

Annual
1995-94 **Accounts**

and Management Report
of Telefónica de España, S.A.
and Consolidated Group
of Subsidiary Companies

Price Waterhouse



AUDIBERIA

Free translation from the original in Spanish

Independent auditor's report on the annual accounts

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

1. We have audited the annual accounts of Telefónica de España, S.A. and the consolidated annual accounts of Telefónica de España, S.A. and its subsidiaries ("Telefónica Consolidated Group") at December 31, 1995 and 1994 consisting on the balance sheets, the profit and loss accounts and the notes for the years then ended, whose preparation is the responsibility of the parent company's Directors. Our responsibility is to express an opinion of the aforementioned annual accounts as a whole, based on our audits carried out in accordance with generally accepted auditing standards, which require examining on a test basis, evidence supporting the annual accounts, as well as evaluating the overall annual accounts presentation, assessing the accounting principles applied and the estimates made. Our work on the consolidated annual accounts of Telefónica de España, S.A. and its subsidiaries, in so far as it relates to the participation in the group companies mentioned in Notes 1.2 and 7.2, is based on the examination and reports of other auditors.
2. As indicated in Note 1.1.c) to the annual accounts, Telefónica falls within the group of regulated entities whose peculiarities permit that both income and expenses may be attributable to each period not only on the accrual basis but also when the related specific concepts of revenue and cost, particularly deferred exchange differences, are computed as part of the approved tariffs.
3. In our opinion, based on our audit and on the reports of other auditors, the attached annual accounts present fairly, in all material respects, the shareholders' equity and financial position of Telefónica de España, S.A. and Telefónica Consolidated Group at December 31, 1995 and 1994, the results of their operations and the consolidated resources obtained and applied for the years then ended and they contain the necessary and relevant information in order to adequately interpret and understand them, in conformity with generally accepted accounting principles in Spain consistently applied.
4. The accompanying Directors' Reports of Telefónica de España, S.A. and Telefónica Consolidated Group for 1995 contain the information that the Directors of Telefónica de España, S.A. consider relevant to the Company's and the Group's situation, the evolution of their business and of other matters, and do not form an integral part of the annual accounts. We have verified that the accounting information contained in the aforementioned Directors' Reports coincides with that of the annual accounts for 1995. Our work as auditors is limited to verifying the Directors' Reports within the scope already mentioned in this paragraph and it does not include the review of information other than that obtained from the Companies's accounting records.

Price Waterhouse Auditores, S.A.
ROAC Member n°. S0242

Sergio Lwoff Lansky
Partner
March 1, 1996

Audiberia Auditores, S.L.
ROAC Member n°. S0677

Alfonso Osorio Iturmendi
Partner



BALANCE SHEETS AT DECEMBER 31

ASSETS (In million pesetas except when otherwise indicated)	Parent Company		Consolidated group	
	1995	1994	1995	1994
A) Subscribed shares not paid-in (uncalled payments)	-	-	174	23
B) Long term assets	3 313 073	3 382 127	4 064 356	3 992 550
I. Cost of new equity capital	117	157	714	349
II. Intangible assets (Note 5)	89 426	70 831	317 239	300 207
Research and development expenses	84 078	63 614	79 628	60 193
Finance leasing	7 395	5 846	10 711	9 132
Other intangible assets	55 436	41 437	295 201	276 668
Accumulated amortization	(57 483)	(40 066)	(68 301)	(45 786)
III. Fixed assets (Note 6)	2 891 573	3 109 222	3 597 426	3 559 584
Land and buildings	496 624	479 951	570 203	529 777
Technical installations and machinery	118 260	119 540	135 885	132 412
Telephone installations	4 558 393	4 658 588	5 285 469	5 189 741
Furniture, equipment and other	139 514	129 297	231 059	188 039
Construction in progress	149 638	177 218	291 302	247 143
Advance payments for fixed assets	12 695	11 730	10 574	8 221
Installation equipment	16 459	16 194	14 014	16 194
Accumulated depreciation	(2 600 010)	(2 483 296)	(2 941 080)	(2 751 943)
IV. Investments (Note 7)	331 957	201 917	148 977	132 410
Investments in group companies	180 537	118 993	-	-
Investments in associated companies	13 958	14 348	85 339	88 843
Other investments	10 826	11 176	45 875	36 406
Credits to group companies	124 396	66 888	-	-
Other credits	14 379	601	20 429	10 490
Long-term deposits and financial guarantees	939	1 026	1 262	1 313
Depreciation Reserve	(13 078)	(11 115)	(3 928)	(4 642)
C) Goodwill on consolidation (Note 8)	-	-	47 687	53 741
D) Deferred expenses (Note 9)	135 572	181 307	141 310	186 473
E) Long term prepaid taxes (Note 11)	49 699	30 764	50 336	31 230
F) Current assets	336 301	302 822	514 395	495 203
I. Subscribed shares not paid-in	-	-	4	-
II. Inventories	4 303	4 292	29 036	25 362
Inventories	4 303	4 292	29 173	24 760
Advances	-	-	829	1 233
Provisions	-	-	(966)	(631)
III. Accounts receivable	313 562	288 428	398 837	369 798
Subscribers and customers (Note 12)	244 839	253 960	352 750	338 418
Group companies	29 483	9 522	-	-
Associated companies	285	448	6 599	3 359
Sundry accounts receivable	38 555	39 593	42 580	46 105
Personnel	9 689	8 882	15 077	12 837
Taxes receivable (Note 21)	21 414	12 791	25 180	20 392
Reserve for bad debts (Note 12)	(24 105)	(29 649)	(36 485)	(44 053)
Reserve for sundry accounts receivable	(6 598)	(7 119)	(6 864)	(7 260)
IV. Short term investments	11 019	3 358	68 247	73 066
Credits to group companies	10 887	3 358	530	515
Short-term securities portfolio	-	-	7 262	3 111
Other credits	132	-	60 456	69 748
Provisions	-	-	(1)	(308)
V. Cash and banks	5 375	4 699	11 933	17 941
VI. Prepayments	2 042	2 045	6 338	9 036
Total assets (A + B + C + D + E + F)	3 834 645	3 897 020	4 818 258	4 759 220



TELEFÓNICA DE ESPAÑA, S.A. AND TELEFÓNICA CONSOLIDATED GROUP

LIABILITIES AND SHAREHOLDERS' EQUITY (In million pesetas except when otherwise indicated)	Parent Company		Consolidated group	
	1995	1994	1995	1994
A) Shareholders' equity (Note 13)	1 470 679	1 454 684	1 546 472	1 512 031
I. Share capital	469 735	469 735	469 735	469 735
II. Share premium	43 067	43 067	43 067	43 067
III. Revaluation reserve	653 780	653 780	649 316	649 316
IV. Reserves	225 951	196 277	279 177	237 214
Legal reserve	75 453	66 279	75 453	66 279
Other reserves	150 498	129 998	130 149	107 280
Consolidation reserve (Note 13.2)	-	-	51 597	32 035
Differences in foreign currency translation from consolidation (Note 14)	-	-	21 978	31 620
V. Retained earnings	147	91	147	91
VI. Group profit and loss (Note 14)	106 183	91 734	133 214	112 608
Profit for year	106 183	91 734	175 599	122 549
Profit from associated companies	-	-	8 754	18 513
Profit attributed to outside shareholders	-	-	(51 139)	(28 454)
VII. Interim dividend	(28 184)	-	(28 184)	-
B) Outside shareholders' interests (Note 15)	-	-	313 753	292 293
C) Deferred income (Note 16)	78 933	67 531	91 258	75 029
D) Provisions for risks and expenses (Note 17)	240 995	232 412	287 996	270 876
E) Long term deferred taxes (Note 11)	44 145	52 273	71 013	74 447
F) Long term creditors	1 318 972	1 450 726	1 665 508	1 773 321
I. Debentures, bonds and other issues (Note 18)	571 271	636 533	643 938	721 323
Debentures and non-convertible bonds	570 391	636 533	614 329	690 127
Debentures and convertible bonds	-	-	13 553	14 728
Other negotiable documents issued	880	-	16 056	16 468
II. Debts with financial institutions (Note 19)	496 269	558 700	901 885	917 607
III. Debts with group and associated companies (Note 20)	149 319	140 447	-	217
IV. Other accounts payable	98 509	112 384	116 947	134 124
Other debts	97 998	111 280	116 434	133 020
Notes payable	511	1 104	513	1 104
V. Uncalled subscriptions on shares (Note 7)	3 604	2 662	2 738	50
Group companies	1 147	2 662	10	-
Associated companies	-	-	184	-
Other companies	2 457	-	2 544	50
G) Short term creditors	680 921	639 394	842 258	761 223
I. Debentures, bonds and other issues	104 670	125 094	108 154	126 360
Debentures (Note 18)	55 971	69 179	64 993	76 542
Other negotiable documents issued	35 558	42 620	29 170	36 500
Interest on debentures and other negotiable documents	13 141	13 295	13 991	13 318
II. Debts with financial institutions (Note 19)	118 826	82 526	168 246	132 339
Loans and other debts	110 140	73 861	151 105	119 566
Interest due	8 686	8 665	17 141	12 773
III. Debts with group and associated companies (Note 20)	92 150	37 968	19 392	11 286
Group companies	73 941	27 110	-	-
Associated companies	18 209	10 858	19 392	11 286
IV. Trade creditors	119 439	209 933	257 112	266 927
Advance payments received on orders	-	-	1 938	4 446
Debts for purchases and services rendered	119 073	150 517	246 430	196 613
Notes payable	366	59 416	8 744	65 868
V. Other non-trade debts	220 504	158 512	260 771	191 378
Taxes payable (Note 21)	82 233	79 445	100 545	88 454
Other (Note 22)	138 271	79 067	160 226	102 924
VI. Accruals	25 332	25 361	28 583	32 933
Total liabilities and shareholders' equity (A+B+C+D+E+F+G)	3 834 645	3 897 020	4 818 258	4 759 220



PROFIT AND LOSS ACCOUNTS FOR THE YEARS ENDED DECEMBER 31, 1995 AND 1994

DEBIT (In million pesetas except when otherwise indicated)	Parent company		Consolidated Group	
	1995	1994	1995	1994
A) Expenses				
Reduction in inventories	-	-	1 286	2 720
Supplies	-	-	111 097	103 886
Other purchases	-	-	76 360	74 231
Purchases from other companies	-	-	34 737	29 655
Personnel costs (Note 26.2)	433 655	421 624	543 547	520 918
Depreciation and amortization	446 480	413 134	501 480	454 530
Tangible	429 023	398 627	477 616	436 865
Intangible	17 416	14 462	23 700	17 582
Expenses	41	45	164	83
Trade provisions	20 383	22 573	25 159	27 286
Variation in provision for inventories	-	-	644	(187)
Variation in provision for doubtful accounts receivable	16 718	17 911	17 383	19 137
Variation in other provisions	3 665	4 662	7 132	8 336
Other operating expenses	183 501	158 025	207 772	190 722
Subsidiary companies external services	54 516	26 574	-	-
External services	94 641	94 432	170 377	155 042
Taxes	27 055	25 569	27 667	25 826
Other operating expenses	7 289	11 450	9 728	9 854
I. Operating profit	390 419	366 938	509 882	432 397
Financial expenses with subsidiary companies	10 795	7 900	-	-
Financial expenses with associated companies	48	-	82	22
Other financial expenses	160 697	174 980	200 448	205 518
Amortization of deferred financial expenses	2 954	5 226	3 317	5 481
Variation in provisions for investments	-	-	621	438
Losses on exchange (Note 10)	16 903	24 533	19 188	24 642
II. Financial income	-	-	-	-
Participation in losses of associated companies	-	-	1 787	2 329
Amortization of goodwill on consolidation	-	-	6 985	6 191
III. Profit from normal operations	220 096	168 687	319 482	230 756
Variation in investments provision for investments in group companies	1 708	1 314	(9)	2 483
Losses on sales of fixed assets	47 776	37 470	47 871	36 807
Losses on disposal of shareholdings in consolidated companies	-	-	102	2 423
Extraordinary expenses (Note 26.3)	65 745	49 972	77 681	57 598
IV. Extraordinary net profit	-	-	-	-
V. Profit before tax	121 129	109 604	223 711	171 651
Corporate income tax (Note 25)	12 492	15 661	16 594	17 043
Other taxes (Note 25)	2 454	2 209	22 764	13 546
VI. Net income	106 183	91 734	184 353	141 062
Profit attributed to outside shareholders' interests	-	-	51 235	28 693
VII. Net income for year	106 183	91 734	133 214	112 608



TELEFÓNICA DE ESPAÑA, S.A. AND TELEFÓNICA CONSOLIDATED GROUP

CREDIT (In million pesetas except when otherwise indicated)	Parent Company		Consolidated group	
	1995	1994	1995	1994
B) Income				
Net sales to group companies (Note 26.1)	23 300	21 455	-	-
Net sales and services rendered (Note 26.1)	1 349 374	1 262 081	1 740 557	1 578 850
Increase in inventories	-	-	4 716	1 992
Work carried out by Company on own fixed assets	72 154	73 766	121 548	121 391
Other operating income	29 610	24 992	33 402	30 226
Sundry trade income	28 668	24 871	27 817	26 438
Grants	942	121	1 188	373
Excess provision for risk and expenses	-	-	4 397	3 415
I. Operating loss	-	-	-	-
Income from shareholdings	5 073	5 463	1 821	2 498
Group companies	3 170	2 954	-	-
Associated companies	113	117	18	22
Other companies	1 790	2 392	1 803	2 476
Income from other negotiable documents and credits	10 620	8 925	16 981	14 860
Group companies	7 716	4 683	-	-
Associated companies	5	-	378	636
Other companies	2 899	4 242	16 603	14 224
Gains on exchange	5 381	-	12 685	4 780
II. Financial loss	170 323	198 251	192 169	213 963
Participation in results of associated companies	-	-	10 541	20 842
III. Loss on normal operations	-	-	-	-
Profit on sales of fixed assets	5.603	17.723	5.187	16.934
Profit on disposal of shareholdings in consolidated companies	-	-	7 278	4 457
Capital grants (Note 16)	7 980	6 432	7 983	6 432
Extraordinary income (Note 26.3)	2 679	5 518	9 426	12 383
IV. Extraordinary loss	98 967	59 083	95 771	59 105
V. Losses before tax	-	-	-	-
Losses attributed to outside shareholders' interests	-	-	96	239
VI. Net loss for year	-	-	-	-



TELEFÓNICA DE ESPAÑA, S.A. AND TELEFÓNICA CONSOLIDATED GROUP

ANNUAL ACCOUNTS AT DECEMBER 1995 AND 1994

NOTE I - OPERATIONS AND GENERAL INFORMATION

1.1 Parent company

Telefónica de España, S.A. (Telefónica or "the Company") is a commercial corporation which was incorporated for an indefinite time, on April 19, 1924 and has its registered office in Madrid (Spain).

a) Corporate Purpose

In accordance with Article 4 of the Company Statutes, its main corporate purpose is as follows:

1. To provide and operate all types of public and private telecommunication services, and for this purpose, the design, installation, conservation, repair, improvement, acquisition, disposal, interface, management, administration and any other activity not included in the above activities, relating to all kinds of telecommunication networks, lines, satellites, equipment, technical systems and infrastructures, current or future, including the land and buildings in which they are located.
2. The supply and operation of all types of auxiliary or complementary services or those deriving from telecommunication services.
3. Research and development, promotion and application of all types of components, equipment and systems, direct by or indirectly used for telecommunications.
4. The production and, in general, all other industrial activities related to telecommunications.
5. The acquisition, disposal and, in general, all other commercial activities related to telecommunications.

All the activities that constitute the corporate purpose described in the above paragraphs could be developed in Spain and in foreign countries, being carried out, wholly or partially by the Company, or by holding of shares or participations in other companies or legal entities with a similar corporate purpose.

Telefónica is the licensee of the Administration for the supply of certain public telecommunication services, in accordance with the Concession Contract entered into with the Administration on December 26, 1991.

In accordance with the contents of such Contract, Telefónica may develop, in addition, all financial or industrial activities or services considered necessary for its interests, provided they do not cause any deterioration in the normal operation of the services which are the subject of the aforementioned Contract or involve the assumption of responsibilities contrary to the provisions of the National Telecommunications Plan.

As a licensee of the said services, Telefónica undertakes to supply them attending to matters of general interest of a non-financial nature, which determine the regulation of telecommunication services and, especially, taking into consideration the maintenance of security in the operation of networks and services, the integrity and the interconnection thereof, data protection and the confidentiality of telecommunications.

Telefónica is also obliged to supply the services with continuity and quality, and in strict compliance with the provisions of the corresponding contracts and the national laws and regulations and the international agreements subscribed to by Spain.



b) Concession

In accordance with the State Contract and the standing legislation in telecommunications, some of these services, in particular, basic telephone services, are being rendered in a monopoly arrangement.

Nevertheless, the process of liberalization of certain other telecommunications services that has recently taken place has allowed such services to be supplied by Telefónica in a regime of either free or restricted competition. This has been the case with the rent of circuits service or the satellite telecommunication services.

The Cable Telecommunications Law gives Telefónica the power to supply this service integrated with the basic telephony service in all areas where it is requested, with the requirements and conditions established in that law.

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

c) Regulation of tariffs

As the concessionaire of public services, and in accordance with the State Contract, Telefónica is subject to regulated prices and to a tariffs regime; the tariffs regulations for services contemplate the principle of universality (the right of all inhabitants of Spain, irrespective of their geographical residence, to have access to the basic telephone service) for the supplying of basic telephone services as well as the safeguarding of the overall financial balance of the concession. To that end, the tariff regulations ensure that Telefónica is able to cover both its operating expenses and requirements for reserves and capital contributions, in the context of an alignment of the tariff structure to that of costs.

d) Tax regime

According to the Telefónica Taxation Law 15/1987 of July 30, 1987 and Royal Decree 1334/1988 of November 4, 1988, as from January 1, 1988 Telefónica is subject to the general tax regulations for State taxes. As regards to 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 turnover.

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, which was extended to the years 1993, 1994 and 1995 by Ministerial Order dated July 21, 1993. Such 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).

e) Changes in scope of consolidation

Sistemas e Instalaciones de Telecomunicación, S.A. (SINTEL) acquired during the year 1995 an additional 2.1% share of Informática y Telecomunicaciones, S.A. (INCOSA) and a 2% share of Construcciones de las Conducciones del Sur, S.A. (COTRONIC); with these acquisitions the Telefónica Group owns the majority of the share capital of both companies. For that reason the method of consolidation has been changed and both companies are now fully consolidated. SINTEL disposed of its holdings of 44% in Inalca, S.A and 42.12% in Sistemas Avanzados de Control, S.A., and they have been eliminated from the consolidation. SINTEL participated in the incorporation of SINTEL-Abengoa Multimedia, A.I.E. with 50% of its capital, being consolidated by the equity method.



Telefónica has begun constituting companies to operate the system of cable television and added value services locally. During the year 1995 the following companies were created: Sociedad General de Cablevisión Madrid, S.A.; Societat General de Cablevisió Barcelona, S.A.; Sociedad General de Cablevisión Cantabria, S.A.; Sociedad General de Cablevisión Canarias S.A. which have been consolidated by the full integration method.

Telefónica VSAT, S.A. has also been incorporated for the purpose of supplying telecommunication services by satellite.

The group company Telecartera, S.A. acquired a 16,67% share of Sociedad General de Cablevisión, S.A., reaching a 50% share thereof and this company has been consolidated by the proportional integration method.

Telefónica Sistemas, S.A. has participated in the incorporation of Telefónica Sistemas Portugal, S.A., Hispa-services, S.A. and Portel Servicios Telemáticos, S.A., the first named having been fully consolidated and the two other companies consolidated by the equity method. The company bought from Telefónica Servicios Avanzados de Información, S.A. the whole of the share capital of Servicios y Contenidos por la Red, S.A., created in 1994, which has been consolidated by the full integration method. Telefónica also acquired from Telefónica Seguridad y Comunicaciones, S.A. its shareholding in T.P. Servicio Integrado de Protección Civil, S.A. and bought 556 additional shares from the minority shareholders, thereby increasing its share of that company by 4% to 55.64% in 1995. Maptel, S.A. was acquired in full by Telefónica Sistemas, S.A.

CPT-Telefónica del Perú, S.A. has been fully consolidated as from 1994. On May 16, 1994, Telefónica Perú Holding, S.A. acquired a 20% share of Compañía Peruana de Telefonos, S.A. (CPT) and a 35% share of Empresa Nacional de Telecomunicaciones del Perú, S.A. (ENTEL PERU), both having their registered offices in Lima. At the same time the share capital of the first named company was increased, and was fully subscribed by Telefónica Perú Holding, S.A. by the payment of 610.7 million US dollars reaching a holding of 35%. CPT and ENTEL PERU were merged on December 31, 1994, by the absorption by the former company of the latter, the new company being called CPT-Telefónica del Perú, S.A.. The Telefónica Internacional Group has the power to appoint or to dismiss the majority of the members of the administrative body of that company and for that reason it has been consolidated by the full integration method.

In 1994 Compañía de Telecomunicaciones Chile "CTC" (CHILE), having its registered office in Santiago de Chile, was fully consolidated for the first time. The holding in this company represents 43.62% of its capital and the Telefónica Internacional Group has appointed, by its own vote, the majority of the members of the administrative body who were in place at the time when these consolidated annual accounts were formulated and has been in place for the three previous years. For this reason this company has also been fully consolidated.

Radiored I, S.A. has disposed of 9% of its shareholding in Radiored Catalunya, S.A. and Radiored Zaragoza, S.A.

The group has disposed of its shares in Industria Electrónica de Comunicaciones, S.A. (INDELEC) and A.T.T. Network System International B.V. (Note 7.4). It has also disposed of 19% of its holding in Fonditel Entidad Gestora de Fondos de Pensiones, S.A.

1.2 Subsidiary companies at December 31, 1995

Cabinas Telefónicas, S.A. (CABITEL), Plaza de Carlos Trías Bertrán, 7 - 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. - Inmeuble "Centre Europe" n° 5 Pza. de la Gare L-1616 (Luxembourg)
Reinsurance.



At year end it had the following subsidiaries:

- 83.33% in Pléyade Peninsular Correduría de Seguros, S.A.
- 78.67% in Seguros de Vida y Pensiones Antares, S.A.

Compañía Española de Tecnología, S.A. (COMET), C/ Villanueva, nº 2 bis 1º floor - 28001 MADRID
Promotion of business initiatives.

At year end it had the following subsidiary, associated companies and shareholdings:

- 85% in Satel, S.A. - Inactive. Comandante Zorita, 4 - 28020 Madrid
- 50% in Cleon, S.A. - Property sales promotion. Villanueva 2 - 1ª floor 28001 Madrid
- 4.21% in Barcelona Tecnología, S.A. - Capital risk company. C/60- 25,27 Sector A Polígono Industrial Zona Franca. 08040 Barcelona
- 1.26% in Catalana D'Iniciatives, C.R., S.A. - Promotion of non-finance companies. Passeig de Gracia 56, 2 - 2ºB - 08007 Barcelona.

Fonditel Entidad Gestora de Fondos de Pensiones, S.A. Pedro Texeira, 8 - 28020 MADRID
Pension funds administration.

Playa de Madrid, S.A. Doctor Fleming, 3-28036 MADRID

Distribution of all types of articles, operation of sporting and hotel facilities and organization of tourist services.

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

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

At the year end it had the following shareholding

- 3.78% in Fonditel Entidad Gestora de Fondos de Pensiones, S.A.

Servicios de Teledistribución, S.A. (S.T. Hilo), Luchana, 23 - 28010 MADRID

Supply of services in the teledistribution sector for all types of signals, music, voice, image, data:

At the year end it has the following associated company:

- 33% in S.A.P.E.C., S.A. - Manufacture of megaphony systems. C/ Nicolás Morales, 9 - 28019 Madrid.

Sistemas e Instalaciones de Telecomunicación, S.A. (SINTEL), Arte 21, 28033 MADRID
Installation of equipment and cable-laying in the telecommunications field.

At year end it has the following subsidiary and associated companies and shareholdings:

- 100% in Sintel Venezuela - Telecommunications installations 2ª Ave. Campo Alegre, Quinta N° 11 Caracas (Venezuela)
- 51.1% in Informática y Comunicaciones, S.A. (INCOSA) - Telecommunications installations, Polígono de Pocomaco, parcela A-2 Nave I, - La Coruña.
- 51% in Cotronic, S.A. - Telecommunications installations c/ Competa 6, Edificio MILTON, 10-A - Málaga.
- 50% in Sintelar, S.A. - Telecommunications installations c/ Carlos Pellegrini 1163. Buenos Aires (Argentina)
- 50% in Sietel, S.A. - Telecommunications installations. c/ Mac-Iver 125, 12 floor Santiago de Chile (Chile)
- 50% in Abengoa-Sintel Servicios 2000, A.I.E. Telecommunications installations. C/ Infante D. Carlos, 16-2ºD Sevilla
- 50% in Sintel Abengoa Multimedia A.I.E. Multimedia Cable Telecommunications networks c/ Ante, 21 - 28033 Madrid.
- 38% in Sintel Perú - Telecommunications installations - Ave. José Pardo 601 Lima (Perú)
- 18.4% in Telinter (Venezuela)



Sociedad General de Cablevisión Madrid, S.A.- c/ Gran Vía 32- 28013 MADRID
Organizational activities in relation to cable television systems and value added services

Societat General de Cablevisió Barcelona, S.A.- Avda Icaria, 136 - 08005 BARCELONA
Organizational activities in relation to cable television systems and value added services

Sociedad General de Cablevisión Cantabria, S.A.- c/ La Milagrosa,2- 39001 Santander
Organizational activities in relation to cable television systems and value added services

Sociedad General de Cablevisión Canarias, S.A.- c/Alcalde Mandillo Tejeral 8- 38007 Santa Cruz de Tenerife
Organizational activities in relation to cable television systems and value added services

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

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

Telecartera, S.A. Beatriz de Bobadilla, 3 - 28040 Madrid
Acquisition, holding and disposing of shares in other companies.

At year end it had the following associated company:

- 50% in Sociedad General de Cablevisión, S.A. Organizational activities in relation to cable television systems. Gran Vía 32, 6º floor, 28013 Madrid.

At year end it had the following subsidiaries and associated companies:

- 93.32% in Sistemas de Televisión por Cable - Cable television studies and projects c/ Diego de Riaño, 5 - 41004 Sevilla
- 78% in Sociedad General de Cablevisión Madrid, S.A.
- 78% in Societat General de Cablevisió Barcelona, S.A.
- 39% in Sociedad General de Cablevisión Cantabria, S.A.
- 24% in Sociedad General de Cablevisión Canarias, S.A.

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.

T.I. Telefónica Internacional de España, S.A. C/ Jorge Manrique, 12 - 28006 MADRID
Investment in foreign telecommunication companies.

At year end it had the following subsidiary and associated companies and shareholdings:

- 100% in Telefónica International, S.A. (LUXEMBOURG) - Holding company.
- 100% in Telefónica International Holding B.V. (HOLLAND) - Holding company.
- 100% in Telefónica USA, INC - (USA) Representation of Telefónica.
- 100% in Telefónica Chile, S.A. - (CHILE) Holding company.
- 100% in Telefónica Chile, B.V. - (HOLLAND) Holding company.
- 100% in Telefónica Venezuela BV - (HOLLAND) Holding Company.
- 100% in Telefónica Finance Limited (ISLE OF MAN) - Holding Company.
- 100% in Telefónica Bolivia Holding(BOLIVIA) - Holding
- 90% in Telefónica Perú Holding, S.A. (PERU) - Holding Company

At the year end the company had the following subsidiary:

- 35% in CPT Telefónica de Perú, S.A. Local, long distance and international telecommunications services in Perú.



- 79% in Telefónica Larga Distancia (Puerto Rico) - Telecommunication operator.
- 60% in Telefónica Rumania (Rumania) Telecommunications operator.
- 54.93% Impresoras y Comercial Publiguias, S.A. (Chile) Telephonic guide edition.
- 43.62% in Compañía de Teléfonos de Chile (CTC) - Basic telephone service operator in Chile.
- 34.93% in TYSSA, Consulting in Telecommunications
- 33.16% in Compañía de Inversiones en Telecomunicaciones, S.A. Cointel, S.A. (Argentina) - Holding company
- 25% in Sintelperú, S.A. Telecommunications installations
- 25% in Sintelar, S.A. (Argentina) - Telecommunications installations.
- 25% in Telefónica Sistemas de Portugal (PORTUGAL). Communications systems equipment engineering
- 18.66% in Telefónica Argentina, S.A. - Telecommunications operator in the southern region of Argentina.
- 22.39% in Compañía Celular de Colombia (COLOMBIA). Mobile telecommunications company.
- 16% in Venworld Telecom, C.A. (VENEZUELA) - Holding company.
- 15% in Contactel (Portugal) - Telecommunications Operator (Telepager).
- 14.9% in Telecomunicaciones Ultramarinas de Puerto Rico - (PUERTO RICO) Telecommunications operator.
- 11.2% in Infonet Services Corporation (USA) - Telecommunications operator.
- 5% in Telur, S.A. (RUSIAN FEDERATION) - Manufacture of telecommunications equipment.
- 4.88% in C.A.N.T.V. (VENEZUELA) Telecommunications operator.
- 4% in Datos Corporation (USA)
- 2.92% in Geostar Corp - In bankruptcy.
- 1.03% in Intelsat - Telecomunicaciones y Sistemas, S.A. (ARGENTINA)

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 Multimedia, S.A. Rafael Calvo, 18 - 28010 Madrid

Organization and operation of Multimedia services, Cable television system and other related services.

At year end it had the following subsidiary and associated companies:

- 25% in Audiovisual Real Time Bit, S.A. (ARBIT) Synthetic image generation. Polígono Industrial de Inca. Solar en Intersección de los viales C y D. Mallorca 07300 INCA.
- 20% in Cable del Guadalquivir, S.A.; activities related to Cable Television - Av. de Buharia, 2 Sevilla.
- 10% in Grupo Gallego de Empresas para el Cable, S.A. - Activities related to Cable Television, c/ Concepción Arenal, 11/13 - La Coruña 15006.

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

Financial intermediary.

Telefónica Publicidad e Información, S.A. Avenida Manoteras, 12 - 28050 MADRID

- Publication of yellow pages, and advertising material for all types of support equipment.

At the year end it had the following subsidiary, associated companies and shareholdings:

- 100% in Estrategias Telefónicas, S.A. (ESTRATEL). Promotion, marketing and market research relating to direct marketing. Orense, 4 - 28020 Madrid.
- 100% in Promotora de Mercados Telemáticos, S.A.. Inactive. Av. Manoteras, 12 - Madrid
- 100% in Central de Compras Papel, S.A. - Inactive. Av. Manoteras, 12 - Madrid
- 25% in Venturini España, S.A. - Printing and graphic arts. C/ Industria, 17 Tres Cantos (Madrid)
- 5% in Euredit, S.A. - Publication European annual directories. Av. Friedland 9, 75008 Paris (France)



T.S. Telefónica Sistemas, S.A., Sor Angela de la Cruz, 3 - 28020 MADRID

Systems engineering.

At year end it had the following subsidiary and affiliated companies:

- 100% in Maptel, S.A. Data processing consulting and digital cartography. Orense, 11 - 28020 Madrid.
- 100% in Telefónica Sistemas de Satélites, S.A. (TSS) Satellite's telecommunication services. Ramírez de Arellano, 19 - 28043 Madrid.
- 100% in Telefónica Servicios Avanzados de Información, S.A. (T.S.A.I.) Telecommunication services C/Julián Camarillo, 6 - 28037 Madrid.
- 100% in Telefónica Gestión de Sistemas, S.A. (TGS) Outsourcing of systems. Sor Angela de la Cruz, 3 - 28020 Madrid
- 100% in Telefónica Sistemas Ingeniería de Productos, S.A. (TSIP) Design of projects, development, installations and maintenance of Tesys equipment. Julián Camarillo, 6 - 28037 Madrid.
- 90% in T.D.S. - Marketing Tesys equipment. 17993 Cowan/Irvine CA 92714 (USA)
- 74.9% in T.S. Telefónica Sistemas Portugal, S.A. Systems engineering, networks and infrastructures and security systems Pza Alvalade, 6 - 1700 Lisboa.
- 55.64% in T.P. Servicios Integrales de Protección Civil, S.A. (TEPESA) - Training in techniques of all areas of civil protection, security and fire. General Rodrigo, 6 - 28046 Madrid.
- 51% in Gestión de Operación de Redes, S.A. (GESTIRED) Network management. Sor Angela de la Cruz, 3 - 28020 Madrid.
- 50% in Servicios y Contenidos por la Red, S.A. (SCR) Marketing by telephone network - C/ Velázquez, 10 28001 Madrid.
- 49% in Portel Servicios Telemáticos, S.A. Systems engineering and telecommunications in port areas. Avda. de Partenón, 10 - Campo de las Naciones - 28042 Madrid.
- 44% in Bitel Baleares Innovación Telemática, S.A. Supplier of services and systems engineering in the field of computers and telecommunications. Paseo Marítimo 38-A. 07005 Palma de Mallorca.
- 40% in Tecnología e Ingeniería de Sistemas y Servicios Avanzados de Telecomunicaciones, S.A. (TISSAT). Systems engineering and added value services. Correos, 1 - 46002 Valencia
- 39% in Hispaservices, S.A. Information treatment by communication networks and data processing media. Avda. de Burgos, 17 - Torre A, 10º - 28036 Madrid.
- 24.9% in Telecom Vallés, S.A. Technology development. San Sebastián, 164 - Tarrasa.

Telefónica Servicios Móviles, S.A. Plaza de la Independencia, 6 - 28001 MADRID

Operation of value added services and mobile technology.

At year end it had the following subsidiary company:

- 100% in Radiored I, S.A. - Telecommunication broadcasting. Manuel Tovar, 35 - 28034 Madrid
- At year end it has the following subsidiary companies
- 100% in Radiored Madrid, S.A. Telecommunications broadcasting. Manuel Tovar, 35 - 28034 Madrid
- 100% in Radiored Barcelona, S.A.- Telecommunications broadcasting. Manuel Tovar, 35 - 28034 Madrid
- 100% in Radiored Valencia, S.A. - Telecommunications broadcasting. Manuel Tovar, 35 - 28034 Madrid
- 100% in Radiored Málaga-Costa del Sol, S.A. - Telecommunications broadcasting. Manuel Tovar 35 - 28034 Madrid
- 100% in Radiored Sevilla-Cádiz, S.A. - Telecommunications broadcasting. Manuel Tovar 35- 28034 Madrid
- 100% in Radiored Santiago-La Coruña, S.A. - Telecommunications broadcasting. Manuel Tovar 35 - 28034 Madrid
- 100% in Radiored Bilbao, S.A. - Telecommunications Broadcasting. Manuel Tovar 35 - 28034 Madrid
- 91% in Radiored Catalunya, S.A. - Telecommunications broadcasting. Manuel Tovar 35 - 28034 Madrid
- 91% in Radiored Zaragoza, S.A. - Telecommunications broadcasting. Manuel Tovar 35 - 28034 Madrid
- 90% in Compañía Gestora de Servicio Mensatel, S.A. - Management and marketing of radio message and tele-pager services. Manuel Tovar, 35 - 28034 Madrid

Telefónica Telecomunicaciones Públicas, S.A. Paseo de Recoletos, 41 - 28004 Madrid

Operation of public telecommunications.



Telefónica Transmisión de Datos, S.A. Beatriz de Bobadilla, 3 - 28040 Madrid
Operation of added value services.

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

Urbana Ibérica, S.A. Pº Castellana, 151 10º B - 28046 Madrid
Promotional activities for residential property.

Telefónica VSAT, S.A.- Ramírez Arellano, 19 - 28043 Madrid
Satellites telecommunications services.

The main telecommunication operators in Telefónica Consolidated Group are the following:

CPT - Telefónica del Perú, S.A. (CPT)

This company supplies local, long distance and international telephone services in Perú, based on a concession agreement subscribed with the Government of Perú on May 16, 1994 for a 20 year period that can be extended for another 20 years, the first five years being in an exclusive regime. At December 31, 1995 the Company had 8,456 employees (11,728 in 1994). It operates 1,309,908 lines (870,681 in 1994) and it has 38,465 cellular mobile telephone customers and 19,060 cable television subscribers. The shares of Telefónica del Perú are listed on the Lima Stock Exchange.

Compañía de Telefónos de Chile - (CTC)

This company supplies telephone services in Chile. At December 31, 1995 it had 9,276 employees (9,354 in 1994). It operates 1,999,028 telephone lines and had 57,842 cellular mobile telephone customers and 77,034 cable television subscribers. Its shares are listed on the Stock Exchanges in Santiago de Chile and New York. The acquisition is dated April 1990 and in January 1991 when a purchase option was exercised over a few additional shares. CTC is the parent company of a group, composed of:

	Share
Compañía de Telecomunicaciones Móviles de Chile, S.A.	99.99%
CTC-Isapre	99.99%
CTC- Equipos y Servicios de Telecomunicaciones, S.A.	99.99%
CTC-Corp., S.A.	99.99%
CTC-Mundo, S.A.	99.15%
CTC- Marketing e Información, S.A.	60.00%
Invercom, S.A.	80.00%
Intercom, S.A.	79.99%
Instacom, S.A.	99.99%
Multicable Televisión, S.A.	99.93%

Telefónica de Argentina, S.A. (TASA)

It operates in Southern Argentina supplying telephone services. On September 30, 1995, the closing date of its fiscal year TASA operated 3,562,123 telephone lines (3,013,448 in 1994) and had 15,928 employees (16,836 in 1994). Its shares are listed on the Stock Exchanges in Buenos Aires, New York and London. Telefónica Internacional Group owns a shareholding of 18.66% of TASA, 17.31% through Compañía de Inversiones en Telecomunicaciones, S.A. COINTEL and the remaining 1.35% directly. The acquisition of this shareholding was made during November 1990, February 1991, July 1993 and November 1994 (see Note 7), through COINTEL, and in December 1991 directly. At the same time TASA has investments in the following companies:



	Share
Telinver, S.A.	99.99%
Telintar, S.A.	50.00%
Movistar, S.A.	50.00%
Startel, S.A.	50.00%
Tyssa	80.00%
Radio Llamada, S.A.C.I.	50.00%
Telefónica Comunicaciones Personales	99.99%

Compañía Anónima de Teléfonos de Venezuela (CANTV)

This company supplies telephone services in Venezuela. At December 31, 1995 it operates 2,942,544 lines (2,831,578 in 1994) and has 169,758 cellular mobile telephone customers. It has 20,593 employees at that date (20,798 in 1994). The group owns a 16% shareholding in VENWORLD TELECOM, which has a 40% of CANTV. Other investments of CANTV are as follows:

	Share
MOVILNET	100%
CAVEGUIAS	80%
INVERCANTV	100%
CANTV SERVICIOS	100%

Telefónica Larga Distancia, Inc (TLD)

Operation of long distance telephone services using a land network in Puerto Rico. At December 31, 1995 it has 268 employees (292 in 1994). Telefónica Internacional de España, S.A. holds 79% of its share capital. It was acquired on December 22, 1992.

Telecomunicaciones Ultramarinas

This company supplies long distances telephone services by satellite and radio in Puerto Rico. T.I. Telefónica Internacional de España, S.A. holds 14.9% of its share capital and has preferential dividend rights on these shares.

Publiguías, S.A.

This company renders telephone guide publication services in Chile. At December 31, 1995 it had 345 employees and 56,345 customers. T.I. Telefónica Internacional de España, S.A. holds 51% of its shares directly and a further 3.92% indirectly via C.T.C. The shareholding was acquired in 1993.

Telefónica Rumanía, S.A.

This company renders cellular mobile telephone services in Rumania through a license granted on March 24, 1992. The service came into operation on April 5, 1993. The license concession provides for the possibility of developing the rural telephone service using the infrastructure of the mobile telephone network. At December 31, 1995 the company had 112 employees and 9,068 customers (63 employees and 2,768 customers in 1994). T.I. Telefónica Internacional de España, S.A. holds 60% of the company's share capital.

1.3 Associated companies and shareholdings:

Amper, S.A. Torrelaguna, 75 - 28027 Madrid

Development, manufacture, repair and marketing of telephonic and telematic terminals and components.

Compañía Celular de Colombia COCELCO, S.A. Santa Fé de Bogota DC Colombia

Operation of the mobile telephony cellular communications, a concession corresponding to West Colombia. Those services are supplied on the basis of certain State Concession Contracts, subscribed on March 28, 1994 for a 10 years, which can be extended for 10 additional years. The Telefónica Group share in this company represents 34.73% of the share capital, 17.41% directly and 17.32% through Telefónica Internacional, 13.39% being its property, and the rest (3.93%) through CTC.



Eritel, S.A. Velázquez, 132 - 28006 Madrid
Data processing software applications.

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

Pabellón de Operadores Europeos de Telecomunicaciones, S.A. - (P.O.E.T.) C/ Gran Vía, 28 - 28013 Madrid

Design, installation, operation and management of the pavilion for European telecommunication operators in the Sevilla Expo 92 Universal Exhibition. In liquidation.

Sistemas Técnicos de Loterías del Estado, S.A. Manuel Tovar, 9 - 28034 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.

Sofres A.M., S.A., Pza. Carlos Trias Bertrán, 7 - 28020 Madrid
Market research.

Telefónica Fiat Factoring, S.A. Pedro Texeira, 8 - 28020 Madrid
Factoring company.

Torre Collserola, S.A. Ctra Vallvidrera-Tibidabo, s/n - 08017 BARCELONA
Management of a telecommunications tower.

Agencia EFE, S.A. Espronceda, 32 - 28003 Madrid
News agency that distributes to all the world.

Catalana D'Iniciatives, C.R. - Pº de Gracia, 2 - 08007 Barcelona
Promotion of non financial corporations.

Darsa Gaditana, S.A. Avda. Marconi 34 - 11011 Cádiz
Building of residential homes and premises for renting or selling

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

Reto 2000, S.A. - Pza. San Vicente, 3 - 45001 Toledo
Design of a project for replacing the aerial wiring in the historic centre of Toledo.

NOTE 2 - BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

- a) The attached financial statements have been presented in accordance with the accounting principles stipulated by current Spanish legislation: the Corporation Law approved by Royal Decree 1564/1989 of December 22, 1989 developed by the General Accounting Plan approved by Royal Decree 1643/1990 of September 20, 1990 as well as the consolidation accounting standards approved by Royal Decree 1815/1991 of December 20, 1991 and the specific regulations which applies, in order to present fairly the shareholders' equity, the financial position and the results of the operations, and they have been prepared on the basis of the accounting records of Telefónica, and its group companies, at December 31, 1995 and 1994.

The Directors anticipate that the accounts for the year ended December, 1995 will be approved by the General Meeting of Shareholders without material changes. The consolidated annual accounts at December 31, 1994 were approved by the General Meeting of Shareholders on April 21, 1995.

Accounts payable are classified at the time they are contracted according to their original maturity dates. Long term accounts payable are reclassified as short term when their maturity is within one year. 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) All figures contained in the documents comprising the financial statements: balance sheet, profit and loss account and notes thereto, are expressed in million pesetas except when otherwise indicated.

NOTE 3 - DISTRIBUTION OF PROFITS

The Directors will propose to the Shareholders General Meeting the distribution of the parent company's profit according to the following:

BASIS OF DISTRIBUTION	
Profit for year	106 183
Surplus	147
Total available for distribution	106 330

DISTRIBUTION	
Interim dividend of 6% for each of the shares numbered 1 to 939,470,820 payable as from January 22, 1996	28 184
Complementary dividend of 9.2% for each of the shares numbered 1 to 939,470,820, pending approval	43 216
Dividend	71 400
Legal reserve	10 618
Voluntary reserve (Other reserves)	24 200
Surplus	112
Total proposed distribution	106 330

INTERIM DIVIDEND

On December 20, 1995, based on the available financial information, the Board of Directors, as allowed by Article 216 of the Spanish Company Law, approved the distribution of an interim dividend on account of the 1995 profit of 30 pesetas gross for each of the outstanding shares, numbered 1 to 939,470,820, from which the applicable tax was withheld.

Budget status- Annual liquidity Budget (Unaudited)	
Anticipated cash receipts for the period 1/1/96 to 21/12/96	1 841 954
Anticipated payments for the period 1/1/96 to 21/12/96	1 835 123

Accounting data to justify an interim dividend distribution	
Profit January 1, 1995 to November 30, 1995 (best estimate at November 30, 1995)	98 870
Surplus 1994	147
Previous years losses	-
Obligatory reserves applications (best estimate at November 30, 1995)	(9 887)
Distributable profit	89 130
Proposed interim dividend	28 184



Financial position
(Best estimate at November 30, 1995 (Unaudited))

Funds available for distribution	
Cash and banks	876
Available credits	180 017
Proposed interim dividend	(28 184)
Difference	<u>152 709</u>

NOTE 4 - SIGNIFICANT ACCOUNTING PRINCIPLES

4.1 Accounting principles

The most significant accounting principles applied in the preparation of the annual accounts are as follows:

A) Cost of new equity capital

Costs of issuing shares for the conversion of bonds, and expenses incurred to 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, or increase.

B) Intangible assets and amortization

Intangible assets include:

- a. 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 expensed immediately.
- b. The value of licenses acquired for the use of outside equipment and installations is amortized on a straight line basis over a period of 25 years.
- c. Computer equipment leasing contracts are recorded at cost including the value of the purchase option. Financial expenses are recorded as deferred expenses with an amortization period of five years.
- d. The cost of licenses for the use of software for an indefinite period is amortized on a straight line basis over a period of three years.
- e. The cost of the concession given by the Government of Peru to CPT and Entel Peru when Telefonica Internacional acquired both companies is recorded as an intangible asset. This intangible asset is comprised of the excess of the acquisition cost over the proportional equity value of the acquired companies at the date of purchase. The concession is amortized over a period of twenty years. The future income of this concession will be determined, as well as the corresponding management fees, depending on the number of telephone lines installed.

C) Fixed assets and depreciation

Additions to fixed assets are valued at acquisition cost plus installation cost, which includes direct labour and materials together with an allocable share of indirect costs; and in cases where local legislation requires, at acquisition cost or cost adjusted by inflation.

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



CATEGORIES OF FIXED ASSETS	Years of useful life	
	Parent company	Consolidated
Buildings	40	30-50
Technical installations and machinery	12-18	10-20
Exchange equipment	8-17	8-20
Transmission equipment	5-14	5-15
Local and domestic long distance networks	8-25	8-25
User equipment and other installations	4-8	4-8
Other installations, equipment and furniture	5-10	5-15

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

D) Long term investments - net shareholdings in companies

In the annual accounts of the parent company (and in the consolidated annual accounts those investments not consolidated by the full integration method, proportional integration method or equity method) long term investments are stated at cost, including related acquisition expenses and, where applicable, the cost of the subscription rights. In the annual accounts of the parent company capital losses compared with book value are charged against income; 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 received, and capital gains on the sale of shares are accounted for as income in the year in which they are realized.

E) Deferred expenses

Deferred expenses comprise:

- a) Cost of formalizing debts: these are valued at cost and are amortized on the same basis as their respective debit amounts.
- b) Differences in foreign exchange: (see Note 4.1.J).
- c) 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 income by the financial method.
- d) Interest on leasing operations: reflects the deferred finance costs which is charged to income by the financial method.
- 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, in the basis of a financial plan.
- f) Complement for retired personnel (deficit): reflects the difference between the present value of the complementary annuities to Telefónica's retired personnel, calculated at 8% annual interest, and the provisions for this purpose. They are amortized by the straight-line method over a period of 15 years since July 1, 1992 (Note 23.6).

F) Inventories

Inventories and stocks are valued at their weighted average cost. Provisions for obsolescence are provided based on the age and rotation of inventories.

G) Capital grants

Capital grants are stated at their nominal amounts and are credited 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 in order to receive the grants.

H) Retirement pensions and collective endowment insurance

The retirement pensions of Telefónica's personnel are handled for by the State Social Security System.

In accordance with the collective labour agreement, retired personnel at June 30, 1992, receive a non refundable pension complement chargeable to Telefónica as detailed in Note 23.6.

Until June 30, 1993 active personnel had the opportunity to join the Pension Plan made available through the offer of June 30, 1992, ratified by the employees on September 17, 1992, contained in the collective labour agreement with the workers' representatives. The description of the commitments undertaken and the accounting principles applied are explained in Note 23.

According to the terms of the agreement, personnel who have not joined the Pension Plan, can remain covered by the Retirement Bonus Plan. For this consideration, charges are made based on a percentage of the regulatory salary indices, calculated in accordance with actuarial studies (Note 24).

During 1995 the Early Retirement Plan adopted in 1994 has continued and extended it to voluntary early retirement for all employees over 58 years of age. The related expenses are charged as extraordinary expenses as detailed in Note 26.3.

I) Corporate income tax

Corporate income tax is charged against the corresponding year. The timing differences between the amount to be paid and the total charge to the profit and loss account are considered as prepaid or deferred taxes according to their nature (Note 25).

J) Valuation of foreign currency accounts

Monetary assets and liabilities denominated in foreign currency have been valued at the foreign exchange rates as of December, 31 of each year. According to generally accepted accounting principles in Spain (Spanish GAAP), for unregulated operations the exchange differences have been classified in homogeneous groups of foreign currency and maturity. Unrealized foreign exchange losses are expensed while unrealized foreign exchange gains are deferred and recognized as income only upon realization.

For foreign currency debt operations in the parent company, as a result of the coming into force of the Order of the Ministry of Finance of March 12, 1993 (State Official Bulletin N° 64 of March 16, 1993) dealing with the accounting treatment of foreign currency exchange differences in regulated companies, the treatment of exchange differences has been modified since 1992. Exchange losses are distributed by the straight line method for each of the loans based on the years remaining before their maturity. The profit and loss account for the year includes the charge for the potential losses of each operation, accumulated from the date of its origin up to the year end. In view of the expected full liberalization of telecommunications as from January 1, 1998, in 1995 Telefónica has written off and charged to results the potential exchange losses corresponding to debts which mature subsequent to that date. Exchange losses attributable to the years 1996 and 1997 are included in Deferred charges to be amortized by the straight line method until the related debts are paid.

The tax treatment for exchange differences is the same as in 1994, and are included as taxable income when realized.

K) Financial instruments for transactions in derivatives.

Results from transactions in derivatives in national currency are taken to profit and loss account using the accrual principle. As regards transactions in foreign currency, debts in pesetas covered with swap operations



until their maturity are not adjusted. The results that would arise from changes in the exchange rate would be offset by those generated by the swap operations contracted. Exchange differences arising between the dates of contracting the loans and those of the hedging operations are taken to results at the time of formulating the swap operation.

L) Segregation of business by contribution of lines of activity.

During 1995 the mobile telephony activity has been segregated and allocated to the subsidiary company Telefónica de Servicios Móviles, S.A.. The assets transferred were valued at their net book value.

M) Income and expenses

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

Loss contingencies are accrued by a charge to the profit and loss account when it is probable that an asset has been impaired or a liability has been incurred at the balance sheet date and the amount of the loss can be reasonably estimated.

4.2 Basis of consolidation

a) The Telefónica Group consolidates by the full integration method, the financial statements of its subsidiary companies, companies in which it owns or controls a majority of the votes and in which it has the capacity to appoint the majority of the board members. The multi-group companies, in which Telefónica owns 50% of its share capital and voting rights, are consolidated by the proportional integration method.

The consolidated subsidiary companies, together with their trade names, registered addresses, percentage ownership and operations, are listed in Notes 1.2 and 7.2

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

c) As regards the financial statements of associated companies (that is, those companies outside the Telefónica Group in which Telefónica has a financial investment and an ability to influence its management to a significant 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 financial statements at each year end.

Associated companies, together with their trade names, registered addresses, percentage ownership and operations, are listed in Notes 1.3 and 7.2.

d) Stock ownership in other companies (minority-interest companies) are treated as investments and accounted for at cost, with the necessary provisions when required.

Ownership in minority-interest companies is set forth in Notes 1.3 and 7.2.

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

f) The financial statements of other companies located abroad have been translated into 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 in foreign currency translation for consolidation".



g) 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 at December 31 of each year. The subsequent translation to pesetas follows the criteria mentioned in paragraph f. The changes in the book value of the shareholding in pesetas as a result of the adjustments for local inflation and the variation in the currency rate are shown under the heading "Differences on foreign currency translation for consolidation".

The calculation of the figures adjusted for inflation has been done in accordance with the accounting standards prevailing in the respective countries, which consist of valuing the monetary assets and liabilities at their nominal value and adjusting the historic cost of non-monetary assets for the inflation produced between the date of the asset acquisition and the year end date. The effect of the inflation on the monetary assets and liabilities is included in the profit and loss account. During the year 1995 the Argentine legislation has discontinued the adjustment for inflation to the financial statements of companies in that country.

- h) The consolidated financial statements do not include the tax effect of the incorporation of the foreign subsidiaries reserves to the parent company consolidated annual accounts, due to the fact that the reserves have not been transferred and will not be distributed at the end of the period, and will be used as a financing source of the foreign subsidiaries to reduce their indebtedness.
- i) The financial statements of the individual companies have been formulated following homogeneous accounting principles as detailed in Note 4.1. For those companies where different principles have been used, the corresponding adjustment has been done in the process of consolidation, in order to present the annual consolidated accounts on a homogeneous basis.



NOTE 5 - INTANGIBLE ASSETS

The movement during the year is as follows:

	PARENT COMPANY					CONSOLIDATED				
	Research and development expenses	Leasing	Licences for indefinite use of software	Other intangible assets	Total	Research and development expenses	Leasing	Licences for indefinite use of software	Other intangible assets	Total
Balance at 31, 12, 1993	50 454	-	27 583	3 087	81 124	48 812	3 505	29 177	9 686	91 180
Additions	13 160	5 298	9 827	940	29 225	11 778	5 313	10 617	1 033	28 741
Reductions	-	-	-	-	-	-	20	10	-	30
Transfers	-	-	-	-	548	(367)	334	20	367	354
New companies	-	548	-	-	-	-	-	-	*226 071	226 071
Exchange rate variation and others	-	-	-	-	-	(30)	-	71	(364)	(323)
Balances at 31, 12, 1994	63 614	5 846	37 410	4 027	110 897	60 193	9 132	39 875	236 793	345 993
Additions	20 464	1 549	13 584	415	36 012	19 522	1 588	14 304	3 288	38 702
Reductions	-	-	-	-	-	-	-	35	1 203	1 238
Transfers	-	-	-	-	-	(87)	(70)	25	2 584	2 452
New companies	-	-	-	-	-	-	61	9	8	78
Exchange rate variation and others	-	-	-	-	-	-	-	-	(447)	(447)
Balance at 31, 12, 1995	84 078	7 395	50 994	4 442	146 909	79 628	10 711	54 178	241 023	385 540

* Of this amounts 224,491 million pesetas correspond to the Perú concessions as explained in Note 4.1.B e).

The movement on amortization is as follows:

	PARENT COMPANY					CONSOLIDATED				
	Research and development expenses	Leasing	Licences for indefinite use of software	Other intangible assets	Total	Research and development expenses	Leasing	Licences for indefinite use of software	Other intangible assets	Total
Balance at 31, 12, 1993	9 789	-	14 711	1 104	25 604	9 777	303	15 432	2 461	27 973
Additions	7 908	427	5 966	161	14 462	8 436	523	6 339	2 284	17 582
Reductions	-	-	-	-	-	-	2	8	-	10
Transfers	-	-	-	-	-	(367)	(85)	1	367	(84)
New companies	-	-	-	-	-	-	-	-	373	373
Exchange rate variation and others	-	-	-	-	-	(32)	2	-	(18)	(48)
Balance at 31, 12, 1994	17 697	427	20 677	1 265	40 066	17 814	741	21 764	5 467	45 786
Additions	11 051	1 169	5 019	178	17 417	11 084	1 242	5 604	5 770	23 700
Reductions	-	-	-	-	-	-	-	31	1 041	1 072
Transfers	-	-	-	-	-	(36)	(16)	(49)	85	(16)
New companies	-	-	-	-	-	-	2	4	10	16
Exchange rate variation and others	-	-	-	-	-	-	-	-	(113)	(113)
Balance at 31, 12, 1995	28 748	1 596	25 696	1 443	57 483	28 862	1 969	27 292	10 178	68 301
Net value	55 330	5 799	25 298	2 999	89 426	50 766	8 742	26 886	230 845	317 239



NOTE 6 - TANGIBLE ASSETS

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

	PARENT COMPANY								
	Balance at				Balance at				Balance at
	31.12.93	Additions	Disposals	Transfers	31.12.94	Additions	Disposals	Transfers	31.12.95
Land and buildings	438 189	153	584	42 193	479 951	22	471	17 122	496 624
Technical installations and machinery	116 795	5	4 063	6 803	119 540	114	5 249	3 855	118 260
Exchange equipment	1 484 480	45	153 436	102 819	1 433 908	107	171 213	82 596	1 345 398
Transmission equipment	795 839	435	23 360	86 816	859 730	386	50 040	(48 817)	761 259
Local and domestic long distance networks	1 975 302	60 025	62 767	98 113	2 070 673	53 475	59 989	92 780	2 156 939
Subscriber equipment and other installations	282 869	26 285	28 631	13 754	294 277	25 973	32 220	6 767	294 797
Furniture, office and other equipment	113 059	1 007	398	15 629	129 297	43	1 525	11 699	139 514
Total fixed assets in service	5 206 533	87 955	273 239	366 127	5 387 376	80 120	320 707	166 002	5 312 791
Construction in progress	250 007	293 941	55	(366 675)	177 218	308 149	42	(335 687)	149 638
Advances to suppliers of fixed assets	16 589	(4 859)	-	-	11 730	965	-	-	12 695
Stock Installation equipment	16 605	(411)	-	-	16 194	8 877	-	(8 612)	16 459
Total fixed assets	5 489 734	376 626	273 294	(548)	5 592 518	398 111	320 749	(178 297)	5 491 583

The movement on accumulated depreciation is as follows:

	PARENT COMPANY								
	Balance at				Balance at				Balance at
	31.12.93	Additions	Disposals	Transfers	31.12.94	Additions	Disposals	Transfers	31.12.95
Buildings	92 004	10 315	199	-	102 120	11 365	54	(547)	112 884
Technical installations and machinery	55 058	7 308	3 269	-	59 097	7 468	4 299	(517)	61 749
Exchange equipment	763 715	133 734	121 862	-	775 587	140 078	135 939	-	779 726
Transmission equipment	349 888	76 456	14 730	-	411 614	90 912	39 984	(48 994)	413 548
Local and domestic long distance network	795 211	121 617	55 564	-	861 264	132 421	51 134	-	942 551
Subscriber sets and other related installation	189 966	33 635	27 638	-	195 963	30 634	28 459	(1 222)	196 916
Furniture, office and other equipment	62 387	15 562	298	-	77 651	16 145	1 160	-	92 636
Total accumulated depreciation	2 308 229	398 627	223 560	-	2 483 296	429 023	261 029	(51 280)	2 600 010
Total net fixed assets	3 181 505	(22 001)	49 734	(548)	3 109 222	(30 912)	59 720	(127 017)	2 891 573



CONSOLIDATED

	Differences on foreign						Differences on foreign						
	Balance at 31.12.93	Additions	Disposals	New Companies	currency translation	Transfers	Balance at 31.12.94	Additions	Disposals	New Companies	currency translation	Transfers	Balance at 31.12.95
Land and buildings	441 443	1 256	737	43 322	3 077	41 416	529 777	3 261	604	182	(1 333)	38 920	570 203
Technical installation and machinery	129 800	474	4 887	-	(6)	7 031	132 412	3 420	5 795	118	(10)	5 740	135 885
Other installations, networks and equipment	4 502 870	91 685	279 314	485 021	20 105	369 374	5 189 741	118 480	315 566	-	(16 315)	309 129	5 285 469
Furniture, office and other equipment	127 986	7 876	4 114	31 559	1 829	22 903	188 039	11 013	3 727	239	(87)	35 582	231 059
Total fixed assets in service	5 202 099	101 291	289 052	559 902	25 005	440 724	6 039 969	136 174	325 692	539	(17 745)	389 371	6 222 616
Net movement on:													
Construction in progress	249 356	365 710	521	70 334	3 375	(441 111)	247 143	446 513	1 281	-	362	(401 435)	291 302
Advances to suppliers of fixed assets	14 977	(6 720)	36	-	-	-	8 221	2 474	-	-	-	(121)	10 574
Stock installations equipment	16 605	(411)	-	-	-	-	16 194	6 432	-	-	-	(8 612)	14 014
Total fixed assets	5 483 037	459 870	289 609	630 236	28 380	(387)	6 311 527	591 593	326 973	539	(17 383)	(20 797)	6 538 506

The movement in accumulated depreciation is as follows:

	Differences on foreign						Differences on foreign						
	Balance at 31.12.93	Additions	Disposals	New Companies	currency translation	Transfers	Balance at 31.12.94	Additions	Disposals	New Companies	currency translation	Transfers	Balance at 31.12.95
Buildings	92 900	11 412	261	13 717	906	-	118 674	13 212	67	36	(451)	1 985	133 389
Technical installations and machinery	58 267	8 099	3 534	-	(3)	1	62 830	11 071	4 606	103	(4)	(533)	68 861
Other installations, networks and equipment	2 088 074	393 041	231 176	203 234	8 110	-	2 461 283	429 673	258 868	-	(8 045)	(18 184)	2 605 859
Furniture, office and other equipment	71 686	24 313	1 650	12 434	2 299	74	109 156	23 660	2 991	150	(590)	3 586	132 971
Total accumulated depreciation	2 310 927	436 865	236 621	229 385	11 312	75	2 751 943	477 616	266 532	289	(9 090)	(13 146)	2 941 080
Total net fixed assets	3 172 110	23 005	52 988	400 851	17 068	(462)	3 559 584	113 977	60 441	250	(8 293)	(7 651)	3 597 426



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

	Parent Company		Consolidated	
	1995	1994	1995	1994
Land and Buildings	825	598	4 716	1 018
Technical installations and machinery	27 973	27 532	29 732	27 876
Exchange equipment	310 254	194 915	328 525	214 701
Transmission equipment	160 164	158 435	174 764	168 328
Local and domestic long distance networks	122 444	116 357	160 617	146 215
Subscriber and other installations	106 139	94 464	119 769	104 515
Furniture, office and other equipment	50 418	28 925	67 905	40 555
Total	778 217	621 226	886 028	703 208

6.3 The investment budget for 1996 amounts to 661,415 millions pesetas for the consolidated group of which 570,123 million pesetas will be invested in tangible assets, 46,120 million pesetas in intangible assets and the remainder largely in investments in companies. The continued and long-term nature of Telefonía's investments indicates that a part of this budget is related to the termination of projects initiated in previous years.

6.4 Telefonía's fixed assets used to provide telephone services may not be mortgaged without authorization of the Government Delegate.

6.5 At December 31, 1995 there were assets totalling 6,985 million pesetas (6,985 million pesetas, 1994) regulated 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.

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

6.7 The revaluations of balances made since 1946 to 1987 (year of the last revaluation) were the followings:

	Total		
	Gross value	Accumulated depreciation	Revaluation Reserve
Land	30 041	-	30 041
Buildings	93 282	25 034	68 248
Power equipment	31 525	14 973	16 552
Exchange equipment	504 642	215 690	288 952
Transmission equipment	151 036	95 018	56 018
Local and domestic long distance networks	648 945	331 751	317 194
Subscriber equipment and other installations	(4 153)	27 649	(31 802)
Total	1 455 318	710 115	745 203

Since the year 1987, no movement has occurred in the Revaluation Reserve. Its present balance amounts to 649,316 million pesetas and previous applications were for the following concepts:



Capital increases, 1977 to 1986	74 487
Transfers to provisions, year 1982	18 829
Others movements, period 1981 to 1986	2 571
Total	95 887

The effect of these revaluations on the annual depreciation charge was 12, 548 million pesetas (20,010 million Ptas in 1994).

- 6.8 The useful lives of the various elements of Telefonica's fixed assets are calculated based on technical studies carried out by the Company, which are revised periodically on the basis of technological development and renewal programs. These useful lives are shown in Note 4.1.C).
- 6.9 Inventories are shown net of provision for obsolescence. The total provision in Telefónica amounts to 4,921 million pesetas (4,972 million pesetas in 1994). The charge to the provision in 1995 based on estimates made, was 2,598 million pesetas (1,031 million in 1994).
- 6.10 The amount recorded under "New Companies" in 1994 corresponds to the increase in tangible assets produced by the consolidation of CTC and CPT using the full integration method. The same heading in 1995 includes Tepesa, Incosa and Cotronic which have been incorporated for the first time during this year to the scope of consolidation.
- 6.11 The heading "Differences on foreign currency translation" shows the effect of the changes in exchange rates as well as the monetary adjustments applied by certain companies to reflect the effect of the inflation, according to their local accounting standards. The effect of the exchange rate on the movements of the year is included under the column for each movement.
- 6.12 Tangible assets incorporated to the consolidated group, which belong to Companies located abroad at December 31, 1995 and 1994 are as follows:

	Million pesetas	
	1995	1994
Cost	864 724	746 412
Accumulated depreciation	(292 142)	(266 932)
Total	572 582	479 480



NOTE 7 - INVESTMENTS

7.1 The composition and movements related to investments, together with the allowance for permanent impairment, were as follows:

a) Movement in investments:

	PARENT COMPANY								
	Balance at				Balance at				Balance at
	31.12.93	Additions	Disposals	Transfers	31.12.94	Additions	Disposals	Transfers	31.12.95
Investments in Group companies	84 055	35 244	306	-	118 993	4 582	1 885	58 847	180 537
Investments in associated companies	11 578	2 770	-	-	14 348	-	390	-	13 958
Other investments	17 437	3 603	9 864	-	11 176	3 852	4 195	(7)	10 826
Loans to Group Companies	1 060	65 838	10	-	66 888	213	1 136	58 431	124 396
Loans to employees	795	75	269	-	601	14 250	472	-	14 379
Guarantees and deposits	1 077	432	483	-	1 026	159	246	-	939
Total	116 002	107 962	10 932	-	213 032	23 056	8 324	117 271	345 035

b) Movement in allowance for permanent impairment in investments:

	Balance at				Balance at				Balance at
	31.12.93	Additions	Disposals	Transfers	31.12.94	Additions	Disposals	Transfers	31.12.95
	Investments in Group companies	3 406	1 472	915	-	3 963	1 384	63	-
Investments in associated companies	5 159	1 290	172	-	6 277	334	322	878	7 167
Other investments	1 236	7	368	-	875	(10)	238	-	627
Total	9 801	2 769	1 455	-	11 115	1 708	623	878	13 078
Total investments	106 201	105 193	9 477	-	201 917	21 348	7 701	116 393	331 957

c) Movement in unpaid share capital:

	Balance at				Balance at				Balance at
	31.12.93	Additions	Disposals	Transfers	31.12.94	Additions	Disposals	Transfers	31.12.95
	Investments in Group companies	600	2 062	-	-	2 662	960	2 475	-
Investments in associated companies	-	-	-	-	-	2 457	-	-	2 457
Total	600	2 062	-	-	2 662	3 417	2 475	-	3 604
Total Investments	105 601	103 131	9 477	-	199 255	17 931	5 226	116 393	328 353



d) Movement in investments:

	CONSOLIDATED								
	Balance at				Balance at				Balance at
	31.12.93	Additions	Disposals	Transfers	31.12.94	Additions	Disposals	Transfers	31.12.95
Investments in associated companies	151 679	9 336	8 761	(63 411)	88 843	2 173	498	(5 179)	85 339
Other investments	28 330	18 973	10 774	(123)	36 406	15 365	4 598	(1 298)	45 875
Other loans	22 057	1 696	13 275	12	10 490	14 954	4 896	(119)	20 429
Guarantees and deposits	1 405	472	564	-	1 313	247	298	-	1 262
Total	203 471	30 477	33 374	(63 522)	137 052	32 739	10 290	(6 596)	152 905

e) Movement in allowance for permanent impairment in investments:

	Balance at				Balance at				Balance at
	31.12.93	Additions	Disposals	Transfers	31.12.94	Additions	Disposals	Transfers	31.12.95
	Other investments	2 159	2 895	412	-	4 642	88	802	-
Total	2 159	2 895	412	-	4 642	88	802	-	3 928
Total investments	201 312	27 582	32 962	(63 522)	132 410	32 651	9 488	(6 596)	148 977

f) Movements in unpaid share capital:

	Balance at				Balance at				Balance at
	31.12.93	Additions	Disposals	Transfers	31.12.94	Additions	Disposals	Transfers	31.12.95
	Investments in Group companies	-	-	-	-	-	10	-	-
Investments in associated companies	-	-	-	-	-	184	-	-	184
Other investments	86	24	-	(60)	50	2 503	-	(9)	2 544
Total	86	24	-	(60)	50	2 697	-	(9)	2 738
Total investments	201 226	27 558	32 962	(63 462)	132 360	29 954	9 488	(6 587)	146 239



7.2 Details of subsidiary and associated companies and other shareholdings:

Subsidiary companies

	Percentage of shareholding		Share capital	Reserves	Results	Book Value	Consolid. method	Consolid. value
	Direct	Indirect						
Cabinas Telefónicas, S.A. (Cabitel) (*) (**) (3)	100.00%	100.00%	200	1 435	2 622	201	I.G.	-
Casiopea Reaseguradora, S.A. (4)	100.00%	100.00%	498	62	-	498	I.G.	-
Pleyade Peninsular, Correduría de Seguros, S.A. (1)	16.67%	83.33%	60	114	106	60	I.G.	-
Seguros de Vida y Pensiones Antares, S.A.(1)	21.33%	78.67%	1 500	754	347	1 960	I.G.	-
Fonditel Entidad Gestora de Fondos de Pensiones, S.A. (2)		3.78%						
Others	N/A	N/A	N/A	N/A	N/A	21 438	C.	21,438
Compañía Española de Tecnología, S.A. (COMET) (*) (4)	100.00%	100.00%	469	(161)	(54)	1 102	I.G.	-
Satel, S.A.		85.00%	125	N/D	N/D	81	C.	81
Cleon, S.A.		50.00%	1 370	(65)	8	685	I.P.	-
Barcelona Tecnología, S.A.		4.21%	238	N/D	N/D	10	C.	10
Catalana D'Iniciatives, C.R., S.A.		1.26%						
Fonditel Entidad Gestora de Fondos de Pensiones, S.A. (2)	77.22%	3.78%	2 263	14	354	1 834	I.G.	-
Others	N/A	N/A	N/A	N/A	N/A	299	C.	299
Playa de Madrid, S.A. (*) (**) (4)	100.00%	100.00%	40	75	23	54	I.G.	-
Servicios de Teledistribución, S.A. (S.T. HILO) (*) (**) (4)	100.00%	100.00%	210	443	15	297	I.G.	-
Sociedad Anónima de Productos Electrónicos y de Comunicación (S.A.P.E.C.)		33.00%	60	77	(30)	13	P.E.	35
Sistemas e Instalaciones de Telecomunicación, S.A. (SINTEL) (*) (**) (3)	100.00%	100.00%	3 100	1 156	(1 881)	4 935	I.G.	-
Sistemas e Instalaciones de Telecomunicación Sintel Venezuela, C.A.		100.00%	47	(41)	(29)	47	I.G.	-
Informática y Comunicaciones, S.A. (INCOSA)		51.10%	10	102	80	8	I.G.	-
Construcciones de las Conducciones del Sur, S.A. (COTRONIC)		51.00%	10	71	58	11	I.G.	-
Sintelar, S.A.		50.00%	10	1 641	(164)	5	I.G.	-
Siretel, S.A.		50.00%	1	15	575	1	I.P.	-
Abengoa - Sintel Servicios 2000, A.I.E.		50.00%	5	-	(12)	3	I.P.	-
Sintel - Abengoa Multimedia, A.I.E.		50.00%	2	-	-	1	I.P.	-
SintelPerú, S.A.		38.00%	125	-	271	47	I.G.	-
Telinter		18.40%	N/D	N/D	N/D	1	C.	1
Others	N/A	N/A	N/D	N/D	N/D	9	C.	9
Taetel, S.L. (1)	100.00%	100.00%	4 700	1 309	420	4 700	I.G.	-
Telecartera, S.A. (3)	75.12%	75.12%	1 025	(11)	(62)	798	I.G.	-
Sociedad General de Cablevisión, S.A.		50.00%	2 000	-	(88)	1 069	I.P.	-
Sistemas de Televisión por Cable, S.A.		93.32%	N/D	N/D	N/D	76	C.	76
Sociedad General de Cablevisión Madrid, S.A.		78.00%	100	-	-	61	I.G.	-
Sociedad General de Cablevisión Barcelona, S.A.		78.00%	100	-	1	61	I.G.	-
Sociedad General de Cablevisión Cantabria, S.A.		51.00%	100	-	-	71	I.G.	-
Sociedad General de Cablevisión Canarias, S.A.		65.6484%	215	-	-	136	I.G.	-
Sociedad General de Cablevisión Canarias, S.A.		60.0144%	215	-	-	136	I.G.	-
Telecomunicaciones Marinas, S.A. (TEMASA) (*) (**) (4)	100.00%	100.00%	1 376	1 843	1 449	1 326	I.G.	-
Telefonía y Finanzas, S.A. (TELFISA) (*) (**) (4)	100.00%	100.00%	500	137	91	2 099	I.G.	-
Telefónica Investigación y Desarrollo, S.A. (TIDSA) (*) (**) (3)	100.00%	100.00%	1 000	1 848	773	1 000	I.G.	-
Telefónica North America, INC. (4)	100.00%	100.00%	1	-	-	1	I.G.	-
Telefónica Publicidad e Información, S.A. (*) (**) (3)	100.00%	100.00%	502	2 551	2 622	996	I.G.	-
Estrategias Telefónicas S.A. (ESTRATEL) (*) (**) (3)		100.00%	230	193	150	411	I.G.	-
Promotora de Mercados Telemáticos, S.A. (*) (**) (3)		100.00%	10	42	(2)	10	I.G.	-
Central de Compras de Papel, S.A.		100.00%	10	N/A	N/A	10	C.	10
Venturini España, S.A.		100.00%	500	148	(123)	125	P.E.	132
Euredit, S.A.		25.00%	13	N/D	N/D	13	C.	13
Telefónica Multimedia, S.A. (**) (1)	100.00%	100.00%	1 250	(4)	(127)	1 250	I.G.	-
Audivisual Realtime BIT, S.A. (ARBIT)		25.00%	100	N/D	N/D	25	C.	25
Cable del Guadalquivir, S.A.		20.00%	100	N/D	N/D	20	C.	20
Grupo Gallego de Empresas para el Cable, S.A.		10.00%	50	N/D	N/D	5	C.	5

(*) (**): See page 82.

(1) (2) (3) (4): See page 82.



Subsidiary companies

	Percentage of shareholding		Share capital	Reserves	Results	Book Value	Consolid. method	Consolid. value
	Direct	Indirect						
T.I. Telefónica Internacional de España, S.A. (3)	76.22%		119 009	87 028	30 107	90 713	I. G.	-
Telefónica Internacional, S.A. (Luxemburgo)	100.00%		470 m.USD	1	(18)	961	I. G.	-
Telefónica Internacional Holding, B.V. (Holanda)	100.00%		1 154 M.USD	8 295	9 502	69 410	I. G.	-
Telefónica USA INC. (USA)	100.00%		5 m.USD	(97)	(17)	607	I. G.	-
Telefónica Chile, S.A. (Chile)	100.00%		74 M.USD	22 449	7 773	10 308	I. G.	-
Telefónica Chile, B.V. (Holanda)	100.00%		100 m.USD	10 238	(1)	24 964	I. G.	-
Telefónica Venezuela, B.V. (Holanda)	100.00%		40 m.USD	(1 906)	(5 629)	(7 385)	I. G.	-
Telefónica Finance Limited (Isla de Man)	100.00%		2 m.USD	6 059	359	-	I. G.	-
Telefónica Bolivia Holding (Bolivia)	100.00%		2 m.USD	-	-	-	I. G.	-
Telefónica Perú Holding, S.A. (Perú)	90.00%		1 956 M.USD	11 760	3 054	249 701	I. G.	-
Telefónica del Perú, S.A. (Perú)	35.00%		2 683 M.USD	11 760	37 998	243 085	I. G.	-
Telefónica Larga Distancia de Puerto Rico, INC. (Puerto Rico)	24.01%		112 M.USD	(1 147)	359	13 739	I. G.	-
Telefónica Romania, S.A. (Rumania)	79.00%		60.21%	33	438	601	I. G.	-
Impresora y Comercial Publicitadas, S. A. (Chile)	45.73%		8 M.USD	33	1 203	901	I. G.	-
Compañía de Telecomunicaciones de Chile, S.A. (C.T.C.), (Chile)	41.87%		2 101 M.USD	627	1 203	901	I. G.	-
Compañía de Inversiones en Telecomunicaciones, S.A. (COINTEL) (Argentina)	43.62%		384 172 M.USD	59 386	33 396	34 384	I. G.	-
SintelPerú, S.A. (Perú)	33.16%		943 M.USD	44 733	45 419	48 785	P. E.	51 891
Sintelar, S.A. (Chile)	25.00%		-	-	-	-	P. E.	-
Telefónica Sistemas de Portugal (Portugal)	25.00%		-	-	-	-	P. E.	-
Telefónica de Argentina, S.A. (Argentina)	18.66%		2 357 M.USD	65 075	57 074	8 300	C.	4 904
TYSSA, Telecomunicaciones y Sistemas, S.A. (Argentina)	34.93%		4 M.USD	N/D	N/D	92	C.	92
Venworld Telecom, C.A. (Venezuela)	16.00%		114 420 M.USD	N/D	N/D	-	C.	-
Compañía Anónima Nacional Telefónica de Venezuela (CANTV) (Venezuela)	40.00%		1 M.USD	(2 704)	(2 430)	36 621	P. E.	15 572
Contactel (Portugal)	15.00%		1 200 M.USD	N/D	N/D	242	C.	242
Telecomunicaciones Ultramarinas de Puerto Rico (Puerto Rico)	14.90%		1 M.USD	N/D	N/D	3 593	C.	3 593
Infonet Services Corporation (USA)	11.20%		29 M.USD	N/D	N/D	2 950	C.	2 950
Telur, S.A. (Federación Rusia)	5.00%		6 M.USD	N/D	N/D	53	C.	53
Datos Corporation (USA)	4.00%		N/D	N/D	N/D	-	C.	-
Geostar Corporation	2.92%		N/D	N/D	N/D	517	C.	517
Intelsat	1.03%		N/D	N/D	N/D	4 777	C.	4 777
Others	N/A		N/A	N/A	N/A	509	C.	509
T.S. Telefónica Sistemas, S.A. (*) (**) (3)	100.00%		1 403	1 778	511	2 366	I. G.	-
Maptel, S.A. (*) (**)	100.00%		215	15	24	230	I. G.	-
Telefónica Sistemas de Satélites, S.A. (TSS) (*) (**)	100.00%		10	135	235	10	I. G.	-
Telefónica Servicios Avanzados de Información, S.A. (TSAI) (*) (**)	100.00%		310	43	125	310	I. G.	-
Telefónica Gestión de Sistemas, S.A. (TGS) (*) (**)	100.00%		50	26	32	50	I. G.	-
Gestión y Operación de Redes, S.A. (GESTIRED)	50.00%		70	(20)	20	36	I. G.	-
Telefónica Sistemas Ingeniería de Productos, S.A. (TSIP) (*) (**)	100.00%		150	30	162	150	I. G.	-
T.S.C. Telefónica Seguridad y Comunicaciones, S.A. (*) (**)	100.00%		420	533	36	953	I. G.	-
Telecommunication Data System (TDS)	90.00%		N/D	N/D	N/D	218	C.	218
T.S. Telefónica Sistemas de Portugal (Portugal)	74.99%		25	(1)	(15)	21	I. G.	-
T.P. Servicios Integrales de Protección Civil, S.A. (TEPESA)	55.64%		225	81	(56)	158	I. G.	-
Servicios y Contenidos por la Red, S.A. (SCR)	50.00%		25	(2)	3	17	I. G.	-
Portal Servicios Telemáticos, S.A.	49.00%		500	-	-	245	P. E.	245
Birel Baleares Innovación Telemática, S.A.	44.00%		316	(16)	53	139	P. E.	108
Tecnología e Ingeniería de Sist. y Servicios Avanzados de Telecom., S.A. (TISSAT)	40.00%		100	(9)	25	40	P. E.	47
HispaServices, S.A.	39.00%		350	-	(49)	137	P. E.	117
Telecom Vallés, S.A.	24.90%		121	-	-	26	P. E.	-
Others	N/A		N/A	N/A	-	1	C.	1
Telefónica Telecomunicaciones Públicas, S.A. (**)	100.00%		10	-	-	10	I. G.	-
Telefónica Transmisión de Datos, S.A. (**)	100.00%		10	-	37	10	I. G.	-
Teleinformática y Comunicaciones, S.A. (TELYCO) (*) (**)	100.00%		460	13	117	2 075	I. G.	-
Urbana Ibérica, S.A. (4)	100.00%		264	(52)	10	14	I. G.	-



Subsidiary companies

	Percentage of shareholding		Share capital	Reserves	Results	Book Value	Consolid. method	Consolid. value
	Direct	Indirect						
Telefónica Servicios Móviles, S.A. (*) (**) (3)	100.00%		53 440	10 490	1 204	63 800	I. G.	-
Radiored I, S.A. (*) (**) (3)	100.00%		1 000	440	(622)	1 500	I. G.	-
Radiored Madrid, S.A. (*) (**) (3)	100.00%		150	-	(66)	150	I. G.	-
Radiored Bilbao, S.A. (*) (**) (3)	100.00%		150	-	(63)	150	I. G.	-
Radiored Valencia, S.A. (*) (**) (3)	100.00%		140	-	(58)	140	I. G.	-
Radiored Málaga-Costa del Sol, S.A. (*) (**) (3)	100.00%		145	-	(60)	145	I. G.	-
Radiored Sevilla-Cádiz, S.A. (*) (**) (3)	100.00%		160	(4)	(68)	160	I. G.	-
Radiored Santiago-La Coruña, S.A. (*) (**) (3)	100.00%		130	-	(56)	130	I. G.	-
Radiored Catalunya, S.A. (*) (**) (3)	91.00%		200	(7)	(72)	182	I. G.	-
Radiored Zaragoza, S.A. (*) (**) (3)	91.00%		185	-	(54)	168	I. G.	-
Compañía Gestora del Servicio Mensatel, S.A.	90.00%		667	306	47	622	I. G.	-
Telefónica V.S.A.T.	100.00%		10	N/D	N/D	10	C.	10

Associated companies

	Percentage of shareholding		Share capital	Reserves	Results	Book Value	Consolid. method	Consolid. value
	Direct	Indirect						
Torre de Colcerola, S.A.	42.00%		2 000	(22)	5	845	P. E.	833
Pabellón de Op. Europeos de Telecomunicaciones, S.A. (P.O.E.T.)	38.46%		520			200	P. E.	1
Eritel, S.A.	36.56%		2 302	1 448	577	2 121	P. E.	1 583
Sistemas Técnicos de Loterías del Estado, S.A.	31.75%		2 000	2 739	(3 481)	635	P. E.	1 810
Hispasat, S.A.	25.00%		12 574			5 000	P. E.	2 201
Sofores Audiencia de Medios, S.A.	25.00%		210	(49)	407	435	P. E.	123
Compañía Celular de Colombia, S.A. (COCELCO) (Colombia)	17.41%	22.39%	7 660	6 944	(2 887)	5 173	P. E.	4 161
Amper, S.A.	15.35%		6 977	(5 245)	2 715	3 050	P. E.	824

Other shareholdings

	Percentage of shareholding		Share capital	Reserves	Results	Book Value	Consolid. method	Consolid. value
	Direct	Indirect						
Compañía de Fibra Óptica Telcor, S.A.	35.00%		100	N/D	N/D	35	C.	35
Reto 2000, S.A.	21.74%		2	N/D	N/D	1	C.	1
Agrupació d'Empreses Llei 18/1982 de 26 Maig (A.C.E.F.H.A.T.)	20.00%		110	N/D	N/D	22	C.	22
Centro de Investigación en Tecnologías y Aplicaciones Mult. (CITAM)	20.00%		1	N/D	N/D	-	C.	-
Compañía Inmobiliaria Darsa Gaditana, S.A.	10.23%		25	N/D	N/D	3	C.	3
Financial Network Association (F.N.A.)	8.33%		8	N/D	N/D	2	C.	2
Promoció de Ciutat Vella, S.A.	3.57%		2 800	N/D	N/D	100	C.	100
Catalana D'Iniciatives, C.R., S.A.	2.35%		5 000	N/D	N/D	240	C.	240
Club de Inversores para el Desarrollo de la provincia de Alicante, S.A.	1.00%	1.26%	250	N/D	N/D	2	C.	2
European Silicon Structures, S.A. (E.S.-2)	0.38%		448	N/D	N/D	460	C.	460
Agencia EFE, S.A.	0.16%		3 475	N/D	N/D	140	C.	140
Others	N/A	N/A	N/A	N/A	N/A	10 716	C.	10 672

(*) Companies included in the Consolidated corporate income tax return for the year 1994.

(**) Companies included in the Consolidated corporate income tax return for the year 1995.

(1) Company audited by Pricewaterhouse

(2) Audiberia Auditores, S.L.

(3) Arthur Andersen

(4) K.P.M.G. Peat Marwick

I.G. Companies consolidated by the full integration methods

P. E. Companies consolidated by the proportional integration methods

C. Investments at cost

Foreign currency: M millions and m thousands



7.3 During the year 1995, Telefónica under its policy of reorganizing the business group, effected the following operations in accordance with Law 29/1991 of December 16 which harmonized certain taxation concepts with the Directives and regulations of the European Union.

a) With Telefónica Servicios Móviles, S.A.

Contribution of the lines of activity corresponding to the mobile telephony business to the subsidiary company Telefónica Servicios Móviles, S.A., in accordance with the valuations verified by independent experts.

	Assets contributed net of depretiation	Liabilities Contributed	Net value of contribution
Analogic System	109 609	58 827	50 782
Digital System	17 408	9 343	8 065
	127 017	68 170	58 847

In return, Telefónica received from that company certain shares from a capital increase made for that purpose. The nominal value of the shares was 50,000 million pesetas, with a share premium calculated at the difference between the net value assigned to the assets and liabilities. Of these latter amounts, the payment obligation for which was assumed by Telefónica Servicios Móviles, S.A. in favour of Telefónica de España, S.A., 9,739 million pesetas are payable in the short term and the balance of 58,431 million pesetas is payable in the long term. The securities obtained were accounted for at 58,847 million pesetas under long term investments. The tax benefits available to Telefónica in respect of the assets contributed relate to special depreciation plans, accelerated depreciation and investment tax credits.

The assets subject to accelerated depreciation amounts to 9,328 million pesetas and the depreciation to be reversed totals 2,758 million pesetas. The accelerated depreciation is consolidated in Telefónica, which will revert the depreciation in the same amount and periods as Telefónica Servicios Móviles, S.A. accounts for the depreciation of assets according to special depreciation plans approved.

Of the assets contributed, Telefónica had allocated investments totalling 49,032 million pesetas as being subject to tax credits for new investments during the years 1991, 1992, 1993 and 1994 and the remaining amount pending application to investments in 1995 subject to the segments of the activity for an amount of 50,177 million pesetas.

b) With Telefónica Publicidad e Información, S.A.

By means of an exchange of shareholdings Telefónica has given to Telefónica Publicidad e Información, S.A. 23,000 shares, representing 100% of the share capital of Estrategias Telefónicas, S.A. in exchange for 6,758 new shares of Telefónica Publicidad e Información, S.A.. The details are as follows:

Valuation assigned by the independent expert to the shares of Estrategias Telefónicas, S.A.	411
Capital Increase carried out by Telefónica Publicidad e Información, S.A.	411
Nominal value of the issue	67
Share premium	344

Telefónica has accounted for these amounts in its long term investments at the same value as it had accounted for the shares in Estratel, that is, 220 million pesetas.



7.4 In 1995, Telefónica sold its stock ownership of several companies with the following results:

	Capital share sold	Amount	Profit
Industria Electrónica de Comunicaciones, S.A.	20.74	67	353
Fonditel Entidad Gestora de Fondos de Pensiones, S.A.	19.00	430	-
ATT Network System International, B.V.	5.84	2 849	3 693
Inalca, S.A.	44.00	12	32
Telefónica de Argentina, S.A.	2.15	8 317	7 283
Sistemas Avanzados de Control, S.A.	42.12	-	-

7.5 The most significant transactions during the year between Telefónica and group companies are the following:

	Parent company		Consolidated	
	1995	1994	1995	1994
Dividend received	3 283	3 050	21 936	17 938
Acquisition of goods and services by the Telefónica Group	132 233	117 846	161 122	125 659

7.6 The subsidiary companies listed on the Stock Exchange are the following:

Subsidiary Companies	Currency	Stock Exchange	Share price			
			Year-end		Average last quarter	
			1995	1994	1995	1994
Amper	Peseta	Madrid	1 435	630	1 505	769
CTC (Chile) Acciones A			1 980	1 880	1 734	2 139
Acciones B	Peso chileno	Santiago/Nueva York	1 810	1 728	1 605	1 804
TASA (Argentina)	Peso argentino	Buenos Aires/ Nueva York and Portal	2.70	* 5.15	2.33	* 6.80
CPT Telefónica del Perú (Perú)	Nuevo sol	Lima Type A Shares	4.89	2.45	4.24	2.45
CPT Telefónica del Perú (Perú)	Nuevo sol	Lima Type B Shares	4.95	2.56	4.32	2.56
CPT Telefónica del Perú (Perú)	Nuevo sol	Lima Type C Shares	4.87	2.54	4.30	2.54

* The quotation value has been divided by two, as a result of the issue of one new share for each of the ancient shares.

7.7 The provisions of Article 86 of the Company Law as regards the requirements of notification have been complied with in acquisitions of shareholdings.



NOTE 8 - GOODWILL ON CONSOLIDATION

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

	Balance at				Balance at				Diferencias	Balance at
	31.12.93	Additions	Disposals	Transfers	31.12.94	Additions	Disposals	Transfers	Conversión	31.12.95
C.T.C. (CHILE)	-	-	-	5 508	5 508	-	-	-	-	5 508
T.L.D. (PUERTO RICO)	7 595	-	-	-	7 595	-	-	-	-	7 595
PUBLIGUIAS (CHILE)	426	-	-	-	426	-	-	-	-	426
T. PERU HOLDING	-	463	-	-	463	-	-	-	-	463
MULTICABLE T.V. (CHILE)	-	-	-	-	-	992	-	-	-	992
INVERCOM	-	6 710	-	-	6 710	-	-	-	-	6 710
INSTACOM	-	1 216	-	-	1 216	-	-	-	-	1 216
Total full integration										
method companies	8 021	8 389	-	5 508	21 918	992	-	-	-	22 910
ENTEL CHILE	2 224	-	2 224	-	-	-	-	-	-	-
SOFRES, A.M.	157	-	-	-	157	-	-	-	-	157
VENWORLD (VENEZUELA)	19 982	-	-	-	19 982	-	-	-	-	19 982
TEPESA	-	7	-	-	7	-	-	-	-	7
COINTEL (ARGENTINA)	19 400	4 423	-	-	23 823	12	-	-	-	23 835
C.T.C. (CHILE)	5 508	-	-	(5 508)	-	-	-	-	-	-
Total equity integration										
method companies	47 271	4 430	2 224	(5 508)	43 969	12	-	-	-	43 981
TOTAL	55 292	12 819	2 224	-	65 887	1 004	-	-	-	66 891

	Balance at				Balance at				Diferencias	Balance at
	31.12.93	Additions	Disposals	Transfers	31.12.94	Additions	Disposals	Transfers	Conversión	31.12.95
Accumulated amortization										
C.T.C. (CHILE)	-	551	-	2 050	2 601	550	-	-	-	3 151
T.L.D. (PUERTO RICO)	864	748	-	-	1 612	748	-	-	-	2 360
PUBLIGUIAS (CHILE)	43	43	-	-	86	42	-	-	-	128
T. PERU HOLDING	-	6	-	-	6	46	-	-	-	52
MULTICABLE T.V. (CHILE)	-	-	-	-	-	37	-	-	(2)	35
INVERCOM	-	373	-	-	373	678	-	-	63	1 114
INSTACOM	-	94	-	-	94	126	-	-	10	230
Total full integration										
method companies	907	1 815	-	2 050	4 772	2 227	-	-	71	7 070
ENTEL CHILE	934	167	1 101	-	-	-	-	-	-	-
SOFRES, A.M.	78	31	-	-	109	31	-	-	-	140
VENWORLD (VENEZUELA)	2 117	2 232	-	-	4 349	2 234	-	-	2	6 585
TEPESA	-	7	-	-	7	-	-	-	-	7
COINTEL (ARGENTINA)	970	1 939	-	-	2 909	2 493	-	-	-	5 402
C.T.C. (CHILE)	2 050	-	-	(2 050)	-	-	-	-	-	-
Total equity integration										
method companies	6 149	4 376	1 101	(2 050)	7 374	4 758	-	-	2	12 134
TOTAL	7 056	6 191	1 101	-	12 146	6 985	-	-	73	19 204
Goodwill on consolidation										
pending amortization	48 236	6 628	1 123	-	53 741	(5 981)	-	-	(73)	47 687



NOTE 9 - DEFERRED EXPENSES

The balances and proposed amortization schedule are as follows:

	PARENT COMPANY							
	Maturities						Balance at 31.12.95	Balance at 31.12.94
	1996	1997	1998	1999	2000	Subsequent		
Cost of formalizing debts	3 271	2 615	1 941	1 327	1 054	1 292	11 500	15 233
Deferred unrealized exchange losses	6 922	6 029	-	-	-	-	12 951	40 162
Interest on long term notes	3 946	3 388	3 741	2 740	1 550	183	15 548	19 920
Interest on notes payables	74	25	-	-	-	-	99	144
Interests on leasing operations and other	428	428	303	-	-	-	1 159	1 142
Annex 91 suppliers	161	-	-	-	-	-	161	3 704
Supplement for retired personnel (deficit)	8 187	8 187	8 187	8 187	8 187	53 219	94 154	101 002
Total	22 989	20 672	14 172	12 254	10 791	54 694	135 572	181 307

	CONSOLIDATED							
	Maturities						Balance at 31.12.95	Balance at 31.12.94
	1996	1997	1998	1999	2000	Subsequent		
Cost of formalizing debts	4 453	3 666	2 666	1 865	1 310	1 858	15 818	19 883
Deferred unrealized exchange losses	6 922	6 029	-	-	-	-	12 951	40 162
Interest on long term notes	3 946	3 388	3 741	2 740	1 550	183	15 548	19 920
Interest on notes payables	74	25	-	-	-	-	99	144
Interests on leasing operations and other	1 014	649	428	74	48	366	2 579	1 658
Annex 91 suppliers	161	-	-	-	-	-	161	3 704
Supplement for retired personnel (deficit)	8 187	8 187	8 187	8 187	8 187	53 219	94 154	101 002
Total	24 757	21 944	15 022	12 866	11 095	55 626	141 310	186 473



NOTE 10 - DEFERRED EXCHANGE DIFFERENCES

As stated in Note 4.1.j., the potential year end exchange losses relating to loans maturing in the years 1996 and 1997 have been deferred. Such losses amount to 12,951 million pesetas (40,162 million pesetas in 1994) and would have represented an additional charge to the profit and loss account, in case of not being deferred.

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

	PARENT COMPANY						Balance at 31.12.95	Balance at 31.12.94
	1996	1997	Maturities			Subsequent		
			1998	1999	2000			
Deferred unrealized exchange losses	6 922	6 029	-	-	-	-	12 951	40 162
Deferred unrealized exchange gains	(2 554)	-	-	-	-	-	(2 554)	(2 085)
Total	4 368	6 029	-	-	-	-	10 397	38 077

	CONSOLIDATED							
	1996	1997	1998	1999	2000	Subsequent		
Deferred unrealized exchange losses	6 922	6 029	-	-	-	-	12 951	40 162
Deferred unrealized exchange gains	(2 569)	-	-	(1 686)	(4 549)	(4 976)	(13 780)	(8 684)
Total	4 353	6 029	-	(1 686)	(4 549)	(4 976)	(829)	31 478

Detail of foreign exchanges losses expensed during the year is as follows:

	Parent company		Consolidated	
	1995	1994	1995	1994
On repayment of loans matured during the year	4 829	6 414	7 114	6 523
Deferred losses O.M. March 12, 1993 (Note 4.1.j)	(6 300)	11 653	(6 300)	11 653
Unrealized foreign exchange losses in non-regulated operations matured subsequent to January 1, 1998	16 545	3 899	16 545	3 899
Short-term foreign exchange gains and losses	1 829	2 567	1 829	2 567
Total	16 903	24 533	19 188	24 642



NOTE 11 - LONG TERM PREPAID AND DEFERRED TAXES

Balances at December 31 are as follows:

	Parent company		Consolidated	
	1995	1994	1995	1994
Long term prepaid taxes				
Currency exchange differences	19 356	15 770	19 356	15 770
Complementary pensions for retired employees	3 291	2 342	3 291	2 342
Pension plan for active employees	2 123	1 520	2 123	1 520
Others	24 929	11 132	25 566	11 598
Total	49 699	30 764	50 336	31 230
Long term deferred taxes				
Tax accelerated amortization and leasing	38 211	44 996	41 645	45 953
Collective endowment insurance	-	1 663	-	1 663
Consolidation adjustments	5 934	5 614	5 934	5 614
Intragroup adjustments	-	-	3 984	2 777
Foreign taxes	-	-	19 450	18 440
Total	44 145	52 273	71 013	74 447

NOTE 12 - ACCOUNTS RECEIVABLE FROM CUSTOMERS

Balances at December 31 in Telefónica, are as follows:

	1995	1994
Customers	77 904	89 850
Ex-Customers	22 430	27 660
Accounts pending classification	1 420	1 598
	101 754	119 108
Unbilled	143 085	134 852
	244 839	253 960
Provision for bad debts	(24 105)	(29 649)
Total	220 734	224 311

The balance of public customers accounts amounts to 59,586 million pesetas (67,203 million in 1994).

During 1995 bad debts have been cancelled for an amount of 21,652 million pesetas (19,110 million in 1994).



NOTE 13 - SHAREHOLDERS' EQUITY

13.1 The amount and movements in shareholder's equity during the years ended December 31, 1994 and 1995, were as follows:

	PARENT COMPANY						
	1993	Distribution		1994	Distribution		1995
		of 1993 profit	Other movements		of 1994 profit	Other movements	
Share capital	469 735	-	-	469 735	-	-	469 735
Share premium	43 067	-	-	43 067	-	-	43 067
Revaluation reserve	653 780	-	-	653 780	-	-	653 780
Legal reserve	57 796	8 483	-	66 279	9 174	-	75 453
Voluntary reserve	111 598	18 400	-	129 998	20 500	-	150 498
Retained earnings	86	5	-	91	56	-	147
Profit for the year	84 837	(84 837)	91 734	91 734	(91 734)	106 183	106 183
Interim dividend	(23 187)	23 187	-	-	-	(28 184)	(28 184)
Total	1 397 712	(34 762)	91 734	1 454 684	(62 004)	77 999	1 470 679

	CONSOLIDATED						
	1993	Distribution		1994	Distribution		1995
		of 1993 profit	Other movements		of 1994 profit	Other movements	
Share capital	469 735	-	-	469 735	-	-	469 735
Share premium	43 067	-	-	43 067	-	-	43 067
Revaluation reserve	649 316	-	-	649 316	-	-	649 316
Legal reserve	57 796	8 483	-	66 279	9 174	-	75 453
Voluntary reserve	92 125	16 404	(1 249)	107 280	22 869	-	130 149
Reserve in consolidation	20 653	13 526	(2 144)	32 035	18 504	1 058	51 597
Retained earnings	86	5	-	91	56	-	147
Profit for the year	96 367	(96 367)	112 608	112 608	(112 608)	133 214	133 214
Interim dividend	(23 187)	23 187	-	-	-	(28 184)	(28 184)
Differences on foreign currency translation	31 097	-	523	31 620	-	(9 642)	21 978
Total	1 437 055	(34 762)	109 738	1 512 031	(62 005)	96 446	1 546 472

13.2 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 listed on the four Spanish stock exchanges as well as in Frankfurt, London, Paris, Tokyo and New York. At December 31, 1995 the Spanish State held approximately 21.15% of the shares (31.86% in 1994).

13.3 The General Meeting of Shareholders held on April 21, 1995 gave power to the Board of Directors to issue additional shares during a period not exceeding five years without further notice to and approval of the shareholders, to a maximum share capital of 704,603 million pesetas.



13.4 The consolidation reserve consists in the following at December 31:

	CONSOLIDATED						Balance at 31.12.95
	Balance at 31.12.93		Balance at 31.12.94		Balance at 31.12.95		
	Additions	Disposals	Additions	Disposals	Additions	Disposals	
Companies consolidated by the full integration method	9 099	3 457	4 388	8 168	23 349	4 203	27 314
Companies consolidated by the equity method	11 554	15 486	3 173	23 867	1 346	930	24 283
Total	20 653	18 943	7 561	32 035	24 695	5 133	51 597

NOTE 14 - COMPANIES' CONTRIBUTION TO TELEFÓNICA ACCOUNTS

COMPANIES	Contributions						Total contribution to currency translation	
	To consolidated profit		To reserves		To differences of foreign		1995	1994
	1995	1994	1995	1994	1995	1994		
PARENT COMPANY - SHARE CAPITAL							469 735	469 735
ANTARES	347	270	754	478	-	-	1 101	748
CABITEL	2 622	1 129	1 435	906	-	-	4 057	2 035
CASIOPEA	-	-	-	-	82	81	82	81
COMET	(54)	(58)	(794)	(736)	-	-	(848)	(794)
ESTRATTEL (included in TPI in 1995)	-	80	-	122	-	-	-	202
FONDITEL	354	41	11	(26)	-	-	365	15
MAPTEL (included in TS in 1995)	-	19	-	(225)	-	-	-	(206)
PLAYA DE MADRID	23	(45)	61	106	-	-	84	61
PLEYADE PENINSULAR	106	105	114	79	-	-	220	184
SERVICIO TELEDISTRIBUCIÓN	9	38	387	349	-	-	396	387
SINTEL	(1 893)	(1 404)	2 016	3 732	(27)	19	96	2 347
TAETEL	422	469	1 309	956	-	-	1 731	1 425
TELECARTERA Y SOCIEDADES DE CABLEVISION	(36)	(9)	(84)	(29)	-	-	(120)	(38)
TELEFONICA PUBLICIDAD E INFORMACION	2 736	2 068	2 698	2 428	-	-	5 434	4 496
TEMASA	1 449	874	1 843	1 469	-	-	3 292	2 343
TELEFONICA	103 391	90 076	928 394	895 996	-	386	1 031 785	986 458
TELEFONICA TRANSMISION DE DATOS	37	-	-	-	-	-	37	-
TELFISA	91	24	137	114	-	-	228	138
T.I. TELEFONICA INTERNACIONAL DE ESPAÑA	22 526	17 953	43 480	25 006	21 923	31 134	87 929	74 093
TIDSA	775	519	1 848	1 329	-	-	2 623	1 848
TELEFONICA NORTH AMERICA	-	-	-	-	-	-	-	-
TELEFONICA SERVICIOS MULTIMEDIA	(127)	(4)	(4)	-	-	-	(131)	(4)
TELEFONICA SISTEMAS	552	634	1 670	1 354	-	-	2 222	1 988
TELYCO	147	(1 353)	(1 602)	(225)	-	-	(1 455)	(1 578)
TELEFONICA SERVICIOS MOVILES	1 238	1 140	427	(711)	-	-	1 665	429
URBANA IBERICA	8	5	82	77	-	-	90	82
TOTAL TELEFÓNICA GROUP	134 723	112 571	984 182	932 549	21 978	31 620	1 140 883	1 076 740
NON-REALIZED PROFIT	(1 509)	37	(34 453)	(34 481)	-	-	(35 962)	(34 444)
INTERIM DIVIDEND	-	-	-	-	-	-	(28 184)	-
CONTRIBUTION TO SHAREHOLDERS'								
EQUITY BY TELEFÓNICA								
CONSOLIDATED GROUP	133 214	112 608	949 729	898 068	21 978	31 620	1 546 472	1 512 031



NOTE 15 - OUTSIDE SHAREHOLDERS

15.1 Outside shareholders' interests

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

COMPANY	%Minority participation	Net equity	Differences on foreign		1994
			currency translation	Results	
CTC Chile	56.38	80 140	6 209	15 302	101 651
CPT Telefónica del Perú	65.00	97 333	2 187	6 927	106 447
Gestired	49.00	20	-	4	24
Maptel	0.00	-	-	-	-
Mensatel	10.00	91	-	6	97
Publiguías	45.07	413	33	545	991
Sintel Pwrú	37.00	47	1	6	54
Sintelar	25.00	249	7	182	438
T.Internacional	23.78	36 160	9 830	5 600	51 590
TLD Puerto Rico	21.00	2 491	380	(237)	2 634
Telecartera	20.00	5	-	(2)	3
Telefónica Romania	40.00	257	136	42	435
Telefónica Perú Holding	10.00	27 834	16	79	27 929
TOTAL		245 040	18 799	28 454	292 293

COMPANY	%Minority participation	Net equity	Differences on foreign		1995
			currency translation	Results	
CTC Chile	56.38	86 426	4 870	15 933	107 229
CPT Telefónica del Perú	65.00	93 818	(3 827)	26 519	116 510
Gestired	49.00	24	-	10	34
Mensatel	10.00	97	-	5	102
Publiguías	45.07	509	(96)	482	895
Sintel Perú	37.00	53	-	82	135
Sintelar	25.00	431	(18)	(41)	372
T.Internacional	23.78	42 105	6 798	7 011	55 914
TLD Puerto Rico	21.00	2 254	177	(10)	2 421
Telecartera	24.88	247	-	(3)	244
T. Romania	40.00	300	96	175	571
T. Perú Holding	10.00	27 603	(56)	880	28 427
Cotronic	49.00	40	-	28	68
Incosa	48.90	55	-	39	94
Servicios y C. por la Red	50.00	11	-	1	12
Tepesa	44.36	136	-	(25)	111
R.Red Zaragoza	9.00	17	-	(6)	11
R.Red Cataluña	9.00	17	-	(8)	9
Fonditel	19.00	433	-	67	500
SG Cablevisión Mdríd	48.70	10	-	-	10
SG Cablevisió Barcelona	48.70	10	-	-	10
SG Cablevisión Cantabria	34.35	14	-	-	14
SG Cablevisión Canarias	39.99	60	-	-	60
		254 670	7 944	51 139	313 753

Telefónica has acquired the additional 0,68% of TSC "Telefónica Seguridad y Comunicaciones, S.A." and the remaining 24% of Maptel, S.A.. For the foreign companies it is consider the outside shareholders' interest of the differences on foreign currency translation. The full integration method used with CTC Chile has produced the contribution to the outside shareholders' interest.



15.2 Movement of outside shareholders' interests:

	1993	Additions of companies	Profit	Differences on foreign	Other movements	Dividends paid	1994
C.T.C. Chile	-	89 602	15 302	6 209	(326)	(9 136)	101 651
C.P.T. Telefónica del Perú	-	97 333	6 927	2 187	-	-	106 447
Gestired	20	-	4	-	-	-	24
Maptel	(1)	3	-	-	(2)	-	-
Mensatel	-	91	6	-	-	-	97
Publiguías	829	-	545	(1)	1	(383)	991
Sintel Perú	-	47	6	1	-	-	54
Sintelar	274	-	182	(18)	-	-	438
Telecartera	5	-	(2)	-	-	-	3
Telefónica internacional	37 290	9 300	5 600	169	(769)	-	51 590
T.L.D. Puerto Rico	3 117	-	(237)	(246)	-	-	2 634
Telefónica Romania	257	-	42	136	-	-	435
Telefónica Perú Holding	-	27 834	79	16	-	-	27 929
T.S.C.	7	-	-	-	(7)	-	-
TOTAL	41 798	224 210	28 454	8 453	(1 103)	(9 519)	292 293

	1993	Additions of companies	Profit	Differences on foreign	Other movements	Dividends paid	1995
C.T.C. Chile	101 651	-	15 933	(1 339)	1 365	(10 381)	107 229
C.P.T. Telefónica del Perú	106 447	-	26 519	(6 014)	(4 671)	(5 771)	116 510
Gestired	24	-	10	-	-	-	34
Mensatel	97	-	5	-	-	-	102
Publiguías	991	-	482	(128)	(2)	(448)	895
Sintel Perú	54	-	82	(1)	-	-	135
Sintelar	438	-	(41)	(25)	-	-	372
Telefónica internacional	51 590	-	7 011	(3 032)	345	-	55 914
T.L.D. Puerto Rico	2 634	-	(10)	(203)	-	-	2 421
(*) Telecartera	3	200	(3)	-	44	-	244
Telefónica Romania	435	-	175	(39)	-	-	571
Telefónica Perú Holding	27 929	-	880	(72)	-	(310)	28 427
Cotronic	-	40	28	-	-	-	68
Incosa	-	55	39	-	-	-	94
Servicio y Cont. por la Red	-	11	1	-	-	-	12
Tepesa	-	136	(25)	-	-	-	111
Radiored Zaragoza	-	17	(6)	-	-	-	11
Radiored Catalunya	-	17	(8)	-	-	-	9
Fondited	-	433	67	-	-	-	500
S.G. Cablevisión Madrid	-	10	-	-	-	-	10
S.G. Cablevisió Barcelona	-	10	-	-	-	-	10
S.G. Cablevisión Cantabria	-	14	-	-	-	-	14
S.G. Cablevisión Canarias	-	60	-	-	-	-	60
TOTAL	292 293	1 003	51 139	(10 853)	(2 919)	(16 910)	313 753

The Other movements column for 1994 for Telefónica Internacional reflects the portion corresponding to the outside shareholders of the variation in the consolidation reserve arising from the transfer of the currency translation difference on deconsolidation of Inversiones Hispano Chilenas Holding B.V. and its subsidiaries, Inversiones Hispano Chilenas, S.A. and Empresa Nacional de Telecomunicaciones, S.A. (Entel). It also reflects the portion of the equity of CTC corresponding to these companies at the beginning of the year, due to the change in the consolidation criterion. The aforementioned column for 1995 for Telefónica Internacional reflects the transfer from translation differences to net equity participation as a result of the sale of shares in Telefónica de Argentina.



NOTE 16 - DEFERRED INCOME

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

	Parent company		Consolidated	
	1995	1994	1995	1994
Capital grants	70 663	60 136	70 666	60 136
Deferred unrealized exchange gains (Note 10)	2 554	2 085	13 780	8 684
External contributions not repayable	5 716	5 310	6 812	6 209
Total	78 933	67 531	91 258	75 029

16.2 The movement on capital grants in the parent company is as follows:

	Balance at 31.12.93		Application of profits	Balance at 31.12.94		Application of profits	Balance at 31.12.95
		Additions			Additions		
From official organisations, autonomous communities and local government bodies	18 984	10 628	2 651	26 961	6 800	3 541	30 220
From European Economic Community:							
STAR Program	18 801	3 313	2 401	19 713	-	2 761	16 952
FEDER Program	6 810	1 240	780	7 270	877	904	7 243
IRTA Program	2 966	-	322	2 644	-	322	2 322
FEDER Program 94/99	-	-	-	-	10 481	-	10 481
Other	2 299	1 527	278	3 548	349	452	3 445
Total	49 860	16 708	6 432	60 136	18 507	7 980	70 633



NOTE 17 - PROVISIONS FOR RISKS AND EXPENSES

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

	PARENT COMPANY								
	1993	Provisions	Applications	Other	1994	Provisions	Applications	Other	1995
Self insurance for damages in plant	1 917	-	449	-	1 468	-	197	(223)	1 048
Establishment of pensions	4 941	-	597	-	4 344	4 486	2 761	-	6 069
Pensioners' integrating cost in Social Security System	58 796	3 402	-	-	62 198	-	5 654	(11 750)	44 794
Endowment (Note 24)	22 321	1 765	5 392	1 159	19 853	2 040	5 344	-	16 549
Complementary pensioners annuity	128 119	9 661	14 884	(847)	122 049	9 195	14 938	1 607	117 913
Contingencies and provisions for responsibilities	-	22 500	-	-	22 500	46 452	16 333	-	52 619
Other provisions	-	-	-	-	-	560	-	1 443	2 003
Total	216 094	37 328	21 322	312	232 412	62 733	45 227	(8 923)	240 995

	CONSOLIDATED								
	1993	Provisions	Applications	Other	1994	Provisions	Applications	Other	1995
Self insurance for damages in plant	11 700	1 355	474	-	12 581	438	2 042	134	11 111
Establishment of pensions	441	105	80	119	585	106	135	120	676
Provision for rebalancing pension plan	4 941	-	597	-	4 344	4 486	2 761	-	6 069
Pensioners' integrating cost in Social Security System	58 796	3 402	-	-	62 198	-	5 654	(11 750)	44 794
Endowment (Note 24)	22 321	1 765	5 392	1 159	19 853	2 040	5 344	-	16 549
Complementary pensioners annuity	128 119	9 661	14 884	(847)	122 049	9 195	14 938	1 607	117 913
Contingencies and other provisions	5 457	43 924	115	-	49 266	57 955	17 067	730	90 884
Total	231 775	60 212	21 542	431	270 876	74 220	47 941	(9 159)	287 996



NOTE 18 - DEBENTURES, BONDS AND OTHER ISSUES

18.1 The composition and movements are as follows:

	PARENT COMPANY						
	Debentures and bonds in local currency			Debentures and bonds in foreign currency		Commercial paper	Total
	Ordinary	Convertible and/or exchangeable	Simples	Convertible and/or exchangeable			
Balance December 31, 1993	798 165	-	-	-	38 751	836 916	
New issues	40 485	-	-	-	134 260	174 745	
Repayments, conversions and exchanges	(189 869)	-	-	-	(130 391)	(320 260)	
Revaluations and other movements	56 931	-	-	-	-	56 931	
Balance December 31, 1994	705 712	-	-	-	42 620	748 332	
New issues	-	-	-	-	144 653	144 653	
Repayments, conversions and exchanges	(131 657)	-	-	-	(150 835)	(282 492)	
Revaluations and other movements	52 307	-	-	-	-	52 307	
Balance December 31, 1995	626 362	-	-	-	36 438	662 800	
Detail of maturities							
Long term	570 391	-	-	-	880	571 271	
Short term	55 971	-	-	-	35 558	91 529	
Accrued interest net yet payable	13 141	-	-	-	-	13 141	

	CONSOLIDATED						
	Debentures and bonds in local currency			Debentures and bonds in foreign currency		Commercial paper	Total
	Ordinary	Convertible and/or exchangeable	Simples	Convertible and/or exchangeable			
Balance December 31, 1993	800 011	9 300	-	-	50 426	859 737	
New issues	40 485	-	22 626	-	134 260	197 371	
Repayments, conversions and exchanges	(189 891)	(9 300)	-	-	(130 391)	(329 582)	
Revaluations and other movements	57 129	-	36 309	14 728	(1 327)	106 839	
Balance December 31, 1994	707 734	-	58 935	14 728	52 968	834 365	
New issues	-	-	-	-	144 653	144 653	
Repayments, conversions and exchanges	(131 657)	-	(7 363)	(135)	(150 835)	(289 990)	
Revaluations and other movements	52 307	-	(634)	(1 040)	(1 560)	49 073	
Balance December 31, 1995	628 384	-	50 938	13 553	45 226	738 101	
Detail of maturities							
Long term	570 391	-	43 938	13 553	16 056	643 938	
Short term	57 993	-	7 000	-	29 170	94 163	
Accrued interest net yet payable	13 124	-	588	279	-	13 991	

18.2 There are two commercial paper issue programs in Telefónica, as follows:

Balance limit	Issues	Par value	Method of acquisition
75 000 million	Public issues	500 000 pesetas	Monthly competitive bids
	Company and institutional issues	100 million pesetas	Monthly competitive bids
75 000 million	Company and institutional issues	500 million pesetas minimum	Punctual operations



18.3 The details of the debentures and bonds of the consolidated Group outstanding at December 31, 1995 are as follows:

Issue	Interest %	MATURITIES							Total
		1996	1997	1998	1999	2000	Subsequent years		
LIABILITIES									
July 1987	Variable	9.4000	-	296	-	-	-	-	296
May 1989		12.2500	2 022	-	-	-	-	-	2 022
July 1989		12.0000	-	-	-	-	-	10 260	10 260
December 1989	Variable	8.3620	800	800	800	800	-	-	3 200
January 1990		12.0000	-	-	-	-	71	27 571	27 642
February 1990 Series A		12.6000	-	-	-	-	9 351	-	9 351
February 1990 Series B		12.6000	-	-	-	-	-	1 367	1 367
February 1990 Series C		12.6000	-	-	-	-	-	626	626
February 1990 Series D	Zero coupon	12.8896	-	-	-	-	12 961	-	12 961
February 1990 Series E	Zero coupon	12.8531	-	-	-	-	-	4 225	4 225
February 1990 Series F	Zero coupon	12.5793	-	-	-	-	-	467	467
December 1990	Zero coupon	13.5761	-	-	-	-	-	37 850	37 850
February 1991 Serie A		14.2500	-	-	30 000	-	-	-	30 000
February 1991 Serie B	Zero coupon	14.4676	-	-	57 704	-	-	-	57 704
March 1991	Zero coupon	14.4813	-	-	7 696	1 923	-	-	9 619
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	-	-	-	-	-	36 561	36 561
B September 1996	Zero coupon	10.0000	50 871	-	-	-	-	-	50 871
C September 1998	Zero coupon	10.1250	-	-	38 020	-	-	-	38 020
D September 2001	Zero coupon	10.2500	-	-	-	-	-	51 335	51 335
B November 2000		10.0625	-	-	-	-	20 439	-	20 439
C November 2002		10.0625	-	-	-	-	-	19 315	19 315
A October 1996		7.7500	4 300	-	-	-	-	-	4 300
B October 2000		8.0000	-	-	-	-	12 372	-	12 372
C October 2004		8.2500	-	-	-	-	-	11 520	11 520
Convertibles in shares of CTC		5.5000	-	-	-	-	-	13 553	13 553
BONDS									
Subscribers 1987		3.5000	-	-	8	-	-	-	8
A 1987		6.0000	465	-	-	-	-	-	465
B 1987		5.8000	932	466	-	-	-	-	1 398
C 1987		5.7500	1 380	1 380	-	-	-	-	2 760
D 1987		5.8000	2 793	2 793	2 793	1 398	-	-	9 777
November 1990		14.0625	-	600	-	-	-	-	600
November 1990	Variable	9.7575	-	400	-	-	-	-	400
E 1991		6.0000	1 164	1 164	1 164	1 164	1 164	2 910	8 730
F 1991		6.0000	266	266	266	266	266	4 124	5 454
January 1991	Variable	8.4975	-	1 370	-	-	-	-	1 370
February 1991		13.9375	-	3 440	-	-	-	-	3 440
February 1991	Variable	9.7575	-	400	-	-	-	-	400
April 1991	Zero coupon	14.5154	-	-	-	88 105	-	-	88 105
April 1991		12.3750	-	10 160	-	-	-	-	10 160
April 1991	Variable	9.7575	-	300	-	-	-	-	300
May 1991		12.3750	-	4 437	-	-	-	-	4 437
July 1991	Variable	9.7575	-	5 100	-	-	-	-	5 100
July 1991	Zero coupon	14.5154	-	-	-	6 411	-	-	6 411
February 1992		11.1875	-	1 470	-	-	-	-	1 470
November 1992		12.9375	-	400	-	-	-	-	400
April 1993		12.2500	-	21 000	-	-	-	-	21 000
May 1993		11.7500	-	2 468	-	-	-	-	2 468
H 1994		5.8000	-	-	923	2 093	2 093	9 788	14 897
I 1994		5.5000	-	-	-	-	-	7 449	7 449
TOTAL ISSUES			64 993	58 710	159 374	102 160	58 717	248 921	692 875



18.4 Debentures and zero coupon bonds are presented in 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	Actual value	Repayment value
DEBENTURES				
February 1990 serie D	26.02.2000	336.154	12 961	21 447
February 1990 serie E	26.02.2005	613.338	4 225	12 776
February 1990 serie F	26.02.2010	1 069.470	467	2 503
December 1990	28.12.2005	675.000	37 850	135 000
February 1991 serie B	28.02.1998	257.500	57 704	77 250
March 1991	01.03.1998	257.729	1 924	2 577
March 1991	01.06.1998	266.659	1 924	2 667
March 1991	01.09.1998	275.899	1 924	2 759
March 1991	01.12.1998	285.353	1 924	2 854
March 1991	01.03.1999	295.022	1 924	2 950
April 1991 serie B	17.04.2001	360.000	36 561	72 000
B September 1996	19.09.1996	161.135	50 871	54 459
C September 1998	19.09.1998	196.531	38 020	49 401
D September 2001	19.09.2001	265.543	51 335	89 687
BONDS				
April 1991	15.04.1999	295.740	88 105	137 519
July 1991	15.07.1999	295.740	6 411	10 351
			394 130	676 200

18.5 Additional information

	Parent company		Consolidated	
	1995	1994	1995	1994
Financial interest	81 797	96 056	85 879	97 322

The average cost of the debentures and bonds outstanding is 12.55% for 1995 (12.43% in 1994), and for commercial paper is 9.38% for 1995 (8.94% in 1994).



NOTE 19 - DEBTS WITH CREDIT ENTITIES

19.1 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					
	1995			1994			1995			1994		
	Long term	Short term	Total	Long term	Short term	Total	Long term	Short term	Total	Long term	Short term	Total
Notes payable at face value	37 220	15 365	52 585	52 585	365	52 950	37 220	15 365	52 585	52 585	365	52 950
Loans and credits	251 504	55 773	307 277	225 292	55 754	281 046	325 264	77 794	403 058	272 007	69 759	341 766
Loans in foreign currency	207 545	39 002	246 547	280 823	17 742	298 565	539 401	57 946	597 347	593 015	49 442	642 457
Total	496 269	110 140	606 409	558 700	73 861	632 561	901 885	151 105	1 052 990	917 607	119 566	1 037 173

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

	PARENT COMPANY							Balance at 31.12.95
	Maturities							
	1996	1997	1998	1999	2000	Subsequent		
Notes payable	15 365	365	1 314	21 637	1 618	12 286	52 585	
Loans and credits	55 773	65 115	49 743	86 407	30 701	19 538	307 277	
Loans in foreign currency	39 002	24 861	28 948	28 947	27 876	96 913	246 547	
Total	110 140	90 341	80 005	136 991	60 195	128 737	606 409	

	CONSOLIDATED							Balance at 31.12.95
	Maturities							
	1996	1997	1998	1999	2000	Subsequent		
Notes payable	15 365	365	1 314	21 637	1 618	12 286	52 585	
Loans and credits	77 794	66 232	66 688	90 830	36 815	64 699	403 058	
Loans in foreign currency	57 946	79 353	85 974	98 832	85 039	190 203	597 347	
Total	151 105	145 950	153 976	211 299	123 472	267 188	1 052 990	

19.3 Additional information:

	PARENT COMPANY						CONSOLIDATED			
	Financial expenses		Accrued interest		Average interest rate		Financial expenses		Accrued interest	
	1995	1994	1995	1994	1995	1994	1995	1994	1995	1994
Notes payable	4 373	4 540	-	-	13.37	13.37	4 373	4 540	-	-
Loans and credits	24 773	21 439	4 680	3 388	9.97	8.91	32 815	26 038	6 896	6 051
Loans in foreign currency	20 020	19 712	4 006	5 277	7.08	6.32	43 861	-	10 245	6 722



19.4 Loans and credit facilities include the peseta equivalent of a multi-currency loan, originally granted in ECUS by the European Investment Bank for an amount of 12,750 million pesetas, and two swap operations with the Union Bank of Switzerland and J.P.Morgan, relating to the BEI-TELFISA loan of 120,000 million Italian lira, exchanged for 8,926 million pesetas and with the CITIBANK and J.P. Morgan relating to the BEI-TELFISA loan of 17,000 million yens, exchanged for 23,074 million pesetas.

19.5 Loans and credits facilities accounts reflect only the amounts actually borrowed . Unused facilities are detailed in Note 27.

19.6 At December 31, 1995 a total of 42,451 million pesetas in foreign currency loans is eligible for the tax benefits established by Decree Law 19/1961 and Law 61/1978.

19.7 Details of Telefónica Group loans denominated in foreign currency from financial institutions are as follows:

	1995		1994	
	Amount	Exchange rate	Amount	Exchange rate
US dollars (USD)	2 180.4	121.530	2 152.0	131.871
German marks (DEM)	164.1	84.779	185.0	85.133
Swiss francs (CHF)	303.5	105.577	341.1	100.549
Dutch florins (NLG)	324.4	75.749	191.5	76.002
Japanese yen (JPI)	18 670.2	1.17797	36 251.4	1.32241
French francs (FRF)	890.5	24.802	520.0	24.668
ECUs (XEU)	873.9	155.717	684.1	161.714
Italian liras	120.0	0.7653		
Other	* 21 740.0	-	* 30 230	-

(*) Equivalent in pesetas of various loans to Latin-American operators in their local currencies.

19.8 Loans denominated in foreign currency include the following:

– The Company has a multi-option financial facility for 250 million US dollars, the amount available at December 31, 1994 is US\$ 145 million represented by Telefónica's certificates in Euronotes with maturities of less than six months. When they become due, Telefónica can opt to:

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

– Details of loans from the European Investment Bank, (B.E.I.) authorized through the Official Credit Institute (I.C.O.) are as follow:

Year	Per value	Maturity	Grace period	Amortization	Option	AVERAGE INTEREST RATE	
						1995	1994
1988	XEU 980 MM	15 years	5 years	20 six-months period	Multicurrency	7.48	7.6
1992	XEU 150 MM	15 years	5 years	20 six-months period	-	6.63	6.9
1992	JPY 19 500 MM	10 years	5 years	10 six-months period	Multicurrency	1.90	2.4
1992	NLG 82.1 MM	10 years	5 years	10 six-months period	Multicurrency	5.09	5.8



- A syndicated long-term loan amounting to US\$ 1,100 million, was granted at December 30, 1994 being the managers the ABN Amro Bank NV and Banco de Negocios Argentaria. As underwriters acted other entities (the Bank of Tokyo, Banque Nationale de Paris, The Fuji Bank and Bank of America) and participants.

The maturity date of the principal is seven years, with the following amortization schedule:

Year	Million US \$
1997	125
1998	140
1999	260
2000	280
2001	295

The company can choose the period of interest payments among one, three or six months and the interest rate will be referred to Libor index for interest period chosen plus a 0.275% spread.

Compañía de Telecomunicaciones de Chile, S.A. (CTC) has long term loans with balances outstanding at December 31, 1995 equivalent to 102,155 and 73,001 million pesetas respectively, of which, 81,331 and 61,173 were expressed in US dollars, 2,719 million pesetas in other currencies and the rest in local currency. The interest rates applied are between 5.69% and 9.65%.

In May, 1995 a long term syndicated loan was contracted for 275 million US dollars with a bank group headed by ABN Amro Bank. This contract contains protection clauses similar to those granted to the other creditors. The balance outstanding on this loan at December 31, 1995 amounted to 33,500 million pesetas of which 33,388 million is long term.

The second most important loan with a pending balance at December 31, 1995 and 1994 of 17,448 and 23,469 million pesetas respectively, including long term portions of 12,994 and 18,619 respectively, has been contracted with International Finance Corporation (IFC). The contract with that institution contemplates that the company must ensure, as a financial condition, that the ratio between debt and shareholders' equity cannot be higher than 1.25, the ratio of current assets to current liabilities must be at least equal to 1 and that dividends payable cannot exceed those contemplated in the dividend policy prevailing at the contract date.

In March and September 1994 the company contracted loans with Morgan Guaranty Trust Co. for 80 million US dollars and with the Union Bank of Switzerland for 55 million US dollars, respectively. These contracts do not contain special protection clauses.

19.9 Additional information to Notes 18 and 19

In order to increase the flexibility of the Telefónica indebtedness, certain operations in derivatives have been transacted, generally to increase the variable interest rate position. At December 31, 1995 the amount in local currency covered by these transactions is 105,348 million pesetas (116,086 million pesetas in 1994) with a charge in this accounting period of 739 million pesetas (credit of 13 million pesetas in 1994).



The distribution by maturity and interest rate is as follows:

	Amounts	MATURITIES				RATE OF INTEREST	
		A 1 Year	From 1 to 3 years	From 3 to 5 years	Maturities over 5 years	Fixed to Variable	Variable to fixed
National loans	23 000	-	23 000	-	-	-	23 000
Commercial paper	2 588	2 588	-	-	-	2 588	-
Debentures and bonds	79 760	3 800	31 160	24 300	20 500	79 760	-
	105 348	6 388	54 160	24 300	20 500	82 348	23 000

In transactions in foreign currency Telefónica has hedged amounts of 120,000 million Italian lira and 17,000 million yens equivalent to 32,000 million pesetas. The results of these transactions during the current year showed a gains of 2,777 million pesetas. Telefónica Internacional has also hedged operations totalling 410 million US dollars, equivalent to 49,826 million pesetas, on which exchange gains of 6,641 million pesetas have been recorded.

NOTE 20 - DEBTS WITH GROUP AND ASSOCIATED COMPANIES

The detail at December 31, 1995 is as follows:

	PARENT COMPANY						CONSOLIDATED					
	1995			1994			1995			1994		
	Long term	Short term	Total	Long term	Short term	Total	Long term	Short term	Total	Long term	Short term	Total
Loans	142 852	11 920	154 772	135 977	5 588	141 565	-	-	-	-	-	-
Purchases and services:												
From Group companies	-	61 653	61 653	159	20 966	21 125	-	-	-	-	-	-
From Associated companies	-	18 209	18 209	-	10 858	10 858	-	19 392	19 392	217	11 286	11 503
Corporation Tax	6 467	368	6 835	4 311	556	4 867	-	-	-	-	-	-
Total	149 319	92 150	241 469	140 447	37 968	178 415	-	19 392	19 392	217	11 286	11 503

The long-term loans in Telefónica consist of:

- A loan from the European Investment Bank (B.E.I.), granted in 1991 through the subsidiary Telefonía y Finanzas, S.A. (Telfisa) for ECU 600 million available 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. The average interest rate for 1995 was 6.08% (5.7% in 1994).
- A second loan from the European Investment Bank granted in 1993 through Telfisa of 300 million ECUS made available in pesetas, equivalent to 38,700 million pesetas. In 1994 the third tranche of the loan in the amount of 18,700 million pesetas was granted, which is repayable in two equal instalments in 1997 and 1998, and with an interest rate varying quarterly. In 1995 the average interest rate was 9.21% (9.1% in 1994).



- c) A further loan from the European Investment Bank was granted in 1995, through the subsidiary Telefónica de Finanzas, S.A. (Telfisa), for 15,000 million pesetas to be amortized in 8 equal instalments with a grace period of 3 years and an interest rate varying quarterly amounted to 9.4% in 1995.
- d) A commercial loan facility with the subsidiary Telefónica North America Inc., for a limit up to US \$ 125 million and with maturity in 1997. The loan facility has been used in full. The funds for this loan were raised with commercial paper issued in the USA by the subsidiary and guaranteed by Telefónica. The average interest rate increased to 5.97% in 1995 (4.5% in 1994).

NOTE 21 - TAXES PAYABLE AND RECOVERABLE

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

	Parent company		Consolidated	
	1995	1994	1995	1994
Taxes payable				
Payroll withholding taxes	8 509	8 471	9 560	9 431
Value added tax	10 556	8 922	10 230	9 211
Withholding taxes on dividends and interests	326	1 040	2 351	2 206
Corporate income tax	37 767	35 316	38 194	35 514
Local government taxes	1 494	1 237	1 499	1 249
Social Security Contributions	23 581	24 459	24 494	25 249
Foreign taxes	-	-	14 217	5 594
Total	82 233	79 445	100 545	88 454
Taxes recoverable				
Payments on account of corporate income tax:				
Tax withheld at source on investment income	1 822	1 637	2 186	1 827
Payments on account on consolidated corporate income tax returns	14 241	6 622	14 241	6 622
Payments on account on individual income tax returns	-	-	5	30
Taxes, surcharges and Social Security payments recoverable	525	1 490	557	1 555
Taxes paid in advance	870	606	870	728
VAT pending deduction	3 956	2 436	3 990	2 436
Foreign taxes	-	-	3 331	7 194
Total	21 414	12 791	25 180	20 392

NOTE 22 - OTHER ACCOUNTS PAYABLE

This heading comprises the following amounts at December 31:

	Parent company		Consolidated	
	1995	1994	1995	1994
Remunerations payable	20 329	19 685	22 761	22 174
Exchange of telephone services	11 034	15 021	11 034	15 021
Guarantee deposits	10 076	11 489	10 076	11 489
Accrued expenses	35 061	22 297	35 061	22 521
Dividends payable	28 224	23	28 224	23
Institución Telefónica de Previsión	-	(12 386)	-	(12 386)
Provision for responsibilities	7 936	5 419	7 978	5 614
Sundry creditors	25 611	17 519	45 092	38 468
Total	138 271	79 067	160 226	102 924



NOTE 23 - PENSIONS

23.1 Prior to the time of the publication of the Order from the Ministry of Labour and Social Security dated December 30, 1991 (published in the Spanish Official Bulletin nº 1, January 1, 1992) which stated that active employees and pensioners at that time under the Institución Telefónica de Previsión (ITP) would be integrated into the Social Security general regime beginning January 1, 1992, Telefónica personnel had benefited from a social welfare system provided by I.T.P. Since January 1, 1992, Telefónica and its employees have been contributing to the Social Security system for the coverage previously provided by the I.T.P. payments.

The I.T.P., currently being liquidated in accordance with the resolution of the General Insurance Directorate pursuant to which the dissolution order of July 10, 1992 was published, was a mutual employee benefit fund created under the Ley de Montepíos y Mutualidades de Previsión Social (Law of Pension Funds and Mutualities of Social Welfare) dated December 6, 1941 and its Regulations of May 26, 1943. It was, therefore, an independent legal entity and, as such, was governed by its own regulations approved by the Subsecretariat of Social Security on January 28, 1977.

23.2 In accordance with the dissolution Order previously mentioned, the resolution reached by the General Office of Planning and Economic Organization of Social Security on May 25, 1992 stated that the cost of integration of retired personnel would amount to 130,683 million pesetas.

Based on this Ministerial Order the liquidators of I.T.P. proceeded to pay 75,000 million to Social Security.

The 55,683 million pesetas remaining balance from the previously mentioned overall total cost of 130,683 million pesetas will be paid over a ten year period. During the first two years only interest will be paid, amortizing over the remaining eight years the principal amount with its corresponding interests.

Payment of the interest for the two-year grace period was made by the I.T.P. during 1992 and 1993 amounting to 4,455 million pesetas each payment. Similarly, two annual payments of amortization of 9,690 million pesetas each were made in December 1994 and 1995.

Once I.T.P. has been liquidated, Telefónica de España, S.A. will be required to cover the difference between the total cost of 130,683 million pesetas and the liquidation value of I.T.P. This difference is estimated to amount to 44,794 million pesetas for which a corresponding provision has been made (Note 17).

23.3 Telefónica, which presented an offer on June 30, 1992 that was accepted by the employees on September 17 of the same year, reached a collective statutory agreement with the labour union representatives.

The most significant terms of the agreement involves the creation of a Pension Plan under the Law 8/1987 of June 8 for Pension Schemes and Funds with the following points:

- a) An employment system Pension Plan.
- b) Defined contribution.
- c) Obligatory contributions by participating employees.
- d) Financial capitalization on an individual basis.
- e) The Promoter contributes 6.87% of the participating employees' basic salary. For personnel who joined Telefónica after June 30 1992, the contribution is 4.51% of their basic salary.
- f) The direct contribution of the participating employee will be a minimum of 2.2% of its basic salary.
- g) Entitlements for past services were recognized to a maximum amount of 237,696 million pesetas. Employees who chose not to join the Plan during the one year period beginning on July 1, 1992 (the date on which the



scheme came into force) have no rights regarding entitlements for past services and therefore the amount previously mentioned for these consolidated entitlements decreased in the corresponding amount.

- h) The financing of consolidated rights would be carried out, as deemed necessary, through provisions already accounted for in the amount of 121,350 million pesetas. The effective transfer of this amount would be made not later than the year 2002 applying an effective annual interest rate of 6.7% in accordance with the Rebalancing Plan.

The remaining deficit, up to a maximum of 116,346 million pesetas, would be financed over twenty eight years pursuant to the Rebalancing Plan (Note 23.5). The effective annual interest rate for the financing of this deficit will be 6% with payments to be made at the beginning of each month.

- i) The plan became effective at July 1, 1992. The time period stipulated for incorporation into the Plan was the one year period beginning on that date, although there may be, at a future date, additional incorporation periods in accordance with the law and with no recognition of consolidated rights for past services.

23.4 66,830 employees had joined the Plan as of December 31, 1995 (66,540 in 1994). 3,446 participants have been affected by benefits caused by retirement, disability or death (2,128 in 1994).

23.5 The General Insurance Directorate decided on July 18, 1995:

- a) To approve the Rebalancing Plan of the Pension Plan for the employees of Telefónica, S.A. regarding the valuation of rights for past service benefits at November 3, 1988 , updated to November 3, 1990, which raises to 200,392 million pesetas, the funds transfer plan assigned for their coverage (106,214 million pesetas on November 3, 1990), and the deficit amortization plan.
- b) To estimate as not sufficiently accredited compliance with the requirements established in the Sixth Section Paragraph a) of the May 22, 1989 Ministerial Order regarding the valuation and imputation of the 1987-1990 costs, amounting to 2,774 million pesetas, appearing in the Rebalancing Plan.

The Controlling Committee of the Pension Plan has appealed against the decision mentioned in the foregoing paragraph b) which is pending resolution. It is understood that the result of this appeal will not have any significant effect on Telefónica.

In accordance with the conditions laid down for incorporation to the Plan, transfers of 97,919 million pesetas have been made as follows:

Transferred in 1992	9 153
Transferred in 1993	23 977
Transferred in 1994	36 108
Pending to transfer for adjustments to the Rebalancing Plan	1 110
Current transfers	34 998
Transferred in 1995	28 681
Total	97 919

The transfers for 1994 and 1995 include those arising from the personnel included in the early retirement plan.

The existing debt will be amortized following a systematic plan with increasing installments of 1.042, until year 2002 and the subsequent years pursuant to the Rebalancing Plan. The provision made for 1995 amounts to 4,486 million pesetas (4,303 million pesetas in 1994).



At the end of the fiscal year the total figure for consolidated rights liabilities pending transfer to the Plan amounted to 175,074 million pesetas, for which provisions amounting to 76,904 million pesetas have been made.

The Promoter's contribution for 1995 totalled 17,508 million pesetas (17,458 million pesetas in 1994).

23.6 One of the agreements within the overall solution to the Company's social welfare scheme was reached on July 8, 1992 with the employees' representatives in relation with the supplementary pension to be received by those employees who retired on or before June 30, 1992.

In summary, this agreement states that Telefónica will pay to those pensioners covered by ITP on June 30, 1992 and those employees who would have been recognized as pensioners, a complementary amount equivalent to the difference between the State pension received from Social Security up to July 1, 1992 and that which corresponds to, or would have corresponded to, what had been recognized by the ITP. Payments made during 1995 amounted to 14,938 million pesetas (14,884 million pesetas in 1994).

The aforementioned supplementary payments, once quantified, will be fixed, to be received for life, and not revisable. Upon death of the employee the spouse recognized as such before June 30, 1992 is entitled to 60% of the payment.

This commitment should be funded, according to Law 30/1995 dealing with the Arranging and Supervision of Private Insurance within the time limits established in the Transitional Regulation 14 of that Law.

NOTE 24. RETIREMENT BONUS PLAN

At December 31, 1995 Telefónica had provisions totalling 16,549 million pesetas to cover liabilities accrued in accordance with actuarial calculations. These provisions will be used to cover the payments to be made to retired personnel under 65 who are not yet entitled to receive the retirement bonus and will also cover the 5,833 current employees who have chosen not to join the Pension Plan and who will be entitled to the retirement bonus once they reach the age of 65.

Telefónica has made provisions for 2,040 million pesetas for this purpose which has been charged to 1995 results (in 1994 this figure was 2,924 million pesetas). The payments made throughout 1995 amounted to 5,344 million pesetas (5,392 million pesetas in 1994).

This commitment should be funded, according to Law 30/1995 dealing with the Arranging and Supervision of Private Insurance within the time limits established in the Transitional Regulation 14 of that Law.

The actuarial calculation of accrued commitments and provisions made had been carried out using the following hypothesis: GRM/F-80 mortality schedule, technical interest 6% and salary increase 4%. Those hypothesis could be modified to adapt them to the terms established in the Regulation developed from the Law of Arranging and Supervision of Private Insurance, without producing significant effects in shareholders' equity.

NOTE 25 - TAXATION

The tax situation of Telefónica and the group which files consolidated corporate income tax returns has been reviewed by the tax authorities for the principal applicable taxes for the years 1992 and prior years. This inspection was finalized on December 18, 1995 and a new period subject to review begins as of 1993.

The tax assessments resulting from the tax inspection have been insignificant and have been recorded in the results of the year. The Management of Telefónica believes that the possibility that contingent liabilities could arise from future tax inspections is remote and, in any event, the tax liability that could result therefrom would not have a significant effect on the annual accounts of the parent company or the accompanying consolidated annual accounts.

Telefónica and certain of the Group companies carry on operations abroad and the corresponding corporate income tax or similar tax has been accrued in accordance with the fiscal regulations of each country. Such taxes are based on



the results of the individual financial statements of each foreign company and the results of the operations carried on abroad by the Spanish companies.

RECONCILIATION OF PROFIT BEFORE TAX PER ACCOUNTS OF TELEFÓNICA AND TAXABLE INCOME

Profit before tax			121 129
	Increase	Decrease	
Permanent differences:	4 482	9 171	(4 689)
Adjusted accounting profit			116 440
Timing differences:			
Originating in present year	55 205	219	54 986
Originating in previous year	18 607	397	18 210
Taxable income			189 636
Individual Taxable income rest of tax group			5 303
Intra group eliminations			
Fixed assets sales			(2 111)
Dividends			(3 450)
Taxable Income (Tax Group)			189 378

CORPORATE INCOME TAX

	Accrued	Deferred	Prepaid	Payable	
				Telefónica	Group
Rate of 35%:					
On adjusted accounting profit	40 754	6 436	19 183	-	-
On taxable income	-	-	-	66 373	66 283
Deductions:					
Double taxation relief	(3 598)	-	-	(3 598)	(2 989)
Allowances	(163)	-	-	(163)	(391)
Investment tax credits	(24 919)	-	-	(24 919)	(25 022)
Others	(104)	-	-	(104)	(114)
Total deductions	11 970	6 436	19 183	37 589	37 767
Withholding taxes of fiscal transparent companies					522
Total					12 492
Taxes paid abroad and other					2 454
Total					14 946

TIMING DIFFERENCES

	Increase	Decrease
From the current year:		
Early retirements	39 092	-
Differences on foreign currency translation (Cash criteria)	10 245	-
Retired employees complements (Cash criteria)	2 712	-
Pensions fund (Cash criteria)	1 725	-
Other	1 431	219
Total	55 205	219
From Previous years:		
Reversal of accelerated amortization from previous years	18 607	-
Provision for investment 1994	-	397
Other	-	-
Total	18 607	397



TAXABLE CREDITS

	1991	1992	1993	1994	1995	Total
Unused investment tax credits	27 977	19 000	19 036	7 434	15 634	89 081

During 1995 tax benefits for reinvestment were obtained in the amount of 1,239 million pesetas.

The payments on account of the Group, for Corporate income tax, amount to 14,241 million pesetas and the withholding tax to 1,822 million pesetas.

RECONCILIATION OF PROFIT BEFORE TAX PER CONSOLIDATED ACCOUNTS AND TAXABLE INCOME

Profit before tax	223 711
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PERMANENT DIFFERENCES

Permanent increases	6 077
Permanent decreases	(12 783)
Benefits from foreign administrations	(90 829)
Results from associated companies	(9 634)
Elimination included on consolidation and not included in Corporate income tax report	4 703
Amortization of goodwill on consolidation	6 985
Deduction of taxable losses	(27)
Results from fiscal transparent companies	(446)
Losses of non tax consolidating companies	98
Adjusted accounting profit	127 855

TIMING DIFFERENCES

Individual corporations increases	56 221
Individual corporations reversal of deductions	19 364
Consolidation increases	4 323
Individual corporations decreases	(7 961)
Individual corporations reversal of increases	(1 429)
Consolidation decreases	(7 756)
Taxable income	190 617

CORPORATE INCOME TAX

	Accrued	Payable	Deferred	Prepaid
Rate of 35%:				
On adjusted accounting profit	44 749	-	(2 789)	19 178
On taxable income	-	66 716	-	-
Deductions:				
Double taxation relief	(2 992)	(2 992)	-	-
Allowances	(391)	(391)	-	-
Investment	(25 139)	(25 139)	-	-
Total	16 227	38 194	(2 789)	19 178
Transparent companies accruals	367			
Spanish corporate income tax	16 594			
Taxes accrued abroad	22 764			
Total corporate income tax and others	39 358			



NOTE 26 - INCOME AND EXPENSES

26.1 The distribution of sales by services is as follows:

Concepts	PARENT COMPANY	
	1995	1994
Basic Telephone Services	1 191 138	1 092 180
Data Transmission Services	79 428	89 106
Terminals and Equipments	79 545	84 290
Advertising and others	20 926	17 960
Interconnection from other networks to the BTN	1 637	-
Operating income	1 372 674	1 283 536

Concepts	CONSOLIDATED	
	1995	1994
Parent company	1 372 674	1 283 536
Telefónica International Group	281 050	221 451
Other subsidiaries	247 955	186 446
Intra - group sales	(161 122)	(112 583)
Total	1 740 557	1 578 850

26.2 The average number of employees by category and personnel costs are as follows:

Average number of employees:

Category	Parent company		Consolidated	
	1995	1994	1995	1994
General management	1 060	1 112	1 590	1 672
University graduates and special technicians	3 982	4 040	5 532	5 398
Personnel with higher education degrees and technicians	6 399	6 532	12 075	14 203
Personnel in charge and operators of internal plant	17 605	18 089	17 605	18 089
Personnel in charge and operators of external plant	19 301	20 149	19 302	20 149
Applications operator and data processing assistants	727	738	750	762
Administrative personnel	10 165	10 526	26 252	27 109
Subscribed service personnel	3 415	3 527	3 426	3 527
Operation personnel	5 506	5 796	5 816	6 276
Warehouse, office and garage personnel	1 691	1 725	1 691	1 725
Auxiliary personnel	1 013	1 024	1 038	1 033
Manual workers	-	-	3 164	2 963
Other personnel	11	16	962	1 032
Total	70 875	73 274	99 203	103 938

Personnel costs:

Concepts	Parent company		Consolidated	
	1995	1994	1995	1994
Salaries and wages	322 324	310 095	412 651	398 019
Pensions Funds	22 561	21 792	22 751	21 845
Social Security and other expenses	88 770	89 737	108 145	101 054
Total	433 655	421 624	543 547	520 918

The number of employees at December 31, 1995 in the parent company is 69,543 (72,207 in 1994).



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

Extraordinary income	Parent company 1995	Consolidated 1995
Concept		
Indemnities for breach of contract	387	1 121
Insurance compensation	507	507
EURESCOM share	419	419
Previous years income	405	1 182
EUTELSAT	166	166
NASA (Robledo de Chavela)	127	127
Profit on sale of shares	-	469
Amortization of exchange insurance premium	-	636
Others	668	4 799
Total	2 679	9 426

Extraordinary expenses	Parent company 1995	Consolidated 1995
Concept		
Amortization of supplemental pension for retired employees	8 455	8 455
Article 123 RIS donations	879	879
Provisions:		
Provision of ITP deficit incurred in 1995	4 035	4 035
Early and accelerated retirements and voluntary and accelerated retirements	46 452	54 798
Legal settlements with retired employees	3 365	4 708
Employee transfer costs	1 198	1 198
Miscellaneous	1 361	3 608
Total	65 745	77 681

Due to the liberalization of the telecommunications sector in Spain which makes it necessary to adapt the human resources to the present needs of the company, Telefónica has continued with the incentivated retirement plan begun in 1994, and extended it to voluntary early retirement for all employees over 58 years of age. The payments for these concepts in 1995 amounted to 16,333 million pesetas (13,393 million pesetas in 1994). Also, the 1996-2000 Strategic Plan of the Company contemplates the possibility of early retirement as from the age of 57. The provisions necessary to meet future payments under this five-year plan have been quantified at 52,619 million pesetas, for which the necessary provisions have been made (Note 17).

26.4 The details of the results in 1995 and 1994 of companies recorded under the equity method is as follows:

	Million pesetas	
	1995	1994
Entel (Chile)	-	1 631
Cointel - TASA	10 632	19 117
Others	(1 878)	(2 235)
Total	8 754	18 513

During 1994 the contribution to the result of COINTEL-TASA includes the profit recognized by Cointel in the operation of issuing of PRIDES (Provisionally Redeemable Income Debt Exchangeable for Stock), by which the PRIDES will be repaid through the delivery of the class B shares of Telefónica Argentina, S.A. which belong to Cointel. A profit amounting to 4,660 million pesetas has been recognized as the difference between the cancel-



lation value and its book value. As part of the agreement COINTEL undertakes to maintain in its portfolio Ordinary Class B Shares of TASA that can be exchanged against PRIDES at any time.

NOTE 27 - OTHER INFORMATION

27.1 Compensation of Board of Directors

The total amount paid to Telefónica's directors during the year 1995 for salaries, wages and expense allowances was 146,627,588 pesetas.

Telefónica did not grant any loans or credits to the members of the Board of Directors.

27.2 Unused credit facilities:

	Parent company		Consolidated	
	1995	1994	1995	1994
Unused long term credit facilities	31 450	32 162	183 041	124 957
Other credit facilities (floating credit lines)	88 000	62 859	88 000	62 859
Short term credit facility	56 016	51 970	63 635	57 924
Total	175 466	146 991	334 676	245 740

27.3 Commitments:

Guarantees for financial operations	80 014	75 673	94 603	76 173
Guarantees granted to employees	1 915	2 253	2 253	2 253

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

27.4 Management fee agreement.

On May 16, 1994 CPT-Telefónica del Perú and ENTEL PERU each entered into a management fee agreement with Telefónica Internacional de España, S.A. for a five-year period that can be automatically extended for periods of five years up to a maximum of twenty years, corresponding to the initial maturity of the Concession Contract.

Pursuant to the terms of the Agreement Telefónica Internacional, S.A. will receive quarterly fees, which, in the case of technical capacity transfer, represents 1% of the income invoiced by the companies.

By exception, during the first year from the date of signing the Contract subscription, an additional fee will be collected representing 1.5% for this concept. The management fee amounts to 9% of the net profit on the transaction, without taking into consideration, depreciation, amortization of intangibles, provisions for future expenses, financial expenses, the fee payment itself, taxes, urban land tax, rights, levies and royalties established in the concession contracts.

As stipulated in the eight clause of the contract, due to the merger of CPT and ENTEL PERU, as from the last quarter of 1994 the fee is to be determined only for the merged corporation, on the basis of the amounts in its profits and loss account.

During the years 1995 and 1994, this contract has generated income before withholding taxes for Telefónica Internacional, S.A. amounting to 11,069 and 2,648 million pesetas which have been eliminated on consolidation.

Pursuant to a purchase option on November 8, 1994, 10% of the shares of Telefónica Perú Holding were sold to local outside shareholders for a price of 200.4 million US dollars, equivalent to 27,742 million pesetas.



Additionally, the rights to receive 10% of the amount payable by CPT-Telefónica del Perú, S.A. pursuant to the management fee agreement with Telefónica Internacional de España, S.A. were transferred to local outside shareholders. The loss on sale of the subsidiary, including conveyance of the right of management fees, caused a loss of Ptas 2,005 million mainly due to the variation of the US Dollars/peseta equivalents in the foreign exchange rate of the US dollar against the peseta, from the purchase date until the disposal date. The company has an option with the purchasers of the above-mentioned 10% of Telefónica Perú Holding, whereby Telefónica Internacional de España, S.A. is required in a period of three years from the moment of the transfer to repurchase 10% of Telefónica Perú Holding from its current owners in case they exercise their sale option.

In that case, Telefónica Internacional de España, S.A. must pay a price to be determined by the difference between:

- Acquisition price plus accrued interest estimated according to market rates and
- The cash-flows received by the purchaser for the maintenance of the investment and its participation in the Management Fee agreement, plus interest at the same rate.

27.5 On January 15, 1996, Compañía de Telecomunicaciones de Chile, S.A. (CTC) and Empresa Nacional de Telecomunicaciones, S.A. (ENTEL CHILE) reached an agreement on all the outstanding contentious matters pending in courts of law from previous years for which an amount of 21,000 million pesetas had been claimed from CTC. As a result of this agreement the parties ceased all legal proceedings between them and there is no pending litigation at the date of signing the agreement. The effect of this agreement on the profit and loss account for the year 1995 for Telefónica Internacional amounts to 325 million pesetas. ENTEL is entitled to obtain a discount on future services up to a limit of 2,000 million pesetas, to be applied over a minimum of 18 months and a maximum of 36 months.

27.6 Certain lawsuits exist related to the disconnection of entertainment lines against certain operating companies of the Telefónica Group. These lawsuits are at this time in process or under appeal. The companies legal advisers estimate that no significant liabilities will result from these lawsuits.

NOTE 28 - SUBSEQUENT EVENTS

At the beginning of 1996 Telefónica, continuing with its policy of establishing alliances for collaboration in the framework of telecommunications in Spain, has entered into the following agreements:

- An alliance with Iberdrola establishing the creation of a joint company to provide added value telecommunications services in the energy sector; joint participation in local cable operators, optimization of the use of infrastructures in Spain and collaboration in the Latin American telecommunications markets are important points in the agreement reached.
- The agreement with the construction group Fomento de Construcciones y Contratas, S.A. establishes that it will take a 20 % share in Cabitel, an affiliate of Telefónica involved in public telephony.

On February 19, 1996 Telefónica Internacional subscribed for shares representing 25% of the share capital of MULTICANAL, S.A. and PEM,S.A., both Argentine companies and owners of cable television systems operating in Argentina and Brazil. The total amount of the investment is between 136 and 169 million dollars. The initial payment amounted to 136,315,996 dollars, the balance being fixed on the basis of compliance with certain parameters (new subscribers and operating margins). Payment of the resulting amount if any, should be made in two additional payments within a period of one year.

Telefónica Internacional has also announced its willingness to enter into agreements with GTE to share, within the consortium UNICOM (Mexico), the position of technological partner. This consortium, in which Grupo Financiero BANCOMER, S.A. and Valores Industriales, S.A. are also participating as local partners, has obtained the licence to operate long distance business, data transmission, other added value services and, eventually, mobile telephony in the Mexican market. The final amount of the investment will depend on the plans developed by the consortium to establish the network in that country.





STATEMENT OF SOURCE AND APPLICATION OF FUNDS PER PARENT COMPANY AT DECEMBER 31

Application	1995	1994	Sources	1995	1994
1. Funds applied to operations	-	-	1. Funds provided by operations	712 295	639 999
2. Establishment costs and cost of formalizing debts	6	1 351	2. Contributions from shareholders		
3. Acquisition of long-term assets			a) Capital increases	-	-
a) Intangible assets	36 011	29 225	b) Share premiums	-	-
b) Tangible assets	388 269	381 896	3. Deferred income	19 249	17 598
c) Long term investments	21 512	105 900	4. Long term deferred taxes	-	-
d) Advances to suppliers	965	(4 859)	5. Long term liabilities		
e) Installation materials	11 475	620	a) Loans and credits	771	44 445
4. Long term prepaid taxes	-	-	b) Other	91 466	145 333
5. Dividends	90 188	34 762	6. Proceeds on sale of fixed assets		
6. Cancellations or transfers to short-terms from long-term liabilities			a) Tangible assets	16 072	15 540
a) Loans and credits	118 450	149 028	b) Long term investments	11 077	27 979
b) Other	146 165	178 988	7. Non monetary contribution	9 739	-
7. Provisions	45 227	21 322	8. Provision and deferred expenses	1 301	1 159
8. Deferred taxes	11 750	-	Total sources	861 970	892 053
Total applications	870 018	898 233			
Excess of sources over applications			Excess of applications over sources		
(Increase in working capital)	870 018	898 233	(Decrease in working capital)	8 048	6 180
	870 018	898 233		870 018	898 233

CHANGES IN WORKING CAPITAL PER PARENT COMPANY

Increase in working capital	1995	1994	Decrease in working capital	1995	1994
1. Uncalled share capital	-	-	1. Shareholders for uncalled share capital	-	-
2. Inventories	11	460	2. Inventories	-	-
3. Accounts receivable	25 134	-	3. Accounts receivable	-	28 895
4. Accounts payable	-	28 509	4. Accounts payable	41 556	-
5. Treasury stock	-	-	5. Own shares	-	-
6. Short term investments	7 661	2 157	6. Short term investments	-	-
7. Cash and banks	676	-	7. Cash and banks	-	332
8. Prepayments and accruals	26	-	8. Prepayments and accruals	-	8 079
Total	33 508	31 126	Total	41 556	37 306
Changes in working capital	8 048	6 180	Changes in working capital	-	-
	41 556	37 306		41 556	37 306



STATEMENT OF SOURCE AND APPLICATION OF FUNDS PER CONSOLIDATED GROUP AT DECEMBER 31

Application	1995	1994	Sources	1995	1994
1. Funds applied to operations	-	-	1. Funds provided by operations	853 230	768 187
2. Establishment costs			2. Contributions from shareholders		
and cost of formalizing debts	1 598	4 989	a) Capital increases	-	-
3. Acquisition of long-term assets			b) Share premiums	-	-
a) Intangible assets	38 702	28 741	c) Participations of minority shareholders	852	9 597
b) Fixed assets	582 687	467 001	3. Deferred income	19 452	17 980
c) Long term investments	30 958	321 049	4. Long term deferred taxes	-	-
d) Advances to suppliers	2 474	(6 756)	5. Long term liabilities	132 758	345 055
e) Installation materials	9 030	620	6. Sale of fixed assets		
4. Long term prepaid taxes	-	-	a) Intangible fixed assets	-	-
5. Dividends	107 099	44 281	b) Tangible fixed assets	17 247	18 856
6. Funds used for acquisition of participations	-	-	c) Long-term investments	21 580	62 711
7. Cancellations or transfer			7. Provision and deferred expenses	423	1 159
to short-terms of long-term liabilities	267 615	365 622	8. Increase of working capital		
8. Provisions	47 941	21 542	by disposals of shareholdings	44	27 834
9. Deferred taxes	11 750	-	9. Increase of working capital by acquisition		
10. Decrease in working capital due to			of new subsidiary companies	-	72 008
disposals of subsidiary companies	129	2 423			
11. Changes in working capital due to differences					
on currency translation	7 446	7 758			
Total applications	1 107 429	1 257 270	Total sources	1 045 586	1 323 387
Excess of sources over applications			Excess of applications over sources		
(Increase in working capital)	-	66 117	(Decrease in working capital)	61 843	-
	1 107 429	1 323 387		1 107 429	1 323 387

CHANGES IN WORKING CAPITAL PER CONSOLIDATED GROUP

Increase in working capital	1995	1994	Decrease in working capital	1995	1994
1. Shareholders for uncalled share capital	4	-	1. Shareholders for uncalled share capital	-	22
2. Inventories	3 674	8 857	2. Inventories	-	-
3. Accounts receivable	29 039	36 957	3. Accounts receivable	-	-
4. Accounts payable	-	-	4. Accounts payable	85 385	37 207
5. Own shares	-	-	5. Own shares	-	-
6. Short term investments	-	61 262	6. Short term investments	4 819	-
7. Cash and banks	-	9 945	7. Cash and banks	6 008	-
8. Prepayments and accruals	1 652	-	8. Prepayments and accruals	-	13 675
Total	34 369	117 021	Total	96 212	50 904
Changes in working capital	61 843	-	Changes in working capital	-	66 117
	96 212	117 021		96 212	117 021

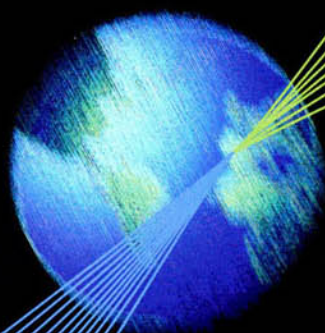


The reconciliation of net profit to funds provided by operations are as follows:

Concept	Parent company		Consolidated	
	1995	1994	1995	1994
Net profit for the year	106 183	91 734	133 214	112 608
Net profit attributed to minority shareholders' interests	-	-	51 139	28 454
Net profit attributable to the associated companies	-	-	(8 754)	(18 513)
	106 183	91 734	175 599	122 549
Additions:				
Dividends from associated companies	-	-	6 766	7 085
Depreciation	446 480	413 134	501 480	454 530
Amortization	2 954	5 226	3 317	5 480
Amortization of Consolidation Goodwill	-	-	6 985	6 191
Reserve for deterioration in value of long term investments	1 708	1 318	(9)	2 483
Exchange losses	13 067	21 414	7 834	23 083
Charge on retirement bonus plan	2 040	1 765	2 040	1 765
Dismantled plant not amortized	56 210	48 914	56 210	48 914
Provision for inventory adjustment	2 598	1 031	2 598	1 031
Provision for contingencies	51 498	25 902	58 393	48 786
Deferred interest	62 695	70 105	65 571	69 633
Deferred taxes and other	-	-	-	195
Amortization of COOB92 and Expo 92	33	49	33	49
Loss on sale of tangible and intangible fixed assets	-	-	1 611	373
Provisions	17 650	17 741	17 650	17 741
Losses on disposal of consolidated companies	-	-	-	2 423
Reductions:				
Profit on sale of long term investments	4 364	17 051	3 926	16 200
Profit on sale of fixed assets	12 271	13 151	12 293	13 213
Capital grants	7 980	6 432	7 983	6 432
Deferred and prepaid taxes	25 620	17 878	20 926	-
Profit on sale of associated companies	-	-	7 287	4 457
Other	586	3 822	433	3 822
Funds provided by operations	712 295	639 999	853 230	768 187

Resources applied to acquisitions, changes in consolidation methods or sales of participations:

Effects on working capital	Purchases		Sales	
	1995	1994	1995	1994
Purchases of financial investments and new consolidated companies	(183)	(351 825)	-	30 114
Intangible assets	62	225 698	-	-
Tangible assets	250	380 976	-	-
Investments	-	8 380	-	-
Goodwill	-	-	-	-
Minority interest	-	(191 332)	-	-
Exchange differences	-	18 169	-	-
Provisions	-	-	-	-
Long term liabilities	-	(164 285)	-	-
Loss on sale of investments	-	-	-	(2 423)
Working capital	129	(74 219)	-	27 691
Purchase or selling price of participations in other companies	3	277 368	-	27 691



Management
1995 **Reports**



In 1995, income before tax totalled 121,129 million pesetas, 10.5% higher than in 1994, while net income amounted to 106,183 million pesetas, rising 15.8% compared with the previous year, as a consequence of the decrease in the effective corporate tax rate from 16.3% in 1994 to 12.3% in 1995.

The maintaining of the investment tax credit limit on fixed assets at 35% of the payable quota on corporate tax, allowed Telefónica to take advantage of its capital expenditure therefore achieving this low effective tax rate.

SERVICE PERFORMANCE

The number of applications registered for basic telephony reached 1,245,148, reflecting 1.9% annual growth. Net demand, having deducted cancellations, registered 435,151 applications, 2.5% higher than in 1994. At year-end, the network had 15,095,377 local lines in service, having grown 2.8%, of which 195,450 are supported by cellular access technology.

Mobile telephony continued its expansion, due to the marketing policies adopted, the constant rate adjustments and the incorporation of the digital mobile telephony service. The number of new additions totalled 604,603 reflecting an annual increase of 187.4% compared with 93.4% in 1994, while at the end of the year, the number of subscribers had risen 125.5% to 928,955.

Regarding the corporate integrated communications service, Ibercom, both the applications registered and the new additions, reflected decreases of 6.9% and 8.2% respectively; likewise, as a result of the regularizing of cancellations, net demand fell 34.7% compared with 1994.

The leased circuit market reflected a favourable performance, with the applications registered for leased digital circuits reaching 10,591, rising 9.9% over the figure for the previous year. The investment effort made throughout the year resulted in new additions totalling 9,133, 7.8% higher than in 1994.

INVESTMENT ACTIVITY

Telefónica's total investment in 1995 amounted to 458,232 million pesetas, reflecting a 10.6% decrease compared with the previous year. Gross investment in fixed assets rose 1.7% to reach 388,269 million pesetas. The structure of this item has not undergone significant change compared with 1994, with external plant making up approximately 37%; switching equipment being the second most important item, contributing 21% and transmission and radio, 19%. Investment in intangible assets rose 23.2% to 36,012 million pesetas, compared with the 29,225 million pesetas registered the previous year.

Financial investment, making up 4.7% of the total figure for investment, reached 21,512



million pesetas, while advance payments to suppliers and installation materials contributed the remaining 12,439 million pesetas.

The number of subscriber lines installed throughout the year totalled 1,870,694 which placed the accumulated figure, including non-commercialized lines, at 16,201,649, 0.8% higher than in 1994; the level of digitalization reached 56.5%, while the number of lines with the capacity to provide itemized billing totalled 10,495,602 (including ISDN, Ibercom and basic telephony).

RESEARCH AND INVESTMENT ACTIVITIES

The total figure for investment in research and development in 1995 amounted to 20,464 million pesetas, making up 4.5% of the total. Throughout the year, the research and development activities were principally aimed at improving our cus-

tomers' attention. In order to achieve this, great effort was made to adapt to new technology, as this is the key to the development of future networks and services.

Among the principal projects undertaken this year, the development of systems for the management of networks and services is particularly worthy of mention, as is the investment effort made to develop services (broad-band, narrow-band, network intelligence, data, voice message recognition and public telephony). Other significant investments were made in the modernization of the plant installed, the development of tools for the analysis and planning of networks and the study of quality.

TREASURY STOCK

Throughout 1995 no treasury stock was acquired.



MANAGEMENT REPORT ON TELEFÓNICA GROUP

Throughout 1995, Telefónica and its Group's activities were guided by a series of strategic objectives, of which the following are particularly worthy of mention:

The increased flexibility of the organizational structure which was divided up into business lines at the end of 1994.

The launching and strengthening of new products and services which contribute to increased network usage.

The strengthening of the strategic alliance policy, not only in Spain but also at a European and global level.

The continued expansion and diversification in Latin American markets and services.

Among those activities aimed at increasing the flexibility of the Group's organizational structure, the following should be mentioned: the finalizing of the complete transfer of mobile services from Telefónica de España to its subsidiary Telefónica Servicios Móviles; the progressive segregation of those activities and resources related to packet switched data transmission, which are being transferred to the subsidiary Telefónica Transmisión de Datos (TTD), and the sale, to the subsidiary Cabinas Telefónicas (Cabitel), of the public telephony terminals which make up the plant installed on premises.

In mid-September, Telefónica Servicios Móviles launched its digital GSM service, Movistar, and received the transfer of approximately 127,000 million pesetas in net fixed assets, (109,600 million pesetas derived from the analogue service and 17,400 million pesetas in digital assets) which places this company among the 30 leading Spanish companies in terms of fixed asset volume. Therefore, since the end of 1995 Telefónica Servicios Móviles has been responsible for all the aspects of the management of mobile telephony, including both the analogue service Moviline and the GSM service Movistar.

Among the activities developed in 1995, aimed at launching and strengthening the products and services that increase the usage of infrastructures, one of particular interest is that of the launching of the Infovia service, a virtual network that offers direct access to information highways, including Internet, through the basic telephony network. Other developments in this area have been focused on the different business sectors (construction, education, advertising, etc) in order to integrate customer attention services with those of the information systems used; the strong growth of Intelligent Network Services (Line 900) and the increased offer of terminals with both an answering-machine and a fax incorporated.

The aim to progress in the forming of alliances within the telecommunications sector has



given rise to a series of agreements with diverse Spanish and foreign enterprises. In July 1995, Telefónica and Canal Plus signed a strategic agreement aimed at the offering of pay TV and other multimedia services through their joint venture Cablevision and the creation of other local operators in principal Spanish towns and cities, in which Telefónica will hold a 51% stake. In this respect, it must be underlined that the Cable Telecommunications law passed in December 1995, states that Telefónica will be given the option of one of the two licences to be granted to operate cable TV in each specified region.

In June 1995, Telefónica's integration into the European consortium, Unisource, was signed, this being a continuation of the October 1994 alliance agreement. Subsequently, both parties reached an agreement by which Telefónica will contribute its data transmission and Pan-European telecommunications via satellite, VSAT, to Unisource. Consequently, the subsidiary TTD is presently being integrated into Unisource. This process is expected to conclude in the first half of 1996. Telefónica's integration into Unisource signifies that the Company will indirectly participate in the agreement between Unisource and AT&T in the founding of its joint venture, Uniworld, in which AT&T holds a 40% stake and Unisource 60% and which provides International Virtual Private Network (IVPN) and corporate data services.

Continuing its policy of establishing alliances within the framework of telecommunications in Spain, it must be underlined that at the beginning of 1996 alliances were formed with the electricity company, Iberdrola, and the construction

group, Fomento de Construcciones y Contratas (FCC). Regarding the alliance with Iberdrola, a joint venture will be formed to provide value added telecommunications services to the energy sector. Other outstanding aspects of this alliance with Iberdrola are: the joint participation in local cable TV operators, the optimizing of the usage of Spain's infrastructures and the collaboration in Latin American telecommunications markets. With regard to the FCC group alliance, it has been agreed that FCC will take up a 20% participation in Telefónica's subsidiary, Cabitel, responsible for the commercial management of pay phones.

Another of the Telefónica Group's objectives in 1995 was that of continuing its expansion and diversification in Latin America's telecommunications markets and services. It should therefore be underlined that in October 1995, Telefónica Internacional reached an agreement for its incorporation into the consortium Unicom Telecomunicaciones, with a 24.5% stake, in association with GTE, Bancomer and Valores Industriales. Unicom was granted a licence to offer value added services from January 1st, 1996 onwards and long distance services beginning on January 1st, 1997.

In 1995, Telefónica Internacional also signed an agreement with the communications group Clarins and with Citicorp Equity Investments to acquire a 25% stake in one of Argentina's leading companies in the cable TV market, Multicanal, and to also participate in its management. In February 1996, this agreement was finalized through a rights issue for an amount of \$US 136 million and other additional payments will be



made from February 1st, 1997 onwards, in line with the company's growth and performance. The maximum figure for these payments would be \$US 32 million. Once Telefónica Internacional's participation is formalized, Multicanal's share capital will be made up in the following way: Clarin 52.5%, Telefónica Internacional 25% and Citicorp Equity Investments the remaining 22.5%. At the end of 1995, Multicanal had more than 550,000 customers.

Also within the cable TV business in Latin America, mention must be made of the merger agreement reached by the Chilean operator Intercom, 80% of which belongs to the Compañía de Telecomunicaciones de Chile (CTC), and Metropolis, controlled by the North American cable TV operator TCI, and the Chilean group Claro. CTC will own 30% of the share capital and will operate the merger company's network, which has become Chile's largest cable TV operator with more than 190,000 subscribers at year-end 1995.

Another item of interest is the authorization given by the North American Federal Communications Commission (FCC) for Telefónica Larga Distancia de Puerto Rico (TLD), in which Telefónica Internacional holds 79%, to operate incoming and outgoing domestic traffic throughout the whole of the U.S., Puerto Rico and the Virgin Islands.

Continuing the policy, initiated several years ago, to carry out the steady divestiture of its participations in industrial companies, Telefónica has reached an agreement with Ericsson for the sale of its 20.74% stake in the Industria Electrónica de

Comunicaciones (Indelec), for the amount of 420 million pesetas. This company is responsible for the manufacturing and marketing of radio mobile equipment. The sale of the 5.84% stake in AT&T Network Systems International B.V. has also taken place, having been purchased by AT&T International Inc. for the amount of 6,542 million pesetas.

Regarding service tariffs within the Spanish markets, at the beginning of 1995 leased circuit tariffs went down 18% and in December of the same year, the Government, at Telefónica's proposal, approved a decrease in international tariffs of up to 30%. To be specific, call prices to European Union countries fell 15.8%, calls to the U.S., Canada and the Caribbean went down 22.2% and calls made to Japan, Australia and principal south east Asian countries reflected price cuts of up to 31.2%.

Regarding the Telefónica Group's performance in 1995, an annual increase in consolidated net income of 18.3% was registered, principally due to the positive performance of the revenues derived from domestic basic telephony (+6.2%) and mobile telephony (+64.6%), both contributed by the parent Telefónica in the Spanish market, and the 26.9% increase in the revenues derived from Telefónica Internacional's international businesses along with the significant restraint on expenses, in both personnel and financial expenses, and exchange losses.

At the end of 1995, the Telefónica Group participated in markets whose total number of inhabitants exceeded 250 million, operating more than 24 million lines in service, of which 8.4 million correspond to the Latin American



market and 15.7 million correspond to the domestic Spanish market, 15.1 million being for basic telephony and 651 thousand Ibercom lines. At this same date, the Group had over 1.4 million cellular telephony customers, 929,000 in Spain and 455,000 in Latin America. Regarding the cable TV business, at year-end 1995, the Telefónica Group had 238,000 customers in Chile and Peru although during the course of 1996 this figure will rise due to the operations of Multicanal in Argentina and the local cable TV operators in Spain.

ECONOMIC RESULTS

Consolidated revenue from operations amounted to 1,900,223 million pesetas, having grown 9.7%. In 1995, the Telefónica Group's figure for revenue from operations totalled 1,740,557 million pesetas, rising 10.2%, compared with the 21.7% increase registered in 1994. The increase in 1994, was due to the changes made in the consolidation criteria applied, with CTC Chile and Telefónica del Perú being consolidated using the global integration method.

Telefónica registered a figure for revenue from operations of 1,372,674 million pesetas, reflecting 6.9% growth. Of this amount 62.1% was contributed by the domestic basic telephony service, 10.5% derived from international communications and the remaining 27.4% was generated by other services, in particular, mobile telephony, public telephony, Ibercom and the sale of terminals.

The increase in Telefónica's revenue is principally a consequence of the average growth of

lines in service (3.4%) and the increase in average usage per line (1.3%).

Regarding usage, the following factors are particularly outstanding: the 0.35% growth per line in the traffic generated by the fixed network, the 11.1% increase in incoming international traffic and the usage resulting from the rapid development of the cellular mobile telephony network, whose overall figure for average usage per line rose 109.8% (traffic from mobile to fixed). These factors played a significant role in the revenue from the basic telephony service rising 5.8% to total 985,177 million pesetas, with an increase in net demand for lines of 2.5% (435,151 applications).

The 3.5% growth in the revenue derived from international communications is also worthy of mention, as is the 64.6% increase in revenue from mobile telephony which, up until December 15th, also included the revenue from the analogue service. On this date the assets related to this service were transferred to the subsidiary Telefónica Servicios Móviles. At year-end 1995, this subsidiary had 928,955 customers, registering the highest growth in Europe (125%).

Due to this, at the end of 1995, Telefónica Servicios Móviles' market share stood at 98%, with more than 36,700 subscribers to the GSM service Movistar. The intense activity within this business is also reflected in the significant 234.3% growth in net demand, with 517,025 new customers having subscribed to this service throughout the year.

Telefónica Internacional registered revenues of 281,050 million pesetas, growing 26.9%. This



performance demonstrates the overall positive trend reflected by the companies in which the Telefónica Internacional Group participates, consolidated using the global integration method, in particular Telefónica del Perú and CTC (Chile).

OPERATING EXPENSES

In 1995, the figure for the Telefónica Group's operating expenses totalled 1,390,341 million pesetas, 6.9% higher than in 1994. Personnel expenses rose 4.3% and those of subcontractors 9.9%. The parent continued its policy of restraint on personnel expenses, rising 2.9% assisted by the average 3.3% decrease in workforce which, at the end of 1995, totalled 69,543 employees.

This resulted in an increase in productivity, measured by the ratio of lines per employee, which reached 226, which compares favourably with the 1994 year-end figure of 212. The Telefónica Group's average number of employees has gone from 103,938 in 1994 to 99,203 in 1995.

Regarding the provisions made for consolidated depreciation, these rose 10.3%, compared with 21.4% in 1994, to total 501,480 million pesetas. This favourable trend has been permitted by the slowdown in the rate of increase of Telefónica de España's depreciations which rose 8.1% in 1995 compared with 10.9% in 1994 and was also compatible with the increase in the average depreciation rate applied by the parent (9% compared with the 1994 figure of 8.3%).

Within the objective of improving the quality of the profit and loss account, it is worth mentioning that the item internal expenditure

capitalized in fixed assets remained almost stable with that of Telefónica de España decreasing by 2.2%.

OPERATING PROFIT

The consolidated Group's operating profit amounted to 509,882 million pesetas, growing 17.9%, higher than that registered by the parent which rose 6.4% over the same period.

PROFIT FROM NORMAL OPERATIONS

The Telefónica Group's profit from normal operations rose 38.5% to total 319,482 million pesetas, principally due to the decrease in the components that make up expenses.

Interest on debts fell 2.4% to reach 200,530 million pesetas, as a consequence of the improved level of self-financing of investment and the favourable performance of interest rates throughout 1995.

Regarding Telefónica, interest on debts dropped by 6.2% while the positive performance of the peseta on the currency markets permitted a 31.1% decrease in the provisions for exchange losses which therefore totalled 16,903 million pesetas. At year-end 1995, potential exchange losses amounted to 12,951 million pesetas compared with the 1994 figure of over 40,000 million pesetas. This amount will be totally paid off over the next two years.

Income from affiliated companies reflected a net figure of 8,754 million pesetas, having decreased 52.7% compared with 1994, principally as



a consequence of the extraordinary income registered in the 1994 profit and loss account as a result of the revaluation of COINTEL'S portfolio.

INCOME BEFORE TAX

In 1995, the Telefónica Group's profit before tax went up 30.3% to 223,711 million pesetas.

Within extraordinary items, the performance reflected by expenses throughout 1995, which rose 26.5% to total 125,645 million pesetas, was primarily a consequence of Telefónica de España's 115,229 million peseta contribution, mainly derived from dismantled plant pending depreciation and the provisions for early retirements.

The 1994 consolidated extraordinary revenue included approximately 17,000 million pesetas in the capital gains derived from the sale of the stake in Alcatel, these being considerably higher than those registered for the divestiture of the participation in AT&T Network Systems International, B.V. which totalled 3,693 million pesetas. This basically explains the unusual fall off in extraordinary revenue which went down 25.7% to total 29,874 million pesetas.

NET INCOME

The consolidated Group's provision for corporate tax amounted to 39,358 million pesetas in 1995, with an effective tax rate of 17.6% compared with 17.8% in 1994. This stability is due to Telefónica de España's 12.3% effective tax rate (16.3% in 1994) offsetting the taxes derived from the consolidating of the Telefónica Internacional Group's participated companies.

The net income attributable to minority interests grew 79.7% to reach 51,139 million pesetas, due to the increases in income from Telefónica Internacional's participated companies and to the fact that in 1994, the results from Telefónica del Perú only covered an eight-month period.

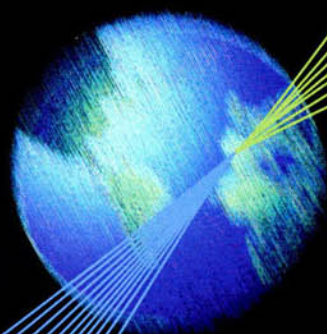
Consolidated net income stood at 133,214 million pesetas, having grown 18.3%, while the figure for Telefónica de España rose 15.8% to total 106,183 million pesetas.

RESEARCH AND DEVELOPMENT ACTIVITIES

Throughout 1995, investment in research and development amounted to 19,522 million pesetas, having risen 65.6% compared with 1994. This figure covers approximately 47% of the investment in intangible assets carried out at a consolidated level.

TREASURY STOCK

Throughout 1995 no treasury stock was acquired.



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TELEFÓNICA IN THE SPANISH ECONOMY

Telefónica as a % of national total (Revised Series)

	1991	1992	1993	1994	1995
Gross value added	1.88	1.98	2.03	2.01	1.97
Gross operating profit	2.40	2.60	2.59	2.54	2.47
Gross savings	3.21	4.26	3.82	4.48	4.12
Gross capital formation	4.56	3.28	3.15	3.19	3.16
PRICES (1)					
GDP deflator	7.1	6.7	4.4	4.1	4.8
Consumer prices (annual average)	5.9	5.9	4.6	4.7	4.7
Telefónica (2)	7.4	3.1	3.8	0.0	(1.7)*

(1) Growth rates

(2) Price index variation of basic telephony tariffs

(*) Including decrease in international service tariffs approved on 22-12-95

Sources: I.N.E and Telefónica

GROSS VALUE ADDED

Real growth taxes in %

	1991	1992	1993	1994	1995
National economy	2.3	0.4	(0.2)	1.8	3.0
Services sector	2.7	2.4	0.8	2.0	2.5
Telefónica	10.6	9.1	2.9	4.9	7.8

Sources: INE and Telefónica

SELECTED FINANCIAL DATA. CONSOLIDATED

Million pesetas

	1991	1992	1993	1994	1995	1995\$ (3)
Revenue from operations	1,048,998	1,208,938	1,297,437	1,578,850	1,740,557	14,322
Operating expenses	552,916	613,788	656,655	806,400	849,258	6,988
Financial expenses	201,894	220,549	239,647	231,321	210,971	1,736
Depreciation and amortization (1)	324,243	385,152	413,261	515,116	567,992	4,674
Net income	104,247	80,761	96,367	112,608	133,214	1,096
Net Cash-flow	422,545	465,250	502,882	644,750	750,357	6,174
Share capital	463,479	463,480	469,735	469,735	469,735	3,865
Equity	1,330,273	1,392,005	1,437,055	1,512,031	1,546,472	12,725
Long-term debt	1,391,138	1,610,878	1,569,568	1,773,321	1,665,508	13,705
Financial debt	1,669,886	1,887,687	1,824,654	2,032,020	1,941,908	15,979
Investment (2)	622,660	459,279	380,634	489,606	632,893	5,208

(1) Including amortization of goodwill.

(2) Fixed and intangible.

(3) Figures in millions of dollars. 29-12-95 exchange rate: \$1.00= ptas 121.530.



SELECTED FINANCIAL DATA. TELEFÓNICA DE ESPAÑA

Million pesetas

	1991	1992	1993	1994	1995	1995\$ (2)
Revenue from operations	1,008,031	1,154,696	1,220,084	1,283,536	1,372,674	11,295
Operating expenses	477,507	536,149	547,156	568,199	609,867	5,018
Financial expenses	199,592	217,434	235,319	212,639	186,016	1,531
Depreciation and amortization	321,302	382,466	406,603	467,274	505,644	4,161
Net income	80,847	83,899	84,837	91,734	106,183	874
Net Cash-flow	402,149	466,365	491,440	559,008	611,827	5,034
Share capital	463,479	463,480	469,735	469,735	469,735	3,865
Equity	1,324,368	1,376,751	1,397,712	1,454,684	1,470,679	12,101
Long-term debt	1,387,343	1,593,504	1,529,151	1,450,726	1,318,972	10,853
Financial debt	1,655,122	1,851,480	1,755,615	1,663,934	1,554,388	12,790
Investment (1)	616,026	439,391	381,507	406,882	436,720	3,594

(1) Fixed and intangible

(2) Figures in millions of dollars. 29-12-95 exchange rate: \$1.00= ptas 121.530

TELEFÓNICA GROUP: OPERATING REVENUE

Million pesetas

	1993	1994	1995	Increase (%) over 1995	1995\$ (1)
Parent company					
Basic telephony	955,580	988,649	1,043,966	5.6	8,590.2
Telephone service	767,899	802,545	851,913	6.2	7,009.9
Leased circuits	40,685	34,103	29,809	(12.6)	245.3
Ibercom	48,399	54,769	58,517	6.8	481.5
Equipment	79,949	75,154	75,983	1.1	625.2
Advertising	14,857	15,350	15,435	0.6	127.0
Other	3,791	6,728	12,309	83.0	101.3
International communication services	132,040	139,349	144,241	3.5	1,186.8
Telephone service	121,048	128,228	133,164	3.8	1,095.7
Leased circuits	5,517	5,693	7,367	29.4	60.6
Retransmissions	5,475	5,428	3,710	(31.7)	30.5
Public telephony	52,511	62,941	65,452	4.0	538.6
Data transmission	45,522	43,735	38,642	(11.6)	318.0
Mobile services	34,431	46,471	76,494	64.6	629.4
Other	—	2,391	3,879	62.2	31.9
Total revenue from operations for Telefónica	1,220,084	1,283,536	1,372,674	6.9	11,294.9
Group					
Telefónica Internacional	18,338	221,451	281,050	26.9	2,312.6
Other subsidiaries	161,106	186,446	241,681	29.6	1,988.7
Sales among group companies	(102,091)	(112,583)	(154,848)	37.5	(1,274.2)
Total revenue from operations for Group Companies	77,353	295,314	367,883	24.6	3,027.1
Total revenue from operations for Telefónica Group	1,297,437	1,578,850	1,740,557	10.2	14,322.0

(1) Figures in millions of dollars. 29-12-95 exchange rate: \$1.00= ptas 121.530



RESULTS-PROFIT MARGINS. CONSOLIDATED

Million pesetas

	1991	1992	1993	1994	1995	Increases (%)		1995\$ (1)
						Over 94	Average Accum. 91 95	
+ Operating revenue	1,048,998	1,208,938	1,297,437	1,578,850	1,740,557	10.2	13.5	14,322.0
- Operating expenses								
Personnel expenses	391,516	429,626	448,402	520,918	543,547	4.3	8.5	4,472.5
Taxes	20,990	22,976	23,981	25,826	27,667	7.1	7.1	227.7
Subcontracts	140,410	161,186	184,272	259,656	278,044	7.1	18.6	2,287.9
+ Internal expenditure cap. in fixed assets	108,437	103,929	109,103	121,391	121,548	0.1	2.9	1,000.1
= Operating margin	604,519	699,079	749,885	893,841	1,012,847	13.3	13.8	8,334.1
+ Other operating revenue	18,082	23,618	33,068	30,226	33,402	10.5	16.6	274.8
- Depreciation of fixed assets	293,903	343,179	374,259	454,530	501,480	10.3	14.3	4,126.4
- Other operating expenses	5,855	13,766	13,152	9,854	9,728	(1.3)	13.5	80.0
- Other provisions and charges	12,155	18,787	25,816	27,286	25,159	(7.8)	19.9	207.0
= Operating profit	310,688	346,965	369,726	432,397	509,882	17.9	13.2	4,195.5
+ Financial income	6,333	4,318	7,837	17,358	18,802	8.3	31.3	154.7
- Interest expenses	191,809	202,300	208,757	205,978	201,151	(2.3)	1.2	1,655.2
- Exchange losses	6,094	12,439	25,936	19,862	6,503	(67.3)	1.6	53.5
- Amortization of deferred charges	3,991	5,810	4,954	5,481	3,317	(39.5)	(4.5)	27.3
+ Revenue from associated companies	7,717	9,391	20,176	18,513	8,754	(52.7)	3.2	72.0
- Amortization of goodwill	872	808	4,798	6,191	6,985	12.8	68.2	57.5
= Profit from ordinary activities	121,972	139,317	153,294	230,756	319,482	38.5	27.2	2,628.8
+ Extraordinary income	32,692	10,804	14,904	40,206	29,874	(25.7)	(2.2)	245.8
- Extraordinary expenses	24,373	53,201	41,405	99,311	125,645	26.5	50.7	1,033.9
= Income before tax	130,291	96,920	126,793	171,651	223,711	30.3	14.5	1,840.8
- Corporate tax	24,272	13,698	24,845	30,589	39,358	28.7	12.8	323.9
= Net income	106,019	83,222	101,948	141,062	184,353	30.7	14.8	1,516.9
- Minority interest	1,772	2,461	5,581	28,454	51,139	79.7	131.8	420.8
= Net income attributed to Telefónica	104,247	80,761	96,367	112,608	133,214	18.3	6.3	1,096.1
Net income	106,019	83,222	101,948	141,062	184,353	30.7	14.8	1,516.9
+ Amortization of deferred charges	3,991	5,810	4,954	5,481	3,317	(39.5)	(4.5)	27.3
+ Depreciation of fixed assets	293,903	343,179	374,259	454,530	501,480	10.3	14.3	4,126.4
+ Dismantled plant pending depreciation	25,477	35,355	29,250	48,914	56,210	14.9	21.9	462.5
+ Amortization of goodwill	872	808	4,798	6,191	6,985	12.8	68.2	57.5
- Revenue from associated companies	7,717	9,391	20,176	18,513	8,754	(52.7)	3.2	72.0
+ Dividends of associated companies	0	6,267	7,849	7,085	6,766	(4.5)	-	55.7
= Cash-flow	422,545	465,250	502,882	644,750	750,357	16.4	15.4	6,174.3

(1) Figures in million dollars. 29-12-95 exchange rate: \$ 1=ptas. 121.530



RESULTS-PROFIT MARGINS. TELEFÓNICA DE ESPAÑA

Million pesetas

	1991	1992	1993	1994	1995	Increases (%)		1995\$(1)
						Over 94	Average Accum. 91-95	
+ Operating revenue	1,008,031	1,154,696	1,220,084	1,283,536	1,372,674	6.9	8.0	11,294.9
- Operating expenses								
Personnel expenses	352,824	392,736	408,103	421,624	433,655	2.9	5.3	3,568.3
Taxes	20,560	22,260	23,871	25,569	27,055	5.8	7.1	222.6
Subcontracts	104,123	121,153	115,182	121,006	149,157	23.3	9.4	1,227.3
+ Internal expenditure capitalized in fixed assets	65,633	68,920	75,742	73,766	72,154	(2.2)	2.4	593.7
= Operating margin	596,157	687,467	748,670	789,103	834,961	5.8	8.8	6,870.4
+ Other operating revenue	20,682	23,346	23,632	24,992	29,610	18.5	9.4	243.6
- Depreciation of fixed assets	291,870	341,903	372,401	413,134	446,480	8.1	11.2	3,673.8
- Other operating expenses	5,353	13,252	10,507	11,450	7,289	(36.3)	8.0	60.0
- Other provisions and charges	11,014	16,769	24,115	22,573	20,383	(9.7)	16.6	167.7
= Operating profit	308,602	338,889	365,279	366,938	390,419	6.4	6.1	3,212.5
+ Financial income	5,640	23,074	10,191	14,388	15,693	9.1	29.2	129.1
- Interest expenses	188,360	199,561	203,124	182,880	171,540	(6.2)	(2.3)	1,411.5
- Exchange losses	7,277	12,411	27,243	24,533	11,522	(53.0)	12.2	94.8
- Amortization of deferred charges	3,955	5,462	4,952	5,226	2,954	(43.5)	(7.0)	24.3
= Profit from ordinary activities	114,650	144,529	140,151	168,687	220,096	30.5	17.7	1,811.0
+ Extraordinary income	9,290	8,148	8,392	29,673	16,262	(45.2)	15.0	133.8
- Extraordinary expenses	25,393	52,953	41,075	88,756	115,229	29.8	45.9	948.2
= Income before tax	98,547	99,724	107,468	109,604	121,129	10.5	5.3	996.7
- Corporate tax	17,700	15,825	22,631	17,870	14,946	(16.4)	(4.1)	123.0
= Net income	80,847	83,899	84,837	91,734	106,183	15.8	7.1	873.7
+ Amortization of deferred charges	3,955	5,462	4,952	5,226	2,954	(43.5)	(7.0)	24.3
+ Depreciation of fixed assets	291,870	341,903	372,401	413,134	446,480	8.1	11.2	3,673.8
+ Dismant. plant pending depreciation	25,477	35,101	29,250	48,914	56,210	14.9	21.9	462.5
= Cash-flow	402,149	466,365	491,440	559,008	611,827	9.4	11.1	5,034.4

(1) Figures in million dollars. 29-12-95 exchange rate: \$ 1=ptas. 121.530



BALANCE SHEET. CONSOLIDATED

Million pesetas

	1991	1992	1993	1994	1995	1995 \$ (1)
SUBSCRIBED SHARES NOT PAID-IN	20	1	0	23	174	1.4
FIXED ASSETS	3,308,224	3,409,276	3,436,855	3,992,550	4,064,356	33,443.2
Capital increase expenses	1,496	503	226	349	714	5.9
Net intangible assets	34,732	50,778	63,207	300,207	317,239	2,610.4
Property, plant and equipment	5,002,444	5,303,671	5,483,037	6,311,527	6,538,507	53,801.6
Depreciation of fixed assets	(1,848,929)	(2,092,440)	(2,310,927)	(2,751,943)	(2,941,081)	(24,200.5)
Net fixed assets	3,153,515	3,211,231	3,172,110	3,559,584	3,597,426	29,601.1
Investments	118,481	146,764	201,312	132,410	148,977	1,225.8
GOODWILL ON CONSOLIDATION	6,437	13,226	48,236	53,741	47,687	392.4
DEFERRED EXPENSES	77,002	205,811	225,589	186,473	141,310	1,162.8
LONG-TERM PREPAID TAXES	0	0	14,109	31,230	50,336	414.2
CURRENT ASSETS	327,580	378,838	377,094	495,203	514,395	4,232.7
Subscribed shares not paid-in	40	0	22	0	4	-
Inventories	20,419	18,552	16,505	25,362	29,036	238.9
Accounts receivable	287,918	337,400	332,841	369,798	398,837	3,281.8
Short-term investments, cash and banks	8,057	13,024	19,800	91,007	80,180	659.8
Prepayments	11,146	9,862	7,926	9,036	6,338	52.2
ASSETS = LIABILITIES AND SHAREHOLDERS' EQUITY	3,719,263	4,007,152	4,101,883	4,759,220	4,818,258	39,646.7
SHAREHOLDERS' EQUITY (1)	1,330,273	1,392,005	1,437,055	1,512,031	1,546,472	12,725.0
Paid-in share capital	463,479	463,480	469,735	469,735	469,735	3,865.2
Reserves	785,721	847,764	894,140	929,688	971,707	7,995.6
Net income for year	104,247	80,761	96,367	112,608	133,214	1,096.1
Interim dividend	(23,174)	0	(23,187)	0	(28,184)	(231.9)
OUTSIDE SHAREHOLDERS' INTERESTS (2)	21,780	31,044	41,798	292,293	313,753	2,581.7
DEFERRED INCOME (3)	84,834	58,732	55,326	75,029	91,258	750.9
PROVISIONS FOR LIABILITIES AND CHARGES (4)	206,005	215,796	231,775	270,876	287,996	2,369.8
LONG-TERM DEFERRED TAXES (5)	0	56,016	57,131	74,447	71,013	584.3
LONG-TERM DEBT (6)	1,391,138	1,610,878	1,569,568	1,773,321	1,665,508	13,704.5
Debentures, bonds and promissory notes issued	603,259	722,284	708,440	721,323	643,938	5,298.6
Debt with credit institutions	714,566	690,728	681,881	917,607	901,885	7,421.1
Debt with group and associated companies	15,479	18,565	0	217	0	0
Other creditors	57,834	179,301	179,247	134,174	119,685	984.8
PERMANENT CAPITAL (1+2+3+4+5+6)	3,034,030	3,364,471	3,392,653	3,997,997	3,976,000	32,716.2
SHORT-TERM DEBT	685,233	642,681	709,230	761,223	842,258	6,930.5
Debentures, bonds and promissory notes issued	162,200	122,991	167,271	126,360	108,154	889.9
Debt with credit institutions	116,548	153,818	87,815	132,339	168,246	1,384.4
Other creditors	385,266	344,153	435,996	469,591	537,275	4,420.9
Prepayments	21,219	21,719	18,148	32,933	28,583	235.2
UNUSED CREDIT FACILITIES	119,883	136,936	230,639	245,740	334,676	2,753.9

(1) Figures in million dollars. 29-12-95 exchange rate: \$ 1 = ptas. 121.530



BALANCE SHEET. TELEFÓNICA DE ESPAÑA

Million pesetas

	1991	1992	1993	1994	1995	1995 \$ (1)
FIXED ASSETS	3,303,059	3,365,365	3,343,388	3,382,127	3,313,073	27,261.4
Capital increase expenses	1,219	359	162	157	117	1.0
Net intangible assets	28,248	41,609	55,520	70,831	89,426	735.8
Property plant and equipment	5,016,908	5,306,956	5,489,734	5,592,518	5,491,583	45,187.1
Depreciation of fixed assets	(1,847,338)	(2,090,267)	(2,308,229)	(2,483,296)	(2,600,010)	(21,394.0)
Net fixed assets	3,169,570	3,216,689	3,181,505	3,109,222	2,891,573	23,793.1
Investments	104,022	106,708	106,201	201,917	331,957	2,731.5
DEFERRED EXPENSES	75,004	203,486	224,113	181,307	135,572	1,115.5
LONG-TERM PREPAID TAXES	0	0	13,616	30,764	49,699	408.9
CURRENT ASSETS	290,152	348,316	328,977	302,822	336,301	2,767.2
Inventories	5,319	5,019	3,832	4,292	4,303	35.4
Accounts receivable	274,045	329,144	317,323	288,428	313,562	2,580.1
Short-term investments	0	6,449	1,201	3,358	11,019	90.7
Cash and banks	4,579	3,789	5,031	4,699	5,375	44.2
Prepayments	6,209	3,915	1,590	2,045	2,042	16.8
ASSETS= LIABILITIES AND SHAREHOLDERS' EQUITY	3,668,215	3,917,167	3,910,094	3,897,020	3,834,645	31,553.1
SHAREHOLDERS' EQUITY (1)	1,324,368	1,376,751	1,397,712	1,454,684	1,470,679	12,101.4
Paid-in share capital	463,479	463,480	469,735	469,735	469,735	3,865.2
Reserves	803,216	829,372	866,327	893,215	922,945	7,594.4
Net income for year	80,847	83,899	84,837	91,734	106,183	873.7
Interim dividend	(23,174)	0	(23,187)	0	(28,184)	(231.9)
DEFERRED INCOME (2)	60,785	58,723	54,765	67,531	78,933	649.5
PROVISIONS FOR LIABILITIES AND CHARGES (3)	202,479	211,813	216,094	232,412	240,995	1,983.0
LONG-TERM DEFERRED TAXES (4)	20,187	52,904	53,003	52,273	44,145	363.2
LONG-TERM DEBT (5)	1,387,343	1,593,504	1,529,151	1,450,726	1,318,972	10,853.1
Debentures bonds and promissory notes issued	589,011	696,811	685,614	636,533	571,271	4,700.7
Debt with credit institutions	624,335	602,800	540,494	558,700	496,269	4,083.5
Debt with group and associated companies	91,849	103,586	122,403	140,447	149,319	1,228.7
Other creditors	82,148	190,307	180,640	115,046	102,113	840.2
PERMANENT CAPITAL (1+2+3+4+5)	2,995,162	3,293,695	3,250,725	3,257,626	3,153,724	25,950.2
SHORT-TERM DEBT	673,053	623,472	659,369	639,394	680,921	5,602.9
Debentures bonds and promissory notes issued	185,496	130,225	167,267	125,094	104,670	861.3
Debt with credit institutions	82,283	127,751	59,197	88,114	130,746	1,075.8
Other creditors	385,179	344,799	416,078	400,825	420,173	3,457.4
Prepayments	20,095	20,697	16,827	25,361	25,332	208.4
UNUSED CREDIT FACILITIES	36,215	38,498	126,044	146,991	175,466	1,443.8

(1) Figures in million dollars. 29-12-95 exchange rate: \$ 1 = ptas. 121.530



ECONOMIC/FINANCIAL INDICATORS CONSOLIDATED

Figures in % unless otherwise indicated

	1991	1992	1993	1994	1995
Operating margin/Revenue from operations (1)	57.6	57.8	57.8	56.6	58.2
Financial expenses/Revenue from operations (2)	19.2	18.2	18.5	14.7	12.1
Operating margin/Average net plant (3)	19.3	22.0	23.5	26.5	28.3
Fixed assets coverage (4)	88.7	91.5	91.3	93.5	92.4
Guarantee ratio (5)	37.8	37.0	37.9	39.8	41.1
Self-financing ratio (6)	58.3	87.5	115.4	115.9	104.1
Financial debt ratio (7)	55.3	58.4	57.6	54.5	51.6
Debt repayment capacity(years) (8)	5.2	5.1	4.5	3.8	3.1
Financial expenses coverage (times) (9)	1.1	1.0	1.1	1.2	1.5

ECONOMIC/FINANCIAL INDICATORS TELEFÓNICA DE ESPAÑA

Figures in % unless otherwise indicated

	1991	1992	1993	1994	1995
Operating margin/Revenue from operations (1)	59.1	59.5	61.4	61.5	60.8
Financial expenses/Revenue from operations (2)	19.8	18.8	19.3	16.6	13.6
Operating margin/Average net plant (3)	19.7	21.5	23.4	25.1	27.8
Fixed assets coverage (4)	87.7	90.7	89.8	88.9	88.9
Guarantee ratio (5)	37.5	36.6	37.6	38.8	40.4
Self-financing ratio (6)	55.6	91.8	112.2	120.9	123.1
Financial debt ratio (7)	55.1	58.4	57.1	54.7	51.7
Debt repayment capacity(years) (8)	4.9	4.5	4.1	3.4	2.8
Financial expenses coverage (times) (9)	1.2	1.1	1.1	1.2	1.3

(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 fixed assets.

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

(5) Shareholders' equity + Deferred income + Long-term deferred taxes / Assets.

(6) Net income - Telefónica Dividends - Minority Interests Dividends + Depreciation of plant and equipment + Intangible depreciation + Dismantled plant pending depreciation + Amortization of goodwill - Revenue from associated companies + Dividend from associated companies / Capital expenditure in fixed assets + Advances to suppliers + Stocks for fixed assets + Capital expenditure in intangible assets.

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

Interest bearing debt: Long-term creditors - 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 pending depreciation + Amortization of goodwill - Revenue from associated companies + Dividends from associated companies - 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.