



Telefónica, S.A.

REPORT BY THE BOARD OF DIRECTORS OF TELEFÓNICA, S.A. ON THE PROPOSED AGREEMENT FOR A CAPITAL INCREASE TO BE SUBMITTED TO THE GENERAL SHAREHOLDERS' MEETING FOR APPROVAL (ITEM X ON THE AGENDA)

1. PURPOSE OF THE REPORT

This report has been prepared with regard to the proposal for a capital increase via a non-cash contribution. It is being submitted for approval under item X on the agenda of the Annual General Shareholders' Meeting convened for June 14, 2001, first convocation, or, in the event that a sufficient quorum is not attained, the following day on a second convocation, in execution of the agreements signed by TELEFÓNICA, S.A. for acquisition of the shares of the Motorola group companies, which will permit the direct or indirect acquisition of the following corporations in Mexico: 100% of Telefonía Celular del Norte S.A. de C.V.; 100% of Celular de Telefonía S.A. de C.V.; 100% of Baja Celular Mexicana S.A. de C.V.; 90% of Movitel del Noroeste, S.A. de C.V., 90% of Moviservicios, S.A. de C.V. and 90% of Movicelular, S.A. de C.V.

This report is issued in compliance with the requirements established in Articles 144 and 152 of the Corporation Law (regarding agreements on capital increases and consequent amendments to bylaws), 155 (regarding equivalent values for the increase) and 159 of the Corporation Law (with reference to exclusion of the preemptive right).

In order to facilitate an understanding of the transaction that gave rise to the proposed capital increase, the first paragraph offers the shareholders a description and summary of the essential terms of the strategic agreements reached by TELEFONICA, S.A., providing a framework for the acquisition of shares of the Motorola group companies, which will permit the direct or indirect acquisition of the following corporations in Mexico: 100% of Telefonía Celular del Norte S.A. de C.V.; 100% of Celular de Telefonía S.A. de C.V.; 100% of Baja Celular Mexicana S.A. de C.V.; 90% of Movitel del Noroeste, S.A. de C.V., 90% of Moviservicios, S.A. de C.V., and 90% of Movicelular, S.A. de C.V.

Below is a general discussion, albeit in separate sections, of the various reports mandated by regulations contained in the aforementioned Corporation Law.



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I. Brief description of the strategic agreements reached by TELEFONICA

1. Introduction

On October 10, 2000, TELEFÓNICA and Motorola Inc. signed a series of agreements for the purchase of shareholdings in various Cellular Operators within Mexico, Brazil, the Dominican Republic, Israel, and Honduras. As of the date of this report, due to the remaining shareholders have exercised their preemptive rights, the acquisitions to take place will be carried out regarding the cellular operators in Mexico, the object of this resolution, and Honduras

A capital increase, the subject of this report, has been specifically proposed as a means of acquiring the shares of the Motorola group companies, which will permit the direct or indirect acquisition of the following Mexican corporations: 100% of the capital of Telefonía Celular del Norte S.A. de C.V.; 100% of the capital of Celular de Telefonía S.A. de C.V.; 100% of the capital of Baja Celular Mexicana S.A. de C.V.; 90% of the capital stock of Movitel del Noroeste, S.A. de C.V., 90% of Movicelular, S.A. de C.V. and 90% of Moviservicios, S.A. de C.V., which form part of these strategic agreements. The Agreement provides that the acquisition of holdings in the aforementioned Mexican corporations shall be conditioned upon the transfer of full corporate, operative and managerial control of the following corporations: Telefonía Celular del Norte S.A. de C.V., Celular de Telefonía S.A. de C.V., Baja Celular Mexicana S.A. de C.V. and Movitel del Noroeste, S.A. de C.V.

Telefonía Celular del Norte S.A. de C.V., Celular de Telefonía S.A. de C.V., Baja Celular Mexicana S.A. de C.V., Movitel del Noroeste, S.A. de C.V., Movicelular, S.A. de C.V. and Moviservicios, S.A. de C.V. contribute assets that are synergistic with the existing business of the TELEFONICA group, in particular with that of TELEFONICA MOVILES, S.A., and which present clear potential for growth and increased profitability over time.

Acquisition of the shareholdings in the aforementioned Mexican corporations would favor Telefónica's leadership in mobile services in Iberian America, which mandates a presence in Mexico.

Mexico is the second largest telecommunications market in Latin America. The low level of mobile telephone usage and favorable macroeconomic outlook support a high growth potential for mobile telephony in that country. The northern zone of Mexico is quite attractive given its concentration of industrial activity, its high population growth rate and its proximity to the United States. Acquisition of the aforementioned Mexican corporations will enable the TELEFÓNICA group to provide cellular telephony services in northern Mexico, an area with a population in excess of 20 million, thus bringing the managed client base to over 25 million and consolidating a position as one of the principal mobile telephony operators in the world.



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2. Implementation of the strategic agreement with regard to Telefonía Celular del Norte S.A. de C.V., Celular de Telefonía S.A. de C.V., Baja Celular Mexicana S.A. de C.V., Movicelular, S.A. de C.V., Moviservicios, S.A. de C.V. and Movitel del Noroeste, S.A. de C.V. - capital increase through non-cash contribution

The acquisition of 100% of Telefonía Celular del Norte S.A. de C.V., 100% of Celular de Telefonía S.A. de C.V., 100% of Baja Celular Mexicana S.A. de C.V., 90% of Movitel del Noroeste, S.A. de C.V., 90% of Moviservicios, S.A. de C.V., and 90% of Movicelular, S.A. de C.V. will be implemented via a capital increase, the subject of this report, which will be subscribed to and paid for through non-cash contributions consisting of shares of the Motorola group companies, which will permit the direct or indirect acquisition of the aforementioned Mexican corporations.

3. Valuation of the exchange

As explained in detail in paragraphs III.3 and IV of this report, the exchange ratio between shares contributed and new shares to be issued by the Corporation, ultimately, will depend on the quoted prices for shares of TELEFÓNICA, S.A. and the euro/dollar exchange rate.

For this purpose, valuation of the referenced corporations has been fixed at US\$1,857,300,000, without prejudice to any adjustment that may be made as a function of higher or lower debt levels for the Mexican corporations. This valuation was obtained by application of the following methods:

- an analysis of information from similar companies in Latin America;
- an analysis of financial information including projections prepared by TELEFONICA, S.A.

For its part, the shares of TELEFÓNICA, S.A. are valued as the arithmetic mean of the average price quoted for shares of TELEFÓNICA, S.A. on the Stock Market Interconnection System for the last twenty (20) market sessions prior to the date of the General Shareholders' Meeting, and in accordance with the euro/dollar exchange rate on the day prior to that date.

Paragraphs III.3 and IV, in particular, show a calculation of the exact number of shares to be subscribed, as well as any possible adjustments to this valuation.



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II. Information from the Directors for purposes of Articles 144 and 152 of the Corporation Law.

For purposes of Articles 144 and 152 of the Corporation, the Directors declare the following with regard to the proposed capital increase:

1. **Purpose:** As indicated, the intended purpose of the capital increase and thus the reason for it, is the direct or indirect acquisition of the following corporations in Mexico: 100% of Telefonía Celular del Norte S.A. de C.V.; 100% of Celular de Telefonía S.A. de C.V.; 100% of Baja Celular Mexicana S.A. de C.V.; 90% of Movitel del Noroeste, S.A. de C.V., 90% of Moviservicios, S.A. de C.V., and 90% of Movicelular, S.A. de C.V. We have already stated why this is in the interest of TELEFÓNICA'S corporate strategy.
2. **Characteristics of the capital increase:** The capital increase agreement proposed to the General Shareholders' Meeting is for a nominal amount of 174,700,000 euros, by issuing and putting into circulation 174,700,000 common shares with a par value of one (1) euro per share, all of the same class and series as those already in existence, represented by account entries with an issue premium to be determined as required by the provisions of Article 159.1.c) *in fine* of the Corporation Law by the Board of Directors on the date of execution of the resolution, through the procedure indicated below, with an amount that, in any case, will fall between a minimum of 4.5 euros and a maximum of 6.5 euros of issue premium per share. Thus, the price of issue shall be fixed between a minimum of 5.5 euros and a maximum of 7.5 euros.

The effectiveness of the capital increase agreement, and consequently the power of the Board of Directors to execute it under the authority of Article 153.1 a) of the Corporation Law, shall be subject to fulfillment of the conditions established in the agreements signed with Motorola Inc., and exercise of the option by TELEFONICA, S.A. effecting the acquisition through this capital increase. Among the aforementioned conditions, in particular, are those with regard to the following authorizations from the Mexican government: (i) approval by the Federal Antitrust Commission; (ii) prior authorization and/or approval from the Ministry of Communications and Transport as well as the Federal Telecommunications Commission and (iii) authorization, if necessary, from the National Commission on Foreign Investment.

The new shares of the Corporation, the subject of this capital increase, shall be paid in full via the non-cash contributions indicated in paragraph I.2 above.

The exact number of shares of the Corporation that will be subscribed will depend on the factors indicated in paragraphs III.3 below.



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Pursuant to the provisions of Article 161.1 of the Corporation Law, there is an express provision for a possible incomplete subscription of the increase.

The preemptive right of TELEFONICA'S existing shareholders is fully excluded since the corporate interest justifies doing so (see paragraph IV below).

3. **Amendment to the Bylaws:** The capital increase, justified by the aforementioned circumstances, involves a corresponding amendment to Article 5 of the Bylaws. Having noted that the final amount of the increase depends on the value of the shares of TELEFÓNICA, S.A. traded on a continuous market, and the exchange rates that will be applied to the amount fixed in dollars for the shares to be contributed (see III.3 below), it is not possible, at this point, to determine an exact figure for the capital stock after execution .

For this reason, we suggest an estimate of the amount that capital increase could reach, with the express allowance for an incomplete subscription of the increase as set forth in Article 161 of the present Corporation Law. We further propose delegating to the Board of Directors, with substitution powers to its Standing Committee, to the Chairman of the Board of Directors, and to the managing director, or to the secretary of the Board of Directors, the power to adapt Article 5 of the Bylaws to the new amount that will ultimately result for the capital stock.

III. Information from the Directors for purposes of Article 155 of the Corporation Law.

Since this involves a capital increase, the equivalent value of which is a non-cash contribution, the Directors of TELEFONICA must issue a report describing in detail the projected contributions, the persons who will be making these, the number and par value of the shares to be delivered by TELEFONICA and the guarantees to be adapted for each of the different contributions, depending on the types of assets involved. To fulfill this legal requirement, the Directors must state the following:

1. **Description of the planned contributions:** As already indicated, the planned contributions to be incorporated into the equity of TELEFONICA, S.A. consist of shares of the Motorola group companies, which will permit the direct or indirect acquisition of the following corporations in Mexico: 100% of Telefonía Celular del Norte S.A. de C.V.; 100% of Celular de Telefonía S.A. de C.V.; 100% of Baja Celular Mexicana S.A. de C.V.; 90% of Movitel del Noroeste, S.A. de C.V., 90% of Movicelular, S.A. de C.V.; and 90% of Moviservicios, S.A. de C.V.



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2. **Identification of the contributors:** The shares issued in the capital increase shall be subscribed to and paid in by the holders of the shares to be contributed on a prorata basis to their contribution, once the Board of Directors has determined the number of shares to be subscribed, as indicated in paragraph III.3 below.

3. **Number and par value of the shares issued as consideration:**
 - a) **Number of shares:** The exact number of shares of the Corporation to be subscribed will be equal to a figure that, in accordance with the arithmetic mean of the average price quoted for shares of TELEFÓNICA, S.A. on the Stock Market Interconnection System for the last twenty (20) market sessions prior to the date of the General Shareholders' Meeting, and in accordance with the euro/dollar exchange rate on the day prior to that date, has a total valuation equal to: (i) US\$ 1,857,300,000 adjusted, if necessary, as a function of higher or lower debt levels for the Mexican corporations, plus (ii) interest that may have accrued on this amount at the LIBOR U.S. dollar rate, if applicable, from the date when, pursuant to the Purchase Contract signed between TELEFONICA, S.A., Telefónica Móviles, S.A. and Motorola, Inc. on October 10, 2000 (the "Purchase Contract"), the shares of TELEFONICA, S.A. were to have been delivered up to the date of the effective delivery less (iii) 10% of the result of dividing the sum of the aforementioned paragraphs (i) and (ii) by the arithmetic mean of the average price quoted for shares of TELEFONICA, S.A. on the Stock Market Interconnection System for the last twenty (20) market sessions prior to the date of the General Shareholders' Meeting, which amount shall be payable in cash.

 - b) **Par value:** par value of the new shares of TELEFONICA to be issued shall be one (1) euro per share.

4. **Guarantees adopted:** Finally, with regard to the guarantees adopted according to the type of assets that make up the contribution, it must be shown that, in compliance with the provisions of Article 38 of the Corporation Law, application shall be made to the Mercantile Register of Madrid for appointment of an independent expert, who will describe the non-cash contribution, with its identifying data, as well as the valuation criteria adopted, indicating whether underlying securities correspond to the number, par value and issue premium of the shares to be issued by the Corporation as an equivalent value.

IV. Information from the Directors for purposes of Article 159 of the Corporation Law.

In accordance with the provisions of Article 159.1 of the Corporation Law, the Directors of TELEFONICA have deemed it appropriate to propose to the General Shareholders' Meeting that the capital increase, the subject of this report, be



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passed with full suppression of the preemptive right, as established in that provision.

The proposal is justified, bearing in mind the fact that the equivalent value for the capital increase proposed to the General Shareholders' Meeting consists entirely of the non-cash contributions described in paragraph III.1 of this agreement, which are necessary for acquisition of the following companies: 100% of Telefonía Celular del Norte S.A. de C.V.; 100% of Celular de Telefonía S.A. de C.V.; 100% of Baja Celular Mexicana S.A. de C.V.; 90% of Movitel del Noroeste, S.A. de C.V., 90% of Moviservicios, S.A. de C.V., and 90% of Movicelular, S.A. de C.V.

It is evident that, given the nature of the transaction, maintaining the preemptive right would render the outlined structure unfeasible.

For this reason, and with a view toward the provisions of Article 159 of the Corporation Law, we have proceeded to formulate and make available to the shareholders a report prepared by the directors, which contains a detailed justification of the proposal and price of issue, along with an indication of the persons who will be involved.

For this purpose, the Directors of TELEFONICA hereby inform the shareholders of the following:

1. **Justification of the proposal:** In view of the strategic reasons that exist and justify the transaction described in paragraph I of this report, the Directors of TELEFONICA believe that the capital increase referred to in this report is in the best interest of the corporation. Given that corporate interests justify the acquisition of 100% of Telefonía Celular del Norte S.A. de C.V.; 100% of Celular de Telefonía S.A. de C.V.; 100% of Baja Celular Mexicana S.A. de C.V.; 90% of Movitel del Noroeste, S.A. de C.V.; 90% of Moviservicios, S.A. de C.V.; and 90% of Movicelular, S.A. de C.V., and bearing in mind that the method deemed most ideal for doing so is an exchange of shares of the Corporation in the form of a capital increase, it appears by having to direct the aforementioned increase to definite persons and entities, (the owners of contributed shares), we must necessarily suppress all the preemptive rights of TELEFONICA'S existing shareholders.
2. **Price of issue:**
 - (i) TELEFONICA'S Directors have analyzed the valuation of the Corporation and the corporations whose shares will be contributed, applying the following valuation methods:



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- analysis of information on similar companies in other Latin American countries;
- analysis of financial information including projections prepared by TELEFÓNICA, S.A.

As a result of these analyses, the Directors consider a valuation of US\$ 1,857,300,000 to be reasonable, without prejudice to any adjustment that may be made, if necessary, as a function of higher or lower debt levels for the Mexican corporations.

Moreover, the shares of the Corporation that would be contributed as consideration have to be valued as the arithmetic mean of the average price quoted for shares of TELEFÓNICA, S.A. on the Stock Market Interconnection System for the last twenty (20) market sessions prior to the date of the General Shareholders' Meeting, and in accordance with the euro/dollar exchange rate on the day prior to that date. In this way, the value of the shares issued would in any case coincide with the value attributed to the shares contributed for purposes of this increase.

Bearing these considerations in mind, the Directors believe that the procedure used to determine the number of newly issued shares for every share contributed is appropriate.

If, as a result of downward variations in the market value of the shares of TELEFÓNICA, S.A. or the euro/dollar exchange rate, the number of shares of TELEFÓNICA, S.A. to be issued is insufficient to reach the contractually agreed upon value mentioned in section III.3.a above, then the non-cash contributions to be made would be reduced to a figure that represents the value of the shares issued, conforming to an adjustment determined by the Board of Directors on the date of execution.

- (ii) Article 159.1 c) of the Corporation Law makes it possible that in capital increases that exclude preemptive rights, the corporations traded may issue new shares at a price of issue deemed appropriate, provided this is greater than net equity value.

Under the authority of this provision and with a view toward allowing an appropriate accounting treatment of this transaction, the amount of the issue premium for the new shares shall be established by the Board of Directors on the date of execution of the increase resolution pursuant to the procedure indicated below.

The amount of the issue premium will be a figure which, added to the par value of each subscribed share, represents a price of issue that, depending on the exchange ratio, reflects the net equity value of the Shares contributed, as estimated by the Board of Directors in consideration of the financial information available on



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Telefonía Celular del Norte S.A. de C.V., Celular de Telefonía S.A. de C.V., Baja Celular Mexicana S.A. de C.V., Movitel del Noroeste, S.A. de C.V., Moviservicios, S.A. de C.V., and Movicelular, S.A. de C.V., with a minimum limit on the price of issue for the shares of TELEFONICA, S.A. of 5.5 euros per share (par value of one [1] euro and minimum issue premium of 4.5 euros), which is greater than the net equity value of the shares of TELEFONICA S.A. according to the balance sheet prepared by the Board of Directors in their meeting of February 27, 2001 (balance sheet as of December 31, 2000) and a maximum price of issue limit of 7.5 euros (par value of one [1] euro and maximum issue premium of 6.5 euros).

The issue price is approved in consideration of the fact that it is greater than the net equity value of each share of TELEFONICA, S.A., reflected in the report issued by the corporation's auditors in compliance with the requirements of Article 159 of the Corporation Law.

It should be noted, in any case, that determination of these issue prices preserves the integrity of the financial value of the shares belonging to existing shareholders of TELEFONICA, since the exchange ratio has been established in consideration of the real or effective values for the shares of TELEFONICA and the shares contributed.

- 3. Persons to whom the shares will be granted:** As already indicated, the persons to whom the new shares are issued as a result of the capital increase shall be exclusively those who are owners, directly or indirectly of the shares contributed.

V. Contribution of Shares to Telefónica Móviles, S.A.

In order to comply with the goals expressed in point I above, and pursuant to the provisions established in the Informative Bulletin corresponding to the Public Offer of Subscription to Telefónica Móviles, S.A., the shares shall be the object of a subsequent contribution by TELEFONICA, S.A. to Telefónica Móviles, S.A., pursuant to a resolution from an Extraordinary General Meeting of the Shareholders of that corporation, held on October 30, 2000, under the following terms:

The Extraordinary General Meeting of Shareholders of Telefónica Móviles, S.A. has resolved to implement a capital increase in the amount of 112,550,000 euros by issuing and putting into circulation 225,100,000 shares of the same class and series as those already in existence, and with the same rights as those now issued, with a par value of 0.50 euros each, represented by an account entry, the purpose of which is a contribution by TELEFONICA S.A. of the Shares. The shares that will be issued by Telefónica Móviles, S.A. will involve, automatically, an issue premium to be determined by its Board of Directors on the date the resolution is executed.

This capital increase resolution expressly allows for an incomplete subscription, which may result from, among other things, the average cost of the Telefónica



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Móviles, S.A. Public Subscription Offer (the final amount of which was 11 euros) implemented in November, 2000 in relation to the cost of the assets as well as the dollar/euro exchange rate, which was fixed for this purpose at 0.8252 euro/dollar.

2. PROPOSED RESOLUTION SUBMITTED TO THE GENERAL SHAREHOLDERS' MEETING FOR APPROVAL

1. Share capital increase

The share capital of the company is increased by a nominal amount of 174,700,000 euros, by means of the issuance and placement into circulation of 174,700,000 ordinary shares of one (1) euro nominal value each, of the same class and series as the existing ones, represented by means of account entries, with an issue premium for each one of them that will be determined, within the scope provided in Article 159.1.c) *in fine* of the Corporation Law, by the Board of Directors on the date of execution of the resolution, by means of the procedure indicated below, in an amount to be between a minimum of 4.5 euros and a maximum of 6.5 euros of issue premium per share. The issue price will be fixed between a minimum of 5.5 euros and a maximum of 7.5 euros as capital plus issue premium.

2. Subscription and disbursement

The counter-value of the present increase consists of the non-monetary contribution of the shares of the companies of the Motorola Group (the "Shares"), that will permit the direct or indirect acquisition of the following companies in Mexico: 100% of Telefonía Celular del Norte, S.A. de C.V., 100% of Celular de Telefonía, S.A. de C.V., 100% of Baja Celular Mexicana S.A. de C.V., 90% of Movitel del Noroeste, S.A. de C.V., 90% of Moviservicios, S.A. de C.V. and 90% of Movicelular S.A. de C.V.

Consequently, the shares covered by the subscription will be fully disbursed, nominal value plus issue premium, by means of the contribution of the Shares. As provided in Article 161.1 of the Corporation Law, the possibility for incomplete subscription of the increase is expressly permitted. An incomplete subscription will occur, among other causes, as a consequence of variations in the quotation value of the "Telefonía, S.A." shares or in the euro/dollar exchange rate; for these circumstances, it is agreed that a modification will be produced in the number of shares of "Telefonía, S.A." that are to be given in compensation. In particular, it is noted that the specific number of shares of the company that are to be subscribed to and disbursed with the previously defined non-monetary contribution will be in relation to these variables. Therefore, the specific number of shares of the company that will be subscribed to will be equal to that which, in



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accordance with the arithmetic mean of the average quotation price of the shares of “Telefonica, S.A.” in the Stock Exchange Interconnection System in the twenty (20) preceding stock exchange sessions on the date of the holding of the Annual General Shareholders’ Meeting, and at the euro/dollar exchange rate on the day prior to said date, has a total valuation equal to: (i) 1,857,300,000 adjusted United States dollars, if applicable, in relation to the greater or lesser of the volume of indebtedness of the Mexican companies, plus (ii) the interest can be produced on this amount and at the LIBOR U.S. dollar rate, if applicable, from the date in which, as stipulated in the Purchase Contract signed between “Telefonica, S.A.,” “Telefonica Moviles, S.A.” and “Motorola, Inc.,” dated October 10, 2000 (the Purchase Contract”), the shares of “Telefonica, S.A.” should have been delivered up to the time of their actual delivery, and less (iii) 10% of the result of dividing the sum of the preceding paragraphs (i) and (ii) by the arithmetic mean of the average quotation price of the shares of “Telefonica, S.A.” in the Stock Exchange Interconnection System over the twenty (20) stock exchange sessions prior to the date of the holding of the General Meeting, the amount of which is to be paid in cash.

The definitive exchange relationships, therefore, will be those finally resulting from dividing the number of the Shares by the number of shares of “Telefonica, S.A.” delivered in exchange.

On the assumption that, as a consequence of downward variations of the market value of the shares of “Telefonica, S.A.” or of the euro/ dollar exchange rate, the number of shares of “Telefonica, S.A.” to be issued proves to be insufficient to attain the above mentioned contractually agreed upon value, the non-monetary contributions to be made will be reduced to those that represent the value of the issued shares, all this in conformity with the adjustment determined by the Board of Directors to this effect on the date of execution. In this circumstance, the non-contributed Shares will be acquired by “Telefonica, S.A.” in cash.

The issued shares are to be subscribed to and disbursed by the persons and entities holding the Shares that are contributed, in the number corresponding to them in proportion to their contribution and at the issue price of the new shares that is determined by the Board of Directors in conformity with the procedure subsequently established for the fixing of the issue premium.

3. Procedure for determining the issue premium

Within the scope of that provided in Article 159.1.c) of the Corporation Law and for the purpose of permitting adequate accounting treatment of the operation, the amount of the issue premium of the new shares will be established by the Board of Directors on the date of execution of the increase resolution in accordance with the procedure indicated here following.



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The amount of the issue premium will be that which, added to the nominal value of each subscribed share, represents an issue price that, in accordance with the conversion rate, reflects the net asset value of the Shares that are contributed, as estimated by the Board of Directors in consideration of the financial information that is has available on Telefonía Celular del Norte S.A. de C.V., Celular de Telefonía, S.A. de C.V., Baja Celular Mexicana S.A. de C.V., Movitel del Noroeste, S.A. de C.V., Moviservicios, S.A. de C.V. and Movicelular S.A. de C.V. with the minimum limit of the issue price of the shares of “Telefonía, S.A.” of 5.5 euros per share (nominal of one (1) euro and minimum issue premium of 4.5 euros), that is greater than the net asset value of the shares of “Telefonía, S.A.” according to the balance sheet prepared by the Board of Directors in its session of February 27, 2001 (closed on December 31, 2000), and with the maximum limit of an issue price of 7.5 euros share (nominal of one (1) euro and maximum issue premium of 6.5 euros).

The minimum issue price is approved in consideration of the fact that it is greater than the net asset value of each share of “Telefonía, S.A.” reflected in the report issued by the Account Auditors of the company in compliance with the stipulations of Article 159 of the Corporation Law.

4. Exclusion of the preferred subscription right

In view of company interests that justify the operation, and for the purpose of permitting new shares of the company under this increase to be subscribed to and disbursed by the holders of the previously identified shares to be contributed, the total elimination of the preferred subscription right of the shareholders and bondholders of “Telefonía, S.A.” is resolved.

5. Representation of the new shares. Rights of the new shares

The new issue shares will be ordinary, equal to those currently in circulation. They will be represented by account entries the accounting recording of which is conferred on the Securities Compensation and Settlement Service (“SCLV”) and its affiliated entities.

The new shares will confer on their holders the same political and economic rights as the ordinary shares of the company currently in circulation from the time of execution of this capital increase. With respect to the economic rights, the new shares will entail a right to company dividends, on account or definitive, the distribution of which is resolved from this date.



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6. Request for admission for negotiation

Within the maximum period of one (1) month from the date of execution of the resolution on issuance of the new shares, the admission of the new shares for negotiation in the stock markets of Madrid, Barcelona, Bilbao, and Valencia and their contracting in the Stock Exchange Interconnection System (Continuous Market) will be requested, expressly noting the submission of the company to the existing norms or ones that may be enacted in relation to the Stock Market, and, in particular, as to contracting, permanence and exclusion from the official quotation as well as admission of said shares for negotiation in any other foreign stock exchange market where the company shares have been admitted for negotiation at the time of closing of the capital increase resolution (including, without limitations, the New York, London, Frankfurt, Paris, Tokyo, Sao Paulo, Buenos Aires, and Lima stock exchanges). For these purposes, the Board of Directors shall be empowered with the ability to delegate to its Standing Committee, to the Chairman of the Board of Directors, to the managing director or to the Secretary and member of the Board of Directors, once the capital increase resolution has been executed, to request from all the competent national and foreign agencies admission for negotiation of the new "Telefonica, S.A." shares, signing all the documents and commitments that are necessary in the terms that are judged appropriate for these purposes.

For the purposes of that set forth in Article 27 of the Regulation on Commercial Stock Exchanges, it is expressly noted that, in the event that the exclusion of the quotation of shares of "Telefonica, S.A." in the Spanish stock exchanges is subsequently requested, this is to be adopted with the same formalities established in said article and in such a circumstance the interest of the shareholders and, if applicable, of the bond holders, who oppose or do not vote on the resolution will be guaranteed, complying with the requirements stipulated in the Corporation Law and concordant provisions: all in accordance with that set forth in the cited Regulation on Commercial Stock Exchanges, the Securities Market Law and provisions that promote it.

7. Application of the special fiscal system

It is resolved to opt for the operation of the capital increase by means of a non-monetary contribution that has been agreed upon to be submitted to the special fiscal system for mergers, splits, asset contributions, and conversion of securities regulated in Chapter VIII of Heading VIII of the Law 43/1995 of the Corporation Tax as well as any other similar fiscal system that may be applicable to this operation in Spain or in any other affected jurisdictions.



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8. Condition

The effectiveness of the present resolution and, therefore, the power of the Board of Directors to execute it within the scope of Article 153.1 a) of the Corporation Law shall be subject to the fulfillment of the conditions stipulated in agreements signed with Motorola Inc. and to the exercise of the option by "Telefonica, S.A." to implement the acquisition by means of the present capital increase. In particular, among the reported conditions are those relating to the following governmental authorizations in Mexico: (i) approval by the competent federal commission; (ii) prior authorization and/or approval of the Ministry of Communication and Transport and of the Federal Telecommunications Commission; and (iii) authorization, if applicable, of the National Foreign Investment Commission.

9. Contribution of the Shares of Telefonica Móviles, S.A.

As stipulated in the prospectus corresponding to the Public Subscription Offering of Telefonica Moviles S.A., the Shares will be subject to later contribution by "Telefonica, S.A." to "Telefonica Moviles, S.A." as resolved by the Extraordinary General Shareholders' Meeting of said company held on October 30, 2000, in the following terms:

The Extraordinary General Shareholders' Meeting of Telefonica Móviles S.A. resolved to carry out a capital increase in the amount of 112,550,000 euros, by means of the issuance and placement into circulation of 225,100,000 shares, of the same class and series as currently existing and with the same rights as those currently issued, of 0.50 euros in nominal value each and represented by accounts entries, the objective of which is the contribution by "Telefonica, S.A." of the Shares. The shares that will be issued by "Telefonica Móviles, S.A." will entail an issue premium to be determined by its Board of Directors on the date of the execution of the resolution.

Said capital increase resolution expressly permits the incomplete subscription that may occur, among other reasons, due to the average price of the public subscription offering of "Telefonica Móviles, S.A." (the final amount of which was 11 euros) carried out in November, 2000 in relation to the cost of the assets as well as due to the dollar/euro exchange rate that has been fixed for these purposes at 0.8252 euros/dollar.



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10. Delegation in the Board of Directors

Within the scope of that provided in Article 153.1a) of the Corporation Law, the Board of Directors is empowered with the power of substituting the Standing Committee, the Chairman of the Board of Directors, the managing director and the Secretary and member of the Board of Directors, so that within the maximum period of one year reckoned from today's date, it may indicate the date in which the capital increase resolution must be carried into effect or its execution abandoned, and in the case that it decides to execute it, to fix the conditions for this to the extent it is not provided by this Meeting, including the development of the procedure for contribution and conversion of the shares, the number of shares to be delivered in relation to the definitive fixing of the conversion ratio, the determination of the amount of the issue premium in accordance with the procedure stipulated for this within the scope of Article 159.1.c) *in fine*, and, for indicative purposes only:

- (a) To provide new wording to Article 5 of the Bylaws to adapt them to the new share capital figure resulting from the execution of the capital increase.
- (b) To draw up and prepare as many brochures and notifications as required under the legislation in effect and to decide the subsequent modifications to them that it judges appropriate.
- (c) To request the admission for negotiation of new shares issued, with all the powers that prove necessary for this purpose, in accordance with the pertinent legislation, undertaking the necessary actions and drawing up the documents that are required for this, and designating the entity responsible for the accounting recording of the shares and, if applicable, the depositaries issuing the deposit certificates representing the shares, drawing up the documents that are necessary for this.
- (d) To apply to the State Tax Administration Agency for total or partial application of the system provided for in Chapter VIII of Heading VIII of the Law 43/1995, of December 27, of the Corporation Tax, and to request from any other agencies the application of similar systems in other countries or jurisdictions.
- (e) To undertake as many actions as necessary and to approve and formalize as many public and private documents as prove necessary or appropriate for the full effectiveness of the capital increase resolution in any of its aspects and content, and in particular, to correct, clarify, interpret, complete, specify, or explain, if applicable, the adopted resolution, and in particular, to correct the defects, omissions, or errors that were noted in the verbal or written assessment of the Mercantile Register.

Madrid, April 25, 2001