

TELEFÓNICA, S.A.

**SPECIAL REPORT ON THE ISSUANCE OF CONVERTIBLE BONDS IN THE HYPOTHESIS
OF ARTICLE 292 OF THE REVISED TEXT OF
THE CORPORATION LAW**

Special report on the issuance of convertible bonds in the hypothesis of Article 292 of the Revised Text of the Corporation Law

To the Annual General Shareholders' Meeting of
Telefónica, S.A.:

For the purposes provided in Article 292 of the Revised Text of the Corporation Law and in accordance with the assignment received from Telefónica, S.A. (hereinafter referred to as the "Company"), we issue this Special Report on the proposal for issuance of bonds convertible into shares with an exclusion of the preferred subscription right that the managers of the Company are submitting for your approval. The purpose of our work is not that of certifying the issuance or conversion price of the bonds, but rather, exclusively, to declare, under application of the procedures established in the Technical Audit Standard relating to the preparation of special reports on the issuance of convertible bonds, whether the attached report drawn up by the managers of the Company contains the required information, codified in the mentioned Standard; that includes the explanation of the basic conditions and manners of the conversion.

Based on the work performed within the scope described in the preceding paragraph, the attached Report drawn up by the managers of the Company concerning the issuance of convertible bonds with an exclusion of the preferred subscription right contains the required information codified under the mentioned Standard.

Nevertheless, due to the fact that the Report of the managers of the Company does not explicitly define such aspects as the interest rate of the bonds, their nominal value and the dates and conditions of issuance, conversion and maturity, among other points, the determination of which it is proposed be under the authority of the Board of Directors of the Company, we cannot declare the conditions of the issuance on the date it is made effective in relation to these aspects.

Likewise, and taking into account that the Report of the managers proposes the exclusion of the preferred subscription right to which the shareholders are entitled, as of this date we have issued a Special Report under application of the Technical Standard for the Preparation of Special Reports as to the exclusion of the preferred subscription right in the hypothesis of Article 159 of the Revised Text of the Corporation Law, that must be read together with this Special Report.

This Special Report has been prepared only for the purposes provided in Article 292 of the Revised Text of the Corporation Law, hence it must not be utilized for any other purpose.

ARTHUR ANDERSEN

Eduardo Sanz Hernández

April 27, 2001