

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 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 Telefónica, 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 1,425,624 euros, by means of the issuance of the same number of ordinary shares with the 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.

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. The managers have proposed to the Annual General Shareholders' Meeting the execution of an incentive plan aimed at the employees of the Dutch company Endemol Entertainment Holding N.V. and dependent companies (hereinafter referred to as "Endemol" and with its dependent companies, "Endemol Group"), as a consequence of the agreements signed by Telefónica for the acquisition of Endemol, that will consist of a subscription offer for a certain number of shares of Telefónica, S.A. at a price of 19.2898 euros per share that would be subscribed by various financial entities acting as agent entities. 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 that will be offered to those financial entities acting as agent entities of the Plan and that will be determined in due time by the Board of Directors of the Company be for 19.2898 euros per share corresponding to 1 euro per share for share capital and, the balance, 18.2898 euros per share, for issue premium.

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 issue price proposed for the shares and examination of 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 the relevant hypotheses, data or 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 19.2898 euros for the new shares 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 quoted companies, 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