

Telefonica

4 Significant variables

7 Letter from the Chairman

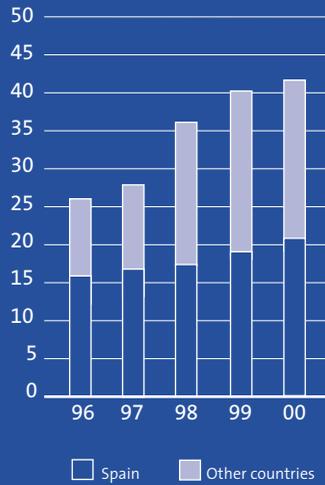
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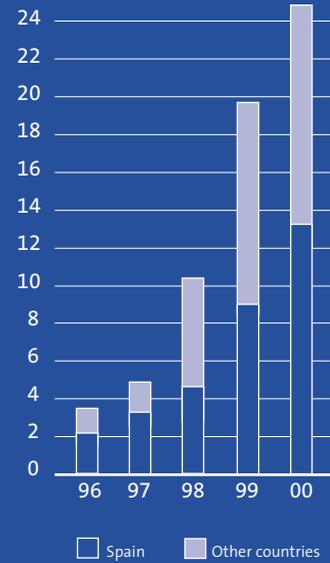
EVOLUTION OF FIXED TELEPHONE LINES

(millions)



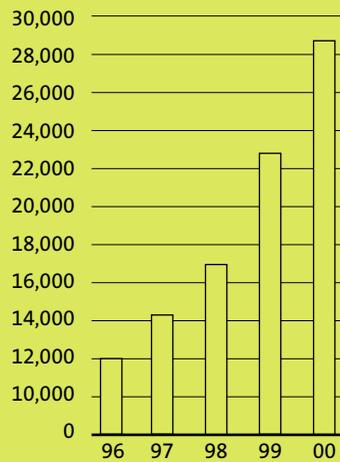
EVOLUTION OF MOBILE PHONE SUBSCRIBERS

(millions)



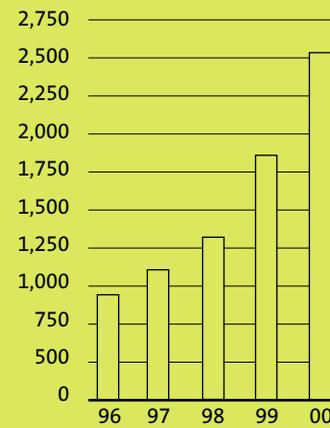
EVOLUTION OF OPERATING REVENUES

(millions of euros)



EVOLUTION OF NET EARNINGS

(millions of euros)



Significant variables

	1996	1997	1998	1999	2000
Fixed telephone lines (thousands)	26,477.1	28,159.9	36,792.8	40,199.1	42,263.5
Spain	16,200.1	16,798.3	18,205.2	19,226.2	20,317.8
Other countries	10,277.0	11,361.6	18,587.6	20,972.9	21,945.7
Mobile phone subscribers	3,329,398	5,053,404	10,514,460	19,582,100	24,918,966
Spain	2,345,645	3,187,696	4,894,300	9,052,300	13,669,000
Other countries	983,753	1,865,708	5,620,100	10,529,800	11,249,966
Pay TV subscribers	1,149,260	1,751,860	2,369,800	2,489,500	982,506
Spain	-	200,000	282,090	440,100	633,059
Other countries	1,149,260	1,551,860	2,087,800	2,049,400	349,447
Active employees (*)	92,148	92,151	103,662	118,778	148,707
Operating revenues (**) (millions of euros)	12,056.6	14,202.5	17,465.5	22,957.0	28,484.9
Financial debt (millions of euros)	11,704.4	13,926.6	19,211.0	20,824.4	26,950.9
Investment (millions of euros)	4,352.8	3,959.9	4,417.9	7,185.3	21,128.6
Cash flow (millions of euros)	4,875.6	5,778.3	6,515.6	8,984.9	10,466.4
Net earnings (millions of euros)	963.3	1,142.3	1,307.7	1,804.7	2,504.7

(*) yearly average.

(**) Tangible and intangible. Includes advances to suppliers and installation materials.

Letter from the Chairman



César Alierta
Chairman of Telefónica

Dear Shareholder:

For years now, the telecommunications sector has been marked by fast growth and rapid change driven by three parallel and closely related factors: globalization, the acceleration of technological change and the unrelenting reconfiguration of business groups.

Traditionally, these circumstances have been reflected in the rising stock market valuation of the sector's main players. During the past year, however, this situation changed temporarily as a consequence of the need to undertake new technological developments and open up new service horizons and business opportunities.

This is, in fact, nothing new. Historically, telecommunications companies have always had to innovate, staking enormous investments on future developments. The results are in general use today, and without these investments the current level of development of our society would be unthinkable.

For a Company such as Telefónica, which occupies a leading position in the world ranking and whose mission is to play a key role in the sector, the launch and development of new technologies and the design of new services is both an inescapable requirement and a tremendous opportunity.



Nevertheless, any business must weigh the risks involved and address them from the point of view of returns. In Telefónica, we have succeeded in uniting these two criteria with prudence, and our activity has been recognized by the leading international rating agencies. In fact, Telefónica is currently at the head of the sector in Europe, in terms of market capitalization.

The Group has a presence in 46 countries with over 68 million customers, generating revenues of 4.7 trillion pesetas and net profits of 416 billion pesetas. These figures clearly reflect the Group's strength today and its potential for growth and expansion in Latin America, Europe and North Africa.

Telefónica is a vibrant project in a state of constant evolution. Starting from its position as a global operator, our intention is to consolidate Telefónica's position in all of its markets and business segments. It is only through leadership that Telefónica will be able to play a significant role in an increasingly competitive sector which, as I mentioned at the beginning of this letter, is subject to relentless restructuring.

Our Company has developed and grown in a highly competitive environment to become the leading multinational in Spanish and Portuguese speaking markets. We hope soon to conquer commanding positions in other markets.

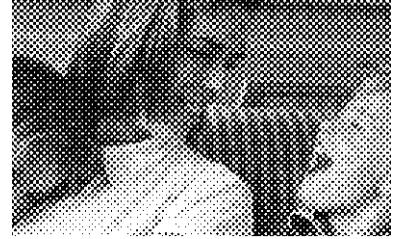
The Annual Report provides detailed information on the activities undertaken by Telefónica in 2000. The current situation of the company represents an excellent starting point from which to take up new challenges and seize the opportunities undoubtedly awaiting us in the future. We may thus look forward to an exciting project, and, at the same time as thanking you for your confidence to date, I wish to invite you to share this future.



César Alierta
PRESIDENT OF TELEFÓNICA

Telefónica has improved its position in the global ranking of operators by market value; at the same time, it has reorganized its assets into global Business Lines

A consolidated
project



Telefónica, S.A. acquired, in the year 2000, all the shares it did not yet own of Telefónica de Argentina, Telefónica del Perú, Telesp and Tele Sudeste Celular

Telefónica, S.A.

During the year 2000, Telefónica has reinforced its position as one of the leading players in the global telecommunications market. In a year of sharp stock market swings, Telefónica has climbed in the ranking of operators by market value; meanwhile, it continued its internal reorganization process to consolidate its position in the new global framework in which the industry is now operating. In this regard, it has achieved major progress in the process of organizing its assets into worldwide Business Lines.

There have been five milestones during the year: the Latin American Tender Offers, the creation of Telefónica Móviles and Telefónica DataCorp, the stock flotation of Telefónica Móviles, Terra's purchase of Lycos, and the acquisition of Endemol.

Latin American Tender Offers

The tender offers launched by Telefónica, S.A. in Latin America on January 12, 2000 and completed during the month of July, plus the purchase of the shares held by the Argentinean partner CEI (completed in December 2000), permitted Telefónica, S.A. to significantly increase its holdings in the main operators: Telefónica de Argentina (from 28.8% to 97.9%), Telesp (in Brazil, from 17.5% to 86.6%), Telefónica del Perú (from 40% to 93.2%), and Tele Sudeste (from 17.6% to 75.6%), through an unprecedented public share purchase offering. The operation, known as "Operation Verónica", opened the door to the Group's reorganization into global Business Lines by permitting asset organization to be determined by business activity instead of by country.

Organization by Business Lines

Early in the year, two worldwide Business Lines were created: Telefónica Móviles and Telefónica DataCorp joined the other three created the previous year (Terra, Telefónica Publicidad e Información (TPI) and Telefónica Media). Each of these Lines was created with the objective of becoming a global leader in its sphere of activity. Others would be



added later, such as Atento, Business to Business and Emergia, and Telefónica Latinoamericana would take shape as the Business Line responsible for fixed telephony assets in the Americas. The scheme is completed with Telefónica de España as the company responsible for fixed telephony business in Spain, which is the business that provides the greatest cash flow to the global balance sheet.

Of the above, two companies played a major role during the year: Telefónica Móviles, which was listed on the Stock Exchange and marketed the first mobile Internet services, and Terra, which acquired the U.S. company Lycos, and created Terra-Lycos. Both of these developments are treated in greater detail below, in the sections devoted to each of these businesses.

Regarding the remaining Business Lines, the year 2000 has seen the most traditional business -fixed telephony- resist with considerable success the opening of the market to competition, while at the same time it developed its future plans with a gradual move to Internet services and the integration of voice, Internet and TV services using broadband networks.

Conventional data transmission services evolved towards integrated corporate services thanks to Telefónica DataCorp's strategy of consolidating its international expansion on the basis of a large-capacity communications infrastructure between Europe and the Americas.

In the Media business, the acquisition of Endemol, a leading producer of content for television and the Internet, was an action taken in the present context of convergence between the content production and communications industries.

A similar integration and international expansion route has been taken by TPI, Atento, Emergia and Business to Business.

Corporate strategies

The organization by Business Lines was developed further thanks to the corporate strategies designed to obtain the greatest possible synergies from the coordinated action of different areas. For example, in past years, important results were obtained with shared purchasing policies with the implementation of an Advanced Purchasing System. In the last few months, other cost optimization systems such as the Shared Service Centers which have achieved major progress and will be further developed during 2001 onwards; the coordinated information system strategies, the first implementation of human resources actions on a global scale (the TIES plan is the most significant), as well as the coordination and development of actions that could be grouped under the generic term of "Institutional Relations".

The Employee's Stock Options Plan (TIES) is an innovative system with the participation of 85,000 employees in over 70 group companies in 12 countries



Human Capital

Since the new business model was created, one of the main challenges faced by Corporate Human Resources has been to make Telefónica's Human Capital a clearly differentiating factor and a competitive advantage over the competition, by aligning Human Resources actions, policies and programs with Telefónica's new culture, and giving the new model consistency.

All development, identification and training programs are oriented towards this goal, as are specific actions with a global scope, notably the launch of the Employee Stock Options Plan (TIES).

This Program is based on the expected long-term increase in share value, and on a double commitment: by the company and the employees.

Following the approach that has always characterized the Group, Telefónica has once again pioneered a remunerative system, which is the first time that a plan such as this has been established for over 85,000 persons, working in more than seventy companies in 12 different countries on three continents. Furthermore, its features are the same for everyone.

Likewise, the High Potential Youth (JAP) Corporate Program, which is becoming consolidated as a program to identify and develop young people with great potential within the Telefónica Group.

The expansion of Telefónica outside its natural markets has been boosted by Telefónica's presence in universities and internationally recognized business schools, in order to present the Group's business project, and to identify professionals who may in the future contribute to Telefónica's development and its constant commitment and high standards.

The Results and Performance Evaluation System (SRD), that is already being used throughout the Group, permits defining and evaluating each person's objectives and rewarding the individual talent and dedication of every professional.

Among the Company's training programs, the most outstanding is the Senior Management Telefónica Harvard-IESE training course, which is being given to the Group's entire management team, and will continue to be given throughout this year. The Program is designed to maintain that Telefónica as a highly effective, dynamic and competitive organization.

Institutional Relations

In the field of Institutional Relations, and in an environment in which regulatory measures can have a significant impact on the group's



Throughout the year, actions have been taken to constantly consolidate and increase the value of the Telefónica brand in its global expansion process



results, Telefónica's activities strive to define and consolidate collaboration with administrative, regulatory, industry, and cultural bodies, as well as constantly improve its performance for the shareholders of all the Group's companies listed on the Stock Market.

The goal is to reinforce our efforts, in order to achieve the best possible results for the company, while, at the same time, developing the leading role that Telefónica's position demands: as a promoter of extending the Information Society in all the geographical areas in which Telefónica operates, bringing this business project closer to society.

Throughout the year, actions have been taken to constantly consolidate and increase the value of the Telefónica brand in its global projection, and new brands such as Atento, Emergia, Terra Lycos, Adquira, Atlanet, e-moción, Terra Mobile, and Meditel have been created and developed. Likewise, Vía Digital, Spain's digital TV platform, whose main shareholder is Telefónica Media, has been repositioned, and its image has been changed.

Grupo Telefónica's brand image, based on innovation, proximity, and commitment, uses sponsorship of sporting, institutional, cultural and social events as a vitally important tool. Therefore, maximum effectiveness is envisioned through the use of profitable and efficient actions to achieve an image that is appropriate for the leading Spanish

multinational and the principal telecommunications operator in Latin America, with a potential customer base of over 500 million persons.

In the field of advertising investment, following maximum resource optimization criteria, we have continued to expand the application of centralized purchasing of media advertising, a process begun in Spain in 1997, which already extends to Argentina, Chile and Peru.

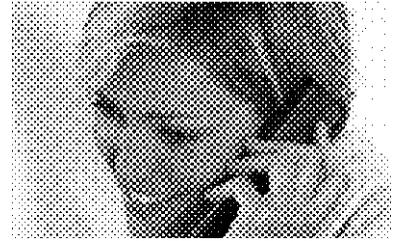
Likewise, we have fostered the process to unify internal communications media for the more than 148,000 employees in the Group and, in the on-line communications field, we have created a single model for the Group's presence on the Internet, which is embodied in websites for the different Business Lines and countries.



Since the new business model was created, one of the main challenges faced by Corporate Human Resources has been to make Telefónica's human capital a clearly differentiating factor and competitive advantage over the competition

*Fixed line telephony is
the Group's main
source of cash flow, and
in 2000 this business
earned revenues
totalling EUR 22,766
million*

Fixed line Telephony



Telefónica de España's decisive bet on broadband services is reflected in the significant increase in the availability of ADSL lines.

Fixed telephony

Fixed line telephony is the Group's main source of cash-flow. In 2000 the business earned revenues totalling EUR 22,766 million, of which EUR 10,183 million were generated in Spain and the remainder in the Americas. The business in Spain is run by Telefónica de España, while the Latin American operators form part of Telefónica Latinoamericana.

Telefónica de España

The liberalization of telecommunications in Spain was completed in 2000, and the outcome of this process confirms the successful adaptation of Telefónica de España to the new business environment. The three key factors behind the Company's business are its dynamic

commercial policy, the growing importance of new services and the optimization of management, which has made Telefónica one of Europe's most efficient operators.

In June 2000 the Spanish Government approved a raft of major liberalizing measures, which continued in December when the Commission for Economic Affairs approved the Subscriber Loop Service (Oferta de Bucle de Abonado or OBA), establishing the price payable by operators for access to the subscriber loop at EUR 13.0 per month. This measure was implemented as a result of the European Economic Community's recommendation to member States that they should take steps to ensure that the local loop was open to competition. Indirect access for local traffic and the opening of the loop will enable subscribers to choose their operator for metropolitan calls from 2001 onwards.

As a consequence of these measures, Telefónica de España has greater freedom to set prices since August 2000 in accordance with the "Price Cap" regime. This will give the Company greater commercial flexibility and help with the rebalancing of rates.

Meanwhile, Telefónica has continued with its efforts to recover the Access Deficit, and has requested permission to correct the imbalance in rates with a proposal to increase monthly subscription charges to bring them into line with actual costs. In April of 2000 after



Telefónica de España has implemented an active price reduction policy. The "Europa 15" plan, which is aimed at international traffic had 193,698 subscribers by December 2000, while the "Pais 30" plan for interprovincial traffic had 478,839 subscribers



In July Telefónica de España launched "Telefónica On-line" an interactive communications channel between the company and its customers. The launch included an original advertising campaign in various communications media

revision of the price cap, Telefónica was allowed to raise the subscription charge by stages, so that by the end of 2003, this charge will stand at EUR 12.62. Telefónica de España also expects the Regulator shortly to approve compensation for the incumbent operator's obligation to provide the universal service via the Spanish National Compensation Fund for the Universal Service (not yet started up).

In response to the new market rules, Telefónica de España has launched an active commercial policy based on price cuts to generate customer loyalty and gain market share. The discount plans have met with an excellent reaction and franchised products have boosted use of the service to reach 16.83 minutes per line per day at the end of 2000. This represents growth of 25.6% compared to 1999.

In November Telefónica de España launched a flat rate Internet charge, as well as an economy subscription plan for metropolitan traffic. Both of these offerings were extraordinarily well received by the market.

The success of this commercial policy has meant that the loss of market share in all areas has been moderate and less than what was initially foreseen at the start of the year, both for traffic and lines.

Telephone traffic has continued to increase, thanks to the excellent customer response to discount plans and economy subscription plans for metropolitan traffic, as well as the growth of new services, which have been responsible for the excellent performance of

market share. The "Europa 15" plan for international traffic had 193,698 subscribers in December, while the number of subscribers to the "Pais 30" plan, aimed at interprovincial traffic was 478,839. The "Bono Ciudad" and "Bono Ciudad Plus" economy plans for metropolitan traffic had 260,065 and 435,576 subscribers, respectively, at the end of the year, which was above all expectations. Finally, over 74,000 customers now enjoy flat rate Internet access.

Telefónica de España's decisive move into broadband services is reflected in the marked increase in the number of ADSL lines. At the end of the year, there were 12.5 million ADSL lines, well above the objective of 10.5 million, and 100 GigADSL nodes and 633 DSLAM concentrators had been installed. At the end of December 2000 there were some 47,950 users.

The roll-out of broadband means GigADSL technology reaches 90% of Telefónica de España's exchanges, with 54,920 km of optical fiber laid at the year end. This has enabled Telefónica de España to offer not only high-speed Internet access, but also multimedia services such as video, television, video-conferencing, and music on demand. The fibre optic network connects all cities with over 10,000 inhabitants, representing 66% of customers. Also, 100 DWDM systems have been installed in the Transportation Network, making further headway with the task of modernisation.

ISDN also continues to meet with an excellent response, with 77.9% growth in basic services and 632,466 lines in service. Primary access has increased by 52.8% to reach 13,639 accesses in service.

Continuing with the policy of constantly upgrading and extending the services offered to the customer, the Company has launched the network caller identification service (CAR), which is currently used by over 9 million customers. Meanwhile, voicemail boxes have taken some 1,811 million calls throughout 2000.

Profit and Loss Account

Telefónica de España's sales declined by only 0.3% compared to the preceding year, mainly as a consequence of the EUR 0.6 increase in monthly subscription charges applied from August onwards and the rapid expansion of ISDN and Wholesale Services. The growth rates achieved in these services largely offset the decline in market share, as well as the fall in effective revenues per minute as a result of the reduction of rates/prices and the intensification in the volume of discounts. The growing importance of new services (Internet access, ISDN, broadband, Centrex, Intelligent Networks and VPN), which have maintained a combined growth rate of over 45% and now represent over 17% of total revenues, clearly demonstrates the Company's

commitment to the expansion and development of advanced services.

Tight control of spending, which continues to be affected by costs related to revenue generation (interconnection and commercial), has been maintained. Operating expenses prior to interconnection have decreased by 1.8% and, together with the strong performance of sales, this has meant that EBITDA has declined by only 10.5%, which is considerably better than initial forecasts for 2000.

Telefónica de España has continued its firm commitment to apply cost-reduction programs, which have enabled it to become one of Europe's most efficient operators. At the end of 2000, the workforce comprised 41,193 employees, and the productivity ratio, measured in terms of equivalent lines in service per employee, stood at 493.2, up 19.6%.

With a view to the future, Telefónica de España has stated its commitment to continue with a policy of efficiency and innovation based on customer relations and a clear bet on quality as the key factor differentiating the Company from its competitors. The Company also intends to press ahead with its transformation into an "e-company".

Telefónica Latinoamericana

As a consequence of Operation Veronica, described at the beginning of this report, and the subsequent segregation by lines of business

The U.S. carrier CTI was acquired in November 2000

FIXED TELEPHONE LINES IN SERVICE IN LATIN AMÉRICA

(in thousands)

	DEC. 99	DEC. 00	% CHANGE
Chile - Telefónica CTC	2,592	2,701	4.2%
Argentina - TASA	4,041	4,327	7.1%
Perú - TDP	1,689	1,717	2%
Brasil - TELESP	8,251	10,596	28%
Venezuela - CANTV (*)	2,586	2,606	0.8%
Total lines in service	19,159	21,947	15%

(*) without management control

carried out by Telefónica, S.A. in 2000, Telefónica has become Latin America's largest single investor and is now the undisputed leader in the fixed telephony business, managing over 19 million lines. The integrated management of the fixed telephony businesses in Latin America will generate very significant synergies and economies of scale. This is expected to lead to an increase of 120% in the contribution made by Latin America to the results of the Telefónica Group in 2001.

Telefónica Latinoamericana's geographical expansion during the year has been marked by the acquisition in November 2000 of the US-based carrier CTI, which will be incorporated into the international traffic management model of the Latin American operators. This should lead to a notable increase in inbound traffic from the USA. The high level of capillarity in the Telefónica Latinoamericana operators, coupled with the Emergia fiber optic network, will enable Telefónica to offer optimum connectivity to corporate customers.

The rapid expansion of operations in Brazil throughout 2000 has made it possible to offset the effects of recession in Argentina and Peru and the impact of the new tariffs decree in Chile.

At 31 December 2000, Telefónica Latinoamericana had a total of 22 million lines in service, of which 19.3 million were managed directly. This represents year-on-year growth of 15%.

Telefónica Latinoamericana generated IBITDA in excess of 5,300 million euros in 2000, accounting for more than 45% of the Telefónica Group's total EBITDA.

Brazil

Telesp, the operator in São Paulo State, had a total of 10.596 million lines in service at 31 December 2000, representing an increase of 28% compared to the preceding year.

The rate of new monthly subscriptions of lines was 215,000 subscriptions/month, with a 53% cut in waiting lists. A digitization rate of 94% was achieved for the network, while productivity increased to 790 lines/employee, making Telesp one of the world's most efficient operators.

Telesp has developed an aggressive plan for the deployment of ADSL in São Paulo which is intended to bring the number of ADSL lines close to figures for European countries such as Spain or the United Kingdom.

In October 2000, Telesp sold its interest in Ceterp Celular to Telesp Celular, whose majority shareholder is Portugal Telecom. At the same time, Telefónica Internacional and Portugal Telecom exchanged their respective shareholdings in SPT (the holding company for Telesp fixed

The network in Brazil reached 94% digitisation, while productivity rose to 790 lines in service/employee, making the Brazilian company one of the world's most efficient operators



telephony) and Portelcom (the Telesp Celular holding company). This operation has enabled Telefónica Internacional to increase its interest in Telesp by 4.7 points.

Telesp will bring forward compliance with requirements in the State of São Paulo to 31 December 2001, enabling the Telefónica Group to opt for licences to provide telecommunications services of all kinds in Brazil without territorial restrictions. The potential market to which Telefónica will gain access is equivalent to its current fixed telephony business in the State of São Paulo.

Argentina

Telefónica de Argentina (TASA) had 4.327 million lines in service at 31 December 2000, representing growth of 7.1% with a particularly significant increment in local/line traffic as a consequence of the positive evolution of internet traffic.

At 31 December 2000, TASA's share of the local, long distance national and international markets was 52%, 41% and 47%, respectively, and the Company has thus maintained its position as the country's leading telecommunications operator. The market was fully liberalized in November 2000 resulting in a 50% cut in interconnection charges and the launch of direct dialling for long distance competition, though

this will not actually take effect until the end of 2001. In 2000, TASA achieved a productivity gain of 12% to 494 lines in service per employee.

Chile

Telefónica CTC Chile had 2.7 million lines in service at 31 December 2000, representing year-on-year growth of 4% in comparison with 1999. Lines in service per employee have increased from 459 in 1999 to 582 in 2000, making the company the Group's second most productive operator.

In 2000 Telefónica CTC Chile has for the first time experienced the impact of the tariffs decree over the course of a full fiscal year. The Company has succeeded in cutting costs significantly. In the second half of the year, CTC Chile launched the LDN flat rate.

Perú

Telefónica del Perú had 1.7 million lines at 31 December 2000, mainly as a result of marketing innovative prepaid products specially adapted to the Peruvian market and aimed at low-income segments of the population. Digitization reached a rate of 96%, while vacancies declined by 2 points.



Telesp will bring forward compliance with objectives in the State of São Paulo, thus enabling the Telefónica Group to opt for the provision of telecommunications services throughout Brazil without restrictions

The opening of the market in November 1999 did not have a significant impact on the loss of market share for long distance national calls, which remained at around 96%. Negotiation of the new Tariffs Decree commenced in January 2001, although it was initially planned for June 2001. This will give rise to a cut in interconnection charges of 42%.

During 2000 the company has made a major effort to rein in costs, which has enabled it to maintain an EBITDA margin of 69% and to increase the ratio of lines in service per employee to 516 LIS/employee.

Puerto Rico

TLD, the long distance operator in Puerto Rico, restructured in 2000, resulting in a 21% cut in the total workforce.

Objectives for 2001

Growth in the region is expected to stabilize in 2001, and the outlook is for inflation to remain generally moderate in line with 2000.

A summary of Telefónica Latinoamericana's overall objectives for 2001 is as follows:

- To consolidate Brazil as the basis for the future growth of Telefónica Latinoamericana by bringing forward compliance with the Telesp requirements from December 2003 to December 2001. This would enable Telefónica to provide long distance international services in São Paulo and fixed telephony services of all kinds throughout Brazil.
 - Defence of the profitability of TASA and Telefónica del Perú (TDP) in the new competitive and regulatory environment.
 - Minimization of the negative impact of the tariffs decree on Telefónica CTC Chile.
 - Materialization of synergies following the successful completion of Operation Veronica through the use of Shared Service Centers, the development of Competence Centers, adoption of common information systems and changes in the production system. These actions should provide efficiency gains and reduce spending.
- At the same time, the operators will continue with common projects (such as the expansion of broadband), development of regional products and e-business initiatives with centralized financing from Telefónica Latinoamericana.

SIGNIFICANT VARIABLES OF LATIN AMERICAN OPERATORS (1)

(Millions of dollars)

	OPERATING INCOME		EBITDA BEFORE FM		NET RESULT	
	Jan-Dec 2000	% change 99/00	Jan-Dec 2000	% change 99/00	Jan-Dec 2000	% change 99/00
Brasil - TELESP	3,363	31%	2,213	42%	801	51%
Argentina - TASA (*)	2,858	3%	1,686	(1%)	343	(25%)
Chile - Telefónica CTC	956	(10%)	423	(7%)	(120)	15%
Perú - TDP	1,019	2%	706	2%	114	(37%)
Puerto Rico - TLD	80	(1%)	(1.3)	c.s.	(12.9)	347%
Venezuela - CANTV	2,603	(5%)	1,070	(8%)	65	(51%)
Aggregated under management (**)	8,276	11%	5,027	14%	1,125	6%

(1) Excluding mobiles results

(*) Oct. 1999 - Sept. 2000

(**) Excluding CANTV due to outside management control



ECONOMIC DATA BY COUNTRY

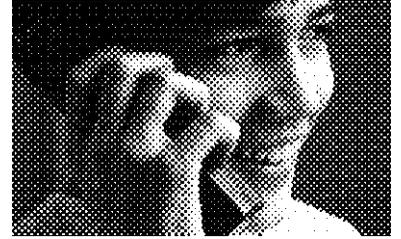
	Population (millions)	Per cápita GDP (dollars)	% GDP growth (year 2000)*	% GDP growth (year 2001)*	% Inflation (year 2000)*	% Inflation (year 2001)*
Chile	15.24	4,656	5.6%	5.7%	4.50%	3.80%
Argentina	37.0	7,686	0.7%	2.8%	0.2%	0.90%
Perú	25.7	2,112	4.0%	2.5%	4.00%	4.50%
Brazil (**)	35.1	5,248	3.9%	4.2%	6.40%	4.60%

(*) Estimated at 31/12/00

(**) Population and per capita GDP of São Paulo State

*Telefónica Móviles has
positioned itself as one
of the world's ten
largest groups by
number of subscribers*

Móviles



*At the end of 2000,
Telefónica Móviles
managed 23.2 million
subscribers*

Telefónica Móviles

Five key events made 2000 a milestone year in the recent history of the Telefónica Group's mobile telephony business:

- At the beginning of the year the Group created Telefónica Móviles, S.A., the new holding company for all of its cell-phone businesses except, for the moment, the companies operating in Chile and Puerto Rico.

- Five third generation (UMTS) licences were obtained in Spain, Germany, Italy, Switzerland and Austria, thus expanding Telefónica's sphere of influence to the European market.

- Telefónica was able to consolidate its presence in the Latin American market following the success of Operation Veronica in Argentina, Brazil and Peru and the agreement reached with Motorola to acquire that company's four mobile operators in northern Mexico.

The consolidation of the market has received a further boost from the integration of Telefónica Móviles' operators in Brazil with those of Portugal Telecom under the agreement made in January 2001.

- Telefónica Móviles clearly demonstrated its commitment to service innovation with the June 2000 launch of the wireless internet service portal (WISP) "e-moción" in Spain and Latin America and the creation of Terra Mobile in conjunction with Terra Lycos. This new company will establish, develop and operate the Telefónica Group's global mobile portal in all of the countries where Telefónica Móviles operates.

- Telefónica Móviles was floated in Madrid and New York through an initial public offering (IPO) which was the largest operation of its kind in the history of the Spanish stock market. The flotation was a complete success, with total demand for the shares running at 5.76 trillion pesetas.

As a result of the actions described above, Telefónica Móviles has been able to position itself among the world's ten leading groups by customer volume and establish a firm foundation for its mission to become one of the top global operators.

At the end of 2000 Telefónica Móviles had 21.8 million customers in the companies forming part of the group. If the Telefónica, S.A. subsidiaries in Chile and Puerto Rico, which are



managed by Telefónica Móviles, are included, this figure rises to 23.2 million customers.

On both counts, the spectacular growth enjoyed by the cellular market is apparent, with increments of 52% and 49%, respectively.

All of this has been achieved while Telefónica Móviles has remained the undisputed leader in the majority of the markets where it operates, in an environment marked by intense competitive pressures.

Telefónica Móviles Spain

At 61%, penetration in the Spanish market increased by 23 points during the year. At the end of 2000, the Spanish market had a total of 24.3 million users, representing growth of over 62% during the year.

At 31 December 2000 Telefónica Móviles España closed one of the years, and probably stages, involving the fastest annual growth in terms of customers. During the year, the total customer base grew to 13.669 million, representing a 51% increase (4.617 million new connections). As a result, the Company's market share grew to over 56% and, what is more, the gap with the second operator has widened to 6.7 million customers.

Commitment to the customer

As a consequence of the organisation's strong culture of and commitment to continuous improvement of the quality of service offered to the customer, Telefónica Móviles was once again the first mover in a highly competitive market with the launch of the MoviStar Plus program at the beginning of 2000.

This new subscriber contract rewards customer loyalty to the service by means of reductions in the monthly subscription charge and the inclusion of a points scheme. MoviStar Plus has met with an excellent response in the market, as demonstrated by net subscriber gains for the contract running at 2.5 times the 1999 rate.

The professional segment of the market has also continued to show strong growth with over 800,000 new additions over the year, mainly in the MoviStar Enlace and MoviStar Corporativo 2000 services, which are ground-breakers in the local market.

Ongoing innovation

Another highly significant facet of the Telefónica Móviles culture is ongoing innovation in products and services and the launch of firsts



ahead of the market as a whole.

In 2000 Telefónica Móviles España developed and launched the e-moción Internet access service. e-moción provides a basic tool and platform for accessing the portals of content providers, as reflected in the slogan "el mundo en tus manos" ("the world in your hands").

In order to ensure content for this access portal, Telefónica Móviles Spain has entered into more than 128 agreements with content providers during the year, making a wide range of financial, news, sports, health, reservation and other services available to the user.

At the year end, Telefónica Móviles España had over 500,000 WAP subscribers, with over 6.8 million pages viewed in December.

In addition, and in line with the Company's constant concern to improve the services provided, Telefónica Móviles España has undertaken the roll-out of the GPRS network, also known as 2.5G, and is the first operator on the European scene to offer this service platform with full domestic cover.

GPRS is a packet switching technology, as opposed to the second generation data transmission technology which is based on circuits. GPRS thus offers speeds between 4 and 15 times faster than the current GSM system.

The new technology also introduces the "always on" concept,

which allows mobile communications users to remain connected to the internet or corporate intranet at all times. GPRS may be regarded as a way-station on route to the evolution of third generation UMTS technology. The service was launched in January 2001 after the successful conclusion of pilot tests.

Future projection

In March 2000 Telefónica Móviles España was awarded one of the four licences for the development of UMTS technology in Spain following the invitation to tender issued by the State at the end of 1999. The TME bid received the highest score out of all of the consortia participating in the tender.

This new step in the development of the cell-phone business in Spain will help maintain the Company's leadership in the sector.

Following the award of the licence, Telefónica Móviles España has made various agreements with the main technology suppliers in order to roll out the first stage of its third generation network in accordance with the undertakings given to the Spanish State.

The new wireless networks will enable operators to offer multi-media services as well as conventional voice and data traffic.

During 2000, Telefónica Móviles developed and launched e-moción, the WAP-based mobile internet access service



Constant innovation in products and services is one of the pillars of Telefónica Móviles' strategy

The Americas:

Brazil

The most significant feature of commercial operations in Brazil has been the dynamic growth seen in the prepaid segment launched at the end of 1999. By December 2000 the customer base totalled 4.629 million users with year-on-year growth running at 38%. In spite of tremendous competitive pressure, the Brazilian operators were able to hold their lead and consolidate a strong position in all cases.

One of the main events of the year was the initial presentation of WAP services as a market first in April 2000 and the subsequent commercial launch in July. As in Spain, WAP services are provided through the e-moción access portal. This service is available in all of Telefónica Móviles' operators in Brazil: Tele Sudeste, Tele Leste and Celular CRT.

At the beginning of the year automatic roaming agreements covering the countries in South America were reached in collaboration with the various Telefónica cell-phone companies operating in the area, and the Brazilian operators joined the Americas service together with Spain.

Within the corporate segment, 2000 saw the commercial launch of the Movistar Gestión application. This service is specifically aimed at the business segment and includes facilities for the control of expenditure.

Significant initiatives have also been taken in the consumer section. These have been aimed in particular at the market niches corresponding to the Movistar Top service and the Movistar Torpedo messaging services, both of which were launched commercially during the year.

The agreement for the integration of the Brazilian mobile operators of Telefónica and Portugal Telecom reached in January 2001 will enable Telefónica Móviles to consolidate its position as the undisputed leader of the Brazilian cell-phone market. The resulting company will group companies with a total of over 9.3 million customers at the end of 2000, and a majority share of the market in States which account for over 70% of Brazil's GDP.

Argentina

The first full year since the merger of TCP with Miniphone was closed at 31 December 2000. The work of harmonizing the services



commercialized in the various regions of the country has been undertaken during this period.

In terms of the volume of customers, Telefónica Comunicaciones Personales (TCP) has seen some of the fastest growth of all the Telefónica Móviles operations in America with a 67% increment resulting in a total of 1.757 million customers at the year end. This extraordinary growth in the customer base has enabled TCP to consolidate its position as Argentina's second operator, after jumping two places in the ranking in the space of one year.

After obtaining the PCS licence in northern Argentina in 1999, Telefónica Comunicaciones Personales (TCP) has rolled out the PCS network in the region's main provinces. By December 2000, cover had been provided to over 50% of the northern region's population.

As in the case of Brazil, the "e-moción" internet access service was launched in Argentina in December 2000.

Perú

At 31 December 2000, the customer base of Telefónica Móviles S.A.C. totalled 898,173 with the inclusion of 186,000 new customers during

the year. As in the other American markets, the prepaid system has been the main growth driver accounting for 76% of the customer base.

Telefónica Móviles S.A.C. has succeeded in maintaining a market share of 65% measured in terms of net revenues, which translates into a market share of 69% when measured by customer. The Company has thus maintained its leading position in the Peruvian market.

The main event in the field of new products and service innovation has been the launch by Telefónica Móviles S.A.C. of the "e-moción" internet access service, which has been available since the month of June.

Chile

The year 2000 has been a watershed in the operations of Telefónica Móviles following the implementation of a profitable growth business model at the beginning of the year. This has improved the quality of the company's customer base. In spite of the strong competition surrounding Telefónica's operations in Chile, Startel had a total of 1.224 million customers and a market share of 36% at the year end.



Central América

Operations in Central America, based on a presence in El Salvador, Guatemala and Puerto Rico grew overall by 129% in the first full year of operations.

El Salvador, with a base of 230,319 customers, saw growth of 74%, while Guatemala increased its customer base by 187% to 141,915 at the year end and Puerto Rico achieved annual growth of 221% to close the year with 149,329 customers.

Morocco

MediTelecom commenced its activity as Morocco's second GSM operator in April 2000. After obtaining the licence in 1999, MediTelecom has made a major effort to roll out its network and make the service available in only six months. What is more, it has simultaneously closed significant commercial agreements with the result that only nine months after its commercial debut, MediTelecom already has 515,139 customers and has far outstripped the initial forecasts for the year.

UMTS: A window on Europe

For some time now, one of Telefónica Móviles' key strategic objectives has been to find an opportunity to enter the wider market beyond the Pyrenees, since the Company is keenly aware that a presence in Europe is key to becoming one of the world's major operators.

The first UMTS licences were awarded at the beginning of 2000, initially in Spain where Telefónica Móviles obtained one of the four assigned, and subsequently in Germany, Italy and Austria. A licence was obtained in Sweden at the beginning of 2001.

From the outset, Telefónica Móviles' strategy was to ensure that its presence in the European market would be compatible with the expected return on the investment as well as to seek both technology and financial partners so as to limit the Company's exposure, without relinquishing control of operations.

The 3G Group, in which Telefónica Móviles owns a 57.2% interest and Sonera 42.8%, was awarded one of the UMTS licences in Germany at a cost of 8,471 million euros in August 2000. The investment made by Telefónica Móviles was thus 4,845 million euros.

The German market represents both an opportunity and a challenge for Telefónica Móviles. Thanks to the experience gained



The Terra Mobile portal offers an enormous choice of mobile electronic commerce (m-commerce), business, e-mail, games, fax, information and other services



Medi Telecom (Morocco) now has 515,139 subscribers, far above initial forecasts

in other markets, however, Telefónica Móviles expects to be able to place itself in a privileged position for the launch of its operations.

Telefónica Móviles intends to develop its operations with the help of the relations and experience of other Telefónica Group companies. Telefónica is already present in the German market through mediaWays, the second largest IP network operator in Germany and Terra Lycos, which is the second ranked internet portal. Also, lobox, a mobile internet portal in which Terra Mobile holds a participating interest, is present in Germany with over 782,000 registered users at the end of 2000.

In Italy Telefónica Móviles holds a participating interest of 45.59% in the IPSE 2000 consortium, and in November 2000 it obtained one of the two 2x15+5 MHz licences (the remaining three licences are 2x10+5 MHz) for a total investment of 3,270 million euros of which 1,285 million euros correspond to Telefónica Móviles.

In Austria and Switzerland, Telefónica owns 100% of the companies bidding for UMTS. Licences were awarded in both countries for 117 and 33 million, respectively.

Telefónica Móviles will continue to prospect for new opportunities to enter other markets in Europe, while strictly limiting the search to profitable investments.

Global businesses

In line with the concept underlying its business model, Telefónica Móviles has created two support companies: m-solutions, with the objective of facilitating mobile solutions for operators within the group, and Terra Mobile, whose mission is to boost the development of Internet services using cellular technology.

Telefónica m-solutions, which is 100% owned by Telefónica Móviles, acts as a consultant providing support for the operations of the companies comprising the current mobiles activity, as well as serving external customers. The main activities developed, or in course of development, by this company include the creation of "competence centers" designed to promote the transfer of best practice between markets and contribute to the development of a common culture and set of practices for all Telefónica Móviles Group operators. Also, a division has been created with the intention of pushing the concept of the e-business model further through the optimisation of companies' relations with customers, suppliers, distributors and employees using the advantages offered by the internet. Finally, Telefónica m-solutions has been responsible for the concept known within the Group as "Cellco in a box" which permits a swift roll-out of operations in new markets.



The Antena 3 – MoviStar news service provides mobile access to key current events over the subscriber's handset as they happen

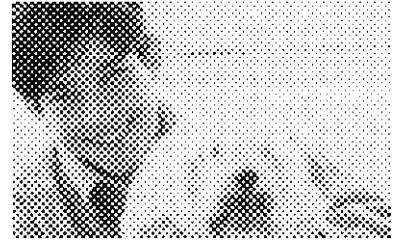
Terra Mobile is a joint venture established with Terra Lycos in which Telefónica Móviles holds a 51% stake. The objective of this company is to create, promote and operate a mobile internet portal. The Terra Mobile portal will enable customers to access a wide range of mobile electronic commerce (m-commerce) services, business, e-mail, games, faxes, information, etc.

In July 2000, Terra Mobile announced the acquisition of Iobox, a Finnish company which is one of Europe's leading mobile portals and content providers. At the end of 2000, Terra Mobile has 3,052,802 registered users and operates in the Finnish, Swiss, German, UK and Spanish markets.

Finally, Telefónica Móviles and Banco Bilbao Vizcaya Argentaria (BBVA) incorporated the company Mobipay International, which is currently 50%.

*The highlight in the
field of commercial
activities has been the
strategic alliance
formed with America
On Line in December*

Corporate
Services



During 2000 the Data Business has been spun off from the operations of the Telefónica Group in Brazil-Sao Paulo, Argentina and Peru within the framework of the bids made for control of its Latin American subsidiaries

Telefónica DataCorp

In 2000 Telefónica DataCorp has successfully consolidated the international presence of this global activity, laid the foundations to move up the value chain with services provided to corporate clients, the natural client base, and reached major strategic agreements with both Spanish and international clients.

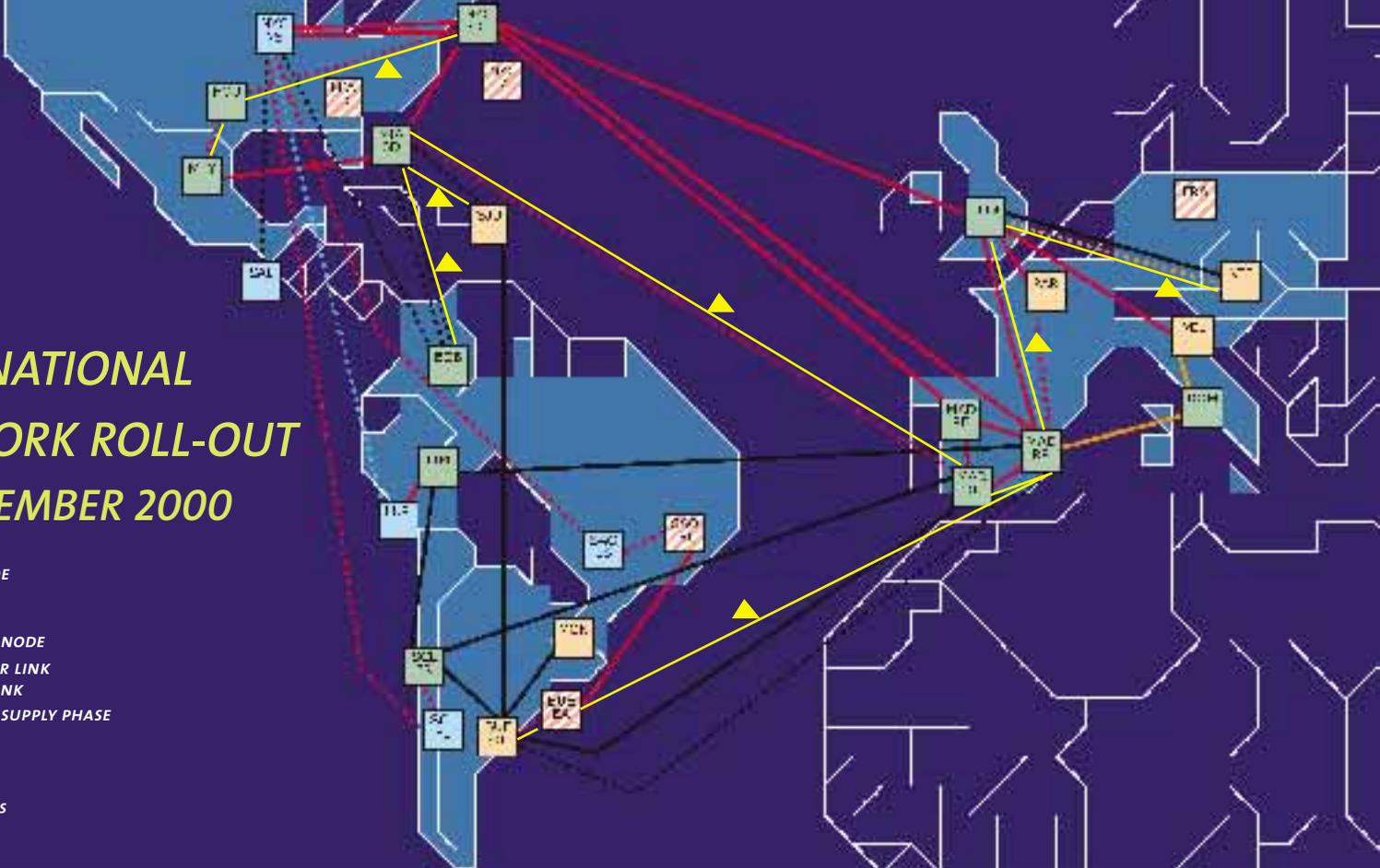
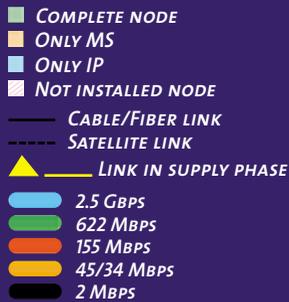
International expansion in 2000 has seen the segregation of the Data Business in the Telefónica Group subsidiaries in Brazil-Sao Paulo, Argentina and Peru within the framework of the tender offers made for the Latin American subsidiaries. The remaining actions necessary to execute this segregation and the contribution of the new spin-off companies to the Telefónica DataCorp Group should be completed within the first half of 2001. The results of the Telefónica DataCorp Group for 2000 do not yet include the consolidation of the operators

affected by the tender offers, although they are already functioning as if they formed an integral part of the Group, which has been active in supporting their efforts to achieve business objectives in corporate Data and Value Added Services.

In addition to the effort made with the operators spun off during the year, Telefónica DataCorp has laid the foundations for the consolidation of its business in America with the incorporation of new subsidiaries in Mexico, Uruguay and the United States, as well as backing the expansion of the Telefónica Group's European presence. Telefónica DataCorp has thus taken over the operations of European Telecom International (Austria) and ACEA-Telefónica (Lazio-Rome) from Telefónica Intercontinental. Both of these businesses have been re-engineered this year to focus on corporate communications. In Italy, Telefónica DataCorp has acquired Telexis, a FIAT Group company specializing in communications, which has been integrated with ACEA-Telefónica to create Atlanel. In Germany, a deal has been worked out with the Bertelsmann Group to incorporate mediaWays (Germany) into the Telefónica DataCorp Group during 2001.

International investments have continued apace during the year to create and consolidate Telefónica DataCorp's international network, which will serve as the platform providing all international data services

INTERNATIONAL NETWORK ROLL-OUT IN DECEMBER 2000



required by the Telefónica Group companies, including international Internet access, from 2001 onwards.

In September, Telefónica DataCorp reached an agreement with Hispasat, which is 22.7% owned by Telefónica Media, to incorporate satellite technology into the international network. This will make it possible to scale up the capacity of Internet connection more quickly and expand the service offered in Latin American countries.

Significant progress has been made with the implementation of Telefónica DataCorp Internet Centers (TICs), as an integral part of the Telefónica DataCorp service strategy. The TICs provide a basis from which to provide value added services (web-hosting, applications and e-commerce platforms). At December 2000, Telefónica DataCorp had 1,792 m² of operational TICs at its facilities in Madrid (864m²), Miami (200m²), Sao Paulo (240m²), Buenos Aires (110m²) and Lima (387m²).

In the field of Professional Services over IP Technology it has been decided during the year that Telefónica Sistemas should be transferred to the Telefónica DataCorp Group.

The formalization of an alliance with America On Line Inc., the US-based world leader in interactive services, in December 2000, was a major event in the area of commercial activities. As a result of this alliance Telefónica DataCorp will provide network services (domestic switched access and international network capacity) to the main

America Online companies in key Latin American and European markets.

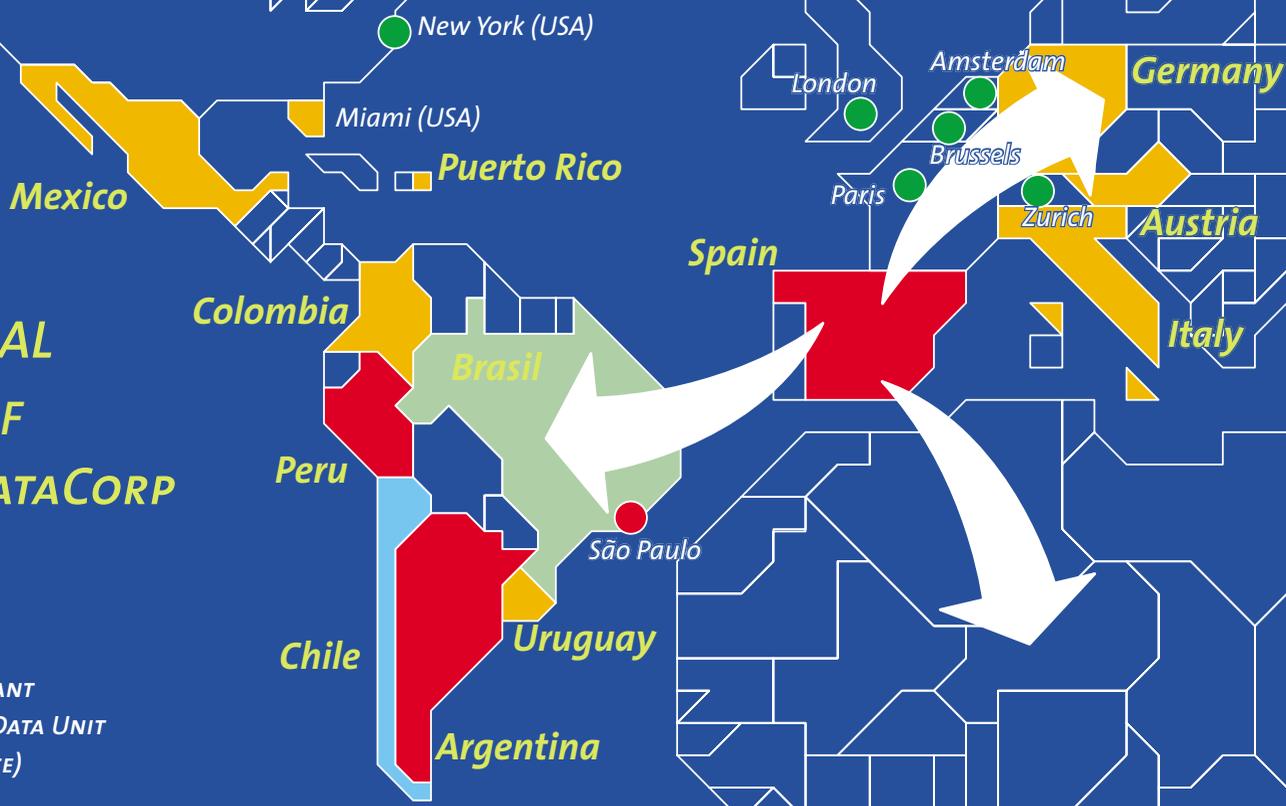
A framework agreement was made with Terra-Lycos in April, under which Telefónica DataCorp will provide connection to its backbone international network and access networks in the countries in which both companies have a common presence. Telefónica DataCorp will provide Terra-Lycos with access to its (IP protocol) Intranet, connecting up offices in Spain and nine other countries in America. This project is expected to generate revenues of half a million dollars per year for a period of three years.

An agreement was made with Banco Santander Central Hispano (BSCCH) in October to manage the banking group's International Network, which covers over 20 countries in Europe and Latin America. This project will require investment of around USD 6 million (approximately ESP 1,000 million) over the next three years. Repsol too has awarded the management of its International Network to Telefónica DataCorp, and Banco Bilbao Vizcaya Argentaria (BBVA) outsourced its international Back-up Network to this Telefónica Unit.

In the field of strategic alliances for the development of new services, Telefónica DataCorp entered into an agreement with VeriSign, a leading US provider of electronic security services for the Internet, in September 2000. This agreement relates to the incorporation of the U.S.

INTERNATIONAL EXPANSION OF TELEFÓNICA DATACORP

- TDATA CORP DOMINANT
- TDATA CORP NEW ENTRANT
- COLLABORATION WITH DATA UNIT
- POP (POINT OF PRESENCE)



company's digital certification solutions and public key infrastructures (PKI) into the data operators' range of solutions. Also, an agreement was made with Teldat in March for the joint development and worldwide marketing of services.

Results

As a consequence of these agreements and operations, the results of Telefónica DataCorp for 2000 reflect revenues of EUR 920.2 million (20.8% up on the prior year) generated in Spain, Colombia, Mexico, Uruguay, Austria and Italy, and EBITDA of EUR 44.8 million.

In 2000 Telefónica Data Spain generated revenues of EUR 717.8 million (24% up on 1999) and EBITDA of EUR 119.6 million (EBITDA margin of 16.3%). The revenues generated from Frame Relay services have grown 37.3% compared to the same period of 1999 and revenues from IP services by 146.3%.

The difference between the Group EBITDA margin and the margin achieved in Spain is a consequence of the integration of subsidiaries that are still in the early stages of their business development into the Group, as well as the significant expenditure incurred during the year to lease new international loops in order to establish the international

network in accordance with the objectives set by the Telefónica Group from 2001 onwards.

Within the Spanish subsidiary of the Telefónica DataCorp Group, the InfoNegocio.com service had attracted over 300,000 users by November 2000. At December 2000 the service has over 370,000 users, which is eight and half times the number of users at the end of 1999.

The Telefónica Data Spain IP Network carried over 1,100 million minutes of Internet traffic per month for the first time in March 2000, rising to 1,650 million minutes by December. This represents year-on-year growth of over 100%. During 2000, 43,108 ADSL connections to the Telefónica Data Spain IP Network were established.

On the basis of pro forma figures for Telefónica DataCorp prepared at December 2000 to include the income generated by the Data Operators in Argentina, Brazil-São Paulo and Peru, as well as the operators already included in the results announced at December 2000 and the mediaWays business, the volume of Telefónica DataCorp's business at the end of 2000 was in the region of EUR 1,487 million. This is the starting point for an exciting year in 2001, when Telefónica DataCorp will conduct its operations fully in accordance with the business model for the global business line initially implemented in 1999.

In this context, Telefónica DataCorp's activity will be structured around the following lines of business:

The expected CAGR worldwide for the period from 2000 to 2003 is in the region of 20% to 30% for the Data Communications business

- **Business Communications Services**, grouping all services provided using both conventional technologies (X.25, FR, ATM) and IP technology permitting connectivity services, data transmission, virtual private networks and integrated communications for business.

- **Internet Services**, comprising access to the IP Network/Internet for New Economy Players (ISPs, ASPs, B2Bs and B2Cs).

- **Hosting Services**, grouping Housing, Hosting, Content Distribution and Managed and Security Services.

- **IP Solutions**, grouping Consultancy, Projects, IP Systems Integration and Outsourcing services for our clients' networks, systems and applications.

Despite the concentration caused by the disappearance of the weaker dot coms (Telefónica DataCorp's natural clients), analysts remain positive about the outlook for the sector in which Telefónica DataCorp competes. The expected CAGR worldwide for the period from 2000 to 2003 is in the region of 20% to 30% for the Data Communications business, 90% to 100% for Hosting/ASP and 40% to 50% in Professional IP Services.

In this context, the key objectives are as follows:

1) To become the leading provider of data communication and Internet support services for Major Corporations and New Economy Players (ISPs, ASPs, B2Bs and B2Cs) within the Telefónica DataCorp's geographical area of influence.

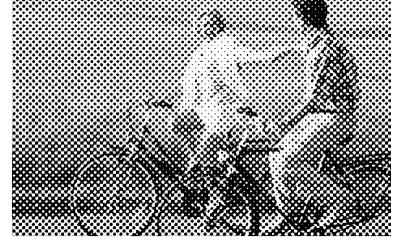
2) To boost value added services in order strengthen customer loyalty and offset the decline in the prices of basic data communications services.

3) To reaffirm the position of Telefónica DataCorp as a multinational activity within the Telefónica Group by consolidating its business and operational model in Latin America and Western Europe.

4) To build up an International Network capable of meeting the needs of all Telefónica Group International Data Services operators and providing connectivity with Internet backbones.

*Throughout the year
Terra has strengthened
its leading position in
the residential and small
business Internet market
worldwide*

Internet



Terra-Lycos was created in October 2000 as an exclusive platform bringing together Internet services

Terra

If 1999 was the year of Terra's birth, 2000 has seen it grow to become the world's third largest Internet company. This rapid growth has been partly based on expansion into other countries, but it is mainly the result of the acquisition of the US-based portal Lycos Inc. The active support of Telefónica and the fact that it was operating in a market undergoing tremendous growth meant that the Company started the year in an extraordinary position to capitalize on the opportunities lying before it. It would soon be seen that Terra Networks, S.A. was well able to seize the chance.

Throughout the year, Terra has first attained and then held on to a leading position in the Internet residential and small business market (SOHO) worldwide, becoming a point of reference in the sector. By the end of 2000, Terra had 6.1 million subscribers to its access service and

was receiving more than 10,000 million hits per month on the pages contained in its portals.

Expansion of the business into other markets

The expansion of Terra Networks, S.A. into Latin America commenced in June 1999 with Nutec Informática (currently Terra Networks Brazil) and has continued throughout 2000.

At the start of 2000, Terra had a presence in Spain and seven other countries (Brazil, Mexico, Argentina, Chile, Peru, Guatemala and the United States). This presence in Latin America has been significantly extended over the year (16 countries), which represents tremendous progress with the strategy of consolidation in the Americas. Expansion went ahead both through organic growth and acquisitions:

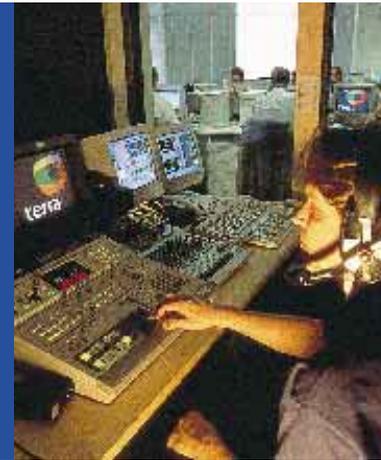
- Venezuela: Terra acquires the Venezuelan company Chévere, one of the country's most important web sites.

- Central America: Terra launches its portals in Guatemala (where it already had a presence), El Salvador, Nicaragua, Costa Rica and Panama to create Terra Centroamérica.

- Uruguay: Terra launches its portal with the aim of becoming the market leader.



By the end of 2000, Terra-Lycos had established a presence in 41 countries



- Colombia: Terra acquires the portal "La Ciudad", one of Colombia's leading portals in order to gain a leading position in the country's Internet market.

Acquisition of Lycos Incorporated

On 16th May 2000 Terra Networks, S.A. announced its intention of acquiring Lycos Incorporated, the third largest US portal and the main multi-brand portal on the Internet with a significant presence in Europe and Asia. The transaction gave rise to the expansion of the former Terra Networks, S.A. into numerous European countries, as well as certain countries in Asia (a total of 41 countries). At the same time, it represented the birth of the first truly global Internet company, Terra-Lycos, facilitating the convergence of services, content and distribution.

The new company was created on 27th October 2000 on the back of an exclusive platform uniting Internet services, new media, business and e-commerce services and next generation communications technologies.

The acquisition also gave rise to the creation of a new, global media portal on the Internet of a size and with a global reach far beyond those of any other media or Internet company in the world.

A key part of the merger agreements between the two companies was the position of Telefónica as the majority shareholder of the new company and its continued role as one of the main sources of value for Terra's business. Meanwhile, the collaboration agreement with Bertelsmann represents a major competitive advantage for the new Terra-Lycos in its efforts to achieve the objective of world leadership in the process of convergence.

As a part of this agreement, Bertelsmann will invest up to 1,000 million dollars in services of Terra-Lycos portals, which also have preferential access to Bertelsmann's content offerings.

Share capital increases

Upon the completion of all legal requirements (shareholders' approval, registration with the competent authorities, etc.), the acquisition of Lycos Inc. by Terra Networks, S.A. was carried out through a share swap. In accordance with the formula worked out for the swap, 2.15 shares of Terra Networks, S.A. were finally exchanged for each Lycos Inc. share.

Two share capital increases were carried out in accordance with the agreements made, as follows:

- Cash contribution:



With over 10 billion page hits per month, Terra is one of the world's most frequently visited websites

The share capital of Terra Networks, S.A. was increased by a nominal sum of EUR 70,967,742 through the issue of 35,483,871 shares of EUR 2 par value each, with a share premium of EUR 60 per share. Telefónica subscribed the increase for a total of EUR 2,200 million, making Terra one of the soundest of Internet companies from a financial point of view.

- Contribution in kind:

The capital of Terra Networks, S.A. was further increased by contributions in kind totalling EUR 604,063,948 through a rights issue comprising 302,031,974 ADRs of EUR 2 par value each. The increase was carried out on 27 October 2000, the execution date for the acquisition agreement. As required, the new ADRs were subscribed and paid by means of contributions in kind consisting of shares in the US company Lycos Inc.

Telefónica currently owns 36.27% of Terra and is therefore the majority shareholder of the company, which is fully consolidated with the parent company.

Listing on the "Nuevo Mercado"

The increasing presence in the Spanish stock markets of high growth companies whose volatility occasionally caused strangulation of share

trading made it ever more necessary to establish specific rules in this area. In response to this situation, a new segment, the Nuevo Mercado (New Market), was created in the Spanish Stock Exchange by the Ministerial Order of 22nd December 1999.

Terra Networks, S.A. has been listed on the Nuevo Mercado since its inception together with nine other Spanish companies.

Key operating and financial figures

At 31st December 2000, the ISP (Internet Service Provider) business of Terra Lycos had 6.1 million subscribers, representing an increase of 336% compared to the same period of the preceding year. The pages visited worldwide now exceed 10,000 million per month, making Terra into one of the most visited sites.

Pro forma revenues for 2000 totalled EUR 571 million, 116% up on the preceding year. Revenues generated from the Internet access business represented 24% of the total whereas the remaining 76% were from advertising sales and electronic commerce.

During 2000 Terra Lycos has clearly demonstrated that it is a leading Internet player. In a remarkably short time, the Company has built up a truly global business with key strategic partners and the

During 2000, Terra Lycos has clearly demonstrated that it is a leading Internet player

	IPO	TERRA DEC 00	TERRA LYCOS
(figures in millions)			
Subscribers	0.8	4.1	6.1
Pages visited	290	1,300	10,000
Revenues (**)	80	224	571(*)
Countries (number)	8	15	42

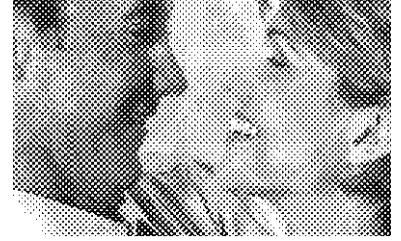
(*) *pro forma revenues*

(**) *euros*

support of Telefónica as the major shareholder. As a consequence, Terra Lycos has a unique business model based on the globalization of the market, convergence between the telecommunications, media and Internet worlds and a clear focus on increasing profitability.

*In 2000, TPI was listed
on the New Market
segment of the primary
Spanish Stock Exchange
market*

Advertising and Information (TPI)



TPI's international projection resulted in the incorporation of TPI Brazil and the acquisition of Publiguías, a Chilean company

Telefónica Publicidad e Información

The activity of the Advertising and Information Line of Business created around TPI has been marked by three factors: its projection in Latin America, the consolidation of traditional businesses and the development of new multimedia products.

The international projection of TPI centered on the incorporation of TPI Brazil and the acquisition of Publiguías (Chile). TPI Brazil was incorporated with capital contributed 51% by TPI and 49% by Telefónica Internacional to operate in the Brazilian directories market.

Publiguías is the leader in the Chilean directories market with a 90% market share, over 55,000 customers, a print-run of 1.2 million copies and a workforce of 448. The purchase of 51% of Publiguías' share capital by Telefónica Internacional was completed in December 2000.

It is further planned to acquire Telinver and Guitel, the publishers

of the Argentinean and Peruvian Yellow Pages during 2001 as a part of the process of reorganizing the Telefónica Group by global Business Lines.

TPI has adapted its structure to fit with its new dimension as an international business, creating a corporate headquarters to provide support to each of the subsidiaries and boost the development of the Latin American undertakings.

The TPI Group's revenues grew by 10.7% during 2000 from ESP 62,098 million in 1999 to ESP 68,714 million in 2000. This growth is basically attributable to the following three factors:

- The significant increment in the business achieved by TPI Brazil.
- The strong growth of multimedia products in Spain.
- The excellent performance and sustained growth of TPI paper products in Spain.

The performance of the Brazilian subsidiary's EBITDA as a result of the launch of TPI's activity in that country has meant that consolidated growth is lower than for TPI Spain on an individual basis, which achieved a 33.4% increase in its EBITDA margin.

Paper products

Sales generated by conventional products on paper formats continue to



Revenues generated by conventional paper products represent 95.9% of the TPI's total sales and have risen by 18% compared to the prior year to reach ESP 65,918 million



be the company's main source of revenue, representing 95.9% of the total. Conventional products sales for 2000 totalled ESP 65,918 million, 18% up on the preceding year.

Yellow Pages

In TPI Spain, revenues from this product grew by 9.2% during the year from ESP 39,141 million in 1999 to ESP 42,744 million in 2000.

The success of TPI's policy of growing average sales per client is clear from the positive evolution achieved, with a 12.7% increment in this ratio for the year.

The Brazilian subsidiary has published 28 Yellow Pages directories through its agreement with Listel during 2000, and the publication of the first Yellow Pages directory under the Guias Mais title was launched by TPI Brasil in April 2001. The related campaign got under way already in 2000 and includes advertising in three formats: paper, internet and telephone.

White Pages

Advertising income from the White Pages grew by 10.6% in 2000, from ESP 11,541 million in 1999 to ESP 12,763 million after elimination of Basic Reference Directory (GBR) revenues from Telefónica de España. This has

been a transitional year for the product, with TPI taking over integrated management (sales, billing and collection) of the entire White Pages customer portfolio. In this context, the sales force has scored a notable success by increasing revenues 86.6% compared to TPI sales for the preceding year.

During the year, the Brazilian subsidiary has launched White Pages directories (LTOG) in Sao Paulo, Guarulhos and Riberao Preto, publishing 58 White Pages directories and 9 street guides through the agreement with Listel.

Multimedia Products

The fastest percentage growth in revenues has been achieved in new technology products. Although these products only represent 2.6% of total revenues, the growth rate is 104%.

On-Line Yellow Pages

This product, which is the main tool of TPI Spain's Internet strategy, has been consolidated during 2000. Revenues were over 3 times the prior year's and the number of current customers has climbed to over 63,000,



Various other services are provided in association with the Internet Yellow Pages, such as street maps, On-Line White Pages, the Comprahoy virtual mall and vertical portals of restaurants, travel agencies, music, hobbies and similar items

an increase of 270% compared to the prior year. Various other services are provided in association with the Internet Yellow Pages, such as street maps, On-Line White Pages, the Comprahoy virtual mall and virtual restaurants, travel agencies, on-line music, hobbies and similar items.

These developments have provided the basis for growth of 241% and 196% in visits and page hits respectively compared to 1999.

Páginas Amarillas Habladas

The Talking Yellow Pages consist of a 24-hour telephone service providing any user with all information contained in the Yellow Pages 365 days per year. This product generated revenues of ESP 490 (1) million in 2000, up 16.3% on the prior year, with growth of 51.3% in the number of calls.

(1) This figure includes telephone traffic revenues.

Online Shopping Directory

At the end of 2000 the TPI mall (comprarHoy.com) has over 1,300 shop sites, almost 60% of which were produced and are hosted by the company. The business has been consolidated around a model gravitating more towards advertising than transactions. In order to boost the effectiveness of the mall, content and functionalities have

been added to provide customers with tools for the management of promotions, links and direct modification of on-line product displays.

Other businesses

As a part of the diversification planned by the company, TPI has purchased 90.67% of Goodman Business Press. The business of this company is the publication of free technical and specialist magazines and advertising is its main revenue source.

Stock Market

The main stock market events involving the company during 2000 have been as follows:

- Listing on the primary market Nuevo Mercado segment, which is reserved for high growth companies.
- The 3 to 1 share split carried out in June 2000. The objective of this operation was to improve the liquidity of the TPI shares traded on the market, and by the end of the year the share was one of the most liquid on the Madrid trading floor.



The Mais OnLine guide offers Internet users a new, modern information concept for services, products and businesses in São Paulo (Brazil)

- Share capital increase carried out in June to raise funds for the purchase of the publisher Goodman Business Press.
- The placement of 3.1% of the share capital of TPI owned by Telefónica, S.A. The objective of this operation was to ensure that TPI would continue to be weighted at 100% of its stock market capitalization on the selective IBEX index by raising the free float to 40.1% of share capital.

SELECTED CONSOLIDATED FINANCIAL DATA

millions of pesetas

	Dec. 1999	Dec. 2000	%Change
Total operating income	62,098	68,714	10.7%
Total operating expenses	44,575	50,389	13.0%
Operating profit	17,523	18,325	4.6%
EBITDA	19,013	20,175	6.1%
Net profit	12,209	12,012	-1.6%

ADVERTISING REVENUES BY PRODUCT

millions of pesetas

	1999	2000	%Change
Paper products	54,674	60,140	10.0%
Yellow Pages	39,141	42,744	9.2%
White Pages	15,340	17,129	11.7%
Europages	193	202	4.6%
Tourist Guide	0	66	
Multimedia products	879	1,793	104.0%
Online Yellow Pages	432	1,102	155.0%
Talking Yellow Pages	421	490	16.3%
Other Online products	26	66	154.8%

ONLINE TRAFFIC. TPI ESPAÑA

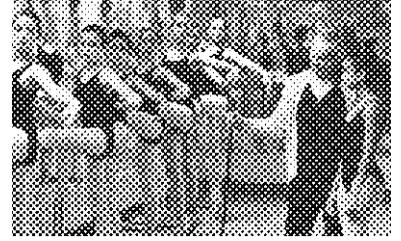
	1 st quarter	2 nd quarter	3 rd quarter	4 th quarter
Visits				
1999	143,930	677,513	853,740	1,633,157
2000	1,941,351	2,070,701	2,807,264	4,450,647
Pages visited (thousands)				
1999	5,117	17,604	20,406	35,351
2000	40,074	50,666	59,527	81,925

TALKING PAGES. TPI ESPAÑA

	1 st quarter	2 nd quarter	3 rd quarter	4 th quarter
N.° of calls				
1999	78,676	367,304	633,269	932,217
2000	316,293	681,509	1,037,235	1,409,150
N.° of customers				
1999	5,676	23,700	32,400	42,500
2000	8,988	21,900	30,800	62,000

*The purchases of the
Argentinean television
station Telefé and the
Dutch producer
Endemol
Entertainment NV were
completed in 2000*

Media



Telefónica Media will repeat the Antena 3 management model in the other geographical areas where it has established a presence

Telefónica Media

The Telefónica Group and particularly Telefónica Media S.A., its media subsidiary, made significant acquisitions during 2000 with a view to completing its project to become the leading communications and entertainment media holding in the Spanish and Portuguese language market. The main transactions carried out in 2000 were the purchase of the Argentinean television station Telefé and the acquisition of the Dutch production company Endemol Entertainment NV. Telefónica Media also acquired a 25% interest in the Catalan production company Media Park and a 51% stake in the Venezuelan company Rodven.

The strategic plan approved at the end of 2000 envisages a structure for Telefónica Media designed to obtain greater management cohesion and comprising three business units: Open Television and Radio, Content and Pay Television.

In the area of Open Television and Radio, Telefónica Media intends to replicate the successful management model of the Spanish television station Antena 3 in the geographical areas in which it has established a presence.

The Content business unit is the main asset of companies operating in the audiovisual sector. In this area, activity is centred around Endemol, which is set to become the keystone for Telefónica Media's content production, carrying out its business in a converging, interactive environment and co-ordinating all of the Telefónica Group windows.

The creation of the third business unit implied the redesign of Telefónica Media's position in the pay TV market. From now on, pay TV assets, distribution systems and production for theme channels will be brought together within a single business unit.

Open Television and Radio

During 2000, Telefónica Media completed the series of acquisitions planned in the open television and radio sector, absorbing significant assets in Argentina (Telefé, Radio Continental, and 50% of Azul Televisión). The holding's presence in Spain is represented by the Telefónica Media shareholdings in Antena 3TV and Onda Cero Radio.



Bienvenido
al servicio de envío de
mensajes cortos a móviles.



Antena 3

Antena 3 achieved excellent results in 2000, posting operating profits of 30,281 million pesetas and consolidated net profits of 21,377 million pesetas. These results have been achieved as a consequence of revenue growth combined with the rationalization of costs, making Antena 3 one of Europe's most profitable European private television stations.

The financial consolidation of Antena 3 since Telefónica took over management of the station has been reflected, inter alia, in the development of new areas of activity, clearly oriented to generating value added, such as content production, interactive television, telesales, the organisation of events and advertising production. Further progress has been made with the diversification of the traditional business with the purchase of the leading cinema advertising distributor, Movierecord.

The audience share maintained by Antena 3 in the open television sector remained in line with other private Spanish television stations at an average of 21.6%.

Antena 3 has the highest share of the female audience (59.8%) out of all the private Spanish broadcasters, with a predominance of middle class women under 44 years of age. This audience profile has

enabled Antena 3 to capture 27.9% of the total television advertising market, thereby improving its efficiency ratio (the relationship between advertising market share and total audience share) to 1.3.

Telefé

During 2000, Telefónica Media completed the purchase of a significant shareholding in ATCO, a holding company owning important assets in the Argentinean television sector.

One of these assets, Televisión Federal, S.A. (Telefé) is the main open television station broadcasting in the Federal capital and the Greater Buenos Aires area, as well as being Argentina's leader in the generation of advertising revenues. In 2000 Telefé achieved an average audience share of 38.2%, capturing over 32% of advertising expenditure in the Argentinean television sector.

One of the key features of Telefé is its high content production capacity, both for television programs and film. A significant part of Telefé's productions are commercialized internationally in almost 50 countries in Latin America, the USA, Europe and Asia. Telefé also owns seven open television stations in Argentina, known by the general term "Televisoras del Interior" (Provincial TV stations). Each of these channels is the leader in terms of audience share in the respective areas where

Telefónica Media has a significant presence in the Argentinean and Spanish radio markets. In Spain this presence is maintained through Uniprex, S.A., Onda Cero and Cadena Voz de Radiodifusión, S.A. At the beginning of 2001, ondacero.es became the first Spanish language on-line radio station.



they broadcast. Telefé reaches over 12 million homes in the Republic of Argentina.

Canal Azul TV

Telearte, S.A, which operates under the commercial name Canal Azul, is the third open television channel in the Republic of Argentina with an average share of 18.92% during the year. This station also broadcasts in the Federal Capital and Greater Buenos Aires area.

The station's programming is based on comedy, sports entertainment shows and news. Canal Azul has been highly innovative within the general Argentinean television model and has been a pioneer of TV distance learning.

Radio

Telefónica Media also has a significant presence in the Spanish and Argentinean radio markets. In Spain, this presence is maintained through Telefónica Media's wholly owned subsidiaries Uniprex, S.A. (Onda Cero) and Cadena Voz de Radiodifusión, S.A. These two companies operate in the radio market through a network of almost 300 own and associated broadcasting stations carrying programming for Onda Cero

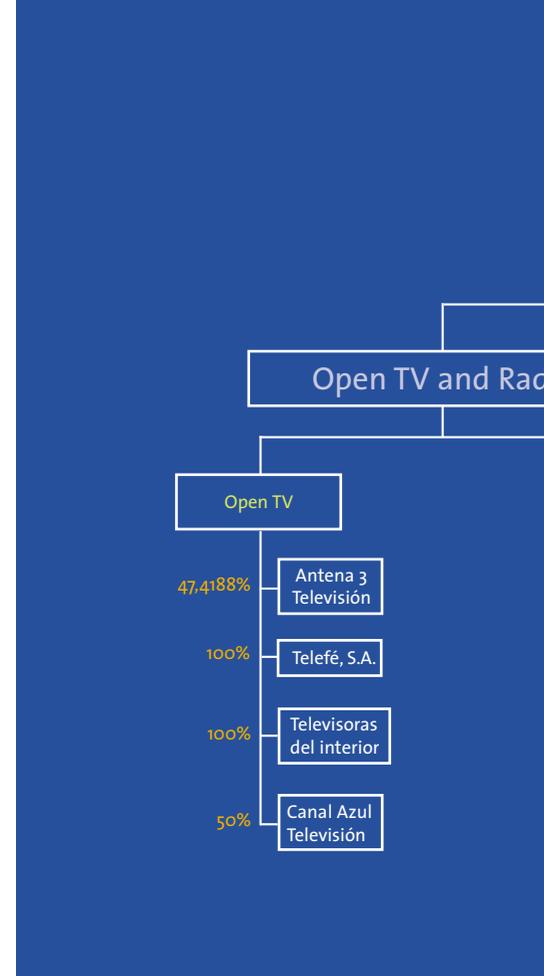
Radio, Europa FM, Onda Melodía, Onda Cero Radio Internacional, Radio Voz and Onda Rambla.

At the end of 2000, Onda Cero Radio was the second conventional Spanish radio station by audience share. In Argentina, Telefónica Media acquired the AM and FM channels of Radio Continental, the country's third largest radio station for conventional programming (AM) and the leader for formula radio (FM). Both of these radio stations form part of the ATCO holding.

Content (Endemol)

Telefónica S.A. acquired Endemol at the end of July 2000. Endemol is a leading independent developer and producer of content for open television, pay TV and internet.

The open television business area offers a wide range of content, with a clear commercial orientation. The pay TV business line is centered on packages for theme and "premium" channels in order to offer customers imaginative solutions to their leisure and entertainment needs. In the internet area, Endemol designs specific content based on interactive solutions, 24-hour reality shows, etc., as well as generating additional revenues from the commercialization of products related to its programs.



Endemol is a market leader in the production of television programs and maintains a special presence in the Netherlands, Germany, Spain, the United Kingdom, Italy, Portugal and Scandinavia. Endemol is one of the top three companies in all of these countries.

Endemol has traditionally considered Europe to be its natural market, controlling local producers which have a high profile and market share in each country. Its objective is to become a global leader in markets with strong growth in on-line services. Key products for television are its entertainment, fiction, free time information and sports programs.

In the field of on-line services, key products comprise television-related reality content, current affairs and leisure. Endemol also develops entertainment and information content for corporate clients, consumers and end users.

The key points of its strategy are as follows:

- Creativity as a core competence, since this is the basis for copyrights.
- Ownership of copyright over formats permitting sales in all markets.
- Growth oriented business focussing on organic growth in the markets where it has an established presence and geographical

growth through acquisitions in new markets (Latin America, USA and Australia).

Other Content Products

Telefónica Media is present in the area of content production through the activities carried out by Antena 3, Via Digital, Telefé, Canal Azul and Televisoras del Interior. These activities take the form of production for theme channels, the creation of program formats and content, and creation of interactive content, as well as holding and operating audiovisual rights.

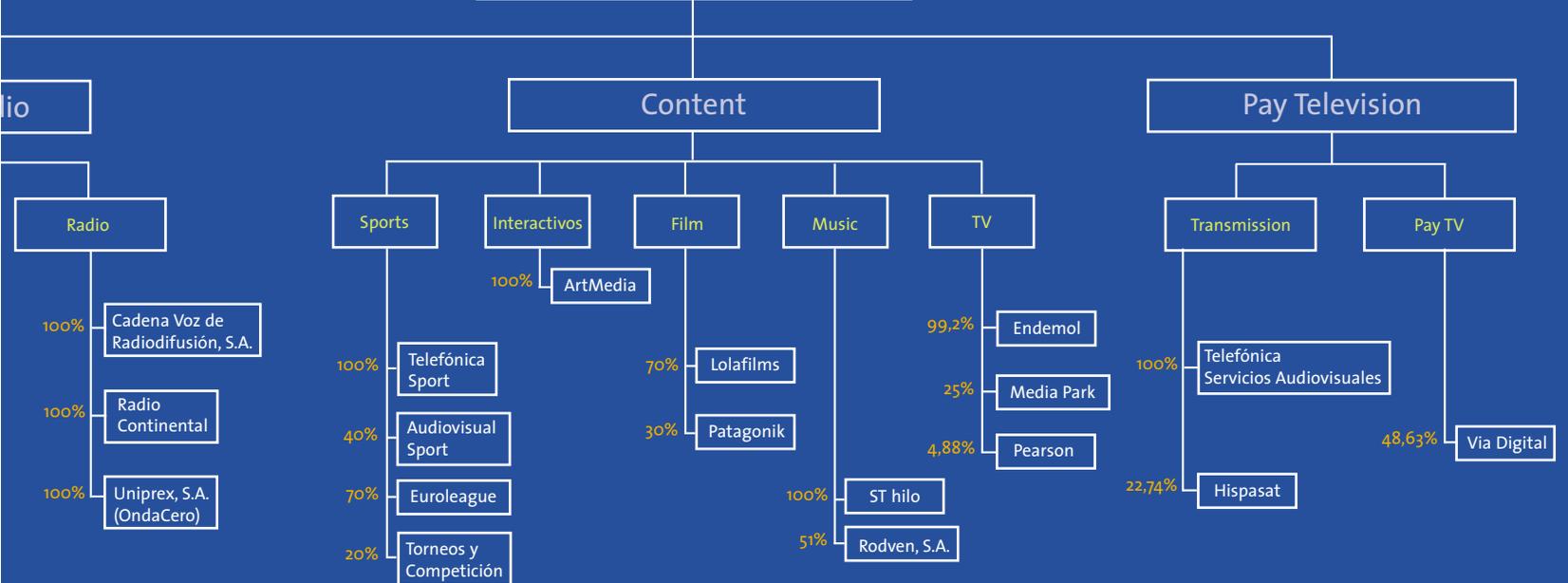
Telefónica Media's presence in this part of the audiovisual sector also includes its participation in ST-Hilo, which produces and broadcasts specialized background music audio channels, and Lola Films, one of Spain's two leading film producers.

During 2000 Telefónica Media purchased a 25% stake in the Spanish producer Media Park and 51% of the Venezuelan company Rodven, S.A., which includes the Líderes record label and has a significant concerts promotion business.

These acquisitions have boosted the Telefónica Group's capacity to provide content for the various broadcasting and audiovisual distribution "windows" owned by the Group.

Telefónica Media

Business Lines
at 31 December, 2000



Pay Television

Vía Digital

Vía Digital commenced its activities in the satellite pay per view (PPV) sector in September 1997. Since then, it has seen solid growth in the number of subscribers.

Vía Digital distributes 65 TV channels, and 30 audio and interactive services channels. At 31 December 2000 it had 633,000 subscribers.

Vía Digital's programming was strengthened during 2000 with the addition of the PPV rights to the Champions League, the 2002 Football World Cup and the Spanish Football League and King's Cup until the 2008-2009 season, as well as the PPV rights to the European basketball competition.

Vía Digital also offers a very attractive film channel, including award-winning titles from the main film festivals, as a result of the acquisition of rights from the US majors and Spanish producers.

During 2000, Vía Digital included interactive banking, ticket sales, stock market information and weather services in its programming. This represents a new channel through which to attract advertising revenues.

Telefónica Servicios Audiovisuales, Hispasat

Telefónica Media channels activities for the provision of audiovisual systems and services through the wholly-owned subsidiary Telefónica Servicios Audiovisuales (TSA) and its participation in Hispasat, the management entity for the eponymous satellite communications system. TSA concentrates its activity in three areas of business: audiovisual services (technical digital TV platforms, contribution and distribution networks, business TV, etc.), audiovisual systems (design, engineering, integration and operation of teleports, technical platforms, mobile units, etc.), and production services. TSA has commenced the process of expansion in the Peruvian, Argentinean, and Brazilian markets as a bridgehead for a future roll-out in the whole of Latin America. TSA is now ready to offer Terrestrial Digital Television broadcasting services.

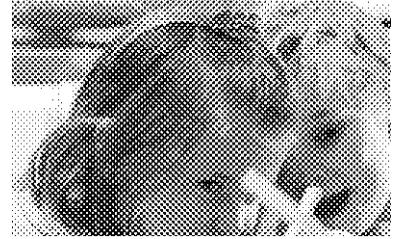
Telefónica Sport

The Telefónica Group plans to concentrate all sports rights in Telefónica Sport. This will include Euroleague Marketing, the owner of the rights to all European Basketball League windows, and GMAF, a company through which it holds a 40% interest in Audiovisual Sport, the owner of the rights to televise various major football competitions.

Telefónica Servicios Audiovisuales has commenced the process of expansion in Peru, Argentina and Brazil as a bridgehead for its future roll-out in the whole of Latin America. The company is now ready to provide Terrestrial Digital Television broadcasting services

*With operations in 14
countries on 4
continents, Atento has
consolidated its
position as the leading
CRM business with
global reach*

Other businesses



Over the past year, Atento has embarked upon the consolidation of its business, passing from a stage of rapid growth to the generation of profit

Atento

Atento is the Telefónica business line established to handle CRM (Customer Relationship Management) services, integrating personalized and value added services for each of its customers. It includes a wide range of solutions such as telesales, customer care, collections, loyalty, data base management, market research, CRM consultancy, and internet call centres, all of which rests on an advanced, multi-channel (telephone, fax, e-mail, direct mail, web, etc.) technology platform.

The total CRM industry worldwide generated revenues of USD 200 thousand million in 2000, with estimated annual growth running at 20%. The market for outsourced CRM services shows annual growth of around 30%, which is above average for the CRM industry as a

whole. The increasing outsourcing of CRM services is a clear sign that companies have assigned considerable strategic value to this activity.

The CRM industry is a highly fragmented market in which Atento is pioneering the development and implementation of a global strategy. This represents a tremendous opportunity for Atento to confirm its position as a world leader in the industry. With operations in 14 countries spanning 4 continents, Atento already has a significant international presence and has been able to consolidate its position as the leading CRM provider with a truly global vocation. Atento's growth strategy prioritizes the fast-growing markets of America, Europe and Asia.

Atento commenced its activities as a strategic partner of the Telefónica Group companies in response to the increasingly competitive business environment in the telecommunications market, where the client plays an ever more important role.

From the outset, the company has been leadership oriented in its various markets with the objective of achieving a volume of sales to external customers exceeding the revenues generated from services provided to internal Telefónica Group clients.

Externally generated revenues currently represent 30% of total sales compared to 10% in 1999. Growth in this area has been over 500% in 2000.

GLOBAL CRM OUTSOURCING MARKET

(billions of dollars)

	1999	2004 E	% CAGR
United States	18.8	63.9	28%
Canada	1.1	4.1	30%
Western Europe	9.4	34.2	30%
Japan	1.4	6.6	37%
Latin America	1.0	6.3	43%
Asia/Pacific	1.5	6.5	33%
Rest of the world	1.1	3.6	26%
Total CRM Services	34.4	125.2	30%

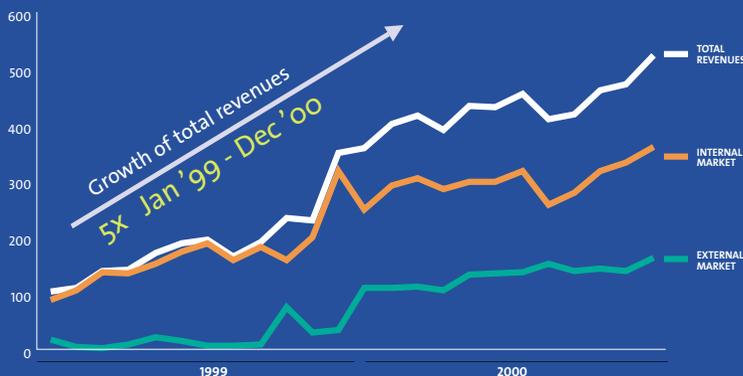
EVOLUTION OF THE CRM OUTSOURCING MARKET IN THE WORLD

(billions of dollars)

	1999	2001 E	% CAGR
Customer Care	23.0	75.1	27%
Integration/Implementation	6.7	30.9	36%
Consulting	2.2	7.1	26%
Training	2.2	9.1	33%
Support	0.3	3.0	57%
Total CRM Services	34.4	125.2	30%

ATENTO SALES EVOLUTION 1999 / 2000

(in millions of euros)



Atento's total revenues have increased fivefold between January 1999 and December 2000

Throughout 1999 and a part of 2000, Atento's main objective was to seize the opportunities presented by the various markets. These operations included significant acquisitions in Brazil (Quatro A), Spain (GSE and Tempotel) and Argentina (Telinver).

Atento is deeply committed to the quality of its services, as attested by the ISO 9002 certification obtained by its operations in Brazil, Spain, Chile, Peru, Central America and Puerto Rico. The assessment process is already under way for the remaining services, and certification is expected during 2001.

Activities in 2000

Atento undertook the consolidation of its business during 2000, thus moving from a phase of investment and growth to concentrate on generating profits.

The Company's main objectives during the year have centered around the selection of contracts with major customers in order to create long-term, high value-added relations.

The Company has also sought operational efficiencies in order to improve margins and has intensified cost and investment controls with a view to generating appropriate returns.

During 2000, Atento recorded revenues in excess of EUR 528

million representing an increment of 150% compared to 1999. The main centers of operations are Brazil, Spain, Chile and Peru.

The commercial relations established with clients such as BBVA, BSCH, Banco Popular, Citibank, Unibanco, Cepsa, Bosch, Cigna, Sanitas, Direct TV, Fiat, Ford, Aerolíneas Argentinas, Iberia, Varig, Globo, Unilever, Procter & Gamble, and the Spanish tax authorities, among others, provide clear evidence of the work that has gone into expanding the external market and represent the basis for future organic growth in revenues.

The impact of the strategy followed during 2000 has enabled the Company to achieve positive EBITDA of EUR 25.4 million, representing 4.8% of total revenues for the year, only 18 months after operations commenced.

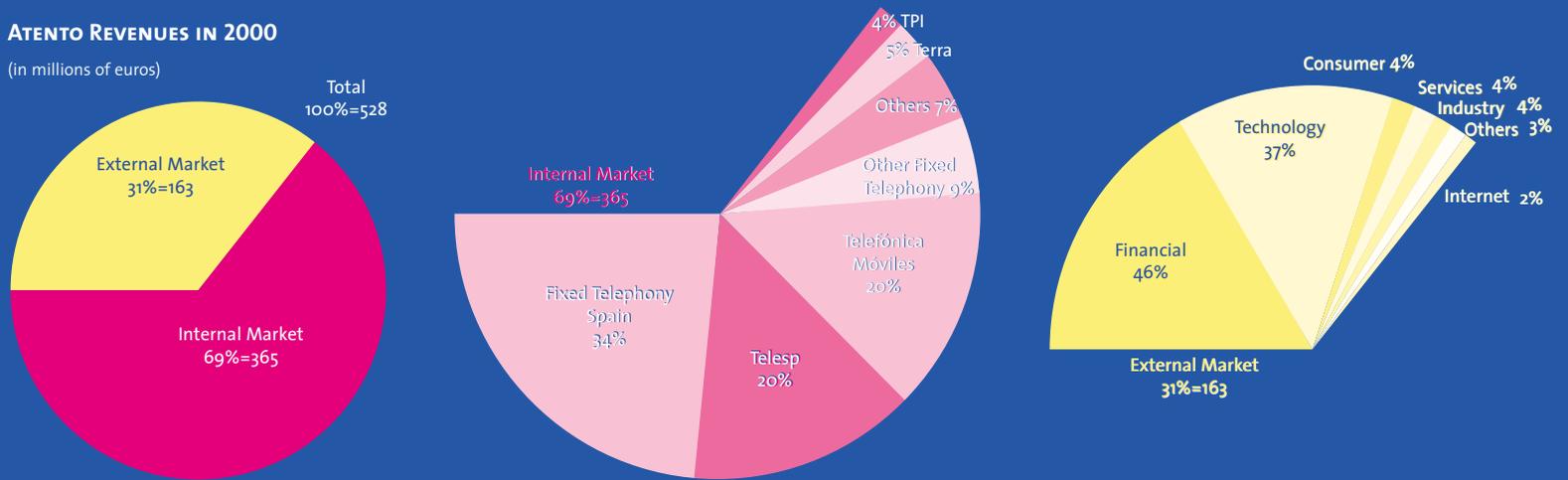
The main contributions to these profits were generated in Brazil, Spain and Peru, where the market is sizeable and mature, and business experience is strong.

The efforts made to achieve efficiency gains resulted in significant improvements in the Company's main operating indicators, with monthly revenues per position in December of over EUR 2.250.

At the end of the year, Atento had over 38,500 teleoperations staff worldwide, representing workforce growth of 85% compared to 1999.

ATENTO REVENUES IN 2000

(in millions of euros)



EVOLUTION OF ATENTO'S KEY OPERATING INDICATORS IN 2000

	Six months to 30 June 2000	Six months to 31 December 2000	Year 2000
Service positions	21,761	24,122	24,122
% Occupation	70%	74%	72%
% Utilisation	30%	33%	32%
Productivity	52%	57%	55%
Monthly revenue per position *	1,979	2,199	2,094

(* euros)

Objectives for 2001

The key management objective for the coming year is therefore to achieve growth and consolidate the Company at both the commercial and operational levels. Specific objectives for 2001 are as follows:

- To continue geographical expansion into high-growth markets of strategic value, thereby confirming Atento's leadership in its global strategy for the CRM market. This will include growing market share through customer diversification and providing integrated solutions for leading companies at both the local and global levels.
- To advance with the provision of CRM services, adapting commercial solutions to enable customers to improve results within a highly competitive environment. The consolidation of long-term relations with key customers, which enhance Atento's added value as a global partner, will remain a priority.
- To offer excellent service, in terms of the both efficiency and quality of provision, while optimizing resource management in order to underpin the versatility demanded in the CRM market and applying Atento's technological advantage over competitors.
- To maintain appropriate levels of investments and spending in order to generate maximum returns and achieve financial self-sufficiency for Atento in line with 2000.

In a rapidly expanding market, Atento has successfully completed the initial growth phase in 2000 and is now ready to face the challenges of consolidation and earnings growth in 2001. As a consequence, the Company is in a position to become globally competitive as a leading provider of CRM services.

Business to Business

In January 2000, Telefónica formed a new company to embrace its B2B businesses in Spain, Portugal and Latin America. Katalyx now has valuable knowledge about this new market.

This activity is structured as a holding supported by Telefónica's experience and assets and a series of strategic business partners. During the year, strategic, technological and financial alliances have been cemented both locally and internationally with companies such as Ariba, Descartes Systems Group, IBM, Arthur Andersen, Hewlett Packard, Origin, Assa Group, GoCoop, Sol Melia, Barcelo Hotels, Iberostar, and others.

During the first phase, operations have been carried out in Spain, the United States, Argentina, Brazil and Mexico.



Emergia has 12 anchor stations in 6 countries (Argentina, Brazil, Chile, Guatemala, Peru and the United States)



The revenue model for this activity is based on commissions for transactions, specific B2B-software sales and implementation, licences, subscriptions, hosting and advertising, among other sources in the various electronic markets. The businesses created around B2B offer tailored solutions for companies of all kinds in the following areas: B2B Horizontal Portals (Adquira), B2B Vertical Portals and B2B Solutions.

Adquira

This is a horizontal electronic market providing e-commerce solutions for suppliers and purchasers of indirect goods and services such as office equipment, stationery, travel services, IT, maintenance, etc. It offers tailored solutions under three differentiated value proposals: Purchaser, Marketplace and Club.

Adquira has started up operations in Spain, Argentina, Brazil and Mexico and is already operating in all these countries.

Vertical portals

Katalyx manages 5 vertical markets and its mission is to become the leader in electronic commerce in strategic goods and services between companies operating in the construction, hotels, food, supermarkets

and transport sectors. These sectors have been strategically identified as those with the highest potential for the creation of value.

- Electronic Market for the Transport Sector set up via a technology alliance with Descartes Systems Group, the global leader in internet-based logistics platforms commenced operations in Mexico and Brazil and in the second half of 2001 will enter the Spanish and other Latin American markets.

- Electronic Market for the Food Sector. Katalyx Food has developed a portal to enable catering firms to carry out purchases from multiple suppliers over the Internet. Katalyx Food Operates in Spain, Mexico and Argentina.

- Electronic Market for the Supermarkets Sector. Created through the acquisition of 54% of Mercador.com in June 2000. It is the first B2B operation of its kind in the Brazilian on-line supermarkets sector. In just 10 months, over 1,500 suppliers have registered with over 30,000 catalogued products.

- Electronic Market for the Construction Sector. Katalyx Construction is about to start operating a marketplace designed to cover the specific e-commerce needs of manufacturers and distributors in the building materials sector, with more than 60,000 catalogued products. The portal expects to form strategic alliances with companies in the sector's main industrial and technological groups.

EMERGIA: KEY FIGURES

- Fully operational network and service, including expansion into North America and Europe.
- City-to-city, door-to-door connectivity.
- Ultra-fast service and response times.
- Two Network Operations Centers (NOCs) providing a 24-hour service.
- Reliability of over 99.995%.
- 40 Gbps, scalable to 1.92 Tbps.
- IP/SDH/SONET.



- Electronic Market for the Hotel Sector. Set up in April 2000 with the participation of BBVA, HotelNetB2B is a joint initiative with leading hotel groups (Sol Melia, Barceló Hotels, Iberostar, AC Hotels, Fiesta Hotels, H10 Hotels, HUSA Group, Hesperia Hotels, etc). HotelNetB2B is already operational in Spain, having entered into an alliance with GoCoop in 2000 to supply the technology for this electronic market.

B2B Solutions

In this area, services have been developed to facilitate B2B e-commerce transactions between companies, such as:

- Cataloguing and Content Management Services. Katalyx produces and administers Spanish and Portuguese language catalogues for companies in the region. With over 40,000 products catalogued and customers in 4 countries, the service currently has a production center in Barcelona and another in Brazil.

- Service and Infrastructure Provider (SIP): This operation provides hosting and corporate applications operations services. Alliances have been formed with Ariba, EMC, Telefónica DataCorp, Web Methods, etc.

Business to Business activity in 2001 will strive to develop a strategy of helping Telefónica Group companies improve their operations as well as those of their clients in this area.

Emergia

Emergia is the Telefónica Business Line providing broadband infrastructure for the wholesale market. It offers services to international carriers, ISPs and other companies that make intensive use of communications services requiring city-to-city, door-to-door connectivity both within Latin America and from Latin America to the U.S.A.

The broadband market is expected to grow at an annual rate of around 100% over the next four years. Emergia is in a privileged position in this market as it is the first company to offer services throughout the Latin American region. It also enjoys the competitive advantage of forming part of the leading telecommunications group in the Spanish and Portuguese language markets.

Infrastructure investment was completed in March 2001 with the closure of a terrestrial and undersea loop comprising 25,000 km. of optical fiber cable. With an investment of approximately EUR 1.518 billion, Emergia has been launched with initial capacity for 40 Gbps, scalable to 1.92 Tbps.

Emergia is the first broadband service provider to offer services integrating the main countries of Latin America in a single loop and with a direct presence in the United States. With city-to-city

Emergia serves telecommunications operators and Internet service providers

connectivity on an open network, Emergia is able to offer total accessibility without restriction, placing Latin America in the forefront of modern communications.

International data and communications traffic has evolved from conventional voice services to mass traffic in voice, data and video. This evolution has been based, inter alia, on the following factors: exponential growth in the number of internet users and the number of computers, increasing broadband access at ever lower cost, development of new applications and content making intensive use of broadband such as data, video, etc., expansion of applications associated with the internet such as e-commerce and corporate networks, and ever-closer cultural, linguistic and economic ties between the Latin American countries and between the Region as a whole and the United States. The need for intra-regional and international connectivity between companies may be expected to increase still further due to the transformations implicit in the "e-business way of doing business".

A "seamless-network"

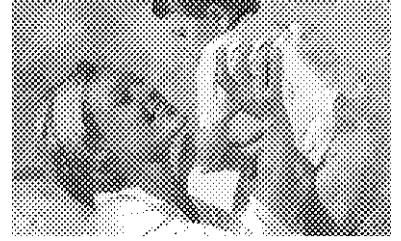
Emergia has 12 landing stations in 6 countries (Argentina, Brazil, Chile, Guatemala, Peru and the United States) at the following locations: Boca

Raton (USA), Puerto Barrios (Guatemala), Puerto San José (Guatemala), Lurín (Peru), Arica (Chile), Valparaíso (Chile), Las Toninas (Argentina), São Paulo / Santos (Brazil), Rio de Janeiro (Brazil), Salvador de Bahía (Brazil), Fortaleza (Brazil), San Juan (Puerto Rico). The network initially includes a terrestrial (backhaul) network of some 1,600 Km. in length, connecting the landing stations with the major Latin American cities.

The Network Management and Operations and Customer Service Centers provide support and personalized services 24 hours a day and 365 days a year, to supply and supervise the bandwidth of each Emergia client.

*Telefónica R&D has
succeeded in achieving
considerable maturity
for its business support
systems and services in
2000.*

Research and Development



R&D has broadened its horizons internationally with the transfer of advanced solutions to various Latin American countries

Telefónica Investigación y Desarrollo

Telefónica Investigación y Desarrollo's research and development activity during 2000 has basically centered around four main areas: development of new services as a differentiating factor within the current competitive environment both for fixed and mobile telephony and the Internet; activities focussed on the optimization of business processes, especially in the areas of customer service and customer relations management; development of network and service management systems and medium to long-term actions forming part of the Innovation Program designed to detect, develop and apply factors, singularities, opportunities and technologies likely to have an impact on the future of the Group's businesses.

These four areas also have an international side, and the solutions developed have been transferred to those countries, particularly in Latin America, where they are considered competitive.

A further significant aspect of research and development activity in

2000 has been the 20% increase in the volume of activity compared to the preceding year. Also, the content developed by Telefónica R+D (Art Media) has been transferred to Telefónica Media, and the new Boecillo Center has been opened in Valladolid.

Development of new products and services

A set of new services has been developed for the Mobiles business, which will strengthen its strategic and competitive position. The most significant of these new developments are the new intelligent network platform supporting the services associated with the Movistar Activa product; various developments related with the mobile Internet platform (voice access to the content of mobile portals, etc.); development of applications and engineering for GPRS based services; various platforms aimed at providing geographically localized services; and products oriented towards planning, metering and optimization of new third generation mobile systems (UMTS).

In the field of broadband interactive services, the construction and integration of platforms and the development of innovative multimedia services using VDSL and ADSL technologies have continued apace. Further work has also gone into the development of new operational capacities and the extension of the range of services offered for Via Digital carried on the interactive digital TV platforms.

The task of developing broadband multi-media services using VDSL and ADSL technologies has continued apace

In the field of data services and Internet access, various improvements have been made to the Telefónica Data IP network, and Telefónica R+D has been deeply involved in the design and configuration of the new NURIA network for the provision of corporate broadband (ADSL) services.

Various value added products and services have been developed for Terra-Lycos, such as the product search engine to locate virtual retailers, voice portals, chat services, and on-line games. Telefónica R+D has also made a decisive contribution to the operational roll-out of Terra-Mobile with such as messaging and the Web channel.

In the public payphones business, work has commenced on the roll-out of the new STP-2000 system permitting centralised management of the system and remote loading of new versions to terminals. Various new capabilities have also been added to the terminals commercialized by TTP.

In the field of fixed-line telephony, a solution based on intelligent networks has been implemented for Telefónica de España to support card payments for data calls, as well as the "fonomail" system, which uses speech technology to permit users to read and reply to e-mail. Network management capacity and multimedia access have been extended for the on-line Multi-client Internet Call Center, which supports all sales services of Telefónica de España and Telefónica del Perú. Telefónica R+D has created leading-edge speech-technology products in European and Brazilian Portuguese, Spanish and other official minority languages used in Spain which are used in numerous fixed telephone and mobile services.

Telefónica R&D has developed various leading-edge speech technology products in Spain in recent years



Significant progress has been made during 2000 with the development of a natural language recognizer and voice/text converters designed to permit voice access to Internet content.

Business process support systems

During 2000, Telefónica R+D has successfully brought Marketing support systems such as Data Warehouses (DW) and CRM (customer relations management) applications to an advanced stage of maturity. Telefónica R+D has created DWs for Telefónica Móviles (MINERVA), Telefónica de España (SIETE Project), Unifón (Argentina), Telerj (Brazil), Telefónica del Perú and Telesp (Brazil). At the same time, Business Indicator Systems and Executive Information Systems (EIS) have met with an excellent response, and their extension to the whole of the Group is now expected.

In the e-business area, Telefónica R+D has contributed to the definition and testing of the reference architecture (Web Foundation) for fixed and mobile telephony, data, etc. Telefónica R+D has also been actively involved in the launch of the Canal On-Line channel and the Innovatel customer loyalty system implemented by Telefónica de España. The FILON system developed for global purchasing process management has been implemented in various Latin American countries.



The Multi-Service Provision System (MPS) has begun to produce results for Telefónica de España through the Installed Multi-Service module, which permits Web consultation of a data base showing all services contracted by each customer. The Service Order Management System (SOMS) and the Fault Report Management System (FRMS) modules have been implemented in Telesp (Brazil).

The Complaints and Incidents Manager (CIM) solution, designed to handle customer complaints, the SIRIO customer complaint system and the SAR system have all been further refined. Also, the Actions Management (AM) system is now operational in Telefónica de España and the Mobile Actions Management systems in Telefónica Móviles.

Network and service management systems

The Network Access Operation System (NAOS) and the ADSL service provision management system (SIGA) have been implemented in Telefónica de España. The new Operator Management System (OMS) will support the management of relations between Telefónica de España and other operators in areas involving service requests. The Traffic Management System as well as the network oversight and operation systems (EOC Energy, EOC Switching and EOC Transmission) have been successfully

implemented in Telesp. Meanwhile, the SOC mobiles system has entered service in Telefónica del Perú.

Finally, the Telesp Operational and Oversight Status Center has been created with the active assistance of Telefónica R+D, which provided management systems to facilitate oversight and operation of the various plants, manage traffic, analyse network infrastructure, manage the signals network and analyse the quality of service. In the near future, complaints and incident management solutions will be added.

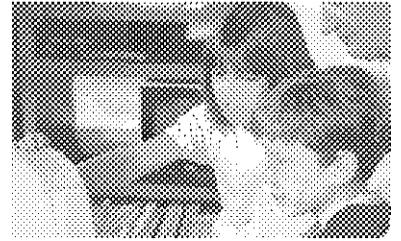
Innovation

A key part of the work of Telefónica R&D has been the identification of factors which are likely to affect the evolution of Telefónica's business in view of the market, the competitive and regulatory environments and technological developments.

During 2000 the Innovation Program has focused basically on identification and assessment of emerging technologies and experimentation, and the analysis of new business models. Specifically, work has been carried out in the area of intelligent homes, Next Generation Networks, evolution of the internet, advanced multi-media services, security and fraud studies, evolution of mobile networks and services, traffic modelling studies, human factors, speech-technology and terminals.

*The Foundation
co-operates with
prestigious social
organizations in all of the
countries where it
operates, developing and
carrying out joint projects*

Fundación
Telefónica



EducaRed has 8,500 registered centers in Spain with over 250,000 teachers and more than 3,000,000 students

Fundación Telefónica

Telefónica is deeply committed to the societies in which it operates. In a modern society, access to technology and especially to telecommunications is vital to the normal development of both business organizations and the individual. The lack of these services is synonymous with social and personal disadvantage, and telecommunications have thus become the most reliable indicator of the level of development attained by a given community.

With this clearly in view, Telefónica has set itself objectives for the maximum development of social technology applications in order to promote equal opportunity, and contribute to raising individual and community standards of living, paying particular attention to the weak and needy.

Fundación Telefónica is the linchpin for the Group's social and cultural activity, with a presence in Spain, Argentina, Brazil, Chile, Perú

and Morocco. In all of these countries, the foundation organizes and carries out projects and activities that are in line with local realities through independent local foundations, all of which are linked by a common philosophy and share the same objectives and working methods.

Fundación Telefónica promotes activities in the fields of education, social and health applications, telecommunications, socialization, community development, promotion of voluntary service, and others. The foundation stresses co-operation with other prestigious social organizations to design and carry out projects in each country.

The promotion of access to education and culture is one of the foundation's key areas of activity. This includes collaboration with the Instituto Cervantes, the Real Academia Española, the Spanish National Library, the Library of Catalonia, the Monastery of Montserrat and the Palau de la Música auditorium, among other institutions.

The project for the virtual recreation of the cathedrals in various provinces and monuments forming part of the Spanish National Heritage, permitting a detailed visit over the Internet in a 3D environment, is a notable example of the foundation's cultural work making use of new communications networks.

In the field of education, Fundación Telefónica has continued the "EducaRed. La Educación en la Red" internet education project, which is designed to encourage the use of the Internet for learning purposes.

During 2000 the Foundation has provided support for the Social Services operations of organizations that use telecommunications as a key tool in providing information and advice to people in need of assistance



The objectives set by Telefónica include maximum development of social applications designed to improve the living standards of both individuals and social groups with special attention to the aged

This has involved facilitating Internet connection and numerous educational services for students, parents and teachers at public, private and grant assisted schools throughout Spain. At the end of 2000, around 8,500 schools, 250,000 teachers and over 3,000,000 students had signed on to Educared, with a combined 115,000 computers. The program (www.educared.net) brings together all the members of the State education community in Spain and is the largest Spanish language education portal on the Internet. This project is currently being adapted for implementation in Argentina, Brazil, Chile and Peru. Around 4,000 teachers and students from 43 Spanish provinces have also taken part in the "Aprende con Internet" (Learn with the Internet) initiative, which provides students, teachers and institutions with the tools to go online and create their own web pages. Together with other entities involved in Educared, Fundación Telefónica organized the 1st Educared Congress, the main theme of which was online teaching innovation in 2000. Over 1,800 teachers from the whole of Spain attended in January 2001.

The university portal CampusRed (www.campusred.net) was also created in 2000. The objective is to provide a platform for collaboration between university teachers and students in Latin America. As in the case of Educared, the main aim is to provide tools to enable users of the portal to create their own content and exchange ideas, information and

research. CampusRed has been created with the intention of serving teachers, students, managers and non-university personnel at Spanish and Latin American universities and raising their profile.

Solidarity - the prime objective

Support has continued in 2000 for Social Assistance Telephone Services run by entities using telecommunications as a key instrument for providing information and advice to those in need. Work has also continued on the Red Internacional de Solidaridad (International Solidarity Network -www.risolidaria.org), which provides a framework for co-operation between not-for-profit institutions and for the exchange of ideas, opinions and common projects. An Internet portal has been set up as a part of this project. During 2000, a further 23 organisations applied to promote the portal.

As a part of programs designed to help people join the labor market, work has continued on the Merc@dis project, which offers a jobs exchange for the disabled on a web page of the same name (www.mercadis.com). Further investments were also made during the year in social insertion programs involving work schemes which resulted in the creation of a dozen micro-businesses. Support



programs have also been launched to assist the homeless.

Humanitarian aid has always formed a part of the activities of Fundación Telefónica, and this year it has provided telephones and emergency units for use in aid work following natural disasters such as the floods in Venezuela, Mozambique and India, the Ethiopian famine and the El Salvador earthquake. The humanitarian and emergency telephone service received nearly 24,000 calls during 2000.

Support for Spanish voluntary workers and missionaries worldwide has been kept up in 2000, and Fundación Telefónica has provided both the necessary communications infrastructure for them to continue with humanitarian aid in emergency situations, and the normal infrastructure required for them to keep in touch with their organizations and families. All of this represents only the briefest summary of the activities of Fundación Telefónica during 2000, when over very different 100 projects were under way.

Telefónica and the Fundación also offer a permanent forum for the dissemination of art and culture. The numerous exhibitions and art production and dissemination activities have continued to attract the attention of the wider public. Interest in the events organized in relation to the "25 years of the Spanish transition to democracy", currently travelling around Spain, and the "Gold, Frankincense and Myrrh: Christmas Cribs in Spain" exhibition which closed the year, was particularly strong.

Fundación Telefónica in Latin America and Morocco

The strategy of the Telefónica Foundation and the activities it carries out are the same in all of the countries where it operates. In Latin America, the Foundation is involved in a wide variety of cultural projects in co-operation with government and other institutions, maintaining education portals similar to the Educared project in Spain for primary and secondary schools in Argentina (Eduvía), Chile (Internet Educativa 2000), Peru (Edured) and Brazil (Educarede). The Foundation has also launched jobs programs for the disabled such as Merc@dis in all of these countries, and co-operation programs such as the Red Iberoamericana de Solidaridad (Latin American Solidarity Network), a platform for aid organisations with which the Foundation works in a number of fields including proactive projects and voluntary work. It also participates in artistic and cultural projects such as exhibitions, seminars and workshops, as well as carrying out valuable restoration work on historic and artistic monuments. The Foundation established itself in Morocco this year and has already launched major programs to raise living standards, implementing projects in the fields of education, professional training, and job creation, as well as urban and suburban anti-poverty schemes.

Telefónica S.A.

HIGHLIGHTS

JANUARY

- ACEA-SpA, the Italian telecommunications operator managed by Telefónica InterContinental, obtains a licence to operate in the whole of the Italian market from the Italian regulatory authority "Autorita per la Comunicazioni".
- Telefónica S.A approves the creation of two new global businesses: Telefónica Móviles, grouping all mobile operations to become one of the world's ten largest mobile operators, and Telefónica Datacorp to handle the data business.
- Banco Bilbao Vizcaya Argentaria (BBVA), acquires 3% of Terra Networks. Terra is listed on the Ibex-35 stock market index and launches its www.terra.com portal for the Hispanic community in the United States.



FEBRUARY

- Atento Centroamérica announces that it will commence activities in Guatemala, creating approximately one thousand direct jobs as part of a business plan for Central America in 2000.
- Telefónica's shareholders approve two capital increases to fund the tender offers for 100% of Telesp, Tele Sudeste Celular, Telefónica de Argentina and Telefónica del Perú as part of "Operation Veronica".
- Telefónica Móviles obtains one of the two digital trunking licences in Spain to be developed using the TETRA (Terrestrial Trunked Radio) standard.
- Telefónica B2B, the Telefónica Group company engaged in business to business e-commerce, and Ariba, the world leader in B2B e-commerce services and software development, reach a strategic agreement whereby Telefónica will extend its B2B activity in Latin America, Spain and Portugal on the basis of solutions developed by Ariba.

- Subscribers of Telefónica Móviles' prepaid services (MoviStar Activa and MoviLine Óptima) can recharge their mobile phones at any of the 13,000 cash points operated by Red 6000 in Spain using credit or debit cards. Red 6000 thus joins the cash points operated by other entities such as La Caixa, Teledbanco 4B, Cajas Rurales, BBVA and the Visa network.

MARCH

- Telefónica S.A. lists its shares on the Lima stock market as a first step in the public offer to exchange the shares of Telefónica del Perú for shares of Telefónica, S.A.
- Telefónica Móviles doubles the number of subscribers in Spain in just over fourteen months, ending the first quarter of 2000 with over 10 million customers. Only four other operators in Europe have reached this figure. Meanwhile, Telefónica Móviles and Microsoft sign an agreement for co-operation in the development of mobile internet products, services and applications.
- The ATLANTIS 2 International Submarine Cable enters service, linking Portugal, Spain, Senegal, Cape Verde, Brazil and Argentina. The new system has been promoted by 24 major international operators.
- The Real Academia Española de la Lengua (Royal Academy for the Spanish Language) signs an agreement with Telefónica for the development and hosting of the Academy's "Español al día" (Spanish today) service and a project for the preparation of a "Normative Dictionary of Doubts".



MAY

- Terra Networks, S.A. and Lycos, Inc., the Internet's principal multi-brand network, publicly announce the final merger agreement under which Terra will acquire Lycos.
- Invertia.com, Terra's finance portal, consolidates its position as Spain's leading financial portal with more than 21 million page hits per month.
- The Securities and Exchange Commission (SEC) approves the tender offers for all shares not already owned by Telefónica, S.A. in four of its Latin American subsidiaries (Telesp and Tele Sudeste Celular de Brasil, Telefónica de Argentina and Telefónica del Perú).
- In Brazil Telefónica achieves the mark of 3 million new lines in service since privatization, having successfully completed the objectives set by Anatel, the regulatory agency, one year ahead of schedule.
- TPI launches its first multi-product offer in the Brazilian directories market, combining paper products and services, telephone services and Internet.

- Telefónica de España launches the "Pais 30" consumer plan for inter-provincial traffic which is unprecedented in Spanish telecommunications.
- Telefónica Móviles commences operations in Morocco through the Médi Telecom consortium, with the launch of the Méditel service.

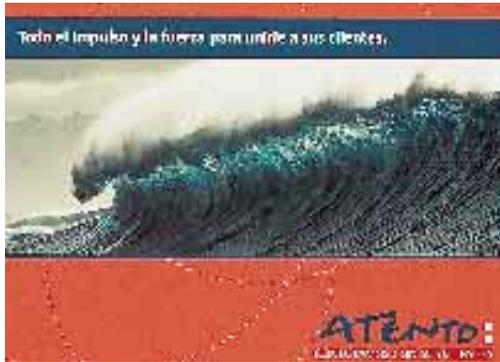
APRIL

- Telefónica Móviles España begins commercialization of WAP services.
- In Italy, Telefónica reaches an agreement with ACEA to participate jointly in the process for the award of five UMTS licences. However, the Company decides to withdraw from the processes for the award of UMTS licences in the United Kingdom and two GSM licences in Turkey in view of the high prices at previous auctions in both countries, which would make it very difficult to obtain reasonable returns on these projects.
- Telefónica de Argentina launches its first public telephone card using Eurochip technology.



JUNE

- Telefónica Móviles launches its e-moción service in Spain, initially based on WAP (Wireless Application Protocol) technology, for all Internet access services using Telefónica MoviStar handsets.
- Atento commences its activity in Spain under the name Atento España with 5,500 teleoperation positions nationwide serviced by 13,000 operators.



- Terra Networks launches portals in Venezuela and Uruguay.
- The Telefónica de São Paulo Corporate Unit launches its Internet DataCenter, and in Peru, the Telefónica del Perú Corporate Unit reaches an agreement with Banco de Crédito for the implementation of an integrated corporate communications project.
- ACEA-Telefónica SpA, the Telefónica Group's Italian subsidiary, announces its intention of merging with Telexis, a FIAT Group corporate services company specializing in the Internet.
- Telefónica de Argentina and IBM Argentina enter into an agreement for outsourcing of the telephone operator's IT services.
- Telefónica, S.A. announces its public offer to purchase all outstanding ordinary shares in ENDEMOL. The shareholders of Endemol agree to exchange 97.4% of their shares for Telefónica, S.A. shares.

JULY

- Telefónica successfully completes its public bids for the shares it did not control in Telefónica de Argentina, Telesp, TeleSudeste Celular and Telefónica del Perú. Also, the shares of Telefónica, S.A. are listed on the São Paulo (Brazil) and Buenos Aires (Argentina) stock exchanges.
- Telefónica Móviles and BBVA agree to form a joint venture between them, each with a 50% stake, to market the Movilpago payment system based exclusively on mobile telephones. The company Movipay International would be created in December.

- Terra Networks and Telefónica Móviles set up Terra Mobile, the company responsible for the development and operation of the Telefónica Group's global mobile portal.
- The Spanish monarchs open the exhibition "Esplendores de España: de El Greco a Velázquez" (Splendours of Spain: from El Greco to Velázquez) in Río de Janeiro (Brazil). Telefónica is the principal sponsor of this event, which is designed to illustrate the reality of Spain in the 17th century.
- Telefónica, SA acquires the interest held by Portugal Telecom (PT) in the Brazilian operator Telesp SA through an operation in which the Spanish company simultaneously sold its stake in Telesp Celular, a company controlled by PT.
- Telefónica On-line, the interactive communications of Telefónica de España, comes into service.
- The Board of Directors of Telefónica S.A. appoints César Alierta to the office of Chairman.



AUGUST

- The Chairman proposes, and Telefónica's Board of Directors appoints, Fernando Abril-Martorell as chief executive officer of Telefónica, S.A.
- Terra Mobile announces the acquisition of 100% of IOBOX, one of the principal European mobile portals and content providers.

SEPTEMBER

- Telefónica Móviles enters the German UMTS market following the award of one of the 6 UMTS licences auctioned in the Federal Republic. The company notifies the Spanish Securities Market Commission (CNMV) of its flotation via an initial public offering and applies for Telefónica Móviles shares to be listed on each of the four Spanish exchanges, on the Continuous Market, and on the New York Stock Exchange (NYSE).
- Telefónica Media, the Union of European Basketball Leagues and Mediapro form "Euroleague Marketing S.L.", to hold and manage all rights (audiovisual, Internet, merchandising, sponsorships, etc.) for the new European basketball competition, the "Euroleague".

OCTOBER

- One of the two UMTS licences is awarded to Telefónica in Italy.
- Telefónica enters the Mexican market through an agreement made by its mobile phones subsidiary to acquire four cellular operators providing services in northern Mexico. These operators (Bajacel, Movitel, Norcel and Cedetel) were partly owned by Motorola.
- The shareholders of Lycos approve the creation of Terra-Lycos.
- Terra Networks, S.A. presents its TERRA COLOMBIA portal in Bogotá, bringing the total countries with local and global information portals up to 16.



- Telefónica Data enters into an agreement with the Banco Santander Central Hispano Group to manage the banking group's International Network, which will cover more than 20 countries in Europe and Latin America.



NOVEMBER

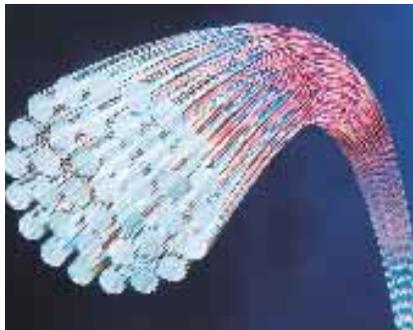
- Telefónica Móviles wins a UMTS licence in the auction held in Austria through its subsidiary Telefónica InterContinental.
- Atento launches its subsidiary in Argentina. With Atento Argentina, Atento Holding now has a presence in 14 countries with over 24,000 operational positions.
- The first stage of the Emergia fiber optic network linking Brazil, Argentina and Chile enters service.
- The shares of Telefónica Móviles, S.A. are listed on the Spanish stock exchanges following the IPO.
- Terra Lycos and Telepizza launch "A Tu Hora" with the objective of creating a market leader using an innovative e-commerce system.
- Telefónica Data Colombia wins the "Internet Social" project promoted by the Colombian State to encourage Internet use in Colombia.
- Telefónica Media is structured into three business areas (Open TV and Radio, Content and Pay TV) in order to ensure consistent management of these assets. The objective is to consolidate the group as the leader in the Spanish language audiovisual sector.
- The Spanish monarchs open the exhibition "25 Years On – A Photographic Record of the Transition" at Telefónica headquarters in Madrid. The exhibition reflects the changes in Spanish society over the twenty-five year reign of King Juan Carlos.



- Telefónica DataCorp enters into a strategic alliance with America On Line Inc. to become an AOL provider offering a wide range of services worldwide.
- TPI-Páginas Amarillas purchases 51% of a holding company owned by Telefónica Internacional. This holding company controls Publiguías (Chile), the leading publisher of Directories (yellow pages) in Chile.
- Telefónica de España implements the Seis Sigma system as a benchmark in Customer Service excellence, one of the Company's key objectives.
- Terra Mobile and POPcast Communications Corp. enter into an agreement for the development by the latter of personal video-communications services for users of the Terra Mobile portal.

DECEMBER

- Telefónica Media launches the akimusica.com portal, a point of reference for on-line Latin music, through its subsidiaries ST-Hilo and Antena 3.
- Terra Lycos launches its portal in Thailand, extending its presence to 41 countries. It also acquires a majority stake in Bumeran.com, one of Latin America's leading Human Resources portals.
- Telefónica Móviles wins one of the four third generation mobile licences awarded in the Swedish auction through its subsidiary Telefónica InterContinental.
- Telefónica opens its Operations and Supervision Center (OSC) in São Paulo (Brazil). With the capability to handle up to 50 million fixed lines, this is the largest center of its kind in Latin America and one of the most technologically advanced in the world.



Telefónica S.A.
And companies composing
The Telefónica Group

**CONSOLIDATED FINANCIAL STATEMENTS
AND MANAGEMENT REPORT**
For 2000
and 1999

Raimundo Fdez. Villaverde, 65
28003 Madrid

Translation of a report and consolidated financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 25).
In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Stockholders of Telefónica, S.A.:

1. We have audited the consolidated financial statements of Telefónica, S.A. and of the Companies comprising the Telefónica Group (see Note 1), consisting of the consolidated balance sheet as of December 31, 2000, and the related consolidated statement of income and notes to consolidated financial statements for the year then ended. The preparation of these consolidated financial statements is the responsibility of the Controlling Company's directors. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with generally accepted auditing standards, which require examination, by means of selective tests, of the documentation supporting the consolidated financial statements and evaluation of their presentation, of the accounting principles applied and of the estimates made.
2. The Board of Directors of Telefónica, S.A. prepared the 2000 and 1999 consolidated financial statements in pesetas, the currency in which book entries are expressed in the Controlling Company's accounting records. In addition, for information purposes only, the directors present the consolidated balance sheets and consolidated statements of income for 2000 and 1999 translating the pesetas to euros at the conversion rate set on December 31, 1998, by the Council of the European Union for application from January 1, 1999 (Ptas. 166.386 per euro). This information cannot be deemed to be an integral part of the audited consolidated financial statements.
3. As required by Spanish corporate law, for comparison purposes the directors present, in addition to the 2000 figures for each item in the consolidated balance sheet and consolidated statements of income and of changes in financial position, the figures for 1999. Our opinion refers only to the 2000 consolidated financial statements. Our auditors' report dated February 25, 2000, on the 1999 consolidated financial statements contained an opinion qualified for one matter.

4. In our opinion, the 2000 consolidated financial statements referred to above present, in all material respects, a true and fair view of the net worth and financial position of Telefónica, S.A. and of the Companies composing the Telefónica Group as of December 31, 2000, and of the results of their operations and of the funds obtained and applied by them in the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with generally accepted accounting principles and standards applied on a basis consistent with that of the preceding year.
5. The accompanying consolidated management report for 2000 contains the explanations which the directors of Telefónica, S.A. consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated management report is consistent with that contained in the consolidated financial statements for 2000. Our work as auditors was confined to checking the consolidated management report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of the consolidated Companies.

ARTHUR ANDERSEN



Eduardo Sanz Hernández

February 28, 2001

TELEFÓNICA GROUP

CONSOLIDATED BALANCE SHEETS FOR THE YEARS ENDED

december, 31, 2000 and 1999

Translation of a report and consolidated financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 25). In the event of a discrepancy, the Spanish-language version prevails.

	Consolidated group (Millions of Pesetas)		Consolidated group (Millions of Euros)(Note 2-d)	
	2000	1999	2000	1999
ASSETS				
A) DUE FROM STOCKHOLDERS FOR UNCALLED CAPITAL	87,898	557	528.3	3.3
B) FIXED AND OTHER NONCURRENT ASSETS	11,115,763	8,239,698	66,807.2	49,521.8
I. Start-up expenses	82,442	28,306	495.5	170.1
II. Intangible assets (Note 6)	3,276,662	1,165,718	19,693.2	7,006.3
Research and development expenses	184,384	157,759	1,108.2	948.2
Administrative concessions	2,970,979	959,341	17,855.9	5,765.8
Rights on leased assets	25,094	21,458	150.8	129.0
Other intangible assets	483,393	298,707	2,905.3	1,795.3
Accumulated amortization and provisions	(387,188)	(271,547)	(2,327.0)	(1,632.0)
III. Property and equipment (Note 7)	6,442,791	5,949,113	38,722.1	35,754.9
Land and structures	1,198,505	1,127,081	7,203.2	6,773.9
Technical installations and machinery	287,748	242,527	1,729.4	1,457.6
Telephone installations	10,339,295	9,538,837	62,140.4	57,329.6
Furniture	582,082	468,427	3,498.4	2,815.3
Construction in progress	943,368	695,833	5,669.8	4,182.0
Advances on property and equipment	8,823	3,775	53.0	22.7
Installation materials	58,444	61,151	351.3	367.5
Accumulated depreciation and provisions	(6,975,474)	(6,188,518)	(41,923.4)	(37,193.7)
IV. Long-term financial investments (Note 8)	1,313,868	1,096,561	7,896.4	6,590.5
Holdings in associated companies	382,959	260,799	2,301.6	1,567.4
Other holdings	230,097	166,806	1,382.9	1,002.5
Other loans	265,233	298,491	1,594.1	1,794.0
Long-term deposits and guarantees	5,963	3,253	35.8	19.6
Deferred tax assets (Note 18)	443,603	393,467	2,666.1	2,364.8
Provisions	(13,987)	(26,255)	(84.1)	(157.8)
C) GOODWILL IN CONSOLIDATION (Note 5)	1,283,635	699,985	7,714.8	4,207.0
D) DEFERRED CHARGES (Note 9)	122,295	145,353	735.0	873.6
E) CURRENT ASSETS	2,760,699	1,587,445	16,592.1	9,540.7
I. Inventories	131,694	79,210	791.5	476.1
Inventories	132,590	79,318	796.9	476.7
Advances	3,298	4,502	19.8	27.1
Provisions	(4,194)	(4,610)	(25.2)	(27.7)
II. Accounts receivable	1,418,804	1,175,034	8,527.2	7,062.0
Customer receivables (Note 10)	1,161,218	906,916	6,979.1	5,450.7
Receivable from associated companies	9,989	9,340	60.0	56.1
Sundry accounts receivable	237,194	197,652	1,425.6	1,187.9
Employee receivables	13,807	20,588	83.0	123.7
Tax receivables (Note 18)	262,048	217,338	1,574.9	1,306.2
Allowance for bad debts (Note 10)	(241,219)	(172,387)	(1,449.8)	(1,036.1)
Allowance for sundry accounts receivable	(24,233)	(4,413)	(145.6)	(26.5)
III. Short-term financial investments	1,014,015	242,605	6,094.3	1,458.1
Loans to associated companies	1,904	1,835	11.4	11.0
Short-term investment securities	671,602	128,306	4,036.4	771.1
Other loans	343,012	112,736	2,061.5	677.6
Provisions	(2,503)	(272)	(15.0)	(1.6)
IV. Short-term treasury stock (Note 4-i)	10,821	278	65.0	1.7
V. Cash	127,391	30,964	765.6	186.1
VI. Accrual accounts	57,974	59,354	348.4	356.7
TOTAL ASSETS (A+B+C+D+E)	15,370,290	10,673,038	92,377.3	64,146.3

The accompanying Notes 1 to 25 and Exhibits I to VI are an integral part of these consolidated balance sheets.

TELEFÓNICA GROUP

CONSOLIDATED BALANCE SHEETS FOR THE YEARS ENDED

december, 31, 2000 and 1999

	Consolidated group (Millions of Pesetas)		Consolidated group (Millions of Euros)(Note 2-d)	
	2000	1999	2000	1999
STOCKHOLDERS' EQUITY AND LIABILITIES				
A) STOCKHOLDERS' EQUITY (Note 11)	4,314,478	2,410,065	25,930.5	14,484.8
I. Capital stock	722,233	542,889	4,340.7	3,262.8
II. Additional paid-in capital	1,828,247	427,400	10,988.0	2,568.7
III. Revaluation reserve	538,369	538,369	3,235.7	3,235.7
IV. Other reserves of the Controlling Company	772,636	495,374	4,643.7	2,977.3
Unrestricted reserves	630,184	391,710	3,787.5	2,354.2
Restricted reserves	142,452	103,664	856.2	623.0
V. Reserves at companies consolidated by the global integration method	174,003	148,777	1,045.8	894.2
VI. Reserves at companies carried by the equity method	25,700	27,895	154.5	167.7
VII. Translation differences in consolidation	(163,476)	(70,932)	(982.5)	(426.3)
VIII. Income for the year	416,766	300,293	2,504.8	1,804.8
Income of the Parent Company and subsidiaries	463,684	410,039	2,786.7	2,464.4
Income of associated companies	(26,846)	(646)	(161.3)	(3.9)
Income attributable to minority interests (Note 12)	(20,072)	(109,100)	(120.6)	(655.7)
B) MINORITY INTERESTS (Note 12)	1,552,349	1,766,084	9,329.8	10,614.4
C) NEGATIVE GOODWILL IN CONSOLIDATION	2,561	—	15.4	—
D) DEFERRED REVENUES (Note 13)	239,930	175,580	1,442.0	1,055.3
E) PROVISIONS FOR CONTINGENCIES AND EXPENSES (Note 14)	1,146,032	1,124,153	6,887.8	6,756.3
F) LONG-TERM DEBT	4,108,555	2,959,729	24,693.0	17,788.3
I. Debentures and bonds (Note 15)	2,063,499	1,132,049	12,401.9	6,803.7
Nonconvertible debentures and bonds	2,063,499	1,024,710	12,401.9	6,158.6
Convertible debentures and bonds	—	107,339	—	645.1
II. Payable to credit entities (Note 16)	1,542,596	1,518,642	9,271.2	9,127.2
III. Other accounts payable	271,108	119,645	1,629.4	719.1
Other accounts payable (Note 19)	266,091	113,955	1,599.2	684.9
Notes payable	5,017	5,690	30.2	34.2
IV. Deferred tax liabilities (Note 18)	231,180	185,991	1,389.4	1,117.8
V. Uncalled capital payments payable	172	3,402	1.1	20.5
Associated companies	109	15	0.7	0.1
Other companies	63	3,387	0.4	20.4
G) CURRENT LIABILITIES	4,006,385	2,237,427	24,079.0	13,447.2
I. Debentures, bonds and other marketable debt securities (Note 15)	552,738	376,193	3,322.0	2,260.9
Debentures	422,472	207,750	2,539.1	1,248.6
Other marketable debt securities	75,128	137,176	451.5	824.4
Interest on debentures and other securities	55,138	31,267	331.4	187.9
II. Payable to credit entities	1,291,695	588,540	7,763.3	3,537.2
Loans and other accounts payable (Note 16)	1,250,771	561,181	7,517.3	3,372.8
Interest payable	40,924	27,359	246.0	164.4
III. Payable to associated companies	11,496	19,431	69.1	116.8
IV. Trade accounts payable	987,921	706,384	5,937.6	4,245.5
Advances received on orders	10,259	1,858	61.7	11.2
Payables for purchases and services	968,426	700,456	5,820.4	4,209.8
Notes payable	9,236	4,070	55.5	24.5
V. Other nontrade payables	1,083,253	493,939	6,510.5	2,968.6
Accrued taxes payable (Note 18)	223,021	211,234	1,340.4	1,269.5
Other nontrade payables (Note 19)	860,232	282,705	5,170.1	1,699.1
VI. Accrual accounts	79,282	52,940	476.5	318.2
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES (A+B+C+D+E+F+G)	15,370,290	10,673,038	92,377.3	64,146.3

TELEFÓNICA GROUP

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED

december, 31, 2000 and 1999

	Consolidated group (Millions of Pesetas)		Consolidated group (Millions of Euros)(Note 2-d)	
	2000	1999	2000	1999
DEBIT				
A) EXPENSES				
Variation in inventories	(9,900)	(6,152)	(59.5)	(37.0)
Procurements	1,005,841	681,030	6,045.3	4,093.1
Purchases	462,665	367,773	2,780.7	2,210.4
Work performed by other companies	543,176	313,257	3,264.6	1,882.7
Personnel expenses (Note 20)	850,521	734,004	5,111.7	4,411.5
Period depreciation and amortization	1,158,174	1,016,418	6,960.8	6,108.8
Property and equipment (Note 7)	1,033,387	921,531	6,210.8	5,538.5
Intangible assets (Note 6)	111,478	85,416	670.0	513.4
Deferred charges	13,309	9,471	80.0	56.9
Variation in operating provisions	126,635	94,142	761.1	565.8
Variation in allowance for inventories	1,779	606	10.7	3.6
Variation in allowance for bad debts (Note 10)	116,651	90,674	701.1	545.0
Variation in other provisions	8,205	2,862	49.3	17.2
Other operating expenses	986,128	683,825	5,926.7	4,109.9
Outside services	889,171	586,665	5,344.0	3,525.9
Taxes other than income tax	73,550	74,817	442.0	449.7
Other operating expenses	23,407	22,343	140.7	134.3
I. OPERATING INCOME	824,939	794,764	4,957.9	4,776.6
Interest on payables to associated companies	14	569	0.1	3.4
Other interest on accounts payable and similar expenses (Note 20)	356,638	296,347	2,143.4	1,781.1
Amortization of deferred interest expenses	12,514	6,466	75.2	38.9
Variation in financial investment provisions	(16,738)	9,618	(100.6)	57.8
Exchange losses (Note 20)	78,574	92,807	472.2	557.8
II. FINANCIAL INCOME	—	—	—	—
Share in losses of companies carried by the equity method	52,496	25,170	315.5	151.3
Amortization of goodwill in consolidation (Note 5)	83,289	32,334	500.6	194.3
III. INCOME FROM ORDINARY ACTIVITIES	405,272	586,059	2,435.7	3,522.2
Variation in fixed asset and control portfolio provisions (Notes 7 and 8)	(87,621)	222,013	(526.6)	1,334.3
Losses on fixed assets (Note 20)	39,914	39,200	239.9	235.6
Losses on disposal of consolidated companies (Note 8)	3,173	82	19.1	0.5
Extraordinary expenses and losses (Note 20)	688,508	223,681	4,138.0	1,344.3
IV. EXTRAORDINARY INCOME	71,868	—	431.9	—
V. INCOME BEFORE TAXES	477,140	438,738	2,867.6	2,636.8
Corporate income tax (Note 18)	(31,973)	(11,908)	(192.2)	(71.6)
Foreign taxes (Note 18)	72,275	41,253	434.4	247.9
VI. CONSOLIDATED INCOME FOR THE YEAR	436,838	409,393	2,625.4	2,460.5
Income attributed to minority interests (Note 12)	108,919	128,965	654.6	775.1
VII. INCOME FOR THE YEAR	416,766	300,293	2,504.8	1,804.8

TELEFÓNICA GROUP

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED

december, 31, 2000 and 1999

	Consolidated group (Millions of Pesetas)		Consolidated group (Millions of Euros)(Note 2-d)	
	2000	1999	2000	1999
CREDIT				
B) REVENUES				
Net sales and services (Note 20)	4,739,588	3,819,724	28,485.5	22,957.0
Variation in work-in-process	8,779	6,237	52.8	37.5
Capitalized expenses of in-house work on fixed assets	149,589	138,929	899.0	835.0
Other operating revenues	44,382	33,141	266.7	199.2
Sundry and other current operating revenues	35,509	19,052	213.4	114.5
Subsidies	2,469	841	14.8	5.1
Overprovision for contingencies and expenses	6,404	13,248	38.5	79.6
I. OPERATING LOSS	—	—	—	—
Revenues from shareholdings	2,449	2,593	14.7	15.6
Associated companies	—	—	—	—
Other companies	2,449	2,593	14.7	15.6
Revenues from other securities and loans (Note 20)	81,793	62,422	491.6	375.1
Associated companies	4,093	2,753	24.6	16.5
Other companies	77,700	59,669	467.0	358.6
Exchange gains	37,228	165,067	223.7	992.1
II. FINANCIAL LOSS	309,532	175,725	1,860.3	1,056.1
Share in the income of companies carried by the equity method	25,650	24,524	154.2	147.3
III. LOSS ON ORDINARY ACTIVITIES	—	—	—	—
Gains on fixed asset disposals	5,777	3,524	34.7	21.2
Gains on disposal of holdings in consolidated companies (Note 8)	653,276	263,647	3,926.3	1,584.6
Capital subsidies (Note 13)	12,838	12,860	77.2	77.3
Extraordinary revenues (Note 20)	43,951	57,624	264.3	346.4
IV. EXTRAORDINARY LOSS	—	147,321	0.0	885.4
V. LOSS BEFORE TAXES	—	—	—	—
VI. CONSOLIDATED LOSS FOR THE YEAR	—	—	—	—
Loss attributed to minority interests (Note 12)	88,847	19,865	534.0	119.4
VII. LOSS FOR THE YEAR	—	—	—	—

TELEFÓNICA, S.A. AND COMPANIES COMPOSING THE TELEFÓNICA GROUP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

1. INTRODUCTION AND GENERAL INFORMATION

TELEFÓNICA GROUP COMPANIES

Telefónica, S.A. and its subsidiaries and investees make up an integrated group of companies («the Telefónica Group») operating mainly in the telecommunications, media and entertainment industries.

The Parent Company of this Group is Telefónica, S.A. («Telefónica»), a corporation that was incorporated for an indefinite period of time on April 19, 1924. Its registered office is at Gran Vía 28, Madrid (Spain).

Exhibit I hereto lists the dependent, associated and investee companies in which Telefónica has direct or indirect holdings, their lines of business, their net worth and earnings at year-end, their gross book value, their contribution to the reserves of the consolidated Group and their registered offices.

CORPORATE STRUCTURE OF THE GROUP

Telefónica's basic corporate purpose, per Article 4 of its bylaws, is the provision of all manner of public and private telecommunications services, and all manner of ancillary or supplementary telecommunications services or the services derived therefrom. All the business activities that constitute the corporate purpose may be performed either in Spain or abroad and may be carried on either wholly or partially by the Company, or through shareholdings or other equity interests in other companies or legal entities with an identical or similar corporate purpose.

The main groups of dependent companies through which Telefónica carries out its corporate purpose and manages its business areas or basic lines of business are as follows:

- The wireline telecommunications business in Spain centered at the Telefónica de España Group.
- The cellular telephony business is centralized in Spain and abroad at the Telefónica Móviles Group, following a business restructuring process initiated in 2000.
- The main business activities of the Telefónica Internacional Group is to make and manage investments in the wireline telecommunications industry in the Americas.

- The Telefónica Media Group groups together the Group's interests in the media and entertainment area.
- The main business activity of the Telefónica Datacorp Group is the integral provision of data transmission services for companies.
- Internet access and other Internet-related services and interactive services in general are provided by the Terra Networks Group.
- The Atento Group carries out the call center activity.
- The Telefónica Publicidad e Información Group handles the telephone directory business.
- The Group is currently constructing an underwater broadband fiber optic system which will form a ring in the Americas, through the Emergia Group.
- Lastly, the Katalyx Group focuses on the development of businesses in the business to business network.

Certain business activities carried on by the Telefónica Group, mainly those performed in the Internet, third-generation wireless telephony (UMTS) or business to business businesses, are currently at the development or start-up phase. In order to be able to take decisions regarding the investments made, Group management prepared the related business plans, the results of which enable the recoverability of the investments made to be verified. Since these analyses and studies are based on assumptions, variances may arise and, accordingly, they will be analyzed periodically in order to monitor the results obtained.

The business activities carried on by most of the Telefónica Group companies are regulated by various pieces of legislation, under which authorizations or licenses must be obtained in certain circumstances in order to be able to provide the various services.

Also, certain business activities, such as wireline and wireless telephony, are carried on under regulated rate and price systems.

The Group company Telefónica de España, which carries out its business activities in a new regulatory and legislative framework as a result of the deregulation of the telecommunications industry in Spain initiated in 1987, is a special case.

This process of deregulation of the telecommunications market has led to the mass entry into the market of new operators, and the Government has not carried out the rate rebalancing it was obliged to perform under the contract between Telefónica and the Spanish State entered into in 1991 and under the applicable EU legislation. Consequently, in November 1999 Telefónica filed a lawsuit against the central government for noncompliance with EU regulations, and claiming indemnification for the shortfalls arising as a result of the aforementioned rate imbalance.

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

a) TRUE AND FAIR VIEW

The accompanying consolidated financial statements of the Telefónica Group were prepared from the accounting records of Telefónica, S.A. and of each of the companies composing the Telefónica Group. The respective individual financial statements were prepared in accordance with the accounting principles and standards regulated in Spain by the Commercial Code as implemented by the Spanish National Chart of Accounts and in the applicable regulations in the different countries in which the companies composing the Consolidated Group are located. The accompanying consolidated financial statements are presented in accordance with the regulations for the preparation of consolidated financial statements, as approved by Royal Decree 1815/1991 and, accordingly, they give a true and fair view of the net worth, financial position, results of operations and funds obtained and applied in 2000 and 1999.

The figures in these consolidated financial statements and in the management report are expressed in millions of pesetas unless otherwise stated.

b) CONSOLIDATION PRINCIPLES

The consolidation principles applied in 2000 were as follows:

- The companies over which effective control is exercised or in relation to which the Company has entered into agreements with the other stockholders were consolidated by the global integration method.
- The companies which are managed jointly with third parties were consolidated by the proportional integration method.
- The companies in which there is significant influence but not ownership of a majority of the voting rights or joint management with third parties are carried by the equity method.
- The companies which are either not included in the foregoing points or which, although included, do not have a material impact on consolidation, are carried at cost.

All material accounts and transactions between the consolidated companies were eliminated in consolidation.

In the case of Group companies whose accounting and valuation methods differed from those of Telefónica, adjustments were made in consolidation in order to present the consolidated financial statements on a uniform basis.

The margins included in the invoices issued by dependent companies to other Telefónica Group companies for capitalizable assets or services are eliminated when the transaction takes place.

The consolidated statement of income includes the revenues and expenses of the companies that are no longer in the Group up to the date on which the related holding was sold or the company was liquidated, and those of the new companies included in the Group from the date on which the holding was acquired or the company was formed through year-end.

The equity of minority interests in the net worth and results of the consolidated dependent companies consolidated by the global integration method is recorded under the «Minority Interests» and «Income Attributed to Minority Interests» captions, respectively (see Note 12).

In accordance with standard practice in Spain, the accompanying consolidated financial statements do not include the tax effect, if any, of transferring the reserves of the consolidated dependent companies and of the companies carried by the equity method to the Controlling Company's accounts, since it is considered that such reserves will be used to finance these companies' operations and that those that may be distributed would not give rise to a material additional tax cost.

c) COMPARATIVE INFORMATION AND CHANGES IN THE SCOPE OF CONSOLIDATION

There were no changes in the structure of the consolidated balance sheet and consolidated statement of income with respect to those presented in the previous year, and there were no significant events preventing the comparison of the 2000 consolidated financial statements with those for 1999.

The main variations in the scope of consolidation in 2000 and 1999 were as follows (the full detail of all the variations is included in Exhibit II):

2000

In July the tender offers launched in January for the acquisition of shares of the subsidiaries *Telecomunicações de São Paulo, S.A.* (Telesp), *Tele Sudeste Celular Participações, S.A.* (Telesudeste), *Telefónica de Argentina, S.A.* (TASA) and *Telefónica del Perú, S.A.A.* concluded with the exchange of the shares and American Depositary Shares (ADS) held by minority stockholders for shares of Telefónica with the following results:

- **Telesp:** 61.96% of the capital stock was acquired for approximately Ptas. 1,458,186 million, increasing Telefónica's direct and indirect holding in this company to 86.61% as of December 31, 2000.
- **Telesudeste:** 68.41% of this company's capital stock was acquired for approximately Ptas. 355,438 million, bringing Telefónica's direct and indirect holding in this company to 75.57%.
- **TASA:** a 44.27% holding was acquired for approximately Ptas. 620,229 million. At year-end, after the acquisition of an 80.91% holding in CEI Citicorp Holdings, S.A., Telefónica had a direct and indirect ownership interest in this company of 92.87%.
- **Telefónica del Perú:** 53.12% of the capital stock of this company was acquired for approximately Ptas. 317,886 million, bringing Telefónica's direct and indirect holding to 93.22% as of December 31, 2000.

For the exchange of these shares, Telefónica carried out four capital increases (see Note 11), for an amount equal to the underlying book values of the shareholdings acquired. Accordingly, no significant negative goodwill or goodwill in consolidation were disclosed.

In December the exchange of shares of *CEI Citicorp Holdings, S.A.* (CEI) through a capital increase at Telefónica, S.A. was completed (see Note 11). As a result of this transaction, a 80.91% holding was acquired in this company, whose main assets are its 50% holding in Cointel (which in turn owns 52.8% of TASA), its 26.82% holding in Atlantida de Comunicaciones, S.A. (ATCO) and its 26.82% holding in AC Inversora, S.A., valued at approximately Ptas. 380,959 million for the purposes of the share exchange.

Under the agreements reached, the aforementioned stockholders of CEI have reduced the financial debt recorded by CEI and included in the accompanying consolidated financial statements by Ptas. 58,530 million (€351.8 million).

Following the share exchange, in 2001 CEI's capital will be reduced through the reimbursement of contributions to the other stockholders in order to increase Telefónica's ownership interest in CEI to 100%.

In October the subsidiary *Terra Networks, S.A.* («Terra») acquired all the shares of *Lycos Virginia, Inc.*, the successor of Lycos, Inc., through a capital increase. As of the date of the tender offer, the holding in Lycos was valued at approximately Ptas. 2,011,393 million.

Prior to this acquisition, and in the framework of the agreements with Lycos, Terra increased the par value of its capital stock by €70,967,742 through the issuance of 35,483,871 shares of €2 par value each and additional paid-in capital of €60 per share. Telefónica subscribed to and paid 35,380,101 shares.

Telefónica's 2000 year-end direct and indirect holding in Terra Networks was 36.87%.

On February 14 *Telefónica Móviles, S.A.* («Telefónica Móviles») was incorporated with an initial capital stock of €3,005,060 to centralize all the Telefónica Group's interests in the wireless telephony business. This process was carried out in 2000 through several capital increases performed with nonmonetary contributions of other Telefónica Group companies, a process which will continue in the following year. The companies contributed are listed in Exhibit I. Subsequently, in November 2000 the company requested and obtained the listing of its shares through a public offering for subscription of shares through which the Telefónica Group reduced its direct and indirect holding in this company to the 92.15% held by it as of December 31, 2000. This transaction gave rise to a gain of Ptas. 482,404 million, which was recorded in the consolidated statement of income (see Note 8).

In the second half of 2000 *Telefónica Móviles* (through its wholly-owned subsidiary Telefónica Intercontinental, S.A.) formed consortiums with other operators, which obtained the following licenses to provide UMTS services in Germany, Italy and Austria:

- **Germany:** in August the consortium ORLA, 57.2% owned by Telefónica Móviles, obtained one of the six licenses granted for Ptas. 1.4 billion.
- **Italy:** in October the consortium IPSE 2000 led by Telefónica Móviles obtained one of the two licenses for broader band granted for Ptas. 543,915 million. The Telefónica Group's effective ownership interest in this consortium is 46.09%.
- **Austria:** in November 3G Mobile Telecommunications, a wholly-owned investee of Telefónica Móviles, obtained a two-band frequency license for Ptas. 19,533 million.

The Group's ownership interests in these consortiums are consolidated by the global integration method.

In August Telefónica acquired a 99.22% holding in *Endemol Entertainment Holding, N.V.* through a tender offer carried out in exchange for shares of Telefónica, S.A. issued in a capital increase (see Note 11). The shares acquired at the date of the tender offer were valued at approximately Ptas. 904,396 million.

In May Telefónica acquired all the shares of *Vigil Corp, S.A.*, which owns 77.85% of the capital stock of *Ambit, S.A.*, and 22.15% of the shares of the latter company in exchange for shares of Telefónica, S.A. issued in a capital increase (see Note 11). These acquisitions increased the shareholding in *Atlantida Comunicaciones, S.A.* (ATCO) by 35.76%. The value of these holdings as of the transaction date was approximately Ptas. 43,198 million and Ptas. 12,291 million, respectively.

The Group company *Terra Mobile* acquired all the shares of *lobox* for Ptas. 35,973 million.

In July, in compliance with current legislation in Brazil, all the shares owned of *CRT Fija*, representing 16.7% of the capital stock, were sold, giving rise to a gain of Ptas. 9,983 million (see Note 8).

In January Telefónica sold 3% of the capital stock of *Terra* to Banco Bilbao Vizcaya Argentaria, S.A., giving rise to a gain of Ptas. 75,474 million (see Note 8).

In September Telefónica sold in the market 3.1% of the capital stock of *Telefónica Publicidad e Información, S.A.* for a gain of Ptas. 17,576 million (see Note 8).

In June all the shares of *Telefónica Sistemas Ingeniería de Productos, S.A.* were sold, giving rise to a gain of Ptas. 23,602 million (see Note 8).

1999

Telefónica Internacional directly or indirectly acquired additional shareholdings in certain Brazilian companies. As of December 31, 1999, the additional percentages acquired were as follows:

- An additional holding of 2.14% in *Telebahía Celular, S.A.* for Ptas. 557 million; an additional holding of 4.187% in *Telesp Participações, S.A.* for Ptas. 41,017 million; an additional holding of 2.875% in *Telecomunicações de São Paulo, S.A.* (Telesp) for Ptas. 26,220 million; 0.102% of the capital stock of *Companhia Telefonica Do Borda Do Campo, S.A. (CTBC)* for Ptas. 37 million; a holding of 1.679% in *Tele Sudeste Celular, S.A.* for Ptas. 3,491 million; an additional holding of 18.92% in *Telerj Celular, S.A.* for Ptas. 28,131 million and 1.669% of the shares of *Tele Leste Celular, S.A.* for Ptas. 482 million; an additional holding of 5.922 % in *Telest Celular, S.A.* for Ptas. 783 million and an additional holding of 2.485% in *Telergipe Celular, S.A.* for Ptas. 53 million.

In 1999 Telefónica Internacional also acquired an additional 5.03% holding in *Telefónica del Perú, S.A.A.* for Ptas. 33,182 million, bringing the Telefónica Group's total holding in this company to 40.03%.

On December 16, 1999, the investee *Infonet Services Corporation Inc. (Infonet)* was admitted to listing on the New York Stock Exchange through the sale of a portion of the shares owned by its former stockholders and the issuance of new shares. Until the admission to listing of this company, the Telefónica Internacional Group had recorded its holding at cost. However, under Spanish legislation, after the admission to listing of the company it was carried by the equity method. The gain obtained by the Group on this transaction (Ptas. 19,204 million) was recorded in the consolidated statement of income under the «Gains on Disposal of Holdings in Consolidated Companies» caption, and the holding in this company decreased to 14.63%.

In May the subsidiary *Telefónica Publicidad e Información, S.A. (TPI)* increased capital with a charge to reserves, carried out a share split and

redenominated in euros its capital stock amount, which was set at Ptas. 1,000 million. Subsequently, it increased capital by Ptas. 20 million with additional paid-in capital of Ptas. 28 million, subscribed and paid in full by La Caixa. In June the public offering for the sale of 35% of the shares of TPI was closed, with a gain of Ptas. 99,741 million for the Telefónica Group. Following these transactions, at 1999 year-end Telefónica had a 63% holding in TPI.

In November *Terra* was admitted to listing on the Madrid Stock Exchange and on the NASDAQ (National Association of Security Dealers' Automated Quotation System) in the U.S. Following this company's admission to listing, the Telefónica Group's direct and indirect holding in it decreased to 70.47% as of December 31, 1999. The gain on this transaction (Ptas. 82,885 million) was recorded in the consolidated statement of income under the «Gains on Disposal of Holdings in Consolidated Companies» caption.

In August Telefónica Media acquired all the shares of the radio company *Uniprex, S.A.* for Ptas. 18,031 million. The initial disbursement in this transaction was Ptas. 12,000 million.

In February Telefónica Media acquired an additional holding of 17.09% in *Antena 3 de Televisión, S.A.* for Ptas. 19,538 million, and in July an additional 6.4255% holding for Ptas. 7,468 million. Subsequently, in December, it acquired an additional holding of 0.288% in this company for Ptas. 671 million, bringing its ownership interest to 47.21% at 1999 year-end.

In June the capital increase at *DTS Distribuidora de Televisión Digital, S.A. (DTS or Via Digital)* was concluded for Ptas. 40,477.5 million. Telefónica Media, which had previously acquired an additional 17% holding in DTS for Ptas. 40,477.5 million, and which had subscribed the 36.95% which corresponded to it prior to the capital increase, subscribed and disbursed sufficient shares for its holding to reach 68.59% for Ptas. 31,058 million. Under Article 19 of the Private Television Law, no single stockholder may have an ownership interest of over 49% in this company. On June 1, 1999, Telefónica Media notified the Board of Directors that it did not intend to hold an ownership interest of over 49% in the company. Accordingly, following the capital increase at Via Digital approved on December 13, 1999, in January 2000 the Telefónica Group reduced its holding in the aforementioned company to 48.63%, and reached agreements with a passive financial investor which has acquired a holding in Via Digital, and with other stockholders of the company, guaranteeing the liquidity of the investments made and of the purchase options thereon. The percentage to which these agreements relate is 25.25%, extendible to 35.70%.

On July 21, 1999, the Stockholders' Meeting of Via Digital appointed and reelected the members of the Board of Directors. Of the total of 24 directors, 12 were appointed by the Telefónica Group.

Telefónica Media also acquired 5% of the publishing group *Pearson Plc.* for Ptas. 103,391 million.

In January all the shares of the Austrian company *European Telecom International GmbH* were acquired for Ptas. 4,992 million through Telefónica Intercontinental, S.A. In December this company increased its capital by Ptas. 1,300 million. This capital increase was subscribed and paid in full by its parent company.

Through its subsidiaries, Telefónica, together with other member companies of the *Médi Telecom* consortium, obtained the second wireless telephony license in Morocco in a call for tenders. At year-end Telefónica Internacional had an ownership interest of 34.5% in this consortium, for which it had to disburse Ptas. 27,590 million.

In May Telefónica sold all its shares in the wholly-owned subsidiary *Telecomunicaciones Marinas, S.A.* The Telefónica Group recorded a gain of Ptas. 35,852 million on this sale, which was recorded in the Group's consolidated statement of income under the «Gains on Disposal of Holdings in Consolidated Companies» caption.

In December *Telefónica Medios de Comunicación, S.A.* sold its 20% holding in *Recoletos Compañía Editorial, S.A.* for Ptas. 30,000 million. The gain obtained by the Telefónica Group on this transaction was Ptas. 7,484 million, and this amount is recorded in the consolidated statement of income under the «Gains on Disposal of Holdings in Consolidated Companies» caption.

In January Telefónica, S.A. sold 1,702,858 shares, representing 12.2% of the capital stock, of *Amper, S.A.* for Ptas. 6,811 million. The gain obtained by the Telefónica Group on this transaction was Ptas. 2,972 million, which is recorded in the statement of income under the «Gains on Disposal of Holdings in Consolidated Companies» caption. The year-end percentage of ownership of this company was 12.2%.

d) INFORMATION IN EUROS

For information purposes, the amounts recorded in the accompanying consolidated balance sheets and statements of income were translated to euros at the irreversible exchange rate of Ptas. 166.386/€1 set by the Council of the European Union on December 31, 1998. These amounts are not an integral part of these consolidated financial statements.

3. PROPOSED DISTRIBUTION OF THE INCOME OF THE CONTROLLING COMPANY

The proposed distribution of 2000 income that the Board of Directors of the Controlling Company will submit for approval by the Stockholders' Meeting is to appropriate the income in full to the «Stockholders' Equity - Voluntary Reserves» caption.

4. VALUATION STANDARDS

The main valuation methods used in preparing the 2000 and 1999 consolidated financial statements were as follows:

a) GOODWILL IN CONSOLIDATION

The accompanying consolidated balance sheets include goodwill, net of amortization, arising from the positive difference in consolidation between the amounts paid to acquire the shares of the dependent companies consolidated or carried by the equity method and their underlying book values plus the unrealized gains allocable to these companies' assets at the acquisition date and that still existed at year-end.

The Group amortizes existing goodwill over 20 years except when it is considered that it will be recovered in a shorter period (see Exhibit III).

The amortization periods are those for which the estimated income attributable to the Group by the companies at which goodwill exists is at least equal to the unamortized amount of the goodwill at these companies.

b) TRANSLATION METHODS (YEAR-END EXCHANGE RATE METHOD)

The financial statements of the Group companies abroad were translated to pesetas at the exchange rates ruling at year-end, except for:

1. Capital stock and reserves, which were translated at historical exchange rates.
2. Income statement accounts, which were translated at the average exchange rates for the year.

The exchange difference arising from application of this method is included under the «Stockholders' Equity - Translation Differences in Consolidation» caption in the accompanying consolidated balance sheets, net of the portion of said difference relating to minority interests, which is recorded under the «Minority Interests» caption on the liability side of the accompanying consolidated balance sheets.

The companies using accounting methods that include inflation adjustments apply the accounting standards in force in their respective countries, which consist of valuing monetary assets and liabilities at face value and adjusting the historical cost of nonmonetary assets and liabilities by the inflation from the date of inclusion of the asset or liability in the company's balance sheet to year-end. The effect of the inflation for the year on the monetary assets and liabilities is included in the statement of income for the year under «Exchange Losses» or «Exchange Gains» caption. The amounts thus adjusted are translated to U.S. dollars at the year-end exchange rates and the subsequent

translation to pesetas is made by the year-end exchange rate method described in paragraphs 1 and 2 above.

c) START-UP EXPENSES

Start-up expenses, which comprise incorporation, capital increase and preopening expenses, are recorded at cost and are amortized on a straight-line basis over five years.

d) INTANGIBLE ASSETS

This caption in the accompanying consolidated balance sheets includes the following items:

Research and development expenses

These relate to the costs incurred in developing new products to be marketed or used for the Group's own network, which are amortized by the straight-line method over three years from the date of completion. Costs incurred in projects which are not viable for the future are charged to the statement of income in the year in which this circumstance becomes known.

Administrative concessions

This caption relates to the acquisition cost of the licenses for the provision of telephony services granted to the Group by various public authorities, and to the value assigned to the licenses held by certain companies at the time they were acquired by the Telefónica Group.

The acquisition cost includes the expenses incurred directly for obtainment of these licenses and, in the case of the licenses to operate the Universal Mobile Telecommunications System (UMTS) obtained in 2000 in Spain, Germany, Italy and Austria, the financial expenses incurred from the granting of the license to the time when the technology required to operate the service becomes available, provided the value thus obtained does not exceed the realizable value. Ptas. 28,639 million of financial expenses were capitalized in 2000.

Amortization will start to be taken when commercial operation of these licenses commences and will continue to be taken over the term thereof based on the estimated capacity to generate revenues in each period, which normally coincides with the number of lines installed or the expected number of customers, depending on the type of services provided under the license.

Rights on leased assets

The rights under financial lease contracts are recorded at the cost of the related assets, and the total debt for lease payments plus the amount of the purchase option are recorded as a liability. The difference between the two amounts, which represents the interest expenses on the

transaction, is recorded as a deferred charge and is allocated to income each year by the interest method. The existing contracts, which relate mainly to computer hardware, are amortized on a straight-line basis over five years, which coincides with the years of useful life of the hardware.

Software licenses

Software licenses are recorded at cost and are amortized on a straight-line basis over three years.

Other intangible assets

This caption includes, among other items, the costs incurred in acquiring capacity and rights of use of other operators' cables, mainly underwater cables. These rights are amortized on a straight-line basis over 25 years, which is generally the duration of the acquired rights.

e) PROPERTY AND EQUIPMENT

Property and equipment is carried at cost revalued pursuant to the applicable enabling legislation (see Note 7). If the regulations applicable in each country so require, the property and equipment is valued at cost or appraisal value adjusted by inflation.

Cost includes external costs plus internal costs comprising warehouse materials used, direct labor used in installation work and the allocable portion of the indirect costs required for the related investment. The latter two items are recorded as a revenue under the «Capitalized Expenses of In-House Work on Fixed Assets» caption.

The interest and other financial expenses incurred during the construction of property and equipment in connection with the start-up of a new activity, when the construction period exceeds one year, and the exchange differences arising over this period on long-term loans to finance these assets, are capitalized, provided that the resulting amount does not exceed realizable value. Ptas. 6,618 million and Ptas. 784 million were capitalized in this connection in 2000 and 1999, respectively.

The costs of expansion, modernization or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalized.

Upkeep and maintenance expenses are expensed currently.

The Group performs the necessary value adjustments to allocate to each property and equipment item its lower market value at each year-end, provided that the book value of the asset is not recoverable through the generation of sufficient revenues to cover all the costs and expenses, including depreciation.

A provision must be recorded for lasting diminution in value that is deemed to be reversible. This provision will be deducted in the valuation

of the asset in question; in this case the lower value will not be maintained if the causes which prompted the value adjustment have ceased to exist.

When the diminution in value of the assets is irreversible and differs from the result of systematic depreciation, the loss and the diminution in value of the related asset will be directly recorded (see Note 7).

The companies depreciate their property and equipment by the straight-line method at annual rates based on the years of estimated useful life of the assets, calculated in accordance with technical studies which are reviewed periodically based on technological advances and the rate of dismantling, as follows.

	Years of Estimated Useful Life
Buildings and structures	25-50
Technical installations and machinery	10-15
Telephone installations, networks and subscriber equipment	5-25
Furniture, office equipment and other	2-10

The increases in value resulting from the revaluations are depreciated over the years of residual useful life of the revalued assets.

f) LONG- AND SHORT-TERM FINANCIAL INVESTMENTS

Shareholdings which were not consolidated were recorded in the consolidated balance sheet at the lower of cost or market.

The market value was determined as follows:

1. Listed securities:

The market value was taken to be the lower of average market price in the last quarter or market price at year-end.

2. Unlisted securities:

The market value was taken to be the underlying book value at year-end plus the unrealized gains disclosed at the time of the acquisition and still existing at year-end.

Unrealized losses (cost higher than market or underlying book value at year-end) are recorded under the «Long-Term Financial Investments - Provisions» caption.

The «Short-Term Financial Investments» caption includes mainly the investment of cash surpluses arising at Telefónica and other Group companies in short term assets and the investment of the net level premium reserves of the Group's insurance companies (see Note 8), which amounted to Ptas. 616,629 million (relating to Telefónica) and Ptas.

44,170 million, respectively, as of December 31, 2000, and to Ptas. 133,420 million and Ptas. 48,378 million, respectively, as of December 31, 1999. Also noteworthy as of December 31, 2000, were the short-term investments of the Terra Group and the Telefónica Internacional Group recorded under the «Other Loans» caption, amounting to Ptas. 121,755 million and Ptas. 166,945 million, respectively.

g) DEFERRED CHARGES

This caption in the accompanying consolidated balance sheets includes the following items:

Supplementary pension payments to retired employees (shortfall)

These relate to the shortfall in the provisions recorded for the commitments assumed by Telefónica de España to retired employees as of June 30, 1992. Since then, the shortfall has been allocated to income over 15 years by the straight-line method, in accordance with the communication obtained from the Spanish Accounting and Audit Institute (ICAC) dated March 1, 1993, at a rate of Ptas. 10,247 million per year. On November 1, 1997, coverage of these commitments was externalized (see Notes 9 and 14).

Debt arrangement expenses

These relate to long-term debt arrangement expenses and issuance premiums on debentures and bonds and are amortized by the interest method on the basis of the principal amounts outstanding.

Executive loyalty-building program

This caption relates to the unaccrued costs relating to the Telefónica Group's stock option plan (see Notes 9 and 20).

Interest on promissory notes

This relates to the difference between the face value and the effective value of the promissory notes issued at over one year. This interest is charged to income by the interest method.

Interest on financial lease contracts

This relates to the interest expenses on financial lease contracts, which are charged to income by the interest method (see Note 4-d).

h) INVENTORIES

Warehouse materials for installation in capital expenditure projects and consumables and replacement parts are valued at the lower of weighted average cost, adjusted by the effect of inflation in the countries whose local legislation so requires, or market.

Obsolete, defective or slow-moving inventories have been reduced to realizable value. The allowance for diminution in value of inventories is recorded on the basis of inventory age and turnover.

i) TREASURY STOCK

Treasury stock is valued at the lower of cost, comprising the total amount paid for acquisition, or market. Since these shares are intended for sale at short term, pursuant to the accounting legislation in force, market value is taken to be the lower of average market price in the last quarter of the year, year-end market price, or the related underlying book value. As a result of application of this valuation method, the consolidated balance sheet as of December 31, 2000, includes the acquisition cost of the treasury stock (Ptas. 32,976 million), net of a provision of Ptas. 22,155 million (see Notes 11 and 20).

The Company has recorded the related restricted reserve as required by Article 79.3 of the Corporations Law (see Note 11-a).

j) CAPITAL SUBSIDIES

Capital subsidies are valued at the amount granted and are allocated to income on a straight-line basis over a maximum period of ten years, which does not differ materially from the estimated useful life of the subsidized assets.

Most of the aforementioned subsidies were granted to Telefónica de España and the conditions under which the subsidies were granted are being met in all cases (see Note 13).

k) FOREIGN CURRENCY TRANSACTIONS

Fixed-income securities and receivables and payables denominated in foreign currencies are translated to pesetas at the exchange rates ruling at the transaction date, and are adjusted at year-end to the exchange rates then prevailing (see Note 4-b).

Exchange differences arising on adjustment of foreign currency accounts payable and receivable to year-end exchange rates are classified by currency and due date, and for this purpose currencies which, although different, are officially convertible are grouped together.

The positive net differences in each group of currencies are recorded under the «Deferred Revenues» caption on the liability side of the consolidated balance sheet, unless exchange losses in a given group have been charged to income in prior years, in which case the net positive differences are credited to period income up to the limit of the negative net differences charged to income in prior years.

The positive differences deferred in prior years are credited to income in the year in which the related accounts receivable and payable fall due

or are repaid early, or as negative exchange differences for the same or a higher amount are recognized in each homogeneous group.

Exchange gains or losses arising from specific-purpose financing of foreign currency investments in investee companies to hedge the exchange risk to which these investments are exposed are recorded under the «Translation Differences in Consolidation» caption in the consolidated balance sheet.

These transactions are deemed to be hedging transactions when they meet certain requirements, most notably that the foreign currency in which the financing is denominated is the same as, or largely matches, the functional currency of the investment and of the flows generated by it, and that the timing of recognition of the anticipated flows of dividends and management fees matches the loan repayment schedule.

l) PENSION AND OTHER COMMITMENTS TO EMPLOYEES

At year-end the Group records in the consolidated balance sheet the provisions required to cover the accrued liability for the existing commitments, based on actuarial calculations at an appropriate discount to present value rate.

The Group's main commitments in this connection are detailed in Note 14.

m) TECHNICAL RESERVES

This caption relates mainly to the net level premium reserves, which represent the amount by which the present value of life insurance, pension and reinsurance commitments exceed the net premiums to be paid by the policyholders to Seguros de Vida y Pensiones Antares, S.A. and Casiopea Re. These reserves are credited when the commitments covered are paid.

n) ACCOUNTS PAYABLE

Accounts payable are recorded at repayment value, except for zero-coupon debenture and bond issues, which are recorded in the consolidated balance sheet at issue value plus the related accrued interest (see Note 15).

o) DERIVATIVES

Transactions aimed at eliminating or significantly reducing exchange, interest rate or market risks on asset and liability positions or on other transactions are treated as hedging transactions. The gains or losses arising over the life of these derivatives are taken to the income statement using the same recognition method as that used for gains or losses on the related asset or liability and the underlying transaction hedged by the derivatives (see Note 17).

Transactions that, exceptionally, were not assigned to hedge risks, are not treated as hedging transactions. In transactions of this kind, the differences in market price are recorded for accounting purposes when the transactions are canceled or finally settled. However, if potential losses are anticipated at period-end, the related provision is recorded with a charge to the consolidated statement of income.

p) CORPORATE INCOME TAX AND OTHER TAXES

These captions in the consolidated statements of income include all the debits and credits arising from Spanish corporate income tax and similar taxes applicable to the Group companies abroad.

The expense for corporate income tax of each year is calculated on the basis of book income before taxes, increased or decreased, as appropriate, by the permanent differences from taxable income, defined as those arising between taxable income and book income before taxes that do not revert in subsequent periods.

Tax relief and tax credits, excluding tax withholdings and prepayments, are deducted from the corporate income tax charge in the year in which they are definitively taken, except in the case of investment tax credits earned from 1996, which, at the time when they are taken, are deferred over the average life of the assets which gave rise to them. The difference between the expense incurred and the tax paid is due to the above-mentioned deferral and to revenue and expense recognition timing differences giving rise to deferred tax assets and liabilities, provided that they have a certain reversal period (see Note 18).

q) RECOGNITION OF REVENUES AND EXPENSES

Revenues and expenses are recognized on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

The revenues from telephony and other services are recognized on an accrual basis. The billings for services are generally made every two months. Unbilled revenues from the beginning of the billing cycle to the end of each month are estimated or recorded as soon as they are known. The differences between the estimated revenues and those subsequently invoiced are not material and are recognized in the following period. In accordance with the accounting principle of prudence, only realized income is recorded at year-end, whereas foreseeable contingencies and losses, including possible losses, are recorded as soon as they become known (see Note 20).

5. GOODWILL IN CONSOLIDATION

The variations in the «Goodwill in Consolidation» caption and in the related accumulated amortization in 2000 and 1999 were as follows:

Millions of Pesetas	
Balance at 12/31/98	399,623
Additions	344,573
Amortization	(32,334)
Net retirements	(20,759)
Net transfers	4,250
Translation differences	4,632
Balance at 12/31/99	699,985
Additions	867,477
Amortization	(83,289)
Write-offs	(133,783)
Net retirements	(73,510)
Net transfers	1,834
Translation differences	4,921
Balance at 12/31/00	1,283,635

The goodwill arising on the acquisition of companies abroad is translated to pesetas at the exchange rates prevailing at the time the goodwill arises, except for goodwill arising on the acquisition of companies by foreign operators, which is recorded in local currency and is affected by exchange rate fluctuations. The resulting differences are recorded under the «Translation Differences in Consolidation» caption.

Per the estimates and projections available to the directors, the projected income attributable to the Group that will be earned by the companies at which goodwill has arisen is at least equal to the unamortized balance of the related goodwill in the related periods.

Based on these estimates and projections, in 2000 Ptas. 133,783 million of goodwill was written off and recorded under the «Extraordinary Expenses and Losses» caption in the accompanying consolidated statement of income (see Note 20). These write-offs of goodwill included most notably that of the goodwill of Terra arising in the capital increase performed by Telefónica (see Note 2) in September 2000 in compliance with the agreements entered into on the occasion of the acquisition of Lycos, for Ptas. 78,549 million. This company is recorded in the Group's consolidated financial statements at its related net worth value. In addition, the goodwill relating to investees of Atlántida de Comunicaciones, S.A. (ATCO) amounting to Ptas. 33,115 million was written off because the amortization period used by this subgroup was brought into line with the maximum amortization period permitted in Spain (20 years), which is more consistent with the period envisaged in its business plans in which the investment is expected to be recovered.

Positive differences in consolidation allocable to the assets of the company acquired give rise to an increase in the value of the related

assets up to their market value, once the related valuation has been carried out.

The detail of the balances of the goodwill at each company and the related accumulated amortization, and of the variations therein is shown in Exhibit III.

2000

The main additions to the goodwill in consolidation as of December 31, 2000, related to the following companies:

	Millions of Pesetas
Lycos	160,397
Lycos Group (*)	146,751
Endemol	133,487
ATCO Group (*)	106,825
Terra Networks	80,218
Grupo CEI Citicorp (*)	72,603
lobox	38,842
Quatro C. Atendimiento	23,891
CEI Citicorp Holdings	22,554
Other companies	81,909
Total	867,477

(*) Goodwill included in the consolidated financial statements relating to the investees of the companies acquired.

The retirements included most notably the retirement of Ptas. 43,820 million due to the sale of the holding in CRT Fija.

1999

The main additions to goodwill in consolidation as of December 31, 1999, relate to the following companies:

	Millions of Pesetas
Antena	17,906
CRT Celular (Brazil)	14,593
DTS	13,550
Terra Networks Brazil	30,269
Pearson PLC	89,124
Telefónica del Perú	23,156
Telerj Celular	22,413
Telesp	16,268
Terra Networks México	35,675
Uniprex	14,083
Other companies	67,536
Total	344,573

The retirements in 1999 relate mainly to the sales of Recoletos and Amper (see Exhibit III), which had been carried by the equity method until they were sold.

6. INTANGIBLE ASSETS

The detail of the balances of the intangible asset accounts and of the variations therein in 2000 and 1999 is as follows:

Millions of Pesetas								
	Balance at			Inclusion of	Exclusion of	Translation		Balance at
	12/31/99	Additions	Retirements	Companies	Companies	Differences	Transfers	12/31/00
Research development expenses	157,759	17,620	—	10,933	(505)	(1,109)	(314)	184,384
Rights on leased assets	21,458	3,056	(452)	165	(114)	480	501	25,094
Software licenses and developments	204,566	85,690	(1,134)	3,067	(634)	(46)	(14,178)	277,331
Administrative concessions	959,341	2,031,791	(3,398)	12,273	(124,899)	5,362	90,509	2,970,979
Other intangible assets	94,141	43,495	(8,041)	50,571	(15,921)	688	41,129	206,062
Total intangible assets, gross	1,437,625	2,181,652	(13,025)	77,009	(142,073)	5,375	117,647	3,663,850
Accumulated amortization:								
Research and development expenses	95,138	20,296	(49)	4,092	(174)	261	(145)	119,419
Rights on leased assets	7,406	1,963	(289)	120	(4)	32	134	9,362
Software licenses and developments	81,200	40,675	(42)	961	(335)	(44)	863	123,278
Administrative concessions	63,405	32,624	(96)	—	—	173	(11,674)	84,432
Other intangible assets	24,283	15,920	(1,766)	9,222	(3,352)	740	5,351	50,398
Total accumulated amortization	271,432	111,478	(2,242)	(14,395)	(3,865)	1,162	(5,471)	386,889
Provisions for diminution in value	115	2,171	(2,064)	—	—	—	77	299
Intangible assets, net	1,165,718	2,068,003	(8,719)	62,614	(138,208)	4,213	123,041	3,276,662

Millions of Pesetas								
	Balance at			Inclusion of	Exclusion of	Translation		Balance at
	12/31/98	Additions	Retirements	Companies	Companies	Differences	Transfers	12/31/99
Research and development expenses	142,309	15,022	—	784	—	67	(423)	157,759
Rights on leased assets	17,376	4,592	(148)	37	(36)	548	(911)	21,458
Software licenses and developments	146,260	55,617	(686)	1,927	(86)	—	1,534	204,566
Administrative concessions	929,692	66,521	(62,866)	18,807	(555)	1,644	6,098	959,341
Other intangible assets	40,342	22,169	(990)	25,991	(46)	119	6,556	94,131
Total intangible assets, gross	1,275,979	163,921	(64,690)	47,456	(723)	2,378	12,854	1,437,265
Accumulated amortization:								
Research and development expenses	66,309	28,761	—	10	—	58	—	95,138
Rights on leased assets	5,269	2,042	(62)	—	(6)	165	(2)	7,406
Software licenses and developments	55,654	25,379	(232)	411	(28)	18	(2)	81,200
Administrative concessions	36,348	22,575	(575)	4,869	(91)	260	19	63,405
Other intangible assets	12,219	6,659	(940)	5,221	(13)	562	575	24,283
Total accumulated amortization	175,799	85,416	(1,809)	10,511	(138)	1,063	590	271,432
Provisions for diminution in value	—	—	—	115	—	—	—	115
Intangible assets, net	1,100,180	78,505	(62,881)	36,920	(585)	1,315	12,264	1,165,718

The «Administrative Concessions» caption includes mainly the following items:

- Licenses for the provision of UMTS services in Spain, Germany, Italy and Austria for approximately Ptas. 2,025,184 million, which are recorded as additions in 2000. The term of these licenses is 20 years in Spain, Germany and Austria and 15 years in Italy.
- A 25-year concession granted by the Peruvian State to Telefónica del Perú, S.A.A. when these companies were acquired in April 1994 by Telefónica Internacional.
- Licenses to operate wireline and wireless services of the companies awarded in the privatization of the Telebras system (Telesp, Tele

Sudeste and Tele Leste), assigned as an addition to the value of these assets when they were acquired (July 1998). The term of these licenses is 27 years.

The retirements from «Administrative Concessions» in 1999 include the write-down of the administrative concessions of the Brazilian companies Telesp Participações, S.A., Tele Sudeste Celular Participações, S.A. and Telesp Celular Participações, S.A. amounting to Ptas. 62,106 million as a result of the review of the recoverable value of these investments following the depreciation of the Brazilian real in early 1999. The projections that the directors had as of December 31, 1999 and 2000, regarding business performance and the income to be generated by these concessions are at least equal to the unamortized balance thereof as of that date.

7. PROPERTY AND EQUIPMENT

The detail of the balances of property and equipment accounts and of the related accumulated depreciation and of the variations therein in 2000 and 1999 is as follows:

Millions of Pesetas								
	Balance at 12/31/99	Additions	Retirements	Inclusion of Companies	Exclusion of Companies	Translation Differences	Transfers	Balance at 12/31/00
Cost:								
Land and structures	1,127,081	12,231	(1,453)	17,696	(1,789)	15,986	28,753	1,198,505
Technical installations and machinery	242,527	17,772	(3,214)	19,715	(504)	4,113	7,339	287,748
Telephone installations, networks and equipment	9,538,837	167,103	(261,969)	62,739	(7,667)	144,580	695,672	10,339,295
Furniture, tools and other	468,427	79,212	(58,627)	28,444	(7,128)	10,892	60,862	582,082
Total property and equipment in service	11,376,872	276,318	(325,263)	128,594	(17,088)	175,571	792,626	12,407,630
Construction in progress	695,833	1,008,402	(6,121)	3,462	(1,222)	18,178	(775,164)	943,368
Advances to fixed asset suppliers	3,775	2,862	(144)	626	—	(2,538)	4,242	8,823
Installation materials in warehouses	61,151	44,389	(5,673)	137	—	1,379	(42,939)	58,444
Property and equipment, gross	12,137,631	1,331,971	(337,201)	132,819	(18,310)	192,590	(21,235)	13,418,265
Accumulated depreciation:								
Structures	314,690	36,988	(512)	5,259	(176)	1,991	(938)	357,302
Technical installations and machinery	135,384	22,259	(2,484)	16,383	(388)	391	(3,155)	168,390
Telephone installations, networks and equipment	5,216,195	897,982	(182,543)	9,752	(27)	38,460	5,828	5,985,647
Furniture, tools and other	296,712	76,158	(52,926)	12,810	(397)	5,696	7,180	345,233
Total accumulated depreciation	5,962,981	1,033,387	(238,465)	44,204	(988)	46,538	8,915	6,856,572
Provisions for diminution in value	225,537	354	(102,396)	40	(4,619)	—	(14)	118,902
Property and equipment, net	5,949,113	298,230	3,660	88,575	(12,703)	146,052	(30,136)	6,442,791

Millions of Pesetas								
	Balance at 12/31/98	Additions	Retirements	Inclusion of Companies	Exclusion of Companies	Translation Differences	Transfers	Balance at 12/31/99
Cost:								
Land and structures	839,245	9,692	(6,339)	255,140	(557)	(32,211)	62,111	1,127,081
Technical installations and machinery	161,816	9,833	(6,296)	91,896	(10,732)	(17,693)	13,703	242,527
Telephone installations, networks and equipment	6,937,564	149,910	(324,324)	2,513,315	(42)	(359,067)	621,481	9,538,837
Furniture, tools and other	329,509	54,856	(18,818)	61,934	(1,528)	3,192	39,282	468,427
Total property and equipment in service	8,268,134	224,291	(355,777)	2,922,285	(12,859)	(405,779)	736,577	11,376,872
Construction in progress	395,465	769,068	1,093	271,236	(2,908)	(34,463)	(703,658)	695,833
Advances to fixed asset suppliers	1,982	1,595	(24)	378	—	106	(262)	3,775
Installation materials in warehouses	40,457	59,788	(12,192)	15,180	—	(1,098)	(40,984)	61,151
Property and equipment, gross	8,706,038	1,054,742	(366,900)	3,209,079	(15,767)	(441,234)	(8,327)	12,137,631
Accumulated depreciation:								
Structures	202,603	32,107	(1,216)	98,719	(186)	(17,355)	18	314,690
Technical installations and machinery	92,060	19,363	(4,998)	46,523	(6,010)	(8,671)	(2,883)	135,384
Telephone installations, networks and equipment	3,574,126	820,020	(296,079)	1,334,724	(6)	(199,423)	(17,167)	5,216,195
Furniture, tools and other	207,182	50,041	(17,213)	35,129	(310)	5,009	16,874	296,712
Total accumulated depreciation	4,075,971	921,531	(319,506)	1,515,095	(6,512)	(220,440)	(3,158)	5,962,981
Provisions for diminution in value	936	225,378	(777)	—	—	—	—	225,537
Property and equipment, net	4,629,131	(92,167)	(46,617)	1,693,984	(9,255)	(229,794)	(5,169)	5,949,113

The installation materials in warehouses are recorded net of provisions, which amounted to Ptas. 4,706 million as of December 31, 2000 (Ptas. 6,358 million as of December 31, 1999). The provisions for diminution in value of installation materials in warehouses recorded in 2000, based on their loss in value, amounted to Ptas. 1,885 million (Ptas. 2,592 million in 1999). The »Retirements» relate mainly to the dismantling of telephony plants (see Note 20).

Noteworthy in 2000 were the investments made by Group companies, mainly in wireline telephony both in Spain and Latin America, which represent most of the additions to and related subsequent transfers from the «Construction in Progress» caption.

As of December 31, 1999, it reflected the effect of the consolidation by the global integration method of, mainly, Telesp, S.A., Tele Sudeste Celular Participações, S.A., Celular CRT, S.A. and the Sonda Group.

The «Translation Differences» column includes both the effect of the variation in exchange rates on the beginning balances and the monetary adjustment applied by certain companies to their balances to adjust for inflation, in accordance with the accounting practices in their respective countries. The effect of exchange rates on the period variations is included in the appropriate column for each variation.

As of December 31, 2000 and 1999, the following items had been fully depreciated:

Millions of Pesetas		
	12/31/00	12/31/99
Buildings and structures	28,038	17,010
Technical installations, machinery and tools	149,666	120,421
Telephone installations	2,483,964	1,436,458
Other property and equipment	203,621	192,803
Total	2,865,289	1,766,692

Telefónica de España's fixed assets used to provide services currently regulated by a concession cannot be mortgaged without prior administrative authorization.

The Telefónica Group companies have taken out insurance policies to cover the possible risks to which its property and equipment used in operations are subject, except for the franchise existing in policies in force for local and domestic long-distance networks and subscriber equipment.

On December 31, 1996, Telefónica de España revalued its property and equipment pursuant to Royal Decree-Law 7/1996. The Company had previously revalued its assets pursuant to the enabling legislation specifically applicable to Telefónica de España.

The net increase in value resulting from these revaluations will be depreciated over the tax periods in the remaining useful lives of the

revalued assets. The increase in period depreciation as a result of the 1996 revaluation is not material with respect to the total depreciation recorded by the Group.

The detail of the property and equipment owned by Group companies consolidated by the global integration method located abroad is as follows:

Millions of Pesetas		
	12/31/00	12/31/99
Cost	7,146,033	5,877,676
Accumulated depreciation	(3,058,092)	(2,487,454)
Total	4,087,941	3,390,222

PROVISIONS FOR DIMINUTION IN VALUE

The telecommunications market in Spain became fully deregulated on December 1, 1998. In 1999, particularly in the last quarter of the year, certain regulatory measures were adopted, the main consequence of which was to accelerate the opening up to competition of the basic telephony service in Spain. These measures include most notably the approval in October of reductions in the regulated rates for local, long-distance and wireline-to-wireless services, although, per Company management estimates, the envisaged increase in monthly charges will not enable the effects of the current rate imbalance to be eliminated at medium term. Also approved on the same date were significant reductions in regulated circuit lease prices, to which must be added the entry into force in 2000 of obligatory operator pre-selection and number portability. In July 1999 the general application of the prices and conditions of the Reference Interconnection Offer (RIO), of particular relevance to wireless operators, came into force. Lastly, measures were taken to bring forward the introduction of competition in the local loop through application of ADSL technology and the immediate award of radio spectrum licenses for use in the local loop (LMDS technology).

The Company has analyzed the impact of these measures on the recoverability of the value of certain assets, the investment in which was made in the past taking into account the prevailing regulatory framework, and above all in fulfillment of the obligations for the provision of the universal service provided for in the State Contract entered into in 1991. As a result, at 1999 year-end the Company recorded a provision of Ptas. 220,056 million for asset write-downs, with a charge to the «Variations in Fixed Asset and Control Portfolio Provisions» caption.

This provision was recorded for assets that have to be replaced because they do not comply with the obligations associated with the provision of the new services or assets the projected returns on which, based on the aforementioned circumstances, do not enable the investment made to be recovered.

The return on these assets was measured by projecting the cash flows that they will foreseeably generate taking into account the forecasts then existing and adopting a stance of utmost prudence regarding the evolution of competition and the regulatory framework of prices and rates.

In 2000 the Company reassessed the impact of the regulatory measures adopted in Spain in prior years and their effect on the forecasts relating to the provision recorded in 1999. The legal provisions relating to the lease of the local loop establish the prices applicable in 2001-2003, which are significantly higher than the current subscriber charge

charged to customers of Telefónica de España. The impact of the regulatory measures adopted was reassessed taking into account the prices approved and the projected evolution of the subscription charge based on the foregoing.

As a result of all the foregoing, as of December 31, 2000, the provision required amounted to Ptas. 117,914 million, after inclusion in the 2000 financial statements of the losses arising as a result of the difference between the revenues, expenses and depreciation relating to these assets. Accordingly, Ptas. 102,142 million were reversed and recorded under the «Variations in Fixed Asset and Control Portfolio Provisions» caption.

8. LONG-TERM FINANCIAL INVESTMENTS

8.1. The detail of the balances of long-term financial investments as of December 31, 2000 and 1999, and of the related provisions for diminution in value and of the variations therein in the years then ended is as follows:

Millions of Pesetas							
	Holdings in Associated Companies	Other Holdings	Other Receivables	Guarantees and Deposits	Tax Receivables	Provisions	Total
Balance at 12/31/98	345,614	78,998	172,042	13,321	302,869	(4,102)	908,742
Additions	205,384	126,539	119,043	1,747	98,845	(1,957)	549,601
Sale of companies	(26,994)	(10,475)	(148,208)	(538)	(26,929)	31	(213,113)
Inclusion of companies	1,585	26,923	776	46	—	(10,610)	18,720
Exclusion of companies	(3,130)	(1,050)	—	—	(3,946)	1,048	(7,078)
Translation differences	(926)	(3,291)	5,623	—	—	1,288	2,694
Income	(644)	—	—	—	—	—	(644)
Dividends	(5,116)	—	—	—	—	—	(5,116)
Transfers	(254,974)	(50,838)	149,215	(11,323)	22,628	(11,953)	(157,245)
Balance at 12/31/99	260,799	166,806	298,491	3,523	393,467	(26,255)	1,096,561
Additions	65,075	192,109	235,758	4,549	100,136	(14,521)	583,106
Sale of companies	(27,010)	(3,533)	(97,847)	(464)	(55,096)	203	(183,747)
Inclusion of companies	279,825	20,437	41,641	74	4,803	(3,695)	343,085
Exclusion of companies	(9,980)	(7,636)	(1,878)	—	(2,508)	952	(21,050)
Translation differences	1,822	1,335	675	1	1,644	(186)	5,291
Income	(26,847)	—	—	—	—	—	(26,847)
Dividends	(4,184)	—	—	—	—	—	(4,184)
Transfers	(156,541)	(139,421)	(211,607)	(1,450)	1,157	29,515	(478,347)
Balance at 12/31/00	382,959	230,097	265,233	5,963	443,603	(13,987)	1,313,868

The additions to and retirements from the «Holdings in Associated Companies» and «Other Holdings» accounts reflect the amount of the investments detailed in the variations in the consolidated Group in 2000 and 1999 described in Exhibit II.

The transfers in 1999 from «Holdings in Associated Companies» were due mainly to the consolidation of Telesp, S.A., Tele Sudeste Celular Participações, S.A. and Celular CRT by the global integration method in 1999.

The «Other Receivables» caption includes the investment of the net level premium reserves of the Group's insurance companies, mainly in government debentures, government debt securities and long-term deposits amounting to Ptas. 91,148 million and Ptas. 90,173 million, respectively, as of December 31, 2000 and 1999, which mature through 2027 and earn returns of between 4.72% and 6.25%. The «Short-Term Financial Investments - Short-Term Investment Securities» caption in the consolidated balance sheet as of December 31, 2000, includes Ptas. 32,141 million (Ptas. 48,378 million in 1999) recorded to cover commitments, which are accounted for as «Technical Reserves» (see Note 14).

As of December 31, 2000 and 1999, this caption also includes the tax asset of Ptas. 118,190 million that arose as a result of the corporate restructuring of Telesp, S.A., of which Ptas. 68,848 million and Ptas. 93,656 million, respectively, mature at long term and are recorded under the «Other Receivables» caption, and Ptas. 24,063 million and Ptas. 24,534 million, respectively, are recorded as «Short-Term Financial Investments».

The «Tax Receivables» caption includes the long-term deferred tax assets which are grouped together under the «Long-Term Financial Investments» caption on the asset side of the consolidated balance sheet, in accordance with a Spanish Accounting and Audit Institute (ICAC) Resolution on Valuation Standard 16 of the Spanish National Chart of Accounts (see Note 18).

8.2. As of December 31, 2000, the Telefónica Group had sold the following holdings in various companies with the results detailed below:

	Percentage of Capital Stock Sold	Millions of Pesetas Gain
Dependent and associated companies:		
Telefónica Móviles, S.A. (Note 18)	7.85	482,404
Terra Networks, S.A.	3.0	75,474
T. Sistemas Ingeniería de Productos, S.A.	100.0	23,602
T. Publicidad e Información, S.A.	3.1	17,576
CRT Fija	16.7	9,983
Helkon	25.1	7,569
Other	—	33,495
Total		650,103

In 1999 the Telefónica Group sold the following holdings in various companies with the results detailed below:

	Percentage of Capital Stock Sold	Millions of Pesetas Gain
Dependent and associated companies:		
Amper, S.A.	12.2	2,972
CTC Net, S.A.	100	4,131
Infonet Services Corporation, Inc.	0.327	19,204
Recoletos Compañía Editorial, S.A.	20	7,484
Telecomunicaciones Marinas, S.A.	100	35,852
Telefónica de Argentina, S.A.	1.808	10,073
Telefónica Publicidad e Información, S.A.	35	99,741
Terra Networks, S.A.	29.53	82,885
Other	—	1,223
Total		263,565

8.3. The Group and associated companies listed on international stock markets are as follows:

Telefónica, S.A.
 Telefónica Móviles, S.A.
 Telefónica Publicidad e Información, S.A.
 Terra Networks, S.A.
 Amper, S.A.
 Compañía de Telecomunicaciones de Chile, S.A.
 Telefónica de Argentina, S.A.
 Telefónica del Perú, S.A.A.
 Compañía Anónima Nacional de Teléfonos de Venezuela, C.A.
 Portugal Telecom, S.A.
 Telesp, S.A.
 Telesp Celular Participações, S.A.
 Tele Leste Celular Participações, S.A.
 Tele Sudeste Celular Participações, S.A.
 Pearson P.L.C.
 Infonet Services Corporation.

Also, Telefónica El Salvador, S.A. and CRT Celular Participações, S.A. are listed on the respective local stock markets.

9. DEFERRED CHARGES

The breakdown of the balance of this caption and the amortization schedule are as follows:

Millions of Pesetas	Maturity					Subsequent Years	Balance at 12/31/00	Balance at 12/31/99
	2001	2002	2003	2004	2005			
Supplementary pension payments (shortfall) (Note 14)	10,247	10,247	10,247	10,247	10,247	15,373	66,608	76,855
Debt arrangement expenses	8,249	4,894	3,831	3,320	2,470	2,880	25,644	21,487
Executive loyalty-building program	2,377	2,365	1,611	—	—	—	6,353	10,627
Interest on long-term promissory notes	183	—	—	—	—	—	183	1,765
Interest on financial lease contracts	161	139	129	103	100	1,758	2,390	1,116
Other deferred charges	8,735	4,703	2,047	872	559	4,201	21,117	33,503
Total	29,952	22,348	17,865	14,542	13,376	24,212	122,295	145,353

10. CUSTOMER RECEIVABLES

The detail of the balances of this caption as of December 31, 2000 and 1999, is as follows:

Millions of Pesetas	Balance at 12/31/00	Balance at 12/31/99
Services billed:		
Customers billed	613,743	391,407
Doubtful customer receivables	223,118	164,354
Other	7,668	4,790
	844,529	560,551
Unbilled services	316,689	346,365
	1,161,218	906,916
Allowance for bad debts	(241,219)	(172,387)
Total	919,999	734,529

The «Unbilled Services» account includes the connection, monthly and metered service charges not yet billed by Telefónica de España and the other Group operators. This amount arises because these companies' subscriber billing schedules do not coincide with December 31 (see Note 4-q).

The balance of the public-sector customer receivables in the countries in which the Group operates amounted to Ptas. 80,912 million as of December 31, 2000 (Ptas. 59,086 million as of December 31, 1999).

In 2000 provisions amounting to Ptas. 116,651 million (Ptas. 90,674 million in 1999) were recorded in this connection.

11. STOCKHOLDERS' EQUITY

The detail of the balances of equity accounts and of the variations therein in 2000 and 1999 is as follows:

Millions of Pesetas									
	Distribution				Distribution				
	Balance at 12/31/98	of 1998 Income	Other Variations	Capital Increase	Balance at 12/31/99	of 1999 Income	Other Variations	Capital Increase	Balance at 12/31/00
Capital stock	512,439	—	(898)	31,348	542,889	—	—	179,344	722,233
Additional paid-in capital	427,398	—	2	—	427,400	—	—	1,400,847	1,828,247
Revaluation reserve	569,717	—	—	(31,348)	538,369	—	—	—	538,369
Distributable reserves	224,263	140,994	26,453	—	391,710	87,846	150,628	—	630,184
Restricted reserves	93,947	8,541	—	—	102,488	6,090	—	—	108,578
Unrestricted reserves	—	—	898	—	898	—	—	—	898
Reserve for treasury stock	4,863	—	(4,585)	—	278	—	32,698	—	32,976
Consolidation reserve	133,224	68,135	(24,687)	—	176,672	206,357	(183,326)	—	199,703
Prior years' earnings	86	(86)	—	—	—	—	—	—	—
Translation differences in consolidation	62,693	—	(133,625)	—	(70,932)	—	(92,544)	—	(163,476)
Income for the year	217,584	(217,584)	300,293	—	300,293	(300,293)	416,766	—	416,766
Total	2,246,214	—	163,851	—	2,410,065	—	324,222	1,580,191	4,314,478

a) CAPITAL STOCK

As of December 31, 2000, Telefónica's capital stock consisted of 4,340,710,735 fully subscribed and paid bearer shares of €1 par value each, all recorded by the book-entry system of trading and listed on the four Spanish Stock Exchanges and on the Frankfurt, London, Paris, Tokyo, New York, Buenos Aires, Lima and São Paulo stock exchanges.

Pursuant to Royal Decree 8/1997, the prior administrative authorization system applies to certain corporate resolutions that might be adopted by Telefónica, S.A. and Telefónica Móviles, S.A. and to certain others which may give entitlement to the direct or indirect acquisition, even through third-party trusts or interposed third parties, of shares of Telefónica, S.A. or Telefónica Móviles, S.A. representing at least 10% of capital stock. The administrative authorization system will remain in force for ten years from February 18, 1997.

On April 7, 2000, the Stockholders' Meeting authorized the Board of Directors to derivatively acquire treasury stock, for consideration, up to the limits and pursuant to the terms and conditions established by the Stockholders' Meeting, within a maximum period of 18 months from that date, up to a maximum of 5% of capital stock.

The authorization granted by the Stockholders' Meeting on March 26, 1999, to the Board of Directors to increase capital at one or several times under the terms provided by Article 153.1 b) of the Spanish Corporations Law (authorized capital) up to a maximum of euros 1,568 million, remains in force.

On April 7, 2000, the Stockholders' Meeting resolved to empower the Board of Directors to issue convertible debentures or debentures exchangeable for the Company's shares, and to increase capital by the amount required to meet, if necessary, the applications for conversion, for a maximum of Ptas. 249,579 million (€1,500 million).

As of December 31, 2000 and 1999, the Group held the following shares of the Parent Company:

Transaction Date	Number of		Cost per Share	
	Shares	(Note 4.i)	Amount	%
Treasury stock at 12/31/00	10,987,564	Ptas. 3,001	32,976	0.25313
Treasury stock at 12/31/99	137,376	Ptas. 2,022	278	0.00421

11,495,188 shares were acquired and 645,000 shares were sold in 2000. The gains on the sales amounted to Ptas. 267 million.

The Company recorded the related restricted reserve for the amount of these shares of treasury stock.

VARIATIONS IN CAPITAL STOCK IN 2000

The variations in 2000 in the «Capital Stock» and «Additional Paid-in Capital» captions were as follows:

Millions of Pesetas				
	Share Issue	Number of Shares	Capital Stock	Additional Paid-in Capital
Beginning balance		3,262,826,901	542,889	427,400
Conversion of 589,482 debentures	N/A	60,278,067	10,029	85,307
Acquisition of Ambit y Vigil	5/30/00	14,477,109	2,409	20,475
Acquisition of Telefónica de Argentina	7/6/00	157,951,446	26,281	213,638
Acquisition of Tele Sudeste Celular Participações	7/12/00	90,517,917	15,061	45,107
Acquisition of Telesp	7/12/00	371,350,753	61,787	674,102
Acquisition of Telefónica del Perú	7/13/00	80,954,801	13,470	108,728
Acquisition of Endemol	8/9/00	213,409,097	35,508	102,086
Acquisition of CEI	12/20/00	88,944,644	14,799	151,404
Ending balance		4,340,710,735	722,233	1,828,247

In 2000 new shares of the Company were issued on various different occasions to cater for the applications for conversion and subsequent redemption of convertible debentures of Telefónica, S.A. The shares were issued at US\$ 1,000 par value each, as resolved by the Board of Directors' Meeting on June 25, 1997, pursuant to the authorization granted by the Stockholders' Meeting on March 21, 1997.

The acquisitions described above relate to various tender offers and other acquisitions made by the Parent Company through the exchange of shares of the Company, as approved by the Stockholders' Meeting held on February 4, 2000, except for that relating to Endemol, which was approved at the Stockholders' Meeting held on April 7, 2000. These transactions are described in Note 2-c. The number of shares issued in each case is equal to the valuation made at the date of the related transaction of the holding acquired.

VARIATIONS IN CAPITAL STOCK IN 1999

The variations in 1999 in the «Capital Stock» and «Additional Paid-in Capital» captions were as follows:

Millions of Pesetas				
	Share Issue	Number of Shares	Capital Stock	Additional Paid-in Capital
Beginning balance		1,024,877,900	512,439	427,398
Capital increases at no cost to stockholders for dividends	N/A	105,382,065	31,348	—
3x1 split and rounding to euros	7/23/99	2,132,565,934	(898)	—
Conversion of ten debentures	10/26/99	1,002	—	2
Ending balance		3,262,826,901	542,889	427,400

On April 7, 2000, the Stockholders' Meeting resolved to carry out two capital increases at no cost to stockholders through two successive issues of new shares with a charge to unrestricted reserves. The shares will be assigned free of charge to the stockholders in the proportion of 1 new share for every 50 existing shares.

The amount of the shares to be issued was established as 2% of the capital stock subscribed and paid at the time the resolution was adopted and adjusted by the capital increases carried out as a result of the conversion of debentures and/or as a result of other capital increases approved by the Stockholders' Meetings on February 4, 2000, and April 7, 2000.

The capital increases may be carried out within one year from the adoption of the resolution.

On December 20, 2000, the Board of Directors resolved to carry out the first capital increase by issuing 86,814,214 new common shares of €1 par value each. This capital increase was executed on January 25, 2001 (see Note 23).

The second capital increase has not yet been carried out.

On April 7, 2000, the Stockholders' Meeting resolved to carry out two capital increases of €1,197,880 and €31,504,244, respectively, by issuing the same number of new shares of €1 par value each and additional paid-in capital of €4 per share, which will be subscribed and paid through monetary contributions, to cover the cost of establishing a new compensation system linked to the market value of the shares of Telefónica, S.A. for non-executive employees of the Telefónica Group.

The capital increases may be carried out within one year from the adoption of the resolution.

The period for subscribing to the first of these capital increases was from November 28, 2000, through January 28, 2001. On February 14, 2001, this capital increase was formally executed through the issuance of 1,123,072 new shares of €1 par value each. On February 20, 2001, the capital increase of 31,504,244 shares was formally executed through registration with the Mercantile Register (see Note 23).

b) LEGAL RESERVE

Under the revised Corporations Law, 10% of income for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of capital stock. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased capital stock amount. Otherwise, until the legal reserve exceeds 20% of capital stock, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

c) REVALUATION RESERVES

The balance of the «Revaluation Reserves» caption arose as a result of revaluations made from 1946 to 1987 and of the revaluation made pursuant to Royal Decree-Law 7/1996.

The detail as of December 31, 2000 and 1999, of the balances of the revaluation reserves, which amounted to Ptas. 538,369 million, and of the variations therein in 2000 and 1999 were as follows:

	Millions of Pesetas
Revaluations made from 1946 to 1987	745,203
Revaluation made pursuant to Royal Decree-Law 7/1996	225,852
Amounts used:	
Capital increases from 1977 to 1986	(74,487)
Transfer to provisions in 1982	(18,829)
Single tax on revaluation, Royal Decree-Law 7/1996	(6,776)
Other variations from 1981 to 1986	(2,571)
Amount used in 1998	(298,675)
Balance at 12/31/1998	569,717
January 1999 capital increase	(10,249)
May 1999 capital increase	(10,454)
November 1999 capital increase	(10,645)
Balance at 12/31/1999 and 12/31/2000	538,369

The balance of the «Revaluation Reserve Royal Decree-Law 7/1996» account can be used, free of tax, to offset recorded losses which might arise in the future, and to increase capital stock. From January 1, 2007 (ten years from the date of the balance sheet reflecting the revaluations), the balance of this account can be taken to unrestricted reserves, provided that the monetary surplus has been realized. The surplus is deemed to be realized in respect of the portion relating to the depreciation recorded for accounting purposes or when the revalued assets have been transferred or retired from the accounting records.

d) CONSOLIDATION RESERVE

The detail of the consolidation reserve as of December 31, 2000, and of the variations therein in 2000 is as follows:

	Millions of Pesetas			Balance at 12/31/00
	Balance at 12/31/99	Increase	Decrease	
Companies consolidated by the global integration method	148,777	226,968	(201,742)	174,003
Companies carried by the equity method	27,895	19,801	(21,996)	25,700
Total	176,672	246,769	(223,738)	199,703

The detail of the consolidation reserve as of December 31, 1999, and of the variations therein in 1999 is as follows:

	Millions of Pesetas			Balance at 12/31/00
	Balance at 12/31/99	Increase	Decrease	
Companies consolidated by the global integration method	104,012	105,134	(60,369)	148,777
Companies carried by the equity method	29,212	12,104	(13,421)	27,895
Total	133,224	117,238	(73,790)	176,672

The variations shown in the foregoing tables relate mainly to prior years' retained earnings (increases) and to dividends paid by the companies (decreases).

The detail of the contribution made by the Group companies to the consolidated reserves is shown in Exhibit I.

e) TRANSLATION DIFFERENCES IN CONSOLIDATION

The translation differences relate mainly to the effect of exchange rate fluctuations on the net assets of the companies located abroad (see Note 4-b) and the effect of the adjustment for inflation on the assets contributed by the companies at which this accounting practice is applied. These effects gave rise to increases of Ptas. 2,518 million as of December 31, 2000, and of Ptas. 28,677 million as of December 31, 1999.

This account also includes exchange differences resulting from specific-purpose foreign-currency financing transactions relating to investments in investees and which hedge the exchange risk on these investments. The balance of this account decreased by Ptas. 162,302 million as of December 31, 1999, and by Ptas. 95,062 million as of December 31, 2000, as a result of the aforementioned negative exchange differences.

The detail of the contribution made by the Group companies to the translation differences in consolidation is shown in Exhibit I.

12. MINORITY INTERESTS

This caption relates to the share of minority stockholders in the equity and income/loss for the year of the Group companies consolidated by the global integration method. The variations in 2000 and 1999 in the balances of this caption in the consolidated balance sheets were as follows:

Millions of Pesetas	
Balance at 12/31/98	589,927
Capital contribution and inclusion of companies	1,401,198
Income for the year	109,100
Variation in translation differences	(223,919)
Other variations	2,180
Capital reduction and exclusion of companies	(57,753)
Dividend paid	(54,649)
Balance at 12/31/99	1,766,084
Capital contribution and inclusion of companies	1,135,135
Income for the year	20,072
Variation in translation differences	79,984
Other variations	(63,742)
Acquisitions	(1,293,576)
Dividend paid	(91,608)
Balance at 12/31/00	1,552,349

The detail of the balances of this caption and of the variations relating to the main Group companies is shown in Exhibit IV. The most significant amount relates to the decrease due to the investments made in the year at Telefónica de Argentina, Telesp, Tele Sudeste and Telefónica del Perú, which amounted to Ptas. 1,178,496 million. The main additions related to the formation of Orla and IPSE 2000 (holders of UMTS licenses) for Ptas. 150,825 million and Ptas. 194,621 million, respectively, and to the Ptas. 632,834 million resulting from the investments made by Terra Networks.

13. DEFERRED CHARGES

The detail of the balances of this caption in the accompanying consolidated balance sheets and of the variations therein in 2000 and 1999 is as follows:

Millions of Pesetas					
	Capital Subsidies	Exchange Gains	Accrual of Tax Expense	Other	Total
Balance at 12/31/98	67,893	3,923	37,696	11,845	121,357
Additions	8,828	3,064	5,117	9,350	26,359
Transfers	—	—	(120)	57,554	57,434
Allocation to income	(12,860)	(6,282)	(6,396)	(4,032)	(29,570)
Balance at 12/31/99	63,861	705	36,297	74,717	175,580
Additions	10,249	247	216	12,941	23,653
Transfers	—	—	—	87,172	87,172
Allocation to income	(12,838)	(248)	(9,754)	(23,635)	(46,475)
Balance at 12/31/00	61,272	704	26,759	151,195	239,930

The «Other» caption includes Ptas. 50,551 million and Ptas. 63,727 million, respectively, as of December 31, 2000 and 1999, relating to the revenue to be collected in the five years following 1999 for the future deduction at Telesp of amortization of goodwill, which is tax deductible at that company.

The transfers relating to the «Other» caption include Ptas. 87,146 million relating to deferred provisions (see Note 14).

CAPITAL SUBSIDIES

The detail of the capital subsidies not yet allocated to income is as follows:

Grantor	Millions of Pesetas	
	12/31/00	12/31/99
Official agencies, autonomous community governments, provincial and municipal governments and other	15,281	19,944
EU		
STAR program	3,633	6,037
ERDF program	2,826	3,899
IRTA program	711	1,033
ERDF 94/95 operating program	36,576	30,201
Other	2,245	2,747
	61,272	63,861

14. PROVISIONS FOR CONTINGENCIES AND EXPENSES

The detail of the balances of the provisions for contingencies and expenses and of the variations therein is as follows:

Millions of Pesetas											
	Balance at 12/31/98		Amounts Used	Inclusion of Companies	Other	Balance at 12/31/99		Amounts Used	Inclusion of Companies	Other	Balance at 12/31/00
Provisions for Rebalancing Plan	15,346	5,299	(2,441)	—	—	18,204	70,173	(88,377)	—	—	—
Provision for supplementary pension payments to retired employees (Note g)	89,241	5,586	(18,029)	—	(1)	76,797	4,718	(17,947)	—	—	63,568
Group insurance	14,543	1,116	(111)	—	—	15,548	1,493	(145)	—	—	16,896
Provision for voluntary preretirement and early retirement	647,239	25,944	(72,899)	—	—	600,284	164,970	(99,675)	—	—	665,579
Technical reserves (Note 4–m)	136,325	4,959	—	—	—	141,284	7,152	—	—	—	148,436
Provision for pensionfunds of Telesp and Tele Sudeste	—	—	—	126,596	—	126,596	—	(29)	—	(87,307)	39,260
Other provisions	89,618	114,101	(84,938)	—	26,659	145,440	119,169	(65,917)	22,437	(8,836)	212,293
Total	992,312	157,005	(178,418)	126,596	26,658	1,124,153	367,675	(272,090)	22,437	(96,143)	1,146,032

The main provisions and commitments to personnel recorded under this caption in the accompanying consolidated balance sheet are as follows:

INCLUSION IN THE GENERAL SOCIAL SECURITY SYSTEM

Since January 1, 1992, Telefónica and its employees, who were formerly covered by a company social welfare system, have been contributing to and receiving benefits from the general social security system.

As a result of the inclusion of serving employees in the social security system, Telefónica de España must make additional contributions to the social security system until the year 2016, based on the serving employees' effective contribution bases applicable at any time. These contributions consist of the payment of 2.2% over the regulatory base salary, and the related amount is recorded under the «Personnel Expenses» caption. Ptas. 4,593 million were recorded in this connection in 2000 (Ptas. 4,907 million in 1999).

SUPPLEMENTARY PENSION PLAN FOR SERVING EMPLOYEES AS OF JUNE 30, 1992 AND FOR THOSE HIRED SINCE THAT DATE

Telefónica de España has arranged an occupational pension plan pursuant to Pension Plans and Funds Law 8/1987. Under this plan there is a defined contribution is 6.87% of the participating employees' regulatory base salary (for employees who joined Telefónica after June 30, 1992, the contribution is 4.51% of the regulatory base salary). The obligatory contribution of the participant is a minimum of 2.2% of the employee's regulatory base salary. The system is an individual and financial capitalization system.

The plan came into force on July 1, 1992. The past service benefits recognized for employees availing themselves of the plan amounted to Ptas. 228,489 million.

The amount of Ptas. 121,350 million that had been provisioned internally at that date, together with corresponding interest of Ptas. 33,107 million calculated at an annual rate of 6.7%, had been fully transferred in the period to July 1998 to the pension fund set up for that purpose, which is managed by Fonditel, Entidad Gestora de Pensiones, a company 81% owned by the Telefónica Group.

The resulting shortfall (Ptas. 107,139 million) must be contributed to the pension fund within a maximum period of 28 years (the remaining average life for serving employees on the date the plan came into force) in increasing monthly installments payable in advance at an annual interest rate of 6%. In accordance with the communication from ICAC dated March 1, 1993, the Company records provisions for the shortfall over that same 28-year period pursuant to a systematic plan, increasing the amounts recorded each year by a factor of 1.042 through the year 2002.

The provision recorded as of December 31, 1999, was Ptas. 5,299 million and the resulting cumulative difference (Ptas. 18,204 million as of December 31, 1999) between the provisions recorded and the contributions made to the pension plan, is recorded under the «Provisions for Contingencies and Expenses - Provisions for Rebalancing Plan» caption.

In 2000 Telefónica de España paid in advance the full amount of the outstanding contributions to the pension fund, amounting to Ptas. 88,377 million, thereby fulfilling its obligations.

In addition, as a result of this contribution, the Company recorded a provision in full for the shortfall not yet recognized in the income statement amounting to Ptas. 70,173 million pursuant to the Ministry of Economy and Finance Order dated December 29, 1999, on the Transitional Provision to be applied for accounting purposes in the externalization of pension commitments, and Ptas. 68,792 million were recorded in the «Extraordinary Expenses» caption (see Note 20).

69,971 employees had joined Telefónica de España's Plan as of December 31, 2000 (68,586 as of December 31, 1999). Vested retirement, disability and death benefits had accrued to a total of 9,068 participants in 2000 (7,842 in 1999).

SUPPLEMENTARY PENSION PAYMENTS TO EMPLOYEES WHO RETIRED BEFORE JUNE 30, 1992

On July 8, 1992, Telefónica reached an agreement with its employees whereby it recognized supplementary pension payments for employees who had retired as of June 30, 1992, equal to the difference between the pension payable by the social security system and that which would be paid to them by ITP. Once the aforementioned supplementary pension

payments have been quantified, they become fixed, lifelong and non-updateable. 60% of the payments are transferable to the surviving spouse recognized as such as of June 30, 1992, and to underage children.

In accordance with an actuarial study conducted by Telefónica, applying GRM-F80 tables and an assumed interest rate of 8%, as of June 30, 1992, the discounted present value of the commitments amounted to Ptas. 132,025 million, and this amount was recorded under the «Provisions for Contingencies and Expenses» caption. Through that date, the Company had recorded provisions totaling Ptas. 14,356 million in this connection. The resulting underprovision (Ptas. 117,669 million) was recorded under the «Deferred Charges» caption and has been allocated to income since that date by the straight-line method over 15 years, the estimated remaining average life of the retired employees (1992-2007). Subsequently, in 1996 and 1997, the assumed interest rate was reduced to 6.3%, and the calculation of the necessary provision was readjusted. As of December 31, 2000, the amount yet to be charged to income was Ptas. 66,608 million (Ptas. 76,855 million in 1999) (see Note 9).

In accordance with Private Insurance Law 30/1995, on November 1, 1997, these commitments were externalized through an insurance policy (which must be adapted before November 16, 2002, pursuant to Private Insurance Law 30/1995, Law 50/1998 on tax, administrative, labor and social security measures and Royal Decree 1588/1999 enacting the regulations on the instrumentation of employers' pension commitments to employees and beneficiaries) taken out with the Group company Seguros de Vida y Pensiones Antares, S.A.

The discounted present value of the payments outstanding amounted to Ptas. 63,568 million as of December 31, 2000 (Ptas. 76,797 million as of December 31, 1999).

GROUP LIFE INSURANCE (INTERNAL ALLOWANCE FOR SURVIVORSHIP BENEFITS)

Serving employees who did not join the pension plan continue to be entitled to receive survivorship benefits at the age of 65. The Company has recorded an internal allowance to cover these commitments, based on the actuarial calculations made under the following assumptions: GRM/F-F-95 mortality table and an assumed interest rate of 4%. As of December 31, 2000 and 1999, this allowance amounted to Ptas. 16,896 million and Ptas. 15,548 million, respectively.

The effect of applying the above assumptions with respect to those used through 1999 (GRM/F-80-2 mortality table) made it necessary to record additional provisions of Ptas. 2,287 million in the accompanying 2000 consolidated statement of income. Coverage of these commitments must be externalized by November 16, 2002.

PROVISIONS FOR VOLUNTARY PRERETIREMENTS AND EARLY RETIREMENTS OF TELEFÓNICA DE ESPAÑA, S.A.U.'S EMPLOYEES

In order to adapt to the competitive environment, Telefónica has implemented voluntary preretirement, early retirement and technology renewal plans in recent years in order to adapt its cost structure to the new environment, and has taken certain strategic decisions relating to its dimensioning and organization policy.

As a result of the agreements reached individually with Telefónica de España's personnel and as a result of the Labor Force Reduction Plan approved by the Ministry of Labor and Social Affairs to be applied in 1999 and 2000, in 1999 11,273 employees were terminated. To cover the present value of the accrued cost of these agreements as of December 31, 1999, as of that date the Group recorded a provision of Ptas. 459,500 million with a charge of Ptas. 298,675 million to «Extraordinary Expenses» and of Ptas. 160,825 million to «Deferred Tax Assets».

In 2000 the terminations envisaged in the Labor Force Reduction Plan were met with the voluntary severance of a total of 6,062 employees, as a result of which a provision was recorded with a charge to extraordinary expenses for 2000 of Ptas. 141,870 million. Accordingly, the provision for preretirements and early retirements recorded as of December 31, 2000, covers all the obligations assumed in this connection as of that date.

TECHNICAL RESERVES

This caption includes the provisions recorded by the Group's insurance companies. The balancing items for these provisions are recorded under the «Financial Investments» captions for a similar amount.

PROVISION FOR THE PENSION FUND OF TELESP AND TELE SUDESTE

The dependent company Telecomunicações de São Paulo, S.A. (Telesp) had various pension plan and medical and life insurance commitments to their employees. In 2000 these companies, like the other companies formerly composing the Brazilian telecommunications system, Telebrás, carried out a process of negotiation with their employees which

culminated in October 2000 with the transformation of the former Pension Plan into a new defined-contribution Pension Plan, and the cancellation of the Life Insurance Plan. Substantially all these companies' serving employees availed themselves of the new plan. As a result of this change, since a provision had been recorded in prior years to cover the actuarial liabilities accrued through that date, management of the Controlling Company calculated the new liability to be recorded for the benefits payable to its employees at Ptas. 38,121 million, which were recorded under the «Provisions for Contingencies and Expenses» caption, and reclassified the resulting overprovision recorded in prior years (Ptas. 83,256 million) to the «Deferred Revenues» caption. Management of the Controlling Company decided to defer the effect on the income statement of the overprovision recorded in prior years systematically over the remaining working life of the employees covered by the new plan.

The amount (Ptas. 3,890 million) relating to other Group companies (Telerj Celular, S.A. and Telest Celular, S.A.), was also transferred to the «Deferred Revenues» caption. The actuarial liability accrued at year-end amounted to Ptas. 815 million. Both these transfers are recorded in the «Other» column.

OTHER PROVISIONS

The period provisions and amounts used recorded under the «Other Provisions» caption in 2000 and 1999 includes, inter alia, the provisions recorded or used by the Group companies to cover risks relating to the realization of certain assets, contingencies deriving from these companies' business activities and risks arising from commitments acquired in various divestment transactions.

The balance as of December 31, 2000, also includes various provisions recorded by the Telefónica Group companies, including most notably Ptas. 28,317 million from the Telefónica Internacional subgroup relating to provisions for indemnity payments for the employees' years of service at the respective companies, in accordance with the legislation applicable in each country or with the contractual agreements entered into, and Ptas. 23,038 million from Telefónica de España relating to the accrued amount of long-service bonuses paid to personnel after 25 years of service.

15. DEBENTURES, BONDS AND OTHER MARKETABLE DEBT SECURITIES

The variations in the years ended December 31, 2000 and 1999, in the balances relating to debentures, bonds and other marketable debt securities were as follows:

Millions of Pesetas	Nonconvertible		Issues		Total
	Nonconvertible Peseta	Foreign Currency	Convertible Foreign Currency	Promissory Notes	
Balance at 12/31/98	554,608	436,990	92,516	56,848	1,140,962
New issues	255,814	65,390	—	207,655	528,859
Redemptions, conversions and exchanges	(162,229)	(10,145)	(3)	(127,327)	(299,704)
Inclusion of companies	—	—	—	—	—
Revaluations and other variations	30,204	61,398	14,826	—	106,428
Transfers	—	430	—	—	430
Balance at 12/31/99	678,397	554,063	107,339	137,176	1,476,975
New issues	274,500	995,196	—	196,039	1,465,735
Redemptions, conversions and exchanges	(174,570)	(14,061)	(112,152)	(258,318)	(559,101)
Inclusion of companies	—	95,309	—	—	95,309
Revaluations and other variations	26,319	50,818	4,813	231	82,181
Balance at 12/31/00	804,646	1,681,325	—	75,128	2,561,099
Maturity:					
Long term	624,985	1,438,514	—	—	2,063,499
Short term	179,661	242,811	—	75,128	497,600
Unmatured accrued interest	40,574	13,865	—	699	55,138

The main issues in 2000 were as follows:

	Date	Face Value (Millions)	Currency	Maturity	Interest Rate
Debentures	02/04/00	50	Euros	2015	Floating (6.79%)
Debentures	03/08/00	100	Euros	2001	Floating (4.25%)
Debentures	03/08/00	500	Euros	2007	5.625%
Notes	03/17/00	6,200	Yen	2004	1.232%
Notes	05/30/00	60,000	Yen	2001	0.27%
Bonds	05/31/00	10,000	Dollars	Tranches (a)	—

(a)	Amount	Maturity	Interest Rate
Tranche 1	euros 1,000 million	09/21/05	6.12%
Tranche 2	US\$ 1,250 million	09/15/05	7.35%
Tranche 3	US\$ 2,500 million	09/15/10	7.75%
Tranche 4	US\$ 1,250 million	09/15/30	8.25%

The main issues in 1999 were the following:

	Date	Face Value (Millions)	Currency	Maturity	Interest Rate
Debentures	3/17/99	500	Euros	2009	4.5%
Debentures	6/9/99	300	Euros	2009	Floating (5.38%)
Debentures	7/21/99	100	Euros	2029	Implicit income
Self Registration	1999	200	US Dollars	2009	8.375%
Eurobonds	8/99	200	Euros	2004	5.375%
Debentures	7/99	100	US Dollars	2002	9.875%

The debentures and bonds are shown in greater detail in Exhibit V.

CORPORATE PROMISSORY NOTES

Telefónica has issued the following promissory notes:

Millions of Euros			
Limit		Euros	
Outstanding	Addressed to:	Face Value	Method of Sale
1,000 (extendible to 2,000)	Participating entities	1,000 1,000,000	Monthly auctions Specific transactions

16. PAYABLE TO CREDIT ENTITIES

The detail of the accounts payable to credit entities is as follows:

	Millions of Pesetas					
	Balance at 12/31/00			Balance at 12/31/99		
	Short Term	Long Term	Total	Short Term	Long Term	Total
Corporate promissory notes	12,408	—	12,408	1,618	12,286	13,904
Loans and credits	397,592	793,013	1,190,605	99,277	615,512	714,789
Foreign currency loans	840,771	749,583	1,590,354	460,286	890,844	1,351,130
Total	1,250,771	1,542,596	2,793,367	561,181	1,518,642	2,079,823

The average interest rates in 2000 were 13.77%, 4.83% and 7.5/8.5%, respectively.

The most significant financial transactions in 2000 and 1999 were as follows:

	Date	Amount (Millions)	Currency	Maturity
Obtainment of syndicated loan	09/01/00	1,470	Euros	2001
Obtainment of syndicated loan	09/01/00	445	Euros	2001
Repayment of net debt	11/01/00	(1,084)	Euros	2001
Obtainment of loan	01/08/99	450	U.S. Dollars	2002
Obtainment of loan	01/08/99	280	U.S. Dollars	2008
Obtainment of syndicated loan	1999	1,200	Euros	2004/2006
Repayment of net debt	01/99	4,056	Brazilian Reais	—
		(2,347)	U.S. Dollars	

The repayment in 1999 of this net debt gave rise to exchange gains of Ptas. 127,297 million.

The scheduled maturities for repayment of the debt as of December 31, 2000, were as follows:

	Millions of Pesetas						Total
	2001	2002	2003	2004	2005	Subsequent Years	
Corporate promissory notes	12,408	—	—	—	—	—	12,408
Loans and credits	397,592	44,868	70,856	170,896	258,935	247,458	1,190,605
Foreign currency loans	840,771	101,238	200,923	150,132	85,573	211,717	1,590,354
Total	1,250,771	146,106	271,779	321,028	344,508	459,175	2,793,367

As of December 31, 2000, the amount of current liabilities recorded in the Telefónica Group's consolidated balance sheet exceeded that of its current assets. However, the Group is prepared to restructure its financing in order to convert into long-term the needs that arise in addition to the drawdowns at the aforementioned date amounting to Ptas. 485,523 million. In this connection, it is Telefónica's prerogative to automatically renew the syndicated loans detailed above for €1,470 million and €445 million, respectively, which were recorded at short term as of December 31, 2000.

FOREIGN CURRENCY LOANS

The detail of the foreign-currency loans as of December 31, 2000 and 1999, is as follows:

Currency	Outstanding Balance (in Millions)			
	Foreign Currency	Foreign Currency		Pesetas
	12/31/00	12/31/99	12/31/00	12/31/99
U.S. Dollars	7,714	6,996	1,361,532	1,156,589
Brazilian Reais	382	650	34,594	59,174
Swiss Francs	32	43	3,497	4,434
Argentine pesos	136	106	23,989	17,541
Chilean pesos	—	9,211	—	2,874
Yen	18,777	8,823	35,745	13,745
UF	135,831	9	47,010	42,428
New Soles	83	79	4,171	3,454
Colones	20	88	3,438	1,658
Swaps	—	—	75,923	48,896
Other currencies	—	—	455	337
Total for the Group			1,590,354	1,351,130

17. DERIVATIVES

In 2000 the Group continued to use derivatives both to limit interest rate and exchange risks on unhedged positions and to adapt its debt structure to market conditions.

As of December 31, 2000, the total outstanding balance of hedging transactions arranged to eliminate balance sheet exposure to interest rate and exchange risks was Ptas. 4,596,375 million (Ptas. 3,709,899 million as of December 31, 1999), of which Ptas. 2,268,299 million related to interest rate risk and Ptas. 2,328,076 million to exchange risk (see Exhibit VI). This represents a considerable increase with respect to 1999, due mainly to the increase in the holdings in the operators in Argentina, Brazil and Peru.

18. TAX MATTERS

Pursuant to a Ministerial Order dated December 27, 1989, which has been extended on several occasions, and is currently in force through 2001, since 1990 Telefónica, S.A. has filed consolidated tax returns with certain Group companies. 78 companies formed the consolidated tax group in 2000.

DEFERRED TAX ASSETS AND LIABILITIES

The detail as of December 31, 2000 and 1999, of the Telefónica Group's deferred tax assets and liabilities, and of the variations therein in 2000 and 1999, is as follows:

Millions of Pesetas	Deferred Tax Assets		Deferred Tax Liabilities		
	Short	Long	Short	Long	Intercompany
	Term	Term	Term	Term	Long Term
Balance at December 31, 1998	7,027	302,869	117	100,642	16,782
Reversal	(1,424)	(26,929)	(81)	(7,536)	(5,643)
Arising in the year (Note 8)	1,419	98,845	9	46,119	1,407
Net international variations	—	22,628	—	37,089	—
Inclusion/Exclusion of companies and other	9	(3,946)	4	(64)	(2,805)
Balance at December 31, 1999	7,031	393,467	49	176,250	9,741
Reversal	(398)	(55,096)	(17)	(26,140)	(1,875)
Arising in the year (Note 8)	18,709	100,136	528	39,532	1,261
Net international variations	62	—	—	29,546	—
Inclusion/Exclusion of companies and other	—	5,096	—	2,865	—
Balance at December 31, 2000	25,404	443,603	560	222,053	9,127

The deferred intercompany taxes relate to the differences arising from the elimination of unrealized gains on intercompany transactions, plus the cumulative differences between the net tax payable reported in the Telefónica Group's consolidated corporate income tax return and the sum of the net tax charges per the individual corporate income tax returns of the Telefónica Group companies.

The increase in deferred tax assets in 2000 was due mainly to the timing differences arising in connection with provisions recorded for preretirement and to the losses incurred by Group companies.

ACCRUED TAXES PAYABLE AND TAX RECEIVABLES

The detail of the «Accrued Taxes Payable» and «Tax Receivables» captions as of December 31, 2000 and 1999, is as follows:

Millions of Pesetas		
	Balance at	Balance at
	12/31/00	12/31/99
Accrued taxes payable:		
Personal income tax withholdings	11,875	20,003
VAT and Canary Islands general indirect tax	14,080	34,044
Corporate income tax	27,155	4,082
Accrued social security taxes	25,020	27,775
Deferred tax liabilities	560	49
Foreign taxes	139,276	124,439
Other	5,055	842
Total	223,021	211,234

Millions of Pesetas		
	Balance at	Balance at
	12/31/00	12/31/99
Tax receivables:		
Withholdings at source from income from movable capital	546	4,546
Installment payments on consolidate income tax returns	9,079	16,651
Installment payments on individual income tax returns	4,378	542
Foreign withholding tax	14,486	9,127
Corporate income tax refundable	16,014	36,107
Taxes, surcharges and other payments recoverable	7,225	163
Deferred tax assets	25,404	7,031
VAT and Canary Islands general indirect tax	6,970	6,090
VAT deductible	11,550	5,971
Tax group corporate income tax receivable	25,633	—
Foreign taxes	140,763	131,110
Total	262,048	217,338

RECONCILIATION OF INCOME PER BOOKS TO THE TAXABLE INCOME AND DETERMINATION OF THE TAX EXPENSE INCURRED

The reconciliation of the income per books to the taxable income for corporate income tax purposes as of December 31, 2000 and 1999 and the determination of the corporate income tax expense incurred and the net tax payable for the two years are as follows:

Millions of Pesetas		
	2000	1999
Income per books	477,140	438,738
Permanent differences	(646,396)	(366,352)
Timing differences	(8,708)	52,113
Taxable income	(177,964)	124,499
Gross tax payable	(62,287)	43,575
Tax credits and tax relief	—	(39,493)
Corporate income tax payable	(62,287)	4,082
Tax effect of timing differences and deferred revenues	4,198	(15,990)
Spanish corporate income tax expense	(58,089)	(11,908)
Recognition of deferred tax liabilities in consolidation	26,116	—
Accrued foreign taxes and other	72,275	41,253
Total income tax	40,302	29,345

The permanent differences arose mainly from the results obtained by the companies located abroad, the amortization of goodwill in consolidation (see Note 5), the results attributable to associated companies and the income recorded as a result of the process of consolidation (see Note 8).

The main timing differences arose from the reinvestment of gains on fixed asset disposals and the provision for diminution in value of tangible fixed assets.

The Telefónica Group recognized a long-term deferred tax liability of Ptas. 16,464 million as of December 31, 2000, in order to eliminate from the accounts the duplicate accounting entry resulting from the aggregation of the individual tax assets already taken into account by means of the portfolio provision recorded by the Group companies.

Since the tax Group incurred consolidated tax losses in 2000, no tax credits were taken. The amount of the credits taken by the other non-Group companies was not material.

The tax credits taken in 1999 totaled Ptas. 39,493 million. The main tax credits taken by the Group were as follows: Ptas. 16,248 million of international double taxation tax credits; Ptas. 3,321 million of tax credits for research and development activities; and Ptas. 2,777 million of export tax credits.

As of December 31, 2000, the Telefónica tax group had Ptas. 74,001 million (Ptas. 50,097 million in 1999) of unused tax credits, as follows:

Year	Millions of Pesetas				Total
	1996	1997	1999	2000	
Amount	8,342	—	34,770	30,889	74,001

The tax losses available for carryforward in Spain at the main Group companies total Ptas. 224,667 million, of which Ptas. 209,869 million were incurred in 2000.

The years open for review by the tax inspection authorities for the main applicable taxes vary from one consolidated company to another, based on each country's tax legislation, taking into account their respective statute-of-limitations periods. In Spain the years open for review for the main taxes are as follows: corporate income tax 1996 to 2000; VAT 1997 to 2000; personal income tax withholdings 1997 to 2000. However, the Spanish companies that file consolidated corporate income tax returns have been audited by the Spanish tax authorities for four years' taxes and no significant matters were disclosed as a result of these tax audits. These companies have the years since 1999 open for review for personal income tax and VAT and the years since 1998 for corporate income tax.

The variations in the accrual of the investment tax credit is detailed in Note 13.

19. OTHER NONTRADE PAYABLES AND OTHER ACCOUNTS PAYABLE

The detail of the balances of these captions in the consolidated balance sheets as of December 31, 2000 and 1999, is as follows:

Millions of Pesetas	Balance at	Balance at
	12/31/00	12/31/99
Accrued expenses payable	144,417	89,324
Group company dividends payable	33,737	23,167
Exchange of telephone service with other operators	21,248	21,879
Guarantees and deposits	12,582	12,214
Compensation payable	44,139	36,393
Provisions	6,085	2,131
Accounts payable to other UMTS stockholders for purchases of licenses	467,082	—
Other nonfinancial nontrade payables	130,942	97,597
Total	860,232	282,705

In addition, the «Other Accounts Payable» caption, which is non-financial and recorded at long term, includes Ptas. 180,196 million (€1,083 million), which also relates to accounts payable to other stockholders for the acquisition of UMTS licenses.

20. REVENUES AND EXPENSES

SALES AND SERVICES

The detail, by business line, of net sales and services is as follows:

Millions of Pesetas		
	12/31/00	12/31/99
Wireline telephony business in Spain	1,694,296	1,659,001
Atento business	87,672	33,624
Telefónica Internacional business	2,093,771	1,615,407
Terra Networks business	50,580	6,680
Móviles business	873,392	622,112
Data business	153,114	95,627
Media business	120,448	16,056
T.P.I. business	68,107	55,709
Instrumentality companies	161,038	123,883
Other companies	31,683	101,451
Group revenues before intercompany sales	5,334,101	4,329,550
Intercompany sales	(594,513)	(509,826)
Total revenues from Group operations	4,739,588	3,819,724

PERSONNEL EXPENSES

The detail of personnel expenses is as follows:

Millions of Pesetas		
	12/31/00	12/31/99
Compensation	617,826	514,562
Provisions to the pension allowance and other commitments to employees	17,225	21,134
Accrual for the cost of the loyalty-building programs tied to share market price	3,016	2,634
Employee welfare expenses and other	212,454	195,674
Total	850,521	734,004

NUMBER OF EMPLOYEES

	12/31/00		12/31/99	
	Average	Year-End	Average	Year-End
Telefónica, S.A.	608	641	271	542
Telefónica de España Group	47,251	43,009	53,231	48,709
Telefónica Móviles Group	6,161	7,093	3,047	3,364
Telefónica Internacional Group	41,569	40,848	36,332	44,638
Telefónica Data Group	2,382	2,627	1,066	1,329
Telefónica Publicidad e Información Group	1,961	2,134	1,157	1,183
Telefónica Media Group	5,037	5,888	284	1,194
Atento Group	36,576	40,773	20,501	23,985
Terra Group	2,324	3,170	1,870	2,119
Katalyx	107	368	—	—
Other	1,754	2,156	1,019	130
Total	145,730	148,707	118,778	127,193

The figures in the foregoing table relate to the companies consolidated by the global integration method.

COMPENSATION SYSTEMS TIED TO SHARE MARKET PRICE

Telefónica, S.A. currently has in place two compensation systems tied to the share market price, one of which (the TOP plan) is aimed exclusively at executive personnel, including the executive directors of Telefónica, S.A., while the second (TIES Program) is aimed at all the personnel of Telefónica, S.A. and its Spanish and foreign subsidiaries. Both systems were approved by the Stockholders' Meeting held on April 7, 2000.

The subsidiaries Telefónica Publicidad e Información, S.A., Terra Networks, S.A. and Telefónica Móviles, S.A. have also established their own compensation systems tied to the market price of their respective shares.

Following is a detailed account of each of these two plans.

a) Top Plan

At its meeting on May 26, 1999, Telefónica, S.A.'s Board of Directors approved a compensation system tied to the market price of Telefónica, S.A.'s shares (the «TOP Plan»). The term of this plan is four years and three months from the launch date (June 28, 1999).

The current beneficiaries are 439 executives of the Telefónica Group companies, of whom five are also members of Telefónica, S.A.'s Board of Directors. However, the Plan envisages possibly extending this number to between 450 and 500.

The TOP Plan involves the awarding to participating executives of the following number of options on shares of Telefónica, S.A. for every share assigned to the plan:

- 10 type A options, with an exercise price equal to the share market price on the date of its implementation (€48.18).
- 10 type B options, with an exercise price equal to the share market price on the date of its implementation increased by 50% (€69.27).

As a result of the share split and of the capital increase carried out at the Company in November 1999:

- the total number of shares assigned to the Plan by the beneficiaries thereof increased threefold;
- the exercise price of type A options was set at €15.0912 and that of type B options at €22.6343 as of December 31, 2000.

Although the Top Plan has only been partially awarded to executives, if all the executives at whom the Plan is aimed availed themselves of it the total number of shares assigned to the Plan would be 270,237 and, consequently, the total number of options granted would be 5,404,740, prior to the three-way share split carried out in July 1999.

The beneficiaries may exercise the rights under this plan from the second year of its term, at a rate of one third for each year in arrears, i.e. in the second, third and fourth year. The Company expressly reserves the right to settle the plan upon each expiration thereof through the delivery of shares or cash.

To cover the economic risks and obligations arising from the Top Plan, hedging contracts were entered into with Argentaria and BBV, at a maximum total cost for the Telefónica Group of Ptas. 12,000 million. Ptas. 6,353 million have not yet been charged to income (see Note 9).

In addition, the Top Plan is structured to allow for the awarding of options in the future, based on the needs arising as a result of the Compensation and Recruiting policies. To this end, new beneficiaries may be included in the Top Plan in February 2001, based on the market price of the shares at that date.

The approval and implementation of this incentive plan was notified to the Spanish National Securities Market Commission (CNMV) and published in the Complete Prospectus, which was verified and registered in the CNMV's Official Register on June 29, 1999; in the Continued Prospectus, which was verified and registered on June 23, 2000; and in the Specific Prospectus on the compensation systems tied to the market price of Telefónica's shares in force prior to January 1, 2000, which was verified and registered on April 18, 2000;

b) TIES Program

The Global Program of Options on Shares of Telefónica, S.A. (TIES Program), which was approved by Telefónica's Board of Directors at its meeting on February 23, 2000, is aimed at all the employees of

Telefónica, S.A. and its Spanish and foreign subsidiaries who meet the requirements described below and who are not participating in any other similar stock option plan.

The aim of this program is identical to those achieved by other similar programs implemented in the past by Telefónica, S.A. or its subsidiaries and is broadly similar to programs which have been introduced in several European countries and in the U.S. Its main purpose is to introduce a system of global incentives and to reward the past and future services of all the employees of Telefónica, S.A. and its subsidiaries in the coming years.

The TIES Program will motivate all its beneficiaries by offering them the possibility, at a very favorable subscription price, of acquiring an ownership interest in Telefónica, S.A.'s capital stock.

In order to implement this Program, on April 7, 2000, the Stockholders' meeting of Telefónica, S.A. approved two capital increases with disapplication of pre-emptive subscription rights, for a par value of €1,197,880 and €31,504,244, respectively, through the issuance of 1,197,880 and 31,504,244 new shares, respectively, of €1 par value each, with additional paid-in capital of 400% of the par value.

The main features of the TIES Program are as follows:

- No. of shares offered for initial acquisition by the beneficiaries: 1,197,880.
- Issue price: Five (5) euros.
- Maximum no. of shares under option assigned to beneficiaries: 31,504,244. This figure, which is the maximum amount necessary to cover the total rights carried by the shares initially assigned, also includes a reserve for new beneficiaries of the Program equal to 4.5% of the initial beneficiaries.
- Method of assignment of shares under option: depends on the appreciation of Telefónica, S.A. shares with respect to an initial reference value to be set by the Board of Directors and on the number of shares of Telefónica, S.A. initially acquired.
- Exercise price: Five (5) euros.

At its meeting on June 28, the Board of Directors of Telefónica, S.A. resolved to commence implementation of the TIES Program and established the conditions and requirements to be met by Telefónica Group employees in order to become beneficiaries of the Program. Subsequently, at its meeting on November 29, 2000, the Board of Directors partially amended the conditions of the TIES Program. Lastly, the Standing Committee, at its meeting on February 14, 2001, declared the capital increase relating to this Program to have been executed for a par value of €1,123,072, through the issuance of the same number of common shares of the Company.

Lastly, on April 7, 2000, the Stockholders' Meeting approved, together with the Plans described above, the RISE Plan, which expired on February 25, 2000 (although the settlements under this Plan, were made following approval by the aforementioned Stockholders' meeting), the particular features of which are set out in the specific prospectus prepared in compliance with the Additional Provision Sixteen of the Securities Market Law. This prospectus was verified on April 18, 2000.

c) TPI Options

In 1999 La Caixa and Telefónica Publicidad e Información, S.A. entered into a contract that regulates the grant by the former to the latter of an irrevocable purchase option on the 2,404,049 shares issued (7,212,147 after the split of June 19, 2000). The main features of the option contract are as follows:

- a) The purchase option may be exercised by Telefónica Publicidad e Información, S.A. solely to cover the exercise of options by the executives qualifying for the plan, and Telefónica Publicidad e Información, S.A. expressly reserved the right to assign fully or partially the options rights vis-à-vis La Caixa to the executives who are ultimately the beneficiaries of the plan, at a price equal to the difference between the exercise price of the option granted to the executive and the acquisition cost of the shares that must be paid to La Caixa, as described in section (e) below.
- b) The purchase option may be exercised at any time before December 31, 2003.
- c) If the purchase option has not been exercised by October 30, 2003, Telefónica Publicidad e Información, S.A. must choose between extending the option exercise period or proposing to the Stockholders' Meeting of Telefónica Publicidad e Información, S.A. that the surplus shares be redeemed, and La Caixa undertook to agree to such redemption, in the absence of a written agreement for the extension, provided that the Stockholders' Meeting of Telefónica Publicidad e Información, S.A. is held before November 30, 2003, that the redemption amount be equal to the share subscription price paid by La Caixa and that such price be paid before December 30, 2003.
- d) In order to exercise the call option, Telefónica Publicidad e Información, S.A. must notify La Caixa of its intention to exercise the option, indicating the date on which it will be exercised and, where appropriate, identifying the executives of Telefónica Publicidad e Información, S.A. that the latter may designate to acquire the shares. This notification must be issued at least three working days before the option exercise date and no later than October 30, 2003.
- e) The share acquisition price that must be paid to La Caixa will be equal to the share subscription price (€288,485.88).

- f) La Caixa and Telefónica Publicidad e Información, S.A. agreed on a financial swap whereby Telefónica Publicidad e Información, S.A. will pay to La Caixa an amount equal to Euribor plus a spread of 0.75% on the acquisition price of the shares on which the purchase option has not been exercised, and La Caixa will pay to Telefónica Publicidad e Información, S.A. an amount equal to the gross amounts whose distribution with a charge to equity had been approved by the Stockholders' Meeting of Telefónica Publicidad e Información, S.A. and received by La Caixa, regardless of the form it took (capital reduction, distribution of reserves, etc.) in the period from the day on which the contract is signed to the date on which Telefónica Publicidad e Información, S.A. exercises the purchase option.
- g) La Caixa may not assign or create any usufruct over the shares forming the subject matter of the contract, grant a stock loan or create any lien on them.
- h) La Caixa undertakes to not exercise the voting rights carried by the shares and to not attend the Stockholders' Meetings of Telefónica Publicidad e Información, S.A. (except for that held on June 2, 1999, and unless a Stockholders' Meeting is held for the reason described in section (c) above in relation to redemption).
- i) In the settlement of the option through the purchase of the shares, in no case may La Caixa substitute delivery of the shares with a cash payment.

On April 28, 1999, the Stockholders' Meeting of Telefónica Publicidad e Información, S.A. resolved to set up a stock option plan and authorized the Board of Directors to set the terms and conditions thereof, specifying in particular the qualifying executives, the number of options to be granted to each executive, the stock option exercise periods and all the other features of the plan.

Pursuant to this authorization, on June 2, 1999, the Board of Directors of Telefónica Publicidad e Información, S.A. adopted the following resolutions relating to the stock option plan:

1. The initial term of the plan will be four years and three months from the date on which the options are granted.
2. The options may be exercised at a rate of one-third of the options granted each year from the second year.
3. The exercise price for the executives will be the retail sale price of the shares in the public offering.
4. The Appointments and Compensation Committee was entrusted with proposing to the Board the other terms and conditions of the plan and, in particular, with specifying which directors qualify for the plan and the number of options to be granted to each executive.

As a result of the foregoing, at its meeting on June 22, 1999, the Appointments and Compensation Committee made the first proposal for the assignment of options to executives, which was approved by the Board of Directors at its meeting on July 8, 1999. Subsequently, the Board of Directors at its meeting on December 22, 1999, assigned or offered new options to executives. From that date, with the same expiration date, the exercise price was set at the market price on the date on which the related resolution is adopted.

On April 17, 2000, the Stockholders' Meeting ratified the Option Plan in force at the Company at that date and empowered the Company's Board of Directors to assign, at the proposal of the Appointments and Compensation Committee, the options on shares not yet assigned to the employees and executives who form or are going to form part of the corporate Group. It empowered the Board of Directors to establish the terms and conditions it deems fit relating to the exercise of the options, to set new exercise terms and conditions and, specifically, to extend the exercise period and increase the purchase price of the shares with respect to that established in the Complete Prospectus registered with the CNMV on June 4, 1999.

Exercising the powers granted by the aforementioned resolution, at subsequent meetings the Board of Directors assigned or undertook to assign options to executives and employees.

As of December 31, 2000, the total number of options which the Company had awarded or undertaken to assign was 3,242,610 to 50 executives or employees, of whom only one is a director (Executive Chairman).

d) Terra Networks, S.A. stock option plan

The Terra Networks, S.A. stock option plan was approved by the Stockholders' meeting on October 1, 1999, and developed by resolutions of the Board of Directors adopted on October 18, 1999, and December 1, 1999.

By granting them purchase options on shares, the Plan enables the employees and executives of the Terra Group companies to acquire up to 14,000,000 shares of the capital stock of Terra Networks, S.A. On October 5, 1999, Banco Zaragozano, S.A., Caja de Ahorros y Pensiones de Barcelona and Terra Networks, S.A. entered into a contract that regulates the grant by the former two entities to Terra Networks, S.A. of an irrevocable purchase option on 14,000,000 shares issued which may be exercised at any time prior to April 30, 2004, to cover the approved Stock Option Plan.

The main features of the Plan are as follows

1. Each option on the shares under the Plan entitles the holder to acquire one share of Terra Networks, S.A. at an exercise price of €11.81 per share.

2. The duration of the Plan is four years and three months, and the options may be exercised at a rate of one-third each year from the second year onwards.
3. The options can be exercised only if the beneficiary is still in the employment of the Terra Group.

On December 22, 2000, the Board of Directors approved the launch of a second phase of the Stock Option Plan on the recommendation of the Appointments and Compensation Committee following a proposal by the Chairman, by assigning options to executives and employees who were already beneficiaries of the Stock Option Plan, in addition to assigning options to the new employees who had joined the Group.

1. Each option on the shares under the Plan entitles the holder to acquire one share of Terra Networks, S.A. at an exercise price of €19.78 per share.
2. The duration of the Plan is five years, in line with the resolution of the Stockholders' Meeting on June 8, 2000. The options may be exercised at a rate of one-fifth each year from the first year onwards.
3. The options can be exercised only if the beneficiary is still in the employment of the Terra Group.

It has been proposed that a total of 3,950,000 options be assigned to members of the Board of Directors, although at the date of preparation of these financial statements two of the directors of Terra-Lycos had waived their right to accept the options assigned to them (3,500,000 options). As of December 31, 2000, no options had been formally assigned to any directors.

It has also been proposed that options be assigned to Company executives, although as of December 31, 2000, no options had been formally assigned to any of them.

Bearing in mind this new grant of options and once an adjustment has been made for the options cancelled due to employee terminations, the number of options the Company was committed to assigning as of December 31, 2000 was 8,710,433, of which 2,903,801 relate to the first phase of the Plan and have an exercise price of €11.81 and 5,806,632 relate to the second phase of the Plan and have an exercise price of €19.78.

STOCK OPTION PLAN ON SHARES OF TERRA NETWORKS, S.A. RESULTING FROM THE ASSUMPTION OF THE STOCK OPTION PLANS ON SHARES OF LYCOS, INC.

The agreements entered with Lycos, Inc. envisaged the exchange of the options on shares of Lycos, Inc. for options on shares of Terra Networks, S.A. On June 8, 2000, the Stockholders' meeting of Terra Networks, S.A. resolved to assume the stock option plans of Lycos, Inc. if the two companies were merged.

On October 25, 2000, the Board of Directors of Terra Networks, S.A. approved (i) the exchange of the options on shares of Lycos, Inc. existing prior to the transaction for options on shares of Terra Networks, S.A. (ii) the transfer to Citibank NA (the Agent Bank) of all the options on shares of Lycos, Inc. for early exercise, and (iii) the entering into a contract between Terra Networks, S.A. and the Agent Bank in relation to the new Stock Option Plan relating to shares of Terra Networks, S.A.

As a result of the exercise of the options on shares of Lycos, Inc. by the Agent Bank, the latter subscribed 29,088,488 shares of Lycos, Inc. which, pursuant to the resolutions of the Stockholders' Meeting of Lycos, Inc., held on October 27, 2000, were converted into 29,088,488 shares of Lycos Virginia, Inc. and contributed to the exchange, as were the other shares of Lycos Virginia, Inc.

As a result of the exchange of options on shares of Lycos, Inc. for options on shares of Terra Networks, S.A. the employees, executives and directors of de Lycos Virginia, Inc. obtained purchase options on 62,540,249 shares of Terra Networks, S.A. owned by the Agent Bank.

On October 27, 2000, Terra Networks, S.A. and the Agent Bank entered into a contract to regulate all the matters relating to the new stock option plan relating to shares of Terra Networks, S.A. Under this contract, the Agent Bank granted Terra Networks, S.A. an option on the shares of Terra Networks, S.A. held by the Agent Bank, to be subsequently assigned to the beneficiaries of the new Plan once said beneficiaries exercise their options. Should any options not have been exercised once the exercise period has expired, Terra Networks, S.A. will have to retire the remaining shares.

In the period from October 27 and December 31, 2000, the employees of Lycos Virginia, Inc. exercised a total of 10,356,514 options.

As of December 31, 2000, the average exercise price for the options on shares of Terra Networks, S.A. exchanged for options on shares of Lycos Virginia, Inc. was €18.6.

As of December 31, 2000, the members of the Board of Directors held purchase options on 8,267,026 shares of Terra Networks, S.A. owned by the Agent Bank, with an average exercise price of US\$ 20.18, ranging from an average price of US\$ 6.28 and a maximum price of US\$ 30.41.

e) Telefónica Móviles, S.A. Stock Option Plan

On October 26, 2000, the Stockholders' Meeting of Telefónica Móviles, S.A. initially approved the establishment of a Stock Option Plan for the executives and employees of the Telefónica Móviles Group and, to facilitate coverage of the Company's obligations to the beneficiaries of the Plan, resolved to increase the capital stock of Telefónica Móviles, S.A. by €11,400,000 through the issuance of 22,800,000 shares of €0.50 par value each, which must be subscribed and paid in full through monetary contributions at one time. These shares will be issued with additional paid-in capital, the amount of which will be determined by the Board of Directors of Telefónica Móviles, S.A.

As of December 31, 2000, the Stock Option Plan had not yet been approved by the Board of Directors of Telefónica Móviles, S.A., and, consequently, the capital increase approved by the Stockholders' Meeting had not been carried out.

OTHER INTEREST ON ACCOUNTS PAYABLE AND SIMILAR EXPENSES AND REVENUES FROM OTHER SECURITIES AND LOANS

The detail of the «Other Interest on Accounts Payable and Similar Expenses» and «Revenues from Other Securities and Loans» captions is as follows:

Millions of Pesetas		
	12/31/00	12/31/99
Debentures, bonds and other marketable		
debt securities	132,769	97,732
Loans and credits	43,596	41,629
Foreign currency loans	166,082	122,703
Other	14,191	34,283
Total other financial expenses	356,638	296,347
Associated companies	4,093	2,753
Other companies	77,700	59,669
Total other financial revenues	81,793	62,422

EXCHANGE LOSSES

The detail of the exchange losses charged to income is as follows:

Millions of Pesetas		
	12/31/00	12/31/99
Repayment of loans	28,589	2,826
Operating transactions	40,339	54,597
Translation losses (Note 4-b)	9,646	35,384
	78,574	92,807

EXTRAORDINARY REVENUES

The detail of the extraordinary revenues is as follows:

Millions of Pesetas	12/31/00	12/31/99
Prior years' revenues	14,217	3,208
Indemnity payments for breach of contract	9,103	356
Insurance indemnity payments received	1,114	5
Gain on sale of shares	339	—
Reversal of provisions	—	7,003
Recovery of taxes and supplier indemnity payments	10,147	18,514
Revenues from fixed asset transactions	—	5,479
Other extraordinary revenues earned in the year	9,031	23,059
	43,951	57,624

EXTRAORDINARY EXPENSES AND LOSSES

Millions of Pesetas	12/31/00	12/31/99
Supplementary pension payments to retired employees (Note 14)	68,792	15,833
Provision for contingencies	50,636	30,607
Preretirements and early retirements (Note 14)	199,184	28,040
Write-down of goodwill and administrative concessions (Note 5)	133,783	62,106
Provisions for treasury stock (Note 4-i)	22,155	—
Other extraordinary expenses	213,958	87,095
	688,508	223,681

The «Other Extraordinary Expenses» caption includes extraordinary expenses incurred by the Telefónica Group companies, including most notably write-downs of accounts receivable, permanent diminutions in value of fixed assets, fines and penalties, prior year's income (loss), etc. Also, in accordance with accounting legislation, this caption also includes, due to the extraordinary nature of these expenses, indemnity payments paid to senior executives for termination of contracts for services, for the amounts established therein, subject to approval by the Board of Directors' Appointments and Compensation Committee.

LOSSES ON FIXED ASSETS

This caption includes net amounts of Ptas. 16,486 million and Ptas. 22,547 million as of December 31, 2000 and 1999, respectively, recorded as a result of the dismantling of Telefónica de España's plant for network digitalization (see Note 7).

21. DIRECTORS' COMPENSATION AND OTHER BENEFITS

On April 7, 2000, the Stockholders' Meeting resolved to amend the wording of Article 28 of Telefónica's Corporate Bylaws, relating to directors' compensation, to include the provision established in Article 130 of the Spanish Corporations Law following its amendment by Law 55/1999. The aforementioned Article 28 of the Corporate Bylaws now reads as follows:

«ARTICLE 28.»- COMPENSATION.

1. The directors' compensation shall consist of a set monthly payment and of per diems for attending meetings of the Board of Directors and of its standing and advisory committees. The amount of the compensation the Company can pay its directors as a whole in both connections shall be equal to 0.50% of the net income obtained by the Consolidated Group in the immediately preceding year. The Board of Directors shall be responsible for defining the exact amount to be paid within this limit and for distributing it among the directors.
2. In addition, independently from the compensation described in the preceding paragraph, it is planned to establish director compensation systems tied to the share market price of the shares or involving the assignment of shares or stock options. The application of these compensation systems must be agreed upon by the Stockholders' Meeting, which shall define the reference share value, the number of shares to be assigned to each Director, the option exercise price, the duration of this compensation scheme and any other conditions they deem fit.

Also, subject to compliance with legal requirements, similar compensation systems may be established for executive or non-executive Company employees.

3. The compensation systems described above for members of the Board of Directors shall be compatible with the other compensation received by directors, either in their professional capacity or as employees, for any other executive or advisory functions discharged by them for the Company other than the supervisory and Board decision duties specific to their position as Directors, which shall be subject to the applicable legal regime.

The members of the Board of Directors of Telefónica, S.A. earned Ptas. 1,725 million and Ptas. 1,233 million in 2000 and 1999, respectively. The breakdown of these amounts is as follows:

Millones de Pesetas		
	2000	1999
Salaries (1) (3)	572	389
Variable compensation (1) (3)	525	330
Per diems (2)	574	511
Compensation in kind	54	3
Total	1,725	1,233

- (1) Fixed and variable compensation received by the members of the Board of Directors of Telefónica, S.A. with executive duties.

The figures for 2000 include all the amounts received by these directors, whether they were paid by Telefónica, S.A. or by other Group companies.

- (2) This item includes not only the per diems received by the directors in their capacity as members of the Board of Directors of Telefónica, S.A., but also those received by them in their capacity as members of the Board of Directors of the other Telefónica Group companies.
- (3) The amount for 2000 includes Ptas. 386 million paid by Telefónica, S.A. and allocated to other Group companies.

Telefónica's pension and life insurance commitments to directors with executive duties arise solely from their status as employees and amounted to Ptas. 2 million in 1999 and Ptas. 6 million in 2000.

Also, the cost for the Telefónica Group of the compensation plans linked to share market price in which directors are participating as executives amounted to Ptas. 146 million in 1999 and Ptas. 185 million in 2000.

22. OTHER INFORMATION

a) LITIGATION IN PROGRESS

Telefónica, S.A. and its Group companies are party to various civil, labor, administrative, tax and antitrust lawsuits. The Company considers it reasonably certain that any adverse resolution of these lawsuits will not materially affect the Group's economic and financial position or solvency.

Independently of the above, it should be noted that Telefónica, S.A. has been notified that a court proceeding is in progress contesting the resolutions adopted by the Special Stockholders' Meeting of the Company on February 4, 2000.

The aforementioned proceeding has been filed by a stockholder who owns 300 shares of the Company and is based on the purported contravention of this stockholder's right to information, on the purported contravention of the rules regulating the holding of the Meeting and on the purported contravention of the rules excluding pre-emptive rights in capital increases.

The Company is convinced that the outcome of the aforementioned court proceeding will be wholly satisfactory for the Company and, since there has been no court decision in this connection, the complaint filed does not in any way signify holding in abeyance the possible implementation of the company resolutions approved by the Stockholders' Meeting and contested in this court proceeding. Accordingly, the Company considers that these resolutions will be implemented as planned.

Also, Telefónica has recently been notified of the complaint filed with the State Courts of New Jersey (USA) by International Discount Telecommunications Corporation (IDT) against Telefónica, S.A., Terra Networks, S.A., Terra Networks U.S.A., Inc. and Lycos, Inc.

This complaint, seeking the payment of damages amounting to approximately US\$ 6,600 million, is based on the purported breach of the joint venture agreement entered into between IDT and Terra in October 1999, on purported nonperformance of the obligations deriving from the Termination Contract, on purported fraud and contravention of the legislation regulating the issuance of securities (Federal Securities Exchange Act), and on purported fraudulent concealment of information.

In Telefónica's opinion there are grounds for considering that the outcome of the aforementioned complaint, which is in a preliminary phase, will not be adverse either to Telefónica or Terra, or, if adverse, that the economic and financial impact should not be material.

As of December 31, 2000, there were other lawsuits filed against various Group companies for different amounts. In the opinion of the directors and their legal advisors, the risk that these companies will be ordered to pay the amounts claimed can be considered to be remote.

b) COMMITMENTS

Agreements with Motorola

On October 10, 2000, Telefónica, S.A. and Telefónica Móviles, S.A. reached an agreement with Motorola, Inc. to acquire four wireless telephone operators in Northern Mexico and certain holdings in several operators in Mexico, Brazil, Honduras, the Dominican Republic and Israel. The acquisition of the operators from Northern Mexico is subject to the obtainment of certain authorizations by certain Mexican government agencies. The contract to purchase the Mexican operators allows, at the purchaser's option, the payment to be made in cash or by shares of Telefónica, S.A. In the latter case, Telefónica, S.A. would subsequently contribute the shares of the Mexican operators to Telefónica Móviles, S.A. by increasing the capital of the latter.

In the other countries the purchase of shares is also subject to the exercise by the other stockholders of certain acquisition rights. The stockholders in Brazil and Israel have exercised their rights.

Telefónica Larga Distancia de Puerto Rico

On December 22, 1992, Telefónica International Holding B.V. entered into a stockholders' agreement with the Puerto Rico Telephone Authority (ATPR) to regulate their relations with TUPR. Pursuant to the agreement, on May 21 Telefónica announced its intention to exercise the option on TUPR. Exercise of the option is subject to completion of the mandatory regulatory procedural formalities vis-à-vis the FCC.

On February 4, 1999, Telefónica Larga Distancia de Puerto Rico (TLD) and ClearCom, L.P. subscribed a Joint Venture Agreement to develop the wireless telephone business in Puerto Rico through a new company. ClearCom will have an option to buy TLD's holding in the new company in the year prior to the termination of the restrictions imposed by the FCC (January 2002). ClearCom would pay the greater of (i) 150% of the principal and interest of the Secured Convertible Promissory Note and (ii) 125% of the market value of the shares of Newcomm into which the Secured Convertible Promissory Note will be converted at the time of the purchase. TLD will have the option, at any time after the date of elimination of the restrictions imposed by the FCC, of buying from ClearCom the amount of shares required to reach a holding of 50.1% in the company. The price which TLD must pay ClearComm will be the market price of the shares at the time of the purchase.

Mesotel de Costa Rica, S.A.

On November 19, 1998, Telefónica Internacional and Mesotel de Costa Rica, S.A. (Mesotel) entered into a stockholders' agreement to regulate the rights of the two parties over, and their corporate relations with, Telefónica de Centroamérica, S.L. (TELCA), a company which was transferred to Telefónica Móviles. Under this agreement Mesotel has an option exercisable from August 13, 2003, through February 12, 2005, enabling it to sell to Telefónica Internacional, S.A. all (49% of capital stock) or some of the Telca shares owned by it. Also, Telefónica Internacional has a purchase option on the Telca shares held by Mesotel, exercisable from February 13, 2005 through August 12, 2006. The exercise price of the two options will be defined, if these options are exercised, by an investment bank which will establish the market value of the shares.

Cablevisión, S.A.

There is a reciprocal option between Telefónica Internacional S.A., Tele Communications, Inc. (TCI) and CEI whereby any of the parties may oblige the others to buy or sell shares of Cablevisión, S.A. This option may be exercised at any time from September 30, 1998. The price per share will be defined by the partner exercising the option and the other parties may decide whether they will buy or sell their shares. Also, on September 19, 1997, TCI entered into a five-year management contract with Cablevisión, S.A. On expiration of the contract, if it is not renewed, TCI will be able to sell to Telefónica Internacional S.A. and CEI its shares of the company at the market price established by an investment bank. On December 31, 1999, Telefónica S.A. signed a Framework Agreement with the CEI Group in order to regulate relations between the two companies in Argentina. Among the actions which each of the parties must perform it is specified that Telefónica Internacional, S.A. will sell all its Cablevisión S.A. shares to a company controlled by the CEI Group (ACH Acquisition Co., Ltd.). On April 11, 2000, Telefónica S.A. and ACH entered into a «Put-Call Agreement», amended on December 11, 2000, under which from April 20, 2001, ACH has the option to call on Telefónica, S.A. to sell all the shares held by Telefónica Internacional, S.A. in Cablevisión S.A. and Telefónica S.A. has the option to call on ACH to purchase these shares.

Telefónica Perú Holding, S.A.

The Stockholders' agreement between Wiese Telefónica, S.A., IGM, S.A. (Graña) and Telefónica Internacional, S.A. on November 3, 1997, came into force on August 31, 1998. Exhibit 4 of this agreement included the respective option contracts for the sale of shares of Wiese and of Graña, which were also signed on November 3, 1997. Under these option contracts, Telefónica Internacional, S.A. grants Wiese and IGM a put option on all its shares in Telefónica Perú Holding, S.A. They can exercise the option at the end of each three and a half-year period, and the first period commenced on March 15, 1998, and finishes on September 14, 2001, and the last period commences on September 15, 2001, and finishes on March 14, 2005.

If either of these stockholders exercises the option, Telefónica Internacional, S.A. undertakes to deliver as payment for their shares either of the following, to be chosen by Telefónica Internacional, S.A.:

1. A cash amount in US\$ equivalent to the value of the ADRs of Telefónica del Perú, S.A.A.
2. A number of ADRs of Telefónica del Perú, S.A.A., equivalent in value to the total of the shares of Telefónica Perú Holding, S.A. owned by the stockholder at the time of exercising the option, free and clear of charges and liens.

Call option on RBS

As a result of the obligations assumed in 1996, on December 21, 1998, TISA signed a put option agreement in favor of Chase Manhattan Bank whereby, in the event of nonpayment by RBS of the principal amount of a bond issue, TISA would be obliged to acquire 69,393,817 shares of TBS (then a holding company controlling CRT Fija and CRT Celular) owned by RBS, pledged to Chase Manhattan Bank, for US\$ 65.5 million. The put option could be exercised in the period from December 27, 2001, to January 27, 2002.

As a result of the spin-off of TBS and the acquisition by TISA of RBS's holding in the controlling holding company of CRT Celular, S.A., an amendment to the put option agreement will be signed so that it relates exclusively to 96,131,114 shares of the controlling holding company of CRT Fija owned by RBS, rendering the shares of CRT Celular, S.A. acquired by TISA free and clear of charges and liens.

Agreements with BBVA

On January 4, 2000, Terra Networks entered into a cooperation agreement with BBVA for the joint provision of new Internet services and applications, the main provisions of which were the acquisition by Terra of 20% of Banco Uno-e and the acquisition by BBVA of 3% of Terra's capital stock.

Subsequently, on February 11, 2000, Telefónica and BBVA entered into a strategic agreement for the joint performance of projects in the Internet, e-commerce, wireless services platforms, call centers and means of payment areas. Under this agreement, BBVA, through purchases in the market, will increase its holding in Telefónica to approximately 10%, and Telefónica will acquire up to 3% of the capital stock of BBVA. The agreement initially provides for the specific performance of 14 joint projects.

Also, BBVA and Telefónica may perform joint projects for the use of new means of payment in both wireline and wireless networks and form specific companies to generate Wireless Internet applications. In addition, BBVA may participate in the consortiums led by Telefónica to bid for UMTS licenses in Europe.

The agreements are currently being executed and a committee has been formed at the highest level of representation of the two parties to monitor progress.

Agreements with La Caixa

At the beginning of 2000 Telefónica entered into a similar agreement with La Caixa for the formation of a company owned 50% by each of the two entities to develop new payment systems and services using cards, wireless telephony and the Internet. The agreement also envisages the possible formation of companies to carry on various different businesses including both a financial services bank and a specialized portal, both for companies, as well as specific services for individuals.

Antena 3 de Televisión, S.A.

In 1997 Telefónica provided guarantees to Banco Santander, S.A. and Banco Central Hispanoamericano, S.A. to ensure the liquidity and value of the investment made by them in Antena 3 de Televisión, S.A., applicable from the second year of the investment. In 1999 these agreements were executed and the Group acquired 6,478 shares of the company. Additional purchases are subject to fulfillment of the related statutory (limitation of ownership to 49% of capital stock) and commercial requirements.

23. SUBSEQUENT EVENTS

AGREEMENT BETWEEN TELEFÓNICA AND PORTUGAL TELECOM

On January 24, 2001, Terra Networks and Portugal Telecom entered into an agreement under which the two companies undertake to contribute, to a newly-formed company (a subsidiary of Telefónica Móviles and Portugal Telecom Movais), all the wireless telephony assets that the two groups own or may own in Brazil, which will be jointly managed at the aforementioned new company.

The execution of this agreement, as well as the execution timetable, are subject to compliance with the conditions resulting from the Brazilian and EU regulatory framework and to the valuation of the aforementioned assets.

Also, the two parties have expressed their interest in increasing their present reciprocal shareholdings, also subject to compliance with the relevant regulatory and bylaw conditions.

ACQUISITION OF THE GERMAN COMPANY MEDIAWAYS GMBH INTERNET SERVICES

On January 31, 2001, the acquisition from the German company Bertelsman AG of all the shares of MediaWays GmbH Internet Services was formally executed.

The final price of this acquisition, which will be paid in cash, will be that resulting from application of the adjustment mechanism which, based on the reported revenues of MediaWays in 2000, was agreed upon between the parties in the agreement entered into in June 2000.

CAPITAL INCREASES WITH A CHARGE TO RESERVES

In January 2001 the Company carried out the first of the capital increases with a charge to unrestricted reserves approved by the Stockholders' Meeting on April 7, 2000, execution of which was agreed upon by the Board of Directors on December 20, 2000. As a result, capital stock was increased by €86,814,214 through the issue of 86,814,214 common shares of the Company with a par value of €1 each. These new shares were assigned to the stockholders free of charge at a rate of one new share for every 50 shares already held by them.

The capital increase deed was executed on January 25, 2001, and registered with the Mercantile Register on the same date, and the new shares were admitted to listing on official markets from February 2, 2001.

On January 24, 2001, Telefónica's Board of Directors resolved to carry out the second of the capital increases with a charge to unrestricted reserves approved by the Stockholders' Meeting on April 7, 2000. Accordingly, capital stock was increased by 2% through the issue of new common shares of the Company, of the same series and carrying the same rights as those currently outstanding, with a par value of €1 each.

At its meeting on February 14, 2001, the Standing Committee defined the par value of the aforementioned capital increase as €89,203,045, and, accordingly, the capital increase was carried out through the issuance of an equal number of common shares of the Company, which will be assigned to the stockholders free of charge at a rate of one new share for every 50 shares already held by them.

The period for assignment free of charge of the new shares is scheduled to commence on March 6, 2001, and the execution of the public deed and registration thereof with the Mercantile Register, as well as the commencement of official trading of the new shares on the markets on which the Company's shares are already listed, is expected to take place at the end of March or the beginning of April 2001.

CAPITAL INCREASES RELATING TO THE TIES PROGRAM

On February 14, 2001, the notarial deed of formalization and execution of a first capital increase at Telefónica was executed. The par value of the capital was increased by €1,123,072, through the issuance of an equal number of common shares of the same class and series and carrying the same rights as the outstanding shares of the Company and with additional paid-in capital of €4 per share. The new shares were fully subscribed and paid, through a monetary contribution, by the employees of several Telefónica Group companies who decided to participate in the TIES Program stock option plan for Group employees.

Following registration with the Mercantile Register of the aforementioned capital increase deed, the new shares were admitted to listing on official markets from February 16, 2001.

On February 20, 2001, the notarial deed of formalization and execution of a second capital increase at Telefónica was executed. The par value of the capital was increased by €31,504,244, through the issuance of an equal number of common shares of the same class and series and carrying the same rights as the outstanding shares of the Company and with additional paid-in capital of €4 per share. The new shares were fully subscribed and paid, through a monetary contribution, by Banco Bilbao Vizcaya Argentaria, S.A. (50%) and Caja de Ahorros y Pensiones de Barcelona «La Caixa» (50%).

Following registration with the Mercantile Register of the public deed for this second capital increase, the new shares issued were admitted to listing on official markets from March 1, 2001.

Following the capital increases described above, the capital stock of Telefónica, S.A. amounted to €4,460,152,265.

THIRD-GENERATION LICENSES

On February 6, 2001, Telefónica Intercontinental, S.A. received official notification of the award of a UMTS license in Switzerland for a term of 15 years for CHF 50 million (Ptas. 5,409 million).

24. CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Application of funds	31-12-00	31-12-99	Source of funds	31-12-00	31-12-99
Funds applied in operations	—	—	Funds obtained from operations	1,536,296	1,635,339
Start-up and debt arrangement expenses	119,376	73,902	Stockholder contributions		
			a) Capital increase	—	—
Fixed asset additions			b) Additional paid-in capital	—	—
a) Intangible assets	2,181,652	138,247	c) Minority interests	809,120	165,109
b) Property and equipment	1,333,856	1,057,334	Deferred revenues	23,190	18,178
c) Long-term financial investments	615,427	788,224	Deferred tax assets	—	3,939
Deferred tax assets	1,314	—	Long-term deferred tax liabilities	315	—
Deferred tax liabilities	—	2,869	Long-term debt	1,351,748	733,238
Dividends	91,608	54,649	Fixed asset disposals		
Repayment or transfer of long-term debt	294,695	380,124	a) Intangible assets	8,719	2,490
Provisions	272,480	178,418	b) Property and equipment	64,957	15,232
			c) Long-term financial investments	540,755	399,558
Other funds applied	—	—	Increase in working capital due to disposal of holdings	6,014	—
Decrease in working capital due to disposal of holdings	—	1,652	Increase in working capital due to inclusion of subsidiaries	148,812	—
Decrease in working capital due to acquisition of holdings	—	5,087			
Variation in working capital due to translation differences	175,224	25,381			
Total funds applied	5,085,632	2,705,887	Total funds obtained	4,489,926	2,973,083
Funds obtained in excess of funds applied (Increase in working capital)	—	267,196	Funds applied in excess of funds obtained (Decrease in working capital)	595,706	—
	5,085,632	2,973,083		5,085,632	2,973,083

VARIATIONS IN WORKING CAPITAL

Increase in working capital	12/31/00	12/31/99	Decrease in working capital	12/31/00	12/31/99
Due from stockholders for capital calls	—	—	Due from stockholders for capital calls	—	—
Inventories	52,484	25,509	Inventories	—	—
Accounts receivable	243,769	106,638	Accounts receivable	—	—
Accounts payable	—	60,158	Accounts payable	1,742,617	—
Short-term financial investments	781,954	70,669	Short-term financial investments	—	7,757
Cash	96,428	—	Cash	—	—
Accrual accounts	—	11,979	Accrual accounts	27,724	—
Total	1,174,635	274,953	Total	1,770,341	7,757
Variation in working capital	595,706	—	Variation in working capital	—	267,196
	1,770,341	274,953		1,770,341	274,953

The reconciliation of the balances in the consolidated statements of income to the funds obtained from operations is as follows:

Millions of Pesetas	12/31/00	12/31/99
Income	416,766	300,293
Income attributable to minority interests	20,072	109,100
Income of associated companies	26,846	646
	463,684	410,039
Add:		
Dividends of companies carried by the equity method	4,184	5,116
Period depreciation and amortization	1,158,176	1,016,418
Provision for property and equipment	—	225,378
Amortization of debt arrangement expenses	12,514	6,466
Amortization of goodwill in consolidation	83,289	32,334
Amortization of other deferred charges	48,445	27,756
Write-down of goodwill	133,783	—
Provision for diminution in value of financial investments	14,521	1,957
Exchange differences	299	(72,447)
Undepreciated plant dismantled	19,624	24,603
Provision for inventory adjustment	1,885	2,592
Period provisions	370,091	211,201
Provisions to technical reserves of insurance companies	7,152	4,959
Deferred interest	18,901	25,963
Additional paid-in capital and redemption premiums	—	702
Deferred tax liabilities and other	—	—
Property and equipment and intangible assets	23,428	11,275
Financial provision and supplementary pension payments to retired employees	14,965	15,832
Loss on disposal of consolidated companies	3,173	82
Less:		
Gain on disposal of long-term financial investments	—	—
Gain on disposal of property and equipment	8,915	5,580
Capital subsidies	12,838	12,860
Nonrefundable third-party contributions	14,051	4,032
Long-term deferred tax assets and liabilities	37,470	24,113
Gain on disposal of consolidated companies	653,276	263,647
Fixed asset provisions used	102,142	—
Write-off of goodwill of Cablevisión	—	5,000
Other provisions used	13,624	—
Other	(498)	(345)
Funds obtained from operations	1,536,296	1,635,339

25. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

These consolidated financial statements are presented on the basis of accounting principles generally accepted in Spain. Certain accounting practices applied by the Group that conform with generally accepted accounting principles in Spain may not conform with generally accepted accounting principles in other countries.

EXHIBIT I

CONTRIBUTION OF THE GROUP COMPANIES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The contribution of the Group companies to consolidated reserves and translation differences as of December 31, 2000 and 1999, was as follows:

Millions of Pesetas				
Companies	12/31/00		12/31/99	
	To Reserves	To Translation Differences	To Reserves	To Translation Differences
Fonditel	2,500	(3)	1,881	—
Atento Group	3,189	(1,233)	1,676	(250)
Casiopea Group	5,426	36	3,264	6
Comet Group	(1,017)	—	(1,012)	—
Telefónica DataCorp Group	(5,699)	(172)	(6,241)	28
Telefónica de España Group	(17,481)	—	9,895	(3)
Telefónica Internacional Group	161,904	(142,503)	104,433	(63,797)
Telefónica Media Group	(37,975)	1,602	(14,386)	—
Telefónica Publicidad e Informac. Group	4,814	(164)	2,130	2
Telefónica Móviles Group	14,981	(8,092)	90,874	—
Terra Networks Group	71,182	(7,220)	(199)	(314)
Venturini Group	150	—	(115)	—
Inmobiliaria Telefónica	(236)	—	2	—
Playa de Madrid	29	—	(8)	—
Taetel	1,543	—	1,585	—
Telefónica Europe B.V.	281	2	183	1
Telfisa	154	—	119	—
Tidsa	5,222	—	3,735	—
Urbana Ibérica	92	—	94	—
Katalyx Group	—	250	—	—
Emergia Group	—	1,338	—	—
Telefónica and associated companies	3,149,985	(7,317)	1,466,841	(6,605)
Total Telefónica Group	3,359,044	(163,476)	1,664,751	(70,932)
Intercompany fixed asset transactions	(20,089)	—	(26,936)	—
Total contribution	3,338,955	(163,476)	1,637,815	(70,932)

DEPENDENT COMPANIES AND THEIR HOLDINGS	Ownership			Capital		Interim Dividend	Income (Loss)	Gross Book Value	Consolidation Method	Value in Consolidation (10)
	Direct	Indirect	Telefónica Group	Stock	Reserves					
Communicapital Inversiones, S.A.U. (SPAIN) (*) (**) <i>Global telecommunications fund</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100.00%		100.00%	998	(1,362)	—	(242)	998	G. I.	—
Other holdings			N/A	N/A	N/A	N/A	N/A	7,066	C.	7,066
Communicapital Gestión, S.A.U. (SPAIN) (*) (**) <i>Global telecommunications fund</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100.00%		100.00%	10	—	—	—	10	G. I.	—
Casiopea Reaseguradora, S.A. (LUXEMBOURG) (SPAIN) (3) <i>Reinsurance</i> <i>73, Rue du Fort Neipperg - L-2230 Luxembourg</i>	100.00%		100.00%	498	1,205	—	—	498	G. I.	—
Pléyade Peninsular Correduría de Seguros del Grupo Telefónica, S.A. (SPAIN) (3) <i>Distribution, promotion or preparation of insurance contracts, operating as a broker</i> <i>Avda. General Perón, 38 Master II - 17ª P. - 28020 Madrid</i>	16.67%	83.33%	100.00%	60	213	—	263	60	G. I.	—
Seguros de Vida y Pensiones Antares, S.A. (SPAIN) (3) <i>Life insurance and pensions</i> <i>Avda. General Perón, 38 Master II-17ª P.-28020 Madrid</i>	21.33%	78.67%	100.00%	1,850	3,588	—	2,056	1,960	G. I.	—
Fonditel Entidad Gestora de Fondos de Pensiones, S.A. (SPAIN) (3)		3.78%								
Compañía Española de Tecnología, S.A. (SPAIN) (*) (**) (3) <i>Promotion of business initiatives and disposition of marketable securities</i> <i>Villanueva, 2 duplicado planta 1ª Oficina 23 - 28001 Madrid</i>	100.00%		100.00%	664	—	—	(8)	1,681	G. I.	—
Cleon, S.A. (SPAIN) (3) <i>Property development</i> <i>Villanueva, 2 duplicado planta 1ª Oficina 23 - 28001 Madrid</i>		50.00%	50.00%	1,370	(61)	—	(9)	685	G. I.	—
Fonditel Entidad Gestora de Fondos de Pensiones, S.A. (SPAIN) (3) <i>Pension fund management</i> <i>Pedro Teixeira nº 8 - 3ª P. - 28020 Madrid</i>	77.22%	3.78%	81.00%	2,612	3,086	—	1,215	2,115	G. I.	—
Playa de Madrid, S.A. (SPAIN) (*) (**) (12) <i>Distribution of all manner of goods, operation of sporting and hospitality facilities</i> <i>Doctor Fleming, 3 - 1ª P - 28036 Madrid</i>	100.00%		100.00%	40	43	—	27	54	G. I.	—
Taetel, S.L. (SPAIN) (*) (**) (1) <i>Acquisition, holding and disposal of shares and ownership interests in other companies</i> <i>Beatriz de Bobadilla, 3 - 28040 Madrid</i>	100.00%		100.00%	4,700	1,621	—	178	4,700	G. I.	—
Telefonía y Finanzas, S.A. (TELFISA) (SPAIN) (*) (**) (1) <i>Integrated cash management, counseling and financial support for Group companies</i> <i>Gran Vía, 30-4ª Pta. - 28013 Madrid</i>	100.00%		100.00%	500	490	—	73	2,099	G. I.	—
Telefónica B2B, Inc. (USA) <i>B2B e-commerce</i> <i>1001 Brickell Bay Drive - Miami, Florida 33131</i>	100.00%		100.00%	—	250	—	(11,570)		G. I.	—
Cei Citicorp Holdings y Subsidiarias, S.A. (ARGENTINA) (1) (9) <i>Holding company</i> <i>Tucumán, 1, 2º - Buenos Aires</i>	80.91%		80.91%	88,250	89,289	—	(20,790)	166,203	G. I.	—
AC Inversora, S.A. (ARGENTINA) (1)		26.82%								
Atlántida Comunicaciones, S.A. (ARGENTINA) (1) (9)		26.82%								
Other holdings		N/A	N/A	N/A	N/A	N/A	N/A	62,477	E.M.	62,477
Telefónica Consultora de Proyectos, S.A. (SPAIN) (**) (2) <i>Teleassistance and value-added services</i> <i>Condesa de Venadito, 1 - 28027 Madrid</i>	100.00%		100.00%	1,800	(285)	—	3	1,515	G. I.	—
Telefónica Ingeniería de Seguridad, S.A. (SPAIN) (**) (2) <i>Security services and systems</i> <i>Condesa de Venadito, 1 - 28027 Madrid</i>		100.00%	100.00%	150	89	—	128	595	G. I.	—
Telefónica Engenharia de Segurança (BRAZIL)		99.99%	99.99%	1	—	—	—	32	G. I.	—
Telefónica Consultora y Servicios, S.A. (SPAIN) (**) (2) <i>Network and administration outsourcing</i> <i>Condesa de Venadito, 1 - 28027 Madrid</i>		100.00%	100.00%	50	78	—	58	105	G. I.	—
Telefónica de España, S.A. (SPAIN) (*) (**) (1) <i>Telecommunications services in Spain</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100.00%		100.00%	170,325	310,493	—	39,390	504,792	G. I.	—
Telefónica Soluciones Sectoriales, S.A. (SPAIN) (*) (**) (12) <i>Consulting services for companies in the communications and IT industries</i> <i>General Perón, 38 Master II - 17ª Pta. - 28020 Madrid</i>		100.00%	100.00%	2,285	(616)	—	(14)	1,783	G. I.	—
Portel Servicios Telemáticos, S.A. (SPAIN) (1) <i>Systems engineering and telecommunications in port areas</i> <i>Avda. de Partenón, 10 Campo de las Naciones - 28042 Madrid.</i>		49.00%	49.00%	500	(28)	—	43	224	E.M.	252

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DEPENDENT COMPANIES AND THEIR HOLDINGS	Ownership			Capital		Interim	Income	Gross Book	Consolidation	Value in
	Direct	Indirect	Telefónica Group	Stock	Reserves	Dividend	(Loss)	Value	Method	Consolidation (to)
Bitel Baleares Innovación Telemática, S.A. (SPAIN) (6) <i>Provision of services and systems engineering in the IT and communications fields</i> <i>Paseo Marítimo, 38 A - 07005 Palma de Mallorca</i>		44.00%	44.00%	416	N/D	—	(15)	130	E.M.	267
Incatel (SPAIN) <i>Provision of multimedia services</i> <i>Cebrián, 3 - 35003 Las Palmas de Gran Canaria</i>		40.00%	40.00%	50	(4)	—	5	20	E.M.	18
Tecnología e Ingeniería de Sist. y Servicios Avanzados de Telec., S.A. (TISSAT) (SPAIN) (7) <i>Systems engineering and marketing of advanced services</i> <i>Correos, 1 - 46002 Valencia</i>		30.77%	30.77%	130	258	—	141	29	E.M.	29
Madrid 112, S.A. (SPAIN) (6) <i>Emergency services and citizen advice in the Autonomous Community of Madrid</i> <i>Carretera de La Coruña, Km. 22 - Las Rozas - Madrid</i>		24.50%	24.50%	1,000	(157)	—	1	226	E.M.	207
Fitex (SPAIN) <i>Software research and development</i> <i>Carlos Callejo, 37 - 10001 Cáceres</i>		24.50%	24.50%	99	—	—	(21)	31	E.M.	23
SEMCA (SPAIN) <i>Emergency services in the Autonomous Community of Cantabria</i> <i>Casimiro Sainz, 4 - Santander</i>		20.00%	20.00%	125	(11)	—	(3)	20	C	20
ATENET (SPAIN) <i>Teaching via computer systems</i> <i>C/ Jorge Juan, 32</i>		16.00%	16.00%	125	(59)	—	(42)	20	C	20
Other holdings		N/A	N/A	N/A	N/A	N/A	N/A	100	C	100
Teleinformática y Comunicaciones, S.A. (TELYCO) (SPAIN) (*) (**) (3) <i>Promotion, marketing and distribution of telephone and telematic equipment and services</i> <i>Plaza Descubridor Diego de Ordás, 3 - Pta. 4ª - 28003 Madrid</i>		100.00%	100.00%	460	3,872	—	516	2,075	G. I.	—
Telefónica Sistemas de Información Geográfica, S.A. (TISIG) (SPAIN) (*) (**) (3) <i>Computer advisory services and digital cartography</i> <i>Rosario Pino, 5 - 10ª P. - 28020 Madrid</i>		100.00%	100.00%	215	156	—	(123)	371	G. I.	—
Iberwap, S.A.U. (SPAIN) (**) (**) (3) <i>Design, development, implementation and commercialization of digital cartography</i> <i>Rosario Pino, 5 - 28020 Madrid</i>		100.00%	100.00%	250	—	—	—	272	C.	272
Telefónica Telecomunicaciones Públicas, S.A. (SPAIN) (*) (**) (t) <i>Installation of public telephones</i> <i>Plaza de Carlos Trias Bertrán, 7 - 28020 Madrid</i>		100.00%	100.00%	200	11,044	—	(1,491)	10,669	G. I.	—
SODETEL, Comercial de Servicios de Telecomunicaciones, S.A. (SPAIN) <i>Consulting, installation and operation of telecommunications services</i> <i>Parque industrial y de servicios de Mairena del Aljarafe - Seville</i>		50.00%	50.00%	20	N/D	N/D	N/D	10	E.M.	10
Andalucía Digital Multimedia, S.A. (SPAIN) <i>Development of the audiovisual industry in Andalucía</i> <i>Edificio Azul, Parque Tecnológico de Andalucía - Málaga</i>		24.00%	24.00%	2,000	N/D	N/D	(256)	1,479	E.M.	399
Other holdings		N/A	N/A	N/A	N/A	—	N/A	4,880	C.	4,880
Telefónica Cable, S.A. (SPAIN) (*) (**) (t) <i>Cable telecommunications services</i> <i>Virgilio, 2 - Edificio 2 - Ciudad de la Imagen (*) - 28223 Madrid</i>		100.00%	100.00%	3,000	—	—	(777)	3,462	G. I.	—
Telefónica Cable Cantabria, S.A. (SPAIN) (*) (**) (3) <i>Cable television systems and value-added services</i> <i>La Milagrosa, 2 - 39001 Santander</i>		100.00%	100.00%	100	(40)	—	(23)	86	G. I.	—
Telefónica Cable Menorca, S.A. (SPAIN) (*) (**) (3) <i>Cable television systems and value-added services</i> <i>Santiago Ramón y Cajal, 13 - Mahón - Menorca</i>		100.00%	100.00%	100	(4)	—	(10)	93	G. I.	—
Telefónica Cable Asturias, S.A. (SPAIN) (*) (**) (3) <i>Cable television systems and value-added services</i> <i>Gral. Elorza, 8 - 33001 Oviedo</i>		100.00%	100.00%	100	7	—	2	101	G. I.	—
Telefónica Cable Euskadi, S.A. (SPAIN) (*) (**) (3) <i>Cable television systems and value-added services</i> <i>Gregorio de la Revilla, 27 - 48010 Bilbao</i>		100.00%	100.00%	100	(41)	—	(23)	86	G. I.	—
Sociedad General de Cablevisión Cádiz, S.A. (SPAIN) (*) (**) (3) <i>Cable television systems and value-added services</i> <i>Santa María Soledad, 6 - 11006 Cádiz</i>		100.00%	100.00%	100	(2)	—	2	93	G. I.	—
Telefónica Cable Galicia, S.A. (SPAIN) <i>Cable television systems and value-added services</i> <i>Ronda de Outero, 1-3 - A Coruña</i>		70.00%	70.00%	100	7	—	2	71	G. I.	—
Telefónica Cable Aragón, S.A. (SPAIN) (*) (**) (3) <i>Cable television systems and value-added services</i> <i>Vía Universitat, 10 - Zaragoza</i>		100.00%	100.00%	100	(6)	—	(2)	83	G. I.	—

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DEPENDENT COMPANIES AND THEIR HOLDINGS	Ownership			Capital		Interim	Income	Gross Book	Consolidation	Value in
	Direct	Indirect	Telefónica Group	Stock	Reserves	Dividend	(Loss)	Value	Method	Consolidation (10)
Sociedad General de Cablevisión Málaga, S.A. (SPAIN) (*) (**) <i>Cable television systems and value-added services</i> <i>Hilera, 2 - 29007 Málaga</i>		100.00%	100.00%	100	8	—	1	101	G.I.	—
Telefónica Cable Murcia, S.A. (SPAIN) (*) (**) <i>Cable television systems and value-added services</i> <i>San Antón, 4 - 30005 Murcia</i>		100.00%	100.00%	100	(34)	—	(21)	89	G.I.	—
Telefónica Cable La Rioja, S.A. (SPAIN) (*) (**) <i>Cable television systems and value-added services</i> <i>San Millán, 3 - 26004 Logroño</i>		100.00%	100.00%	100	(22)	—	(25)	101	G.I.	—
Telefónica Cable Valencia, S.A. (SPAIN) (*) (**) <i>Cable television systems and value-added services</i> <i>San Vicente, 148 - 46007 Valencia</i>		100.00%	100.00%	200	(54)	—	(44)	192	G.I.	—
Telefónica Cable Castilla la Mancha, S.A. (SPAIN) (*) (**) <i>Cable television systems and value-added services</i> <i>Cuesta de Carlos V, 5 - Toledo</i>		100.00%	100.00%	100	1	—	3	101	G.I.	—
Telefónica Cable Balears, S.A. (SPAIN) (*) (**) <i>Cable television systems and value-added services</i> <i>Federico Garcia Lorca, 2 - 07014 Palma de Mallorca</i>		100.00%	100.00%	100	(39)	—	(22)	85	G.I.	—
Telefónica Cable Catalunya, S.A. (SPAIN) (1) <i>Cable television systems and value-added services</i> <i>Avda. Icaria, 136 - 08805 Barcelona</i>		80.00%	80.00%	100	(24)	—	(73)	136	G.I.	—
Telefónica Cable Andalucía, S.A. (SPAIN) (1) <i>Cable television systems and value-added services</i> <i>Grahan Bell, 5 - 41010 Seville</i>		73.00%	73.00%	1,000	(79)	—	(76)	720	G.I.	—
Telefónica Cable Navarra, S.A. (SPAIN) (1) <i>Cable television systems and value-added services</i> <i>Monasterio Oliva, 9 - 31011 Pamplona</i>		89.00%	89.00%	100	(11)	—	(34)	103	G.I.	—
Telefónica Cable Extremadura, S.A. (SPAIN) (1) <i>Cable television systems and value-added services</i> <i>Piza. de la Soledad, 2 - 06001 Badajoz</i>		61.00%	61.00%	100	8	—	2	62	G.I.	—
Telefónica Cable Madrid, S.A. (SPAIN) (1) <i>Cable television systems and value-added services</i> <i>Virgilio, 12 - Edificio 2 - Ciudad de la Imagen (*) - 28223 Madrid</i>		56.00%	56.00%	100	(13)	—	(34)	71	G.I.	—
Telefónica Cable Castilla y León, S.A. (SPAIN) (1) <i>Cable television systems and value-added services</i> <i>Avda. de los Reyes Católicos, 38 - 09005 Burgos</i>		51.00%	51.00%	1,000	(56)	—	(75)	512	G.I.	—
Sociedad General de Cablevisión Canarias, S.A. (SPAIN) (1) <i>Cable television systems and value-added services</i> <i>Alcalde Mandillo Tejera, 8 - 38007 Santa Cruz de Tenerife</i>		51.00%	51.00%	205	(93)	—	(98)	96	G.I.	—
Telefónica Internet, S.A. (SPAIN) (**) <i>Internet access provider</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100.00%		100.00%	10	—	—	—	10	G.I.	—
Terra Networks, S.A. (SPAIN) (1) (g) <i>Provision and operation of telecommunications services</i> <i>Nicaragua, 54 - 08029 Barcelona</i>	36.27%	0.60%	36.87%	206,741	905,044	—	(92,380)	449,280	G.I.	—
Lycos Virginia, Inc. (USA) (9) (15) <i>Worldwide portal services</i> <i>400-2 Totten Pond Road - Waltham, MA 02451 - Massachusetts</i>		100.00%	36.87%	501	297,620	—	(9,449)	563,814	G.I.	—
Other holdings		N/D	N/D	N/D	N/D	N/D	N/D	36,938	E.M.	33,592
Other holdings		N/D	N/D	N/D	N/D	N/D	N/D	17,094	C.	17,094
Terra Networks Perú, S.A.C. (PERÚ) (1) <i>Internet-access provider and portal</i> <i>Los Sauces, 374 - Torre Roja - San Borja - Lima</i>		99.99%	36.87%	88	4,855	—	(1,933)	5,383	G.I.	—
Terra Networks Mexico Holding, S.A. De C.V. (MEXICO) (1) (g) <i>Holding company</i> <i>Antonio L. Rodriguez 1884, Monterrey - Nuevo Leon</i>		100.00%	36.87%	9,798	4,142	—	(13,710)	50,416	G.I.	—
Terra Networks Mexico, S.A. De C.V. (MEXICO) (1) (g) <i>Internet-access provider, portal and real-time financial information provider</i> <i>Ciudad de Monterrey - Nuevo Leon</i>		100.00%	36.87%	759	9,339	—	(10,532)	20,910	G.I.	—
Other holdings		N/D	N/D	N/D	N/D	N/D	N/D	175	C.	175
Terra Networks USA, Inc. (USA) (1) (g) <i>Holding company</i> <i>1201 Hays Street, Tallahassee - Florida</i>		100.00%	36.87%	1,248	5,767	—	(25,127)	6,904	G.I.	—

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DEPENDENT COMPANIES AND THEIR HOLDINGS	Ownership			Capital		Interim	Income	Gross Book	Consolidation	Value in
	Direct	Indirect	Telefónica Group	Stock	Reserves	Dividend	(Loss)	Value	Method	Consolidation (to)
Terra Networks Operation, Inc. (USA) <i>Development and management of Terra's business in U.S.A</i> 1201 Brickell Avenue Suite 700 - 33131 Miami - Florida		100.00%	36.87%	1	—	—	(47)	1	G. I.	—
Terra Networks Access Services USA Llc. (USA) <i>Internet -access provider</i> Miami - Florida		100.00%	36.87%	5,088	(80)	—	(4,221)	6,260	G. I.	—
Terra Networks Interactive Services USA Llc. (USA) <i>Internet content and e-commerce services</i> Miami - Florida		100.00%	36.87%	1	(128)	—	(10,060)	471	G. I.	—
Aremate.com, Inc. (USA) <i>Internet content and e-commerce</i> 1018 Centre Road, Wilmington - Delaware		29.50%	10.88%	72	8,447	—	(5,077)	7,942	E.M.	885
Terra Networks Guatemala, S.A. (GUATEMALA) (1) <i>Internet-access provider and portal</i> C/ Diagonal, 6 Edificio Las Margaritas II - Ciudad de Guatemala		100.00%	36.87%	1	82	—	(674)	731	G. I.	—
Terra Networks El Salvador, S.A. (EL SALVADOR) <i>Development of the Internet service in El Salvador</i> Nuevo San Salvador		99.99%	36.87%	1	N/D	N/D	N/D	1	G. I.	—
Centro de Investigación y Experimentación de la Realidad Virtual, S.L. (SPAIN) <i>Design of communications products</i> Plaza de Canalejas, 3 - 28014 Madrid		100.00%	36.87%	1	—	—	(1)	1,677	G. I.	—
Corporation Real Time Team, S.L. (SPAIN) (9) <i>Development, programming, publicity and consulting on the Internet</i> Almirante, 16 - Madrid		35.16%	12.96%	3	N/D	N/D	N/D	2,064	E.M.	141
Terra Networks Venezuela, S.A. (VENEZUELA) <i>Development of the Internet business in Venezuela</i> Caracas - Venezuela		100.00%	36.87%	921	25	—	(623)	922	G. I.	—
Telefónica Interactiva Brasil, Ltda. (BRAZIL) (1) (9) <i>Holding company</i> Rua de Consolação, 247, 6º - Sao Paulo		99.99%	36.87%	38,825	(6,215)	—	(28,123)	51,764	G. I.	—
Terra Networks Brasil, S.A. y subsidiarias (BRAZIL) (1) (9) <i>Internet-access provider and portal</i> Porto Alegre		100.00%	36.87%	9,386	24,890	—	(18,744)	38,946	G. I.	—
Terra Networks Argentina, S.A. (ARGENTINA) (1) <i>Internet-access provider and portal</i> Tucumán, 1, piso 17 - Ciudad de Buenos Aires		100.00%	36.87%	5,536	(213)	—	(2,624)	5,548	G. I.	—
Terra Mobile, S.A. (SPAIN) (9)		49.00%	18.07%	100	(33)	—	(9,274)	49	G. I.	—
Terra Networks España, S.A. (SPAIN) (12) <i>Provider of Internet-access under the Teletel brand name</i> Julián Camarillo, 6, 2º P. - 28037 Madrid		100.00%	36.87%	697	5,669	—	(5,397)	9,675	G. I.	—
Terra Networks Mexico Holding, S.A. De C.V. (MEXICO)		25.00%								
Terra Networks Colombia Holding, S.A. (COLOMBIA)		9.90%								
Terra Networks Guatemala, S.A. (GUATEMALA)		1.66%								
Ifigenia Plus, S.L. (SPAIN) <i>Culture and education software</i> Almagro, 12 - Madrid		100.00%	36.87%	24	141	—	(28)	1,988	G. I.	—
Terra Interactiva de Contenidos, S.A. (SPAIN) (1) <i>Inactive company</i> Avda. Dos Castillas, 33 - Comp. Ática Ed. 1, 1ª Pta. Pozuelo de Alarcón - 28224 Madrid		100.00%	36.87%	110	2,409	—	(118)	3,210	G. I.	—
Terra Networks Colombia Holding, S.A. (COLOMBIA)		9.90%								
Terra Networks Chile Holding Limitada (CHILE) (1) (9) <i>Holding company</i> C/ Moneda, 970, piso 12 - Santiago		100.00%	36.87%	13,991	(765)	—	(3,494)	13,991	G. I.	—
Terra Networks Chile, S.A. (CHILE) (1) <i>Internet-access provider and portal</i> C/ Moneda, 970, piso 12 - Santiago		100.00%	36.87%	3,264	(1,833)	—	(2,132)	9,519	G. I.	—
Ordenamiento de Links Especializados, S.L. (SPAIN) <i>Spanish-language Internet browser</i> Nicaragua, 54 - Barcelona		100.00%	36.87%	999	(588)	—	186	3,000	G. I.	—
Europa Press Comunicaciones, S.A. (SPAIN) <i>Gathering, preparation and dissemination of all kinds of information</i>		100.00%	36.87%	15	25	—	(39)	1,000	G. I.	—
Advertising Quality, S.L. (SPAIN) <i>Telematic media advertising and IT projects</i> Paseo de la Castellana, 210 - 28046 Madrid		100.00%	36.87%	2	—	—	—	1	C.	—

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DEPENDENT COMPANIES AND THEIR HOLDINGS	Ownership			Capital		Interim	Income	Gross Book	Consolidation	Value in
	Direct	Indirect	Telefónica Group	Stock	Reserves	Dividend	(Loss)	Value	Method	Consolidation (10)
Plataformas Temáticas Internet, S.L. (SPAIN) <i>Web creation and promotion of companies via the Internet</i> <i>Travessera de Gràcia, 342/ 344 - 08025 Barcelona</i>		40.00%	14.75%	1	—	—	—	—	C.	—
Red Universal de Marketing y Bookings On-Line, S.A. (SPAIN) <i>Tourism, passenger transport and hospitality services through the Internet</i> <i>Proción 1 y 3 La Florida - Madrid</i>		50.00%	18.44%	1,414	250	—	(654)	832	G.I.	—
Other holdings		N/D	N/D	N/D	N/D	N/D	N/D	9	C.	9
Terra Networks Uruguay (URUGUAY)		100.00%	36.87%	4	460	—	(435)	455	G.I.	—
Terra Networks Games, Co. (USA)		100.00%	36.87%	N/D	N/D	N/D	N/D	17	C.	17
Terra Global Management, Inc. (USA) <i>Corporate management in USA</i>		100.00%	36.87%	1	—	—	1	17	G.I.	—
Terra Networks Intangibles, S.A. (SPAIN) <i>Intangible asset holding and operating company</i> <i>Gran Vía, 28 - Madrid</i>		100.00%	36.87%	10	—	—	—	10	C.	10
Terra Networks Asociadas Extranjeras, S.A. (SPAIN) <i>Foreign securities holding company</i>		100.00%	36.87%	1,248	5,616	—	—	6,864	G.I.	—
Terra Networks Colombia Holding, S.A. (COLOMBIA) (1)		100.00%	36.87%	3	4,022	—	(615)	4,059	G.I.	—
LaCiudad.com (COLOMBIA) (1)		65.00%	23.97%	63	574	—	(462)	3,702	G.I.	—
Terra Networks Servicios de Acceso a Internet e Trading Ltd. (PORTUGAL) <i>Development of the Internet business</i> <i>Avda. Arriaga, 73-2º andar, sala 112 - Freguesia de Se, Concelho do Funchal</i>		100.00%	36.87%	N/D	N/D	N/D	N/D	2	C.	2
Inversis Valores y Bolsa, Sociedad de Valores, S.A. (SPAIN) <i>Securities company</i>		10.00%	3.69%	1,750	N/D	N/D	N/D	1	C.	1
Bumeran Participaciones, S.L. <i>Vertical employment and human resources portal</i>		83.20%	30.68%	919	(1)	—	(352)	1,454	G.I.	—
Electronic Trading System, S.A. (SPAIN) <i>Computer and telematic systems and software</i>		10.00%	3.69%	4,000	N/D	N/D	N/D	400	C.	400
Elabora tu Portal		50.00%	18.44%	N/D	N/D	N/D	N/D	835	G.I.	—
One Travel.com, Inc. (USA) <i>Travel reservations portal</i>		27.73%	10.23%	1	7,116	—	(6,006)	2,655	E.M.	305
A tu Hora, S.A. <i>e-commerce</i> <i>Avda. de Europa, 24 - Parque empresarial La Moraleja - Madrid</i>		50.00%	18.44%	433	499	—	(210)	715	G.I.	—
Telefónica Datacorp, S.A.U. (SPAIN) (*) (**) (1) (9) Provision and operation of telecommunications services Gran Vía, 28 - 28013 Madrid		100.00%	100.00%	13,069	14,125	—	(7,276)	21,775	G.I.	—
Telefónica Data Mexico (MEXICO) (1) <i>Global Telecommunication services</i> <i>Mexico</i>		94.50%	94.50%	2,795	(142)	—	(283)	2,653	G.I.	—
Optel Telecomunicaciones (MEXICO) (1) <i>Global Telecommunication services</i> <i>Sierra Santa Rosa, 61 - Lomas de Chapultepec - 11.650 Mexico City</i>		85.00%	85.00%	3,651	(2,226)	—	(319)	4,089	G.I.	—
Telefónica Data Holding, S.L. (SPAIN) (1) <i>Holding company</i> <i>Gran Vía, 28 - Madrid</i>		100.00%	100.00%	10,856	—	—	(7,954)	10,856	G.I.	—
European Telecom International GmbH (AUSTRIA) (1) <i>Alternative telecommunications operator</i> <i>Floragasse 7, A-1040 - Vienna</i>		100.00%	100.00%	12	2,780	—	(2,287)	8,956	G.I.	—
Telefónica Data Colombia, S.A. (COLOMBIA) (1) <i>Global Telecommunication services</i> <i>Santa Fé de Bogotá</i>		50.01%	50.01%	23	9	—	(562)	384	G.I.	—
Rey Moreno, S.A. (COLOMBIA) (1) <i>Global Telecommunication services</i> <i>101 AN 28-3F Santa Fé de Bogotá</i>		50.00%	50.00%	2,795	(142)	—	(283)	1,849	G.I.	—
Telefónica Data Brasil, S.A. (BRAZIL) (1) <i>Telecommunications services</i> <i>Rua da Consolação, 247 - 6 - Sao Paulo</i>		99.00%	99.00%	92	2	—	(34)	92	G.I.	—
Telefónica Datos de Venezuela, S.A. (VENEZUELA) (1) <i>Telecommunications services</i> <i>Caracas</i>		99.99%	99.99%	3	15	—	73	3	G.I.	—
Telefónica Data Canadá, Inc. (CANADA) (1) <i>Telecommunications services</i>		100.00%	100.00%	N/D	N/D	N/D	N/D	1	C.	1
Telefónica Data Business Commerce, Inc. (USA) <i>Telecommunications services</i>		100.00%	100.00%	N/D	N/D	N/D	N/D	1	C.	1

(*) Companies filing consolidated corporate income tax returns in 1999.

(**) Companies filing consolidated corporate income tax returns in 2000.

DEPENDENT COMPANIES AND THEIR HOLDINGS	Ownership			Capital		Interim	Income	Gross Book	Consolidation	Value in
	Direct	Indirect	Telefónica Group	Stock	Reserves	Dividend	(Loss)	Value	Method	Consolidation (to)
Telefónica Data USA (USA) (t) <i>Telecommunications services</i>		100.00%	100.00%	595	31,491	—	(3,295)	1	G. I.	—
Telefónica Data Licencing (USA) <i>Telecommunications services</i>		100.00%	100.00%	N/D	N/D	N/D	N/D	N/D	C.	N/D
Telefónica Data Uruguay, S.A. (URUGUAY) (z) <i>Provision and operation of telecommunications services</i> <i>Ituzaingo, 1393 Plta.3ª - 11.000 Montevideo</i>		100.00%	100.00%	23	9	—	(562)	22	G. I.	—
Telefónica Data Atlas, S.A. (MOROCCO) <i>Provision and operation of telecommunications services</i> <i>Tour Bmce, Rond Point Hassan II - Casablanca</i>		60.00%	60.00%	300 m.DH	—	—	—	3	C.	3
Telefónica Data Caribe (SPAIN) (t) <i>Global Telecommunication services</i> <i>Beatriz de Bobadilla, 14 - 28040 Madrid</i>		90.00%	90.00%	160	149	—	(177)	9	G. I.	—
Agencia de Certificación Electrónica, S.A. (SPAIN) (z) <i>Development of "Electronic notary" business through SET technology</i> <i>Sor Angela de la Cruz, 3 - 28020 Madrid</i>		85.00%	85.00%	1,627	215	—	(109)	817	G. I.	—
Atlantnet, S.p.a. (ITALY) (t) <i>Telecommunications services</i>		34.00%	34.00%	594	31,492	—	(3,295)	21,790	G. I.	—
Ipse - 2000 (ITALIA) (t)		N/D	N/D	N/D	N/D	N/D	N/D	42,927	C.	42,927
Telefónica Data España, S.A.U. (SPAIN) (*) (**) (t) <i>Data transmission</i> <i>Beatriz de Bobadilla, 18 - 28040 Madrid</i>		100.00%	100.00%	6,533	7,329	—	6,475	21,765	G. I.	—
Telefónica Sistemas, S.A. (SPAIN) (*) (**) (t) <i>Systems engineering, networks and telecommunications infrastructure</i> <i>Sor Angela de la Cruz, 3 - Pl. 9ª - 28020 Madrid</i>		100.00%	100.00%	1,403	3,619	—	(240)	5,022	G. I.	—
Telefónica Sistemas Ingeniería de Productos Guatemala, S.A. (GUATEMALA) (t) <i>Telecommunications systems and equipment engineering</i> <i>Guatemala</i>		98.00%	98.00%	1	—	—	(1)	1	G. I.	—
Telefónica Ingeniería de Comunicaciones, S.A. (SPAIN) (*) (**) (t) <i>Management and marketing of networks</i> <i>Goya, 4 - 28001 Madrid</i>		100.00%	100.00%	285	(101)	—	(8)	101	G. I.	—
Telefónica Sistemas El Salvador, S.A. de C.V. (EL SALVADOR) (t) <i>Provision of engineering and systems services</i> <i>San Salvador</i>		99.50%	99.50%	4	(16)	—	(1)	4	G. I.	—
T.S. Telefónica Sistemas de Portugal, S.A. (PORTUGAL) (z) (8) <i>Communications systems equipment engineering</i> <i>Praça de Albalade, 6 - 2ª A-1 - 1700 Lisbon</i>		87.50%	99.99%	51	(82)	—	—	43	C.	43
Interdomain, S.A. (SPAIN) (**) (t) <i>Fernando El Santo, 15 - 28.010 Madrid</i>		100.00%	100.00%	50	(13)	—	45	63	G. I.	—
Caser MVS (SPAIN) (z) <i>Virtual insurance market research</i> <i>Plaza de la Lealtad, 4 - 28014 Madrid</i>		49.00%	49.00%	580	(72)	—	(126)	264	E.M.	187
Gestión del Conocimiento, S.A. (SPAIN) (t) <i>Consulting and installation of Virtual Campuses for teaching</i> <i>Avda. Tibidabo, 39-43 - Barcelona</i>		24.00%	24.00%	30	64	—	21	31	E.M.	36
Casertel (SPAIN) (z) <i>Virtual insurance marketing</i> <i>Plaza de la Lealtad, 4 - 28014 Madrid</i>		15.00%	15.00%	500	1	—	—	75	C.	75
Euroinfomarket, S.A.		5.00%	5.00%	—	—	—	—	25	C.	25
Telefónica Media, S.A. (SPAIN) (*) (**) (t) Organization and operation of activities and businesses relating to multimedia services Jorge Manrique, 12 - 28006 Madrid	100.00%		100.00%	359,993	(18,349)	—	(95,569)	373,017	G. I.	—
Euroleague Marketing, S.L. (SPAIN) (t) <i>Exploitation of rights of the basketball Euroleague</i> <i>Jorge Manrique, 12 - 28006 Madrid</i>		70.00%	70.00%	10	—	—	(1,949)	7	G. I.	—
Rodven (VENEZUELA) <i>Record label and event organization</i>		51.00%	51.00%	2,459	(4,287)	—	(518)	8,531	C.	8,531
Telefónica Sport, S.A. (SPAIN) (**) (t) <i>Management and use of audiovisual rights in any media</i> <i>Jorge Manrique, 12 - 28006 Madrid</i>		100.00%	100.00%	10	—	—	(2)	10	G. I.	—
Telefónica Media Internacional y de Contenidos, S.A. (SPAIN) (*) (**) (t) <i>Operator of media services in Latin America</i> <i>Gran Vía, 28 - 28013 Madrid</i>		100.00%	100.00%	100	(609)	—	(1,547)	100	G. I.	—

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DEPENDENT COMPANIES AND THEIR HOLDINGS	Ownership			Capital		Interim	Income	Gross Book	Consolidation	Value in
	Direct	Indirect	Telefónica Group	Stock	Reserves	Dividend	(Loss)	Value	Method	Consolidation (10)
Telefónica Media Internacional y de Contenidos USA Inc. (USA) <i>Operator of media services in the USA</i> 1221 Brickell		100.00%	100.00%	783	(669)	—	(2,123)	702	G.I.	—
Telefónica Media Argentina, S.A. (ARGENTINA) (1) <i>Holdings in businesses of areas related to media</i> Tucumán, 1 Pta.17º - Buenos Aires		100.00%	100.00%	33,883	(3,304)	—	253	69,805	G.I.	—
AC Inversora, S.A. (ARGENTINA) (1) <i>Holdings in free-to-air television channels</i>		73.18%	100.00%	11,856	(3,295)	—	(6,859)	—	G.I.	—
Azul Tv (Telearte, S.A.) (ARGENTINA) (1) <i>Management of public T.V. service</i> Conde, 50 - C1426AYB Buenos Aires		50.00%	50.00%	32,097	(10,418)	—	(11,683)	5,061	E.M.	5,061
Atlántida Comunicaciones, S.A. (ARGENTINA) (1) (9) <i>Free-to-air television and radio</i> Tucumán, 1 Pta.20 - Buenos Aires		73.18%	100.00%	81,906	(6,380)	—	(76,321)	—	G.I.	—
Other holdings								N/D	E.M.	494
Torneos y Competencias, S.A. (ARGENTINA) (3) <i>Television producer and advertising agency</i> Balcarce 510 - Buenos Aires		20.00%	20.00%	8,358	20,689	—	2,042	13,612	E.M.	4,638
Telefónica Medios de Comunicación, S.A. (SPAIN) (*) (**) (1) <i>Holding of shares of companies in the media industry</i> Jorge Manrique, 12 - 28006 Madrid		100.00%	100.00%	26,300	(4,840)	—	(17,415)	15,338	G.I.	—
Gestora de Medios Audiovisuales de Fútbol, S.L. (SPAIN) (*) (**) (1) <i>Soccer rights</i> Jorge Manrique, 12 - 28006 Madrid		100.00%	100.00%	20,000	(5,940)	—	(16,672)	34,180	G.I.	—
Audiovisual Sport, S.L. (SPAIN) (3) <i>Holder of soccer rights</i> Avda. Diagonal, 477 Pº. 7º - Barcelona		40.00%	40.00%	9,035	(5)	—	(5,722)	14,274	E.M.	1,323
Telefónica Servicios Audiovisuales, S.A. (SPAIN) (*) (**) (1) <i>Audiovisual telecommunications services of all kinds</i> Virgilio, 2 - Edificio 2 - Ciudad de la Imagen (*) - 28223 Madrid		100.00%	100.00%	1,000	1,771	—	963	1,393	G.I.	—
Cadena Voz de Radiodifusión, S.A. (SPAIN) (**) <i>National chain of radio stations</i> Concepción Arenal, 11-13 - La Coruña		100.00%	100.00%	100	(224)	—	(43)	1,778	G.I.	—
Uniprex, S.A. (SPAIN) (**) (1) <i>National chain of radio stations</i> José Ortega y Gasset, 22 - Madrid		100.00%	100.00%	1,031	(27)	—	(2,506)	18,030	G.I.	—
Other holdings (1)		N/A	N/A	N/A	N/A	N/A	N/A	934	C.	934
Servicios de Teledistribución, S.A. (S.T. HILO) (SPAIN) (*) (**) (12) <i>Supply of services in the teledistribution industry</i> Luchana, 23, 1º - 28010 Madrid		100.00%	100.00%	210	514	—	95	297	G.I.	—
DTS Distribuidora de Televisión Digital, S.A. (SPAIN) (1) <i>Digital satellite T.V. services</i> Virgilio, 2 - Edificio 1 - Ciudad de la Imagen (*) - 28223 Madrid.		48.63%	48.63%	94,466	(33,940)	—	(42,222)	68,153	E.M.	8,901
Interocio Games, S.A. (SPAIN) <i>Leisure-related technology for distribution</i> Jorge Manrique, 12 - 28006 Madrid		50.00%	50.00%	250	—	—	(2)	125	E.M.	124
Producciones Multitemáticas, S.A. (SPAIN) (*) (**) (12) <i>Production, distribution, sale and purchase and operation of television and film productions</i> Virgilio, 2 - Edificio 2 - Ciudad de la Imagen (*) - 28223 Madrid.		100.00%	100.00%	2,000	(595)	—	(42)	2,000	G.I.	—
Factoría de Contenidos Digitales, S.A. (SPAIN) (**) (12) <i>Interactive audiovisual content</i> Jorge Manrique, 12 - 28006 Madrid		100.00%	100.00%	100	—	—	54	100	G.I.	—
Lola Films, S.A. (SPAIN) (1) <i>Film production</i> Velázquez, 12 - Madrid		70.00%	70.00%	2,100	681	—	74	2,168	G.I.	—
Other holdings (1)		—	—	—	—	—	—	377	C	377
Hispasat, S.A. (SPAIN) (2) (9) <i>Operation of a satellite telecommunications system</i> Gobelas, 41-45 - 28023 Madrid		22.74%	22.74%	18,312	3,007	—	3,011	4,541	E.M.	5,533
Antena 3 de televisión, S.A. (SPAIN) (1) <i>Management of public and satellite T.V. service.</i> Avda. Isla Graciosa, s.n. - San Sebastián de los Reyes - 28700 Madrid		47.42%	47.42%	27,731	29,050	—	20,090	52,817	E.M.	36,441
Patagonik Film Group, S.A. (ARGENTINA) (2) <i>Production of audiovisual content</i> Godoy Cruz, 1540 - 1414 Buenos Aires		30.00%	30.00%	744	(35)	—	4	1,428	E.M.	228

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DEPENDENT COMPANIES AND THEIR HOLDINGS	Ownership			Capital		Interim	Income	Gross Book	Consolidation	Value in
	Direct	Indirect	Telefónica Group	Stock	Reserves	Dividend	(Loss)	Value	Method	Consolidation (to)
Media Park, S.A. (SPAIN) (2) <i>Production of audiovisual content</i> <i>Pol.Ind., nº 1 c/Bullidor S/N - 08960 Sant Just Desvern - Barcelona</i>		25.00%	25.00%	2,228	13,915	—	(367)	10,500	E.M.	4,105
Pearson Plc. (U.K.) (2) <i>Publishing</i> <i>3 Burlington Gardens, London W1X 1LE</i>		4.88%	4.88%	52,371	872,165	(16,086)	23,201	125,971	E.M.	45,490
Endemol Entertainment Holding, N.V. (NETHERLANDS) (3) (9) <i>Production of audiovisual content</i> <i>Bonairelaan, 4 - 1213 Vh Hilversum - Netherlands</i>	99.20%	—	99.20%	131	4,149	—	10,762	137,739	G. I.	—
Other holdings (3)		N/A	N/A	N/A	N/A	N/A	N/A	N/A	E.M.	1,031
Telefónica Publicidad e Información, S.A. (SPAIN) (*) (2) <i>Publishing of directories and advertising in all types of media</i> <i>Avda. de Manoteras, 12 - 28050 MADRID</i>	59.87%	—	59.87%	3,063	4,590	—	11,793	615	G. I.	—
Goodman Business Press, S.A. (SPAIN) <i>Publishing of technical and professional publications in several industries</i> <i>Goya, 115-Madrid</i>		90.67%	54.28%	110	1,534	—	(31)	1,669	C.	1,669
Iniciativas de Mercados Interactivos, S.A.U. (SPAIN) <i>Development of telecommunications activities and, in particular, in the B2B sector</i> <i>Avda. de Manoteras, 12 - 28050 MADRID</i>		100.00%	59.87%	10	—	—	(17)	10	C.	10
Telefónica Publicidad e Información Internacional, S.A.U. (SPAIN) <i>Holding company</i> <i>Avda. de Manoteras, 12 - 28050 MADRID</i>		100.00%	59.87%	8,210	—	—	—	8,210	G. I.	—
Publiguias Holding (CHILE) <i>Impresora y Comercial Publiguias, S.A. (CHILE) (4)</i> <i>Publishing and sale of advertising. White and yellow pages</i> <i>Avda. de Santa María, 792 Santiago de Chile</i>		100.00%	100.00%	N/D	N/D	N/D	N/D	N/D	G. I.	—
Other holdings		N/A	N/A	N/A	N/A	N/A	N/A	42	C.	42
Telefónica Publicidade e Informação, Ltda. (BRAZIL) (2) <i>Publishing of directories and advertising in the states of Sao Paulo and Rio Grande do Sul</i> <i>Av. Paulista 1106 - Sao Paulo</i>		51.00%	30.53%	2,759	83	—	(1,055)	1,609	G. I.	—
Buildnet, S.A. (SPAIN) (2) <i>Creation, development, management and provision of on-line services</i> <i>Claudio Coello, 76 - Madrid</i>		46.35%	27.75%	40	(20)	—	(26)	3	E.M.	—
Guia Local Network, S.A. (BRAZIL) <i>City guide portal on the Internet</i> <i>Avda. Das Americas, 500 Bl. 6A - Rio de Janeiro</i>		20.00%	11.97%	4 M.Reales	—	—	—	260	E.M.	34
Eureedit, S.A. <i>Publication of European yearbooks</i> <i>Avda. Friedland, 9 - 75008 Paris (FRANCE) (*)</i>		5.00%	2.99%	3 m.FF	5 m.FF	—	4 m.FF	13	C.	13
Other holdings		N/A	N/A	N/A	N/A	N/A	N/A	14	C.	14
Venturini Española, S.A. (SPAIN) (*) (**) (2) <i>Printing, graphic arts and direct marketing</i> <i>Avda. de la Industria, 17 Tres Cantos - 28760 Madrid</i>	100.00%	—	100.00%	500	(41)	—	—	599	G. I.	—
Venturini, S.A. (SPAIN) (*) (**) (2) <i>Direct marketing</i> <i>Via Augusta, 117, 2º 1º - 08006 Barcelona</i>		100.00%	100.00%	30	14	—	(8)	34	G. I.	—
Other holdings		N/A	N/A	N/A	N/A	N/A	N/A	1	C.	1
Telefónica Internacional, S.A. (SPAIN) (*) (**) (1) (9) <i>Investment in the telecommunications industry abroad</i> <i>C/ Gran Vía, 28 - 28013 Madrid</i>	98.75%	1.25%	100.00%	119,007	154,505	—	120,320	217,713	G. I.	—
Telefónica Panamericana - MCI Holding, B.V. (NETHERLANDS) (1) <i>Holding company</i>		50.00%	50.00%	20 M.NLG	N/D	—	—	802	C.	802
Cablevisión, S.A. (ARGENTINA) (11) <i>Cable television</i>		35.86%	35.86%	163 M.Parg.	N/D	—	—	69,397	E.M.	21,709
Sao Paulo Telecomunicações Participações, S.A. (BRAZIL) <i>Telesp, S.A. - TELESP (BRAZIL) (1)</i>		96.00%	96.00%	520,891	—	—	22,098	557,461	G. I.	—
Telefónica Centroamericana, S.L. (SPAIN)		—	24.65%	529,314	720,998	—	144,736	20,900	G. I.	—
Telefónica Ibero Americana, Ltda. (BRAZIL)		51.00%	51.00%	84	(5)	—	—	80	C.	80
Telefónica Finance Limited (ISLE OF MAN) (1) <i>Finance</i>		100.00%	100.00%	46,797	612	—	5,567	48,609	G. I.	—
Telefónica Finance Limited (ISLE OF MAN) (1) <i>Finance</i>		100.00%	100.00%	1	9,567	—	3	1	G. I.	—
Telefónica del Perú Holding, S.A. (PERU) (1) <i>Holding company</i>		90.00%	90.00%	336,226	11,093	—	6,338	240,362	G. I.	—

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DEPENDENT COMPANIES AND THEIR HOLDINGS	Ownership			Capital		Interim Dividend	Income (Loss)	Gross Book Value	Consolidation Method	Value in Consolidation (10)
	Direct	Indirect	Telefónica Group	Stock	Reserves					
Telefónica del Perú, S.A. (PERU) (14) <i>Operator of local, long distance and internacional services in Peru Avda. Arequipa, 1155 Santa Beatriz - Lima</i>		43.92%	40.03%	164,831	56,747	—	20,956	33,182	G.I.	—
Telefónica Publicidade e Informação, S.A. (BRAZIL)		49.00%	49.00%	—	—	—	—	1,529	G.I.	—
Telefónica Internacional USA Inc. (USA) <i>1221 Brickell Avenue suite 600 - 33131 Miami - Florida</i>		100.00%	100.00%	2	(123)	—	148	1	G.I.	—
Telefonica International Holding, B.V. (NETHERLANDS) (1) <i>Holding company</i>		100.00%	100.00%	111,583	96,678	—	8,444	69,410	G.I.	—
Telefónica Chile Holding, B.V. (NETHERLANDS) (1) <i>Holding company</i>		100.00%	100.00%	5,712	9,212	—	8	N/D	G.I.	—
Telefónica Internacional de Chile, S.A. (CHILE) (4) <i>Holding company</i>		100.00%	100.00%	2,784	181,900	—	(6,941)	N/D	G.I.	—
Compañía de Telecomunicaciones de Chile, S.A. (C.T.C.) (CHILE) (4) <i>Operator of telecommunications services in Chile Avenida Providencia, 111 piso 29 Santiago de Chile</i>		43.64%	43.64%	213,380	198,593	—	(35,862)	N/D	G.I.	—
Impresora y Comercial Publiciguías, S.A. (CHILE) (4)		9.00%								
Compañía de Inver. en Telecomunicaciones, S.A. (ARGENTINA) <i>Holding company Tucumán, 1 P-18 Buenos Aires</i>		50.00%	50.00%	172,263	64,775	—	24,537	61,990	G.I.	—
Telefónica de Argentina, S.A. (ARGENTINA) <i>Telecommunications operator in southern Argentina Presidente Perón, 949 - piso 7 - 1038 Buenos Aires</i>		53.65%	27.21%	422,097	114,532	—	61,798	N/D	G.I.	—
Telefónica Venezuela Holding, B.V. (NETHERLANDS) (1) <i>Holding company</i>		100.00%	100.00%	4	(1,886)	—	2,731	N/D	G.I.	—
Venworld Telecom, C.A. (VENEZUELA) (13) <i>Holding company</i>		16.00%	16.00%	114,420 M.Bol.	N/D	N/D	N/D	N/D	E.M.	48,521
Cia. Anónima N. de Teléfonos de Venezuela, C.A. (CANTV) (VENEZUELA) (13) <i>Telecommunications operator Avenida Libertador, Centro Nacional de Telecomunicaciones, Piso 1 - 1226 Caracas</i>		43.19%	6.91%	340,677	483,132	—	(23,263)	N/D	E.M.	—
TYSSA, Telecomunicaciones y Sistemas, S.A. (ARGENTINA) <i>Telecommunications systems consulting Presidente Perón, 949 P-14 - 1038 Buenos Aires</i>		41.77%	41.77%	N/D	N/D	—	N/D	134	C.	134
Telefónica Larga Distancia de Puerto Rico, INC. (PUERTO RICO) (1) <i>Telecommunications operator Calle 1, Edificio n° 8. Metro Office Park. Sector de Buchanan. Guaynabo - Puerto Rico</i>		98.00%	98.00%	19,736	(1,917)	—	(2,332)	N/D	G.I.	—
Telecomunicaciones Ultramarinas de Puerto Rico (PUERTO RICO) <i>Telecommunications operator P.O.Box 10955 - 00922-0955 San Juan de Puerto Rico</i>		14.90%	14.90%	N/D	N/D	N/D	N/D	3,280	C.	3,280
Infonet Services Corporation (USA) (5) <i>Telecommunications operator 2100 East. Crand Avenue. El Segundo, California 90245 - 1022 USA</i>		14.32%	14.32%	184,075	(5,508)	—	2,236	N/D	E.M.	22,825
Belegginmaatschappij Koningsvijver I, B.V. (NETHERLANDS)		100.00%	100.00%	1	N/D	N/D	N/D	13	G.I.	—
Teléfonos de los Urales (TELUR) (RUSSIAN FEDERATION) <i>Telephone manufacturing</i>		5.00%	5.00%	6 M.Rub.	N/D	N/D	N/D	53	C.	53
Other holdings		N/A	N/A	N/A	N/A	—	N/A	N/D	E.M.	5,637
Other holdings		N/A	N/A	N/A	N/A	—	N/A	35,913	C.	29,699
Telefónica Servicios de Distribución, S.A. (SPAIN) (*) (**) <i>Provision of mail, directories and parcel distribution services C/ Gran Vía, 28 - 28.013 Madrid</i>	100.00%	—	100.00%	10	173	—	(236)	265	G.I.	—
Atento Holding Telecomunicaciones, S.A. (SPAIN) (*) (**) (1) <i>Holding company C/ Gran Vía, 28 - 28.013 Madrid</i>	100.00%	—	100.00%	1,008	15,591	—	(7,433)	17,719	G.I.	—
Telepizza, S.A. (SPAIN)		4.69%	4.69%	N/D	N/D	N/D	N/D	16,975	E.M.	16,975
Atento Holding, Inc. (USA) <i>Holding company 1013 Center Road, Wilmington - Delaware</i>	100.00%	—	100.00%	12,660	33,213	—	(931)	42,039	G.I.	—
Atento Telecomunicaciones España, S.A. (SPAIN) (*) (12) <i>Services, promotion, marketing and market surveys relating to direct marketing Santiago de Compostela, 94 - 7ª - 28035 Madrid</i>		100.00%	100.00%	230	3,671	—	1,456	5,000	G.I.	—
Tempotel, Empresa de Trabajo Temporal, S.A. (SPAIN) (*) (12) <i>Temporary employment agency Príncipe de Vergara, 28 Madrid</i>		100.00%	100.00%	10	67	—	66	10	G.I.	—

(*) Companies filing consolidated corporate income tax returns in 1999.

(**) Companies filing consolidated corporate income tax returns in 2000.

DEPENDENT COMPANIES AND THEIR HOLDINGS	Ownership			Capital		Interim	Income	Gross Book	Consolidation	Value in
	Direct	Indirect	Telefónica Group	Stock	Reserves	Dividend	(Loss)	Value	Method	Consolidation (to)
Gestión de Servicios de Emergencia y Atención al Ciudadano, S.A. (SPAIN) (12) <i>Information and communication systems for emergency situations</i> <i>Paseo Marítimo, 38 A - 1º E - 07014 Palma de Mallorca</i>		100.00%	100.00%	100	35	—	3	135	G. I.	—
Atento Brasil, S.A. (BRAZIL) (9) <i>Provision of call-center services</i> <i>Av. Maria Coelho de Aguiar, 215 - Bloco B, 8 - 05804-900 Sao Paulo</i>		100.00%	100.00%	27,844	(1,042)	—	(4,620)	29,619	G. I.	—
Atento Puerto Rico Inc. (PUERTO RICO) <i>Provision of call-center services</i> <i>Valencia Park calle 2 edificio 17 suite 600, Guaynabo - Puerto Rico 00968</i>		100.00%	100.00%	560	(134)	—	(1,123)	565	G. I.	—
Atento Colombia, S.A. (COLOMBIA) <i>Provision of call-center services</i> <i>Santa Fé de Bogotá</i>		100.00%	100.00%	1,673	(17)	—	(398)	1,694	G. I.	—
Atento Maroc, S.A. (MOROCCO) <i>Provision of call-center services</i> <i>Bd Abdelmoumen, Angle rue Errazi et Charles Lebrun - Casablanca</i>		99.87%	99.87%	5	6	—	(373)	5	G. I.	—
Atento Argentina, S.A. (ARGENTINA) <i>Provision of call-center services</i> <i>Avda. de Mayo, 645 P1º - Buenos Aires</i>		100.00%	100.00%	2	9	—	(408)	2	G. I.	—
Atento USA Inc (USA) <i>Provision of call-center services</i> <i>1001 Brickell Bay Drive P. 32º - Miami - Florida 33131</i>		99.99%	99.99%	161	349	—	154	815	G. I.	—
Atento Centroamérica, S.A. (GUATEMALA) <i>Provision of call-center services</i> <i>14 Calle 3-51 Zona 10 Edificio Murano Center 18 Nivel - Departamento de Guatemala</i>		100.00%	100.00%	500	(2)	—	(5)	494	G. I.	—
Atento de Guatemala, S.A. (GUATEMALA) <i>Provision of call-center services</i> <i>Ciudad de Guatemala</i>		100.00%	100.00%	163	(78)	—	(1,061)	175	G. I.	—
Atento El Salvador, S.A. de C.V. (EL SALVADOR) <i>Provision of call-center services</i> <i>Ciudad de San Salvador</i>		99.98%	99.98%	49	(30)	—	(446)	54	G. I.	—
Atento Guatemala Comercial, S.A. (GUATEMALA) <i>Provision of call-center services</i> <i>Ciudad de San Salvador</i>		100.00%	100.00%	1	(1)	—	30	1	G. I.	—
Atento Holding Chile, S.A. (CHILE) <i>Holding company</i> <i>Ciudad y Comuna de Santiago</i>		100.00%	100.00%	6,464	(454)	—	112	6,354	G. I.	—
Atento Chile, S.A. (CHILE) (9) <i>Provision of call-center services</i> <i>Diagonal Paraguay, 386 - Santiago de Chile</i>		99.99%	99.99%	2,565	(328)	—	(769)	2,396	G. I.	—
Atento Educación (CHILE) <i>Provision of call-center services</i> <i>Ciudad de Santiago de Chile</i>		99.00%	99.00%	1	1	—	(12)	1	G. I.	—
Atento Recursos (CHILE) <i>Provision of call-center services</i> <i>Ciudad de Santiago de Chile</i>		99.00%	99.00%	1	6	—	(81)	1	G. I.	—
Teleatento del Perú, S.A.C. (PERU) <i>Provision of call-center services</i> <i>C/ Jiron Camana, 650 - 01 Lima</i>		70.00%	70.00%	1,481	346	—	23	2,965	G. I.	—
Atento Asia Pacific (JAPAN) <i>Provision of call-center services</i> <i>Chiyoda-Ku - Tokyo</i>		99.50%	99.50%	17	(2)	—	1	17	G. I.	—
Atento Pasona (JAPAN) <i>Provision of call-center services</i> <i>Chiyoda-Ku - Tokyo</i>		69.99%	69.99%	875	(90)	—	(110)	580	G. I.	—
Atento Italia (ITALY) <i>Provision of call-center services</i> <i>Via Lamara, edif. D/2 - Roma</i>		100.00%	100.00%	2	—	—	(198)	2	G. I.	—
Atento Mexico (MEXICO) <i>Provision of call-center services</i>		100.00%	100.00%	1	1	—	(12)	1	G. I.	—
Atento Venezuela (VENEZUELA) <i>Provision of call-center services</i> <i>Caracas</i>		100.00%	100.00%	47	(6)	—	40	44	G. I.	—
Telefónica Investigación y Desarrollo, S.A. (TIDSA) (SPAIN) (*) (**) (3) Telecommunications research activities and projects Emilio Vargas, 6 - 28043 Madrid	100.00%		100.00%	1,000	4,478	—	1,029	1,000	G. I.	—

(*) Companies filing consolidated corporate income tax returns in 1999.

(**) Companies filing consolidated corporate income tax returns in 2000.

DEPENDENT COMPANIES AND THEIR HOLDINGS	Ownership			Capital		Interim Dividend	Income (Loss)	Gross Book Value	Consolidation Method	Value in Consolidation (10)
	Direct	Indirect	Telefónica Group	Stock	Reserves					
Telefónica North America, INC (USA) (3) <i>Financial intermediation</i> 1209 Orange Street, 19.801 Wilmington/New Castle County Delaware	100.00%		100.00%	1	1	—	—	1	G. I.	—
Telefónica Europe, B.V. (NETHERLANDS) (1) <i>Fund raising in capital markets.</i> Aert van Nesstraat 45, 4º 3000 AM Rotterdam - P.O. Box 548	100.00%		100.00%	8	333	—	290	8	G. I.	—
Inmobiliaria Telefónica, S.L. (SPAIN) (*) (**) (1) <i>Purchase, sale and lease of real estate</i> Gran Vía, 28 - 28013 Madrid	100.00%		100.00%	1,670	15,304	—	188	17,211	G. I.	—
Telefónica Procesos y Tecnología de la Información, S.A. (SPAIN) (*) (**) (3) <i>IT services</i> José Abascal, 4 - 28003 Madrid	100.00%		100.00%	499	218	—	269	500	G. I.	—
Urbana Ibérica, S.A. (SPAIN) (*) (**) (3) <i>Debt collection and management of the cash generated on the sale of land and buildings</i> C/ Gran Vía, 30 4ªPta. - 28.013 Madrid	100.00%		100.00%	264	(43)	—	1	14	G. I.	—
Telefónica de Argentina, S.A. (ARGENTINA) <i>Provision of telecommunications services</i> Tucumán, 1 - piso 18 - Buenos Aires	44.27%	48.60%	92.87%	450,790	150,566	—	54,573	243,343	G. I.	—
Telefónica del Perú, S.A. (PERU) (14) <i>Operator of local, long distance and internacional telephone services in Peru</i> Avda. Arequipa, 1155 Santa Beatriz - Lima	53.19%	40.03%	93.22%	175,355	65,042	—	26,982	124,190	G. I.	—
Telecomunicações de Sao Paulo, S.A. - TELESP (BRAZIL) (1) <i>Telecommunications services in Sao Paulo</i>	61.96%	24.65%	86.61%	597,219	829,100	—	133,067	744,643	G. I.	—
Emergia Holding, N.V. (NETHERLANDS) (9) <i>Provision of high bandwidth communications services</i>	93.68%		93.68%	66,100	(4,312)	—	(4,533)	8	G. I.	—
Emergia Uruguay, S.A. (URUGUAY) <i>Plza. Independencia, 811 P.B. - Montevideo</i>	100.00%		93.68%	N/D	N/D	N/D	N/D	53,489	G. I.	—
Emergia Argentina, S.A. (ARGENTINA)		100.00%	93.68%	N/D	N/D	N/D	N/D	N/D		
Emergia Brasil, S.A. (BRAZIL)		99.99%	93.67%	N/D	N/D	N/D	N/D	N/D		
Emergia Chile, S.A. (CHILE)		99.90%	93.59%	N/D	N/D	N/D	N/D	N/D		
Emergia Perú, S.A. (PERU)		99.99%	93.67%	N/D	N/D	N/D	N/D	N/D		
Telefónica SAM USA, Inc. (USA)		100.00%	93.68%	N/D	N/D	N/D	N/D	N/D		
Telefónica SAM Guatemala, Inc. (GUATEMALA)		99.99%	93.67%	N/D	N/D	N/D	N/D	N/D		
Telefónica SAM Puerto Rico, Inc. (PUERTO RICO)		100.00%	93.68%							
Telefónica USA, Inc. (USA) <i>e-commerce</i> 1221 Brickell Avenue - Miami - Florida 33131	100.00%		100.00%	—				—	C.	—
Telefónica Móviles, S.A. (SPAIN) (*) (9) <i>Holding company</i> Goya, 24 - Madrid	67.89%	24.26%	92.15%	318,095	554,322	—	13,906	251,713	G. I.	—
Telefónica El Salvador Holding, S.A. de C.V. (EL SALVADOR) <i>Holding company</i> Alameda Roosevelt y Avenida Sur. Torre Telefónica nivel 10 - San Salvador		51.00%	47.00%	22,618	(19)	—	(286)	6,123	G. I.	—
Telefónica El Salvador, S.A. de C.V. (EL SALVADOR) <i>Provision of wireless communications services</i> Alameda Roosevelt y Avenida Sur. Torre Telefónica nivel 10 - San Salvador		86.71%	40.75%	15,798	(3,519)	—	(4,047)	17,445	G. I.	—
Telefónica Brasil Sul Celular Participações, S.A. (BRAZIL) (1) <i>Holding company</i> Avda. José Bonifácio, 245, parte, Porto Alegre - Rio Grande Do Sul		59.27%	54.62%	56,915	1,339	—	(6,141)	41,798	G. I.	—
Celular CRT Participações, S.A. (BRAZIL) (1) <i>Holding company</i> Avda. José Bonifácio, 245, Farroupilha, Porto Alegre - Rio Grande Do Sul		45.69%	33.77%	11,796	41,091	—	6,159	18,800	G. I.	—
Celular CRT, S.A. (BRAZIL) <i>Provision of wireless communications services</i> Avda. José Bonifácio, 245, Farroupilha, Porto Alegre - Rio Grande Do Sul		100.00%	33.77%	39,089	13,534	—	6,230	58,112	G. I.	—
Ibero Leste Participações, S.A. (BRAZIL) <i>Holding company</i> Capital do Estado de Sao Paulo, na Rua da Consolação, 247-6º andar, sala 13-A		38.00%	35.02%	43,211	619	—	(1,971)	21,079	E.M.	—
Tele Leste Celular Participações, S.A. (Bahia Celular) (BRAZIL) (1) <i>Holding company</i> Avda. Antonio Carlos Magalhaes, 357, Pituba, na cidade de Salvador, Estado de Bahia		10.75%	9.90%	27,642	14,122	—	(975)	1,298	E.M.	3,064

(*) Companies filing consolidated corporate income tax returns in 1999.

(**) Companies filing consolidated corporate income tax returns in 2000.

DEPENDENT COMPANIES AND THEIR HOLDINGS	Ownership			Capital		Interim	Income	Gross Book	Consolidation	Value in
	Direct	Indirect	Telefónica Group	Stock	Reserves	Dividend	(Loss)	Value	Method	Consolidation (to)
Telebahia Celular, S.A. (BRAZIL) (t) <i>Provision of wireless communications services</i> <i>Avda. Antonio Carlos Magalhães, 357, Pituba, na cidade de Salvador, Estado de Bahia</i>			9.90%	32,387	4,674	—	(1,342)	N/D	E.M.	—
Telergipe Celular, S.A. (BRAZIL) (t) <i>Provision of wireless communications services</i> <i>Avda. Francisco Porto, 686, 13 de julho - Aracaju, Sergipe</i>			9.90%	3,136	285	—	(154)	N/D	E.M.	—
TCG Holdings, S.A. (GUATEMALA) <i>Holding company</i> <i>Bulevar Los Próceres 5-56 Zona 10 - Ciudad de Guatemala</i>		51.00%	47.00%	9,525	(19)	—	(55)	750	G. I.	—
Telefónica Centroamérica Guatemala, S.A. (GUATEMALA) <i>Provision of wireless communications services</i> <i>Bulevar Los Próceres 5-56 Zona 10 - Ciudad de Guatemala</i>		100.00%	47.00%	15,942	(1,582)	—	(6,619)	15,942	G. I.	—
Telescucha (GUATEMALA)		100.00%	47.00%	397	(180)	—	(10)	397	G. I.	—
Sudeste Cel Participações, S.A. (BRAZIL) <i>Holding company</i> <i>Avda. Brigadeiro Faria Lima, 3729-10º, andar-Parte, Sao Paulo</i>		82.50%	76.02%	123,158	365	—	(250)	125,474	G. I.	—
Tele Sudeste Celular Participações, S.A. (Rio Celular) (BRAZIL) (t) <i>Holding company</i> <i>Avda. Brigadeiro Faria Lima, 3729-10º, andar-Edificio Birman-29, Itaim-Bibi, Sao Paulo</i>		82.01%	75.57%	53,920	85,202	(3,469)	12,713	93,107	G. I.	—
Telerj Celular, S.A. (BRAZIL) (t) <i>Provision of wireless communications services</i> <i>Praia de Botafogo, 501-5º a 8º Andares, Botafogo - Rio de Janeiro</i>		100.00%	75.57%	35,700	37,064	(1,817)	8,181	N/D	G. I.	—
Telest Celular, S.A. (BRAZIL) (t) <i>Provision of wireless communications services</i> <i>Avda. Nossa Senhora da Penha - Praia do Canto, Vitoria - Espiritu Santo</i>		100.00%	75.57%	12,428	7,920	(441)	1,955	N/D	G. I.	—
Telefónica Móviles España, S.A. (SPAIN) (*) (**) (t) <i>Provision of wireless communications services</i> <i>Plaza de la Independencia, 6 - Pta. 5 - 28001 MADRID</i>		100.00%	92.15%	68,099	24,963	(9,983)	128,841	140,506	G. I.	—
Tagilo Participações, S.A.		100.00%	92.15%	31,835	—	—	1,192	32,396	G. I.	—
Telefónica Intercontinental, S.A. (SPAIN) (*) (**) (t) <i>Holding company</i> <i>Gran Vía, 28 - 28013 Madrid</i>		100.00%	92.15%	6,000	12,878	—	(21,518)	8,882	G. I.	—
Iberadvance, S.A. (PORTUGAL) <i>Management of holdings in companies, mainly in the telecommunications industry</i> <i>Avd. Alvaro Pais, 2 - Lisbon</i>		50.00%	46.08%	10 M.ESC	N/D	N/D	N/D	4	C.	4
Médi Telecom, S.A. (MOROCCO) <i>Provision of wireless communications services</i> <i>Tumbce, Rompoint Hassam II - Casablanca</i>		30.50%	28.11%	100	(3)	—	(33)	18,403	E.M.	19,933
3G Mobile Telecommunications, GmbH (AUSTRIA) <i>Provision of wireless communications services</i>		100.00%	92.15%	6	N/D	N/D	N/D	6	C.	6
Ipse 2000, S.p.A. (ITALY) <i>Installation and operation of third-generation wireless systems</i>		45.59%	42.01%	74,874	282,856	—	88	18	G. I.	—
Orla Slezehnte Vermögensverwaltung, GmbH and subsidiaries (GERMANY) <i>Network development and provision of third-generation telecommunications services</i>		57.20%	52.71%	8	353,480	—	—	181,547	G. I.	—
Telefónica Mobile Solutions, S.A.U. (SPAIN) (**) (t) <i>Consulting services in the Internet industry and wireless communications</i> <i>Gran Vía, 28 - Madrid</i>		100.00%	92.15%	10	—	—	20	10	G. I.	—
Telefónica Móviles USA, Inc. (USA) <i>Telecommunications consulting services</i> <i>1221 Brickell Avenue - Miami - Florida</i>		100.00%	92.15%	1	—	—	(124)	1	G. I.	—
Terra Mobile, S.A. (SPAIN) <i>Operation of content and services through WAP wireless telephony</i> <i>Gran Vía, 28 - Madrid</i>		51.00%	47.00%	100	(33)	—	(9,274)	51	G. I.	—
I.O.Box (FINLAND) (g) <i>Wireless portal and content provider</i> <i>Helsinki</i>		100.00%	47.00%	7	7,425	—	(5,470)	N/D	G. I.	—
Mobilpay International, S.A. (SPAIN) <i>Provision of payment services through wireless telephony</i>		50.00%	46.08%					2,500	C	2,500
Other holdings			N/A	N/A	N/A	N/A	N/A	280	C	280
Zeleris Soluciones Integrales, S.L. (SPAIN) <i>Global management and development of e-commerce in Portuguese- and Spanish-speaking countries</i>	100.00%		100.00%	1	N/D	N/D	N/D	1	G. I.	—

(*) Companies filing consolidated corporate income tax returns in 1999.

(**) Companies filing consolidated corporate income tax returns in 2000.

ASSOCIATED COMPANIES	Ownership			Capital	Interim	Income	Gross Book	Consolidation	Value in	
	Direct	Indirect	Telefónica Group	Stock	Reserves	Dividend	(Loss)	Value	Method	Consolidation (10)
Telefónica Factoring Establecimiento Financiero de Crédito, S.A. (SPAIN) (1) <i>Loans and credits (consumer and mortgage loans and commercial transactions)</i> <i>Pedro Teixeira, 8 - 28020 Madrid</i>	50.00%		50.00%	850	178		169	440	E.M.	599
Aliança Atlântica Holding B.V. (NETHERLANDS) <i>Holder of 950,000 Portugal Telecom, S.A. shares</i> <i>Strawinskylaan 1725, 1077 XX Amsterdam (*)</i>	50.00%	43.31%	93.31%	330 M.NLG	(2) M.NLG.		2 M.NLG.	3,656	E.M.	3,656
Torre de Colçerola, S.A. (SPAIN) (2) <i>Operation of a telecommunications mast and technical assistance and consulting services.</i> <i>Ctra. Vallvidrera-Tibidabo, s/nº - 08017 Barcelona</i>	42.00%		42.00%	2,000	57		7	845	E.M.	867
Sistemas Técnicos de Loterías del Estado, S.A. (SPAIN) (2) <i>Operation of a gaming terminal system for the Spanish State Gaming Organization</i> <i>Manuel Tovar, 9 - 28034 Madrid</i>	31.75%		31.75%	2,000	5,198		1,735	635	E.M.	2,836
Amper, S.A. (SPAIN) (6) (9) <i>Development, manufacture and repair of telecommunications systems and equipment and related components</i> <i>Torrelaguna, 75 - 28027 Madrid</i>	6.10%		6.10%	4,644	12,316	—	35	1,967	E.M.	1,037
Portugal Telecom, S.A. (PORTUGAL) (1) <i>Telecommunications operator</i> <i>Fontes Pereira de Melo, 40 - 1089 Lisbon</i>	3.83%	0.22%	4.05%	240,929 M.ESC.	293,934 M.ESC.		70,100 M.ESC.	45,364	E.M.	23,069

INVESTEES	Ownership			Capital	Interim	Income	Gross Book	Consolidation	Value in	
	Direct	Indirect	Telefónica Group	Stock	Reserves	Dividend	(Loss)	Value	Method	Consolidation (10)
Promoció de Ciutat Vella, S.A. (SPAIN) <i>Urban improvements in the Ciutat Vella of Barcelona</i> <i>Rambles, 77 - 08002 Barcelona</i>	3.57%		3.57%	2,800	N/D		N/D	24	C.	24
Catalana D'Iniciatives, C.R., S.A. (SPAIN) <i>Promotion of nonfinance entities</i> <i>Passeig de Gracia, 2 - 2ºB - 08007 Barcelona</i>	3.60%		3.60%	4,000	N/D		N/D	145	C.	145
Nexus Capital, S.A. (SPAIN) <i>Passeig de Gracia, 2 - 2ºB - 08007 Barcelona</i>	3.60%		3.60%	2,000	N/D		N/D	72	C.	72
I-CO Global Communications (HOLDINGS) Limited (U.K.)	0.03%		0.03%	N/D	N/D		N/D	1,002	C.	1,002
Other holdings	N/A	N/A	N/A	N/A	N/A		N/A	107,284	C.	107,284
TOTAL ASSOCIATED COMPANIES (Note 8)										382,959
TOTAL INVESTEES (Note 8)										230,097

(1) Company audited by Arthur Andersen.

(2) Company audited by Price & Cooper.

(3) Company audited by K.P.M.G. Peat Marwick.

(4) Company audited by Langton Clarke (Arthur Andersen Group).

(5) Company audited by Deloitte & Touche.

(6) Company audited by Ernst & Young.

(7) Company audited by Coopers & Lybrand.

(8) Companies in liquidation.

(9) Consolidated figures.

Amounts in foreign currencies: M=millions and m= thousands.

Provisional figures for associated companies and investees.

(10) This figure relates to the contribution to the Telefónica Group and not to the subgroups to which the contributing companies belong.

(11) Company audited by Pistrelli, Diaz & Asociados (Arthur Andersen Group).

(12) Company audited by B.D.O. Audiberia

(13) Company audited by Piernavieja, Porta, Cachafeiro & Asociados (Arthur Andersen Group).

(14) Company audited by Medina, Zalívar & Asociados (Arthur Andersen Group).

(15) Data as of July 31, 2000.

G.I. Companies consolidated by the global integration method.

P.I. Companies consolidated by the proportional integration method.

E.M. Companies carried by the equity method.

C. Investees.

N/D Information not available/No data.

N/A Not applicable.

EXHIBIT II

The changes in the consolidated Group in the periods ended December 31, 2000 and 1999, were as follows:

2000

Telefónica

In December Telefónica, S.A. issued 88,944,644 shares of €1 par value each, with additional paid-in capital of €10.230562 per share (see Note 11), which were fully subscribed and paid through the contribution to Telefónica, S.A. of 404,555,475 shares of the Argentine company CEI Citicorp Holdings, S.A. of 1 Argentinian peso par value each. Of the total number of shares of CEI Citicorp Holdings, S.A. contributed, 301,946,570 were contributed by Ami Tesa Holdings, Ltd. and 102,608,905 by International Equity Investments, Inc., respectively. Consequently, in proportion to their respective contributions, Ami Tesa Holdings, Ltd. and International Equity Investment, Inc. were allotted 66,385,284 and 22,559,360 of the new shares issued by Telefónica, respectively, which represent 1.53% and 0.52% of the capital stock of Telefónica, respectively. As a result of this transaction, Telefónica has an 80.91% direct holding in the capital stock of CEI Citicorp Holdings, S.A., which has a 50% ownership interest in the Argentine company Compañía de Inversiones de Telecomunicaciones, S.A., which in turn owns 52.88% of the capital stock of Telefónica de Argentina, S.A. and 26.82% of the capital stock of the Argentine companies Atlántida de Comunicaciones, S.A. and AC Inversora, S.A.

Subsequent to the conclusion of the share exchange transaction, the capital stock of CEI Citicorp Holdings, S.A. will be reduced by retiring its shares through the reimbursement of contributions to the other stockholders. Accordingly, Telefónica will become the sole stockholder of this company.

At year-end this company was consolidated by the global integration method.

Pursuant to the resolution adopted by the Board of Directors on January 12, 2000, on February 14, 2000, Telefónica Móviles S.A. was incorporated with an initial capital stock of €3,005,060. This company will group together all the Group's wireless communications businesses worldwide, which currently have a presence in Spain, Latin America, Europe and Maghreb, through an orderly process which will culminate in 2001. Subsequent to the admission to stock market listing of Telefónica Móviles in November 2000 through a public offering for subscription of shares, the Telefónica Group reduced its direct and indirect ownership interest in this company to the 92.15% it owned as of December 31, 2000. The gain on this transaction (Ptas. 482,404

million) is recorded under the «Gains on Disposal of Holdings in Consolidated Companies» caption in the accompanying consolidated statement of income. This company is consolidated by the global integration method.

In September Telefónica sold 11,415,264 common shares of the subsidiary Telefónica Publicidad e Información (TPI), which represented 3.1% of its capital stock. This transaction gave rise to a gain for the Telefónica Group of Ptas. 17,576 million, which is recorded under the «Gains on Disposal of Holdings in Consolidated Companies» caption in the accompanying consolidated statement of income. Following this transaction, Telefónica currently has a 59.87% ownership interest in the capital stock of TPI. This company continues to be consolidated by the global integration method.

In February Telefónica, S.A. sold a 6.1% holding in the capital stock of Amper, S.A. to the mutual funds European Renaissance Fund (ERF) and European Strategic Investors Holdings (ESIH) managed by Arlington Capital Investors Limited. The gain obtained by the Telefónica Group on this transaction amounted to Ptas. 904 million, and this amount is recorded under the «Gains on Disposal of Holdings in Consolidated Companies» caption in the accompanying consolidated statement of income. This company continues to be carried by the equity method on account of the 6.1% holding still owned by the Group.

In June 2000 Telefónica incorporated the U.S. company B2B Inc. with an authorized capital stock of US\$ 10.

In June Media Park, S.A. increased capital through the issuance of 55,704 new shares of Ptas. 10,000 par value each, with additional paid-in capital of Ptas. 178,498.5934 per share, which were subscribed in full by the Telefónica Group. As a result of this transaction, as of December 31, 2000, the Telefónica Media Group had a 25% holding in Media Park, S.A. This company is carried by the equity method in the financial statements of the Telefónica Group.

In May capital was increased through the issuance of 14,477,109 shares of €1 par value each, with additional paid-in capital of €8.5 per share (see Note 11), paid through nonmonetary contribution consisting of 163,395,785 shares of Vigil Corp and 35,562,211 shares of Ambient, representing 100% and 22.15%, respectively, of the capital stock of the two companies. As a result of this transaction, the Telefónica Group increased its holding in the Argentine company Atlántida Comunicaciones, S.A. from 26.80% to 62.58%. Subsequently, Telefónica Media acquired an additional 10.6% holding, thus bringing the Telefónica Group's total ownership interest in ATCO, including the portion owned by CEI, to 100%. Accordingly, this company was consolidated for the first time in the financial statements of the Telefónica Group by the global integration method.

On August 2 Telefónica, S.A. issued 213,409,097 new common shares of €1 par value each, with additional paid-in capital of €2.875 per share, which were assigned to the stockholders of Endemol Entertainment Holding, N.V., in exchange for shares representing 99.2% of the capital stock of this company (see Note 11), which was consolidated in the financial statements of the Telefónica Group by the global integration method.

In August and September the subsidiary Endemol Entertainment Holding, N.V. sold a 25.1% holding in the German Film and TV Distributor Helkon for a gain of Ptas. 7,569 million. Additionally, it sold a 26.44% holding in the Spanish internet portal I.P. Multimedia, S.A. (Telépolis), as a result of which it obtained a gain of Ptas. 319 million. These gains are recorded under the «Gains on Disposal of Holdings in Consolidated Companies» caption in the accompanying consolidated statement of income.

On July 4 Telefónica, S.A. issued 157,951,446 new shares of €1 par value each, with additional paid-in capital of €8.129 per share, which were assigned to the stockholders and holders of American Depositary Shares (ADS) of Telefónica de Argentina, S.A. who accepted the exchange offer, and represented 44.27% of the capital stock of this company (see Note 11). As a result of this transaction and following the acquisition of CEI Citicorp Holdings, S.A., the Telefónica Group has a direct and indirect ownership of 92.87% in the capital stock of this company. This company continues to be consolidated by the global integration method in the consolidated financial statements of the Telefónica Group.

On July 6 Telefónica, S.A. issued 90,517,917 new shares of €1 par value each, with additional paid-in capital of €2.995 per share, which were assigned to the stockholders and holders of American Depositary Shares (ADS) of Tele Sudeste Celular Participações, S.A. who accepted the exchange offer, and represented 68.41% of the capital stock of this company (see Note 11). Additionally, a corporate restructuring process was initiated at this company and its subsidiaries. In this context, in 2000 Tele Sudeste Celular Participações, S.A. increased capital through nonmonetary contributions aimed at the minority stockholders of the operators in which it has an ownership interest, Telerj and Telest. Consequently, Tele Sudeste Celular Participações, S.A. now owns all the shares of these companies. As a result of these transactions, as of December 31, 2000, the Telefónica Group had a direct and indirect holding, through its subsidiary Telefónica Móviles, of 75.57% in the capital stock of Tele Sudeste Celular Participações, S.A. This company continues to be consolidated by the global integration method in the consolidated financial statements of the Telefónica Group.

Also, on July 6 Telefónica, S.A. issued 371,350,753 new shares of €1 par value each, with additional paid-in capital of €10.91 per share, which were assigned to the stockholders and holders of American Depositary Shares (ADS) of Telecomunicações de São Paulo, S.A. who accepted the exchange offer, representing 61.96% of the capital stock of this company (see Note 11). As a result of this transaction, the Telefónica Group has a

direct and indirect holding of 86.61% in the capital stock of this company. This company continues to be consolidated by the global integration method in the consolidated financial statements of the Telefónica Group.

On July 11 Telefónica, S.A. issued 80,954,801 new shares of €1 par value each, with additional paid-in capital of €8.072 per share, which were assigned to the stockholders and holders of American Depositary Shares (ADS) of Telefónica del Perú, S.A.A. who accepted the exchange offer, and represented 53.12% of the capital stock of this company (see Note 11). As a result of this transaction, the Telefónica Group has a direct and indirect holding of 93.22% in the capital stock of this company. This company continues to be consolidated by the global integration method in the consolidated financial statements of the Telefónica Group.

In July Telefónica, S.A. incorporated the Dutch company Emergia Holding, N.V. and subscribed and paid in full the initial capital stock of the new company, which amounted to €46,000.

On July 27, 2000, Telefónica, S.A. subscribed in full the capital increase at Emergia Holding, N.V. for Ptas. 53,489 million, which was paid through a nonmonetary contribution consisting of all the shares of Emergia Uruguay, S.A.

On September 28, 2000, Emergia Holding, N.V. carried out an additional capital increase through the issuance of 18,876,405 shares of €0.10 par value each which, under the agreements entered into with Tyco Gamma Ltd., was subscribed and paid in full by the latter. The gain of Ptas. 5,518 million arising from this transaction is recorded under the «Gains on Disposal of Holdings in Consolidated Companies» caption in the accompanying consolidated statement of income. Following this transaction, the capital stock of Emergia Holding consists of 298,876,415 shares of €0.10 par value each, in which Telefónica has a direct ownership interest of 93.68%. This company was included in the consolidated financial statements of the Telefónica Group by the global integration method.

Utilicare Servicios Asistenciales, S.A., in which Telefónica Consultora de Proyectos, S.A., a wholly-owned subsidiary of Telefónica, S.A., had a 70% ownership interest, was liquidated in the first quarter of 2000. The company, which was consolidated in the financial statements of the Telefónica Group by the global integration method, was excluded from the scope of consolidation of the Telefónica Group.

In January Telefónica, S.A., under the agreements entered into with Banco Bilbao Vizcaya Argentaria, S.A., sold to the latter a 3% holding in the capital stock of Terra. The gain on this transaction for the Telefónica Group amounted to Ptas. 75,474 million and was recorded under the «Gains on Disposal of Holdings in Consolidated Companies» caption in the accompanying consolidated statement of income.

In December Telefónica acquired 3,386,172 shares of Terra Networks, representing 0.545% of the capital stock of this company. This company, in which the Telefónica Group has a direct and indirect holding of 36.87%, continues to be consolidated by the global integration method in the consolidated financial statements of the Telefónica Group.

TELEFÓNICA PUBLICIDAD E INFORMACIÓN, S.A.

On January 20, 2000, Telefónica Publicidad e Información, S.A. (TPI) acquired the remaining 24.6% holding in TMP Worldwide España (TMP), making it the sole stockholder of this company. On November 23, 2000, TMP increased capital by Ptas. 55 million, with additional paid-in capital of Ptas. 1,540 million, and the increase was subscribed in full by TPI through a nonmonetary contribution consisting of 941 shares of International Publishing Group 2000, S.L. (IPG).

Previously, on July 19, 2000, TPI had acquired a 90.48% holding in IPG for Ptas. 1,597 million through a monetary contribution of Ptas. 353 million and a nonmonetary contribution consisting of 414,831 shares of TPI amounting to Ptas. 3 million and additional paid-in capital of Ptas. 1,241 million.

On December 29, 2000, International Publishing Group 2000, S.L. was merged into Goodman Business Press, S.A.U (Goodman), as a result of which the latter acquired all the assets and liabilities of the two companies. On that same date TMP merged with the post-merger company, acquired all its assets and liabilities and changed the company's name to Goodman.

TPI incorporated Telefónica Publicidad e Información Internacional, S.A.U. (TPI Internacional), a company which is wholly owned by TPI and whose corporate purpose is to manage securities representing the stockholders' equity of entities which are not resident in Spain.

As of December 31, 2000, TPI Internacional owned a 51% holding in the Chilean company Publiguías Chile (through its ownership interest in Publiguías Holding, S.A). Both companies are consolidated by the global integration method.

On October 30 Telefónica Publicidade e Informação Ltda. increased capital by 30 million Brazilian reais, 51% of which were subscribed by TPI.

TERRA NETWORKS GROUP

In March the Terra Group acquired an additional 5% holding in the capital stock of Terra Networks Guatemala, S.A., for which it paid US\$ 500,000. With this acquisition, the Terra Group owns all the shares of this company, which continues to be consolidated by the global integration method in the financial statements of the Telefónica Group.

In January the Terra Group participated in the incorporation of Electronic Trading System, S.A. Terra has a 10% holding in this company's capital stock, which amounts to €24,040,482. This company was recorded at acquisition cost.

Terra Networks Venezuela, S.A., a company wholly owned by Terra Networks, was incorporated on February 2, 2000, with an initial capital stock of 640,000 Venezuelan bolivares. Terra Networks Venezuela S.A. owns the Terra (formerly Chévere) portal in Venezuela, which was acquired for US\$ 4 million. Both companies are consolidated by the global integration method.

Terra Networks Colombia Holding, S.A. was incorporated on March 30, 2000. The Terra Networks Group owns, directly or indirectly, 99.9% of the capital stock of this company.

In July Terra Networks Colombia Holding, S.A. acquired a 65% holding in LaCiudad.com, S.A. for US\$ 20 million. Both companies are consolidated by the global integration method.

In March Terra, together with Amadeus Global Travel Distribution, S.A., incorporated Red Universal de Marketing y Bookings Online, S.A. (RUMBO), with a capital stock of Ptas. 166 million. Terra and Amadeus Global Travel Distribution, S.A. each have a 50% holding in this company, for which they each paid Ptas. 83 million. The company was included in the consolidated financial statements of the Telefónica Group by the global integration method.

In March Terra acquired all the shares of Terra Networks Uruguay, S.A. (which through this date had been called Stener, S.A.), whose capital stock totaled Ptas. 1 million. This company is consolidated by the global integration method.

In December 2000 capital was increased by US\$ 2,440 million through the conversion of accounts payable to Terra Networks, S.A. into capital.

In February 2000 the subsidiary Terra Networks USA, Inc. acquired for US\$ 45 million a minority interest in Aremate.com Inc., the leading on-line auction company in Latin America. DeRemate.com, a website where millions of people can contact each other in order to perform purchase and sale transactions, commenced operations in Argentina on August 31, 1999.

In April 2000 Terra entered into an agreement with TelePizza, S.A. to set up a joint venture to engage in the marketing, through communication networks such as the Internet or wireless telephony, of products such as books, videos, CDs, prepaid phonecards, entertainment products, etc., with distribution and delivery times ranging from 1 to 24 hours. The agreement also stipulates that Terra will participate in the telemarketing and telephone assistance services provided by the joint venture. In July 2000 Terra and TelePizza incorporated A Tu Hora, S.A., in which they each have a 50% holding, with a capital stock of €2.6 million and stockholders' equity of €5.6 million.

In June Terra, through its wholly-owned subsidiary Terra Networks España, S.A. (formerly Telefónica Servicios y Contenidos por la Red, S.A.), acquired an additional 90% holding in Ifigenia Plus for Ptas. 1,988 million and consequently owns all the shares of this company. Ifigenia Plus is consolidated by the global integration method. In December 2000 capital was increased by US\$ 2,440 million through the conversion of accounts payable to Terra Networks into capital.

In July Terra increased capital through the issuance of 3,750,000 ordinary shares of €2 par value each, with additional paid-in capital of €9 per share, subscribed and paid in full through nonmonetary contributions consisting of holdings of 49% and 10% in the capital stock of the U.S. companies Terra Networks Access Services USA LLC. and Terra Networks Interactive Services USA LLC., respectively. With this transaction Terra owns all the shares of these two companies, which continue to be consolidated by the global integration method.

In September Terra Networks increased the par value of its capital stock by €70,967,742 through the issuance of 35,483,871 new ordinary shares of €2 par value each and additional paid-in capital of €60 per share. Telefónica S.A. subscribed and paid 35,380,101 shares.

In October Terra increased the par value of its capital stock by €604,063,948, through the issuance of 302,031,974 shares of €2 par value each, of the same series and carrying the same rights as the shares currently in circulation, with additional paid-in capital of €9 per share.

The purpose of this capital increase was to acquire the U.S. company Lycos Virginia, Inc., the successor of Lycos, Inc., through a share exchange transaction whereby Terra Networks, S.A. acquired all the shares of Lycos Virginia, Inc. and the stockholders of this company received shares of Terra Networks at an exchange ratio of 2.15 Terra Networks shares for each share of Lycos Virginia. The acquisition cost of these shares amounted to Ptas. 563,813 million (approximately €3,388,584,000). This company is consolidated by the global integration method.

Also, in September Ordenamiento de Links Especializados, S.L., a wholly-owned subsidiary of Terra Networks, acquired a 50% holding in Europa Press Comunicaciones, S.A. for Ptas. 1,000 million. In turn, Europa Press Comunicaciones, S.A. has a 50% holding in Advertising Quality, S.L. and, accordingly, Terra Networks directly and indirectly owns all the shares of Advertising Quality, S.L. Both this company and Europa Press Comunicaciones, S.A. are included in the consolidated financial statements of the Telefónica Group by the global integration method.

On December 13, 2000, Terra and Bumeran.com International Holdings, Ltd. entered into an agreement whereby Terra acquired 83.2% of this corporate group for Ptas. 1,453 million. Bumeran.com, which is a vertical employment and human resources portal, was formed and officially launched in Argentina in August 1999. This company is consolidated by the global integration method.

In December 2000 Terra Networks acquired a 27.73% holding in OneTravel.com, Inc. for Ptas. 2,655 million. This company is carried by the equity method.

On June 13, 2000, Terra Networks participated in the incorporation of Inversis Valores y Bolsa, Sociedad de Valores, S.A., in which it has a direct and indirect holding of 10%. This company is recorded at acquisition cost.

On July 1, 2000, Donde Latinoamericana, S.A. and Netgocios, S.A. were merged into Terra Networks Argentina, S.A., which continues to be consolidated by the global integration method.

In 2000 Terra Networks Operation, Inc. and Terra Networks Games Co., wholly-owned subsidiaries of the Terra Networks Group, were incorporated. Terra Networks Operation, Inc. was included in the consolidated financial statements of the Telefónica Group by the global integration method and Terra Networks Games Co. was recorded at acquisition cost.

TELEFÓNICA INTERNACIONAL GROUP

The Telefónica Internacional Group sold a 0.27% holding in the U.S. company Infonet Services Corporation. The gain obtained by the Group on this transaction amounted to Ptas. 4,017 million, and this amount is recorded under the «Gains on Disposal of Holdings in Consolidated Companies» caption in the accompanying consolidated statement of income. This company continues to be carried by the equity method.

In June Telefónica de Argentina, S.A., a Telefónica Group subsidiary, sold all the shares of Radio Llamada SACI for a gain of Ptas. 78 million, and this amount is recorded under the «Gains on Disposal of Holdings in Consolidated Companies» caption in the accompanying consolidated statement of income. This company was excluded from the scope of consolidation of the Telefónica Group.

In July Compañía de Telecomunicaciones de Chile, S.A., in which the Telefónica Internacional Group has a 43.64% holding, sold a 40% ownership interest in CTC Metrópolis-Intercom, for a gain of Ptas. 2,393 million, and this amount is recorded under the «Gains on Disposal of Holdings in Consolidated Companies» caption in the accompanying consolidated statement of income. This company was excluded from the scope of consolidation of the Telefónica Group in 2000.

On August 7, 2000, the Telefónica Internacional Group sold its CRT Fija shares, which represented a 16.7% holding in the capital stock of this company, at a gain of Ptas. 9,983 million, and this amount is recorded under the «Gains on Disposals of Holdings in Consolidated Companies» caption in the accompanying consolidated statement of income. This company was excluded from the scope of consolidation of the Telefónica Group.

In September Compañía de Telecomunicaciones de Chile, S.A., a Telefónica Internacional Group subsidiary, acquired a 20% holding in Empresas de Tarjetas Inteligentes, S.A. for Ptas. 26,390 million. This company is carried by the equity method.

Pursuant to certain agreements entered into at the beginning of 2000 relating to the future sale of Cablevisión, S.A., in 2000 this company was recorded in the financial statements of the Telefónica Group at the underlying book value recorded in December 1999 (Cablevisión, S.A. was carried by the equity method in 1999).

In December 1999 Telesp acquired a 72.6% holding in CETERP (Centrais Telefônicas de Ribeirão Preto, S.A.), which was recorded at cost in the financial statements of the Telefónica Group. CETERP was consolidated by the global integration method from January 3, 2000, the date on which Telesp took control of the company. In December 2000 this company sold its subsidiary CETERP Celular for a gain of Ptas. 7,796 million, and this amount is recorded under the «Gains on Disposal of Holdings in Consolidated Companies» caption. Subsequently, CETERP was merged into its parent company Telesp.

In November 2000 various corporate and restructuring transactions at SP Telecomunicações Holding, S.A. gave rise to increases in Telefónica Internacional, S.A.'s ownership interest in this company. The most noteworthy of these transactions was that carried out on November 27, when the stock swap agreement entered into on July 19, 2000, by Telefónica Internacional, S.A. and Portugal Telecom, S.A. was materialized, whereby Telefónica Internacional, S.A. acquired an additional 23% holding in SP Telecomunicações Holding, S.A. (which controls Telesp) that was owned by the Portugal Telecom Group, in exchange for its direct and indirect ownership interest of 35.8% in Portelcom Participações, S.A. (the holding company which controls Telesp Celular, S.A.) and for a cash payment of US\$ 59.8 million within the stipulated time periods.

In November 2000 Telefónica Internacional, S.A. acquired all the shares of Communication Technology Inc., a company whose registered office is in Miami (USA), for US\$ 16 million. This company was recorded at the acquisition cost of the shares and the effect of its consolidation in the accompanying financial statements was not material.

TELEFÓNICA MEDIA GROUP

In 2000 DTS Distribuidora de Televisión Digital, S.A. increased capital by Ptas. 31,489 million. Telefónica Media, S.A., a wholly-owned subsidiary of Telefónica, S.A., subscribed to this capital increase, but acquired a number of shares lower than that which corresponded to it and, accordingly, its holding in DTS decreased to 48.63%. This company continues to be carried by the equity method.

In 2000 Telefónica Media, S.A. acquired 344,625 shares of Antena 3 TV, thereby increasing its holding in the company to the current 47.42%. This company continues to be carried by the equity method.

In 2000 Interocio Games, S.A. and the Argentine company Patagonik Film Group, S.A., in which Telefónica Media has holdings of 50% and 30%, respectively, were carried by the equity method.

Producciones Multitemáticas, S.A., a wholly-owned subsidiary of Telefónica Media, incorporated Factoría de Contenidos Digitales, S.A., by subscribing and paying in full its initial capital stock, which amounted to Ptas. 10 million. The company was consolidated in the financial statements of the Media Group by the global integration method.

In 2000 the Telefónica Media Group subscribed and paid shares representing 70% of the capital stock of Euroleague Marketing, S.L. for Ptas. 7 million. This company was included for the first time in the financial statements of the Telefónica Group by the global integration method.

Telefónica Media incorporated Telefónica Sport, S.A. by subscribing all the capital stock of this company and paying 25% thereof. This company was consolidated for the first time in the financial statements of the Telefónica Group by the global integration method.

Telefónica Media acquired shares representing 51% of the capital stock of the Venezuelan Rodven Group for Ptas. 8,531 million. This company was recorded at acquisition cost.

TELEFÓNICA DATACORP GROUP

On February 22, 2000, Telefónica Data Atlas, S.A. was incorporated with a capital stock of 300,000 dirham, 60% of which was subscribed by Telefónica Datacorp, S.A. This company was recorded at acquisition cost.

On March 31, 2000, the Stockholders' Meeting of Telefónica Data México, S.A. de C.V. resolved to increase capital. As a result of this capital increase, as of December 31, 2000, the value of the company's holding in Telefónica Data México, S.A. de C.V. amounted to Ptas. 2,653 million.

On April 27, 2000, Telefónica Data México, S.A. de C.V. acquired an 85% holding in Optel Telecomunicaciones, S.A. de C.V. for Ptas. 2,730 million. On August 18, 2000, the Stockholders' Meeting of Optel Telecomunicaciones, S.A. de C.V. resolved to increase capital by 51,300,000 Mexican pesos. On December 15, 2000, the Stockholders' Meeting of the aforementioned company resolved to increase capital by a further 57,000,000 Mexican pesos. Telefónica Data Holding, S.L. and Telefónica Datacorp subscribed shares representing 10% and 15% of these capital increases, respectively. The Controlling Company intends to transfer its holding in 2001 to Telefónica Data Holding, S.L. Both companies are consolidated by the global integration method.

In 2000 the Colombian dependent companies Rey Moreno, S.A. and Telecomunicaciones Ganaderas, S.A., in which Telefónica Datacorp, S.A. has holdings of 50% and 50.01%, respectively, were consolidated by the global integration method (in 1999 they had been carried by the equity method).

In 2000 investments were made in Telefónica Data Brasil, S.A., Telefónica Data USA, Telefónica Data Canadá, Inc., and Telefónica Data Licensing, all of which are wholly owned by the Data Group. Telefónica Data Brasil, S.A. and Telefónica Data USA were consolidated in the financial statements of the Data Group by the global integration method. Telefónica Data Canadá, Inc. and Telefónica Data Licensing were recorded at acquisition cost.

Telefónica Datacorp, S.A., ACEA and the Fiat Group entered into an agreement to create the company ATLANET through the merger of ACEA and Telexis. Since December 28, the date on which ACEA and Telexis were merged into the single post-merger company ATLANET, Telefónica Datacorp, S.A., ACEA and Fiat-Ifil have had holdings in this new company of 34%, 33% and 33%, respectively. To this end, the following measures were taken:

- On September 1, 2000, Telefónica Datacorp, S.A. acquired a 30% holding in Telexis Spa., a Fiat Group company. On October 20 ACEA acquired 11.44% of its own shares from Telefónica Datacorp, S.A., which had a 49% ownership interest in ACEA (also acquired in 2000).

The company emerging from these transactions, ATLANET, Spa., was consolidated in 2000 by the global integration method.

On December 20 Telefónica Datacorp, S.A. subscribed 89.6% of the capital increase at Agencia de Certificación Electrónica (ACE), a company in which it had a 40% holding. Telefónica Datacorp, S.A. thus increased its ownership interest in ACE to 85%.

On October 17 Telefónica Data Holding, S.L. was formed. All of the shares of the new company were subscribed by Telefónica Datacorp through a nonmonetary contribution consisting of holdings in European Telecom International, A.G., Rey Moreno, S.A., Telefónica Data Colombia, S.A., Telefónica Datos de Venezuela, S.A., Telefónica Data Brasil, Ltda. and an 11% holding in ACEA Telefónica, Spa. As of December 31, 2000, the total value of this contribution amounted to Ptas. 10,856 million.

TELEFÓNICA DE ESPAÑA GROUP

In June 2000, Telefónica de España, a company wholly-owned by Telefónica, S.A., sold to Radiotrónica, S.A. all the shares of Telefónica Sistemas Ingeniería de Productos, S.A. (TSIP) for Ptas. 25,936 million, giving rise to a gain for the Group of Ptas. 23,602 million, and this amount is recorded under the «Gains on Disposal of Holdings in Consolidated Companies» caption in the accompanying consolidated statement of income. This company was excluded from the scope of consolidation of the Telefónica Group.

In March Telefónica Soluciones Sectoriales, S.A., a wholly-owned subsidiary of Telefónica de España, sold its 71% holding in the capital stock of SOS Alzheimer, S.A. Accordingly, this company, which was consolidated in the financial statements of the Telefónica Group by the global integration method, was excluded from consolidation, giving rise to a loss of Ptas. 59 million, and this amount was recorded under the «Losses on Disposal of Holdings in Consolidated Companies» caption.

Telefónica Soluciones Sectoriales, S.A. also sold all the shares it owned of ZZJ Mundovisión. In March and in June it sold holdings of 18.75% and 6.25%, respectively, giving rise to a loss for the Telefónica Group of Ptas. 69 million, and this amount was recorded under the «Losses on Disposals of Holdings in Consolidated Companies» caption in the accompanying consolidated statement of income. This company was excluded from the scope of consolidation of the Telefónica Group.

Telefónica de España incorporated Iberwap, S.A.U. with an initial capital stock of Ptas. 10 million. In December the company increased capital by Ptas. 260 million, and the increase was fully subscribed and paid by Telefónica de España.

TELEFÓNICA MÓVILES GROUP

In the second half of 2000 Telefónica Móviles, directly and indirectly, through its wholly-owned subsidiary Telefónica Intercontinental, S.A. formed consortiums with other operators, which obtained the following licenses to provide third-generation wireless telephony (UMTS) services in Germany, Italy and Austria:

- **Germany:** in August the consortium ORLA, through its subsidiary Marabu, which is 57.2% owned by Telefónica Móviles, obtained one of the six licenses granted for Ptas. 1.4 billion (€8,471 million). The investment made by Telefónica Móviles amounted to approximately Ptas. 201,490 million. ORLA was consolidated by the global integration method.
- **Italy:** in October the consortium IPSE 2000, led by Telefónica Móviles with an ownership interest of 45.59%, obtained one of the two broader-band licenses granted for Ptas. 543,915 million (€3,269 million). Atlanel, which is 34% owned by the Telefónica Group, has a 12% ownership interest in this consortium. Accordingly, the Telefónica Group's effective ownership interest in this consortium is 46.09%. The investments made by Telefónica Móviles and Atlanel, S.A. amounted to Ptas. 163,058 million and Ptas. 42,927 million, respectively.

IPSE 2000 is consolidated by the global integration method, since the Telefónica Group has the power to appoint a majority of the members of its Board of Directors.

- **Austria:** in November 3G Mobile Telecommunications GmbH, wholly-owned by Telefónica Móviles with a capital stock of approximately Ptas. 6 million, obtained a two-band frequency license for Ptas. 19,533 million (€117 million).

This company was consolidated by the global integration method.

Telefónica Móviles incorporated Telefónica Móviles USA, S.A. with an initial capital stock of US\$10, subscribed and paid in full by Telefónica Móviles. This company is included in the consolidated financial statements of the Telefónica Group by the global integration method.

On April 14, 2000, Telefónica Mobile Solutions S.A. was incorporated with a capital stock of €60,110. This company, which is wholly owned by the Group, was consolidated by the global integration method.

At the end of 2000 Tele Sudeste Celular Participações, S.A. and Tele Leste Celular Participações, S.A. acquired, through a capital increase with a share exchange, the holdings in their operator subsidiaries owned by minority stockholders, thereby increasing their holdings in these companies to 100%. Following this transaction, Telefónica Móviles's holdings in Tele Sudeste Celular Participações, S.A. and Tele Leste Celular Participações, S.A. amounted to 82.01% and 10.75%, respectively.

Tele Sudeste Celular Participações, S.A., Telest Celular, S.A. and Telerj Celular, S.A. are consolidated by the global integration method. Tele Leste Celular Participações, S.A. and Telebahía Celular, S.A. are carried by the equity method.

On December 21, 2000, Mobilpay International, S.A., which is 50% owned by the Group, was incorporated with a capital stock of €30,050,600. This company is recorded in the Group's consolidated financial statements at acquisition cost.

In June Terra, in conjunction with Telefónica Móviles, incorporated Terra Mobile S.A. with a capital stock of Ptas. 100 million. This company, which is owned 49% by Terra and 51% by Telefónica Móviles, was consolidated by the global integration method.

Terra Mobile acquired all the shares of the Finnish company Iobox, which engages in the development of technology and the provision of wireless Internet services, for Ptas. 35,973 million. This company is consolidated in the financial statements of the Telefónica Group by the global integration method.

In January Telefónica Internacional, S.A., a wholly-owned subsidiary of Telefónica Móviles, sold a 4% holding in Médi Telecom (Morocco) for its cost value. With this sale the Telefónica Group reduced its ownership interest in this company to 30.5%. In 2000 Médi Telecom was carried by the equity method.

ATENTO GROUP

In 2000 Atento Holding Inc., a company wholly-owned by Telefónica, S.A., incorporated the following companies:

- Atento Argentina, S.A., of which it owns all the shares, with an initial capital stock of US\$ 12,000.
- Atento Colombia, S.A., of which it owns all the shares, with an initial capital stock of 10 million Colombian pesos.
- Atento Maroc, S.A., in which it has a 99.87% holding, with an initial capital stock of 300,000 dirhams.
- Atento Venezuela, of which it owns all the shares, with an initial capital stock of US\$ 147.
- Atento Asia Pacific, in which it has a 99.5% holding, with an initial capital stock of 10 million yen.
- Atento Pasona, a company with registered offices in Japan, in which it has a 69.99% holding, with an initial capital stock of 500 million yen.

- Atento Holding Chile, of which it owns all the shares, with an initial capital stock of US\$ 36 million.
- Atento Puerto Rico, of which it owns all the shares, with an initial capital stock of US\$ 100.
- Atento Italia, of which it owns all the shares, with an initial capital stock of 20 million lira.
- Atento México, of which it owns all the shares, with an initial capital stock of 50,000 Mexican pesos.
- Atento Recursos, in which it has a 99% holding, with an initial capital stock of 1 million Chilean pesos.
- Atento Educación, in which it has a 99% holding, with an initial capital stock of 1 million Chilean pesos.

Trilha Sistemas de Comunicação Ltd., Quatro A Centrais de Atendimento e Telemarketing, S.A. and Quatro A Nordeste were merged into Atento Brasil, S.A.

In 2000 all these companies were consolidated by the global integration method.

On December 22, 2000, Atento Telecomunicaciones España, S.A. acquired an additional 24.5% holding in Gestión de Servicios de Emergencia y Atención al Ciudadano, S.A. for Ptas. 59 million. This company, which is wholly owned by Atento Telecomunicaciones España, S.A., continues to be consolidated in the financial statements of the Atento Group by the global integration method.

1999

In March Telefónica Internacional incorporated Tele Ibero Americana, Ltda., a company which served as a vehicle to carry out acquisitions in the markets where the Brazilian companies are listed, as detailed below:

Throughout 1999 and since March, *Tele Ibero Americana, Ltda.*, a fully-owned subsidiary of *Telefónica Internacional, S.A.* and Telefónica Internacional, S.A. itself have acquired shares of certain Brazilian companies, through direct acquisitions in the market. Also, shares of Brazilian companies were acquired through *Iberoleste Participações, S.A.*, which was created in conjunction with Iberdrola and in which Telefónica Internacional has a 38% holding. These acquisitions were made reconciling legally in time the aforementioned direct acquisitions in the market with the restructuring processes and with the tender offer made for the Brazilian cellular operators as described below. As of December 31, 1999, the additional percentages of ownership acquired were as follows:

- An additional 2.14% holding in *Telebahia Celular, S.A.* for Ptas. 557 million; an additional holding of 4.187% in *Telesp Participações, S.A.* for Ptas. 41,017 million; an additional holding of 2.875% in *Telecomunicações de São Paulo, S.A. (Telesp)* for Ptas. 26,220 million; a holding of 0.102% in *Companhia Telefonica Do Borda Do Campo, S.A. (CTBC)* for Ptas. 37 million; a holding of 1.679% in *Tele Sudeste Celular, S.A.* for Ptas. 3,491 million; an additional 18.92% holding in *Telerj Celular, S.A.* for Ptas. 28,131 million and a holding of 1.669% in *Tele Leste Celular, S.A.* for Ptas. 482 million; an additional holding of 5.922 % in *Telest Celular, S.A.* for Ptas. 783 million and an additional holding of 2.485% in *Telergipe Celular, S.A.* for Ptas. 53 million. Telesp, Tele Sudeste Celular, Telest Celular and Telerj Celular were consolidated by the global integration method. Telebahia Celular, Telergipe Celular and Tele Leste Celular are carried by the equity method.

In November 1999, the Stockholders' Meetings of the wireline telephony operators in the state of São Paulo (Brazil), Telecomunicacoes de São Paulo (Telesp), Companhia Telefônica Da Borda Do Campo (CTBC) and their holding company, Telesp Participações, S.A., resolved to approve their merger into a single company which will operate under the corporate name Telecomunicações de São Paulo, S.A. (Telesp). The transaction, which had been previously approved by the Brazil State Telecommunications Agency (Anatel), was also supported by the minority interests. As of December 31, 1999, the Telefónica Group owned directly and indirectly a holding of 19.29% in Telesp, representing 54.041% of the voting stock.

In December Telesp acquired 72.66% of the total capital stock of *Centrais Telefônicas de Ribeirão Preto, S.A. (CETERP)*, accounting for 96% of voting capital, for 334 million reais (Ptas. 30,404 million). This company provides wireline and wireless telephone services in the state of São Paulo, in the municipalities of Ribeirao Preto, Guataparã and Bonfim Paulista. This company was recorded at acquisition cost, since it was effectively acquired on January 3, 2000 (see «Changes in the Consolidated Group – 2000»).

In 1999 Telefónica Internacional acquired a further 5.03% holding in the capital stock of *Telefónica del Perú, S.A.* for Ptas. 33,182 million, thus increasing the Telefónica Group's total ownership interest in this company to 40.03%. This company continued to be consolidated by the global integration method.

On December 16, 1999, the investee *Infonet Services Corporation (Infonet)* was admitted to listing on the New York Stock Exchange through the sale of a portion of the shares owned by the former stockholders and the issue of new shares. Until the admission to listing on the New York Stock Exchange of this company, the Telefónica Internacional Group carried this holding at cost; however, in accordance with Spanish legislation, since it is a listed company, it is now carried by the equity method. The gain obtained by the Group on this transaction amounted to Ptas. 19,204 million, and this amount was recorded under the “Gains on Disposal of Holdings in Consolidated Companies” caption in the accompanying consolidated statement of income. Subsequently, the ownership interest in this company was reduced to 14.63%.

In January Compañía de Telecomunicaciones de Chile, S.A. acquired a 60% holding in the *Sonda Group* for Ptas 18,758 million. The parent company of this group was consolidated by the global integration method.

In June Telefónica Internacional acquired a further 19% holding in *Telefónica Larga Distancia de Puerto Rico, Inc.* and paid Ptas. 7,049 million for this transaction. With this acquisition, the ownership interest in the company increased to 98%. This company continues to be consolidated by the global integration method.

In May Telefónica Internacional incorporated *Telefónica de Centroamérica (GUATEMALA), S.A. de C.V.* and *Telefónica Centroamérica (ESPAÑA)*, and paid Ptas. 2,872 million and Ptas. 80 million, respectively. Also in May Telefónica Internacional incorporated *Telefónica Publicidade e Informação, Ltda (BRAZIL)* in conjunction with Telefónica Publicidad e Información, S.A., with a capital stock of 340 million reais. Telefónica Internacional has a 49% holding and T.P.I. owns the remaining 51%. This company was consolidated by the global integration method.

As of December 31, 1998, the Telefónica Internacional Group owned 16.7% of *Companhia Riograndense de Telecomunicaciones, S.A. (CRT)*, after being awarded, in conjunction with other partners, 85.12% of the company's voting stock in the 1996 and 1998 auctions held by the government of Rio Grande do Sul. On June 25, 1998, the formation of the subsidiary Celular CRT, S.A. was approved, and all the assets and liabilities relating to the wireless telephony business were transferred to it. This transaction was performed to comply with the existing obligation under which wireline and wireless telephony services must be provided by different operators. The spin-off of the two companies was completed in 1999. Telefónica Internacional, in order to carry out the spin-off process mentioned above, created a holding company under the name of *TBS Celular Participações*, to which it contributed the shares of the new company Celular CRT Participações, S.A., and maintained the same ownership interest which it had in the former holding company TBS Participações (52.93%). In August 1999, Telefónica Internacional directly acquired 23.5% of the capital stock of *Celular CRT Participações* by fully

subscribing to all the shares that this company earmarked for a capital increase. The cost of this acquisition amounted to Ptas. 18,356 million. Also, in November 1999 Telefónica Internacional acquired 6.34% of *Tele Brasil Sul Celular Participações, S.A.*, thus increasing its holding in this company to 59.27%.

As of 1999 year-end the Group had a direct and indirect holding of 36.97% in *Celular CRT Participações*, which was consolidated by the global integration method.

In May the subsidiary *Telefónica Publicidad e Información, S.A.* increased capital with a charge to reserves, carried out a share split and redenominated in euros its capital stock amount, which was set at Ptas. 1,000 million. Subsequently, it increased capital by Ptas. 20 million with additional paid-in capital of Ptas. 28 million, and the increase was subscribed and paid in full by La Caixa. In June the public offering for the sale of 35% of the shares of TPI was concluded, for a gain of Ptas. 99,741 million for the Telefónica Group. Following these transactions, as of 1999 year-end Telefónica, S.A. had a 63% holding in TPI. This company continues to be consolidated by the global integration method.

In 1999 *Terra (formerly Telefónica Interactiva)* created the leading international Internet group in the Spanish- and Portuguese-speaking market (this process continued in 2000, as was indicated earlier in connection with the formation of the Terra-Lycos Group). To this end, in 1999 Terra formed and acquired Internet companies in Brazil, Mexico, Chile, Peru, Argentina, Guatemala and the U.S. In November, the Terra Group was admitted to listing on the Madrid Stock Exchange and on the NASDAQ (National Association of Security Dealers' Automated Quotation System) in the U.S.

After the admission to listing, the Telefónica Group reduced its direct and indirect holding in the company to 70.47% as of December 31, 1999. The gain on this transaction (Ptas. 82,885 million) is recorded under the “Gains on Disposal of Holdings in Consolidated Companies” caption in the consolidated statement of income. This company continues to be consolidated by the global integration method.

On July 29, 1999, Terra entered into a share purchase agreement with the stockholders of *Centro de Investigación y Experimentación de Realidad Virtual, S.L. (CIERV)*, known as the *Teknoland Group*.

Under this agreement, CIERV was split into two companies, CIERV and CIERV NUEVA, and Terra acquired, for Ptas. 1,101 million, all the shares of CIERV, which owns 14.33% of the capital of *Corporación Real Time Team, S.L. (CRTT)*.

Subsequently, Terra subscribed to and paid in full a capital increase of Ptas. 1,263 million at CRTT, increasing its ownership interest in this company to 27.1%. However, after subsequent capital increases which were subscribed by other stockholders, Terra now controls 25% of CRTT.

On July 21, 1999, Terra Networks acquired a 95% holding in **Terra Networks Guatemala, S.A. (Guatemala)** for Ptas. 635 million. This company was consolidated by the global integration method.

In April Terra incorporated **Terra Interactiva de Contenidos, S.A.** with a capital stock of Ptas. 110 million and additional paid-in capital of Ptas. 3,100 million, fully subscribed and paid by the parent company. This company was consolidated by the global integration method.

In 1999 Terra acquired through its subsidiary **Telefónica Interactiva Brasil, Ltda.** 96% of the shares of **Terra Networks Brasil, S.A. (formerly Nutec Informática, S.A.)**, an Internet service provider that operates under the ZAZ brand name, markets software developed by third parties, renders services relating to access networks and engages in business activities as an Internet portal.

On May 27, 1999, Terra incorporated **Terra Networks USA, Inc. (formerly Telefónica Interactiva USA, Inc.)**. On October 5, 1999, Terra and International Discount Telecommunications Corporation (IDT) entered into a joint venture contract to provide Internet access and portal services in the U.S. market.

Under this joint venture contract, on October 5, 1999, IDT and Telefónica Interactiva USA, Inc. formed **Terra Networks Access Services USA, Llc.** (owned 51% by Telefónica Interactiva USA, Inc. and 49% by IDT) to engage in the Internet access business. On that same date, IDT and Telefónica Interactiva USA, Inc. formed **Terra Networks Interactive Services USA, Llc.** (owned 90% by Telefónica Interactiva USA, Inc. and 10% by IDT) to engage in the portal services business.

In March Terra Networks, S.A. acquired all the shares of **Ordenamiento de Links Especializados, S.L.** for Ptas. 2,000 million. Subsequently, in May this company increased capital by Ptas. 1,000 million, and the increase was fully subscribed and paid by Terra Networks. This company was consolidated by the global integration method.

Terra Networks acquired all the shares of **Información Selectiva, S.A. (INFOSEL)** from the stockholders of the Reforma Group through various transactions involving the Dutch company Bidasoa B.V. at a cost of Ptas. 6,997 million. Infosel provides Internet access, portal and real-time financial information services and services for businesses. This company was consolidated by the global integration method in the financial statements of the Telefónica Group.

During 1999 Terra and Telefónica Servicios y Contenidos por la Red, S.A. acquired all the shares of **Terra Networks México, S.A. de C.V.**, in which Terra Networks has a 75% holding and Telefónica Servicios y Contenidos por la Red has a 25% holding. Terra Networks Mexico was consolidated by the global integration method in the financial statements of the Telefónica Group.

On September 8, 1999, Terra incorporated **Telefónica Interactiva Chile Limitada**, with a capital of 100,000 Chilean pesos, in which Terra has a 99% holding.

On October 4, 1999, **Telefónica Networks Chile Holding Limitada** acquired from CTC Mundo all the shares that it owned of **Proveedora de Servicios de Conectividad, S.A. (currently Terra Networks Chile)**, which represented 95% of the total number of shares issued by this company. The price paid for Terra Networks Chile amounted to US\$ 40 million. The gain obtained by CTC Mundo on the transaction (43.64% of the direct and indirect holding that the Telefónica Group has in CTC Chile, the parent company of CTC Mundo) was eliminated in the consolidated financial statements of the Telefónica Group, leaving an amount of Ptas. 4,131 million recorded under the "Gains on Disposal of Holdings in Consolidated Companies" caption in the Telefónica Group's consolidated statement of income. The above-mentioned company was consolidated by the global integration method.

On July 28, 1999, Terra incorporated **Telefónica Interactiva Argentina, S.A.** with a capital stock of US\$ 12,000, in which Terra has a 99.9% holding

On September 21, 1999, Telefónica Interactiva Argentina, S.A. acquired all the shares of **Donde Latinoamericana, S.A.**, which owns the local portal Donde, for US\$ 4,504,000. This company was consolidated by the global integration method.

On September 9, 1999, Telefónica Interactiva Argentina, S.A. acquired all the shares of **Netgocios, S.A.**, which owns the local portal Gauchonet and the domains registered in Argentina and the U.S. under Gauchonet, for a total amount of US\$ 4,586,000. This company was consolidated by the global integration method.

The total investment in Argentina amounts to US\$ 9,090,000, equivalent to Ptas. 1,664 million. The three companies were consolidated by the global consolidation method in the financial statements of the Telefónica Group.

On September 2, 1999, Terra incorporated **Terra Networks Perú, S.A.** with a capital stock of 1,000 new soles, in which Terra Networks, S.A. has a 99.9% holding.

On October 20, 1999, Terra Networks Perú S.A. acquired from Telefónica Servicios Internet, S.A.C. (a subsidiary of Telefónica del Perú) all the assets, contracts and items necessary to provide Internet access services for US\$ 5 million.

The gain obtained by Telefónica Servicios Internet (a subsidiary of Telefónica del Perú) on the transaction (40.04% of the Telefónica Group's direct and indirect holding in Telefónica del Perú, the parent company of Telefónica Servicios Internet) was eliminated in the financial statements of the Telefónica Group, leaving an amount of Ptas. 2,490 million recorded under the "Gains on Fixed Asset Disposals" caption in the Telefónica Group's statement of income.

On November 4, 1999, Terra Networks sold all the shares it owned of *Doubleclick Iberoamericana, S.L.* for Ptas. 208 million, giving rise to a gain for the Group of Ptas. 120 million, which was recorded under the "Gains on Disposal of Holdings in Consolidated Companies" caption in the statement of income.

In July Telefónica, S.A. acquired a 50% holding in *Aliança Atlántica Holding B.V.* for Ptas. 3,439 million. This company held 950,000 shares of Portugal Telecom, S.A., which increased Telefónica's holding in the company to 3.75%. This company continued to be carried by the equity method in the consolidated financial statements of the Telefónica Group.

Also, in July *Portugal Telecom, S.A.* increased capital at a ratio of one new share for every ten existing shares. Telefónica subscribed to and paid the shares (665,000) which corresponded to it based on its percentage of ownership of the capital stock of the company, for a cost of Ptas. 4,153 million. Aliança Atlántica also subscribed to the shares which corresponded to it (95,000). This company continued to be carried by the equity method.

The main variations in the Media group in 1999 were as follows:

- In August Telefónica Media, S.A. acquired all the shares of the radio company *Uniprex, S.A.* for Ptas. 18,031 million, making an initial disbursement of Ptas. 12,000 million. This company was consolidated by the global integration method in the consolidated financial statements of the Telefónica Group.
- In December Telefónica Media acquired all the shares of *Cadena Voz de Radiodifusión, S.A.* for Ptas. 1,778 million. This company was consolidated by the global integration method in the consolidated financial statements of the Telefónica Group.

- In February Telefónica Media, S.A. acquired a 17.09% holding in *Antena 3 de Televisión, S.A.* for Ptas. 19,538 million. In July Telefónica Media acquired a further 6.4255% holding for Ptas. 7,468 million. Subsequently, in December, it acquired an additional 0.288% holding in this company for Ptas. 671 million, thereby increasing its holding to the 47.21% which it owned at 1999 year-end. The company continued to be carried by the equity method.
- In September Telefónica Media participated in the incorporation of *Intercio Games, S.A.*, by subscribing to 50% of the company's initial capital stock and disbursing Ptas. 125 million. At year-end the company was recorded at acquisition cost.
- In June the Ptas. 40,477.5 million capital increase at *DTS Distribuidora de Televisión Digital, S.A.* was concluded. Telefónica Media, S.A., which had previously acquired an additional 17% holding in DTS for Ptas. 40,477.5 million and which had subscribed its proportional 36.95% holding before the capital increase, subscribed and paid sufficient shares to raise its ownership interest to the 68.59% currently held by it, for which it disbursed Ptas. 31,058 million. Article 19 of the Private Television Law provides that no stockholder may own a holding of over 49%. On June 1, 1999, Telefónica Media, S.A. informed the Board of Directors that it did not intend to maintain a holding of over 49% in the Company's capital stock. Accordingly, following the capital increase approved on December 13, 1999, at Vía Digital, in January 2000 the Telefónica Group reduced its holding in this company to 48.63%. As a result of this transaction, Telefónica Media entered into agreements with a passive financial investor which has become a stockholder of Vía Digital, and with other stockholders of the company to guarantee the liquidity of the investments made and the purchase options thereon. 25.25% (which can be increased to 35.70%) of the capital stock is subject to this agreement. The company continues to be carried by the equity method.

On July 21, 1999, the Stockholders' Meeting of Vía Digital appointed and reelected its directors, of which 12 out of 24 are appointed by the Telefónica Group.

- Telefónica Media also acquired 5% of the *Pearson Plc.* publishing group for Ptas. 103,391 million. The company is carried by the equity method.
- Telefónica Media also acquired 30% of *Patagonik Film Group, S.A. (ARGENTINA)* for Ptas. 1,428 million. At year-end this company was recorded at acquisition cost.

- In December the subsidiary *Producciones Multitemáticas, S.A.* acquired an additional 10.71% holding in the capital stock of *Lola Films, S.A.* for Ptas. 158 million. In the same period Lola Films increased capital by Ptas. 1,050 million with additional paid-in capital of Ptas. 420 million. Producciones Multitemáticas subscribed to a portion of the capital increase by acquiring a number of shares equivalent to approximately 70% of the capital stock of the company for Ptas. 1,410 million. The company was consolidated by the global integration method at 1999 year-end.
- Telefónica Media Internacional y de Contenidos, S.A., acquired all of the shares of *Telefónica Media Internacional y de Contenidos USA, Inc.* for Ptas. 702 million. The company was included in the consolidated financial statements of the Telefónica Group by the global integration method.

In February Telefónica incorporated *Atento Holding de Telecomunicaciones, S.A.*, a company that manages the global call-center business throughout the world. At 1999 year-end, this company managed call centers in Spain, Brazil, Chile, Peru, Puerto Rico, El Salvador and Guatemala. All these companies were consolidated by the global integration method in the financial statements of the Telefónica Group.

The main variations in 1999 in the Telefónica *Intercontinental* group, of whose parent company Telefónica, S.A. was the sole stockholder as of December 31, 2000, were as follows:

- The acquisition in January of all the capital stock of the Austrian company *European Telecom International GmbH* for Ptas. 4,992 million. In December this company increased capital by Ptas. 1,300 million, and this increase was fully subscribed and paid by the parent company. The company was included in consolidation as a subsidiary and was consolidated by the global integration method.
- Telefónica, through Telefónica Intercontinental, S.A., obtained by tender, together with other companies composing the *Médi Telecom* consortium, the second wireless telephony license for Morocco. At year-end 1999 Telefónica Intercontinental had an ownership interest of 34.5% in the consortium, for which it had to pay Ptas. 27,590 million.
- Telefónica Intercontinental also took part in the incorporation of *Azienda Comunale Energia e Ambiente - Telefónica, SpA (ACEA-Telefónica)*, with a 49% holding in the capital stock, for which it paid Ptas. 5,636 million. This company provides advanced telecommunications services to businesses and individuals in Rome and in the Lazio region. As of December 31, 1999, Médi Telecom and ACEA – Telefónica were recorded in the consolidated financial statements of the Telefónica Group at acquisition cost.

In 1999 *Telefónica Móviles Española, S.A.* acquired the remaining 10% of the capital stock of *Compañía Gestora del Servicio Mensatel, S.A.* for Ptas. 432 million. The company continues to be consolidated by the global integration method.

Radiored 1, S.A. acquired the remaining 9% of the capital stock of *Radiored Catalunya, S.A.* for Ptas. 65 million. These companies, which were consolidated by the global integration method in 1999, were absorbed by Telefónica Móviles Española, S.A. in 2000.

Telefónica Sistemas, S.A. (a wholly-owned subsidiary of Telefónica de España) and *Telefónica Sistemas Ingeniería de Productos, S.A.* (a wholly-owned subsidiary of Telefónica de Sistemas) incorporated *Telefónica Sistemas Ingeniería de Productos Guatemala, S.A.* (with holdings of 98% and 2%, respectively) and *Telefónica Sistemas El Salvador, S.A. de C.V.* (with holdings of 99.5% and 0.5%, respectively) at a total cost of Ptas. 4 million and Ptas. 1 million, respectively. The two companies were consolidated by the global integration method.

The main variations in 1999 in the Telefónica Datacorp Group, of whose parent company Telefónica, S.A. is the sole stockholder, were as follows:

- In May Telefónica Datacorp, S.A. acquired 50% of *Rey Moreno, S.A. (COLOMBIA)* for Ptas. 1,849 million. Also, in June Telefónica Datacorp, S.A. acquired 50.93% of *Telecomunicaciones Ganaderas, S.A. (COLOMBIA)* for Ptas. 384 million. The two companies are carried by the equity method in the consolidated financial statements of the Telefónica Group.
- In July *Telefónica VSAT, S.A.* and *Telefónica Servicios Avanzados de Información, S.A.* were merged into *Telefónica Data España, S.A.*, the sole-stockholder of the two companies. Both these companies, which were consolidated by the global integration method, were excluded from the consolidated Telefónica Group in 1999.
- In June Telefónica Data España, S.A. acquired all the shares of *Interdomain, S.A.* for Ptas. 63 million. This company was consolidated by the global integration method.

In June Telefónica, S.A. incorporated *Communicapital Inversiones, S.A.U.* and *Communicapital Gestión, S.A.U.* with capital stock of Ptas. 998 million and Ptas. 10 million, respectively. At year-end both companies were included in the consolidated financial statements of the Telefónica Group by the global integration method.

In November *Atento Telecomunicaciones España, S.A.*, acquired the remaining 49% of the capital stock of *Gestión de Servicios de Emergencia y Atención al Ciudadano, S.A.* for Ptas. 25 million. The company continued to be consolidated by the global integration method.

The main variations in 1999 in the *Telefónica Soluciones Sectoriales* group, of whose parent company Telefónica de España, S.A. is the sole stockholder, were as follows:

- In May *Gestión del Conocimiento, S.A.* increased capital by Ptas. 12.8 million. *Telefónica Soluciones Sectoriales, S.A.* subscribed to this capital increase, but acquired a number of shares lower than that which correspond to it and, accordingly, its holding in the company decreased from 40% to 31.58%. The company continued to be carried by the equity method.
- Telefónica Soluciones Sectoriales, S.A. took part in the Ptas. 105 million capital increase at *Buildnet* by subscribing and paying a number of shares that enabled the company to increase its holding in Buildnet to 47.62%, for Ptas. 50 million. This company continued to be carried by the equity method.
- In November the associated company *Fitex* increased capital by Ptas. 74 million. Telefónica Soluciones Sectoriales subscribed to a portion of the increase and paid Ptas. 6 million. The capital increase was not subscribed by all the stockholders and, accordingly, Telefónica Soluciones Sectoriales increased its ownership interest in the company from 24.5% to 30.93%. The company continued to be carried by the equity method.

In April, *Telefónica de España* acquired an additional 50% holding in *Telefónica Consultora de Proyectos, S.A.* (formerly Utilitel Comunicaciones, S.A.) for Ptas. 844 million. As a result of this purchase Telefónica became the sole stockholder of this company, which was included in the consolidated financial statements of the Group by the global integration method. As a consequence of the above, all the dependent companies of Telefónica Consultora de Proyectos, S.A. were consolidated by the global integration method, the detail of these companies being as follows:

- *Telefónica Consultora y Servicios, S.A.* (formerly Utilitel Gestión de Sistemas, S.A.) (100%).
- *Telefónica Ingeniería de Seguridad, S.A.* (formerly Utilitel Ingeniería de Seguridad, S.A.) (100%).
- *Utilicare Servicios Asistenciales, S.A.* (70%).
- *SOS Alzheimer, S.A.* (71%). This company was subsequently sold to Telefónica de España, S.A.'s wholly-owned subsidiary Telefónica Soluciones Sectoriales, S.A.

In February Telefónica Servicios de Distribución, S.A. and Atento Holding de Telecomunicaciones, S.A. were incorporated with capital stock of Ptas. 265 million and Ptas. 10 million, respectively. All the shares of these companies were subscribed and paid by Telefónica, S.A. At year-end the two companies were consolidated by the global integration method.

In June Telefónica Cable Menorca, S.A. acquired all the shares of *Telecable Menorca, S.A.* for Ptas. 180 million. This company was consolidated by the global integration method.

In 1999, Telefónica de España, S.A. acquired 50% of Digimedia, S.A. and Sodeltel, S.A., and 24% of Andalucía Digital Multimedia, S.A. for Ptas. 5 million, Ptas. 10 million and Ptas. 1,480 million, respectively. These companies were recorded in the consolidated financial statements of the Telefónica Group at acquisition cost.

In February Procesos y Tecnología de la Información, S.A., a wholly-owned subsidiary of Telefónica, increased capital by Ptas. 490 million, and the increase was fully subscribed and paid by the sole stockholder. This company continued to be consolidated by the global integration method.

In May *Telefónica, S.A.* sold all its shares of *Telecomunicaciones Marinas, S.A.*, which represented a 100% holding in this company. The Telefónica Group recorded a gain of Ptas. 35,852 million on the sale. This gain was recorded under the "Gains on Disposal of Holdings in Consolidated Companies" caption in the Telefónica Group's consolidated statement of income. The company was excluded from the scope of consolidation of the Telefónica Group.

In December *Telefónica Medios de Comunicación, S.A.* sold its 20% holding in the capital stock of *Recoletos Compañía Editorial, S.A.* for Ptas. 30,000 million. The gain on this sale for the Telefónica Group was Ptas. 7,484 million, and was recorded under the "Gains on Disposal of Holdings in Consolidated Companies" caption in the consolidated statement of income.

In January Telefónica, S.A. sold 1,702,858 shares, representing 12.2% of capital stock, of Amper, S.A. for Ptas. 6,811 million, for a gain for the Telefónica Group of Ptas. 2,972 million, and this amount is recorded under the "Gains on Disposal of Holdings in Consolidated Companies" caption in the consolidated statement of income. The 12.2% holding in this company continues to be carried by the equity method (see information on the sale of an additional 6.1% holding in the section relating to 2000).

In March Telefónica, S.A. sold all its shares of **Sofres Audiencia de Medios, S.A.**, which represented a 25% holding, for Ptas. 600 million, and obtained a gain of Ptas. 165 million, which is recorded under the “Gains on Disposal of Holdings in Consolidated Companies” caption in the consolidated statement of income. The company was excluded from the scope of consolidation of the Telefónica Group.

In June **Ciudad Interactiva, S.A.**, in which Telefónica Soluciones Sectoriales had a 20% holding and which was carried by the equity method, was sold for Ptas. 15 million for no gain. This company was excluded from the scope of consolidation of the Telefónica Group.

Telefónica Soluciones Sectoriales also sold its 20% holding in the associated company Andalucía Comercio Electrónico, S.A. for Ptas. 5 million for no gain. This company was excluded from the scope of consolidation of the Telefónica Group.

In May **Telefónica Cable, S.A.** sold holdings of 30% in **Telefónica Cable Galicia, S.A.** and of 5% in **Telefónica Cable Extremadura, S.A.**, giving rise to a loss of Ptas. 2 million. The two companies continue to be consolidated by the global integration method.

EXHIBIT III

GOODWILL IN CONSOLIDATION

The detail of the balance of goodwill in consolidation, of the related accumulated amortization and of the variations therein as of December 31, 2000 and 1999, is as follows:

Goodwill in consolidation	Millions of Pesetas					Balance at 12/31/00
	Balance at 12/31/99	Additions	Retirements	Transfers	Translation Differences	
Companies consolidated by the global integration method:						
C.T.C. (Chile)	5,508	—	—	—	—	5,508
Celular C.R.T. (Brazil)	56,044	57	(800)	(7,721)	—	47,580
Telefónica Centroamérica Guatemala	824	804	(576)	560	37	1,649
T.L.D. (Puerto Rico)	12,077	—	(7,245)	(4,832)	—	—
Telefónica del Perú	23,156	10,840	—	—	—	33,996
Telefónica El Salvador Holding	777	112	—	10,010	(691)	10,208
Telefónica de El Salvador	8,476	—	(8,866)	(469)	859	—
Telesp Participações (Brazil)	16,268	—	(287)	—	—	15,981
Tele Sudeste Celular (Brazil)	2,522	480	(1,140)	17,614	—	19,476
Telerj (Brasil)	22,413	—	(1,173)	(21,240)	—	—
Multicable T. V. (Chile)	1,258	—	(671)	(611)	24	—
Invercom	15,904	—	(11,610)	(4,649)	355	—
Instacom	1,533	—	—	—	50	1,583
Startel	54,895	—	—	—	1,791	56,686
Sonda (Chile)	8,040	—	—	—	297	8,337
Sociedades de Sonda (Chile)	1,093	—	(56)	602	107	1,746
Cointel	80,579	—	—	—	—	80,579
Advance Telecomunicaciones	1,348	—	—	—	91	1,439
Satlink	1,707	—	—	23	115	1,845
Aki	1,520	—	—	—	102	1,622
Telefónica Multimedia (Peru)	1,542	—	—	—	158	1,700
Vtr	6,039	—	—	—	196	6,235
Telefónica Internacional	46,865	—	—	—	—	46,865
T. Data España	25,784	—	—	—	—	25,784
Atlanet (Italy)	—	10,685	(327)	1,048	—	11,406
Optel Telecomunicaciones (Mexico)	—	2,612	—	—	—	2,612
Eti Austria	4,877	—	(4,877)	—	—	—
Uniprex	14,083	—	—	—	—	14,083
Cadena Voz Radiodifusión	1,790	—	(1,700)	—	—	90
G.M.A. Fútbol	5,906	—	—	—	—	5,906
Endemol	—	133,487	—	—	—	133,487
Grupo Endemol	—	11,892	(4)	—	—	11,888
Grupo Atco (Argentina)	—	106,825	(33,115)	—	1,253	74,963
Telefónica Media Argentina	—	3,130	—	—	—	3,130
Atento Perú	946	41	—	—	171	1,158
Quatro C Atendimento	—	23,891	—	—	—	23,891
Terra Networks Brasil	30,269	6,251	—	—	(3)	36,517
Olé	2,038	—	—	—	—	2,038
Terra Networks México	35,675	—	—	—	1	35,676
Prov. De Servicios de Conectividad (Chile)	4,230	—	(64)	—	2	4,168
Infosel (Mexico)	8,316	—	—	—	—	8,316
Terra Networks Argentina	—	519	—	1,488	—	2,007

Goodwill in consolidation	Millions of Pesetas					
	Balance at 12/31/99	Additions	Retirements	Transfers	Translation Differences	Balance at 12/31/00
Companies consolidated by the global integration method:						
Terra Networks Usa	—	1,603	—	—	—	1,603
Ifigenia Plus	—	1,859	—	—	—	1,859
Terra Networks Colombia	—	3,583	—	—	—	3,583
Lycos	—	160,397	—	1	—	160,398
Filiales Lycos	—	146,751	—	—	—	146,751
A Tu Hora	—	249	—	—	—	249
Filiales Nutec Informática (Brazil)	—	1,282	—	1,772	(45)	3,009
Terra Networks	—	80,218	(78,549)	—	—	1,669
lobox	—	38,842	—	—	—	38,842
Cei Citicorp Holding	—	22,554	—	—	—	22,554
Cei Citicorp Group	—	72,603	—	—	—	72,603
Other companies	6,664	3,854	(2,609)	590	208	8,707
	510,966	845,421	(153,669)	(5,814)	5,078	1,201,982
Companies carried by the equity method:						
Venworld (Venezuela)	22,330	—	—	—	—	22,330
C.R.T. Fija (Brazil)	50,506	—	(43,820)	(6,686)	—	—
Cablevisión (Argentina)	44,156	—	—	—	—	44,156
Amper	1,860	—	(930)	—	—	930
Portugal Telecom	32,964	—	—	—	—	32,964
Torneos y Competencias	7,504	—	—	—	—	7,504
Azul Televisión (Acisa Group)	—	2,886	—	—	3	2,889
Dts D ³ Tv Digital	14,660	—	—	—	—	14,660
Antena 3	34,280	360	—	—	—	34,640
Pearson	89,124	—	(1,937)	—	—	87,187
Media Park	—	6,350	—	—	—	6,350
Patagonik (Argentina)	—	1,216	—	—	—	1,216
Atlanet (Italy)	—	1,048	—	(1,048)	—	—
Asociadas Nutec Informática (Brazil)	1,772	—	—	(1,772)	—	—
Teknoland	2,006	960	(2,505)	(9)	—	452
One Travel	—	2,350	—	—	—	2,350
Aremate	—	5,640	(4,793)	—	—	847
Andalucía Digital Multimedia	—	1,020	—	—	—	1,020
Other companies	2,430	226	(76)	(464)	24	2,140
	303,592	22,056	(54,061)	(9,979)	27	261,635
Total goodwill	814,558	867,477	(207,730)	(15,793)	5,105	1,463,617

Amortization of goodwill in consolidation	Millions of Pesetas					Balance at 12/31/00
	Balance at 12/31/99	Additions	Retirements	Transfers	Translation Differences	
Companies consolidated by the global integration method:						
C.T.C. (Chile)	4,476	111	—	—	—	4,587
Celular C.R.T. (Brazil)	5,654	2,768	—	(7,720)	—	702
Telefónica Centroamérica Guatemala	53	63	—	(16)	(1)	99
T.L.D. (Puerto Rico)	4,353	479	—	(4,832)	—	—
Telefónica del Perú	427	1,186	—	—	—	1,613
Telefónica de Argentina	—	1	—	—	—	1
Telefónica El Salvador Holding	39	84	—	413	(36)	500
Telefónica de El Salvador	259	193	—	(469)	17	—
Telesp Participações (Brazil)	384	832	—	—	—	1,216
Tele Sudeste Celular (Brazil)	73	291	—	(99)	—	265
Telerj (Brazil)	454	945	—	(1,399)	—	—
Multicable T. V. (Chile)	548	59	—	(611)	4	—
Invercom	4,231	385	—	(4,649)	33	—
Instacom	850	149	—	—	25	1,024
Startel	5,675	2,892	—	—	122	8,689
Sonda (Chile)	350	414	—	—	46	810
Sociedades de Sonda (Chile)	239	175	—	9	17	440
Cointel	20,598	3,605	—	—	—	24,203
Advance Telecomunicaciones	220	142	—	—	12	374
Satlink	282	189	—	—	15	486
Aki	94	150	—	—	3	247
Telefónica Multimedia	219	170	—	—	19	408
Vtr	377	318	—	—	5	700
Telefónica Internacional	5,057	2,334	—	—	—	7,391
T. Data España	16,852	496	—	—	—	17,348
Atlanet (Italy)	—	189	—	26	(15)	200
Optel Telecomunicaciones (Mexico)	—	79	—	—	—	79
Eti Austria	203	154	(357)	—	—	—
Uniprex	293	750	—	—	—	1,043
Cadena Voz Radiodifusión	—	90	—	—	—	90
G.M.A. Fútbol	2,744	3,162	—	—	—	5,906
Endemol	—	2,781	—	—	—	2,781
Grupo Endemol	—	209	(5)	—	—	204
Grupo Atco (Argentina)	—	3,663	—	10,861	—	14,524
Telefónica Media Argentina	—	143	—	—	—	143
Atento Perú	12	79	—	—	—	91
Quatro C Atendimento	—	1,018	—	—	(22)	996
Terra Networks Brazil	3,027	7,917	—	—	—	10,944
Olé	306	407	—	1	—	714
Terra Networks México	634	7,135	—	—	—	7,769
Prov. De Servicios de Conectividad (Chile)	173	1,025	—	—	—	1,198
Infosel (Mexico)	277	1,663	—	—	—	1,940
Terra Networks Argentina	—	401	—	87	—	488
Terra Networks Usa	—	133	—	—	—	133
Ifigenia Plus	—	186	—	—	—	186
Terra Networks Colombia	—	299	—	—	—	299
Lycos	—	5,347	—	—	—	5,347
Filiales Lycos	—	6,878	—	—	—	6,878
Filiales Nutec Informática (Brazil)	—	580	—	19	—	599
Terra Networks	—	1,669	—	—	—	1,669
lobox	—	3,884	—	—	—	3,884
Cei Citicorps Holding	—	—	—	—	—	—
Grupo Cei Citicorp	—	—	—	—	—	—
Other companies	865	3,810	—	(2,406)	(58)	2,211
	80,298	72,082	(362)	(10,785)	186	141,419

Amortization of goodwill in consolidation	Millions of Pesetas					Balance at 12/31/00
	Balance at 12/31/99	Additions	Retirements	Transfers	Translation Differences	
Companies carried by the equity method:						
Venworld (Venezuela)	14,772	687	—	—	—	15,459
C.R.T. Fija (Brazil)	6,686	—	—	(6,686)	—	—
Cablevisión (Argentina)	2,051	—	—	—	—	2,051
Amper	137	46	(68)	—	—	115
Portugal Telecom	3,551	1,635	—	—	—	5,186
Torneos y Competencias	735	(15)	—	—	—	720
Azul Televisión (Acisa Group)	—	99	—	108	—	207
Dts Dª Tv Digital	570	733	—	—	—	1,303
Antena 3	3,145	1,707	—	—	—	4,852
Pearson	2,245	4,311	—	—	—	6,556
Media Park	—	159	—	—	—	159
Patagonik (Argentina)	—	61	—	—	—	61
Atlanet (Italy)	—	26	—	(26)	—	—
Asociadas Nutec Informática (Brazil)	19	—	—	(19)	—	—
Teknoland	152	300	—	—	—	452
One Travel	—	—	—	—	—	—
Aremate	—	847	—	—	—	847
Andalucía Digital Multimedia	—	51	—	—	—	51
Other companies	212	560	(7)	(219)	(2)	544
	34,275	11,207	(75)	(6,842)	(2)	38,563
Total accumulated amortization	114,573	83,289	(437)	(17,627)	184	179,982
Unamortized goodwill in consolidation	699,985	784,188	(207,293)	1,834	4,921	1,283,635

Goodwill in consolidation	Millions of Pesetas					Balance at 12/31/99
	Balance at 12/31/98	Additions	Retirements	Transfers	Translation Differences	
Companies consolidated by the global integration method:						
Advance Telecomunicaciones	1,164	—	—	—	184	1,348
Aki	303	1,168	—	—	49	1,520
C.R.T. Celular (Brazil)	—	14,593	—	41,451	—	56,044
C.T.C. (Chile)	5,508	—	—	—	—	5,508
Cadena Voz Radiodifusión	—	1,790	—	—	—	1,790
Cointel	80,579	—	—	—	—	80,579
Eti Austria	—	4,877	—	—	—	4,877
G.M.A. Futbol	5,906	—	—	—	—	5,906
Infosel (Mexico)	—	8,316	—	—	—	8,316
Instacom	1,445	—	—	—	88	1,533
Invercom	14,998	—	—	—	906	15,904
Multicable T. V. (Chile)	1,186	—	—	—	72	1,258
Terra N. Brazil	—	30,269	—	—	—	30,269
Olé	—	2,038	—	—	—	2,038
Prov. De Serv. de Conectividad (Chile)	—	4,231	—	—	—	4,231
Satlink	1,441	36	—	—	230	1,707
Sociedades de Sonda (Chile)	—	952	—	—	141	1,093
Sonda (Chile)	—	8,735	—	—	(695)	8,040
Startel	51,773	—	—	—	3,122	54,895
T. Data España	25,784	—	—	—	—	25,784
T.L.D. (Puerto Rico)	7,479	4,598	—	—	—	12,077
Tele Sudeste Celular (Brazil)	—	2,522	—	—	—	2,522
Telefónica de El Salvador	—	7,853	—	—	623	8,476
Telefónica Del Perú	—	23,156	—	—	—	23,156
Telefónica Internacional	46,865	—	—	—	—	46,865
Telefónica Multimedia (Peru)	2,224	—	(906)	—	224	1,542
Telerj (Brazil)	—	22,413	—	—	—	22,413
Telesp Participações (Brazil)	—	16,268	—	—	—	16,268
Terra Networks México	—	35,675	—	—	—	35,675
Uniprex	—	14,083	—	—	—	14,083
Vtr	5,629	73	—	—	337	6,039
Other companies	906	7,895	—	330	79	9,210
	253,190	211,541	(906)	41,781	5,360	510,966
Companies carried by the equity method:						
Amper	3,720	—	(1,860)	—	—	1,860
Antena 3	16,374	17,906	—	—	—	34,280
Asociadas Nutec Informática (Brazil)	—	1,772	—	—	—	1,772
C.R.T. Fija (Brazil)	91,957	—	—	(41,451)	—	50,506
Cablevisión (Argentina)	39,156	—	—	5,000	—	44,156
Dts Dª Tv Digital	1,110	13,550	—	—	—	14,660
Infonet (U.S.A.)	—	3,104	(3,104)	—	—	—
Pearson	—	89,124	—	—	—	89,124
Portugal Telecom	30,055	2,909	—	—	—	32,964
Recoletos Cía. Editorial	16,403	—	(16,403)	—	—	—
Teknoland	—	2,006	—	—	—	2,006
Torneos y Competencias	7,229	275	—	—	—	7,504
Venworld (Venezuela)	22,330	—	—	—	—	22,330
Other companies	885	2,386	(37)	(910)	106	2,430
	229,219	133,032	(21,404)	(37,361)	106	303,592
Total goodwill	482,409	344,573	(22,310)	4,420	5,466	814,558

Amortization of goodwill in consolidation	Millions of Pesetas					Balance at 12/31/99
	Balance at 12/31/98	Additions	Retirements	Transfers	Translation Differences	
Companies consolidated by the global integration method:						
Advance Telecomunicaciones	77	123	—	—	20	220
Aki	15	72	—	—	7	94
C.R.T. Celular (Brazil)	—	2,187	—	3,467	—	5,654
C.T.C. (Chile)	4,365	111	—	—	—	4,476
Cointel	16,993	3,605	—	—	—	20,598
Eti Austria	—	203	—	—	—	203
G.M.A. Fútbol	1,956	788	—	—	—	2,744
Infosel (Mexico)	—	277	—	—	—	277
Instacom	669	134	—	—	47	850
Invercom	3,327	664	—	—	240	4,231
Multicable T.V. (Chile)	398	119	—	—	31	548
Terra N. Brasil	—	3,027	—	—	—	3,027
Olé	—	306	—	—	—	306
Prov. De Serv. de Conectividad (Chile)	—	173	—	—	—	173
Satlink	75	184	—	—	23	282
Sociedades de Sonda (Chile)	—	125	—	107	7	239
Sonda (Chile)	—	305	—	27	18	350
Startel	2,768	2,588	—	—	319	5,675
T. Data España	16,356	496	—	—	—	16,852
T.L.D. (Puerto Rico)	3,989	364	—	—	—	4,353
Tele Sudeste Celular (Brazil)	—	73	—	—	—	73
Telefónica de El Salvador	—	228	—	17	14	259
Telefónica Del Perú	—	427	—	—	—	427
Telefónica Internacional	2,724	2,333	—	—	—	5,057
Telefónica Multimedia	—	146	—	—	73	219
Telerj (Brazil)	—	454	—	—	—	454
Telesp Participações (Brazil)	—	438	—	(54)	—	384
Terra Networks México	—	634	—	—	—	634
Uniprex	—	293	—	—	—	293
Vtr	73	284	—	—	20	377
Other companies	362	462	—	137	8	969
	54,147	21,623	—	3,701	827	80,298
Companies carried by the equity method:						
Amper	93	91	(47)	—	—	137
Antena 3	1,602	1,543	—	—	—	3,145
Asociadas Nutec Informática (Brazil)	—	19	—	—	—	19
C.R.T. Fila (Brazil)	7,691	2,462	—	(3,467)	—	6,686
Cablevisión (Argentina)	2,051	—	—	—	—	2,051
Dts D ³ Tv Digital	23	547	—	—	—	570
Pearson	—	2,245	—	—	—	2,245
Portugal Telecom	2,001	1,550	—	—	—	3,551
Recoletos Cía. Editorial	684	820	(1,504)	—	—	—
Teknoland	—	152	—	—	—	152
Torneos y Competencias	361	374	—	—	—	735
Venworld (Venezuela)	14,085	687	—	—	—	14,772
Other companies	48	221	—	(64)	7	212
	28,639	10,711	(1,551)	(3,531)	7	34,275
Total accumulated amortization	82,786	32,334	(1,551)	170	834	114,573
Unamortized goodwill in consolidation	399,623	312,239	(20,759)	4,250	4,632	699,985

EXHIBIT IV

MINORITY INTERESTS

Minority interests

This caption relates to the equity of minority stockholders in the net worth and results for the year of the Group companies consolidated by the global integration method.

As of December 31, 2000, the balance of this caption comprised the holdings of minority stockholders in the following companies:

Millions of Pesetas						
Company	% of Ownership	Net Worth	Translation Differences	Income (Loss)	Variation in % of Ownership	Balance at 12/31/00
C.R.T. Celular	63.35	24,187	(343)	3,495	—	27,339
C.T.C. Chile, S.A.	56.36	201,988	7,076	(23,778)	—	185,286
Cleon, S.A.	50.00	654	—	—	—	654
Cointel	—	—	—	10,485	(10,485)	—
Fonditel	19.00	1,082	—	231	—	1,313
Lola Films	30.00	846	—	22	—	868
Publiguías, S.A.	45.07	1,752	(50)	(80)	—	1,622
Telefónica de Argentina, S.A.	2.08	(33,780)	35,976	17,672	(18,057)	1,811
Telefónica del Perú Holding	10.00	29,419	(1,842)	(142)	—	27,435
Telefónica del Perú, S.A.	2.89	12,065	(5,222)	(2,148)	2,142	6,837
Telefónica del Salvador Holding	49.00	9,934	1,333	(2,580)	—	8,687
Telefónica Larga Distancia, Inc.	2.00	110	167	(58)	—	219
Telefónica Publicidad e Información, S.A.	40.13	3,323	—	4,483	—	7,806
Telesp Participações	13.39	278,221	(212,533)	63,371	22,966	152,025
Tele Sudeste Celular Participações	17.99	37,728	(21,824)	5,581	(3,538)	17,947
Terra Networks	63.13	692,861	(12,469)	(40,954)	—	639,438
Telefónica Móviles	7.85	67,488	(1,018)	(316)	—	66,154
CEI	19.09	33,890	—	—	—	33,890
Orla Siebzehte	42.80	150,825	—	(125)	—	150,700
IPSE 2000	54.41	194,621	—	48	—	194,669
Atlanet	66.00	21,703	372	(2,547)	—	19,528
Atco	—	—	—	(7,718)	7,718	—
Endemol	0.80	1,924	—	345	—	2,269
Other companies	—	10,397	671	(5,215)	(1)	5,852
Total		1,741,238	(209,706)	20,072	745	1,552,349

As of December 31, 1999, the balance of this caption comprised the holdings of minority stockholders in the following companies:

Millions of Pesetas						
	% of Ownership	Net Worth	Translation Differences	Income (Loss)	Variation in % of Ownership	Balance at 12/31/00
C.R.T. Celular	63.35	28,822	48	(4,635)	—	24,235
C.T.C. Chile, S.A.	56.36	205,310	(2,657)	(11,242)	—	191,411
Cleon, S.A.	50.00	657	—	(3)	—	654
Cointel	50.00	74,535	7,581	11,833	—	93,949
Fonditel	19.00	937	—	179	—	1,116
Lola Films	30.00	843	—	4	—	847
Other Chilean – Sonda Group	—	7,347	1,388	1,464	—	10,199
Publiguías, S.A.	45.07	1,128	55	494	—	1,677
Telefónica de Argentina, S.A.	46.35	163,443	24,053	27,972	—	215,468
Telefónica del Perú Holding	10.00	29,322	(2,230)	233	—	27,325
Telefónica del Perú, S.A.	56.80	122,906	(15,736)	13,652	—	120,822
Telefónica del Salvador Holding	49.00	7,883	810	(1,577)	—	7,116
Telefónica Larga Distancia, Inc.	2.00	122	151	(135)	123	261
Telefónica Publicidad e Información, S.A.	37.00	1,656	—	2,922	—	4,578
Telesp	80.71	1,133,841	(265,780)	68,996	—	937,057
Tele Sudeste Celular Participações	82.43	93,854	(24,914)	2,455	—	71,395
Terra Networks	29.53	55,641	(93)	(1,662)	—	53,886
Other companies	—	5,390	572	(1,850)	(24)	4,088
Total		1,933,637	(276,752)	109,100	99	1,766,084

Variations in minority interests

The variations in minority interests in 2000 were as follows:

Millions of Pesetas								
Company	Balance at 12/31/99	Capital Contribution and Inclusion of Companies	Income (Loss) for the Year	Variation in Translation Differences	Other Variation	Acquisitions	Dividends Paid	Balance at 12/31/00
C.R.T. Celular	24,235	—	3,495	(391)	—	—	—	27,339
C.T.C. Chile, S.A.	201,610	—	(23,778)	8,327	(264)	—	(609)	185,286
Terra Networks	53,886	632,834	(40,954)	(12,377)	6,049	—	—	639,438
Cointel	93,949	—	10,485	5,357	—	(104,575)	(5,216)	—
Fonditel	1,116	—	231	—	—	—	(34)	1,313
Lola Films	847	—	22	—	(1)	—	—	868
Publiguías, S.A.	1,677	—	(80)	(105)	130	—	—	1,622
Telefónica de Argentina, S.A.	215,468	—	17,672	11,923	—	(243,198)	(54)	1,811
Telefónica del Perú Holding	27,325	—	(142)	388	(136)	—	—	27,435
Telefónica del Perú, S.A.	120,822	—	(2,148)	10,514	—	(113,192)	(9,159)	6,837
Telefónica del Salvador	7,116	—	(2,580)	523	3,628	—	—	8,687
Telefónica Larga Distancia, Inc.	261	—	(58)	16	—	—	—	219
Telefónica Publicidad e Información, S.A.	4,578	363	4,483	—	582	—	(2,200)	7,806
Telesp Participações	937,057	6,248	63,371	53,247	(74,058)	(760,193)	(73,647)	152,025
Tele Sudeste Celular Participações	71,395	—	5,581	3,090	372	(61,913)	(578)	17,947
Telefónica Móviles	—	67,488	(316)	(1,018)	—	—	—	66,154
CEI	—	33,890	—	—	—	—	—	33,890
Orla Siebzehte	—	150,825	(125)	—	—	—	—	150,700
IPSE 2000	—	194,621	48	—	—	—	—	194,669
Atlanet	—	21,703	(2,547)	372	—	—	—	19,528
Atco	—	18,223	(7,718)	—	—	(10,505)	—	—
Endemol	—	2,061	345	—	(26)	—	(111)	2,269
Other companies	4,742	6,879	(5,215)	118	(18)	—	—	6,506
Total	1,766,084	1,135,135	20,072	79,984	(63,742)	(1,293,576)	(91,608)	1,552,349

The variations in minority interests in 1999 were as follows:

Millions of Pesetas		Capital Contribution	Income	Variation in		Capital Reductions		
Company	Balance at 12/31/98	and Inclusion of Companies	(Loss) for the Year	Translation Differences	Other Variation	and Exclusion of Companies	Dividends Paid	Balance at 12/31/99
C.R.T. Celular	—	21,948	(4,635)	48	7,374	(500)	—	24,235
C.T.C. Chile, S.A.	192,915	—	(11,242)	11,379	—	—	(1,641)	191,411
Cleon, S.A.	—	657	(3)	—	—	—	—	654
Cointel	87,670	—	11,833	12,055	(10,995)	—	(6,614)	93,949
Fonditel	971	—	179	—	—	—	(34)	1,116
Lola Films	—	843	4	—	—	—	—	847
Mensatel	116	—	—	—	—	(116)	—	—
Other Chilean companies – Sonda Group	253	7,103	1,464	1,425	5	—	(51)	10,199
Publiguías, S.A.	1,851	—	494	(29)	—	—	(639)	1,677
Telefónica de Argentina, S.A.	159,798	8,653	27,972	31,024	10,994	—	(22,973)	215,468
Telefónica del Perú Holding	28,764	—	233	(805)	—	(867)	—	27,235
Telefónica del Perú, S.A.	114,127	—	13,652	10,067	(10,026)	—	(6,998)	120,822
Telefónica del Salvador	—	4,668	(1,577)	810	4,233	(1,018)	—	7,116
Telefónica Larga Distancia, Inc.	2,524	—	(135)	322	—	(2,450)	—	261
Telefónica Publicidad e Información, S.A.	—	1,656	2,922	—	—	—	—	4,578
Telesp Participações	—	1,187,226	68,996	(265,780)	—	(43,389)	(9,996)	937,057
Tele Sudeste Celular Participações	—	108,926	2,455	(24,914)	(36)	(9,333)	(5,703)	71,395
Terra Networks	—	55,641	(1,662)	(93)	—	—	—	53,886
Other companies	938	3,877	(1,850)	572	631	(80)	—	4,088
Total	589,927	1,401,198	109,100	(223,919)	2,180	(57,753)	(54,649)	1,766,084

EXHIBIT V

DEBENTURES AND BONDS

The detail of the debentures and bonds outstanding as of December 31, 2000, and of the main features thereof, is as follows:

Teléfonoica and Instrumentality Companies	Currency	Interest Rate %	Maturing in					Subsequent Years	Total
			2001	2002	2003	2004	2005		
Debentures and bonds:									
FEBRUARY 1990 SERIES B	Ptas.	12.60	—	—	—	—	1,367	—	1,367
FEBRUARY 1990 SERIES C	Ptas.	12.60	—	—	—	—	—	626	626
FEBRUARY 1990 SERIES E	Ptas.	12.85	—	—	—	—	7,734	—	7,734
FEBRUARY 1990 SERIES F	Ptas.	12.58	—	—	—	—	—	844	844
DICEMBER 1990	Ptas.	13.58	—	—	—	—	71,543	—	71,543
APRIL 1991 SERIES A	Ptas.	13.50	10,000	—	—	—	—	—	10,000
APRIL 1991 SERIES B	Ptas.	13.67	69,374	—	—	—	—	—	69,374
SEPTEMBER 2001 D	Ptas.	10.25	83,648	—	—	—	—	—	83,648
NOVEMBER 2002 C	Ptas.	10.06	—	19,315	—	—	—	—	19,315
OCTOBER 2000 B	Ptas.	8.00	—	—	—	—	—	—	—
OCTOBER 2004 C	Ptas.	8.25	—	—	—	11,520	—	—	11,520
APRIL 1999	Euros	4.50	—	—	—	—	—	83,193	83,193
JUNE 1999	Euros	5.38	—	—	—	—	—	49,916	49,916
JULY 1999 zero-coupon	Euros	6.37	—	—	—	—	—	5,459	5,459
MARCH 2000	Euros	6.79	—	—	—	—	—	8,319	8,319
MARCH 2000	Euros	4.25	16,639	—	—	—	—	—	16,639
APRIL 2000	Euros	5.62	—	—	—	—	—	83,193	83,193
Debentures subtotal:			179,661	19,315	—	11,520	80,644	231,550	522,690
EMTN ISSUE	PTE	Libor+0.07	—	—	—	—	—	12,449	12,449
EMTN ISSUE	US\$	0.06	—	—	89,407	—	—	—	89,407
MARCH 1998	Ptas.	4.84	—	—	—	—	—	70,000	70,000
EMTN ISSUE	JPY	1.23	—	—	—	9,659	—	—	9,659
EMTN ISSUE	JPY	0.27	93,476	—	—	—	—	—	93,476
GLOBAL BOND	Euros	6.12	—	—	—	—	166,350	—	166,350
GLOBAL BOND	US\$	7.35	—	—	—	—	224,290	—	224,290
GLOBAL BOND	US\$	7.75	—	—	—	—	—	447,618	447,618
GLOBAL BOND	US\$	8.25	—	—	—	—	—	223,517	223,517
Bonds subtotal			93,476	—	89,407	9,659	390,640	753,584	1,336,766
Total issues:			273,137	19,315	89,407	21,179	471,284	985,134	1,859,456

Foreign Operators Debentures and Bonds	Currency	Interest Rate %	Maturing in:					Subsequent Years	Total
			2001	2002	2003	2004	2005		
Yankee Bonds	US\$	7.63	—	—	—	—	—	35,300	35,300
Yankee Bonds	US\$	8.38	—	—	—	—	—	35,300	35,300
Eurobonds	Euros	5.38	—	—	—	33,158	—	—	33,158
Series E	UF	6.00	1,516	1,516	758	—	—	—	3,790
Series F	UF	6.00	347	347	347	347	347	3,639	5,374
Series H	UF	5.80	2,426	2,426	2,426	2,426	2,426	1,213	13,343
Series I	UF	5.50	606	606	606	606	606	5,762	8,792
Series J	UF	6.75	1,456	1,456	1,456	1,456	1,456	6,550	13,830
Series k 1998	UF	6.75	—	—	—	37	184	19,186	19,407
CTC CHILE:			6,351	6,351	5,593	38,030	5,019	106,950	168,294
Series l	N. Soles	VAC+ 5.6	5,802	—	—	—	—	—	5,802
Single series (1 ^a)	N. Soles	VAC+ 6.9	—	—	—	—	—	5,253	5,253
Single series (2 ^a)	N. Soles	VAC+ 7.0	—	—	—	—	—	—	2,286
Single series (4 ^a)	US\$	14.40	8,338	—	—	—	—	—	8,338
Bonds 1st Program T. Peru	US\$	7.69	—	3,530	—	—	—	—	3,530
Bonds 1st Program T. Peru (4)	US\$	8.13	—	—	6,177	—	—	—	6,177
Bonds 4th Program T. Peru (5)	N. Soles	13.81	—	3,503	—	—	—	—	3,503
Telefónica del Perú:			14,140	7,033	6,177	—	—	7,539	34,889
Negotiable debentures	US\$	8.38	51,185	—	—	—	—	—	51,185
Negotiable debentures	US\$	11.85	—	—	—	52,950	—	—	52,950
Negotiable debentures	US\$	9.13	—	—	—	—	—	65,040	65,040
Negotiable debentures	US\$	Floating	70,600	—	—	—	—	—	70,600
Negotiable debentures	US\$	9.88	—	17,650	—	—	—	—	17,650
TASA			121,785	17,650	—	52,950	—	65,040	257,425
Debentures Series A	US\$	8.50	—	17,650	—	—	—	—	17,650
Debentures Series B	US\$	9.75	—	—	—	—	—	39,712	39,712
Debentures Series C	US\$	11.25	—	—	—	—	—	30,887	30,887
Debentures Series C	US\$	8.25	7,060	—	—	—	—	—	7,060
CEI			7,060	17,650	—	—	—	70,599	95,309
Series A 1997	US\$	8.85	—	—	—	39,712	—	—	39,712
Series B 1997	US\$	10.38	—	—	—	30,887	—	—	30,887
Cointel			—	—	—	70,599	—	—	70,599
Total issues:			149,336	48,684	11,770	161,579	5,019	250,128	626,516
Total Group issues:			422,473	67,999	101,177	182,758	476,303	1,235,262	2,485,972

The detail of the maturities and redemption values of the zero-coupon bonds and debentures as of December 31, 2000, is as follows:

Zero-coupon Debentures and Bonds (Issue value + Accrued Interest at 12/31/00)	Maturity Date	Redemption Rate	Book Value	Redemption Value
DEBENTURES				
February 1990 Series E	02/26/05	613.338	7,734	12,776
February 1990 Series F	02/26/10	1,069.479	844	2,503
December 1990	12/28/05	675.000	71,543	135,000
April 1991 Series B	04/16/01	360.000	69,373	72,000
September 2001 D	09/18/01	265.543	83,648	89,687
July 1999 zero-coupon	07/21/29	637.638	5,459	31,828
Total issues			238,601	343,794

EXHIBIT VI

The detail, by type of derivative, of the notional values of the derivatives arranged by the Group as of December 31, 2000, is as follows:

Type of Risk	Equivalent peseta Value	Group Pays		Group Receives	
		Value	Currency	Value	Currency
Peseta Interest rate swaps:	333,666				
from fixed to floating	114,108	114,108	ESP		
from floating to fixed	212,508	212,508	ESP		
from floating to floating	7,050	7,050	ESP		
Cross-currency swaps	1,536,722				
from fixed to floating	627,802				
– US\$/US\$	441,577	2,500	US\$	2,500	US\$
– EUR/EUR	186,225	1,119	EUR	1,119	EUR
from floating to fixed	691,263				
– US\$/US\$	558,154	3,160	US\$	3,160	US\$
– EUR/EUR	133,109	800	EUR	800	EUR
from floating to floating	217,657				
– US\$/US\$	88,316	500	US\$	500	US\$
– EUR/EUR	116,893	703	EUR	703	EUR
– PTE/PTE	12,449	15,000	PTE	15,000	PTE
Interest rate options	397,911				
Caps & Floors	665,444				
– US\$	666,782	3,775	US\$		
– ESP	22,000	22,000	ESP		
– PTE	24,897	30,000	PTE		
– EUR	(48,235)	(290)	EUR		
Swaptions	(280,733)				
– US\$	(247,283)	(1,400)	US\$		
– ESP	(33,450)	(33,450)	ESP		
Peseta structured products	13,200	13,200	ESP		
Currency swaps	1,650,534				
from fixed to fixed	176,768				
– US\$/EUR	39,146	247	US\$	235	EUR
– ESP/US\$	17,116	104	ESP	17,116	EUR
– US\$/JPY	41,432	235	US\$	25,699	JPY
– JPY/US\$	26,495	16,883	JPY	150	US\$
– GBP/EUR	20,214	80	GBP	121	EUR
– BRL/US\$	21,946	251	BRL	124	US\$
– CLP/US\$	4,416	12,418	CLP	25	CLP
– MAD/US\$	6,003	349	MAD	34	US\$
from fixed to floating	267,966				
– BRL/US\$	139,258	1,461	BRL	788	US\$
– EUR/JPY	112,070	674	EUR	66,200	JPY
– US\$/EUR	16,638	106	US\$	100	EUR
from floating to floating	1,205,800				
– US\$/ESP	281,561	1,978	US\$	281,561	ESP
– ESP/US\$	71,331	71,331	ESP	487	US\$
– ESP/EUR	43,836	43,836	ESP	263	EUR
– EUR/US\$	555,523	3,766	US\$	3,339	EUR
– EUR/US\$	207,837	1,249	EUR	1,078	US\$
– FRT/EUR	15,391	607	FRF	93	EUR
– GBP/EUR	30,321	120	GBP	182	EUR
Forwards	622,382				
– ARS/US\$	231,916	1,351	ARS	1,313	US\$
– EUR/US\$	376	2	EUR	2	US\$
– US\$/EUR	28,505	160	US\$	171	EUR
– US\$/JPY	5,301	30	US\$	3,250	JPY
– PEN/US\$	65,902	1,359	PEN	373	US\$
– UFC/US\$	277,134	55	UFC	1,569	US\$
– US\$/VEB	3,533	20	US\$	14,350	VEB
– VEB/US\$	9,715	41,873	VEB	55	US\$
Exchange rate options	55,160				
– BRL/US\$	4,415	—	BRL	25	US\$
– US\$/EUR	50,745	287	US\$	305	EUR
Total	4,596,375				

The detail, by type of derivative, of the notional values of the derivatives arranged by the Group as of December 31, 1999, is as follows:

Type of Risk	Equivalent peseta Value	Group Pays		Group Receives	
		Value	Currency	Value	Currency
Peseta interest rate swaps	551,123				
from fixed to floating	152,408	152,408			
from floating to fixed	341,749	341,749			
from floating to floating	56,966	56,966			
Cross-currency swaps	663,456				
from fixed to floating	48,331	300	US\$	300	US\$
from floating to fixed	495,191	2,985	US\$	2,985	US\$
from floating to floating	12,449	15,000	PTE	15,000	PTE
	107,485	650	US\$	650	US\$
Interest rate options	355,570				
5-year collar + 5-year Peseta swaption collar	20,250	20,250	PTA		
seagull t.i. swaption	77,279	450	US\$		
	206,701	1,250	US\$		
	41,340	250	US\$		
Peseta structured product	10,000	10,000	PTA		
Currency swaps	1,773,241				
from fixed to floating	100,832				
– ITL/PTA	8,926	8,926	PTA	120,000	ITL
– ECU/PTA	10,576	10,576	PTA	65	ECU
– BRL/US\$	81,330	795	BRL	474	US\$
from floating to floating	1,316,843				
– ECU/PTA	64,056	69,956	PTA	385	EUR
– ECU/FRF	12,146	479	FRF	73	EUR
– US\$/PTA	71,331	71,331	PTA	487	US\$
– PTA/US\$	810,805	4,903	US\$	810,805	PTA
– BRL/US\$	20,514	251	BRL	124	US\$
– BRL/US\$ (NDF)	8,929	111	BRL	54	US\$
– CLP/US\$	4,134	12,418	CLP	25	US\$
– CLP/US\$ (NDF)	28,938	94,366	CLP	175	US\$
– ARS/US\$ (NDF)	211,844	1,345	ARS	1,281	US\$
– VEB/US\$ (NDF)	8,764	35,668	VEB	53	US\$
– PEN/US\$ (NDF)	45,061	983	PEN	273	US\$
– GBP/EUR	30,321	120	GBP	182	EUR
from fixed to fixed	355,566				
– US\$/US\$ (locked-in exchange rate)	92,678	648	US\$	648	US\$
– US\$/ESP	214,837	1,299	US\$	214,837	ESP
– EUR/MAD	11,549	739	MAD	69	EUR
– JPY/US\$	14,523	85	US\$	8,816	JPY
– EUR/US\$	1,765	10	US\$	10	EUR
– GBP/EUR	20,214	80	GBP	121	EUR
Exchange rate options	63,498				
Options ARS/US\$	6,201	25	US\$	38	ARS
Options ABS/US\$	4,134	38	ARS	25	US\$
Options BRL/US\$	20,498	86	US\$	223	BRL
Options BRL/US\$	14,221	206	BRL	86	US\$
Options CLD/US\$	10,176	50	US\$	32,505	CLP
Options CLD/US\$	8,268	27,088	CLP	50	US\$
Exchange rate hedges	303,011				
Purchase US\$/Sale PTA US\$	16,690	42,980	PTA	305	US\$
Gbp	281,897	1,641	US\$		
Jpy	937	3	GBP		
Eur	1,513	890	JPY		
Sale BRL/Purchase USD	385	2	EUR		
Total	3,709,899				

The detail, by maturity, of the hedging transactions arranged as of December 31, 2000, is as follows:

Millions of Pesetas					
Underlying Instrument Hedged	Amount	Up to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years
With underlying instrument					
Promissory notes	—	—	—	—	—
Loans	1,252,083	147,356	230,413	227,365	646,949
In national currency	328,483	1,000	13,892	58,377	255,214
In foreign currencies	923,600	146,356	216,521	168,988	391,735
MTN, debentures and bonds	1,142,315	109,376	126,453	400,450	506,036
In national currency	140,000	—	—	—	140,000
In foreign currencies	1,002,315	109,376	126,453	400,450	366,036
Liability	2,201,977	1,030,612	794,061	442,477	(65,173)
Swaps	1,223,798	413,992	546,778	263,028	—
Exchange rate options	55,160	55,160	—	—	—
Interest rate options	397,911	36,352	247,283	179,449	(65,173)
Forward	525,108	525,108	—	—	—
Total	4,596,375	1,287,344	1,150,927	1,070,292	1,087,812

The detail, by maturity, of the hedging transactions arranged as of December 31, 1999, is as follows:

Millions of Pesetas					
Underlying Instrument Hedged	Amount	Up to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years
With underlying instrument					
Promissory notes	—	—	—	—	—
Loans	2,477,111	1,391,063	159,277	201,750	725,021
In national currency	232,583	69,826	—	10,000	152,757
In foreign currencies	2,244,528	1,321,237	159,277	191,750	572,264
MTN, debentures and bonds	510,708	26,628	92,679	146,577	244,824
In national currency	318,540	23,800	—	49,916	244,824
In foreign currencies	192,168	2,828	92,679	96,661	—
Liability	722,080	354,226	210,148	127,456	30,250
Exchange rate options	63,498	63,498	—	—	—
Interest rate options	355,571	34,346	166,954	124,021	30,250
Forward	303,011	256,382	43,194	3,435	—
Total	3,709,899	1,771,917	462,104	475,783	1,000,095

MANAGEMENT REPORT OF THE TELEFÓNICA GROUP 2000

INITIAL SUMMARY

Organization by Business Line and Verónica Operation

- In 2000 the Telefónica Group completed the organization model by Business Line at global level.
- The Verónica Operation, consisting of launching public tender offers for all the shares of Telesp, Tele Sudeste Celular, Telefónica de Argentina and Telefónica del Perú through an exchange of shares of these companies for shares of Telefónica, S.A., made it possible to develop the organizational model. This Operation, together with the completion of the acquisition of the holding of the Argentine partner CEI, significantly increased Telefónica's effective holdings in the main operators: Telefónica de Argentina (92.87%), Telesp (86.61%), Telefónica del Perú (93.22%) and Telesudeste (75.57%).
- As a result of Verónica the Telefónica Group was able to consolidate its presence in Latin America, its natural market par excellence with over 500 million Spanish-/Portuguese-speaking inhabitants. This reinforces Telefónica's commitment to Latin America and represents a major opportunity to create value due to its growth potential.
- The new organization comprises the following business lines, each of which is carried on by a subsidiary responsible for the business:
 - The wireline telephony business in Spain is carried on by Telefónica de España, S.A., under which are grouped other subsidiaries with the same line of business.
 - Noteworthy in the cellular business was the formation of Telefónica Móviles, which, following its incorporation in February 2000, will group together all the Telefónica Group's wireless companies with the exception of those in Chile and Puerto Rico, of which it only controls the management. Following the incorporation of the controlling company, in October the companies that compose the Group, namely Telefónica Móviles de España, TeleSudeste Participações, Teleleste, CRT Celular, Telefónica El Salvador, Telefónica Guatemala, Telefónica Intercontinental, S.A. (the head of the UMTS expansion in Europe) and Medi Telecom (Morocco), were transferred. The Argentine and Peruvian operators will be transferred in the first half of 2001. The organization of the wireless telephony business culminated with the admission to listing of the company's shares on the Madrid and New York Stock Exchanges in November 2000.
 - Following the Verónica Operation, the wireline telephony operators in Latin America continue to be managed by Telefónica Internacional. This business line is being consolidated as the leading wireline operator in the region.
 - In the data business, Telefónica DataCorp combines the businesses involving data communications and integrated corporate solutions for large corporations in Spain, Latin America and Europe.
 - In the media business, Telefónica Media has been structured in three business units: free television and radio, content and pay television. Noteworthy was the acquisition in 2000 of the Dutch producer ENDEMOL Entertainment N.V.
 - In the Internet businesses, the acquisition by TERRA of Lycos in a share exchange transaction gave rise to the creation of the leading global Internet company, Terra Lycos.
 - Other lines of business are the call center business, managed by Atento, which is present in Spain and Latin America, telephone directories, managed by TPI-Páginas Amarillas, which will also encompass similar activities in the countries where the Group operates, the business-to-business e-commerce business managed by Katalyx and Emergia's carrier's carrier (underwater cable) business.
 - The Corporate Center, Telefónica, S.A., heads the Group and gives it cohesion, allowing synergies to be harnessed with initiatives such as the creation of Shared Services Centers to provide support functions to the business units in each country.

International Expansion

- In 2000 Telefónica Internacional consolidated its presence in Latin America, its natural market, as a result of which revenues from its business in this area account for around 50% of the Group's net sales. Noteworthy was the management drive carried out, despite the unfavorable performance of the economy in the region, particularly in Brazil where the figure of 10.6 million wireline telephony lines was reached, an increase of 28% with respect to the previous year, and there are now more than 4.6 million cellular customers. Also worthy of note was the agreement reached with Motorola for the acquisition of four cellular operators in Mexico, the acquisition of the Argentine television network Telefé, the entry into Northern Argentina in both the wireline and wireless telephony businesses and the formation/acquisition of new subsidiaries in the Terra, Data, Atento and Katalyx business lines.

- In January 2001 Telefónica and Portugal Telecom reached an agreement for the creation in Brazil of the leading wireless telephony operator in South America through the grouping together of their assets in this area, which led to the obtainment of 9.3 million customers.
- In addition, the development and international expansion of the Telefónica Group's businesses has enabled it to step up its presence in Europe, notably with the obtainment of UMTS licenses in Germany, Italy, Austria and Switzerland that will allow Telefónica Móviles to position itself as one of the three leading global operators in terms of population managed; the acquisition by Terra Mobile of the Finnish company Iobox Oy; the acquisition of Endemol, a leading company in the development and production of contents for television and Internet, particularly in the Netherlands, Spain, Italy, Portugal and Scandinavia, and the formation of Atlanet with Telexis and ACEA in Italy and the negotiation in Germany with the Bertelsmann Group for the inclusion in 2001 of MediaWays in the Telefónica Data Group.
- In October 2000 Terra's acquisition of Lycos was formalized, giving rise to a global Internet company with a presence in 41 countries with 94 million visitors, making it one of the most popular websites in the U.S., Europe, Asia and Latin America and the third ISP worldwide.

Regulatory Environment

- 2000 saw significant progress in the deregulation of the telecommunications industry in Spain as a result of the approval of the deregulatory measures in June.
- Since November Telefónica de España has offered a flat rate for Internet and financial bonuses for metropolitan traffic. Indirect access for local traffic and the opening of the loop will make it possible from 2001 for subscribers to choose their operator for metropolitan calls. This will practically conclude the process of market deregulation, leaving only the access shortfall and rate rebalance to be resolved.
- It should be pointed out also that the introduction of the price cap system and the opening of the local loop have completed the full deregulation of telecommunications and will enable progress to be made towards rate rebalance and boost the development of the information society.
- In the wireless telephony area, mention should be made of the regulatory changes announced, which will alter the framework envisaged in the current GSM and UMTS licenses, with the establishment of a fee for use of the radioelectric spectrum. In 2000 Telefónica Móviles España was announced as being the dominant operator in the interconnection market.

- Noteworthy in Latin America is CTC Chile, for which 2000 was the first year in which the impact on the year of the Rate Decree was felt, and Argentina, where the market was fully deregulated in November 2000. In Peru the new regulatory environment is expected to come into force in mid-2001 with the application of the new Rate Decree, which is currently being negotiated. In Brazil, efforts were made in 2000 to advance towards fulfillment of the goals set by Anatel in the privatization process.

Share Performance and Significant Variables

- In 2000 share prices fell and the markets experienced increased volatility, which was particularly acute in the telecommunications industry. Telefónica's share price dropped 30% in the year, from €24.51 as of December 31, 1999, to €17.25 as of December 29, 2000. However, this decrease was under the average for the main European operators as a whole.
- Wireline telephony lines reached 42 million (39.6 million lines managed), up 9.6% on the previous year. Wireless telephony customers numbered 23 million, 49% more than in 1999. Wireline and wireless telephony and pay television connections totaled 66 million, and customers with Internet access through Terra totaled 4.1 million.

INFORMATION ON LINES OF BUSINESS

Wireline Telephony in Spain

- In 2000 revenues remained stable with respect to those of the previous year due to the fact that the increase in Internet and Wireline-Wireless traffic neutralized the impact of the loss of market share and of rate reductions. Also, the increase in interconnection expenses, mainly as a result of Wireline-Wireless traffic, was partially offset by the drive to contain the other operating costs. The downsizing of the labor force to 41,193 employees will enable the Company's productivity ratios to be increased.
- The equivalent lines in service amounted to 20,317,833, up 5.7% with respect to the previous year thanks to the good performance of the integrated services digital network (ISDN), which was exceptionally popular in 2000, with growth of 77.9% in basic accesses and plant in service of 632,466.
- Ibercom's plant in service measured in terms of extensions rose to 955,949, 11.6% higher than in December 1999 thanks to the 282,873 new connections in 2000. Also noteworthy was the good performance of the digital Circuit Lease Service, with a year-on-year variation of 8.7%, and wholesale services, which grew by 25.1%.

- Worthy of note was the exceptional reception in the market of the discount plans «Europa 15» and «País 30» and of the financial bonuses for metropolitan traffic «Bono Ciudad» and «Bono Ciudad Plus» launched in November. These products exceeded Company expectations. The number of users who took advantage of the Internet flat rate rose to over 74,000.
- The minutes of usage sold totaled 106,400 million, up 28.9% on 1999. Average consumption in terms of minute per line and day grew by 25.6% to 16.83. Incoming traffic grew by 96% for the year as a whole and outgoing traffic by 19.2%, boosted mainly by Internet traffic which doubled in terms of minutes with respect to 1999 and Wireline-Wireless traffic, which increased by 35.1% with respect to the previous year.

Wireline Telephony in Latin America (Telefónica Internacional)

- In 2000 the Group's presence in Brazil was consolidated through Telesp, the telephony operator in the state of São Paulo, which ended the year with over 10.6 million lines in service. In Chile, the cost containment policy was aimed at offsetting the reduction in margins resulting from application of the Rate Decree, and in Peru there was a drive to optimize expenses so as to meet the challenge of the deregulation of the market planned for 2001. From November 2000 TASA is faced with a fully deregulated market, which will make it more difficult to maintain the pace of growth achieved hitherto.
- Noteworthy in the geographical expansion of Telefónica Internacional was the acquisition in November 2000 of the American carrier CTI, which will be included in the integrated management model for the international traffic of the Latin American operators.
- In October Telesp's holding in Ceterp Celular was sold to Telesp Celular, whose main stockholder is Portugal Telecom. Also, TISA and Portugal Telecom exchanged their respective holdings in SPT (the Telesp Fija holding company) and Portelcom (the Telesp Celular holding company), thereby increasing TISA's holding in Telesp by 4.7 percentage points.
- At year-end, Telefónica Internacional had almost 22 million lines in service (of which it directly managed 19.3 million), representing year-on-year growth of 13.6%.

Wireless Telephony

- The year 2000 was marked by the following milestones for the wireless telephony business:
 - The creation in February 2000 of Telefónica Móviles as the company grouping together the Group's wireless telephony companies, with the exception of those in Chile and Puerto Rico at which it only controls management. The companies in Argentina and Peru will be transferred in the first half of 2001.
 - Maintenance of our leadership in the Spanish market, where Telefónica Móviles España has the highest market share in Europe of the main operators.
 - Increased holdings in the Latin American operators as a result of the Verónica Operation.
 - The obtainment of five UMTS licenses in Europe in Spain, Germany, Italy, Austria and Switzerland (the latter in 2001).
 - The formation, together with Terra Lycos, of Terra Mobile with the acquisition by the latter of the wireless portal Ibox Oy, and the creation of Mobile Pay International.
 - The conclusion in November 2000 of admission to listing on the Madrid and New York Stock Exchanges.
- In operating terms, at 2000 year-end the penetration of wireless telephony of the markets in which Telefónica Móviles is present was 25% (with a total market share of 52%), albeit unevenly distributed by country depending on the maturity of the respective markets. Thus, in Spain, with 61% penetration, the market share is 56%, in contrast to the high growth potential in South America, with average penetration of 14% and a market share of 49%. In Central America, where the market is starting to develop, the market share is 30%, with 7% penetration, and in Morocco the market share is 27% with 6% penetration. The foregoing data do not include activity in Chile and Puerto Rico where management is also controlled.
- The foregoing figures show that Telefónica Móviles is one of the three main operators worldwide in terms of population managed, and one of the seven main operators worldwide in terms of proportional customers, per information provided by analysts.

- With regard to the customer base, the number of users at year-end was 21,840,378, growth of 52% with respect to the previous year, and the customer base was 19,305,000, 85% higher than the previous year. This difference in the percentage of growth is due to the increase in Telefónica's holdings, as a result of the Verónica Operation, in Telefónica Argentina, Telefónica del Perú and Tele Sudeste. If Chile and Puerto Rico are included, the number of customers rises to 23,214,227, up 49% on the previous year.
- Lastly, also noteworthy is the net increase in the number of users, from 6.7 million in 1999 to 7.5 million in 2000.
- In 2000, as part of its commitment to the new communication services currently being developed, Telefónica Móviles, S.A., together with Terra Networks, S.A., incorporated Terra Mobile, the Telefónica Group's global wireless portal, to develop and manage access to the Internet through e-motion. In July 2000 this new company acquired lobox Oy, a Finnish company that manages a pan-European wireless portal. At year-end Terra Mobile, S.A. had 3 million users and 3.7 million pages served.

Internet

- The main event in 2000 was the acquisition by Terra Networks of Lycos Virginia, Inc., the third US Internet portal, which led to the expansion of Terra's business to several European and Asian countries. The resulting company has become the Internet company with the greatest global presence, operating in 41 countries, as compared with only 8 at 1999 year-end. For Terra, Lycos is an offer rich in content, with first-class advertisers and excellent possibilities in the area of e-commerce.
- Terra's acquisition of Lycos was executed on October 27 through a share exchange transaction whereby 2.15 shares of Terra were exchanged for each share of Lycos. Before this, Telefónica subscribed substantially in full a monetary capital increase carried out by Terra amounting to €2,200 million, making it one of the world's Internet companies with most liquidity.
- In addition to the acquisition of Lycos, Terra continued its international expansion, particularly in Latin America, encompassing most notably the acquisition of the Venezuelan portal Chévere, the launch of portals in Central America and Uruguay and the acquisition of LaCiudad.com in Colombia.
- Terra Lycos's business model is based on its presence throughout the Internet value chain, offering access, content and services in its portals to an audience which are subsequently monetized through advertising and e-commerce. At 2000 year-end the access business had 4.1 million customers to whom it offers free access, pay access and broadband services. Advertising, which together with e-commerce accounted for 75% of revenues at year-end, must continue

to grow at long term as Internet is consolidated as a new medium and most of the investments in advertising are made through large companies like Terra. With regard to e-commerce, which is still at the fledgling stage but has significant growth potential at long term, Terra has configured its e-commerce platform to which new store offers are constantly being added; in some of the main e-commerce categories Terra has specialized joint ventures and vertical portals: Invertia (personal finance), Rumbo (travel), A tu Hora (delivery of products), motor, education, etc.

- Terra's shares are included in the selective Ibx 35 index, and due to their technological nature, are also included in the New Market segment.

Data business

- As regards the Global Line of Business Telefónica Datacorp, which focuses on providing communications services to large corporations, 2000 was characterized mainly by the consolidation of its international presence.
- In 2000 the groundwork was laid for the consolidation of Telefónica Data's presence in the Americas, with the creation of new subsidiaries in Mexico, Uruguay and the USA. In addition, Telefónica Empresas, a subsidiary of Telesp, was set up for the data business.
- This business line has worked to help the Telefónica Group enhance its presence in Europe. To this end, the transactions of European Telecom Internacional (Austria) and ACEA-Telefónica (in Lazio-Rome) were inherited from Telefónica Intercontinental. Both of these were redesigned in the year to focus on corporate communications and, in the case of the second, it was also given a national, much more ambitious dimension through the transaction with Telexis to create Atlanet. Also, negotiations were held with the Bertelsmann Group to include MediaWays (Germany) in the Telefónica Data Group in 2001.
- Also in the international arena, the investment drive continued in the year with the formation and consolidation of the International Network of Telefónica Datacorp which, from 2001, must serve as a basis to provide all the international data services required by all the Telefónica Group companies, including the international Internet access service.
- As an inherent part of Telefónica Datacorp's services strategy, substantial progress was made in the introduction of the Telefónica Data Internet Centres (TICs), which are the basis for providing value-added services.

- Also in the sphere of the increase in the value chain of the provision of value-added services to companies, specifically in the sphere of Professional Services on IP Technologies, it was decided which portion of Telefónica Sistemas' transactions would be transferred to the T-Data Group.

Media Business

- Noteworthy in this business line was the acquisition at the end of July of Endemol Entertainment, a Dutch producer with an international presence. This company, a leader in the development and production of content for free-to-air television, pay television and Internet with a special presence in the Netherlands, Spain, Italy, Portugal and Scandinavia, is among the three leading companies in all the countries in which it operates. Endemol considers Europe to be its natural market and controls the local production companies with the greatest presence and market share in each country.
- The Telefónica Media Group manages the Telefónica Group's holdings in the audiovisual services market, which gives it a privileged position in the audiovisual and interactive content industry, from which it operates as the leading integral communication and/or entertainment services provider in Spain and Latin America. In the current environment of convergence between content and communications, Telefónica Media is configured as the content provider for the Telefónica Group, playing a key role in developing the Internet, wireless telephony and broadband strategy. It is organized in three business lines: free-to-air television and radio, content and pay television.
- Noteworthy in the area of free-to-air television is Antena 3 with a market share in Spain of 21.6%, similar to that of the other private networks, although the audience profile has enabled it to capture 27.9% of the television advertising market, increasing its efficiency ratio to 1.3. In Argentina two television networks have been added: Telefé, a leader in generating advertising resources, with an average audience share of 38.2%, and over 32% of the advertising investment of the industry, and Azul TV which is the third network with an average share of 18.9%.
- In radio, Telefónica Media is present in Spain through Uniprex (Onda Cero) and Cadena Voz, which operate through a network of approximately 300 own and associated broadcasters. At 2000 year-end Onda Cero was the second conventional radio network in terms of audience share. In Argentina, T. Media acquired Radio Continental, the third conventional programming (AM) and the first formula radio (FM) radio network.

- Noteworthy in the content business line is Endemol, the leader in the development and production of content for free-to-air television, pay television and the Internet. Telefónica will group together all the broadcasting rights for sporting events in Telefónica Sport, including Euroleague Marketing, which owns the rights to the Basketball Euroleague, and GMAF, which owns 40% of Audiovisual Sport, which has various rights to broadcast soccer competitions. In Argentina, T. Media owns the rights to the Soccer League Championship matches through Torneos y Competencias.
- With regard to pay television, Vía Digital distributes 65 television networks, 30 audio and interactive services, and as of December 31, 2000, had 633,000 subscribers. In 2000 its programming included interactive services for banking transactions, ticket purchases, stock exchange information and meteorological information with the aim of attracting advertising expenditure.

Advertising and Information

- In 2000 the Telefónica Publicidad e Información Group consolidated its dominant position in the advertising and directory markets in Spain.
- The process of international expansion initiated in 1999 with the incorporation of TPI Brasil was reinforced in 2000 with the acquisition in December of 51% of Publiguías, the leading company in the Chilean directory business, in addition to significant growth in the business in Brazil, which will culminate with the publication in March 2001 of Guía Mais, the first directory entirely marketed by TPI. Also, as a result of the Verónica Operation, in 2001 it is planned to acquire the Telefónica Group's directory businesses in Argentina and Peru.
- Publishing products maintain their relative importance in the group's total revenues; however, the highest growth percentages are in the products relating to the new technologies (Internet, speaking pages, etc.).
- The performance of TPI's shares on the stock exchange was affected by the difficult situation of the equity securities markets. Despite this, the year-end market price of its shares was 14% higher than the price on admission to listing in June 1999. As a result of TPI's share performance since the public share sale offering, in January 2000 its shares were included in the Ibex 35 index, and due to their technological nature, are also included in the New Market segment.

Call Centers

- Atento has accompanied other business lines in its international expansion with the establishment of call centers in Morocco, Italy and other countries. Its multinational presence comprises operations in 14 countries in 4 continents. Noteworthy in 2000 was the acquisition of Quatro A in Brazil, thereby reinforcing its strategy in that country.
- 2000 was a year of transition for Atento, aimed at laying the groundwork for entering into a phase of consolidation of its business, thereby progressing from a growth and investment phase to one of generation of income. The company's main objectives center on selecting contracts with major customers in order to forge lasting and high value-added relations, more efficient operating management to improve the company's margins and better control of costs and investment in order to achieve adequate profitability.
- At 2000 year-end, Atento had 38,890 employees worldwide, 85% more than in 1999. The number of call center positions at year-end was 22,857, 4,000 more than at the end of 1999.

KATALYX (formerly B2B)

- Katalyx uses the experience, credibility, neutrality and assets of Telefónica and other partners to develop and operate electronic markets between companies, both vertical and horizontal, in Spain and Latin America. Katalyx is forging alliances with important local and global partners which facilitate global positioning, guarantee access to companies and contribute the necessary initial liquidity of electronic markets.
- Under the name of Adquira, Katalyx has created a horizontal electronic market in Spanish- and Portuguese-speaking markets, for purchasers and suppliers of indirect goods and services, such as office equipment, travel, computing and maintenance. Adquira provides the following solutions: Adquira Comprador, aimed at large companies to improve planned purchase processes and coordinate companies' internal needs; Adquira Marketplace, which groups together information about available products and potential suppliers, and Adquira Club, which aggregates the demand of SMEs to give them access to discounts usually available only to large companies.
- Katalyx is also developing vertical markets aimed at leading, in their respective industries, opportunities for strategic goods and services B2B. The industries on which it is centering its activity are construction, transport, supermarkets, food services and hotels.

Emergia

- Emergia was created to provide broadband communications services through a high-capacity optic fiber underwater ring in Latin America. In 2000, in line with its projections, the necessary infrastructure was created to provide it with an operating network at the end of the first quarter of 2001.

EARNINGS

Consolidated income

- When analyzing the year-on-year variations, it should be noted that they are affected by the change in the consolidated group due to the inclusion in 2000 of new companies, including most notably Endemol, Lycos, ATCO, Quatro A, Katalyx, Emergia and Terra Mobile.
- The Telefónica Group's consolidated net income amounted to Ptas. 416,766 million in 2000, an increase of 38.8%.
- Noteworthy was the performance of Telefónica de España, which contributed approximately Ptas. 40,000 million after incurring losses in 1999. Telefónica Fija Latam and Telefónica Móviles also performed well. The main losses were incurred by Telefónica Media and Terra.
- The performance of the items with the greatest bearing on consolidated income for the year is summarized as follows:
 - Operating revenues increased by 24.1% due mainly to the increase, in line with the previous year, of the revenues of the Telefónica de España Group (2.1%), despite the negative impact of competition, the 40.4% increase in the revenues of Telefónica Móviles due to the growth in the customer base and the 29.6% rise in the revenues of the Latin American wireline operators influenced by the increase in lines in service managed.
 - The year-on-year increase in operating expenses (chiefly interconnection, commercial and personnel expenses) was 35.3%. A noteworthy factor affecting personnel expenses was the performance of the Telefónica de España Group, which reduced personnel expenses by 6.7% as a result of the reduction of the labor force by 5,600 employees in order to improve productivity ratios.
 - Period depreciation and amortization increased by 14% with respect to 1999 due mainly to the increases in the balances of this caption at Telesp, Telefónica de Argentina and Telefónica Móviles España.

- Losses of associated companies were increased by the losses of the minority holdings of the Telefónica Móviles, Media and Terra Lycos Groups.
- There was a significant increase in amortization of goodwill due mainly to the acquisitions made by the Terra and Media Groups.
- The significant reduction in income attributed to minority interests, from 26.7% in 1999 to 4.6% in 2000, was due mainly to the Verónica Operation.

Revenues

- Operating revenues amounted to Ptas. 4,942,338 million, up 23.6% on the previous year.
- Revenues from operations, which represented over 95% of the total and amounted to Ptas. 4,739,588 million, increased by 24.1%, while capitalized in-house work on fixed assets increased by 7.7% and other operating revenues (which were marginal) increased by 33.9%.
- Telefónica de España, S.A.U. succeeded in halting the decline in its revenues from sales and services, which decreased by only 0.3%; however, if its dependent companies are included, the variation is an increase of 2.1%, and on this basis its sales revenues represent 31.8% of the aggregated sales revenues of the total Group.
- The loss of market share, the application of the Reference Interconnection Offers of 1999 and August 2000, the reduction in Wireline-Wireless prices due to the new charges by seconds except for the first minute and the higher discounts made in response to competition, were offset by a 25.9% increase in average consumption and a 2.4% increase in average billable plant.
- Traffic increased by 23% in 2000, with growth in all segments except for the metropolitan segment. Mention should be made of the performance of Internet traffic, which increased by 109.6%, and of Wireline-Wireless and international traffic, which grew by 35.1% and 30.7%, respectively.
- The Telefónica Móviles Group's pro forma operating revenues totaled Ptas. 1,231,453 million, representing year-on-year growth of 34.8% with respect to the pro forma consolidated financial statements for 1999. This figure represented 26% of the Group's total consolidated operating revenues. This performance was attained due to a 52% increase in customer numbers, which offset the 16% decline in minutes of usage per customer.
- The operating revenues of the Spanish wireless operator amounted to Ptas. 798,070 million, up 29% on 1999.

- Despite rising competition, Telefónica Móviles remains the undisputed leader in the market in terms of its share of both customer numbers (56%) and traffic (61.5%), and in 2000 it accounted for more than 49% of the net market growth.
- Turning to the Latin American wireless operators, TeleSudeste ended the year with 2.5 million customers, an increase of 35% with respect to 1999. The good performance of wireless telephony in the Argentine market enabled TCP to increase its customer base by 67%, finishing the year with a total of 1.7 million customers.
- The international expansion process of the Móviles Group included entry into the Moroccan market through the holding in the operator MediTelecom. Special mention should be made of the performance of this operator, which in only nine months achieved a market share of 28%, with 0.5 million customers.
- In the Latin American wireline telephony business, pro forma aggregate operating revenues amounted to Ptas. 1,493,156 million, with growth of 28% compared with the previous year, representing 28.0% of the Group's total operating revenues. This increase was largely due to the 16.7% increase in lines in service managed.
- The operators in Brazil and Argentina contribute 75% of the total revenues of the wireline telephony line in Latin America, as compared with 72% in 1999. The Brazilian operator Telesp ended 2000 with a total of 10.6 million lines in service, an increase of 28% with respect to 1999. In November 2000 the Argentine market was fully deregulated with a 50% reduction in interconnection charges, however, Telefónica de Argentina's revenues increased by 3% thanks to the 7% increase in plant in service. CTC Chile ended the year with 2.7 million lines in service, a year-on-year increase of 4%. The operator in Peru also performed positively with an increase in 2% in total lines in service thanks to the marketing of innovative prepayment products adapted to the Peruvian market.
- Mention should be made of the Media Group which, with the acquisition of the Dutch group Endemol and the inclusion of the Argentine group ATCO, increased operating revenues to Ptas. 120,448 million, representing 2.3% of the Group's operating revenues.
- Terra Lycos ended 2000 with 4.1 million customers in the Internet access business, of which 63% relate to Spain and 21% to Brazil. Revenues amounted to Ptas. 50,580 million. of which 75% were from advertising and e-commerce.

Expenses

- Operating expenses, including procurements, variations in inventories, personnel expenses and other operating expenses, amounted to Ptas. 2,832,590 million, a year-on-year increase of 35.3%.

- These expenses were affected by the change in the consolidated Group with the acquisition in 2000 of ATCO, Endemol and Quatro-A and the inclusion of newly-formed companies such as Katalyx, Emergia, M-Solutions and Terra Mobile, which did not exist in December 1999.
- Also noteworthy was the impact on the increase in the Group's expenses of the expanding businesses which as of December 1999 were still at a fledgling stage. Examples are Terra and Atento, whose operating expenses increased by 479.1% and 205.9%, respectively.
- The main components of operating expenses continue to be interconnection expenses, the growth in which is due to the increase in Wireline-Wireless and Wireless-Wireless traffic, commercial and marketing expenses relating to customer loyalty-building and attracting customers and personnel expenses.
- Personnel expenses at the Telefónica de España Group, in line with the trend initiated in 1999, fell by 6.7% to approximately Ptas. 370,000 million at year-end. In December the labor force was reduced by 5,573 employees, which enabled productivity to increase by 19% to approximately 493 lines per employee, one of the highest levels in Europe.
- At the end of 2000, the Telefónica Group had a total of 148,707 employees, up from 127,193 at December 31, 1999, the largest labor forces being at the Telefónica de España, Atento and Fija Latinoamérica groups with 43,009, 40,773 and 40,848 employees, respectively.
- By business, the Telefónica de España Group experienced overall growth of 7.95% in operating expenses and Telefónica Móviles España of 33.3%.
- Lastly, the Latin American operators with the greatest relative weight in Group expenses as a whole were Telesp and TAS, which experienced significant increases in their operating expenses. In the case of Telesp this was due chiefly to increased Wireline-Wireless interconnection expenses due to the increase in plant in service and traffic.

EBITDA and operating margin

- In 2000 Ebitda increased by 9.5%, as compared with 17.6% in the previous year, due mainly to the increase in interconnection expenses, the higher costs of customer loyalty-building and the development of new businesses such as Terra Networks, Telefónica Data, Emergia and Atento.
- The combination of growth in the expanding wireless and wireline businesses in Latin America made it possible to offset the loss of margins in the traditional wireline telephony business to cover the

necessary launch costs of new businesses with very high growth potential.

- The Ebitda margin was 41.8%, 5.58 percentage points lower than in 1999. The year-on-year fall in the margin was due mainly to the inclusion of new businesses with lower, or even negative, margins (e.g. Terra, Atento).
- The Group's operating margin increased by 3.8% with respect to 1999, to Ptas. 824,939 million.
- The slowdown in the growth in depreciation and amortization (13.9%) was due to the reduction in depreciation and amortization at Telefónica Fija Latinoamericana, which made this positive performance of the operating margin possible.

Income from ordinary activities

- The main contributions from associated companies were the negative contributions from the holdings of the Telefónica Móviles, Media and Terra Lycos Groups. Consequently, a net loss of Ptas. 26,846 million were recorded, as compared with a net loss of Ptas. 646 million in the previous year.
- Amortization of goodwill in consolidation increased by 158% from Ptas. 32,334 million in 1999 to Ptas. 83,289 million in 2000, due mainly to the acquisitions made by the Terra Lycos and Media Groups.
- Net financial expenses amounted to Ptas. 309,532 million, an increase of 76.15% with respect to the previous year. This increase was due basically to the increase in debt to finance the UMTS licenses and the appreciation of the dollar together with the rise in interest rates on loans in U.S. dollars, in which most of the financing of the Latin American operators is denominated.
- As a result of this performance, income from ordinary activities was Ptas. 405,272 million in 2000, a 31% decrease from 1999. In relative terms, income from ordinary activities accounted for approximately 8.6% of operating revenues, as compared with almost 14.7% in 1999.

Income before taxes

- The Group reported net extraordinary income of Ptas. 71,868 million in 2000, as compared with a net extraordinary loss of Ptas. 147,321 million in 1999, due mainly to the gains obtained in the public offering of shares of Telefónica Móviles and the sale of 3% of Terra.
- Extraordinary expenses included most notably the provision recorded for Telefónica de España's commitments to its personnel in the labor force reduction process.

- Income before taxes amounted to Ptas. 477,140 million in 2000, a year-on-year increase of 8.8% (9.1% in 1999).

Net income

- The corporate income tax expense amounted to Ptas. 40,302 million, an increase of 37.3% with respect to 1999, due mainly to the increase in nondeductible expenses, such as amortization of goodwill, and the exclusion from taxable income of losses on holdings carried by the equity method.
- The income attributed to minority interests decreased by 81.6% to Ptas. 20,072 million as a result of the Verónica Operation and the reduction in the holding in the Terra Lycos Group.
- The Telefónica Group's net income totaled Ptas. 416,766 million, a 38.8% increase over 1999; the main contributions were made by Telefónica Internacional, Telefónica Móviles and Telefónica de España.

Investment activity

- In 2000 the Telefónica Group invested a total of Ptas. 3,513,623 million in tangible fixed and intangible assets, a 188% increase on 1999. This increase is due chiefly to the significant amount of UMTS licenses obtained in Europe, amounting to Ptas. 2,030,692 million. Also worthy of mention is the effort made by Telesp to deploy the network and, in general, by all the wireline telephony operators to adapt their networks to broadband requirements.
- Capital expenditure totaled Ptas. 1,331,971 million, a 26.3% increase due mainly to the contribution made by the Latin American operators and by Telefónica Móviles, since capital expenditure at Telefónica de España fell by 6.6%.
- Intangible asset investments totaled Ptas. 150,960 million (disregarding the impact of the UMTS licenses).

Financing

- Telefónica's net debt increased with respect to December 1999 due to the financial needs deriving from the UMTS licenses and Group operations.
- However, the Group's indebtedness fell with respect to December 1999 as a result of the Verónica Operation, which allowed equity to be increased without an increase in debt. In this connection, the credit rating agencies maintained Telefónica's credit rating despite the fact that the rating of most operators fell in 2000.

- The principal financial debt transactions in 2000 were as follows:

- On February 4, 2000, the special Stockholders' Meeting simultaneously approved six capital increases to cater for the share exchange offers under the Verónica Operation.
- On April 7, 2000, Telefónica's Stockholders' Meeting approved five capital increases: one for the acquisition of ENDEMOL, two for the payment of dividends to stockholders and two for the payment of compensation of non-executive personnel of the Telefónica Group.
- In 2000 seven capital increases were carried out to cater for requests for conversion and the subsequent retirement of convertible debentures of Telefónica.
- In April Telefónica launched a public issue of nonconvertible debentures as part of the debenture and bond issue program registered with the Spanish National Securities Market Commission (CNMV) for €500 million with an annual coupon of 5.625% and maturity in seven years.
- In May Telefónica issued a bond as part of the EMTN program for 60,000 million yen with an annual coupon of 0.27% and maturity in one year.
- In August Telefónica signed a Syndicated Credit Line Contract for €8,000 million.
- Telefónica also issued a global bond maturing in 5, 10 and 30 years, aimed at the American and European institutional investor market and comprising the following tranches:
 - Tranche A: for €1,000 million with an annual coupon of 6.125%, maturing in five years.
 - Tranche B: for US\$ 1,250 million with a six-monthly coupon of 7.35%, maturing in five years.
 - Tranche C: for US\$ 2,500 million with a six-monthly coupon of 7.75%, maturing in ten years.
 - Tranche D: for US\$ 1,250 million, maturing in 30 years.
- In October Telefónica Centroamérica Guatemala, S.A. arranged a syndicated loan without recourse for US\$ 143 million.

R&D

- For the Telefónica Group, its research and development policy is an important instrument with which to achieve a competitive edge and guide and foster technological innovation. These activities focus on the following major areas:
 - The development of new differentiating services in the current competitive environment, both for wireline telephony with the aim of maintaining market share and increasing revenues with new broadband services, and for wireless telephony and Internet, with the aim of consolidating leadership positions due to its future growth potential and optimizing the growth of revenues by various means, including that of combining the capacities for new Internet businesses with accessibility of the wireless network as a cornerstone.
 - Activities aimed at optimizing the business processes, particularly those relating to customer service and management of customer relations.
 - The development of systems to manage networks and services.
 - Actions under the Innovation Program aimed more at the medium-long term with the objective of detecting, understanding, developing and applying – through strategic studies, technological surveillance activities or experimental developments – the aspects, particular features, opportunities or technologies that may have an impact on the future evolution of the Group's businesses.
- The above four areas of activity have an international dimension, since the solutions developed in Spain have been transferred to countries, particularly in Latin America, where they have also been considered to be competitive.
- Research and development expenses amounted to Ptas. 17,620 million in 2000, as compared with Ptas. 15,022 million in 1999.

Other salient matters

- In November Telefónica Móviles launched a public offering of shares for a total of 300,000,000 shares, representing 7.85% of the capital stock. The price per share was €11 for both minority and institutional stockholders.

Agreements entered into subsequent to December 31, 2000

Note 23 to the financial statements details the salient events since December 31, 2000. The most significant are:

- Telefónica and Portugal Telecom agreed to form a strategic joint venture, valued at US\$ 10,000 million, to provide wireless telephony services in Brazil. This joint venture will group together, as far as legislation in Brazil permits, all the wireless telephony assets in Brazil of the two partners, and will be the biggest wireless operator in South America. The joint venture will allow Telefónica and P.T. to earmark resources for the development of the business in the region, thereby enhancing their financial profile.

Treasury Stock

At the beginning of 2000, Telefónica Group held treasury stock representing 0.00421% of the Parent Company, i.e. 137,376 shares with a book value of Ptas. 2,022 each, giving a total of Ptas. 278 million.

11,495,188 shares of treasury stock were bought in 2000 and 645,000 were disposed of giving rise to a gain of Ptas. 267 million.

As a result of these transactions, 10,987,564 shares (0.25313%) were held in treasury stock at year-end, acquired at an average cost of Ptas. 3,001 per share. Pursuant to current accounting legislation, these shares of treasury stock were valued at the lower of year-end market price, the average price in the last quarter or underlying book value. Consequently, a provision of Ptas. 22,155 million was recorded.

CODE OF BEST PRACTICE CORPORATE GOVERNANCE

The purpose of this section is to provide information on the degree to which Telefónica Móviles, S.A. is observing the Code of Best Practice Corporate Governance («Olivencia Report» or «Code of Best Practice»).

A) Introduction

Telefónica Móviles, S.A.'s rules of corporate governance are set down in its bylaws and in Board of Directors Rules, the purpose of which is to establish the principles under which the Board of Directors must act, regulate its organization and functioning and set the code of conduct for its members, so as to achieve maximum efficiency and optimize management.

The first draft of these rules were approved by a resolution of the Board of Directors adopted on January 29, 1997, i.e. prior to publication of the «Olivencia Report».

After these rules had been in force for 18 months, as a result of the experience obtained in application thereof and the publication of the Code of Best Practice, Telefónica's Board of Directors considered it necessary to make certain changes to the text and include certain recommendations contained in this Code which were not included in the Telefónica text. This was carried out by a resolution of the Board of Directors on July 22, 1998, and duly notified to the CNMV.

B) Mission and powers of the Board of Directors

The current Rules conceive the Board of Directors basically as a body to supervise and control the Company's operations, delegating management of the Company's ordinary business to the executive bodies and management team.

Without prejudice to the foregoing, and to better enable it to discharge its general supervisory function, the Board of Directors undertakes to exercise directly, in addition to the powers reserved exclusively to it by law or under the Company's bylaws, the following duties:

- a) Approval of the Company's general strategies;
- b) Appointment and, when appropriate, removal, of the top executives of the Company and the other companies making up the consolidated Group;
- c) Appointment and, when appropriate, removal, of directors of the various subsidiaries;
- d) Identification of the Company's main risks and implementation and monitoring of the appropriate internal control and information systems;
- e) Definition of the policy for informing and communicating with the stockholders, markets and public opinion;
- f) Definition of the policy regarding treasury stock within the framework, if any, established by the Stockholders' Meeting;
- g) Authorization of the Company's transactions with its directors and main stockholders that might give rise to conflicts of interest; and
- h) In general, decision-making on business or financial transactions of particular importance to the Company.

In this connection, bearing in mind that Telefónica is the head of a major and complex corporate group, the Board of Directors has reserved certain exclusive powers relating to the activities of its main subsidiaries. By virtue of these powers, adoption by any of these companies of resolutions of some importance or significance on duly identified matters will require prior approval by Telefónica's Board of Directors.

Accordingly, the Board of Directors' function of supervision and control of Group activities as a result of the corporate, organizational and functional restructuring by global business lines initiated in 1998, which in 2000 was extended to the wireless telephony and data transmission businesses, is not hindered in any way.

These Rules state that the Board's actions must at all times aim to maximize the value of the Company and therefore create stockholder value, while adhering strictly to generally accepted ethical principles and values.

C) Composition and structure of the Board of Directors

Telefónica's Board of Directors currently comprises 20 directors. Noteworthy events in the year were the replacement, on July 26, 2000, of Juan Villalonga Navarro as Chairman of the Board of Directors and CEO of Telefónica, S.A. by César Alierta Izuel, and the appointment of Fernando Abril-Martorell Hernández as the Company's Managing Director on August 10, 2000.

The names and positions of Telefónica's directors, and the year in which they joined the Board, are as follows:

- 5 Executive directors:
 - César Alierta Izuel (1997), Chairman (2000)
 - Fernando Abril-Martorell Hernández, Managing Director (2000)
 - Luis Lada Díaz (2000)
 - José María Mas Millet, Secretary (1999)
 - Antonio Viana-Baptista (2000)
- 6 Nonexecutive directors:
 - Isidro Fainé Casas, Deputy Chairman (La Caixa, 1994)
 - Pedro Luis Uriarte Santamarina, Deputy Chairman (Banco Bilbao Vizcaya Argentaria, 2000)
 - José Javier Echenique Landiribar (Banco Bilbao Vizcaya Argentaria, 1995)
 - José Ignacio Goirigolzarri Tellaecha (Banco Bilbao Vizcaya Argentaria, 2000)
 - José Maldonado Ramos (Banco Bilbao Vizcaya Argentaria, 1999)
 - Antonio Massanell Lavilla (La Caixa, 1995)
- 8 Independent nonexecutive directors (of renowned professional and business prestige, independent from the management team and from the main stockholders):
 - Gaspar Ariño Ortiz (1997)
 - Pedro Ballvé Lantero (1997)
 - Maximino Carpio García (1997)
 - Alberto Cortina de Alcocer (1997)
 - Luiz Fernando Furlán (2000)
 - Ignacio Larracochea Jausoro (1997)
 - Mario Eduardo Vázquez (2000)
 - Carles Vilarrubí Carrió (1996)
- 1 director who joined the Board as a result of Telefónica's international alliances:
 - Miguel Horta e Costa, who represents Portugal Telecom (1998)

— The post of Secretary of the Board of Directors – whose mission is essentially to ensure the proper functioning of the Board, safeguard the formal and substantive legality of the Board’s actions, ensure that its procedures and rules of governance are observed, duly reflect in the Minutes Books the events of the Board Meetings and attest to the resolutions adopted at them – has been held since 1997 by José María Mas Millet, who is also the Company Secretary. Diego L. Lozano Romeral (1997) is the Deputy Secretary.

Consequently, the composition of Telefónica Móviles, S.A.’s Board of Directors is in line with the recommendations in the Code of Best Practice, since the external directors (nonexecutive and independent directors) are in an ample majority with respect to the executive directors (15 as compared with 5), and the independent directors are in a majority with respect to the nonexecutive directors (8 as compared with 6), bearing in mind that in the current stockholder structure of the Company the portion of floating capital is significantly higher than the sum of the significant stable holdings represented by the nonexecutive directors.

D) Committees of the Board of Directors

a) Standing Committee

Both the Company’s bylaws and the Rules of its Board of Directors provide for the existence of a Standing Committee with general decision-making powers to which, consequently, all the powers of the Board of Directors, other than those which by law or in accordance with the bylaws may not be delegated, are expressly delegated.

This Standing Committee is currently made up of the following members:

- César Alierta Izuel, Chairman (2000)
- Isidro Fainé Casas, Deputy Chairman (1994)
- Fernando Abril-Martorell Hernández (2000)
- Maximino Carpio García (2000)
- Alberto Cortina de Alcocer (1999)
- José Javier Echenique Landiribar (1997)
- José Maldonado Ramos (2000)
- Antonio Viana-Baptista (2000)
- José María Mas Millet, Secretary (1997)

Relations between the Board of Directors and its Standing Committee are based on the principle of transparency, so that the Board of Directors has full and complete knowledge of the resolutions and decisions made by the Standing Committee.

b) Other Committees

The Rules entitle the Board of Directors to appoint one or more committees responsible for the ongoing examination and monitoring of certain areas of particular relevance to the good governance of the Company, or for in-depth analysis of a given matter which is important enough to merit it.

These Committees are not governing bodies, but instruments reporting to the Board of Directors, to which they report the conclusions they reach on the matters the Board has entrusted to them.

The Committees in existence at present are the Audit and Control Committee, the Appointments and Compensation Committee, the Human Resources Committee, the Regulation Committee and the Service Quality and Commercial Service Committee.

The Audit and Control Committee has the primary function of supporting the Board of Directors in its supervisory and control functions, the most important tasks of which are to ensure that generally accepted accounting principles are correctly applied and to check the adequacy and integrity of the internal control systems used in preparing the individual and consolidated financial statements.

The Audit and Control Committee is currently made up of the following members:

Chairman: Antonio Massanell Lavilla (2000)
Members: Maximino Carpio García (1998)
José Ignacio Goirigolzarri Tellaache (2000)

The Appointments and Compensation Committee’s basic functions are to report on proposed appointments of directors, of members of Board Committees and of senior executives of the Company and its subsidiaries; to approve senior executives’ standard contracts and compensation ranges; to set directors’ compensation; to report on incentive plans and to prepare and maintain a register of the status of directors and senior executives.

The Appointments and Compensation Committee is currently made up of the following members:

Chairman: José Javier Echenique Landiribar (2000)
Members: Maximino Carpio García (2000)
Pedro Ballvé Lantero (2000)
Alberto Cortina de Alcocer (1998)

The Human Resources Committee, whose main function is to notify and propose to the Board of Directors the decisions duly made in the area of personnel policy, is currently made up of the following members:

- Pedro Ballvé Lantero (1998)
- Antonio Massanel Lavilla (1998)

The Regulation Committee, whose main function is to notify and propose to the Board of Directors the adoption of relevant resolutions in the area of telecommunications industry regulations, is currently made up of the following members:

- José Javier Echenique Landiribar Chairman (1998)
- Gaspar Ariño Ortiz (1998)
- José Maldonado Ramos (1999)

The Service Quality and Commercial Service Committee, which was set up in 1999 to advise and assist the Board of Directors in matters relating to service quality and commercial service to customers, is currently made up of the following members:

- Ignacio Larracochea Jausoro (1999)
- José Maldonado Ramos (1999)
- Antonio Massanell Lavilla (1999)

The conduct of the Chairman of the Board of Directors –the highest ranking Company executive– should at all times follow the criteria and guidelines laid down by the Board of Directors and the Board Committees, which undoubtedly reduces the risk of the excessive concentration of power in one person, as evidenced by the fact that all resolutions or decisions of importance for the Company must be submitted for prior approval by the Board of Directors or the relevant Committee.

E) Functioning and actions of the Board of Directors

In 2000 the Board of Directors held eleven ordinary meetings and four special meetings and, on one occasion, it made use of the procedure for adopting resolutions in writing without a meeting.

Of the aforementioned fifteen ordinary and special meetings, thirteen were held at the Company's registered offices and two in the venue at which Stockholder's Meetings were held in the year.

The Board of Directors' Standing Committee held seventeen ordinary meetings.

All the meetings of the Board of Directors were conducted according to Company bylaws and regulatory norms, and the matters submitted for their consideration and decision were examined with due diligence. The directors participated fully and naturally in all the debates and discussions, giving their opinions when they saw fit, as reflected in the Minutes of each meeting.

The level of transparency and information afforded to the Board of Directors was very high in 2000 and Board meetings were attended by the main Group company managers responsible for different areas and lines of business, who informed the Board on matters relevant to their areas of competence.

It is important to note that Telefónica's directors have the broadest powers to gather any information about the Company that they may at any time consider appropriate for the proper performance of their duties. The external directors have the power to hire, at the Company's expense, legal advisers, accountants, and financial or other experts to assist them in discharging their duties.

F) Directors' compensation

As provided for in the Board of Directors Rules, the defining of directors' compensation is the responsibility of the Appointments and Compensation Committee, which, as established in these Rules, will endeavor to ensure that Directors' compensation is in line with market rates paid at companies of a similar size and activity.

The compensation paid to the Company's directors in 2000 – the amount of which is disclosed in the notes to financial statements as required by law – was at all times in line with the criteria established in the past by the Appointments and Compensation Committee.

G) Directors' duty of loyalty

The Rules of the Board of Directors devote a heading (composed by 12 articles) to this subject, describing in depth the directors' principal rights and obligations, regulating in depth conflicts of interest, the use of corporate assets, the use of information which has not been made public, and the exploitation by directors to their own benefit of business opportunities of which they become aware in their capacity as directors.

The duty of loyalty to the Company extends also to the major stockholders, and the knowledge and authorization of any transaction performed between the Company and any of them is formally reserved to the Board of Directors, which always acts on the basis of a prior report of the Appointments and Compensation Committee in which the transaction is analyzed and evaluated from the standpoints of equal treatment to stockholders and of the market conditions of the transaction.

No incident or problem of any kind relating to these matters arose in 2000.

H) Transparency in relations with stockholders, markets and auditors

The Rules govern in detail the channels through which relations are maintained between the Board of Directors and the Company's stockholders (whether small stockholders or institutional stockholders and investors), between the Board of Directors and the regulatory and supervisory authorities of the markets in which the Company's shares are listed, and between the Board of Directors and the Company's auditors.

No incident worthy of special mention took place in any of these areas in 2000, but mention should be made of the high level of transparency and information which has characterized the Company's activity in the stock markets.

In this connection, some years ago Telefónica set up its «Stockholder Service» to manage the Company's relations with its small stockholders, a 24-hour free telephone hotline (which received over 300,000 calls in 2000), a quarterly magazine (the most recent of which had a print run of 180,000) and an Internet website.

Lastly, through the Audit and Control Committee, the Board of Directors has established a stable professional relationship with the Company's auditors while also maintaining strict respect for their independence.

Telefónica S.A.

SHAREHOLDERS' INFORMATION

SHARE CAPITAL

	1996	1997	EUROS 1998	1999	2000
Share capital (millions of euros)	2,823.17	2,823.17	3,079.82	3,262.82	4,340.71
Earnings per share (euros)(*)(1)	0.34	0.41	0.43	0.55	0.58
(2)	0.34	0.41	0.44	0.57	0.67
PER	17.67	21.50	29.72	44.84	30.50
Pay out (%)	52.17	50.42	-	-	-
Share price / annual cash flow	3.49	4.25	5.97	9.01	7.30

(*)Figures adjusted for the three-way share split which took effect on 23rd July 1999, taking into consideration: (1) the average number of shares at the year end; and (2) the average number of shares outstanding during the year. The figures include share capital increases weighted in accordance with the number of days the shares were traded.

At 31st December 2000 the share capital of Telefónica was 4,340,710,735 euros, represented by 4,340,710,735 bearer shares of EUR 1.00 par value each, subscribed and fully paid.

At their Ordinary General Meeting held on 7th April 2000 the Shareholders approved two share capital increases through the issue of fully paid-in shares with a charge to distributable reserves. These shares will be assigned to the shareholders free of charge on the basis of one new share for 50 existing shares.

Accordingly, at the Board Meeting held on 24th January 2001, the Directors declared the first of these share capital increases complete following the issue of 86,814,214 new shares. The new shares were listed on the Spanish stock exchange on 2nd February 2001.

At the Board Meeting held on 28th March 2001, the Directors declared the second share capital increase to have been completed. The 89,203,045 new shares issued were listed on Spanish stock exchanges on 9th April 2001.

SHARE CAPITAL INCREASE

Share capital increases carried out in 1998, 1999 and 2000 were as follows:

Date	N.º of shares issued	Issue price	Amount of the issued (Millions)	
			Par value Euros	Cash value Euros
25/03/98	85,406,438	30.051	256.652	2,566.515
(*) 27/05/98	642	29.103	0.002	0.019
(**) 16/12/98	20,497,558	3.005	61.596	61.596
(**) 25/02/99	20,907,509	3.005	62.828	62.828
(*) 15/09/99	1,002	9.595	0.001	0.009
(**) 29/09/99	63,976,998	1.000	63.976	63.976
(*) 04/02/00	13,965,205	9.442	13.965	131.859
(*) 23/02/00	3,026,268	9.461	3.026	28.632
(*) 29/03/00	4,448,442	9.496	4.448	42.242
(***) 26/04/00	14,477,109 (1)	9.500	14.477	137.532
(*) 26/04/00	2,914,193	9.524	2.914	27.755
(*) 31/05/00	780,927	9.564	0.781	7.469
(*) 28/06/00	1,426,472	9.591	1.426	13.681
(***) 04/07/00	157,951,446 (2)	9.129	157.951	1,441.939
(***) 06/07/00	371,350,753 (3)	11.910	371.351	4,422.787
(***) 06/07/00	90,517,917 (4)	3.995	90.518	361.619
(***) 11/07/00	80,954,801 (5)	9.072	80.955	734.422
(*) 26/07/00	33,716,560	9.531	33.717	321.353
(***) 02/08/00	213,409,097 (6)	3.875	213.409	826.960
(***) 18/12/00	88,944,644 (7)	11.231	88.945	998.898

(*) (*) Increases carried out in connection with the conversion and consequent redemption of convertible bonds of USD 1,000 par value each.

(**) Share capital increases charged against distributable reserves as approved by the Shareholders at the Extraordinary General Meeting held on 24th June 1998 and the Ordinary General Meeting held on 26th March 1999.

(***) Share capital increases carried out by contributions in kind consisting of shares of: (1) Vigil Corp, S.A. and Ambit, S.A., (2) Telefónica de Argentina, S.A., (3) Telecomunicações de Sao Paulo, S.A., (4) Telesudeste Participações, S.A., (5) Telefónica de Perú, S.A., (6) Endemol Entertainment Holding N.V., (7) CEI Citicorp Holdings, S.A.

SHARE PRICE

Telefónica shares are listed on the continuous market of the Spanish Stock Exchanges (Madrid, Barcelona, Bilbao and Valencia) and the following foreign stock exchanges: London, Paris, Frankfurt, Tokyo, Buenos Aires, New York (*), Lima (*), São Paulo (**) and the London Stock Exchange SEAQ International system.

In 2000 the shares of Telefónica, S.A. were listed in three new markets. Trading commenced in the Lima Stock Exchange on 2nd March 2000, and in the Buenos Aires and São Paulo Stock Exchanges on 3rd July 2000.

Trading in options over Telefónica shares is carried out on the Spanish Financial Futures Market (MEFF-RV) and the American Stock Exchange (AMEX) (*).

(*) Trading in American Depositary Receipts (ADRs), 1 ADR = 3 shares

(**) Trading Brazilian Depositary Receipts (BDR) 1 BDR = 1 share

GRUPO TELEFÓNICA SHARE PRICE ON THE SPANISH CONTINUOUS MARKET

TELEFÓNICA, S.A.

	MAXIMUM (1)		MINIMUM (1)		LAST (1)	
	Pesetas	Euros	Pesetas	Euros	Pesetas	Euros
1996	1,020	6.13	563	3.38	1,005	6.04
1997	1,615	9.70	990	5.95	1,450	8.71
1998	2,670	16.04	1,498	9.00	2,103	12.64
1999		26.20		11.61		24.80
2000 first quarter		33.12		22.52		26.40
2000 second quarter		28.02		19.93		22.50
2000 third quarter		25.95		20.65		22.45
2000 fourth quarter		23.96		17.01		17.60

(1) Share priced in Euros (1 Euro = 166,386 pesetas) on the basis of the three-way split in the par value of shares as from 1-1-96.

TELEFÓNICA PUBLICIDAD E INFORMACIÓN, S.A.

	MAXIMUM (1)	MINIMUM (1)	LAST (1)
	Euros	Euros	Euros
1999	17.53	6.00	16.08
2000 first quarter	27.30	12.33	15.16
2000 second quarter	15.81	9.03	9.89
2000 third quarter	12.19	9.09	9.60
2000 fourth quarter	9.73	5.55	5.70

(1) The three-way share split took effect on 19-6-2000. Values for 1999 have been adjusted on the basis that the effective date for the share split was the value on the first day's trading (23/06/99).

On 23rd June 1999 Telefónica Publicidad e Información, S.A. was listed on the Spanish Continuous Market at an opening price of EUR 18.50. The Company was included in the Ibex-35 index on 3rd January 2000 and on 10th April 2000 trading commenced in the Nuevo Mercado, a special segment created for technology stocks. As a consequence, the company was included in the Ibex-Nuevo Mercado index.

TERRA NETWORKS, S.A.

	MAXIMUM Euros	MINIMUM Euros	LAST Euros
1999	57.00	26.00	54.25
2000 first quarter	157.65	52.00	84.15
2000 second quarter	85.40	39.81	40.50
2000 third quarter	59.70	35.60	46.00
2000 fourth quarter	48.94	10.53	11.60

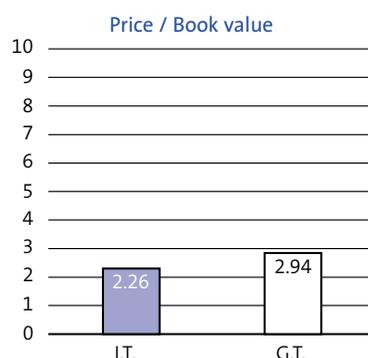
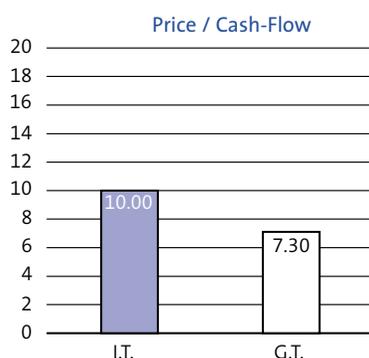
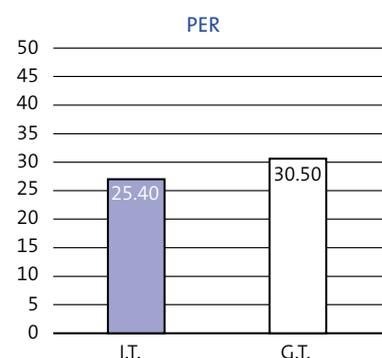
Trading in Terra Networks, S.A. on the Spanish Continuous Market commenced on 17th November 1999. The opening price was EUR 26.00. The Company was included in the Ibex-35 index on 31st January 2000 and on 10th April 2000 trading commenced in the Nuevo Mercado, a special segment created for technology stocks. As a consequence, the company was included in the Ibex-Nuevo Mercado index.

TELEFÓNICA MÓVILES, S.A.

	MAXIMUM Euros	MINIMUM Euros	LAST Euros
2000 fourth quarter	11.47	9.82	11.00

Trading in Telefónica Móviles, S.A. on the Spanish Continuous Market commenced on 22nd November 2000. The opening price was EUR 11.00. This Company was included in the Ibex-35 index on 2nd January 2001.

- IT: International Telecommunications Index (Source: "Capital International Perspective")
- GT: Telefónica Group (Figures per Spanish GAAP)
- International comparisons at 31-XII-00



I.T.: International Telecommunications Index (Source: "Capital International Perspective")
 G.T.: Telefónica Group (Figures per Spanish GAAP)
 International comparisons at 31-XII-00

DIVIDENDS

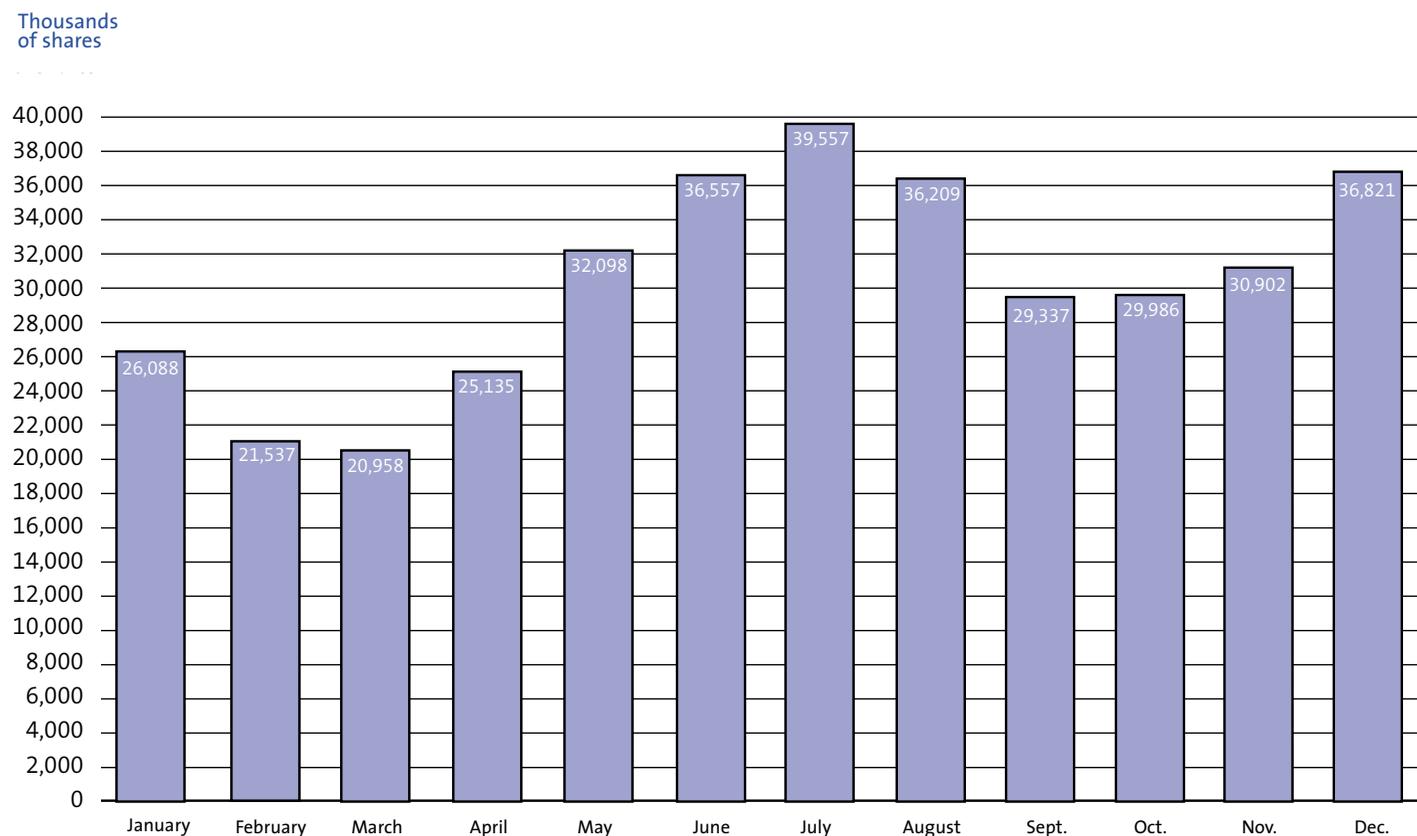
El Dividends in recent years have been as follows:

	1995		1996		1997	
	Pesetas	Euros	Pesetas	Euros	Pesetas	Euros
Interim	30	0.18	35	0.21	40	0.24
Final	46	0.28	54	0.32	62	0.37
Total	76	0.46	89	0.53	102	0.61

At the Extraordinary General Meeting of the Shareholders held on 24th June 1998, Telefónica announced a new policy for the remuneration of shareholders using alternatives to the distribution of dividends.

In accordance with this new dividends policy, Telefónica has carried out share capital increases with charges to distributable reserves since 1998, recognising the shareholders' rights to the assignation of the new shares issued free of charge in the proportion of one new share for each fifty existing shares. These share capital increases were approved by the Shareholders at their Extraordinary General Meeting held on 24th June 1998 and the Ordinary General Meetings held on 26th March 1999 and 7th April 2000.

Average daily trading in Telefónica, S.A. Shares in 2000



STOCK MARKET CAPITALISATION

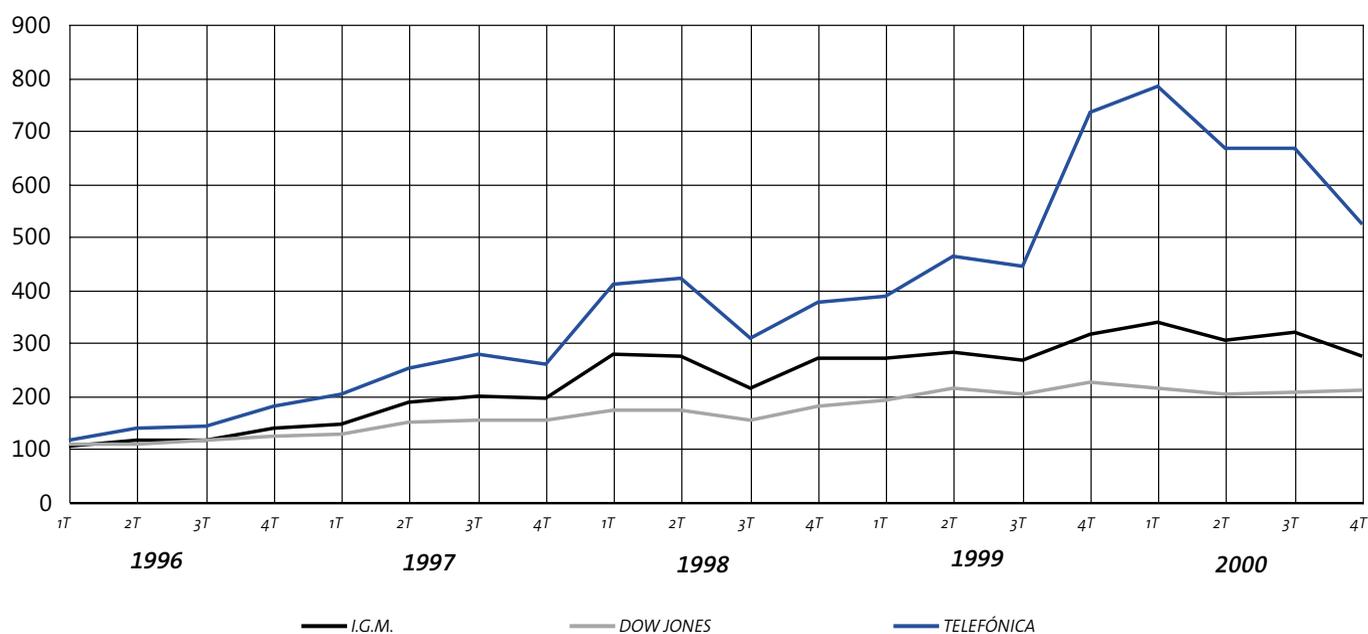
PESETAS	1996	1997	1998	1999	Average % increase	
					2000	00/96
Telefónica (millions of pesetas)	2,832,505	4,086,698	6,466,980	13,463,635	12,711,308	45.55
Total equities, Madrid Stock Ex. (millions of pesetas)	31,578,998	44,260,173	57,032,695	70,810,970	89,357,052	29.70
Telefónica weighting in the Spanish market:						
(*) Ibex 35 (%)	14.25	14.61	17.07	27.61	24.56	-
Madrid Stock Exchange General Index (%)	11.46	11.63	13.31	21.27	18.47	-

(*) Weighting on the last business day of each year.

EUROS	1996	1997	1998	1999	Average % increase	
					2000	00/96
Telefónica (millions of euros)	17,023.7	24,561.6	38,867.3	80,918.1	76,396.5	45.55
Total equities, Madrid Stock Ex. (millions of euros)	189,793.6	266,009.0	342,773.4	425,582.5	537,046.7	29.70
Telefónica weighting in the Spanish market:						
(*) Ibex 35 (%)	14.25	14.61	17.07	27.61	24.56	-
Madrid Stock Exchange General Index (%)	11.46	11.63	13.31	21.27	18.47	-

(*) Weighting on the last business day of each year.

Share price index, Telefónica shares
(base at 31/12/1995)



Telefónica S.A.

MANAGEMENT

Board of Directors

Members at the date of publication of this Annual Report (1)

Chairman and Chief Executive Officer

Mr. César Alierta Izuel

Vice-Chairmen

Mr. Isidro Fainé Casas

Mr. Pedro Luis Uriarte Santamarina

Chief Operating Officer

Mr. Fernando Abril-Martorell Hernández

Directors

Mr. Gaspar Ariño Ortiz

Mr. Pedro Ballvé Lantero

Mr. Maximino Carpio García

Mr. Carlos Colomer Casellas

Mr. José Javier Echenique Landiribar

Mr. Alfonso Ferrari Herrero

Mr. Luiz Fernando Furlan

Mr. José Ignacio Goirigolzarri Tellaache

Mr. Miguel Horta e Costa

Mr. Luis Lada Díaz

Mr. Ignacio Larracochea Jausoro

Mr. José Maldonado Ramos

Mr. Antonio Massanell Lavilla

Mr. Mario E. Vázquez

Mr. Antonio Viana-Baptista

Director Secretary to the Board

Mr. Antonio Alonso Ureba

Vice Secretary (non voting member)

Mr. Joaquín de Fuentes Bardaji

Management Committee

Members at the date of publication of this Annual Report (2)

Chairman and Chief Executive Officer

Mr. César Alierta Izuel

Vice-Chairman

Mr. Isidro Fainé Casas

Chief Operating Officer

Mr. Fernando Abril-Martorell Hernández

Members

Mr. Maximino Carpio García

Mr. Carlos Colomer Casellas

Mr. José Javier Echenique Landiribar

Mr. José Maldonado Ramos

Mr. Antonio Viana-Baptista

Secretary

Mr. Antonio Alonso Ureba

Executive Committee

Members at the date of publication of this Annual Report:

Chairman

Mr. César Alierta Izuel

Members

Mr. Fernando Abril-Martorell Hernández

Mr. Joaquim Agut Bonsfills

Mr. José María Álvarez-Pallete López

Mr. Francisco de Bergia González

Mr. Guillermo Fernández-Vidal

Mr. Luis Lada Díaz

Mr. Julio Linares López

Mr. Oscar Maraver Sánchez-Valdepeñas

Mr. Juan José Nieto Bueso

Mr. Antonio Palacios Esteban

Mr. Calixto Ríos Pérez

Mr. Antonio Viana-Baptista

Mr. Angel Vilá Boix

Member Secretary

Mr. Antonio Alonso Ureba

(1)NOTE: The office of Director was held for all or part of 2000 by: Mr. Juan Villalonga Navarro (Executive Chairman of the Board of Directors, who resigned on 26th July 2000), Mr. José María Concejo Alvarez (Vice-Chairman of the Board of Directors, who resigned on 6 April 2000), Mr. Francisco Gómez Roldán (Vice-Chairman of the Board of Directors, who resigned on 6 April 2000), Mr. Alberto Cortina de Alcocer (who resigned on 28 March 2001), Mr. Luis Martín de Bustamante Vega (who resigned on 10 August 2000), Mr. José María Mas Millet (Secretary to the Board, who resigned on 28 March 2001), Mr. Bert C. Roberts (who resigned on 27 November 2000), Mr. Martín Velasco Gómez (who resigned on 20 December 2000) and Mr. Carles Vilarrubi Carrió (who resigned on 28 March 2001). The Directors appointed to cover the vacancies arising were Mr. Pedro Luis Uriarte Santamarina and Mr. José Ignacio Goirigolzarri Tellaache (both appointed on 7 April 2000), Mr. Fernando Abril-Martorell Hernández and Mr. Luis Lada Díaz (both appointed on 10 August 2000), Mr. Luiz Fernando Furlan and Mr. Mario E. Vázquez (both appointed on 20 December 2000) and Messrs. Antonio Alonso Ureba, Carlos Colomer Casellas and Alfonso Ferrari Herrero (who were appointed on 28 March 2001). On 10 August 2000, the then Director, Mr. César Alierta Izuel was appointed Chairman and Chief Executive Officer of the Board of Directors and Mr. Fernando Abril-Martorell Hernández was appointed Chief Operating Officer.

During 2000, the office of non-voting Vice-Secretary to the Board was held by Mr. Diego L. Lozano Romeral, who resigned on 4 May 2001. The resulting vacancy was filled by Mr. Joaquín de Fuentes Bardaji.

(2) NOTE: During 2000, the members of the Management Committee included Mr. Juan Villalonga Navarro (Chairman), Mr. Francisco Gómez Roldán (Vice-Chairman), Mr. Alberto Cortina de Alcocer (Director), Mr. Luis Martín de Bustamante Vega (Director) and Mr. José María Mas Millet (Secretary). Following the resignations of these Directors, the vacancies arising on the Management Committee were filled by Mr. Fernando Abril-Martorell Hernández, Mr. Antonio Alonso Ureba, Mr. Maximino Carpio García, Mr. Carlos Colomer Casellas and Mr. José Maldonado Ramos. Mr. César Alierta Izuel took office as Chairman of the Management Committee in his capacity as Chairman of the Board of Directors.

**The Telefónica, S.A. Management Team
comprises:**

Chairman and Chief Executive Officer
Mr. César Alierta Izuel

Chief Operating Officer
Mr. Fernando Abril-Martorell Hernández

General Secretary and Secretary to the Board
Mr. Antonio Alonso Ureba

General Manager for Corporate Development
Mr. Angel Vilá Boix

General Manager for Corporate Finance
Mr. José María Álvarez-Pallete López

General Manager for Resources
Mr. Antonio Palacios Esteban

General Manager for Human Resources
Mr. Oscar Maraver Sánchez-Valdepeñas

General Manager for Institutional Relations
Mr. Calixto Ríos Pérez

General Manager, Assistant to the Chairman
Mr. Francisco de Bergia González

**General Manager, Commercial, Assistant to
the Chief Operating Officer**
Mr. Guillermo Fernández-Vidal

Business Units

Telefónica de España
Mr. Julio Linares López

Telefónica Móviles
Mr. Luis Lada Díaz

Telefónica Media
Mr. Juan José Nieto Bueso

T.P.I. Páginas Amarillas
Ms Belén Amatriain Corbi

Terra-Lycos
Mr. Joaquim Agut Bonsfills

Telefónica Latinoamericana (Latam)
Mr. Antonio Viana-Baptista

Emergia
Mr. Eduardo Caride

Telefónica DataCorp
Mr. Eduardo Caride

Atento
Mr. Rafael Hernández García

Katalyx (Telefónica B2B)
Mr. Rafael Hernández García

Telefónica S.A. Annual Report **2000**

The shareholders may request copies of this Annual Report by ringing the Customer Service Desk: free phone: 900 111 004.

The Annual Report is also available on Telefónica's website:

www.telefonica.com

www.telefonica.es

The disclosures required by prevailing legislation are also available to the shareholders and the general public.

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