

**TELEFÓNICA, S.A.**

**SPECIAL REPORT ON THE EXCLUSION OF THE PREFERRED SUBSCRIPTION RIGHT IN  
THE HYPOTHESIS OF ARTICLE 159 OF THE REVISED TEXT OF THE CORPORATION  
LAW, AND SUBSEQUENT MODIFICATIONS**

**Special report on the exclusion of the preferred subscription right in the hypothesis of Article 159 of the Revised Text of the Corporation Law, and subsequent modifications**

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

For the purposes provided in Article 159 of the Revised Text of the Corporation Law and subsequent modifications of this article incorporated in the Law 50/1998, of December 30, 1998, on Fiscal and Administrative Measures and those of a Social Nature, and, in accordance with the order received from Telefonica, S.A. (hereinafter referred to indiscriminately as the "Company"), we issue this Special Report on the proposal for increasing the share capital of the Company by means of the issuance of ordinary shares with exclusion of the preferred subscription right to which the Report of the Board of Directors of the Company, dated April 25, 2001, is attached, that will be submitted to the Annual General Shareholders' Meeting for approval. The specific number of shares of the Company that will be subscribed will be equal to that, in accordance with the arithmetic mean of the average quotations of the shares of Telefónica, S.A. in the Stock Exchange Interconnection System over the twenty stock exchange sessions prior to the date of the holding of the Annual General Shareholders' Meeting, and according to the euro/dollar exchange rate on the day prior to said date, having a total valuation equal to: (i) 1,857,300,000 United States dollars, plus (ii) the interest that can be produced on this amount and at the U.S. dollar LIBOR rate, if applicable, from the date on which the shares of TELEFONICA, S.A. were to have been delivered until the time of their actual delivery as stipulated in the Purchase Contract among TELEFONICA, S.A., Telefónica Moviles, S.A. and Motorola, Inc dated October 10, 2000 (the "Purchase Contract"), and less (iii) the 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 Annual General Shareholders' Meeting, the amount of which is to be paid in cash.

Article 159.1.c) of the Revised Text of the Corporation Law establishes the possibility that in capital increases with an exclusion of the preferred subscription right, companies quoted on the stock exchange may issue new shares at the issue price that they judge suitable, provided that said price is greater than the net asset value corresponding to each of the shares of the entity. Consequently, and within the scope of the mentioned legal provision, the report prepared by the Board of Directors of the Company proposes that the issue price of the new shares be between a minimum amount of 5.5 euros per share and a maximum amount of 7.5 euros per share; corresponding, in both cases, to 1 euro per share for share capital and, the balance, between 4.5 and 6.5 euros per share, for issue premium. These new shares, that will permit the direct or indirect acquisition of the of the following companies in Mexico: 100% de Telefonía Celular del Norte S.A. de C.V.; 100% de Celular de Telefonía S.A. de C.V.; 100% de Baja Celular Mexicana S.A. de C.V.; 90% de Movitel del Noroeste, S.A. de C.V., 90% de Mexicana Movicelular, S.A. de C.V., and 90% de Mexicana Moviservicios, S.A. de C.V., will be allocated to the shareholders of the companies indicated in detail herein below as a consequence of the following non-monetary contributions.

<b>Company</b>	<b>Shareholder</b>	<b>Non-monetary contribution</b>
<b>Corporación Integral de Comunicación, S.A. de C.V.</b>	Propel Inc.	21,947,785 shares
	Motorola International Network Ventures Inc.	1 share
	<b>TOTAL</b>	<b>21,947,786 shares</b>
<b>Grupo Corporativo del Norte, S.A. de C.V.</b>	Model Inc.	182,362 shares
	Celcom Inc.	175,210 shares
	<b>TOTAL</b>	<b>357,572 shares</b>
<b>Telefónica Celular del Norte, S.A. de C.V.</b>	Celnor Inc.	101,572,296 shares
	Centel Celular Company Mexico	7,635,935 shares
	<b>TOTAL</b>	<b>109,208,231 shares</b>
<b>Celular de Telefonía S.A. de C.V.</b>	Network Ventures I Inc.	42,170,109 shares
	<b>TOTAL</b>	<b>42,170,109 shares</b>
<b>Baja Celular Mexicana S.A. de C.V.</b>	Network Ventures II, Inc.	28,758 shares
	CWXT Inc.	2,276 shares
	<b>TOTAL</b>	<b>31,034 shares</b>
<b>Baja Celular Servicios Corporativos S.A. de C.V.</b>	Network Ventures III, Inc.	5 shares
	<b>TOTAL</b>	<b>5 shares</b>
<b>Tamcel, S.A. de C.V.</b>	Network Ventures II Inc.	10 shares
	<b>TOTAL</b>	<b>10 shares</b>
<b>Movitel del Noroeste, S.A. de C.V.</b>	Network Ventures III, Inc.	8,037,898 shares
	<b>TOTAL</b>	<b>8,037,898 shares</b>
<b>Mexicana Movicelular, S.A. de C.V.</b>	Network Ventures III, Inc.	2,200 shares
	<b>TOTAL</b>	<b>2,200 shares</b>
<b>Mexicana Moviservicios, S.A. de C.V.</b>	Network Ventures III, Inc.	2,200 shares
	<b>TOTAL</b>	<b>2,200 shares</b>

Our work, that is based on the annual accounts of Telefónica, S.A. corresponding to the annual fiscal year ending on December 31, 2000, that were audited by us and on which we issued our audit report dated February 28, 2001, wherein we expressed an opinion without reservations, has included the following procedures:

- a. posing questions to the Board of the Company as to the major events that could have affected the Company in a significant way between the closing date of the mentioned audited annual accounts and the date of this Special Report;
- b. evaluating the adequacy of the factors used for determining the minimum issue price proposed for the shares and examination of the documentation supporting the calculation of the theoretical accounting value of the Company as of December 31, 2000;
- c. obtaining a document from the Board of the Company in which it was communicated to us that they had made known to us all of the relevant data and information for the purposes of the operation to be undertaken.

Taking into account all the above indicated, in our professional opinion, the factors used by the Board of Directors of the Company in the determination of the issue price of 5.5 euros for the new shares to be issued from time to time are adequately expressed in the attached Report, as the proposed issue price is greater than the net asset value corresponding to each of the shares of the Company as of December 31, 2000.

For information purposes, we indicate that, for companies quoted on a stock exchange, the normally used criterion for valuation of their shares is the quotation value, unless circumstances are present that distort it, circumstances the existence of which we are unaware of in this case.

This Special Report was prepared only for the purposes provided in Article 159 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