



REPORT OF THE BOARD OF DIRECTORS OF TELEFONICA, S.A. RELATING TO THE PROPOSAL FOR A RESOLUTION TO BE SUBMITTED FOR THE APPROVAL OF THE GENERAL SHAREHOLDERS' MEETING ON ISSUING FIXED-INCOME SECURITIES WHICH ARE CONVERTIBLE AND/OR EXCHANGEABLE, WITH EXCLUSION OF THE PREEMPTIVE RIGHT (POINT IX ON THE AGENDA OF MEETING)

1. PURPOSE OF THE REPORT

The agenda of meeting for the Annual General Shareholders' Meeting of "Telefónica, S.A.", called for June 14 and 15, 2001, includes, in Point 9 thereof, a proposal to issue fixed-income securities convertible into newly-issued shares of the said Company and/or exchangeable for shares thereof already pre-existing, for an amount of up to of 2 billion Euros or the equivalent value thereof in another currency, with the exclusion of the preemptive right. For such purpose the present report is made in accordance with that established in Articles 159 and 292 of the Corporation Law.

2. JUSTIFICATION OF THE PROPOSALS

The volume of the funds subjected to trading in the domestic and international financial markets enables them to be raised in a short span of time under very favorable conditions, provided that it is possible to be availed of the appropriate instruments at the right time, given the agility and speed with which it is necessary to act on them.

So, in order to be able to take advantage of the best opportunity offered by these capital markets it is necessary, due to various circumstances, that such an issue be able to be carried out with maximum speed, placing it as fast as possible, without the limitations represented by the preemptive right during a period which has to have a minimum duration of 15 days.

This is why it is proposed that the Company issue obligations which are convertible and/or exchangeable to that effect and for the purpose of enabling this so necessary agility in placement as mentioned above and the shareholders are asked to totally eliminate the preemptive right to subscribe for the obligations representing the mentioned issue, which is proposed for the approval of the Shareholders' Meeting.

As with the other part, upon submitting this request for approval, it is unknown at what time the market conditions will be suitable, and it is also proposed that the Board of Directors be delegated so that, within the term between the present General Shareholders' Meeting and the next Annual General Shareholders' Meeting, it may, in the event that the



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situation of the markets may so make advisable, set the dates for the resolution on the issue and the other conditions thereof not set by the General Shareholders' Meeting, and to develop the bases and modalities of the conversion, setting and finalizing the terms not provided for therein, as well as to partially or fully refrain from carrying out the issue. Commencing from the mentioned deadline, by expiration, such delegation shall be deemed to be null and void, and deeming that the Board of Directors is empowered to refrain from executing the resolution in full or in part.

The present resolution for issuance is to be carried out with the general guarantees of the law with respect to the determination of the conditions, within such bases and modalities as the General Shareholders' Meeting may approve, with the conversion carried out by means of capital increases up to such maximum as the General Shareholders' Meeting may set. In addition, a syndicate or protection association of the holders of securities will proceed to be created, as well as the appointing of an Auditor, all of this in accordance with Article 282, et seq., of the Revised Text of the Corporation Law and the parallel provisions of the Regulations of the Mercantile Register. Finally, the maximum amount of the issuance or issuances will, at all time, be in accordance with the limits set in article 282 of the Corporation Law, that states that "the Company may issue numbered series of bonds or other securities that recognize or create a debt, provided that the issuance is not greater than the capital stock paid in plus the reserves that appear in the last approved profit and loss accounts and the adjusted balance sheets, once there have been accepted by the Fiscal Ministry.

A report issued by the Auditor of Accounts in compliance with that provided for in Article 292.2 and 159 of the Corporation Law is to be attached as an exhibit.

In addition, and in accordance with Articles 159 and 292 of the Corporation Law the bases and modalities of the conversion of the present issue as well as the increase in the capital stock in the amount necessary for attending thereto, which are to be submitted for the approval of the Shareholders' Meeting, are being transcribed.

Finally, the Board of Directors will also submit for the approval of the General Shareholders' Meeting a delegation of this power to a Standing Committee and/or in any of the Directors with delegated powers under the terms permitted by the law and in accordance with that established in Article 141 of the Corporation Law



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3. PROPOSED RESOLUTIONS SUBMITTED FOR THE APPROVAL OF THE REGULAR GENERAL SHAREHOLDERS' MEETING

A). Issue up to a total maximum amount of 2 billion Euros (2,000,000,000 Euros) or its equivalent in another currency, subject to applicable regulations, in one or more issues, numbered series of bonds that can be exchanged for shares in "Telefónica, S.A." already in existence and/or convertible into newly issued shares in "Telefónica, S.A." in accordance with the terms and conditions and other procedures set forth hereinafter:

Face Value and Issue Price of the Securities:

The securities to be issued shall have a face value of no less than 100 Euros per security and shall be issued at par, as a minimum, that is, at 100 percent of its face value.

Call Price:

The rate of reimbursement shall be set by the Board of Directors of the issuing party when it decides to execute this resolution.

Interest Rate:

The Board of Directors shall determine the coupon rate for the securities, the interest accrual periods and the payment of coupons according to market conditions.

Conversion and/or Exchange:

The securities issued as a result of this resolution shall be convertible into new shares of "Telefónica, S.A." and/or exchangeable for outstanding stock thereof, and the Board of Directors is authorized to decide whether they are convertible and/or exchangeable, as well as to decide whether they are necessarily or voluntarily convertible and/or exchangeable, and if voluntarily, at the option of the holder of the securities or of the issuing party, they are to comply with the schedule and the term established by the Board of Directors in execution of this resolution.

If the issue is convertible and exchangeable, the Board of Directors may establish that the issuing party reserves the right to choose at any time between conversion into new shares or exchange for outstanding shares, with the nature of their shares to be established definitively at the time of the conversion or



exchange, including the option of handing over a combination of newly issued and pre-existing shares. In any event, the issuing party must provide equal treatment to all holders of fixed-income securities converted and/or exchanged on the same day.

Conversion and/or Exchange Price:

For the purposes of conversion and/or exchange, the fixed-income securities shall be appraised at their face value and the shares at the set exchange rate determined by the Board of Directors of the issuing party in execution of this resolution, or at the rate to be determined on the date or dates indicated in the Board of Directors resolution and according to the Stock Exchange quotation for the Company's shares on the date(s) or for the period(s) used as reference in this resolution, with or without discount. In any event, the value of the shares for the purposes of their conversion and/or exchange may not be less than the average of their closing quotation at the Madrid Stock Exchange for the ten days prior to the opening date for subscription of the fixed-income, nor greater than 200 percent of said quotation. In no event may the value of the share be lower than nor its net asset value.

Preemptive Rights in Capital Increases and in Issues of Convertible Securities:

If, prior to the conversion and/or exchange of the securities, capital increases take place with issues of new regular or preferred stock, or issues of convertible securities, the holders of the convertible and/or exchangeable securities from the issue or issues in effect shall be entitled to preemptive subscription rights in proportion to the face value of the shares they would be entitled to at the time of conversion and/or exchange of the fixed-income securities at the exchange rate set for that purpose, all in accordance with the provisions of Articles 158 and 293 of the Revised Text of the Corporation Law, except when the General Shareholders' Meeting, under the terms and with the requirements of Article 159 of the current Corporation Law, decides on the total or partial exclusion of the preemptive subscription right for the shareholders and the holders of convertible and/or exchangeable bonds.

Anti-dilution Clause:

If, prior to the conversion and/or exchange of the securities to shares, a capital increase takes place charged against reserves or a capital reduction against losses, the exchange rate for the securities to shares shall be modified in proportion to the amount of the increase or decrease, in such a way that the



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shareholders and the holders of the convertible and/or exchangeable securities are affected equally.

Exclusion of the Preemptive Right:

Due to corporate interests, the preferred right of the shareholders and, if applicable, holders of other convertible securities that might be issued, to subscribe the representative securities of the issue or issues mentioned in this resolution is excluded.

Redemption.

The duration of the issue or issues shall not exceed fifteen years. The issuing Company reserves the right for early redemption at any time of the securities that is the subject of each issue, under the terms agreed upon by its Board of Directors in each case.

Stockholders' Syndicate:

For each issue, in compliance with the current Corporation Law and the Mercantile Registration Regulation, a securities syndicate shall be established, and the Board of Directors of the issuing party shall establish a regular and alternate Provisional Auditor, until the first Syndicate Meeting.

Issue Guarantees:

The issue or issues shall be guaranteed with the global capital liability of the issuing party, in accordance with the Law.

Representation of the Securities:

The securities to be issued under this resolution shall be represented by certificates or by account entries, in accordance with legislation in effect at each time, and in particular with the applicable standards on the secondary market in which they are traded.

Admission to Quotation:

By Board of Directors resolution of the issuing company, a request for admission to quotation may be made for the securities of each issue or issues on the organized securities markets.

B) In accordance with the provisions of Article 292 of the Revised Text of the Corporation Law, it has been resolved to increase the Company's capital stock to



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the maximum of 2 billion Euros, to cover, as appropriate, the presumed conversions of securities to shares of the Company through issue of the number of ordinary shares with the same series and face value as those in circulation at that point, in the quantity required to meet the conversion requests. In accordance with the provisions set forth in Article 159.4 of the Revised Text of the Corporation Law, there shall be no Preemptive Right in capital increases or decreases resulting from conversion of securities to shares at each of the corresponding issues.

C). The Board of Directors is authorized under the broadest term so that, within the period of time between this General Shareholders' Meeting and the next Annual General Meeting, in execution of the resolutions adopted by the General Meeting about issue of convertible and/or exchangeable stock, it can carry out the issue or issues of fixed-income securities convertible into newly issued shares of "Telefónica, S.A." and/or exchangeable for pre-existing shares in "Telefónica, S.A.", for the maximum amount agreed, and, if applicable, within the limits of these terms and conditions, setting those remaining to be determined, without limit. In particular, the Board of Directors is authorized but not limited to:

- a) Establish or not the subordination of the issue and the determination of the priorities with respect to all of the Company's obligations; if applicable, incorporate warrants; determine the maximum amount per subscribed, if appropriate, during the open subscription period, if one exists; set the place of subscription; and seek the buy-back or redemption of the securities.
- b) Determine the securities issue rate that, in all cases, shall be at par as a minimum, that is, 100 percent of its face value.
- c) Redeem the issue or issues early.
- d) During the time set for open subscription to third parties, expand or reduce the amount of the issue to the amount subscribed at the end of said period.
- e) Issue, up to the maximum agreed, the new shares necessary to handle conversion of the securities, in compliance with Article 5 of the Bylaws of the Company pertaining to Capital Stock.
- f) Rectify, clarify, interpret, specify or add to the resolutions adopted by the General Shareholders' Meeting regarding instruments or documents drawn up in execution thereof, and, in particular, rectify or correct any defects, omissions or errors of substance or form that prevent access to the resolutions and their consequences by the Mercantile Register, Official Records of the National Securities Market Commission or any others.



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- g) Write and distribute as it deems appropriate the corresponding prospectus or prospectuses.
- h) For applicable regulatory purposes, designate the person or persons who shall assume responsibility for the contents of the prospectus or prospectuses on behalf of the Company, at the time of each issue.
- i) Amend the exchange list for securities to shares if there is a capital increase chargeable against reserves or a capital decrease against losses prior to the conversion and/or exchange.
- j) Refrain from executing this issue resolution adopted by the General Shareholders' Meeting partially or in full.

In accordance with the provisions of Article 141 of the Corporation Law and 31.1 of the Bylaws of the Company, the Board of Directors may delegate the some or all of the powers granted in this resolution of its Standing Committee and/or in any of the Directors with delegated powers.

Madrid, April 25, 2001