

**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 issuance of bonds convertible into shares of Telefónica, S.A. with an exclusion of the preferred subscription right, to which we are attaching the Report of the Board of Directors of the Company, dated April 26, 2001, that will be submitted to the approval of the Annual General Shareholders' Meeting. The issuance of convertible debentures that is proposed will give rise, if applicable, to an increase in the share capital of the Company in the amount necessary to meet the possible conversion of the said bonds into shares of Telefónica, S.A.

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 the said price is greater than the net asset value corresponding to each of the shares of the entity. The Report prepared by the Board of Directors proposes that the issue price of the new shares be determined by the Board of Directors of the Company fixing as the minimum issue price the average of the closing quotations in the Madrid Stock Exchange for the shares of the Company over the 10 days preceding the date of opening of the subscription of the securities and as a maximum issue price 200 percent of the said quotation; they cannot, however, in any case, be issued for an amount less than their net asset value, as indicated above.

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, in which we expressed our 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 analysis of the evolution of the quotation of the ordinary shares of the Company over the last quarter of 2000 and the period between the closing date for the annual accounts and the date of issuance of this Special Report;
- 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 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 minimum issue price for the new shares into which the debentures that are issued will have to be converted from time to time are adequately expressed in the attached Report, and are based on the above indicated valuation method; even if this price is not fixed on the date of this Special Report, due to its being referenced on the quotation value of the Telefónica, S.A. shares on a subsequent date.

For information purposes, we indicate that, for companies quoted in the 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. On this date, we have issued a Special Report, for application of the Technical Auditing Standard relating to the issuance of convertible bonds, that must be read together with this Special Report.

ARTHUR ANDERSEN

Eduardo Sanz Hernández

April 27, 2001