

**CONSOLIDATED FINANCIAL STATEMENTS  
AND MANAGEMENT REPORT**

Telefónica, S.A. and  
companies composing  
the Telefónica Group

For **1999**  
and **1998**





Translation of a report and consolidated financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 25). In the event of a discrepancy, the Spanish-language version prevails.

## AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Stockholders of  
Telefónica, S.A.:

1. We have audited the consolidated financial statements of Telefónica, S.A. and Dependent Companies comprising the Telefónica Group (see Note 1), consisting of the consolidated balance sheets as of December 31, 1999 and 1998, and the related consolidated statements of income and notes to consolidated financial statements for the years then ended. The preparation of these consolidated financial statements is the responsibility of the Controlling Company's directors. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with generally accepted auditing standards, which require examination, by means of selective tests, of the documentation supporting the consolidated financial statements and evaluation of their presentation, of the accounting principles applied and of the estimates made.
2. The Board of Directors of Telefónica, S.A. prepared the 1999 and 1998 consolidated financial statements in pesetas, the currency in which book entries are expressed in the Controlling Company's accounting records. In addition, for information purposes only, the directors present the consolidated balance sheets and consolidated statements of income for 1999 and 1998 translating the pesetas to euros at the conversion rate set on December 31, 1998, by the Council of the European Union for application from January 1, 1999 (Ptas. 166.386 per euro). This information cannot be deemed to be an integral part of the audited consolidated financial statements.
3. As indicated in Notes 1 and 7, the telecommunications market in Spain became fully deregulated on December 1, 1998. In 1999, particularly in the last quarter of the year, certain regulatory measures were adopted the main consequence of which was to accelerate the opening up to competition of the basic telephony service in Spain. These measures include most notably the approval in October of reductions in the regulated rates for local, long-distance and wireline-to-wireless services, although, per Company management estimates, the envisaged increase in monthly charges will not enable the effects of the current rate imbalance to be eliminated at medium term.

The Company has analyzed the impact of these measures on the recoverability of the value of certain assets, the investment in which was made in the past taking into account the prevailing regulatory framework in fulfillment of the obligations to provide the basic telephony service assumed by the Company under the contract entered into with the State in 1991. As a result, in November 1999 the Company filed an unqualified claim against the State Administration (see Note 1), and, in addition, recorded a provision of Ptas. 220,056 million, with a charge to the "Variation in Fixed Asset and Control Portfolio Provisions" caption in the 1999 consolidated financial statement referred to above, mainly relating to assets to be replaced, unused or scantily used assets as a result of the total or partial loss of customers, and assets whose low return makes their recovery impossible.

4. During 1998, Telefónica Group management took certain strategic decisions regarding the Group's dimensioning and organization policy and recorded the provisions it considered necessary, mainly relating to voluntary preretirements and early retirements expected to take place in 1999 and 2000 (see Notes 4-1, 14 and 20). These provisions were recorded at Telefónica S.A. with a charge of Ptas. 459,500 million to "Extraordinary Expenses" and simultaneously a credit was recorded to "Extraordinary Revenues" for the same amount with charges of Ptas. 298,675 million to "Unrestricted Reserves" and of Ptas. 160,825 million to "Prepaid Taxes". Although under Spanish corporate law unrestricted reserves can be released subject to prior resolution of the Stockholders' Meeting, under Spanish accounting regulations, reserves cannot be allocated to income for the year. Since acceptance of this plan by employees and the employer commenced in 1999, the 1998 provisions must be considered excessive. The adjustment of the 1998 consolidated financial statements would require the reversal of all the accounting entries described above.

These provisions were contributed in 1999 by Telefónica, S.A. to Telefónica de España, S.A. as was the case with the other assets and liabilities relating to the basic telephony business in Spain (see Note 1). As a result of the agreements reached individually with the employees of Telefónica de España, S.A. and of the Labor Force Reduction Plan (ERE) approved by the Ministry of Labor and Social Affairs on July 16, 1999, to be implemented in 1999 and 2000, a total of 11,273 employees were terminated in 1999. To cover the present and accrued cost of these agreements as of December 31, 1999, the Group should have recorded provisions of Ptas. 444,172 million at that date, with charges of Ptas. 288,712 million to "Extraordinary Expenses" for the year and of Ptas. 155,460 million to "Prepaid Taxes". Additionally, since the adjustment referred to above was not included in the 1998 consolidated financial statements, the provision of Ptas. 459,500 million recorded in 1998 should be written off with credits of Ptas. 298,675 million to "Prior Years' Extraordinary Revenues" and of Ptas. 160,825 million to "Prepaid Taxes". In summary, the "Provisions for Contingencies and Expenses" and "Prepaid Taxes" accounts in the consolidated balance sheet as of December 31, 1999, should be reduced by Ptas. 15,328 million and Ptas. 5,365 million, respectively, and, in addition, the 1999 "Extraordinary Expenses" and "Prior Years' Extraordinary Revenues" in the 1999 consolidated statement of income should be increased by

Ptas. 288,712 million and Ptas. 298,675 million, respectively, which would increase consolidated income for the year by Ptas. 9,963 million.

5. In our opinion, except for the effect of the matter discussed in paragraph 4 above, the consolidated financial statements referred to above present, in all material respects, a true and fair view of the net worth and financial position of Telefónica, S.A. and of the Companies composing the Telefónica Group as of December 31, 1999 and 1998, and of the results of their operations and of the funds obtained and applied by them in the years then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with generally accepted accounting principles and standards applied on a consistent basis.
6. The accompanying consolidated management report for 1999 contains the explanations which the directors of Telefónica, S.A. consider appropriate about the Telefónica Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the management report is consistent with that contained in the consolidated financial statements for 1999. Our work as auditors was confined to checking the consolidated management report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of the consolidated Companies.

ARTHUR ANDERSEN



Eduardo Sanz Hernández

February 24, 2000

**TELEFONICA GROUP**  
**CONSOLIDATED BALANCE SHEETS**

as of december 31,1999 and 1998

Translation of a report and consolidated financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 25). In the event of a discrepancy, the Spanish-language version prevails.

	Consolidated group (Millions of Pesetas)		Consolidated group (Millions of Euros)	
	99	98	99	98
<b>ASSETS</b>				
<b>A) DUE FROM STOCKHOLDERS FOR UNCALLED CAPITAL</b>	<b>557</b>	<b>513</b>	<b>3.3</b>	<b>3.1</b>
<b>B) FIXED AND OTHER NONCURRENT ASSETS</b>	<b>8,239,698</b>	<b>6,654,338</b>	<b>49,521.8</b>	<b>39,993.5</b>
<b>I. Start-up expenses</b>	<b>28,306</b>	<b>16,285</b>	<b>170.1</b>	<b>97.9</b>
<b>II. Intangible assets (Note 6)</b>	<b>1,165,718</b>	<b>1,100,180</b>	<b>7,006.3</b>	<b>6,612.2</b>
Research and development expenses	157,759	142,309	948.2	855.3
Administrative concessions	959,341	929,692	5,765.8	5,587.6
Rights on leased assets	21,458	17,376	129.0	104.4
Other intangible assets	298,707	186,602	1,795.3	1,121.5
Accumulated amortization	(271,547)	(175,799)	(1,632.0)	(1,056.6)
<b>III. Property and equipment (Note 7)</b>	<b>5,949,113</b>	<b>4,629,131</b>	<b>35,754.9</b>	<b>27,821.7</b>
Land and structures	1,127,081	839,245	6,773.9	5,044.0
Technical installations and machinery	242,527	161,816	1,457.6	972.5
Telephone installations	9,538,837	6,937,564	57,329.6	41,695.6
Furniture	468,427	329,509	2,815.3	1,980.4
Construction in progress	695,833	395,465	4,182.0	2,376.8
Advances on property and equipment	3,775	1,982	22.7	11.9
Installation materials	61,151	40,457	367.5	243.2
Accumulated depreciation	(6,188,518)	(4,076,907)	(37,193.7)	(24,502.7)
<b>IV. Long-term financial investments (Note 8)</b>	<b>1,096,561</b>	<b>908,742</b>	<b>6,590.5</b>	<b>5,461.7</b>
Holdings in associated companies	260,799	345,614	1,567.4	2,077.2
Other holdings	166,806	78,998	1,002.5	474.8
Other receivables	298,491	172,042	1,794.0	1,034.0
Long-term deposits and guarantees	3,253	13,321	19.6	80.1
Prepaid taxes (Note 18)	393,467	302,869	2,364.8	1,820.3
Provisions	(26,255)	(4,102)	(157.8)	(24.7)
<b>C) GOODWILL IN CONSOLIDATION (Note 5)</b>	<b>699,985</b>	<b>399,623</b>	<b>4,207.0</b>	<b>2,401.8</b>
<b>D) DEFERRED CHARGES (Note 9)</b>	<b>145,353</b>	<b>138,376</b>	<b>873.6</b>	<b>831.7</b>
<b>E) CURRENT ASSETS</b>	<b>1,587,445</b>	<b>1,053,274</b>	<b>9,540.7</b>	<b>6,330.3</b>
<b>I. Inventories</b>	<b>79,210</b>	<b>49,172</b>	<b>476.1</b>	<b>295.6</b>
Inventories	79,318	46,438	476.7	279.1
Advances	4,502	4,968	27.1	29.9
Allowance	(4,610)	(2,234)	(27.7)	(13.4)
<b>II. Accounts receivable</b>	<b>1,175,034</b>	<b>876,687</b>	<b>7,062.0</b>	<b>5,269.0</b>
Customer receivables (Note 10)	906,916	664,573	5,450.7	3,994.2
Receivable from associated companies	9,340	10,082	56.1	60.6
Sundry accounts receivable	197,652	135,553	1,187.9	814.7
Employee receivables	20,588	12,065	123.7	72.5
Tax receivables (Note 18)	217,338	186,709	1,306.2	1,122.1
Allowance for bad debts (Note 10)	(172,387)	(125,907)	(1,036.1)	(756.7)
Allowance for sundry accounts receivable	(4,413)	(6,388)	(26.5)	(38.4)
<b>III. Short-term financial investments</b>	<b>242,605</b>	<b>60,400</b>	<b>1,458.1</b>	<b>363.0</b>
Loans to associated companies	1,835	8,131	11.0	48.9
Short-term investment securities	128,306	44,283	771.1	266.1
Other loans	112,736	8,109	677.6	48.7
Provisions	(272)	(123)	(1.6)	(0.7)
<b>IV. Short-term treasury stock (Note 11)</b>	<b>278</b>	<b>4,863</b>	<b>1.7</b>	<b>29.2</b>
<b>V. Cash</b>	<b>30,964</b>	<b>23,795</b>	<b>186.1</b>	<b>143.0</b>
<b>VI. Accrual accounts</b>	<b>59,354</b>	<b>38,357</b>	<b>356.7</b>	<b>230.5</b>
<b>TOTAL ASSETS (A+B+C+D+E)</b>	<b>10,673,038</b>	<b>8,246,124</b>	<b>64,146.3</b>	<b>49,560.2</b>

The accompanying Notes 1 to 25 and Exhibits I to VI are an integral part of these consolidated balance sheets.

# TELEFÓNICA GRUPO

## CONSOLIDATED BALANCE SHEETS

as of december 31,1999 and 1998

	Consolidated group (Millions of Pesetas)		Consolidated group (Millions of Euros)	
	99	98	99	98
<b>STOCKHOLDERS' EQUITY AND LIABILITIES</b>				
<b>A) STOCKHOLDERS' EQUITY (Note 11)</b>	<b>2,410,065</b>	<b>2,246,214</b>	<b>14,484.8</b>	<b>13,500.0</b>
I. Capital stock	542,889	512,439	3,262.8	3,079.8
II. Additional paid-in capital	427,400	427,398	2,568.7	2,568.7
III. Revaluation reserve	538,369	569,717	3,235.7	3,424.1
IV. Other controlling company reserves	495,374	323,159	2,977.2	1,942.2
Unrestricted reserves	391,710	229,126	2,354.2	1,377.1
Restricted reserves	103,664	93,947	623.0	564.6
Prior years' income	0	86	0.0	0.5
V. Reserves at companies consolidated by the global integration method	148,777	104,012	894.2	625.1
VI. Reserves at companies consolidated by the equity method	27,895	29,212	167.7	175.6
VII. Translation differences in consolidation	(70,932)	62,693	(426.3)	376.8
VIII. Income for the year	300,293	217,584	1,804.8	1,307.7
Income of the parent company and subsidiaries	410,039	297,936	2,464.4	1,790.6
Income (loss) of associated companies	(646)	12,199	(3.9)	73.3
Income attributable to minority interests (Note 12)	(109,100)	(92,551)	(655.7)	(556.2)
<b>B) MINORITY INTERESTS (Note 12)</b>	<b>1,766,084</b>	<b>589,927</b>	<b>10,614.4</b>	<b>3,545.5</b>
<b>C) DEFERRED REVENUES (Note 13)</b>	<b>175,580</b>	<b>121,357</b>	<b>1,055.3</b>	<b>729.4</b>
<b>D) PROVISIONS FOR CONTINGENCIES AND EXPENSES (Note 14)</b>	<b>1,124,153</b>	<b>992,312</b>	<b>6,756.3</b>	<b>5,963.9</b>
<b>E) LONG-TERM DEBT</b>	<b>2,959,729</b>	<b>2,278,729</b>	<b>17,788.3</b>	<b>13,695.3</b>
I. Debentures and bonds (Note 15)	1,132,049	928,959	6,803.7	5,583.1
Nonconvertible debentures and bonds	1,024,710	836,443	6,158.6	5,027.1
Convertible debentures and bonds	107,339	92,516	645.1	556.0
II. Payable to creditentities (Note 16)	1,518,642	1,168,880	9,127.2	7,025.1
III. Other accounts payable	119,645	62,547	719.1	375.9
Other accounts payable (Notes 2-d and 4-l)	113,955	60,369	684.9	362.8
Notes payable	5,690	2,178	34.2	13.1
IV. Deferred taxes (Note 18)	185,991	117,424	1,117.8	705.7
V. Uncalled capital payments payable (Note 8)	3,402	919	20.5	5.5
Associated companies	15	800	0.1	4.8
Other companies	3,387	119	20.4	0.7
<b>F) CURRENT LIABILITIES</b>	<b>2,237,427</b>	<b>2,017,585</b>	<b>13,447.2</b>	<b>12,125.9</b>
I. Debentures, bonds and other marketable debtsecurities (Note 15)	376,193	234,686	2,260.9	1,410.5
Debentures	207,750	155,155	1,248.6	932.5
Other negotiable instruments	137,176	56,848	824.4	341.7
Interest on debentures and other securities	31,267	22,683	187.9	136.3
II. Payable to creditentities	588,540	884,630	3,537.2	5,316.7
Loans and other accounts payable (Note 16)	561,181	845,179	3,372.8	5,079.6
Interest payable	27,359	39,451	164.4	237.1
III. Payable to associated companies	19,431	17,333	116.8	104.2
IV. Trade accounts payable	706,384	387,463	4,245.5	2,328.7
Advances received on orders	1,858	2,418	11.2	14.5
Payables for purchases and services	700,456	380,307	4,209.8	2,285.7
Notes payable	4,070	4,738	24.5	28.5
V. Other nontrade payables	493,939	448,850	2,968.6	2,697.6
Accrued taxes payable (Note 18)	211,234	174,007	1,269.5	1,045.8
Other nontrade payables (Note 19)	282,705	274,843	1,699.1	1,651.8
VI. Accrual accounts	52,940	44,623	318.2	268.2
<b>TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES (A+B+C+D+E+F)</b>	<b>10,673,038</b>	<b>8,246,124</b>	<b>64,146.3</b>	<b>49,560.2</b>

**TELEFONICA GROUP**  
**CONSOLIDATED STATEMENTS OF INCOME**

as of december 31,1999 and 1998

	Consolidated group (Millions of Pesetas)		Consolidated group (Millions of Euros)	
	99	98	99	98
<b>DEBIT</b>				
<b>A) EXPENSES</b>				
Reduction in inventories	(6,152)	1,740	(37.0)	10.5
Procurements	681,030	366,673	4,093.1	2,203.7
Purchases	367,773	228,954	2,210.4	1,376.0
Work performed by other companies	313,257	137,719	1,882.7	827.7
Personnel expenses (Note 20)	734,004	650,171	4,411.5	3,907.6
Period depreciation and amortization	1,016,418	725,434	6,108.8	4,359.9
Property and equipment (Note 7)	921,531	673,531	5,538.5	4,048.0
Intangible assets (Note 6)	85,416	47,061	513.4	282.8
Deferred charges	9,471	4,842	56.9	29.1
			0.0	0.0
Variation in operating provisions	94,142	106,105	565.8	637.7
Variation in allowance for inventories	606	(312)	3.6	(1.9)
Variation in allowance for bad debts	90,674	102,963	545.0	618.8
Variation in other provisions	2,862	3,454	17.2	20.8
Other operating expenses	683,825	394,498	4,109.9	2,370.9
Outside services	586,665	322,159	3,525.9	1,936.2
Taxes other than income tax	74,817	48,125	449.7	289.2
Other operating expenses	22,343	24,214	134.3	145.5
<b>I. OPERATING INCOME</b>	<b>794,764</b>	<b>815,278</b>	<b>4,776.6</b>	<b>4,900.0</b>
Intereston payables to associated companies	569	165	3.4	1.0
Other intereston accounts payable and similar expenses (Note 20)	296,347	241,035	1,781.1	1,448.6
Amortization of deferred interest expenses	6,466	4,776	38.9	28.7
Variation in financial investment provisions	9,618	16,868	57.8	101.4
Exchange losses (Note 20)	92,807	22,580	557.8	135.7
<b>II. FINANCIAL INCOME</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
Share in losses of companies carried by the equity method	25,170	17,928	151.3	107.7
Amortization of goodwill in consolidation (Note 5)	32,334	21,135	194.3	127.0
<b>III. INCOME FROM ORDINARY ACTIVITIES</b>	<b>586,059</b>	<b>576,706</b>	<b>3,522.3</b>	<b>3,466.2</b>
Variation in fixed asset and control portfolio provisions	222,013	(724)	1,334.3	(4.4)
Losses on fixed assets	39,200	26,267	235.6	157.9
Losses on disposal of consolidated companies (Note 8)	82	49	0.5	0.3
Extraordinary expenses and losses (Note 20)	223,681	663,380	1,344.3	3,987.0
<b>IV. EXTRAORDINARY INCOME</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>V. INCOME BEFORE TAXES</b>	<b>438,738</b>	<b>402,010</b>	<b>2,636.9</b>	<b>2,416.3</b>
Corporate income tax (Note 18)	(11,908)	40,074	(71.6)	240.8
Foreign taxes (Note 18)	41,253	51,801	247.9	311.3
<b>VI. CONSOLIDATED INCOME FOR THE YEAR</b>	<b>409,393</b>	<b>310,135</b>	<b>2,460.6</b>	<b>1,864.2</b>
Income attributed to minority interests (Note 12)	128,965	92,783	775.1	557.6
<b>VII. INCOME FOR THE YEAR</b>	<b>300,293</b>	<b>217,584</b>	<b>1,804.8</b>	<b>1,307.7</b>

The accompanying Notes 1 to 25 and Exhibits I to VI are an integral part of these consolidated statements of income.



**TELEFÓNICA GRUPO**  
**CONSOLIDATED STATEMENTS OF INCOME**

as of december 31,1999 and 1998

	Consolidated group (Millions of Pesetas)		Consolidated group (Millions of Euros)	
	99	98	99	98
<b>CREDIT</b>				
<b>B) REVENUES</b>				
Netsales and services (Note 20)	3,819,724	2,906,021	22,957.0	17,465.5
Variation in work-in-process	6,237	10,192	37.5	61.3
Capitalized expenses of in-house work on fixed assets	138,929	124,310	835.0	747.1
Other operating revenues	33,141	19,376	199.2	116.4
Sundry and other current operating revenues	19,052	14,746	114.5	88.6
Subsidies (Note 13)	841	978	5.1	5.9
Overprovision for contingencies and expenses	13,248	3,652	79.6	21.9
<b>I. OPERATING LOSS</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
Income from shareholdings	2,593	1,845	15.6	11.1
Associated companies	0	14	0.0	0.1
Other companies	2,593	1,831	15.6	11.0
Revenues from other securities and loans	62,422	38,115	375.1	229.1
Associated companies	2,753	1,161	16.5	7.0
Other companies	59,669	36,954	358.6	222.1
Exchange gains	165,067	15,828	992.1	95.1
<b>II. FINANCIAL LOSS</b>	<b>175,725</b>	<b>229,636</b>	<b>1,056.1</b>	<b>1,380.1</b>
Share in income of companies carried by the equity method	24,524	30,127	147.4	181.0
<b>III. LOSS ON ORDINARY ACTIVITIES</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
Gains on fixed asset disposals	3,524	2,310	21.2	13.9
Gains on disposals of holdings in consolidated companies (Note 8)	263,647	23,897	1,584.6	143.6
Capital subsidies (Note 13)	12,860	12,088	77.3	72.7
Extraordinary revenues (Note 20)	57,624	475,981	346.4	2,860.8
<b>IV. EXTRAORDINARY LOSS</b>	<b>147,321</b>	<b>174,696</b>	<b>885.4</b>	<b>1,049.9</b>
<b>V. LOSS BEFORE TAXES</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>VI. CONSOLIDATED LOSS FOR THE YEAR</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
Loss attributed to minority interests (Note 12)	19,865	232	119.4	1.4
<b>VII. LOSS FOR THE YEAR</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0.0</b>

The accompanying Notes 1 to 25 and Exhibits I to VI are an integral part of these consolidated statements of income.

# TELEFÓNICA, S.A. AND COMPANIES COMPOSING THE TELEFÓNICA GROUP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR YEARS ENDED DECEMBER 31, 1999 AND 1998

### 1. INTRODUCTION AND GENERAL INFORMATION

#### TELEFÓNICA GROUP COMPANIES

Telefónica, S.A. and its subsidiaries and investees make up an integrated group of companies (“the Telefónica Group”) operating mainly in the telecommunications, media and entertainment industries.

The parent company of this Group is Telefónica, S.A. (“Telefónica”), a corporation that was formed for an indefinite period of time on April 19, 1924. Its registered office is at Gran Vía 28, Madrid (Spain).

Exhibit I to these notes to consolidated financial statements lists the dependent, associated and investee companies in which Telefónica has direct or indirect holdings and their lines of business, net worth and earnings at year-end and the contribution to consolidated Group reserves.

#### CORPORATE STRUCTURE OF THE GROUP

The Company’s basic corporate purpose, per Article 4 of its bylaws, is the provision of all manner of public and private telecommunications services, and all manner of ancillary or supplementary telecommunications services or the services derived therefrom. All the activities that constitute the corporate purpose may be performed either in Spain or abroad and may be carried on either wholly or partially by the Company, or through shareholdings or ownership interests in other companies or legal entities with an identical or similar corporate purpose.

On March 17, 1998, the Stockholders’ Meeting approved a new organizational structure for the Telefónica Group for the performance of the activities that make up its corporate purpose and that of the various companies composing its corporate Group. Under the new organizational structure, Telefónica (previously known as “Telefónica de España, S.A.”) has the position of parent company and head of the corporate Group and pursues its corporate purpose through various directly controlled subsidiaries, which were identified and structured during the months of 1998 that followed the Stockholders’ Meeting.

The most significant and relevant part of the restructuring of the Telefónica Group was completed in 1999, with the subsidiarization of the basic Spanish domestic telecommunications business (especially wireline telephony) through the transfer, on January 1, 1999, to Telefónica’s wholly owned subsidiary “Telefónica de España, S.A.” (“Telefónica de España”) – a sole-stockholder company – of the personnel and assets and liabilities assigned to operations in this business.

The main dependent companies through which Telefónica pursues its corporate purpose and manages its basic lines of business were: Telefónica de España (which is responsible for basic telecommunications service in Spain), Telefónica Servicios Móviles, S.A. (“Telefónica Móviles”, which is responsible for the management and operation of wireless services in Spain, especially wireless telephony), Telefónica Internacional, S.A. (“Telefónica Internacional”, mainly responsible for making and managing investments in the telecommunications industry in America), Telefónica Intercontinental, S.A. (“Telefónica Intercontinental”, which makes and manages investments in the telecommunications industry outside Spain and America), Telefónica Media, S.A. (“Telefónica Media”, which operates in the media and entertainment industries), Telefónica Data, S.A. (whose principal activity is the provision of integral data transmission services for companies), Terra Networks, S.A. (“Terra”, which provides Internet access and related services and interactive services in general), Atento Holding, S.A. (“Atento”, which engages in the call-center business) and Telefónica Publicidad e Información, S.A. (“TPI”, which engages in the telephone directory business).

#### FRAMEWORK FOR THE PROVISION OF TELECOMMUNICATIONS SERVICES IN SPAIN

The process of deregulation of the telecommunications industry in Spain, which started in 1987, was marked by two milestones up to 1997: a) the deregulation of Data Transmission Services (Royal Decree 804/1993 enacting the Regulations on Technical Matters and on Provision of the Value Added Telecommunications Service of Supply of Packet or Circuit Data Switching) and b) the opening to competition of automatic wireless telephony services.

Despite this, the most important milestone in the telecommunications deregulation process has, without doubt, been the opening to competition of the market in wireline public telephony, first in a restricted way with the appearance of a second global operator

(Retevisión) and some cable operators who obtained licenses to perform this service within their respective geographical areas (Law 12/1997 on the Deregulation of the Telecommunications Industry), and then completely on December 1, 1998, after the passing of the General Telecommunications Law and its implementing regulations.

The basis of the legal regime for the telecommunications industry in Spain is now the General Telecommunications Law 11/1998 (LGT), which establishes, among other things, fundamental principles relating to the following:

- Telecommunications are regarded as services in the general interest that are provided under a system of competition, there being a public service only in relation to those services and obligations that are enumerated by the Law.
- The performance of the different services and the establishment and operation of networks remain part of a system of General Authorizations and Individual Licenses.  
An Individual License is required to establish or operate public telecommunications networks, to provide public telephone services, and, when necessary, to use the radio spectrum public domain. In all other cases a General Authorization is required.
- Conditions of access and interconnection to public networks, their interoperability, and the assignment and management of numbering resources.
- Definition of public service obligations, especially those relating to the Universal Telecommunications Service. The creation of the National Universal Telecommunications Service Fund as a mechanism to finance the public service, and the obligation to contribute to the Fund.
- Criteria to define the dominant operator in each of the different areas. The specific obligations that this operator must fulfill, in terms of the publication of a Reference Interconnection Offer, the determination of interconnection prices based on the principles of transparency and cost orientation, and the provision of the universal service.
- Telefónica, as the initially dominant operator, must guarantee the provision of the universal service until the year 2005.
- Application of levies and fees, management of the radio spectrum public domain, and inspection and sanction powers.

Within the new framework, the current regulatory system is one of full competition in all the services provided by Telefónica, only restricted in some cases, such as wireless telephony, regarding the number of licenses because of the lack of resources to support these services.

The provision of telecommunications services by Telefónica de España, especially the telephone service, was governed by the State License Contract signed in 1991 within the framework of the Telecommunications Law. However, Telefónica has requested the transformation of this Contract into licenses and authorizations within the new legal framework (LGT and its implementing regulations). Telefónica is now waiting for this request to be processed and resolved.

The main telecommunications services that the Telefónica Group currently provides or can provide are as follows:

- Public wireline telephony service, the provision of which is subject, under the LGT, to the obtainment of an individual license, issuable in unlimited numbers, which can either cover the whole of Spain or be restricted to smaller areas. This license also permits circuit-lease services, which are considered by the LGT to be obligatory telecommunications services. The holder of this license is Telefónica de España, after a change in the contract. To date 60 individual licenses and 34 administrative concessions have been granted.
- Automated wireless telephony service, which is subject under the LGT to an individual license, and the number of these licenses is expected to be limited. To date only one license has been granted, in addition to those already issued to Telefónica Móviles and Airtel Móvil. This license is specifically for the provision of DCS-1800 personal wireless communication services, which the current operators can also provide. Additionally, Telefónica Móviles provides this same service on a monopoly basis with analog technology, which must be discontinued by January 1, 2007.
- Provision of the packet- and circuit-switched data transmission service, which under the LGT requires a general authorization, and an individual license when the corresponding network is also operated. At present 11 licenses have been granted for this service, and they need to be converted as stipulated. One of these licenses is that granted to Telefónica Data España.
- Information access service originally operated by Telefónica under the “Infovia” name, currently “Infovia Plus”, which under the LGT requires general authorization, of which Telefónica de España will have to become the holder when appropriate.
- Cable telecommunications services, which Telefónica has the right to provide as part of the basic telephony service in each area in which it is requested. Competition in each of these areas is limited to one operator, and Telefónica cannot commence its operations until 24 months have elapsed from the date of the award to the competing operator, or, if there is no award of a license to another operator after the appropriate tender process, Telefónica may commence its operations immediately.

The license award process has been completed in the 43 areas of Spain, although in 6 cases no tenders were submitted.

- Radio and television broadcasting services, in competition with a limited number of players, not addressed in the LGT. The Telefónica Group has a presence in this market via Antena 3 de Televisión, S.A. and DTS Distribuidora de Televisión Digital, S.A. (Vía Digital).
- Voice telephony in closed user groups, which requires a type A general authorization.
- Satellite telecommunications services, which need a general authorization, and an individual license when the corresponding network is also being operated.
- Services relating to safety of human life at sea and public maritime correspondence, which Telefónica de España is required to provide for a period of four years from the entry into force of the LGT.

#### RATE SYSTEM

The Concession Contract entered into with the State in 1991 established a system of regulated rates and prices aimed at guaranteeing the overall financial balance of the concession while safeguarding the principle of universal service. To that end, prior to the passing of the LGT, basic telephony service rates were approved by the Government, through the Government's Standing Committee on Economic Affairs, at the proposal of the Ministry for Development, and subject to a report by the Telecommunications Market Commission since its creation.

The rates for the remaining services, which have already been deregulated, such as data transfer and wireless telephony, may be freely established, the only obligation being to notify the Administration of them. The only exception to this case has been that of analog wireless telephony (Moviline), since it is a monopoly with rates set by the Administration.

The new LGT established the general principle that the operators are free to determine their rates. However, the Fourth Transitory Provision of the LGT stipulates that the Government's Standing Committee on Economic Affairs, at the proposal of the Ministry for Development and subject to a report by the Telecommunications Market Commission, may temporarily establish fixed maximum and/or minimum rates or the pricing methods to be used, based on the actual cost of providing the service and on the level of operators concurring in the market for the various services.

The LGT also recognizes the existence of an imbalance in the rates applicable at the date of its publication and the need to redress the balance, as well as the possibility of compensating the dominant operator for the shortfall in access that may be caused by this situation.

In application of the above, the Ministerial Order of July 31, 1998, on rebalancing the rates for the services provided by Telefónica de España, set the rates for its services and approved a discount system for the principal services. Another Ministerial Order published on the same date established a range of maximum and minimum rates for the analog wireless telephony service.

Subsequently, Decree Laws 6/99 and 16/99 established new rates to be applied in two stages, (July and November-December). With respect to rate rebalancing, the latter Decree Law establishes, effective August 1, 2000, a new regulatory framework of maximum rates for the wireline telephony service provided by Telefónica de España, based on a model of maximum annual rate limits, which will take annual variations in the CPI as a reference, and also establishes an increase of Ptas.100 in the fixed monthly charge on each of the following dates: August 1, 2000, March 1, 2001, and August 1, 2001.

In this respect, it should be mentioned that Telefónica de España has filed a claim with the European Commission against the Spanish State for noncompliance with EU regulations establishing the need to resolve the rate rebalancing problem before opening the market to free competition. Also, in November 1999 the Company filed a claim before the State Administration, seeking monetary compensation for the damage arising from the breakdown of the financial balance of the 1991 Concession Contract or, alternatively, for noncompliance with the Administration's rate rebalancing obligation.

Also, in the new framework of competition in the basic telephony service, the interconnection rates, as well as the established requirements for the granting of licenses, are becoming the determining factors in the short-term development of competition. In this connection, the rates in force from December 1, 1998, were set by the Ministry which approved the Reference Interconnection Offer on October 29, 1998, although Telefónica appealed against that approval alleging that the rates were below its costs.

#### TAX REGIME

Telefónica and those Group companies that meet the necessary requirements file consolidated corporate income tax returns.

Pursuant to a Ministerial Order of December 27, 1989, Telefónica was authorized by the Directorate-General of Taxation to file consolidated corporate income tax returns for 1990, 1991 and 1992. This authorization was extended to 1993, 1994 and 1995 by a Ministerial Order of July 21, 1993. Subsequently the Stockholders' Meetings on March 29, 1996 and March 17, 1998, decided that the Company and its corporate Group would continue to file tax returns for 1996, 1997 and 1998, and 1999, 2000 and 2001, respectively, under the aforementioned special consolidated tax regime, which was duly notified to the tax authorities.

## 2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

### A) TRUE AND FAIR VIEW

The accompanying consolidated financial statements of the Telefónica Group were prepared from the accounting records of Telefónica, S.A. and from those of each of the companies which compose the Telefónica Group. The respective individual financial statements were prepared in accordance with the accounting principles and standards regulated in Spain by the Commercial Code as implemented by the Spanish National Chart of Accounts and in the applicable regulations in the different countries in which the companies composing the Consolidated Group are located, and are presented in accordance with the regulations for the preparation of consolidated financial statements, as approved by Royal Decree 1815/1991. Accordingly, these consolidated financial statements give a true and fair view of the net worth, financial position, results and funds obtained and applied in 1999 and 1998.

The figures in these consolidated financial statements, and the management report, are expressed in millions of Spanish pesetas unless otherwise stated.

### B) CONSOLIDATION PRINCIPLES

The companies over which effective control is exercised by virtue of ownership of a majority of the voting rights in their representation and decision-making bodies, in accordance with the stipulations of Royal Decree 1815/1999, were consolidated by the global integration method; those in which there is significant influence but not ownership of a majority of the voting rights or joint management with third parties are carried by the equity method. Significant influence is deemed to exist if the ownership interest exceeds 20% in the case of unlisted companies or 3% in the case of listed companies. The companies in which the percentage of ownership is lower than the percentages mentioned above or in which the percentage of ownership is higher but sufficient information is not available or the impact on consolidation is not material, are carried at cost (see Exhibit I).

All material accounts and transactions between the consolidated companies were eliminated in consolidation. In the case of Group companies whose accounting and valuation methods differed from those of Telefónica, adjustments were made in consolidation so as to present the consolidated financial statements on a uniform basis. The margins included in the invoices issued by dependent companies to other Telefónica Group companies for capitalizable assets or services are eliminated at the time of the transaction, and this income is recognized as the related installations are depreciated.

The consolidated statement of income includes the revenues and expenses of the companies that are no longer in the Group up to the

date when the holding was sold or the company was liquidated, and those of the new companies in the Group from the date when the holding was acquired or the company was formed up to year-end.

The equity of the minority interests in the net worth and results of the consolidated dependent companies consolidated by the global integration method is recorded under the «Minority Interests» and «Income Attributed to Minority Interests» captions (see Note 12).

In accordance with standard practice in Spain, the accompanying consolidated financial statements do not include the tax effect, if any, of transferring the reserves of the consolidated dependent companies and holdings carried by the equity method to the Controlling Company's accounts, since it is considered that such reserves will be used to finance their operations and that those that may be distributed will not give rise to a material additional tax cost.

### C) COMPARATIVE INFORMATION

Telesp Participações, S.A. and Tele Sudeste Celular Participações, S.A., in which the Group had 12.1% and 15.9% holdings, respectively, acquired in August 1998, were carried by the equity method in 1998 pursuant, inter alia, to article 11 of Royal Decree 1815 approving the regulations for the preparation of consolidated financial statements. In 1999 these companies were consolidated by the global integration method.

Had the global integration method been applied for these holdings in 1998, the aggregate effect on the consolidated balance sheet and consolidated statement of income would have been as follows:

#### EFFECT ON THE BALANCE SHEET AS OF DECEMBER 31, 1998

Assets		Stockholders' equity and liabilities	
Intangible assets	4,929	Minority interests	1,296,147
Property and equipment	1,585,961	Provisions for contingencies	172,678
Long-term financial investments	(47,552)	Deferred taxes	7,238
Deferred charges	115	Long-term debt	73,704
Prepaid taxes	2,748	Current liabilities	317,640
Current assets	321,206		
<b>Total assets</b>	<b>1,867,407</b>	<b>Total stockholders' equity and liabilities</b>	<b>1,867,407</b>

## EFFECT ON THE 1998 STATEMENT OF INCOME

Revenues from sales and services	509,344
Operating expenses	(459,110)
Operating income	50,234
Financial income	7,423
Income of companies carried by equity method	(5,714)
Extraordinary income	4,453
Income before taxes	56,396
Corporate income tax	3,904
Income attributed to minority interests	(60,300)
<b>Net income</b>	<b>—</b>

## D) CHANGES IN THE CONSOLIDATED GROUP

The main variations in the consolidated Group in 1999 and 1998 were as follows (the full detail of all the variations is included in Exhibit II):

### 1999

Terra (formerly Telefónica Interactiva) is creating the leading international Internet group in the Spanish- and Portuguese-speaking market. To this end, in 1999, Terra formed and acquired Internet companies in Brazil, Mexico, Chile, Peru, Argentina, Guatemala and the U.S. The company also intends to expand geographically to other markets in 2000. In November, Terra shares were admitted to listing on the Madrid Stock Exchange and on the NASDAQ (National Association of Security Dealers' Automated Quotation System) in the U.S.

After the stock market flotation, the Telefónica Group reduced its direct and indirect holding in the company to 70.47% as of December 31, 1999. The gain on this transaction (Ptas.82,885 million) is recorded under the "Gains on Disposals of Holdings in Consolidated Companies" caption in the consolidated statement of income. This company continues to be consolidated by the global integration method.

This group's main acquisitions in 1999 were as follows:

- On July 21, 1999, Terra acquired a 95% holding in Terra Networks Guatemala, S.A. (Guatemala) for approximately Ptas.635 million. This company is consolidated by the global integration method.
- In April Terra incorporated Terra Interactiva de Contenidos, S.A. with a capital stock of Ptas.110 million and additional paid-in capital of Ptas. 3,100 million, fully subscribed and paid by the parent company. This company is consolidated by the global integration method.
- Terra acquired through its subsidiary Telefónica Interactiva Brasil Ltda.96% of the shares of Terra Networks Brasil, S.A.(formerly Nutec Informática, S.A.), an Internet service provider that operates under the ZAZ brand name, markets software developed by third parties, renders services relating to access networks and engages in business activities such as Internet portals. The cost for the group was Ptas.

37,375 million. This company is consolidated by the global integration method.

- In March Terra acquired all the shares of Ordenamiento de Links Especializados, S.L. for Ptas.2,000 million. Subsequently, in May, this company carried out a capital increase of Ptas.1,000 million, which was fully subscribed and paid by Terra. This company is consolidated by the global integration method.
- Terra acquired all the shares of Información Selectiva S.A.(INFOSEL) from the stockholders of the Reforma Group through various transactions articulated around the Dutch company Bidasoa B.V. Infosel provides Internet access, portal and real-time financial information services and services for businesses. The cost for the group was Ptas.6,997 million. This company is consolidated by the global integration method.
- On October 4, 1999, Telefónica Networks Chile Holding Limitada acquired from CTC Mundo all the shares that it owned of Provedora de Servicios de Conectividad, S.A.(currently Terra Networks Chile), which represented 95% of the total number of shares issued by this company. The price paid for Terra Networks Chile amounted to US\$ 40 million. This company is consolidated by the global integration method.
- On September 21, 1999, Telefónica Interactiva Argentina, S.A. acquired all the shares of Donde Latinoamericana, S.A., which owns the local portal Donde, for US\$ 4,504,000. This company is consolidated by the global integration method.
- On September 9, 1999, Telefónica Interactiva Argentina, S.A. acquired all the shares of Netgocios, S.A., which owns the local portal Gauchonet and the domains registered in Argentina and the U.S. under Gauchonet, for a total amount of US\$ 4,586,000. This company is consolidated by the global integration method.
- On September 2, 1999, Terra incorporated Terra Networks Perú, S.A. with a capital stock of 1,000 new soles, in which Terra has a 99.9% holding. This company is consolidated by the global integration method.
- On October 20, 1999, Terra Networks Perú S.A. acquired from Telefónica Servicios Internet, S.A.C. (a subsidiary of Telefónica del Perú) all the assets, contracts and items necessary to provide Internet access services for US\$ 5 million. This company is consolidated by the global integration method.

Since March 1999, Tele Iberoamericana, S.A., a fully-owned subsidiary of Telefónica Internacional, and Telefónica Internacional itself have acquired shares of certain Brazilian companies, through direct acquisitions in the market. Also, shares of Brazilian companies were acquired through Iberoeste Participações, S.A., which was created in conjunction with

Iberdrola and in which Telefónica Internacional has a 38% holding. These acquisitions were made reconciling legally in time the aforementioned direct acquisitions in the market with the restructuring processes and with the tender offer made for the Brazilian cellular operators as described below. As of December 31, 1999, the additional percentages of ownership acquired were as follows:

- An additional 2.14% of Teleshia Celular, S.A. for Ptas. 557 million; an additional 4.187% of Telesp Participações, S.A. for Ptas. 41,017 million; an additional 2.875% of Telecomunicações de São Paulo, S.A. (Telesp) for Ptas. 26,220 million; 0.102% of Companhia Telefonica Do Borda Do Campo, S.A. (CTBC) for Ptas. 37 million; 1.679% of Tele Sudeste Celular, S.A. for Ptas. 3,491 million; an additional 18.92% of Telerj Celular, S.A. for Ptas. 28,131 million and 1.669% of Tele Leste Celular, S.A. for Ptas. 482 million; an additional 5.922% of Telest Celular, S.A. for Ptas. 783 million and an additional 2.485% of Telergipe Celular, S.A. for Ptas. 53 million. Telesp, Tele Sudeste Celular, Telerj Celular and Telest Celular are consolidated by the global integration method. Teleshia Celular, Telergipe Celular and Tele Leste Celular are carried by the equity method.

In November 1999, the Stockholders' Meetings of the wireline telephony operators in the State of São Paulo (Brazil), Telecomunicações de São Paulo (Telesp), Companhia Telefónica Da Borda Do Campo (CTBC) and their holding company, Telesp Participações, S.A., resolved to approve their merger into a single company which will operate under the corporate name Telecomunicações de São Paulo, S.A. (Telesp). The transaction, which had been previously approved by the Brazil State Telecommunications Agency (Anatel), was also supported by the minority interests. The Telefónica Group directly and indirectly owns 19.29% of Telesp, representing 54.041% of the voting capital stock.

Telefónica Media acquired 5% of the Pearson Plc. publishing group for Ptas. 103,391 million (see Note 8). The company is carried by the equity method.

In May the subsidiary TPI increased capital with a charge to reserves, carried out a share split and redenominated in euros its capital stock amount, which was set at Ptas. 1,000 million. Subsequently, it increased capital by Ptas. 20 million with additional paid-in capital of Ptas. 28 million, subscribed and paid in full by La Caixa. In June the public offering for the sale of 35% of the shares of TPI was closed, at a gain of Ptas. 99,741 million for the Telefónica Group. Following these transactions, Telefónica had a 63% holding in TPI. The company continues to be consolidated by the global integration method.

In May Telefónica sold all its shares of Telecomunicaciones Marinas, S.A., which represented a 100% holding in this company. The Telefónica Group recorded a gain of Ptas. 35,852 million on the sale. This gain was recorded under the "Gains on Disposals of Holdings in Consolidated Companies" caption in the Telefónica Group's statement of income. The company was excluded from the scope of consolidation of the Telefónica Group.

In August, Telefónica Internacional directly acquired 23.5% of the capital stock of Celular CRT Participações by fully subscribing to all the shares that this company earmarked for a capital increase. The Group has a 36.79% direct and indirect holding in this company, which is carried by the global integration method. The cost of this acquisition amounted to Ptas. 18,356 million. The company is consolidated by the global integration method.

In June the Ptas. 40,477.5 million capital increase at DTS Distribuidora de Televisión Digital, S.A. was closed. Telefónica Media, which had previously acquired an additional 17% holding in DTS for Ptas. 40,477.5 million and which had subscribed its proportional 36.95% holding before the capital increase, subscribed and paid sufficient shares to raise its ownership interest to the 68.59% currently held by it, for which it paid Ptas. 31,058 million. Article 19 of the Private Television Law provides that no stockholder may own a holding of over 49%. On June 1, 1999, Telefónica Media, S.A. informed the Board of Directors that it did not intend to maintain a holding of over 49% in the Company's capital stock. Accordingly, Telefónica Media, S.A., is taking the actions required for the transfer of a portion of the subscribed shares to other stockholders or to third parties (see Note 23). Telefónica Media, S.A. undertakes not to exercise the voting rights relating to the shares it owns in excess of the 49% holding, except in special cases.

On July 21, 1999, the Stockholders' Meeting of Vía Digital appointed and reelected its directors, of which 12 out of 24 relate to the Telefónica Group. The company continues to be consolidated by the global integration method.

In December Telesp acquired 72.66% of the total capital stock of Centrais Telefónicas de Ribeirao Preto, S.A. (CETERP), accounting for 96% of voting capital, for 334 million reais (Ptas. 30,404 million). This company provides wireline and wireless telephone services in the state of São Paulo, in the municipalities of Ribeirao Preto, Guatapar and Bonfim Paulista. This company was recorded at acquisition cost, since it was effectively acquired on January 3, 2000.

In December Telefónica Medios de Comunicación, S.A. sold its 20% holding in the capital stock of Recoletos Compañía Editorial, S.A. for Ptas. 30,000 million. The gain on this sale for the Telefónica Group was Ptas. 7,484 million, and was recorded under the "Gains on Disposals of Holdings in Consolidated Companies" caption in the consolidated statement of income.

In 1999 Telefónica Internacional acquired a further 5.03% holding in the capital stock of Telefónica del Perú, S.A. for Ptas. 33,182 million, thus increasing the Telefónica Group's total ownership interest in this company to 40.03%. The company continues to be consolidated by the global integration method.

Telefónica, through its 100% owned subsidiary Telefónica Intercontinental, obtained by tender, together with other companies

composing the Médi Telecom consortium, the second wireless telephony license for Morocco. Telefónica Intercontinental currently has an ownership interest of 34.5% in the consortium, for which it had to pay Ptas. 27,590 million. As of December 31, 1998, this company was recorded at acquisition cost.

In February Telefónica Media acquired an additional 17.09% holding in Antena 3 de Televisión, S.A. for Ptas. 19,538 million. In July Telefónica Media acquired a further 6.425% holding in Antena 3 de Televisión, S.A. for Ptas. 7,468 million. Subsequently, in December, it acquired an additional 0.288% of the company for Ptas. 671 million, thereby raising its holding to the 47.21% which it owned at 1999 year-end. The company continues to be carried by the equity method.

In August Telefónica Media acquired all the shares of the radio company Uniprex, S.A. for Ptas. 18,031 million, making an initial payment of Ptas. 12,000 million. This company was included in the financial statements of the Telefónica Group by the global integration method in September.

In December Telefónica Media acquired all the shares of Cadena Voz de Radiodifusión, S.A. for Ptas. 1,778 million. This company is consolidated by the global integration method.

On December 16, 1999, the investee Infonet Services Corporation (Infonet) was floated on the New York Stock Exchange through the sale of a portion of the shares owned by the former stockholders and the issue of new shares. Until the admission to listing on the New York Stock Exchange of this company, the Telefónica Internacional Group carried this holding at cost; however, in accordance with Spanish legislation, since it is a listed company it is now carried by the equity method. The gain obtained by the Group on this transaction amounted to Ptas. 19,204 million, and this amount is recorded under the "Gains on Disposals of Holdings in Consolidated Companies" caption in the accompanying consolidated statement of income. Thereafter, the ownership interest in this company was reduced to 14.63%.

In January Compañía de Telecomunicaciones de Chile, S.A. acquired a 60% holding in the Sonda Group for Ptas. 18,758 million. The parent company of this group is consolidated by the global integration method.

In June Telefónica Internacional acquired a further 19% holding in Telefónica Larga Distancia de Puerto Rico, Inc. and paid Ptas. 7,049 million for this transaction. With this acquisition, the ownership interest in the company increased to 98%. The company continues to be consolidated by the global integration method.

In January Telefónica sold 1,702,858 shares, representing 12.2% of capital stock, of Amper, S.A. for Ptas. 6,811 million, at a gain for the Telefónica Group of Ptas. 2,972 million, which is recorded under the "Gains on Disposals of Holdings in Consolidated Companies" caption in the accompanying consolidated statement of income. The company is still

12.2% owned and continues to be carried by the equity method.

Telefónica Intercontinental also took part in the incorporation of Azienda Comunale Energia e Ambiente - Telefónica, SpA (ACEA-Telefónica), with a 49% holding in the capital stock, for which it paid Ptas. 5,636 million. This company will provide advanced telecommunications services to businesses and individuals in Rome and in the Lazio region. As of December 31, 1999, ACEA - Telefónica was recorded in the financial statements of the Telefónica Group at acquisition cost.

Telefónica Intercontinental, a wholly owned subsidiary of Telefónica, acquired in January all the capital stock of the Austrian company European Telecom International GmbH for Ptas. 4,992 million. In December this company increased capital by Ptas. 1,300 million, which were fully subscribed and paid by the parent company. The company was included in consolidation as a subsidiary and was consolidated by the global integration method.

## 1998

— In July 1998, the Brazilian government privatized Telecomunicações Brasileiras, S.A. (Telebrás), which had previously been divided into 12 holding companies (1 for long-distance telephony, 3 for wireline telephony and 8 for wireless telephony), in a sale through public auction of 51.79% of the capital stock with voting rights, equivalent to 19.26% of the total capital stock of each of these companies. Telefónica Internacional submitted successful bids, through dependent companies or consortia, for the following companies:

- Telesp Participações, S.A.: A holding company that controls Telesp, S.A. and CTBC (Compañía Telefónica de Borde do Campo), wireline telephony operators in the state of São Paulo. The holding was acquired through Tele Brasil Sul Participações, S.A., a holding company in which Telefónica Internacional, S.A. has a 52.93% ownership interest at an acquisition cost of Ptas. 473,286 million.
- Tele Sudeste Celular Participações, S.A.: A holding company that controls the cellular telephone operators in the states of Rio de Janeiro (Telerj Celular, S.A.) and Espírito Santo (Telest Celular, S.A.). The holding acquired in the public auction is owned by a consortium in which Telefónica Internacional has an 82.5% stake at an acquisition cost of Ptas. 164,293 million.
- Tele Leste Celular Participações, S.A.: A holding company that controls the cellular telephony operators in the states of Bahia (Telebahia Celular, S.A.) and Sergipe (Telergipe Celular, S.A.). The consortium formed by Telefónica Internacional with a 38% holding and Iberdrola with the remaining 62%, won the auction, at a cost to the Group of Ptas. 21,130 million.
- Telesp Celular Participações, S.A.: A holding company that controls the wireless telephony operator in the state of São Paulo (Telesp



Celular, S.A.). Portelcom, the consortium in which Telefónica Internacional has a 35.8% stake, obtained the holding that was being offered, at a cost to the Group of Ptas.166,848 million.

All these companies were carried by the equity method in 1998 (see Note 2-c).

- As a result of the successful bid that Telefónica Do Brasil Holding, S.A. made for the additional 50.12% of common stock of the Brazilian company Companhia Riograndense de Telecomunicações, S.A. (CRT), the Telefónica Internacional Group's new indirect holding in CRT increased from 10.3% to 16.7%, with an acquisition cost of Ptas. 64,945 million.
- In March Telefónica Medios de Comunicación, S.A. subscribed to all the shares issued by Recoletos Compañía Editorial, S.A. in a capital increase of Ptas.122 million with additional paid-in capital of Ptas 22,003 million. Telefónica Medios de Comunicación is wholly owned by Telefónica, and has a 20% holding in Recoletos Compañía Editorial, S.A. The company is carried by the equity method.
- In April, the Telefónica Internacional Group sold its 25% holding in the Argentine company Multicanal, S.A. As a result of this sale, the Group recorded a gain of Ptas.17,718 million, which is recorded under the "Gains on Disposals of Holdings in Consolidated Companies" caption. In 1997, this company was carried by the equity method.
- In January, Telefónica Internacional acquired an additional 3.33% holding in the Argentine company Torneos y Competencias, S.A. reaching a 20% controlling stake. The company, which was not included in the consolidated group in 1997, is currently carried by the equity method
- Cablevisión, S.A., an Argentine company 33.28% owned by Telefónica Internacional, that was acquired in 1997 and recorded that year at cost, was carried by the equity method in 1998. In December Telefónica Internacional acquired an additional holding of 2.58% increasing its total holding to 35.86%.
- In April Telefónica Medios de Comunicación, S.A. (TMC) acquired the remaining 51% of the capital stock of Gestora de Medios Audiovisuales de Fútbol, S.L. (GMAF), at a cost of Ptas.6,356 million. This company, which was carried by the equity method, is now consolidated by the global integration method.
- In October Compañía de Telecomunicaciones de Chile, S.A. acquired 99.99% of the capital stock of VTR Larga Distancia, S.A. from V.T.R., S.A. for US\$ 50 million, equivalent to Ptas. 7,130 million.

### 3. PROPOSED DISTRIBUTION OF THE INCOME OF THE CONTROLLING COMPANY

The proposed distribution of 1999 income that the Board of Directors will submit for approval by the Stockholders' Meeting is as follows:

Basis of distribution	Millions of Pesetas
1998 net income	103,122
Total amount to be distributed	103,122
<b>DISTRIBUTION TO:</b>	
Legal reserve	6,090
Voluntary reserve	97,032
<b>Total amount distributed</b>	<b>103,122</b>

### 4. VALUATION STANDARDS

The main valuation methods used in the preparation of the 1999 and 1998 consolidated financial statements are as follows:

#### A) GOODWILL IN CONSOLIDATION

The accompanying consolidated balance sheets include goodwill, net of amortization, arising from the positive difference in consolidation between the amounts paid to acquire the shares of the dependent companies consolidated or carried by the equity method and their underlying book values plus the unrealized gains allocable to these companies' assets at the acquisition date, and that still existed at year-end.

The Group amortizes existing goodwill over 20 years except in those cases where it is considered that it will be recovered in a shorter period (see Exhibit III).

#### B) TRANSLATION METHODS (YEAR-END AND EXCHANGE RATE METHOD)

The financial statements of the Group companies abroad were translated to pesetas at the exchange rates ruling at year-end, except for:

1. Capital stock and reserves, which were translated at historical exchange rates.
2. Income statement accounts, which were translated at the average exchange rate for the year.

The exchange difference arising from application of these procedures is included under the «Stockholders' Equity - Translation Differences in Consolidation» caption in the accompanying consolidated balance sheets, net of the portion of said difference relating to minority interests, which is recorded under the "Minority Interests" caption on the liability side of the accompanying consolidated balance sheets.

The companies using accounting methods that include inflation adjustments apply the accounting standards in force in their respective countries, which consist of valuing monetary assets and liabilities at face value and adjusting the historical cost of nonmonetary assets and liabilities by the inflation from the date of inclusion of the asset or liability in the company's balance sheet to year-end. The effect of the year's inflation on the monetary assets and liabilities is included in the statement of income for the year in the "Exchange Losses" or "Exchange Gains" caption. The amounts thus adjusted are translated to US dollars at the year-end exchange rate and the later conversion to pesetas is made by the year-end exchange rate method described in paragraphs 1 and 2 above.

## C) START-UP EXPENSES

Start-up expenses, which comprise incorporation and capital increase expenses, are recorded at cost and are amortized on a straight-line basis over five years.

## D) INTANGIBLE ASSET S

This caption in the accompanying consolidated balance sheets includes the following items:

### Research and development expenses

These relate to the costs incurred in developing new products to be marketed or used for the Group's own network, which are amortized by the straight-line method over three years from the date of completion. Costs incurred in projects which are not viable for the future are charged to the statement of income in the year in which this circumstance becomes known.

### Rights on leased assets

The rights under financial lease contracts are recorded at the cost of the related assets, and the total debt for lease payments plus the amount of the purchase option are recorded as a liability. The difference between the two amounts, which represents the interest expenses on the transaction, is recorded as a deferred charge and is allocated to income each year by the interest method. The existing contracts, which relate to computer hardware, are amortized by the straight-line method over five years, which coincides with the years of useful life of the hardware.

### Software licenses

Software licenses are recorded at cost and are amortized by the straight-line method over three years.

## Administrative concessions

This caption includes the following items:

The administrative concession granted by the Peruvian government to CPT and Entel Perú at the time of acquisition of these two companies by Telefónica Internacional. This concession is amortized over 25 years (20 years through 1998, extended for 5 more years in 1999), which is the concession period, and on the basis of the number of lines installed, since this is the main variable that determines the obtaining of revenues allocable to the concession.

The licenses to operate wireline and wireless telephony services of the companies acquired via the privatization of the Telebras system, recorded as an addition to the value of these assets at the time of acquisition. The licenses are amortized over 27 years (the concession period) and on the basis of the number of lines installed, since this is the main variable that determines the obtaining of revenues allocable to the concessions.

The DCS 1800 license that includes the amount paid to the different Spanish public authorities plus the amount destined to pay for the costs of the deregulation of the radio spectrum that is necessary for the implementation and development of the license. The license is amortized over 25 years (the concession period) and on the basis of the estimated capacity for the generation of revenues in each period.

The license obtained by Telefónica Argentina for the provision of personal communications services (PCS) for Ptas. 3,338 million.

### Other intangible assets

This caption includes, among other items, the costs incurred in acquiring capacity and rights of use of other operators' cables, mainly underwater cables. These rights are amortized on a straight-line basis over 25 years, which is generally the duration of the acquired rights.

## E) PROPE RTY AND EQU IPMENT

Property and equipment is carried at cost revalued pursuant to the applicable enabling legislation from 1946 to 1996, including Royal Decree-Law 7/1996 (see Note 7). If the regulations applicable in each country so require, the property and equipment is valued at cost or appraisal value adjusted by inflation.

Cost includes external costs plus internal costs comprising warehouse materials used, direct labor used in installation work and the allocable portion of the indirect costs required for the related investment. The latter two items are recorded as revenue under the "Capitalized Expenses of In-House Work on Fixed Assets" caption.

The interest and other financial expenses incurred during the construction of property and equipment in connection with the start-up of a new activity, when the construction period exceeds one year, and the exchange differences arising over this period on long-term loans for the financing of these assets, are capitalized, provided that the resulting amount does not exceed realizable value. Ptas, 784 million were capitalized in 1999.

The costs of expansion, modernization or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalized.

Upkeep and maintenance expenses are expensed currently.

The Group performs the necessary value adjustments to allocate to each property and equipment item its lowest market value at each year-end, provided that the book value of the asset is not recoverable through the generation of sufficient revenues to cover all the costs and expenses, including depreciation.

A provision must be recorded for lasting diminution in value that is deemed to be reversible. This provision will be deducted in valuing the asset in question; in this case the lower valuation will not be maintained if the causes of the value adjustment have ceased to exist.

When the diminution in value of the assets is irreversible and different from systematic depreciation, the loss and the diminution in value of the related asset will be directly recorded (see Note 7).

Due to the effect of the introduction of competition in Spain, Telefónica de España revised the useful lives of certain assets, increasing the depreciation rate applied to the access network from 10% to 20% and the rate applied to subscriber equipment from 14.3% to 25%. This circumstance gave rise to an increase of Ptas.40,625 million in the 1999 depreciation charge.

The companies depreciate their property and equipment by the straight-line method at annual rates based on the years of estimated useful life, calculated in accordance with technical studies, reviewed periodically based on technological advances and the rate of dismantling, as follows:

	Years of Estimated Useful Life
Buildings	30 - 50
Technical installations and machinery	10 - 20
Switching equipment	7 - 17
Transmission equipment	5 - 14
Local and domestic long-distance networks	7 - 25
Subscriber equipment and other installations	4 - 8
Furniture, office equipment and other	4 - 15

The increases in value resulting from the revaluations are depreciated over the years of residual useful life of the revalued assets.

#### F) LONG- AND SHORT-TERM FINANCIAL INVESTMENTS

Shareholdings which were not consolidated were recorded in the consolidated balance sheet at the lower of cost or market.

The market value was determined as follows:

##### 1. Listed securities:

The market value was taken to be the lower of average market price in the last quarter or market price at year-end.

##### 2. Unlisted securities:

At cost, net, if appropriate, of the required provisions for diminution in value.

Unrealized losses (cost higher than market or underlying book value at year-end) are recorded in the «Provision for Financial Investments» account.

The “Short-Term Financial Investments” caption includes mainly the investment of cash surpluses arising at Telefónica, S.A. and other Group companies in short term assets and the investment of the net level premium reserves of the Group’s insurance companies (see Note 8), which amounted to Ptas.133,420 million and Ptas.48,378 million, respectively, as of December 31, 1999.

#### G) DEFERRED CHARGES

This caption in the accompanying consolidated balance sheets includes the following items:

## Supplementary pension payments to retired employees (shortfall)

These relate to the shortfall in the provisions recorded for the commitments assumed by Telefónica de España to retired employees as of June 30, 1992. Since then, the shortfall has been allocated to income over 15 years by the straight-line method, in accordance with the communication obtained from the Spanish Accounting and Audit Institute (ICAC) dated March 1, 1993. On November 1, 1997, an external fund was set up for these commitments (see Notes 4-l and 14).

## Debt arrangement expenses-

These relate to long-term debt arrangement expenses and issuance premiums on debentures and bonds and are amortized by the interest method on the basis of the principal amounts outstanding.

## Interest on promissory notes

This relates to the difference between the par value and the effective value of the promissory notes issued at over one year. This interest is charged to income by the interest method.

## Interest on financial lease contracts

This relates to the interest expenses on financial lease contracts, which are charged to income by the interest method (see Note 4-d).

## H) INVENTORIES

Warehouse materials for installation in capital expenditure projects and consumables and replacement parts are valued at the lower of weighted average cost, adjusted by the effect of inflation in the countries whose local legislation so requires, or market.

Obsolete, defective or slow-moving inventories have been reduced to realizable value. The allowance for depreciation of inventories is recorded on the basis of age and turnover.

## I) TREASURY STOCK

Treasury stock is valued at the lower of cost, comprising the total amount paid for acquisition, or market. Market value is the lower of average market price in the last quarter of the year or year-end market price, which does not differ significantly from the net asset value per share.

The Company has recorded the related restricted reserve as required by Article 79.3 of the Corporations Law (see Note 11-a).

## J) CAPITAL SUBSIDIES

Capital subsidies are valued at the amount granted and are allocated to income on a straight-line basis over a maximum period of ten years,

which does not differ materially from the estimated useful life of the subsidized assets.

The main subsidies obtained were granted as follows:

Grantor	Reason for granting
Official agencies, autonomous community governments and provincial and municipal authorities	Extension of service to rural areas
European Union	Promotion and development of telecommunications activities
European Union (ERDF Program)	Infrastructure for depressed areas

Most of the aforementioned subsidies were granted to Telefónica de España and all the subsidy grant requirements are being met in all cases (see Note 13).

## K) FOREIGN CURRENCY TRANSACTIONS

Fixed-income securities and receivables and payables denominated in foreign currencies are translated to pesetas at the exchange rates ruling at the transaction date, and are adjusted at year-end to the exchange rates then prevailing.

Exchange differences arising on adjustment of foreign currency accounts payable and receivable to year-end exchange rates are classified by currency and due date, and for this purpose currencies which, although different, are officially convertible are grouped together.

The positive net differences in each group of currencies are recorded under the «Deferred Revenues» caption on the liability side of the consolidated balance sheet, unless exchange losses in a given group have been charged to income in prior years, in which case the net positive differences are credited to period income up to the limit of the negative net differences charged to income in prior years.

The positive differences deferred in prior years are credited to income in the year in which the related accounts receivable and payable fall due or are repaid early, or as negative exchange differences for the same or a higher amount are recognized in each homogeneous group.

Exchange gains or losses arising from specific financing of foreign currency investments in investee companies to hedge the exchange rate risk in these investments have been recorded under the «Translation Differences in Consolidation» caption in the consolidated balance sheet.

These transactions are deemed to be hedging transactions when they meet certain requirements, most notably that the foreign currency in which the financing is denominated is the same as or matches the functional currency of the investment and of the flows generated by it,

and that anticipated flows of dividends and management fees match the loan repayments.

#### L) PENSION AND SIMILAR COMMITMENTS TO TELEFÓNICA DE ESPAÑA, S.A. EMPLOYEES

The main commitments in this connection and their accounting methods are as follows:

##### Inclusion in the general social security system

Through December 31, 1991, Telefónica de España personnel benefited from a social welfare system provided by Institución Telefónica de Previsión (ITP). A Ministry of Labor and Social Security Order dated December 30, 1991, provided for serving and retired employees of ITP to be included in the general social security system. Since January 1, 1992, Telefónica and its employees have been contributing to and receiving benefits from the general social security system.

The methods used to record and calculate the commitments arising from the aforementioned event are as follows:

##### a) Cost of including pensioners in the social security system

A resolution issued by the Directorate-General of Planning and Economic Organization of the Social Security System on May 25, 1992, stipulated that the cost of including ITP pensioners in the social security system amounted to Ptas. 130,683 million. ITP had to pay this amount to the social security authorities as follows:

- An initial payment of Ptas. 75,000 million.
- The remaining Ptas. 55,683 million had to be paid in constant annual installments over a period of ten years, with a two-year grace period, with interest at 8%.

Since ITP did not have sufficient resources to meet the payments, Telefónica, which is subsidiarily liable, has been contributing the necessary funds to the social security authorities to make the payments. As of December 31, 1996, the outstanding debt amounted to Ptas. 38,688 million, for which Telefónica had recorded the related provisions under the "Provisions for Contingencies and Expenses" caption. On November 21, 1997, ITP was finally liquidated. Accordingly, a resolution issued by the Ministry of Labor's Directorate-General of Social Security on November 24, 1997, stipulated that Telefónica was directly liable to the social security authorities for the outstanding debt plus the related interest. In 1997, Telefónica paid early this debt (Ptas. 38,688 million) plus the interest accrued through that date (Ptas. 2,815 million).

As a result of the inclusion of serving employees in the social security system, on January 1, 1992, Telefónica de España must make additional

contributions to the social security system until the year 2016, based on the serving employees' effective contribution bases applicable at any time. These contributions consist of the payment of 2.2% over the regulatory base salary, and the related amount is recorded under the "Personnel Expenses" caption. Ptas. 4,907 million were recorded in this connection in 1999 (Ptas. 5,608 million in 1998).

##### Supplementary pension plan for serving employees as of June 30, 1992 and for those hired since that date

Telefónica de España has a collective labor agreement with its employees. The main features of the agreement are as follows:

- An occupational pension plan pursuant to Pension Plans and Funds Law 8/1987.
- Defined contribution of 6.87% of the participating employees' regulatory base salary. For employees who joined Telefónica after June 30, 1992, the contribution is 4.51% of the regulatory base salary.
- The obligatory contribution of the participant will be a minimum of 2.2% of his/her regulatory base salary.
- Individual and financial capitalization systems.

The plan came into effect on July 1, 1992. The past service benefits recognized for employees availing themselves of the plan amounted to Ptas. 228,489 million, including projected extraordinary contributions for employees who joined the Company in the period between the entry into force of Law 8/1987 and July 1, 1992, the date of commencement of the Plan.

The amount of Ptas. 121,350 million that had been provisioned internally at that date, together with corresponding interest of Ptas. 33,107 million calculated at an annual rate of 6.7%, had been fully transferred in the period to July 1998 to the pension fund set up for that purpose, which is managed by Fonditel, Entidad Gestora de Pensiones, a company 81% owned by the Telefónica Group.

The resulting shortfall (Ptas. 107,139 million) must be contributed to the pension fund within a maximum period of 28 years (the remaining average life for serving employees on the date the plan came into force) in increasing monthly installments payable in advance at an annual interest rate of 6%. In accordance with the communication from the Spanish Accounting and Audit Institute (ICAC) dated March 1, 1993, the Company records provisions for the shortfall over that same 28-year period pursuant to a systematic plan, increasing the amounts recorded each year by a factor of 1.042 through the year 2002 and, thereafter, in accordance with the rebalancing plan that allows the shortfall to be fully provisioned as of the date of effective retirement of the group concerned.

The provision recorded as of December 31,1999, was Ptas. 5,299 million (Ptas. 5,082 million in 1998).The resulting cumulative difference (Ptas. 18,204 million as of December 31,1999) between the provisions recorded (with a charge to income for 1999 and prior years) and the contributions made to the pension plan,is recorded under the “Provisions for Contingencies and Expenses - Provisions for Rebalancing Plan” caption (see Note 14).

The transfers made to the pension fund and the present value of future commitments are shown below.

	Transfer plan		Total	Interest
	Initial Funds to Be Transferred	Principal Shortfall to Be Transferred		
Transferred through 1997	73,077	13,666	86,743	62,939
Transferred in 1998	48,273	2,352	50,625	6,748
Transferred in 1999	—	2,568	2,568	5,190
<b>Total transferred as of</b>				
<b>December 31,1999</b>	<b>121,350</b>	<b>18,586</b>	<b>139,936</b>	<b>74,877</b>
<b>Future commitments</b>	<b>—</b>	<b>88,553</b>	<b>88,553</b>	<b>—</b>
<b>Total</b>	<b>121,350</b>	<b>107,139</b>	<b>228,489</b>	<b>74,877</b>

Of the future commitments shown above, Ptas.18,204 million have been recognized in income, as mentioned above. Consequently, Ptas. 70,349 million have yet to be recognized in income in future years, which will be recorded with a credit to provisions (see Note 14).

68,586 employees had joined the Plan as of December 31,1999 (68,172 at December 31,1998). Vested retirement,disability and death benefits had accrued to a total of 7,842 participants in 1999 (6,727 in 1998).

#### Supplementary pension payments to employees who retired before June 30, 1992

On July 8,1992, Telefónica reached an agreement with its employees whereby it recognized supplementary pension payments for employees who were retired as of June 30, 1992, equal to the difference between the pension payable by the social security system and that which would be paid to them by ITP. Once the aforementioned supplementary pension payments have been quantified,they become fixed,lifelong and non-updateable. 60% of the payments are transferable to the surviving spouse recognized as such as of June 30,1992,and to underage children.

In accordance with an actuarial study conducted by Telefónica, applying GRM-F80 tables and an assumed interest rate of 8%,as of June 30, 1992,the discounted present value of the commitments amounted to Ptas.132,025 million,and this amount was recorded under the “Provisions for Contingencies and Expenses”caption.Through that date,the Company had recorded provisions totaling Ptas.14,356 million in this

connection.The resulting underprovision (Ptas.117,669 million) was recorded under the “Deferred Charges”caption and has been allocated to income since that date by the straight-line method over 15 years, the estimated remaining average life of the retired employees (1992-2007). As of December 31,1999,the amount yet to be charged to income was Ptas. 76,855 million (Ptas. 87,102 million in 1998) (see Note 9).

The increase in the discounted present value of these commitments is recorded as an expense under the “Extraordinary Expenses”caption (see Note 20).

In addition,in 1996 the assumed interest rate decreased from 8% to 6.5%,leading to an increase of Ptas.10,597 million in the required provision.In 1997 the Company, as a result of application of the new GRM/F-80-2 tables, adjusted the value of the necessary provision by Ptas. 10,048 million.Also, the assumed interest rate decreased from 6.5% to 6.3%,leading to an increase of Ptas.1,841 million in the required provision.The balancing entry of these adjustments was recorded in “Deferred Charges”which,in accordance with the method described above,will be recognized in income over 7.5 years using the straight line method (see Note 9).

The amounts charged to income were as follows:

	Millions of Pesetas	
	1999	1998
Annual amortization	10,247	10,247
Discount to present value	5,586	6,188
<b>Total</b>	<b>15,833</b>	<b>16,435</b>

In accordance with Private Insurance Law 30/1995, on November 1, 1997, these commitments were externalized through an insurance policy (which must be adapted before January 1,2001 to Royal Decree Law 1588/1999 enacting the regulations on the instrumentation of employers’ pension commitments to employees and beneficiaries) taken outwith the Group company Seguros de Vida y Pensiones Antares, S.A.Antares, in turn,placed various structured deposits with finance entities for these amounts with maturities up to 2027 to eliminate the risk of future interest rate fluctuations affecting the payments to be made. Payments of Ptas.18,029 million were made in 1999 (Ptas.17,068 million in 1998).

The discounted present value of the payments outstanding amounted to Ptas. 76,797 million as of December 31,1999 (Ptas.89,241 million at 1998 year-end)(see Note 14).

#### Group life insurance (internal allowance for survivorship benefits)

Serving employees who did not join the pension plan continue to be entitled to receive survivorship benefits at the age of 65. The Company has recorded an internal allowance to cover these commitments, based on the actuarial calculations made under the following assumptions: adjusted

GRM/F-80-2 mortality table and an assumed interest rate of 4%. As of December 31, 1999 and 1998, this allowance amounted to Ptas.15,548 million and Ptas.14,543 million, respectively, and was recorded under the "Provisions for Contingencies and Expenses" caption (see Note 14).

These commitments must be externalized by January 1, 2001, pursuant to Private Insurance Law 30/1995, Law 50/1998 on tax, administrative, labor and social security measures, and Royal Decree 1588/1999 enacting the regulations on the instrumentation of employers' pension commitments to employees and beneficiaries.

#### Provisions for voluntary preretirements and early retirements of Telefónica de España, S.A. employees

With the object of adapting itself to the competitive environment, Telefónica has implemented voluntary "preretirement", early retirement and technology renewal plans in recent years (the technology renewal plans involve the dismantling of analog plants to replace them with digital facilities, to fulfil a commitment to the Government, among others, to digitalize 85% of lines in place by the year 2002).

The Company has been charging costs generated by this action to the operating account of the services covered by the license, since the bearing of these costs formed part of the ordinary business of the Company. These costs must be borne because the license contract requires the Company to maintain cost discipline and efficient management of productive resources. The recovery of these costs is covered by the rate system regulated in the contract itself. Under the conditions of exclusive provision of the telephone service during those years, the rate system enabled the overall financial balance of the license provided for in the contract to be maintained in spite of the internal imbalance of that rate system.

In 1997 and 1998 the voluntary "preretirement" and early retirement plans provided for in the 1997/1998 Collective Labor Agreement were put into practice. The terms of the Agreement provide for "preretirement" of employees above 55 years of age and/or early retirement of employees above 60 years of age, all at the employee's request and subject to acceptance by the company and to certain financial conditions. In addition, only in 1998, employees aged 53 or more could opt for "preretirement" on similar terms.

The number of employees who availed themselves of these plans in 1998 and obtained the required approval of the Company was 5,741. Telefónica adopted the policy to systematically record provisions, with a charge to income, for the amounts relating to the "preretirements" and early retirement to ensure that the allowance for "preretirements" and early retirement has been recorded in full by the time the employee is terminated. The allowance recorded in this respect amounted to Ptas. 187,739 million in 1998, and represented the present value of the estimated obligations in this respect discounted at 4%. The annual provision totaled Ptas. 125,891 million (see Note 13).

As shown above, during those periods in which the Company operated as a monopoly the aforementioned costs were recovered within the framework of the rate system approved by the Government to meet the obligation to guarantee the overall financial balance regulated in the license contract. However, at the beginning of 1998 the monopoly was broken when Retevisión started to provide services, leading to full competition in the industry on December 1, 1998, five years before the deadline set by the European Commission for the Spanish Government. This opening to competition was brought about by the Government, without having previously established the mechanisms necessary to eliminate the deficit caused at Telefónica by the application of the current rates set for access and for local telephone calls deriving from an internal cross-subsidization plan with the rates for long-distance services, or stipulating compensation for the costs arising as a result of the transition to competition.

In this context, as a consequence of the accelerated deregulation of the industry, and having requested on various occasions that the Government find a favorable solution to these problems, Telefónica was obliged to further adapt its cost structure to the new environment, taking certain strategic decisions in relation to its dimensioning and organization policy. For this purpose, in 1998 it decided to implement a new extraordinary preretirement and early retirement plan that, as has been announced, will affect approximately 13,967 employees in 1999 and 2000. The aim of the plan is to take maximum advantage of the digitalization undertaken in recent years by exploiting the inherent productivity improvements made possible by it.

The basic characteristics of this plan, based on the principle that it is voluntary for the employer and the employee, are as follows: preretirement for employees aged 52 or more, and voluntary severance and transfers to subsidiaries with indemnity.

Given this situation, the Company deemed it appropriate to reflect in the balance sheet the need to deal with these costs through the recording of a provision of Ptas. 459,500 million as of December 31, 1998, with a charge to "Extraordinary Expenses" (see Note 20). Additionally, a credit was recorded to "Extraordinary Revenues" for that amount with charges of Ptas. 298,675 million to unrestricted reserves and of Ptas. 160,825 million to prepaid taxes.

This procedure meant not following the accounting principle that states that expenses in each year must be effectively incurred and recognized in the income statement for that year. The Company adopted the aforementioned procedure because despite the fact that it did not incur expenses through contractual obligations as of December 31, 1998, it was considered that not making the provision and simultaneous charge to unrestricted reserves for the same amount, would not have allowed a true and fair view of the Company's net worth, financial position and results to be given. All this was performed in accordance with Articles 34 and 38 of the Commercial Code.

The Company considers that in this way it fulfils the accounting principle of prudence in valuation and the revenue and expense matching principle:

Our approach complied with the principle of prudence in valuation because it informed of and reflected for accounting purposes as of December 31,1998,through a reduction in equity, the Company's need to meet significant costs at short term as a consequence of the need to adapt to the new, fully competitive framework,although they were not incurred through any contractual obligations.Thus, the effect on net worth is the same as if the provision had been recorded against period expenses without offsetting the extraordinary revenue,since,in that case,the period loss would have reduced equity by an identical amount.

Our approach complies with the revenue and expense matching principle because the Company does not know the amount,mechanism and time frame of recovery of these costs to which it is entitled and which it will collect in the future. In consequence,if the Company decided to record the costs in the period in which they were incurred, regardless of when it could record the related offset,when its amount and timing become actually known,the Company would not be fulfilling the matching principle.

This approach has already been used in situations with similar characteristics in other industries, such as banking or electricity and companies that belong to Sociedad Estatal de Participaciones Industriales (SEPI);and it is considered to comply with the objective of giving as fair a view as possible of the net worth and financial position of the companies.

In 1999 Telefónica de España offered voluntary "preretirement" and early retirement to its employees on terms similar to those offered in 1998.6,247 employees availed themselves of this plan and were terminated before December 31,1999.The cost of these terminations, amounting to Ptas.223,775 million, was covered by the allowance recorded as described above.

Subsequently, on July 13, 1999,a collective labor agreement was entered into with the workers' representatives whereby it was agreed to adopt measures aimed at adapting the workforce to the actual needs of the Company with the desire that the terminations be the minimum number possible and that they would have the lowest possible social cost.

Against this background a Layoff Plan was submitted to the Sub-Directorate-General of Labor Relations of the Directorate-General of Labor of the Ministry of Labor and Social Security requesting authorization to terminate the employment contracts of up to a maximum of 10,849 employees, 5,380 in 1999 and 5,469 in 2000.

The Plan was approved on July 16,1999,affecting a total of 10,846 employees.The Plan is to be implemented in 1999 and 2000, with a time

limit of December 31,2000.The authorized terminations must be voluntary and not discriminate with respect to age.

From the date of application of the plan through December 31,1999, a further 5,378 Telefónica de España employees availed themselves of the Plan and were terminated, of which 5,026 generated a cost to the Company. The termination cost, which is covered by the allowance, amounted to Ptas.164,662 million.

Accordingly, in 1999 11,273 employees were terminated at a cost for the Company: 6,247 terminations took place before the Layoff Plan and 5,026 took place under the Plan. Considering the accrual of the cost of the employees expected to be terminated in 2000, the total discounted and accrued cost as of December 31,1999,amounted to Ptas.444,172 million, and is covered by the provisions recorded by Telefónica in 1998.

Should the Company have continued to follow the methods used in previous years –i.e. charge the costs to income for the period at the time the contractual obligations were incurred- and given that this plan was signed with the employees and their representatives in 1999,the effect on the 1998,1999 and subsequent financial statements would have been as follows:

## 1998

- I. If the recordings made in the 1998 financial statements were completely reversed:
  - a) Unrestricted reserves, and consequently, net worth per books as of December 31,1998, would increase by Ptas.298,675 million,and the balance-sheet provisions and prepaid taxes accounts would decrease by Ptas.459,500 million and Ptas.160,825 million, respectively.
  - b) Net income for 1998 would not change as both extraordinary revenues and expenses would decrease by Ptas.459,500 million.
- II If the provision to the allowance were maintained,but no charge were made to unrestricted reserves for the same amount:
  - a) Net worth per books as of December 31,1998, would be identical to that reflected in the 1998 financial statements.
  - b) 1998 net income would decrease by Ptas.298,675 million,which would mean a loss for the year of Ptas.81,091 million.

## 1999

If the 1998 charge to reserves and prepaid taxes were completely reversed and the appropriate provision were recorded with a charge to 1999 extraordinary expenses in accordance with the methods used in previous years (which implies recognizing the total discounted cost of



the 11,273 terminations that took place in 1999 plus the accrual of the discounted cost of the 5,273 employees who are expected to take early retirement under the labor force reduction plan in 2000):

- a) Prior years' extraordinary revenues would increase by Ptas.298,675 million and the balance-sheet provisions and prepaid taxes accounts would decrease by Ptas.15,328 million and Ptas. 5,365 million, respectively.
- b) 1999 extraordinary expenses would increase by Ptas.288,712 million.

#### Future years

The effect on future years' financial statements would depend on the economic and accounting mechanisms ultimately adopted in relation to the elimination of the access deficit and the recovery of the costs arising from the transition to competition and on the number of requests for preretirement and the specific characteristics of those that are finally approved in 2000. In any case the compensation received or the overprovision, if any, will be recognized consistently with the accounting methods mentioned above.

#### M) TECHNICAL RESERVES

This caption relates mainly to the net level premium reserves, which represent the amount by which the present value of life insurance, pension and reinsurance commitments exceed the net premiums to be paid by the policyholders to Seguros de Vida y Pensiones Antares, S.A. and Casiopea Re. These reserves are credited when the commitments covered are paid.

#### N) ACCOUNTS PAYABLE

Accounts payable are recorded at redemption value, except for zero-coupon debenture and bond issues, which are recorded in the balance sheet at issue value plus accrued interest (see Note 15).

#### O) DERIVATIVES

Transactions aimed at eliminating or significantly reducing currency, interest rate or market risks on asset and liability positions or on other transactions are treated as hedging transactions. The gains or losses arising over the life of these derivatives are taken to the income statement using the same recognition method as that used for gains or losses on the asset or liability and main transaction hedged by the derivatives (see Note 17).

Transactions that, exceptionally, were not assigned to hedge risks, are not treated as hedging transactions. In transactions of this kind, the differences in market price are recorded for accounting purposes when the transactions are canceled or finally settled. However, if potential losses are anticipated at period-end, the related provision is recorded with a charge to the statement of income.

#### P) CORPORATE INCOME TAX AND OTHER TAXES

These captions in the consolidated statements of income include all the debits and credits arising from Spanish corporate income tax and similar taxes applicable to the Group companies abroad, including those relating to period expenses and those arising from adjustments to amounts recorded in prior years.

The expense for corporate income tax of each year is calculated on the basis of book income before taxes, increased or decreased, as appropriate, by the permanent differences from taxable income, defined as those arising between taxable income and book income before taxes that do not reverse in subsequent periods.

Tax relief and tax credits, excluding tax withholdings and prepayments, are deducted from the corporate income tax charge in the year in which they are definitively taken, except in the case of investment tax credits earned from 1996, which, at the time when they are taken, are deferred over the average life of the assets which gave rise to them. The difference between the expense incurred and the tax paid is due to the above-mentioned deferral and to revenue and expense recognition timing differences giving rise to prepaid and deferred taxes, provided that they have a certain reversal period (see Note 18).

#### Q) RECOGNITION OF REVENUES AND EXPENSES

Revenues and expenses are recognized on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

The revenues from telephony and other services are recognized on an accrual basis. These services are generally billed every two months. Unbilled revenues from the beginning of the billing cycle to the end of each month are estimated or recorded as soon as they are known. The differences between the estimated revenues and those subsequently invoiced are not material and are recorded in the following period. In accordance with the accounting principle of prudence, only realized income is recorded at year-end, whereas foreseeable contingencies and losses, including possible losses, are recorded as soon as they become known (see Note 20).

## 5. GOODWILL IN CONSOLIDATION

The variations in the "Goodwill in Consolidation" caption and in the related accumulated amortization in 1999 and 1998 were as follows:

Millions of Pesetas	
<b>Balance at 12/31/97</b>	<b>284,364</b>
Additions	93,564
Amortization	(21,135)
Net retirements	(5,166)
Nettransfers	53,889
Translation differences	(5,893)
<b>Balance at 12/31/98</b>	<b>399,623</b>
Additions	344,573
Amortization	(32,334)
Net retirements	(20,759)
Nettransfers	4,250
Translation differences	4,632
<b>Balance at 12/31/99</b>	<b>699,985</b>

The retirements in 1999 relate mainly to the sales of Recoletos and Amper in the year (see Note 2-d), which were carried by the equity method until they were sold.

The goodwill arising on the acquisition of companies by the Latin American operators is recorded in the local currency and is affected by exchange rate fluctuations. The resulting differences are shown in the "Translation Differences" account.

Per the estimates and projections available to the directors, the projected income attributable to the Group that will be earned by the companies at which goodwill has arisen is at least equal to the unamortized balance of the related goodwill over the relevant periods.

The detail of the balance of goodwill at each company, the related accumulated amortization and the variations therein is shown in Exhibit III.

The main additions to the goodwill in consolidation as of December 31, 1999, related to the following companies:

Millions of Pesetas	
Antena 3	17,906
CRT Celular (Brazil)	14,593
DTS	13,550
ETI GmbH Austria	4,877
Sonda Group	9,687
Infosel (Mexico)	8,316
Nutec Informática	30,629
Pearson PLC	89,124
Provedora de Servicios de Conectividad (Chile)	4,231
Telefónica de El Salvador	7,853
Telefónica del Perú	23,156
Telerj Celular	22,413
Telesp	16,268
Terra Networks Mexico	35,675
TLD Puerto Rico	4,598
Uniprex	14,083
Other companies	27,614
<b>Total</b>	<b>344,573</b>

## 6. INTANGIBLE ASSETS

The detail of the balances of the intangible asset accounts and of the variations therein in 1999 and 1998 is as follows:

Millions of Pesetas						
	Research and Development Expenses	Rights on Leased Assets	Software Licenses and Development	Administrative Concessions	Other Intangible Assets	Total
<b>Balance at 12/31/97</b>	<b>120,582</b>	<b>16,336</b>	<b>101,352</b>	<b>229,776</b>	<b>17,445</b>	<b>485,491</b>
Additions	21,928	1,879	42,958	710,254	2,037	779,056
Retirements	—	(52)	(2,602)	(17,183)	(442)	(20,279)
Transfers	(61)	(1,789)	4,952	6,645	1,291	11,038
Inclusion of companies	—	1,684	—	522	20,796	23,002
Translation differences	(94)	(682)	—	(322)	(776)	(1,874)
Exclusion of companies	(46)	—	(400)	—	(9)	(455)
<b>Balance at 12/31/98</b>	<b>142,309</b>	<b>17,376</b>	<b>146,260</b>	<b>929,692</b>	<b>40,342</b>	<b>1,275,979</b>
Additions	15,022	4,592	55,617	66,521	22,169	163,921
Retirements	—	(148)	(686)	(62,866)	(990)	(64,690)
Transfers	(423)	(911)	1,534	6,098	6,556	12,854
Inclusion of companies	784	37	1,927	18,807	25,991	47,546
Translation differences	67	548	—	1,644	119	2,378
Exclusion of companies	—	(36)	(86)	(555)	(46)	(723)
<b>Balance at 12/31/99</b>	<b>157,759</b>	<b>21,458</b>	<b>204,566</b>	<b>959,341</b>	<b>94,141</b>	<b>1,437,265</b>

The variations in the related accumulated amortization were as follows:

Millions of Pesetas						
	Research and Development Expenses	Rights on Leased Assets	Software Licenses and Development	Administrative Concessions	Other Intangible Assets	Total
<b>Balance at 12/31/97</b>	<b>52,873</b>	<b>3,893</b>	<b>44,749</b>	<b>23,320</b>	<b>4,547</b>	<b>129,382</b>
Provisions	13,553	1,692	13,592	13,181	5,043	47,061
Retirements	—	(52)	(2,532)	(131)	(431)	(3,146)
Transfers	6	(730)	(65)	2	124	(663)
Inclusion of companies	—	551	—	112	3,442	4,105
Translation differences	(77)	(85)	—	(136)	(484)	(782)
Exclusion of companies	(46)	—	(90)	—	(22)	(158)
<b>Balance at 12/31/98</b>	<b>66,309</b>	<b>5,269</b>	<b>55,654</b>	<b>36,348</b>	<b>12,219</b>	<b>175,799</b>
Provisions	28,761	2,042	25,379	22,575	6,659	85,416
Retirements	—	(62)	(232)	(575)	(940)	(1,809)
Transfers	—	(2)	(2)	19	575	590
Inclusion of companies	10	—	411	4,869	5,336	10,626
Translation differences	58	165	18	260	562	1,063
Exclusion of companies	—	(6)	(28)	(91)	(13)	(138)
<b>Balance at 12/31/99</b>	<b>95,138</b>	<b>7,406</b>	<b>81,200</b>	<b>63,405</b>	<b>24,398</b>	<b>271,547</b>
<b>1998 intangible assets, net</b>	<b>76,000</b>	<b>12,107</b>	<b>90,606</b>	<b>893,344</b>	<b>28,123</b>	<b>1,100,180</b>
<b>1999 intangible assets, net</b>	<b>62,621</b>	<b>14,052</b>	<b>123,366</b>	<b>895,936</b>	<b>69,743</b>	<b>1,165,718</b>

The additions to "Administrative Concessions" in 1999 relate mainly to the obtainment of a new license by Telefónica de Argentina for the provision of personal communications services (PCS) for Ptas.38,338 million and to the increase in the holding in Telesp (see Note 2-d) amounting to Ptas.25,674 million.

The "Intangible Assets- Inclusion of Companies" account in 1999 relates mainly to the Telefónica Internacional Group, which contributed Ptas.20,987 million as a result of the inclusion of the Brazilian operators, Telefónica de Centroamérica and Telefónica de El Salvador, and the inclusion of the Terra Group (Ptas.14,864 million), Lola Films (Ptas.9,138 million) and Onda Cero (Ptas. 5,707 million).

The retirements from "Administrative Concessions" in 1999 includes the write-down of the administrative concessions of the Brazilian companies Telesp, S.A., Tele Sudeste Celular Participações, S.A. and Telesp Celular Participações, S.A. amounting to Ptas.62,106 million as a result of the review of the recoverable value of these investments following the depreciation of the Brazilian real in early 1999. The projections that the

directors had as of December 31, 1999, regarding business performance and the income to be contributed by these concessions, are at least equal to the unamortized balance thereof as of that date.

The additions to "Administrative Concessions" in 1998 relate mainly to the acquisition of the DCS 1800 license in Spain for Ptas.28,814 million, and to the various licenses required to provide wireline and wireless telephony services relating to the companies acquired in the spin-off of the Telebrás system for Ptas.680,472 million.

The retirements in 1998 arose basically as a result of the sale of the holding in Tele Sudeste Participações, S.A. for Ptas.16,175 million.

In 1998 the "Inclusion of Companies" caption reflects the effect arising from the consolidation by the global integration method of Telefónica Argentina, S.A., Venturini España, S.A., Gestión de Medios Audiovisuales de Fútbol, S.L. (GMAF) and Compañía de Inversiones en Telecomunicaciones, S.A. (Cointel), which had been carried by the equity method in 1997.

## 7. PROPERTY AND EQUIPMENT

The detail of the balances of property and equipment, the related accumulated depreciation and the variations therein in 1999 is as follows:

Millions of Pesetas								
	Balance at 12/31/98	Additions	Retirements	Inclusion of Companies	Exclusion of Companies	Translation Differences	Transfers	Balance at 12/31/99
<b>Cost:</b>								
Land and structures	839,245	9,692	(6,339)	255,140	(557)	(32,211)	62,111	1,127,081
Technical installations and machinery	161,816	9,833	(6,296)	91,896	(10,732)	(17,693)	13,703	242,527
Telephone installations, networks and equipment	6,937,564	149,910	(324,324)	2,513,315	(42)	(359,067)	621,481	9,538,837
Furniture, tools and other	329,509	54,856	(18,818)	61,934	(1,528)	3,192	39,282	468,427
<b>Total property and equipment in service</b>	<b>8,268,134</b>	<b>224,291</b>	<b>(355,777)</b>	<b>2,922,285</b>	<b>(12,859)</b>	<b>(405,779)</b>	<b>736,577</b>	<b>11,376,872</b>
Net variation in construction in progress	395,465	769,068	1,093	271,236	(2,908)	(34,463)	(703,658)	695,833
Advances to fixed assets suppliers	1,982	1,595	(24)	378	—	106	(262)	3,775
Installation materials in warehouses	40,457	59,788	(12,192)	15,180	—	(1,098)	(40,984)	61,151
<b>Property and equipment, gross</b>	<b>8,706,038</b>	<b>1,054,742</b>	<b>(366,900)</b>	<b>3,209,079</b>	<b>(15,767)</b>	<b>(441,234)</b>	<b>(8,327)</b>	<b>12,137,631</b>
<b>Accumulated depreciation:</b>								
Structures	202,603	32,107	(1,216)	98,719	(186)	(17,355)	18	314,690
Technical installations and machinery	92,060	19,363	(4,998)	46,523	(6,010)	(8,671)	(2,883)	135,384
Telephone installations, networks and equipment	3,574,126	820,020	(296,079)	1,334,724	(6)	(199,423)	(17,167)	5,216,195
Furniture, tools and other	207,182	50,041	(17,213)	35,129	(310)	5,009	16,874	296,712
<b>Total accumulated depreciation</b>	<b>4,075,971</b>	<b>921,531</b>	<b>(319,506)</b>	<b>1,515,095</b>	<b>(6,512)</b>	<b>(220,440)</b>	<b>(3,158)</b>	<b>5,962,981</b>
<b>Allowance for diminution in value</b>	<b>936</b>	<b>225,378</b>	<b>(777)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>225,537</b>
<b>Property and equipment, net</b>	<b>4,629,131</b>	<b>(92,167)</b>	<b>(46,617)</b>	<b>1,693,984</b>	<b>(9,255)</b>	<b>(220,794)</b>	<b>(5,169)</b>	<b>5,949,113</b>

The detail of the balances of property and equipment, the related accumulated depreciation and the variations therein in 1998 is as follows:

Millions of Pesetas								
	Balance at 12/31/97	Additions	Retirements	Inclusion of Companies	Exclusion of Companies	Translation Differences	Transfers	Balance at 12/31/98
<b>Cost:</b>								
Land and structures	717,016	3,767	(4,115)	109,791	—	(15,146)	27,932	839,245
Technical installations and machinery	159,392	3,187	(6,456)	1,964	(5)	(2,745)	6,479	161,816
Telephone installations, networks and equipment	6,035,655	62,227	(314,189)	720,494	(2)	(150,510)	583,889	6,937,564
Furniture, tools and other	256,411	28,951	(12,504)	40,657	(329)	(8,689)	25,012	329,509
<b>Total property and equipment in service</b>	<b>7,168,474</b>	<b>98,132</b>	<b>(377,264)</b>	<b>872,906</b>	<b>(336)</b>	<b>(177,090)</b>	<b>643,312</b>	<b>8,268,134</b>
Net variation in construction in progress	396,465	520,906	(639)	148,785	(1)	(33,518)	(636,533)	395,465
Advances to fixed assets suppliers	2,288	(1,344)	(609)	1,899	—	(251)	(1)	1,982
Installation materials in warehouses	38,977	16,415	(7,056)	11,129	—	(2,585)	(16,423)	40,457
<b>Property and equipment, gross</b>	<b>7,606,204</b>	<b>634,109</b>	<b>(345,568)</b>	<b>1,034,719</b>	<b>(337)</b>	<b>(213,444)</b>	<b>(9,645)</b>	<b>8,706,038</b>
<b>Accumulated depreciation:</b>								
Structures	170,748	21,283	(591)	15,291	—	(3,920)	(208)	202,603
Technical installations and machinery	85,297	12,772	(5,773)	1,419	(3)	(1,324)	(328)	92,060
Telephone installations, networks and equipment	3,039,324	602,693	(276,152)	265,128	—	(57,204)	337	3,574,126
Furniture, tools and other	161,236	36,783	(18,331)	33,599	(128)	(6,785)	808	207,182
<b>Total accumulated depreciation</b>	<b>3,456,605</b>	<b>673,531</b>	<b>(300,847)</b>	<b>315,437</b>	<b>(131)</b>	<b>(69,233)</b>	<b>609</b>	<b>4,075,971</b>
<b>Allowance for diminution in value</b>	<b>1,486</b>	<b>366</b>	<b>(916)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>936</b>
<b>Property and equipment, net</b>	<b>4,148,113</b>	<b>(39,788)</b>	<b>(43,805)</b>	<b>719,282</b>	<b>(206)</b>	<b>(144,211)</b>	<b>(10,254)</b>	<b>4,629,131</b>

The installation materials in warehouses are recorded net of provisions, which amounted to Ptas.6,358 million as of December 31, 1999 (Ptas. 4,229 million in 1998).The provisions for diminution in value of installation materials in warehouses recorded in 1999, based on their loss in value, amounted to Ptas.2,592 million (Ptas.2,386 million in 1998). The "Retirements" relate mainly to the dismantling of telephony plants (see Note 20).

In recent years, Telefónica de España has implemented an ambitious cost-reduction program, involving the introduction of "preretirement" and early retirement plans, expense limitation and control systems and a selective investment policy focusing mainly on asset efficiency and profitability.

Also, the deregulation of the telecommunications market led to the emergence in the market of new operators favored by the rate regulation process. The government has not redressed the rate imbalance as required under the 1991 State Contract and EU legislation. Telefónica has filed a claim with the State Administration seeking compensation for the deficits arising from the aforementioned rate imbalance (see Note 1).

The "Inclusion of Companies" account in 1998 reflects the effect of consolidating Telefónica Argentina, S.A., Venturini España, S.A., Venturini, S.A. and Compañía de Inversiones en Telecomunicaciones, S.A. (Cointel), which were carried by the equity method in 1997.

As of December 31, 1999, it reflected the effect of the consolidation by the global integration method of, mainly, Telesp, S.A., Tele Sudeste Celular Participações, S.A., Celular CRT, S.A. and the Sonda Group.

The "Exchange Differences" column includes both the effect of the variation in exchange rates on the beginning balances and the monetary adjustment applied by certain companies to their balances to adjust for inflation, in accordance with the accounting practices in their respective countries. The effect of exchange rates on the period variations is included in the appropriate column for each variation.

As of December 31, 1999 and 1998, the following items had been fully depreciated:

Millions of Pesetas		
	12/31/99	12/31/98
Buildings	17,010	10,430
Technical installations and machinery	120,421	21,027
Switching equipment	503,930	213,623
Transmission equipment	168,633	100,216
Local and domestic long-distance networks	549,772	341,374
Subscriber equipment and other installations	214,123	252,617
Furniture, office equipment and other	192,803	152,242
<b>Total</b>	<b>1,766,692</b>	<b>1,091,529</b>

Telefónica de España's fixed assets used to provide services currently regulated by a concession cannot be mortgaged without administrative authorization.

The Telefónica Group companies have taken out insurance policies to cover the possible risks affecting its property and equipment used in operations, except for the deductible existing in policies in force for local and domestic long-distance networks and subscriber equipment.

On December 31, 1996, Telefónica de España revalued its property and equipment pursuant to Royal Decree-Law 7/1996. The Company had previously revalued its accounts pursuant to the enabling legislation specifically applicable to Telefónica de España.

The net increase in value resulting from these revaluations will be depreciated over the tax periods in the remaining useful lives of the revalued assets. The 1996 revaluation increased the 1998 and 1999 depreciation charges by Ptas.30,374 million and Ptas.24,615 million, respectively.

The detail of the property and equipment owned by Group companies consolidated by the global integration method located abroad is as follows:

Millions of Pesetas		
	12/31/99	12/31/98
Cost	5,877,676	2,565,751
Accumulated depreciation	(2,487,454)	(882,358)
<b>Total</b>	<b>3,390,222</b>	<b>1,683,393</b>

#### Allowance for diminution in value

The telecommunications market in Spain became fully deregulated on December 1, 1998. In 1999, particularly in the last quarter of the year, certain regulatory measures were adopted the main consequence of which was to accelerate the opening up to competition of the basic telephony service in

Spain. These measures include most notably the approval in October of reductions in the regulated rates for local, long-distance and wireline-to-wireless services, although, per Company management estimates, the envisaged increase in monthly charges will not enable the effects of the current rate imbalance to be eliminated at medium term. Also approved on the same date were significant reductions in regulated circuit lease prices. In 1999 the bringing forward to the beginning of the year 2000 of the entry into force of obligatory operator pre-selection and number portability was approved. In July the general application of the prices and conditions of the Reference Interconnection Offer (RIO), of particular relevance to wireless operators, came into force. Lastly, measures were taken to bring forward the introduction of competition in the local loop through application of ADSL technology and the immediate award of radio spectrum licenses for use in the local loop (LMDS technology).

The Company has analyzed the impact of these measures on the recoverability of the value of certain assets, the investment in which was made in the past taking into account the prevailing regulatory framework, and above all in fulfillment of the obligations for the

provision of the universal service provided for in the State Contract entered into in 1991. As a result, at 1999 year-end the Company recorded a provision of Ptas.220,056 million for asset write-downs, with a charge to extraordinary expenses.

These write-downs affect assets that have to be replaced because they do not comply with the obligations associated with the provision of the new services or assets the projected returns on which, based on the aforementioned circumstances, do not enable the investment made to be recovered.

The return on these assets was measured by projecting the cash flows that they will foreseeably generate taking into account the current forecasts of utmost prudence regarding the evolution of competition and the regulatory framework of prices and rates.

The Company will periodically reassess this impact and, in any case, any shortfall or excess in the allowance that might arise will be recognized in line with the aforementioned methods.

## 8. LONG-TERM FINANCIAL INVESTMENTS

A) The detail of the balances of and variations in long-term financial investments in 1999 and 1998, of the related allowance for diminution in value, and of the capital payments outstanding is as follows:

### 1. Variations in long-term financial investments:

Millions of Pesetas						
	Holdings in Associated Companies	Other Holdings	Other Receivables	Guarantees and Deposits	Prepaid Taxes	Total
<b>Balance at 12/31/97</b>	<b>201,390</b>	<b>92,642</b>	<b>96,834</b>	<b>1,754</b>	<b>92,763</b>	<b>485,383</b>
Additions	275,588	57,920	114,564	11,878	209,329	669,279
Sale of companies	(7,160)	(3,252)	(42,277)	(345)	(8,122)	(61,156)
Inclusion of companies	43,318	637	12,226	16	—	56,197
Exclusion of companies	—	(10)	(2,539)	(5)	—	(2,554)
Translation differences	(24,454)	(2,293)	(2,047)	—	—	(28,794)
Income	12,199	—	—	—	—	12,199
Dividends	(4,806)	—	—	—	—	(4,806)
Transfers	(150,461)	(66,646)	(4,719)	23	8,899	(212,904)
<b>Balance at 12/31/98</b>	<b>345,614</b>	<b>78,998</b>	<b>172,042</b>	<b>13,321</b>	<b>302,869</b>	<b>912,844</b>
Additions	205,384	126,539	119,043	1,747	98,845	551,558
Sale of companies	(26,994)	(10,475)	(148,208)	(538)	(26,929)	(213,144)
Inclusion of companies	1,585	26,923	776	46	—	29,330
Exclusion of companies	(3,130)	(1,050)	—	—	(3,946)	(8,126)
Translation differences	(926)	(3,291)	5,623	—	—	1,406
Income	(644)	—	—	—	—	(644)
Dividends	(5,116)	—	—	—	—	(5,116)
Transfers	(254,974)	(50,838)	149,215	(11,323)	22,628	(145,292)
<b>Balance at 12/31/99</b>	<b>260,799</b>	<b>166,806</b>	<b>298,491</b>	<b>3,253</b>	<b>393,467</b>	<b>1,122,816</b>

The additions to and retirements from the “Holdings in Associated Companies” and “Other Holdings” accounts reflect the amount of the investments detailed in the variations in the consolidated Group in 1999 and 1998 described in Exhibit II.

The transfers in 1999 from “Holdings in Associated Companies” were due mainly to the consolidation of Telesp, S.A., Tele Sudeste Celular Participações, S.A. and Celular CRT, S.A. by the global integration method in 1999.

The transfers in 1998 from “Other Holdings” were made mainly to goodwill in consolidation as a result of carrying the holdings in Cablevisión and Torneos y Competencias, which were carried at cost in 1997, by the equity method in 1998 (see Exhibit III). The transfers from “Holdings in Associated Companies” arose mainly as a result of consolidating TASA and COINTEL by the global integration method in 1998.



The “Other Receivables”caption includes the investment of the netlevel premium reserves of the Group’s insurance companies, mainly in government debentures, government debt securities and long-term deposits amounting to Ptas.90,173 million,which mature through 2027 and earn an average return of 6.19%.The “Short-Term Financial Investments - Short-Term Investment Securities”caption in the consolidated balance sheet as of December 31,1999,includes Ptas.48,378 million (Ptas. 37,154 million in 1998) recorded to cover commitments, which are accounted for as “Technical Reserves”(see Note 14).

It also includes the tax asset of Ptas.118,190 million that arose as a result of the corporate restructuring of Telesp, S.A., of which Ptas.93,656 million mature at long term and are recorded under the “Other Receivables”caption,and Ptas.24,534 million are recorded as “Short-Term Financial Investments”.

The “Prepaid Taxes”caption includes the long-term prepaid taxes which are grouped together under the “Long-Term Financial Investments”caption on the asset side of the consolidated balance sheet,in accordance with a Spanish Accounting and Audit Institute (ICAC) Resolution on Valuation Standard 16 of the Spanish National Chart of Accounts (see Note 18).The additions in 1998 relate basically to the provision for “preretirement”.

2. Variations in the allowance for diminution in value of long-term financial investments:

	Millions of Pesetas	
	Allowance	Total Financial Investments
<b>Balance at 12/31/97</b>	<b>4,844</b>	<b>480,539</b>
Additions	146	669,133
Sale of companies	(35)	(61,121)
Inclusion of companies	1	56,196
Exclusion of companies	—	(2,554)
Translation differences	(385)	(28,409)
Income	—	12,199
Dividends	—	(4,806)
Transfers	(469)	(212,435)
<b>Balance at 12/31/98</b>	<b>4,102</b>	<b>908,742</b>
Additions	1,957	541,000
Sale of companies	(31)	(213,113)
Inclusion of companies	10,610	23,375
Exclusion of companies	(1,048)	(3,132)
Translation differences	(1,288)	2,694
Income	—	(644)
Dividends	—	(5,116)
Transfers	11,953	(157,245)
<b>Balance at 12/31/99</b>	<b>26,255</b>	<b>1,096,561</b>

3. Variations in capital payments outstanding:

Millions of Pesetas					
	Holdings in Group Companies	Capital Payments Outstanding			Total Long-Term Financial Investments, Net
		Holdings in Associated Companies	Other Holdings	Total	
<b>Balance at 12/31/97</b>	—	<b>452</b>	<b>575</b>	<b>1,027</b>	<b>479,512</b>
Additions (investment)	—	572	12	584	668,549
Sale of companies (divestment)	—	(224)	—	(224)	(60,897)
Inclusion of companies	—	—	—	—	56,196
Exclusion of companies	—	—	—	—	(2,554)
Translation differences	—	—	(28)	(28)	(28,381)
Income	—	—	—	—	12,199
Dividends	—	—	—	—	(4,806)
Transfers	—	—	(440)	(440)	(211,995)
<b>Balance at 12/31/98</b>	—	<b>800</b>	<b>119</b>	<b>919</b>	<b>907,823</b>
Additions (investment)	215	—	3,323	3,538	537,462
Sale of companies (divestment)	—	(785)	(55)	(840)	(212,273)
Inclusion of companies	70	—	—	70	23,305
Exclusion of companies	—	—	—	—	(3,132)
Translation differences	—	—	—	—	2,694
Income	—	—	—	—	(644)
Dividends	—	—	—	—	(5,116)
Transfers	(285)	—	—	(285)	(156,960)
<b>Balance at 12/31/99</b>	—	<b>15</b>	<b>3,387</b>	<b>3,402</b>	<b>1,093,159</b>

B) As of December 31, 1999, the Telefónica Group had sold the following holdings in various companies with the results detailed below:

	Percentage of Capital Stock Sold	Millions of Pesetas Book Value	Gain/Loss
<b>Dependent and associated companies:</b>			
Amper, S.A.	12.2	3,935	2,972
CTC Net, S.A.	100	589	4,131
InfonetServices Corporation, Inc.	0.327	3,152	19,204
Recoletos Compañía Editorial, S.A.	20	23,182	7,484
Sofres, Audiencia de Medios, S.A.	25	435	230
Telecomunicaciones Marinas, S.A.	100	1,326	35,852
Telefónica Cable Galicia, S.A.	30	30	(2)
Telefónica de Argentina, S.A.	1.808	7,884	10,073
Telefónica Publicidad e Información, S.A.	35	349	99,741
Telemensajem	15	609	(80)
Terra Networks, S.A.	29.53	28,287	82,885
Other	—	—	1,075
<b>Total</b>		<b>69,778</b>	<b>263,565</b>

In 1998 the Telefónica Group sold the following holdings in various companies with the results detailed below:

	Percentage of Capital Stock Sold	Millions of Pesetas Book Value	Gain/Loss
<b>Dependent and associated companies:</b>			
Advance Telecomunicaciones, S.A.	50.00	1,856	19
Companhia Brasil Sul Participações, S.A.	20.07	48,591	978
Compañía Celular de Colombia, S.A. (Cocelco)	30.83	4,779	1,977
Indra SSI, S.A.	36.56	2,121	2,862
Multicanal, S.A.	25.00	23,157	17,718
Rem Infográfica, S.A.	57.48	400	(47)
Telefónica Cable Castilla y León, S.A.	10.00	100	2
Telefónica Cable Catalunya, S.A.	20.00	20	12
Telefónica Cable Extremadura, S.A.	34.00	34	(2)
Telefónica Cable Madrid, S.A.	10.00	5	4
Tele Sudeste Celular Participações, S.A.	2.02	1,140	245
Other	—	—	80
<b>Total</b>		<b>82,203</b>	<b>23,848</b>

C) The Group companies listed on international stock markets are as follows:

Telefónica, S.A.  
 Amper, S.A.  
 Compañía de Telecomunicaciones de Chile, S.A.  
 Telefónica de Argentina, S.A.  
 Telefónica del Perú, S.A.  
 Compañía Anónima Nacional de Teléfonos de Venezuela, C.A.  
 Portugal Telecom, S.A.  
 Telesp, S.A.  
 Telesp Celular Participações, S.A.  
 Tele Leste Celular Participações, S.A.  
 Tele Sudeste Celular Participações, S.A.  
 Pearson P.L.C.  
 Telefónica Publicidad e Información, S.A.  
 Terra Networks, S.A.  
 Infonet Services Corporation

Also, the following companies are listed on the local stock markets in their respective countries:

Companhia Riograndense de Telecomunicações, S.A.  
 Telefónica El Salvador, S.A.

## 9. DEFERRED CHARGES

The breakdown of the balance of this caption and the amortization schedule are as follows:

Millions of Pesetas	Maturity					Subsequent Years	Balance at 12/31/99	Balance at 12/31/98
	2000	2001	2002	2003	2004			
Supplementary pension payments (shortfall) (Note 4-l)	10,247	10,247	10,247	10,247	10,247	25,620	76,855	87,102
Debt arrangement expenses	7,130	4,495	3,001	1,615	1,413	3,833	21,487	21,999
Executive loyalty-building program	3,016	2,854	2,854	1,903	—	—	10,627	1,131
Interest on long-term promissory notes	1,582	183	—	—	—	—	1,765	4,473
Interest on financial lease contracts	1,107	9	—	—	—	—	1,116	119
Other deferred charges	23,390	6,019	723	112	379	2,880	33,503	23,552
<b>Total</b>	<b>46,472</b>	<b>23,807</b>	<b>16,825</b>	<b>13,877</b>	<b>12,039</b>	<b>32,333</b>	<b>145,353</b>	<b>138,376</b>

The variations in the balances of the “Supplementary Pension Payments (Shortfall)” caption were as follows:

Millions of Pesetas	
<b>Balance at 12/31/97</b>	<b>98,161</b>
Amortization (Note 4-l)	(10,247)
Discounting to present value of costs (Note 14)	(812)
<b>Balance at 12/31/98</b>	<b>87,102</b>
Amortization (Note 4-l)	(10,247)
<b>Balance at 12/31/99</b>	<b>76,855</b>

## 10. CUSTOMER RECEIVABLES

The detail of the balances of this caption as of December 31, 1999 and 1998, is as follows:

Millions of Pesetas	Balance at 12/31/99	Balance at 12/31/98
Services billed:		
Customers billed	391,407	219,763
Doubtful customer receivables	164,354	124,641
Other	4,790	15,502
	<b>560,551</b>	<b>359,906</b>
Unbilled services	346,365	304,667
	<b>906,916</b>	<b>664,573</b>
Allowance for bad debts	(172,387)	(125,907)
<b>Total</b>	<b>734,529</b>	<b>538,666</b>

The “Unbilled Services” account includes the connection, monthly and metered service charges not yet billed by Telefónica de España and the other Group operators. This amount arises because these companies’ subscriber billing schedules do not coincide with year-end (see Note 4-q).

The balance of the public-sector customer accounts receivable in the countries in which the Group operates amounted to Ptas. 59,086 million as of December 31, 1999 (Ptas. 52,373 million as of December 31, 1998) (at Telefónica de España, S.A. it amounted to Ptas. 42,259 million at 1999 year-end and Ptas. 39,617 million at 1998 year-end).

In 1999 provisions amounting to Ptas. 16,770 million (Ptas. 53,200 million in 1998) were released and Ptas. 90,674 million (Ptas. 102,963 million in 1998) were recorded.

## 11. STOCKHOLDERS’ EQUITY

The detail of the balances of and variations in equity accounts in 1999 and 1998 is as follows:

Millions of Pesetas									
	Balance at	Distribution			Balance at	Distribution			Balance at
	12/31/97	of 1997	Other	Capital	12/31/98	of 1998	Other	Capital	12/31/99
		Income	Variations	Increase		Income	Variations	Increase	
Capital stock	469,735	—	—	42,704	512,439	—	(898)	31,348	542,889
Additional paid-in capital	43,067	—	—	384,331	427,398	—	2	—	427,400
Revaluation reserve	868,392	—	(298,675)	—	569,717	—	—	(31,348)	538,369
Undistributable reserves	93,947	—	—	—	93,947	8,541	—	—	102,488
Restricted reserves	—	—	—	—	—	—	898	—	898
Unrestricted reserves	175,410	53,347	(4,494)	—	224,263	140,994	26,453	—	391,710
Reserve for treasury stock	369	—	4,494	—	4,863	—	(4,585)	—	278
Consolidation reserve	126,577	40,942	(34,295)	—	133,224	68,135	(24,687)	—	176,672
Prior years’ earnings	137	(51)	—	—	86	(86)	—	—	—
Translation differences in consolidation	61,256	—	1,437	—	62,693	—	(133,625)	—	(70,932)
Income for the year	190,063	(190,063)	217,584	—	217,584	(217,584)	300,293	—	300,293
Interim dividend	(37,579)	37,579	—	—	—	—	—	—	—
<b>Total</b>	<b>1,991,374</b>	<b>(58,246)</b>	<b>(113,949)</b>	<b>427,035</b>	<b>2,246,214</b>	<b>—</b>	<b>163,851</b>	<b>—</b>	<b>2,410,065</b>

## A) CAPITALS STOCK

As of December 31,1999,Telefónica’s capital stock consisted of 3,262,826,901 fully subscribed and paid bearer shares of 1 par value each,all recorded by the book-entry system of trading and listed on the four Spanish stock exchanges and on the Frankfurt, London, Paris, Tokyo and New York stock exchanges.According to the information available in the public registers of the Spanish National Securities Market Commission (CNMV),as of December 31,1999,significant holdings in its capital stock were owned by Banco Bilbao Vizcaya, S.A.(3.22%),Grupo Corporación Bancaria de España, S.A.(ARGENTARIA, 5.02%), Caja de Ahorros y Pensiones de Barcelona (5.01%) and Portugal Telecom, S.A.(1%).

Pursuant to Royal Decree 8/1997, the prior administrative authorization regime applies to Telefónica, S.A.and Telefónica Móviles, S.A.Accordingly, certain corporate resolutions and other agreements which may give entitlement to the direct or indirect acquisition,including through third-party trusts or interposed third parties, of shares of Telefónica, S.A.or Telefónica Móviles, S.A. representing at least 10% of capital stock are subject to such authorization.The administrative authorization regime will be in force for ten years from February 18,1997.

On March 26,1999,the Stockholders’Meeting authorized the Board of Directors to derivatively acquire treasury stock, for a consideration, for the Company up to the limits and within the terms and conditions established by the Stockholders’Meeting, within a maximum period of 18 months from that date,up to a maximum number equal to 5% of capital stock.

On March 26,1999,the Stockholders’Meeting authorized the Board of Directors to, in a maximum period of five years and without the need for a call of a meeting or a resolution subsequent to this one,increase capital at one or several times within the limits and pursuant to the provisions of Article 153.1 b) of the Corporations Law up to a maximum of 4,902 million.

On March 26,1999,the Stockholders’Meeting resolved to empower the Board of Directors to issue fixed-income securities convertible into or exchangeable for the Company’s shares, and to increase capital by the amount required to meet,if necessary, the conversion applications.

As of December 31,1999 and 1998,the Group held the following shares of the Parent Company earmarked for sale:

Transaction Date	Number of Shares	Book Value per Share	Amount
Treasury stock at 12/31/99	137,376	Ptas. 2,022	278
Treasury stock at 12/31/98	755,650	Ptas. 6,310	4,863

The Company set up the requisite reserve for treasury stock amounting to Ptas. 278 million and Ptas. 4,863 million as of December 31,1999 and 1998, respectively.

In May 1998,85,406,438 new shares were issued at 1000% of par, giving rise to new funds amounting to Ptas.427,032 million (Ptas.42,703 million of capital stock and Ptas.384,329 million of additional paid-in capital),and to capital increase expenses of Ptas.16,048 million,which were recorded under the “Start-up Expenses”caption.

Also, in May 1998 642 new shares were issued as a result of the conversion of 20 debentures from the July 1997 issue,pursuant to a resolution of the Board of Directors dated May 27, 1998.The shares were issued at 968.5% of par, giving rise to an increase in capital of Ptas. 1 million and in the additional paid-in capital balance of Ptas.2 million.

In January 1999 the Company’s capital stock was redenominated in euros and was simultaneously increased by 20,497,558 shares with a par value of Ptas.10,249 million ( 61,596,402.34).The shares were assigned free of charge to the stockholders in full in the proportion of 1 new share for every 50 existing shares.The capital increase was made with a charge to unrestricted reserves (see Note 11-c –“Revaluation Reserves”).Accordingly, the Company’s new capital stock amounted to Ptas.522,687 million ( 3,141,416,519), consisting of 1,045,375,458 shares of Ptas. 500 ( 3.00506) par value each.

In May 1999 capital was increased at no cost to the stockholders with a charge to the revaluation reserve relating to the 1997 asset revaluation. 20,907,509 new shares were issued at a par value of Ptas.10,454 million ( 62,828,319) (see Note 11-c –“Revaluation Reserves”).The shares were assigned free of charge to the stockholders in full in the proportion of 1 new share for every 50 existing shares.Accordingly, the Company’s new capital stock amounted to Ptas.533,141 million ( 3,204,244,838.42), consisting of 1,066,282,967 shares of 3.00506 par value each.

In July 1999 the shares making up the capital stock of Telefónica, S.A. were split into three and their par value was rounded off to the nearest cent. Accordingly, their par value was changed from 1.001686 to 1, in conformity with Article 28 of the Law on the Introduction of the Euro, with the concomitant capital reduction for this sole purpose,with a credit to a restricted reserve account. The capital reduction amounted to Ptas.898 million ( 5,395,937.42).Accordingly, the Company’s new capital stock consisted of 3,198,848,901 shares of 1 par value each,and amounted to Ptas.532,244 million ( 3,198,848,901).

In September 1999 capital was increased as a result of the conversion and redemption of ten convertible debentures.These debentures were converted into 1,002 new shares of 1 par value each.This increase was made with an additional paid-in capital of Ptas.1,430 ( 8,595) per share, giving rise to increases of approximately Ptas.167,000 in the capital stock and of approximately Ptas.1,433,000 in the additional paid-in capital.

On November 24, 1999, the Board of Directors increased the listed capital of Telefónica, S.A. by issuing 63,976,998 new shares for a total amount of Ptas.10,645 million with a charge to "Revaluation Reserves". The shares were assigned free of charge to the stockholders in full in the proportion of 1 new share for every 50 existing shares. The new shares were admitted to listing on December 2, 1999, following which the Company's capital stock consisted of 3,262,826,901 shares of 1 par value each, and amounted to Ptas. 542,889 million ( 3,262,826,901).

## B) LEGAL RESERVE

Under the revised Corporations Law, 10% of income for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of capital stock. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased capital stock amount. Otherwise, until the legal reserve exceeds 20% of capital stock, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

## C) REVALUATION RESERVES

The balance of the "Revaluation Reserves" caption arose as a result of revaluations made from 1946 to 1987, and of the revaluation pursuant to Royal Decree-Law 7/1996.

The detail as of December 31, 1999 and 1998, of the balances of the revaluation reserves, which amounted to Ptas.538,369 million and Ptas. 569,717 million, respectively, and of the variations therein in 1999 and 1998 were as follows:

<b>Millions of Pesetas</b>	
Revaluations from 1946 to 1987	745,203
Revaluation reserve Royal Decree-Law 7/1996	225,852
<b>Amounts used:</b>	
Capital increases from 1977 to 1986	(74,487)
Transfer to provisions in 1982	(18,829)
Single tax on revaluation, Royal Decree-Law 7/1996	(6,776)
Other variations from 1981 to 1986	(2,571)
<b>Balance at 12/31/97</b>	<b>868,392</b>
Amount used in 1998 (Note 4-l)	(298,675)
<b>Balance at 12/31/98</b>	<b>569,717</b>
January 1999 capital increase	(10,249)
May 1999 capital increase	(10,454)
November 1999 capital increase	(10,645)
<b>Balance at 12/31/99</b>	<b>538,369</b>

From the date on which the tax authorities have reviewed and approved the balance of the "Revaluation Reserve Royal Decree-Law 7/1996" account (or the three-year period for review has expired), the aforementioned balance can be used, free of tax, to offset recorded losses which might arise in the future, and to increase capital stock. From January 1, 2007 (ten years from the date of the balance sheet reflecting the revaluations), the balance of this account can be taken to unrestricted reserves, provided that the monetary surplus has been realized. The surplus is deemed to be realized in respect of the portion relating to the depreciation recorded for accounting purposes or when the revalued assets have been transferred or retired from the accounting records.

As a result of the labor force reduction plan for 1999/2000 described in Note 4-l, in 1998 the Company recorded provisions amounting to Ptas. 459,500 million with a charge to extraordinary expenses (see Note 20). In addition, in 1998 a credit for the same amount (see Note 20) was recorded to extraordinary revenues with charges of Ptas.298,675 million to revaluation reserves and of Ptas.160,825 million to prepaid taxes.

## D) CONSOLIDATION RESERVE

The detail of the consolidation reserve as of December 31, 1999 and 1998, and of the variations therein in 1999 and 1998 is as follows:

1999	Millions of Pesetas			Balance at 12/31/99
	Balance at 12/31/98	Increase	Decrease	
Companies consolidated by the global integration method	104,012	105,134	(60,369)	148,777
Companies carried by the equity method	29,212	12,104	(13,421)	27,895
<b>Total</b>	<b>133,224</b>	<b>117,238</b>	<b>(73,790)</b>	<b>176,672</b>

The variations shown in the foregoing table relate mainly to 1998 retained earnings, which gave rise to a net increase of Ptas.68,135 million and to dividends paid by the companies.

1998	Millions of Pesetas			Balance at 12/31/98
	Balance at 12/31/97	Increase	Decrease	
Companies consolidated by the global integration method	97,347	38,560	(31,895)	104,012
Companies carried by the equity method	29,230	7,832	(7,850)	29,212
<b>Total</b>	<b>126,577</b>	<b>46,392</b>	<b>(39,745)</b>	<b>133,224</b>

The variations in 1998 shown in the foregoing table relate mainly to 1997 retained earnings, which gave rise to a net increase of Ptas.40,942 million, and to the effect of the purchase, for subsequent retirement, of shares of Telefónica de Argentina, S.A. and Telefónica del Perú, S.A. for an amount exceeding their underlying book value, which reduced the reserve for companies consolidated by the global integration method by Ptas.18,240 million and Ptas.16,055 million, respectively.

The detail of the contribution made by the Group companies to the consolidation reserves is shown in Exhibit I.



## E) TRANSLATION DIFFERENCES IN CONSOLIDATION

The translation differences relate mainly to the effect of exchange rate fluctuations on the net assets of the companies located abroad (see Note 4-b) and the effect of the adjustment for inflation on the assets contributed by the companies at which this accounting practice is applied. These effects gave rise to an increase of Ptas.28,677 million as of December 31,1999, and a decrease of Ptas.43,981 million in 1998.

This account also includes exchange differences resulting from specific foreign-currency financing transactions relating to investments in investee companies and which hedge the exchange risk on these investments. The balance of this account as of December 31,1999, decreased by Ptas.162,302 million as a result of the revaluation of Ptas. 1,411,354 million of loans assigned to these investments. In 1998 the balance of this account increased by Ptas.45,418 million as a result of the adjustment of the exchange rate on Ptas.1,048,704 million of loans assigned to these investments.

The detail of the contribution made by the Group companies to the translation differences in consolidation is shown in Exhibit I.

## 12. MINORITY INTERESTS

This caption relates to the share of minority stockholders in the equity and income/loss for the year of the Group companies consolidated by the global integration method. The variations in 1999 and 1998 in the balances of this caption in the consolidated balance sheets were as follows:

	Millions of Pesetas
<b>Balance at 12/31/97</b>	<b>394,097</b>
Capital contribution and inclusion of companies	370,528
Income for the year	92,551
Variation in translation differences	(52,226)
Other variations	(4,177)
Capital reduction and exclusion of companies	(163,695)
Dividend paid	(47,151)
<b>Balance at 12/31/98</b>	<b>589,927</b>
Capital contribution and inclusion of companies	1,401,198
Income for the year	109,100
Variation in translation differences	(223,919)
Other variations	2,180
Capital reduction and exclusion of companies	(57,753)
Dividend paid	(54,649)
<b>Balance at 12/31/99</b>	<b>1,766,084</b>

The detail of the balances of this caption as of December 31,1999 and 1998, and of the variations relating to the main Group companies is shown in Exhibit IV.

## 13. DEFERRED REVENUES

The detail of the balances of and variations in this caption in the accompanying consolidated balance sheets is as follows:

Millions of Pesetas					
	Capital Subsidies	Exchange Gains	Accrual of Tax Expense (Note 18)	Nonrefundable Third-Party Contributions and Other	Total
<b>Balance at 12/31/97</b>	<b>71,620</b>	<b>271</b>	<b>30,522</b>	<b>10,058</b>	<b>112,471</b>
Additions	8,397	5,211	12,334	16,219	42,161
Transfers	(36)	—	—	(3,016)	(3,052)
Allocation to income	(12,088)	(1,559)	(5,160)	(11,416)	(30,223)
<b>Balance at 12/31/98</b>	<b>67,893</b>	<b>3,923</b>	<b>37,696</b>	<b>11,845</b>	<b>121,357</b>
Additions	8,828	3,064	5,117	9,350	26,359
Transfers	—	—	(120)	57,554	57,434
Allocation to income	(12,860)	(6,282)	(6,396)	(4,032)	(29,570)
<b>Balance at 12/31/99</b>	<b>63,861</b>	<b>705</b>	<b>36,297</b>	<b>74,717</b>	<b>175,580</b>

The “Nonrefundable Third-Party Contributions” caption includes the amounts received by Telefónica for use of the underwater cable systems in which Telefónica has an interest as owner or co-owner.

The “Nonrefundable Third-Party Contributions and Other” caption includes Ptas.63,727 million relating to the revenue to be collected in the coming five years for the future deduction at Telesp of amortization of goodwill, which is tax deductible at that company.

### Capital subsidies

The detail of the capital subsidies not yet allocated to income is as follows:

Grantor	Millions of Pesetas	
	12/31/99	12/31/98
Official agencies, autonomous community governments, provincial and municipal governments and other	19,944	25,012
EU-		
STAR program	6,037	8,766
ERDF program	3,899	4,972
IRTA program	1,033	1,355
ERDF 94/95 operating program	30,201	24,393
Other	2,747	3,395
	<b>63,861</b>	<b>67,893</b>

## 14. PROVISIONS FOR CONTINGENCIES AND EXPENSES

The detail of the balances and variations in provisions for contingencies and expenses is as follows:

Millions of Pesetas											
	Balance at 12/31/97	Provisions	Amounts Used	Inclusion of Companies	Other	Balance at 12/31/98	Provisions	Amounts Used	Inclusion of Companies	Other	Balance at 12/31/99
Provisions for Rebalancing Plan (Note 4-l)	12,472	5,082	(2,208)	—	—	15,346	5,299	(2,441)	—	—	18,204
Provision for supplementary pension payments to retired employees (Notes 4-l and g)	100,933	6,188	(17,068)	—	(812)	89,241	5,586	(18,029)	—	(1)	76,797
Group insurance (Note 4-l)	13,376	1,240	(73)	—	—	14,543	1,116	(111)	—	—	15,548
Provision for voluntary "preretirement" and early retirement (Note 4-l)	124,613	585,391	(62,765)	—	—	647,239	25,944	(72,899)	—	—	600,284
Technical reserves (Note 4-m)	107,405	28,920	—	—	—	136,325	4,959	—	—	—	141,284
Provision for pension funds of Telesp and Tele Sudeste	—	—	—	—	—	—	—	—	126,596	—	126,596
Other provisions	30,097	44,890	(11,793)	28,983	(2,559)	89,618	114,101	(84,938)	—	26,659	145,440
<b>Total</b>	<b>388,896</b>	<b>671,711</b>	<b>(93,907)</b>	<b>28,983</b>	<b>(3,371)</b>	<b>992,312</b>	<b>157,005</b>	<b>(178,418)</b>	<b>126,596</b>	<b>26,658</b>	<b>1,124,153</b>

Most of the provisions are explained in Note 4. The "Technical Reserves" account includes the provisions recorded by the Group companies engaging in the insurance business. The amounts of these provisions are invested in assets recorded for similar amounts under the "Short-Term Financial Investments" and "Long-Term Financial Investments" captions.

In certain Latin-American countries where Telefónica has investments, the early months of the year saw some uncertainty and instability (depreciation of the Brazilian real and risk of depreciation of the Argentine peso and of other currencies, considerable tension in the markets, negotiations with telecommunications regulators, principally in Chile, Peru and Argentina, etc.). In the absence of knowledge on the evolution and outcome of this situation, prudence recommended the recording of approximately Ptas.60,000 million of provisions in this period under the "Other Provisions" caption with a charge to income, in order to establish protective measures for these investments.

In the last quarter of the year, considering the evolution of the aforementioned matters (improvement of general economic situation and, particularly in Brazil, stabilization of the financial markets and currencies, mainly in Brazil and Argentina, and resolution of the negotiations with regulatory agencies), the Company updated its analysis and considered that a portion of the provisions recorded were not required at year-end. Accordingly, it released approximately Ptas.25,000 million with a credit to income.

## 15. DEBENTURES, BONDS AND OTHER NEGOTIABLE INSTRUMENTS

The variations in the years ended December 31, 1999 and 1998, in the debentures, bonds and other marketable debt securities were as follows:

	Group Companies Excluding Foreign Operators					Foreign Operators				Total Group
	Nonconvertible Peseta	Nonconvertible-Foreign Currency	Convertible Foreign Currency	Promissory Notes	Subtotal	Nonconvertible Peseta	Nonconvertible-Foreign Currency	Convertible Foreign Currency	Promissory Notes	
<b>Balance at 12/31/97</b>	<b>625,045</b>	<b>75,796</b>	<b>98,420</b>	<b>77,576</b>	<b>876,837</b>	<b>—</b>	<b>102,832</b>	<b>4,729</b>	<b>—</b>	<b>984,398</b>
New issues	70,000	—	—	85,098	155,098	—	145,931	—	—	301,029
Redemptions, conversions and exchanges	(187,060)	—	(3)	(104,624)	(291,687)	—	(15,895)	(4,445)	—	(312,027)
Inclusion of companies	—	—	—	—	—	—	151,702	—	—	151,702
Revaluations and other variations	46,623	(4,465)	(5,901)	(1,673)	34,584	—	(18,911)	(284)	—	15,389
Transfers	—	—	—	471	471	—	—	—	—	471
<b>Balance at 12/31/98</b>	<b>554,608</b>	<b>71,331</b>	<b>92,516</b>	<b>56,848</b>	<b>775,303</b>	<b>0</b>	<b>365,659</b>	<b>0</b>	<b>—</b>	<b>1,140,962</b>
New issues	221,272	—	—	204,279	425,551	34,542	65,390	—	3,376	528,859
Redemptions, conversions and exchanges	(162,229)	—	(3)	(127,327)	(289,559)	—	(10,145)	—	—	(299,704)
Inclusion of companies	—	—	—	—	—	—	—	—	—	0
Revaluations and other variations	31,498	11,448	14,826	—	57,772	(1,294)	49,950	—	—	106,428
Transfers	—	—	—	—	—	—	430	—	—	430
<b>Balance at 12/31/99</b>	<b>645,149</b>	<b>82,779</b>	<b>107,339</b>	<b>133,800</b>	<b>969,067</b>	<b>33,248</b>	<b>471,284</b>	<b>0</b>	<b>3,376</b>	<b>1,476,975</b>
Maturity:										
Long term	498,745	82,779	107,339	—	688,863	33,248	409,938	—	—	1,132,049
Short term	146,404	—	—	133,800	280,204	—	61,346	—	3,376	344,926
Unmatured accrued interest	11,073	5,248	1,280	13,666	31,267	—	—	—	—	31,267

In March 1998 Telefónica issued debentures amounting to Ptas. 70,000 million, consisting of 7 million debentures of Ptas.10,000 face value each, bearing average annual nominal interest of 4.8414% which accrues from March 3, 2008 (the issue date) to March 3, 2008 (the redemption date) and is payable on a six-monthly basis.

On March 17, 1999, Telefónica, S.A. issued debentures amounting to 500 million, consisting of 50,000 debentures of 10,000 face value each. The fixed annual nominal coupon rate will be 4.50% on an actual/actual basis. The coupons will be paid on April 14 of each year, starting from April 14, 2000, and finishing on April 14, 2009.

On June 9, 1999, Telefónica, S.A. issued debentures amounting to 300 million, consisting of 3,000 debentures of 100,000 face value each. The applicable annual nominal interest rate will be 12-month EU RIBOR plus 63 basis points with a maximum annual nominal rate of 5.38%. The interest will accrue on June 30 of each year, starting from June 30, 2000,

and finishing on June 30, 2009. The first interest payment will relate to the period from the issue date (July 9, 1999) to July 30, 2000.

On July 21, 1999, Telefónica, S.A. launched a debenture issue for a maximum of 100 million, of which 30 million were subscribed, consisting of 1,000 debentures of 100,000 face value each. The debentures will not accrue any explicit interest since they are implicit-interest securities, the implicit interest being the difference between the issue price and the redemption value. The debentures will be redeemed on July 21, 2029.

On July 29, 1999, Telefónica, S.A. launched an issue of Floating Rate Notes on the Luxembourg Stock Exchange amounting to 500 million, consisting of 50,000 debentures of 10,000 face value each. The interest will be paid quarterly, starting on October 31, 1999, and finishing on July 31, 2000, the date on which these notes will be redeemed.

On February 26, 1993, CTC issued convertible debentures amounting to US\$ 200 million and maturing in a maximum of ten years from the issue date. Telefónica Internacional de Chile, S.A. subscribed to debentures amounting to US\$ 87,250,000. As of December 31, 1998, all the debentures had been redeemed and converted into shares.

In 1996 CTC registered with the Securities and Exchange Commission (SEC) a public securities issue under a "Self Registration" arrangement amounting to US\$ 400 million for placement in two tranches of US\$ 200 million each. In July 1996 the first tranche for US\$ 200 million was placed at ten years, redeemable at one time on maturity and bearing annual interest of 7.625% payable on a six-monthly basis.

In 1999 the second tranche of US\$ 200 million of the aforementioned "Self Registration" issue was placed for ten years, redeemable at one time at the end of the tenth year, with an annual interest rate of 8.375% payable six monthly.

Also, in August 1999 CTC issued Eurobonds totaling 200 million, for which contracts were entered into with Citibank as tax agent and with

Banque Internacional Luxembourg, S.A. and Citibank Portugal, S.A. as payor agents. The issue has a term of five years, is redeemable at one time at the end of this period and bears annual interest of 5.375%, payable from August 2000.

In March 1996 the Special Stockholders' Meeting of Telefónica del Perú, S.A. resolved to authorize the issuance of corporate bonds for up to US\$ 300 million. In March 1998, this company's Stockholders' Meeting resolved to authorize the issuance of bonds for up to US\$ 800 million for a period of three years from the date of the Stockholders' Meeting.

Under a global marketable debenture program with a limit of US\$ 1,000 million, Telefónica de Argentina placed in May and August 1998 issues amounting to US\$ 400 million each. Debentures amounting to US\$ 31.5 million under the first issue were redeemed early. The first issue bears annual interest of 9.125% and matures in ten years, whereas the second issue bears interest tied to Libor plus 1.125%, 1.375% and 1.625% for each of the three years of the issue term.

On November 11, 1998, the Board of Directors of TASA approved the increase of the marketable debentures program to US\$ 1,500 million or the equivalent in other currencies.

Under this program, in July 1999 TASA carried out a three-year bond placement of US\$ 100 million with annual interest at 9.875%.

On March 31, 1997, the Annual and Special Stockholders' Meeting of Cointel approved the creation of a global program for the issuance of nonconvertible marketable debentures with a maximum limit of US\$ 800 million or the equivalent in other currencies. Under this program, the company launched issues totaling US\$ 400 million, maturing on August 1, 2004.

The detail of the debentures and bonds is shown in Exhibit V.

There are two corporate promissory note issue programs at Telefónica, as follows:

Millions of Pesetas Outstanding Balance Limit	Pesetas Addressed to:	Face Value	Method of Sale
75,000	Companies and institutions	500 million	Specific transactions
99.382	Public Companies and institutions	166,386 166,386 million	Monthly auctions Specific transactions

## 16. PAYABLE TO CREDIT ENTITIES

The detail of accounts payable to credit entities is as follows:

Millions of Pesetas	Group Cos. Excluding Foreign Operators Balance at 12/31/99			Foreign Operators Balance at 12/31/99			Total Balance at 12/31/99		
	Short	Long	Total	Short	Long	Total	Short	Long	Total
	Term	Term		Term	Term		Term		
Corporate promissory notes	1,618	12,286	13,904	—	—	0	1,618	12,286	13,904
Loans and credits	98,530	611,059	709,589	747	4,453	5,200	99,277	615,512	714,789
Foreign currency loans	150,727	350,758	501,485	309,559	540,086	849,645	460,286	890,844	1,351,130
<b>Total</b>	<b>250,875</b>	<b>974,103</b>	<b>1,224,978</b>	<b>310,306</b>	<b>544,539</b>	<b>854,845</b>	<b>561,181</b>	<b>1,518,642</b>	<b>2,079,823</b>

Millions of Pesetas	Group Cos. Excluding Foreign Operators Balance at 12/31/98			Foreign Operators Balance at 12/31/98			Total Balance at 12/31/98		
	Short	Long	Total	Short	Long	Total	Short	Long	Total
	Term	Term		Term	Term		Term		
Corporate promissory notes	21,637	13,904	35,541	—	—	—	21,637	13,904	35,541
Loans and credits	344,151	491,980	836,131	—	4,426	4,426	344,151	496,406	840,557
Foreign currency loans	241,492	329,814	571,306	237,899	328,756	566,655	479,391	658,570	1,137,961
<b>Total</b>	<b>607,280</b>	<b>835,698</b>	<b>1,442,978</b>	<b>237,899</b>	<b>333,182</b>	<b>571,081</b>	<b>845,179</b>	<b>1,168,880</b>	<b>2,014,059</b>

In 1999 loans in euro zone currencies that were recorded under the "Foreign Currency Loans" caption in 1998 were reclassified to the "Loans and Credits" caption since these currencies ceased to be deemed foreign currencies. In the following detail these loans were omitted from the column relating to 1998 so that the information therein is comparable with that for 1999.

The most significant financing transactions carried out by the Telefónica Group in 1999 were as follows:

- On January 8, 1999, Telefónica del Perú obtained a three-year loan of Ptas. 450 million on the international markets.
- On January 8, 1999, the Telefónica Group arranged a loan of US\$ 280 million with the European Investment Bank (EIB), with final maturity in 2008. The loan is repayable in six annual installments, with a grace period of four years, and bears floating interest.
- In 1999 Telefónica arranged a syndicated loan of 1,200 million with 38 finance entities. This loan is repayable at one time at the maturity of each tranche at five and seven years at the choice of each lender and bears floating interest tied to Euribor.
- In 1998, as a result of the acquisitions made in Brazil following the award to the Telefónica Internacional Group of the various holding companies arising from the privatization of the Telebrás System, Telefónica Internacional, S.A. recorded a debt for 60% of the deferred payment to the Brazilian government for the acquisitions made through subsidiaries or consortiums formed for this purpose. In September 1998 agreements were entered into whereby the Brazilian government assigned, and Banco Nacional para el Desarrollo Económico y Social (BNDES) assumed, all the rights and obligations relating to the deferred amounts.
- As a result the Group had an account payable to BNDES of 4,056 million Brazilian reais plus the interest accrued from the date of award. The debt, which was payable in equal portions on August 4, 1999 and 2000, bore fixed interest at 12% on the principal adjusted by the Brazilian CPI (GPI-DI), which had to be paid with the principal. The possibility of early payment was provided for. If the second payment were made before August 4, 1999, the interest rate would be reduced to 9%.
- On October 2, 1998, Telefónica Internacional, S.A. acquired from Banco Nacional de Desarrollo Social (BNDES), a customized private bond issue amounting to US\$ 2,347 million with, among others, the following features: annual interest of 11.875% and maturity in two equal installments on August 4, 1999 and 2000.
- The debt to BNDES was shown as of December 31, 1998, net of the bond subscribed with this bank because they are indivisible, and one cannot be repaid/redeemed without the other.
- As of December 31, 1998, the balance relating to the loan was Ptas. 478,702 million, and that relating to the bond was Ptas. 335,696 million. The net difference between the two amounts, Ptas. 143,006 million was recorded in equal amounts under the “Long-Term Debt - Payable to Credit Entities” and “Current Liabilities - Payable to Credit Entities” captions in the accompanying consolidated financial statements on the basis of their maturity. The “Current Liabilities - Payable to Credit Entities” caption also included Ptas. 14,016 million relating to the unmatured accrued interest on the debt (Ptas. 24,090 million), net of the interest earned on the bond (Ptas. 10,074 million).
- In January 1999 the Brazilian government eliminated the exchange rate bands existing through that date and set a limit on the annual fluctuation in the price of the Brazilian real with respect to the U.S. dollar. Once the aforementioned bands had been eliminated, the Brazilian real started to float freely, and fell by around 55% with respect to the exchange rate prevailing as of December 31, 1998. On January 27, 1999, Telefónica Internacional settled the aforementioned debt to BNDES by offsetting the aforementioned bond that it had subscribed with the bank. As a result of the settlement, Telefónica Internacional obtained a saving of Ptas. 211,985 million with respect to the amounts initially envisaged. Of this amount, Ptas. 127,297 million and Ptas. 13,071 million were recognized as exchange gains in the 1999 and 1998 consolidated statements of income, respectively. The remaining amounts (Ptas. 37,249 million and Ptas. 34,368 million) were recorded as translation differences in the consolidated balance sheets in 1999 and 1998, respectively, in accordance with the currency risk hedging methods applied by the Group (see Note 4-k). The interest expenses recorded in 1999 on the debt to BNDES, net of the effect of the reduction from 12% to 9% in the applicable interest rate as a result of the early payment of 50% of the principal that fell due on August 4, 2000, amounted to Ptas. 2,308 million, and this amount is recorded under the “Financial Expenses on Debts to Other Companies” caption.

As of December 31,1999,the payables were scheduled to mature as follows:

Scheduled Maturities		Millions of Pesetas					
Group Companies							
Excluding Foreign Operators	2000	2001	2002	2003	2004	Subsequent Years	Total
Corporate promissory notes	1,618	12,286	—	—	—	—	13,904
Loans and credits	99,156	56,833	49,474	43,665	104,232	356,229	709,589
Foreign currency loans	150,101	56,289	15,775	81,040	51,715	146,565	501,485
<b>Total</b>	<b>250,875</b>	<b>125,408</b>	<b>65,249</b>	<b>124,705</b>	<b>155,947</b>	<b>502,794</b>	<b>1,224,978</b>

Scheduled Maturities		Millions of Pesetas					
Foreign Operators							
	2000	2001	2002	2003	2004	Subsequent Years	Total
CTC loans	30,986	55,434	67,180	67,075	18,777	—	239,452
Telefónica del Perú loans	79,771	69,182	14,584	9,623	4,541	21,482	199,183
TASA/COINTEL loans	113,486	17,762	23,406	24,028	7,394	24,863	210,939
Telesp	34,624	3,586	2,512	506	50,923	4,663	96,814
Telesudeste	21,596	12,488	2,033	3,659	3,659	—	43,435
C.R.T.	24,858	13,212	—	—	—	—	38,070
T. El Salvador	2,608	—	—	1,302	16,545	—	20,455
Loans to other operators	2,377	424	1,510	1,497	674	15	6,497
<b>Total</b>	<b>310,306</b>	<b>172,088</b>	<b>111,225</b>	<b>107,690</b>	<b>102,513</b>	<b>51,023</b>	<b>854,845</b>

Scheduled Maturities		Millions of Pesetas					
Total							
	2000	2001	2002	2003	2004	Subsequent Years	Total
Corporate promissory notes	1,618	12,286	—	—	—	—	13,904
Loans and credits	99,277	58,022	49,702	43,893	104,460	359,435	714,789
Foreign currency loans	460,286	227,188	126,772	184,368	154,000	198,516	1,351,130
<b>Total</b>	<b>561,181</b>	<b>297,496</b>	<b>176,474</b>	<b>228,261</b>	<b>258,460</b>	<b>557,951</b>	<b>2,079,823</b>

#### PESETA LOANS AND CREDITS

The peseta loans and credits include the amount used in pesetas of a multicurrency loan originally granted in euros by the European Investment Bank for Ptas.9,563 million and other multicurrency loans swapped for peseta loans totaling Ptas.153,040 million.



## FOREIGN CURRENCY LOANS

The detail of the foreign-currency loans as of December 31, 1999 and 1998, is as follows:

Currency	Outstanding Balance (in Millions)			
	Foreign Currency	Foreign Currency		Pesetas
	12/31/99	12/31/98	12/31/99	12/31/98
USD	2,710	3,588	448,139	511,683
Brazilian reais	—	1,212	—	143,006
JPY	7	17,871	11	22,413
CHF	43	53	4,434	5,528
Other currencies	—	—	5	80
Swaps	—	—	48,896	(111,404)
<b>Group companies excluding foreign operators</b>			<b>501,485</b>	<b>571,306</b>

Currency	Outstanding Balance (in Millions)			
	Foreign Currency	Foreign Currency		Pesetas
	12/31/99	12/31/98	12/31/99	12/31/98
USD	1,066	1,224	176,204	174,527
Argentine pesos	106	47	17,541	6,635
JPY	8,816	—	13,734	—
<b>TASA/COINTEL</b>			<b>207,479</b>	<b>181,162</b>
USD	1,189	958	196,598	136,605
"Unidades de Fomento"	9	21	42,428	96,244
Other	—	1,959	2	591
<b>CTC CHILE</b>			<b>239,028</b>	<b>233,440</b>
USD	1,176	1,017	194,410	144,983
Peruvian Nuevos soles	79	79	3,454	3,566
<b>TELEFÓNICA PERU</b>			<b>197,864</b>	<b>148,549</b>
USD	263	—	43,435	—
<b>TELESUDESTE</b>			<b>43,435</b>	<b>0</b>
USD	328	—	54,281	—
Brazilian reais	466	—	42,423	—
Other	—	—	110	—
<b>TELESP</b>			<b>96,814</b>	<b>0</b>
USD	114	—	18,797	—
El Salvador colones	88	—	1,658	—
<b>SALVADOR</b>			<b>20,455</b>	<b>0</b>
USD	129	—	21,319	—
Brazilian reais	184	—	16,751	—
<b>CRT</b>			<b>38,070</b>	<b>0</b>
USD	21	7	3,406	1,045
Chilean pesos	9,211	8,151	2,874	2,459
Other	—	—	220	—
<b>Other companies</b>			<b>6,500</b>	<b>3,504</b>
<b>Foreign operators</b>			<b>849,645</b>	<b>566,655</b>
<b>TOTAL GROUP</b>			<b>1,351,130</b>	<b>1,137,961</b>

## CREDIT AVAILABLE

The loans and credits accounts reflect only the amounts drawn against the credit facilities, and there is no penalty or cost for the portion not drawn down. The undrawn credit facility amounts were as follows:

Millions of Pesetas	Balance at 12/31/99	Balance at 12/31/98
Credit available at long term	86,169	95,696
Other credit facilities (floating facilities)	46,987	79,000
Credit available at short term	226,725	105,105
<b>Total</b>	<b>359,881</b>	<b>279,801</b>

## 17. DERIVATIVES

In 1999 the Group continued to use derivatives both to limit interest rate and currency risks on unhedged positions and to adapt its debt structure to market conditions.

As of December 31, 1999, the total outstanding balance of hedging transactions to arranged to eliminate balance sheet exposure to interest rate and currency risks was Ptas. 3,709,899 million (Ptas. 1,858,778 million as of December 31, 1998), of which Ptas. 1,570,149 million related to interest rate risk and Ptas. 2,139,750 million to currency risk (see Exhibit VI).

The most significant transactions carried out in 1999 by Telefónica, S.A. included most notably the hedging of investments in Latin America and of exposure arising from foreign investments.

## 18 TAX MATTERS

Since 1990 Telefónica has filed consolidated tax returns with certain Group companies. 53 companies formed the consolidated tax group in 1999, including most notably, in terms of sales, Telefónica Internacional, S.A. Telefónica de España, S.A., Telefónica Servicios Móviles, S.A., Telefónica Telecomunicaciones Públicas, S.A. and Telefónica Data España, S.A.

## PRE PAID AND DEFERRE D TAXES

The detail as of December 31,1999 and 1998, of the Telefónica Group's prepaid and deferred taxes, and of the variations therein in 1999 and 1998, is as follows:

Millions of Pesetas	Prepaid Taxes		Deferred Taxes		
	Short Term	Long Term	Short Term	Long Term	Intercompany Long Term
<b>Balance at December 31,1997</b>	<b>5,288</b>	<b>92,763</b>	<b>—</b>	<b>69,425</b>	<b>14,019</b>
Reversal	(597)	(8,122)	—	(5,310)	(232)
Arising in the year (Note 8)	2,734	209,329	—	30,558	3,425
Net international variations	—	8,504	—	6,084	—
Inclusion/Exclusion of companies and other	(398)	395	117	(115)	(430)
<b>Balance at December 31,1998</b>	<b>7,027</b>	<b>302,869</b>	<b>117</b>	<b>100,642</b>	<b>16,782</b>
Reversal	(1,424)	(26,929)	(81)	(7,536)	(5,643)
Arising in the year (Note 8)	1,419	98,845	9	46,119	1,407
Net international variations	—	22,628	—	37,089	—
Inclusion/Exclusion of companies and other	9	(3,946)	4	(64)	(2,805)
<b>Balance at December 31,1999</b>	<b>7,031</b>	<b>393,467</b>	<b>49</b>	<b>176,250</b>	<b>9,741</b>

The deferred intercompany taxes relate to the differences arising from the elimination of unrealized gains on intercompany transactions, plus the accumulated differences between the net tax payable reported in the Telefónica Group's consolidated corporate income tax return and the sum of the net tax charges per the individual corporate income tax returns of the Telefónica Group companies.

## ACCRU ED TAXES PAYABLE AN D TAX RECE IVABLES

The detail of the "Accrued Taxes Payable" and "Tax Receivables" captions as of December 31,1999 and 1998, is as follows:

Millions of Pesetas	Balance at 12/31/99	Balance at 12/31/98
<b>Accrued taxes payable:</b>		
Personal income tax withholdings	20,003	11,051
VAT and Canary Islands general indirect tax	34,044	18,954
Withholdings from income from movable capital and other	607	1,468
Corporate income tax	4,082	44,655
Deferred taxes	49	117
Local taxes	235	340
Accrued social security taxes	27,775	26,913
Foreign taxes	124,439	70,508
<b>Total</b>	<b>211,234</b>	<b>174,006</b>

Millions of Pesetas	Balance at	
	12/31/99	12/31/98
<b>Tax receivables:</b>		
Corporate income tax prepayments		—
Withholdings at source from income from movable capital	4,546	2,068
Installment payments on consolidated income tax returns	16,811	73,068
Installment payments on individual income tax returns	382	1,452
Foreign withholding tax	9,127	8,776
Corporate income tax refundable	36,107	16,089
Taxes, surcharges and other payments recoverable	163	114
Prepaid taxes	7,031	7,027
VAT and Canary Islands general indirect tax	6,090	21,292
VAT deductible	5,971	104
Foreign taxes	131,110	56,719
<b>Total</b>	<b>217,338</b>	<b>186,709</b>

#### RECONCILIATION OF THE INCOME PER BOOKS TO THE TAXABLE INCOME AND DETERMINATION OF THE EXPENSE INCURRED

The reconciliation of income per books to taxable income for corporate income tax purposes for 1999 and 1998 and the determination of the corporate income tax expense incurred and the net tax payable for the two years are as follows:

Millions of Pesetas	1999		1998	
Income per books	438,738		402,010	
Permanent differences	(366,352)		(612,689)	
Timing differences	52,113		502,741	
<b>Taxable income</b>	<b>124,499</b>		<b>292,062</b>	
Gross tax payable	43,575		102,222	
Tax credits and tax relief	(39,493)		(57,567)	
<b>Corporate income tax payable</b>	<b>4,082</b>		<b>44,655</b>	
Tax effect of extraordinary provision for "preretirements" and early retirements	—		(160,825)	
Effect of timing differences and deferred revenues	15,990		(4,581)	
Tax effect of extraordinary provision for "preretirements" and early retirements	—		160,825	
Spanish corporate income tax expense	(11,908)		40,074	
Accrued foreign taxes and other	41,253		51,801	
<b>Total income tax</b>	<b>29,345</b>		<b>91,875</b>	

The permanent differences arose mainly from the results obtained by the companies located abroad, the amortization of goodwill in consolidation and the results attributable to associated companies. In 1998 they also included the amounts credited to income as a result of the reserves reversed.

The main timing differences in 1999 arose from the reinvestment of gains on fixed asset disposals and the provision for diminution in value of tangible fixed assets. In 1998 they related basically to the provision for "preretirements".

The tax credits and tax relief taken in 1999 totaled Ptas. 39,493 million (Ptas. 57,567 million in 1998). The main tax credits taken by the Group are as follows: Ptas. 16,248 million (Ptas. 12,275 million 1998) of international double taxation tax credits; Ptas. 3,321 million (Ptas. 3,562 in 1998) of tax credits for research and development activities; and Ptas. 2,777 million (Ptas. 6,123 million in 1998) of export tax credits, since the Group made investments in foreign companies in Brazil (see Notes 2-d and 8) which qualify for the tax credits provided for in Article 34 of the Corporate Income Tax Law because the investments exceed 25% of the capital stock of the foreign companies and are directly related to export activities, since a portion of the price paid includes the expected flow of funds derived from goods and services export contracts between the operators in Brazil and the Telefónica Group (see Note 20).

Ptas. 8,721 million of investment tax credits earned in prior years were also taken. In view of the ceilings on investment tax credits, as of December 31, 1999, after deducting the tax credits taken in 1999, the Telefónica tax group had Ptas. 50,097 million of unused tax credits, as follows:

Year	Millions of Pesetas			Total
	1996	1997	1999	
Amount	9,718	6,846	33,533	50,097

The tax losses available for carryforward in Spain at the main Group companies total Ptas. 14,798 million.

The years open for review by the tax inspection authorities for the main applicable taxes vary from one consolidated company to another, based on each country's tax legislation, taking into account their respective statute-of-limitations periods. In Spain the years open for review for the main taxes are as follows: corporate income tax 1993 to 1999; VAT 1995 to 1999; personal income tax withholdings 1995 to 1999. The Spanish companies that file consolidated corporate income tax returns are being audited by the Spanish tax authorities for the taxes detailed below. No material liabilities are expected to arise for the Group as a result of this tax audit.

- Corporate income tax:1994, 1995, 1996,1997.
- Personal income tax withholdings:1995, 1996,1997, 1998.
- VAT: 1995,1996,1997, 1998.

#### ACCRAU OF I NVESTMENT TAX CREDIT AND PERMAN ENT DIFFERENCES

The effect of this accrual on the corporate income tax expense (see Note 4-p) is as follows:

	Accrual of Corporate Income Tax Expense (Note 13)
<b>Balance at December 31,1997</b>	<b>30,522</b>
Reversal	(5,160)
Arising in the year	12,334
<b>Balance at December 31,1998</b>	<b>37,696</b>
Reversal	(7,444)
Arising in the year	6,045
<b>Balance at December 31,1999</b>	<b>36,297</b>

## 19. OTHER NONTRADE PAYABLES

The detail of the balances of this caption in the consolidated balance sheets as of December 31,1999 and 1998, is as follows:

Millions of Pesetas		
	Balance at 12/31/99	Balance at 12/31/98
Accrued expenses payable	89,324	135,721
Group company dividends payable	23,167	6,983
Provision for extra payroll	30,414	24,472
Exchange of telephone service with other operators	21,879	13,681
Guarantees and deposits	12,214	7,786
Provision for third-party liability	1,524	—
Compensation payable	36,393	3,286
Other nontrade payables	39,242	61,133
Provisions	2,131	2,481
Other	26,417	19,300
<b>Total</b>	<b>282,705</b>	<b>274,843</b>

## 20. REVENUES AND EXPENSES

### SALES AND SERVICES

The detail, by business line, of net sales and services is as follows:

Millions of Pesetas		
	12/31/99	1998
Basic telephony		
Basic telephone service	918,253	931,757
Lease of circuits	128,359	123,809
Interconnection of operators	46,997	43,365
Public telephony	128,981	138,720
ISDN	126,603	70,861
Other revenues	255,371	283,391
<b>Total revenues of Telefónica de España</b>	<b>1,604,564</b>	<b>1,591,903</b>
Atento business	33,624	18,062
Telefónica Internacional business	1,615,407	893,073
Terra Network business	6,680	926
Móviles business	622,112	468,019
Data business	95,627	76,358
Media business	16,056	11,528
T.P.I.business	55,709	43,344
Instrumentality companies	123,883	103,846
Other companies	155,888	123,217
<b>Group revenues before intercompany sales</b>	<b>4,329,550</b>	<b>3,330,276</b>
Intercompany sales	(509,826)	(424,255)
<b>Total revenues from Group operations</b>	<b>3,819,724</b>	<b>2,906,021</b>

### PERSONNEL EXPENSES

The detail of personnel expenses is as follows:

Millions of Pesetas		
	12/31/99	12/31/98
Compensation	514,562	482,042
Provisions to the pension allowance and other		
Commitments to employees	21,134	22,897
Accrual for the cost of the loyalty-building programs tied to share marketprice (1)	2,634	—
Employee welfare expenses and other	195,674	145,232
	<b>734,004</b>	<b>650,171</b>

(1) In 1998 this item amounted to Ptas.969 million and was recorded as an extraordinary expense.

## NUMBER OF EMPLOYEES

	12/31/99		12/31/98	
	Average	Year-End	Average	Year-End
Telefónica, S.A.	271	542	—	—
Telefónica de España	51,158	46,619	60,379	58,127
Telefónica Servicios Móviles	3,047	3,315	2,491	2,743
Telefónica Internacional	36,332	44,638	28,018	27,802
Telefónica Telecomunicaciones Públicas	719	695	697	696
Telefónica Publicidad e Información	1,157	1,175	1,141	1,117
Telefónica Data España	621	621	378	413
Atento España	8,529	9,303	6,414	6,877
Atento do Brasil	9,494	10,022	—	—
Other	7,450	10,263	4,144	4,034
<b>Total</b>	<b>118,778</b>	<b>127,193</b>	<b>103,662</b>	<b>101,809</b>

The figures in the foregoing table relate to the companies consolidated by the global integration method.

## COMPENSATION SYSTEMS TIED TO SHARE MARKET PRICE

### A) RISE

The first, known as RISE, was approved by the Board of Directors at the proposal of the Appointments and Compensation Committee, in the meeting on February 26, 1997, once the privatization process had been completed and for the purpose of adapting the compensation system then existing at the Company to the general practices of the industry.

This program consisted of the grant to the 100 most important executives at Telefónica, S.A. of the right to receive economic compensation to be determined on the program expiration date (February 25, 2000) on the basis of the appreciation, if any, of Telefónica's shares on the Madrid stock market.

Participation in this program carried the obligation by the executive to acquire and maintain free of liens, during the entire term of the program, a certain number of shares of the Company, depending on his/her respective level of responsibility. (The number of shares acquired by the executives participating in this incentive plan was 307,339).

On expiration of the program, the amount, if any, that each participant would receive for each of the shares deposited and assigned to the program would be the result of adding together the following two components:

- An amount equal to the result of multiplying by a coefficient of 11.545 the increase, if any, in the market price of Telefónica, S.A.'s shares during the term of the program, taking as the basis the share market price on the date on which the program commenced (Pts. 3,270/share).

- An amount equal to the result of multiplying by a coefficient of 1.545 the increase, if any, in the market price of Telefónica, S.A.'s shares during the term of the program, taking as the basis the share market price on the date on which the program commenced increased by 50% (Ptas. 4,905/share).

The collection rights arising under this plan were made expressly subject to the condition that the beneficiary did not terminate unilaterally and voluntarily his/her employment in the Telefónica Group prior to the expiration date.

As regards other conditions, the program was made subject to antidilution clauses and other contractual conditions generally applicable to financial transactions of this kind.

To cover the economic risks arising from implementation of this program, the Company arranged with two finance entities the necessary hedging through the acquisition in the market of the related number of stock options. The total cost of these hedges (Ptas. 2,800 million) was allocated to income for accounting purposes over the three-year term of the plan as follows: Ptas. 700 million in 1997, Ptas. 969 million in 1998 and Ptas. 969 million in 1999, leaving Ptas. 162 million to be allocated to income in 2000.

This Plan was notified to the Spanish National Securities Market Commission on March 20, 1997, and has also been included in the various annual reports and prospectuses published from that time until the present date.

On all these occasions, Telefónica, S.A. has explained that the only cost for the Company as a result of the compensation program's implementation has been solely and exclusively that arising from the arrangement of the aforementioned financial hedge, since, whatever the amount of compensation that may be finally received by the executives on expiration of the program, it will be paid with a charge to the aforementioned hedge and not with a charge to equity.

On May 27, 1998, at the proposal of the Appointments and Compensation Committee, the Board of Directors approved a change to the program to make it more flexible.

This change enabled the beneficiaries to replace in three stages, in respect of all or some of the shares assigned to the program, the way in which the result thereof is calculated, through the virtual assignment of shares (known as Alternative Shares). The settlement date continued to be the program expiration date.

It is important to reiterate that the income to be obtained by those participating in this program, exclusively as a result of the appreciation of Telefónica, S.A. shares during the term of the program, will not give rise to any additional cost for the Company.

Pursuant to the amendments to the revised Corporations Law and the Securities Market Law on the treatment of stock options and compensation systems linked to share market prices, the execution of plans established before January 1, 2000, will require the prior approval of the Stockholders' Meeting.

No director, except for those who are Company executives or managers, may participate in any way in this program or be a beneficiary thereof.

## B) TOP

The second plan tied to the appreciation of the share value currently in force at the Company, known as TOP, was approved by the Board of Directors at the proposal of the Appointments and Compensation Committee, in the meeting on March 26, 1999, as a replacement for the above plan.

The term of this plan is four years and three months from the launch date and the number of beneficiaries is approximately 450 people throughout the Telefónica Group.

As under the RISE program, to be a beneficiary of this plan, the executives must acquire and maintain free of liens, during the entire term of the program, title to a certain number of shares of the Company, depending on his/her respective level of responsibility (if all the executives availed themselves of this incentive plan, the total number of shares assigned to it would be 270,237 at maximum).

This incentive plan involves the grant to participating executives of the following number of options on shares of Telefónica, S.A. for every share deposited and assigned to the plan:

- 10 type A options, with an exercise price equal to the share market price on the date of its implementation ( 46.18).
- 10 type B options, with an exercise price equal to the share market price on the date of its implementation increased by 50% ( 69.27).

Accordingly, the options under the plan total 5,404,740.

The beneficiaries may exercise the rights under this plan from the second year of its term, at a rate of one third for each year in arrears, i.e. in the second, third and fourth year.

The rights granted to the Telefónica Group executives under this incentive plan are not negotiable or transferable, and Telefónica, S.A. expressly reserves the right to settle the plan upon expiration thereof through the delivery of shares or cash.

As regards other conditions, the incentive program is subject to antidilution clauses and other contractual conditions generally applicable

to financial transactions of this kind. The collection rights arising under this plan are subject to the condition that the beneficiary does not terminate unilaterally and voluntarily his/her employment in the Telefónica Group prior to the exercise date.

To cover the economic risks and obligations arising from implementation of this incentive plan as a result of the increase in the market price of Telefónica shares, the required hedging contracts were entered into with various banks and the maximum total cost for the Telefónica Group, if all the beneficiaries avail themselves of the plan, would be approximately Ptas.12,000 million, at a rate of Ptas.2,854 million a year in a period of 51 months (see Note 9) for each of the four years of the program's term, to be distributed among the various Group subsidiaries and investees depending on the executives working for them that have availed themselves of the program. In no case will Telefónica acquire treasury stock as a result of the hedging transactions.

The approval and implementation of this incentive plan was notified to the Spanish National Securities Market Commission (CNMV) and made public through the Full Information Memorandum, verified and registered in the CNMV's Official Register on June 29, 1999 (Chapter VI, pages 16 et seq.).

The plan has been partially awarded, and the Company intends to complete this process in the coming months.

Lastly, the Board of Directors expresses its firm intention, upon expiration of the program, to publicly inform of the result thereof in the terms and conditions stipulated in current legislation.

Pursuant to the amendments to the revised Corporations Law and the Securities Market Law on the treatment of stock options and compensation systems linked to share market prices, the execution of plans established before January 1, 2000, will require the prior approval of the Stockholders' Meeting.

No director, except for those who are Company executives or managers, may participate in any way in this program or be a beneficiary thereof.

### C) Telefónica Internacional options

In January 1998 the Board of Directors of Telefónica Internacional, S.A. resolved to grant to a group of executives option rights to purchase a total of 77,985 shares of Telefónica Internacional, S.A. (0.65% of its capital stock). This option may be gradually exercised over a period of three years, starting in 1998, at the same price at which they were acquired by Telefónica Internacional, S.A. from Telefónica, S.A. This price is the same as that paid by Telefónica, S.A. to SEPPA on November 7, 1997. Telefónica guarantees to repurchase these shares at each maturity date at market price. Due to the loss of identity that Telefónica Internacional will suffer as a result of the Group's business line restructuring process, the plan

was cancelled early with the concomitant reimbursement to the participants of the price paid for the options.

### D) TPI options

In order to cover the stock option plan described below, La Caixa and TPI entered into a contract that regulates the grant by the former to the Company of an irrevocable purchase option on the 2,404,049 shares issued. The main features of the option contract are as follows:

- a) The purchase option may be exercised by Telefónica Publicidad e Información, S.A. solely to cover the exercise of options by the executives qualifying for the plan, and Telefónica Publicidad e Información, S.A. expressly reserved the right to assign fully or partially the options rights vis-à-vis La Caixa to the executives who are ultimately the beneficiaries of the plan, at a price equal to the difference between the exercise price of the option granted to the executive and the acquisition cost of the shares that must be paid to La Caixa, as described in section (e) below.
- b) The purchase option may be exercised at any time before December 31, 2003.
- c) If the purchase option has not been exercised by October 30, 2003, Telefónica Publicidad e Información, S.A. must choose between extending the option exercise period or proposing to the Stockholders' Meeting of Telefónica Publicidad e Información, S.A. that the surplus shares be redeemed, and La Caixa undertook to agree to such redemption, in the absence of a written agreement for the extension, provided that the Stockholders' Meeting of Telefónica Publicidad e Información, S.A. is held before November 30, 2003, that the redemption amount be equal to the share subscription price paid by La Caixa and that such price be paid before December 30, 2003.
- d) In order to exercise the call option, Telefónica Publicidad e Información, S.A. must notify La Caixa of its intention to exercise the option, indicating the date on which it will be exercised and, where appropriate, identifying the executive of Telefónica Publicidad e Información, S.A. that the latter may designate to acquire the shares. This notification must be issued at least three working days before the option exercise date and no later than October 30, 2003.
- e) The share acquisition price that must be paid to La Caixa will be equal to the share subscription price (168,283.43).
- f) La Caixa and Telefónica Publicidad e Información, S.A. agreed on a financial swap whereby Telefónica Publicidad e Información, S.A. will pay to La Caixa an amount equal to Euribor plus a spread of 0.75% on the acquisition price of the shares on which the purchase option has not been exercised, and La Caixa will pay to Telefónica Publicidad e Información, S.A. an amount equal to the gross amounts whose distribution with a charge to equity had been approved by the



Stockholders' Meeting of Telefónica Publicidad e Información, S.A. and received by La Caixa, regardless of the form it took (capital reduction, distribution of reserves, etc.) in the period from the day on which the contract is signed to the date on which Telefónica Publicidad e Información, S.A. exercises the purchase option.

- g) La Caixa may not transfer or arrange a usufruct on the shares forming the subject matter of the contract, loan them or subject them to any lien.
- h) La Caixa undertakes to not exercise the voting rights carried by the shares and to not attend the Stockholders' Meetings of Telefónica Publicidad e Información, S.A. (except for that held on June 2, 1999, and unless a Stockholders' Meeting is held for the reason described in section (c) above in relation to redemption).
- i) In the settlement of the option through the purchase of the shares, in no case may La Caixa replace delivery of the shares with a cash payment.

On April 28, 1999, the Stockholders' Meeting of Telefónica Publicidad e Información, S.A. resolved to set up a stock option plan and authorized the Board of Directors to set the terms and conditions thereof, specifying in particular the qualifying executives, the number of options to be granted to each executive, the stock option exercise periods and all the other features of the plan.

Pursuant to this authorization, on June 2, 1999, the Board of Directors of Telefónica Publicidad e Información, S.A. adopted the following resolutions relating to the stock option plan:

1. The initial term of the plan will be four years and three months from the date on which the options are granted.
2. The options may be exercised at a rate of one-third of the options granted each year from the second year.
3. The exercise price for the executives will be the retail sale price of the shares in the public offering.
4. The Appointments and Compensation Committee was entrusted with proposing to the Board the other terms and conditions of the plan and, in particular, with specifying which directors qualify for the plan and the number of options to be granted to each executive.

As a result of the foregoing, at meetings on June 22 and December 22, 1999, the Appointments and Compensation Committee, exercising its powers, proposed the assignment of 960,000 options to 27 executives, of whom only one is a director (Managing Director), which was approved by the Board of Directors at meetings on July 8 and December 22, 1999.

Pursuant to the amendments to the revised Corporations Law and the Securities Market Law on the treatment of stock options and similar compensation systems linked to market share prices, execution of plans established prior to January 1, 2000, requires the prior approval of the Stockholders' Meeting.

#### e) Terra Networks options

On October 1, 1999, the Stockholders' Meeting of Terra Networks, S.A. approved the creation of a stock option plan for the Group's executives by granting them purchase options on Terra shares. It also empowered the Board of Directors to establish the terms and conditions of the stock option plan and, pursuant to Article 75 *et seq.* of the Corporations Law, to acquire treasury stock during an 18-month period up to a maximum of 5% of the capital stock.

Pursuant to the aforementioned resolutions of the Stockholders' Meeting, on October 18, 1999, the Board of Directors resolved to approve the following stock option plan:

- A total of 14 million shares to be distributed between Series A and B options.
- An exercise price of 2.16 per Series A share and the retail price in the initial public offering for subscription for Series B shares.
- Duration of four years and three months.
- The options may be exercised at a rate of one-third each year from the second year from the date on which the options are granted to the employees.
- The options are nontransferable.

On December 1, 1999, the Company's Board of Directors and Appointments and Compensation Committee adopted the following resolutions:

- To limit the types of stock option to the Series B, i.e. options with an exercise price equal to the offering retail price, set at 11.8 per share. The plan will therefore not include options of any other type.
- To extend the Plan to 1,082 employees of the various Group companies (in Mexico, Brazil, Spain, Chile, Guatemala, Argentina, Peru and the U.S.).
- The aforementioned 1,082 employees may acquire 2,582,588, 0.92% of the company's capital stock, by exercising their options.

No member of the Board of Directors may participate in the plan or be a beneficiary thereof.

Pursuant to the amendments to the revised Corporations Law and the Securities Market Law on the treatment of stock options and similar compensation systems linked to market share prices, execution of plans established prior to January 1, 2000, requires the prior approval of the Stockholders' Meeting.

#### COVERAGE FOR THE PLAN

Coverage for the stock option plan (ESOP) of Terra Networks, S.A. was arranged as follows:

- Two finance entities subscribed to a capital increase at Terra Networks, S.A. on October 5, 1999, for 14 million shares which, after all the capital increases envisaged in the public offering for subscription of shares, represent 5% of the capital stock of Terra Networks, S.A.
- The acquisition price in this increase was 2 per share (par value) plus an additional paid-in capital of 0.16 per share. The acquisition price amounted to Ptas. 5,026 million.
- Simultaneously, the finance entities granted an irrevocable purchase option on the shares to Terra Networks, S.A., to be exercised by March 31, 2004, at a price equal to the price at which the finance entities acquired the shares. Terra Networks, S.A. will exercise this option as and when it has to meet the commitments to its employees (with a view to being able to exercise one-third of the option at three different dates during the four-year period).

#### OTHER INTEREST ON ACCOUNTS PAYABLE AND SIMILAR EXPENSES

The detail of the "Other Interest on Accounts Payable and Similar Expenses" caption is as follows:

Millions of Pesetas		
	12/31/99	12/31/98
Debentures, bonds and other marketable debt securities	97,732	82,278
Loans and credits	41,629	50,081
Foreign currency loans	122,703	81,683
Promissory notes with credit entities	2,973	2,742
Other	31,310	24,251
	<b>296,347</b>	<b>241,035</b>

#### EXCHANGE LOSSES

The detail of exchange losses charged to income is as follows:

Millions of Pesetas		
	12/31/99	12/31/98
Repayment of loans	2,826	—
Losses deferred pursuant to Ministerial Order dated March 12, 1993	2,105	—
Operating transactions	54,597	6,898
Translation losses (Note 4-b)	33,279	15,682
	<b>92,807</b>	<b>22,580</b>

#### EXTRAORDINARY REVENUES

The detail of extraordinary revenues is as follows:

Millions of Pesetas		
	12/31/99	12/31/98
Prior years' revenues	3,208	1,728
Indemnity payments for breach of contract	356	2,866
Insurance indemnity payments received	5	1,287
Gain on sale of shares	—	119
Share in EURESCOM	—	117
Reversal of provisions	7,003	3,660
Recovery of taxes and supplier indemnity payments	18,514	—
Collections from third parties	2,113	619
Allowances for "preretirement" and early retirement released (Notes 4-l and 11-c)	—	459,500
Extraordinary revenues of T. Internacional operators	6,918	—
Revenues from fixed asset transactions	5,479	—
Amortization of capital gains at T. Internacional	2,987	—
Expenses recovered	1,426	—
Other extraordinary revenues earned in the year	9,615	6,085
	<b>57,624</b>	<b>475,981</b>

## EXTRAORDINARY EXPENSES

Millions of Pesetas	12/31/99	12/31/98
Supplementary pension payments to retired employees (Note 4-l)	15,833	16,435
<b>Provisions recorded:</b>		
Provision for contingencies	30,607	13,312
<b>"Preretirement" and early retirement:</b>		
Period provision (Note 4-l)	28,040	125,891
Extraordinary provision (Note 4-l)	—	459,500
Other	12,356	20,281
Compensation for transfers	78	43
Subsidies and voluntary donations	1,264	570
Tax assessments	—	—
Airtel Móvil indemnity (Royal Decree 1252/1997)	—	12,033
Business liquidations and other	—	369
Directory overprinting	—	1,363
Write-down of administrative concessions (Note 6)	62,106	5,048
Other provisions	13,173	—
Indemnity payments	28,170	—
Fines and penalties	8,101	—
Other extraordinary expenses	23,953	8,535
	<b>223,681</b>	<b>663,380</b>

Under Royal Decree 1252/1997, Telefónica was obliged to reduce by Ptas.15,000 million the interconnection charges to Airtel Móvil, S.A., thus concluding the dispute between the Spanish government and the European Commission regarding the contributions made by Airtel Móvil for the award of the GSM license. In addition to other measures adopted by the Spanish government, said decision was completed with the signature by Telefónica and Airtel of a commercial agreement which is satisfactory to the interests of both companies. Charges are made to expenses for the year as the interconnection revenues arise. Ptas.12,033 million were charged to income in this connection in 1998.

## VARIATION IN FIXED ASSET AND CONTROL PORTFOLIO PROVISIONS

The detail of this caption is as follows:

Millions of Pesetas	12/31/99	12/31/98
Provision for losses on fixed assets (Note 7)	220,056	—
Provision for diminution in value of control portfolio	1,957	(724)
	<b>222,013</b>	<b>(724)</b>

## LOSSES ON FIXED ASSETS

This caption includes net amounts of Ptas.22,547 million and Ptas.20,582 million as of December 31,1999 and 1998, respectively, recorded as a

result of the dismantling of Telefónica de España's plant for network digitalization (see Note 7).

## MANAGEMENT CONTRACT WITH TELEFÓNICA DE ARGENTINA, S.A.

In November 1990 Telefónica and Telefónica Argentina entered into a management contract expiring in 2003 regulating the counseling services rendered by Telefónica and the price thereof. The revenues received in this connection, net of the payments for third-party counseling, amounted to Ptas.8,008 million and Ptas.6,205 million as of December 31,1999 and 1998, respectively. These revenues were eliminated in consolidation.

## OTHER TECHNICAL KNOW-HOW TRANSFER AND MANAGEMENT CONTRACTS

On May 16,1994, Telefónica del Perú entered into a technical know-how transfer and management contract with Telefónica Internacional for a five-year term, automatically renewable for additional five-year periods, up to a maximum of 20 years, coinciding with the initial term of the concession contract. In June 1999, at the request of Telefónica del Perú, S.A. for the renewal of the concession for a period of five years, the Peruvian State approved the renewal and extended the term through 2019. The revenues received in this connection amounted to Ptas.18,657 million as of December 31,1999 (Ptas.16,755 million in 1998). These revenues were eliminated in consolidation.

In December 1996, following the privatization of CRT, the consortium which was awarded a holding in Companhia Riograndense de Telecomunicações (CRT) signed an agreement whereby it receives 1% of CRT's net revenues on the basis of compliance with certain network service quality requirements defined in the agreement. The duration of the agreement is five years, renewable for a further five years, and is subsequently renewable for consecutive two-year periods.

In 1999 and 1998 this agreement generated Ptas.443 million and Ptas.1,284 million, respectively, of revenues allocable to the Group before taxes and withholdings, and these amounts were recorded under the "Sundry and Other Current Operating Revenues" caption. The portion relating to Celular CRT in 1999 was eliminated in consolidation.

In 1998 the Brazilian telecommunications regulator (ANATEL) and the relevant Stockholders' Meetings approved the management contracts that the Group will have with Telesp, S.A., Tele Sudeste Celular Participações, S.A. and Tele Leste Participações, S.A. These contracts have an initial term of five years and are all renewable. Telefónica Internacional will receive an annual fee equal to a percentage ranging from 1% to 2% of the aforementioned companies' net revenues. As of December 31,1999 and 1998, the Group's revenues under these contracts amounted to Ptas.6,385 million and Ptas.2,252 million, respectively. The portions relating to Telesp and Tele Sudeste Celular Participações were eliminated in consolidation from January 1,1999.

On January 1, 1999, Telefónica de El Salvador, S.A. de C.V. entered into a management and business management assistance contract and a technical know-how transfer contract with Telefónica Internacional. The two contracts have a term of five years and are renewable, the first automatically for two-year periods and the second for five-year periods up to a maximum of 20 years. The revenues received in this connection, which amounted to Ptas.86 million, were eliminated in consolidation.

## 21. DIRECTORS' COMPENSATION AND OTHER BENEFITS

In 1999 and 1998 the salaries and per diems earned by the Board members amounted to Ptas.1,233 million and Ptas.1,057 million, respectively.

The pension commitments to directors with executive functions arise solely from their status as employees and amounted to Ptas.2 million as of December 31, 1999 and 1998. There are no pension commitments to the other Board members.

Also, the cost for the Telefónica Group of the compensation plans linked to the share market price in which directors participate as executives amounted to Ptas.146 million.

## 22. OTHER INFORMATION

### A) LITIGATION IN PROGRESS

Telefónica and the Group companies it controls are party to various civil, labor, administrative, tax and antitrust lawsuits, legal proceedings and disputes. The Company's legal advisers consider that no liabilities material to the Group's economic and financial position will arise from these proceedings, which are currently being conducted or are in the appeal phase.

However, it should be noted that several claims by employees of the subsidiary Telefónica de España, S.A. who availed themselves in the past of the early retirement plans established by this subsidiary are in a pre-judicial phase. If these claims ultimately go to court, giving rise to the related labor lawsuits, and these lawsuits cover all the persons who have standing to sue, the sum in dispute would amount to Ptas.15,000 million.

However, based on an analysis of the merits of the claims by the Company's technical services, the latter have concluded that the possibility of the claims being upheld is remote.

### B) SUNDRY COMMITMENTS AND RIGHTS

Millions of Pesetas	12/31/99	12/31/98
Financial transaction guarantees	8,489	5,912
Other	—	1,707

No loss is expected in connection with these commitments.

Telefónica has provided guarantees to Banco Santander, S.A. and Banco Central Hispanoamericano, S.A., by means of an agreement dated August 7, 1997, to ensure the liquidity and value of the investment made by them in Antena 3 de Televisión, S.A., including interest at Mibor during the period up to exercise of the option, less the dividends received in said period. This guarantee is applicable from the second year of the investment in strict compliance with current legislation.

On June 1, 1999, the agreements entered into by Telefónica and its partners were executed on August 7, 1997. Accordingly, the Company effectively acquired 6,478 shares of Antena 3 de Televisión, S.A., with effective acquisition of a greater number of shares being subject to fulfillment of the related legal (limitation of ownership to 49% of capital stock) and commercial requirements.

### C) PUT OPTION ON TELEFÓNICA PERÚ HOLDING

On November 3, 1997, Telefónica Internacional arranged a put option with the current stockholders of Telefónica Perú Holding, S.A. on this company, whereby it undertook, at the request of these stockholders, to acquire their ownership interests in this company. For the exercise price of the option, Telefónica Internacional can choose between a cash amount in U.S. dollars equal to the market value on the New York Stock Exchange of the ADRs of Telefónica del Perú, S.A. equal to its holding in Telefónica Perú Holding, or a number of ADRs of Telefónica del Perú, S.A. equal in value to all the shares of Telefónica Perú Holding owned by the stockholders at the date on which the option is exercised. The option may be exercised on either September 14, 2001, or March 14, 2005.

### D) CALLOPTION ON RBS

As a result of the obligations assumed in 1996, on December 21, 1998, TISA signed a put option agreement in favor of Chase Manhattan Bank whereby, in the event of nonpayment by RBS of the principal amount of a bond issue, TISA would be obliged to acquire 69,393,817 shares of TBS (then a holding company controlling CRT Fija and CRT Celular) owned by RBS, pledged to Chase Manhattan Bank, for US\$ 65.5 million. The put option could be exercised in the period from December 27, 2001, to January 27, 2002.

As a result of the spin-off of TBS and the acquisition by TISA of RBS's holding in the controlling holding company of CRT Celular, S.A., an

amendment to the putoption agreement will be signed so that it relates exclusively to 96,131,114 shares of the controlling holding company of CRT Fija owned by RBS, rendering the shares of CRT Celular, S.A. acquired by TISA free and clear of charges and liens.

#### E) CLEARCOM (PUERTO RICO)

On February 4, 1999, Telefónica Larga Distancia de Puerto Rico (TLD) and Clearcom, L.P. entered into an agreement to jointly engage in the cellular telephony business in Puerto Rico through a new company.

Clearcom will have the option to acquire TLD's holding in the new company the year before that in which the FCC restrictions are lifted (January 2002). Clearcom would pay the higher of (i) 150% of the principal plus interest of the Secured Convertible Promissory Note or (ii) 125% of the market value of the shares of the new company into which the Secured Convertible Promissory Note would be converted at the acquisition date.

TLD will have the option, at any time after the date on which the restrictions imposed by the FCC are lifted, to acquire from Clearcom the number of shares required to acquire a holding of 50.1% in the company. The price payable by TLD to Clearcom will be the market value of the shares at the acquisition date.

#### F) CALL AND PUT OPTION AGREEMENT FOR SHARES OF TELEFÓNICA CENTRO AMÉRICA, S.L.

On November 19, 1998, Telefónica Internacional entered into various agreements with Mesotel de Costa Rica, S.A. (Mesotel) for put and call options on the shares owned by the latter in Telefónica de Centroamérica, S.L. (Telca). Under these agreements, Mesotel has an option exercisable from August 13, 2003, through February 12, 2005, whereby it can sell to Telefónica Internacional all (49% of capital stock) or a portion of the Telca shares that it owns. Telefónica Internacional has a call option on all the Telca shares owned by Mesotel, which it can exercise from February 13, 2005, through August 12, 2006. The exercise price of the two options will be determined, in the event that they are exercised, by an investment bank, which will calculate the market value of the shares.

#### G) CALL OPTION ON CABLE VISIÓN, S.A.

There is also a reciprocal option between Telefónica Internacional, Tele Comunications Inc. (TCI) and the other stockholders whereby any of the parties may oblige the others to purchase or sell the company's shares. This option may be exercised at any time after September 30, 1998. The share price will be determined by the stockholder that exercises the option, and the other parties may choose whether to purchase or sell the shares at that price.

Also, TCI has entered into a management contract with Cablevisión, S.A. expiring on September 19, 2002. On expiration, if the contract is not

renewed, TCI may sell its shares in this company to the other stockholders for the price set by an investment bank.

#### H) CALL OPTION ON ATLÁNTIDA COMUNICACIONES, S.A. (ATCO)

Telefónica Internacional granted an option to Syrup Trading, S.A., a stockholder of Atlántida Comunicaciones, S.A. (ATCO), whereby the latter may sell all or certain of its shares to the other stockholders in proportion to their percentage of ownership. This option, which would be rendered null and void if the company's shares were admitted to listing, can be exercised in the period between the 30<sup>th</sup> and the 60<sup>th</sup> month after March 26, 1998.

This call option will be cancelled, since Telefónica, through Telefónica Media, will own all the shares of ATCO after the acquisition of the remaining 70% in the first half of 2000 (see Note 23).

On January 5, 2000, Telefónica Media Argentina, S.A. acquired all the capital stock of ATCO.

#### I) CALL AND PUT OPTION ON TORNEOS Y COMPETENCIAS, S.A.

The Torneos y Competencias, S.A. stockholder agreement entered into by Telefónica Internacional and the other stockholders provides that, if a proposal is submitted for the admission to listing of the company's shares and such proposal is rejected, the party that opposed listing must either purchase the shares of the party submitting the proposal or sell its own shares. This option may not be exercised prior to September 30, 2000.

#### J) PUT OPTION ON TELE BRASIL HOLDING

Telefónica Internacional, S.A. granted a put option to Banco Bilbao Vizcaya whereby the latter may sell, and Telefónica Internacional, S.A. is obliged to purchase, the shares of the holding companies that control Companhia Riograndense de Telecomunicações, Celular CRT and Telesp owned by the latter for US\$ 148.9 million. This amount would be increased by the interest accrued thereon at an annual rate of Libor divided by two, from August 4, 1998, through the date on which the shares to which this option relates are transferred to TISA and the price is paid. Similarly, any amount received by Banco Bilbao Vizcaya from any of the aforementioned holding companies in the form of dividends, reserve distributions, capital reductions or any other similar item payable to stockholders would be deducted from the aforementioned amount, which would be increased in turn by the accrued interest on such payments at an annual rate of Libor divided by two, from the date on which such payments are made to BBV through the date on which the shares to which this option relates are transferred to TISA and the price is paid.

#### K) AGREEMENTS WITH IBERDROLA

On July 27, 1998, Telefónica Internacional and Iberdrola Inverimentos entered into an agreement to regulate their relations within the

consortium that the two parties had setup for the investment in Tele Leste Celular Participações, S.A. Under this agreement, Iberdrola offered Telefónica Internacional the option to acquire 12% of the shares owned by it, as soon as Brazilian legislation so permits.

#### L) CALL OPTION ON SHARES OF REY MORENO, S.A. (COLOMBIA)

Telefónica Data has entered into with the other stockholders of Rey Moreno, S.A. a majority stock call option agreement whereby it can acquire an additional holding of 1% to increase its ownership interest to 51%. This call option may be exercised in 2002, 2003 or 2004 and the option exercise price is ten times the EBITDA per share multiplied by a correcting factor established at 2,1,7 and 1,5, depending on whether the option is exercised in 2002, 2003 or 2004.

Based on the Business Plan, the estimated price for the acquisition of this 1% holding would be US\$ 2 million.

#### M) MOROCCO TELECOM SALE COMMITMENT

The rules of the call for tenders for the second GSM license in Morocco establish that the "Caisse de Dépôts et Gestion" is entitled to acquire an 8% holding in the successful bidder, Médi Telecom, and, accordingly, pursuant to the agreements between its stockholders, Telefónica InterContinental must sell 4% of the shares to this finance entity. This sale was concluded on January 5, 2000.

#### N) AGREEMENTS IN ARGENTINA

In December 1999 Telefónica, S.A. and the mutual fund Hicks, Muse, Tate & Furst Incorporated (HMT&F), the main stockholder of Citicorp Equity Investments (CEI), entered into a preliminary agreement to form a strategic alliance which will result in the sharing out of the assets of the Argentine companies Cointel, Cablevisión and Torneos y Competencias.

Under these agreements, Telefónica, by acquiring a holding of at least 97,5% in CEI, will acquire 50% of the shares of Cointel and, through this company, it will increase its holding in Telefónica de Argentina, S.A. (TASA) by 26,44% to 52,88%; it will also take a controlling interest in Atlántica Comunicaciones (ATCO) through the acquisition of 30% of its capital stock (see Note 23) and of 50% of AC Inversora (ACISA); it will also acquire the right to receive the remaining 50% of TASA's management fees and will sell to a newly-formed company, in which Telefónica will not have any ownership interest, all its direct and indirect interests in Cablevisión S.A.

As consideration for these acquisitions, Telefónica will issue and deliver a certain number of shares (see Note 23) to HMT&F and the other stockholders of CEI.

As consideration for the sale of Cablevisión, Telefónica will receive US\$ 545 million and the purchasers will assume a debt of US\$ 395 million.

The transaction will be definitively formalized before the end of March 2000, and its full execution, which is subject to various regulatory and contractual conditions, is expected to take place in the third quarter of 2000.

#### O) SAM UNDERWATER CABLE AGREEMENTS

On July 5, 1999, Telefónica Internacional, S.A. entered into a supply contract with Tyco Submarine Services Ltd. (TSSL) for the construction of an underwater cable known as SAM-1. Telefónica Internacional S.A. will transfer title to this cable to a company domiciled in Uruguay that will be called Telefónica SAM S.A.F.I.

On December 22, 1999, Telefónica Internacional, S.A. entered into a joint venture agreement with Tyco International Ltd., the parent company of TSSL, whereby Tyco will acquire 15% of the total capital stock of Telefónica SAM S.A.F.I. The agreement also grants Tyco a put option on all its shares of Telefónica SAM if Telefónica does not launch a public offering by December 31, 2002. The acquisition price will be equal to the contributions made by Tyco to the company's capital stock.

#### P) AGREEMENTS ON TUPR

On December 22, 1992, Telefónica International Holding B.V. entered into a stockholder agreement with the Puerto Rico Telephone Authority (ATPR) to regulate their relations with TUPR. Pursuant to the agreement, on May 21, 1999, Telefónica announced its intention to exercise the option on TUPR.

#### Q) INVENTORY PURCHASE COMMITMENTS OF THE SUBSIDIARY DISTRIBUTORA DE TELEVISIÓN DIGITAL, S.A.

The detail, by year and currency, of the equivalent peseta value of the firm audiovisual right purchase contracts or commitments acquired by DTS, Distribuidora de Televisión Digital, S.A. as of December 31, 1999, is as follows:

Broadcasting Rights	Millions Pesetas	Thousand Swiss Francs
2000	1,283	14,340
2001	856	12,987
2002	571	26,515
2003	36	—
<b>Total</b>	<b>2,746</b>	<b>53,842</b>

Audiovisual Rights	Millions Pesetas	Thousand U.S. Dollars
2000	7,581	5,242
2001	4,871	5,030
2002	1,989	5,702
2003	2,062	4,187
2004	2,426	910
<b>Total</b>	<b>18,929</b>	<b>21,071</b>

Certain commitments acquired by the Company also include a variable consideration based on the revenues it obtains from exploiting the rights acquired, the amount of which cannot be determined objectively.

In addition to the aforementioned commitments, there are firm broadcasting right purchase contracts, principally for 2000, amounting to Ptas.2,499 million, which will be recorded under the "Other Programming and Production Costs" caption in the company's statement of operations when the related broadcast is made.

Ptas.1,500 million of the commitments acquired plus the related variable consideration are guaranteed by Telefónica Media, S.A., a stockholder of the company.

#### R) INVENTORY SALE COMMITMENTS OF THE SUBSIDIARY DTS DISTRIBUIDORA DE TELEVISIÓN DIGITAL, S.A.

As of December 31, 1999, there were firm contracts with the Group company Antena 3 de Televisión, S.A. for the sale of audiovisual rights to broadcast productions using media other than pay-per-view and pay television amounting to Ptas.1,194,410,000, of which the company has acquired rights amounting to Ptas.894,410,000 and has signed firm contracts for the purchase of the remaining rights.

The firm commitments acquired by the company also include commitments to assign broadcasting rights to other operators, denominated in Swiss francs and amounting to Ptas.13,394 million, plus a variable consideration based on the revenues obtained by the operators from pay-per-view broadcasting.

There are also firm contracts for the sale of audiovisual rights to Media Park, S.A., a stockholder of Vía Digital, amounting to Ptas. 3,890 million.

#### S) INVENTORY PURCHASE COMMITMENTS OF THE SUBSIDIARY ANTENA 3 DE TELEVISIÓN, S.A.

At 1999 year-end the Antena 3 de Televisión, S.A. and Dependent Companies Group had commitments, mainly for the purchase of audiovisual proprietary rights, amounting to US\$ 103,903,534 (equal to approximately Ptas.15,861 million) and Ptas. 5,289 million.

## 23. SUBSEQUENT EVENTS

### "YEAR 2000 ISSUE"

In April 1997 Telefónica, aware of the scope and magnitude of this problem, initiated a corporate project known as "Millennium" to address and solve the problems and incidents that the arrival of the Year 2000 may have with respect to the activities, items, processes and systems involved in managing the business.

The costs incurred in solving the Year 2000 problems amounted to more than Ptas.22,000 million, of which approximately Ptas.13,700 million were incurred in 1999.

The Telefónica Group companies have satisfactorily overcome the potential problem of the change of date to January 1, 2000, and no anomalies affecting the functioning of the wireline and wireless telephone service or the computerized management processes had been observed at the date of preparation of these consolidated financial statements.

### AGREEMENTS IN ARGENTINA

On January 5, 2000, Telefónica Media entered into an agreement to acquire all the remaining capital stock (40%) of ATCO owned by its current stockholders, the Vigil Group, Donaldson, Lufkin and Jenrette, for US\$ 560 million payable in Telefónica shares. Under this transaction, Telefónica will also acquire a 50% holding in ACISA.

### TENDER OFFERS FOR TELES, TELESUDESTE, TASA AND TELEFÓNICA DE PERÚ, S.A.

On January 12, 2000, the Board of Directors resolved to offer the stockholders of its subsidiaries Telecomunicaciones de Sao Paulo, S.A. (Telesp), Tele Sudeste Celular Participações, S.A. (Telesudeste), Telefónica de Argentina, S.A. (TASA) and Telefónica del Perú, S.A. the possibility to exchange their shares and American Depositary Shares (ADSs) of these companies for shares of Telefónica, S.A.

As a prior step, it was also resolved to file an application for admission to listing of the Telefónica shares or the securities representing them (ADSs or Brazilian Depositary Receipts - BDRs) on the main stock markets in Brazil, Argentina and Peru.

### CAPITAL INCREASES

On February 4, 2000, the Special Stockholders' Meeting approved six capital increases to cater for the offers described in the preceding section and for the acquisition of CEI (see Note 22) and ATCO, described above. The detail is as follows:

1. Increase of 432,159,596 through the issuance of 432,159,596 common shares of 1 par value each with an additional paid-in capital of 10.91 per share, which will be subscribed and paid in full through nonmonetary contributions consisting of the common and preferred shares of Telesp or the securities representing them (ADSs). The exchange ratios are as follows:
  - 36 shares of Telefónica for every 46,000 common shares of Telesp
  - 48 shares of Telefónica for every 37,000 preferred shares of Telesp
  - 12 ADSs of Telefónica for every 46,000 common shares of Telesp
  - 16 ADSs of Telefónica for every 37,000 preferred shares of Telesp
  - 16 ADSs of Telefónica for every 37 ADSs of Telesp

2. Increase of 102,889,652 through the issuance of 102,889,652 common shares of 1 par value each with an additional paid-in capital of 2.995 per share, which will be subscribed and paid in full through nonmonetary contributions consisting of the common and preferred shares of Tele Sudeste or the securities representing them (ADSs). The exchange ratios are as follows:

- 12 shares of Telefónica for every 54,000 common shares of Telesudeste
- 24 shares of Telefónica for every 55,000 preferred shares of Telesudeste
- 4 ADSs of Telefónica for every 54,000 common shares of Telesudeste
- 8 ADSs of Telefónica for every 55,000 preferred shares of Telesudeste
- 8 ADSs of Telefónica for every 11 ADSs of Telesudeste

3. Increase of 172,037,573 through the issuance of 172,037,573 common shares of 1 par value each with an additional paid-in capital of 8.129 per share, which will be subscribed and paid in full through nonmonetary contributions consisting of TASA shares or the securities representing them (ADSs). The exchange ratios are as follows:

- 15 shares of Telefónica for every 90 shares of TASA
- 5 ADSs of Telefónica for every 90 series "B" shares of TASA
- 5 ADSs of Telefónica for every 9 ADSs of TASA

4. Increase of 85,464,976 through the issuance of 85,464,976 common shares of 1 par value each with an additional paid-in capital of 8.072 per share, which will be subscribed and paid in full through nonmonetary contributions consisting of Telefónica del Perú, S.A. shares or the securities representing them (ADSs). The exchange ratios are as follows:

- 7 ADSs of Telefónica for every 290 series «B» or «C» shares of Telefónica del Perú
- 7 ADSs of Telefónica for every 29 ADSs of Telefónica del Perú

5. Increase of 19,500,000 through the issuance of 19,500,000 common shares of 1 par value each and an additional paid-in capital to be determined at an amount of between 5.5 and 6.5. The new shares will be subscribed and paid through nonmonetary contributions consisting of shares of Vigil Corp, S.A. and Ambit, S.A.

6. Increase of 110,000,000 through the issuance of 110,000,000 shares of 1 par value each and an additional paid-in capital to be determined at an amount of between 10 and 13. The new shares will be subscribed and paid through nonmonetary contributions consisting of shares of CEI Citicorp Holdings.

## NEW ORGANIZATIONAL STRUCTURE

On January 12, 2000, the Board of Directors approved the creation of two new global businesses, Telefónica Móviles, which will group together all the Group's wireless communications businesses in the world, currently with a presence in Spain, Latin America, Europe and the Maghreb.

The second business will be Telefónica DataCorp, which will encompass the integrated data communications and corporate solutions businesses for large companies in Spain, Europe and Latin America.

On January 12, 2000, the Board of Directors approved the creation of a new line of business to expedite the development of e-commerce between companies in conjunction with Terra Networks and Telefónica DataCorp.

In this same context, in February 2000 the Telefónica Group entered into a strategic agreement with Ariba.com, the world leader in business-to-business services and software, for the development based on the solutions developed by Ariba.com, of the e-commerce between companies in all operating areas of the Telefónica Group.

## CAPITAL INCREASE AT VÍA DIGITAL

In January 2000 the investee Vía Digital completed the capital increase approved on December 13, 1999. Following the increase, the Telefónica Group reduced its holding in this company to 48.63%. As a result of this transaction, Telefónica Media entered into agreements with a passive financial investor which has become a stockholder of Vía Digital, and with other stockholders of the company to guarantee the liquidity of the investments made and the call options thereon. Approximately 25.25% (which can be increased to 35.70%) of the capital stock is affected.

## AGREEMENTS WITH BBVA AND LA CAIXA

In January 2000 Telefónica and Banco Bilbao Vizcaya Argentaria S.A. (BBVA) entered into an agreement whereby BBVA acquired from Telefónica 3% of the capital stock of Terra Networks, S.A. for its market value (Ptas. 81,550 million) and, in turn, Terra Networks S.A. would become a stockholder of Uno-e Bank through the acquisition of 35% of its capital stock through a capital increase. This finance entity was formed by BBVA to provide banking and financial services through the Internet in Spain, Latin America and the Spanish-speaking community in the U.S.

Subsequently, in January and February 2000, Telefónica formalized with BBVA, on the one hand, and with La Caixa, on the other, strategic agreements for the joint performance of projects in the Internet, e-commerce and means of payment areas.

Under the agreement with BBVA, in 2000 BBVA will increase its holding in Telefónica to approximately 10%, and Telefónica will acquire up



to 3% of the capital stock of BBVA and appoint one Deputy Chairman to the Board of Directors.

The agreement with BBVA initially provides for the specific performance of 14 joint projects, including most notably the Telefónica Group's 49% holding in Banco Uno-e Bank S.A. and the acquisition by BBVA of 40% of the capital stock of the company to be formed to engage in business-to-business services, in which La Caixa will also have a holding of almost 20%.

The agreements also include revisions relating to the ownership interests of BBVA and La Caixa in the CommuniCapital Partners fund and in the consortium led by Telefónica for the obtainment of UMTS licenses in Europe.

Also, Telefónica will perform joint projects with BBVA and La Caixa for the use of new means of payment.

The agreements also envisage the incorporation of joint investment and development companies in the areas of e-commerce between businesses and consumers (B2C) and between consumers (C2C) and the cooperation of the two groups in the development of content portals and interactive services, transactional banking and means of payment.

Another of the events arising from the alliance is the acquisition by BBVA of a 20% holding in Atento (until now a wholly-owned investee of Telefónica), a company which engages in the call-center business in Europe, the U.S. and Latin America and which currently has more than 60,000 customer service positions. BBVA will transfer to Atento, S.A. all its call-center business.

The two entities initially undertake to coordinate their actions in Hispasat, S.A., in which they have an aggregate ownership interest of around 40%.

On October 19, 1999, the Boards of Directors of Banco Bilbao Vizcaya and Argentaria, Caja Postal y Banco Hipotecario, S.A. prepared a merger plan that was approved by the Stockholders' Meetings of the two companies on December 18, 1999. The merger took place through the absorption of Argentaria by Banco Bilbao Vizcaya and, accordingly, the post-merger bank changed its name to Banco Bilbao Vizcaya Argentaria, S.A. (BBVA). Its registered office remained in Bilbao, with operating headquarters in Madrid and Bilbao. On February 17, 2000, the new company (BBVA) notified the CNMV that its holding in Telefónica, S.A.'s capital stock was 9.1%.

#### SALE OF AMPER

In February 2000 Telefónica, S.A. and Arlington Capital Investors Limited, the manager of the mutual funds European Renaissance Fund (ERF) and European Strategic Investors Holdings (ESIH), entered into an agreement

for the sale by Telefónica, S.A. to the aforementioned mutual funds of 1,702,858 Amper, S.A. shares, representing 6.1% of its capital stock.

Following the aforementioned share purchase, Telefónica, S.A.'s holding in Amper, S.A. amounts to 1,702,858 shares, representing 6.1% of the total capital stock of Amper, S.A.

#### AGREEMENT BETWEEN ATENTO AND QUATRO/A

Atento entered into an agreement in February to unify its operations with those of Quatro/A throughout Brazil. Under the agreement, which was approved by the stockholders of the two companies, Atento will fully control the operations of Quatro/A Telemarketing & Centrais de Atendimento and its subsidiary in Bahía, Quatro/A do Nordeste.

#### AGREEMENT WITH AMZAK

In February 2000 Telefónica El Salvador, a subsidiary of the Telefónica Group, and Amzak International agreed to form a strategic association that will include a joint venture that will offer cable telephony services to residential customers under the Telefónica brand name, using Amzak Internacional's existing cable television systems. The joint venture will have exclusive rights to provide telecommunications services through Amzak's network in El Salvador, which operates under the Amnet brand name.

#### TIES PROGRAM

The Board of Directors of Telefónica, S.A., under the general compensation and incentives policy of the Company and its subsidiaries, deemed it appropriate to establish a new Telefónica, S.A. stock option plan, known as the TIES program, aimed at all the permanent employees of Telefónica, S.A. and its Spanish and foreign subsidiaries who are not participating in any other similar stock option plan.

This plan will consist basically of offering its qualifying employees the possibility of acquiring a given number of Telefónica, S.A. shares at a very favorable subscription price. Also, those who avail themselves of the plan will be granted a number of stock options that will vary depending on the appreciation of Telefónica, S.A.'s shares with respect to an initial reference value.

The TIES program will encompass approximately 90,000 employees and will have a duration of four years from the date of its launch, which is envisaged for mid-2000.

In order to implement and execute this program, the Board of Directors of Telefónica, S.A. resolved to propose to the next Stockholders' Meeting the approval of two capital increases with monetary contribution, in order to be able to issue the shares that will initially be subscribed by the beneficiaries (first increase) and the shares required to cover in the future the exercise of the stock options to be granted (second increase).

## OTHER

On January 7, 2000, Telefónica Media entered into an agreement with Buena Vista Films Production, S.A., a subsidiary of The Walt Disney Company, and Arte Radiotelevisivo Argentina, S.A. (Artear), a subsidiary of the Argentine Clarín Group, to become one of the main stockholders of the Patagonik Group, a film producer for the Latin American market and for the Spanish-speaking community of the U.S. We consider that this transaction was made on December 23, 2000, and, per comments by the management of Telefonica Media, it is not planned to increase the ownership interest in the year 2000.

In February 2000 the subsidiary Terra Networks, S.A. acquired a holding of 30% in the Latin American on-line auction company DeRemate.com.

In compliance with current legislation, negotiations are currently being held with Tele Centro Sul for the sale of TBS Participações, S.A., a holding company that controls Companhia Riograndense de Telecomunicações-CRT. Also, pursuant to the resolution of February 1, 2000, of the Brazilian regulator, TBS Participações, S.A. has ceased to manage Companhia Riograndense de Telecomunicações-CRT.

## 24. CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Application of funds	12/31/99	12/31/98	Source of funds	12/31/99	12/31/98
<b>Funds applied in operations</b>	—	—	<b>Funds obtained from operations</b>	1,635,339	1,306,425
<b>Start-up and debt arrangement expenses</b>	73,902	41,581	<b>Stockholder contributions</b>		
			a) Capital increase	—	42,704
<b>Fixed asset additions</b>			b) Additional paid-in capital	—	384,331
a) Intangible assets	138,214	98,584	c) Minority interests	165,109	33,723
b) Property and equipment	1,057,334	636,495	<b>Deferred revenues</b>	18,178	24,616
c) Long-term financial investments	788,224	1,380,335	<b>Prepaid taxes</b>	3,939	—
<b>Prepaid taxes</b>	—	(495)			
<b>Deferred taxes</b>	2,869	—	<b>Long-term deferred taxes</b>	—	3,722
<b>Dividends</b>	54,649	105,397	<b>Long-term debt</b>	733,238	652,441
<b>Repayment or transfer of long-term debt</b>	380,124	525,343	<b>Fixed asset disposals</b>		
<b>Provisions</b>	178,418	93,907	a) Intangible assets	2,490	—
			b) Property and equipment	15,232	27,463
<b>Other funds applied</b>	—	209	c) Long-term financial investments	399,558	93,176
<b>Decrease in working capital due to disposal of holdings</b>	1,652	—	<b>Increase in working capital due to disposal of holdings</b>	—	2,354
<b>Decrease in working capital due to acquisition of holdings</b>	5,087	64,405	<b>Increase in working capital due to inclusion of subsidiaries</b>	—	—
<b>Variation in working capital due to translation differences</b>	26,415	(14,040)			
<b>TOTAL FUNDS APPLIED</b>	<b>2,706,888</b>	<b>2,931,721</b>	<b>TOTAL FUNDS OBTAINED</b>	<b>2,973,083</b>	<b>2,570,955</b>
<b>FUNDS OBTAINED IN EXCESS OF FUNDS APPLIED</b>	<b>267,196</b>	<b>—</b>	<b>FUNDS APPLIED IN EXCESS OF FUNDS OBTAINED</b>	<b>—</b>	<b>360,766</b>
<b>(INCREASE IN WORKING CAPITAL)</b>	<b>2,937,083</b>	<b>2,931,721</b>	<b>(DECREASE IN WORKING CAPITAL)</b>	<b>2,973,083</b>	<b>2,931,721</b>

## VARIATIONS IN WORKING CAPITAL

Increase in working capital	12/31/99	12/31/98	Decrease in working capital	12/31/99	12/31/98
Due from stockholders for capital calls	—	—	Due from stockholders for capital calls	—	—
Inventories	25,509	11,481	Inventories	—	—
Accounts receivable	106,638	247,457	Accounts receivable	—	—
Accounts payable	60,158	—	Accounts payable	—	603,111
Short-term financial investments	70,669	—	Short-term financial investments	7,757	65,693
Cash	—	17,857	Cash	—	—
Accrual accounts	11,978	31,243	Accrual accounts	—	—
<b>Total</b>	<b>274,952</b>	<b>308,038</b>	<b>Total</b>	<b>7,757</b>	<b>668,804</b>
<b>Variation in working capital</b>	<b>—</b>	<b>360,766</b>	<b>Variation in working capital</b>	<b>267,195</b>	<b>—</b>
	<b>274,952</b>	<b>668,804</b>		<b>274,952</b>	<b>668,804</b>

The reconciliation of the balances in the consolidated statements of income to the funds obtained from operations is as follows:

Millions of Pesetas	12/31/99	12/31/98
Income	300,293	217,584
Income attributed to minority interests	109,100	92,551
(Income) Loss attributed to associated companies	646	(12,199)
	410,039	297,936
<b>Add:</b>		
Dividends of companies carried by the equity method	5,116	4,806
Depreciation and amortization	1,016,418	725,434
Provision for property and equipment	225,378	(550)
Amortization of debt arrangement expenses	6,466	4,776
Amortization of goodwill in consolidation	32,334	21,135
Amortization of other deferred charges	27,756	—
Write-down of goodwill	—	5,048
Provision for diminution in value of financial investments	1,957	(724)
Exchange differences	(72,447)	(7,387)
Undepreciated plant dismantled	24,603	30,027
Provision for inventory adjustment	2,592	2,386
Period provisions	211,201	636,603
Provisions to technical reserves of insurance companies	4,959	28,921
Write-down of "Xacobeo 99" expenses	303	—
Deferred interest	25,963	50,818
Additional paid-in capital and redemption premiums	702	2,225
Deferred taxes and other	—	851
Property and equipment and intangible assets	11,275	6,234
Financial provision and supplementary pension payments to retired employees	15,832	16,520
Loss on disposal of consolidated companies	82	49
<b>Less:</b>		
Gain on disposal of long-term financial investments	—	119
Gain on disposal of property and equipment	5,580	11,636
Capital subsidies	12,860	12,088
Nonrefundable third-party contributions	4,032	11,416
Long-term deferred and prepaid taxes	24,113	—
Gain on disposal of consolidated companies	263,647	23,897
Provision for commitments to employees	—	459,500
Write-off of goodwill of Cablevisión	5,000	—
Other	(42)	27
<b>Funds obtained from operations</b>	<b>1,635,339</b>	<b>1,306,425</b>

## 25. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

These consolidated financial statements are presented on the basis of accounting principles generally accepted in Spain. Certain accounting practices applied by the Group that conform with generally accepted accounting principles in Spain may not conform with generally accepted accounting principles in other countries.

# EXHIBIT I

## CONTRIBUTION OF THE GROUP COMPANIES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The contribution of the Group companies to consolidated reserves and translation differences as of December 31, 1999 and 1998, was as follows:

Companies	December 31, 1999		December 31, 1998	
	To Reserves	To Translation Differences	To Reserves	To Translation Differences
Fonditel	1,881	—	1,275	—
G. Atento (5)	—	(250)	—	—
G. Casiopea	3,264	6	2,380	6
G. Comet	(1,012)	—	(885)	—
G. Estratel (3)	1,676	—	—	—
G. Telefónica Data España	1,913	28	—	—
G. Telefónica de España (5)	9,895	(3)	—	—
G. Telefónica Intercontinental	(118)	—	—	—
G. Telefónica Internacional	104,433	(63,797)	82,221	62,687
G. Telefónica Media	(14,386)	—	(7,152)	—
G. Telefónica Medios Comunicación (2)	—	—	(926)	—
G. Telefónica Publicidad e Informac.	2,130	2	9,903	—
G. Telefónica Servicios Móviles	90,992	—	45,681	—
G. Telefónica Sistemas (1)	—	—	2,864	—
G. Telefónica Soluciones Sectoriales (1)	—	—	(204)	—
G. Terra Network	—	(314)	—	—
G. Venturini (3)	(115)	—	—	—
Inmobiliaria Telefónica	2	—	—	—
Playa de Madrid	(8)	—	114	—
Taetel	1,585	—	1,535	—
Telefónica Europe B.V.	183	1	14	—
Telefónica SCR	(199)	—	—	—
Telefónica Telecomunicaciones Públicas (1)	—	—	5,897	—
Telfisa	119	—	52	—
Telyco (1)	—	—	(105)	—
Temasa (4)	—	—	5,274	—
Tidsa	3,735	—	3,221	—
Urbana Ibérica	94	—	95	—
Telefónica and associated companies	1,458,687	(6,605)	1,333,848	—
<b>Total Telefónica Group</b>	<b>1,664,751</b>	<b>(70,932)</b>	<b>1,485,102</b>	<b>62,693</b>
Intercompany fixed asset transactions	(26,936)	—	(31,604)	—
<b>Total contribution</b>	<b>1,637,815</b>	<b>(70,932)</b>	<b>1,453,498</b>	<b>62,693</b>

(1) Companies and groups included in the Telefónica de España Group in 1999.

(2) Companies and groups included in the Media Group in 1999.

(3) Groups spun off from the Telefónica Publicidad e Información Group with respect to 1998.

(4) Company sold in 1999.

(5) Groups newly created in 1999.

DEPENDENT COMPANIES AND THEIR HOLDINGS	Ownership		Telefónica Group	Capital Stock	Reserves	Interim Dividend	Income (Loss)	Gross book Value	Consolidation Method	Value in (10) Consolidation
	Direct	Indirect								
<b>Communicapital Inversiones, S.A.U. (**)</b> <i>Global telecommunications fund</i> <i>Gran Vía,28 - 28013 Madrid</i>	100.00%		100.00%	998				998	G.I.	—
Other holdings			N/A	N/A	N/A	N/A	N/A	7,212	C.	7,212
<b>Communicapital Gestión, S.A.U. (**)</b> <i>Global telecommunications fund</i> <i>Gran Vía,28 - 28013 Madrid</i>	100.00%		100.00%	10				10	G.I.	—
<b>Casiopea Reaseguradora, S.A.(LUXEMBOURG) (3)</b> <b>Reinsurance</b> <i>73, Rue du Fort Neipperg - L-2230 Luxembourg</i>	100.00%		100.00%	498	152	—	1,023	498	G.I.	—
Pléyade Peninsular Correduría de Seguros del Grupo Telefónica, S.A.(3) <i>Distribution, promotion or preparation of insurance contracts, operating as a broker</i> <i>Avda.General Per n,38 Master II - 17ª P. - 28020 Madrid</i>	16.67%	83.33%	100.00%	60	213	—	243	60	G.I.	—
Seguros de Vida y Pensiones Antares, S.A. (3) <i>Life insurance and pensions</i> <i>Avda.General Per n,38 - 28020 Madrid</i>	21.33%	78.67%	100.00%	1,850	2,335	—	1,253	1,960	G.I.	—
Fonditel Entidad Gestora de Fondos de Pensiones, S.A. (3)		3.78%								
<b>Compañía Española de Tecnología, S.A. (COMET) (*) (**) (3)</b> <i>Promotion of business initiatives and disposition of marketable securities</i> <i>Villanueva,2 duplicado planta 1ª Oficina 23 - 28001 Madrid</i>	100.00%		100.00%	1,048	(378)	—	(6)	1,681	G.I.	—
Cleon, S.A.(3) <i>Property development</i> <i>Villanueva,2 duplicado planta 1ª Oficina 23 - 28001 Madrid</i>		50.00%	50.00%	1,370	(56)	—	(5)	685	G.I.	—
<b>Fonditel Entidad Gestora de Fondos de Pensiones, S.A. (3)</b> <i>Pension fund management</i> <i>Pedro Teixeira nº 8 - 3ª P. - 28020 Madrid</i>	77.22%	3.78%	81.00%	2,612	2,322	—	942	2,115	G.I.	—
<b>Playa de Madrid, S.A.(*) (**) (12)</b> <i>Distribution of all manner of goods, operation of sporting and hospitality facilities</i> <i>Doctor Fleming, 3 - 1ª P - 28036 Madrid</i>	100.00%		100.00%	40	6	—	37	54	G.I.	—
<b>Taetel, S.L. (*) (**) (3)</b> <i>Acquisition, holding and disposal of shares and ownership interests in other companies</i> <i>Beatriz de Bobadilla,3 - 28040 Madrid</i>	100.00%		100.00%	4,700	1,585	—	46	4,700	G.I.	—
<b>Telefonía y Finanzas, S.A. (TELFISA) (*) (**) (3)</b> <i>Integrated cash management, counseling and financial support for Group companies</i> <i>Gran Vía,30-4ª Plta.- 28013 Madrid</i>	100.00%		100.00%	500	453	—	37	2,099	G.I.	—
<b>Telefónica Intercontinental, S.A.(*) (**) (1)</b> <i>Holding company</i> <i>Gran Vía,28 - 28013 Madrid</i>	100.00%		100.00%	5,242	(137)	—	(2,302)	5,242	G.I.	—
European Telecom International GmbH (AUSTRIA) <i>Alternative telecommunications operator</i> <i>Floragasse 7, A-1040 - Vienna</i>		100.00%	100.00%	12	1,370	—	(664)	6,292	G.I.	—
Iberadvance, S.A.(PORTUGAL) <i>Management of holdings in companies, mainly in the telecommunications industry</i> <i>Avd.Alvaro Pais, 2 - Lisbon</i>		50.00%	50.00%	10 M.ESC				4	C.	4
Azienda Comunale Energia e Ambiente - Telefónica,SpA (ITALY) <i>Voice,data and Internet provision</i>		49.00%	49.00%					5,636	C.	5,636
Medi Telecom (MOROCCO) <i>Operation of second GSM 900 license</i>		34.50%	34.50%	79,971				27,590	C.	27,590
<b>Telefónica de España, S.A.(*) (**) (1)</b> <i>Telecommunication services in Spain</i> <i>Gran Vía,28 - 28013 Madrid</i>	100.00%		100.00%	170,325	344,935	—	(34,406)	504,792	G.I.	—
Telefónica Soluciones Sectoriales, S.A.(*) (**) (12) <i>Consulting services for companies in the communications and IT industries</i> <i>General Per n,38 Master II - 17ª Plta.- 28020 Madrid</i>		100.00%	100.00%	2,285	(598)	—	(18)	1,783	G.I.	—
SOS Alzheimer, S.A.(2) <i>Assistance for the sufferers of and prevention of Alzheimer's disease</i> <i>Condesa de Venadito, 1 - Madrid</i>		71.00%	71.00%	120	(5)		(30)	64	G.I.	—
Portel Servicios Telemáticos, S.A.(1) <i>Systems engineering and telecommunications in port areas</i> <i>Avda.de Parten n,10 Campo de las Naciones - 28042 Madrid.</i>		49.00%	49.00%	500	(44)		20	224	E.M.	233

(\*) Companies filing consolidated corporate income tax returns in 1998.

(\*\*) Companies filing consolidated corporate income tax returns in 1999.

DEPENDENT COMPANIES AND THEIR HOLDINGS	Ownership		Telefónica Group	Capital Stock	Reserves	Interim Dividend	Income (Loss)	Gross book Value	Consolidation Method	Value in (10) Consolidation
	Direct	Indirect								
Bitel Baleares Innovación Telemática, S.A.(6) <i>Provision of services and systems engineering in the IT and communications fields</i> <i>Paseo Marítimo, 38 A - 07005 Palma de Mallorca</i>		44.00%	44.00%	416	(88)		32	130	E.M.	158
Gestión del Conocimiento, S.A. <i>Consulting and installation of Virtual Campuses for teaching</i> <i>Avda. Tibidabo, 39</i>		31.58%	31.58%	23	3		23	7	E.M.	15
Incatel <i>Provision of multimedia services</i> <i>Cebri n.3 - 35003 Las Palmas de Gran Canaria</i>		40.00%	40.00%	50	(5)		—	20	E.M.	18
Buildnet(2) <i>On-line and other information services for the construction industry via proprietary telecommunications systems.</i> <i>Edificio Triada, Avda.de Burgos, 17 Torre A,10º - 28036 Madrid.</i>		47.62%	47.62%	158	(154)		(13)	61	E.M.	—
QSL <i>Social and health care services through telephony networks</i> <i>Pabell n Fundaci n Once Isla de la Cartuja s/n - Sevilla</i>		33.33%	33.33%	60	(35)		(6)	20	E.M.	6
Tecnología e Ingeniería de Sist. y Servicios Avanzados de Telecom., S.A. (TISSAT) (7) <i>Systems engineering and marketing of advanced services</i> <i>Correos, 1 - 46002 Valencia</i>		30.77%	30.77%	130	138		31	29	E.M.	92
ZZJ Mundovisión <i>Satellite channel (satellite T.V. platform)</i> <i>D tiles, 14 - Polígono La Palmera - 41700 Dos Hermanas - Sevilla</i>		25.00%	25.00%	20	178		(74)	150	E.M.	31
Madrid 112, S.A.(6) <i>Emergency services and citizen advice in the Autonomous Community of Madrid</i> <i>Carretera de La Coru a,Km.22 - Las Rozas - Madrid</i>		24.50%	24.50%	1.000	(157)		—	226	E.M.	207
Fitex <i>Software research and development</i> <i>Carlos Calleja, 37 - 10001 Ceres</i>		30.93%	30.93%	99			(21)	31	E.M.	24
SEMCA <i>Emergency services in the Autonomous Community of Cantabria</i> <i>Casimiro Sainz,4 - Santander</i>		20.00%	20.00%	100				20	C	20
ATENET <i>Teaching via computer systems</i> <i>C/ Jorge Ju n.32</i>		16,00%	16,00%	125				20	C	20
Teleinformática y Comunicaciones, S.A. (TELYCO) (*) (**) (3) <i>Promotion, marketing and distribution of telephone and telematic equipment and services</i> <i>Plaza Descubridor Diego de Ord s, 3 - Pta.4ª - 28003 Madrid</i>		100.00%	100.00%	460	2,781	—	1,091	2,075	G.I.	—
Telefónica Sistemas, S.A.(*) (**) (3) <i>Systems engineering, networks and telecommunications infrastructure</i> <i>Sor Angela de la Cruz,3 - Pl.9ª - 28020 Madrid</i>		100.00%	100.00%	1.403	2,981	—	638	2,366	G.I.	—
Telefónica Sistemas de Información Geográfica, S.A. (TSIG) (*) (**) (3) <i>Computer advisory services and digital cartography</i> <i>Rosario Pino, 5 - 10ª P. - 28020 Madrid</i>		100.00%	100.00%	215	150	—	6	230	G.I.	—
Telefónica Sistemas Ingeniería de Productos, S.A. (TSIP) (*) (**) (3) <i>Public communications network infrastructure</i> <i>Torrelaguna,79 - 2ª P. - 28043 Madrid</i>		100.00%	100.00%	150	431	—	355	150	G.I.	—
Telefónica Sistemas Ingeniería de Productos Guatemala, S.A. <i>Telecommunications systems and equipment engineering</i> <i>Guatemala</i>		100.00%	100.00%	1	—	—	—	1	G.I.	—
Telefónica Ingeniería de Comunicaciones, S.A.(*) (**) (3) <i>Management and marketing of networks</i> <i>Goya,4 - 28001 Madrid</i>		100.00%	100.00%	500	(224)	—	123	307	G.I.	—
Telefónica Sistemas El Salvador, S.A.de C. V. (EL SALVADOR) <i>Provision of engineering and systems services</i> <i>San Salvador</i>		100.00%	100.00%	4	(1)	—	(16)	4	G.I.	—
T.S. Telefónica Sistemas de Portugal, S.A.(PORTUGAL) (2) (8) <i>Communications systems equipment engineering</i> <i>Pra a de Albalade,6 - 2ª A-1 - 1700 Lisboa</i>		87.50%	99.99%	51	(82)	—	—	50	G.I.	—
Telefónica Telecomunicaciones Públicas, S.A.(*) (**) (1) <i>Installation of public telephones</i> <i>Plaza de Carlos Trias Bertr n,7 - 28020 Madrid</i>		100.00%	100.00%	200	7,069	—	3.975	10,669	G.I.	—
Telefónica Consultora de Proyectos, S.A.(2) <i>Teleassistance and value-added services</i> <i>Condesa de Venadito, 1 - 28027 Madrid</i>		100.00%	100.00%	1.800	(111)	—	(174)	1,737	G.I.	—

(\*) Companies filing consolidated corporate income tax returns in 1998.

(\*\*) Companies filing consolidated corporate income tax returns in 1999.

DEPENDENT COMPANIES AND THEIR HOLDINGS	Ownership		Telefónica Group	Capital Stock	Reserves	Interim Dividend	Income (Loss)	Gross book Value	Consolidation Method	Value in (10) Consolidation
	Direct	Indirect								
Telefónica Ingeniería de Seguridad, S.A.(2) <i>Security services and systems</i> <i>Condesa de Venadito, 1 - 28027 Madrid</i>		100.00%	100.00%	40	139	—	60	595	G.I.	—
Telefónica Consultora y Servicios, S.A.(2) <i>Network and administration outsourcing</i> <i>Condesa de Venadito, 1 - 28027 Madrid</i>		100.00%	100.00%	50	47	—	35	105	G.I.	—
Utilicare Servicios Asistenciales, S.A.(2) <i>Care and assistance for the elderly and the infirm</i> <i>Condesa de Venadito, 1 - 28027 Madrid</i>		70.00%	70.00%	250	(16)	—	(64)	175	G.I.	—
SODETEL, Comercial de Servicios de Telecomunicaciones, S.A. <i>Consulting, installation and operation of telecommunications services</i>		50.00%	50.00%	20				10	E.M.	10
Digimedia, S.A.		50.00%	50.00%	10				5	E.M.	5
Andalucía Digital Multimedia, S.A.		24.00%	24.00%					1,480	E.M.	1,480
Other holdings		N/A	N/A	N/A	N/A		N/A	4,342	C.	4,342
Telefónica Cable, S.A. (*) (**) (t) <i>Cable telecommunications services</i> <i>Virgilio, 2 - Edificio 2 - Ciudad de la Imagen (Pozuelo de Alarc n) - 28223 Madrid</i>		100.00%	100.00%	3,000	(634)	—	(578)	2,249	G.I.	—
Telefónica Cable Cantabria, S.A. (*) (**) (t) <i>Cable television systems and value-added services</i> <i>La Milagrosa, 2 - 39001 Santander</i>		100.00%	100.00%	100	(44)	—	(7)	75	G.I.	—
Telefónica Cable Menorca, S.A. (*) (**) (t) <i>Cable television systems and value-added services</i> <i>Santiago Ram n y Cajal, 13 - Mah n - Menorca</i>		100.00%	100.00%	100	1	—	(5)	93	G.I.	—
Telecable Menorca, S.A. <i>Cable television services</i> <i>Polígono Industrial Carrer de Bojoliz, parcela 73-A Ma</i>		100.00%	100.00%	120	(18)	—	(7)	180	G.I.	—
Telefónica Cable Asturias, S.A. (*) (**) (t) <i>Cable television systems and value-added services</i> <i>Gral. Elorza, 8 - 33001 Oviedo</i>		100.00%	100.00%	100	6	—	1	101	G.I.	—
Telefónica Cable Euskadi, S.A. (*) (**) (t) <i>Cable television systems and value-added services</i> <i>Gregorio de la Revilla, 27 - 48010 Bilbao</i>		100.00%	100.00%	100	(41)	—	(8)	78	G.I.	—
Sociedad General de Cablevisión Cádiz, S.A. (*) (**) (t) <i>Cable television systems and value-added services</i> <i>Santa María Soledad, 6 - 11006 Cádiz</i>		100.00%	100.00%	100	—	—	(2)	93	G.I.	—
Telefónica Cable Galicia, S.A. (*) (t) <i>Cable television systems and value-added services</i> <i>Ronda de Outerio, 1-3 - A Coruña</i>		70.00%	70.00%	100	7	—	1	71	G.I.	—
Telefónica Cable Aragón, S.A. (*) (**) (t) <i>Cable television systems and value-added services</i> <i>Vía Universitat, 10 - Zaragoza</i>		100.00%	100.00%	100	(1)	—	(5)	83	G.I.	—
Sociedad General de Cablevisión Málaga, S.A. (*) (**) (t) <i>Cable television systems and value-added services</i> <i>Hilera, 2 - 29007 Málaga</i>		100.00%	100.00%	100	7	—	1	101	G.I.	—
Telefónica Cable Murcia, S.A. (*) (**) (t) <i>Cable television systems and value-added services</i> <i>San Ant n, 4 - 30005 Murcia</i>		100.00%	100.00%	100	(27)	—	(7)	89	G.I.	—
Telefónica Cable La Rioja, S.A. (*) (**) (t) <i>Cable television systems and value-added services</i> <i>San Mill n, 3 - 26004 Logroño</i>		100.00%	100.00%	100	(15)	—	(6)	101	G.I.	—
Telefónica Cable Valencia, S.A. (*) (**) (t) <i>Cable television systems and value-added services</i> <i>San Vicente, 148 - 46007 Valencia</i>		100.00%	100.00%	200	(41)	—	(13)	192	G.I.	—
Telefónica Cable Castilla la Mancha, S.A. (*) (**) (t) <i>Cable television systems and value-added services</i> <i>Cuesta de Carlos V, 5 - Toledo</i>		100.00%	100.00%	100	2	—	—	101	G.I.	—
Telefónica Cable Balears, S.A. (*) (**) (t) <i>Cable television systems and value-added services</i> <i>Federico García Lorca, 2 - 07014 Palma de Mallorca</i>		100.00%	100.00%	100	(32)	—	(7)	85	G.I.	—
Telefónica Cable Catalunya, S.A. (t) <i>Cable television systems and value-added services</i> <i>Avda. Icària, 136 - 08805 Barcelona</i>		80.00%	80.00%	100	—	—	(24)	136	G.I.	—

(\*) Companies filing consolidated corporate income tax returns in 1998.

(\*\*) Companies filing consolidated corporate income tax returns in 1999.

DEPENDENT COMPANIES AND THEIR HOLDINGS	Ownership		Telefónica Group	Capital Stock	Reserves	Interim Dividend	Income (Loss)	Gross book Value	Consolidation Method	Value in (10) Consolidation
	Direct	Indirect								
Telefónica Cable Andalucía, S.A.(1) <i>Cable television systems and value-added services</i> <i>Grahan Bell,5 - 41010 Sevilla</i>		73.00%	73.00%	1.000	(58)	—	(21)	720	G.I.	—
Telefónica Cable Navarra, S.A.(1) <i>Cable television systems and value-added services</i> <i>Monasterio Oliva,9 - 31011 Pamplona</i>		69.00%	69.00%	100	(37)	—	(11)	58	G.I.	—
Telefónica Cable Extremadura, S.A.(1) <i>Cable television systems and value-added services</i> <i>Plza.de la Soledad,2 -06001 Badajoz</i>		61.00%	61.00%	100	7	—	1	62	G.I.	—
Telefónica Cable Madrid, S.A.(1) <i>Cable television systems and value-added services</i> <i>Virgilio, 12 - Edificio 2 - Ciudad de la Imagen (Pozuelo de Alarc n) - 28223 Madrid</i>		56.00%	56.00%	100	(46)	—	(13)	45	G.I.	—
Telefónica Cable Castilla y León, S.A.(1) <i>Cable television systems and value-added services</i> <i>Avda.de los Reyes Cat licos, 38 - 09005 Burgos</i>		51.00%	51.00%	1.000	(34)	—	(22)	512	G.I.	—
Sociedad General de Cablevisión Canarias, S.A.(1) <i>Cable television systems and value-added services</i> <i>Alcalde Mandillo Tejera,8 - 38007 Santa Cruz de Tenerife</i>		51.00%	51.00%	215	(78)	—	(24)	96	G.I.	—
<b>Telefónica Internet, S.A.</b> <b>Internetaccess services</b> <b>Gran Vía,28 - 28013 Madrid</b>	<b>100.00%</b>		<b>100.00%</b>	<b>10</b>				<b>10</b>	<b>C.</b>	<b>10</b>
<b>Terra Networks, S.A.(1)</b> <b>Provision and operation of telecommunications services</b> <b>Vía Dos Castillas, 33 - Comp. tica Ed.1,1ª Pta. Pozuelo de Alarc n - 28224 Madrid</b>	<b>69.64%</b>	<b>0.83%</b>	<b>70.47%</b>	<b>93,176</b>	<b>125,246</b>	<b>—</b>	<b>(12,900)</b>	<b>80,029</b>	<b>G.I.</b>	<b>—</b>
Telefónica Interactiva Brasil, Ltda.(BRAZIL) <i>Holding company</i> <i>Rua de Consola ao, 247, 6ª - Sao Paulo</i>		99.99%	70.46%	38,825	—	—	(2,028)	38,805	G.I.	—
Terra Networks Brasil, S.A.(BRAZIL) <i>Internet-access provider and portal</i> <i>Porto Alegre</i>		96.00%	67.65%	6,879	(877)	—	(3,396)	36,171	G.I.	—
Terra Networks Perú, S.A.(PERU) <i>Internet-access provider and portal</i> <i>Los Sauces, 374 - Torre Roja - San Borja - Lima</i>		99.99%	70.46%	1	—	—	(416)	1	G.I.	—
Terra Networks Mexico, S.A.De C.V.(MEXICO) <i>Internet-access provider and portal</i> <i>Antonio L. Rodríguez 1884, Monterrey - Nuevo Leon</i>		100.00%	70.47%	9,330	545	—	(48)	44,842	G.I.	—
Información Selectiva, S.A.(Infosel) (MEXICO) <i>Internet-access provider, portal and real time financial information supplier</i> <i>Ciudad de Monterrey - Nuevo Leon</i>		100.00%	70.47%	670	(11,536)	—	(902)	6,997	G.I.	—
Terra Networks USA, Inc. (U.S.A.) <i>Holding company</i> <i>1201 Hays Street, Tallahassee - Florida</i>		100.00%	70.47%	10 US\$	—	—	(31)	—	G.I.	—
Terra Networks Portal Services USA (U.S.A.) <i>Internet-access provider and portal</i> <i>Miami - Florida</i>		90.00%	63.42%	1,000 US\$	—	—	(116)	—	G.I.	—
Terra Networks Access Services USA (U.S.A.) <i>Internet-access provider</i> <i>New Jersey</i>		51.00%	35.94%	1.000 US\$	—	—	159	—	G.I.	—
Terra Networks Guatemala, S.A. (GUATEMALA) <i>Internet-access provider and portal</i> <i>C/ Diagonal,6 Edificio Las Margaritas II - Ciudad de Guatemala</i>		95.00%	66.95%	1	58	—	(14)	635	G.I.	—
Centro de Investigación y Experimentación de la Realidad Virtual, S.L. <i>Communications product design</i> <i>Plaza de Canalejas, 3 - 28014 Madrid</i>		100.00%	70.47%	1				2,340	E.M.	324
Telefónica Servicios y Contenidos por la Red, S.A. (Teleline) (*) (12) <i>Provider of Internet-access under the Teleline brand name</i> <i>Juli n Camarillo, 6,2ª P. - 28037 Madrid</i>		100.00%	70.47%	1,020	2,677	—	(3,309)	3,543	G.I.	—
Terra Networks Mexico, S.A.De C.V.(MEXICO)		25.00%								
Ifigenia Plus, S.L. <i>Culture and education software</i> <i>Almagro, 12 -</i>		10.00%	7.05%	16	N/D		N/D	—	C.	—
Terra Interactiva de Contenidos, S.A.(1) <i>Internetservices</i> <i>Vía Dos Castillas, 33 - Comp. tica Ed.1,1ª Pta. Pozuelo de Alarc n - 28224 Madrid</i>		100.00%	70.47%	110	3,100	—	(449)	3,210	G.I.	—

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(\*\*) Companies filing consolidated corporate income tax returns in 1999.



DEPENDENT COMPANIES AND THEIR HOLDINGS	Ownership		Telefónica Group	Capital Stock	Reserves	Interim Dividend	Income (Loss)	Gross book Value	Consolidation Method	Value in (10) Consolidation
	Direct	Indirect								
Terra Networks Chile Holding Limitada (CHILE) <i>Portfolio company</i> <i>C/ Moneda, 970, piso 12 - Santiago</i>		99.00%	69.77%	8,886	580	—	(1,039)	8,851	G.I.	—
Terra Networks Chile, S.A. (CHILE) <i>Internet-access provider and portal</i> <i>C/ Moneda, 970, piso 12 - Santiago</i>		95.00%	66.95%	3,057	(318)	—	(500)	8,849	G.I.	—
Terra Networks Argentina, S.A. (ARGENTINA) <i>Internet-access provider and portal</i> <i>Tucum n,1,piso 17 - Ciudad de Buenos Aires</i>		99.99%	70.46%	1,664	60	—	(149)	1,664	G.I.	—
Donde Latinoamericana, S.A. (ARGENTINA) <i>Owner of local portal 'Donde'</i> <i>C/ 25 de Mayo, 66, piso 4º, oficina C - C rdoba - Buenos Aires</i>		100.00%	70.46%	5	—	—	(1)	741	G.I.	—
Netgocios, S.A. (ARGENTINA) <i>Owner of local portal 'Gauchonet'</i> <i>C/ Paraguay, 754, piso 8º - Buenos Aires</i>		100.00%	70.46%	145	5	—	(21)	898	G.I.	—
Ordenamiento de Links Especializados, S.L. OLÉ (1) <i>Spanish-language Internet browser</i> <i>C/ Nicaragua, 54 - Barcelona</i>		100.00%	70.47%	999	1	—	(346)	3,000	G.I.	—
Advertising Quality, S.L. <i>Telematic media advertising and IT projects</i> <i>Paseo de la Castellana, 210 - 28046 Madrid</i>		50.00%	35.24%	2			3	1	E.M.	3
Plataformas Temáticas Internet, S.L. <i>Web creation and promotion of companies via Internet</i> <i>Traversera de Gr cia, 342/ 344 - 08025 Barcelona</i>		40.00%	28.19%	1			12	—	E.M.	4
<b>Telefónica Data, S.A.U. (*) (**) (1)</b> <b>Provision and operation of telecommunication services</b> <b>Gran Vía, 28 - 28013 Madrid</b>	<b>100.00%</b>		<b>100.00%</b>	<b>13,069</b>	<b>8,706</b>	<b>—</b>	<b>1,840</b>	<b>21,775</b>	<b>G.I.</b>	<b>—</b>
Rey Moreno, S.A. (COLOMBIA) <i>Global telecommunications services</i> <i>Bogot - COLOMBIA</i>		50.00%	50.00%	1,627	385	—	94	1,849	E.M.	1,053
Telefónica Data Caribe (SPAIN) <i>Global telecommunications services</i>		90.00%	90.00%	61				10	C.	10
Telecomunicaciones Ganadera, S.A. (COLOMBIA) <i>Global telecommunication services</i>		50.93%	50.93%	158	546	—	(331)	384	E.M.	190
Telefónica Data España, S.A.U. (*) (**) (1) <i>Data transmission</i> <i>Beatriz de Bobadilla, 18 - 28040 Madrid</i>		100.00%	100.00%	6,533	3,816	—	6,114	21,765	G.I.	—
Interdomain <i>Fernando El Santo, 15 - 28.010 Madrid</i>		100.00%	100.00%	50	(18)	—	9	63	G.I.	—
Caser MVS <i>Virtual insurance market research</i> <i>Plaza de la Lealtad, 4 - 28014 Madrid</i>		49.00%	49.00%	580	(72)	—	—	264	E.M.	249
Casertel <i>Virtual insurance marketing</i> <i>Plaza de la Lealtad, 4 - 28014 Madrid</i>		15.00%	15.00%	500	1	—	—	75	C.	75
Agencia de Certificación Electrónica, S.A. <i>Development of "Electronic notary" business through SET technology</i> <i>Sor Angela de la Cruz, 3 - 28020 Madrid</i>		40.00%	40.00%	249	(1)	—	(72)	99	E.M.	70
<b>Telefónica Media, S.A. (*) (**) (1)</b> <b>Organization and operation of activities and businesses relating to multimedia services</b> <b>Jorge Manrique, 12 - 28006 Madrid</b>	<b>100.00%</b>		<b>100.00%</b>	<b>337,413</b>	<b>—</b>	<b>—</b>	<b>(18,579)</b>	<b>350,086</b>	<b>G.I.</b>	<b>—</b>
Telefónica Media Internacional y de Contenidos, S.A. (**) <i>Operator of media and cable services in Latin America</i> <i>Gran Vía, 28 - 28013 Madrid</i>		100.00%	100.00%	100	—	—	(609)	100	G.I.	—
Telefónica Media Internacional y de Contenidos USA Inc. (U.S.A.) <i>Operator of media and cable services in the USA</i>		100.00%	100.00%	733	(36)	—	(613)	702	G.I.	—
Telefónica Media Argentina, S.A.		100.00%	100.00%	N/D	N/D	—	N/D	33,532	C.	33,532
Atlántida Comunicaciones, S.A. (ARGENTINA) <i>Multimedia</i> <i>Tucum n,1 Pta. 20 Buenos Aires</i>		26.80%	26.80%	N/D	N/D	—	N/D	—	C.	—
Torneos y Competencias, S.A. (ARGENTINA) (3) <i>Football contents and rights</i>		20.00%	20.00%	N/D	N/D	—	N/D	13,612	E.M.	4,629

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DEPENDENT COMPANIES AND THEIR HOLDINGS	Ownership		Telefónica Group	Capital Stock	Reserves	Interim Dividend	Income (Loss)	Gross book Value	Consolidation Method	Value in (10) Consolidation
	Direct	Indirect								
Telefónica Servicios Audiovisuales, S.A.(*) (**) (1) <i>Audiovisual telecommunications services of all kinds</i> <i>Virgilio, 2 - Edificio 2 - Ciudad de la Imagen (Pozuelo de Alarc n) - 28223 Madrid</i>		100.00%	100.00%	1,000	1,125	—	1,040	1,393	G.I.	—
Telefónica Medios de Comunicación, S.A.(*) (**) (1) <i>Holding of shares of companies in the media industry</i> <i>Gran Vía,28 - 28013 Madrid</i>		100.00%	100.00%	26,300	—	—	(4,051)	15,338	G.I.	—
Gestora de Medios Audiovisuales de Fútbol, S.L. (**) (1) <i>Football rights</i> <i>Rafael Calvo, 18 - 20010 Madrid</i>		100.00%	100.00%	20,000	—	—	(5,151)	34,180	G.I.	—
Audiovisual Sport, S.L. (3) <i>Holder of football rights</i> <i>O'Donnell,12 - Madrid</i>		40.00%	40.00%	14,770	(5)		(5,471)	11,450	E.M.	3,718
Cadena Voz de Radiodifusión, S.A. <i>National chain of radio stations</i>		100.00%	100.00%	100	10	—	(112)	1,778	G.I.	—
Uniprex, S.A.(1) <i>National chain of radio stations</i> <i>Pº Pintor Rosales, 76 - 28.008 Madrid</i>		100.00%	100.00%	1,031	3,273	—	(2,943)	18,031	G.I.	—
Compañía Tres Mil Ochocientos, S.L.		100.00%	100.00%	1	—		—	31	C.	31
Estaciones Radiofónicas de Aragón, S.A.		100.00%	100.00%	22	14		—	173	C.	173
Radio Cinco, S.L.		100.00%	100.00%	1	—		—	18	C.	18
Radio Noticias 90, S.A.		100.00%	100.00%	32	6		2	100	C.	100
Onda Cero, S.A.		100.00%	100.00%	10	(7)		—	46	C.	46
Grupo Universal Emisoras Radio Amanecer, S.A.		100.00%	100.00%	640	(483)		(2)	—	C.	—
La Veu de Lleida, S.L.		100.00%	100.00%	1	1		3	1	C.	1
Ondadit, S.L.		100.00%	100.00%	1	1		—	1	C.	1
Ipar Onda, S.A.		100.00%	100.00%	76	(16)		17	396	C.	396
Radio Tormes, S.A.		100.00%	100.00%	10	3		(1)	128	C.	128
Radio Alamedilla, S.A.		100.00%	100.00%	10	1		(1)	40	C.	40
Servicios de Teledistribución, S.A.(S.T. HILO) (*) (**) (12) <i>Supply of services in the teledistribution industry</i> <i>Luchana,23, 1º - 28010 Madrid</i>		100.00%	100.00%	210	665	—	149	297	G.I.	—
DTS Distribuidora de Televisión Digital, S.A.(1) <i>Digital satellite TV services</i> <i>Rafael Calvo, 18, Pta.3º - 28010 Madrid</i>		68.59%	68.59%	62,978	(2,515)		(31,424)	65,413	E.M.	19,918
Interocio Games, S.A. <i>Leisure-related technology for distribution</i>		50.00%	50.00%	250				125	C.	125
Producciones Multitemáticas, S.A.(*) (**) (12) <i>Production,distribution,sale and purchase and operation of television and film productions.</i> <i>Virgilio, 2 - Edificio 2 - Ciudad de la Imagen (Pozuelo de Alarc n) - 28223 Madrid.</i>		100.00%	100.00%	2,000	(389)	—	(206)	2,000	G.I.	—
Lola Films, S.A.(1) <i>Movie production</i> <i>Doctor Gimeno, 12 - Barcelona</i>		70.00%	70.00%	2,100	775	—	(65)	2,168	G.I.	—
Other holdings								194	C.	194
Hispasat, S.A.(3) <i>Operation of a satellite telecommunications system</i> <i>Gobelas, 41-45 - 28023 Madrid</i>		22.74%	22.74%	18,312	210		4,804	4,540	E.M.	5,304
Antena 3 de televisión, S.A.(1) (9) <i>Management of public and satellite TV service.</i> <i>Avda.Isla Graciosa,s.n.- San Sebasti n de los Reyes - 28700 Madrid</i>		47.21%	47.21%	27,778	7,628		20,978	52,329	E.M.	26,620
Patagonik Film Group (ARGENTINA) <i>Production of audiovisual material</i>		30.00%	30.00%					1,428	C.	1,428
Pearson Plc (UK) <i>Publishing</i> <i>3 Burlington Gardens, London W1X 1LE</i>		5.00%	5.00%	38,598	257,237		(24,124)	103,391	E.M.	13,586
<b>Telefónica Publicidad e Información, S.A.(*) (2)</b> <b><i>Publishing of directories and advertising in all types of media</i></b> <b><i>Avda.de Manteras, 12 - 28050 MADRID</i></b>	<b>63.00%</b>		<b>63.00%</b>	<b>1,020</b>	<b>1,426</b>	<b>(3,873)</b>	<b>13,781</b>	<b>647</b>	<b>G.I.</b>	<b>—</b>
TMP Worldwide España, S.A.(2) <i>Marketing and advertising of major customers in yellow pages</i> <i>Príncipe de Vergara,12 - 4º Pta.- 28002 Madrid</i>		95.00%	59.85%	45	5	—	(12)	43	G.I.	—
Telefónica Publicidade e Informação, Ltda.(B RAZIL) (2) <i>Publishing of directories and advertising in all types of media</i>		51.00%	32.13%	28	4	—	10	17	G.I.	—

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(\*\*) Companies filing consolidated corporate income tax returns in 1999.

DEPENDENT COMPANIES AND THEIR HOLDINGS	Ownership		Telefónica Group	Capital Stock	Reserves	Interim Dividend	Income (Loss)	Gross book Value	Consolidation Method	Value in (10) Consolidation
	Direct	Indirect								
Euredit, S.A.(FRANCE) <i>Publication of European yearbooks Avda. Friedland,9 - 75008 Paris (France)</i>		5.00%	3.15%	3 m.FF	5 m.FF		4 m.FF	13	C.	13
<b>Venturini España, S.A.(**) (2)</b> <b>Printing, graphic arts and direct marketing Avda.de la Industria,17 Tres Cantos - 28760 Madrid</b>	<b>100.00%</b>		<b>100.00%</b>	<b>500</b>	<b>(15)</b>	<b>—</b>	<b>(25)</b>	<b>599</b>	<b>G.I.</b>	<b>—</b>
Venturini, S.A.(**) (2) <i>Direct marketing Via Augusta,117, 2º 1º - 08006 Barcelona</i>		100.00%	100.00%	30	4	—	9	34	G.I.	—
Other holdings		N/A	N/A	N/A	N/A	N/A	N/A	1	C.	1
<b>Telefónica Internacional, S.A. (*) (**) (t) (g)</b> <b>Investment in the telecommunications industry abroad C/ Gran Vía,28 - 28013 Madrid</b>	<b>98.75%</b>	<b>1.25%</b>	<b>100.00%</b>	<b>119,009</b>	<b>109,936</b>	<b>—</b>	<b>67,015</b>	<b>217,713</b>	<b>G.I.</b>	<b>—</b>
Telefónica Panamericana - MCI Holding, B.V. (HOLLAND) (t) <i>Holding company</i>		50.00%	50.00%	20 M.NLG	N/D		—	802	C.	802
Cablevisión, S.A.(ARGENTINA) (t) <i>Cable television</i>		35.86%	35.86%	163 M.Parg.	N/D			69,397	E.M.	21,709
Ibero Leste Participações (BRAZIL)		38.00%	38.00%	39,994			(578)	13,971	G.I.	—
Tele Leste Celular Participações, S.A.(Bahia Celular) (BRAZIL) (t)		19.26%	8.99%	4,581	10,287		(7,015)	N/D	E.M.	1,261
Telebahia Celular, S.A.(t)		89.30%	10.17%	4,731	2,486		(8,033)	N/D	E.M.	178
Telergipe Celular, S.A.(t)		73.60%	9.10%	937	793		(885)	N/D	E.M.	75
Intertelefónica do Brasil Holding, Ltd.(BRAZIL)		100.00%	100.00%	46,860			(1,844)	67,250	G.I.	—
Portelcom (BRAZIL)		35.80%	35.80%	319,357			(6,529)	59,602	G.I.	—
Telesp Celular Participações, S.A.(Rio Celular)		19.26%	6.90%	39,519	123,156		41,113	N/D	E.M.	7,642
Telesp Celular, S.A.		71.40%	4.92%	99,661	2,549		27,575	N/D	G.I.	—
Sudestecel Participações (BRAZIL)		85.49%	85.49%	119,367			24,961	102,295	G.I.	—
Tele Sudeste Celular Participações, S.A.(Rio Celular) (BRAZIL) (t)		19.26%	17.57%	37,070	38		37,914	1,997	G.I.	—
Telerj Celular, S.A.(t)		70.70%	31.34%	35,847	162		(150)	N/D	G.I.	—
Telest Celular, S.A.(t)		85.23%	20.90%	12,473	756		4,083	N/D	G.I.	—
Telefónica El Salvador Holding, S.A.de C.V. (EL SALVADOR)		51.00%	51.00%	15,930	(11)		(6)	8	G.I.	—
Telefónica de El Salvador, S.A.de C.V.		86.71%	44.22%	10	(1)		(2)	N/D	G.I.	—
Telefónica Brasil Sul Celular Participações, S.A.(BRAZIL) (t) <i>Holding company</i>		59.27%	60.71%	57,164			1,273	31,984	G.I.	—
Celular CRT Participações, S.A.(BRAZIL) (t) <i>Telecommunications operator Avda.Borges de Medeiros nº 512,15 andar.Porto Alegre - Rio Grande do Sul 90020-022 Brazil</i>		36.65%	36.97%	11,847	32,084		(5,378)	18,356	G.I.	—
Celular CRT, S.A.(BRAZIL)		100.00%	36.97%	4,276	32,084		(5,376)	N/D	G.I.	—
TBS Participações		52.93%	54.37%	110,352	2,957		(9,984)	50,931		
CRT Fixa (BRAZIL) (t)		28.26%	15.36%	59,987	70,027		4,155	N/D	E.M.	22,265
Sao Paulo Telecomunicações Participações, S.A.(BRAZIL)		69.00%	69.00%	389,925	16,522		(100,126)		C.	31,438
Telesp, S.A. (BRAZIL) (t)		20.57%	19.28%	519,009	315,315		396,007	20,900	G.I.	—
Telefónica de Centroamérica (GUATEMALA), S.A.de C.V.		26.01%	26.01%	7,684				4,057	G.I.	—
Telefónica Centroamericana, S.L. (SPAIN)		51.00%	51.00%	N/D	N/D		N/D	80	C.	80
Telefónica Ibero Americana, Ltda.(BRAZIL)		100.00%	100.00%	71,075			583	77,593	G.I.	—
Telefónica Finance Limited (ISLE OF MAN) (t) <i>Finance</i>		100.00%	100.00%	GBP 2 t.	8,730		220	1	G.I.	—
Telefónica del Perú Holding, S.A.(PERU) (t) <i>Holding company</i>		90.00%	90.00%	313,006			(2,734)	245,869	G.I.	—
Telefónica del Perú, S.A.(PERU) (14) <i>Operator of local, long distance and internacional services in Peru Avda.Arequipa,1155 Santa Beatriz - Lima</i>		38.90%	40.04%	149,625	33,538		36,951	33,182	G.I.	—
Telefónica Publicidade e Informação, S.A.(BRAZIL)		49.00%	49.00%					16	G.I.	—
Telefónica Internacional USA Inc.		100.00%	100.00%	2	(153)				G.I.	—
Telefónica International Holding, B.V. (HOLLAND) (t) <i>Holding company</i>		100.00%	100.00%	104,541	80,072	(2,894)	4,865	69,410	G.I.	—
Telefónica Chile Holding, B.V. (HOLLAND) (t) <i>Holding company</i>		100.00%	100.00%	NLG 100 t.	N/D		N/D	N/D	G.I.	—

(\*) Companies filing consolidated corporate income tax returns in 1998.

(\*\*) Companies filing consolidated corporate income tax returns in 1999.

DEPENDENT COMPANIES AND THEIR HOLDINGS	Ownership		Telefónica Group	Capital Stock	Reserves	Interim Dividend	Income (Loss)	Gross book Value	Consolidation Method	Value in (10) Consolidation
	Direct	Indirect								
Telefónica Internacional de Chile, S.A. (CHILE) (4) <i>Holding company</i>		100.00%	100.00%	12,286	182,391		(5,331)	N/D	G.I.	—
Compañía de Telecomunicaciones de Chile, S.A. (C.T.C.), (CHILE) (4) <i>Operator of telecommunications services in Chile</i> <i>Avenida Providencia, 111 piso 29 Santiago de Chile</i>		43.64%	43.64%	206,639	176,423		15,478	N/D	G.I.	—
Impresora y Comercial Publiciguas, S.A. (CHILE) (4) <i>Publishing and sale of advertising. White and yellow pages</i> <i>Avda. de Santa María, 792 Santiago de Chile</i>		51.00%	54.93%	796	2,213		1,124	N/D	G.I.	—
Compañía de Inver. en Telecomunicaciones, S.A. (ARGENTINA) <i>Holding company</i> <i>Tucum n.º 1 P-18 Buenos Aires</i>		50.01%	50.01%	87,747				61,990	G.I.	—
Telefónica de Argentina, S.A. (ARGENTINA) <i>Telecommunications operator in southern Argentina</i> <i>Presidente Per n.º 949 - piso 7 - 1038 Buenos Aires</i>		52.88%	27.21%	395,378	81,523		71,218	N/D	G.I.	—
Telefónica Venezuela Holding, B.V. (HOLANDA) (1) <i>Holding company</i>		100.00%	100.00%	7	(8,367)			N/D	G.I.	—
Venworld Telecom, C.A. (VENEZUELA) (13) <i>Holding company</i>		16.00%	16.00%	114,420 M.Bol.				N/D	E.M.	44,106
Cia. Anónima N.de Teléfonos de Venezuela, C.A. (CANTV) (VENEZUELA) (13) <i>Telecommunications operator</i> <i>Avenida Libertador, Centro Nacional de Telecomunicaciones, Piso 1 - 1226 Caracas</i>		40.00%	6.40%	36,901 M.Bol.				N/D	E.M.	—
TYSSA, Telecomunicaciones y Sistemas, S.A. (ARGENTINA) <i>Telecommunications systems consulting</i> <i>Presidente Per n.º 949 P-14 - 1038 Buenos Aires</i>		41.77%	41.77%	N/D	N/D		N/D	126	C.	126
Telefónica Larga Distancia de Puerto Rico, INC. (PUERTO RICO) (1) <i>Telecommunications operator</i> <i>Calle 1, Edificio nº 8, Metro Office Park, Sector de Buchanan, Guaynabo - Puerto Rico</i>		98.00%	98.00%	18,469	(1,300)		(452)	N/D	G.I.	—
Telecomunicaciones Ultramarinas de Puerto Rico (PUERTO RICO) <i>Telecommunications operator</i>		14.90%	14.90%	US\$ 1 t.				3,280	C.	3,280
Infonet Services Corporation (USA) (5) <i>Telecommunications operator</i> <i>2100 East. Grand Avenue, El Segundo, California 90245 - 1022 USA</i>		14.62%	14.62%	16,020				N/D	E.M.	20,368
Telur, S.A. (FEDERACION RUSA) <i>Manufacture of telecommunications equipment</i>		5.00%	10.37%	6 M.Rub.				53	C.	53
Other Holdings								N/D	E.M.	34,623
Other Holdings		N/A	N/A	N/A	N/A		N/A	48,517	C.	48,517
<b>Telefónica Servicios de Distribución, S.A. (**)</b> (3) <i>Provision of mail, directories and parcel distribution services</i> <i>C/ Gran Vía, 28 - 28.013 Madrid</i>	<b>100.00%</b>		<b>100.00%</b>	<b>10</b>	<b>255</b>	<b>—</b>	<b>(67)</b>	<b>265</b>	<b>G.I.</b>	<b>—</b>
<b>Atento Telecomunicaciones España, S.A. (*) (**)</b> (12) <i>Services, promotion, marketing and market surveys relating to direct marketing</i> <i>Santiago de Compostela, 94 - 7ª - 28035 Madrid</i>	<b>100.00%</b>		<b>100.00%</b>	<b>230</b>	<b>1,882</b>	<b>—</b>	<b>1,791</b>	<b>5,000</b>	<b>G.I.</b>	<b>—</b>
Tempotel, Empresa de Trabajo Temporal, S.A. (*) (**) (12) <i>Temporary employment agency</i> <i>Hernani, 64 - 28020 Madrid</i>		100.00%	100.00%	10	25	—	41	10	G.I.	—
Gestión de Servicios de Emergencia y Atención al Ciudadano, S.A. (12) <i>Information and communication systems for emergency situations</i> <i>Paseo Marítimo, 38 A - 1ª E - 07014 Palma de Mallorca</i>		100.00%	100.00%	100	(36)	—	71	76	G.I.	—
<b>Atento Holding Telecomunicaciones, S.A. (ESPAÑA) (**)</b> (1) <i>Portfolio company</i> <i>C/ Gran Vía, 28 - 28.013 Madrid</i>	<b>100.00%</b>		<b>100.00%</b>	<b>10</b>	<b>—</b>	<b>—</b>	<b>(544)</b>	<b>10</b>	<b>G.I.</b>	<b>—</b>
Atento Do Brasil, LTDA. (BRAZIL) <i>Provision of call-center services</i> <i>Av. Maria Coelho de Aguiar, 215 - Bloco B, 8 - 05804-900 Sao Paulo</i>		100.00%	100.00%	1,562	(66)	—	(57)	1,562	G.I.	—
Trilha Sistemas de Comunicação, Ltd. (BRASIL) <i>Provision of call-center services</i> <i>Av. Tancredo Neves, 1186 4º - Salvador de Bahia</i>		100.00%	100.00%	33	27	—	33	679	G.I.	—
Atento USA (U.S.A.) <i>Provision of call-center services</i> <i>1001 Brickell Bay Drive Suite, 2410 - Miami - Florida 33131</i>		100.00%	100.00%	1	(2)	—	(266)	—	G.I.	—
Atento Puerto Rico (PUERTO RICO) <i>Provision of call-center services</i> <i>Caguas</i>		100.00%	100.00%	—	(1)	—	(152)	2	C.	2

(\*) Companies filing consolidated corporate income tax returns in 1998.

(\*\*) Companies filing consolidated corporate income tax returns in 1999.

DEPENDENT COMPANIES AND THEIR HOLDINGS	Ownership		Telefónica Group	Capital Stock	Reserves	Interim Dividend	Income (Loss)	Gross book Value	Consolidation Method	Value in (10) Consolidation
	Direct	Indirect								
Atento Centroamérica, S.A. (GUATEMALA) <i>Provision of call-center services</i> 14 Calle 3-51 Zona 10 Edificio Murano Center 18 Nivel		100.00%	100.00%	160	5	—	(131)	159	G.I.	—
Atento Chile, S.A. (CHILE) <i>Provision of call-center services</i> Diagonal Paraguay, 386 - Santiago de Chile		100.00%	100.00%	—	(15)	—	(249)	—	G.I.	—
Atento Perú, S.A.C. (PERU) <i>Provision of call-center services</i> C/ Jiron Camana, 650 - 01 Lima		100.00%	100.00%	1,473	(3)	—	189	2,714	G.I.	—
Telefónica Investigación y Desarrollo, S.A. (TIDSA) (*) (**) (3) <i>Telecommunications research activities and projects.</i> Emilio Vargas, 6 - 28043 Madrid	100.00%		100.00%	1,000	3,637	—	841	1,000	G.I.	—
Telefónica North America, INC (U.S.A.) (3) <i>Financial intermediation</i> 1209 Orange Street, 19.801 Wilmington/New Castle County Delaware	100.00%		100.00%	1	1	—	—	1	G.I.	—
Telefónica Europe, B.V. (HOLLAND) (1) <i>Fund raising in capital markets</i> Aert van Nesstraat 45, 4° 3000 AM Rotterdam - P.O. Box 548	100.00%		100.00%	8	112	—	170	8	G.I.	—
Inmobiliaria Telefónica, S.L. (*) (**) (1) <i>Purchase, sale and lease of real estate</i> Gran Vía, 28 - 28013 Madrid	100.00%		100.00%	1,670	15,543	—	(238)	17,211	G.I.	—
Telefónica Procesos y Tecnología de la Información, S.A. (*) (**) (3) <i>IT services</i> Jos Abascal, 4 - 28003 Madrid	100.00%		100.00%	499	—	—	218	500	G.I.	—
Urbana Ibérica, S.A. (*) (**) (3) <i>Debt collection and management of the cash generated on the sale of land and buildings</i> C/ Gran Vía, 30 4ª Pta.- 28.013 Madrid	100.00%		100.00%	264	(40)	—	(2)	14	G.I.	—
Telefónica Servicios Móviles, S.A. (*) (**) (1) <i>Management and marketing of automatic wireless telephony</i> Plaza de la Independencia, 6 - Pta. 5 - 28001 MADRID	100.00%		100.00%	68,099	101,043	(39,000)	93,354	78,460	G.I.	—
Radiored 1, S.A. (*) (**) (1) <i>Group company management support. Trunking (Parent Company)</i> Manuel Tovar, 35 - 2º - 28034 Madrid		100.00%	100.00%	1,500	(203)	—	44	2,750	G.I.	—
Radiored Catalunya, S.A. (*) (**) (1) <i>Trunking</i> Manuel Tovar, 43 - 28034 Madrid		100.00%	91.00%	200	(14)	—	74	338	G.I.	—
Compañía Gestora del Servicio Mensatel, S.A. (*) (**) (1) <i>Management and marketing of the Mensatel radiopaging service</i> Manuel Tovar, 35 - 3º - 28034 Madrid		100.00%	100.00%	1,417	(258)	—	4	2,404	G.I.	—

(\*) Companies filing consolidated corporate income tax returns in 1998.

(\*\*) Companies filing consolidated corporate income tax returns in 1999.

ASSOCIATED COMPANIES	Ownership		Telefónica Group	Capital Stock	Reserves	Interim Dividend	Income (Loss)	Gross book Value	Consolidation Method	Value in (10) Consolidation
	Direct	Indirect								
Telefactoring Establecimiento Financiero de Crédito, S.A.(1) <i>Loans and credits (consumer and mortgage loans and commercial transactions)</i> <i>Pedro Teixeira,8 - 28020 Madrid</i>	50,00%		50,00%	850	158		204	440	E.M.	606
Aliança Atlântica Holding B.V. (HOLLAND) <i>Holder of 950,000 Portugal Telecom, S.A.shares</i> <i>Strawinskylaan 1725, 1077 XX Amsterdam (THE NETHERLANDS)</i>	50,00%		50,00%	330 M.NLG	(2) M.NLG.		2 M.NLG.	5,966	E.M.	5,966
Torre de Col·lerola, S.A.(2) <i>Operation of a telecommunications mast and technical assistance and advisory services.</i> <i>Ctra. Vallvidrera-Tibidabo, s/nº - 08017 Barcelona</i>	42,00%		42,00%	2,000	48		29	845	E.M.	872
Sistemas Técnicos de Loterías del Estado, S.A.(2) <i>Operation of a gaming terminal system for the Spanish State Lotto Organization</i> <i>Manuel Tovar, 9 - 28034 Madrid</i>	31,75%		31,75%	2,000	4,515		1,273	635	E.M.	2,473
Amper, S.A.(6) (9) <i>Development,manufacture and repair of telecommunications systems</i> <i>and equipment and related components</i> <i>Torrelaguna,75 - 28027 Madrid</i>	12,21%		12,21%	4,644	12,241		14	3,935	E.M.	2,063
Portugal Telecom, S.A.(PORTUGAL) (1) <i>Telecommunications operator</i> <i>Fontes Pereira de Melo, 40 - 1089 Lisbon</i>	3,50%	0,25%	3,75%	209,504	220,838		49,106	52,215	E.M.	18,645

INVESTEES	Ownership		Telefónica Group	Capital Stock	Reserves	Interim Dividend	Income (Loss)	Gross book Value	Consolidation Method	Value in (10) Consolidation
	Direct	Indirect								
Promoció de Ciutat Vella, S.A. <i>Urban improvements in the Ciutat Vella of Barcelona</i> <i>Rambles, 77 - 08002 Barcelona</i>	3,57%		3,57%	2,800	N/D		N/D	100	C.	100
Catalana D'Iniciatives, C.R., S.A. <i>Promotion of nonfinance entities</i> <i>Passeig de Gracia,2 - 2ºB - 08007 Barcelona.</i>	3,60%		3,60%	4,000	N/D		N/D	145	C.	145
Nexus Capital, S.A. <i>Passeig de Gracia,2 - 2ºB - 08007 Barcelona.</i>	3,60%		3,60%	2,000	N/D		N/D	72	C.	72
I-CO Global Communications (HOLDINGS) Limited (CAYMAN ISLANDS)	0,03%		0,03%	N/D	N/D		N/D	1,002	C.	1,002
Other holdings	N/A	N/A	N/A	N/A	N/A		N/A	43	C.	43
<b>TOTAL VALUE IN CONSOLIDATION OF DEPENDENT COMPANIES (Note 8)</b>										<b>260,799</b>
<b>TOTAL VALUE IN CONSOLIDATION OF INVESTEES (Note 8)</b>										<b>166,806</b>

(1) Company audited by Arthur Andersen.

(2) Company audited by Price & Cooper.

(3) Company audited by K.P.M.G.Peat Marwick.

(4) Company audited by Langton Clarke (Arthur Andersen Group).

(5) Company audited by Deloitte & Touche.

(6) Company audited by Ernst & Young.

(7) Company audited by Coopers & Lybrand.

(8) Companies in liquidation.

(9) Consolidated figures.

(10) This figure refers to the contribution to the Telefónica Group and not to the sub-groups to which the contributing companies belong.

(11) Company audited by Pistrelli,Diaz & Asociados (Arthur Andersen Group).

(12) Company audited by B.D.O.

(13) Company audited by Piernavieja, Porta, Cachafeiro & Asociados (Arthur Andersen Group).

(14) Company audited by Medina, Zalzarivar & Asociados (Arthur Andersen Group).

G.I. Companies consolidated by the global integration method.

P.I. Companies consolidated by the proportional integration method.

E.M. Companies carried by the equity method.

C. Investees.

N/D Information not available/No data.

N/A Not applicable.

Figures in foreign currencies:M=millions and t= thousands.

Provisional figures for associated companies and investees.

## EXHIBIT II

- The changes in the consolidated Group in the periods ended December 31,1999 and 1998, were as follows:

### 1999

In March Telefónica Internacional incorporated Tele Ibero Americana, Ltda., a company which served as a vehicle to carry out acquisitions in the markets where the Brazilian companies are listed, as detailed below:

Throughout 1999 and since March, *Tele Ibero Americana, Ltda.*, a fully-owned subsidiary of *Telefónica Internacional, S.A.* and Telefónica Internacional, S.A. itself have acquired shares of certain Brazilian companies, through direct acquisitions in the market. Also, shares of Brazilian companies were acquired through *Iberoleste Participações, S.A.*, which was created in conjunction with Iberdrola and in which Telefónica Internacional has a 38% holding. These acquisitions were made reconciling legally in time the aforementioned direct acquisitions in the market with the restructuring processes and with the tender offer made for the Brazilian cellular operators as described below. As of December 31, 1999, the additional percentages of ownership acquired were as follows:

- An additional 2.14% of *Telebahía Celular, S.A.* for Ptas.557 million; an additional 4.187% of *Telesp Participações, S.A.* for Ptas. 41,017 million; an additional 2.875% of *Telecomunicações de São Paulo, S.A. (Telesp)* for Ptas.26,220 million; 0.102% of *Companhia Telefonica Do Borda Do Campo, S.A. (CTBC)* for Ptas. 37 million; 1.679% of *Tele Sudeste Celular, S.A.* for Ptas. 3,491 million; an additional 18.92% of *Telerj Celular, S.A.* for Ptas.28,131 million and 1.669% of *Tele Leste Celular, S.A.* for Ptas. 482 million; an additional 5.922 % of *Telest Celular, S.A.* for Ptas. 783 million and an additional 2.485% of *Telegipe Celular, S.A.* for Ptas.53 million. Telesp, Tele Sudeste Celular, Telest Celular and Telerj Celular are consolidated by the global integration method. Telebahía Celular, Telegipe Celular and Tele Leste Celular are carried by the equity method.

In November 1999, the Stockholders' Meetings of the wireline telephony operators in the state of São Paulo (Brazil), *Telecomunicaciones de São Paulo (Telesp)*, *Companhia Telefonica Da Borda Do Campo (CTBC)* and their holding company, *Telesp Participações, S.A.*, resolved to approve their merger into a single company which will operate under the corporate name *Telecomunicações de São Paulo, S.A. (Telesp)*. The transaction, which had been previously approved by the Brazil State Telecommunications Agency (Anatel), was also supported by the minority interests. The Telefónica Group directly and indirectly owns 19.29% of Telesp, representing 54.041% of the voting capital stock.

In December Telesp acquired 72.66% of the total capital stock of *Centrais Telefônicas de Ribeirao Preto, S.A. (CETERP)*, accounting for 96% of voting capital, for 334 million reais (Ptas.30,404 million). This company provides wireline and wireless telephone services in the state of São

Paulo, in the municipalities of Ribeirao Preto, Guatapar and Bonfim Paulista. This company was recorded at acquisition cost, since it was effectively acquired on January 3, 2000.

In 1999 Telefónica Internacional acquired a further 5.03% holding in the capital stock of *Telefónica del Perú, S.A.* for Ptas.33,182 million, thus increasing the Telefónica Group's total ownership interest in this company to 40.03%. The company continues to be consolidated by the global integration method.

On December 16, 1999, the investee *Infonet Services Corporation (Infonet)* was floated on the New York Stock Exchange through the sale of a portion of the shares owned by the former stockholders and the issue of new shares. Until the admission to listing on the New York Stock Exchange of this company, the Telefónica Internacional Group carried this holding at cost; however, in accordance with Spanish legislation, since it is a listed company it is now carried by the equity method. The gain obtained by the Group on this transaction amounted to Ptas.19,204 million, and this amount is recorded under the "Gains on Disposals of Holdings in Consolidated Companies" caption in the accompanying consolidated statement of income. Thereafter, the ownership interest in this company was reduced to 14.63%.

In January *Compañía de Telecomunicaciones de Chile, S.A.* acquired a 60% holding in the *Sonda Group* for Ptas 18,758 million. The parent company of this group is consolidated by the global integration method.

In June Telefónica Internacional acquired a further 19% holding in *Telefónica Larga Distancia de Puerto Rico, Inc.* and paid Ptas. 7,049 million for this transaction. With this acquisition, the ownership interest in the company increased to 98%. The company continues to be consolidated by the global integration method.

In May Telefónica Internacional incorporated *Telefónica de Centroamérica (GUATEMALA), S.A. de C.V.* and *Telefónica Centroamérica (ESPAÑA)*, and paid Ptas.2,872 million and Ptas.80 million, respectively. Also in May Telefónica Internacional incorporated *Telefónica Publicidade e Informaçao, Ltda (BRAZIL)* in conjunction with *Telefónica Publicidad e Informaçao S.A.*, with a capital stock of 340 million reais. Telefónica Internacional has a 49% holding and T.P.I. the remaining 51%. The company is consolidated by the global integration method.

Telefónica Internacional has a 49% holding and T.P.I. the remaining 51%. The company is consolidated by the global integration method.

As of December 31, 1998, the Telefónica Internacional Group owned 16.7% of *Companhia Riograndense de Telecomunicaciones, S.A. (CRT)*, after being awarded, in conjunction with other partners, 85.12% of the company's voting capital stock in the 1996 and 1998 auctions held by the Government of Rio Grande do Sul. On June 25, 1998, the formation of the subsidiary *Celular CRT, S.A.* was approved and all the assets and liabilities relating to the wireless telephony business were transferred to it. This

transaction was performed to comply with the existing obligation under which wireline and wireless telephony services are required to be provided by different operators. The spin-off in 1999 the two companies was completed in 1999. Telefónica Internacional, in order to carry out the spin-off process mentioned above, created a holding company under the name of *TBS Celular Participações*, to which it contributed the shares of the new company *Celular CRT Participações, S.A.*, and maintained the same ownership interest which it had in the former holding company *TBS Participações (52.93%)*. In August 1999, Telefónica Internacional directly acquired 23.5% of the capital stock of *Celular CRT Participações* by fully subscribing to all the shares that this company earmarked for a capital increase. Also, in November 1999, Telefónica Internacional acquired 6.34% of *Tele Brasil Sul Celular Participações, S.A.*, thus increasing its holding in this company to 59.27%.

The Group has a direct and indirect holding of 36.97% in *Celular CRT Participações*, which is consolidated by the global integration method.

In May the subsidiary *Telefónica Publicidad e Información, S.A.* increased capital with a charge to reserves, carried out a share split and redenominated in euros its capital stock amount, which was set at Ptas. 1,000 million. Subsequently, it increased capital by Ptas. 20 million with additional paid-in capital of Ptas. 28 million, subscribed and paid in full by La Caixa. In June the public offering for the sale of 35% of the shares of TPI was closed, at a gain of Ptas. 99,741 million for the Telefónica Group. Following these transactions, Telefónica, S.A. had a 63% holding in TPI. The company continues to be consolidated by the global integration method.

*Terra Networks, S.A. (formerly Telefónica Interactiva)* is creating the leading international Internet group in the Spanish- and Portuguese-speaking market. To this end, in 1999, Terra formed and acquired Internet companies in Brazil, Mexico, Chile, Peru, Argentina, Guatemala and the U.S. The company also intends to expand geographically to other markets in 2000. In November, the Terra group was admitted to listing on the Madrid Stock Exchange and on the NASDAQ (National Association of Security Dealers' Automated Quotation System) in the U.S.

After the stock market flotation, the Telefónica Group reduced its direct and indirect holding in the company to 70.47% as of December 31, 1999. The gain on this transaction (Ptas. 82,885 million) is recorded under the "Gains on Disposals of Holdings in Consolidated Companies" caption in the consolidated statement of income. This company continues to be consolidated by the global integration method.

On July 29, 1999, Terra Networks, S.A. entered into a share purchase agreement with the stockholders of *Centro de Investigación y Experimentación de Realidad Virtual, S.L. (CIERV)*, known as the *Teknoland Group*.

Under this agreement, CIERV was split into two companies, CIERV and CIERV NUEVA, and Terra Networks, S.A. acquired, for Ptas. 1,101 million, all

the shares of CIERV, which owns 14.33% of the capital of *Corporación Real Time Team, S.L. (CRTT)*.

Subsequently, Terra Networks, S.A. subscribed to and paid in full a capital increase of Ptas. 1,263 million at CRTT, increasing its ownership interest in this company to 27.1%. However, after subsequent capital increases which will be subscribed by other stockholders, Terra Networks, S.A. will finally control 25% of CRTT.

On July 21, 1999, Terra Networks acquired a 95% holding in *Terra Networks Guatemala, S.A. (Guatemala)* for Ptas. 635 million.

In April Terra Networks, S.A. incorporated *Terra Interactiva de Contenidos, S.A.* with a capital stock of Ptas. 110 million and additional paid-in capital of Ptas. 3,100 million, fully subscribed and paid by the parent company. This company is consolidated by the global integration method.

In 1999 Terra Networks, S.A. acquired through its subsidiary *Telefónica Interactiva Brasil Ltda.* 96% of the shares of *Terra Networks Brasil, S.A. (formerly Nutec Informática, S.A.)*, an Internet service provider that operates under the ZAZ brand name, markets software developed by third parties, renders services relating to access networks and engages in business activities such as Internet portals.

On May 27, 1999, Terra Networks, S.A. incorporated *Terra Networks USA, Inc. (formerly Telefónica Interactiva USA, Inc.)*. On October 5, 1999, Terra and International Discount Telecommunications Corporation (IDT) entered into a joint venture contract to provide Internet access and portal services in the U.S. market.

Under this joint venture contract, on October 5, 1999, IDT and Telefónica Interactiva USA, Inc. formed *Terra Networks Access Services USA LLC*. (51% owned by Telefónica Interactiva USA, Inc. and 49% owned by IDT) to engage in the Internet access business. On that same date, IDT and Telefónica Interactiva USA, Inc. formed *Terra Networks Interactive Services USA LLC*. (90% owned by Telefónica Interactiva USA, Inc. and 10% owned by IDT) to engage in the portal services business.

In March Terra Networks, S.A. acquired all the shares of *Ordenamiento de Links Especializados, S.L.* for Ptas. 2,000 million. Subsequently, in May, this company carried out a capital increase of Ptas. 1,000 million, which was fully subscribed and paid by Terra Networks. This company is consolidated by the global integration method.

Terra Networks acquired all the shares of *Información Selectiva S.A. (INFOSEL)* from the stockholders of the Reforma Group through various transactions at a cost of Ptas. 6,997 million. InfoSEL provides Internet access, portal and real-time financial information services and services for businesses. This company is consolidated by the global integration method in the financial statements of the Telefónica Group.



During 1999 Terra Networks, S.A. and Telefónica Servicios y Contenidos por la Red, S.A. acquired all the shares of *Terra Networks México, S.A. de C.V.*, in which Terra Networks has a 75% holding and Telefónica Servicios y Contenidos por la Red has a 25% holding. Terra Networks Mexico is consolidated by the global integration method in the financial statements of the Telefónica Group.

On September 8, 1999, Terra Networks, S.A. incorporated *Telefónica Interactiva Chile Limitada*, with a capital of 100,000 Chilean pesos, in which Terra Networks, S.A. has a 99% holding.

On October 4, 1999, *Telefónica Networks Chile Holding Limitada* acquired from CTC Mundo all the shares that it owned of *Proveedora de Servicios de Conectividad, S.A.* (currently *Terra Networks Chile*), which represented 95% of the total number of shares issued by this company. The price paid for Terra Networks Chile amounted to US\$ 40 million. The gain obtained by CTC Mundo on the transaction (43.64% of the direct and indirect holding that the Telefónica Group has in CTC Chile, the parent company of CTC Mundo) was eliminated in the financial statements of the Telefónica Group, leaving an amount of Ptas. 4,131 million recorded under the "Gains on Disposals of Holdings in Consolidated Companies" caption in the Telefónica Group's statement of income.

On July 28, 1999, Terra Networks, S.A. incorporated *Telefónica Interactiva Argentina, S.A.* with a capital stock of US\$ 12,000, in which Terra Networks, S.A. has a 99.9% holding

On September 21, 1999, *Telefónica Interactiva Argentina, S.A.* acquired all the shares of *Donde Latinoamericana, S.A.*, which owns the local portal *Donde*, for US\$ 4,504,000.

On September 9, 1999, *Telefónica Interactiva Argentina, S.A.* acquired all the shares of *Netgocios, S.A.*, which owns the local portal *Gauchonet* and the domains registered in Argentina and the U.S. under *Gauchonet*, for a total amount of US\$ 4,586,000.

The total investment in Argentina amounts to US\$ 9,090,000, equivalent to Ptas. 1,664 million. The three companies are consolidated by the global consolidation method in the financial statements of the Telefónica Group.

On September 2, 1999, Terra Networks, S.A. incorporated *Terra Networks Perú, S.A.* with a capital stock of 1,000 new soles, in which Terra Networks, S.A. has a 99.9% holding.

On October 20, 1999, Terra Networks Perú S.A. acquired from Telefónica Servicios Internet, S.A.C. (a subsidiary of Telefónica del Perú) all the assets, contracts and items necessary to provide Internet access services for US\$ 5 million.

The gain obtained by Telefónica Servicios Internet (a subsidiary of Telefónica del Perú) on the transaction (40.04% of the Telefónica Group's

direct and indirect holding in Telefónica del Perú, the parent company of Telefónica Servicios Internet) was eliminated in the financial statements of the Telefónica Group, leaving an amount of Ptas. 2,490 million recorded under the "Gains on Fixed Asset Disposals" caption in the Telefónica Group's statement of income.

On November 4, 1999, Terra Networks sold all the shares it owned of *DoubleClick Iberoamericana S.L.* for Ptas. 208 million, giving rise to a gain for the Group of Ptas. 120 million, which was recorded under the "Gains on Disposals of Holdings in Consolidated Companies" caption in the statement of income.

In July, Telefónica, S.A. acquired a 50% holding in *Aliança Atlántica Holding B.V.* for Ptas. 3,439 million. This company holds 950,000 shares of Portugal Telecom, S.A., which increases Telefónica's holding in the company to 3.75%. This company continues to be carried by the equity method in the financial statements of the Telefónica Group.

Also in July, *Portugal Telecom, S.A.* increased capital at a ratio of one new share for every 10 old shares. Telefónica subscribed to and paid the shares to which it was entitled (665,000), in accordance with its percentage of ownership of the capital stock of the company, at a cost of Ptas. 4,153 million. *Aliança Atlántica* also subscribed to the shares to which it was entitled (95,000). The company continues to be carried by the equity method.

The main variations in the Media group in 1999 were as follows:

- In August Telefónica Media, S.A. acquired all the shares of the radio company *Uniprex, S.A.* for Ptas. 18,031 million, making an initial payment of Ptas. 12,000 million. This company was included in the financial statements of the Telefónica Group.
- In December Telefónica Media, S.A. acquired all the shares of *Cadena Voz de Radiodifusión, S.A.* for Ptas. 1,778 million. This company is consolidated by the global integration method in the financial statements of the Telefónica Group.
- In February Telefónica Media, S.A., a wholly owned subsidiary of Telefónica, S.A., acquired an additional 17.09% holding in *Antena 3 de Televisión, S.A.* for Ptas. 19,538 million. In July Telefónica Media acquired a further 6.4255% holding in *Antena 3 de Televisión, S.A.* for Ptas. 7,468 million. Subsequently, in December, it acquired an additional 0.288% of the company for Ptas. 671 million, thereby raising its holding to the 47.21% which it owned at 1999 year-end. The company continues to be carried by the equity method.
- In September, Telefónica Media took part in the incorporation of *Interocio Games, S.A.*, by subscribing to 50% of the company's initial capital stock and paying Ptas. 125 million. At year-end the company was recorded at acquisition cost.

- In June the Ptas.40,477.5 million capital increase at *DTS Distribuidora de Televisión Digital, S.A.* was closed. Telefónica Media, S.A., which had previously acquired an additional 17% holding in DTS for Ptas. 40,477.5 million and which had subscribed its proportional 36.95% holding before the capital increase, subscribed and paid sufficient shares to raise its ownership interest to the 68.59% currently held by it, for which it paid Ptas.31,058 million. The company continues to be carried by the equity method.
- Telefónica Media also acquired 5% of the *Pearson Plc.* publishing group for Ptas.103,391 million. The company is carried by the equity method.
- Telefónica Media also acquired 30% of *Patagonik Film Group, S.A. (ARGENTINA)* for Ptas.1,428 million. At year-end this company was recorded at acquisition cost.
- In December the subsidiary company *Producciones Multitemáticas, S.A.* acquired an additional 10.71% holding in the capital stock of *Lola Films, S.A.* for Ptas.158 million. In the same period, *Lola Films* increased capital by Ptas.1,050 million with additional paid-in capital of Ptas.420 million. *Producciones Multitemáticas* subscribed to a portion of the capital increase by acquiring a number of shares equivalent to approximately 70% of the capital stock of the company for Ptas.1,410 million. The company, which in 1998 was carried by the equity method, was consolidated by the global integration method at 1999 year-end.
- Telefónica Media Internacional y de Contenidos, S.A., acquired all of the shares of *Telefónica Media Internacional y de Contenidos USA Inc.* for Ptas. 702 million. The company was included in the financial statements of the Telefónica Group by the global integration method.

In February Telefónica incorporated *Atento Holding de Telecomunicaciones, S.A.*, a company that manages the global call-center business throughout the world. At 1999 year-end, this company managed call centers in Spain, Brazil, Chile, Peru, Puerto Rico, El Salvador and Guatemala. All these companies are consolidated by the global integration method in the financial statements of the Telefónica Group.

The main variations in 1999 in the Telefónica *Intercontinental* group, of whose parent company Telefónica, S.A. is the sole stockholder, were as follows:

- Telefónica Intercontinental, a wholly owned subsidiary of Telefónica, S.A., acquired in January all the capital stock of the Austrian company *European Telecom International GmbH* for Ptas. 4,992 million. In December this company increased capital by Ptas.1,300 million, which were fully subscribed and paid by the parent company. The company was included in consolidation as a subsidiary and was consolidated by the global integration method.

- Telefónica, through its 100% owned subsidiary Telefónica Intercontinental, obtained by tender, together with other companies composing the *Médi Telecom* consortium, the second wireless telephony license for Morocco. Telefónica Intercontinental currently has an ownership interest of 34.5% in the consortium, for which it had to pay Ptas. 27,590 million.
- Telefónica Intercontinental also took part in the incorporation of *Azienda Comunale Energía e Ambiente - Telefónica, SpA (ACEA-Telefónica)*, with a 49% holding in the capital stock, for which it paid Ptas. 5,636 million. This company will provide advanced telecommunications services to businesses and individuals in Rome and in the Lazio region. As of December 31, 1999, *Médi Telecom* and *ACEA - Telefónica* were recorded in the financial statements of the Telefónica Group at acquisition cost.

In 1999 *Telefónica Servicios Móviles, S.A.* acquired the remaining 10% of the capital stock of *Compañía Gestora del Servicio Mensatel, S.A.* for Ptas. 432 million. The company continues to be consolidated by the global integration method.

*Radiored 1, S.A.* acquired the remaining 9% of the capital stock of *Radiored Catalunya, S.A.* for Ptas.65 million. The company continues to be consolidated by the global integration method.

*Telefónica Sistemas, S.A.* (a wholly-owned subsidiary of Telefónica de España, S.A.) and *Telefónica Sistemas Ingeniería de Productos, S.A.* (a wholly-owned subsidiary of Telefónica de Sistemas) incorporated *Telefónica Sistemas Ingeniería de Productos Guatemala, S.A.* (with holdings of 98% and 2%, respectively) and *Telefónica Sistemas El Salvador, S.A. de C.V.* (with holdings of 99.5% and 0.5%, respectively) at a total cost of Ptas. 4 million and Ptas.1 million, respectively. The two companies were consolidated by the global integration method.

The main variations in 1999 in the Telefónica *Data* Group, of whose parent company Telefónica, S.A. is the sole stockholder, were as follows:

- In May Telefónica Data, S.A. acquired 50% of *Rey Moreno, S.A. (COLOMBIA)* for Ptas.1,849 million. Also, in June Telefónica Data, S.A. acquired 50.93% of *Telecomunicaciones Ganaderas, S.A. (COLOMBIA)* for Ptas.384 million. The two companies are carried by the equity method in the financial statements of the Telefónica Group.
- In July *Telefónica VSAT, S.A.* and *Telefónica Servicios Avanzados de Información, S.A.* were merged into *Telefónica Data España, S.A.*, the sole-stockholder of the two companies. Both companies, which were consolidated by the global integration method, were excluded from the consolidated Telefónica Group in 1999.
- In June Telefónica Data España, S.A. acquired all the shares of *Interdomain, S.A.* for Ptas.63 million. This company is consolidated by the global integration method.

In June Telefónica, S.A. incorporated *Communicapital Inversiones, S.A.U.* and *Communicapital Gestión, S.A.U.* with capital stock of Ptas.998 million and Ptas.10 million, respectively. At year-end both companies were included in the financial statements of the Telefónica Group by the global integration method.

In November *Atento Telecomunicaciones España, S.A.*, acquired the remaining 49% of the capital stock of *Gestión de Servicios de Emergencia y Atención al Ciudadano, S.A.* for Ptas.25 million. The company continues to be consolidated by the global integration method.

The main variations in 1999 in the *Telefónica Soluciones Sectoriales* group, of whose parent company Telefónica de España, S.A. is the sole stockholder, were as follows:

- In May *Gestión del Conocimiento, S.A.* increased capital by Ptas.12.8 million. *Telefónica Soluciones Sectoriales, S.A.* subscribed to this capital increase, but acquired a number of shares lower than that to which it was entitled and, accordingly, its holding in the company decreased from 40% to 31.58%. The company continues to be carried by the equity method.
- Telefónica Soluciones Sectoriales, S.A., a wholly-owned subsidiary of Telefónica, S.A., took part in the Ptas.105 million capital increase at *Buildnet* by subscribing and paying a number of shares that enabled the company to increase its holding in *Buildnet* to 47.62%, for Ptas. 50 million. This company continues to be carried by the equity method.
- In November the associated company *Fitex* increased capital by Ptas. 74 millions. Telefónica Soluciones Sectoriales subscribed to a portion of the increase and paid Ptas.6 million. The capital increase was not subscribed by all the stockholders and, accordingly, Telefónica Soluciones Sectoriales increased its ownership interest in the company from 24.5% to 30.93%. The company continues to be carried by the equity method.

In April, *Telefónica de España, S.A.* acquired an additional 50% holding in *Telefónica Consultora de Proyectos, S.A.* (formerly Utilitel Comunicaciones, S.A.) for Ptas.844 million. As a result of this purchase Telefónica became the sole stockholder of this company, which was included in the consolidated financial statements of the Group by the global integration method. As a consequence of the above, all the dependent companies of *Telefónica Consultora de Proyectos, S.A.* were consolidated by the global integration method, the detail of these companies being as follows:

- *Telefónica Consultora y Servicios, S.A.* (formerly Utilitel Gestión de Sistemas, S.A.) (100%).
- *Telefónica Ingeniería de Seguridad, S.A.* (formerly Utilitel Ingeniería de Seguridad, S.A.) (100%).

— *Utilicare Servicios Asistenciales, S.A.* (70%).

— *SOS Alzheimer, S.A.* (71%). This company was subsequently sold to Telefónica de España, S.A.'s wholly-owned subsidiary *Telefónica Soluciones Sectoriales, S.A.*

In February *Telefónica Servicios de Distribución, S.A.* and *Atento Holding de Telecomunicaciones, S.A.* were incorporated with capital stock of Ptas. 265 million and Ptas. 10 million, respectively. All the shares of these companies were subscribed and paid by Telefónica, S.A. At year-end the two companies were consolidated by the global integration method.

In June *Telefónica Cable Menorca, S.A.* acquired all the shares of *Telecable Menorca, S.A.* for Ptas.180 million. This company is consolidated by the global integration method.

In 1999, *Telefónica de España, S.A.* acquired 50% of *Digimedia, S.A.* and *Sodetel, S.A.*, and 24% of *Andalucía Digital Multimedia, S.A.* for Ptas. 5 million, Ptas.10 million and Ptas.1,480 million, respectively. These companies were recorded in the financial statements of the Telefónica Group at acquisition cost.

In February *Procesos y Tecnología de la Información, S.A.*, a wholly-owned subsidiary of Telefónica, increased capital by Ptas.490 million, which were fully subscribed and paid by the sole stockholder. This company continues to be consolidated by the global integration method.

In May *Telefónica, S.A.* sold all its shares of *Telecomunicaciones Marinas, S.A.*, which represented a 100% holding in this company. The Telefónica Group recorded a gain of Ptas.35,852 million on the sale. This gain was recorded under the "Gains on Disposals of Holdings in Consolidated Companies" caption in the Telefónica Group's statement of income. The company was excluded from the scope of consolidation of the Telefónica Group.

In December *Telefónica Medios de Comunicación, S.A.* sold its 20% holding in the capital stock of *Recoletos Compañía Editorial, S.A.* for Ptas. 30,000 million. The gain on this sale for the Telefónica Group was Ptas. 7,484 million, and was recorded under the "Gains on Disposals of Holdings in Consolidated Companies" caption in the consolidated statement of income.

In January *Telefónica, S.A.* sold 1,702,858 shares, representing 12.2% of capital stock, of *Amper, S.A.* for Ptas.6,811 million, at a gain for the Telefónica Group of Ptas.2,972 million, which is recorded under the "Gains on Disposals of Holdings in Consolidated Companies" caption in the consolidated statement of income. The company is still 12.2% owned and continues to be carried by the equity method.

In March *Telefónica, S.A.* sold all its shares of *Sofres Audiencia de Medios, S.A.*, which represented a 25% holding, for Ptas.600 million, and

obtained a gain of Ptas.165 million,which is recorded under the “Gains on Disposals of Holdings in Consolidated Companies”caption in the consolidated statement of income. The company was excluded from the scope of consolidation of the Telefónica Group.

In June *Ciudad Interactiva, S.A.*, in which Telefónica Soluciones Sectoriales had a 20% holding and which was carried by the equity method, was sold for Ptas.15 million at no gain.This company was excluded from the scope of consolidation of the Telefónica Group.

Telefónica Soluciones Sectoriales also sold its 20% holding in the associated company Andalucía Comercio Electrónico, S.A. for Ptas. 5 million at no gain.This company was excluded from the scope of consolidation of the Telefónica Group.

In May *Telefónica Cable, S.A.* sold 30% of *Telefónica Cable Galicia, S.A.* and 5% of *Telefónica Cable Extremadura, S.A.* at a loss of Ptas.2 million. Both companies continue to consolidated by the global integration method.

## 1998

In July 1998,the Brazilian government privatized Telecomunicações Brasileiras, S.A. (Telebrás),which had previously been divided into 12 holding companies (1 for long-distance telephony, 3 for wireline telephony and 8 for wireless telephony),in a sale through public auction of 50.10% of the capital stock with voting rights and of 19.26% of the dividend rights of each of these companies.

Telefónica Internacional submitted the successful bids through dependent companies or consortia, for the following companies:

- Telesp Participações, S.A.:A holding company that controls the wireline telephony operations in the state of São Paulo, Telesp, S.A. and CTBC (Compañía Telefónica de Borde do Campo).The holding was acquired through Tele Brasil Sul,a holding company in which Telefónica Internacional, S.A.has a 52.9% ownership interest, at a cost of Ptas. 473,286 million.The other stockholders in Tele Brasil Sul are Portugal Telecom (23%),Iberdrola (7%),Banco Bilbao Vizcaya (7%), CTC (2.6%), Telefónica de Argentina (1.2%) and Rede Brasil Sul (6.3%). Through its subsidiaries, Telesp Participações managed 6.04 million lines in service and had a facility for 6.45 million lines as of December 31,1998.The Company’s market share in its area of operations is 17.8%.
- Tele Sudeste Celular Participações, S.A.:A holding company that controls the wireline telephone operators in the states of Rio de Janeiro (Telerj Celular, S.A.) and Espírito Santo (Telest Celular, S.A.). The holding acquired in the public auction is owned by a consortium in which Telefónica Internacional, S.A.has an 82.5% stake, at an cost of Ptas.164,293 million.The remaining stakes are owned by Iberdrola (7%), NTT Docomo (7%) and Itochu (3.5%). Tele Sudeste Participações

had approximately 635,000 wireless telephony customers as of December 31,1998.

- Tele Leste Celular Participações, S.A.:A holding company that controls the wireline telephony operators in the states of Bahia (Telebahía Celular, S.A.) and Sergipe (Telergipe Celular, S.A.).The consortium formed by Telefónica Internacional (with a 38% holding), which paid Ptas.21,130 million,and Iberdrola (with the remaining 62%) won the auction. Teleste Participações had approximately 238,000 wireless telephony customers at December 31,1998.
- Telesp Celular Participações, S.A.:A holding company that controls the wireless telephony operator in the state of São Paulo (Telesp Celular, S.A.). Portugalcom,the consortium formed with the Portugal Telecom in which Telefónica Internacional has a 35.8% stake, obtained the holding that was being offered, at a cost of Ptas. 166,848 million.

All these companies are carried by the equity method.

In May the Argentine company Telefónica de Argentina S.A. (TASA) reduced capital by US\$ 757 million,through the purchase of shares owned by employees. With this reduction,the company holding its shares, Compañía de Inversiones en Telecomunicaciones, S.A. (COINTEL) increased its holding in TASA from 51% to 56.154%.Both companies started to be consolidated in 1998 by the global integration method.

During this same period COINTEL settled its debtwith PRIDES which could have been settled with TASA class B shares. Part of the debt was paid in cash,so the Group reconsolidated the shares that were not used to make the settlement. Initially this percentage was 1.70% butafter the reduction was fixed at 1.8775%,and COINTEL consolidated this latter percentage.

As a result of the successful bid that Telefónica Do Brasil Holding, S.A. made for the additional 50.12% of common stock of the Brazilian company Companhia Riograndense de Telecomunicações, S.A. (CRT),the Telefónica Internacional Group’s new indirect holding in CRT increased from 10.3% to 16.7%,with a cost of Ptas.64,945 million. Telefónica do Brasil was then transformed into the Tele Brasil Sul consortium. CRT managed 1.3 million fixed lines and approximately 464,000 wireless telephony customers as of December 31,1998.

In March Telefónica Medios de Comunicación, S.A.subscribed to all the shares issued by Recoletos Compañía Editorial, S.A.in a capital increase of Ptas.122 million with additional paid-in capital of Ptas 23,003 million.As a result of this transaction, Telefónica Medios de Comunicación, S.A.holds 20% of Recoletos Compañía Editorial, S.A.This company is carried by the equity method.

In November Telefónica, S.A.incorporated Inmobiliaria Telefónica, S.L. with initial capital of Ptas. 501,000. In December the capital amount was

increased to Ptas.1,670 million with additional paid-in capital of Ptas. 15,541 million,fully subscribed and paid through a monetary contribution of Ptas.30 million and a nonmonetary contribution of real estate worth Ptas.17,181 million.This company is consolidated by the global integration method.

Telefónica Internacional, S.A.acquired 30% of Holding Atlántida de Comunicaciones, S.A.(ATCO) and of its subsequent capital increase. This company has a 94.74% holding in Editorial Atlántida, S.A.

Telefónica incorporated Telefónica Intercontinental, S.A. with capital stock of Ptas.250 million, and Telefónica Sociedad Operadora de Servicios de Telecomunicaciones en España, S.A., Telefónica Comunicaciones Interactivas, S.A., Telefónica Procesos y Tecnología de la Información, S.A., Telefónica Data, S.A. and Telefónica Internet, S.A., all with capital stock of Ptas 10 million. Telefónica Intercontinental and Telefónica Procesos y Tecnología de la Información are consolidated by the global integration method.

In January, Telefónica Internacional, S.A.acquired an additional 3.33% holding in the Argentine company Torneos y Competencias, S.A. reaching a 20% controlling interest. The company, which was not included in the consolidated group in 1997, is currently carried by the equity method.

Cablevisión, S.A.,an Argentine company 33.28% owned by Telefónica Internacional, S.A.,that was acquired in 1997 and recorded that year at cost, was carried by the equity method in 1998.In December Telefónica Internacional, S.A.acquired an additional holding of 2.58% increasing its total holding to 35.86%.

In April Telefónica Medios de Comunicación, S.A. (TMC) acquired the remaining 51% of the capital stock of Gestora de Medios Audiovisuales de Fútbol, S.L. (GMAF),thus increasing its holding to 100%.This company, which was carried by the equity method,is now consolidated by the global integration method.

In October Compañía de Telecomunicaciones de Chile, S.A.acquired 99.99% of the capital stock of VTR Larga Distancia, S.A.from V.T.R., S.A. for US\$ 50 million,equivalent to Ptas. 7,130 million.

Telefónica de Argentina, S.A.purchased a 99.99% holding in Advance, S.A. for approximately US\$ 10.2 million,equivalent to Ptas.1,455 million. 50% of this stake was acquired from Telefónica Internacional.

In July, DTS Distribuidora de Televisión Digital, S.A.increased its capital by Ptas. 7,500 million with additional paid-in capital of Ptas.22,500 million. Telefónica Media subscribed to additional shares thus increasing its holding in the company from 35% to the current 36.95%.The company continues to be carried by the equity method.

In June Telefónica acquired 1,312,217 shares of Amper, S.A., at a cost of Ptas. 5,249 million,increasing its holding to 24.41%.The company continues to be carried by the equity method.

In July 1998, the Telefónica Internacional Group acquired a 51% holding in Telefónica del Salvador, S.A. de C.V. in a public auction, through Telefónica El Salvador Holding, S.A. de C.V., a company incorporated for this tender process.Subsequently, the Group sold 49% of that holding to MESOTEL, a local stockholder. After this transaction the Group's indirect holding in Telefónica El Salvador, S.A.decreased to 26.01%.

Compañía de Telecomunicaciones de Chile, S.A. (C.T.C.) terminated the voluntary period for the conversion of convertible bonds into company shares.This conversion led to an increase in the Group's holding from 43.62% to 43.643%.The company continues to be consolidated by the global integration method.

In March Antena 3 de Televisión, S.A.increased its capital stock by Ptas. 2,778 million with additional paid-in capital of Ptas. 7,802 million.The capital increase was fully subscribed by a new stockholder, which meant that Telefónica Media, S.A.'s controlling interest was reduced from 25% to 22.5%.Subsequently, a further holding of approximately 0.9% was acquired,thus increasing the ownership interest to 23.4%.The company continues to be carried by the equity method.

In April Audiovisual Sport, S.L.,in which GMAF has a 40% holding, increased its capital stock by Ptas. 7,950 million.GMAF subscribed to the proportional number of shares required to maintain its holding.

In December Hispasat, S.A.increased its capital stock by Ptas. 3,000 million. Telefónica subscribed to the proportional part of the capital increase corresponding to it (22.74%) and paid 25%.

In July Telefónica Publicidad e Información acquired 75% of Venturini España, S.A. for Ptas.420 million,bringing its holding in this company to 100%.The company, which was previously carried by the equity method, is now consolidated by the global integration method.As a result of this transaction Venturini, S.A.,a wholly-owned subsidiary of Venturini España, S.A. was also included in consolidation by the global integration method.

In December 1997, Madrid 112, S.A.increased its capital stock. Telefónica Soluciones Sectoriales, S.A.,which had a 49% holding in the company, did not subscribe to all the shares corresponding to itand its holding was thus reduced to 24.5%.The company continues to be carried by the equity method.

Audiovisual Realtime Bit, S.A.(ARTBIT) increased its capital stock from Ptas.100 million to Ptas.200 million. Telefónica Media, S.A.had a 25% holding in the capital stock of this company but did not subscribe to any shares, and so its ownership interest was reduced to 12.5%. Telefónica Soluciones Sectoriales, S.A.subscribed to a number of shares equivalent to 12.5% of the capital stock,and acquired an additional 5% from third parties.The company continues to be carried in the financial statements of the Telefónica Group by the equity method.

Telefónica Soluciones Sectoriales, S.A. acquired 25% of the shares of ZZJ Mundovisión, which has a total capital shares of Ptas.20 million.

Estrategias Telefónicas, S.A. took part in the incorporation of Gestión de Servicios de Emergencia y Atención al Ciudadano, S.A., subscribing and paying for 51% of the Ptas.100 million that made up its capital stock.

In June, Telefónica Servicios Avanzados de Información, S.A. acquired an additional 12% holding in the capital stock of Hispaservices, S.A. thus increasing its holding in the latter to 100%. Hispaservices was dissolved in December.

In November Bitel Baleares Innovación Telemática, S.A. increased its capital stock by Ptas.100 million which were fully subscribed and paid by Telefónica Soluciones Sectoriales, S.A., which has a 44% holding in the company.

In December Telefónica Servicios y Contenidos por la Red, S.A. increased its capital stock by Ptas. 700 million, which were fully subscribed and paid by Telefónica.

In March REM Infográfica, S.A. carried out an “accordeon” transaction (reduction and subsequent increase of capital stock) as a result of which capital stock increased from Ptas.10 million to Ptas.25 million with additional paid-in capital of Ptas. 375 million. Producciones Multitemáticas, S.A., which previously held 100% of the capital stock of this company only subscribed to enough shares to leave its holding at 42.52% of the current capital stock of the company. The company, which was consolidated by the global integration method, is now, after this reduction in the holding, carried by the equity method.

In April, the Telefónica Internacional Group sold its 25% holding in the Argentine company Multicanal, S.A. As a result of this sale, the Group recorded a gain of Ptas.17,718 million (see Note 8-b). In 1997, this company was carried by the equity method.

In June, Telefónica sold all the shares it held in Indra SSII, S.A., which represented a 36.56% holding in this company’s capital stock. The Telefónica Group recorded a gain on this sale of Ptas.2,862 million.

The Colombian company Compañía Celular de Colombia, S.A. (Cocelco) was also sold in April. Telefónica, S.A. had a direct holding of 14.51% in this company and the Telefónica Internacional group indirectly held 20.25% of its capital stock. The gain for the Telefónica Group on this sale amounted to Ptas.1,977 million. This company was carried by the equity method in 1997.

In February Telefónica Cable, S.A. sold 10% of its holding in Telefónica Cable Castilla y León, S.A. to a non-Group company, thus reducing its controlling interest to 51%. This company continues to be consolidated by the global integration method.

Telefónica Cable, S.A. sold 34% of its holding in Telefónica Cable Extremadura, S.A. (formerly Sociedad General de Cablevisión Granada, S.A.) to a third party. This company continues to be consolidated by the global integration method.

In July Telefónica Cable sold 10% and 20% of Telefónica Cable Madrid and Telefónica Cable Catalunya to non-Group buyers, giving rise to gains of Ptas.4 million and Ptas.12 million, respectively. These companies continue to be consolidated by the global integration method.

## EXHIBIT III

### GOODWILL IN CONSOLIDATION

The detail of the balance of goodwill in consolidation, of the related accumulated amortization and of the variations therein as of December 31, 1999 and 1998, is as follows:

Goodwill in consolidation	Millions of Pesetas					Balance at 12/31/99
	Balance at 12/31/98	Additions	Retirements	Transfers	Translation Differences	
<b>Companies consolidated by the global integration method:</b>						
Advance Telecomunicaciones	1,164	—	—	—	184	1,348
Aki	303	1,168	—	—	49	1,520
C.R.T. Celular (Brazil)	—	14,593	—	41,451	—	56,044
C.T.C. (Chile)	5,508	—	—	—	—	5,508
Cadena Voz Radiodifusión	—	1,790	—	—	—	1,790
Cointel	80,579	—	—	—	—	80,579
Eti Austria	—	4,877	—	—	—	4,877
G.M.A. Futbol	5,906	—	—	—	—	5,906
Infosel (Mexico)	—	8,316	—	—	—	8,316
Instacom	1,445	—	—	—	88	1,533
Invercom	14,998	—	—	—	906	15,904
Multicable T. V. (Chile)	1,186	—	—	—	72	1,258
Nutec Informática	—	30,269	—	—	—	30,269
Olé	—	2,038	—	—	—	2,038
Prov. de Serv. de Conectividad (Chile)	—	4,231	—	—	—	4,231
Satlink	1,441	36	—	—	230	1,707
Sociedades de Sonda (Chile)	—	952	—	—	141	1,093
Sonda (Chile)	—	8,735	—	—	(695)	8,040
Startel	51,773	—	—	—	3,122	54,895
T. Data España	25,784	—	—	—	—	25,784
T.L.D. (Puerto Rico)	7,479	4,598	—	—	—	12,077
Tele Sudeste Celular (Brazil)	—	2,522	—	—	—	2,522
Telefónica de El Salvador	—	7,853	—	—	623	8,476
Telefónica Del Perú	—	23,156	—	—	—	23,156
Telefonica Internacional	46,865	—	—	—	—	46,865
Telefonica Multimedia (Peru)	2,224	—	(906)	—	224	1,542
Telerj (Brazil)	—	22,413	—	—	—	22,413
Telesp Participações (Brazil)	—	16,268	—	—	—	16,268
Terra Networks Mexico	—	35,675	—	—	—	35,675
Uniprex	—	14,083	—	—	—	14,083
Vtr	5,629	73	—	—	337	6,039
Other companies	906	7,895	—	330	79	9,210
	<b>253,190</b>	<b>211,541</b>	<b>(906)</b>	<b>41,781</b>	<b>5,360</b>	<b>510,966</b>

	Millions of Pesetas					Balance at 12/31/99
	Balance at 12/31/98	Additions	Retirements	Transfers	Translation Differences	
<b>Companies carried by the equity method:</b>						
Amper	3,720	—	(1,860)	—	—	1,860
Antena 3	16,374	17,906	—	—	—	34,280
Asociadas Nutec Informática (Brazil)	—	1,772	—	—	—	1,772
C.R.T. Fixa (Brazil)	91,957	—	—	(41,451)	—	50,506
Cablevisión (Argentina)	39,156	—	—	5,000	—	44,156
Dts D <sup>a</sup> Tv Digital	1,110	13,550	—	—	—	14,660
Infonet(USA)	—	3,104	(3,104)	—	—	—
Pearson	—	89,124	—	—	—	89,124
Portugal Telecom	30,055	2,909	—	—	—	32,964
Recoletos Cía. Editorial	16,403	—	(16,403)	—	—	—
Teknoland	—	2,006	—	—	—	2,006
Torneos y Competencias	7,229	275	—	—	—	7,504
Venworld (Venezuela)	22,330	—	—	—	—	22,330
Other companies	885	2,386	(37)	(910)	106	2,430
	<b>229,219</b>	<b>133,032</b>	<b>(21,404)</b>	<b>(37,361)</b>	<b>106</b>	<b>303,592</b>
<b>Total goodwill</b>	<b>482,409</b>	<b>344,573</b>	<b>(22,310)</b>	<b>4,420</b>	<b>5,466</b>	<b>814,558</b>



Amortization of goodwill in consolidation	Millions of Pesetas					Balance at 12/31/99
	Balance at 12/31/98	Additions	Retirements	Transfers	Translation Differences	
<b>Companies consolidated by the global integration method:</b>						
Advance Telecomunicaciones	77	123	—	—	20	220
Aki	15	72	—	—	7	94
C.R.T. Celular (Brazil)	—	2,187	—	3,467	—	5,654
C.T.C. (Chile)	4,365	111	—	—	—	4,476
Cadena Voz Radiodifusión	—	—	—	—	—	—
Cointel	16,993	3,605	—	—	—	20,598
Eti Austria	—	203	—	—	—	203
G.M.A. Futbol	1,956	788	—	—	—	2,744
Infosel (Mexico)	—	277	—	—	—	277
Instacom	669	134	—	—	47	850
Invercom	3,327	664	—	—	240	4,231
Multicable T.V. (Chile)	398	119	—	—	31	548
Nutec Informática	—	3,027	—	—	—	3,027
Olé	—	306	—	—	—	306
Prov. de Serv. de Conectividad (Chile)	—	173	—	—	—	173
Satlink	75	184	—	—	23	282
Sociedades de Sonda (Chile)	—	125	—	107	7	239
Sonda (Chile)	—	305	—	27	18	350
Startel	2,768	2,588	—	—	319	5,675
T. Data España	16,356	496	—	—	—	16,852
T.L.D. (Puerto Rico)	3,989	364	—	—	—	4,353
Tele Sudeste Celular (Brazil)	—	73	—	—	—	73
Telefónica de El Salvador	—	228	—	17	14	259
Telefónica Del Perú	—	427	—	—	—	427
Telefonica Internacional	2,724	2,333	—	—	—	5,057
Telefonica Multimedia	—	146	—	—	73	219
Teleryj (Brazil)	—	454	—	—	—	454
Telesp Participações (Brazil)	—	438	—	(54)	—	384
Terra Networks Mexico	—	634	—	—	—	634
Uniprex	—	293	—	—	—	293
Vtr	73	284	—	—	20	377
Other companies	362	462	—	137	8	969
	<b>54,147</b>	<b>21,623</b>	<b>—</b>	<b>3,701</b>	<b>827</b>	<b>80,298</b>

Amortization of goodwill in consolidation	Millions of Pesetas					Balance at 12/31/99
	Balance at 12/31/98	Additions	Retirements	Transfers	Translation Differences	
<b>Companies carried by the equity method:</b>						
Amper	93	91	(47)	—	—	137
Antena 3	1,602	1,543	—	—	—	3,145
Asociadas Nutec Informática (Brazil)	—	19	—	—	—	19
C.R.T. Fixa (Brazil)	7,691	2,462	—	(3,467)	—	6,686
Cablevision (Argentina)	2,051	—	—	—	—	2,051
Dts D <sup>3</sup> Tv Digital	23	547	—	—	—	570
Infonet(USA)	—	—	—	—	—	—
Pearson	—	2,245	—	—	—	2,245
Portugal Telecom	2,001	1,550	—	—	—	3,551
Recoletos Cia. Editorial	684	820	(1,504)	—	—	—
Teknoland	—	152	—	—	—	152
Torneos Y Competencias	361	374	—	—	—	735
Venworld (Venezuela)	14,085	687	—	—	—	14,772
Other companies	48	221	—	(64)	7	212
	<b>28,639</b>	<b>10,711</b>	<b>(1,551)</b>	<b>(3,531)</b>	<b>7</b>	<b>34,275</b>
<b>Total accumulated amortization</b>	<b>82,786</b>	<b>32,334</b>	<b>(1,551)</b>	<b>170</b>	<b>834</b>	<b>114,573</b>
<b>Unamortized goodwill in consolidation</b>	<b>399,623</b>	<b>312,239</b>	<b>(20,759)</b>	<b>4,250</b>	<b>4,632</b>	<b>699,985</b>

Goodwill in consolidation	Millions of Pesetas					Balance at 12/31/98
	Balance at 12/31/97	Additions	Retirements	Transfers	Translation Differences	
<b>Companies consolidated by the global integration method:</b>						
Advance Telecomunicaciones	—	1,164	—	—	—	1,164
AKI	—	—	—	323	(20)	303
C.T.C. (Chile)	5,508	—	—	—	—	5,508
Cointel	—	12,611	—	67,968	—	80,579
G.M.A. Fútbol	—	(3,051)	—	8,957	—	5,906
Instacom	1,587	—	—	—	(142)	1,445
Intercom	(137)	—	—	—	12	(125)
Invercom	8,822	6,862	—	—	(686)	14,998
Multicable T.V. (Chile)	1,302	—	—	—	(116)	1,186
Publiguías (Chile)	426	—	—	—	—	426
SATLINK	—	—	—	1,533	(92)	1,441
Startel	56,801	318	—	—	(5,346)	51,773
T. L. D. (Puerto Rico)	7,479	—	—	—	—	7,479
T. Perú Holding	461	—	—	—	—	461
T. T. Datos	25,794	(10)	—	—	—	25,784
Telefónica Cable	127	—	—	—	—	127
Telefónica Internacional	46,865	—	—	—	—	46,865
Telefónica Multimedia (Peru)	—	2,224	—	—	—	2,224
Venturini España	—	17	—	—	—	17
VTR	—	5,629	—	—	—	5,629
	<b>155,035</b>	<b>25,764</b>	<b>—</b>	<b>78,781</b>	<b>(6,390)</b>	<b>253,190</b>
<b>Companies carried by the equity method:</b>						
Amper	—	3,720	—	—	—	3,720
Antena 3	18,446	(2,072)	—	—	—	16,374
C.R.T.	42,898	49,059	—	—	—	91,957
Cablevisión	—	—	(5,000)	44,156	—	39,156
CALL Center	—	71	—	—	—	71
Cointel (Argentina)	67,968	—	—	(67,968)	—	—
Compuserve Argentina	—	—	(48)	648	(39)	561
DTS D <sup>a</sup> TV Digital	—	1,110	—	—	—	1,110
G.M.A. Fútbol	8,957	—	—	(8,957)	—	—
Lola Films	142	35	—	—	—	177
Portugal Telecom	30,657	(602)	—	—	—	30,055
Recoletos Cía Editorial	—	16,403	—	—	—	16,403
Torneos y Competencias	—	—	—	7,229	—	7,229
Venworld (Venezuela)	22,330	—	—	—	—	22,330
ZZJ Mundovisión	—	76	—	—	—	76
	<b>191,398</b>	<b>67,800</b>	<b>(5,048)</b>	<b>(24,892)</b>	<b>(39)</b>	<b>229,219</b>
<b>Total goodwill</b>	<b>346,433</b>	<b>93,564</b>	<b>(5,048)</b>	<b>53,889</b>	<b>(6,429)</b>	<b>482,409</b>

Amortization of goodwill in consolidation	Millions of Pesetas					Balance at 12/31/98
	Balance at 12/31/97	Additions	Retirements	Transfers	Translation Differences	
<b>Companies consolidated by the Global integration method:</b>						
Advance Telecomunicaciones	—	81	—	—	(4)	77
AKI	—	16	—	—	(1)	15
C.T.C. (Chile)	4,254	111	—	—	—	4,365
Cointel	—	3,291	—	13,702	—	16,993
G.M.A. Fútbol	—	1,334	—	622	—	1,956
Instacom	588	140	—	—	(59)	669
Intercom	(50)	(13)	—	—	5	(58)
Invercom	3,126	500	—	—	(299)	3,327
Multicable T.V. (Chile)	307	124	—	—	(33)	398
Publiguías (Chile)	214	14	—	—	—	228
SATLINK	—	79	—	—	(4)	75
Startel	198	2,707	—	—	(137)	2,768
T. L. D. (Puerto Rico)	3,740	249	—	—	—	3,989
T. Perú Holding	143	19	—	—	—	162
T. T. Datos	15,860	496	—	—	—	16,356
Telefónica Cable	8	6	—	—	—	14
Telefónica Internacional	391	2,333	—	—	—	2,724
Venturini España	—	16	—	—	—	16
VTR	—	76	—	—	(3)	73
	<b>28,779</b>	<b>11,579</b>	<b>—</b>	<b>14,324</b>	<b>(535)</b>	<b>54,147</b>
<b>Companies carried by the equity method:</b>						
Amper	—	93	—	—	—	93
Antena 3	768	834	—	—	—	1,602
C.R.T.	4,285	3,288	118	—	—	7,691
Cablevisión	—	2,051	—	—	—	2,051
CALL Center	—	5	—	—	—	5
Cointel (Argentina)	13,702	—	—	(13,702)	—	—
Compuserve Argentina	—	28	—	—	(1)	27
DTS D <sup>a</sup> TV Digital	—	23	—	—	—	23
G.M.A. Fútbol	622	—	—	(622)	—	—
Lola Films	4	9	—	—	—	13
Portugal Telecom	511	1,490	—	—	—	2,001
Recoletos Cía Editorial	—	684	—	—	—	684
Torneos y Competencias	—	361	—	—	—	361
Venworld (Venezuela)	13,398	687	—	—	—	14,085
ZZJ Mundovisión	—	3	—	—	—	3
	<b>33,290</b>	<b>9,556</b>	<b>118</b>	<b>(14,324)</b>	<b>(1)</b>	<b>28,639</b>
<b>Total accumulated amortization</b>	<b>62,069</b>	<b>21,135</b>	<b>118</b>	<b>—</b>	<b>(536)</b>	<b>82,786</b>
<b>Unamortized goodwill in consolidation</b>	<b>284,364</b>	<b>72,429</b>	<b>(5,166)</b>	<b>53,889</b>	<b>(5,893)</b>	<b>399,623</b>

## EXHIBIT IV

### MINORITY INTERESTS

#### Minority interests

This caption relates to the share of minority stockholders in the equity and income/loss for the year of the Group companies consolidated by the global integration method.

As of December 31,1999,the balance of this caption comprised the holdings of minority stockholders in the following companies:

Millions of Pesetas Company	% of Ownership	Net Worth	Translation Differences	Income (Loss)	Variation in % of Ownership	Balance at 12/31/99
C.R.T. Celular	63.35	28,822	48	(4,635)	—	24,235
C.T.C.Chile, S.A.	56.36	205,310	(2,657)	(11,242)	—	191,411
Cleon, S.A.	50.00	657	—	(3)	—	654
Cointel	50.00	74,535	7,581	11,833	—	93,949
Fonditel	19.00	937	—	179	—	1,116
Lola Films	30.00	843	—	4	—	847
Other companies in Chile- Sonda Group	—	7,347	1,388	1,464	—	10,199
Publiguías, S.A.	45.07	1,128	55	494	—	1,677
Telefónica de Argentina, S.A.	46.35	163,443	24,053	27,972	—	215,468
Telefónica del Perú Holding	10.00	29,322	(2,230)	233	—	27,325
Telefónica del Perú, S.A.	56.80	122,906	(15,736)	13,652	—	120,822
Telefónica del Salvador Holding	49.00	7,883	810	(1,577)	—	7,116
Telefónica Larga Distancia, Inc.	2.00	122	151	(135)	123	261
Telefónica Publicidad e Información, S.A.	37.00	1,656	—	2,922	—	4,578
Telesp	80.71	1,133,841	(265,780)	68,996	—	937,057
Tele Sudeste Celular Participações	82.43	93,854	(24,914)	2,455	—	71,395
Terra Networks	29.53	55,641	(93)	(1,662)	—	53,886
Other companies	—	5,390	572	(1,850)	(24)	4,088
<b>Total</b>		<b>1,933,637</b>	<b>(276,752)</b>	<b>109,100</b>	<b>99</b>	<b>1,766,084</b>

As of December 31,1998,the balance of this caption comprised the share of minority stockholders in the following companies:

Millions of Pesetas Company	% of Ownership	Net Worth	Translation Differences	Income (Loss)	Variation in % of Ownership	Balance at 12/31/98
Cointel	50.00	72,276	(4,474)	19,418	—	87,670
C.T.C.Chile, S.A.	56.36	189,196	(14,036)	17,755	—	192,915
Fonditel	19.00	795	—	176	—	971
Mensatel	10.00	187	—	(71)	—	116
Publiguías, S.A.	45.07	929	84	838	—	1,851
Telefónica Argentina, S.A.	41.68	131,886	(6,971)	34,883	—	159,798
Telefónica del Perú Holding	10.00	29,991	(1,425)	198	—	28,764
Telefónica del Perú, S.A.	65.00	120,521	(25,803)	19,409	—	114,127
Telefónica Larga Distancia, Inc.	21.00	2,776	(171)	(81)	—	2,524
Other companies	—	1,648	(37)	26	4	1,191
<b>Total</b>		<b>550,205</b>	<b>(52,833)</b>	<b>92,551</b>	<b>4</b>	<b>589,927</b>

## Variations in minority interests

The variations in minority interests in 1999 were as follows:

Company	Balance at 12/31/98	Capital Contributions and Inclusion of aCompanies	Income (Loss) for the Year	Variation in Translation Differences	Other Variations	Capital Reductions and Exclusion of Companies	Dividends Paid	Balance at 12/31/99
C.R.T. Celular	—	21,948	(4,635)	48	7,374	(500)	—	24,235
C.T.C.Chile, S.A.	192,915	—	(11,242)	11,379	—	—	(1,641)	191,411
Cleon, S.A.	—	657	(3)	—	—	—	—	654
Cointel	87,670	—	11,833	12,055	(10,995)	—	(6,614)	93,949
Fonditel	971	—	179	—	—	—	(34)	1,116
Lola Films	—	843	4	—	—	—	—	847
Mensatel	116	—	—	—	—	(116)	—	—
Otras Sdes.Chile- Grupo Sonda	253	7,103	1,464	1,425	5	—	(51)	10,199
Publiguías, S.A.	1,851	—	494	(29)	—	—	(639)	1,677
Telefónica de Argentina, S.A.	159,798	8,653	27,972	31,024	10,994	—	(22,973)	215,468
Telefónica del Perú Holding	28,764	—	233	(805)	—	(867)	—	27,325
Telefónica del Perú, S.A.	114,127	—	13,652	10,067	(10,026)	—	(6,998)	120,822
Telefónica del Salvador	—	4,668	(1,577)	810	4,233	(1,018)	—	7,116
Telefónica Larga Distancia, Inc.	2,524	—	(135)	322	—	(2,450)	—	261
Telefónica Publicidad e Información, S.A.	—	1,656	2,922	—	—	—	—	4,578
Telesp Participações	—	1,187,226	68,996	(265,780)	—	(43,389)	(9,996)	937,057
Tele Sudeste Celular Participações	—	108,926	2,455	(24,914)	(36)	(9,333)	(5,703)	71,395
Terra Networks	—	55,641	(1,662)	(93)	—	—	—	53,886
Other companies	938	3,877	(1,850)	572	631	(80)	—	4,088
<b>Total</b>	<b>589,927</b>	<b>1,401,198</b>	<b>109,100</b>	<b>(223,919)</b>	<b>2,180</b>	<b>(57,753)</b>	<b>(54,649)</b>	<b>1,766,084</b>

The variations in minority interests in 1998 were as follows:

Company	Balance at 12/31/97	Capital Contributions and Inclusion of aCompanies	Income (Loss) for the Year	Variation in Translation Differences	Other Variations	Capital Reductions and Exclusion of Companies	Dividends Paid	Balance at 12/31/98
Cointel	0	94,703	19,418	(4,474)	—	(18,328)	(3,649)	87,670
C.T.C.Chile, S.A.	168,963	33,591	17,755	(14,596)	(4,436)	—	(8,362)	192,915
Fonditel	796	—	175	—	—	—	—	971
Mensatel	36	150	(70)	—	—	—	—	116
Publiguías, S.A.	1,775	—	838	84	—	—	(846)	1,851
Telefónica Argentina, S.A.	0	241,878	34,883	(5,804)	—	(89,176)	(21,983)	159,798
Telefónica del Perú Holding	30,586	—	198	(1,425)	—	—	(595)	28,764
Telefónica del Perú, S.A.	188,223	—	19,409	(25,803)	—	(55,994)	(11,708)	114,127
Telefónica Larga Distancia, Inc.	2,776	—	(81)	(171)	—	—	—	2,524
Other companies	942	206	26	(37)	259	(197)	(8)	1,191
<b>Total</b>	<b>394,097</b>	<b>370,528</b>	<b>92,551</b>	<b>(52,226)</b>	<b>(4,177)</b>	<b>(163,695)</b>	<b>(47,151)</b>	<b>589,927</b>

## EXHIBIT V

### Debentures and bonds

The detail of the debentures and bonds outstanding as of December 31, 1999, and of their main features, is as follows:

Telefónica and Instrumentality Companies	Currency	Interest Rate (%)	2000	2001	2002	Maturity 2003	2004	Subsequent Years	Total
<b>Debentures and Bonds:</b>									
JANUARY 1990	Ptas.	12.00	—	—	—	—	27,770	—	27,770
FEBRUARY 1990 SERIES A	Ptas.	12.60	9,351	—	—	—	—	—	9,351
FEBRUARY 1990 SERIES B	Ptas.	12.60	—	—	—	—	—	1,367	1,367
FEBRUARY 1990 SERIES C	Ptas.	12.60	—	—	—	—	—	626	626
FEBRUARY 1990 SERIES D	Ptas.	12.89	21,050	—	—	—	—	—	21,050
FEBRUARY 1990 SERIES E	Ptas.	12.85	—	—	—	—	—	6,852	6,852
FEBRUARY 1990 SERIES F	Ptas.	12.58	—	—	—	—	—	750	750
DECEMBER 1990	Ptas.	13.58	—	—	—	—	—	62,976	62,976
APRIL 1991 SERIES A	Ptas.	13.50	—	10,000	—	—	—	—	10,000
APRIL 1991 SERIES B	Ptas.	13.67	—	61,021	—	—	—	—	61,021
SEPTEMBER 2001 D	Ptas.	10.25	—	75,858	—	—	—	—	75,858
NOVEMBER 2000 B	Ptas.	10.06	20,439	—	—	—	—	—	20,439
NOVEMBER 2002 C	Ptas.	10.06	—	—	19,315	—	—	—	19,315
OCTOBER 2000 B	Ptas.	8.00	12,372	—	—	—	—	—	12,372
OCTOBER 2004 C	Ptas.	8.25	—	—	—	—	11,520	—	11,520
APRIL 1999	euros	4.50	—	—	—	—	—	83,193	83,193
JUNE 1999	euros	3.56	—	—	—	—	—	49,916	49,916
JULY 1999 zero coupon	euros	6.37	—	—	—	—	—	5,132	5,132
JULY 1999 SERIES B	euros	2.68	83,192	—	—	—	—	—	83,192
JULY 1997 (convertible)	US\$	2.13	—	—	107,339	—	—	—	107,339
<b>Debentures subtotal:</b>			<b>146,404</b>	<b>146,879</b>	<b>126,654</b>	<b>—</b>	<b>39,290</b>	<b>210,812</b>	<b>670,039</b>
EMTN issue	PTE	Libor+0.07	—	—	—	—	—	12,449	12,449
EMTN issue	US\$	0.06	—	—	—	82,779	—	—	82,779
MARCH 1998	Ptas.	4.84	—	—	—	—	—	70,000	70,000
<b>Bonds subtotal</b>			<b>—</b>	<b>—</b>	<b>—</b>	<b>82,779</b>	<b>—</b>	<b>82,449</b>	<b>165,228</b>
<b>Total Issues:</b>			<b>146,404</b>	<b>146,879</b>	<b>126,654</b>	<b>82,779</b>	<b>39,290</b>	<b>293,261</b>	<b>835,267</b>

Foreign Operators Debentures and Bonds	Currency	Interest Rate (%)	2000	2001	2002	Maturity 2003	2004	Subsequent Years	Total
Yankee Bonds	US\$	7.63	—	—	—	—	—	33,072	33,072
Yankee Bonds	US\$	8.38	—	—	—	—	—	33,072	33,072
Eurobonds	euro	5.38	—	—	—	—	33,248	—	33,248
Series D	UF	5.80	—	—	—	—	—	—	—
Series E	UF	6.00	1,469	1,469	1,469	734	—	—	5,141
Series F	UF	6.00	336	336	336	336	336	3,861	5,541
Series H	UF	5.80	2,350	2,350	2,350	2,350	2,350	3,525	15,275
Series I	UF	5.50	588	588	588	588	588	6,169	9,109
Series J	UF	6.75	639	1,278	1,278	1,278	1,278	7,032	12,783
Series K 1998	UF	6.75	—	—	—	—	36	18,766	18,802
<b>CTC CHILE:</b>			<b>5,382</b>	<b>6,021</b>	<b>6,021</b>	<b>5,286</b>	<b>37,836</b>	<b>105,497</b>	<b>166,043</b>
Series I	N.Sol	VAC+ 5.6	—	5,248	—	—	—	—	5,248
Single series (1st)	N.Sol	VAC+ 6.9	—	—	—	—	—	4,751	4,751
Single series (2nd)	N.Sol	VAC+ 7.0	—	—	—	—	—	2,067	2,067
Single series (3rd)	N.Sol	12.38	6,356	—	—	—	—	—	6,356
Single series (4th)	US\$	14.40	—	7,784	—	—	—	—	7,784
Bonds 1st Program T. Perú	US\$	7.69	—	—	3,307	—	—	—	3,307
<b>Telefónica del Perú:</b>			<b>6,356</b>	<b>13,032</b>	<b>3,307</b>	<b>—</b>	<b>—</b>	<b>6,818</b>	<b>29,513</b>
Negotiable debentures	US\$	8.38	49,608	—	—	—	—	—	49,608
Negotiable debentures	US\$	11.85	—	—	—	—	49,608	—	49,608
Negotiable debentures	US\$	9.13	—	—	—	—	—	60,936	60,936
Negotiable debentures	US\$	Floating	—	66,144	—	—	—	—	66,144
Negotiable debentures	US\$	9.88	—	—	16,536	—	—	—	16,536
<b>TASA</b>			<b>49,608</b>	<b>66,144</b>	<b>16,536</b>	<b>—</b>	<b>49,608</b>	<b>60,936</b>	<b>242,832</b>
Series A 1997	US\$	8.85	—	—	—	—	37,206	—	37,206
Series B 1997	US\$	10.38	—	—	—	—	28,938	—	28,938
<b>Cointel</b>			<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>66,144</b>	<b>—</b>	<b>66,144</b>
<b>Total Issues:</b>			<b>61,346</b>	<b>85,197</b>	<b>25,864</b>	<b>5,286</b>	<b>153,588</b>	<b>173,251</b>	<b>504,532</b>
<b>Total Group Issues:</b>			<b>207,750</b>	<b>232,076</b>	<b>152,518</b>	<b>88,065</b>	<b>192,878</b>	<b>466,512</b>	<b>1,339,799</b>

The detail of the maturities and redemption values of the zero-coupon bonds and debentures as of December 31,1999,is as follows:

Zero-coupon Debentures and Bonds (Issue value + Accrued Interest as of 12/31/99)	Maturity Date	Redemption Rate (%)	Recorded Value	Redemption Value
<b>DEBENTURES</b>				
February 1990 Series D	02-26-00	336,154	21,050	21,447
February 1990 Series E	02-26-05	613,338	6,852	12,776
February 1990 Series F	02-26-10	1,069,479	750	2,503
December 1990	12-28-05	675,000	62,976	135,000
April 1991 Series B	04-16-01	360,000	61,021	72,000
D September 2001	09-18-01	265,543	75,858	89,687
July 1999 zero-coupon	07-21-29	637,638	5,132	31,828
<b>Total Issues</b>			<b>233,639</b>	<b>365,241</b>

## EXHIBIT VI

The detail, by type of derivative, of the notional values of the derivatives arranged by the Group as of December 31,1999,is as follows:

Millons					
Type of Risk	Equivalent Value in Pesetas	Value	Group Pays Currency	Group Receives Value	Currency
<b>Pta. Interest rate swaps:</b>	<b>551,123</b>				
From fixed to floating	152,408	152,408			
From floating to fixed	341,749	341,749			
From floating to floating	56,966	56,966			
<b>Cross-currency swaps</b>	<b>663,456</b>				
From fixed to floating	48,331	300	US\$	300	US\$
From floating to fixed	495,191	2,985	US\$	2,985	US\$
From floating to floating	12,449	15,000	PTE	15,000	PTE
	107,485	650	US\$	650	US\$
<b>Interest rate options</b>	<b>355,570</b>				
5-year collar + 5-year Pta. swaption	20,250	20,250	PTA		
Collar	77,279	450	US\$		
Seagull t.i.	206,701	1,250	US\$		
Swaption	41,340	250	US\$		
Pta structured product	10,000	10,000	PTA		
<b>Currency swaps</b>	<b>1,773,241</b>				
<b>- from fixed to floating</b>	<b>100,832</b>				
- TL/PTA	8,926	8,926	PTA	120,000	ITL
- ECU/PTA	10,576	10,576	PTA	65	ECU
- BRL/US\$	81,330	795	BRL	474	US\$
<b>- from floating to floating</b>	<b>1,316,843</b>				
- ECU/PTA	64,056	69,956	PTA	385	EUR
- ECU/FRF	12,146	479	FRF	73	EUR
- US\$/PTA	71,331	71,331	PTA	487	US\$
- PTA/US\$	810,805	4,903	US\$	810,805	PTA
- BRL/US\$	20,514	251	BRL	124	US\$
- BRL/US\$ ( NDF )	8,929	111	BRL	54	US\$
- CLP/US\$	4,134	12,418	CLP	25	US\$
- CLP/US\$ ( NDF )	28,938	94,366	CLP	175	US\$
- ARS/US\$ ( NDF )	211,844	1,345	ARS	1,281	US\$
- VEB/US\$ ( NDF )	8,764	35,668	VEB	53	US\$
- PEN/US\$ ( NDF )	45,061	983	PEN	273	US\$
- GBP/EUR	30,321	120	GBP	182	EUR
<b>- from fixed to fixed</b>	<b>355,566</b>				
- US\$/US\$ (locked-in exchange rate)	92,678	648	US\$	648	US\$
- US\$/ESP	214,837	1,299	US\$	214,837	ESP
- EUR/MAD	11,549	739	MAD	69	EUR
- JPY/US\$	14,523	85	US\$	8,816	JPY
- EUR/US\$	1,765	10	US\$EUR	10	EUR
- GBP/EUR	20,214	80	GBP	121	EUR
<b>Exchange rate options</b>	<b>63,498</b>				
Options ARS/US\$	6,201	25	US\$	38	ARS
Options ABS/US\$	4,134	38	ARS	25	US\$
Options BRL/US\$	20,498	86	US\$	223	BRL
Options BRL/US\$	14,221	206	BRL	86	US\$
Options CLD/US\$	10,176	50	US\$	32,505	CLP
Options CLD/US\$	8,268	27,088	CLP	50	US\$
<b>Exchange rate hedges</b>	<b>303,011</b>				
Purchase US\$/Sale .PTA	16,690	42,980	PTA	305	US\$
US\$	281,897	1,641	US\$		
GBP	937	3	GBP		
JPY	1,513	890	JPY		
Euro	385	2	EUR		
Sale BRL/Purchase US\$	1,589				
<b>Total</b>	<b>3,709,899</b>				



The detail, by type of derivative, of the notional values of the derivatives arranged by the Group as of December 31,1998,is as follows:

Millions Type of Risk	Equivalent Value in Pesetas	Group Pays		Group Receives	
		Value	Currency	Value	Currency
<b>Interest Rate Risk:</b>	<b>771,364</b>				
Pta.interest rate swaps	435,246				
Cross-currency swaps	203,419	1,425	US\$	1,425	US\$
	12,449	15,000	PTE	15,000	PTE
Interest rate options	120,250				
<b>Currency risk:</b>	<b>1,080,848</b>				
Currency swaps	8,926			120,000	ITL
	23,074			17,000	JPY
	65,235			394	ECU
	13,769	543	FRF	83	ECU
	133,119			919	US\$
	624,471	4,406	US\$		
Exchange rate options	90,579	654	US\$		
	61,899	49,355	JPY	349	US\$
Forward	43,232			305	US\$
	60	0,4	US\$		
	3	0,1	FRF		
	64			0,3	GBP
	6,424	48	ARS	45	US\$
	8,565	29,920	CLP	60	US\$
	1,428	30	PEN	10	US\$
<b>Balance sheet risk</b>	<b>6,566</b>				
Hedging of Telefónica shares	4,916	726,750	Shares		
	1,650			306,000	Shares
<b>Total</b>	<b>1,858,778</b>				

The detail, by maturity, of the hedging transactions arranged as of December 31,1999,is as follows:

Millions of Pesetas Underlying Instrument Hedged	Amount	Up to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years
<b>With underlying instrument</b>					
<b>Promissory notes</b>	-	-	-	-	-
<b>Loans</b>	<b>2,477,111</b>	<b>1,391,063</b>	<b>159,277</b>	<b>201,750</b>	<b>725,021</b>
In national currency	232,583	69,826	-	10,000	152,757
In foreign currencies	2,244,528	1,321,237	159,277	191,750	572,264
<b>MTN,debentures and bonds</b>	<b>510,708</b>	<b>26,628</b>	<b>92,679</b>	<b>146,577</b>	<b>244,824</b>
In national currency	318,540	23,800	-	49,916	244,824
In foreign currencies	192,168	2,828	92,679	96,661	-
<b>Liability</b>	<b>722,080</b>	<b>354,226</b>	<b>210,148</b>	<b>127,456</b>	<b>30,250</b>
Exchange rate options	63,498	63,498	-	-	-
Interest rate options	355,571	34,346	166,954	124,021	30,250
Forward	303,011	256,382	43,194	3,435	-
<b>Total</b>	<b>3,709,899</b>	<b>1,771,917</b>	<b>462,104</b>	<b>475,783</b>	<b>1,000,095</b>

The detail, by maturity, of the hedging transactions arranged as of December 31, 1998, is as follows:

Millions of Pesetas					
Underlying Instrument Hedged	Amount	Up to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years
<b>Promissory notes</b>	<b>279</b>	<b>279</b>	-	-	-
<b>Loans</b>	<b>1,293,643</b>	<b>640,438</b>	<b>203,347</b>	<b>86,808</b>	<b>363,050</b>
In national currency	356,617	90,000	71,610	20,000	175,007
In foreign currencies	937,026	550,438	131,737	66,808	188,043
<b>MTN, debentures and bonds</b>	<b>316,038</b>	-	<b>90,388</b>	<b>85,650</b>	<b>140,000</b>
In national currency	168,600	-	28,600	-	140,000
In foreign currencies	147,438	-	61,788	85,650	-
<b>Without underlying instrument (liability)</b>	<b>242,252</b>	<b>121,673</b>	<b>90,579</b>	-	<b>30,000</b>
Interest rate swaps	30,000	-	-	-	30,000
Exchange rate options	152,478	61,899	90,579	-	-
Forward	59,774	59,774	-	-	-
<b>Without underlying instrument (asset)</b>	<b>6,566</b>	<b>6,566</b>	-	-	-
Deposit	6,566	6,566	-	-	-
<b>Total</b>	<b>1,858,778</b>	<b>768,956</b>	<b>384,314</b>	<b>172,458</b>	<b>533,050</b>

## TELEFÓNICA GROUP MANAGEMENT REPORT 1999

During 1999, further progress was made in introducing competition into the Spanish telecommunications industry, and a considerable number of operators granted licenses by the regulator moved aggressively into the market. The regulatory environment to which Telefónica, as incumbent operator, is subject continues to be characterized by a lack of neutrality, particularly with regard to rates and the persistent structural imbalances in them which hamper Telefónica's ability to compete.

In this situation, the Group continued to evidence its ability to respond to competition by constantly improving its offering to customers in terms of price and of useful and innovative services, which enabled it, in the Spanish wireline telephony business, to offset the decline in revenues due to loss of market share in the long-distance segment with considerable growth in Internet traffic and the growing demand for ISDN services.

Development and diversification of the business continued in 1999, when wireless telephony registered particularly strong growth. Telefónica Servicios Móviles consolidated itself as one of the market leaders by attaining over nine million customers by year-end, increasing revenues by 32.9% and contributing Ptas. 93,639 million to consolidated income.

Operations in Latin America, carried out through TISA, contributed Ptas. 67,000 million to consolidated net income. Major management efforts were made in this area, despite the adverse economic situation in the region; Brazil saw an unprecedented level of capital expenditure which increased the number of lines in service by 29% to a total of 8.3 million. The Group continued to expand in Latin America; it was awarded a PCS license for northern Argentina and expanded its existing two licenses in that country, it reached an agreement with Tyco to lay the SAM 1 submarine cable, and a number of transactions in Brazil enabled the Group to increase its holdings in the operators in that country while substantially reducing their average acquisition cost.

Telefónica Intercontinental continued its strategy of growth and penetration in the European and Mediterranean markets by acquiring 100% of Austrian operator European Telecom, obtaining a wireless telephony license in Morocco and creating, in partnership with ACEA, a company to provide advanced telecommunications services to companies in Italy.

In the line of growth and diversification followed in 1999, the Group made a major strategic decision to continue generating shareholder value by playing a decisive role as one of the leading players in the development of the new economy. This was manifested in its decision to float a portion of TPI and to increase the capital of TERRA through a public offering. With these decisions, Telefónica took the lead over its competitors and blazed a trail which would be followed later by other

operators. However, the principal decision was to lead the process of change arising from the development of the Internet, and act as the main agent of this change in the Spanish- and Portuguese-speaking world.

In the data business, during 1999 Telefónica Data consolidated its leading position in Spain, where its marketshare is over 90% of customer connections. Telefónica's competitive advantage is underpinned by its extensive, closely-knit network, its innovative capacity and its customers' loyalty, particularly that of Spain's big banks and industrial corporations. It also laid the groundwork for the creation and operational launch of its data services as a separate line of business worldwide within the Telefónica Group's new organizational structure.

After year-end, in order to strengthen its presence in Latin American markets with major growth potential, Telefónica launched tender offers of Telefónica, S.A. stock for 100% of the shares of the Latin American companies TASA, Telefónica de Perú, Telesp and Tele Sudeste Celular Participações, at a 40% premium. This acquisition will help to develop the organization in its orientation towards the Data, Wireless and Wireline telephony lines of business in Latin America and Spain, in line with the corporate reorganization which commenced last year.

The market responded positively to this value-creation strategy and Telefónica's share price appreciated by 104.11% in 1999.

### WIRELINE TELEPHONY IN SPAIN

The opening of the market to competition that had commenced in June 1997 with the concession of a wireline telephony license to Retevisión continued with the award of the third license to the Lince consortium, which began operations in December 1998. From that date, wireline telephony services have been open to all possible competitors, as provided in the General Telecommunications Law and its implementing regulations, subject to obtainment of the appropriate clearance.

By December 29, 1999, 60 individual licenses and 34 administrative concessions had been granted, 27 of which were of type B (via installation of public networks) and, therefore, with entitlement to connect to Telefónica's networks under the conditions of the Reference Interconnection Offer (*OIR*). The relative ease of complying with the conditions required of new operators and the low interconnection prices led in 1999 to competition focused on indirect access to Telefónica's network.

The Regulator's chosen scheme for developing competition proved in 1999 to be incapable of fostering investment in wireline telephony in Spain. The wide margin between the prices charged by competitors and the low interconnection fees imposed on Telefónica in the *OIR* meant that competitors were in a position to implement a very aggressive commercial strategy but had no encouragement to take on the investment risk that would be required for proper development of the

market. At the same time, Telefónica's incentive to invest has been considerably reduced by an exacerbation of the rate imbalance due to pressure to cut long-distance rates but not raise the monthly fee and local call charges by the necessary amount.

The application of the interconnection prices imposed by the *OIR*, against which Telefónica appealed last year, is particularly detrimental to the company as they are considerably below the actual costs, as evidenced in the specific cost accounting audit filed with the Regulator in 1999 and in the numerous audited cost accounting statements of the various services which are submitted regularly in compliance with the November 1995 Cost Accounting Resolution. This situation was aggravated by the application in 1999 of the same interconnection fees to the wireless operators, further heightening the adverse impact on Telefónica de España's results.

In the area of prices, Telefónica is impacted particularly adversely by the distorting effect introduced by the inexplicably long administrative procedure for price approval and the erroneous proportional weightings of the various telephone services in the current Retail Price Index which led the government, in its fight against inflation, to issue Royal Decree-Law 16/1999 in which it exacerbated the rate imbalance by reducing long-distance and local call rates by 8.5% while offering an increase in the line fee which is clearly insufficient to eliminate the access shortfall.

The access shortfall is the factor which is most distorting competition in telecommunications. Until it is resolved, which means allowing the market to appropriately reward the investments made and the risks taken, there will be no incentive to new competitors and a market will arise that will be too narrow to develop the information society which the new economy demands.

The persistence of the rate imbalance led Telefónica to file an appeal with the Ministry for Development, in the fourth quarter of 1999, alleging breach of the Concession Contract due to failure to maintain the economic and financial equilibrium guaranteed therein, as the Ministry had opened the market to competition without rebalancing the rates.

In 1998, in order to further adapt its production structure to the obligation to digitize the network imposed by the Concession Contract and to prepare itself for competition under the Regulator's pricing scheme, the Company recorded a provision for restructuring its labor force which was charged to reserves, as explained below. Through July 1999, a total of 6,901 persons had taken early retirement charged to this reserve. On July 14, an agreement was reached with the labor union representatives and the economic authorities and a labor force reduction plan was arranged under which 5,378 employees left the Company in 1999, the cost of which was also charged to that reserve.

The regulatory changes occurring in traditionally regulated industries to adapt them to free competition make it necessary to use unrestricted reserves, generally accumulated out of retained earnings in periods when

the industry was regulated, to adapt the financial situation of companies in these industries to the new liberalized environment without distorting their current and future earnings.

The accounting regulations establish that the financial statements must provide a true and fair view of a company's position. The objective for the income statement is that it should reflect the period's revenues and expenses and, consequently, in normal conditions all expenses and revenues should be included in the income statement. Nevertheless, in extraordinary circumstances (such as substantial changes or a transition from monopoly to a situation of competition), reflecting in the income statement the expenses and revenues arising from such circumstances would be a breach of that statement's basic purpose, namely to provide a true and fair view of the year's revenues and expenses.

Accordingly, both because this factor relates only to regulated industries and because of its temporary nature (the write-down must be recorded in the year of the legislative change deregulating the industry or, if the process lasts several years, over that period), the true and fair view principle requires that the values of the assets and liabilities in these companies' financial statements be adjusted to reflect the introduction of a competitive environment, with a charge to unrestricted reserves.

This is the practice applied by the Regulator in cases where it had an obligation to implement specific regulations: banking (under the supervision of the Bank of Spain), the electricity industry (by development of a specific chart of accounts) and the companies owned by the government holding company SEPI.

## WIRELESS TELEPHONY IN SPAIN

There are still only two competitors in wireless telephony: Airtel and Amena (*Retevisión móvil*); the latter commenced operations in January 1999 and has steadily established itself in the market.

The market has grown considerably with respect to last year and penetration now stands at 37.6% (17% in 1998), with an estimated 15.05 million wireless telephone users. Telefónica Móviles attained 53.5% of the year's growth in user numbers; this figure was lower than in the previous year due basically to the entry of a third competitor.

Telefónica Móviles registered a net gain of over 4,150,000 new customers to a total of over 9 million users; this represents 60.3% of total user numbers and 64.7% of total traffic.

Because of Telefónica Móviles' vision of the future convergence of wireless telephony and Internet services, it has developed and launched the first wireless-Internet convergence services. For this purpose, it created Oleada, Spain's first Internet portal designed specifically for access via wireless telephones, which provides information of all types in

the first phase of operation (news, economy, stock market, lotteries, traffic, etc.). In line with the dynamism and drive of this new medium, in 1999 Telefónica created a new Wireless-Internet Department whose mission is to launch and market this activity.

Subsequent to year-end, Telefónica submitted a bid for one of the four UMTS licenses which Spain's Ministry for Development will grant in the first quarter of 2000.

## INTERNATIONAL EXPANSION

### 1. Telefónica Internacional

During the year, Telefónica Internacional consolidated its leading position in the global telecommunications market in Latin America, both intensifying its management of its investee operators so as to strengthen their position in their respective countries and expanding its area of action by accessing new markets.

Highlights of Telefónica Internacional's geographic expansion were the adjudication in June 1999 of PCS licenses in Argentina that will enable Telefónica to operate in the wireless telephony business throughout that country, commencement of operations by Telefónica in Guatemala in July, and the launch of wireless services by TLD – Clearcomm (Puerto Rico) under the Movistar brand in September.

In May, Telefónica Internacional announced an agreement with Tyco to build and develop a submarine fiber optic cable fitted with the most advanced voice and data transmission technology. The system, SAM 1, will link South and Central America and the United States and will be combined with Telefónica's ground network to provide full connection to the main cities of Latin America. The first phase will come into service in December 2000 and the system is scheduled to be fully operational in July 2001.

In September, Telefónica Internacional signed a cooperation agreement with IDT, a US long-distance operator, under which the latter joined the SAM 1 cable venture and joint projects will be implemented such as market products oriented towards the Hispanic community in the US.

In order to intensify value creation, Telefónica Internacional actively managed its Latin American investments in 1999. In particular, action in Brazil included the early repayment in January 1999 of the debt to BNDES arising from the acquisition of the companies spun off from Telebrás and, as a result, the payment was approximately Ptas. 211,985 million less than the price offered at the time of acquisition. Also particularly significant was the success attained in July 1999 in the tender offers for the cellular operators in Rio de Janeiro (Telerj Celular), Espírito Santo (Telest Celular), Bahía (TeleBahia Celular) and Sergipe (Telergipe Celular) – the latter two offers made jointly with Iberdrola –, the capital increase at Celular CRT in August 1999, and the

process of restructuring and merger of Telesp Participações, Telesp, S.A., CTBC and the holding company SPT, which concluded in November and will generate additional cash flow for the resulting company, due to the applicable tax credit, amounting to approximately 1,349 million Brazilian *reais* (Ptas. 109,171 million) in the next five years.

The aforementioned transactions as a whole entailed considerable optimization of Telefónica Internacional's portfolio of investments in Brazil, significantly increased its holdings and reduced the average cost of acquisition of these investments by over 50%. Consequently, high rates of return are assured in the coming years.

### 2. Telefónica Intercontinental

Telefónica Intercontinental invested outside the Spanish- and Portuguese-speaking markets in 1999, and its principal transactions were as follows:

- Acquisition of 100% of Austrian company European Telecom Internacional GmbH, which is Austria's third-largest operator and has a nationwide license to provide the full range of telecommunications services. This transaction provided Telefónica with a unique platform for penetrating the Austrian telecommunications market, which is projected to attain 7% annual growth in wireline voice traffic and 40% in data traffic in the coming years.
- Obtainment of Morocco's second wireless telephony license in cooperation with Portugal Telecom and local partners. This license gives Telefónica access to Morocco, a country with 30 million inhabitants and sizeable growth prospects, since wireless penetration is currently 0.5% and the service is being provided by the incumbent operator with no competition. It is intended to penetrate all segments of the Moroccan telecommunications market.
- Creation, with ACEA (Rome's municipal services company), of an operator company to provide advanced telecommunications services to companies and individuals in Rome and the Lazio region. Additionally, in January 2000 a license was obtained to operate throughout Italy. Entrance into the Italian market strengthens Telefónica's strategy of establishing itself in the Mediterranean area and the main European countries.

### 3. Data business

During 1999, the operational basis of the Multinational Group of Companies was created by establishing subsidiaries outside Spain, such as Telefónica Data Colombia, which will be created from the merger of the investees Rey Moreno, S.A. and Telegan, S.A. and will provide global telecommunications services both in Colombia and internationally to

corporate customers with a presence in or commercial relations with Colombia.

The legal groundwork was also laid and progress was made, to varying degrees, in the launch of subsidiaries in countries where the Telefónica Group is already present and in others where it is not. Companies were created in Mexico, Brazil, Uruguay, Canada, Venezuela and the US.

Telefónica Data also collaborated in managing the corporate business of the Latin American operators in which the Group has an ownership interest, in Sao Paulo, Chile, Argentina, Peru and Central America, and it assisted Telefónica Intercontinental in preparing the launch of its data operations in Austria.

Also as part of the international expansion of this new line of business, the foundations were laid for the infrastructure of a new Global Multiservice Network to cover all the countries in which the Telefónica Group's data business has interests, based initially on the infrastructure and management of the Pan-American Network and assisting with the engineering and operational functions in all the countries involved so as to achieve coordinated creation and development of their national data networks and to interconnect them via Telefónica Data's Multiservice Global Network.

#### 4. New markets: Internet and call centers

Telefónica engaged in inconsiderable geographic expansion in two strategic markets: Internet and call centers.

##### — INTERNET: TERRA

The Terra group is configured as a global business within the business management model established by Telefónica.

During 1999, it expanded geographically and, through the creation and acquisition of companies in a number of countries, it has become the leading provider of Internet access (ISP) for the home and SOHO market and of content in the Spanish- and Portuguese-speaking countries.

Terra provides Internet access services in Spain, Brazil, Chile, Guatemala, Mexico, Peru and the US, and it is preparing to launch this service in El Salvador.

Terra also operates Internet portals in such countries as Argentina, Colombia, Uruguay and Venezuela, and it had attained 3,285 million page serves by year-end. It is working on extending this service to Costa Rica, Nicaragua, Honduras and Panama.

Additionally, strategic agreements were signed to develop various Internet services provided by the group, including e-commerce, Internet banking, online auctions and content.

##### — CALL CENTERS: ATENTO

In the call center business, the Atento Group was created in 1999 from the call center companies in the Spanish- and Portuguese-speaking countries, including Spain, Guatemala, Brazil, Peru, Chile, Argentina, Puerto Rico and El Salvador and also the US.

The Atento Group was built up during the year by creating and acquiring companies in this business in the aforementioned countries.

The Group plans to expand the call center activity to countries where it already operates in other lines of business.

#### EARNINGS

For a proper interpretation of the results, it should be noted that, in accordance with accounting principles applicable in Spain, Telesp Participações, S.A. and Tele Sudeste Celular Participações, S.A. (both Brazilian companies acquired in August 1998), were consolidated by the global integration method in 1999. Therefore, the comments which follow refer to two different consolidation methods for these companies in the last two years; consequently, to clarify the development of certain line-items of the income statement, the information has been unified in 1998 terms, i.e. carrying the two Brazilian operators by the equity method.

The Telefónica Group's consolidated net income amounted to Ptas. 300,293 million in 1999, up 38.0% on 1998 and evidencing a significant acceleration over the 14.5% growth attained in the previous year.

A star performer was the Telefónica Móviles Group, which contributed more than Ptas. 93,000 million to Group income, although the greatest improvement was registered at Telefónica Internacional, which contributed over Ptas. 67,000 million to net income.

Telefónica, S.A. generated Ptas. 94,041 million from capital gains (31.3% of consolidated net income), followed by the Telefónica Móviles Group (31.2%) and the Telefónica Internacional Group (21.1%). Certain groups such as Telefónica de España and Media made a negative contribution; Telefónica Publicidad e Información, a significant percentage of which was floated in 1999, accounted for 5.5% of consolidated net income.

In addition to the positive performance of the Telefónica Móviles Group and Telefónica Internacional, the factors that had the greatest bearing on the Group's consolidated income statement were as follows:

— Operating revenues at the Telefónica de España Group increased slightly (2.42%) over the previous year despite progress towards full competition and the resulting reduction in rates and margins.

- Personnel expenses remained stable, due basically to downsizing at Telefónica de España (not counting the addition of Telesp and Tele Sudeste).
- Favorable hedges arranged on the acquisition of the Brazilian companies and moves to take advantage of the low interest rate situation, particularly in Europe, led to a notable improvement in the consolidated financial result on a comparable basis with 1998; including the aforementioned two Brazilian operators that are consolidated by the global integration method in 1999, there was only a slight increase.
- There were sizable capital gains on the sale of subsidiaries such as Temasa and, more particularly, on the public offerings of Telefónica Publicidad e Información and Terra.
- There was a considerable reduction in extraordinary expenses as a direct result of the recognition in 1998 of the entire 1999-2000 downsizing plan for Telefónica de España.
- Major efforts were made in 1999 to modernize the network and adapt to a situation of competition in wireline telephony, and approximately Ptas. 220,000 million of assets were written off.

## OPERATING REVENUES

Operating revenues amounted to Ptas. 3,998,031 million, a 30.7% increase over the previous year, of which 16.9% (approximately Ptas. 675,000 million) related to Brazilian operators Telesp and Tele Sudeste.

Revenues from sales and services, which represented over 95% of the total and amounted to Ptas. 3,819,724 million, increased by 31.4%, while capitalized in-house work on wireline assets increased by 11.8% and other operating revenues (which were scantily material) increased by 71%.

Operating revenues at Telefónica de España decreased by 2.8%, compared with a 2.9% increase in 1998; however, if its dependent companies are included, the variation is an increase of 2.42%, and on this basis its operating revenues represent 37% of consolidated operating revenues before adjustments and eliminations.

The rate cuts in July and November, which particularly impacted local calls, and the application of the Reference Interconnection Offer to wireless-wireline traffic were offset by an increase in traffic (15.9% overall, 11.9% in average line usage per day) and by a 3.6% increase in average billable plant.

Wireline-wireless and Internet traffic performed particularly well, rising year-on-year by 33.8% and 81.7%, respectively, and providing growth in usage which offset the reductions in provincial (-4.4%) and interprovincial traffic (-9%).

The Telefónica Móviles group's operating revenues totaled Ptas. 623,292 million, 32.9% more than in 1998 and further accelerating its already rapid pace of growth (approximately 27% in 1998). This figure represented 14.4% of total consolidated operating revenues before adjustments and eliminations. This performance was attained due to an 85% increase in customer numbers (up from the sizable 53.5% attained in 1998), which offset the 7% decline in minutes of usage per customer (which is logical considering the ever-increasing extension of wireless services) and the reduction in rates due to the entry of competitors in this segment.

Despite rising competition, Telefónica Móviles remains the undisputed leader in terms of its share of both customer numbers (over 60%) and traffic (almost 65%), and in 1999 it accounted for more than half of the net market growth.

Operating revenues at Telefónica Internacional amounted to Ptas. 1,615,407 million, an 80.9% increase over the previous year, and accounted for 37.2% of operating revenues before adjustments and eliminations.

Of the total increase in operating revenues in 1999, 40.6% (over Ptas. 655,000 million) came from the addition of Brazilian operators Telesp and Tele Sudeste. In comparable terms (i.e. carrying those two companies by the equity method in both years), the increase was 7.5%.

Regarding progress in the various lines of business, in basic telephony, Telesp increased its lines in service by 29% to 8.3 million at year-end, with 87% digitalization; Telefónica Argentina increased its plant in service by 3.5% to 4,041,296 at 1999 year-end, and attained a penetration of 24 lines per 100 inhabitants in southern Argentina, where it operates; Chile and Peru also registered positive performance, reaching 2.6 million lines in service in Chile (17.2 lines per 100 inhabitants) and Peru ended the year with over 1.6 million lines in service, practically all of them digital (93.5%). Also, Telefónica El Salvador consolidated its position as a global telecommunications operator, offering wireline telephony, public telephony and data transmission and attaining a 40% marketshare in international long-distance.

In the wireless business, the cellular companies managed by Telefónica established their leadership in Brazil despite the fact that competitors went operational. Tele Sudeste ended the year with a 67% share in its service area, CRT Celular 84% and Tele Leste 67%.

In Argentina, Telefónica Argentina's subsidiary TCP obtained an additional PCS license and an expansion of the existing licenses, enabling it to operate throughout Argentina. Subsequently, Miniphone, the cellular company that operated in Buenos Aires and was owned 50% by Telefónica Argentina and Telecom, was split, and Telefónica Argentina's portion was merged with TCP, which ended the year with close to 1,050,000 customers, a 97% increase over the previous year.

In Chile, Startel doubled its number of customers with respect to the previous year, reaching over 1,150,000 users; in March 1999, Telefónica del Perú created the subsidiary Telefónica Móviles, S.A., which attained 700,000 customers by year-end and increased its market share from 66% in 1998 to 70% in 1999.

Telefónica El Salvador now has 125,000 customers and a 35% market share and, after just three months of operations, Telefónica Guatemala had attained 50,000 cellular customers.

In the multimedia business, Cablevisión had 1.45 million customers by year-end and Chilean company Metrópolis-Intercom reached 270,000 customers and a 45% penetration by number of homes. Telefónica Multimedia, a subsidiary of Telefónica del Perú, had 327,344 customers at 1999 year-end, a 7.3% increase over the previous year.

The Telefónica Data group's operating revenues performed particularly well and the company maintained its solid lead in the data business in Spain, basically for large accounts, the main users of data transmission services.

The company has a marketshare of over 90% in connection circuits and over 65% in Internet. Telefónica Data is focusing on the development of ADSL solutions. As a result, operating revenues increased by 25.2% to Ptas. 95,626 million.

Telefónica Publicidad e Información obtained over Ptas. 55,000 million in revenues in 1999, a 29.1% increase over 1998, due to higher Yellow Pages sales, the publication of nine White Pages directories more than in 1998, and the better performance of the Internet and Speaking Pages products.

The guides and directories business in Latin America performed satisfactorily: Publiguías had over 58,000 customers in Chile and remained the clear leader in the industry while offering Interactive White Pages and Yellow Pages via the Internet. Telniver, an Argentinean subsidiary of TASA which publishes directories under the Páginas Doradas ("Golden Pages") name, attained around 70,000 customers in the year, Telefónica del Perú reached over 44,000 customers.

The Terra Networks Group had 1.3 million Internet access customers by 1999 year-end, 50% of them in Spain and 26% in Brazil. Accumulated operating revenues amounted to almost Ptas. 7,200 million, compared with slightly over Ptas. 900 million in 1998; the bulk of revenues related to access subscriptions and portal advertising, and the remainder to corporate and other services.

## OPERATING EXPENSES

The main component of operating expenses, namely operating costs, which include personnel expenses, taxes other than income tax,

purchases, outside services and reduction in inventories, totaled Ptas. 2,070,364 million, a 49.1% increase over the previous year. Telesp and Tele Sudeste accounted for 18% of total operating costs, basically due to purchases.

Operating costs were affected by higher interconnection fees resulting from increased wireline-wireless traffic and customer loyalty-building costs, but were moderated by good performance of personnel expenses at Telefónica de España.

Personnel expenses at Telefónica de España fell by 10.3% to slightly over Ptas. 400,000 million as a direct consequence of shedding 11,508 employees with respect to 1998, which enabled productivity to rise to approximately 412 lines per employee, one of the highest levels in Europe.

At the end of 1999, the Telefónica Group had a total of 127,193 employees, up from 101,809 at December 31, 1998, the largest components being the Telefónica de España and Telefónica Internacional groups, with 46,619 and 44,638 employees, respectively.

Operating costs increased by 8.1% overall at the Telefónica de España Group and by 46.9% at the Telefónica Móviles Group due to major acquisition costs arising from increased capitalization of new customers.

The Telefónica Internacional group's operating costs were also negatively impacted by factors other than the addition of Telesp and Tele Sudeste, including most notably the higher expenses arising from implementation of new policies for controlling bad debts, particularly in Chile, and the effects of aggressive commercial policies in the cellular business to respond appropriately to competition.

## EBITDA AND OPERATING MARGIN

The slow-down in operating revenues due to the increasing competition faced by the Company in all regions and businesses and the difficulty of reducing operating costs due to the higher costs of customer loyalty-building in all areas of business had an adverse impact on EBITDA which, nevertheless, increased by 17.6% in 1999 (22% in 1998).

The combination of growth in the wireless and data businesses, which are expanding rapidly, offset the shrinkage of margins in the traditional wireline telephony business and made it possible to cover the necessary launch costs of new businesses with high growth potential.

The operating margin, net of depreciation and amortization, was Ptas. 794,764 million at consolidated group level, a decline of 2.5% from the 1998 figure.

This operating margin was the result of depreciation and amortization growing much faster than revenues, basically at the Telefónica de España group, due to the reduction in the depreciation period for assets which had become technologically obsolete.



The Telefónica Internacional group saw a similar trend, but performance at Telefónica Móviles was quite different, since revenues increased more than twice as fast as depreciation, enabling it to increase operating income by 16.5% with respect to 1998.

#### INCOME FROM ORDINARY ACTIVITIES

The equity method affiliates line-item was logically affected by the change in the consolidation method of Brazilian operators Telesp and Tele Sudeste. These companies, which were acquired in 1998 during the privatization of the Telebras consortium, contributed Ptas. 7,351 million under this heading. Consequently, there was a net loss of Ptas. 646 million in comparison with the Ptas. 12,199 million of income reported in 1998.

Amortization of goodwill in consolidation increased by 53.1% from Ptas. 21,135 million to Ptas. 32,334 million due to the acquisitions in 1999.

The financial account continued to improve rapidly in a situation of low interest rates and due to judicious hedging of the acquisition of the Brazilian operators. If the Brazilian operators had been carried by the equity method in both years, net financial expenses would have totaled Ptas. 204,916 million, down 10.8%. Since they were consolidated by the global integration method in 1999, financial expenses amounted to Ptas. 237,831 million, an increase of only 3.6%.

As a result of this performance, income from ordinary activities was Ptas. 586,059 million, a 9.1% decrease from the previous year. This margin grew by 5.3% in 1998. In relative terms, income from ordinary activities accounted for approximately 14.6% of operating income, compared with almost 20% in 1998.

#### INCOME BEFORE TAXES

Net extraordinary expenses performed very well in 1999, amounting to Ptas. 147,321 million, compared with almost Ptas. 175,000 million in 1998, i.e. a 15.8% improvement, due mainly to capital gains on disposal of holdings in subsidiaries and lower labor force restructuring costs because of the accounting treatment in 1998 of the 1999-2000 downsizing at Telefónica de España.

This good performance was combined with major efforts to write down assets, by about Ptas. 220,000 million, at Telefónica de España as required to modernize the network and adapt the access network to new technologies such as ADSL, broadband, etc., which will increase revenue-generating capacity in the future.

In 1999, a number of companies were divested wholly (e.g. Temasa) or partly (e.g. Amper) or a sizable portion of their capital stock was floated by means of a public offering (e.g. Telefónica Publicidad e Información and Terra); these and similar transactions for lesser amounts generated a total of close to Ptas. 260,000 million in capital gains.

Income before taxes amounted to Ptas. 438,738 million in 1999, a 9.1% increase year-on-year (19.1% in 1998).

#### NET INCOME

The provision for corporate income tax amounted to Ptas. 29,345 million, a reduction of 68.1% with respect to 1998. This decline was due to a reduction in the effective tax caused principally by the amount used of provisions for the investments in Brazil, which are deductible for corporate income tax purposes and are eliminated in consolidation, and by the fact that capital gains on the capital increases at investees for which public offerings have been launched do not form part of the taxable base.

The income attributable to minority interests increased by 17.9% to Ptas. 109,100 million, basically due to the income attributed to the minority shareholders of Telesp and Tele Sudeste.

The Telefónica Group's net income totaled Ptas. 300,293 million, a 38.0% increase over 1998; the main contributions were from Telefónica, S.A., mainly due to capital gains (34.3%), the Telefónica Móviles group (31.1%) and Telefónica Internacional (22.3%), considering in all cases the adjustments and eliminations generated by the consolidation process.

#### INVESTMENT ACTIVITY

In 1999, the Telefónica Group invested a total of Ptas. 1,983,805 million, a 6.2% decrease on 1998. Also, account should also be taken of the contribution from Telesp, Tele Sudeste Celular and Celular CRT which were not consolidated by the global integration method in 1998; consequently, the reduction was 22.5% in comparable terms. This variation is due mainly to the significant amount of acquisitions by Telefónica Internacional in Brazil in 1998.

Capital expenditure totaled Ptas. 1,057,334 million, a 66.1% increase due mainly to the contribution from the Latin American operators and Telefónica Móviles, since capital expenditure at Telefónica de España fell by 17.9% due to the need to adapt to the new competitive framework in the Spanish market.

Intangible asset investments totaled Ptas. 138,247 million, a 40.2% increase with respect to 1998. Long-term financial investments reached Ptas. 788,224 million, a 42.9% decrease, due to the impact in 1998 of the acquisitions of the Brazilian operators spun off from Telebras.

The Telefónica Internacional group accounted for 64.2% of capital expenditure, the Telefónica de España group 23.5% and the Telefónica Móviles Group 10.9%.

As regards intangible asset investments, the Telefónica Internacional group contributed 44.8%, Telefónica de España 39.7% and Telefónica Móviles 9.2%.

The breakdown of financial investments was as follows: Telefónica Internacional group 43.2%, Terra Group group 18.7%, Telefónica group 16.6% and Media group 10.9%.

## FUNDING

- As a result of the resolution adopted in 1998 to remunerate shareholders by means other than cash dividends so as to strengthen the Company's ability to fund its value-creation projects, the Company paid three stock dividends out of unrestricted reserves in 1999.
- The principal financial debt transactions in 1999 were as follows:
  - In March 1999, Telefónica issued 500 million in debentures at 4.5% fixed annual interest, maturing in 9 years.
  - In June 1999, Telefónica issued 300 million in debentures at floating rates tied to Euribor and capped at 5.38% annual, maturing in ten years.
  - In July 1999, Telefónica issued 30 million in debentures at an implicit yield determined by the difference between the issue price and the price of redemption in 2029. At the same time, the Company arranged a swap under which this transaction became a structured loan.
  - In July 1999, Telefónica issued 500 million in floating-rate notes on the Luxembourg stock exchange, maturing in 2000.
  - In January 1999, CTC issued US\$ 200 million in bonds in the United States at 8.375%, maturing in seven years.
  - A floating-rate loan of US\$ 280 million was arranged with the European Investment Bank (EIB), maturing in nine years.
  - Telefónica arranged a 1.2 billion syndicated loan maturing at between 5 and 7 years at floating interest rates tied to Euribor.
  - In January 1999, Telefónica del Perú obtained a 3-year loan of US\$ 450 million.
  - In January 1999, the debt and the bond arranged in 1998 with BNDES were both settled. This early settlement entailed payment of Ptas.165,391 million less than the balance per books as of December 31, 1998.

## RESEARCH AND DEVELOPMENT

For the Telefónica Group, its research and development policy is an important instrument with which to achieve a competitive edge and

guide and foster technological innovation. These activities are carried out mainly by Telefónica Investigación y Desarrollo (TIDSA), which works in the following major areas:

- Development of telephony services: value-added services for the general public, companies, wireless telephones and multimedia, and automation of customer service mechanisms.
- Development of interactive services: information services and new infrastructures for the provision of interactive services, mainly in the sphere of the Internet.
- Development of management services, with innovative solutions for the management of networks and services, and development of business support systems.
- Innovation in business services, strengthening technological capacity in the areas of networks, services, software and information technologies. This includes a considerable level of involvement in European projects managed by the EU.

In 1999, 64% of TIDSA's work was performed for Telefónica de España and 36% for other Group companies, particularly Telefónica Móviles and Telefónica Data.

During 1999, research and development work began to contribute to the development of Telefónica's Latin American operators, and work was performed for Telefónica Argentina, Telefónica Perú, CTC in Chile, and Telesp in Brazil.

Research and development expenses amounted to Ptas.15,022 million in 1999, as compared with Ptas.21,928 million in 1998.

## NEW ORGANIZATIONAL STRUCTURE

In 1998, a new organizational structure was approved for the Group for the purpose of continuing to enhance stockholder value. In January 2000, further progress was made in this direction by designing a model based on worldwide lines of business.

This new organization is structured in various lines of business, each entrusted to a subsidiary, and a Corporate Center constituted by the company heading the Group, Telefónica, S.A., which provides cohesion and facilitates synergies.

Additionally, the brand image launched in 1998 in all the countries where Telefónica operates and in the products and services provided was also strengthened.

The wireline telephony business in Spain is carried on by Telefónica de España, S.A., under which are grouped other subsidiaries with the same line of business.

In the cellular business, Telefónica Móviles will head all the Group's wireless communications businesses worldwide; with a presence in Spain, Latin America, Europe and the Maghreb, it will be the world's sixth-largest wireless group, with approximately 14 million customers and extraordinary growth prospects for the coming years. This company will drive the vertiginous development of this business worldwide and the entrance into the rest of Europe by acquiring UMTS licenses.

In the Internet business, and responding to the growth opportunities which it offers, the Group's on-line activities were segregated into an autonomous unit to manage them on a global basis. Thus, the Terra Group was created with the mission of becoming the leading provider of Internet access and interactive content in the Spanish- and Portuguese-speaking world.

All the Group's media and content businesses in all the countries where it operates are being grouped under Telefónica Media. This will enable Telefónica to enhance its operational speed and management flexibility in these businesses so as to take advantage of synergies and adapt to the dynamism and increasing importance and convergence of the multimedia industry with telecommunications. Once the new structure is in place, there are plans to float a certain percentage of Telefónica Media in the short term. Telefónica considers that this operation will increase the visibility of these activities and maximize the return on its investment in this industry, hence enhancing shareholder value.

In the data business, Telefónica DataCorp will combine all the businesses involving data communications and integrated corporate solutions for large corporations in Spain, Latin America and Europe, and it will become the world's second-largest specialized data/IP company in terms of revenues.

Other lines of business identified in the new structure are telephone directories, managed by TPI-Páginas Amarillas, which will also encompass similar activities in the countries where the Group operates, and the call center business, managed by Atento, which is present in Spain, Latin America and the United States.

The wireline telephony operators outside Spain will continue to be managed by Telefónica Internacional.

## OTHERS AND MATTERS

— Initial public offering of Telefónica Publicidad e Información, S.A. (TPI): in June 1999, Telefónica performed an initial public offering of 35% of the capital stock of TPI, the first company in the Telefónica Group to be floated separately. This process was a resounding success because of both the volume of shares applied for and the share's subsequent performance: they climbed 28.81% on the first day. At year-end, the company had tripled its market capitalization and it was included in the Ibex index in January 2000.

— Initial public offering of Terra Networks, S.A. (Terra): in September 1999, Terra (formerly Telefónica Interactiva) announced a public offering of 30% of its shares. The offering was carried out on the Spanish stock exchanges and the Nasdaq electronic market in the US. It is the first Internet company to be floated in Spain and the first Spanish company to be listed on Nasdaq. The offering was a success, and the retail tranche appreciated by 213.3% on the first day of trading (184% in the case of the institutional tranche).

— Telefónica Media has announced that part of its capital will be floated on the Spanish stock exchanges and on markets in other countries during 2000. The Telefónica Media group has become the leading media group in the Spanish- and Portuguese-speaking markets after the rest of the Telefónica Group transferred their media assets to it.

— Agreements in Argentina: in December 1999, an agreement was reached with the shareholders of CEI in connection with certain assets held by that company in Argentina, Cointel, Cablevisión Torneos y Competencias y Atlántida de Comunicaciones (ATCO). The final outcome of the agreement was that TASA's ownership interest increased to 52.88% by acquiring the remaining 50% of Cointel, that it gained control of ATCO and AC Inversora (ACISA), that it acquired the right to the other 50% of the TASA management fees, and that the holding in Cablevisión was disposed of. Also, through an additional agreement with the rest of the existing shareholders of ATCO, Telefónica will obtain 100% of this company via Telefónica Media.

— Note 23 to the financial statements details the salient events since December 31, 1999. The principal ones are as follows:

- Signature of a global strategic agreement with BBVA in the area of Internet, e-commerce, wireless services platforms and payment systems.
- Launch of tender offers for 100% of Telesp, Tele Sudeste Celular, Telefónica Argentina and Telefónica del Perú in exchange for shares of Telefónica, S.A. The necessary capital increases have already been approved by the Shareholders' Meeting.
- Signature of strategic agreements with la Caixa, Quatro A and Ariba.com, among others.

## TREASURY STOCK

At the beginning of 1999, the treasury stock held by the Telefónica Group accounted for 0.074% of the parent company, i.e. 755,650 shares valued at Ptas. 6,310 each, representing a total of Ptas. 4,863 million.

In February 1999, 726,750 shares were disposed of.

In January, May and November 1999, there were bonus issues of shares, and a three-for-one split was performed to reduce the par value to 1 euro.

As a result of these transactions, 137,376 shares were held in treasury stock at year-end, with a book value of Ptas. 2,002 per share, giving a total balance of Ptas. 278 million.

## CODE OF GOOD GOVERNANCE

The purpose of this section is to provide information on the degree to which Telefónica, S.A. is applying the Code of Good Governance ("Olivencia Report").

### A) Introduction

In addition to those established in its Bylaws, Telefónica, S.A.'s rules of governance are set down in Board of Directors Rules, the purpose of which is to establish the principles under which the Board of Directors of Telefónica, S.A. must act, regulate its organization and functioning and set the code of conduct for its members, so as to achieve maximum efficiency and optimize management.

These Rules, in their first draft, were approved by Telefónica, S.A.'s Board of Directors on January 29, 1997, i.e. prior to the publication of the "Olivencia Report."

The experience gained during the 18 months that the Rules of Telefónica's Board of Directors were in force and the publication of the Code of Good Governance led the Board of Directors to appreciate the advisability of making certain changes to the text to incorporate some of the recommendations made in the Code that were not included in the Rules. The new Rules of Telefónica's Board of Directors were approved on July 22, 1998, and duly notified to the Spanish National Securities Market Commission.

### B) Mission and powers of the Board of Directors

The current Rules conceive the Board of Directors basically as a body to supervise and control the Company's operations, delegating management of the Company's ordinary business to the executive bodies and management team.

Without prejudice to the foregoing, and to better enable it to discharge its general supervisory function, the Board of Directors undertakes to exercise directly, in addition to the powers reserved exclusively to it by law or under the Company's bylaws, the following duties:

- a) Approval of the Company's general strategies;
- b) Appointment and, when appropriate, removal, of the top executives of the Company and the other companies making up the consolidated Group;

- c) Appointment and, when appropriate, removal, of directors of the various subsidiaries;
- d) Identification of the Company's main risks and implementation and monitoring of the appropriate internal control and information systems;
- e) Definition of the policy for informing and communicating with the shareholders, markets and public opinion;
- f) Definition of the policy regarding treasury stock within the framework, if any, established by the Stockholders' Meeting;
- g) Authorization of the Company's transactions with its directors and main shareholders that might give rise to conflicts of interest; and
- h) In general, performance of business or financial transactions of particular importance to the Company.

In this connection, and since Telefónica is head of an important and complex Corporate Group, the Board of Directors has reserved exclusively for itself certain powers in relation to the actions of its main subsidiaries. Accordingly, the adoption by any of these companies of resolutions of significance on certain duly identified matters will require the prior approval of the Board of Directors of Telefónica.

Consequently, the Board of Directors will not be hindered in any way in its duty of supervising and controlling the Group's activities as a result of the corporate restructuring carried out in 1998.

As indicated above, the Rules of the Board of Directors state that the Board's actions must at all times aim to maximize the value of the Company and therefore create shareholder value, while adhering strictly to generally accepted ethical principles and values.

### C) Composition and structure of the Board of Directors

The Board of Directors of Telefónica currently comprises 20 directors, whose names, position and year of appointment are as follows:

— 4 executive directors:

- Juan Villalonga Navarro, Chairman (1996)
- José María Mas Millet, Secretary (1999)
- Luis Martín de Bustamante Vega (2000)
- Antonio Viana-Baptista (2000)

— 6 nominee directors:

- José María Concejo Alvarez, Deputy Chairman (Banco Bilbao Vizcaya, 1978).
- Isidro Fainé Casas, Deputy Chairman (La Caixa, 1994)

- Francisco Gómez Roldán, Deputy Chairman (Argentaria, 1995).
- José Javier Echenique Landiribar (Banco Bilbao Vizcaya, 1995).
- José Maldonado Ramos (Argentaria, 1999)
- Antonio Massanell Lavilla (La Caixa, 1995)

— 8 independent directors, of renowned professional and business prestige, independent from the management team and from the main stockholders:

- César Alierta Izuel (1997).
- Gaspar Ariño Ortiz (1997).
- Pedro Ballvé Lantero (1997).
- Maximino Carpio García (1997).
- Alberto Cortina de Alcocer (1997).
- Ignacio Larracochea Jausoro (1997).
- Martín Velasco Gómez (1997).
- Carles Vilarrubí Carrió (1996).

— 2 directors who were appointed as a result of Telefónica's international alliances:

- Miguel Horta e Costa, representing Portugal Telecom (1998).
- Bert C. Roberts, representing MCI-WorldCom (1998).

— The post of Secretary of the Board of Directors – whose mission is essentially to ensure the proper functioning of the Board, safeguard the formal and substantive legality of the Board's actions, ensure that its procedures and rules of governance are observed, duly reflect in the Minutes Books the events of the Board Meetings and attest to the resolutions adopted at them – is currently held by José María Mas Millet (appointed in 1997), who is also the Company Secretary. The Deputy Secretary is Diego L. Lozano Romeral (appointed in 1997).

Consequently, the composition of Telefónica's Board of Directors is in line with the recommendations of the Code of Good Governance, since the external directors (nominee and independent directors) are in an ample majority with respect to the executive directors (16 as compared with 4), and there are more independent directors than nominee directors (8 as compared with 6), because in the Company's current shareholder structure the floating portion of capital significantly exceeds the sum of the stable ownership interests represented by the nominee directors.

#### D) Committees of the Board of Directors.

##### a) Standing Committee.

Both the Company's bylaws and the Rules of its Board of Directors provide for the existence of a Standing Committee with general decision-making powers to which, consequently, all the powers of the Board of Directors, other than those which by law or in accordance with the bylaws may not be delegated, are expressly delegated.

This Standing Committee is currently made up of the following members:

- Juan Villalonga Navarro, Chairman. (1996)
- Isidro Fainé Casas, Deputy Chairman. (1994)
- Francisco Gómez Roldán, Deputy Chairman. (1996)
- Cesar Alierta Izuel. (1999)
- Alberto Cortina de Alcocer. (1999)
- José Javier Echenique Landiribar. (1997)
- José María Mas Millet, Secretary. (1997)

Relations between the Board of Directors and its Standing Committee are based on the principle of transparency, so that the Board of Directors has full and complete knowledge of the resolutions and decisions made by the Standing Committee.

##### b) Other Committees.

The Rules entitle the Board of Directors to appoint one or more committees responsible for the ongoing examination and monitoring of certain areas of particular relevance to the good governance of the Company, or for in-depth analysis of a given matter which is important enough to merit it.

These Committees are not governing bodies, but instruments responsible to the Board of Directors, to which they report the conclusions they reach on the matters the Board has entrusted to them.

The Committees in existence at present are the Audit and Control Committee, the Appointments and Compensation Committee, the Human Resources Committee, the Regulation Committee and the Service Quality and Customer Attention Committee.

The Audit and Control Committee has the primordial function of supporting the Board of Directors in its supervisory and control functions, the most important tasks of which are to ensure that generally accepted accounting principles are correctly applied and to check the adequacy and integrity of the internal control systems used in preparing the individual and consolidated financial statements.

The Audit and Control Committee is currently made up of the following members:

- |                   |                                    |
|-------------------|------------------------------------|
| Chairman:         | Isidro Fainé Casas. (1998)         |
| Ordinary members: | José María Concejo Alvarez. (1998) |
|                   | Maximino Carpio García. (1998)     |

The Appointments and Compensation Committee's functions are to report on proposed appointments of Directors, of members of Board Committees and of senior executives of the Company and its subsidiaries, approve senior executives' standard contracts and

compensation ranges, set Directors' compensation, report on incentive plans and prepare and maintain a register of the status of Directors and senior executives.

The Appointments and Compensation Committee is currently made up of the following members:

— Appointments and Compensation Committee:

Chairman: José Javier Echenique Landiribar. (2000)  
Ordinary members: Cesar Alierta Izuel.(1998)  
Pedro Ballvé Lantero (2000)  
Alberto Cortina de Alcocer. (1998)

The Human Resources Committee and the Regulation Committee, which are responsible for reporting to the Board of Directors and proposing the adoption of appropriate policies on personnel and regulation, respectively, comprise the following Directors.

— Human Resources Committee:

- Pedro Ballvé Lantero. (1998)
- José María Concejo Alvarez (1999)
- Antonio Massanel Lavilla.(1998)

— Regulation Committee:

- Gaspar Ariño Ortíz.(1998)
- José Javier Echenique Landiribar. (1998)
- José Maldonado Ramos (1999)
- Martín Velasco Gómez.(1998)

In 1999,the Service Quality and Customer Attention Committee was created to advise and assist the Board of Directors in matters relating to quality of service and commercial attention to customers;it currently comprises the following members:

— Service Quality and Customer Attention Committee:

- Ignacio Larracochea Jausoro. (1999)
- José Maldonado Ramos.(1999)
- Antonio Massanell Lavilla (1999)
- Martín Velasco Gómez (1999)

The conduct of the Chairman of the Board of Directors –the highest ranking Company executive– should at all times follow the criteria and guidelines laid down by the Board of Directors and the Board Committees, which undoubtedly reduces the risk of the excessive concentration of power in one person,as evidenced by the fact that all resolutions or decisions of importance for the Company must be submitted for prior approval by the Board of Directors or the relevant Committee.

## E) Functioning and actions of the Board of Directors

In 1998 the Board of Directors held twelve ordinary meetings and, on one occasion, it made use of the extraordinary procedure for adopting resolutions in writing without a meeting.

Nine of the aforementioned twelve meetings were held at the Company's registered offices, one at the venue of the Shareholders' Meeting, one in Sintra (Portugal) and one in Miami, Florida (USA).

The Standing Committee of the Board of Directors held seventeen ordinary meetings.

All the meetings of the Board of Directors and its Standing Committee were conducted according to Company bylaws and regulatory norms, and the matters submitted for their consideration and decision were examined with due diligence. The Directors participated fully and naturally in all the debates and discussions, giving their opinions when they saw fit, as reflected in the Minutes of each meeting.

The level of transparency and information afforded to the Board of Directors was very high in 1999 and Board meetings were frequently attended by Group company managers responsible for different areas and lines of business, who informed the Board on matters relevant to their areas of competence.

It is important to note that Telefónica Directors have the broadest powers to gather any information about the Company that they may at any time consider appropriate for the proper performance of their duties. The outside Directors have the power to hire, at the Company's expense, legal advisers, accountants, and financial or other experts to assist them in discharging their duties.

## F) Directors' Compensation

The Rules of the Board of Directors stipulate that the Appointments and Compensation Committee is responsible for setting Directors' compensation and must ensure that the amounts are in keeping with those offered by other companies of similar size and in a similar business.

In 1999, the compensation paid to the Company's Directors –the amount of which, as required by law, is disclosed in the notes to financial statements– was at all times in accordance with the criteria duly established by the Appointments and Compensation Committee.

This Committee's report on 1999 considers the current Directors' compensation policy to be adequate and in keeping with the market, and proposes that it be maintained for 2000, adding that any increase must necessarily be linked to Company earnings and value creation, so that

Directors' compensation is optimally aligned with the interests of stockholders which it is aimed to maximize.

#### G) Directors' duty of loyalty

The Rules of the Board of Directors de Telefónica devote a 12-article heading to this subject, describing in depth the Directors' principal rights and obligations, regulating conflicts of interest, the use of corporate assets, the use of information which has not been made public, and the exploitation by Directors to their own benefit of business opportunities of which they become aware in their capacity as Directors.

According to the Rules, the duty of loyalty to the Company extends also to the major stockholders, and the knowledge and authorization of any transaction performed between the Company and any of them is formally reserved to the Board of Directors, which always acts on the basis of a prior report of the Appointments and Compensation Committee in which the transaction is analyzed and evaluated from the standpoints of equal treatment to stockholders and of the market conditions of the transaction.

No incident or problem of any kind relating to these matters arose in 1999.

#### H) Transparency in relations with stockholders, markets and auditors

The Rules govern in detail the channels through which relations are maintained between the Board of Directors and the Company's stockholders (whether small shareholders or institutional investors), between the Board of Directors and the regulatory and supervisory authorities of the markets in which the Company's stocks are listed, and between the Board of Directors and the Company's auditors.

No incident worthy of special mention took place in any of these areas in 1999, but mention should be made of the high level of transparency and information which has characterized the Company's activity in the stock markets where its shares are listed.

In this connection, some years ago Telefónica set up its "Stockholder Service" to manage the Company's relations with its small stockholders, a 24-hour free telephone hot-line (which in 1999 received 300,000 calls), a quarterly magazine (the most recent issue had a print run of 180,000) and an Internet web site.

Through the Audit and Control Committee, the Board of Directors has established a stable professional relationship with the Company's auditors while also maintaining strict respect for their independence.