaciones Hispano Chilenas Holding Co. LTD - Holding company

- 100% in Telefónica Venezuela, B.V. - Holding company
- 100% in Inversiones Hispano Chilenas, S.A. - Holding company
- 60% in Compañía Hispano Francesa de Telecomunicaciones - Inactive
- 47.5% In Pabellón de Operadores Europeos de telecomunicaciones, S.A. Management of EXPO 92 business
- 43.63% in Compañía de Teléfonos de Chile (CTC) - Basic telephone service operator in Chile
- 20% in Entel Chile - Operator of long distance telephone services in Chile
- 17.65% in Telefónica Hispanoamericana, INC - Manufacture and repair of telecommunications equipment
- 16% in VenWorld Telecom - Holding company
- 10.13% in Cointel, S.A. - Holding company
- 8.07% in Telefónica Argentina, S.A. - Telecommunications operator in the southern region of Argentina
- 5.38% in Infonet Services Corporation - Telecommunications operator
- 5% in Sesa Rio Telecomunicaciones, S.A. - Manufacture of telecommunications equipment
- 5% in Telur, S.A. - Manufacture of telecommunications equipments
- 2.92% in Geostar Corp - In bankruptcy
- 0.69% in Locstar, S.A. - In liquidation

Telefónica Investigación y Desarrollo, S.A. (TIDSA) C/ Emilio Vargas, 6 - 28043 MADRID
Research and development of products, exploration, applied investigations and technological reports in the telecommunications field.

Telefónica North America, INC 1209 Orange St. Wilmington/New Castle Country DELAWARE (U.S.A.)
Financial intermediary

Telefónica Sistemas, S.A., Sor Angela de la Cruz, 9 - 28020 MADRID
Systems engineering
At the year end it has the following subsidiary and affiliated companies and shareholdings:
- 90% in T.D.S. - Marketing Tesys equipment
- 40% in Tissat, S.A. - Systems engineering and added value services
- 20% in Excel - Data, S.A. - Manufacture of intelligent cards
- 12.45% in Telecom Vallés, S.A. - Sale of equipment

Teleinformática y Comunicaciones, S.A. (TELYCO), Raimundo Fdez. Villaverde, 28 - 28003 MADRID
Promotion, marketing and distribution of telephonic and telematic equipment and services.

THM, Control Electrónico Integrado, S.A. General Arrando, 40 - 28010 MADRID
Protection and control systems engineering.
At the year end it has the following subsidiary and associated companies:
- 50% in T.M.I. - Integrated maintenance of security installations
- 31.78% in T.P. Servicios Integrales de Protección Civil, S.A. (TEPESA) - Training in techniques of all areas of civil protection, security and fire.

TS - 1 Telefónica Servicios, S.A. C/ Manuel Tovar, 35 - 28034 MADRID
Operation of added value services
At the year end it has the following subsidiary company and shareholdings:
- 51% in Servicios Telefónicos de Audiotex, S.A. - Vocal and audio conference information service
- 12.45% in Telecom Vallés, S.A. - Sale of equipment
- 9.6% in Videotex Information, S.A. - Marketing services

Urbana Ibérica, S.A. C/ General Yagüe, 11 - 28020 MADRID
- Promotional activities for residential property.
- 1.3% Associated companies and shareholdings.
- 1.3% Associated and minority-interest companies.

Alcatel Standard Eléctrica, S.A. C/ Ramírez de Prado, 5 - 28045 MADRID
Manufacture of telephonic and telegraphic exchange and transmission systems, exchange equipment and communications cables.

Amper, S.A. Torrelaguna, 75 - 28027 MADRID
Development, manufacture, repair and marketing of telephonic and telematic terminals and components.

Eritel, S.A. c/ Paseo de la Castellana, 141 - 28046 MADRID
Data processing software applications.

Hispasat, S.A. Gobelas, 41-45 - 28023 MADRID
Operation of a telecommunications satellite.

Industria Electrónica de Comunicaciones, S.A., (INDELEC), Avda. Pinoa, 8 - Zamudio (VIZCAYA)
Manufacture and marketing of mobile radio equipment for communications purposes.

Pabellón de Operadores Europeos de Telecomunicaciones, S.A. - Plaza de España, 4 - 28008 MADRID
Design, installation, operation and management of the pavilion for European telecommunication operators in the Sevilla Expo 92 Universal Exhibition.

Sociedad Anónima Fiat Financiera Española, Entidad de Financiación (SAFFE) Paseo de la Habana, 74 - 28036 MADRID
Factoring company.

Sistemas Técnicos de Loterías del Estado S.A., María de Molina 48-50 - 28006 MADRID
Acquisition, assembly, installation, maintenance and operation of integrated lottery control systems by means of games terminals, including any apparatus necessary for issuing tickets and retransmission.

Torre Collserola, S.A. Balmes, 150 - 08008 BARCELONA
Construction of a telecommunications tower.

A.T.T. Network Systems International B.B., P.O. Box 1168 - 1200 BD Hilversum (THE NETHERLANDS)
Marketing, development and manufacture of all network products, principally for public telecommunications

Iniciatives, S.A. Pº de Gracia, 2 - 08007 BARCELONA
Promotion of initiatives for generating the wealth, occupation and well-being of the community.

Promoció de Ciutat Vella, Rambles, 77 - 08002 BARCELONA
Urban rehabilitation of the Ciutat Vella integrated rehabilitation area

NOTE 2 - BASES OF PRESENTATION OF THE FINANCIAL STATEMENTS

a) Annual accountss have been prepared of the basis on the accounting records of Telefónica and its group companies and are presented in conformity with accounting principles generally accepted in Spain, as stipulated by current legislation. The consolidation principles are set forth in Note 4.2.

Accounts payable are classified at the time they are contracted according to their maturity dates. Long term accounts payable are reclassified as short term when the due date is less than 12 months away. These accounts are recorded at their reimbursement value except for debentures and zero coupon bonds which are shown in the balance sheet at their issue value plus accrued interest.

b) Except as otherwise indicated, all figures contained in the documents comprising the financial statements, balance sheet, profit and loss account and notes thereto, are expressed in millions of pesetas.

NOTE 3 - DISTRIBUTION OF PROFITS

The Directors propose distribution of the parent company's profit, aggregating the final dividend and voluntary reserve amounts, according to the following:

BASIS OF DISTRIBUTION	
Profit for year	80,847
Unappropiated retained earnings	150
Total available for distribution	**80,997**
DISTRIBUTION	
Interim dividend of 25 pesetas for each of the shares numbered 1 to 926,958,077 payable as from February 17, 1992	23,174
Legal reserve	8,085
Final dividend and voluntary reserve	49,738
Total proposed distribution	**80,997**

INTERIM DIVIDEND

The Board of Directors at their meeting held on December 18, 1991, on the basis of financial information submitted to it and in accordance with Article 216 of the Corporations Law as amended, agreed to distribute an interim dividend for the year 1991 of 25 pesetas gross for each of the shares outstanding numbered 1 to 926,958,077, after deducting the applicable withholding tax.

Budget situation - Annual liquidity forecast	
Collections forecast for the period from December 18, 1991 to December 18, 1992	1,519,595
Payments forecast for the period from December 18, 1991 to December 18, 1992	1,463,064
Financial statements supporting the distribution of the interim dividend:	
Profit for the period from January 1, 1991 to November 30, 1991	76,998
Unappropriated profit brought forward from 1990	150
Prior year losses	-
Mandatory allocation to reserves	(7,700)
Distributable profit	**69,448**
Proposed interim dividend	23,174
Financial position:	
Funds available for distribution:	
Cash and banks	778
Available credits	24,607
Proposed interim dividend	(23,174)
Difference	**2,211**

NOTE 4 - SIGNIFICANT ACCOUNTING PRINCIPLES

4.1 Accounting principles

The most significant accounting principles applied in the preparation of the financial statements are as follows:

a) Cost of new equity capital

Costs of issuing convertible bonds and expenses incurred to establish and increase share capital are stated at cost and are amortized on a straight line basis over a period of five years from the date of each capital conversion, constitution or increase.

b) Intangible assets and amortization

Intangible assets include costs incurred in developing new product lines that can be marketed or used in the Company's own telephone network. Costs of completed projects having a possibility of commercial or industrial use are amortized over a period of five years while costs of unsuccessful projects are deducted immediately.

This heading also includes the value of rights acquired for the use of outside equipment and installations and the cost of licences for the use of software for an indefinite period, which are amortized on a the straight line basis over a period of 25 and 3 years, respectively.

c) Fixed assets and depreciation

Additions to fixed assets are valued at acquisition cost plus installation cost, which includes direct labor and materials together with allocable share of indirect costs.

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

TYPES OF FIXED ASSETS	YEARS OF USEFUL LIFE	
	PARENT COMPAN	CONSOLIDATED
Buildings	40	40
Technical installations and machinery	14-19	14-19
Exchange equipment	14-23	14-23
Transmission equipment	10-16	10-16
Local and domestic long distance networks	16-22	16-22
User equipment and other installations	4-8	4-8
Other installations, equipment and furniture	5-10	5-10

Maintenance and repair costs not representing extensions or improvements are expensed when incurred.

d) Long term investments - net shareholdings in companies

In the individual annual accounts of the group companies, long term investments are stated at cost, including related expenses and, where applicable, the cost of the subscription rights. Losses compared with book value are charged against results; these losses are calculated on the basis of the respective underlying net equity values of the investments as shown by the financial statements of each company. Dividends are accounted for as income when they are received and profit on the sale of shares is accounted for as income in the year in which they are realized.

e) Deferred expenses

Deferred expenses comprise:

a) Costs of formalizing debts: valued at their realizable value and are amortized on the same basis as the respective principal amounts.
b) Interest on notes payable: reflects the difference between the issue price and repayment value of notes with maturity exceeding one year. The interest is charged to results by the accrual method.
c) Differences on foreign exchange: (see Note 4.j).
d) Sponsorship costs of COOB 92, EXPO 92 and COM 92: these expenses are amortized by the straight line method until the end of 1992.
e) Annex 91 suppliers: expenses of supply contracts, with deferred payment terms of three years, entered into with the principal Telefónica suppliers. These expenses are amortized over the same period.

f) Inventories:

Inventories and stocks are valued at their weighted average cost. Work in process and finished products are stated at the lesser of production cost and market value.

g) Capital grants

Capital grants are stated at their nominal amounts and are charged to income on a straight-line basis over a maximum period of 10 years, which does not differ significantly from the useful lives of the assets linked to these grants. Sources for the grants are:

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

In all cases, Telefónica Group companies fulfill all the requirements to receive the grants.

h) Retirement pensions and endowment insurance

Retirement pensions for Telefónica's employees are covered by the Institución Telefónica de Previsión, whose relationship with the Company is described in Note 19.

Endowment Insurance is provided for on the basis of regulatory salary indices, calculated in accordance with actuarial studies. These indices include current and past service costs (See Note 20).

i) Corporate income tax

Corporate income tax is charged against the corresponding year as either deferred or prepaid taxes timing differences between the amounts to be paid a taxes and book charges.

j) Valuation of foreign currency accounts

As a general rule, foreign currency operations are translated to pesetas at the official exchange rate quoted on the date they are transacted. At the end of the year these operations are translated to pesetas at the official exchange rate for the last day of the year. Exchange gains or losses for each operation are classified into homogenebus categories under two criteria:

1) By currencies that are officially convertible
2) By years of maturity

Gains and losses are determined for each category and if the final result for a given category shows an unrealized loss it is recorded as an expense for the year, while if it slows an unrealized gain it is recorded as a liabiity in the balance sheet under the heading "Deferred Income". However the unrealized losses December 31, 1989 are amortized over a period of three years (1990 to 1992) limited to the maturity date of each operation, in accordance with the Third Transitory Disposition of Royal Decree 1643/90 of December 20, 1990.

,k) Income and expenses

Income and expenses are accounted for on accrual basis, that is, at the time the corresponding goods and services are purchased or rendered regardless of the time when they are paid for.

However, following the principle of prudence, only profits realized at the year end have been accounted for while foreseeable risks and losses, even if remote, are recorded when they become known.

4.2 Principles of consolidation

a) The Telefónica Group consolidates, by the full consolidation method, the financial statements of its subsidiary companies, that is, companies in which it owns or controls a majority of the votes and in which it has the capacity to nominate the majority of the board members, with the exception of Casiopea Re., S.A. which, although Telefónica owns 100% of its share capital, is consolidated by the equity method because of its specific operations.

The consolidated subsidiary companies, together with their trade names, registered addresses, percentage ownership and operations, are listed in Notes 1.2 and 7.

b) Transactions between companies in the Group and intercompany balances at year end are eliminated on consolidation, as well as sales and profit included in invoices to Telefónica for telephone installations from subsidiary and associated companies.

c) As regards the annual accounts of associated companies (that is, those companies outside the Telefónica Group on which Telefónica has a financial investment and an ability to influence its management to a large extent) investments and results for each company are accounted for by the equity method, making adjustments on the basis of the underlying equity as calculated from the balance sheets and profit and loss accounts at each year end.

The associated companies, together with their trade names, registered addresses, percentage ownership and operations, are listed in Notes 1.3 and 7.

d) Stock ownership in other companies (minority-interest companies) is treated as investment and accounted for at cost.

Ownership in minority-interest companies is set forth in Notes 1.3 and 7.

e) The amount paid for the acquisition of companies in excess of their book value at the purchase date is accounted for as goodwill, which is amortized over a period of five or ten years depending on the period of recovery of each of the investments.

f) For companies located in countries with high rates of inflation local currency financial statements are translated to US dollars by applying the year-end rate of exchange to the financial statements adjusted for inflation.

g) The financial statements of other companies located abroad have been translated to pesetas by translating the assets and liabilities at the year-end rates of exchange, capital and reserves at historical rates and income and expenses at the average rates for the year. The difference between applying the foregoing bases of translation and applying the year-end exchange rate is presented under the heading. Differences on foreign currency translation for consolidation.

h) The financial statements of individual companies have been prepared homogeneously following the accounting principles listed in Note 4.1.

NOTE 5 - INTANGIBLE ASSETS

The movement during the year is as follows:

	Parent Company				Consolidated			
	Research and development expenses	Licences for indef. use of software	Other intangible assets	Total	Research and development expenses	Licences for indef. use of software	Other intangible assets	Total
Balance at December 31, 1989	23,071	1,729	985	**25,785**				
Additions	5,995	3,091	7	**9,093**				
Reductions	(13,213)	-	-	**(13,213)**				
Balance at December 31, 1990	15,853	4,820	992	**21,665**	16,373	5.616	2,195	**24,184**
Additions	9,645	4,710	254	**14,609**	9,737	5.028	6,349	**21,114**
Reductions	-	-	-	**-**	(35)	(403)	(347)	**(785)**
Balances at December 31, 1991	**25,498**	**9,530**	**1,246**	**36,274**	**26,075**	**10.241**	**8,197**	**44,513**

The movement on amortization is as follows:

	Parent Company				Consolidated			
	Research and development expenses	Licences for indef. use of software	Other intangible assets	Total	Research and development expenses	Licences for indef. use of software	Other intangible assets	Total
Balance at December 31, 1989	13,816	576	728	**15,120**				
Additions	621	1,253	72	**1,946**				
Reductions	(13,213)	-	-	**(13,213)**				
Balance at December 31, 1990	1,224	1,829	800	**3,853**	1,542	2,265	878	**4,685**
Additions	1,347	2,754	72	**4,173**	1,492	2,891	1,069	**5,452**
Reductions	-	-	-	**-**	(22)	(282)	(52)	**(356)**
Balances at December 31, 1991	**2,571**	**4,583**	**872**	**8,026**	**3,012**	**4,874**	**1,895**	**9,781**

NOTE 6 - TANGIBLE ASSETS

6.1 The details of fixed assets and accumulated depreciation are as follows:

PARENT COMPANY

	Balance at 31.12.89	Additions	Retirements	Balance at 31.12.90	Additions	Retirements	Balance at 31.12.91
Land and buildings	244,592	48,842	35	293,399	56,318	462	349,255
Technical installations and machinery	69,733	16,443	2,656	83,520	20,851	2,215	102,156
Exchange equipment	1,055,904	148,361	22,830	1,181,435	204,146	35,702	1,349,879
Transmission equipment	376,085	122,020	3,954	494,151	153,392	9,511	638,032
Local and domestic long distance networks	1,394,321	165,302	55,811	1,503,812	311,202	87,723	1,727,291
Subscriber equipment and other installations.	202,664	43,325	16,403	229,586	48,691	24,355	253,922
Furniture, office and other equipment	43,805	20,730	349	64,186	24,732	364	88,554
Total fixed assets in service	**3,387,104**	**565,023**	**102,038**	**3,850,089**	**819,332**	**160,332**	**4,509,089**
Net movement on:							
Construction in progress	490,166	156,268	-	646,434	(196,660)	-	449,774
Advances to suppliers of fixed assets	40,041	(17,594)	-	22,447	(9,293)	-	13,154
Stock Installation equipment	67,720	(10,867)	-	56,853	(11,962)	-	44,891
Total fixed assets 3,985,031	**692,830**	**102,038**	**4,575,823**	**601,417**	**160,332**	**5,016,908**	

CONSOLIDATED

	Balance at 31.12.90	Additions	Retirements	Balance at 31.12.91
Land and buildings	297,201	57,147	594	353,754
Technical installations and machinery	90,759	22,097	2,242	110,614
Exchange equipment	1,181,435	204,146	47,795	1,337,786
Transmission equipment	494,151	153,392	15,359	632,184
Local and domestic long distance networks	1,503,812	311,202	103,557	1,711,457
Subscriber equipment and other installations.	229,586	49,963	27,902	251,647
Furniture, office and other equipment	75,819	24,856	2,275	98,400
Total fixed assets in service	**3,872,763**	**822,803**	**199,724**	**4,495,842**
Net movement on:				
Construction in progress	652,840	(205,793)	218	446,829
Advances to suppliers of fixed assets	22,584	(9,138)	171	13,275
Stock Installation equipment	56,853	(10,355)	-	46,498
Total fixed assets	**4,605,040**	**597,517**	**200,113**	**5,002,444**

The movement on accumulated depreciation is as follows:

PARENT COMPANY

	Balance at 31.12.89	Additions	Retirements	Balance at 31.12.90	Additions	Retirements	Balance at 31.12.91
Buildings	62,087	5,669	2	67,754	6,832	82	74,504
Technical installations and machinery	36,532	4,511	1,595	39,448	6,302	1,576	44,174
Exchange equipment	480,569	74,993	19,762	535,800	86,302	29,469	592,633
Transmission equipment	210,182	26,507	3,020	233,669	35,613	7,119	262,163
Local and domestic long distance networks	608,185	85,809	47,255	646,739	97,205	71,152	672,792
Subscriber equipment and other installations.	110,982	44,143	14,027	141,098	44,365	18,796	166,667
Furniture, office and other equipment	18,905	5,933	213	24,625	10,127	347	34,405
Total accumulated depreciation	**1,527,442**	**247,565**	**85,874**	**1,689,133**	**286,746**	**128,541**	**1,847,338**
Total net fixed assets	**2,457,589**	**445,265**	**16,164**	**2,886,690**	**314,671**	**31,791**	**3,169,570**

CONSOLIDATED

	Balance at 31.12.90	Additions	Retirements	Balance at 31.12.91
Buildings	68,013	7,202	84	75,131
Instalaciones técnicas y maquinaria	40,904	7,017	1,812	46,109
Exchange equipment	535,800	85,732	30,808	590,724
Transmission equipment	233,669	35,239	7,766	261,142
Local and domestic long distance networks	646,738	96,250	72,962	670,026
Subscriber equipment and other installations.	141,098	44,299	19,801	165,596
Furniture, office and other equipment	29,185	11,621	605	40,201
Total accumulated depreciation	**1,695,407**	**287,360**	**133,838**	**1,848,929**
Total net fixed assets	**2,909,633**	**310,157**	**66,275**	**3,153,515**

6.2 Fully depreciated fixed assets at December 31 are as follows:

	Parent Company		Consolidated
	1990	1991	1991
Power equipment	3,326	3,798	3,798
Exchange equipment	77,213	68,781	68,781
Transmission equipment	86,072	107,392	107,392
Local and domestic long distance networks	35,386	78,405	78,405
Subscriber and other installations	26,030	44,160	44,338
Furniture, office and other equipment	7,449	8,849	10,442
Totals	**235,476**	**311,385**	**313,156**

6.3 Subscriber equipment and other installations at December 31, 1991 includes equipment with a gross value of 162,055 million pesetas (net 44,350 million pesetas) which is subject to sale in accordance with Royal Decree Law 303/1991 of March 8, 1991.

6.4 The consolidated investment budget for 1992 amounts to 533,192 million pesetas (528,098 in Telefónica) of which 482,107 million pesetas (477,559 in Telefónica) will be invested in fixed assets and the remainder largely in companies. The continued and long-term nature of Telefonica's investments means that a part of this budget is related to the completion of projects initiated in previous years.

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

6.6 At December 31, 1991 there were assets totalling 128,891 million pesetas governed by Decree Law 19/1961 and Law 61/1978 which regulate the tax benefits obtained from the reduction of the withholding tax rates on the interest on the loans and borrowings referred to in Notes 14 and 15.

6.7 Telefónica Group companies are insured against possible risks on fixed assets used in operations, with the exception of the deductibles applicable local and domestic long distance networks and subscriber equipment, for which self-insurance reserves have been made.

6.8 The revaluations of balances made by the parent company up to 1987 (year of last revaluation) have had the following movement for the years shown:

	From 1946 to 1985		1986		1987		Total		
	Fixed assets	Acumul.. deprec.	Fixed assets	Acumul.. deprec.	Fixed assets	Acumul. deprec.	Fixed assets	Acumul. deprec.	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 equipment and other installations	31,757	40,936	-	-	(35,910)	(13,287)	(4,153)	27,649	(31,802)
Totals	**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 manual depreciation charge was Ptas. 57,846 milion (Ptas. 62,643 million in 1990).

6.9 The useful lives of the various elements of Telefonica's fixed assets are calculated based on technical studies by the Company, which are revised periodically on the basis of technological development and renewal programs. These useful lives are shown in Note 4.c).

6.10 Inventories are shown net of reserve for obsolescence. The total reserve in Telefónica amounts to 5,342 million pesetas (5.896 million pesetas in 1990). The charge to the reserve in 1991 based on etimates made, was 4,200 million pesetas.

NOTE 7 - INVESTMENTS

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

PARENT COMPANY

a) Movement on investments:

	Balance at 31.12.89	Additions	Retirements	Traspasos	Balance at 31.12.90	Additions	Retirements	Transfers	Balance at 31.12.91
Investments in Group companies	16,281	10,626	520	-	26,387	55,854	-	(859)	81,382
Advances for capital increases	-	14,115	-	-	14,115	-	14,115	-	-
Investments in associated companies	12,864	-	-	4,456	17,320	2,622	6,396	859	14,405
Other investments	14,765	4,446	2,319	(4,456)	12,436	3,962	5,187	-	11,211
Loans to employees	2,637	255	756	-	2,136	234	728	-	1,642
Guarantees and deposits	1,283	203	45	-	1,441	164	831	-	774
Total	**47,830**	**29,645**	**3,640**	**-**	**73,835**	**62,836**	**27,257**	**-**	**109,414**

b) Movement on reserve for depreciation

	Balance at 31.12.89	Additions	Retirements	Balance at 31.12.90	Additions	Retirements	Balance at 31.12.91
Investments in Group companies	271	1,399	106	1,564	2,976	50	4,490
Investments in associated companies	2	1,083	2	1,083	266	1,083	266
Other investments	168	465	1	632	6	2	636
Total	**441**	**2,947**	**109**	**3,279**	**3,248**	**1,135**	**5,392**

c) Movement on payments pending on shares

	Balance at 31.12.89	Additions	Retirements	Balance at 31.12.90	Additions	Retirements	Transfers	Balance at 31.12.91
Investments in Group companies	2,391	600	2,504	487	27,490	687	(38)	27,252
Investments in associated companies	3,881	-	1,381	2,500	360	1,408	38	1,490
Total	**6,272**	**600**	**3,885**	**2,987**	**27,850**	**2,095**	**-**	**28,742**

CONSOLIDATED

a) Movement on investments:

	Balance at 31.12.90	Additions	Retirements	Transfers	Balance at 31.12.911
Investments in associated companies	61,621	13,354	11,807	(1,652)	61,516
Other investments	15,813	40,233	6,956	2,701	51,791
Loans to employees	2,839	234	758	-	2,315
Guarantees and deposits	1,706	3,654	904	-	4,456
Total	**81,979**	**57,475**	**20,425**	**1,049**	**120,078**

b) Movement on reserve for depreciation

	Balance at 31.12.90	Additions	Retirements	Balance at 31.12.91
Other investments	1,264	1,402	1,069	1,597
Total	**1,264**	**1,402**	**1,069**	**1,597**

c) Movement on payments pending on shares

	Balance at 31.12.90	Additions	Retirements	Balance at 31.12.91
Investments in associated companies	2,537	398	1,445	1,490
Other investments	26	33	26	33
Total	**2,563**	**431**	**1,471**	**1,523**

7.2 Details of subsidiary and associated companies and other shareholdings

In million of pesetas		Share Capital 1991	Share Capital 1990	Percentage of direct participation 1991	Percentage of direct participation 1990	Net book value in Telefonica 1991	Net book value in Telefonica 1990
Subsidiary Companies							
Cabinas Telefónicas, S.A. (CABITEL) Plaza de Carlos Trías Bertrán, 7 (MADRID) - 28020	(**) (*)	200	200	100	100	200	201
Casiopea Reaseguradora, S.A. 1 Rue Schiller L-2519 (LUXEMBURGO)		498	498	100	100	498	498
Compañía Española de Tecnología, S.A. (COMET) Paseo de la Castellana, 83-85 (MADRID) - 28006	(**) (*)	1,100	1,100	100	100	467	755
Compañía Publicitaria Exclusivas Telefónicas,S.A.(CETESA) Avenida Brasil, 17 (MADRID) - 28020	(**) (*)	434	434	97.33	97.33	696	695
Ecotel, S.A. Bravo Murillo, 60 (MADRID) - 28003		200	200	90	60	311	120
ENTEL, Compañía Española de Telecomunicaciones, S.A. Paseo de la Castellana, 141 (MADRID) - 28046			650		55.87		659
Estrategias Telefónicas, S.A. (ESTRATEL) Paseo de la Castellana, 83-85 (MADRID) - 28046	(*)	150	150	100	100	140	90
Maptel, S.A. Orense, 11 (MADRID) - 28020		150	150	76	76	220	220
Playa de Madrid, S.A. Paseo de la Castellana, 83-85 (MADRID) - 28046	(**) (*)	40	40	100	100	54	54
Pleyade Peninsular Correduría de Seguros, S.A General Perón, 38 (MADRID) - 28020		10		100		10	
Pabellón de Operadores Europeos de Telecomunicaciones, S.A. Plaza de España, 4 (MADRID) - 28008			800		25		162
Seguros de Vida y Pensiones Antares, S.A General Perón, 38 (MADRID) - 28020	(*)	1,120	920	100	100	620	520
Servicios de Teledistribución, S.A. (S.T. HILO) Covarrubias, 1 (MADRID) - 28010	(**) (*)	210	210	99.17	99.17	293	293
Sistemas e Instalaciones de Telecomunicación, S.A (SINTEL) Rafael Calvo, 18 (MADRID) - 28010	(**) (*)	1,100	1,100	100	100	2,935	2,935
Taetel, S.L. Beatriz de Bobadilla, 3 (MADRID) - 28040		4,700		100		4,700	
Telecomunicaciones Marinas, S.A. (TEMASA) Silva, 2 (MADRID) - 28013	(**) (*)	1,376	1,376	100	100	1,326	1,326
Telefonía y Finanzas, S.A. (TELFISA) Paseo de la Castellana, 151 (MADRID) - 28046	(**) (*)	500	500	100	100	431	1,535
Telefónica Internacional de España, S.A Paseo de Recoletos, 41 (MADRID) - 28004	(**)	79,900	11,196	76.22	100	34,212	11,200
Telefónica Investigación y Desarrollo, S.A. (TIDSA) Emilio Vargas, 6 (MADRID) - 28043	(**) (*)	1,000	1,000	100	100	1,000	1,000
Telefónica North America, Inc. C.Trust Center 1209 Orange St. Wilm. Delaware (U.S.A.)		1	1	100	100	1	1
Telefónica Sistemas, S.A. Sor Angela de la Cruz, 9 (MADRID) - 28020	(**) (*)	534	534	43.82	43.82	465	898
Teleinformática y Comunicaciones, S.A. (TELYCO) Raimundo Fdez. Villaverde, 28 (MADRID) - 28003	(**) (*)	50	50	100	100	50	50
THM, Control Electrónico Integrado, S.A. General Arrando, 40-B (MADRID) - 28010		420	320	94.55	80.25	249	111
T.S.-1, Telefónica de Servicios, S.A. Manuel Tovar, 35 (MADRID) - 28034	(*)	940	1,600	100	100	748	999
Urbana Ibérica, S.A. General Yagüe, 11 (MADRID) - 28020		330	330	100	100	14	14
Total subsidiary companies						**49,640**	**24,336**

(*) Companies included in the consolidated corporate income tax return for the year 1991
(**) Companies included in the consolidated corporate income tax return for the year 1990

NET EQUITY ASSIGGNED IN BALANCE SHEET		PROFIT (LOSS) ASSIGNED IN P/L ACOUNT		OPERATIONS
1991	1990	1991	1990	
1,436	1,002	534	271	Marketing, installation, management and operation of public telephones. Operating the foregoing for advertising purposes.
5,154	498	318	-	Reinsurance.
467	590	(137)	(169)	Promotion of business initiatives.
3,083	1,619	1,479	685	Publishing of guides, and advertising on all types of support equipment.
131	121	(50)	22	Market research to measure audience and opinion.
	1,011		188	Development and operation of projects in the field of data progressing systems and services..
272	85	134	25	Promotion, marketing and market research relating to direct marketing.
124	117	7	9	Data processing consulting and digital cartography.
186	165	22	30	Social and recreational activities.
39		29		Distribution, promotion and production of insurances contracts, operating as a broker.
	158		(4)	Design, installation and management of the pavilion for european telecommunications operators in the Seville Expo 92.
892	618	174	73	Life insurance and pensions.
467	373	74	53	Supplying music line services and installation and maintenance of equipment.
7,461	6,529	1,466	1,504	Installation of cable laying equipment in the telecommunications field.
23,503		18,803		Acquisition, holding and disposing of shares in other companies.
2,410	2,058	352	332	Sounding and laying and repairing underwater cables.
431	1,448	(1,017)	(87)	Treasury and financial advisory support services to Group companies.
46,834	10,352	5,683	(873)	Investment in foreign telecommunications.
1,563	1,429	135	141	Research and development.
1	1	-	-	Financial intermediary..
465	351	115	(548)	Systems engineering.
1,163	1,069	94	113	Promotion, marketing and distribution of telephonic and telematic equipment and services.
707	294	322	180	Protection and control systems engineering.
711	90	(230)	(918)	Operation of added value services.
189	188	1	(1)	Promotional activities for residential property.
97,689	**30,166**			

In million of pesetas		Share Capital 1991	Share Capital 1990	Percentage of direct participation 1991	Percentage of direct participation 1990	Net book value in Telefonica 1991	Net book value in Telefonica 1990
Aassociated Companies							
Alcatel Standard Eléctrica, S.A. Ramírez de Prado, 5 (MADRID) - 28045		35,326	25,975	21.14	21.14	5,026	3,229
Amper, S.A. Torrelaguna, 75 (MADRID) - 28027		6,977	6,977	7.50	7.50	1,423	1,560
ATT Microelectrónica, S.A. Colmenar Viejo (MADRID) - 28770			12,481		20		1,427
Eritel, S.A. Paseo de la Castellana, 141 (MADRID) - 28046		938		38.71		659	
Fujitsu España, S.A. Paseo de la Castellana, 95 (MADRID) - 28046			8,000		40		3,500
Hispasat, S.A. Gobelas, 41 (MADRID) - 28023		20,000	20,000	25	25	3,750	2,486
Industria Electrónica de Comunicaciones, S.A. (INDELEC) Avda. Pinoa, 8 Zamudio (VIZCAYA) - 48016		600	600	30	30	150	150
Pabellón de Operadores Europeos de Telecomunicaciones, S.A. Plaza de España, 4 (MADRID) - 28008		800		25		173	
S.A. Fiat Financiera Española, Entidad de Financiación (SAFFE) Paseo de la Habana, 74 (MADRID) - 28036		300		50		165	
Sistemas Técnicos de Loterías del Estado, S.A. María de Molina, 48-50 (MADRID) - 28006		2,000	2,000	31.75	31.75	552	635
Telettra Española, S.A. Raimundo Fdez. Villaverde, 65 (MADRID) - 28003			2,800		10		400
Torre de Collserola, S.A. Balmes, 150 (BARCELONA) - 08008		2,000	1,000	41.5	35	571	350
Total associated companies						**12,649**	**13,737**
Shareholdings							
ATT Network Systems International B.V. P.O. Box 1168 - 1200 BD Hilversum (THE NETHERLANDS)	(***)	11,390		5.84		3,087	
Iniciatives, S.A. Paseo de Gracia, 2 (BARCELONA) - 08007		3,100	3,100	3.23	3.23	140	140
Promoció de Ciutat Vella, S.A. Rambles, 77 (BARCELONA) - 08002		2,800	2,800	3.57	3.57	89	95
Telettra, S.p.A. Via Cornelia, 19 (MILAN)			4,816		10		3,990
Other investments	(****)					7,259	7,579
Total shareholdings						**10,575**	**11,804**
Total Group						**72,864**	**49,877**

(***) Provisional information
(****) Includes the holding in the telecommunications satellite
(•) Information corresponding to the year 1989

NET EQUITY ASSIGGNED IN BALANCE SHEET		PROFIT (LOSS) ASSIGNED IN P/L ACOUNT		OPERATIONS
1991	1990	1991	1990	
8,011	5,849	454	1,017	Manufacture of telephonic and telegraphic exchange and transmission systems.
1,423	2,116	(226)	5	Development, manufacture, and repair of telephonic and telematic terminals and components.
	575		(648)	Design, manufacture, assembly and marketing of high technology integrated circuits.
1,132		311		Data processing software applications.
	2,593		(1,475)	Data processing products and data transmission.
3,750	2,500	-	-	Operation of a telecommunications satellite.
367	486	(119)	28	Manufacture and marketing of mobile radio equipment for communication purposes.
173		(23)		Design, installation, operation and management of the pavilion for European Telecommun. Operators in the Seville Expo 92.
164		(1)		Factoring company.
552	525	27	(127)	Development manufacture and installation of lottery control systems by means of games terminals.
	1,845		902	Development, manufacture and installation of electronic in the telecommunications sector.
571	353	(23)	2	Communications tower.
16,143	**16,842**			
1,984		193		Marketing development and marketing of all network products, principally for public telecommunications.
133	128	5	(2)	Promotion of initiatives for generating the wealth, occupation and wellbeing of the community.
89	93	(4)	(4)	Urban rehabilitation of the Ciutat Vella integrated rehabilitation area.
	4,026 (•)		1,733 (•)	Production assembly and installation of telecommunications systems.
7,259	7,579			
9,465	**11,826**			
123,297	**58,834**			

(M - Millions of monetary units) (m - Thousands of monetary units)	SHARE CAPITAL	M.U.	CURRENCY	PERCENTAGE PARTICIPATION DIREC.	PERCENTAGE PARTICIPATION INDIR.	COST VALUE IN GROUP	NET EQUITY ASSIGNED IN BALANCE SHEET AT 31.12.91	CHANCE IN NET EQUITY ASSIGNED 1991-1990
Subsidiary Companies								
Cabinas Telefónicas, S.A. (CABITEL)	200	M	Peseta	100		201	1,436	434
Casiopea Reaseguradora, S.A.	3,600	m	ECUS	100		498	5,154	4,656
Compañía Española de Tecnología, S.A. (COMET)	1,100	M	Peseta	100		1,102	467	(123)
Cleon, S.A.	1,350	M	Peseta		50	675	656	(7)
Compañía Publicitaria Exclusivas Telefónicas,S.A.(CETESA)	434	M	Peseta	97.33	2.67	219	3,168	1,505
Promotora de Mercados Telemáticos, S.A.	10	M	Peseta		100	10	121	22
Ecotel, S.A.	200	M	Peseta	90		360	131	10
Estrategias Telefónicas, S.A. (ESTRATEL)	150	M	Peseta	100		140	272	187
Maptel, S.A.	150	M	Peseta	76		220	124	7
Playa de Madrid, S.A.	40	M	Peseta	100		54	186	21
Pleyade Peninsular Correduría de Seguros, S.A	10	M	Peseta	100		10	39	-
Seguros de Vida y Pensiones Antares, S.A	1,120	M	Peseta	100		620	892	274
Servicios de Teledistribución, S.A. (S.T. HILO)	210	M	Peseta	99.17	0.83	295	471	95
Sistemas e Instalaciones de Telecomunicación, S.A (SINTEL)	1,100	M	Peseta	100		1,446	7,461	932
Sintelar, S.A.	9	M	P. Arg.		75	7	51	-
Sietel, S.A.	330	m	P. Ch.		50	-	6	-
Taetel, S.L.	4,700	M	Peseta	100		4,700	23,503	-
Telecomunicaciones Marinas, S.A. (TEMASA)	1,376	M	Peseta	100		1,376	2,410	352
Telefonía y Finanzas, S.A. (TELFISA)	500	M	Peseta	100		500	431	(1,017)
Telefónica Internacional de España, S.A	79,900	M	Peseta	76.22		34,208	46,834	36,482
Telefónica Internacional, B.V. (HOLANDA)	153	M	Fl. Hol.		100	6,260	6,097	(240)
Inversiones Hispano-Chilenas, S.A. (CHILE)	29,628	m	$ USA		100	2,687	4,580	984
Telefónica Internacional Limited, (BERMUDA)	12	m	$ USA		100	5,028	5,231	(12)
Telefónica Bermuda Limited, (BERMUDA)	12	m	$ USA		100	1	1	-
Telefónica Chile, S.A. (CHILE)	42	M	$ USA		100	5,099	10,584	2,263
Telefónica Internacional, S.A. (LUXEMBURGO)	1,750	m	D.M.		100	744	443	(117)
Telefónica USA, Inc. (USA)	5	m	$ USA		100	1	6	(2)
Telecomunicaciones Hispano-Chilena Holding, Co. Ltd. (BVI-UK)	45,.600	m	$ USA		100	45,141	43,493	26,953
Telefónica Chile, B.V. (HOLANDA)	100	m	Fl. Hol.		100	16,757	5,030	-
Telefónica Venezuela, B.V. (HOLANDA)	40	m	Fl. Hol.		100	2	2	-
Telefónica Investigación y Desarrollo, S.A. (TIDSA)	1,000	M	Pesetas	100		1,000	1,563	134
Telefónica North America, Inc.	10	-	$ USA	100		1	1	-
Telefónica Sistemas, S.A.	534	M	Pesetas	43.82	56.18	1,203	1,061	261
Teleinformática y Comunicaciones, S.A. (TELYCO)	50	M	Pesetas	100		50	1,163	94
THM, Control Electrónico Integrado, S.A.	420	M	Pesetas	94.55		341	722	428
T.S.-1, Telefónica de Servicios, S.A.	940	M	Pesetas	100		2,453	711	621
Servicios Telefónicos de Audiotex, S.A.	150	M	Pesetas	51		76	42	-
Urbana Ibérica, S.A.	330	M	Pesetas	100		130	189	1
Total subsidiary companies						**133,615**	**174,732**	**75,198**

(M - Millions of monetary units) (m - Thousands of monetary units)	SHARE CAPITAL	M.U.	CURRENCY	PERCENTAGE PARTICIPATION DIREC.	PERCENTAGE PARTICIPATION INDIR.	COST VALUE IN GROUP	NET EQUITY ASSIGNED IN BALANCE SHEET AT 31.12.91	CHANCE IN NET EQUITY ASSIGNED 1991-1990
Associated Companies								
Telefónica de España, S.A								
Alcatel Standard Eléctrica, S.A.	35,326	M	Peseta	21.14		6,035	8,011	2,162
Amper, S.A.	6,977	M	Peseta	7.50	7.84	3,929	2,910	(1,418)
Eritel, S.A.	938	M	Peseta	38.71		569	1,132	-
Hispasat, S.A.	20,000	M	Peseta	25		3,750	3,750	1,250
Industria Electrónica de Comunicaciones, S.A. (INDELEC)	600	M	Peseta	30		180	367	(119)
Pabellón de Operadores Europeos de Telecomunic., S.A.	800	M	Peseta	25		200	173	15
S.A. Fiat Financiera Española, Entidad de Financiación (SAFFE)	300	M	Peseta	50		165	164	-
Sistemas Técnicos de Loterías del Estado, S.A.	2,000	M	Peseta	31.75		635	552	27
Torre de Collserola, S.A.	2,000	M	Peseta	41.5		590	571	218
Compañía Española de Tecnología, S.A. (COMET)								
Semisa, S.A.	39	M	Peseta	30		85	24	(4)
Compañía Publicitaria Exclusivas Telefónicas,S.A.(CETESA)								
Venturini, S.A.	500	M	Peseta	25		125	178	26
Ecotel, S.A.								
Ecotel Portugal, S.A.	60	M	Peseta	60		42	33	-
Servicios de Teledistribución, S.A. (S.T. HILO)								
Sapec, S.A.	60	M	Peseta	33		13	37	(3)
Sistemas e Instalaciones de Telecomunicación, S.A (SINTEL)								
Cotronic, S.A.	10	M	Peseta	49		10	22	10
Incosa, S.A.	10	M	Peseta	49		7	37	(2)
Inalca, S.A.	10	M	Peseta	44		12	80	(16)
S.A.C., S.A.	300	M	Peseta	39		117	218	34
Telefónica Internacional de España, S.A								
Compañía de Teléfonos de Chile, S.A. (CHILE)	254,900	M	P. Ch.		43.63	37,502	37,502	3,920
Entel Chile, S.A. (CHILE)	53,067	M	P. Ch.		20	3,589	3,589	526
Telefónica Sistemas, S.A.								
Telecom Vallés, S.A.	120	M	Peseta	12.45		15	13	-
Tissat, S.A.	100	M	Peseta	40		40	38	1
Excel Data, S.A.	150	M	Peseta	20		30	34	5
THM, Control Electrónico Integrado, S.A.								
Tepesa, S.A.	150	M	Peseta	31.78		56	80	28
T.S.-1, Telefónica de Servicios, S.A.								
Telecom Vallés, S.A.	120	M	Peseta	12.45		15	13	1
Total associated companies						**57,711**	**59,528**	**6,661**

(M - Millions of monetary units) (m - Thousands of monetary units)	SHARE CAPITAL	M.U.	CURRENCY	PERCENTAGE PARTICIPATION DIREC	PERCENTAGE PARTICIPATION INDIR.	COST VALUE IN GROUP
Shareholdings in Companies						
Telefónica de España, S.A						
Agencia Efe, S.A.	3,730	M	Peseta	0.37		140
A.T.T. Network Systems International, B.V.	206	M	Fl.Hol.	5.84		3,087
Compañía de Fibra Optica Telcor, S.A.	-		Peseta	-		35
Eurescom	-		-	-		1
European Silicom Structures, S.A.	-		ECUS	-		460
Eurosat	-		Franco Suizo	-		5
Eutelsat	-		-	-		1,887
Iniciatives, S.A.	3,100	M	Peseta	3.23		140
Inmarsat	-		-	-		757
Intelsat	-		-	-		4,599
Promociò de Ciutat Vella, S.A.	2,800	M	Peseta	3.57		100
Reto 2000, S.A	2	M	Peseta	21.74		1
Subsidiaries Companies' Shareholdings						
A.T.F., S.A.					30	2
Barcelona Tecnologia, S.A.					5.8	10
Central de Compras de Papel, S.A.					100	10
Cointel, S.A. (ARGENTINA)					10.13	2,259
Compactdata, S.A.					100	20
Cia. Hispano-Francesa de Telecomunic., S.A. (LUXEMBURGO)					60	2
Datos Corporation					-	6
Euredit, S.R.C.					0.82	12
Geoestar					2.92	412
Infonet Services Corporation (USA)					5.38	383
Locstar					0.69	82
Other (financial investment)					-	2,248
Satel, S.A.					45	30
Sesa Rio, S.A. (BRASIL)					5	73
Sociedad Catalana de Capital Riesgo, S.A.					4.75	100
Starnet, S.A.					60	51
T.D.S.					90	218
Telefónica Argentina, S.A. (ARGENTINA)					8.07	5,307
Telefónica Hispano-Americana, Inc. (PUERTO RICO)					17.65	56
Telinter (VENEZUELA)					18.4	-
Telur, S.A. (URSS)					5	53
T.M.I.					50	1
U.T.E.S.					-	13
Venworld (VENEZUELA)					16	29,162
Videotex Información, S.A.					9.61	36
Total shareholdings in companies						**51,758**

7.3 Indirect stock ownership by of Telefónica of its subsidiary and associated companies is as follows:

COMPANY	1990	1991
SUBSIDIARY COMPANIES		
Compañía Publicitaria Exclusiva Telefónica, S.A. (CETESA)	2.67	2.67
Pabellón de Operadores Europeos de Telecomunicaciones, S.A	-	75
Servicios de Teledistribución, S.A. (S.T. Hilo)	0.83	0.83
Telefónica Sistemas, S.A.	56.18	56.18
ASSOCIATED COMPANIES		
Amper, S.A.	7.84	7.84
Pabellón de Operadores Europeos de Telecomunicaciones, S.A.	47.50	-
Telettra Española, S.A.	-	9

7.4 In the year 1991 Telefónica disposed of its holdings in Fujitsu España, S.A., Telettra Española, S.A. and Telettra S.p.A. which generated a gain of 1,950 million pesetas. It also exchanged 20% of the shares in ATT Microelectrónica de España, S.A. for 5.84% of the shares in ATT Network System. Sistemas e Instalaciones de Telecomunicación, S.A. (SINTEL) sold its participation in E.T.R.A. from which it obtained a gain of 395 million pesetas. Taetel, S.L. sold its holding in Telettra, S.p.A., which produced a gain of 16,992 million pesetas.

In accordance with the merger agreement between Entel and Eria, the 55.87% participation in Compañía Española de Telecomunicaciones, S.A. (Entel) was converted into a holding of 38.71% in Eritel, S.A..

7.5 The most significant operations during the year between the group companies were the following:

	Parent Company		Consolidated
	1991	**1990**	**1991**
Dividends received	1,057	1,894	2,026
Acquisition of goods and services by the Telefónica Groupa	209,689	280,967	246,261

7.6 Amper, S.A. is listed on the stock exchange. Its average share price during the last quarter was 547 pesetas (959 in 1990) and the price at year-end was 465 Pesetas per share (830 in 1990).

7.7 The provisions of Article 86 of the Corporations Law have been complied with in the acquisitions of shareholdings during the year.

7.8 The composition of goodwill on consolidation is as follows at December 31:

	Opening balance	Additions	Balance at 31.12.91
Companies consolidated by the full consolidation method	-	180	180
Companies consolidated by the equity method	6,875	857	7,732
Total	**6,875**	**1,037**	**7,912**
Accumulated amortization:			
Companies consolidated by the full consolidation method	-	36	36
Companies consolidated by the equity method	603	836	1,439
Total	**603**	**872**	**1,475**
Goodwill pending amortization	6,272	165	6,437

7.9 The consolidation reserve consists of the following at December 31:

	Opening balance	Additions	Disminuc.	Balance at 31.12.911
Companies consolidated by the full consolidation method	6,684	3,427	4,230	5,881
Companies consolidated by the equity method	3,918	1,208	3,711	1,415
Total	**10,602**	**4,635**	**7,941**	**7,296**

NOTE 8 - DEFERRED EXPENSES

The balances and amortization schedule are as follows:

Parent Company

	1992	1993	1994	1995	1996	Maturities Subsequent	Balance at 31.12.91	Balance at 31.12.90
Debt formalization expenses	4,321	3,972	3,636	2,597	2,402	4,708	21,636	13,448
Exchange losses	4,070	-	-	-	-	-	4,070	13,628
Interest on long term notes	4,112	4,594	4,540	4,372	3,946	11,603	33,167	24,348
Interest on commercial notes	1,906	73	-	-	-	-	1,979	14,789
Financing Annex 91 contract	3,389	4,475	4,473	1,089	-	-	13,426	-
Sponsorship costs-COOB, EXPO 92 and COM 92	726	-	-	-	-	-	726	-
Total	**18,524**	**13,114**	**12,649**	**8,058**	**6,348**	**16,311**	**75,004**	**66,213**

Consolidated

	1992	1993	1994	1995	1996	Maturities Subsequent	Balance at 31.12.91
Debt formalization expenses	4,348	3,972	3,636	2,597	2,402	4,708	21,663
Exchange losses	4,070	-	-	-	-	-	4,070
Interest on long term notes	4,112	4,594	4,540	4,372	3,946	11,603	33,167
Interest on commercial notesa	1,938	73	-	-	-	-	2,011
Interest on leasing operations and other	473	382	327	295	161	301	1,939
Annex 91 suppliers	3,389	4,475	4,473	1,089	-	-	13,426
Sponsorship costs-COOB, EXPO 92 and COM 92	726	-	-	-	-	-	726
Total	**19,056**	**13,496**	**12,976**	**8,353**	**6,509**	**16,612**	**77,002**

NOTE 9 - DEFERRED EXCHANGE DIFFERENCES

The composition of the balance and amortization schedule are as follows:

					PARENT COMPANY	
	1992	1993	1994	Maturities Subsequent	Balance at 31.12.91	Balance at 31.12.90
Deferred realized exchange losses	4,070	-	-	-	4,070	13,628
Deferred unrealized exchange gains	(55)	(126)	(1,837)	(22,699)	(24,717)	(21,059)
Total	**4,015**	**(126)**	**(1,837)**	**(22,699)**	**(20,647)**	**(7,431)**

					CONSOLIDATED
	1992	1993	1994	Maturitiess Subsequent	Balance at 31.12.91
Deferred realized exchange losses	4,070	-	-	-	4,070
Deferred unrealized exchange gains	(57)	(126)	(1,837)	(18,062)	(20,082)
Total	**4,013**	**(126)**	**(1,837)**	**(18,062)**	**(16,012)**

Details of the changes to expenses for the year:

	PARENT COMPANY		CONSOLIDATED
	1991	1990	1991
Repayment of loans	9,613	5,992	9,673
Services changes in foreign currency and other	664	823	688
Reserve (equity contingencies)	(3,000)	-	(3,000)
Total	**7,277**	**6,815**	**7,361**

NOTE 10 - ACCOUNTS REVEIVABLE FROM SUBSCRIBER AND CUSTOMERS

The balance schedule are as follows:

	PARENT COMPANY		CONSOLIDATED
	1991	1990	1991
Service billed			
Subscribers and customers	88,812	63,712	108,108
Former subscribers	11,941	8,385	11,941
Accounts pending classification	1,545	2,095	1,545
	102,298	74,192	121,594
Unbilled (Telefónica)	**135,520**	**121,493**	**135,520**
Reserve	237,818	195,685	257,114
Provision for bad debts	(13,877)	(9,191)	(16,915)
Total	**223,941**	**186,494**	**240,199**

During the year the cancelled bad debts was 5,200 (4,911 in Telefónica) (1990 Ptas 4,414 in Telefónica).

NOTA 11 - SHAREHOLDERS' EQUITY

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

								PARENT COMPANY
	1989	Distribution of 1989 profits	Capital increase	Other movements	1990	Distribution of 1990 profits	Other movements	1991
Stated capital	462,482	-	997	-	463,479	-	-	463,479
Capital surplus	32,752	-	715	-	33,467	-	-	33,467
Revaluation reserve	653,780	-	-	-	653,780	-	-	653,780
Legal reserve	24,414	9,307	-	-	33,721	7,600	-	41,321
Voluntary reserve	48,628	8,720	-	-	57,348	17,150	-	74,498
Unappropiated retained earnings	93	2	-	-	95	55	-	150
Profits for year	68,898	(68,898)	-	75,788	75,788	(75,788)	80,847	80,847
Interim dividend	(23,122)	23,122	-	(23,174)	(23,174)	23,174	(23,174)	(23,174)
Total	**1,267,925**	**(27,747)**	**1,712**	**52,614**	**1,294,504**	**(27,809)**	**57,673**	**1,324,368**

	CONSOLIDATED			
	1990	Distribution of 1990 profit	Other consolidated moviments	1991
Stated capital	463,479	-	-	463,479
Capital surplus	33,467	-	-	33,467
Revaluation and reserve	649,316	-	-	649,316
Legal reserve	33,721	7,600	-	41,321
Voluntary reserve	58,700	17,150	(22,930)	52,920
Reserve in consolidation	10,602	2,231	(5,537)	7,296
Unappropiated retained earnings	95	55	-	150
Profits for year	78,019	(78,019)	104,247	104,247
Interim dividend	(23,174)	23,174	(23,174)	(23,174)
Differences on foreign currency traslation for consolidation	558	-	693	1,251
Total	**1,304,783**	**(27,809)**	**53,299**	**1,330,273**

All the outstanding shares of Telefónica are fully subscribed and paid and they are bearer shares of 500 pesetas par value each. The shares are quoted on the four Spanish stock exchanges as well as in Frankfurt, London, Paris, Tokyo and New York. At December 31, 1991 the State held approximately 32.28% of the shares (32.29% in 1990) directly and it is estimated that it held a further 1.41% (2.71% in 1990) through government institutions. Under current legislation the foreign ownership in Telefónica cannot exceed in total 25% of the share capital.

The movement on share capital has been as follows:

	Number ofs shares	Par value	Characteristics of issue Price as a percentage of par value	Cash
At December 31, 1989	924,963,451	462,482	-	-
Issue January 1990	1,994,626	997	171.687%	1,712
At December 31, 1990	926,958,077	463,479	-	-
Movimiento año 1991	-	-	-	-
At December 31, 1991	926,958,077	463,479	-	-

The above inssuances were made in connection with bond conversion.

The general meeting of shareholders held on June 5, 1990 gave power to the Board of Directors to issue additional shares during a period not exceeding five years withoutfurther notice to and approval of the shareholders, up to a maximum share captital of 695,218 million pesetas.

The revaluation reserve may be used to offset future losses or capitalized once it has been verified and approved by the authorities. The balance of the revaluation reserve may be transferred to freely distributable reserves within five years from the date of the las revalued balance sheet.

11.2 Outside shareholders' interests

These interests refer to the stake of minority shareholders in the ownership of and last year's results for the following companies:

AÑO 1991

Company	% Minority participation	Net equity	Results	Interim dividens	Total
CLEON	50	663	(5)	-	658
SIETEL	50	-	6	-	6
AUDIOTEX	49	74	(33)	-	41
SINTELAR	25	2	15	-	17
MAPTEL	24	37	2	-	39
T.INTERNACIONAL	23.78	19,186	1,773	-	20,959
ECOTEL	10	20	(6)	-	14
T.H.M.	5.45	27	19	-	46
		20,009	**1,771**	-	**21,780**

NOTE 12 - DEFERRED INCOME

12.1 The composition of deferred income at December 31 is as follows:

	Parent Company		Consolidated
	1991	1990	1991
Capital grants	34,029	17,000	34,029
Deferred unrealized exchange gains (Note 9)	24,717	21,059	20,082
Deferred taxes and other:			
Deferred taxes I	16,940	7,140	28,684
External contributions no repayable	2,039	2,134	2,039
Tax benefits arising from consolidation	3,247	2,667	-
Total	**80,972**	**50,000**	**84,834**

12.2 The movement on capital grants in the parent company are as follows:

	Balance 31.12.89	Additions	Amortization	Balance 31.12.90	Additions	Amortization	Balance 31.12.91
From official organisations,autonomous communities and local government bodies	5,503	3,934	573	8,864	5,104	949	13,019
From European Economic Community:							
STAR Programme	3,249	4,983	325	7,907	8,763	823	15,847
FEDER Programme	-	-	-	-	4,084	-	4,084
IRTA Programme	-	-	-	-	498	-	498
Other	128	114	13	229	377	25	581
Total	**8,880**	**9,031**	**911**	**17,000**	**18,826**	**1,797**	**34,029**

12.3 Deferred taxes from timing differences arising during the year (Note 21) will be cancelled over the useful lives of the related assets.

The tax benefits arising from filing consolidated tax returns which result from offsetting losses will be transferred to the subsidiary companies when they obtain profits, whereas those resulting from the elimination of inter-group profits will be applied against future taxes.

NOTE 13 - PROVISIONS FOR RISKS AND EXPENSES

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

						Parent Company	
	1989	Provisions for year	Applications	1990	Provisions for year	Applications	1991
Self insurance for damages in plant	4,435	-	682	3,753	-	702	3,051
For contingencies (note 19)	55,667	446	1,569	54,544	-	3,446	51,098
For contribution to employee benefit systems (Note 19.2)	18,829	-	-	18,829	-	-	18,829
For establishing pensions (Note 19)	32,315	20,300	-	52,615	24,000	-	76,615
Total	**111,246**	**20,746**	**2,251**	**129,741**	**24,000**	**4,148**	**149,593**

				Consolidated
	1990	Provisions for year	Applications	1991
Self insurance for damages in plant	4,048	371	759	3,660
For contingencies	54,544	-	3,136	51,408
For establishing to employee benefit systems (Note 19.2)	19,918	70	375	19,613
For constituting pensions (Note 19)	52,615	24,220	70	76,765
Other provisions	1,482	439	248	1,673
Total	**132,607**	**25,100**	**4,588**	**153,119**

NOTE 14 - DEBENTURES, BONDS AND OTHER ISSUES

14.1 Composition and movements are as follows:

PARENT COMPANY

	Debentures and bonds in national currency		Debentures and bonds in foreign currency			
	Non-convertible	Convertible and/or axchangeable	Non-convertible	Convertibles and/or y/o canjeables	Commercial paper	Total
Balance 12/31/89	263,763	25,419	6,483	23,362	107,672	426,699
New issues	161,111	-	-	-	711,307	872,418
Repayments, conversions and exchanges	(69,765)	(2,891)	-	-	(513,409)	(586,065)
Revaluations and other movements	6,120	-	(86)	(1,780)	-	4,254
Transfers	22,528	(22,528)	-	-	-	-
Balance 12/31/90	383,757	-	6,397	21,582	305,570	717,306
New issues	236,667	-	-	-	540,696	777,363
Repayments, conversions and exchanges	(49,020)	-	-	(1)	(717,901)	(766,922)
Revaluations and other movements	26,340	-	(16)	980	-	27,304
Transfers	-	-	-	-	-	-
Balance 12/31/91	597,744	-	6,381	22,561	128,365	755,051
Detail of maturities						
Long term	557,519	-	6,381	22,561	2,550	589,011
Short term	40,225	-	-	-	125,815	166,040
Accrued interest net yet payable	18,814	-	309	333	-	19,456

CONSOLIDATED

	Debentures and bonds in national currency		Debentures and bonds in foreign currency			
	Non-convertible	Convertible and/or axchangeable	Non-convertible	Convertibles and/or axchangeable	Commercial paper	Total
Balance 12/31/90	386,768	-	6,397	21,582	320,328	735,075
New issues	236,667	-	-	-	540,696	777,363
Repayments, conversions and exchanges	(49,825)	-	-	(1)	(717,901)	(767,727)
Revaluations and other movements	25,993	-	(16)	980	(25,701)	1,256
Transfers	-	-	-	-	-	-
Balance 12/31/91	599,603	-	6,381	22,561	117,422	745,967
Detail of maturities						
Long term	559,389	-	6,381	22,561	14,928	603,259
Short term	40,214	-	-	-	102,494	142,708
Accrued interest net yet payable	18,850	-	309	333	-	19,492

14.2 There are two commercial paper issue programs, as follows:

	Balance limit	Par value	Method of acquisition
Public issues	200,000 millions	500,000 pesetas	Monthly competitive bidsl
Company and institutional issues	200,000 millions	100 millions minimum	Operations

14.3 The details of the debentures and bonds of the consolidated Group outstanding at December 31, 1991 are as follows.

Issue		Interest (%)	Total	1992	1993	1994	1995	1996	Years Subsequent
Debentures									
December 1976		9.3623	455	455	-	-	-	-	-
April 1977		9.3623	909	909	-	-	-	-	-
July 1977		9.3623	454	454	-	-	-	-	-
March 1978		11.6397	2,000	1,000	1,000	-	-	-	-
June 1978		11.6397	833	417	416	-	-	-	-
October 1978		12.1457	833	417	416	-	-	-	-
May 1982		14.2500	2,750	2,750	-	-	-	-	-
November 1982		14.2500	2,000	1,000	1,000	-	-	-	-
April 1983		15.0000	6,250	3,125	3,125	-	-	-	-
February 1984		15.0000	2,934	2,934	-	-	-	-	-
April 1984	variable	14.8000	3,000	3,000	-	-	-	-	-
June 1984	zero coupon	14.8556	7,695	-	-	7,695	-	-	-
August 1984 Series A	variable	14.2500	1,500	1,500	-	-	-	-	-
August 1984 Series B		14.7500	4,488	4,488	-	-	-	-	-
June 1986	variable	11.7700	14,804	-	-	-	-	-	14,804
July 1987	variable	12.5000	24,862	-	-	-	-	-	24,862
January 1988		12.5000	30,000	-	-	-	-	-	30,000
March 1988		12.0000	183	-	183	-	-	-	183
May 1989		12.2500	2,022	-	-	-	-	-	2,022
July 1989		12.0000	10,100	-	-	-	-	-	10,100
December 1989		11.5044	6,400	800	800	800	800	800	2,400
January 1990		12.0000	71	-	-	-	-	-	71
February 1990 Series A		12.6000	9,351	-	-	-	-	-	9,351
February 1990 Series B		12.5793	1,367	-	-	-	-	-	1,367
February 1990 Series C		12.6000	626	-	-	-	-	-	626
February 1990 Series D	zero coupon	12.8896	7,980	-	-	-	-	-	7,980
February 1990 Series E	zero coupon	12.8531	2,605	-	-	-	-	-	2,605
February 1990 Series F	zero coupon	12.5793	291	-	-	-	-	-	291
June 1990	zero coupon	14.0081	36,657	-	-	-	36,657	-	-
July 1990	zero coupon	14.4358	36,489	-	-	-	-	-	36,489
December 1990	zero coupon	13.5761	22,747	-	-	-	-	-	22,747
January 1991		12.0000	20	-	-	-	-	-	20
February 1991 Series A		14.2500	30,000	-	-	-	-	-	30,000
February 1991 Series B	zero coupon	14.4676	33,611	-	-	-	-	-	33,611
March 1991	zero coupon	14.4813	5,600	-	-	-	-	-	5,600
Private issue. April 1991		14.2500	20,000	-	-	-	-	-	20,000
April 1991 Series A		13.5000	10,000	-	-	-	-	-	10,000
April 1991 Series B	zero coupon	13.6659	21,903	-	-	-	-	-	21,903
A September 1994	zero coupon	9.8749	17,750	-	-	17,750	-	-	-
B September 1996	zero coupon	10.0000	8,785	-	-	-	-	8,785	-
C September 1998	zero coupon	10.1250	9,294	-	-	-	-	-	9,294
D September 2001	zero coupon	10.2500	11,578	-	-	-	-	-	11,578
Bonds									
Decembere 1984		14.0000	15,058	15,058	-	-	-	-	-
November 1985		11.7500	5,035	-	-	-	5,035	-	-
May 1986	variable	9.0000	1,593	-	1,593	-	-	-	-
December 1986		9.2500	3,812	1,906	1,906	-	-	-	-
January 1988	zero coupon	10.0000	1,740	-	-	1,740	-	-	-
October 1989		12.7500	20,000	-	-	-	-	20,000	-
Septiembre 1990		14.2500	60,000	-	-	60,000	-	-	-
November 1990		14.0625	600	-	-	-	-	-	600
November 1990	variable	12.8875	400	-	-	-	-	-	400
January 1991	variable	12.8875	1,370	-	-	-	-	-	1,370
February 1991		13.9375	3,440	-	-	-	-	-	3,440
February 1991	variable	12.8875	400	-	-	-	-	-	400
April 1991	zero coupon	14.5154	51,232	-	-	-	-	-	51,232
April 1991		12.3750	10,160	-	-	-	-	-	10,160
April 1991	variable	12.8875	300	-	-	-	-	-	300
May 1991		12.3750	4,437	-	-	-	-	-	4,437
July 1991	variable	12.8875	5,100	-	-	-	-	-	5,100
July 1991	zero coupon	145154	3,728	-	-	-	-	-	3,728
Debentures in foreign currency									
Eurobonds Frankfurt. May 83		8.25	6,381	-	6,381	-	-	-	-
London July 1988		8.35	22,561	-	-	-	-	-	22,561
Total Issues			**628,545**	**40,214**	**16,820**	**87,985**	**42,492**	**29,585**	**411,449**

14.4 Debentures and zero coupon bonds are presented on the Balance Sheet at their issue price plus interest accrued through December 31 of the stated year.

The schedule of the maturities and percentage of repayment of the debentures and zero coupon bonds is as follows:

Issue	Due date of amortization	% repayment	Repayment value
Debentures			
June 1984	05-07-1994	400.000	10,564
February 1990 Series D	26-02-2000	336.154	21,447
February 1990 Series E	26-02-2005	613.338	12,776
February 1990 Series F	26-02-2010	1,069.470	2,503
June 1990	22-06-1995	192.610	57,783
July 1990	20-07-1997	257.000	77,100
December 1990	28-12-2005	675.000	135,000
February 1991 Series B	28-02-1998	257.500	77,250
March 1991	01-03-1998	257.729	2,577
March 1991	01-06-1998	266.659	2,667
March 1991	01-09-1998	275.899	2,759
March 1991	01-12-1998	285.353	2,854
March 1991	01-03-1999	295.022	2,950
April 1991 Series B	17-04-2001	360.000	72,000
A September 1994	18-09-1996	132.715	22,927
B September 1996	18-09-1996	161.135	13,772
C September 1998	18-09-1998	196.531	17,766
D September 2001	18-09-2001	265543	29,892
Bonds			
January 1988	26-01-1994	177.156	2,119
April 1991 Zero coupon	15-04-1999	295.740	137,519
July 1991 Zero coupon	15-07-1999	295.740	10,351

14.5 Additional information

	Parent Company		Consolidated
	1991	1990	1991
Interest expenses	71,385	43,649	71,786
The amount of issues subject to tax benefit is as follows:			
Debentures in local currency	10,235	26,110	10,235
Debentures in foreign currency	25,748	25,803	25,748

The average cost of the debentures and bonds outstanding is 13.06% for 1990 (12.01% in 1990).

14.6 Foreign currency debentures of the parent company amount to 100 million German Marks and 200 million US dollars.

Outstanding debentures and bonds are stated at the official closing exchange rate of each currency at year end quoted by the Bank of Spain. The resulting exchange gains credited in 1991 to unrealized exchange losses amounted to 55 million pesetas (2,651 million pesetas in 1990).

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

14.7 In September 1991 there was an issue of 100,000 million pesetas (which may be increased to 150 million pesetas) in zero-coupon debentures of 100,000 pesetas par value each. These will be subscribed for by public auction over a one-year period. At December 31, 1991 461,196 debentures had been subscribed for.

14.8 Conversion options for a total amount of one million pesetas were exercised during January 1992, in connection with bonds issued in December 1986.

NOTE 15 - DEBTS WITH FINANCIAL INSTITUTIONS

15.1 As mentioned in Note 2 a), these accounts are classified in the balance sheet according to their maturity dates. The balances at December 31 are as follows:

	Parent Company						Consolidated		
	1991			1990			1991		
	Long term	Short term	Total	Long term	Short term	Total	Long term	Short term	Total
Notes payable at face value	63,680	365	64,045	45,000	5,000	50,000	67,804	10,964	78,768
Loans in foreign currency	202,019	3,191	205,210	206,235	5,003	211,238	285,046	12,509	297,555
Loans and credits	358,636	64,234	422,870	276,592	55,656	332,248	361,716	77,649	439,365
Total	**624,335**	**67,790**	**692,125**	**527,827**	**65,659**	**593,486**	**714,566**	**101,122**	**815,688**

15.2 The years of maturity of the debts are as follows:

							PARENT COMPANY
	1992	1993	1994	1995	1996	Maturities Subseq. years	Balance at 31.12.91
Loans in foreign currency	3,191	-	10,226	14,517	41,333	135,943	205,210
Loans and credits	64,234	98,202	33,296	17,025	18,250	191,863	422,870
Notes payable	365	365	10,365	365	15,365	37,220	64,045
Total	**67,790**	**98,567**	**53,887**	**31,907**	**74,948**	**365,026**	**692,125**

							CONSOLIDATED
	1992	1993	1994	1995	1996	Maturities Subseq. years	Balance at 31-12-91
Loans in foreign currency	12,508	3,481	14,480	22,300	41,333	135,943	230,045
Loans and credits	77,650	98,521	33,802	17,573	22,062	257,267	506,875
Notes payable	10,964	4,469	10,365	365	15,365	37,240	78,768
Total	**101,122**	**106,471**	**58,647**	**40,238**	**78,760**	**430,450**	**815,688**

15.3 Información adicional:

	PARENT COMPANY						CONSOLIDATED	
	Financial expenses		Accrued interest		Average interest rate		Financial expenses	Accrued interest
	1991	1990	1991	1990	1991	1990	1991	1991
Loans in foreign currency	19,675	17,437	4,590	4,425	7.94	8.12	23,378	4,777
Loans and credits	49,641	45,146	9,903	8,869	13.90	14.59	53,117	9,903
Notes payable	3,942	3,043	-	-	13.49	15.84	4,688	-

15.4 Loans and credit facilities accounts reflect only the amounts actually borrowed. Unused facilities are disclosed in Note 23.

15.5 At December 31, 1991 a total of 48,541 million pesetas in foreign currency loans is eligible for the tax benefits established by Decree Law 19/1961 and Law 61/1978.

15.6 In accordance with the accounting criteria set forth in Note 4.1 j), exchange gains arising from adjusting the foreign currency loan balances to the 1991 exchange rates resulted in a credit to Deferred Income of 3,601 million pesetas (5,454 million in 1990).

15.7 Details of the parent company loans denominated in foreign currencies from financial institutions are as follows:

	1991	1990
US dollars	325.0	325.0
German marks	255.5	255.5
Swiss francs	500.6	422.5
Dutch florins	176.8	176.8
Japanese yen	19,020.6	26,020.6
French francs	649.9	649.9
ECU'S	654.4	654.4

15.8 Loans denominated in foreign currencies include the following:

The Company has a multi-option financial facility for 250 million US dollars, represented by Telefónica's certificates in Euronotes with maturities of less than six months. When they become due, Telefónica can opt to:

a) issue new Euronotes;
b) use the credit facility to refinance the amounts due; or
c) repay the notes without using such credit facility.

The Company has a loan from the European Investment Bank, authorized in 1988 through the Official Credit Institute, for an amount of 1,200 million ECUS repayable in 15 years with a grace period of five years. Thereafter the loan is repayable in 20 equal semi-annual installments. The interest rate os fixed for the fist five years and it is subject to review at the end of the 5th and 10th years. The loan also has multi-currency option.

NOTE 16 - DEBTS WITH GROUP AND ASSOCIATED COMPANIES

	PARENT COMPANY						CONSOLIDATED		
	1991			1990			1991		
	Long term	Short term	Total	Long term	Short term	Total	Long term	Short term	Total
Loans	74,499	-	74,499	12,129	-	12,129	-	-	-
Purchases and services:									
From Group companies	1,871	39,143	41,014	-	24,646	24,646	-	-	-
From Associated companies	15,479	46,020	61,499	-	47,127	47,127	15,479	47,887	63,366
Total	**91,849**	**85,163**	**177,012**	**12,129**	**71,773**	**83,902**	**15,479**	**47,887**	**63,366**

The loans consist of:

a) A loan from the European Investment Bank, authorized in 1991 through the subsidiary Telefónica y Finanzas, S.A., (Telfisa) for 600 million Ecus.

An amount of 500 million Ecus of the loan facility was used in 1991 in four different currencies. The loan is for a period of 15 years with a grace period of five years. Thereafter the loan is repayable in 20 equal semi-annual installments. The loan bears interest at rates varying quarterly.

b) A commercial loan facility with the subsidiary Telefónica North America Inc., up to 125 million US dollars. The loan facility has been used in full. The funds for this loan were raised by commercial paper issued in the USA by the subsidiary and guaranteed by Telefónica.

NOTE 17 - TAXES PAYABLE AND RECOVERABLE

The details of the balances at December 31 are as follows::

	Parent Company		Consolidated
	1991	1990	1991
Taxes payable:			
Payroll withholding taxes	6,669	5,615	7,389
Value added tax	5,869	185	7,290
Dividend and interest at withholding taxes	1,067	1,317	1,162
Corporate income tax	5,386	8,051	6,379
Local government taxes	2,945	2,421	2,950
Social Security Contributions	8,607	7,677	9,280
Foreign taxes	-	-	14
Total	**30,543**	**25,266**	**34,464**
Taxes recoverable:			
Payments on account of corporate income tax:			
Tax withhold from income at source	14	581	590
Payments on account on consolidate corporate income tax returns	2,713	9,602	2,772
Taxes, surcharges and Social Security payments recoverable	522	522	1,179
Corporate income tax-consolidated 1990	1,172	-	1,172
Taxes paid in advance	375	-	2,502
Foreign taxes	-	-	1
Total	**4,796**	**10,705**	**8,216**

NOTE 18 - OTHER ACCOUNTS PAYABLE

This heading comprises the following amounts:

	Parent Company		Consolidated
	1991	1990	1991
Payroll payable	15,829	15,148	18,753
Interchange telephone services	12,987	11,359	12,987
Guarantee deposits	13,031	11,285	13,049
Expenses accrued and due	9,855	10,476	10,780
Dividends payable	29,948	29,955	29,948
Sundry creditors	11,824	13,545	13,919
Institución Telefónica de Previsión	68,199	-	68,199
Interest payable to Institución Telefónica de Previsión	12,367	-	12,367
Total	**174,040**	**91,768**	**180,002**

Pursuant to Ministerial Order of December 30, 1991 (see Note 19) the loan from the Institución Telefónica de Previsión has been reclassified; in the year 1990 this loan was included in long term liabilities..

NOTE 19 - PENSIONS

19.1 Up to the time of publication of the order of the Ministry of Labor and Social Security dated December 30, 1991 published in the Spanish Official Bulletin N° 1 of 1.01.92, the personnel of Telefónica were covered by a social welfare scheme whereby by the Institución Telefónica de Previsión (I.T.P.) provided benefits that supplemented or substituted those received from the general Social Security system. The aforementioned Order established that the present employees and pensioners covered by ITP be integrated into the general Social Security system as from January 1, 1992. There is also a group endowment insurances scheme which is described in Note 20.

I.T.P. is a mutual employee benefit fund created under Ley de Montepíos y Mutualidades de Previsión Social dated December 6, 1941 and its Regulations of May 26, 1943. It is therefore a separate legal entity and, as such, it is governed by its own Regulations approved by the sub-secretariat of Social Security on January 28, 1977, to the extent that it is not affected by the aforementioned Ministerial Order of December 30, 1991.

Actuarial studies reflect an insufficiency of reserves and income to meet the ITP commitments in the medium and long terms.

19.2 The Order of the Ministry of Work and Social Security dated December 30, 1991 published in the Spanish Official Bulletin of January 1, 1992 made public the Ministerial Council agreement of December 27, 1991 regarding the integration of present employees and retired personnel of the ITP into the general Social Security system starting on from January 1, 1992.

The most significant terms of the aforementioned Order are:

a) The General Office Planning and Economic Organization of Social Security will determine the amounts being assumed by the Social Security system and the amounts and number of the contributions and the date on which they shall be paid into the General Treasury of Social Security by the ITP or by the entity which may assume ITP's obligations.

b) As regards the cost of the obligations assumed with respect to its retired members, ITP shall pay into the General Treasury of Social Security, within a period not exceeding five months from the time of adoption of the aforementioned Ministerial Council agreement, an amount of 75,000 million pesetas. The difference up to the total amount of the cost of the obligations shall be paid in the amounts and dates to be determined by resolution of the General Office of Planning and Economic Organization of Social Security. The financial compensation for the obligations assumed with respect to non-pensioner funds shall be made through an additional payment based on the relevant contributions.

The difference up to the total cost of the obligations is estimated at 55,600 million pesetas which, based similar precedents it is expected to be contributed within a period of approximately eight years, with two years' grace and 8% annual interest.

From January 1, 1992 Telefónica and its employees pay their Social Security contributions in accordance with the general rules and without any reduction.

On January 15, 1992 Telefónica informed ITP of its cessation of contributions to it effective January 1, 1992 pursuant to the Ministerial Order. Also on January 15, 1992 ITP resolved at a Board Meeting to acknowledge receipt of this notification from Telefónica and to suspend provisionally the employees' obligation to make contributions.

19.3 On March 24, 1992 the General Office of Insurance of the Ministry of Economy and Finance prepared a report on ITP.

Among other matters, the report's summary conclusions state that the present system and level of contributions and services rendered after integration into the general Social Security system is clearly insufficient to satisfy the asset balance requirements that applicable law imposes on actuarial capitalization systems.

As a result of the above circumstances imply that ITP is in a situation where it cannot fulfill its social purpose and is in state of insolvency, both of which are causes for dissolution pursuant to Article 30.1 of the Law for Organization of Private Insurance (Article 37.1 of the Regulations of social Welfare Entities).

19.4 Telefónica has expressed its willingness to collaborate in a future arrangement that would provided viability to its employees' pension system. Consequently since 1985 Telefónica has been holding negotiations with the employees' representatives, but no agreement has been reached.

At the present stage of negotiations Telefónica has made an offer to the employees' representatives to establish a pension plan for its present employees and another pension plan for its pensioners supplementary to the Social Security payments, so as to guarantee the pensions of the latter prior to the integration, and without subsequent reassessment of the supplementary portion.

The pension plan proposed by Telefónica for its present employees has the following basic characteristics: employment system, defined contribution, financially capitalized on an individual basis.

19.5 Since 1982 Telefónica has recorded a reserve of 18,829 million pesetas to cover eventual contributions to the of social welfare systems, which was charged to the Revaluation reserve.

Telefónica has also provided annually, for the possible creation of a Pension Plan, charges against results amounting to a total of 76,615 million pesetas at December 31, 1991.

In the event of an eventual statutory agreement, the internal funds forming part of the Endowment Insurance (Note 20) and Salary insurance and the provision for asset contingencies referred to in Note 13 could also be affected by the financing of the new social welfare plan.

The additional cost of the offer made, together with the cost of integration into the Social Security system, will represent, an estimated increment in after-tax cost of approximately 20,000 million pesetas for 1992 and similar amounts for the next four years.

Telefónica has requested that the relevant authorities permit extended time periods to amortize any deficits resulting from pension obligations that may be determined to have been accrued. The periods requested are 18 years for pension obligations to retired personnel and 28 years for pension obligations to current employees.

The stated effects assume that all employees will be included in the proposed pension fund. Otherwise the corresponding contribution amounts would not be subscribed to the fund and no commitments would be made on behalf of non-participating employees.

19.6 Telefónica maintains that the impact of a definitive agreement would not differ significantly from that stated.

If a final agreement to establish a pension fund is not reached, the amount of payable corporate income tax would increase by approximately 32,461 million pesetas and the funds referred to in paragraph 19.5, except for the Endowment Insurance and Salary Insurance, would be fully distributable.

NOTE 20 - 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 with an insurance company and in Telefónica which, at December 31, 1991, these funds amounted to Ptas 351 million and Ptas 52,886 million, respectively. In 1991 the Company made a provision for a total of Ptas 13,908 million for these funds (11,545 million pesetas in 1990).

Based on actuarial calculations the annual charge for for 1991, which incorporates the amortization in 15 years of the difference between the obligations for projected benefits (Ptas 98,739 million) and the established funds, is sufficient to fund the benefits..

As stated in Note 19.5, if the employees' representatives agree to Telefónica's proposal, the funds assigned to the Endowment Insurance would be incorporated into the new employee benefit system.

NOTE 21 - TAXATION

The years open to inspection for the main taxes are as follows:
- Corporate income tax:1986 through 1990
- Corporate income tax for companies filing a consolidated tax return:1990
- Local government taxes:1987 through 1991
- Value added tax:1987 through 1991
- Capital transfer tax:1987 through 1991
- Dividend and interest withholding taxes:1987 through 1991
- Payroll withholding tax:1987 through 1991

RECONCILIATION OF PROFIT BEFORE TAX PER CONSOLIDATED ACCOUNTS AND TAXABLE INCOME

Profit before tax	128,519
PERMANENT DIFFERENCES:	
In individual companies	3,000
Taxable abroad	605
Profit of associated companies	(7,628)
Amortization of goodwill on consolidation	872
Losses of companies not consolidated for tax purposes	266
Adjusted profit per accounts	**125,634**
TIMING DIFFERENCES:	
In individual companies	(30,216)
In companies whose tax is payable directly by its shareholders	(18,803)
Eliminations of companies included in consolidated tax return	(4,646)
Taxable income	**71,969**

CORPORATE INCOME TAX:	Accrued	Payable	Deferred	Prepaid
Rate of 35%:				
On adjusted profit per accounts	43,972		18,783	
On taxable income		25,189		
Deductions:				
Double taxation relief	(817)	(817)		
Allowances	(249)	(249)		
Investment tax credits	(17,656)	(16,799)		857
Investment tax credits of companies whose tax is payable directly by their shareholders	(1,645)			1,645
Tax credits for creation of employment	(930)	(930)		
Total deductions	(21,297)	(18,795)		
	22,675	**6,394**	**18,783**	**2,502**
Tazes paid abroad and other	1,597	(15)		
	24,272	**6,379**	**18,783**	**2,502**

RECONCILIATION OF PROFIT BEFORE TAX FOR ACCOUNTS OF TELEFONICA AND ESTIMATED TAXABLE INCOME

Profit before tax per accounts			98,547
	Additions	Reductions	
PERMANENT DIFFERENCES	2,336	1,364	972
Adjusted profit per accounts			**99,519**
TIMING DIFFERENCES			
Originating in current year	-	29,400	(29,400)
Originating in prior years	1,400	-	1,400
Taxable income			**71,519**

CORPORATE INCOME TAX:	Accrued	Payable	Deferred	Prepaid
Rate of 35%				
On adjusted profit per accounts	34,832	-	34,832	-
On taxable income	-	25,032	(25,032)	-
Deductions:				
Double taxation relief	(1,757)	(1,757)	-	-
Allowances	(246)	(246)	-	-
Investment tax credits	(17,196)	(16,821)	-	375
Tax credit for creation of employment	(822)	(822)	-	-
	14,811	**5,386**	**9,800**	**375**
Elimination of prepaid taxes	1,292	-	-	-
Taxes paid abroad	1,597	-	-	-
	17,700	**5,386**	**9,800**	**375**

In addition to the tax credits used in the year, there exist further credits which have not been used because there was not sufficient tax liability. The unused tax credits are as follows: 1988 - 13,076 million pesetas; 1989 - 27,954 million pesetas; 1990 - 32,710 million pesetas; and year 1991 - 28,322 million pesetas. Investment tax credit credits amounting to 1,913 million pesetas are also available for 1991. The timing differences arise form the application of accelerated depreciation in accordance with the final disposition 7ª of Royal Decree 1.643/90 of December 20, 1990.

Payments made on account of corporate income tax total 2,727 million pesetas.

NOTE 22 - INCOME AND EXPENSES

22.1 The distribution of sales by products is as follows:

	Parent Company	
Concepts	1991	1990
Subscribed payments	230,885	207,119
Transmission of data and images	103,852	87,628
National automatic service	465,584	374,472
Operator trunk calls	2,266	1,642
International service	124,492	113,857
Marine portable service	14,255	8,696
Advertising	10,017	8,506
Connection fees	42,897	38,895
Marketing of terminals and other	13,783	11,727
Operating income	**1,008,031**	**852,542**

	Consolidated
Concepts	1991
Parent company	1,008,031
International Telephone Group	333
Other subsidiaries	134,488
Inter - group sales	(93,854)
Total	**1,048,998**

22.2 The number of employees by category and personnel costs as follows:

Average number of employees	Parent Company		Consolidated
Category	1991	1990	1991
General management	1,097	1,044	1,488
University graduates and special technician	3,868	3,638	5,078
Personnel with higher educ. degr. and techn.	6,739	6,466	7,937
Supervisors and operat. of internal plant	17,856	16,502	17,856
Supervisors and operat. of external plant	21,473	21,411	21,473
Applications operat. and data processing assistants	1,521	1,620	1,538
Administrative personnel	10,271	10,126	12,467
Subscriber services personnel	3,484	3,353	3,484
Operation personnel	6,278	6,284	6,278
Warehouse, office and garage personnel	1,806	1,722	2,073
Auxiliary personnel	995	1,049	998
Manual workers	-	-	2,450
Other personnel	36	38	1,224
Total	**75,424**	**73,253**	**84,344**

Gastos de personal:	Parent Company		Consolidated
Concepts	1991	1990	1991
Salaries and wages	248,784	222,081	280,596
Social welfare costs	80,040	71,522	86,920
Total	**328,824**	**293,603**	**367,516**

22.3 The following is an analysis of extraordinary income and expenses:

Extraordinary income	Parent Company	Consolidado
Concept	1991	1991
Compensation for breach of contract	2,727	4,230
Work on COOB 92 and EXPO	523	923
Sale of scrap Raif and other	480	480
Work on damaged equipment and modifications to installations		
Insurance compensation	355	357
Tax refunds	135	150
Miscellaneous	114	2,494
Total	**4,696**	**9,040**

Extraordinary expenses	Parent Company	Consolidado
Concept	1991	1991
Payments for advancing work programs	1,226	1,226
Expenses of exhibitions and other functions	1,020	1,195
Donations (tax deductible)	851	851
Irrecoverable costs of rejected projects	751	751
Sponsorship costs of COOB 92, EXPO 92 and COM 92	629	629
Cosesa operating expenses	400	400
Miscellaneous	192	303
Total	**5,069**	**5,355**

NOTE 23 - OTHER INFORMATION

23.1 Remuneration of Directors

The total amount paid to Telefónica's directors during the year 1991 for salaries, wages and expense allowances was 120 million pesetas.

Telefónica did not grant any loans or credits and did not incur any obligations for pensions or insurance in favor of the members of the Board of Directors.

23.2 Unused credit facilities:

	Parent Company		Consolidated
	1991	1990	1991
Unused long term credit facilities	5,431	40,093	80,544
Other credit facilities (floating credit lines)	18,402	12,046	18,402
Short term credit facility	12,382	1,146	20,937
Commercial paper	-	32,799	-
Totales	**36,215**	**86,084**	**119,883**

23.3 Commitments:

Guarantees for financial operations	20,252	22,509	4,175
Endorsements of employees loans	3,174	3,372	3,174

Guarantees for financial operations include primarily to guarantees given by the Company to its subsidiary and participated companies to secure their operations with third parties. These are eliminated on consolidation.

NOTE 24 - SUBSEQUENT EVENTS

On February 6, 1992 Telefónica International acquired 80% of Telefónica Larga Distancia de Puerto Rico. The agreed purchase price is 141.6 million 45 dollars.

In March 1992 Telefónica obtained the licence for the Pager Telephone Service in Portugal, forming part of a consortium in which the Telefónica subsidiary holds 15% of the share capital which will initially be 500 million escudos.

On March 24, 1992 a mixed company, Telefónica - Rumanía, was constituted with a share capital of five million dollars in which Telefónica Internacional has a 60% participation.

STATEMENT OF SOURCES AND APPLICATIONS OF FUNDS PER PARENT COMPANY

Applications	1991	1990	Sources	1991	1990
1. Funds applicated to operations	-	-	1. Funds provided by operations	485,377	392,115
2. Establishment costs and cost of formalizing debts	11,008	9,741	2. Contributions from shareholders		
			a) Capital increases	-	997
3. Acquisition of long-term assets			b) Share premiums	-	715
a) Intangible assets	14,609	9,093			
b) Fixed assets	622,672	721,291	3. Deferred income	18,969	16,065
c) Long term investments	23,187	32,931			
d) Advances to supplier	(9,293)	(17,594)	4. Loans term liabilities		
e) Installation materials	(7,762)	(11,207)	a) Loans and credits	172,419	160,112
			b) Other	365,233	178,871
4. Dividends	50,983	50,921			
			5. Sale proceeds of fixed assets		
5. Cancell. or transf. to short-terms of long-term liabilities			a) Fixed assets	17,648	477
a) Loans and credits	76,639	40,096	b) Long term investments	15,573	6,962
b) Other	154,426	110,855			
6. Reserve	4,148	15,836			
Total Applications	**940,617**	**961,963**	**Total Sources**	**1,075,219**	**756,314**
Excess of sources over applications (Increase in working capital)	**134,602**	**-**	**Excess of applications over sources (Decrease in working capital)**	**-**	**205,649**
	1,075,219	**961,963**		**1,075,219**	**961,963**

Changes in working capital for the year ended December 31, 1991

	Increases	Decreases		Increases	Decreases
1. Shareholders for uncalled share capital	-	-	1. Shareholders for uncalled share capital	-	-
2. Inventories	-	2,842	2. Inventories	-	159
3. Accounts receivable	37,894	-	3. Accounts receivable	33,702	-
4. Accounts payable	92,247	-	4. Accounts payable	-	239,151
5. Short term investments	-	-	5. Short term investments	-	-
6. Cash and banks	2,017	-	6. Cash and banks	1,626	-
7. Prepayments and accruals	5,286	-	7. Prepayments and accruals	-	1,667
Total	**137,444**	**2,842**	**Total**	**35,328**	**240,977**
Changes in working capital	**-**	**134,602**	**Changes in working capital**	**205,649**	**-**
	137,444	**137,444**		**240,977**	**240,977**

STATEMENT OF SOURCES AND APPLICATIONS OF FUNDS PER CONSOLIDATED GROUP

APPLICATIONS		SOURCES	
1. Funds applicated to operations	-	1. Funds provided by operations	493.850
2. Establishment costs and cost of formalizing debts	11,220	2. Contributions from shareholders	
		a) Capital increases	-
3. Acquisition of long-term assets		b) Share premiums	-
a) Intangible assets	21,114	c) Participations of minority shareholders	19,033
b) Tangible fixed assets	617,010		
c) Long term investments	46,799	3. Deferred income	18,969
d) Advances to suppliers	(9,309)		
e) Installation materials	(6,155)	4. Loans term liabilities	538,934
4. Dividends	50,983	5. Sale of long-term assets	
		a)	-
5. Funds used by acquisition of participations	1,197	b) Tangible fixed assets	24,006
		c) Long-term investments	33,765
6. Cancell. or transf. to short-terms of long-term liabilities	242,536		
		6. Funds used by sales of participation	288
7. Provisiones	4,588		
Total Applications	**979,983**	**Total Sources**	**1,128,845**
Excess of sources over applications (Increase in working capital)	**148,862**	**Excess of applications over sources (Decrease in working capital)**	**-**
	1,128,845		**1,128,845**

INCREASE IN WORKING CAPITAL		DECREASE IN WORKING CAPITAL	
1. Shareholders for uncalled share capital	40	1. Shareholders for uncalled share capital	-
2. Inventories	-	2. Inventories	3,029
3. Accounts receivable	47,106	3. Accounts receivable	-
4. Acreedores	103,800	4. Acreedores	-
5. Short term investments	-	5. Short term investments	5,244
6. Acciones propias	-	6. Acciones propias	-
7. Cash and banks	720	7. Cash and banks	-
8. Prepayments and accruals	5,469	8. Prepayments and accruals	-
Total	**157,135**	**Total**	**8,273**
Change in working capita	-	Change in working capita	**148,862**
	157,135		**157,135**

The reconciliation net profit to funds provided by operations.

	PARENT COMPANY		CONSOLIDATED
	1991	1990	1991
Net profit for the year	80,847	75,788	104,247
Profit atributed to outside shareholders	-	-	1,771
Profit from associated companies	-	-	(7,683)
			98,335
PLUS:			
Depreciation of fixed assets	291,870	250,615	293,903
Amortization of intangible assets goodwill	3,955	3,131	3,991
Amortization of consolidation	-	-	872
Reserve for deterioration in value of long term investments	2,113	2,838	(736)
Exchange losses	9,501	6,815	8,318
Provision for pension fund	24,000	20,300	24,000
Other provisions	-	446	1,100
Dismantled plant non amortized	25,477	15,509	25,477
Provision for inventories	4,200	800	4,200
Deferred interest	48,783	10,609	48,783
Deferred taxes and other	10,380	9,699	18,783
Amortization of COOB 92 and EXPO 92	629	-	629
Losses on consolidated company disposals	-	-	1,497
Intangible assets			
LESS:			
Profit on sale of long term investments	2,541	3,321	21,855
Profit on disposal of tangible fixed assets not repaid	11,722	203	11,761
Capital grants	1,797	911	1,797
External contributions	238	-	238
Others	80	-	80
Funds provided by operations	**485,377**	**392,115**	**493,850**

MANAGEMENT REPORT ON TELEFONICA DE ESPAÑA, S.A.

Highlights

Telefonica's profit for the year 1991 amounted to 98,547 million pesetas before tax which was 5.8% more than that of 1990. The reduced effective rate of corporate income tax made it possible to obtain a net profit of 80,847 million pesetas, an increase of 6.7% over the previous year. The cash flow totalled 402,149 million pesetas showing a rate of increase of 16.6% over 1990. Investments in tangible fixed assets amounted to 601,417 million pesetas which represented a reduction of 13.2% from the prior year and marked a point of change in the policy of continuous growth followed up to that time.

Telephone service

During the year, 1,120,024 new local lines were installed, which were practically all digital (99.1%), as well as 429,256 trunk lines of which 98.8% were digital. Lines installed at the year end totalled 15,180,600, 34.4% digital, six percentage points more than in 1990. The number of new connections registered in the year was 1,036,766 which was a decrease of 9% from the previous year. The number of lines in service at December 31, 1991 totalled 13,264,360, an annual increase of 5.3%. The number of applications registered at 1,177,989 showed a decline of 10.6%. The level of applications fulfilled and the reduction in demand made it possible to reduce the waiting list significantly. At the 1991 year end there were 244,167 applications pending which was a record low and represented an improvement of 35.7% over 1990.

Income

Operating income totalled 1,008,031 million pesetas and was 18.2% more than the previous year. The new tariffs for 1991 came into force on April 14 and represented an average increase of 5.85%. As in the prior year, mobile services showed the biggest increase (63.9%), followed by the domestic telephone service (24.4%) and data transmission (18.5%).

The domestic telephone service accounted for 46.4% of total operating income, followed by subscribers service charges at 22.9% and the international service at 12.4%.

Internal expenditure capitalized in fixed assets increased by 15% and other operating income by 48.9%, due especially to external contributions and income from management services. Financial income decreased by 59.3% as a result of the reduction in suppliers discounts. Extraordinary income was 13.8% less than that for 1990.

Expenses

Operating expenses amounted to 789,944 million pesetas which was an increase of 15.1% over the previous year; the increase under this item in 1990 had been 16.6%. Personnel expenses, which represented 41.6% of the total, amounted to 328,824 million pesetas (an increase of 12% compared with 15.8% for the previous year). There were 75,499 employees on the payroll at the end of 1991 of whom 73,485 were permanent and the remainder temporary. The figure was very similar to that of 1990 when there were 75,350 employees.

Depreciation of fixed assets totalled 291,870 million pesetas, an increase of 16.5% over 1990. Provisions for ordinary activities amounted to 39,214 million pesetas which was 32.1% higher than last year and reflected mainly the increased provisions for inventory valuation adjustments because of the total liberalization of terminals as from July 1991, and potential bad debts. A provision of 24,000 million pesetas was made for the pension fund which represented an increase of 18.2% compared with 1990.

The highest slow down was reflected by other operating expenses which increased by 16%, 5.2 percentage points less than in 1990. The largest adjustment was in external services with an increase of 11.1% compared with an increase of 26.8% in 1990.

Margins and results

The favourable growth in operating income and the containment of expenses resulted in an operating profit of 304,402 million pesetas. This represented an increase of 28.2% which compares favourably with the 21.4% increase in 1990.

The reduced level of investment, the decrease in interest rates and the lifting of the restriction on financing in foreign currency were determining factors in the improvement in the financing component. Net financial expenses amounted to 193,952 million pesetas which was an increase of 33.4% (42.0% in the previous year).

Extraordinary losses totalled 11,903 million pesetas compared with an extraordinary profit of 1,153 million pesetas in the preceeding year. Losses on fixed assets which were over 14,000 million pesetas compared with 4,936 million in 1990, were the principal reason for this change.

The profit before tax amounted to 98,547 million pesetas which represented an increase of 5.8%. The reduced effective rate of corporate income tax, relating to the tax relief connected with EXPO 92 and the Olympic Games, made it possible to obtain a net profit of 80,847 million pesetas, an increase of 6.7%.

Future outlook

The budget for investments to be made by the Company in 1992 amounts to 528,098 million pesetas of which 477,559 million pesetas correspond to tangible fixed assets and the balance to intangible and financial fixed assets.

Research and development activities

The Company allocated 9,645 million pesetas to research and development expenses in 1991. This amount was invested in developing new packet-switched equipment, new facilities for the advanced Audiotex system, the development of products for optimizing the operation and maintenance of the network, the experimental wide band network and other items.

Acquisition of own shares (Treasury stock)

No treasury stock was acquired during the year.

MANAGEMENT REPORT ON THE CONSOLIDATED GROUP

Significant figures

The net profit of the consolidated group for 1991 amounted to 104,247 million pesetas of which 77.6% corresponds to the parent company.

The cash flow (net profit plus depreciation and amortization) totalled 428,490 million pesetas and investments made in the year amounted to 597,517 million pesetas.

Income

The total income of the Telefónica consolidated group was 1,227,243 million pesetas in 1991. Operating income constituted the majors portion of this income and amounted to 1,178,573 million pesetas, 92.9% of which was generated in the parent company.

The figure for operating income included 108,437 million pesetas for internal expenditure capitalized in fixed assets of which 60.5% corresponded to Telefónica.

Extraordinary income totalled 32,692 million pesetas. Of this total 23,402 million pesetas were generated in Group companies and related principally to gains on sales of fixed assets, the remaining amount was generated in the parent company.

Participation in the profits of associated companies consolidated by the equity method amounted to 8,378 million pesetas and financial income reached a total of 7,600 million pesetas.

Operating expenses

Operating expenses for the year 1991 totalled 872,413 million pesetas. The most significant components included under this item were personnel expenses which at 367,516 million pesetas represented 42.1% of the total, and depreciation of fixed assets which at 293,903 million pesetas corresponded to 33.7% of the total.

The major portion of the operating expenses of the consolidated Group was generated in the parent company and represented 90.5% of the total. the remaining 9.5% of the expenses was generated in the subsidiary companies, principally for personnel expenses and supplies.

Other expenses

Consolidated financial expenses reached a total 203,161 million pesetas and related almost entirely to the parent company. Extraordinary expenses amounted to 19,845 million pesetas.

Margins and results

Operating profit for 1991 totalled 306,160 million pesetas which was 0.6% higher than that of the parent Company. After deducting 195,561 million pesetas for net financial expenses and adding 12,847 million pesetas for extraordinary income and 6,845 million pesetas for profit of associated companies consolidated by the equity method, and finally deducting the result attributed to minority interest in earnings of consolidated subsidiaries, to the amount of 1,772 million pesetas, consolidated profit before tax for 1991 amounted to 128,519 million pesetas, of which 76.7% corresponded to the parent Company. After deducting corporate income tax of 24,272 million pesetas, the consolidated profit for the year was 104,247 million pesetas, of which 80,847 million pesetas corresponded to the parent Company.

International operations

The international operations of the Telefónica group are carried out essentially through Telefónica Internacional and its group of companies. The principal object of Telefónica Internacional is to invest in foreign telecommunications and to manage the holdings in the companies which channel these investments.

The Company has participations in various companies through which it carries out its objectives. The principal asset of the Group consists of its participation in various telecommunication operating companies in different countries. The principal participations are as follows:

- Compañía de Teléfonos de Chile (CTC): Provides basic telephony in Chile and has 7,994 employees and operates one million lines. The shares of CTC are listed on the Santiago de Chile and New York stock exchanges. These participations were acquired in April 1990 and in January 1991 when an option to purchase a reduced number of shares was exercised. At December 31, 1991 the participation in CTC was 43.63%.
- Empresa Nacional de Telecomunicaciones (ENTEL): Provides long distance telephony services in Chile. It has 1,546 employees and its shares are listed on the Santiago de Chile stock exchange. The participations were acquired in July 1989 (10%) and April 1990 (10%).
- Telefónica Argentina, S.A. (TASA): Provides telephone services in the southern region of Argentina and it has a 50% holding in the international concessionary services (TELINTART) and advanced services (ESTARTEL) companies. TASA operates 1.8 million lines and it has 17,458 employees. The Group holds 8.07% of the share capital of TASA which was acquired in November 1990 and February 1991, through COINTEL, and in December 1991 directly.
- Compañía de Teléfonos de Venezuela (CANTV): Provides basic telephone services in Venezuela. It operates 1.5 million lines and has 19,763 employees. The Group owns 16% of the share capital of VENWORLD TELECOM which owns 40% of CANTV. The participation was acquired in December 1991.

Events subsequent to the year end

Telefónica has consolidated its presence in Latin America with the acquisition of 80% of Telefónica Larga Distancia de Puerto Rico which was agreed in February 1992. The total amount agreed to be paid by Telefónica Internacional for the acquisition is 141.6 million US dollars.

Telefónica Internacional was successful in its bid for the development of cellular telephony in Romania. For this purpose it will create a mixed company, jointly with ROM Telecom. This mixed Company plans to invest approximately 17 million US dollars.

Research and development

During the year 1991 a total of 9,737 million pesetas was invested in research and development, of which 9,645 million pesetas corresponded to the parent company. These funds have been directed principally towards the development of new packet-switched equipment for the TESYS-B and TESYS-AX systems, development of products for optimizing the operation and maintenance of the network, experimental broadband network, new facilities for the advanced Audiotex system, primary structured digital connections and other.

Acquisition of own shares (Treasury stock)

No Treasury stock was acquired during 1991.