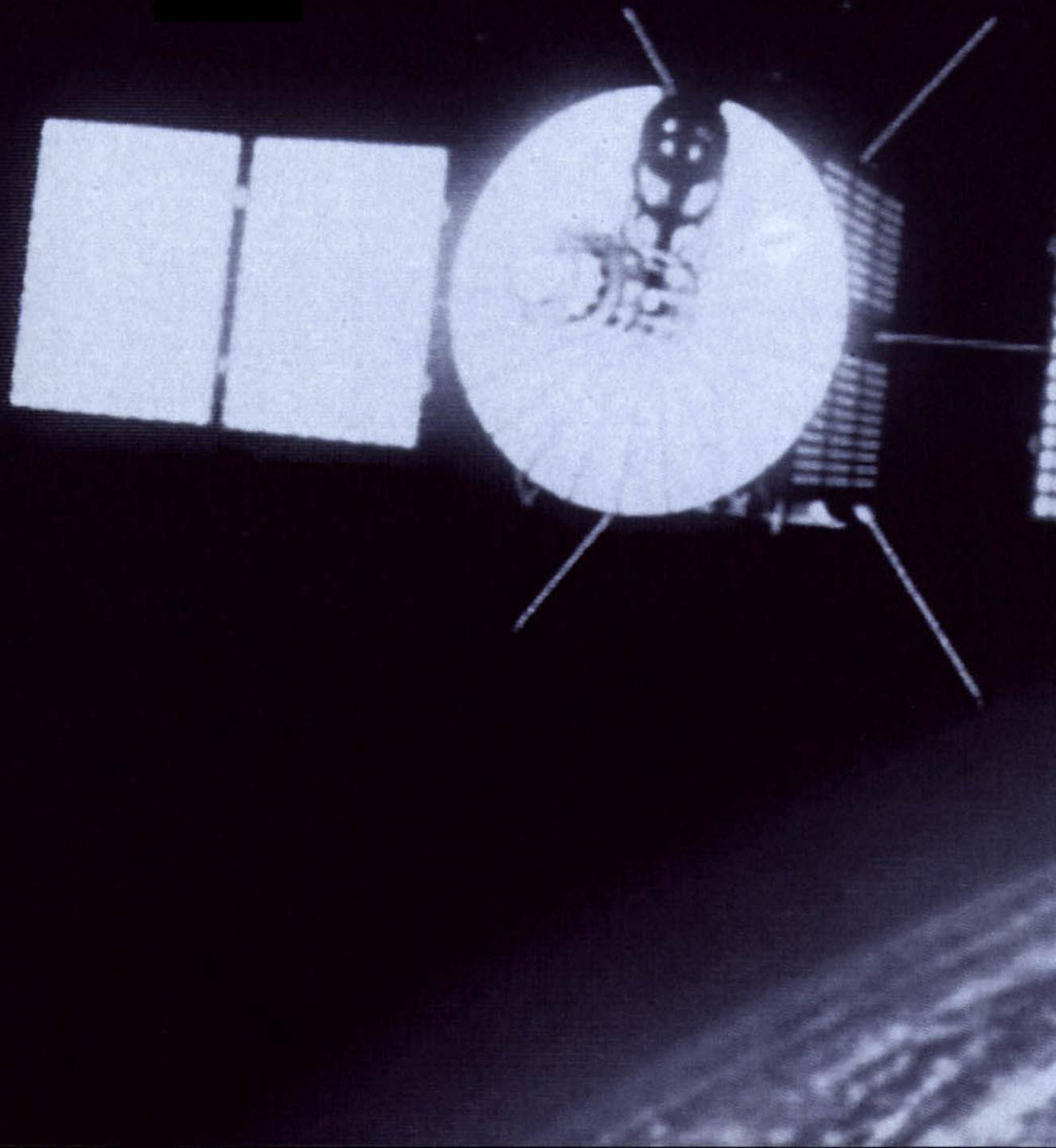


Grupo Telefónica

ANNUAL REPORT 1996







ANNUAL REPORT 1996

Grupo Telefónica





Contents

Letter to Shareholders p. 7



Spain's leading multinational p. 11

The General Public p. 17

Corporate clients p. 25

Telefónica Móviles p. 33

International Businesses p. 41

Annual Accounts p. 49

Management Report p. 113

Financial Review and Exhibits p. 117

Shareholders' Information p. 125

Management p. 133

Highlights 1996 p. 137

TELEFONICA GROUP: HIGHLIGHTS

| | 1992 | 1993 | 1994 | 1995 | 1996 |
|--|-----------|-----------|-----------|-----------|-----------|
| Lines in service (thousands) | 19,328.8 | 20,614.4 | 22,683.0 | 24,247.3 | 26,477.1 |
| Basic telephony * | 13,792.2 | 14,253.5 | 14,685.4 | 15,095.4 | 15,412.8 |
| IBERCOM * | 460.6 | 548.3 | 622.2 | 651.3 | 691.3 |
| ISDN * | — | 0.6 | 5.4 | 28.0 | 96.0 |
| Abroad ** | 5,076.0 | 5,812.0 | 7,370.0 | 8,472.6 | 10,277.0 |
| Cellular subscribers | 232,300 | 419,543 | 726,242 | 1,375,519 | 3,329,398 |
| MoviLine (analog) * | 180,296 | 257,261 | 411,930 | 892,187 | 1,307,929 |
| MoviStar (GSM) * | — | — | — | 36,768 | 1,037,716 |
| Abroad ** | 52,004 | 162,282 | 314,312 | 446,564 | 983,753 |
| Cable TV subscribers | — | — | 55,861 | 774,989 | 1,149,260 |
| In Spain | — | — | — | — | — |
| Abroad ** | — | — | 55,861 | 774,989 | 1,149,260 |
| Employees *** | 83,802 | 84,056 | 103,938 | 99,203 | 92,148 |
| Revenue from operations (million pesetas) | 1,208,938 | 1,297,437 | 1,578,850 | 1,740,557 | 2,006,058 |
| Debt ratio (%) | 58.4 | 57.6 | 54.5 | 51.6 | 47.5 |
| Capital expenditure (million pesetas) **** | 469,942 | 445,274 | 810,655 | 663,851 | 867,197 |
| Cash flow (million pesetas) | 465,250 | 502,882 | 644,750 | 750,357 | 811,235 |
| Net income (million pesetas.) | 80,761 | 96,367 | 112,608 | 133,214 | 160,282 |

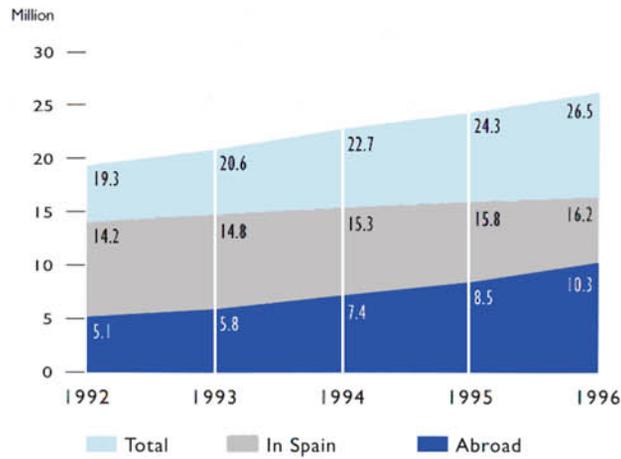
* Figures for Spain.

** Lines in service include those of TASA, CTC, Telefónica del Perú, CANTV and CRT. Cellular subscribers also include those of Cotelco and Telefonica Romania. Cable TV customers correspond to CTC, Telefónica del Perú and Multicanal.

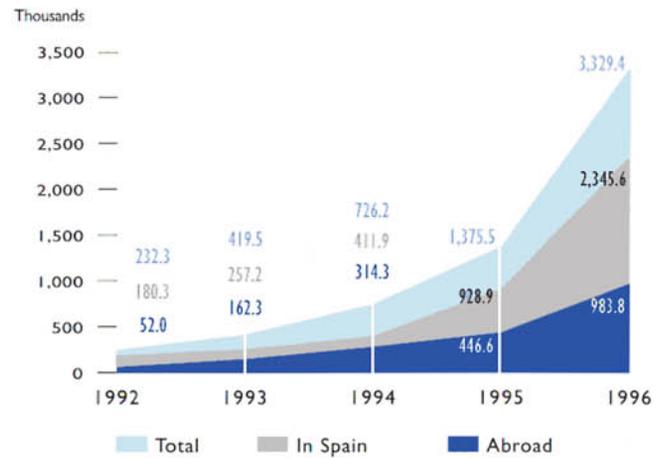
*** Average number for the year. At year-end 1995 and 1996 the workforce totalled 96,746 and 91,457 employees, respectively.

**** Tangible, intangible and financial.

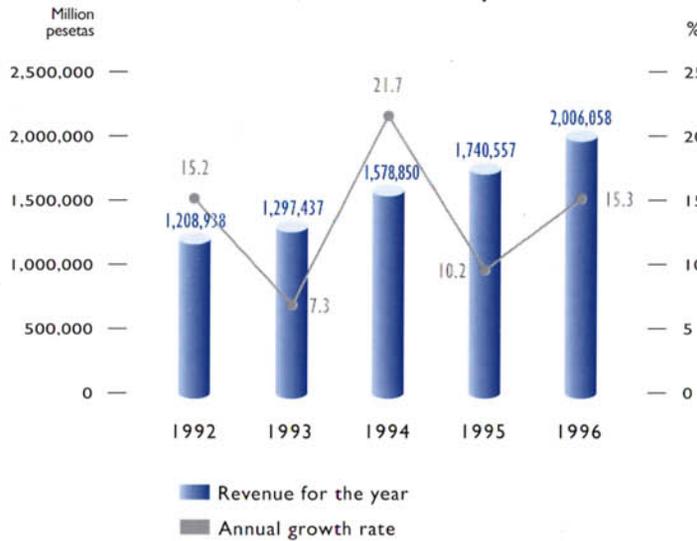
Performance of lines in service



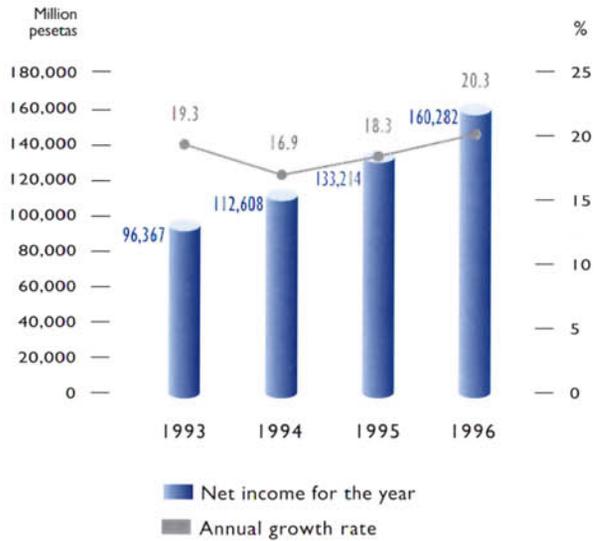
Performance of cellular subscribers



Performance of revenue from operations



Performance of net income





Letter to Shareholders

Dear Shareholder,

DURING THESE INITIAL MONTHS AS Chairman of Telefónica, I consider myself a privileged participant in the final stages of a long and productive period, during which we served the public under the aegis of the Spanish State. We now open a promising new era, in which Telefónica will continue to guarantee service to Spain and to its customers within a liberalized market and a highly competitive environment.

The Public Offering of the balance of State's participation was highly successful. Telefónica now ranks among the European companies with the largest number of shareholders, with roughly one in every eight Spanish families holding our shares. In this way, we have not only strengthened our shareholder base, but also given many Spaniards a heightened sense of personal commitment to the development of the economy.

Telefónica, Spain's leading multinational company, must be managed with the same high standards set by the largest and most successful corporations worldwide. To this end, our Board of Directors has passed a set of internal rules governing the Board's function. The Board has also welcomed new independent Directors, who do not form part of our management structure, in a measure designed to foster greater transparency, impartiality and professionalism in the Board's dealings, and to guarantee that the interests of all Telefónica shareholders are adequately defended.

I should also point out that the new internal governance rulings provide for the creation of supervisory commissions for Audit and Control, Personnel and Remuneration, and International Strategy functions. In this way, Board Members assume an active role in the management and control of the Company.



When you, the Shareholders, approve the new Board of Directors at the General Shareholders' Meeting, you will be acknowledging the professional credentials and prestige of these new independent Members. They will sit on the Board with Directors representing the majority shareholders and with Telefónica executives who so ably support me in the day-to-day management of the Company.

These measures aim at contributing to increased value for the shareholders in a fully-privatized Telefónica. Value will be generated by increased share price and dividend yield while offering a stable and reliable investment.

We can only reach this goal by offering our customers top-quality service, a commitment to be made by everyone who works at Telefónica.

With a customer base exceeding 23 million, Telefónica holds a position of unrivalled leadership in Spanish-speaking markets. During 1996, Telefónica reported a net profit of 160,282 million pesetas, representing a 20.3 % gain over the previous year. In parallel, our share price showed a positive upward swing and was quoted at 3,365 pesetas on February 18, the day after final privatization of the Company. This figure represented a 370-peseta increase over the price at the close of trading on December 20, date of the Government's formal announcement of the Public Offering.

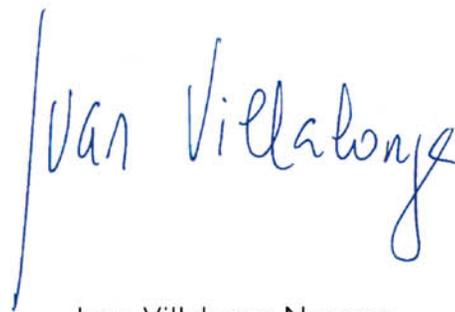
We intend to make Telefónica become increasingly global, competitive, efficient and profitable, thus ensuring enhanced profits for our shareholders.

Our strategic objective, "*Telefónica, a global operator*", sets forth very positively our determination vis-à-vis a newly competitive telecommunications environment. As undisputed leader of Spanish-speaking markets, Telefónica is solidly positioned to face the challenge posed by the progressive liberalization of the telecommunications sector. We view the creation of regulatory authorities as a positive move to ensure a fair and equitable competitive environment which safeguards consumer interests. Our ability to compete has been put

to the test and we are convinced of our ability to meet client needs in a broader marketplace.

This new dynamism is fully compatible with our tradition of public service, a vocation which has strong roots in Telefónica's corporate culture. It takes the form of constant attention to client needs and demands, and our contribution to the economic development and technological advance of our country.

Finally, in this first appearance as Chairman before the General Shareholders Meeting, I do want to extend a warm welcome to all of our shareholders, both those of long-standing and those who are joining to us now for the first time. You may rest assured that together we shall reach the objective of consolidating Telefónica's unrivalled leadership in Spanish-speaking markets , while bringing the Company to the first rank of worldwide telecommunications operators.

A handwritten signature in blue ink that reads "Juan Villalonga Navarro". The signature is written in a cursive style with a long vertical stroke on the left side.

Juan Villalonga Navarro
CHAIRMAN AND CEO OF TELEFÓNICA



Spain's leading multinational

1996 has witnessed the consolidation of the Telefónica Group's leading position within the newly-created global telecommunications market. The policy of expansion into new markets, developed over the past few years, has achieved a business volume that has made Telefónica Spain's foremost multinational.

At the same time, and in line with the liberalization policies being introduced in the sector, at both a European and world level, these have resulted in a separation between regulatory organisms and operators, and a general trend towards privatization has been reflected by leading operators. With this in mind, the Spanish government decided to totally privatize Telefónica de España's share capital at the beginning of 1997. All the tranches of the Public Offering, launched at the beginning of 1997, have been highly successful, registering more than one million new investors, attracted by the excellent performance of our shares: at the end of October 1995 our share price stood at 1,615 pesetas, whereas, at the end of 1996, when the new Public Offering

was announced, our share price had soared to over 3,000 pesetas, 79% growth in less than a year, and almost double the growth reflected by the Spanish stock market. Demand exceeded 5.45 times the 196 million state-owned shares on offer.

1996 was also a year of profound restructuring, taking advantage of the experience and capacity gleaned in the more than seventy years that Telefónica has operated in the telecommunications marketplace with one clear objective: to provide our shareholders with a high degree of profitability on an investment that not only offers yield, but also inspires a sense of security and continuity. In order to achieve this, clear market orientation and customer satisfaction are vital, along with the confirmation of our capacity to face the challenges posed by the competition.

With this objective in mind, the Telefónica Group's business strategy is based on the firm commitment to maintain our leading position in all the telecommunications markets, especially those of Latin American; the



consolidating of our ever-increasing presence internationally and the maximizing of the Group's potential and synergies. Telefónica is moulding itself into a global telecommunications operator with the capacity to provide the wide range of services demanded by our customers, in markets that often cross our national frontiers.

The new organization

A key point in this process is the reorganization of the Group's business units, which was carried out at the end of 1996, based on the clear defining of our customers and the segmenting of our markets in order to consistently offer «made-to-measure» services. This new structure allows us to provide a highly competitive range of services, therefore taking advantage of the potential that each market has to offer.

The Telefónica Group's customers form five large groups: corporate clients, the general public, mobile telephony users, our Latin American customers and the customers in those countries in which we intend to operate or already have

interests. With this in mind, five Business Units have been created, each of which focuses on its respective market. These Units are the following: Retail Clients, Corporate clients, Telefónica Móviles, Telefónica Internacional, and International.

Each Unit is entirely responsible for its own area, from the designing of the products to be marketed, to the setting of prices and the drawing up of publicity campaigns or the control of their distribution lines.

This autonomous management of each business line is complemented by the existence of the Corporate Centre which oversees the Group's business orientation at all times, with a view to fostering the Group's synergies. There are also two Common Resources Units (Infrastructures and Resources) which are responsible for providing their services to the previously mentioned Units.

The entire organization is managed by the Management Committee which is the decision-making body and draws up

Telefónica Group's Management Committee



the proposals to be made to the Executive Committee and the Board of Directors. The Management Committee is made up of the Chairman, and those responsible for the Corporate Core, the Business Units and the Common Resources Units.

The Board of Directors has taken a more active role in the management and control of the Company, guaranteeing the financial markets a high

degree of transparency. New independent members have joined the Board, all of whom are outstanding professionals with vast experience, not only in the business world but also in legal matters.



Our priorities ... and their goals

Coinciding with the remodelling of our organization, the Telefónica Group laid down a series of priorities aimed at expanding and innovating the telecommunications business in the countries where the Group has a strong foothold, at the same time as consolidating the Group's position as the unquestionable leader in the mobile business and, making Telefónica a company with worldwide presence in its own right, or through the forming of alliances and the optimizing of the portfolios of our subsidiaries.

This remodelling task is being confronted using sound policies regarding the undertaking of ambitious projects to improve the selecting of



assets and investments, and increased productivity levels.

The consolidating of our leadership in mobile telephony

Mobile services have come to play a vital role in any telecommunications company; mobile telephony has become a huge communications system, not only used by individuals, but also as the communication among computers, and the Telefónica Group therefore intends to consolidate its leadership not only in Spain, but also in international markets.

The development of businesses outside Spain

At a moment in which the growth possibilities within Spain (at least regarding our traditional businesses) are going to be influenced by the action to be taken by the competition, it is crucial that all potential opportunities for new businesses must be taken advantage of. Therefore, one of our main priorities is that of confirming our leadership in the Latin American markets; another is that of accessing new markets.

Communication
is making the World smaller
and our Company bigger

Regarding the Latin American markets, three lines of action have been drawn up: maximum advantage must be taken of the current high growth potential offered by these countries; the panamerican project must be exploited to the full, as this is going to offer companies a made-to-measure communications services operator; and, finally, we must storm the Spanish-speaking North American market, as this is made up of approximately 30 million inhabitants. We would like to take this opportunity to remind you that Telefónica Larga Distancia de Puerto Rico has been authorized to offer domestic traffic throughout the whole of the United States.

In relation to our other markets, we have recently begun to investigate the business possibilities in North Africa and Asia. Contact has already been established with the Moroccan operator which is forecast to be privatized in 1997, and throughout the year visits will be made to other countries in the area. Concerning Asia, we intend to access its markets through the forming of alliances, as we did in Latin America.



Optimizing the value of other subsidiaries

The Group also has other companies with significant value and high development potential, namely: Telyco, Cabitel, Telefónica Publicidad e Información, the Telefónica Sistemas Group, Telefónica Transmision de Datos, and Telefónica Multimedia.

We will expand on the evolution of our different business units on subsequent pages.



Retail Clients

This market segment, with 12.5 million customers, represents one of the principal Business Units within the Telefónica Group's recent restructuring. This Unit has two main targets which are, to increase the profitability of our services and new businesses, and to raise margins. In order to achieve this we have introduced a series of marketing channels into the market by which the customer has become the focal point of our business. One example of this policy is that throughout 1996 seventy new products and services were introduced.

Solutions incorporated into the basic telephone service

Over 1996, the degree of digitalization of the access plant, with 16.3 million lines, increased significantly to reach 67.4%. This has enabled us to enhance the range of services on offer to include such services as Itemized Billing, which is available to 14.1 million lines. Throughout 1996, this charge-free service grew by 29.5%, also offering the customer itemized billing of metropolitan calls on request. At the

same time, we completed the studies necessary to be able to provide the customer with more informative billing, in line with his/her needs.

Telephone usage

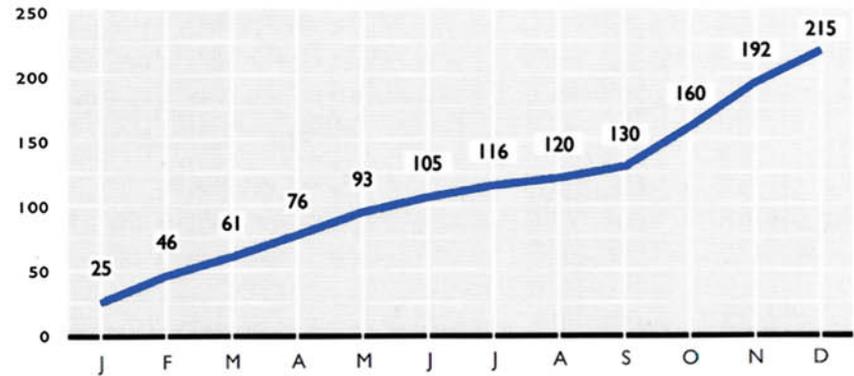
Usage per line rose more than 9% throughout 1996, with the performance registered by fixed-mobile traffic being particularly outstanding, having grown by 100%.

Regarding the attention to demand for lines, the waiting period stood at an average of three days, compared with four the previous year.

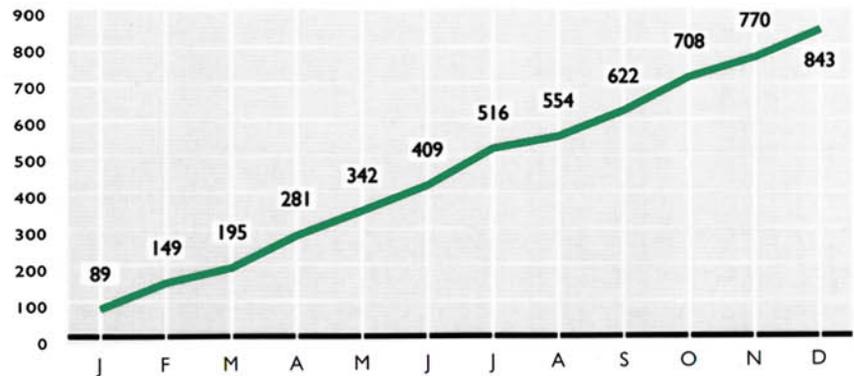
Star services

In 1996 a huge publicity effort was made, launching campaigns on all the media channels, television, radio and newspapers, and through new commercial platforms and direct marketing. These campaigns aimed to increase the usage and penetration among the general public of such services as: Call Waiting, Call Forward, etc. At December 1996, the number of

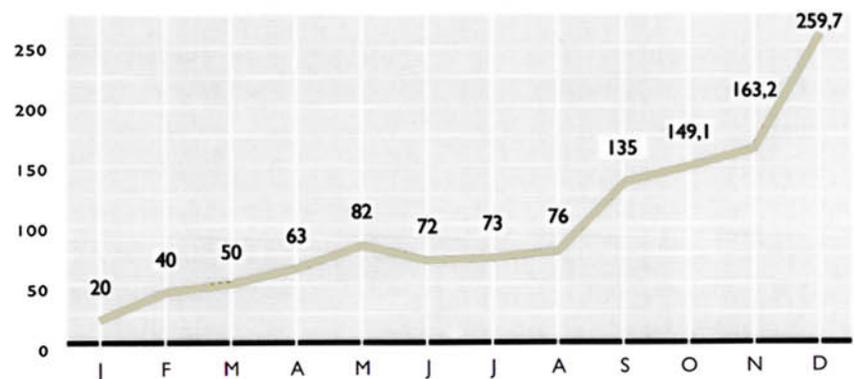
**Number of lines
(Thou.)**



**Information provider
centres**



**Calls - daily average
(Thou.) (*)**



* Since June, calls of less than 30 seconds are not accounted

lines using these new services had risen 40%, to total 1,151,771.

The Telefónica Group's continuous effort to increase its direct relationship with the customer was also reflected in the national launching of the Answering Service, the «star» of the supplementary services. This service allows the customer to retrieve unanswered telephone calls or calls received while the line is engaged, without the need to install any additional equipment.

The convenience and user-friendly handling of this service, combined with the fact that the customer retrieves the calls free-of-charge from his/her home, and that the service is provided in the varying local languages of Spain, has made this service extremely popular, so much so that at year-end 1996, the number of telephone lines provided with this service totalled 4,041,256.

InfoVía/Internet

In response to the market's demands for electronic information, the InfoVía

service was launched at the beginning of 1996. This service offers Telefónica customers owning a PC to access all the service and information providers throughout Internet. In the course of the year, InfoVía became a universal information access channel to information highways both within Spain and abroad, and has come to represent Internet's principal expansion vehicle in Spain.

Over the twelve-month period, the effort made to extend this «star» service paid off, as the following record figures were achieved: 843 information service providers, 215,000 lines used to access the InfoVía service, and 36 million calls registered, resulting in a total of 10 million connection hours. Telefónica is also pioneering the export of this service to those Latin American countries in which it is already an established telecommunications operator.

InfoVía is also the gateway to Virtual TeleSpacio, through whose surfing system the shop may be accessed and purchases made, using a PC.



Service catalogue aimed at increasing profitability

Throughout 1996, more than one million telephone sets were sold, ranging from basic telephones with specific supplementary facilities to those that embody an answering machine or both an answering machine and fax, and particularly the most popular models such as cordless telephones.



Continuous customer service and sales

Our new Telemarketing system and our Customer Care Telephone Service (for which Telemangement and Telesales 004 are responsible) aim to attend to our customers 24-hours a day, 365-days a year. At year-end 1996, over 80% of our customers were already receiving 24-hour attention, and more than 12.6 million calls had been attended to, therefore confirming this service to be Telefónica's most active sales channel, having generated more than 40% of the sales registered.

Distribution network through TeleSpacio

This distribution system, which has been in existence since May 1996, permits a personal approach to our customers and allows us to continuously adapt to their needs.

The four shops now attending to our customers (two in Madrid and two in Barcelona) are unique premises where, not only can our customers purchase our products and services, but he/she will also be provided with information on over 200 Telefónica products and services. Every one of these shops is equipped with a state-of-the-art telecommunications infrastructure that offers seven interactive audio-visual systems with a duration of more than four hours: access in real time to different services (Infovia, Internet, Teleline, Videoconferencing,...), a pilot channel of video-on-demand, screens offering digital satellite TV, and the most advanced broadband technology under development.

TeleSpacio, representing the most «visual» section of our new commercial network, will soon bring us closer to our customers through an extensive network of shops - both Telefónica-owned and through franchise agreements - and a distribution network which will include department stores, commercial malls and small retail outlets.

Millions of people in 18 countries
Speak, do business and communicate
via Telefónica

Personal attention to our customers

This customer approach policy also includes a sales channel of extreme importance which uses two direct marketing tools, these being Telesales and Personal Attention, accessed through the freephone number 900 123 004 managed by Estratel. This subsidiary has one of the most advanced technological platforms, enabling it to offer a wide range of products and services, at the same time as guaranteeing their quality and competitiveness. In 1996, its market share stood at 23.2%, compared with 14.8% the previous year.

Another key channel within the distribution network is that of the Telefónica subsidiary Telyco, which has more than 1,500 sales and customer care points throughout the country, where the customer is provided with a complete range of services. In 1996 it registered turnover totalling 55,000 million pesetas, and its logistic activity has become particularly significant in providing the customer an integral

service. These services aim to achieve maximum customer loyalty.

Continuous customer care

Customer care forms an essential part of the Telefónica Group's policy to improve quality. With this in mind, in 1996, our Operator and Inquiry Services reflected considerable improvements. The rate of attention to calls - more than 218 million calls were received - reached 95.1%, almost 6 percentage points higher than the previous year. This service uses highly professional operating resources, therefore reflecting significantly improved productivity. As a result of this strategy, all the Spanish provinces received the AENOR quality rating of ISO 9000.

Tariff cuts

Telefónica continued its strategy regarding international communications, through the cutting of the prices of all its communication services and, also, offering high volume customers special discounts. In July, an average 13.3% price



cut was introduced, which, combined with the cuts that took place at the end of 1995, resulted in an overall decrease in international tariffs of around 25% in under a year. Telefónica has announced that in 1997 further cuts will be introduced in international and long distance tariffs, along with a price-freeze in metropolitan calls.

Telefónica Publicidad e Información

Within the General Public business unit, mention must be made of the 26% penetration level in potential market achieved by Telefónica Publicidad e Información (TPI), through its principal



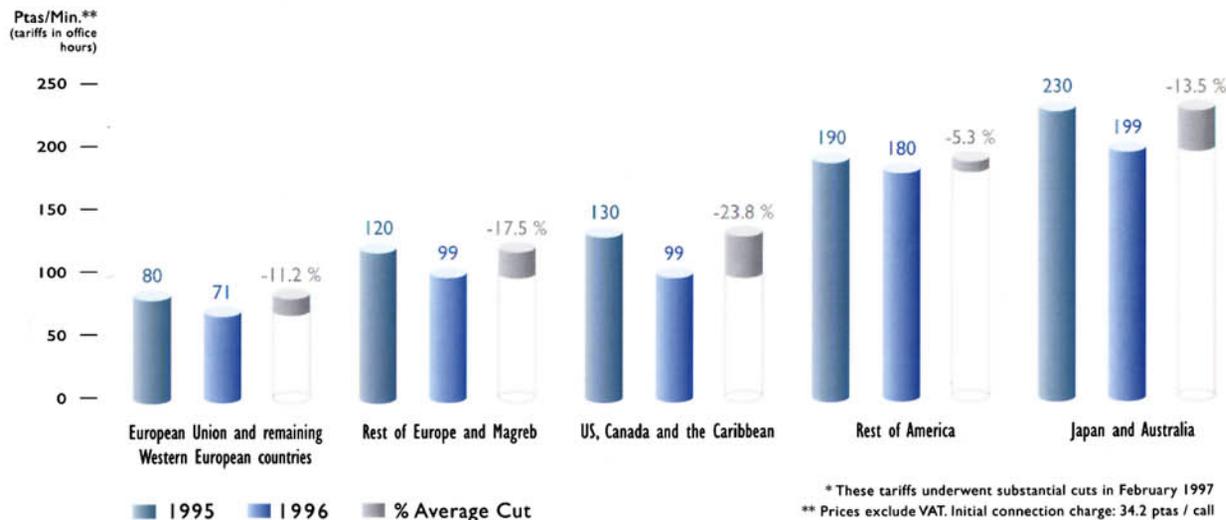
product, Yellow Pages, as this penetration level is on a par with the European average. With an eye to the future, this company has already begun to renovate the technology of its information systems and therefore plays a vital role in the new information highways. Proof of this was the prize received from the North American Association of Yellow Pages Editors at its IXth yearly convention for TPI's multimedia web site in Internet.

reflection of the consolidation of this company's leadership in all its business lines, not only Yellow Pages, but also direct marketing, telephone marketing - carried out by Estratel- and multimedia products that have developed to such an extent that they are becoming increasingly user-friendly, in reponse to a dynamic market. Their contribution to customer segmentation is therefore a vital ingredient in the General Public business.

The 15.2% increase in revenue and the 8% rise in customers over 1996, are a

TPI's strategy for the next few years is based on the evolution and

New international tariffs
In force since July 1996*



development of its existing products, providing the value added that the market demands, combined with the introduction of new services developed from the information highways and the commitment to the international expansion of its business lines. With this aim, new Yellow Pages projects for InfoVía and Internet have begun, which will be included in the Telefónica Group's other services such as Infomail and electronic shopping.

Cabitel

Within the framework of liberalized public telephony, Cabitel has continued its expansion to reach 58,234 outdoor public telephones throughout Spain, and 23,685 indoor public telephones. Likewise, the effort made in the development of prepaid telephone cards should also be underlined, as this has become the most highly used electronic system, having grown 20.1%, measured by the nominal value of the cards sold. At year-end 1996, this company's turnover had risen 20.2% to total more than 40,960 million pesetas.

Digital television

Telefónica has entered the digital television market as a step towards the launching of an extensive range of interactive multimedia products. In order to manage this business, Telefónica has pioneered the establishing of the company Distribuidora de Televisión Digital (DTD), in which participations are also held by other television broadcasting companies namely, Radiotelevisión Española, Televisa (Mexico), Canal 9, Televisión de Galicia, Telemadrid, Cadena COPE and the publishing groups Grupo Recoletos, Unidad Editorial, Crónicas P. Leonesas, Las Provincias and Epoca. In December 1996, this new company began pilot broadcasting through the satellite Hispasat that offers high quality coverage throughout Spain, part of



Europe and Latin America. The share capital can be increased through the participation of other multinational communications groups.



Corporate Clients

Throughout 1996, the area of the Telefónica Group's Corporate Clients continued to adapt to its new competitive environment, improving quality and developing a policy to satisfy, still further, our customers' product and service needs.

Commercial strategy

The challenge that the Telefónica Group faces is that of satisfying our customers' ever-increasing demands. In order to achieve this, the Company has launched a commercial strategy which focuses on the introduction of market oriented business lines and the achieving of customer loyalty through the implementation of such steps as:

- The development and launching of «made-to-measure» solutions.
- Improved after-sales services.
- Improved management of one-stop-shopping.
- Personal attention.

Corporate clients

Telefónica's growing range of products and services on offer, and its commitment to providing global solutions have been possible thanks to the high stimulus channelled into our commercial network. The Telefónica Group is more than aware of our competitors high degree of activity in this business segment, something that has not prevented us from increasing the revenue derived from this sector by 28.36% and has confirmed our desire to lead the telecommunications market.

Regarding our Corporate Services, the Ibercom service extended its market scope to assist our customers in such areas as: management, configuration, administration, computation control, alarms, graphical presentation of the telephone network's topology, statistic reports and local electronic voice mail servers.

The Intelligent Network continued to reflect growth, both in its number of customers and its range of services on



offer, having introduced the Tele-voting service which is controlled by the customer himself from his PC, and the enhancement of statistic information in order to improve customer attention.

Leased circuits have increased their speeds, therefore raising the digital transmission capacity.

Concerning Data Communications Services, not only have we confirmed our position in the marketplace with such services as those offered by our networks, Iberpac, Iberpac Plus and the Red Uno, but we have also consolidated

the Frame-Relay service providing our customers with high speed transmission of above 256 Kbps. Services such as Data&Voz have also been developed to integrate voice and data over Frame-Relay, along with the Datafono Redelta service and that of Telealarmas Redelta which provide companies with Data Over Voice technology and high-security networks.

In order to promote the usage of the ISDN network, access to InfoVía was completed and new digital telephones and network terminals were launched. The package «Novacom Básico» was also launched, which is vital for connection to the ISDN network and, along the same lines, the package solutions «Novacom Reto» and «Novacom Office» which offer integrated communications solutions to companies. These were not the only new services. Multimedia
Videoconferencing was also introduced, which permits the customer to use his/her PC to exchange data, voice and image, and to access such services as Teleemployment and Telemedicine, among others.

The infrastructure necessary for the Autonomous Regions to access the Emergency Service was also introduced. This service provides emergency attendance throughout the whole of the European Union through the dialling of the number 112, wherever the person may be.

**Solutions for small
and medium-sized
companies
(PYMES)
and professionals**

If we take into consideration the number of companies in this segment, combined with their turnover, it can be easily deduced that this represents an expanding market. Telefónica has drawn up a strategy that besides making customer care a priority, has also taken the following steps:

- Business Offices which offer our customers one-stop-shopping, along with direct marketing and customer visits. At the end of 1996, there were 28 of these offices in Spain's major towns and cities.



- Alternative channels for the marketing of Telefónica products and services to PYMES, with 56 registered consultants offering our products and/or services.

- More than 100 seminars, with both an informative and educational focus,



promoting the Telefónica Group's products and services.

The Telefónica Group leads Spain's technological changes

The new advances being made in telecommunications technology result in the introduction of new products and services in the market, thus allowing the Telefónica Group to further improve its attention to the millions of customers that place their trust in us, enabling us to offer them more adequate solutions to their specific needs.



Telefónica I+D has continued to provide all the Group companies with the most varied array of technological solutions to fulfill the customer's needs, at the same time as taking an active role in the European Union's research programmes and attending the most significant international and national events taking place in the sector. It should be underlined that since 1996, Telefónica I+D has presided over the R&D Committee within the Unisource Alliance.

The Telefónica Sistemas Group

Within the objective of enhancing the products and services on offer to our corporate customers, the Telefónica Sistemas Group has concentrated on providing the answer to the demand for high value added services. This has been achieved in close collaboration with all the Telefónica Group's operators, particularly in Portugal, Chile, Argentina and Peru. Since 1993, Telefónica Sistemas has headed a group of companies that operate the infrastructure for public networks, communications services and networks via satellite and systems engineering, to name but a few of our activities. This group is made up of production units that can be called «project factories» as they develop specific projects such as corporate networks, Intranet applications, professional services, applications for mobile services, multimedia, etc. The technology they offer is aimed at telecommunications operators, public administrations, defence, banking, security, transport, distribution, construction, small and



medium-sized companies and the general public. This active presence in the principal business sectors is further strengthened by the participation of the Telefónica Group in the leading markets, permitting alliances with the leaders of each sector.

The Telefónica Sistemas Group is made up of the following subsidiaries: Telefónica Servicios Avanzados de Información, Telefónica Sistemas de Satélites, Telefónica Sistemas Ingeniería de Productos, Telefónica Sistemas Ingeniería de Productos Seguridad, Telefónica Gestión de Sistemas y Telefónica Sistemas de Información Geográfica.



The creation and updating of the network

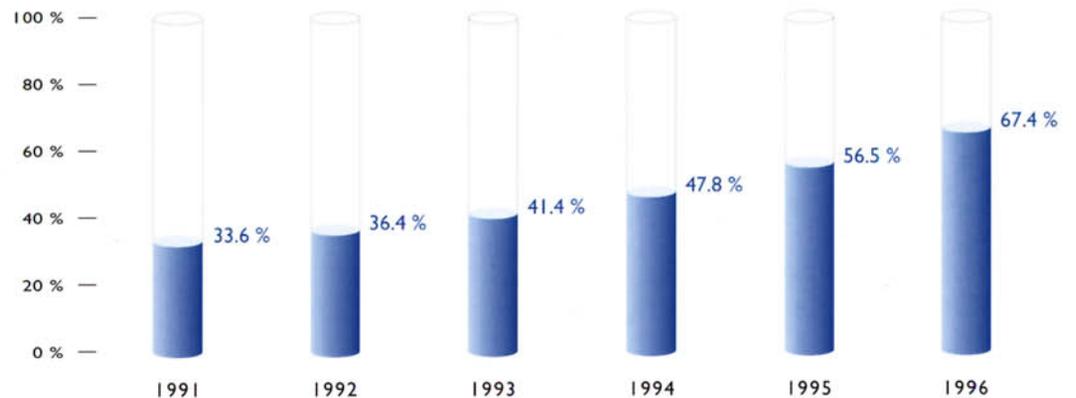
In response to the demand for new services, both by the general public and companies, Telefónica increased its effort to modernize the network, achieving the installation of 2.25 million digital metropolitan lines, 20.5% more than the previous year. Digitalization of the access plant reached 67.4%, while the whole of the transit plant is now digital.

At the same time, the transit network was totally modernized, increasing the

number of trunks in service which permit the carrying of integrated telecommunications services traffic to all the exchanges within the aforementioned network.

We also continued the modernization of our analogue exchanges, initiated in 1995 which, over the year affected more than one million lines in 78 exchanges. This, combined with the increase in digitalization, allowed us to offer itemized billing to 14.1 million basic telephony lines of which 12.7 correspond to the basic telephony

Network digitalization



network (9.4 million lines in 1995) and 1.4 million to ISDN, Ibercom and Rural Telephony through Cellular Access lines. Throughout 1996, the figure of one million kilometres of land fibre optic cable was surpassed since the initiation of the laying of this high technology cable, capable of carrying all types of services.

Finally, over the year, an important step was taken in the development of the multiservice basic network, with the completion of the new network structure with one single transit level, based on double exchange nodes which offer communications with a higher degree of quality and reliability.

Regarding international networks, in December 1996, an agreement for the construction and maintenance of a Panamerican underwater cable was signed, along with the contract for the provision of this underwater cable. This cable will link Chile, Peru, Ecuador, Panama, Colombia, Venezuela, Aruba and St.Croix (the Virgin Islands) with an extension to the island of St.Thomas. Another significant item was the laying



of the Barcelona-Savona underwater cable by the cable-laying ships «Teneo», belonging to our subsidiary Temasa, and the Italian-owned «Teliri».



Telefónica Móviles

It would be difficult to find any other sector within the Spanish economy that over the past few years has witnessed such meteoric growth as mobile telephony did last year.

The figure of almost 3 million customers - 8 of every 100 Spaniards - reflects the qualitative leap that this country has taken in this market, ahead of many other European countries.

Four out of every five mobile telephony customers have opted for our services MoviLine or MoviStar. In consequence, in its first year of complete responsibility for all its operating activities and under competition, Telefónica Móviles has more than proven its position as the leading national operator. This leadership is not only reflected by the number of customers, but also by the higher standard of quality, the more varied price range and the greater number of services on offer, when compared with our competitors. This company's principal aims are to guarantee customer satisfaction, at the same time as enhancing shareholder value and

motivating its workforce by making sure that each employee plays an integral part in the business project. All these things combined have made Telefónica Móviles the unquestionable leader it is today.





At year-end 1996, Telefónica Móviles had doubled, for the second year running, its customer base which stood at 2,345,645, reflecting a 153% increase over 1995. Of this figure 1,307,929 subscribed to the MovLine service, and 1,037,716 to MoviStar. In consequence, Telefónica Móviles now holds a market share of almost 80%, and what is of even greater

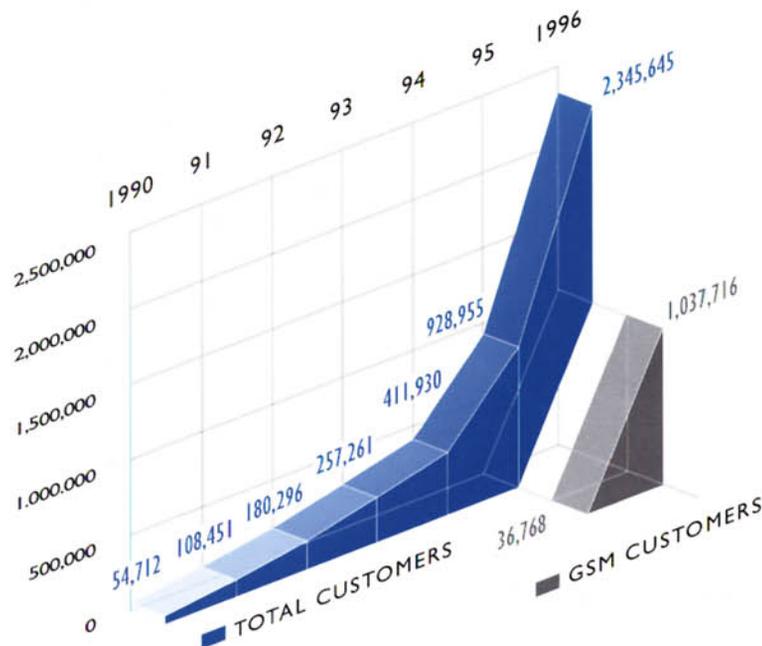
importance, has achieved a differential with its competitor of 1,700,000 customers, an 86% advance over the December 1995 differential.

Some of the milestones in this growth are the following: in January, MoviLine and MoviStar reached the joint figure of 1,000,000 customers which by November had become 2,000,000. Before the end of the year, MoviStar alone had achieved its first million customers, only 16 months after its launching.

Compared with leading European operators, Telefónica Móviles has registered the highest growth rate for the year and is second in its number of new customers, in absolute terms. Therefore, over the past three years the Company has gone from twelfth place to sixth in terms of customers.

This significant growth has been possible thanks to the stimulus that Telefónica Móviles has given the mobile market in Spain, through its extensive distribution network which, with more than 6,600 sales outlets, has enabled us to work

Telefónica Móviles' cellular customers



Consolidating our leadership in mobile communications

more closely with our customers and offer easier access to our services. Telefónica Móviles has gone to great lengths to promote its services and to surmount any barriers in the receiving of new customers, so in a year in which market positions were set, more than 37% of the company's revenue was channelled into marketing.

Service pioneers

Despite the fact that the Spanish market has achieved a certain degree of maturity, with forecast growth rates now becoming more moderate, the road ahead promises to be even harder than what has already been achieved, and, even though mobile telephony is now a part of many Spanish people's lives, its usage still tends to be limited to voice telephony for professionals and 15% of Spanish families. The ground to be covered presents a great challenge for Telefónica Móviles: the extending of the service to other communication areas such as data, text, etc, as the vehicle to increasing the productivity levels of our companies, at the same time as increasing penetration in the

residential market. With this in mind, Telefónica Móviles has launched its new services «factory», introducing an average of one new service per month and proving its capacity to provide the market with applications whose only boundaries will be those of the market's own capacity of absorption.

To name but a few of the new services launched last year, Corporate MoviStar, Multiassistance 2424, Reuters Financial Information, Telebanking, Fax Mail, MoviStar Photo, MoviStar X.28 and MoviStar Activa, the rechargeable prepaid card, which need no contract, nor monthly charges or bills. Telefónica Móviles has also increased the type of contracts it has on offer. In the spring of 1996, the Family Contract was introduced, which was followed by the Provincial MaxiSavings contract and the 3-Number MaxiSavings, which offer savings of up to 35% over the base price. These contracts permit Telefónica Móviles to offer the most extensive range of services and prices currently in the market and, without a doubt, the best attention to our customers' varying needs.



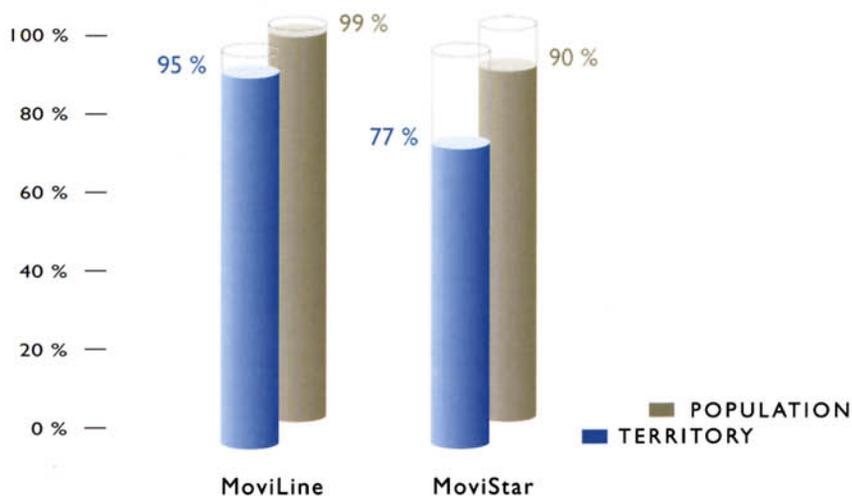
Quality is coverage

The back-up to these services and significant increase in customers is also of vital importance, and this has been reflected in the improvements made in the Telefónica Móviles networks, which last year alone carried 1,574 million calls, as well as providing connection to 220,260 basic telephony customers with cellular access. The number of base stations has doubled, with an average of eight a day having been installed. In



consequence, at the end of 1996, and in terms of vehicle phones, coverage reached 99% of the population and 95% of the country in the MoviLine service. Regarding MoviStar, the growth in coverage has been even more spectacular, as at year-end it had reached 90% of the population and 77% of the country. Lastly, the network has not been any the less, with the MoviStar network having installed an average of two exchanges a month. The overall investment figure resulting from this effort amounted to 141,102 million pesetas in 1996.

MoviLine and MoviStar coverage at December 1996



Guaranteed quality

The Company's constant desire to improve its services and customer care has paid off as, in November of last year, Telefónica Móviles received the AENOR Quality Rating of ISO 9000 in all its processes and services.

The best services on offer

Telefónica's mobile communications group, made up of Telefónica Servicios Móviles, CGS MensaTel and the

**SERVICE QUALITY STANDARDIZATION OF THE TELEFÓNICA DE ESPAÑA
GROUP COMPANIES**

| | Rating | Date | Scope of rating |
|---|--------------------|---------------|--|
| TEMASA (Maritime telecommunications) | ISO 9002 (Lloyd's) | August 1996 | Quality of the management of installation and maintenance services of underwater cable communications using cable-laying ships and remote control vehicles. |
| TELEFÓNICA MÓVILES | ISO 9001 | November 1996 | Mobile telephony service, designing of mobile telephony and value-added services, designing of construction and operating of networks, marketing and distribution management, customer care and billing. |
| TELEFÓNICA SISTEMAS INGENIERÍA PRODUCTOS (T.S.I.P.) | ISO 9001 | October 1996 | Quality of network systems engineering services and telecommunications infrastructures. |

SERVICE QUALITY STANDARDIZATION IN TELEFÓNICA DE ESPAÑA

| | Rating | Date | Scope of rating |
|----------------------------------|------------------|--------------|---|
| Provincial/territorial divisions | ISO 9001 (Aenor) | 1994-1996 | Basic telephony services, International communications, Data transmission, Public telephony, Information and Advertising. All the provincial divisions, along with the three territorial divisions (Canary Islands, Extremadura and Galicia) formed to date, have been standardized. |
| Billing | ISO 9001 (Aenor) | June 1996 | All billing procedures. |
| International Communications | ISO 9001 (Aenor) | October 1996 | International telecommunications services both domestically and internationally, and international network global services for operators and high volume customers in Spain and worldwide. |



 TELEFÓNICA MÓVILES GROUP HIGHLIGHTS (million ptas.)

| | 1995 (*) | 1996 |
|---------------------|----------|---------|
| Operating Revenue | 120,548 | 258,906 |
| Pre-tax Income | 23,181 | 21,109 |
| Capital Expenditure | 89,401 | 141,102 |
| Own Workforce | 1,096 | 1,831 |
| Total Assets | 201,598 | 352,744 |

(*) Includes the activities carried out by Telefónica de España S.A. up to the transfer of licences to Telefónica Servicios Móviles, S.A.

RadioRed group, recorded consolidated revenues for 1996 of over 268,000 million pesetas, assets of more than 352,000 million pesetas and a workforce of over 3,500 people, with an average age of 29, of which 1,831 are directly employed and the remaining number carry out specific activities for Telefónica Móviles through subcontractors.

The combination of liberalized services offered by this Group, confirm our position as the sector's undeniable leader.

MoviLine has found its niche in the combining of mobile services that are ideal for personal use -

sightseeing, mountaineering, adventure sports - and business activities - agriculture, cattle farming, hunting, fisheries, distribution, etc - which offer extensive coverage even in sparsely populated areas. In these areas (both land and sea), which now have almost complete coverage, MoviLine provides high sound quality, coverage and complementary services, compatible with the most advanced analog technology. Despite this, MoviLine continues to pay close attention to the marketing and management effort required to maintain its leading position in the different segments that contribute to the business's global profitability.

MoviStar continues to be the best and most competitive answer for those customers that need communications in highly populated urban areas and major roadways. This service is able to offer a vast range of advanced data and text applications, in accordance with the most demanding quality standards throughout the world and with

international coverage. To be precise, MoviStar customers can use their handset to receive or make calls in 51 countries and with 78 service operators, a number that is constantly increasing.

MensaTel offers its radio-paging service nationally in the form of written, numeric or alphanumeric messages, along with the possibility to receive updated information on such things as the stock market and general information, etc. This company has maintained its leading position in a market that has been highly competitive for several years, and will shortly be boosted by the introduction of new types of contracts.

Regarding radio telephony in closed user groups, the **RadioRed** Group is the only operator that has aimed to gain presence in the eleven licenced areas, having been granted the three remaining ones in 1996, these being the Balearic and Canary Islands and the region of Estremadura. This therefore permits a more global and

personal offer, making RadioRed the market's leader and reference point.

Telefónica Móviles is therefore the only mobile communications operator who provides a global range of services, and, in the case of mobile telephony, offers more services, more diversified pricing, the greatest levels of coverage, the best relationship with customers and distributors, and, most importantly, the highest quality.





2:39

最力ニ才
指標価株

ニ才フテレ
株経日新



International Businesses

Throughout 1996, Telefónica Internacional strengthened its position of leadership in its existing telecommunications markets, at the same time as seizing the new expansion opportunities that arose in the Brazilian and cable TV market.

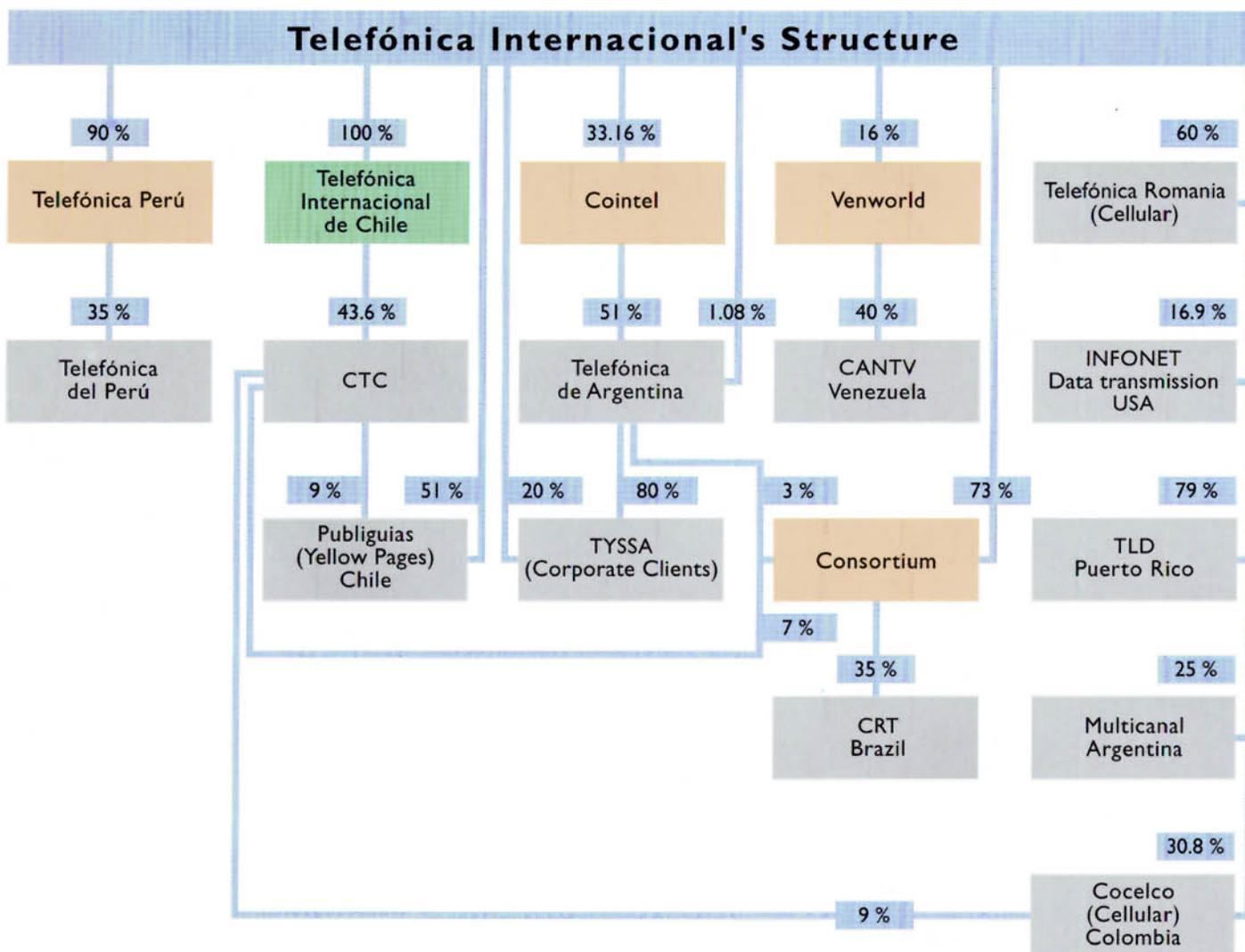
At year-end 1996, approximately 12.4 million customers used the basic telephony, cellular telephony and cable TV provided by one of Telefónica Internacional's participated companies. In the businesses open to competition, such as long distance, cellular telephony or cable TV, these participated operators achieved positions of leadership.

Taking advantage of growth opportunities

On December 17, 1996, the consortium lead by Telefónica Internacional, in which participations are held by the local company RBS (Participações Rede Brasil Sul), Telefónica de Argentina (TASA), and Compañía de Telecomunicaciones de Chile (CTC), were granted 35% of

Companhia Riograndense de Telecomunicações (CRT), following the conclusion of the international bidding process. This operation was of high strategic value for the Telefónica Group, as it completes the Group's positioning in the Mercosur area, gaining access to the principal Latin American telecommunications market in a region that is the gateway to the Argentinian market.

CRT operates in the region of Rio Grande do Sul, which has over 796,043 lines in service, representing 8.3 lines per 100 inhabitants, and more than 177,300 mobile customers. The growth potential is extremely high, reflected by the demand figure of over half a million customers. Besides this, CRT could also be the gateway to other telecommunications businesses, such as long distance and cable TV. The state of Rio Grande do Sul, on the frontier with Argentina, has an income per capita 30% higher than the average for Brazil and a population of almost ten million inhabitants.



TISA's structure at 31-12-1996

CONSORTIA
HOLDINGS
PARTICIPATED

The development of businesses and services

At the end of 1996, the Telefónica Internacional participated operators had 10.3 million lines in service. Telefónica de Argentina, with 3.5 million lines, is the leading telecommunications company in Latin America with a ratio of 21 lines per 100 inhabitants. CTC's plant in service grew by 17%, to surpass the figure of 2 million lines, reflecting a penetration level of 14.7 lines per 100 inhabitants. In Telefónica del Perú the number of lines in service rose to more than 1.4 million, a 29% increase over the figure for the previous year. At the same time, the degree of digitalization reached 85% in Peru and 83% in Argentina, while the figure for CTC's network was 100%, as it has been totally digitalized since 1993.

Regarding mobile telephony, these participated companies strengthened their market position registering an overall year-end figure of 985,000 mobile customers.

In March 1996, Telefónica de Argentina launched its domestic cellular service

through its subsidiary TCP, with 39,000 subscribers by the end of the year, complementing Miniphone's 188,000 cellular customers in Buenos Aires. The total number of subscribers to this service therefore amounts to 227,000.

In reference to Chile, the creation of the new company Startel must be mentioned, as this comes as a result of the merger between CTC Móviles and VTR Celular, with CTC holding 55% of the share capital. Startel is the only company to hold a licence to operate throughout the whole of Chile, where it has 175,000 customers to whom it provides cellular telephony, radio-paging, trunking and mobile data transmission, therefore making it Chile's leading operator in mobile services.

Telefónica del Perú Celular tripled its customer portfolio over the twelve-month period, reaching the figure of 131,000.

The cable TV business was also an area of outstanding interest for Telefónica Internacional, as it comfortably passed the figure of one million customers, due



to the strength of the Chilean and Peruvian cable TV companies, combined with the expansion of this service in Argentina.

Chile also witnessed the completion of the merger, in June 1996, of the new company Metrópolis-Intercom, in which CTC holds a 30% participation. This company has become the second most important in the Chilean cable TV market with more than 215,000 customers and 800,000 homes passed.

In 1996, Telefónica del Perú, through its Cable Mágico service, surpassed the figure of 100,000 customers, a five-fold increase over the customer portfolio for the previous year. At the end of 1996, Cable Mágico had passed 400,000



homes, reflecting a 664% increase compared with 1995.

In February 1996, Telefónica Internacional acquired 25% of Argentina's leading cable TV operator Multicanal, which had 831,000 customers at year-end, and 3.5 million homes passed.

The Panamerican Project

In response to the new competitive environment in the international traffic business, and in order to attend to the needs of our global customers in Latin

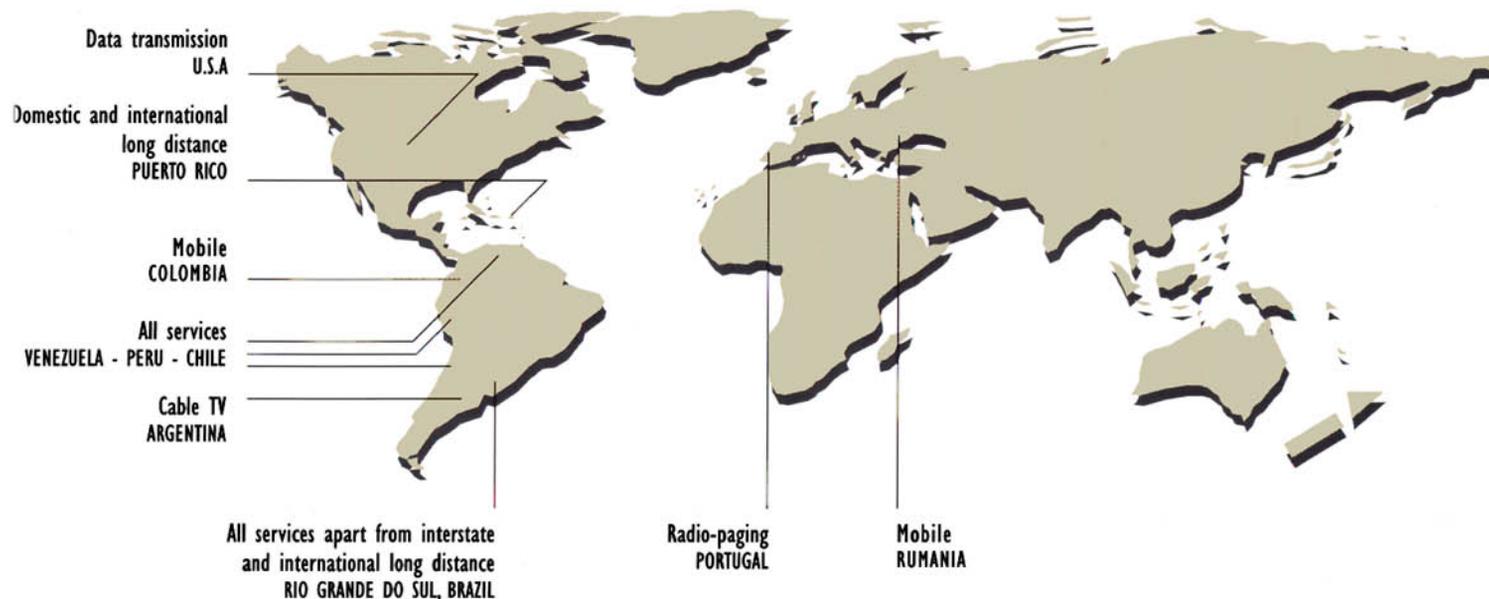
America, Telefónica Internacional continued the development of its Panamerican Project, which is now undergoing pre-commercial launching tests.

The Panamerican Project aims to consolidate the Telefónica Group's position as the leading telecommunications operator in the region of Latin America and to strengthen its multinational position. Once the Panamerican network is launched, Telefónica Internacional will be able to carry international traffic for multinationals and telecommunications

PARTICIPATIONS: COUNTRIES AND BUSINESSES

| | |
|--------------------|---|
| Argentina | All telecommunications services in the southern region through TASA. Cable TV throughout country provided by Multicanal |
| Brazil | All telecommunications services in the state of Rio Grande do Sul, except interstate and international long distance |
| Chile | All telecommunications services through CTC and Publiguías |
| Colombia | Cellular and value-added services through COCELCO |
| Peru | All telecommunications services through Telefónica del Perú |
| Portugal | Radio-paging through CONTACTEL |
| Puerto Rico | Domestic and international long distance through TLD |
| Rumania | Cellular through Telefónica Romanía |
| Venezuela | All telecommunications services through CANTV |
| US | Data transmission through Infonet |

Telefónica Internacional: Geographical Location



| COUNTRY | Population (31 / 12 / 1995) (Mill. in hab.) | Lines in service (31 / 12 / 1996) | Cellular customers (31 / 12 / 1996) | Cable TV customers (31 / 12 / 1996) | Radio-paging customers (31 / 12 / 1996) |
|--------------|---|---|---|---|---|
| Argentina | 34.6 | 3,493,717 | 227,964 | 831,243 | 29,975 |
| Brazil | 168.4 | 796,043 | 177,300 | — | — |
| Chile | 14.2 | 2,056,353 | 175,085 | 216,630 | 37,657 |
| Colombia | 35.2 | — | 42,253 | — | — |
| Peru | 23.5 | 1,436,022 | 130,895 | 101,387 | 10,963 |
| Portugal | 9.9 | — | — | — | 53,468 |
| Puerto Rico | 3.7 | — | — | — | — |
| Rumania | 22.8 | — | 17,660 | — | — |
| Venezuela | 21.6 | 2,494,859 | 213,655 | — | — |
| TOTAL | — | 10,276,994 | 984,812 | 1,149,260 | 132,063 |



operators (an operator's operator), and will also be able to provide corporate customers with global services.

Increased profitability of businesses

As can be seen, the management of Telefónica Internacional is oriented towards taking maximum advantage of the potential to create shareholder value through the increased profitability of its businesses, in this way ensuring customer satisfaction and its market leadership.

Throughout 1996, the productivity indicators of the participated operators continued to improve significantly, reflected by the 277 lines per employee in Chile's CTC, 228 lines per employee in Telefónica del Perú or the 256 lines per employee in Telefónica de Argentina. These figures represent annual increases of 18% in CTC, 28% in Telefónica de Argentina and 74% in Telefónica del Perú.

Throughout the year, the operators also intensified their cost-cutting

programmes and investment processes. Likewise, special attention was paid to the joint negotiation of procurements and coordinated management systems were also introduced. The coordinated introduction of information systems for plant maintenance and operating structure was also initiated among the participated companies in Argentina, Chile and Peru.

Among the services worth underlining, it must be mentioned that Chile and Peru coordinated the launching of InfoVia, also be launched shortly in Argentina, and which offers international access to the Telefónica Group's customers. The Automatic Roaming project was also launched among all the Group's cellular operators, which will include the interconnection with the North American market, to take place in the near future.

The trust of our investors

Regarding the trust placed in us by our investors, in July 1996, Telefónica del Perú successfully floated its previously

In Japanese, in English or in German,

Telefónica means the same:

Profitability

state-owned shares on the New York Stock Exchange. This floating received support from the international investor community and also recorded a highly successful domestic tranche. Another operation worthy of mention was that of CTC's first issuance of «Yankee Bonds», carried out in July 1996, permitting investors direct access to the North American long-term debt market with the lowest cost ever registered by a Chilean company.

Other investments

The successful floating, in the month of November, of CANTV (Compañía Anónima Nacional de Teléfonos de Venezuela) on the Caracas and New York stock exchanges must also be underlined. At year-end 1996, this company had 2.5 million lines in service and over 210,000 cellular customers. It also registered favourable results for the year.

Telefónica Larga Distancia de Puerto Rico (TLD), recorded a market share of 43% of the country's lines and 15% growth in its outgoing international

traffic, due to its increased number of services to other carrier companies.

Telefónica Romania registered significant 107% growth in its analog mobile telephony customer portfolio, having 17,660 subscribers at the end of 1996. Regarding its GSM system, Telefónica is presently negotiating with the Rumanian government.

Finally, Colombia's cellular operator Cotelco had approximately 42,000 customers at year-end 1996 and continued to hold its position of leadership with a market share of 55% in the licenced area.

The consortium in which AT&T and Unisource participate won the bidding process called by the German railway company Deutsch Bahn, in order to select a strategic partner for the acquisition of a 49.8% stake in DBKom, a Deutsche Bahn subsidiary in the telecommunications sector, Germany's second leading operator and Deutsche Telekom's principal competitor.

ANNUAL ACCOUNTS

*Consolidated
Annual Accounts
and Management Report
for the Telefónica Group
in 1995 - 1996,
along with Auditor's Report*



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 Shareholders of
Telefónica de España, S.A.:

1. We have audited the consolidated financial statements of TELEFÓNICA DE ESPAÑA, S.A. and DEPENDENT COMPANIES (TELEFÓNICA GROUP) comprising the balance sheet as of December 31, 1996, and the related statement of income and notes to 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 financial statements and evaluation of their presentation, of the accounting principles applied and of the estimates made.
2. As required by Spanish corporate law, for comparison purposes the directors present, in addition to the 1996 figures for each item in the consolidated balance sheet and statement of income, the figures for 1995. Our opinion refers only to the 1996 consolidated financial statements. The joint auditors' report of Price Waterhouse Auditores, S.A. and Audiberia Auditores, S.L. dated March 1, 1996, on the 1995 consolidated financial statements contained an unqualified opinion.
3. As indicated in Notes 2-c, 7 and 11, the Company restated its assets pursuant to Royal Decree-Law 7/1996, which gave rise to a surplus, net of the single tax, of Ptas. 219,076 million, and this amount is included under the "Restatement Reserves" caption in the consolidated financial statements referred to above.
4. In our opinion, the 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 de España, S.A. and Dependent Companies as of December 31, 1996, 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 which were applied on a basis consistent with that of the preceding year, except for the change in the method of recording investment tax credits described in Note 2-c, with which we concur.
5. The accompanying consolidated management report for 1996 contains the explanations which the directors of Telefónica de España, S.A. consider appropriate about the Telefónica 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 management report is consistent with that contained in the consolidated financial statements for 1996. Our work as auditors was confined to checking the management report with the aforementioned scope, and did not include a review of any information other than that drawn from the Companies' accounting records.

ARTHUR ANDERSEN

Eduardo Sanz Hernández

February 27, 1997

Arthur Andersen y Cía. S. Com.
Reg. Merc. Madrid, Tomo 3190, Libro 0, Folio 1,
Sec. 8, Hoja M. 84414, Inscríp. 1ª

Inscrita en el Registro Oficial de Auditores de
Cuentas (ROAC)
Inscrita en el Registro de Economistas Auditores (REA)

Domicilio Social:
Raimundo Fdez. Villaverde, 65 28003 Madrid
Código de Identificación Fiscal D:79104469

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.

TELEFÓNICA DE ESPAÑA, S.A. AND DEPENDENT COMPANIES
CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 1996 AND 1995
(Currency - Millions of Spanish Pesetas)

| ASSETS | 1996 | 1995 |
|--|------------------|------------------|
| A Due from stockholders for uncalled capital | — | 174 |
| B) Fixed and other noncurrent assets | | |
| I. Start-up expenses | 577 | 714 |
| II. Intangible assets (Note 6)- | 337,825 | 317,239 |
| Research and development expenses | 104,047 | 79,628 |
| Rights on leased assets | 15,425 | 10,711 |
| Other intangible assets | 313,336 | 295,201 |
| Amortization | (94,983) | (68,301) |
| III. Property and equipment (Note 7)- | 3,973,870 | 3,597,426 |
| Land and structures | 656,279 | 570,203 |
| Technical installations and machinery | 130,487 | 135,885 |
| Telephone installations | 5,598,023 | 5,285,469 |
| Furniture | 237,582 | 231,059 |
| Construction in progress | 327,861 | 291,302 |
| Advances on property and equipment | 23,640 | 10,574 |
| Installation materials | 50,804 | 14,014 |
| Depreciation | (3,050,806) | (2,941,080) |
| IV. Long-term financial investments (Note 8)- | 272,871 | 148,977 |
| Holdings in associated companies | 116,317 | 85,339 |
| Other holdings | 128,540 | 45,875 |
| Other loans | 31,374 | 20,429 |
| Other long-term loans, deposits and guarantees | 1,369 | 1,262 |
| Provisions | (4,729) | (3,928) |
| | 4,585,143 | 4,064,356 |
| C) Goodwill in consolidation (Note 5) | 49,798 | 47,687 |
| D) Deferred charges (Note 9) | 130,294 | 141,310 |
| E) Long-term prepaid taxes (Note 18) | 70,007 | 50,336 |
| F) Current assets | | |
| I. Due from stockholders for capital calls | — | 4 |
| II. Inventories | 33,834 | 29,036 |
| III. Accounts receivable- | 505,653 | 398,837 |
| Customer receivables (Note 10) | 405,722 | 352,750 |
| Receivable from associated companies | 4,453 | 6,599 |
| Sundry accounts receivable | 77,811 | 42,580 |
| Employee receivables | 14,417 | 15,077 |
| Tax receivables (Note 18) | 53,839 | 25,180 |
| Allowance for bad debts | (43,196) | (36,485) |
| Allowance for sundry accounts receivable | (7,393) | (6,864) |
| IV. Short-term financial investments- | 35,843 | 68,247 |
| Loans to associated companies | 61 | 530 |
| Short-term investment securities | 8,779 | 7,262 |
| Other loans | 27,496 | 60,456 |
| Provisions | (493) | (1) |
| V. Cash | 12,647 | 11,933 |
| VI. Accrual accounts | 12,396 | 6,338 |
| | 600,373 | 514,395 |
| Total assets (a+b+c+d+e+f) | 5,435,615 | 4,818,258 |

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

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.

TELEFÓNICA DE ESPAÑA, S.A. AND DEPENDENT COMPANIES
CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 1996 AND 1995
(Currency - Millions of Spanish Pesetas)

| STOCKHOLDERS' INVESTMENT AND LIABILITIES | 1996 | 1995 |
|---|------------------|------------------|
| A) Stockholders' investment (Note 11) | | |
| I. Subscribed capital stock | 469,735 | 469,735 |
| II. Paid-in surplus | 43,067 | 43,067 |
| III. Restatement reserves | 868,392 | 649,316 |
| IV. Reserves- | 355,053 | 279,177 |
| Legal reserve | 86,071 | 75,453 |
| Other reserves | 157,061 | 130,149 |
| Consolidation reserve | 75,935 | 51,597 |
| Translation differences in consolidation | 35,986 | 21,978 |
| V. Prior years' income | 112 | 147 |
| VI. Income for the year- | 160,282 | 133,214 |
| Income of the parent company and subsidiaries | 211,149 | 175,599 |
| Income of associated companies | 7,811 | 8,754 |
| Income attributed to minority interests | (58,678) | (51,139) |
| VII. Interim dividend paid during the year | (32,881) | (28,184) |
| | 1,863,760 | 1,546,472 |
| B) Minority interests (Note 12) | 374,693 | 313,753 |
| C) Deferred revenues (Note 13) | 87,486 | 91,258 |
| D) Provisions for contingencies and expenses (Note 14) | 336,615 | 287,996 |
| E) Long-term deferred taxes (Note 18) | 83,743 | 71,013 |
| F) Long-term debt | | |
| I. Debentures, bonds and other negotiable instruments (Note 15)- | 654,378 | 643,938 |
| Nonconvertible debentures and bonds | 637,919 | 614,329 |
| Convertible debentures and bonds | 14,645 | 13,553 |
| Other marketable debt securities | 1,814 | 16,056 |
| II. Payable to credit entities (Note 16) | 843,349 | 901,885 |
| III. Payable to associated companies | 271 | - |
| IV. Other accounts payable- | 103,147 | 116,947 |
| Other accounts payable | 103,147 | 116,434 |
| Notes payable | - | 513 |
| V. Uncalled capital payments payable- | 2,751 | 2,738 |
| Group companies | - | 10 |
| Associated companies | 243 | 184 |
| Other companies | 2,508 | 2,544 |
| | 1,603,896 | 1,665,508 |
| G) Current liabilities | | |
| I. Debentures, bonds and other negotiable instruments (Note 15)- | 147,427 | 108,154 |
| Debentures | 63,580 | 64,993 |
| Other negotiable instruments | 68,854 | 29,170 |
| Interest on debentures and other securities | 14,993 | 13,991 |
| II. Payable to credit entities (Note 16)- | 244,617 | 168,246 |
| Loans and other accounts payable | 234,136 | 151,105 |
| Interest payable | 10,481 | 17,141 |
| III. Payable to associated companies | 28,458 | 19,392 |
| IV. Trade accounts payable- | 374,580 | 257,112 |
| Advances received on orders | 933 | 1,938 |
| Payables for purchases and services | 370,564 | 246,430 |
| Notes payable | 3,083 | 8,744 |
| V. Other nontrade payables- | 264,204 | 260,771 |
| Accrued taxes payable (Note 18) | 104,167 | 100,545 |
| Other nontrade payables | 160,037 | 160,226 |
| VI. Accrual accounts | 26,136 | 28,583 |
| | 1,085,422 | 842,258 |
| Total stockholders' investment and liabilities (A+B+C+D+E+F+G) | 5,435,615 | 4,818,258 |

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.

TELEFÓNICA DE ESPAÑA, S.A. AND DEPENDENT COMPANIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1996 AND 1995
(Currency - Millions of Spanish Pesetas)

| DEBIT | 1996 | 1995 |
|---|----------------|----------------|
| A) Expenses | | |
| Reduction in inventories | 3,253 | 1,286 |
| Supplies- | | |
| Purchases from associated companies and other | 136,314 | 88,434 |
| Work performed by other companies | 92,290 | 39,609 |
| | 228,604 | 128,043 |
| Personnel expenses (Note 20) | 554,682 | 543,547 |
| Period depreciation and amortization- | | |
| Property and equipment | 499,924 | 477,616 |
| Intangible assets | 26,087 | 23,700 |
| Deferred charges | 218 | 164 |
| | 526,229 | 501,480 |
| Variation in operating provisions- | | |
| Variation in provision for inventories | 266 | 644 |
| Variation in allowance for bad debts | 17,161 | 17,383 |
| Variation in other operating provisions | 9,142 | 7,132 |
| | 26,569 | 25,159 |
| Other operating expenses- | | |
| Outside services | 207,638 | 153,431 |
| Taxes other than income tax | 35,106 | 27,667 |
| Other operating expenses | 19,307 | 9,728 |
| | 262,051 | 190,826 |
| I. Operating income | 575,965 | 509,882 |
| Interest on payables to associated companies | 60 | 82 |
| Other interest on accounts payable (Note 20) | 181,645 | 200,448 |
| Amortization of deferred interest expenses | 3,603 | 3,317 |
| Variation in financial investment provisions | 665 | 621 |
| Exchange losses | 20,452 | 19,188 |
| II. Financial income | — | — |
| Share in losses of companies carried by the equity method | 8,114 | 1,787 |
| Amortization of goodwill in consolidation (Note 5) | 16,786 | 6,985 |
| III. Income from ordinary activities | 390,399 | 319,482 |
| Variation in control portfolio provisions | 246 | (9) |
| Losses on fixed assets | 45,034 | 47,871 |
| Losses on disposals of consolidated companies | 2,609 | 102 |
| Extraordinary expenses and losses (Note 20) | 98,570 | 77,681 |
| IV. Extraordinary income | — | — |
| V. Income before taxes | 275,881 | 223,711 |
| Corporate income tax (Note 18) | 25,804 | 16,594 |
| Foreign taxes (Note 18) | 31,117 | 22,764 |
| VI. Consolidated income for the year | 218,960 | 184,353 |
| Income attributed to minority interests (Note 12) | 59,287 | 51,235 |
| VII. Income for the year | 160,282 | 133,214 |

The accompanying Notes I to 25 and Exhibits I and II are an integral part of these consolidated statements of income.

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.

TELEFÓNICA DE ESPAÑA, S.A. AND DEPENDENT COMPANIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1996 AND 1995
(Currency - Millions of Spanish Pesetas)

| CREDIT | 1996 | 1995 |
|--|----------------|----------------|
| B) Revenues | | |
| Net sales and services (Note 20) | 2,006,058 | 1,740,557 |
| Increase in inventories | 6,218 | 4,716 |
| Capitalized expenses of in-house work on fixed assets | 127,319 | 121,548 |
| Other operating revenues- | | |
| Sundry and other current operating revenues | 32,653 | 27,817 |
| Subsidies | 1,643 | 1,188 |
| Overprovision for contingencies and expenses | 3,462 | 4,397 |
| | 37,758 | 33,402 |
| I. Operating loss | — | — |
| Income from shareholdings- | | |
| Associated companies | 25 | 18 |
| Other companies | 2,350 | 1,803 |
| | 2,375 | 1,821 |
| Revenues from other securities and loans- | | |
| Associated companies | 889 | 378 |
| Other companies | 15,892 | 16,603 |
| | 16,781 | 16,981 |
| Exchange gains | 10,678 | 12,685 |
| II. Financial loss | 176,591 | 192,169 |
| Equity in income of companies carried by the equity method | 15,925 | 10,541 |
| III. Loss on ordinary activities | — | — |
| Gains on fixed asset disposals | 2,150 | 5,187 |
| Gains on disposals of holdings in consolidated companies | 10,335 | 7,278 |
| Capital subsidies | 10,315 | 7,983 |
| Extraordinary revenues (Note 20) | 9,141 | 9,426 |
| IV. Extraordinary loss | 114,518 | 95,771 |
| V. Loss before taxes | — | — |
| VI. Consolidated loss for the year | — | — |
| Loss attributed to minority interests (Note 12) | 609 | 96 |
| Loss for the year | — | — |

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.

TELEFÓNICA DE ESPAÑA, S.A. " **AND DEPENDENT COMPANIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR 1996 AND 1995

57

I. GROUP DESCRIPTION AND STATE CONTRACT

Group companies-

Telefónica de España, S.A. ("Telefónica") and its dependent companies make up an integrated group of companies ("the Telefónica Group") operating in the telecommunications industry.

Exhibit I to these notes to consolidated financial statements lists the subsidiaries, associated companies and investees in which Telefónica has direct or indirect holdings and their lines of business, net worth and results. Exhibit II describes the main operating data on the subsidiaries that are telecommunications operators.

Parent Company-

Telefónica de España, S.A. is a company which was incorporated pursuant to the Spanish Commercial Code for an indefinite period of time on April 19, 1924. Its registered office is at *c/ Gran Vía, 28 - 28013 Madrid.*

a) Corporate purpose-

The Company's corporate purpose, per Article 4 of its bylaws, is as follows:

1. The provision and operation of all manner of public and private telecommunications services, and for this purpose, the design, installation, upkeep, repair, improvement, acquisition, disposal, interconnection, management, administration and any other activity not included in the foregoing list, in connection with all manner of existing or future telecommunications networks, lines, satellites, equipment, and technical systems and infrastructures, including the land and buildings where they are located.
2. The supply and operation of all manner of ancillary or supplementary telecommunications services or the services derived therefrom.
3. The research and development, promotion and application of all manner of components, equipment and systems, directly or indirectly used for telecommunications.
4. Manufacturing, production and, in general, all other industrial activities relating to telecommunications.
5. Acquisition, disposal and, in general, all other commercial activities relating to telecommunications.

All the activities that constitute the corporate purpose described in the preceding paragraphs may be performed either in Spain or abroad and may be carried on either wholly or partially by the Company, or through shareholdings or participations in other companies or legal entities with an identical or similar corporate purpose.

b) Framework for the provision of services-

Telefónica is the State licensee for rendering certain public telecommunications services pursuant to the License Contract entered into with the Spanish Administration on December 26, 1991. In accordance with the provisions of such Contract, Telefónica may also carry on any financial, industrial or service-related activities deemed necessary for its interests, provided they do not cause any

deterioration in the normal operation of the ultimate carrier services forming the subject matter of the aforementioned Contract or involve the assumption of obligations contrary to the provisions of the Spanish National Telecommunications Plan.

As the licensee of said services, Telefónica undertakes, in general, to provide them observing such general interest criteria of a noneconomic nature as may be determined in the regulations on telecommunications services, particularly taking into account the maintenance of security in the operation of networks and services, the integrity and the interoperativeness thereof, data protection and the confidentiality of communications.

The deregulation of the telecommunications industry in Spain has paved the way for the emergence of restricted or full competition systems for part of the services forming the subject matter of the State License Contract entered into with the State on December 26, 1991. In particular, Royal Decree-Law 6/1996 granted Retevisión an enabling instrument to provide urban, national and international basic telephony services as well as supporting carrier services in connection with basic telephony services, for which purpose it has incorporated a company which will be charged with rendering the service under an indirect management arrangement.

The Cable Telecommunications Law empowers Telefónica to supply this service on an integrated basis with the basic telephony service in all areas where it is requested, after 24 months have elapsed from the award of the cable operator tender in each area, unless the tender is declared void, in which case commencement of the provision of services will be immediate. In response to a proposal by the Spanish National Telecommunications Market Commission, the Government may reduce this period depending on market conditions.

c) Rate system-

The License Contract established a system of regulated rates and prices aimed at guaranteeing, except with respect to the modifications expressly provided by the Contract deriving from the change from a monopoly to a competitive system, the overall financial balance of the concession, while safeguarding the principle of universal service. To that end, within the framework of cost discipline and efficient management of the Company's production resources, the rate system must ensure that Telefónica is able to cover its operating expenses, appropriations to reserves and return on capital, while striving to align the rate structure and the cost structure.

Recently, Royal Decree-Law 6/1996, deregulating the telecommunications industry, determined that the Government, at the proposal of the Ministry of Development, shall establish the cases in which fixed maximum and minimum rates and simple price adjustment rates will apply, and the methods to be used to set them, based on the degree of market demand for the various services.

d) Tax regime-

In accordance with Telefónica Taxation Law 15/1987 and Royal Decree 1334/1988, partially enacting the former, since January 1, 1988, Telefónica has been subject to general tax legislation for central State taxes. As regards local taxes, Telefónica is subject to property tax, the other local taxes being replaced by an annual cash compensation payment equal to 2% of gross billings.

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 de España, S.A., and from those of each of the dependent companies which, together with Telefónica, compose the Group, modified by the effects of the restatement carried out pursuant to Royal Decree-Law 7/1996. The respective individual financial statements were prepared by each company's directors in accordance with the accounting principles and standards provided by the Spanish Corporations Law as enacted by Legislative Royal Decree 1564/1989, implemented by the Spanish National Chart of Accounts, as enacted by Royal Decree 1643/1990, and by the regulations for the preparation of consolidated financial statements, as approved by Royal Decree 1815/1991 and the applicable specific regulations. Accordingly, these consolidated financial statements give a true and fair view of the net worth, financial position and income for each year.

The 1996 consolidated financial statements and the 1996 individual financial statements of Telefónica de España, S.A. and of each Group company will be submitted for approval by the respective Stockholders' Meetings, and it is considered that they will be approved without any changes. The 1995 individual financial statements of each of the consolidated Group companies were approved by the respective Stockholders' Meetings. The 1995 consolidated financial statements of the Telefónica Group were approved by the Stockholders' Meeting on March 29, 1996.

Accounts payable are recorded at their repayment value, except for zero-coupon debentures and bonds, which are recorded in the balance sheet at their issue value plus the accrued interest (see Note 15).

b) Consolidation principles-

The companies over which effective control is exercised by virtue of ownership of a majority of the voting rights in their representation and decision-making bodies were consolidated by the global integration method; the multigroup companies which are managed jointly

with third parties were consolidated by the proportional integration method; and those 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. Significant influence is deemed to exist if the ownership interest exceeds 20% in the case of unlisted companies or 3% in the case of listed companies.

All material accounts and transactions between the consolidated companies were eliminated in consolidation. In the case of investees whose accounting and valuation methods differed from those of Telefónica, adjustments were made in consolidation so as to present the consolidated financial statements on a uniform basis. The margins included in the invoices issued by subsidiaries to Telefónica for installations are eliminated at the time of the transaction, and this income is recognized as the related installations are depreciated.

The equity of the 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 (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 subsidiaries to the parent company's accounts, since it is considered that such reserves will be used to finance their operations and that those that may be distributed will not give rise to a material additional tax cost.

c) Comparative information-

— The figures for property and equipment and equity in the consolidated balance sheet as of December 31, 1996, are not comparable with the figures for 1995 because they include the restatement of assets pursuant to Royal Decree-Law 7/1996 (see Notes 7 and 11).

— In 1996, the Group changed its method of recording the expense for corporate income tax as a result of the changes in tax legislation on investment tax credits. From 1996 it accrues the tax credits earned and reported in its tax return over the average useful life of the assets giving rise to the tax credits, as provided by the applicable accounting regulations.

As a result of this change, the corporate income tax expense for 1996 increased by Ptas. 17,027 million. This amount will be recoverable in future years as the above-mentioned assets are depreciated. This change does not affect the amount of tax payable.

— The changes in the consolidated Group in 1996 and 1995 were as follows:

1996-

1. Telefónica acquired 25% of Unisource N.V. by exchanging all the shares of Telefónica Transmisión de Datos, S.A. and Telefónica V.S.A.T., S.A. Unisource N.V. is carried by the equity method (see Notes 8D.1 and 8D.2). Telefónica's acquisition of the holding in Unisource N.V. has received preliminary approval by the European Union, but definitive approval has not yet been granted.

2. On December 17, 1996, the consortium led by Telefónica Internacional de España, S.A. ("Telefónica Internacional") submitted the successful bid in an international call for tender for the acquisition of 35% of the voting stock of Compagnia Riograndense de Telecomunicações (CRT), equivalent to 13.45% of the latter's stock with dividend rights, for 681 million reais. The portion of the holding acquired and attributable to the Telefónica Group represents 7.87% of the company's total capital stock. The companies participating in the consortium with Telefónica Internacional are R.B.S. Participações, S.A., Compañía de Telecomunicaciones de Chile, S.A. Telefónica de Argentina, S.A. and Citicorp.

The acquisition of the aforementioned shares was formally executed on December 30, 1996. The holding in this company was recorded at cost as of December 31, 1996, but it will be carried by the equity method in 1997.

3. Telefónica sold its entire holding in Sistemas e Instalaciones de Telecomunicación, S.A. (SINTEL) and, accordingly, Sintelperú, S.A. and Sintelar, S.A. (each 25% owned by Telefónica Internacional and 38% and 50% owned, respectively, by Sintel, S.A.), are now carried by the equity method (see Note 8D.3).

4. Telefónica continued to incorporate companies to operate the cable television system and to provide added value services at local level. The companies incorporated in 1996 were as follows:

- Sociedad General de Cablevisión Sevilla, S.A.
- Sociedad General de Cablevisió Balears, S.A.
- Sociedad General de Cablevisión Cádiz, S.A.
- Sociedad General de Cablevisión Navarra, S.A.
- Sociedad General de Cablevisión Murcia, S.A.

- Sociedad General de Cablevisión Lleida, S.A.
- Sociedad General de Cablevisión Bizkaia, S.A.
- Sociedad General de Cablevisión Rioja, S.A.
- Sociedad General de Cablevisión Asturias, S.A.
- Sociedad General de Cablevisión Burgos, S.A.
- Sociedad General de Cablevisión León, S.A.
- Sociedad General de Cablevisión Valladolid, S.A.
- Sociedad General de Cablevisión Valencia, S.A.
- Sociedad General de Cablevisión Alicante, S.A.
- Sociedad General de Cablevisión Málaga, S.A.
- Sociedad General de Cablevisión Granada, S.A.

all of which were consolidated by the global integration method.

5. Telefónica Internacional acquired 25% of the Argentine companies Multicanal, S.A. and PEM, S.A., both of which are carried by the equity method.
6. T.S. Telefónica Sistemas, S.A. participated in the incorporation of Negocios Cibernéticos, S.A. by acquiring 50% of the capital stock of the new company, which was consolidated by the global integration method.

It also participated in the incorporation of Madrid 112, in which it has a 49% ownership interest. This company is consolidated by the equity method.

T.S. Telefónica Sistemas, S.A. acquired 50% of Gestión y Operación de Redes, S.A. (GESTIRED) from its subsidiary Telefónica Gestión de Sistemas, S.A. (T.G.S.). It subsequently acquired the remaining 49% of this company, bringing its total shareholding to 100%. GESTIRED continues to be consolidated by the global integration method.

T.S. Telefónica Sistemas, S.A. also acquired 50% of the capital stock of Servicios y Contenidos por la Red, S.A., bringing its current ownership interest to 100%. This latter company continues to be consolidated by the global integration method.

Maptel, S.A. and T.S.C. Telefónica Seguridad y Comunicaciones, S.A. changed their corporate names to Telefónica Sistemas de Información Geográfica, S.A. (T.S.I.G.) and Telefónica Sistemas de Ingeniería de Productos, Seguridad, S.A. (T.S.I.P.S.), respectively.

7. T.S. Telefónica Sistemas, S.A. sold all its holding (55.64%) in T.P. Servicios Integrales de Protección Civil, S.A. (TEPESA) (see Note 8D.3).

It also sold all its holding (24.99%) in Telecom Vallés, S.A. (see Note 8D.3).

8. Telefónica Publicidad e Información, S.A. (TPI) participated in the incorporation of REM Infográfica, S.A., acquiring 60% of the capital stock of the new company, which is consolidated by the global integration method.

TPI also acquired 51% of the capital stock of T.M.P. Worldwide España, S.A., which is consolidated by the global integration method.

On December 20, 1996, TPI dissolved and liquidated Promotora de Mercados Telemáticos, S.A. and Central de Compras de Papel, S.A., both of which were wholly-owned subsidiaries.

9. Estrategias Telefónicas, S.A. (ESTRATEL) incorporated Tempotel, Empresa de Trabajo Temporal, S.A. and subscribed all its capital stock. This company is consolidated by the global integration method.
10. Telefónica Multimedia, S.A. sold all its holdings in Cable del Guadalquivir, S.A. (20%) and Grupo Gallego de Empresas para el Cable, S.A. (10%) (see Note 8D.3).
11. Radiored I, S.A. acquired a 9% holding in the capital stock of Radiored Zaragoza, S.A., bringing its shareholding in this company to 100%. This company continues to be consolidated by the global integration method.

During the year Radiored I, S.A. incorporated the following companies: Radiored Extremadura, S.A., Radiored Canarias, S.A. and Radiored Baleares, S.A. These three companies, which were consolidated by the global integration method, all are wholly owned by Radiored, S.A.

12. In November 1996 Telecartera, S.A. exchanged with Sogecable its 50% holding in Sociedad General de Cablevisión, S.A. for Sogecable's holdings in local operators (10% holdings, except for the local operators in the Canary Islands, Madrid and Barcelona). Telecartera also acquired from Cablevisión its holdings in local operators (39% holdings except in the case of the companies in Madrid and Barcelona -49%- and Burgos -24%) for Ptas. 635 million.
13. Servicios de Teledistribución, S.A. (ST-Hilo) sold its 33% holding in Sociedad Anónima de Productos Electrónicos y de Comunicación (S.A.PE.C.) (see Note 8D.3).

14. Hispasat, S.A. increased capital in 1996. Telefónica, however, did not subscribe all the shares corresponding to it, thereby reducing its holding in this company by 2.26% to 22.74%. This company continues to be consolidated by the equity method.

Telefónica sold 30 shares of Teleartera, S.A., thereby reducing its holding in this company to 75%. This company continues to be consolidated by the global integration method (see Note 8D.3).

It also sold 48,000 shares of Amper, S.A., reducing its holding to 15%. This company continues to be carried by the equity method (see Note 8D.3).

Telefónica sold all its holdings in European Silicon Structures, S.A. (ES-2) (0.38%) and Financial Network Association (F.N.A.) (8.33%) (see Note 8D.3).

15. STARTEL, S.A., a CTC Group company, was incorporated in 1996 as a result of agreements entered into on March 11, 1996, between CTC-Celular and VTR-Comunicaciones Móviles, S.A. to jointly operate in the cellular telephony business. CTC's and VTR's holdings of 55% and 45%, respectively, in the new company, were obtained through the contribution of 75% and 25% of STARTEL, S.A.'s assets, respectively, and through the subsequent sale of 20% of the company's capital stock for US\$ 67 million. As a result of this sale, the Telefónica Internacional Group recorded extraordinary income of Ptas. 2,444 million, net of taxes and the equity of minority interests, the gross amount of which (Ptas. 6,597 million) is recorded under the "Gains on Disposals of Holdings in Consolidated Companies" caption in the accompanying 1996 statement of income.

1995-

1. In 1995 Sistemas e Instalaciones de Telecomunicación, S.A. (SINTEL) acquired an additional 2.1% holding in the capital stock of Informática y Comunicaciones, S.A. (INCOSA) and 2% of the capital stock of Construcciones de las Conducciones del Sur, S.A. (COTRONIC). These acquisitions gave the Telefónica Group a majority holding in the capital stock of the two companies and, accordingly, in 1995 they were consolidated by the global integration method for the first time. SINTEL sold its holdings of 44% in Inalca, S.A. and of 42.12% in Sistemas Avanzados de Control, S.A. and, accordingly, these companies were deconsolidated. SINTEL also participated in the formation of Sintel-Abengoa Multimedia, A.I.E. and acquired 50% of its capital stock. This company was consolidated by the proportional integration method.
2. Telefónica started to incorporate companies to operate the cable television system and to provide added value services at local level. The companies incorporated in 1995 were as follows: Sociedad General de Cablevisión Madrid, S.A.; Societat General de Cablevisió Barcelona, S.A.; Sociedad General de Cablevisión Cantabria, S.A.; and Sociedad General de Cablevisión Canarias, S.A. These companies were consolidated by the global integration method.
3. Telefónica VSAT, S.A. was incorporated to provide satellite telecommunications services. This company was consolidated by the global integration method.
4. Teleartera, S.A. acquired 16.67% of Sociedad General de Cablevisión, S.A., bringing its holding up to 50%. Accordingly, this company was consolidated by the proportional integration method in 1995.
5. Telefónica Sistemas, S.A. participated in the incorporation of Telefónica Sistemas Portugal, S.A. (consolidated by the global integration method), Hispaservices, S.A. and Portel Servicios Telemáticos, S.A. (carried by the equity method).

d) Unless otherwise indicated, the figures in the consolidated financial statements are expressed millions of pesetas.

3. DISTRIBUTION OF THE INCOME OF THE CONTROLLING COMPANY

The proposed distribution of Telefónica de España, S.A.'s 1996 income that the Board of Directors will submit for approval by the Stockholders' Meeting is as follows:

| | Millions of Pesetas |
|--|---------------------|
| Basis of distribution: | |
| 1996 net income | 120,414 |
| Prior year's retained earnings | 112 |
| Total amount to be distributed | 120,526 |
| Distribution to: | |
| Interim dividend of 7%, declared on January 20, 1997 | 32,881 |
| Supplementary dividend of 10.8%, pending approval | 50,732 |
| Dividends | 83,613 |
| Legal reserve | 7,876 |
| Voluntary reserves | 28,900 |
| Retained earnings | 137 |
| Total amount distributed | 120,526 |

Interim dividend-

In accordance with Article 216 of the revised Corporations Law, on December 18, 1996, the Board of Directors, based on the economic and financial information submitted to it, approved the distribution of an interim dividend of Ptas. 35 gross per share out of 1996 income.

The accounting statement prepared in accordance with legal requirements (Article 216 of the revised Corporations Law), evidencing the existence of sufficient liquidity for the distribution of the interim dividend for 1996, was as follows:

| Accounting Statement Supporting Liquidity for Distribution of Interim Dividend | |
|--|---------------------|
| | Millions of Pesetas |
| Income from January 1 to November 30, 1996 | 113,610 |
| 1995 retained earnings | 112 |
| Prior years' losses | — |
| Mandatory appropriation to reserves | (7,876) |
| Distributable income | 105,846 |
| Proposed interim dividend | 32,881 |
| Financial Position (forecast at 11/30/96) | |
| Distributable funds- | |
| Cash | 5,074 |
| Unrestricted loans | 295,069 |
| Proposed interim dividend | (32,881) |
| Difference | 267,262 |

The proposed distribution of the income of Telefónica de España, S.A. that will be submitted for approval by the next Stockholders' Meeting will be accompanied by a request for the distribution of a supplementary dividend for 1996 of Ptas. 54 gross per share.

4. VALUATION STANDARDS

The main valuation methods applied in preparing the consolidated financial statements for 1996 and 1995 were as follows:

a) Goodwill in consolidation-

The accompanying 1996 and 1995 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 at the acquisition date.

Goodwill is amortized on a straight-line basis over ten years, since this is the period over which it is estimated that the goodwill will contribute to the obtaining of income at the Group.

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 statements, which were translated at the average exchange rate for the year.
3. 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 by the inflation from the date of inclusion of the asset in the company's balance sheet to year-end. The effect of the year's inflation on the monetary assets and liabilities is included in the statement of income for the year. In 1995 the Argentinean legislation abolished the application of the inflation adjustment in the financial statements of companies located in Argentina.

The exchange difference arising from application of these procedures is included under the "Stockholders' Investment - 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.

c) Start-up expenses-

Start-up expenses, which comprise incorporation and capital increase 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 five years. Costs incurred in projects which are not viable for the future are expensed currently.

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 expense and is allocated to income each year by the interest method. The existing contracts, which relate to computer hardware, are amortized by the straight-line method 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 by the straight-line method over three years.

Other intangible assets-

This caption includes other intangible assets; the main items relate to the costs incurred in acquiring capacity and rights of way in other operators' cables. These rights are amortized on a straight-line basis over 25 years.

The administrative concessions related to a concession granted by the Peruvian Government to CPT and Entel Perú at the time of acquisition of these two companies by Telefónica Internacional. It is recorded at the difference between the acquisition cost and the proportional part of the equity of the companies acquired at that date, adjusted by estimates of certain costs to be incurred in the merger and restructuring of these two companies' operations. This intangible asset will be amortized over 20 years (the concession period) and on the basis of the number of lines installed, since this is the variable which determines the obtaining of revenues allocable to the concession.

e) Property and equipment-

Property and equipment is carried at cost restated pursuant to the applicable enabling legislation from 1946 to 1996, including Royal Decree-Law 7/1996 (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 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 revenue under the "Capitalized Expenses of In-House Work on Fixed Assets" caption.

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

| | Years of Estimated Useful Life |
|---|--------------------------------|
| Buildings | 30 - 50 |
| Power equipment | 10 - 20 |
| Switching equipment | 7 - 17 |
| Transmission equipment | 5 - 14 |
| Local and domestic long-distance networks | 7 - 25 |
| Subscriber equipment and other installations | 4 - 8 |
| Furniture, office equipment and other | 4 - 15 |

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

f) Long- and short-term financial investments-

Long- and short-term financial investments, except for companies carried by the equity method (see Note 2.b), are recorded as follows:

1. Listed securities:

At the lower of cost or market. 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:

At cost, net, if appropriate, of the required provisions for depreciation if cost was higher than reasonable value at year-end.

Unrealized losses (cost higher than market or reasonable value at year-end) are recorded in the "Provision for Financial Investments" account.

g) Deferred charges-

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

Debt arrangement expenses-

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

Exchange losses-

Unrealized exchange losses are charged to income by the interest method, as provided by a Ministry of Economy and Finance Order dated March 12, 1993, adapting the Spanish National Chart of Accounts to certain companies (see Note 4.j).

Interest on promissory notes-

This relates to the difference between the par value and the effective issue 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).

Supplementary pension payments to retired employees (shortfall)-

These relate to the shortfall in the provisions recorded for the commitments made by Telefónica 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 (see Notes 4-k and 14).

h) Inventories-

Warehouse materials for installation in capital expenditure projects and consumables and replacement parts are valued at weighted average cost, monetarily adjusted in the countries whose legislation so requires.

Obsolete, defective or slow-moving inventories have been reduced to realizable value. The provisions for depreciation of inventories are recorded based on age and turnover.

i) 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.

The main subsidies obtained were granted as follows:

| Grantor | Reason for Granting |
|--|--|
| Official agencies, autonomous community governments and regional and local authorities | Extension of supply to rural areas |
| European Union | Promotion and development of telecommunications activities |
| European Union (FEDER Programme) | Infrastructures for depressed areas |

All the aforementioned subsidies were granted to the parent company and all the subsidy grant requirements are being met in all cases.

j) 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.

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.

In accordance with a Ministry of Economy and Finance Order dated March 12, 1993 (published in Official State Gazette No. 64 of March 16, 1993), which adapts the foreign currency transaction valuation method in the Spanish National Chart of Accounts for certain companies, including Telefónica, exchange differences on each transaction in the year must be allocated by the interest method over the term of the transaction.

In view of the foreseeable full deregulation of telecommunications from January 1, 1998, in 1995 Telefónica wrote off (with a charge to income) the potential unrealized exchange losses relating to debts maturing after the aforementioned date. In 1996 Telefónica recorded the deferred losses for the period with a charge to income. Exchange losses allocable to 1997 are included under the "Deferred Charges" caption and will be expensed in that year (see Notes 9 and 20).

k) Pension and similar commitments-

Until December 31, 1991, Telefónica de España, S.A. personnel benefited from a social welfare system provided by Institución Telefónica de Previsión (ITP), currently in liquidation. A Ministry of Labor and Social Security Order dated December 30, 1991, provided for the inclusion of the serving and retired employees of ITP be included in the general social security system. Since January 1, 1992, Telefónica and its employees have been contributing to the general social security system.

The methods used to record and calculate the commitments arising from the aforementioned events are as follows:

Cost of including the pensioners in the social security system-

A resolution issued by the Directorate-General of Planning and Economic Organization of the Social Security System on May 25, 1992, stipulated that the cost of including ITP pensioners in the social security system would amount to Ptas. 130,683 million. ITP had to pay this amount as follows.

1. An initial payment of Ptas. 75,000 million.
2. The remaining Ptas. 55,683 million will be paid over a period of ten years in constant annual instalments plus interest at 8%.

Since ITP is in liquidation and does not have sufficient resources to meet the payments, Telefónica, which is vicariously liable, has been contributing the necessary funds to make the payments. As of December 31, 1996 and 1995, the outstanding debt to the social security authorities amounted to Ptas. 38,688 million and Ptas. 44,794 million, respectively, for which Telefónica has recorded the related provisions under the "Provisions for Contingencies and Expenses" caption (see Note 14).

Economic compensation for the inclusion of serving employees-

As a result of the inclusion of serving employees in the social security system, during a period of 25 years Telefónica must make additional contributions to the social security system, based on the serving employees' contribution bases. These contributions consist of the payment of an additional 1% during the first four years and of an additional 2.2% over the remainder.

In 1992, Telefónica entered into a collective labor agreement, pursuant to the Workers' Statute, with the workers' representatives for the creation of a pension plan for serving employees. The agreement also recognized the entitlement of retired employees to receive pension payments supplementing their social security pensions. The commitments undertaken and the methods for recording them are as follows:

Pension plan-

Following an after made on June 30, 1992, and accepted by the workers on September 17, 1992, Telefónica reached a collective labor agreement, pursuant to the workers' statute, with the workers' representatives. The main features of the pension plan are as follows:

Creation of a pension plan pursuant to Pension Plans and Funds Law 8/1987 with the following features:

- a) Employment system pension plan
- b) Defined contribution
- c) Mandatory contributions by the participating employees
- d) Individual and financial capitalization
- e) Contribution by the promoter of 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
- f) The obligatory contribution of the participants will be a minimum of 2.2% of his/her regulatory base salary

The plan came into effect on July 1, 1992. The past service benefits recognized for employees availing themselves of the plan amounted to Ptas. 228,489 million, which, in accordance with the Rebalancing Plan approved on July 18, 1995, by the Directorate-General of Insurance and by a Ministry of Economy and Finance Resolution dated April 24, 1996, will be financed as follows:

1. Telefónica will contribute the Ptas. 121,350 million that it had recorded under the "Long-Term Debt - Other Accounts Payable" caption. This amount will be transferred through the year 2000 at an annual effective interest rate of 6.7%.
2. The resulting shortfall (Ptas. 107,139 million) must be contributed to the pension plan within 28 years in monthly instalments payable in advance at an annual interest rate of 6%. The Company records provisions for the shortfall over 28 years pursuant to a systematic plan, with instalments increasing each year by Ptas. 1,042 million through the year 2002 and based on the Rebalancing Plan thereafter. The resulting cumulative difference (Ptas. 9,121 million as of December 31, 1996) between the provisions recorded and the contributions made to the pension plan is recorded in the "Provisions for Contingencies and Expenses - Provisions for the Rebalancing Plan" account. The provision for 1996 was Ptas. 4,677 million (Ptas. 4,486 million in 1995) (see Note 14).

In accordance with the conditions for adhesion to the Plan, transfers have been made for a total amount of Ptas. 124,099 million, as follows:

| | Transfer Plan | | Underprovision | | Extraordinary Contribution | Total |
|---------------------|---------------|---------------|----------------|---------------|----------------------------|----------------|
| | Principal | Interest | Principal | Interest | | |
| Through 12/31/94 | 30,142 | 18,261 | 4,900 | 14,628 | 1,308 | 69,239 |
| Transferred in 1995 | 14,304 | 5,391 | 2,761 | 5,648 | 575 | 28,679 |
| Transferred in 1996 | 13,961 | 4,486 | 1,625 | 5,531 | 578 | 26,181 |
| Total | 58,407 | 28,138 | 9,286 | 25,807 | 2,461 | 124,099 |

At year-end, the principal not yet transferred to the Plan amounted to Ptas. 158,335 million.

3. As of December 31, 1996, 67,135 employees (66,830 at the same date in 1995) had joined the Plan. The retirement, disability and death benefits earned affected a total of 4,615 participants in 1996 (3,446 in 1995).

Supplementary pension payments to retired employees-

On July 8, 1992, Telefónica reached an agreement with its employees whereby it recognized supplementary pension payments for employees who were 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 nonrevaluable. 60% of the payments are transferable to the spouse recognized as such as of June 30, 1992, and to underage children.

In accordance with an actuarial study conducted by Telefónica, applying GRM-80 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 life of the retired employees. The balances of these accounts as of December 31, 1996, are shown in Notes 9 and 14.

At each year-end the Company conducts a new actuarial study using the aforementioned assumptions. The increase in discounted present value due to the financial provisions to the fund are recorded as an expense under the "Extraordinary Expenses" caption (see Note 20).

The fall in market interest rates in 1996 induced Telefónica to reduce from 8% to 6.5% the assumed interest rate used in calculating the commitments. Accordingly, the value of the provision required increased by Ptas. 10,597 million. This provision was recorded with a charge to the "Deferred Charges" caption and is being allocated to income over the expected life of the retired employees which, as of January 1, 1996, is 11.5 years.

An external fund must be created for this commitment pursuant to Private Insurance Law 30/1995, within the time limits established in Transitory Provision 14 thereof.

Group life insurance-

Retired 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 studies conducted internally, applying the GRM/F-80 mortality table and an assumed interest rate of 6%. As of December 31, 1996 and 1995, this allowance amounted to Ptas. 13,219 million and Ptas. 16,549 million, respectively, and was recorded under the "Provisions for Contingencies and Expenses" caption (see Note 14).

An external fund must be created for this commitment pursuant to Private Insurance Law 30/1995, within the time limits established in Transitory Provision 14 thereof.

1) Provisions for voluntary early retirements-

The deregulation of the telecommunications industry in Spain made it necessary to adapt the labor force to Telefónica's actual needs and, accordingly, the voluntary redundancy plan initiated in 1994 was continued and extended to provide for voluntary early retirement of employees above 58 years of age. Also, the Company's Strategic Plan for 1996-2000 envisages the possibility of early retirement starting at the age of 57. These plans provide for the possibility of retiring without a notable loss in compensation, thus enabling the labor force to be tailored to the actual needs of each line of business in a nontraumatic manner.

The Company records provisions for the present value of the estimated payments that will be generated in future years as a result of the voluntary early retirements, in accordance with a systematic plan (see Note 14).

m) Technical provisions-

This caption relates mainly to mathematical provisions for life insurance, pension and reinsurance commitments taken on by Seguros de Vida y Pensiones Antares, S.A. and Casiopea Re.

n) Corporate income tax-

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 permanent differences. 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 the tax credits. The difference between the expense incurred and the tax paid is due to revenue and expense recognition timing differences giving rise to prepaid and deferred taxes (see Note 18).

o) Derivatives-

Transactions aimed at eliminating or significantly reducing exchange, interest rate or market risks on balance sheet positions or on other transactions are treated as hedging transactions. The Group performs its hedging transactions through currency and interest rate swaps. The amounts accrued and not paid or collected at year-end are accrued correlatively to the revenues or costs on the hedged transaction in the appropriate asset or liability accrual account (see Note 17).

p) 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. These services are generally billed every two months. Uninvoiced 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 recorded 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 detail of the balance of goodwill in consolidation, the related accumulated amortization and the variations therein in 1996 is as follows:

| | Millions of Pesetas | | | | | Balance at 12/31/96 |
|--|------------------------|---------------|--------------|----------------|----------------------------|------------------------|
| | Balance at 12/31/95 | Additions | Retirements | Transfers | Translation Differences | |
| Companies consolidated | | | | | | |
| by the global integration method: | | | | | | |
| C.T.C. (Chile) | 5,508 | — | — | — | — | 5,508 |
| T.L.D. (Puerto Rico) | 7,595 | — | (116) | — | — | 7,479 |
| Publiguiás (Chile) | 426 | — | — | — | — | 426 |
| T. Perú Holding | 463 | — | — | (2) | — | 461 |
| Multicable T.V. (Chile) | 992 | — | — | 2 | 101 | 1,095 |
| Invercom | 6,710 | — | — | (6,710) | — | — |
| Instacom | 1,216 | — | (126) | — | 244 | 1,334 |
| Intercom | — | (111) | — | — | — | (111) |
| Servicios y Contenidos por la Red | — | 126 | — | — | — | 126 |
| TMP Worldwide | — | 8 | — | — | — | 8 |
| | 22,910 | 23 | (242) | (6,710) | 345 | 16,326 |
| Companies carried by the equity method: | | | | | | |
| Sofres, A.M. | 157 | — | — | — | — | 157 |
| Venworld (Venezuela) | 19,982 | — | — | 2,348 | — | 22,330 |
| Tepesa | 7 | — | (7) | — | — | — |
| Cointel (Argentina) | 23,835 | — | — | 1 | — | 23,836 |
| Multicanal | — | 9,155 | — | — | — | 9,155 |
| Invercom | — | — | — | 6,648 | 775 | 7,423 |
| Unisource, N.V. | — | 7,742 | — | — | — | 7,742 |
| Siris y DBKOM | — | 1,130 | — | — | — | 1,130 |
| | 43,981 | 18,027 | (7) | 8,997 | 775 | 71,773 |
| Total goodwill | 66,891 | 18,050 | (249) | 2,287 | 1,120 | 88,099 |
| Companies consolidated | | | | | | |
| by the global integration method: | | | | | | |
| C.T.C. (Chile) | 3,151 | 551 | — | 1 | — | 3,703 |
| T.L.D. (Puerto Rico) | 2,360 | 748 | (116) | — | — | 2,992 |
| Publiguiás (Chile) | 128 | 43 | — | — | — | 171 |
| T. Perú Holding | 52 | 46 | — | (1) | — | 97 |
| Multicable T.V. (Chile) | 35 | 105 | — | 1 | 7 | 148 |
| Invercom | 1,114 | — | — | (1,114) | — | — |
| Instacom | 230 | 130 | (126) | — | 165 | 399 |
| Intercom | — | (8) | — | — | (20) | (28) |
| Servicios y Contenidos por la Red | — | 126 | — | — | — | 126 |
| TMP Worldwide | — | 8 | — | — | — | 8 |
| | 7,070 | 1,749 | (242) | (1,113) | 152 | 7,616 |
| Companies carried by the equity method: | | | | | | |
| Sofres, A.M. | 140 | 17 | — | — | — | 157 |
| Venworld (Venezuela) | 6,585 | 2,233 | — | 2,347 | — | 11,165 |
| Tepesa | 7 | — | (7) | — | — | — |
| Cointel (Argentina) | 5,402 | 2,495 | — | 1 | — | 7,898 |
| Multicanal | — | 704 | — | — | — | 704 |
| Invercom | — | 716 | — | 1,052 | 121 | 1,889 |
| Unisource, N.V. | — | 7,742 | — | — | — | 7,742 |
| Siris y DBKOM | — | 1,130 | — | — | — | 1,130 |
| | 12,134 | 15,037 | (7) | 3,400 | 121 | 30,685 |
| Total accumulated amortization | 19,204 | 16,786 | (249) | 2,287 | 273 | 38,301 |
| Unamortized goodwill in consolidation | 47,687 | 1,264 | — | — | 847 | 49,798 |

Because of the long maturation period of the investments to be made by UNISOURCE, N.V. and the difficulty in predicting the impact on this company of the deregulation of telecommunications in Europe, Telefónica decided to amortize, with a charge to 1996 income, the goodwill arising on the acquisition of the shares of UNISOURCE, N.V.

The detail of the balance of goodwill in consolidation, the related accumulated amortization and the variations therein in 1995 is as follows:

| | Millions of Pesetas | | | | | Balance at 12/31/95 |
|---|------------------------|----------------|-------------|-----------|----------------------------|------------------------|
| | Balance at 12/31/94 | Additions | Retirements | Transfers | Translation Differences | |
| Companies consolidated by the global integration method: | | | | | | |
| C.T.C. (Chile) | 5,508 | — | — | — | — | 5,508 |
| T.L.D. (Puerto Rico) | 7,595 | — | — | — | — | 7,595 |
| Publiguías (Chile) | 426 | — | — | — | — | 426 |
| T. Perú Holding | 463 | — | — | — | — | 463 |
| Multicable T.V. (Chile) | — | 992 | — | — | — | 992 |
| Invercom | 6,710 | — | — | — | — | 6,710 |
| Instacom | 1,216 | — | — | — | — | 1,216 |
| | 21,918 | 992 | — | — | — | 22,910 |
| Companies carried by the equity method: | | | | | | |
| Sofres, A.M. | 157 | — | — | — | — | 157 |
| Venworld (Venezuela) | 19,982 | — | — | — | — | 19,982 |
| Tepesa | 7 | — | — | — | — | 7 |
| Cointel (Argentina) | 23,823 | 12 | — | — | — | 23,835 |
| | 43,969 | 12 | — | — | — | 43,981 |
| Total goodwill | 65,887 | 1,004 | — | — | — | 66,891 |
| Companies consolidated by the global integration method: | | | | | | |
| C.T.C. (Chile) | 2,601 | 550 | — | — | — | 3,151 |
| T.L.D. (Puerto Rico) | 1,612 | 748 | — | — | — | 2,360 |
| Publiguías (Chile) | 86 | 42 | — | — | — | 128 |
| T. Perú Holding | 6 | 46 | — | — | — | 52 |
| Multicable T.V. (Chile) | — | 37 | — | — | (2) | 35 |
| Invercom | 373 | 678 | — | — | 63 | 1,114 |
| Instacom | 94 | 126 | — | — | 10 | 230 |
| | 4,772 | 2,227 | — | — | 71 | 7,070 |
| Companies carried by the equity method: | | | | | | |
| Sofres, A.M. | 109 | 31 | — | — | — | 140 |
| Venworld (Venezuela) | 4,349 | 2,234 | — | — | 2 | 6,585 |
| Tepesa | 7 | — | — | — | — | 7 |
| Cointel (Argentina) | 2,909 | 2,493 | — | — | — | 5,402 |
| | 7,374 | 4,758 | — | — | 2 | 12,134 |
| Total accumulated amortization | 12,146 | 6,985 | — | — | 73 | 19,204 |
| Unamortized goodwill in consolidation | 53,741 | (5,981) | — | — | (73) | 47,687 |

6. INTANGIBLE ASSETS

The detail of the balances of the intangible asset accounts and the variations therein in 1996 and 1995 are as follows:

| Millions of Pesetas | | | | | |
|---|---|------------------|---|-------------------------------|----------------|
| | Research and Development Expenses | Leased Assets | Indefinite Software User Licenses | Other Intangible Assets | Total |
| Balance at 12/31/94 | 60,193 | 9,132 | 39,875 | 236,793 | 345,993 |
| Additions | 19,522 | 1,588 | 14,304 | 3,288 | 38,702 |
| Retirements | — | — | (35) | (1,203) | (1,238) |
| Transfers | (87) | (70) | 25 | 2,584 | 2,452 |
| Inclusion of companies | — | 61 | 9 | 8 | 78 |
| Variation in exchange rate and other | — | — | — | (447) | (447) |
| Balance at 12/31/95 | 79,628 | 10,711 | 54,178 | 241,023 | 385,540 |
| Additions | 21,170 | 4,080 | 19,330 | 802 | 45,382 |
| Retirements | — | — | (168) | (38) | (206) |
| Transfers | 3,170 | 732 | 80 | (2,155) | 1,827 |
| Inclusion of companies | — | — | — | — | — |
| Variation in exchange rate | 79 | 1 | 52 | 295 | 427 |
| Exclusion of companies | — | (99) | (6) | (57) | (162) |
| Balance at 12/31/96 | 104,047 | 15,425 | 73,466 | 239,870 | 432,808 |

The main item included under the "Other Intangible Assets" caption was the administrative concession described in Note 4.d, amounting to Ptas. 224,491 million.

The variations in the related accumulated amortization were as follows:

| Millions of Pesetas | | | | | |
|---|---|------------------|---|-------------------------------|----------------|
| | Research and Development Expenses | Leased Assets | Indefinite Software User Licenses | Other Intangible Assets | Total |
| Balance at 12/31/94 | 17,814 | 741 | 21,764 | 5,467 | 45,786 |
| Provisions | 11,084 | 1,242 | 5,604 | 5,770 | 23,700 |
| Retirements | — | — | (31) | (1,041) | (1,072) |
| Transfers | (36) | (16) | (49) | 85 | (16) |
| Inclusion of companies | — | 2 | 4 | 10 | 16 |
| Variation in exchange rate and other | — | — | — | (113) | (113) |
| Balance at 12/31/95 | 28,862 | 1,969 | 27,292 | 10,178 | 68,301 |
| Provisions | 11,768 | 1,784 | 5,846 | 6,863 | 26,261 |
| Retirements | — | — | (63) | (46) | (109) |
| Transfers | 536 | (29) | 55 | (112) | 450 |
| Inclusion of companies | — | — | — | — | — |
| Variation in exchange rate | 61 | 44 | 65 | (57) | 113 |
| Exclusion of companies | — | (2) | (3) | (28) | (33) |
| Balance at 12/31/96 | 41,227 | 3,766 | 33,192 | 16,798 | 94,983 |
| Intangible assets, net | 62,820 | 11,659 | 40,274 | 223,072 | 337,825 |

7. PROPERTY AND EQUIPMENT

The detail of the balances of property and equipment, the related accumulated depreciation and the variations therein in 1996 is as follows:

| | Millions of Pesetas | | | | | | | | |
|--|------------------------|----------------|------------------|------------------------------|------------------------------|-------------------------|-----------------|------------------------|------------------------|
| | Balance at 12/31/95 | Additions | Retirements | Inclusion of Companies | Exclusion of Companies | Exchange Differences | Transfers | Account Restatement | Balance at 12/31/96 |
| Cost: | | | | | | | | | |
| Land and structures | 570,203 | 643 | (4,098) | 90 | (900) | 4,638 | 33,896 | 51,807 | 656,279 |
| Technical installations and machinery | 135,885 | 3,855 | (6,752) | — | (1,029) | — | (1,472) | — | 130,487 |
| Telephone installations, networks and equipment | 5,285,469 | 80,178 | (430,982) | 2,619 | — | 59,547 | 429,028 | 172,164 | 5,598,023 |
| Furniture, tools and other | 231,059 | 13,702 | (6,521) | 1,117 | (5,365) | 6,170 | (4,461) | 1,881 | 237,582 |
| Total property and equipment in service | 6,222,616 | 98,378 | (448,353) | 3,826 | (7,294) | 70,355 | 456,991 | 225,852 | 6,622,371 |
| Net variation in construction in progress | 291,302 | 564,848 | (69) | — | — | 6,936 | (535,156) | — | 327,861 |
| Advances to fixed-asset suppliers | 10,574 | 5,812 | (238) | — | — | 47 | 7,445 | — | 23,640 |
| Installation materials in warehouses | 14,014 | 7,338 | — | — | — | (183) | 29,635 | — | 50,804 |
| Total property and equipment | 6,538,506 | 676,376 | (448,660) | 3,826 | (7,294) | 77,155 | (41,085) | 225,852 | 7,024,676 |
| Accumulated depreciation: | | | | | | | | | |
| Structures | 133,389 | 14,196 | (729) | 8 | (142) | 1,477 | (22) | — | 148,177 |
| Technical installations and machinery | 68,861 | 9,066 | (5,950) | — | (601) | — | 223 | — | 71,599 |
| Telephone installations, networks and equipment | 2,605,859 | 454,045 | (381,334) | 234 | — | 21,977 | (18,024) | — | 2,682,757 |
| Furniture, tools and other | 132,971 | 23,674 | (6,170) | 100 | (3,727) | 2,329 | (904) | — | 148,273 |
| Total accumulated depreciation | 2,941,080 | 500,981 | (394,183) | 342 | (4,470) | 25,783 | (18,727) | — | 3,050,806 |
| Property and equipment, net | 3,597,426 | 175,395 | (54,477) | 3,484 | (2,824) | 51,372 | (22,358) | 225,852 | 3,973,870 |

The detail of the balances of property and equipment, the related accumulated depreciation and the variations therein in 1995 is as follows:

| Millions of Pesetas | | | | | | | |
|--|------------------------|----------------|------------------|------------------------------|-------------------------|-----------------|------------------------|
| | Balance at 12/31/94 | Additions | Retirements | Inclusion of Companies | Exchange Differences | Transfers | Balance at 12/31/95 |
| Cost: | | | | | | | |
| Land and structures | 529,777 | 3,261 | (604) | 182 | (1,333) | 38,920 | 570,203 |
| Technical installations and machinery | 132,412 | 3,420 | (5,795) | 118 | (10) | 5,740 | 135,885 |
| Telephone installations, networks and equipment | 5,189,741 | 118,480 | (315,566) | — | (16,315) | 309,129 | 5,285,469 |
| Furniture, tools and other | 188,039 | 11,013 | (3,727) | 239 | (87) | 35,582 | 231,059 |
| Total property and equipment in service | 6,039,969 | 136,174 | (325,692) | 539 | (17,745) | 389,371 | 6,222,616 |
| Net variation in construction in progress | 247,143 | 446,513 | (1,281) | — | 362 | (401,435) | 291,302 |
| Advances to fixed-asset suppliers | 8,221 | 2,474 | — | — | — | (121) | 10,574 |
| Installation materials in warehouses | 16,194 | 6,432 | — | — | — | (8,612) | 14,014 |
| Total property and equipment | 6,311,527 | 591,593 | (326,973) | 539 | (17,383) | (20,797) | 6,538,506 |
| Accumulated depreciation: | | | | | | | |
| Structures | 118,674 | 13,212 | (67) | 36 | (451) | 1,985 | 133,389 |
| Technical installations and machinery | 62,830 | 11,071 | (4,606) | 103 | (4) | (533) | 68,861 |
| Telephone installations, networks and equipment | 2,461,283 | 429,673 | (258,868) | — | (8,045) | (18,184) | 2,605,859 |
| Furniture, tools and other | 109,156 | 23,660 | (2,991) | 150 | (590) | 3,586 | 132,971 |
| Total accumulated depreciation | 2,751,943 | 477,616 | (266,532) | 289 | (9,090) | (13,146) | 2,941,080 |
| Property and equipment, net | 3,559,584 | 113,977 | (60,441) | 250 | (8,293) | (7,651) | 3,597,426 |

The installation materials in warehouses are recorded net of provisions, which amounted to Ptas. 5,936 million as of December 31, 1996 (Ptas. 4,921 million in 1995). The provision for inventory depreciation recorded in 1996 based on actual diminution in value, amounted to Ptas. 2,496 million (Ptas. 2,598 million in 1995).

The "Inclusion of Companies" account in 1996 includes the variations in property and equipment as a result of the merger of the Chilean companies VTR and CTC Celular, since this merger resulted in the contribution of assets to the Group.

The "Exclusion of Companies" account in 1996 includes the accumulated balances as of December 31, 1995, of the Sintel Group companies, Tepesa, Telefónica Transmisión de Datos (TTD), Sociedad General de Cablevisión and Telefónica VSAT, since they were excluded from the consolidated Group in 1996.

The "Exchange 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 under the appropriate column for each variation.

As of December 31, 1996 and 1995, the following items had been fully depreciated:

| Millions of Pesetas | | |
|--|----------------|----------------|
| | 1996 | 1995 |
| Buildings | 7,201 | 4,716 |
| Power equipment | 26,583 | 29,732 |
| Switching equipment | 334,529 | 328,525 |
| Transmission equipment | 157,050 | 174,764 |
| Local and domestic long-distance networks | 160,350 | 160,617 |
| Subscriber equipment and other installations | 155,987 | 119,769 |
| Furniture, office equipment and other | 87,454 | 67,905 |
| Total | 929,154 | 886,028 |

Telefónica's fixed assets used to provide telephone services cannot be mortgaged unless so authorized by the Government Delegate after they cease to be used for such purpose.

Telefónica has taken out insurance policies to cover the possible risks affecting its property and equipment used in operations, except for the deductible applicable to local and domestic long-distance networks and subscriber equipment.

On December 31, 1996, Telefónica restated its property and equipment pursuant to Royal Decree-Law 7/1996 and paid the related single 3% tax. The Company had previously restated its accounts pursuant to the enabling legislation specifically applicable to Telefónica de España. The 1996 restatement was performed by applying the maximum coefficients authorized under this Royal Decree-Law, with the 40% reduction provided for the effect of Company financing and observing the restatement limit imposed by the market value of the restated assets.

The restatement surplus, net of the single 3% tax, was credited to the "Restatement Reserves" caption, with a charge to the appropriate restated asset accounts, without altering the recorded accumulated depreciation amount.

The net increase in value resulting from this restatement will be depreciated over the tax periods in the remaining useful lives of the restated assets. It is estimated that the 1996 restatement will increase the 1997 depreciation charge by approximately Ptas. 35,320 million.

The account restatements made from 1946 to 1987 gave rise to variations in the following accounts:

| | Millions of Pesetas | | |
|--|---------------------|--------------------------|----------------------|
| | Total Effect | | |
| | Gross Values | Accumulated Depreciation | Restatement Reserves |
| Land lots | 30,041 | — | 30,041 |
| Structures | 93,282 | 25,034 | 68,248 |
| Power equipment | 31,525 | 14,973 | 16,552 |
| Switching equipment | 504,642 | 215,690 | 288,952 |
| Transmission equipment | 151,036 | 95,018 | 56,018 |
| Local and domestic long-distance networks | 648,945 | 331,751 | 317,194 |
| Subscriber equipment and other installations | (4,153) | 27,649 | (31,802) |
| Total | 1,455,318 | 710,115 | 745,203 |

The effect of these restatements on the 1996 and 1995 depreciation charges was Ptas. 10,786 million and Ptas. 12,548 million, respectively.

The detail of the property and equipment included in the consolidated Group and owned by Group companies located abroad as of December 31, 1996 and 1995, is as follows:

| | Millions of Pesetas | |
|--------------------------|---------------------|----------------|
| | 1996 | 1995 |
| Cost | 1,133,947 | 864,724 |
| Accumulated depreciation | (374,528) | (292,142) |
| Total | 759,419 | 572,582 |

8. LONG-TERM FINANCIAL INVESTMENTS

A) The detail of the balances of and variations in financial investments in 1996 and 1995, of the related provision for depreciation, and of the capital payments outstanding is as follows:

1. Variations in financial investments:

| Millions of Pesetas | | | | | | | | | |
|----------------------------------|------------------------|---------------|-----------------|--------------------------|------------------------|----------------|-----------------|--------------------------|------------------------|
| | Balance at 12/31/94 | Additions | Retirements | Transfers and Consol. | Balance at 12/31/95 | Additions | Retirements | Transfers and Consol. | Balance at 12/31/96 |
| Holdings in associated companies | 88,843 | 2,173 | (498) | (5,179) | 85,339 | 35,350 | (6,395) | 2,023 | 116,317 |
| Other holdings | 36,406 | 15,365 | (4,598) | (1,298) | 45,875 | 85,276 | (2,649) | 38 | 128,540 |
| Other loans | 10,490 | 14,954 | (4,896) | (119) | 20,429 | 17,913 | (19,416) | 12,448 | 31,374 |
| Guarantees and deposits | 1,313 | 247 | (298) | — | 1,262 | 409 | (304) | 2 | 1,369 |
| Total | 137,052 | 32,739 | (10,290) | (6,596) | 152,905 | 138,948 | (28,764) | 14,511 | 277,600 |

2. Variations in the provision for depreciation of financial investments:

| Millions of Pesetas | | | | | | | | | |
|------------------------------------|------------------------|---------------|----------------|--------------------------|------------------------|----------------|-----------------|--------------------------|------------------------|
| | Balance at 12/31/94 | Additions | Retirements | Transfers and Consol. | Balance at 12/31/95 | Additions | Retirements | Transfers and Consol. | Balance at 12/31/96 |
| Other holdings | 4,642 | 88 | (802) | — | 3,928 | 1,702 | (901) | — | 4,729 |
| Total | 4,642 | 88 | (802) | — | 3,928 | 1,702 | (901) | — | 4,729 |
| Total financial investments | 132,410 | 32,651 | (9,488) | (6,596) | 148,977 | 137,246 | (27,863) | 14,511 | 272,871 |

3. Variations in capital payments outstanding:

| Millions of Pesetas | | | | | | | | | |
|---|------------------------|---------------|----------------|--------------------------|------------------------|----------------|-----------------|--------------------------|------------------------|
| | Balance at 12/31/94 | Additions | Retirements | Transfers and Consol. | Balance at 12/31/95 | Additions | Retirements | Transfers and Consol. | Balance at 12/31/96 |
| Group companies | — | 10 | — | — | 10 | — | (10) | — | — |
| Associated companies | — | 184 | — | — | 184 | 169 | (110) | — | 243 |
| Other companies | 50 | 2,503 | — | (9) | 2,544 | — | (36) | — | 2,508 |
| Total | 50 | 2,697 | — | (9) | 2,738 | 169 | (156) | — | 2,751 |
| Total financial investments, net | 132,360 | 29,954 | (9,488) | (6,587) | 146,239 | 137,077 | (27,707) | 14,511 | 270,120 |

B) Exhibit I to these notes to financial statements provides detailed information on the Group companies, the percentages of ownership therein and the consolidation method used.

C) As part of the reorganization of its corporate group, Telefónica carried out the following transactions:

I. In 1995, in application of Law 29/1991, adapting certain tax concepts to EC Directives and regulations:

— Contribution of mobile telephony lines of business to the subsidiary Telefónica Servicios Móviles, S.A.

— By means of a share exchange transaction, Telefónica de España, S.A. contributed to Telefónica Publicidad e Información, S.A. all the capital stock of Estrategias Telefónicas, S.A.

The disclosures referred to in Article 14 of Law 29/1991 are included in the first annual report approved following the transactions.

D) In 1995 Telefónica carried out the following transactions in accordance with Chapter VIII of Corporate Income Tax Law 43/1995.

I. With Telefónica Transmisión de Datos, S.A.:

Nonmonetary contribution of assets to Telefónica Transmisión de Datos, S.A., based on values verified by independent appraisers, as follows:

| Assets Contributed, Net of Depreciation and Amortization | Millions of Pesetas | |
|--|-------------------------|-------------------------------------|
| | Liabilities Assigned | Net Value of the Contribution |
| 26,036 | 12,500 | 13,536 |

As a consideration for the aforementioned contribution, Telefónica received from Telefónica Transmisión de Datos, S.A. shares of the capital increase carried out for this purpose with a par value of Ptas. 9,328 million and a share premium of Ptas. 6,219 million. This investment was recorded in the "Long-Term Financial Investments" of Telefónica for the difference between the net book value of the assets contributed and the amount of the financial liabilities assigned to the assets transferred. Telefónica Transmisión de Datos, S.A. undertook to repay to Telefónica de España, S.A. the amount of such liabilities within three years.

The tax benefits obtained by Telefónica from the accelerated depreciation of the assets will be reversed at Telefónica in the year in which the contribution takes place. The investment tax credits relating to the assets contributed by Telefónica amount to Ptas. 27,335 million for 1991 to 1995. Ptas. 250 million of the unused tax credits, which were earned in 1991, were transferred to Telefónica Transmisión de Datos.

2. With Unisource, N.V.:

By means of a share exchange transaction, Telefónica de España, S.A. contributed to Unisource, N.V. 1,208,149 shares of Telefónica Transmisión de Datos, S.A. and 26,200 shares of Telefónica VSAT, S.A., representing 100% of the capital stock of both companies, and received in exchange 23,000 new shares of Unisource, N.V. of 1,000 Dutch guilders par value each, representing 25% of its capital stock. The mandatory appraisal was carried out by an independent appraiser.

Telefónica recorded these amounts under "Long-Term Financial Investments" at the same value as that for which it had recorded the shares of Telefónica Transmisión de Datos, S.A. and of Telefónica VSAT, S.A. (i.e. Ptas. 16,804 million).

3. In 1996 the Telefónica Group sold its holdings in various companies with the following results:

| | Percentage of Capital Stock Sold | Millions of Pesetas | |
|--|-------------------------------------|---------------------|----------------|
| | | Amount Sold | Gain (Loss) |
| Subsidiaries and associated companies: | | | |
| Sistemas e Instalaciones de Telecomunicaciones, S.A. | 100.00 | 7,935 | (2,347) |
| Sociedad General de Cablevisión, S.A. | 50.00 | 1,069 | (222) |
| Tepesa, S.A. | 55.64 | 139 | (30) |
| Telecartera, S.A. | 0.12 | 1 | — |
| VTR | 20.00 | 67 M US\$ | 6,597 |
| Telefónica Argentina, S.A. | 0.67 | 2,526 | 3,666 |
| Telecom Vallés, S.A. | 24.90 | 26 | — |
| S.A.P.E.C. | 33.00 | 13 | (10) |
| Amper, S.A. | 0.35 | 10 | 72 |
| Investees: | | | |
| Investees of CTC | — | — | 183 |
| European Silicom Structures, S.A. | 0.38 | 460 | (6) |
| Cable del Guadalquivir, S.A. | 20.00 | 5 | — |
| Grupo Gallego de Empresas para el Cable, S.A. | 10.00 | 5 | (1) |
| Financial Network Association, S.A. | 8.33 | 2 | 1 |

The detail of the holdings disposed of by the Telefónica Group in 1995 and of the gains on the disposals is as follows:

| | Percentage of Capital Stock Sold | Millions of Pesetas | |
|---|-------------------------------------|---------------------|----------------|
| | | Amount Sold | Gain (Loss) |
| Industria Electrónica de Comunicaciones, S.A. | 20.74 | 67 | 353 |
| Fonditel Entidad Gestora de Fondos de Pensiones | 19.00 | 430 | — |
| ATT Network System International, B.V. | 5.84 | 2,849 | 3,693 |
| Inalca, S.A. | 44.00 | 12 | 32 |
| Telefónica de Argentina, S.A. | 2.15 | 8,317 | 7,283 |
| Sistemas Avanzados de Control, S.A. | 42.12 | — | — |

E) The Group companies listed on the stock exchange and their market value at year-end and the average market price in the last quarter are as follows:

| Company | Currency | Stock Exchange | Market Price 12/31/96 | | |
|----------------------------|----------|-------------------|-----------------------|----------------------------|--------|
| | | | Year-End | Average Last Quarter | |
| Telefónica | shares | Peseta | Madrid | 3,015 | 2,742 |
| Telefónica | ADSs | U.S. dollar | New York | 69.25 | 63.14 |
| Telefónica | shares | Yens | Tokio | 2,590 | 2,378 |
| Telefónica | shares | Deutsch marks | Frankfurt | 36.20 | 32.31 |
| Telefónica | shares | U.S. dollar | SEAO | 69.31 | 63.06 |
| Telefónica | shares | French francs | Paris | 122.50 | 110.06 |
| Amper | | Peseta | Madrid | 2,975 | 2,084 |
| CTC (Chile) | A shares | Chilean peso | Santiago | 2,435 | 2,394 |
| CTC (Chile) | B shares | Chilean peso | Santiago | 2,200 | 2,202 |
| CTC (Chile) | ADSs | U.S. dollar | New York | 23.79 | 23.10 |
| TASA (Argentina) | | Argentinean peso | Buenos Aires | 2.65 | 2.51 |
| TASA (Argentina) | ADRs | U.S. dollar | New York | 25.88 | 25.12 |
| Telefónica del Perú (Peru) | B shares | New sol | Lima | 4.86 | 5.31 |
| Telefónica del Perú (Peru) | C shares | New sol | Lima | 4.86 | 5.31 |
| Telefónica del Perú (Peru) | ADRs | U.S. dollar | New York | 18.88 | 20.74 |
| C.A.N.T.V. (Venezuela) | | Bolivar | Caracas | 1,865 | 1,787 |
| C.A.N.T.V. (Venezuela) | | U.S. dollar | New York | 28.13 | 26.74 |

The market prices are expressed in the currency in which the shares are traded.

| | |
|------------------------|-------------------|
| — Telefónica: | 1 ADS = 3 shares |
| — T.A.S.A.: | 1 ADR = 10 shares |
| — C.T.C.: | 1 ADS = 4 shares |
| — Telefónica del Perú: | 1 ADR = 10 shares |
| — C.A.N.T.V.: | 1 ADR = 7 shares |

9. DEFERRED CHARGES

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

| | Millions of Pesetas | | | | | | | Balance at 12/31/96 | Balance at 12/31/95 |
|--|---------------------|---------------|---------------|---------------|---------------|---------------------|----------------|------------------------|------------------------|
| | Maturity | | | | | Subsequent Years | | | |
| | 1997 | 1998 | 1999 | 2000 | 2001 | | | | |
| Pension supplements (shortfall) | 9,108 | 9,108 | 9,108 | 9,108 | 9,108 | 50,102 | 95,642 | 94,154 | |
| Debt arrangement expenses | 4,913 | 3,345 | 2,407 | 1,839 | 1,000 | 2,206 | 15,710 | 15,818 | |
| Interest on long-term promissory notes | 3,562 | 3,780 | 2,740 | 1,550 | 183 | — | 11,815 | 15,647 | |
| Exchange losses | 6,401 | — | — | — | — | — | 6,401 | 12,951 | |
| Interest on lease transactions | 293 | 270 | 36 | 16 | — | 1 | 616 | 2,579 | |
| Other deferred charges | 110 | — | — | — | — | — | 110 | 161 | |
| Total | 24,387 | 16,503 | 14,291 | 12,513 | 10,291 | 52,309 | 130,294 | 141,310 | |

Pension supplements (shortfall)-

This caption relates to supplementary pension commitments to retired employees which have not yet been allocated to income (see Note 4.k).

The variations in the balances of this caption in 1996 and 1995 were as follows:

| | Millions of Pesetas |
|--|---------------------|
| Balance at 12/31/94 | 101,002 |
| Amortization | (8,455) |
| Other variations | 1,607 |
| Balance at 12/31/95 | 94,154 |
| Amortization | (9,109) |
| Change of assumed interest rate (Note 4-k) | 10,597 |
| Balance at 12/31/96 | 95,642 |

The "Other Variations" account reflects the year-on-year differences in the actuarial calculations of the supplementary pension commitments (see Note 4.k).

Exchange differences-

As indicated in Note 4-j, Telefónica has deferred potential losses relating to exchange losses at each year-end, with maturity through 1997. The deferred amount as of December 31, 1996, amounted to Ptas. 6,401 million (Ptas. 12,951 million as of December 31, 1995). These exchange differences will be amortized in full in 1997.

10. CUSTOMER RECEIVABLES

The detail of the balances of this caption as of December 31, 1996 and 1995, is as follows:

| | Millions of Pesetas | |
|-------------------------------|------------------------|------------------------|
| | Balance at 12/31/96 | Balance at 12/31/95 |
| Services billed- | | |
| Customers billed | 133,294 | 185,815 |
| Doubtful customer receivables | 39,394 | 22,430 |
| Other | 2,978 | 1,420 |
| | 175,666 | 209,665 |
| Unbilled services | 230,056 | 143,085 |
| | 405,722 | 352,750 |
| Allowance for bad debts | (43,196) | (36,485) |
| Total | 362,526 | 316,265 |

The "Unbilled Services" account includes the connection, subscription and metered service charges not yet billed by Telefónica and the other Group operators. This amount arises because these companies' subscriber billing schedules do not coincide with year-end (see Note 4.p).

At Telefónica de España, S.A. the balance of the public-sector customer account receivable in 1996 amounted to Ptas. 52,671 million (Ptas. 59,586 million in 1995). Under a Royal Decree-Law dated July 29, 1996, the government approved the payment of Ptas. 24,758 million of this debt in 1997.

Ptas. 15,522 million of uncollectible accounts were retired in 1996 (Ptas. 21,652 million in 1995).

11. STOCKHOLDERS' INVESTMENT

The detail of the balances and variations in equity accounts in 1996 and 1995 is as follows:

| | Millions of Pesetas | | | | | | |
|---------------------------------------|------------------------|-----------------------------------|---------------------|------------------------|-----------------------------------|---------------------|------------------------|
| | Balance at 12/31/94 | Distribution of 1994 Income | Other Variations | Balance at 12/31/95 | Distribution of 1995 Income | Other Variations | Balance at 12/31/96 |
| Capital stock | 469,735 | — | — | 469,735 | — | — | 469,735 |
| Paid-in surplus | 43,067 | — | — | 43,067 | — | — | 43,067 |
| Restatement reserve | 649,316 | — | — | 649,316 | — | 219,076 | 868,392 |
| Legal reserve | 66,279 | 9,174 | — | 75,453 | 10,618 | — | 86,071 |
| Voluntary reserve | 107,280 | 22,869 | — | 130,149 | 26,816 | 96 | 157,061 |
| Consolidation reserve | 32,035 | 18,504 | 1,058 | 51,597 | 24,415 | (77) | 75,935 |
| Retained earnings | 91 | 56 | — | 147 | (35) | — | 112 |
| Consolidation translation differences | 31,620 | — | (9,642) | 21,978 | — | 14,008 | 35,986 |
| Income for the year | 112,608 | (112,608) | 133,214 | 133,214 | (133,214) | 160,282 | 160,282 |
| Interim dividend | — | — | (28,184) | (28,184) | 28,184 | (32,881) | (32,881) |
| Total | 1,512,031 | (62,005) | 96,446 | 1,546,472 | (43,216) | 360,504 | 1,863,760 |

a) Capital stock-

As of December 31, 1996, Telefónica's capital stock consisted of 939,470,820 fully subscribed and paid bearer shares of Ptas. 500 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 and New York stock exchanges. According to the information to which Telefónica has had access, as of December 31, 1996, significant holdings in its capital stock were owned by the State Property Agency, through Sociedad Estatal de Participaciones Patrimoniales (SEPPA) and Sociedad Estatal de Patrimonio II (a total of 22.2% of the capital stock); Caja de Ahorros y Pensiones de Barcelona (5.010%); Banco Bilbao Vizcaya, S.A. (5.005%) and Argentario (3.090%).

On April 21, 1995, the Stockholders' Meeting authorized the Board of Directors to increase capital, at one or several times, up to a maximum of Ptas. 704,603 million within a maximum period of five years and with no need for further notice or resolution.

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) Restatement reserve-

The balance of the "Restatement Reserves" caption arose as a result of restatements made from 1946 to 1987, and of the restatement pursuant to Royal Decree-Law 7/1996.

As of December 31, 1996 and 1995, the balances of the restatement reserve amounted to Ptas. 868,392 million and Ptas. 649,316 million, respectively, as follows:

| | Millions of Pesetas | |
|---|---------------------|----------------|
| | 1996 | 1995 |
| Restatements from 1946 to 1987: | | |
| Restatements made | 745,203 | 745,203 |
| Amounts used- | | |
| Capital increases from 1977 to 1986 | (74,487) | (74,487) |
| Transfer to provisions in 1982 | (18,829) | (18,829) |
| Other variations from 1981 to 1986 | (2,571) | (2,571) |
| | 649,316 | 649,316 |
| 1996 restatement: | | |
| Restatement Reserve Royal Decree-Law 7/1996 | 225,852 | — |
| Single tax on restatements | (6,776) | — |
| Total | 868,392 | 649,316 |

As of December 31, 1996, the balance of the reserve relating to the restatements made from 1946 to 1987 was unrestricted as to its use.

From the date on which the tax authorities have reviewed and approved the balance of the "Restatement Reserve Royal Decree-Law 7/1996" account (or the three-year period for review has expired), the aforementioned balance 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 restatements), 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 restated assets have been transferred or retired from the accounting records.

d) Consolidation reserve-

The detail of the consolidation reserve and of the variations therein in 1996 and 1995 is as follows:

| 1996 | Millions of Pesetas | | | Balance at 12/31/96 |
|--|------------------------|---------------|-----------------|------------------------|
| | Balance at 12/31/95 | Increase | Decrease | |
| Companies consolidated by the global and proportional integration methods | 27,314 | 33,864 | (2,836) | 58,342 |
| Companies carried by the equity method | 24,283 | 917 | (7,607) | 17,593 |
| Total | 51,597 | 34,781 | (10,443) | 75,935 |

| 1995 | Millions of Pesetas | | | Balance at 12/31/95 |
|--|------------------------|---------------|----------------|------------------------|
| | Balance at 12/31/94 | Increase | Decrease | |
| Companies consolidated by the global and proportional integration methods | 8,168 | 23,349 | (4,203) | 27,314 |
| Companies carried by the equity method | 23,867 | 1,346 | (930) | 24,283 |
| Total | 32,035 | 24,695 | (5,133) | 51,597 |

e) Equity of the controlling company-

The detail of the capital and reserves of the controlling company as of December 31, 1996 and 1995, is as follows:

| | Millions of Pesetas | |
|---------------------|---------------------|------------------|
| | 1996 | 1995 |
| Capital stock | 469,735 | 469,735 |
| Paid-in surplus | 43,067 | 43,067 |
| Restatement reserve | 872,856 | 653,780 |
| Legal reserve | 86,071 | 75,453 |
| Voluntary reserve | 174,698 | 150,498 |
| Retained earnings | 112 | 147 |
| Income for the year | 120,414 | 106,183 |
| Interim dividend | (32,881) | (28,184) |
| Total | 1,734,072 | 1,470,679 |

The differences (amounting to Ptas. 4,464 million) between the restatement reserves in the individual financial statements of Telefónica and those in the consolidated financial statements arose in consolidation, as a result of the reclassifications to the voluntary reserves account of the reserves of the companies sold and to the consolidation reserve account of the reserves of existing companies.

Contribution of the Group companies to the consolidated accounts-

The contribution of the Group companies to consolidated equity as of December 31, 1996, was as follows:

| Company | Millions of Pesetas | | | |
|--|------------------------|------------------|----------------------------|------------------------------|
| | December 31, 1996 | | | |
| | Contribution | | | |
| | To Consolidated Income | To Reserves | To Translation Differences | Total Contribution to Equity |
| Capital stock of the parent company | — | — | — | 469,735 |
| Cabitel | 2,794 | 2,257 | — | 5,051 |
| Fonditel | 390 | 297 | — | 687 |
| G. Casiopea | 373 | 1,288 | 31 | 1,692 |
| G. Comet | (34) | (848) | — | (882) |
| G. Servicio Teledistribución | (61) | 309 | — | 248 |
| G. Sintel (until 04/30/96) | 710 | (30) | — | 680 |
| G. Teleartera y Sociedad de Cablevisión | (804) | (82) | — | (886) |
| G. Telefónica Servicios Móviles | 15,135 | 1,664 | — | 16,799 |
| G. Telefónica Sistemas | 674 | 2,261 | — | 2,935 |
| G. Telefónica Internacional | 22,445 | 66,067 | 34,800 | 123,312 |
| Telefónica Publicidad e Información | 3,611 | 3,041 | — | 6,652 |
| Playa de Madrid | 12 | 84 | — | 96 |
| Taetel | 325 | 1,129 | — | 1,454 |
| Telefónica Servicios Multimedia | (210) | (131) | — | (341) |
| Telfisa | 65 | (107) | — | (42) |
| Telyco | 848 | (1,533) | — | (685) |
| Temasa | 1,885 | 2,791 | — | 4,676 |
| Tidsa | 953 | 2,021 | — | 2,974 |
| Urbana Ibérica | 4 | 89 | — | 93 |
| Telefónica de España | 111,364 | 966,953 | 1,155 | 1,079,472 |
| Total Telefónica Group | 160,479 | 1,047,520 | 35,986 | 1,243,985 |
| Restatement Royal Decree-Law 7/1996 | — | 219,076 | — | 219,076 |
| Variation in income and reserves due to fixed asset transactions | (197) | (35,958) | — | (36,155) |
| Interim dividend | — | — | — | (32,881) |
| Contributions to equity of the Telefónica Group | 160,282 | 1,230,638 | 35,986 | 1,863,760 |

The contribution of the Group companies to consolidated equity as of December 31, 1995, was as follows:

| Millions of Pesetas | | | | |
|---|------------------------------|----------------|----------------------------------|------------------------------------|
| December 31, 1995 | | | | |
| Contribution | | | | |
| Company | To Consolidated Income | To Reserves | To Translation Differences | Total Contribution to Equity |
| Capital stock of the parent company | — | — | — | 469,735 |
| Cabitel | 2,622 | 1,435 | — | 4,057 |
| Fonditel | 354 | 11 | — | 365 |
| G. Casiopea | 453 | 868 | 82 | 1,403 |
| G. Comet | (54) | (794) | — | (848) |
| G. Servicio Teledistribución | 9 | 387 | — | 396 |
| G. Sintel | (1,893) | 2,016 | (27) | 96 |
| G. Telecartera y Sociedad de Cablevisión | (36) | (84) | — | (120) |
| G. Telefónica Servicios Móviles | 1,238 | 427 | — | 1,665 |
| G. Telefónica Sistemas | 552 | 1,670 | — | 2,222 |
| G. Telefónica Internacional | 22,526 | 43,480 | 21,923 | 87,929 |
| Telefónica Publicidad e Información | 2,736 | 2,698 | — | 5,434 |
| Playa de Madrid | 23 | 61 | — | 84 |
| Taetel | 422 | 1,309 | — | 1,731 |
| Telefónica Servicios Multimedia | (127) | (4) | — | (131) |
| Telfisa | 91 | 137 | — | 228 |
| Telyco | 147 | (1,602) | — | (1,455) |
| Temasa | 1,449 | 1,843 | — | 3,292 |
| Tidsa | 775 | 1,848 | — | 2,623 |
| Telefónica Transmisión de Datos | 37 | — | — | 37 |
| Urbana Ibérica | 8 | 82 | — | 90 |
| Telefónica de España | 103,391 | 928,394 | — | 1,031,785 |
| Total Telefónica Group | 134,723 | 984,182 | 21,978 | 1,140,883 |
| Variation in income and reserves due to fixed asset transactions | (1,509) | (34,453) | — | (35,962) |
| Interim dividend | — | — | — | (28,184) |
| Contributions to equity of the Telefónica Group | 133,214 | 949,729 | 21,978 | 1,546,472 |

12. MINORITY INTERESTS

Minority interests-

This caption relates to the holdings of minority stockholders in the equity and income/loss for the year of the Group companies consolidated by the global integration method.

As of December 31, 1996, the balance of this caption comprised the holdings of minority stockholders in the following companies:

| Company | % of Minority Interests | Millions of Pesetas | | | |
|-----------------------------------|-------------------------|---------------------|-------------------------|---------------|---------------------|
| | | Net Worth | Translation Differences | Income (Loss) | Balance at 12/31/96 |
| C.T.C. Chile | 56.38 | 91,955 | 12,107 | 21,052 | 125,114 |
| Other Chilean companies | — | 4,472 | 14 | 831 | 5,317 |
| Telefónica del Perú | 65.00 | 105,712 | 7,949 | 28,518 | 142,179 |
| Negocios Cibernéticos | 50.00 | 5 | — | — | 5 |
| Mensatel | 10.00 | 102 | — | 4 | 106 |
| Publiguías | 45.07 | 565 | 80 | 609 | 1,254 |
| T.I. Telefónica Internacional | 23.78 | 48,914 | 10,858 | 7,003 | 66,775 |
| T.L.D. Puerto Rico | 21.00 | 2,424 | 187 | (268) | 2,343 |
| Telecartera (4) | 25.00 | 135 | — | (166) | (31) |
| T. Romania | 40.00 | 572 | 58 | 307 | 937 |
| T. Perú Holding | 10.00 | 27,824 | 998 | 868 | 29,690 |
| Other Peruvian companies | — | 90 | — | — | 90 |
| REM Infográfica | 40.00 | 20 | — | (63) | (43) |
| TMP Worldwide España | 49.00 | 14 | — | 2 | 16 |
| Radio Red Cataluña | 9.00 | 11 | — | (4) | 7 |
| Fonditel | 19.00 | 539 | — | 92 | 631 |
| S.G. Cablevisión Madrid (1) | 12.25 | 12 | — | (3) | 9 |
| S.G. Cablevisión Barcelona (1) | 12.25 | 12 | — | (11) | 1 |
| S.G. Cablevisión Cantabria (2) | 12.25 | 12 | — | (3) | 9 |
| S.G. Cablevisión Canarias (3) | 49.00 | 105 | — | (15) | 90 |
| S.G. Cablevisión Alicante | 12.25 | 12 | — | (1) | 11 |
| S.G. Cablevisión Asturias | 12.25 | 12 | — | 1 | 13 |
| S.G. Cablevisión Bizkaia | 12.25 | 12 | — | (3) | 9 |
| S.G. Cablevisión Burgos | 23.50 | 24 | — | (1) | 23 |
| S.G. Cablevisión Cádiz | 12.25 | 13 | — | (1) | 12 |
| S.G. Cablevisión Granada | 12.25 | 13 | — | — | 13 |
| S.G. Cablevisión León | 12.25 | 13 | — | — | 13 |
| S.G. Cablevisión Lleida | 12.25 | 13 | — | (2) | 11 |
| S.G. Cablevisión Málaga | 12.25 | 13 | — | — | 13 |
| S.G. Cablevisión Murcia | 12.25 | 12 | — | (1) | 11 |
| S.G. Cablevisión Navarra | 12.25 | 12 | — | (2) | 10 |
| S.G. Cablevisión Rioja | 12.25 | 12 | — | — | 12 |
| S.G. Cablevisión Sevilla | 12.25 | 12 | — | (2) | 10 |
| S.G. Cablevisión Valencia | 12.25 | 12 | — | (1) | 11 |
| S.G. Cablevisión Valladolid | 12.25 | 12 | — | — | 12 |
| S.G. Cablevisió Balears | 12.25 | 12 | — | (2) | 10 |
| Gestired | — | 21 | — | (21) | — |
| Servicios y Contenidos por la Red | — | 39 | — | (39) | — |
| Total | | 283,764 | 32,251 | 58,678 | 374,693 |

As of December 31, 1995, the balance of this caption comprised the holdings of minority stockholders in the following companies:

| Millions of Pesetas | | | | | |
|-----------------------------------|-------------------------|----------------|-------------------------|---------------|---------------------|
| Company | % of Minority Interests | Net Worth | Translation Differences | Income (Loss) | Balance at 12/31/95 |
| C.T.C. Chile | 56.38 | 86,426 | 4,870 | 15,933 | 107,229 |
| Telefónica del Perú | 65.00 | 93,818 | (3,827) | 26,519 | 116,510 |
| Gestired | 49.00 | 24 | — | 10 | 34 |
| Mensatel | 10.00 | 97 | — | 5 | 102 |
| Publiguías | 45.07 | 509 | (96) | 482 | 895 |
| Sintel Peru | 37.00 | 53 | — | 82 | 135 |
| Sintelar | 25.00 | 431 | (18) | (41) | 372 |
| Telefónica Internacional | 23.78 | 42,105 | 6,798 | 7,011 | 55,914 |
| T.L.D. Puerto Rico | 21.00 | 2,254 | 177 | (10) | 2,421 |
| Telecartera | 24.88 | 247 | — | (3) | 244 |
| T. Romania | 40.00 | 300 | 96 | 175 | 571 |
| T. Perú Holding | 10.00 | 27,603 | (56) | 880 | 28,427 |
| Cotronic | 49.00 | 40 | — | 28 | 68 |
| Incosa | 48.90 | 55 | — | 39 | 94 |
| Servicios y Contenidos por la Red | 50.00 | 11 | — | 1 | 12 |
| Tepesa | 44.36 | 136 | — | (25) | 111 |
| Rred. Zaragoza | 9.00 | 17 | — | (6) | 11 |
| Rred. Cataluña | 9.00 | 17 | — | (8) | 9 |
| Fonditel | 19.00 | 433 | — | 67 | 500 |
| S.G. Cablevisión Madrid | 48.70 | 10 | — | — | 10 |
| S.G. Cablevisión Barcelona | 48.70 | 10 | — | — | 10 |
| S.G. Cablevisión Cantabria | 34.35 | 14 | — | — | 14 |
| S.G. Cablevisión Canarias | 39.99 | 60 | — | — | 60 |
| Total | | 254,670 | 7,944 | 51,139 | 313,753 |

Variations in minority interests-

The variations in minority interests in 1995 and 1996 were as follows:

| Millions of Pesetas | |
|-------------------------------------|----------------|
| Balance at December 31, 1994 | 292,293 |
| Income for the year | 51,139 |
| Dividends distributed | (16,910) |
| Inclusion of companies | 1,003 |
| Exclusion of companies | — |
| Translation differences | (10,853) |
| Other variations | (2,919) |
| Balance at December 31, 1995 | 313,753 |
| Income for the year | 58,678 |
| Dividends distributed | (25,496) |
| Inclusion of companies | 4,722 |
| Exclusion of companies | (873) |
| Translation differences | 24,289 |
| Other variations | (380) |
| Balance at December 31, 1996 | 374,693 |

13. DEFERRED REVENUES

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

| | Millions of Pesetas | | | |
|----------------------------|----------------------|-------------------|--|---------------|
| | Capital Subsidies | Exchange Gains | Nonrefundable Third-Party Contributions and Other | Total |
| Balance at 12/31/94 | 60,136 | 8,684 | 6,209 | 75,029 |
| Additions | 18,513 | 10,477 | 939 | 29,929 |
| Allocation to income | (7,983) | (5,381) | (336) | (13,700) |
| Balance at 12/31/95 | 70,666 | 13,780 | 6,812 | 91,258 |
| Additions | 13,485 | (8,724) | 4,352 | 9,113 |
| Allocation to income | (10,317) | (2,067) | (501) | (12,885) |
| Balance at 12/31/96 | 73,834 | 2,989 | 10,663 | 87,486 |

Capital subsidies

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

| Grantor | Millions of Pesetas | |
|--|---------------------|---------------|
| | 12/31/96 | 12/31/95 |
| From official agencies, autonomous community governments, regional and local governments and other | 31,452 | 30,220 |
| EU | | |
| STAR Programme | 14,223 | 16,952 |
| FEDER Programme | 6,570 | 7,243 |
| IRTA Programme | 2,000 | 2,322 |
| FEDER 94/95 Programme | 16,368 | 10,481 |
| Other | 3,221 | 3,448 |
| | 73,834 | 70,666 |

Exchange differences-

The amortization schedule for exchange gains is as follows:

| 1997 | 1998 | 1999 | 2000 | 2001 | Subsequent Years | Total |
|------|------|------|-------|-------|------------------|-------|
| 3 | — | — | 1,361 | 1,625 | — | 2,989 |

14 PROVISIONS FOR CONTINGENCIES AND EXPENSES

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

| | Millions of Pesetas | | | | | | | | |
|---|------------------------|---------------|-----------------|----------------|------------------------|---------------|-----------------|--------------|------------------------|
| | Balance at 12/31/94 | Provisions | Amount Used | Other | Balance at 12/31/95 | Provisions | Amount Used | Other | Balance at 12/31/96 |
| Provision for cost of integrating employees in the social security system Notes 4-k and 4-g) | 62,198 | — | (5,654) | (11,750) | 44,794 | — | (6,106) | — | 38,688 |
| Provision for Rebalancing Plan | 4,344 | 4,486 | (2,761) | — | 6,069 | 4,677 | (1,625) | — | 9,121 |
| Provision for supplementary pension payments (Notes 4-k and 9) | 122,049 | 9,195 | (14,938) | 1,607 | 117,913 | 7,853 | (14,328) | 10,597 | 122,035 |
| Group insurance (Note 4-k) | 19,853 | 2,040 | (5,344) | — | 16,549 | 1,620 | (4,950) | — | 13,219 |
| Provision for voluntary early retirement (Note 4-l) | 22,500 | 46,452 | (16,333) | — | 52,619 | 58,519 | (24,354) | — | 86,784 |
| Technical provisions (Note 4-m) | 25,162 | 10,573 | (512) | — | 35,223 | 13,263 | (18) | (30) | 48,438 |
| Claims | 763 | — | (197) | 534 | 1,100 | — | (160) | (563) | 377 |
| Other provisions | 14,007 | 1,194 | (2,202) | 730 | 13,729 | 11,807 | (6,790) | (793) | 17,953 |
| Total | 270,876 | 73,940 | (47,941) | (8,879) | 287,996 | 97,739 | (58,331) | 9,211 | 336,615 |

Most of the provisions are explained in Note 4. The "Technical Provisions" account includes the provisions recorded by the Group companies engaging in the insurance business. The balancing items for these provisions are recorded under the "Short-Term Financial Investments" and "Long-Term Financial Investments" captions.

15. DEBENTURES, BONDS AND OTHER NEGOTIABLE INSTRUMENTS

The detail of the balances as of December 31, 1996 and 1995 of debentures, bonds and other negotiable instruments is as follows:

| | CONSOLIDATED | | | | | | Total |
|--|--------------------------------|---------------------------------------|--|---------------------------------------|----------------------------------|---------------|----------------|
| | Peseta Debentures and Bonds | | Foreign Currency Debentures and Bonds | | Corporate Promissory Notes | | |
| | Nonconvertible | Convertible and/or Exchangeable | Nonconvertible | Convertible and/or Exchangeable | | | |
| Balance at 12/31/94 | | 707,734 | — | 58,935 | 14,728 | 52,968 | 834,365 |
| New issues | | — | — | — | — | 144,653 | 144,653 |
| Redemptions, conversions and exchanges | (131,657) | — | (7,363) | (135) | (150,835) | (289,990) | (289,990) |
| Restatements and other variations | 52,307 | — | (634) | (1,040) | (1,560) | 49,073 | 49,073 |
| Balance at 12/31/95 | | 628,384 | — | 50,938 | 13,553 | 45,226 | 738,101 |
| New issues | | — | — | 50,809 | 1,087 | 168,774 | 220,670 |
| Redemptions, conversions and exchanges | (61,206) | — | (18,670) | (1,094) | (150,955) | (231,925) | (231,925) |
| Restatements and other variations | (46,700) | — | 4,519 | 1,124 | 7,623 | 59,966 | 59,966 |
| Transfers | — | — | (278) | 278 | — | — | — |
| Balance at 12/31/96 | | 613,878 | — | 87,318 | 14,948 | 70,668 | 786,812 |
| Maturity: | | | | | | | |
| Long term | | 561,533 | — | 76,386 | 14,645 | 1,814 | 654,378 |
| Short term | | 52,345 | — | 10,932 | 303 | 68,854 | 132,434 |
| Unmatured accrued interest | | 12,967 | — | 2,026 | — | — | 14,993 |

Debentures and bonds-

The detail of the debentures and bonds outstanding as of December 31, 1996, and of the main features thereof is as follows:

| Issue | Interest Rate (%) | Maturity | | | | | Subsequent Years | Total |
|--------------------------|-------------------|--------------|----------------|--------------|---------------|----------------|------------------|----------------|
| | | 1997 | 1998 | 1999 | 2000 | 2001 | | |
| Debentures: | | | | | | | | |
| Series B 1987 | 5.80 | 513 | — | — | — | — | — | 513 |
| Series C 1987 | 5.75 | 1,521 | — | — | — | — | — | 1,521 |
| Yankee Bonds 1987 | 7.63 | — | — | — | — | — | 26,255 | 26,255 |
| Subscriber Series 1987 | 3.50 | 9 | — | — | — | — | — | 9 |
| Series D 1989 | 5.80 | 3,077 | 3,077 | 1,539 | — | — | — | 7,693 |
| July 1989 | 12.00 | — | — | — | — | — | 10,300 | 10,300 |
| December 1989 | 5.72 (*) | 800 | 800 | 800 | — | — | — | 2,400 |
| January 1990 | 12.00 | — | — | — | — | 20 | 27,728 | 27,748 |
| February 1990 Series A | 12.60 | — | — | — | 9,350 | — | — | 9,350 |
| February 1990 Series B | 12.60 | — | — | — | — | — | 1,367 | 1,367 |
| February 1990 Series C | 12.60 | — | — | — | — | — | 626 | 626 |
| February 1990 Series D | 12.89 | — | — | — | 14,631 | — | — | 14,631 |
| February 1990 Series E | 12.85 | — | — | — | — | — | 4,768 | 4,768 |
| February 1990 Series F | 12.58 | — | — | — | — | — | 526 | 526 |
| December 1990 | 13.58 | — | — | — | — | — | 42,989 | 42,989 |
| Series E 1991 | 6.00 | 1,282 | 1,282 | 1,282 | 1,282 | 1,282 | 1,925 | 8,335 |
| Series F 1991 | 6.00 | 293 | 293 | 293 | 293 | 293 | 4,250 | 5,715 |
| February 1991 Series A | 14.25 | — | 29,486 | — | — | — | — | 29,486 |
| February 1991 Series B | 14.47 | — | 65,197 | — | — | — | — | 65,197 |
| March 1991 | 14.48 | — | 8,810 | 2,202 | — | — | — | 11,012 |
| Private issue April 1991 | 14.25 | — | 20,000 | — | — | — | — | 20,000 |
| April 1991 Series A | 13.50 | — | — | — | — | 10,000 | — | 10,000 |
| April 1991 Series B | 13.67 | — | — | — | — | 41,558 | — | 41,558 |
| Series G 1993 | 4.50 | — | — | — | — | — | 14,645 | 14,645 |
| Series H 1994 | 5.80 | — | — | 1,026 | 2,052 | 2,052 | 11,285 | 16,415 |
| Series I 1994 | 5.50 | — | — | — | 256 | 513 | 7,438 | 8,207 |
| C September 1998 | 10.12 | — | 41,881 | — | — | — | — | 41,881 |
| D September 2001 | 10.25 | — | — | — | — | 56,612 | — | 56,612 |
| B November 2000 | 10.06 | — | — | — | 20,439 | — | — | 20,439 |
| C November 2002 | 10.06 | — | — | — | — | — | 19,315 | 19,315 |
| B October 2000 | 8.00 | — | — | — | 12,372 | — | — | 12,372 |
| C October 2004 | 8.25 | — | — | — | — | — | 11,520 | 11,520 |
| | | 7,495 | 170,826 | 7,142 | 60,675 | 112,330 | 184,937 | 543,405 |

| Issue | Currency | Interest Rate | Maturity | | | | | Years | Total |
|---------------------|----------|---------------|---------------|----------------|----------------|---------------|----------------|----------------|----------------|
| | | | 1997 | 1998 | 1999 | 2000 | 2001 | | |
| | | | 7,495 | 170,826 | 7,142 | 60,675 | 112,330 | 184,937 | 543,405 |
| Bonds: | | | | | | | | | |
| November 1990 | Pesetas | 14.06 | 600 | — | — | — | — | — | 600 |
| November 1990 | Pesetas | 6.76 | 400 | — | — | — | — | — | 400 |
| January 1991 | Pesetas | 6.76 (*) | 1,370 | — | — | — | — | — | 1,370 |
| February 1991 | Pesetas | 13.94 | 3,440 | — | — | — | — | — | 3,440 |
| February 1991 | Pesetas | 6.76 (*) | 400 | — | — | — | — | — | 400 |
| April 1991 | Pesetas | 14.51 | — | — | 100,894 | — | — | — | 100,894 |
| April 1991 | Pesetas | 12.37 | 10,160 | — | — | — | — | — | 10,160 |
| April 1991 | Pesetas | 7.65 (*) | 300 | — | — | — | — | — | 300 |
| May 1991 | Pesetas | 12.37 | 4,437 | — | — | — | — | — | 4,437 |
| July 1991 | Pesetas | 6.76 (*) | 5,100 | — | — | — | — | — | 5,100 |
| July 1991 | Pesetas | 14.51 | — | — | 7,342 | — | — | — | 7,342 |
| February 1992 | Pesetas | 11.18 | 1,470 | — | — | — | — | — | 1,470 |
| November 1992 | Pesetas | 12.94 | 400 | — | — | — | — | — | 400 |
| April 1993 | Pesetas | 12.25 | 21,000 | — | — | — | — | — | 21,000 |
| May 1993 | Pesetas | 11.75 | 2,468 | — | — | — | — | — | 2,468 |
| Series A 1996 | New sols | 15.00 | 4,540 | — | — | — | — | — | 4,540 |
| Series G 1996 | New sols | PBU+5.1% | — | — | 3,655 | — | — | — | 3,655 |
| Series I 1996 | New sols | PBU+5.6% | — | — | — | — | 4,763 | — | 4,763 |
| Total issues | | | 63,580 | 170,826 | 119,033 | 60,675 | 117,093 | 184,937 | 716,144 |

(*) Average interest rate for 1996 on floating-rate issues.

The zero-coupon debentures and bonds are recorded in the consolidated balance sheet at their issue value plus the accrued interest through December 31, 1996.

The detail of the maturities and redemption values as of December 31, 1996, is as follows:

| Issue | Maturity Date | % | Millions of Pesetas | |
|------------------------|---------------|-----------|---------------------|----------------|
| | | | Redemption Rate | Current Value |
| Debentures: | | | | |
| February 1990 Series D | 02/26/2000 | 336.154 | 14,631 | 21,447 |
| February 1990 Series E | 02/26/2005 | 613.338 | 4,768 | 12,776 |
| February 1990 Series F | 02/26/2010 | 1,069.470 | 526 | 2,503 |
| December 1990 | 12/28/2005 | 675.000 | 42,989 | 135,000 |
| February 1991 Series B | 02/28/1998 | 257.500 | 65,197 | 76,488 |
| March 1991 | 03/01/1998 | 257.729 | 2,203 | 2,577 |
| March 1991 | 06/01/1998 | 266.659 | 2,203 | 2,667 |
| March 1991 | 09/01/1998 | 275.899 | 2,202 | 2,759 |
| March 1991 | 12/01/1998 | 285.353 | 2,202 | 2,854 |
| March 1991 | 03/01/1999 | 295.022 | 2,202 | 2,950 |
| April 1991 Series B | 04/17/2001 | 360.000 | 41,558 | 72,000 |
| C September 1998 | 09/19/1998 | 196.531 | 41,881 | 49,401 |
| D September 2001 | 09/19/2001 | 265.543 | 56,612 | 89,687 |
| Bonds: | | | | |
| April 1991 | 04/15/1999 | 295.740 | 100,894 | 137,519 |
| July 1991 | 07/15/1999 | 295.740 | 7,342 | 10,351 |
| | | | 387,410 | 620,979 |

As of December 31, 1996, the redemption value amounted to Ptas. 620,979 million and the current value to Ptas. 387,410 million.

Corporate promissory notes

There are two corporate promissory note issue programs at Telefónica, as follows:

| Millions of Pesetas | | | |
|---------------------|----------------------------|-----------------------|------------------------------|
| Balance Limit | Addressed to | Pesetas Par Value | Method of Acquisition |
| 75,000 | Public | 500,000 | Monthly competitive auctions |
| | Companies and institutions | 100 million | Monthly competitive auctions |
| 75,000 | Companies and institutions | 500 million (minimum) | Specific transactions |

Payables for negotiable instruments

Other payables for negotiable instruments denominated in foreign currencies relate to corporate promissory notes issued by Telefónica North America Inc. and underwritten by Telefónica. The average interest rates were 5.45% in 1996 and 5.97% in 1995.

EMTN Program

On November 12, 1996, a Euro Medium-Term Notes program was arranged on the EMTN market for successive issues over time of conventional or structured debt securities, issued in a continuous or discretionary manner, denominated in a broad range of currencies, and with widely varying maturities, for up to a maximum amount of US\$ 1.5 billion. The issuer is Telefónica Europe, B.V., a subsidiary set up for this purpose in The Netherlands. Telefónica de España, S.A. is the guarantor. As of December 31, 1996, no issues had been made under this program.

16 PAYABLE TO CREDIT ENTITIES

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

| | Millions of Pesetas | | | | | | | |
|----------------------------|-----------------------|-------|---------------------|----------------|------------------|---------------------|----------------|------------------|
| | Average Interest Rate | | Balance at 12/31/96 | | | Balance at 12/31/95 | | |
| | 1996 | 1995 | Short Term | Long Term | Total | Short Term | Long Term | Total |
| Corporate promissory notes | 13.37 | 13.37 | 365 | 36,855 | 37,220 | 15,365 | 37,220 | 52,585 |
| Loans and credits | 8.71 | 9.97 | 59,594 | 249,906 | 309,500 | 77,794 | 325,264 | 403,058 |
| Foreign currency loans | 6.54 | 7.08 | 174,177 | 556,588 | 730,765 | 57,946 | 539,401 | 597,347 |
| Total | | | 234,136 | 843,349 | 1,077,485 | 151,105 | 901,885 | 1,052,990 |

As of December 31, 1996, the payables were scheduled to mature as follows:

| | Millions of Pesetas | | | | | | |
|----------------------------|---------------------|----------------|----------------|----------------|----------------|------------------|------------------|
| | 1997 | 1998 | 1999 | 2000 | 2001 | Subsequent Years | Total |
| Corporate promissory notes | 365 | 1,314 | 21,637 | 1,010 | 12,286 | — | 37,220 |
| Loans and credits | 59,594 | 52,288 | 60,390 | 49,784 | 53,397 | 34,047 | 309,500 |
| Foreign currency loans | 174,177 | 112,286 | 112,974 | 110,250 | 107,054 | 114,024 | 730,765 |
| Total | 234,136 | 165,888 | 195,001 | 161,652 | 172,737 | 148,071 | 1,077,485 |

Loans and credits

The peseta loans and credits include the amount used in pesetas of a multicurrency loan originally granted in ECUs by the European Investment Bank for Ptas. 12,750 million and three swap transactions with the following entities:

- Union Bank of Switzerland and J.P. Morgan relating to the EIB-Telfisa loan of 120,000 million lire, swapped for Ptas. 8,926 million.
- Citibank and J.P. Morgan relating to the EIB-Telfisa loan of 17,000 yen, swapped for Ptas. 23,074 million.
- Union Bank of Switzerland and J.P. Morgan relating to the EIB-Telfisa loan of 65,000 ECUs, swapped for Ptas. 10,575.5 million.
- There are several exchange rate hedging contracts instrumented in swaps at Telefónica Internacional covering loans amounting to US\$ 410 million, the equivalent peseta value of which was set at Ptas. 49,826 million.

Foreign currency loans

The detail of the foreign-currency loans as of December 31, 1996 and 1995, and of the main features thereof is as follows:

| Entity | Year | Currency | Maturity | Outstanding Principal | | | | | |
|----------------------------------|------|----------|----------|-----------------------|-----------|------------------|----------|----------------|----------------|
| | | | | Interest Rate | | Foreign Currency | | Pesetas | |
| | | | | 1996 | 1995 | 12/31/96 | 12/31/95 | 12/31/96 | 12/31/95 |
| Telefónica- | | | | | | | | | |
| 1st ICO-EIB | 1988 | ECUs | 2003 | 6.15 | 6.15 | 106 | 122 | 17,347 | 18,961 |
| 1st ICO-EIB | 1988 | FRF | 2003 | 5.90 | 5.90 | 455 | 520 | 11,379 | 12,896 |
| 1st ICO-EIB | 1988 | CHF | 2003 | 4.30 | 4.30 | 75 | 86 | 7,258 | 9,014 |
| 3rd ICO-EIB | 1989 | ECUs | 2004 | 7.85 | 7.85 | 240 | 270 | 39,075 | 42,043 |
| 4th ICO-EIB | 1989 | DM | 2004 | 6.70 | 6.70 | 164 | 185 | 13,872 | 15,681 |
| 5th ICO-EIB | 1990 | ECUs | 2005 | 10.20 | 10.20 | 127 | 142 | 20,729 | 22,158 |
| 5th ICO-EIB | 1990 | CHF | 2005 | 7.65 | 7.65 | 229 | 256 | 22,231 | 27,002 |
| 5th ICO-EIB | 1990 | NLG | 2005 | 8.80 | 8.80 | 98 | 109 | 7,356 | 8,284 |
| 4th ICO-EIB | 1990 | YEN | 2005 | 7.45 | 7.45 | 7,668 | 8,570 | 8,693 | 10,095 |
| 7th ICO-EIB | 1992 | ECUs | 2007 | 5.32 | 6.63 | 150 | 150 | 24,422 | 23,358 |
| 9th ICO-EIB | 1992 | NLG | 2002 | 3.37 | 5.09 | 82 | 82 | 6,172 | 6,219 |
| 8th ICO-EIB | 1992 | YEN | 2002 | 0.77 | 1.90 | 19,500 | 19,500 | 22,109 | 22,970 |
| S.B. GRAL. LEASING | 1987 | YEN | 2000 | 3.11 | 4.25 | 6,364 | 8,182 | 7,215 | 9,638 |
| Commercial paper | 1986 | USD | 1996 | 5.30 | 5.90 | — | 145 | — | 17,622 |
| Credit facility | 1995 | USD | 1996 | — | 5.61 | — | 5 | — | 606 |
| Telfisa- | | | | | | | | | |
| EIB | 1991 | ECUs | 2006 | 6.37 | 6.33 | 237 | 250 | 49,251 | 38,929 |
| EIB | 1991 | NLG | 2006 | 4.20 | 4.78 | 137 | 144 | 10,312 | 10,938 |
| EIB | 1991 | FRF | 2006 | 5.90 | 6.99 | 414 | 435 | 10,348 | 10,801 |
| EIB | 1991 | USD | 2006 | 6.29 | 5.80 | 134 | 141 | 17,652 | 17,184 |
| EIB | 1995 | LIRA | 2000 | — | — | 120,000 | 120,000 | 10,303 | 9,203 |
| EIB | 1995 | YEN | 1999 | — | — | 17,000 | 17,000 | 19,274 | 20,026 |
| Telefónica Internacional- | | | | | | | | | |
| Syndicated | 1994 | USD | 2001 | 5.95 | 6.82 | 690 | 690 | 90,579 | 83,773 |
| CTC (*) | (**) | (**) | (**) | 6.17-9.6 | 5.69-9.65 | (**) | (**) | 144,356 | 102,208 |
| ABN Amro Bank | 1996 | USD | 1997 | 5.66 | — | 42 | — | 5,514 | — |
| Other | (**) | (**) | (**) | (**) | (**) | (**) | (**) | 165,318 | 57,738 |
| | | | | | | | | 730,765 | 597,347 |

(*) Since this item relates to several loans, the range of interest rates applicable is indicated.

(**) This item relates to several loans in different currencies and, therefore, the year granted, currency, interest rate and year of maturity are not indicated.

Described below are the main foreign currency loans:

ICO-EIB-

In 1988 Telefónica obtained from the European Investment Bank (EIB) a financing commitment for capital expenditure projects aimed at improving infrastructures and new technologies. This financing is obtained through Instituto de Crédito Oficial (ICO).

At the same time, a 15-year multicurrency loan was arranged, originally for ECU 1,200 million (1st to 5th ICO-EIB tranches), which has been drawn down by Telefónica in six different currencies, has a five-year grace period and is repayable in 20 semiannual installments. The loan bears fixed interest in the first five years and is subsequently renegotiable for five-year periods.

In 1992 a new multicurrency loan was arranged for ECUs 150 million, NLG 82 million and ¥ 19,500 million (7th to 9th ICO-EIB tranches), for the same purpose and under the same repayment terms as those described above. The loan bears interest at three-month Libor less 0.75% for the drawdowns in ECUs and Dutch guilders, and at six-month Libor plus 0.175% for the drawdowns in yen.

Commercial paper-

In 1996 Telefónica arranged a multiple financial transaction for the issue of Euronotes maturing in under six months, with Chase Manhattan Bank as the agent bank, for a total amount of US\$ 250 million. The Euronotes matured and the securities redeemed in 1996.

In order to attract funds in the U.S. market, Telefónica formed the subsidiary Telefónica North America, which in 1987 executed a commercial paper issue program with maturities in under nine months for a maximum amount of US\$ 125 million. The banks backing the program are Fuji Bank Ltd., Mitsubishi Bank Ltd., Mitsui Bank Ltd., Sumitomo Bank Ltd. and Tokyo Trust and Banking Co. Ltd. in equal proportions. The program matures in 1997.

EIB (Telfisa)-

In 1991 Telefonía y Finanzas, S.A. (Telefisa) obtained a 15-year multicurrency loan from the EIB for ECU 600 million, drawn down in four different currencies, with a grace period of five years, repayable in 20 semiannual installments and with floating interest negotiated on a quarterly basis with the EIB.

Syndicated loan (Telefónica Internacional)-

A long-term syndicated loan for US\$ 1,100 million was arranged on December 30, 1994. ABN Amro Bank NV and Banco de Negocios Argentaria acted as lead-managers. The loan is repayable in seven years, with a three-year grace period. The interest periods may be one, three or six months, at the Company's discretion, and the applicable interest rate is Libor for the chosen period plus 0.275%.

ABN Amro Bank (CTC)-

In May 1995 CTC arranged a syndicated loan of US\$ 275 million with a group of banks headed by ABN Amro Bank. The outstanding balance as of December 31, 1996, was Ptas. 36,257 million, of which Ptas. 36,100 million are repayable at long-term.

Credit available-

The loans and credits accounts reflect only the amounts drawn against the credit facilities. The undrawn credit facility funds available were as follows:

| | Millions of Pesetas | |
|---|------------------------|------------------------|
| | Balance at 12/31/96 | Balance at 12/31/95 |
| Credit available at long term | 253,848 | 183,041 |
| Other credit facilities (floating policies) | 76,000 | 88,000 |
| Credit available at short term | 140,665 | 63,635 |
| Total | 470,513 | 334,676 |

17. DERIVATIVES

The existing positions have been hedged in order to obtain savings on the underlying rates by switching from fixed rates to variable rates. In view of the steady decline in interest rates, transactions generating gains were canceled so as to mitigate interest expenses. Exchange rate insurance has been taken out and swaps to pesetas have been made to provide protection from exchange risk in anticipation of possible exchange rate instability arising in the process of Monetary Union.

As of December 31, 1996, the total outstanding volume of hedging transactions was Ptas. 140,240 million (Ptas. 187,174 million in 1995), and a positive allocation of Ptas. 1,041 million was recorded for accounting purposes in the year (Ptas. 8,679 million in 1995).

The detail, by type of derivative, of the (notional) contractual values of the derivatives held by the Group as of December 31, 1996, is as follows:

| Type of Risk Hedged | Millions of Pesetas | |
|---------------------|---------------------|----------------|
| | Notional Value | Currency Value |
| Interest rate risk: | | |
| Interest rate swaps | 47,839 | — |
| Exchange rate risk: | | |
| Currency swaps | 8,926 | 120,000 Lire |
| | 23,074 | 17,000 Yen |
| | 10,575 | 65 ECUs |
| | 49,826 | 410 US\$ |

The detail, by maturity, of the interest rate swaps and of the interest rates applied is as follows:

| Underlying Transactions | Millions of Pesetas | | | | | | |
|-------------------------|---------------------|---------------|---------------|---------------|--------------|-------------------|-------------------|
| | Amount | Up to 1 Year | 1 to 3 Years | 3 to 5 Years | Over 5 Years | Fixed to Floating | Floating to Fixed |
| Debentures and bonds | 88,035 | 31,160 | 23,074 | 33,801 | — | 88,035 | — |
| Peseta loans | 2,379 | 285 | 644 | 771 | 679 | 2,379 | — |
| Foreign currency loans | 49,826 | 15,106 | 34,720 | — | — | 49,826 | — |
| | 140,240 | 46,551 | 58,438 | 34,572 | 679 | 140,240 | — |

18. TAX MATTERS

Since 1990 Telefónica has filed consolidated tax returns with certain Group companies. 33 companies formed the tax consolidation group in 1996, including most notably, in terms of sales, Telefónica de España, S.A., Telefónica Servicios Móviles, S.A., Cabitel, S.A., Telefónica Publicidad e Información, S.A. and Telefónica Sistemas, S.A.

Deferred and prepaid taxes-

The detail as of December 31, 1996 and 1995, of the Telefónica Group's prepaid and deferred taxes, and of the variations therein in the years then ended, is as follows:

| | Millions of Pesetas | | | |
|-------------------------------------|---------------------|---------------|----------------|---------------|
| | Prepaid Taxes | | Deferred Taxes | |
| | Short Term | Long Term | Short Term | Long Term |
| Balance at December 31, 1994 | 728 | 31,230 | — | 74,447 |
| Reversal | — | (500) | — | (8,290) |
| Arising in the year | 133 | 19,677 | — | 5,500 |
| Other | 9 | (71) | — | (644) |
| Balance at December 31, 1995 | 870 | 50,336 | — | 71,013 |
| Reversal | (209) | (2,354) | — | (13,010) |
| Arising in the year | 4,747 | 22,147 | — | 26,392 |
| Exclusion of companies and other | 69 | (122) | — | (652) |
| Balance at December 31, 1996 | 5,477 | 70,007 | — | 83,743 |

The prepaid taxes recorded by the Company relate mainly to early retirements and provisions for supplementary pension payments to retired employees. The deferred taxes recorded relate mainly to timing differences for accelerated depreciation.

Accrued taxes payable and tax receivables-

The detail of the "Accrued Taxes Payable" and "Tax Receivables" captions as of December 31, 1996 and 1995, is as follows:

| | Millions of Pesetas | |
|---|------------------------|------------------------|
| | Balance at 12/31/96 | Balance at 12/31/95 |
| Accrued taxes payable: | | |
| Personal income tax withholdings | 10,142 | 9,560 |
| VAT and Canary Islands general indirect tax payable | — | 10,230 |
| Withholdings from income from movable capital and other | 2,085 | 2,351 |
| Corporate income tax | 36,817 | 38,194 |
| Single tax on restatement Royal Decree-Law 7/1996 | 6,776 | — |
| Local taxes | 6,633 | 1,499 |
| Accrued social security taxes | 24,797 | 24,494 |
| Foreign taxes | 16,917 | 14,217 |
| Total | 104,167 | 100,545 |
| Tax receivables: | | |
| Corporate income tax prepayments | | |
| Withholdings at source from income from movable capital | -2,547 | 2,186 |
| Prepayments on consolidated income tax returns | 16,514 | 14,241 |
| Prepayments on individual income tax returns | 71 | 5 |
| Taxes, surcharges and other payments recoverable | 529 | 557 |
| Prepaid taxes | 5,477 | 870 |
| VAT and Canary Islands general indirect tax receivable | 8,912 | — |
| VAT deductible | 9,224 | 3,990 |
| Foreign taxes | 10,565 | 3,331 |
| Total | 53,839 | 25,180 |

Reconciliation of consolidated income per books to consolidated taxable income-

| | Millions of Pesetas | |
|-------------------------------|---------------------|----------------|
| | 1996 | 1995 |
| Consolidated income per books | 275,881 | 223,711 |
| Permanent differences | (102,081) | (95,856) |
| Timing differences: | | |
| Arising in the year | 68,288 | 40,504 |
| Arising in prior years | 22,364 | 22,258 |
| Taxable income | 264,452 | 190,617 |

The adjustments for permanent differences relate mainly to income earned by subsidiaries taxed abroad, income relating to certain companies and amortization of goodwill in consolidation.

The variations in timing differences in 1996 were as follows:

| | Millions of Pesetas | |
|--|---------------------|--------------|
| | Increase | Decrease |
| Voluntary early retirement | 44,310 | 596 |
| Provisions for supplementary pension payments to retired employees | 2,633 | — |
| Pension fund | 3,052 | — |
| Allowance for bad debts | 18,299 | — |
| Unrealized gains on transactions involving fixed assets | — | 6,467 |
| Other | 8,539 | 1,482 |
| Timing differences arising in the year | 76,833 | 8,545 |
| Reversal of accelerated depreciation taken in prior years | 25,080 | — |
| Provision for diminution in value of securities portfolio in 1995 | — | 413 |
| Exchange differences | — | 5,192 |
| Unrealized gains on transactions involving fixed assets | 3,578 | — |
| Other | 135 | 824 |
| Timing differences arising in prior years | 28,793 | 6,429 |

Calculation of corporate income tax expense and net corporate income tax payable-

The corporate income tax expense and the net corporate income tax payable in 1996 and 1995 were as follows:

| | Millions of Pesetas | |
|---|---------------------|----------------|
| | 1996 | 1995 |
| Consolidated income | 275,881 | 223,711 |
| Permanent differences | (102,081) | (95,856) |
| Adjusted income per books | 173,800 | 127,855 |
| Gross tax at 35% | 60,830 | 44,749 |
| Tax credits and relief | (34,759) | (28,522) |
| Corporate income tax expense | 26,071 | 16,227 |
| Deferred revenues and other | (21,643) | - |
| Tax effect of timing differences | 32,389 | 21,967 |
| Corporate income tax payable | 36,817 | 38,194 |
| Spanish corporate income tax expense | 26,071 | 16,227 |
| Tax accrual | (267) | 367 |
| Accrued foreign taxes | 31,117 | 22,764 |
| Total corporate income tax and similar taxes | 56,921 | 39,358 |

Ptas. 55,755 million and Ptas. 30,909 million of tax credits and tax relief were taken in 1996 and 1995, respectively. In view of the limits applicable to investment tax credits, as of December 31, 1996, after deducting the tax credits taken in 1996, the Telefónica Group has Ptas. 67,725 million of tax credits available from prior years, as follows:

| Year | Millions of Pesetas | | | | | Total |
|--------|---------------------|--------|------|--------|--------|--------|
| | 1992 | 1993 | 1994 | 1995 | 1996 | |
| Amount | 19,214 | 19,047 | — | 19,128 | 10,336 | 67,725 |

The years open for review by the tax inspection authorities for the main applicable taxes vary from one consolidated company to another, although they are generally all years since 1993.

19. OTHER NONTRADE PAYABLES

The detail of the balances of this caption in the consolidated balance sheets as of December 31, 1996 and 1995, is as follows:

| | Millions of Pesetas | |
|--|---------------------|---------------------|
| | Balance at 12/31/96 | Balance at 12/31/95 |
| Accrued expenses payable | 31,261 | 35,061 |
| Dividends payable | 39,327 | 28,224 |
| Provision for extra-payroll | 23,440 | 22,761 |
| Exchange of telephone service with other operators | 13,168 | 11,034 |
| Guarantees and deposits | 11,291 | 10,076 |
| Provision for third-party liability | 18,245 | 7,978 |
| Other accounts payable | 23,305 | 45,092 |
| Total | 160,037 | 160,226 |

20. REVENUES AND EXPENSES

Sales and services-

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

| | Millions of Pesetas | |
|--|---------------------|------------------|
| | 1996 | 1995 |
| Basic telephony- | | |
| Basic telephone service | 947,748 | 843,748 |
| Rental of circuits | 73,317 | 29,809 |
| Ibercom | 69,290 | 58,517 |
| Digital exchanges, intelligent network, ISDN and other | 49,898 | 19,493 |
| Terminals | 71,696 | 75,983 |
| Directories | 11,547 | 15,435 |
| | 1,223,496 | 1,042,985 |
| International communications | 136,124 | 145,222 |
| Public telephony | 64,655 | 65,452 |
| Data transmission | 44,645 | 38,642 |
| Mobile telephony | — | 76,494 |
| Other revenues (*) | 4,125 | 3,879 |
| Total revenues of Telefónica | 1,473,045 | 1,372,674 |
| Telefónica Internacional | 331,598 | 281,050 |
| Telefónica Servicios Móviles | 256,384 | 35,028 |
| Other subsidiaries | 252,354 | 212,927 |
| Group revenues before intercompany sales | 2,313,381 | 1,901,679 |
| Intercompany sales | (307,323) | (161,122) |
| Total revenues from Group operations | 2,006,058 | 1,740,557 |

(*) Including Publicidad e Información and Multimedia.

Personnel expenses-

The detail of personnel expenses is as follows:

| | Millions of Pesetas | |
|--|---------------------|----------------|
| | 1996 | 1995 |
| Compensation | 413,668 | 412,651 |
| Provisions to the pension allowance and other commitments to employees | 22,823 | 22,751 |
| Employee welfare expenses and other | 118,191 | 108,145 |
| Total | 554,682 | 543,547 |

Average number of employees-

| Professional Category | 1996 | 1995 |
|---|---------------|---------------|
| General management | 1,694 | 1,590 |
| University graduates and special technicians | 5,255 | 5,532 |
| junior college graduates and technicians | 12,911 | 12,075 |
| Internal plant supervisors and operators | 17,051 | 17,605 |
| External plant supervisors and operators | 18,552 | 19,302 |
| Applications operators and data processing assistants | 713 | 750 |
| Clerical staff | 22,294 | 26,252 |
| Subscriber service personnel | 3,289 | 3,426 |
| Operations personnel | 5,696 | 5,816 |
| Warehouse, office and garage personnel | 1,640 | 1,691 |
| Messengers, etc. | 928 | 1,038 |
| Manual workers | 970 | 3,164 |
| Other | 1,155 | 962 |
| Total | 92,148 | 99,203 |

Interest expenses-

The detail of the "Interest Expenses" account is as follows:

| | Millions of Pesetas | |
|--|---------------------|----------------|
| | 1996 | 1995 |
| Debentures, bonds and other negotiable instruments | 81,361 | 85,879 |
| Promissory notes | 3,946 | 4,373 |
| Loans and credits | 33,124 | 32,815 |
| Foreign currency loans | 45,017 | 43,861 |
| Other | 18,197 | 33,520 |
| Total | 181,645 | 200,448 |

Exchange differences-

The detail of exchange losses charged to income is as follows:

| | Millions of Pesetas | |
|--|---------------------|---------------|
| | 1996 | 1995 |
| Write-off of potential losses maturing in 1998 and subsequent years (Note 4-j) | 7,431 | 16,545 |
| Repayment of loans | 6,827 | 7,114 |
| Deferred losses per Ministerial Order dated 3/12/93 (Note 4-j) | 4,226 | (6,300) |
| Operating transactions | 1,968 | 1,829 |
| Total | 20,452 | 19,188 |

Extraordinary revenues-

The detail of extraordinary revenues is as follows:

| | Millions of Pesetas | |
|---|---------------------|--------------|
| | 1996 | 1995 |
| Prior years' revenues | 2,077 | 1,182 |
| Indemnity payments for breach of contract | 1,063 | 1,121 |
| Amortization of exchange rate insurance premium | — | 636 |
| Consortium for compensation of insurance | 934 | 507 |
| Gain on sale of shares | — | 469 |
| Share in EURESCOM | 67 | 419 |
| Other | 5,000 | 5,092 |
| | 9,141 | 9,426 |

Extraordinary expenses-

| | Millions of Pesetas | |
|--|---------------------|---------------|
| | 1996 | 1995 |
| Supplementary pension payments to retired employees (Note 4-k) | 9,109 | 8,455 |
| Court-ordered indemnity payments | — | 4,708 |
| Provisions recorded: | | |
| Cost of inclusion of retired employees in social security system | 3,676 | 4,035 |
| Voluntary early retirement and early retirement indemnities | 58,519 | 54,798 |
| Other | 13,707 | — |
| Compensation for transfers | 897 | 1,198 |
| Subsidies and voluntary donations | 882 | 879 |
| PRI Program | 4,444 | — |
| Sundry | 7,336 | 3,608 |
| | 98,570 | 77,681 |

Losses on fixed assets-

This caption includes Ptas. 47,918 million in 1996 and Ptas. 56,210 million in 1995 recorded as a result of the dismantling of Telefónica's network digitalization plant.

Management contract with Telefónica de Argentina, S.A.-

In November 1990, Telefónica de España, S.A. and Telefónica Argentina, S.A. entered into a management contract expiring in 2003 regulating the counseling services rendered by Telefónica de España, S.A. and the price thereof. The revenues received in this connection, net of the payments for third-party counseling, amounted to Ptas. 8,296 million in 1996 and Ptas. 8,403 million in 1995.

21. DIRECTORS' REMUNERATION AND OTHER BENEFITS

In 1996 and 1995 the compensation paid to Telefónica de España, S.A. Board members, together with pension and alternative system obligations to directors, amounted to Ptas. 278 million and Ptas. 147 million, respectively.

In 1996, Telefónica de España, S.A. granted no loans or credits to its directors.

22. OTHER INFORMATION

a) Sundry commitments and rights-

| | Millions of Pesetas | |
|-----------------------------------|---------------------|--------|
| | 1996 | 1995 |
| Financial transaction guarantees | 84,434 | 94,603 |
| Guarantees provided for employees | 219 | 2,253 |

The "Financial Transaction Guarantees" caption includes mainly the guarantees provided by Telefónica for its subsidiaries and investees through bank guarantees of their transactions with third parties.

b) Put option on Telefónica Perú Holding, S.A.-

Telefónica Internacional arranged a put option whereby it undertook, within three years from the original sale (i.e. by November 8, 1997), to repurchase from the current owners the 10% of Telefónica Perú Holding, S.A. that had previously been sold to them by Telefónica Internacional in 1994 if the owners exercise the sale option.

If the put option is exercised, the option exercise price which Telefónica Internacional undertakes to pay for the shares will be the difference between:

1. The acquisition price of the shares capitalized at a market interest rate,
2. Less any cash flows collected by the purchaser for maintenance of the investment and for participation in the know-how transfer and management contract, capitalized at the same interest rate.

c) Litigation between CTC and Entel Chile-

On January 15, 1996, Compañía de Telecomunicaciones de Chile, S.A. (CTC) and Empresa Nacional de Telecomunicaciones, S.A. (Entel Chile) entered into an agreement with respect to all the outstanding litigation from previous years between the companies that was before the courts and administrative agencies, whereby CTC was claiming approximately Ptas. 21,000 million. Under this agreement, the parties waived all the claims and proceedings between them and, accordingly, no claim was outstanding at the date of signature of the aforementioned agreement. The effect of this contract on the 1995 income attributable to Telefónica Internacional was Ptas. 325 million.

d) Put option on CRT shares-

Telefónica Internacional entered into a put option contract with RBS, a Brazilian partner in the consortium to which the shares of CRT were awarded. Under this contract, Telefónica Internacional undertakes to buy 10% of the shares of the consortium or of such investor company as may replace it, owned by RBS. This option will be exercisable on December 27, 2001, depending on whether or not RBS has fulfilled certain financial obligations. The price will be the initial acquisition price of the shares. If a loss arises as a result of the difference between the option exercise price and the market price of the shares at the time of sale, RBS must compensate Telefónica Internacional by means of shares of the consortium (or of such company as may replace it) owned by RBS. If, on the contrary, a capital gain should arise, it would correspond to RBS.

RBS also holds a purchase option on 17% of the shares of the consortium (or of such company as may replace it) owned by Telefónica Internacional. The exercise of this option, if appropriate, will take place on the 1,097th day from the date of acquisition of the shares of CRT. Until the date of the possible exercise of the option, the voting rights on these shares are held by RBS. If the option is not exercised on the date stipulated for exercise, the aforementioned voting rights will automatically be assigned to Telefónica Internacional. The price of the above-mentioned option will be the initial acquisition price, capitalized at three-year LIBOR plus 40 basis points.

e) Litigation in progress-

There is litigation against certain Telefónica Group operators for disconnection of entertainment lines and certain competition-related and other matters. This litigation is at the processing or appeal stage. The companies' legal advisers consider that the outcome of this litigation will not lead to material liabilities.

23. SUBSEQUENT EVENTS

a) Acquisition of shares of Telefónica Internacional-

Telefónica is negotiating with the State Property Agency the acquisition of the latter's 23.78% holding in Telefónica Internacional. To date, no final agreement has been reached on the transaction price or on when the acquisition will be made.

b) Public share purchase offer-

Under the public share purchase offer for Telefónica de España, S.A. shares made by Sociedad Estatal de Participaciones Patrimoniales SEPPA, which concluded on February 17, 1997, 20.3% of the Company's capital stock was placed with private investors. The remainder of the State's holding is guaranteeing payment of the premiums included in the public share purchase offer.

The government reserves certain rights of veto provided for in the Privatization Law in connection with strategic decision-making by Telefónica.

c) Digital platform-

Distribuidora de Televisión Digital, S.A., in which Telefónica has a 35% holding, was incorporated on January 24, 1997, and groups together various Spanish and foreign media companies. The new company will start to provide satellite television services through Hispasat from the first half of 1997, before any cable television companies commence operations. The company's capital stock amounts to Ptas. 10,000 million.

The Company expects the investments required for the launching and development of the project to be made over ten years, and that the annual amounts earmarked for it will not be significant.

(24) 1996 AND 1995 STATEMENTS OF CHANGES IN FINANCIAL POSITION

| Application of funds | Millions of Pesetas | | Source of funds | Millions of Pesetas | |
|--|---------------------|------------------|--|---------------------|------------------|
| | 1996 | 1995 | | 1996 | 1995 |
| Funds applied in operations | — | — | Funds from operations | 948,690 | 853,230 |
| Start-up and debt arrangement expenses | 4,581 | 1,598 | Contributions from shareholders- | | |
| Fixed asset additions- | | | Capital increases | — | — |
| Intangible assets | 45,382 | 38,702 | Paid-in surplus | — | — |
| Property and equipment | 678,871 | 594,191 | Minority interests | 4,722 | 852 |
| Long-term financial investments | 142,944 | 30,958 | Deferred revenues | 17,837 | 19,452 |
| Restatement reserve | 6,776 | — | Long-term deferred taxes | 5,032 | - |
| Dividends | 101,593 | 107,099 | Long-term debt | 188,469 | 132,758 |
| Repayment or transfer of long-term debt | 316,587 | 267,615 | Fixed asset disposals- | | |
| Provisions | 58,331 | 47,941 | Intangible assets | — | — |
| Other funds applied | 7,398 | 11,750 | Property and equipment | 13,076 | 17,247 |
| Decrease in working capital due to acquisition of shareholdings | (1,474) | 129 | Long-term financial investments | 36,053 | 21,580 |
| Variation in working capital due to translation differences | (924) | 7,446 | Deferred provisions and expenses | — | 423 |
| | | | Variation in working capital due to disposal of shareholdings | (11,000) | 44 |
| | | | Increase in working capital due to inclusion of subsidiaries | — | — |
| Total funds applied | 1,360,065 | 1,107,429 | Total funds obtained | 1,202,879 | 1,045,586 |
| Funds obtained in excess of funds applied (Increase in working capital) | — | — | Funds applied in excess of funds obtained (decrease in working capital) | 157,186 | 61,843 |
| Total | 1,360,065 | 1,107,429 | Total | 1,360,065 | 1,107,429 |

101

| VARIATION IN WORKING CAPITAL | Millions of Pesetas | | | |
|---|---------------------|----------------|---------------|---------------|
| | 1996 | | 1995 | |
| | Increase | Decrease | Increase | Decrease |
| Due from stockholders for capital calls | — | 4 | 4 | — |
| Inventories | 4,798 | — | 3,674 | — |
| Accounts receivable | 106,816 | — | 29,039 | — |
| Accounts payable | — | 245,611 | — | 85,385 |
| Short-term financial investments | — | 32,404 | — | 4,819 |
| Cash | 714 | — | — | 6,008 |
| Accrual accounts | 8,505 | — | 1,652 | — |
| Total | 120,883 | 278,019 | 34,369 | 96,212 |
| Variation in working capital | 157,186 | — | 61,843 | — |
| Total | 278,019 | 278,019 | 96,212 | 96,212 |

The reconciliation of the balances in the statements of income to the funds obtained from operations is as follows:

| | Millions of Pesetas | |
|---|---------------------|----------------|
| | 1996 | 1995 |
| Income | 160,282 | 133,214 |
| Income attributed to minority interests | 58,678 | 51,139 |
| Income (loss) attributable to associated companies | (7,811) | (8,754) |
| | 211,149 | 175,599 |
| ADD- | | |
| Dividends at companies carried by the equity method | 5,550 | 6,766 |
| Depreciation and amortization | 526,229 | 501,480 |
| Amortization of debt arrangement expenses | 3,603 | 3,317 |
| Amortization of goodwill in consolidation | 16,786 | 6,985 |
| Provision for diminution in value of financial investments | 911 | (9) |
| Exchange differences | 1,416 | 7,834 |
| Un depreciated plant dismantled | 47,918 | 56,210 |
| Provision for inventory adjustment | 2,496 | 2,598 |
| Other provisions | 97,739 | 74,220 |
| Deferred interest | 55,987 | 60,979 |
| Amortization of COOB 92 and EXPO 92 expenses | 12 | 33 |
| Property, plant and equipment and intangible assets | 5,707 | 1,611 |
| Financial provision and supplementary pension payments to retired employees | 9,109 | 8,455 |
| Loss on disposal of consolidated companies | 2,609 | — |
| LESS- | | |
| Gain on disposal of financial investments | 73 | 3,926 |
| Gain on disposal of property and equipment | 10,435 | 12,293 |
| Capital subsidies | 10,317 | 7,983 |
| Deferred taxes and long-term advances | 7,935 | 20,926 |
| Gain on disposal of consolidated companies | 10,335 | 7,287 |
| Other | (564) | 433 |
| Funds from operations | 948,690 | 853,230 |

The funds used for acquisition or disposal of holdings were as follows:

| Effect on Working Capital | Millions of Pesetas | | | |
|--|---------------------|---------------|--------------|-----------|
| | 12/31/96 | | 12/31/95 | |
| | Acquisitions | Disposals | Acquisitions | Disposals |
| Financial investments and change in consolidation method | (5,155) | 5,852 | (183) | — |
| Due from stockholders for uncalled capital | — | (198) | — | — |
| Start-up expenses | — | (67) | — | — |
| Intangible assets | — | (129) | — | — |
| Property and equipment | 3,484 | (2,824) | 62 | — |
| Financial investments | 225 | (3,096) | 250 | — |
| Deferred charges | — | (121) | — | — |
| Capital increase | — | (3,000) | — | — |
| Prepaid taxes | — | (121) | — | — |
| Minority interests | — | 1,243 | — | — |
| Deferred revenues | — | 4 | — | — |
| Income for the year through date of sale | — | (903) | — | — |
| Provisions | — | 1,520 | — | — |
| Long-term debt | (28) | 8,542 | — | — |
| Loss on disposal of holdings | — | 2,843 | — | — |
| Deferred taxes | — | 1,455 | — | — |
| Working capital | (1,474) | 11,000 | 129 | — |
| Price of acquisition or disposal of holdings | 5,155 | 5,852 | 3 | — |

(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
DETAIL OF GROUP AND ASSOCIATED COMPANIES AND INVESTEEES AS OF DECEMBER 31, 1996

| Group companies and their holdings | Percentage of ownership | | | Capital | Reserves | Income (loss) | Book value | Consolidation method | Value in consolidation |
|---|-------------------------|----------|------------------|---------|----------|---------------|------------|----------------------|------------------------|
| | Direct | Indirect | Telefónica Group | | | | | | |
| Cabinas Telefónicas, S.A. (CABITEL) (*) (**) (1) <i>Installation of public telephones Plaza de Carlos Trios Bertrán 7, 28020 Madrid</i> | 100.00% | — | 100.00% | 200 | 2,257 | 2,795 | 201 | GI | — |
| Casiopea Reaseguradora, S.A. (3) <i>Reinsurance Immeuble "Centre Europe" 5 Plaza de la Gare L-1616 Luxembourg</i> | 100.00% | — | 100.00% | 498 | 88 | — | 498 | GI | — |
| <i>Péyade Peninsular, Correduría de Seguros de Telefónica, S.A. (3) Distribución, promoción or preparation of insurance contracts, operating as a broker Avda. General Perón 38, 28020 Madrid</i> | 16.67% | 83.33% | 100.00% | 60 | 150 | 146 | 60 | GI | — |
| <i>Seguros de Vida y Pensiones Antares, S.A. (3) Life insurance and pensions Avda. General Perón 38, 28020 Madrid</i> | 21.33% | 78.67% | 100.00% | 1,500 | 1,001 | 397 | 1,960 | GI | — |
| <i>Fonditel Entidad Gestora de Fondos de Pensiones, S.A. (3) Other holdings</i> | N/A | 3.78% | — | — | — | — | — | — | — |
| <i>Fonditel Entidad Gestora de Fondos de Pensiones, S.A. (3) Other holdings</i> | N/A | N/A | N/A | N/A | N/A | N/A | 34,731 | I | 34,731 |
| Compañía Española de Tecnología, S.A. (COMET) (**) (3) <i>Promotion of business initiatives and holding of securities Villanueva 2 Duplicado planta 1ª, 28001 Madrid</i> | 100.00% | — | 100.00% | 1,049 | (215) | (34) | 1,682 | GI | — |
| <i>Satel, S.A. (5) Comandante Zarza 4, 28020 Madrid</i> | — | 85.00% | 85.00% | 125 | N/D | N/D | 81 | I | 81 |
| <i>Cleon, S.A. Property development Villanueva, 2 duplicado planta 1ª 28001 Madrid</i> | — | 50.00% | 50.00% | 1,370 | (57) | 5 | 685 | PI | — |
| <i>Barcelona Tecnología, S.A. Venture capital company c/60-25, 27 Sector A Polígono industrial Zona Franca, 08040 Barcelona</i> | — | 4.21% | 4.21% | 238 | N/D | N/D | 10 | I | 10 |
| <i>Catalana D'Iniciatives, C.R., S.A.</i> | — | 1.26% | — | — | — | — | — | — | — |
| Fonditel Entidad Gestora de Fondos de Pensiones, S.A. (3) <i>Pension fund management Pedro Teixeira 8, 28020 Madrid</i> | 77.22% | 3.78% | 81.00% | 2,471 | 367 | 481 | 2,002 | GI | — |
| <i>Other holdings</i> | N/A | N/A | N/A | N/A | N/A | N/A | 224 | I | 224 |
| Playa de Madrid, S.A. (*) (**) (2) <i>Distribution of all manner of goods, operation of sporting and hospitality facilities Doctor Fleming 3, 28036 Madrid</i> | 100.00% | — | 100.00% | 40 | 98 | 12 | 54 | GI | — |
| Servicios de Teledistribución, S.A. (S.T. HILO) (*) (**) (2) <i>Supply of services in the teledistribution industry Luchena 23, 28010 Madrid</i> | 100.00% | — | 100.00% | 210 | 458 | (52) | 297 | GI | — |
| Taetel, S.L. (**) (3) <i>Acquisition, holding and disposal of shares and holdings in other companies Beatriz de Bobadilla 3, 28040 Madrid</i> | 100.00% | — | 100.00% | 4,700 | 1,129 | 338 | 4,700 | GI | — |
| Telecartera, S.A. (2) <i>Acquisition, holding and disposal of shares and holdings in other companies Beatriz de Bobadilla 3, 28040 Madrid</i> | 75.00% | — | 75.00% | 1,025 | (73) | (666) | 797 | GI | — |
| <i>Sociedad General de Cablevisión Madrid, S.A. Cable television systems and value-added services Gran Vía 22, 28013 Madrid</i> | 51.00% | 49.00% | 87.750% | 100 | — | (23) | 88 | GI | — |
| <i>Sociedad General de Cablevisión Barcelona, S.A. Cable television systems and value-added services Avda. Icona 136, 08005 Barcelona</i> | 51.00% | 49.00% | 87.750% | 100 | 1 | (92) | 55 | GI | — |
| <i>Sociedad General de Cablevisión Cantabria, S.A. Cable television systems and value-added services La Milagrosa 2, 39001 Santander</i> | 51.00% | 49.00% | 87.750% | 100 | — | (25) | 87 | GI | — |
| <i>Sociedad General de Cablevisión Alicante, S.A. Cable television systems and value-added services Avda. Pérez Galdés 5-7, 03004 Alicante</i> | 51.00% | 49.00% | 87.750% | 100 | — | (7) | 97 | GI | — |
| <i>Sociedad General de Cablevisión Asturias, S.A. Cable television systems and value-added services Elazo 17, 33001 Oviedo</i> | 51.00% | 49.00% | 87.750% | 100 | — | 2 | 101 | GI | — |
| <i>Sociedad General de Cablevisión Bizkaia, S.A. Cable television systems and value-added services Gregorio de la Revilla 27, 48010 Bilbao</i> | 51.00% | 49.00% | 87.750% | 100 | — | (22) | 89 | GI | — |

(*) Companies filing consolidated corporate income tax returns in 1995.

(**) Companies filing consolidated corporate income tax returns in 1996.

DETAIL OF GROUP AND ASSOCIATED COMPANIES AND INVESTEEES AS OF DECEMBER 31, 1996

| Group companies and their holdings | Percentage of ownership | | | Capital | Reserves | Income (loss) | Book value | Consolidation method | Value in consolidation |
|---|-------------------------|----------|------------------|---------|----------|---------------|------------|----------------------|------------------------|
| | Direct | Indirect | Telefónica Group | | | | | | |
| Sociedad General de Cablevisión Cádiz, S.A. <i>Cable television systems and value-added services Santa María Soteloct. 6 - 11006 Cádiz</i> | 51.00% | 49.00% | 87.750% | 100 | — | (9) | 96 | G.I. | — |
| Sociedad General de Cablevisión Granada, S.A. <i>Cable television systems and value-added services Ava. del Sur 1, 18014 Granada</i> | 51.00% | 49.00% | 87.750% | 100 | — | 1 | 101 | G.I. | — |
| Sociedad General de Cablevisión León, S.A. <i>Cable television systems and value-added services Padre Isla 16, 24002 León</i> | 51.00% | 49.00% | 87.750% | 100 | — | 1 | 101 | G.I. | — |
| Sociedad General de Cablevisión Lleida, S.A. <i>Cable television systems and value-added services C/rt de Les Monges 6-8, 25007 Lleida</i> | 51.00% | 49.00% | 87.750% | 100 | — | (17) | 92 | G.I. | — |
| Sociedad General de Cablevisión Málaga, S.A. <i>Cable television systems and value-added services Hiera 2, 29007 Málaga</i> | 51.00% | 49.00% | 87.750% | 100 | — | 2 | 101 | G.I. | — |
| Sociedad General de Cablevisión Murcia, S.A. <i>Cable television systems and value-added services San Antonio 4, 30005 Murcia</i> | 51.00% | 49.00% | 87.750% | 100 | — | (11) | 94 | G.I. | — |
| Sociedad General de Cablevisión Navarra, S.A. <i>Cable television systems and value-added services Monasterio de la Oliva 9, Pamplona</i> | 51.00% | 49.00% | 87.750% | 100 | — | (16) | 92 | G.I. | — |
| Sociedad General de Cablevisión Rioja, S.A. <i>Cable television systems and value-added services San Millán 3, 26004 Logroño</i> | 51.00% | 49.00% | 87.750% | 100 | — | (1) | 100 | G.I. | — |
| Sociedad General de Cablevisión Sevilla, S.A. <i>Cable television systems and value-added services Graham Bell 5, Sevilla</i> | 51.00% | 49.00% | 87.750% | 100 | — | (14) | 93 | G.I. | — |
| Sociedad General de Cablevisión Valencia, S.A. <i>Cable television systems and value-added services San Vicente 148, 46007 Valencia</i> | 51.00% | 49.00% | 87.750% | 100 | — | (8) | 96 | G.I. | — |
| Sociedad General de Cablevisión Valladolid, S.A. <i>Cable television systems and value-added services Duque de la Victoria 10, 47001 Valladolid</i> | 51.00% | 49.00% | 87.750% | 100 | — | — | 100 | G.I. | — |
| Societat General de Cablevisió Balears, S.A. <i>Cable television systems and value-added services Federica García Lorca 2, 07014 Palma de Mallorca</i> | 51.00% | 49.00% | 87.750% | 100 | — | (14) | 93 | G.I. | — |
| Sociedad General de Cablevisión Burgos, S.A. <i>Cable television systems and value-added services Ava. Reyes Católicos 38-A-Burgos</i> | 51.00% | 34.00% | 76.500% | 100 | — | (4) | 84 | G.I. | — |
| Sociedad General de Cablevisión Canarias, S.A. <i>Cable television systems and value-added services Alcalde Mandillo Tejera 8, 38007 Santa Cruz de Tenerife</i> | 51.00% | — | 51.000% | 215 | — | (31) | 110 | G.I. | — |
| Sociedad General de Cablevisión A Coruña, S.A. (*) | 51.00% | — | 51.000% | — | — | — | 51 | L. | 51 |
| Sociedad General de Cablevisión Santiago, S.A. (*) | 51.00% | — | 51.000% | — | — | — | 51 | L. | 51 |
| Sociedad General de Cablevisión Vigo, S.A. (*) | 51.00% | — | 51.000% | — | — | — | 51 | L. | 51 |
| Telecomunicaciones Marinas, S.A. (TEMASA) (*) (**) (2) <i>Drilling, laying and repair of underwater cables Silva, 1 - 28013 Madrid</i> | 100.00% | — | 100.00% | 1,376 | 2,791 | 1,885 | 1,326 | G.I. | — |
| Telefonía y Finanzas, S.A. (TELFISA) (*) (**) (3) <i>Integrated cash management, counseling and financial support for Group companies Paseo de la Castellana 151, 10^a, 28046 Madrid</i> | 100.00% | — | 100.00% | 500 | 229 | 64 | 2,099 | G.I. | — |
| Telefónica Investigación y Desarrollo, S.A. (TIDSA) (*) (**) (2) <i>Telecommunications research activities and projects Emilio Vargas 6, 28043 Madrid</i> | 100.00% | — | 100.00% | 1,000 | 2,021 | 963 | 1,000 | G.I. | — |
| Telefónica North America, INC (3) <i>Financial intermediation 1209 Orange Street, Wilmington/New Castle County Delaware (USA)</i> | 100.00% | — | 100.00% | 1 | — | — | 1 | G.I. | — |
| Telefónica Multimedia, S.A. (*) (**) (2) <i>Organization and operation of multimedia service activities and businesses Rafael Cobo 18, 28010 Madrid</i> | 100.00% | — | 100.00% | 1,250 | (131) | (206) | 1,250 | G.I. | — |
| Audiovisual Realtime BIT, S.A. (ARBIT) <i>Generation of synthetic images Polígono Industrial Inca. Salar en intersección de los viales C y D Mallorca 07300 Inca</i> | — | 25.00% | 25.00% | 100 | — | (108) | 25 | E | (4) |

(*) Companies filing consolidated corporate income tax returns in 1995.
 (**) Companies filing consolidated corporate income tax returns in 1996.

DETAIL OF GROUP AND ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 1996

| Group companies and their holdings | Percentage of ownership | | | Capital | Reserves | Income (loss) | Book value | Consolidation method | Value in consolidation |
|--|-------------------------|----------|------------------|----------------|----------|---------------|------------|----------------------|------------------------|
| | Direct | Indirect | Telefónica Group | | | | | | |
| T.I. Telefónica Internacional de España, S.A. (1) (6) <i>Investment in the telecommunications industry abroad</i> <i>Jorge Manrique 12, 28006 Madrid</i> | 76.22% | — | 76.22% | 119,009 | 260,968 | 31,223 | 90,713 | G.I. | — |
| Telefónica Internacional, S.A. (LUXEMBOURG) <i>Holding company</i> | | 100.00% | 76.22% | US\$ 470 K | (18) | (11) | 961 | G.I. | — |
| Telefónica USA INC. (USA) <i>Representation of Telefónica</i> | | 100.00% | 76.22% | US\$ 5 K | (123) | (8) | 1 | G.I. | — |
| Telefónica Finance Limited (ISLE OF MAN) <i>Finance</i> | | 100.00% | 76.22% | £ 2 K | 7,288 | 21 | 1 | G.I. | — |
| Telefónica Perú Holding, S.A. (PERU) <i>Holding company</i> | | 90.00% | 68.60% | US\$ 1,956 M. | (7) | 5 | 249,701 | G.I. | — |
| Telefónica del Perú, S.A. (PERU) <i>Operator of local, long-distance and international telephone services in Peru</i> | | 35.00% | 24.01% | NSOL 2,338 M. | 55,333 | 43,891 | 262,836 | G.I. | — |
| Multicana, S.A. (ARGENTINA) <i>Closed-circuit television</i> | | 25.00% | 19.06% | ARGP 249 M. | 6,170 | 7,284 | 18,219 | E. | 11,587 |
| Sintelar, S.A. (ARGENTINA) <i>Telecommunications equipment systems and installation</i> | | 25.00% | 19.06% | ARGP 2 M. | 5 | 148 | 10 | E. | 378 |
| Telefónica International Holding, B.V. (THE NETHERLANDS) <i>Holding company</i> | | 100.00% | 76.22% | FL 1,154 M. | 14,248 | 11,530 | 69,410 | G.I. | — |
| Telefónica Chile Holding, B.V. (THE NETHERLANDS) <i>Holding company</i> | | 100.00% | 76.22% | FL 100 K | 6,858 | (2) | 26,992 | G.I. | — |
| Telefónica Chile, S.A. (CHILE) <i>Holding company</i> | | 100.00% | 76.22% | US\$ 74 M. | 32,459 | 9,762 | 11,146 | G.I. | — |
| Compañía de Telecomunicaciones de Chile, S.A. (C.T.C.), (CHILE) <i>Telecommunications operator in Chile</i> | | 43.62% | 33.25% | CHP 325,864 M. | 106,012 | 44,850 | 37,178 | G.I. | — |
| Impresora y Comercial Publicitas, S.A. (CHILE) <i>Publishing and sale of advertising. White and yellow pages</i> | | 54.93% | 41.87% | CHP 2,101 M. | 926 | 1,505 | 829 | G.I. | — |
| Telefónica Venezuela Holding, B.V. (THE NETHERLANDS) <i>Holding company</i> | | 100.00% | 76.22% | FL 40 K. | (7,988) | 2,254 | 10,318 | G.I. | — |
| Verworld Telecom, C.A. (VENEZUELA) <i>Holding company</i> | | 16.00% | 12.20% | BOL 11,4420 M. | N/D | N/D | N/D | E. | — |
| Compañía Anónima de Telefonos de Venezuela (CANTV) (VENEZUELA) <i>Telecommunications operator</i> | | 40.00% | 4.88% | BOL 36,901 M. | 312,600 | 55,218 | N/D | E. | 19,536 |
| Compañía de Inversiones en Telecomunicaciones, S.A. (COINTEL) (ARGENTINA) <i>Holding</i> | | 33.16% | 25.27% | ARGP 531 M. | 140,054 | 15,923 | 52,143 | E. | 57,918 |
| Telefónica de Argentina, S.A. (ARGENTINA) <i>Telecommunications operator in southern Argentina</i> | | 51.00% | 12.89% | | | | | | |
| Telefónica de Argentina, S.A. (ARGENTINA) | | 1.08% | 0.82% | ARGP 2,358 M. | 98,415 | 48,773 | 7,827 | E. | 4,343 |
| TYSSA, Telecomunicaciones y Sistemas, S.A. (ARGENTINA) <i>Telecommunications systems consulting</i> | | 34.39% | 26.21% | ARGP 4 M. | 40 | (41) | 100 | L. | 100 |
| Telefónica Larga Distancia de Puerto Rico, INC. (PUERTO RICO) <i>Telecommunications operator</i> | | 79.00% | 60.21% | US\$ 111 M. | (862) | (238) | 14,855 | G.I. | — |
| Telefónica Romaniá, S.A. (ROMANIA) <i>Cellular mobile telephony services</i> | | 60.00% | 45.73% | US\$ 8 M. | 382 | 868 | 650 | G.I. | — |
| SintelPerú, S.A. (PERU) <i>Telecommunications equipment systems and installation</i> | | 25.00% | 19.06% | NSOL 5 M. | 25 | 269 | 33 | E. | 111 |
| Contactel (PORTUGAL) <i>Telecommunications operator (Radiopaging)</i> | | 15.00% | 11.43% | ESC 1,200 K | N/D | (198) | 261 | L. | 261 |
| Telecomunicaciones Ultramarinas de Puerto Rico (PUERTO RICO) <i>Telecommunications operator</i> | | 14.90% | 11.36% | US\$ 1 K | N/D | N/D | 3,280 | L. | 3,280 |
| Infonet Services Corporation (USA) <i>Telecommunications operator</i> | | 18.74% | 14.28% | US\$ 68 M. | 2,359 | 101 | 4,604 | L. | 4,604 |
| Geostar Corporation | | — | — | N/D | N/D | N/D | 559 | L. | 559 |
| Companhia Riograndense de Telecomunicações, S.A. (Rio do Sul) (BRASIL) Telefónica Sistemas de Portugal (PORTUGAL) | | 10.30% | 7.85% | 702 M. REAL | 105,019 | 539 | 68,876 | L. | 68,876 |
| Telur, S.A. (RUSSIAN FEDERATION) <i>Manufacture of telecommunications equipment</i> | | 25.00% | — | — | — | — | — | L. | — |
| Telur, S.A. (RUSSIAN FEDERATION) <i>Manufacture of telecommunications equipment</i> | | 5.00% | 10.57% | RUB 6 M. | N/D | N/D | 53 | L. | 53 |
| Other holdings | | N/A | N/A | N/A | N/A | N/A | — | E. | 1,075 |
| Other holdings | | N/A | N/A | N/A | N/A | N/A | 5,489 | L. | 5,489 |

DETAIL OF GROUP AND ASSOCIATED COMPANIES AND INVESTEEES AS OF DECEMBER 31, 1996

| Group companies and their holdings | Percentage of ownership | | | Capital | Reserves | Income (loss) | Book value | Consolidation method | Value in consolidation |
|--|-------------------------|----------|------------------|---------|----------|---------------|------------|----------------------|------------------------|
| | Direct | Indirect | Telefónica Group | | | | | | |
| T.S. Telefónica Sistemas, S.A. (*) (**) (2) <i>Telecommunications systems, network and infrastructure engineering</i> <i>Sor Ángelo de la Cruz 3, 28020 Madrid</i> | 100.00% | — | 100.00% | 1,403 | 2,273 | 554 | 2,366 | G.I. | — |
| Telefónica Sistemas de Información Geográfica, S.A. (TSIG) (*) (**) (2) <i>Computer advisory services and digital cartography</i> <i>Orense 11, 28020 Madrid</i> | | 100.00% | 100.00% | 215 | 25 | 87 | 230 | G.I. | — |
| Telefónica Sistemas de Satélites, S.A. (TSS) (*) (**) (2) <i>Engineering, management and marketing of satellite networks</i> <i>Ramírez de Arellano 19, 28043 Madrid</i> | | 100.00% | 100.00% | 10 | 305 | 158 | 10 | G.I. | — |
| Telefónica Servicios Avanzados de Información, S.A. (TSAI) (*) (**) (2) <i>Value added services relating to public or private infrastructures</i> <i>Julián Camanillo 6, 28037 Madrid</i> | | 100.00% | 100.00% | 310 | 167 | 219 | 310 | G.I. | — |
| Telefónica Gestión de Sistemas, S.A. (TGS) (*) (**) (2) <i>Systems outsourcing</i> <i>Sor Ángelo de la Cruz 3, 28020 Madrid</i> | | 100.00% | 100.00% | 50 | 58 | 50 | 50 | G.I. | — |
| Telefónica Sistemas Ingeniería de Productos, S.A. (TSIP) (*) (**) (2) <i>Public communications network infrastructure</i> <i>Torrelaguna 79, 28027 Madrid</i> | | 100.00% | 100.00% | 150 | 100 | 195 | 150 | G.I. | — |
| Telefónica Sistemas Ingeniería de Productos Seguridad, S.A. (TSIPS) (*) (**) (2) <i>Security and control installation and systems</i> <i>Julián Camanillo 6, 28037 Madrid</i> | | 100.00% | 100.00% | 40 | 13 | 8 | 53 | G.I. | — |
| Servicios y Contenidos por la Red, S.A. (SCR) (2) <i>Provision of services in the leisure and entertainment areas</i> <i>Julián Camanillo 6, 28037 Madrid</i> | | 100.00% | 100.00% | 25 | 1 | (223) | 117 | G.I. | — |
| Gestión y Operación de Redes, S.A. (GESTIRED) (2) <i>Management and marketing of networks</i> <i>Rosario Piro, 5 - Madrid</i> | | 100.00% | 100.00% | 70 | (1) | (42) | 35 | G.I. | — |
| T.S. Telefónica Sistemas de Portugal (PORTUGAL) (2) <i>Communications systems equipment engineering</i> <i>Plaza Aivalade 6, 1700 Lisbon</i> | | 74.99% | 94.05% | 25 | (16) | (18) | 25 | G.I. | — |
| Negocios Cibernéticos, S.A. (2) <i>Development of security software in the card environment</i> <i>Julián Camanillo 6, 28037 Madrid</i> | | 50.00% | 50.00% | 10 | — | (1) | 5 | G.I. | — |
| Partel Servicios Telemáticos, S.A. <i>Systems engineering and telecommunications in port areas</i> <i>Avda. del Partenón 10, Campo de las Naciones 28042 Madrid</i> | | 49.00% | 49.00% | 500 | — | (63) | 245 | E. | 214 |
| Madrid 112 <i>Emergency services in the Autonomous Community of Madrid</i> | | 49.00% | 49.00% | 150 | — | — | 74 | E. | 74 |
| Bitel Baleares Innovación Telemática, S.A. <i>Provision of systems engineering services in the information technologies and communications fields</i> <i>Paseo Marítimo 38 A 07005 Palma de Mallorca</i> | | 44.00% | 44.00% | 316 | (69) | (19) | 139 | E. | 100 |
| Tecnología e Ingeniería de Sist. y Servicios Avanzados de Telec., S.A. (TISAT) <i>Systems engineering and marketing of advanced services</i> <i>Correas 1, 46002 Valencia</i> | | 40.00% | 40.00% | 100 | 16 | (18) | 40 | E. | 39 |
| Hisposervices, S.A. <i>Data processing through communication networks and computer media</i> <i>Avda. de Burgos 17, Torre A 10º, 28036 Madrid</i> | | 39.00% | 39.00% | 350 | (49) | (145) | 137 | E. | 60 |
| Other holdings | N/A | N/A | N/A | N/A | N/A | N/A | 1 | I. | I. |
| Telefónica Telecomunicaciones Públicas, S.A. (**) <i>Public telecommunications activities</i> <i>Paseo de Recoletos 41, 28004 Madrid</i> | 100.00% | — | 100.00% | 10 | — | — | 10 | G.I. | — |
| Teleinformática y Comunicaciones, S.A. (TELYCO) (*) (**) (2) <i>Promotion, marketing and distribution of telephone and telematic equipment and services</i> <i>Raimundo Fernández Villaverde 28, 28003 Madrid</i> | 100.00% | — | 100.00% | 460 | 130 | 628 | 2,075 | G.I. | — |
| Urbana Ibérica, S.A. (3) <i>Collection of debts outstanding and management of the cash generated by the sale of land and buildings</i> <i>Pº de la Castellana 151, 10º b, 28046 Madrid</i> | 100.00% | — | 100.00% | 264 | (46) | 4 | 14 | G.I. | — |

(*) Companies filing consolidated corporate income tax returns in 1995.

(**) Companies filing consolidated corporate income tax returns in 1996.

DETAIL OF GROUP AND ASSOCIATED COMPANIES AND INVESTEEES AS OF DECEMBER 31, 1996

| Group companies and their holdings | Percentage of ownership | | | Capital | Reserves | Income (loss) | Book value | Consolidation method | Value in consolidation |
|---|-------------------------|----------|------------------|---------|----------|---------------|------------|----------------------|------------------------|
| | Direct | Indirect | Telefónica Group | | | | | | |
| Telefónica Servicios Móviles, S.A. (*) (**) (1) <i>Management and marketing of automatic mobile telephony</i> <i>Plaza de la Independencia 6, 28001 Madrid</i> | 100.00% | — | 100.00% | 68,100 | 11,694 | 16,151 | 78,460 | G. | — |
| Radiored 1, S.A. (*) (**) (1) <i>Group company management support. Trunking (Parent Company)</i> <i>Manuel Tovar, 35, 28034 Madrid</i> | | 100.00% | 100.00% | 1,250 | 461 | (628) | 2,250 | G.I. | — |
| Radiored Madrid, S.A. (*) (**) (1) <i>Trunking</i> <i>Manuel Tovar 35, 28034 Madrid</i> | | 100.00% | 100.00% | 150 | (66) | (91) | 150 | G.I. | — |
| Radiored Bilbao, S.A. (*) (**) (1) <i>Trunking</i> <i>Manuel Tovar 35, 28034 Madrid</i> | | 100.00% | 100.00% | 150 | (64) | (75) | 150 | G.I. | — |
| Radiored Valencia, S.A. (*) (**) (1) <i>Trunking</i> <i>Manuel Tovar 35, 28034 Madrid</i> | | 100.00% | 100.00% | 140 | (58) | (61) | 140 | G.I. | — |
| Radiored Málaga - Costa del Sol, S.A. (*) (**) (1) <i>Trunking</i> <i>Manuel Tovar 35, 28034 Madrid</i> | | 100.00% | 100.00% | 145 | (61) | (41) | 145 | G.I. | — |
| Radiored Sevilla - Cádiz, S.A. (*) (**) (1) <i>Trunking</i> <i>Manuel Tovar 35, 28034 Madrid</i> | | 100.00% | 100.00% | 160 | (72) | (61) | 160 | G.I. | — |
| Radiored Santiago - La Coruña, S.A. (*) (**) (1) <i>Trunking</i> <i>Manuel Tovar 35, 28034 Madrid</i> | | 100.00% | 100.00% | 130 | (56) | (71) | 130 | G.I. | — |
| Radiored Zaragoza, S.A. (*) (**) (1) <i>Trunking</i> <i>Manuel Tovar 35, 28034 Madrid</i> | | 100.00% | 100.00% | 185 | (54) | (114) | 177 | G.I. | — |
| Radiored Canarias, S.A. <i>Trunking</i> <i>Manuel Tovar 35, 28034 Madrid</i> | | 100.00% | 100.00% | 10 | — | — | 10 | G.I. | — |
| Radiored Extremadura, S.A. <i>Trunking</i> <i>Manuel Tovar 35, 28034 Madrid</i> | | 100.00% | 100.00% | 10 | — | — | 10 | G.I. | — |
| Radiored Baleares, S.A. <i>Trunking</i> <i>Manuel Tovar 35, 28034 Madrid</i> | | 100.00% | 100.00% | 10 | — | — | 10 | G.I. | — |
| Radiored Catalunya, S.A. (*) (**) (1) <i>Trunking</i> <i>Manuel Tovar 35, 28034 Madrid</i> | | 91.00% | 91.00% | 200 | (80) | (40) | 182 | G.I. | — |
| Compañía Gestora del Servicio Mersatel, S.A. (1) <i>Management and marketing of the Mersatel radiopaging service</i> <i>Manuel Tovar 35, 28034 Madrid</i> | | 90.00% | 90.00% | 667 | 353 | 45 | 622 | G.I. | — |
| Telefónica Publicidad e Información, S.A. (*) (**) (2) <i>Publishing of directories and advertising for all types of support</i> <i>Avenida de Manoteras, 12, 28050 Madrid</i> | 100.00% | — | 100.00% | 502 | 2,823 | 3,303 | 996 | G.I. | — |
| Estrategias Telefónicas, S.A. (ESTRATEL) (*) (**) (2) <i>Services promotion, marketing and market surveys relating to direct marketing</i> <i>Orense 4, 28020 Madrid</i> | | 100.00% | 100.00% | 230 | 343 | 364 | 411 | G.I. | — |
| Tempotel, Empresa de Trabajo Temporal, S.A. <i>Temporary employment agency</i> <i>Príncipe de Vergara 28, 28001 Madrid</i> | | 100.00% | 100.00% | 10 | — | (2) | 10 | G.I. | — |
| Rem Infográfica, S.A. (2) <i>Production of 3D objects, promotion and marketing of computer products and services</i> <i>Plaza Santa Bárbara 10, Madrid</i> | | 60.00% | 60.00% | 50 | — | (157) | 30 | G.I. | — |
| TMP Worldwide España, S.A. <i>Marketing of advertising of large customers in yellow pages</i> <i>Príncipe de Vergara 112, 28001 Madrid</i> | | 51.00% | 51.00% | 45 | (16) | 2 | 23 | G.I. | — |
| Venturini España, S.A. <i>Printing and graphic arts</i> <i>Industria 17, Tres Cantos, Madrid</i> | | 25.00% | 25.00% | 500 | 35 | 37 | 125 | E | 143 |
| Euredit, S.A. <i>Publishing of European directories</i> <i>Avenue Friedland 9, 79008 Paris (France)</i> | | 5.00% | 5.00% | 62 | N/D | N/D | 13 | E | 13 |
| Telefónica Europe, B.V. <i>Attracting funds in capital markets</i> <i>Aert van Nesstraat 45, 4* Rotterdam - 3012 CA - The Netherlands</i> | 100.00% | — | 100.00% | 8 | — | — | 8 | G.I. | — |

(*) Companies filing consolidated corporate income tax returns in 1995.

(**) Companies filing consolidated corporate income tax returns in 1996.

DETAIL OF GROUP AND ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 1996

| Associated companies | Percentage of ownership | | | Capital | Reserves | Income (loss) | Book value | Consolidation method | Value in consolidation |
|--|-------------------------|----------|------------------|---------------|----------|---------------|------------|----------------------|------------------------|
| | Direct | Indirect | Telefónica Group | | | | | | |
| Telefónica Fiat Factoring, Entidad de Financiación, S.A. <i>Sociedad de factoring</i> <i>Pedro Teixeira, 8 - 28020 Madrid</i> | 50.00% | — | 50.00% | 1,560 | 55 | (259) | 795 | PE | 700 |
| Torre de Colçerola, S.A. <i>Operation of a telecommunications tower</i> <i>Ctra. Vallvidrera - Tibidabo s/n, 08017 Barcelona</i> | 42.00% | — | 42.00% | 2,000 | (17) | 12 | 845 | E | 839 |
| Pabellón de Op. Europeas de Telecomunicaciones, S.A. (P.O.E.T.) (5) <i>Gran Vía, 28, 28013 Madrid</i> | 38.46% | — | 38.46% | 520 | — | — | 200 | E | 1 |
| Indra SSI, S.A. <i>Software</i> <i>Velázquez, 132, 28006 Madrid</i> | 36.56% | — | 36.56% | 2,302 | 2,235 | 167 | 2,121 | E | 1,784 |
| Sistemas Técnicos de Loterías del Estado, S.A. <i>Operation of a gaming terminal system for Organismo Nacional de Loterías y Apuestas del Estado</i> <i>Manuel Tovar 9, 28034 Madrid</i> | 31.75% | — | 31.75% | 2,000 | 3,333 | 1,467 | 635 | E | 1,887 |
| Unisource, N.V. <i>Par-European provider of telecommunications services</i> <i>Polarisavenue 97-2132 JH Hoofddorp, The Netherlands</i> | 25.00% | — | 25.00% | 6,838 | 43,867 | (22,018) | 20,418 | E | 4,572 |
| Hispasat, S.A. <i>Operation of a satellite telecommunications system</i> <i>Gobelos 41-45, 28023 Madrid</i> | 22.74% | — | 22.74% | 15,312 | (3,770) | (1,231) | 5,339 | E | 2,113 |
| Sofres Audiencia de Medios, S.A. <i>Market surveys and audience measurement</i> <i>Plaza Carlos Tíros Bertrán 7, 28020 Madrid</i> | 25.00% | — | 25.00% | 210 | 112 | 425 | 435 | E | 190 |
| Compañía Celular de Colombia, S.A. (COCELCO) (COLOMBIA) <i>Celular mobile telephony services in western Colombia</i> <i>Santa Fe de Bogotá D.I. Colombia</i> | 1451% | 2025% | 29.94% | 75,017 M.PCOL | 8,222 | 743 | 6,882 | E | 7,086 |
| Amper, S.A. <i>Development, manufacture and repair of telecommunications systems and equipment and their components</i> <i>Torreleguna 75, 28027 Madrid</i> | 15.00% | — | 15.00% | 6,977 | 1,657 | 894 | 3,039 | E | 1,551 |

| Investees | Percentage of ownership | | | Capital | Reserves | Income (loss) | Book value | Consolidation method | Value in consolidation |
|---|-------------------------|----------|------------------|---------|----------|---------------|------------|----------------------|------------------------|
| | Direct | Indirect | Telefónica Group | | | | | | |
| Compañía de Fibra Óptica Telcor, S.A. | 35.00% | — | 35.00% | 100 | N/D | N/D | 35 | I | 35 |
| Reto 2000, S.A. <i>Design of a project to eliminate overhead lines in the historical center of Toledo</i> <i>Plaza de San Vicente 3, 45001 Toledo</i> | 21.74% | — | 21.74% | 2 | N/D | N/D | 1 | I | 1 |
| Agrupació d'Empreses Llei 18/1982 de 26 Maig (A.C.E.F.H.A.T.) | 20.00% | — | 20.00% | 110 | N/D | N/D | 22 | L | 22 |
| Centro de Investigación en Tecnologías y Aplicaciones Multi(CITAM) | 20.00% | — | 20.00% | 1 | N/D | N/D | — | L | — |
| Compañía Inmobiliaria Darsa Gaditana, S.A. <i>Construction of urban buildings for use as housing units, commercial premises or warehouses for lease or sale</i> <i>Avd. Marconi 34, 11011 Cádiz</i> | 0.23% | — | 0.23% | 25 | N/D | N/D | 3 | L | 3 |
| Promoció de Ciutat Vella, S.A. <i>Urban improvements in the Ciutat Vella of Barcelona</i> <i>Ramiles 77, 08002 Barcelona</i> | 3.57% | — | 3.57% | 2,600 | N/D | N/D | 100 | L | 100 |
| Catalana D'Iniciatives, C.R., S.A. <i>Promotion of nonfinance entities</i> <i>Passeig de Gràcia 2, 08007 Barcelona</i> | 2.35% | 1.26% | 3.61% | 5,000 | N/D | N/D | 240 | L | 240 |
| I-CO Global Communications (HOLDINGS) Limited | 2.18% | — | 2.18% | 189,069 | 75,621 | (2,604) | 3,852 | L | 3,852 |
| Club de Inversores para el Desarrollo de la provincia de Alicante, S.A. | 1.00% | — | 1.00% | 250 | N/D | N/D | 2 | L | 2 |
| Agencia EFE, S.A. <i>Obtainment and distribution of news throughout the world</i> <i>Esproncada 33, 28003 Madrid</i> | 0.16% | — | 0.16% | 3,475 | N/D | N/D | 140 | L | 140 |
| Other holdings | N/A | N/A | N/A | N/A | N/A | N/A | 5,710 | L | 5,710 |

(1) Companies audited by Arthur Andersen.
(2) Companies audited by Price Waterhouse
(3) Companies audited by K.P.M.G. Peat Marwick.
(4) Companies not yet formed.
(5) Companies in liquidation.
(6) Consolidated figures.
Figures in foreign currencies: M=Millions, t=Thousands

G.I. Companies consolidated by the global integration method.
P.I. Companies consolidated by the proportional integration method.
E. Companies carried by the equity method.
I. Investees.

EXHIBIT II

The main telecommunications operators in the Telefónica Group, the percentages of ownership in which and methods of consolidation of which are disclosed in Exhibit I, are as follows:

Telefónica del Perú, S.A.-

This company provides local, long distance and international telephone services in Peru, under a licensing agreement entered into with the Government of Peru on May 16, 1994. The agreement has a term of 20 years, renewable for a further 20 years, the first five years being subject to an exclusive regime. As of December 31, 1996, the company had 6,338 employees (8,456 in 1995), it operated 1,764,809 lines (1,309,908 in 1995) and it had 130,895 cellular mobile telephone customers (38,465 in 1995) and 101,387 cable television subscribers (19,060 in 1995). As of December 31, 1996, Telefónica del Perú had an 85% holding in Telefónica Multimedia, S.A.

Compañía de Telecomunicaciones de Chile, S.A. (CTC)

This company supplies telephony services in Chile. As of December 31, 1996, it had 9,430 employees (9,276 in 1995), operated 2,296,042 lines (1,999,028 in 1995), and had 186,059 cellular mobile telephone customers (57,842 in 1995), 216,630 cable television subscribers (77,034 in 1995) and 37,657 radio trunking and radiopaging service subscribers. The holding was acquired in April 1990 and in January 1991, when a call option was exercised on a small number of shares. CTC is the parent company of a group of companies, comprising:

| | Percentage of ownership |
|---|-------------------------|
| — CTT-Red Multimedia, S.A. | 99.99% |
| — CTC-Isapre, S.A. | 99.99% |
| — CTC-Equipos y Servicios de Telecomunicaciones, S.A. | 99.99% |
| — CTC-Corp., S.A. | 99.99% |
| — CTC-Transmisiones Regionales, S.A. | 99.15% |
| — CTC-Marketing e Información, S.A. | 60.00% |
| — Invercom, S.A. | 80.00% |
| — Metrópolis | 32.00% |
| — Instacom, S.A. | 99.99% |
| — CTC Internacional | 99.99% |
| — Startel, S.A. | 55.00% |
| — Multicable Televisión, S.A. | 99.93% |

Telefónica de Argentina, S.A. (TASA)

This company provides telephony services in southern Argentina. As of September 30, 1996, its fiscal year-end, TASA had 14,279 employees (15,928 in 1995) it operated 3,911,965 lines (3,562,123 in 1995) and had 189,241 cellular mobile telephone customers, 28,094 radiopaging service subscribers and 37,783 directory customers.

| | Percentage of ownership |
|--|-------------------------|
| — Telinver, S.A. | 99.99% |
| — Telintar, S.A. | 50.00% |
| — Miniphone, S.A. | 50.00% |
| — Startel, S.A. | 50.00% |
| — Tyssa | 80.00% |
| — Radio Llamada, S.A.C.I. | 50.00% |
| — Telefónica Comunicaciones Personales | 99.99% |
| — Telefónica Servicios Globales, S.A. | 99.99% |

Compañía Anónima de Teléfonos de Venezuela (CANTV)

This company supplies telephony services in Venezuela. As of December 31, 1996, it operated 3,214,214 lines (2,942,544 in 1995), had 210,885 cellular mobile telephony subscribers (169,758 in 1995), and had 17,983 employees (20,993 in 1995). The holding was acquired in December 1991. In turn, CANTV has holdings in the following companies:

| | Percentage of Ownership |
|-------------------|-------------------------|
| — MOVILNEL | 100% |
| — CAVEGUÍAS | 80% |
| — INVERCANTV | 100% |
| — CANTV SERVICIOS | 100% |

Telefónica Larga Distancia (TLD)

This company provides long-distance terrestrial telephony services in Puerto Rico. As of December 31, 1996, it had 307 employees (268 in 1995). The holding was acquired on December 22, 1992.

Telecomunicaciones Ultramarinas-

This company provides long-distance satellite and radio telephony services in Puerto Rico.

Telefónica Romania, S.A.-

This company renders cellular mobile telephone services in Romania under a license granted on March 24, 1992. The service came into operation on April 5, 1993. The license provides for the possibility of developing the rural telephone service using the infrastructure of the mobile telephone network. As of December 31, 1996, the company had 189 employees and (112 in 1995) and 17,660 cellular mobile telephony subscribers (9,068 in 1995).

Compañía Celular de Colombia, S.A.-

This Colombian company renders cellular mobile telephony services in western Colombia under license agreements entered into with the Colombian government on March 28, 1994, with a term of ten years, extendible for a further ten years. As of December 31, 1996, it had 42,253 cellular telephone customers.

Multicanal, S.A.-

This Argentinean company provides multimedia services in the cable television industry. As of December 31, 1996, it operated 22 licenses and had 831,243 customers and 2,154 employees.

Companhia Riograndense de Telecomunicações, S.A.-

This Brazilian company provides telecommunications services in the State of Rio Grande do Sul in Brazil. As of December 31, 1996, it had 4,735 employees, operated 946,447 lines -781,789 of which were in service- and had 168,479 cellular mobile telephone customers. The total holding in this company's capital stock is 10.3% through the Group companies' various holdings in the Consortium which was awarded 35% of the company's common shares in the call for tenders held in December 1996.

INFORMATION ON THE OPERATOR COMPANIES

Number of lines installed-

| | Telefónica | T.S.M. | C.T.C | T. Perú | TASA | CANTV | Multicanal | Cocelco | Romania | Total |
|---------------------|------------|-----------|-----------|-----------|-----------|-----------|------------|---------|---------|-------------------|
| Basic telephony | | | | | | | | | | |
| Number of lines | 16,622,149 | — | 2,296,042 | 1,764,809 | 3,911,965 | 3,214,214 | — | — | — | 27,809,179 |
| Cellular telephony | | | | | | | | | | |
| Number of customers | — | 2,345,645 | 175,085 | 130,895 | 186,059 | 210,885 | — | 42,253 | 17,660 | 3,108,482 |
| Cable television | | | | | | | | | | |
| Number of customers | — | — | 216,630 | 101,387 | — | — | 831,243 | — | — | 1,149,260 |
| | | | | | | | | | | 32,066,921 |

Throughout 1996, Telefonica developed extensive activities, aimed both at maintaining its position of leadership in the telecommunications marketplace in Spain within the environment of the steady liberalization of telephony services, and the strengthening of its international presence, widening its geographical area of activity, and extending its operations in new business lines with high growth potential, especially in the multimedia sector (cable TV). All these activities have had one objective in common, that of offering our customer the ideal solutions for their communications needs.

The Telefónica Group has continued to broaden the scope of the products and services offered by the Group's companies, both through the launching of publicity campaigns aimed at increasing penetration and usage, and through more personal contact with our customers, a consequence of the introduction of our new distribution service «TeleSpaclo», where our customers can, in person, purchase, subscribe to, or obtain information on our services or, these services can be obtained through the TeleSpaclo's direct freephone service.

Continuing this objective of improving and diversifying the services on offer to our customers, along with increasing the competitiveness of our products, the Board of Directors approved the new organizational structure, as a result of which the Telefónica Group has been divided into three basic parts:

The Corporate Centre, guaranteeing the Group's strategic orientation, and made up of Planning and Management Control, Institutional Relations, Corporate Finance, Regulatory Issues and General and Board Secretary.

The Business Units, focusing on the marketplace, customers and products, and made up of Corporate Customers, Retail clients, Telefónica Internacional, Telefónica Móviles and International.

Two Common Resources Units, Infrastructures and Resources, supporting the Business Units and providing the services common to the latter.

Throughout the year, a series of agreements and alliances with different entities, from both domestic and international viewpoints, have permitted the consolidation and expansion of Telefónica's position in the telecommunications marketplace.

In January 1996, Telefónica and Iberdrola formed a strategic telecommunications alliance to create a company to promote and manage the provision of value-added services to the energy sector, develop joint activities in local operators in which Telefónica participates, and establish agreements to optimize the usage of the telecommunications infrastructures of both companies and extend this collaboration to the Latin American market.

In February, Telefónica signed an agreement with the Fomento de Construcciones y Contratas group (FCC), which establishes the possibility for the latter to acquire the minimum of a 20% stake in the share capital of Cabitel, the Telefónica Group company responsible for the marketing of the public telephony service.

In this same month, Telefónica Internacional formalized its participation in Multicanal's share capital, the Argentinian cable TV operator, through the acquisition of a 25% stake for a total value of \$US 168.5 million. The company's other partners are: the Clarin Group (the leading communications group in Argentina) and Citicorp Equity Investments, who hold 52.5% and 22.5%, respectively.

Regarding the cable TV market, the leading Peruvian telecommunications group, El Comercio, acquired a 15% stake in the share capital of our subsidiary Telefónica Multimedia del Perú.

These agreements further strengthen the Telefónica Group's expansion strategy in the field of multimedia in Latin America, as we now operate cable TV in Argentina, Chile and Peru, through the main local communications groups.

Within the framework of the Telefónica Group's policy, in recent years, of the divestiture of its participations in non-strategic companies, on April 30th, the sale of the Telefónica de España subsidiary, Sistemas e Instalaciones de Telecomunicación, S.A. (SINTEL) to MasTec International Inc. was completed for an amount of 4,900 million pesetas. SINTEL specializes in the installation and laying of lines and cables in the telecommunications field.

In May, Telefónica de España became an official partner of the European telecommunications consortium Unisource, through an exchange of shares, 100% of the shares corresponding to both the data transmission operator, Telefónica Transmisión de Datos, S.A. and Telefónica VSAT, S.A., the operator responsible for the transmission of telecommunications via the Paneuropean satellite VSAT.

These shares were exchanged for a 25% stake in Unisource N.V., with no cash outlay whatsoever on the part of Telefónica.

In November, Telefónica de España, Telcartera, the Sociedad General de Cablevisión and Sogecable signed an agreement which dissolved the cable TV agreement undertaken in July 1995. The result of the November agreement has been that Sogecable has acquired the shares held by Telefónica in Cablevisión, and Telefónica has acquired the shares held by both Sogecable and Cablevisión in the local Telefónica operators, with the exception of the Canary Islands. The aforementioned operators are now wholly-owned by Telefónica.

Likewise, Telefónica, Radio Televisión Española, Antena 3 de Televisión, Televisa, Televisió de Catalunya, Telemadrid, Canal 9 (Valencian television) and Televisión de Galicia signed an agreement through which they undertook to create, before December 16th 1996, a limited company for the broadcasting of digital television, via satellite, throughout the whole of Spain. Due to changes in the initial project, made by some of the partners (Antena 3), the structure and deadlines for the launching of the project are being reconsidered.

The consortium led by Telefónica Internacional, and in which the local Brazilian operator RBS participates (Participações Rede Brasil Sul), along with Telefónica de Argentina and the Chilean CTC won the bidding process for 35% of the voting shares of the Companhia Riograndense de Telecomunicações (CRT) in the state of Rio Grande do Sul, Brazil. This followed an international bidding process which commenced on December 17th, 1996, for the amount of 681 million reales. The strategic presence of Telefónica Internacional in Brazil, will allow this company to complement its existing investments in Latin America and to therefore strengthen its position of leadership both in the telecommunications sector in Latin America and in the area of Mercosur.

Telefónica Internacional has also pre-qualified for the granting of 35% of the share capital of Empresa Ecuatoriana de Telecomunicaciones (EMETEL).

Regarding financial matters, in the month of November, Telefónica launched its EMTN programme (Euro Medium Term Notes) through which successive debt note issues will be made on the EMTN market, with a maximum limit of \$US 1,500 million.

In order to launch the aforementioned programme it was necessary to gain a long-term rating. The Company therefore solicited this rating from Standard and Poor's and IBCA who subsequently gave Telefónica an AA- rating.

In December, the Cabinet authorized the Dirección General del Patrimonio del Estado to transfer the State-owned participation in Telefónica to the Sociedad Estatal de Participaciones Patrimoni-

ales (SEPPa) to be sold on domestic and international markets by way of a Public Offering, to take place on February 18th, 1997.

As a result of this Offering, the State now holds a 0.65% participation in Telefónica's share capital. This 0.65% stake is purely to cover the fidelity shares to be given to retail investors who maintain their investment for a year.

The previously mentioned operation has resulted in the State no longer being present on Telefónica's Board of Directors, which has adopted new internal rules regulating the organization and workings of the Board which is now made up of 18 members.

ECONOMIC RESULTS

The Telefónica Group recorded favourable results for fiscal 1996, reflecting growth in all the operating margins. This favourable performance resulted in consolidated net income reaching 160,282 million pesetas, having grown 20.3% over the figure for 1995. The principal contributors to this performance were:

Operating income rose 14.5%, favoured by the 9.5% increase in usage per line, the revenue from leased circuits which rose 146.0%, the steady introduction of new basic telephony services rising 53.3% and the growing contribution from Telefónica Servicios Móviles and our international businesses which are both areas of high growth and registered respective increases of 129.9% and 18.0%.

Operating expenses grew 20.5% compared with 5.3% the previous year. The restraint on personnel expenses, which rose 2.0%, was contrasted by the considerable increase in those expenses related with the revenue derived from marketing and promotion activities, with the overall figure for supplies and subcontracts rising by 55.8%.

The 7.7% decrease in financial expenses came as a consequence of the fall off in interest rates. Also outstanding is the contribution to the growth in profit derived from the 14.8% decrease in non-depreciated dismantled plant.

At year-end 1996, the Telefónica Group participated in the management of more than 26.4 million lines in service, of which 16.2 pertain to the Spanish market and the remaining number to Latin America. Likewise, the Group had 1.1 million cable TV customers, while the cellular mobile telephony business reached the figure of 3.3 million customers recording 142.0% growth.

Operating revenue

Consolidated operating revenue amounted to 2,171,135 million pesetas, having risen 14.5%. Operating revenue was the principal contributor to this performance, having grown 15.3% to reach

2,006,058 million pesetas, compared with the 10.2% increase the previous year.

Telefónica's operating revenue totalled 1,473,045 million pesetas, reflecting a 7.3% rise. Of this figure 83.1% derives from domestic basic telephony, 9.2% from international communications and the remaining amount from public telephony services, data transmission and special projects.

Revenue from basic telephony rose 17.3% to reach 1,223,496 million pesetas. This significant growth contrasts with the 5.6% increase registered in 1995. This performance is due to a series of factors, namely; the variation in the revenue generated from subscriber charges, the connection fees and domestic traffic originating from the fixed network was also contributed to by the 2.8% increase in billable plant and the 8.1% rise in domestic usage in minutes per line. In addition to this factor, new revenues were also generated by the segregation of businesses, the leasing of circuits to other operators (TSM, TTD and Airtel), the interconnection with other operators of mobile-fixed traffic and contracts with other businesses.

Besides Telefónica's contribution to the Group's operating revenue, that of mobile telephony and the international businesses also stands out.

Mobile telephony, totally managed by Telefónica Servicios Móviles, registered revenue amounting to 256,384 million pesetas, reflecting 129.9% growth. At year-end 1996, this subsidiary's customer portfolio had risen 152.5% to total 2,345,645, of which 1,037,716 subscribed to the Movistar GSM service. Therefore, combining the customers from the two services, GSM and analog, Telefónica Móviles now has a market share of 78%.

The Group's overseas activities, which from the outset have been managed by Telefónica Internacional, registered revenue totalling 331.598 million pesetas, having risen 18.0%.

Operating expenses

The Group's operating expenses rose 20.5% to 1,023,065 million pesetas, when compared with 1995. Throughout the year, the restraint on personnel expenses continued, rising 2.0% to total 554,682 million pesetas, contributed to by the average 7.1% fall off in workforce, to close the year with an average of 92,148 employees.

At year-end 1996, Telefónica de España recorded personnel expenses amounting to 442,562 million pesetas, and a workforce of 67,217 employees, 2,326 employees fewer than at the close of 1995. Due to this, the productivity indicator of lines per employee continued to improve, going from 226.8 in 1995, to 243.1 in 1996. Regarding the other Group companies, the 7.6% increase in per-

sonnel expenses registered by the Telefónica Internacional Group is particularly noteworthy. This growth is due, to a large extent, to the fact that in 1995 CTC recorded its capitalized personnel expenses under «Personnel Expenses» instead of as internal expenditure capitalized in fixed assets.

In contrast with the restraint on personnel expenses, the expenses derived from supplies and subcontracts grew 55.8%, as a consequence of the increased marketing activity carried out by some of the Group's companies, especially Telefónica Servicios Móviles, Telyco and Telefónica de España. The main reason for the growth in these expenses can be found in the expansion of cellular mobile telephony in Spain, reflected by the expenses derived from advertising and promotion campaigns, the distribution commissions paid to Telefónica Servicios Móviles' distributors, and the expense of procuring Telyco terminals.

Depreciation amounted to 526,229 million pesetas, having grown 4.9% over the year, principally due to the 64,289 million peseta contribution made by Telefónica Internacional, which reflected 21.3% growth. This performance by the Telefónica Internacional Group has come about due to the growing investment in CTC and Telefónica del Perú, combined with the accounting adjustments made for the inflation on intangible assets in Chile and Peru.

Operating profit

The combination of the growth in revenue and the performance registered by operating expenses, resulted in consolidated operating profit climbing 13.0% to reach 575,965 million pesetas.

Profit before extraordinary items

Profit before extraordinary items stood at 390,399 million pesetas, 22.2% higher than the figure for 1995, principally due to the decrease witnessed in financial expenses.

Financial expenses continue to play an important role in the growth in income, as over 1996 they fell 7.7%, continuing their downward trend, to stand at 206,425 million pesetas, with 10.3% weight over operating revenue (this figure was 12.8% in 1995). The reduction in interest rates made a particularly favourable contribution to this performance.

Telefónica's 25% participation in Unisource has meant the integration of the latter's results in the Group's profit and loss accounts using the equity method, as also occurs with companies such as Telefónica de Argentina and CANTV-Venezuela. Therefore, the companies that consolidate using the equity method recorded net income amounting to 7,811 million pesetas, 10.8% down on the 1995-figure, principally due to the registering of Telefónica's participation in Unisource losses over the period.

Pre-tax income

The Telefónica Group's pre-tax income rose 23.3% to total 275,881 million pesetas.

Within the item extraordinary results, the performance of extraordinary income must be mentioned as this reached 31,941 million pesetas, 6.9% up on the figure for 1995. This figure principally comprises of the extraordinary income contributed by Telefónica Internacional which amounted to 13,543 million pesetas, principally due to the extraordinary income registered by CTC (6,597 million pesetas), deriving from the merger of its mobile subsidiary, Compañía de Telecomunicaciones de Chile, with VTR Celular, and from the sale of the non-strategic participation in Telefónica de Argentina, which took place in the first quarter of the year. The remaining amount is principally from capital grants and compensation.

On the other hand, extraordinary expenses totalled 146,459 million pesetas, having risen 16.6%. The main reason for this increase has been the payments and provisions for early retirement and the release scheme, which rose 6.8% to reach 58,519 million pesetas. The 14.8% decrease in non-depreciated dismantled plant amounted to 47,918 million pesetas, partly offsetting this increase.

Net income

The provision for corporate tax amounted to 56,921 million pesetas, therefore setting the effective rate for the Group at 20.6%, compared with the 17.6% applied the previous year. This provision is 44.6% higher than that of 1995 due to the performance of income and the resulting higher effective tax rates. In the case of the Telefónica Internacional Group, the overall taxes for this sub-group rose 38.2%, increasing the effective rate from 21.3% to 24.6%.

Minority interests grew 14.7% to 58,678 million pesetas, due to the increases in the results of the companies in which Telefónica Internacional participates.

The favourable performances reflected by the different margins in the profit and loss accounts, when compared with 1995, permitted a 20.3% increase in consolidated net income which stood at 160,282 million pesetas.

RESEARCH AND DEVELOPMENT

Throughout 1996, the investment in research and development grew 8.4% to total 21,170 million pesetas. This figure makes up 46.6% of the Group's total investment in intangible assets.

Following the consolidation of the new operating framework, Telefónica I+D continued its aim of ensuring that the Telefónica Group is able to offer a range of services and solutions to the customer's needs that are increasingly extensive and different to those offered by the competition.

This activity has borne the following results: regarding the development of services, InfoVia has been consolidated having been implanted in Peru and Chile, along with the developments in mobile services, multimedia and public telephony. On the other hand, in terms of the activities aimed at improving the efficiency and quality in the operating of networks, attention must be drawn to the new versions of the Structure of Operating and Monitoring, the MORE system aimed at the modernizing of analog exchanges and the new tools for network planning.

Treasury Stock

Throughout 1996, no treasury stock was acquired.

SELECTED FINANCIAL DATA. CONSOLIDATED (Million pesetas)

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1996 \$ (3) |
|-----------------------------------|-----------|-----------|-----------|-----------|-----------|-------------|
| Revenue from operations | 1,208,938 | 1,297,437 | 1,578,850 | 1,740,557 | 2,006,058 | 15,281.3 |
| Operating expenses | 613,788 | 656,655 | 806,400 | 849,258 | 1,023,065 | 7,793.3 |
| Financial expenses | 220,912 | 242,342 | 236,101 | 223,656 | 206,425 | 1,572.5 |
| Depreciation and amortization (1) | 385,152 | 413,261 | 515,116 | 567,992 | 594,536 | 4,528.9 |
| Net income | 80,761 | 96,367 | 112,608 | 133,214 | 160,282 | 1,221.0 |
| Cash flow | 465,250 | 502,882 | 644,750 | 750,357 | 811,235 | 6,179.7 |
| Share capital | 463,480 | 469,735 | 469,735 | 469,735 | 469,735 | 3,578.3 |
| Shareholders' equity | 1,392,005 | 1,437,055 | 1,512,031 | 1,546,472 | 1,863,760 | 14,197.4 |
| Long-term debt | 1,610,878 | 1,569,568 | 1,773,321 | 1,665,508 | 1,603,896 | 12,217.8 |
| Financial debt | 1,887,687 | 1,824,654 | 2,032,020 | 1,941,908 | 1,995,940 | 15,204.3 |
| Investment (2) | 459,279 | 380,634 | 489,606 | 632,893 | 724,253 | 5,517.1 |

(1) Including amortization of goodwill.

(2) Fixed and intangible.

(3) Figures in million dollars. 30-12-96 exchange rate: \$ 1 = ptas 131.275

TELEFONICA GROUP: OPERATING REVENUE (Million pesetas)

| | 1993 | 1994 | 1995 | 1996 | Increase (%) Over 1995 | 1996 \$ (1) |
|---|------------------|------------------|------------------|------------------|---------------------------|-----------------|
| Parent company | | | | | | |
| Basic telephony | 955,580 | 988,649 | 1,042,985 | 1,223,496 | 17.3 | 9,320.1 |
| Telephone service | 767,899 | 802,545 | 843,748 | 947,748 | 12.3 | 7,219.5 |
| Leased circuits | 40,685 | 34,103 | 29,809 | 73,317 | 146.0 | 558.5 |
| Ibercom | 48,399 | 54,769 | 58,517 | 69,290 | 18.4 | 527.8 |
| Digital exchanges, intelligent network, ISDN and other | 3,791 | 6,728 | 19,493 | 49,898 | 156.0 | 380.1 |
| Equipment | 79,949 | 75,154 | 75,983 | 71,696 | (5.6) | 546.2 |
| Advertising | 14,857 | 15,350 | 15,435 | 11,547 | (25.2) | 88.0 |
| International communication services | 132,040 | 139,349 | 145,222 | 136,124 | (6.3) | 1,036.9 |
| Telephone service | 121,048 | 128,228 | 134,145 | 123,120 | (8.2) | 937.9 |
| Leased circuits | 5,517 | 5,693 | 7,367 | 9,833 | 33.5 | 74.9 |
| Retransmissions | 5,475 | 5,428 | 3,710 | 3,171 | (14.5) | 24.1 |
| Public telephony | 52,511 | 62,941 | 65,452 | 64,655 | (1.2) | 492.5 |
| Data transmission | 45,522 | 43,735 | 38,642 | 44,645 | 15.5 | 340.1 |
| Mobile services | 34,431 | 46,471 | 76,494 | 0 | — | — |
| Other | — | 2,391 | 3,879 | 4,125 | 6.3 | 31.4 |
| Total revenue from operations for Telefónica | 1,220,084 | 1,283,536 | 1,372,674 | 1,473,045 | 7.3 | 11,221.0 |
| Group | | | | | | |
| Telefónica Internacional | 18,338 | 221,451 | 281,050 | 331,598 | 18.0 | 2,526.0 |
| Telefónica Servicios Móviles | 4,108 | 7,179 | 35,028 | 256,384 | 631.9 | 1,953.0 |
| Cabitel | 16,267 | 21,373 | 33,187 | 40,482 | 22.0 | 308.4 |
| Other subsidiaries | 140,731 | 157,894 | 179,740 | 211,872 | 17.9 | 1,614.0 |
| Sales among group companies | (102,091) | (112,583) | (161,122) | (307,323) | 90.7 | (2,341.1) |
| Total revenue from operations for Group Companies | 77,353 | 295,314 | 367,883 | 533,013 | 44.9 | 4,060.3 |
| Total revenue from operations for Telefónica Group | 1,297,437 | 1,578,850 | 1,740,557 | 2,006,058 | 15.3 | 15,281.3 |

(1) Figures in million dollars. 30-12-96 exchange rate: \$ 1 = ptas. 131.275

RESULTS - PROFIT MARGINS. CONSOLIDATED (Million pesetas)

| DESCRIPTION | 1992 | 1993 | 1994 | 1995 | 1996 | Increase % | | 1996 \$ (1) |
|--|----------------|----------------|----------------|------------------|------------------|-------------|---------------------------|----------------|
| | | | | | | Over 95 | Average accumulated 92-96 | |
| + Operating revenue | 1,208,938 | 1,297,437 | 1,578,850 | 1,740,557 | 2,006,058 | 15.3 | 13.5 | 15,281.3 |
| - Operating expenses | | | | | | | | |
| Personnel expenses | 429,626 | 448,402 | 520,918 | 543,547 | 554,682 | 2.0 | 6.6 | 4,225.4 |
| Taxes | 22,976 | 23,981 | 25,826 | 27,667 | 35,106 | 26.9 | 11.2 | 267.4 |
| Subcontracts | 161,186 | 184,272 | 259,656 | 278,044 | 433,277 | 55.8 | 28.0 | 3,300.5 |
| + Internal expenditure capitalized in fixed assets | 103,929 | 109,103 | 121,391 | 121,548 | 127,319 | 4.7 | 5.2 | 969.9 |
| = Operating margin | 699,079 | 749,885 | 893,841 | 1,012,847 | 1,110,312 | 9.6 | 12.3 | 8,457.9 |
| + Other operating revenue | 23,618 | 33,068 | 30,226 | 33,402 | 37,758 | 13.0 | 12.4 | 287.7 |
| - Depreciation of fixed assets | 343,179 | 374,259 | 454,530 | 501,480 | 526,229 | 4.9 | 11.3 | 4,008.6 |
| - Other operating expenses | 13,766 | 13,152 | 9,854 | 9,728 | 19,307 | 98.5 | 8.8 | 147.1 |
| - Other provisions and charges | 18,787 | 25,816 | 27,286 | 25,159 | 26,569 | 5.6 | 9.1 | 202.4 |
| = Operating profit | 346,965 | 369,726 | 432,397 | 509,882 | 575,965 | 13.0 | 13.5 | 4,387.5 |
| + Financial income | 4,318 | 7,837 | 17,358 | 18,802 | 19,156 | 1.9 | 45.1 | 145.9 |
| + Exchange income | 363 | 2,695 | 4,780 | 12,685 | 10,678 | (15.8) | 132.9 | 81.3 |
| - Interest expenses | 202,300 | 208,757 | 205,978 | 201,151 | 182,370 | (9.3) | (2.6) | 1,389.2 |
| - Exchange losses | 12,802 | 28,631 | 24,642 | 19,188 | 20,452 | 6.6 | 12.4 | 155.8 |
| - Amortization of deferred charges | 5,810 | 4,954 | 5,481 | 3,317 | 3,603 | 8.6 | (11.3) | 27.4 |
| + Revenue from associated companies | 9,391 | 20,176 | 18,513 | 8,754 | 7,811 | (10.8) | (4.5) | 59.5 |
| - Amortization of goodwill | 808 | 4,798 | 6,191 | 6,985 | 16,786 | 140.3 | 113.5 | 127.9 |
| = Profit from ordinary activities | 139,317 | 153,294 | 230,756 | 319,482 | 390,399 | 22.2 | 29.4 | 2,973.9 |
| + Extraordinary income | 10,804 | 14,904 | 40,206 | 29,874 | 31,941 | 6.9 | 31.1 | 243.4 |
| - Extraordinary expenses | 53,201 | 41,405 | 99,311 | 125,645 | 146,459 | 16.6 | 28.8 | 1,115.7 |
| = Income before tax | 96,920 | 126,793 | 171,651 | 223,711 | 275,881 | 23.3 | 29.9 | 2,101.6 |
| - Corporate tax | 13,698 | 24,845 | 30,589 | 39,358 | 56,921 | 44.6 | 42.8 | 433.6 |
| = Net income | 83,222 | 101,948 | 141,062 | 184,353 | 218,960 | 18.8 | 27.4 | 1,668.0 |
| - Minority interest | 2,461 | 5,581 | 28,454 | 51,139 | 58,678 | 14.7 | 121.0 | 447.0 |
| = Net income attributed to Telefónica | 80,761 | 96,367 | 112,608 | 133,214 | 160,282 | 20.3 | 18.7 | 1,221.0 |
| Net income | 83,222 | 101,948 | 141,062 | 184,353 | 218,960 | 18.8 | 27.4 | 1,668.0 |
| + Amortization of deferred charges | 5,810 | 4,954 | 5,481 | 3,317 | 3,603 | 8.6 | (11.3) | 27.4 |
| + Depreciation of fixed assets | 343,179 | 374,259 | 454,530 | 501,480 | 526,229 | 4.9 | 11.3 | 4,008.6 |
| + Dismantled plant pending depreciation | 35,355 | 29,250 | 48,914 | 56,210 | 47,918 | (14.8) | 7.9 | 365.0 |
| + Amortization of goodwill | 808 | 4,798 | 6,191 | 6,985 | 16,786 | 140.3 | 113.5 | 127.9 |
| - Revenue from associated companies | 9,391 | 20,176 | 18,513 | 8,754 | 7,811 | (10.8) | (4.5) | 59.5 |
| + Dividends of associated companies | 6,267 | 7,849 | 7,085 | 6,766 | 5,550 | (18.0) | (3.0) | 42.3 |
| = Cash flow | 465,250 | 502,882 | 644,750 | 750,357 | 811,235 | 8.1 | 14.9 | 6,179.7 |

(1) Figures in million dollars. 30-12-96 exchange rate: \$ 1 = ptas. 131.275

BALANCE SHEET. CONSOLIDATED (Million pesetas)

| ITEMS | 1992 | 1993 | 1994 | 1995 | 1996 | 1996 \$ (1) |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| Subscribed shares not paid-in | 1 | 0 | 23 | 174 | 0 | 0 |
| Fixed assets | 3,409,276 | 3,436,855 | 3,992,550 | 4,064,356 | 4,585,143 | 34,927.8 |
| Capital increase expenses | 503 | 226 | 349 | 714 | 577 | 4.4 |
| Net intangible assets | 50,778 | 63,207 | 300,207 | 317,239 | 337,825 | 2,573.4 |
| Property, plant and equipment | 5,303,671 | 5,483,037 | 6,311,527 | 6,538,507 | 7,024,676 | 53,511.1 |
| Depreciation of fixed assets | (2,092,440) | (2,310,927) | (2,751,943) | (2,941,081) | (3,050,806) | (23,239.8) |
| Net fixed assets | 3,211,231 | 3,172,110 | 3,559,584 | 3,597,426 | 3,973,870 | 30,271.3 |
| Investments | 146,764 | 201,312 | 132,410 | 148,977 | 272,871 | 2,078.7 |
| Goodwill on consolidation | 13,226 | 48,236 | 53,741 | 47,687 | 49,798 | 379.3 |
| Deferred expenses | 205,811 | 225,589 | 186,473 | 141,310 | 130,294 | 992.5 |
| Long-term prepaid taxes | 0 | 14,109 | 31,230 | 50,336 | 70,007 | 533.3 |
| Current assets | 378,838 | 377,094 | 495,203 | 514,395 | 600,373 | 4,573.4 |
| Subscribed shares not paid-in | 0 | 22 | 0 | 4 | 0 | 0 |
| Inventories | 18,552 | 16,505 | 25,362 | 29,036 | 33,834 | 257.7 |
| Accounts receivable | 337,400 | 332,841 | 369,798 | 398,837 | 505,653 | 3,851.9 |
| Short-term investments, cash and banks | 13,024 | 19,800 | 91,007 | 80,180 | 48,490 | 369.4 |
| Prepayments | 9,862 | 7,926 | 9,036 | 6,338 | 12,396 | 94.4 |
| Assets= liabilities and shareholders' equity | 4,007,152 | 4,101,883 | 4,759,220 | 4,818,258 | 5,435,615 | 41,406.3 |
| Shareholders' equity (1) | 1,392,005 | 1,437,055 | 1,512,031 | 1,546,472 | 1,863,760 | 14,197.4 |
| Paid-in share capital | 463,480 | 469,735 | 469,735 | 469,735 | 469,735 | 3,578.3 |
| Reserves | 847,764 | 894,140 | 929,688 | 971,707 | 1,266,624 | 9,648.6 |
| Net income for year | 80,761 | 96,367 | 112,608 | 133,214 | 160,282 | 1,221.0 |
| Interim dividend | 0 | (23,187) | 0 | (28,184) | (32,881) | (250.5) |
| Minority interests (2) | 31,044 | 41,798 | 292,293 | 313,753 | 374,693 | 2,854.3 |
| Deferred income (3) | 58,732 | 55,326 | 75,029 | 91,258 | 87,486 | 666.4 |
| Provisions for liabilities and charges (4) | 215,796 | 231,775 | 270,876 | 287,996 | 336,615 | 2,564.2 |
| Long-term deferred taxes (5) | 56,016 | 57,131 | 74,447 | 71,013 | 83,743 | 637.9 |
| Long-term debt (6) | 1,610,878 | 1,569,568 | 1,773,321 | 1,665,508 | 1,603,896 | 12,217.8 |
| Debentures, bonds and promissory notes issued | 722,284 | 708,440 | 721,323 | 643,938 | 654,378 | 4,984.7 |
| Debt with credit institutions | 690,728 | 681,881 | 917,607 | 901,885 | 843,349 | 6,424.3 |
| Debt with group and associated companies | 18,565 | 0 | 217 | 0 | 271 | 2.1 |
| Other creditors | 179,301 | 179,247 | 134,174 | 119,685 | 105,898 | 806.7 |
| Permanent capital (1+ 2+ 3+ 4+ 5+ 6) | 3,364,471 | 3,392,653 | 3,997,997 | 3,976,000 | 4,350,193 | 33,138.0 |
| Short-term debt | 642,681 | 709,230 | 761,223 | 842,258 | 1,085,422 | 8,268.3 |
| Debentures, bonds and promissory notes issued | 122,991 | 167,271 | 126,360 | 108,154 | 147,427 | 1,123.0 |
| Debt with credit institutions | 153,818 | 87,815 | 132,339 | 168,246 | 244,617 | 1,863.4 |
| Other creditors | 344,153 | 435,996 | 469,591 | 537,275 | 667,242 | 5,082.8 |
| Prepayments | 21,719 | 18,148 | 32,933 | 28,583 | 26,136 | 199.1 |
| Unused credit facilities | 136,936 | 230,639 | 245,740 | 334,676 | 470,513 | 3,584.2 |

(1) Figures in million dollars. 30-12-96 exchange rate: \$ 1 = ptas. 131.275

ECONOMIC / FINANCIAL INDICATORS. CONSOLIDATED (Figures in %, unless otherwise indicated)

| | 1992 | 1993 | 1994 | 1995 | 1996 |
|--|------|-------|-------|-------|------|
| Operating margin/Revenue from operations (1) | 57.8 | 57.8 | 56.6 | 58.2 | 55.3 |
| Financial expenses/Revenue from operations (2) | 18.3 | 18.7 | 15.0 | 12.8 | 10.3 |
| Operating margin/Average net plant (3) | 22.0 | 23.5 | 26.5 | 28.3 | 29.3 |
| Fixed asset coverage (4) | 91.2 | 90.1 | 92.3 | 91.4 | 88.9 |
| Self-financing ratio (5) | 87.5 | 115.4 | 115.9 | 104.1 | 96.4 |
| Financial debt ratio (6) | 58.4 | 57.6 | 54.5 | 51.6 | 47.5 |
| Debt repayment capacity(years) (7) | 5.1 | 4.5 | 3.8 | 3.1 | 2.9 |
| Financial expenses coverage (times) (8) | 1.0 | 1.1 | 1.2 | 1.5 | 1.7 |

(1) Operating revenue - Operating expenses + Internal expenditure capitalized in fixed assets / Operating revenue.

(2) Financial expenses + Exchange losses + Amortization of deferred charges / Operating revenue.

(3) Operating margin / Average net fixed assets.

(4) Shareholders' equity + Outside shareholders' interests + Deferred income + Provisions + Long-term deferred taxes + Long-term debt / Fixed assets + Goodwill on consolidation + Deferred expenses + Long-term prepaid taxes.

(5) Net income - Telefónica Dividends + Minority Interests Dividends + Depreciation of plant and equipment + Intangible depreciation + Dismantled plant pending depreciation + Amortization of goodwill - Revenue from associated companies + Dividend from associated companies / Capital expenditure in fixed assets + Capital expenditure in intangible assets.

(6) Interest bearing debt / Shareholders' equity + Outside shareholders' interests + Deferred income + Long-term deferred taxes + Financial debt - Capital increase expenses - Goodwill on consolidation - Deferred expenses (except promissory note interest).

Interest bearing debt: Long-term creditors - Payments pending on shares + Short-term issue + Short-term debts with credit institutions - Promissory note interest.

(7) Interest bearing debt / Net income + Amortization of deferred expenses + Depreciation of fixed assets + Dismantled plant pending depreciation + Amortization of goodwill - Revenue from associated companies + Dividends from associated companies - Internal expenditure capitalized in fixed assets.

(8) Income before tax + Financial expenses + Exchange losses + Amortization of deferred charges - Internal expenditure capitalized in fixed assets / Financial expenses + Exchange losses + Amortization of deferred charges.

TELEFÓNICA IN THE SPANISH ECONOMY (Telefónica as a % of national total) (Revised series)

| | 1992 | 1993 | 1994 | 1995 | 1996 |
|----------------------------------|------|------|------|-------|-------|
| Gross value added | 1.97 | 2.03 | 2.01 | 1.97 | 1.92 |
| Gross operating profit | 2.59 | 2.55 | 2.36 | 2.29 | 2.17 |
| Gross savings | 4.26 | 3.82 | 4.30 | 3.58 | 3.50 |
| Gross capital formation | 3.40 | 3.15 | 3.18 | 3.01 | 2.61 |
| Prices (1) | | | | | |
| GDP deflator | 6.8 | 4.3 | 4.0 | 4.9 | 3.8 |
| Consumer prices (annual average) | 5.9 | 4.6 | 4.8 | 4.6 | 3.6 |
| Telefónica (2) | 3.1 | 3.8 | 0.0 | (1.7) | (1.8) |

(1) Growth rates.

(2) Price index variation of basic telephony tariffs.

Sources: I.N.E and Telefónica

GROSS VALUE ADDED (Real growth rates in %)

| | 1992 | 1993 | 1994 | 1995 | 1996 |
|------------------|------|-------|------|------|------|
| National economy | 0.4 | (0.2) | 1.8 | 3.0 | 2.2 |
| Services sector | 2.4 | 0.8 | 2.0 | 2.5 | 2.3 |
| Telefónica | 9.1 | 7.9 | 4.9 | 7.8 | 5.2 |

Sources: I.N.E and telefónica.

SELECTED FINANCIAL DATA. TELEFONICA DE ESPAÑA (Million pesetas)

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1996 \$ (2) |
|-------------------------------|-----------|-----------|-----------|-----------|-----------|-------------|
| Revenue from operations | 1,154,696 | 1,220,084 | 1,283,536 | 1,372,674 | 1,473,045 | 11,221.1 |
| Operating expenses | 536,149 | 547,156 | 568,199 | 604,606 | 719,862 | 5,483.6 |
| Financial expenses | 217,434 | 235,319 | 212,639 | 191,397 | 165,263 | 1,258.9 |
| Depreciation and amortization | 382,466 | 406,603 | 467,274 | 505,644 | 474,403 | 3,613.8 |
| Net income | 83,899 | 84,837 | 91,734 | 106,183 | 120,414 | 917.3 |
| Cash flow | 466,365 | 491,440 | 559,008 | 611,827 | 594,817 | 4,531.1 |
| Share capital | 463,480 | 469,735 | 469,735 | 469,735 | 469,735 | 3,578.3 |
| Shareholders' equity | 1,376,751 | 1,397,712 | 1,454,684 | 1,470,679 | 1,734,072 | 13,209.5 |
| Long-term debt | 1,593,504 | 1,529,151 | 1,450,726 | 1,318,972 | 1,196,103 | 9,111.4 |
| Financial debt | 1,851,480 | 1,755,615 | 1,663,934 | 1,554,388 | 1,415,544 | 10,783.0 |
| Investment (1) | 439,391 | 381,507 | 406,882 | 436,720 | 395,198 | 3,010.5 |

(1) Fixed and intangible

(2) Figures in million dollars. 30-12-96 exchange rate: \$ 1 = ptas 131.275

RESULTS - PROFIT MARGINS. TELEFÓNICA DE ESPAÑA (Million pesetas)

| DESCRIPTION | 1992 | 1993 | 1994 | 1995 | 1996 | Increase % | | 1996 \$ (1) |
|--|----------------|----------------|----------------|----------------|----------------|--------------|---------------------------|----------------|
| | | | | | | Over year 95 | Average accumulated 92-96 | |
| + Operating revenue | 1,154,696 | 1,220,084 | 1,283,536 | 1,372,674 | 1,473,045 | 7.3 | 6.3 | 11,221.1 |
| - Operating expenses | | | | | | | | |
| Personal expenses | 392,736 | 408,103 | 421,624 | 433,655 | 442,562 | 2.1 | 3.0 | 3,371.3 |
| Taxes | 22,260 | 23,871 | 25,569 | 27,055 | 29,183 | 7.9 | 7.0 | 222.3 |
| Subcontracts | 121,153 | 115,182 | 121,006 | 143,896 | 248,117 | 72.4 | 19.6 | 1,890.1 |
| + Internal expenditure capitalized in fixed assets | 68,920 | 75,742 | 73,766 | 72,154 | 69,926 | (3.1) | 0.4 | 532.7 |
| = Operating margin | 687,467 | 748,670 | 789,103 | 840,222 | 823,109 | (2.0) | 4.6 | 6,270.1 |
| + Other operating revenue | 23,346 | 23,632 | 24,992 | 29,610 | 37,620 | 27.1 | 12.7 | 286.5 |
| - Depreciation of fixed assets | 341,903 | 372,401 | 413,134 | 446,480 | 423,736 | (5.1) | 5.5 | 3,227.8 |
| - Other operating expenses | 13,252 | 10,507 | 11,450 | 12,550 | 20,551 | 63.8 | 11.6 | 156.5 |
| - Other provisions and charges | 16,769 | 24,115 | 22,573 | 20,383 | 10,699 | (47.5) | (10.6) | 81.5 |
| = Operating profit | 338,889 | 365,279 | 366,938 | 390,419 | 405,743 | 3.9 | 4.6 | 3,090.8 |
| + Financial income | 23,074 | 10,191 | 14,388 | 15,693 | 27,190 | 73.3 | 4.2 | 207.1 |
| + Exchange income | 0 | 0 | 0 | 5,381 | 4,434 | (17.6) | — | 33.8 |
| - Interest expenses | 199,561 | 203,124 | 182,880 | 171,540 | 149,295 | (13.0) | (7.0) | 1,137.3 |
| - Exchange losses | 12,411 | 27,243 | 24,533 | 16,903 | 13,219 | (21.8) | 1.6 | 100.7 |
| - Amortization of deferred charges | 5,462 | 4,952 | 5,226 | 2,954 | 2,749 | (6.9) | (15.8) | 20.9 |
| = Profit from ordinary activities | 144,529 | 140,151 | 168,687 | 220,096 | 272,104 | 23.6 | 17.1 | 2,072.8 |
| + Extraordinary income | 8,148 | 8,392 | 29,673 | 16,262 | 16,007 | (1.6) | 18.4 | 121.9 |
| - Extraordinary expenses | 52,953 | 41,075 | 88,756 | 115,229 | 148,232 | 28.6 | 29.3 | 1,129.2 |
| = Income before tax | 99,724 | 107,468 | 109,604 | 121,129 | 139,879 | 15.5 | 8.8 | 1,065.5 |
| - Corporate tax | 15,825 | 22,631 | 17,870 | 14,946 | 19,465 | 30.2 | 5.3 | 148.2 |
| = Net income | 83,899 | 84,837 | 91,734 | 106,183 | 120,414 | 13.4 | 9.5 | 917.3 |
| + Amortization of deferred charges | 5,462 | 4,952 | 5,226 | 2,954 | 2,749 | (6.9) | (15.8) | 20.9 |
| + Depreciation of fixed assets | 341,903 | 372,401 | 413,134 | 446,480 | 423,736 | (5.1) | 5.5 | 3,227.8 |
| + Dismantled plant pending depreciation | 35,101 | 29,250 | 48,914 | 56,210 | 47,918 | (14.8) | 8.1 | 365.1 |
| = Cash flow | 466,365 | 491,440 | 559,008 | 611,827 | 594,817 | (2.8) | 6.3 | 4,531.1 |

(1) Figures in million dollars. 30-12-96 exchange rate: \$ 1 = ptas. 131.275

BALANCE SHEET. TELEFONICA DE ESPAÑA (Million pesetas)

| ITEMS | 1992 | 1993 | 1994 | 1995 | 1996 | 1996 \$ (1) |
|---|------------------|------------------|------------------|------------------|------------------|-----------------|
| Fixed assets | 3,365,365 | 3,343,388 | 3,382,127 | 3,313,073 | 3,478,645 | 26,498.9 |
| Capital increase expenses | 359 | 162 | 157 | 117 | 76 | 0.6 |
| Net intangible assets | 41,609 | 55,520 | 70,831 | 89,426 | 110,822 | 844.2 |
| Property, plant and equipment | 5,306,956 | 5,489,734 | 5,592,518 | 5,491,583 | 5,588,247 | 42,569.0 |
| Depreciation of fixed assets | (2,090,267) | (2,308,229) | (2,483,296) | (2,600,010) | (2,595,993) | (19,775.2) |
| Net fixed assets | 3,216,689 | 3,181,505 | 3,109,222 | 2,891,573 | 2,992,254 | 22,793.8 |
| Investments | 106,708 | 106,201 | 201,917 | 331,957 | 375,493 | 2,860.3 |
| Deferred expenses | 203,486 | 224,113 | 181,307 | 135,572 | 122,554 | 933.6 |
| Long-term prepaid taxes | 0 | 13,616 | 30,764 | 49,699 | 66,854 | 509.3 |
| Current assets | 348,316 | 328,977 | 302,822 | 336,301 | 397,612 | 3,028.8 |
| Inventories | 5,019 | 3,832 | 4,292 | 4,303 | 4,634 | 35.3 |
| Accounts receivable | 329,144 | 317,323 | 288,428 | 313,562 | 371,257 | 2,828.1 |
| Short-term investments | 6,449 | 1,201 | 3,358 | 11,019 | 14,615 | 111.3 |
| Cash and banks | 3,789 | 5,031 | 4,699 | 5,375 | 5,240 | 39.9 |
| Prepayments | 3,915 | 1,590 | 2,045 | 2,042 | 1,866 | 14.2 |
| Assets= liabilities and shareholders' equity | 3,917,167 | 3,910,094 | 3,897,020 | 3,834,645 | 4,065,665 | 30,970.6 |
| Shareholders' equity (1) | 1,376,751 | 1,397,712 | 1,454,684 | 1,470,679 | 1,734,072 | 13,209.5 |
| Paid-in share capital | 463,480 | 469,735 | 469,735 | 469,735 | 469,735 | 3,578.3 |
| Reserves | 829,372 | 866,327 | 893,215 | 922,945 | 1,176,804 | 8,964.4 |
| Net income for year | 83,899 | 84,837 | 91,734 | 106,183 | 120,414 | 917.3 |
| Interim dividend | 0 | (23,187) | 0 | (28,184) | (32,881) | (250.5) |
| Deferred income (2) | 58,723 | 54,765 | 67,531 | 78,933 | 80,428 | 612.6 |
| Provisions for liabilities and charges (3) | 211,813 | 216,094 | 232,412 | 240,995 | 272,141 | 2,073.1 |
| Long-term deferred taxes (4) | 52,904 | 53,003 | 52,273 | 44,145 | 53,084 | 404.4 |
| Long-term debt (5) | 1,593,504 | 1,529,151 | 1,450,726 | 1,318,972 | 1,196,103 | 9,111.4 |
| Debentures, bonds and promissory notes issued | 696,811 | 685,614 | 636,533 | 571,271 | 563,464 | 4,292.2 |
| Debt with credit institutions | 602,800 | 540,494 | 558,700 | 496,269 | 419,505 | 3,195.6 |
| Debt with group and associated companies | 103,586 | 122,403 | 140,447 | 149,319 | 126,615 | 964.5 |
| Other creditors | 190,307 | 180,640 | 115,046 | 102,113 | 86,519 | 659.1 |
| Permanent capital (1+ 2+ 3+ 4+ 5) | 3,293,695 | 3,250,725 | 3,257,626 | 3,153,724 | 3,335,828 | 25,411.0 |
| Short-term debt | 623,472 | 659,369 | 639,394 | 680,921 | 729,837 | 5,559.6 |
| Debentures, bonds and promissory notes issued | 130,225 | 167,267 | 125,094 | 104,670 | 117,000 | 891.3 |
| Debt with credit institutions | 127,751 | 59,197 | 88,114 | 130,746 | 102,441 | 780.4 |
| Other creditors | 344,799 | 416,078 | 400,825 | 420,173 | 487,483 | 3,713.4 |
| Prepayments | 20,697 | 16,827 | 25,361 | 25,332 | 22,913 | 174.5 |
| Unused credit facilities | 38,498 | 126,044 | 146,991 | 175,466 | 274,628 | 2,092.0 |

(1) Figures in million dollars. 30-12-95 exchange rate: \$ 1 = ptas. 131.275

ECONOMIC/FINANCIAL INDICATORS. TELEFÓNICA DE ESPAÑA (Figures in % unless otherwise indicated)

| | 1992 | 1993 | 1994 | 1995 | 1996 |
|--|------|-------|-------|-------|-------|
| Operating margin/Revenue from operations (1) | 59.5 | 61.4 | 61.5 | 61.2 | 55.9 |
| Financial expenses/Revenue from operations (2) | 18.8 | 19.3 | 16.6 | 13.9 | 11.2 |
| Operating margin/Average net plant (3) | 21.5 | 23.4 | 25.1 | 28.0 | 28.0 |
| Fixed assets coverage (4) | 90.7 | 89.8 | 88.9 | 88.9 | 89.6 |
| Self-financing ratio (5) | 91.8 | 112.2 | 120.9 | 123.1 | 128.6 |
| Financial debt ratio (6) | 58.4 | 57.1 | 54.7 | 51.7 | 45.0 |
| Debt repayment capacity(years) (7) | 4.5 | 4.1 | 3.4 | 2.8 | 2.7 |
| Financial expenses coverage (times) (8) | 1.1 | 1.1 | 1.2 | 1.3 | 1.4 |

(1) Operating revenue - Operating expenses + Internal expenditure capitalized in fixed assets / Operating revenue.

(2) Financial expenses + Exchange losses + Amortization of deferred charges / Operating revenue.

(3) Operating margin / Average net fixed assets.

(4) Shareholders' equity + Deferred income + Provisions + Long-term deferred taxes + Long-term debt / Fixed assets + Deferred expenses + Long-term prepaid taxes.

(5) Net income - Telefónica Dividends + Depreciation of plant and equipment + Intangible depreciation + Dismantled plant pending depreciation / Capital expenditure in fixed assets + Capital expenditure in intangible assets.

(6) Interest bearing debt / Shareholders' equity + Deferred income + Long-term deferred taxes + Financial debt - Capital increase expenses - Deferred expenses (except promissory note interest). Interest bearing debt: Long-term creditors - Payments pending on shares + Short-term issue + Short-term debts with credit institutions - Promissory note interest.

(7) Interest bearing debt / Net income + Amortization of deferred expenses + Depreciation of fixed assets + Dismantled plant pending depreciation - Internal expenditure capitalized in fixed assets.

(8) Income before tax + Financial expenses + Exchange losses + Amortization of deferred charges - Internal expenditure capitalized in fixed assets / Financial expenses + Exchange losses + Amortization of deferred charges.

SHARE CAPITAL

| | 1992 | 1993 | 1994 | 1995 | 1996 |
|-------------------------------|------------|------------|------------|------------|------------|
| Share Capital (Million Ptas.) | 463,479.58 | 469,735.41 | 469,735.41 | 469,735.41 | 469,735.41 |
| Earnings per share (Ptas.) | 90.5 | 90.8 | 97.6 | 113.0 | 128.2 |
| Price / earnings ratio | 12.6 | 20.5 | 15.9 | 14.9 | 23.5 |
| Payout (%) | 67.4 | 68.3 | 67.6 | 67.2 | 69.4 |
| Price / Cash flow per share | 2.3 | 3.6 | 2.6 | 2.6 | 4.8 |

At December 31, 1996 Telefónica's share capital totalled 469,735,410,000 pesetas, divided into 939,470,820 shares with a nominal value of 500 pesetas each fully paid in.

Since 1990 the following capital increases have been made, all of which through the conversion of bonds.

| | Number of shares issued (thousands) | Issue Price (Ptas.) | Amount issued Nominal (Million Ptas.) | Effective (Million Ptas.) |
|------|---|------------------------|---|------------------------------|
| 1990 | 1,994.6 | 858.435 | 997.3 | 1,712.3 |
| 1992 | 1.1 | 924.750 | 0.5 | 1.0 |
| 1993 | 12,511.7 | 1,267.230 (*) | 6,255.8 | 15,855.2 |

(*) Average issue price

QUOTATION OF SHARES

Telefónica shares are quoted on the continuous markets of all Spanish Stock exchanges (Madrid, Barcelona, Bilbao and Valencia) and on the following foreign exchanges: London, París, Frankfurt, Tokyo, New York (*) and the London Stock Exchange's SEAQ International.

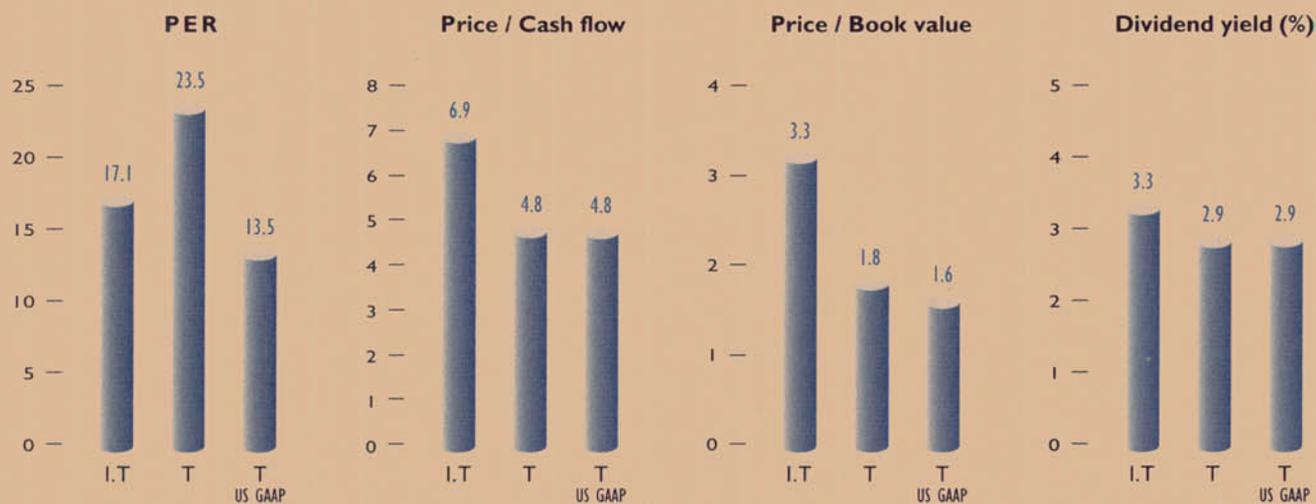
Option contracts on Telefónica shares are carried out on the Spanish Financial Futures Market (MEFF-RV) and on the American Stock Exchange (AMEX) (*)

(*) Quotes American Depositary Receipts (ADR) | ADR = 3 shares

QUOTATION OF TELEFÓNICA SHARES

The table below reflects maximum, minimum and closing prices, in pesetas on the continuous Spanish market.

| | Maximum | Minimum | Closing |
|------------------------------|---------|---------|---------|
| 1992 | 1,300 | 750 | 1,140 |
| 1993 | 1,880 | 1,135 | 1,865 |
| 1994 | 2,185 | 1,450 | 1,555 |
| 1995 | 1,795 | 1,470 | 1,680 |
| 1996 1 st quarter | 2,050 | 1,690 | 1,970 |
| 1996 2 nd quarter | 2,505 | 1,960 | 2,360 |
| 1996 3 rd quarter | 2,445 | 2,075 | 2,385 |
| 1996 4 th quarter | 3,060 | 2,385 | 3,015 |



I.T.: International Telecommunications Index (Source: "Capital International Perspective")

T.: Telefónica (Information in accordance with Spanish accounting principles)

T (U.S. GAAP): Telefónica (Information in accordance with US accounting principles)

International Comparisons at 31-12-96

DIVIDEND POLICY

Telefónica normally pays an interim dividend at year-end and a final dividend once the total dividend for the year has been approved by the Annual General Shareholders' Meeting, following the proposal made by the Board of Directors.

RECENT DIVIDENDS HAVE BEEN:

| | 1994 | 1995 | 1996 |
|---------|----------|----------|--------------|
| Interim | 27 ptas. | 30 ptas. | 35 ptas. |
| Final | 39 ptas. | 46 ptas. | 54 ptas. (*) |
| Total | 66 ptas. | 76 ptas. | 89 ptas. |

(*) Pending approval by the Annual General Shareholders' Meeting in accordance with the proposed distribution of net income.

STATE PARTICIPATION IN TELEFÓNICA DE ESPAÑA, S.A.

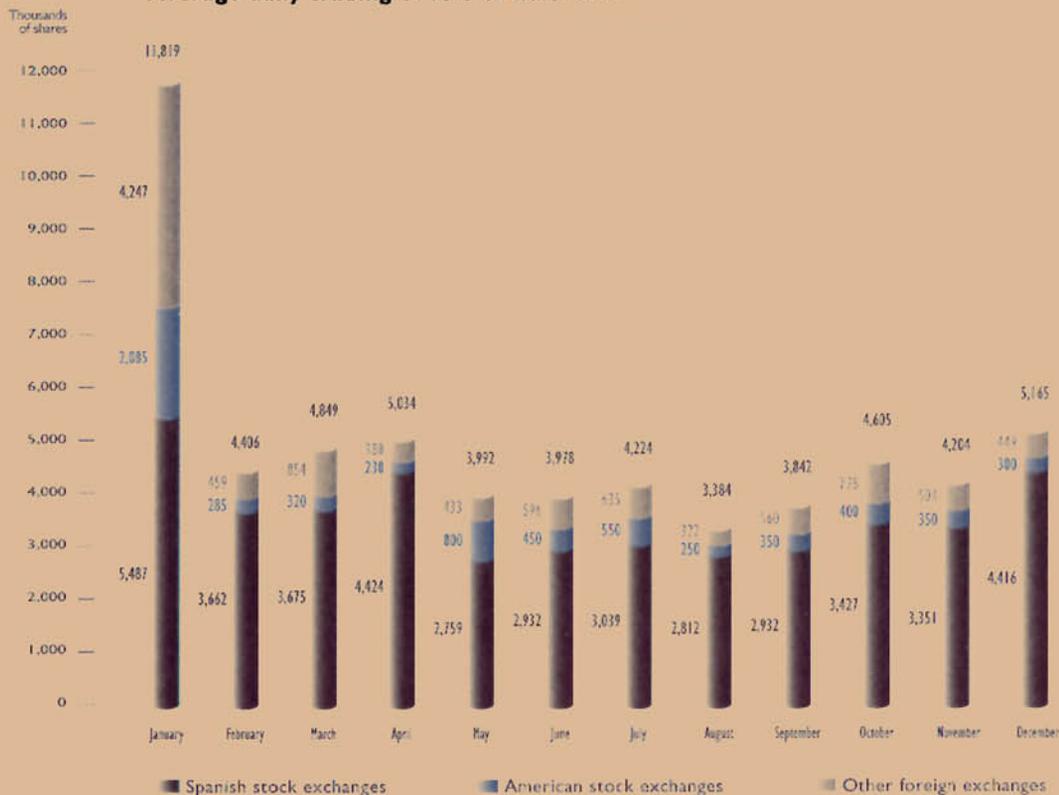
Under the stipulations of the Royal Decree 116/14/2/92, since December 14, 1995, Telefónica's shares are represented as book entries and therefore the official shareholder list has ceased to exist.

The state participation after the Public Offering on February 18, 1997 was stated as the following:

Sociedad Estatal de Participaciones Patrimoniales, S.A. (SEPPa): 0.55% participation in share capital

Sociedad Estatal de Patrimonio II, S.A.: 0.1% participation in share capital

Average daily trading of Telefónica shares



STOCK MARKET CAPITALIZATION

| | 1992 | 1993 | 1994 | 1995 | 1996 | Average increase% 96/92 |
|---|---------|---------|---------|---------|---------|-------------------------|
| Telefónica (billion pesetas) | 1,056.7 | 1,729.8 | 1,460.9 | 1,578.3 | 2,832.5 | 27.9 |
| Total Madrid Stock Exchange (billion pesetas) | 13,332 | 20,833 | 20,351 | 22,899 | 31,632 | 24.1 |
| Telefónica's weighting on the Madrid Stock Exchange Index (%) | 9.25 | 9.43 | 10.44 | 9.44 | 11.46 | — |

TELEFÓNICA GROUP SHARES

| | CTC Chile | | CPT Perú | | Telefónica Argentina (*) | | CANTV(**) | |
|--|-----------|-------|----------|----------|--------------------------|-------|-----------|-------|
| | 1995 | 1996 | 1995 | 1996 | 1995(1) | 1996 | 1995 | 1996 |
| Stock market capitalization (million \$US) | 4,150 | 4,923 | 4,964 | 4,388 | 6,365 | 6,177 | — | 4,017 |
| Closing price(\$US) | 4.88 | 5.73 | 2.13 | 1.88 | 2.70 | 2.62 | — | 4.02 |
| Price/earnings ratio | 15.6 | 13.9 | 16.4 | 12.6 | 13.9 | 16.0 | — | 9.3 |
| Price/Cash flow | 8.4 | 7.6 | 13.7 | 9.0 | 6.4 | 5.8 | — | 4.4 |
| Dividend yield (%) | 3.5 | 3.2 | 2.8 | 3.6(***) | 3.8 | 3.9 | — | — |

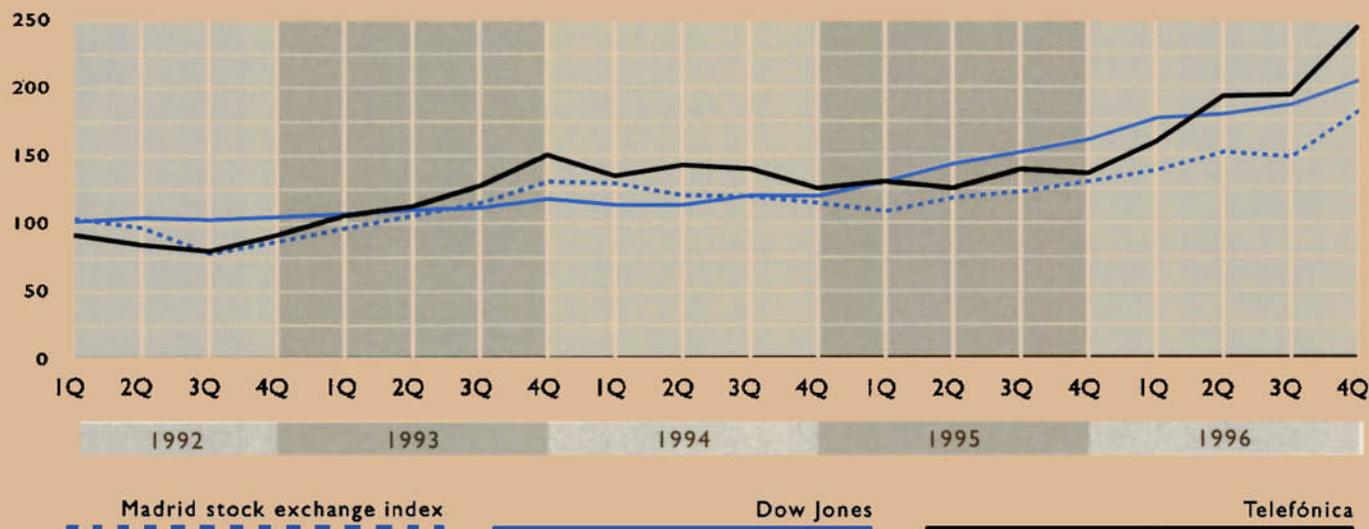
(*) The 1996 figures are based on the quotation of 31/12/1996 and the figures for the financial balance sheet were closed at 30/09/96.

(**) CANTV shares have been quoted on the Caracas Stock Exchange and New York Stock Exchange since November 21, 1996.

(***) 1996 dividend estimated on Company's payout (45%).

129

Trading index : Telefónica shares



PRELIMINARY RECONCILIATION OF INCOME AND NET WORTH UNDER SPANISH GAAP TO U.S. GAAP

Telefónica's financial statements have been prepared in accordance with Spanish generally accepted accounting principles which differ, in certain respects, from U.S. generally accepted accounting principles (U.S. GAAP).

Since Telefónica has been listed on the New York Stock Exchange since the beginning of 1987, it must present its income and net worth in accordance with U.S. accounting principles. Below we list the main differences between U.S. and Spanish GAAP. The definitive figures, and the supplementary information required under U.S. GAAP, will be detailed in the 20F document to be published before June 30, 1997.

TREATMENT UNDER SPANISH GAAP

1. Property and equipment (see Note 4-e)
2. Intangible assets (see Note 4-d)
3. Deferred exchange differences
 - a) Exchange gains (see Note 4-j)
 - b) Exchange losses (see Note 4-j)
4. Differences in accruals for transactions
5. Capitalized interest (see Note 4-e)
6. Provision for preretirement and early retirement (see Note 4-l)
7. Adjustment for inflation and other
8. Corporate income tax (see Note 4-n)

TREATMENT UNDER U.S. GAAP

Asset restatements are not permitted. Property and equipment and accumulated depreciation must be stated at historical cost.

Research and development expenses are recorded when they arise and cannot be capitalized.

Exchange gains on unmatured transactions must be treated as period revenues.

In view of the foreseeable deregulation of the telecommunications industry in Spain from January 1, 1998, in accordance with Spanish principles, Telefónica wrote off in its financial statements as of December 31, 1995, the potential unrealized exchange losses relating to debts maturing after January 1, 1998. Accordingly, the deferred losses relating to 1997 continued to be recorded as assets as of December 31, 1996. Under U.S. GAAP, these exchange differences cannot be capitalized since Telefónica does not meet the requirements to be deemed to be a regulated entity.

Certain transactions are accrued for differently under Spanish GAAP and U.S. GAAP.

Under U.S. GAAP interest incurred until the start-up of fixed assets must be capitalized.

Under U.S. GAAP, provisions of this type require there to be individual agreements with the employees affected or their representatives in order to be recognized as a period expense.

Only adjustments for inflation at companies located in high-inflation countries can be considered in consolidation.

The taxes relating to timing differences in the recognition of revenues and expenses and the tax benefits relating to tax losses and unused tax credits are recorded in the year, and a provision is recorded for tax credits which are deemed to be unlikely to be recovered.

RECONCILIATION TO U.S. GAAP AS OF 12/31/96

RECONCILIATION OF CONSOLIDATED INCOME AND NET WORTH AS OF DECEMBER 31

| | 1996 | 1995 |
|--|-----------|-----------|
| Income for the year under Spanish GAAP | 160,282 | 133,214 |
| Adjustments under U.S. GAAP | | |
| Reversal of depreciation on restated portion of fixed assets | 10,673 | 12,548 |
| Reduction in amount of undepreciated retired plant, due to effect of tangible fixed asset restatements | 972 | 1,159 |
| Single tax on restatement pursuant to Royal Decree Law 7/1996 | (6,776) | 0 |
| Research and development expenses | (12,054) | (8,387) |
| Deferred exchange differences | (12,669) | 20,983 |
| Transaction accruals | (23) | (505) |
| Adjustment for inclusion of capitalized interest | (8,469) | (6,351) |
| Provision for preretirements and early retirements | 18,234 | 20,587 |
| Adjustments for inflation and other | (2,724) | (3,379) |
| Corporate income tax | 57,674 | (12,829) |
| Approximate income for the year under U.S. GAAP | 205,120 | 157,040 |
| | | |
| Net worth under Spanish GAAP | 1,863,760 | 1,546,472 |
| Adjustments under U.S. GAAP | | |
| Reversal of net effect of restated fixed assets | (103,331) | (114,004) |
| Reduction in amount of undepreciated dismantled plant, due to effect of tangible fixed asset restatements | 57,908 | 56,936 |
| Effect of restatement pursuant to Royal Decree Law 7/1996 | (225,852) | 0 |
| Research and development expenses | (62,820) | (50,766) |
| Deferred exchange differences | (4,124) | 8,560 |
| Transaction accruals | (4,069) | (4,046) |
| Adjustment for inclusion of capitalized interest | 127,832 | 136,300 |
| Provision for preretirements and early retirements | 59,087 | 40,853 |
| Adjustments for inflation and other | (9,065) | (6,068) |
| Deferred tax due to adjustments under U.S. GAAP | 23,999 | (33,675) |
| Approximate net worth under U.S. GAAP | 1,723,325 | 1,580,563 |

BOARD OF DIRECTORS

At 31 December, 1996

CHAIRMAN

Juan Villalonga Navarro

VICE-CHAIRMEN

José María Concejo Alvarez

Isidro Fainé Casas

Francisco de Asís Gómez Roldán

DIRECTORS

(representing shareholders)

Eduardo Abril Abadín

Carlos Aragonés Mendiguchía

José Javier Echenique Landiribar

Jorge Fernández Díaz

Pablo Isla Alvarez de Tejera

Antonio Massanell Lavilla

Ramón de Miguel Egea

Cristobal Ricardo Montoro Romero

Pedro Morenés Eulate

José Pedro Pérez-Llorca Rodrigo

Manuel Pimentel Siles

Juan Manuel Rebollo Castrillo

Elvira Rodríguez Herrer

Carles Vilarrubí Carrió

Miguel Zorita Lees

DIRECTORS

(representing government)

Fernando Díez Moreno

Víctor Calvo-Sotelo Ibáñez-Martín

Pedro Ferreras Díez

Víctor Agustín González Muñoz

Adolfo Menéndez Menéndez

SECRETARY GENERAL OF THE BOARD

(non Director)

Javier Revuelta del Peral

ASSISTANT SECRETARY

(non Director)

Mariano Aldama Magnet

Changes to the Board of Directors of Telefónica de España S. A. after the end of 1996.

During the month of January, 1997, important changes in the Board of Directors took place, as the directors named by the management of State Patrimony (Mssrs. Abril Abadín, Aragonés Mendiguchía, Fernández Díaz, Alvarez de Tejera, de Miguel Egea, Morenés Eulate, Montoro Romero, Perez-Llorca Rodrigo, Pimentel Siles, Rodríguez Herrer y Rebollo Castrillo) and the five Directors representing the government (Mssrs. Gonzalez Muñoz, Díez Moreno, Calvo-Sotelo Ibañez-Martín, Ferreras Díez y Menéndez Menéndez). At the same time, the deputy secretary of the board, Mariano Aldama Magnet, resigned from his post.

The board members appointed to cover the majority of the vacancies on the Board of Directors were Msrs. Alierta Izuel, Ariño Ortiz, Ballvé Lantero, Carpio García, Cortina de Alcocer, Larracochea Jausoro, Perez Sáenz de Buruaga, Revuelta del Peral, Sagardoy Bencoechea and Velasco Gómez. Also, Diego L. Lozano Romeral was named deputy secretary of the Board of Directors.

The membership of the Board of Directors as of the 28th of February, 1997, was as follows:

CHAIRMAN

Juan Villalonga Navarro

VICE-CHAIRMEN

José María Concejo Alvarez

Isidro Fainé Casas

Francisco de Asís Gómez Roldán

MEMBERS

César Alierta Izuel

Gaspar Ariño Ortiz

Pedro Ballvé Lantero

Maximino Carpio García

Alberto Cortina de Alcocer

José Javier Echenique Landiribar

Ignacio Larracochea Jausoro

Antonio Massanell Lavilla

Juan Perea Sáenz de Buruaga

Juan Antonio Sagardoy Bengoechea

Martín Velasco Gómez

Carles Vilarrubí Carrió

Miguel Zorita Lees

**SECRETARY GENERAL
OF THE BOARD**

Javier Revuelta del Peral

**DEPUTY SECRETARY
(non Director)**

Diego L. Lozano Romeral

The Board of Directors, at a meeting held on the 29th of January, 1997, agreed to approve the Operating Rules of the Board of Directors of Telefónica de España S. A. . In accordance with these, the Directors of the company have been divided into the following three groups:

a) Directors With Executive Functions in the Company:

Juan Villalonga Navarro

Juan Perea Sáenz de Buruaga

Javier Revuelta del Peral

**b) Directors proposed by owners of significant amounts
of the company's share capital:**

José María Concejo Alvarez

José Javier Echenique Landiribar

Isidro Fainé Casas

Francisco Gómez Roldán

Antonio Massanell Lavilla

Miguel Zorita Lees

c) Independent directors:

César Alierta Izuel

Gaspar Ariño Ortiz

Pedro Ballvé Lantero

Maximino Carpio García

Alberto Cortina de Alcocer

Ignacio Larracochea Jausoro

Juan Antonio Sagardoy Bengoechea

Martín Velasco Gómez

Carles Vilarrubí Carrió

Executive Committee

At the abovementioned meeting of the Board of Directors on 29 January 1997, the executive committee was reorganized as the delegated governing organ of the Board, comprised of the chairman and seven members:

CHAIRMAN

Juan Villalonga Navarro

MEMBERS

José Javier Echenique Landiribar
Isidro Fainé Casas
Francisco Gómez Roldán
Ignacio Larracoechea Jausoro
Juan Perea Sáenz de Buruaga
Martín Velasco Gómez

SECRETARY

Javier Revuelta del Peral

136

Management Committee

The Management Committee of Telefónica de España S.A. and its group of companies is comprised of the following members:

Juan Villalonga Navarro

Chairman of the Management Committee

Rafael Hernández García

General Manager, Retail Client Business

Juan Perea Sáenz de Buruaga

**General Manager of Planning
and Management Control**

Francisco Mochón Morcillo

**General Manager,
International Business**

Andrés Tejero Sala

**General Manager,
Institutional Relations**

Luis Lada Díaz

**Vice president and general manager,
Telefónica Servicios Móviles, S.A.**

Javier Revuelta del Peral

**Secretary General
of the Board of Directors**

Marcial Portela Alvarez

**Managing Director of Telefónica International
de España, S.A.**

Fernando Abril Hernández

General Manager, Corporate Finance

Ignacio de Benito Secades

General Manager, Resources

Guillermo Fernández Vidal

General Manager, Corporate Client Business

Carlos Díaz-Guerra Alvarez

General Manager, Infrastructure

1996 — Highlights

January

— Telefónica and the Institute for the small and medium-sized company (IMPI), part of the Ministry of Industry, sign an agreement to provide information to small and medium-sized companies (PYMES). At the same time, the hotel chain, the Paradores and the Education Institution SEK, sign agreements to update and equip these organisms with the most modern telecommunications infrastructures.

— Telefónica and Iberdrola sign an important strategic telecommunications alliance. The agreement includes the creation of a joint venture to provide value-added services and develop diverse activities within the telecommunications sector. It also includes the optimum use of the infrastructure and its application in Latin America. This agreement will take advantage of both companies' customer bases, operating experience, geographic distribution of activities, management of infrastructures and company image.

— Telefónica Móviles' customer portfolio exceeds one million. Annual growth rate now stands



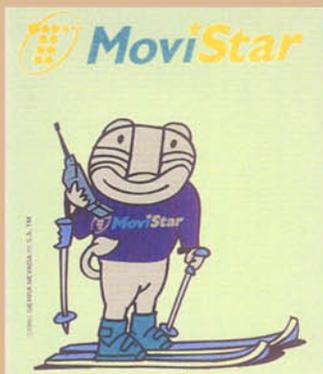
at 135% and penetration index surpasses 2.6%.

— Telefónica Sistemas exports its management system to Argentina. This system will monitor and control the 20,000 public modular telephones distributed throughout the country through Telefónica de Argentina.

February

— Telefónica agrees to provide the Medical Board access to information highways through InfoVía. Likewise Banco de Santander's home banking system becomes the first interactive system, through InfoVía, to offer access to financial services from the comfort of one's own home. InfoVía currently has 150 Information Provider Centres that can be accessed through this service, making it a multiprovider access service to Internet.

— The Telefónica Group provides the Sierra Nevada 1996 Ski Championships a complete array of global telecommunications services:



voice and data communications, analog and digital GSM mobile telephony, radio-paging, public telephony, special services for journalists and a constant public attention service.

— Telefónica is made the exclusive global telecommunications provider for the intercontinental golf tournament, the «Ryders Cup», therefore assuring the application of the most modern transmission technology for the coverage of the event.

— Telefónica announces that in the course of 1996 it will invest 71,000 million pesetas in Andalusia, therefore becoming the highest investor in the region.

— The Spanish Commercial Rating Association (AECOC), and Telefónica renew their agreement to operate the EDI AECOM service which is responsible for the development of the most significant technological advances in the increasing of transmission speeds and the development of new communications access routes such as ISDN and InfoVía. AECOM currently embodies the highest number of EDI service users in Spain, growing 300% over the figure for 1995.

— Telefónica Internacional finalizes its entrance into the Argentinian cable TV company MULTICANAL, thereby strengthening the Telefónica

Group's position in the Latin American multimedia sector and complementing its leadership as a telecommunications operator in the area.

March

— Telefónica and Microsoft sign an agreement for the joint development and marketing of their products and services throughout the world. The Company is also granted, through a bidding process, the right to provide the Ministry of Trade and Tourism with its communications network. The Royal Academy of Science agrees to collaborate with Telefónica on the compiling of an electronic edition of scientific and technical vocabulary through Internet and InfoVía.

— The Social Security's General Treasury and its Administrators form an agreement with Telefónica Servicios Avanzados de Información (TSAI) by which this company's electronic mail service Mensatex 400 will be introduced to cover their communications needs: the registering of contributors, TC2, labour related inquiries, etc.

— The new Telefónica Móviles service, Multiasistencia 2424, is created, consequence of the agreement with the European company Multiassistance. This service offers the convenience of a single number attention line through which MoviLine and MoviStar customers can make all types of inquiries.

— Telefónica names Arthur Andersen, Peat Marwick and Price Waterhouse as the external auditors for the Group's companies for the years 1996, 1997 and 1998. These companies have been responsible for the auditing over the past few years. Telefónica has divided its 23 principal subsidiaries into three sub-groups, in order to introduce a rotation system among the three auditing companies previously mentioned.

April

— Telefónica sells Sintel to the North American company Mastec for 4,900 million pesetas.

— The Recoletos Group joins Telefónica Sistemas and Proeinsa in the TeleLine project. TeleLine is an interactive on-line service that offers information, communication, entertainment, and Internet connection services, through the telephone network.

— The Telefónica subsidiary TEMASA is granted, following an open international bidding process, the installation contract for the cable-laying ship «Teneo» to lay the



underwater cable Adria I, that will link Croacia, Albania and Greece. TEMASA is also responsible for the laying of the Barcelona-Savona cable, conceded through an international bidding process.

— Telefónica Móviles presents its Automatic Location of Vehicles and Fleet Management Service, «MoviStar Flotas». This service is specially designed to cover the communication, information and location needs of the transport sector.

May

— Unisource and AT&T join forces in Europe through the creation of a Paneuropean communications and multimedia services company. Likewise, AT&T and Unisource will continue to carry out joint investments in other business ventures in order to enhance their service offer.

— The Peruvian daily newspaper «El Comercio» joins Telefónica Multimedia de Perú to develop cable TV.

— Standard & Poor's, the international rating company, concedes Telefónica an AA long-term rating. This comes as a result of the Company's strong position, combined with the Group's sound financial situation.

— Telefónica and the association for the blind, ONCE, agree to create, in a three-year period, 300 jobs for handicapped people and to

introduce joint projects regarding Tele-employment. This agreement forms part of the Telecommunications Access Plan for Disabled People.

— The Generalitat de Catalunya (the Catalan regional government) and Telefónica sign an agreement regarding the implantation of a corporate network for voice, data and image, integrated into a Network Management Centre. IBM also signs a cooperation agreement with Telefónica regarding InfoVía by which both companies will promote this service.

— The first «TeleSpacio» shop opens in Madrid forming part



of Telefónica's new marketing model by which the Company aims to bring their products and services closer to the customer. TeleSpacio is the first shop of its kind in the world, offering virtual television and remote control systems through InfoVía and Internet.

— Coinciding with the first European conference on Regions and Information Society, the pilot project of a «virtual municipality» is initiated in the town of Villena in Alicante. This project has been

developed by the Generalitat Valenciana (the Valencian regional government) and Telefónica, among others.

June

— Telefónica doubles its access capacity to Internet through a second trunk connection with the US. InfoVía is now the most popular access route through the services offered by more than 80 companies which use this application to maintain contact with their subscribers.

— At the extraordinary meeting held by Telefónica de España's Board of Directors, Juan Villalonga Navarro is named Chairman. Prior to this naming he was responsible for Bankers Trust's activities in Spain and Portugal. Whilst addressing the Board, Mr. Villalonga underlines, among other priorities, the strategies for the immediate future, particularly the intention to increase shareholder value, the high quality service to be provided to all our customers, and the support of the rapid introduction of competition, within an unbiased and transparent regulatory framework.

— Telefónica presents its new type of bill in braille «Validai '96» at an international conference. This bill has been developed with the collaboration of the ONCE, and will accompany the ordinary bill.

— At the XIth World Telecommunications

Conference, held in Seville, and attended by more than 500 telecommunications specialists



from all over the world, the Telefónica Group presents an array of multimedia services and applications through ATM networks, information highways, etc.

— Telefónica appoints the North American investment bank, Morgan Stanley, as the coordinator for its European Medium-Term Notes (EMTN) programme for the European market. CS First Boston, Deutsche Morgan Grenfell, Merrill Lynch and Salomon Brothers among others form part of the initial core dealers for the programme.

— Telefónica Móviles' customers exceed 1,500,000 (1,200,000 with MoviLine, and



310,000 with MoviStar), reflecting 50% growth in the customer portfolio. Telefónica Móviles, Hewlett-Packard and Nokia agree to develop the concept of a "Mobile Office" in Spain, through the marketing of a set considered to be the smallest «office» in the world.

— Lotus and Telefónica sign a strategic agreement to collaborate on the implantation of the «Notes Public Network» platform, aimed at the development of such trends as Tele-employment, Intranets, Webs, etc, within the framework of InfoVía.

July

— Reuter's and Telefónica Móviles launch a financial information service for GSM customers.

— Telefónica, the Internet Users Association and SEDISI persuade the Internet connection providers to create a neutral domestic interconnection loop that will simplify communications and avoid Internet traffic from extreme ends of the country having to go through international trunks, which are often saturated with traffic and are more expensive for the customer.

— The Spanish Standardization Association (AENOR) approves Telefónica's billing process.

— Telefónica cuts the price of its international calls by an average 13.3%. This price



reduction, combined with that of year-end 1995, represents an overall price cut in international call tariffs of 25%.

— Telefónica and the Anaya group develop the INFOEDUCA service for school children and university students, through the provision of educational, cultural and entertainment-related information, aimed at the education community in general.

— The hotel chain NH and Telefónica sign an agreement



for the incorporation, in hotels, of the most technologically advanced products and services. Likewise, the Spanish

Savings Banks Confederation (CECA) signs a similar agreement with Telefónica, to install these products and services in their offices.

— Telefónica Internacional prepares its entrance into the Brazilian market, through its participation with RBS Participações and the Companhia de Telecomunicaciones de Chile (CTC) in a consortium that will bid for 35% of the ordinary shares of the Brazilian company Companhia Riograndense de Telecomunicações CRT.

— Telefónica Sistemas de Satélites (TSS) carries out its first commercial transmission in Spain, using a transportable digital ground station, in accordance with the corresponding international regulations.

August

— Telefónica del Perú begins to market the InfoVía service, becoming the second country after Spain, to introduce the information superhighway developed by Telefónica.

— Telefónica Móviles raises the number of countries and service operators through



which it is possible to use MoviStar. This figure now stands at 45 countries and 64 service operators. This has become possible due to open roaming agreements reached with Thailand, Indonesia, the Czech Republic and Taiwan.

September

— Telefónica chooses Zaragoza to be the first province to incorporate nine digits in its dialling. This forms part of Telefónica's new Numbering Plan, as proposed to the Government by Telefónica, in accordance with European Union requirements.

— Telefónica, along with Hewlett-Packard, Microsoft and Banco Santander, organize, coinciding with the international cycling race «la Vuelta de España», the "Vuelta Mágica" (the Magic Tour), using a «magic» bus carrying software which enables the inhabitants of different towns and cities to see, for the first time, how to use the new tools to surf in Internet.

— Telefónica and Microsoft sign a joint distribution and promotion agreement to include InfoVía in the operating system of Microsoft Windows 95. The InfoVía user software will be included in the Spanish version of Windows 95 in pre-loaded PCs to be distributed in Spain and Latin America at the beginning of 1997.

— Telefónica Móviles initiates its promotion campaign to extend

the usage of mobile telephony. This campaign will be carried out over the next few months with the cutting of MoviStar Data prices and the night-time retrieving of voice and fax mail, which will now be included in the time band «Free time».

October

— The multimedia Yellow Pages Web site on Internet, produced by Telefónica Publicidad e Información (TPI) receives an award from the IXth Annual Convention of the US Editors of Yellow Pages (YPPA). TPI now has more than 1.5 million companies registered in its directories, both on InfoVía and Internet.

— Nestcape, a leading company in Internet products, signs an agreement with Telefónica Sistemas as the first systems distributor of Intranet applications in Spain and Latin America. Telefónica presents its technological platform for digital television via satellite to the media. Testing also begins through the Hispasat satellite.

— Telefónica Internacional pre-qualifies in the privatization process of Companhia Riograndense de Telecomunicações.

— Telefónica Móviles launches its «MoviStar Dual» service. This is the first time that GSM mobile telephony has offered the possibility for a company and an employee to share the usage of a mobile telephone and a MoviStar card, as the

card distinguishes between business and personal calls, through a code system. New MoviStar discounts are also launched, namely: the Maxisavings and 3-number contracts. The insurance company MAPFRE chooses MoviStar for its «Automatic Vehicle Finding» service, Segurmóvil. This service is the first of its kind, combining advanced GPS positioning technology with data transmission using GSM.

— The Telefónica Móviles-owned company, RadioRed, responsible for the marketing of mobile land radiocommunications for closed user groups, is granted four new regional licences for the operating of trunking services, becoming the only operator to provide this public service in the existing twelve zones.

— Paul Smits, of Dutch nationality, takes over the presidency of Unisource from the Spaniard, Francisco Ros who becomes the president of AT&T-Unisource Services, the company which will market AT&T and Unisource's products and services in Europe.

November

— Sogecable and Telefónica agree to dissolve the Strategic Agreement signed in July 1995 regarding cable TV, and to terminate their joint venture in Cablevisión and the local operators. Cablevisión becomes wholly-owned by Sogecable, and the Telefónica Group acquire

the shares previously held by Sogecable and Cablevisión in the local operators.

— Telefónica once again doubles the Internet connection speed with the US, now reaching 16 Megabits. Telefónica Transmisión de Datos, this market's leading operator, provides more than 80% of the Internet connections provided by the 230 Internet Access Providers currently existing in Spain.

— Telefónica Romania, a company in which Telefónica Internacional participates, contests before the Rumanian authorities, the bidding process and subsequent granting of licences for the provision of the cellular telephony GSM service, due to the aforementioned company having been excluded.

— Telefónica and Planeta join forces with the Board of Architects in the launching of the first on-line service for the construction sector, to be provided through the joint company BuildNet S.A.

— The Generalitat Valenciana and the company Camerdata, incorporated by the Spanish Chamber of Commerce, sign strategic collaboration agreements for the implantation, in their different activities, of the most advanced telecommunications services.

— Telefónica Móviles cuts its MoviStar service prices by up to 11%, in the «office-hours»

time band, following an interconnection agreement between Telefónica and Movistar, cutting the prices of calls between mobile and fixed telephones. Moviline and Movistar receive the AENOR quality rating in accordance with international standards.

— Telefónica presents the remodelling of the Telefónica Group, whose Management Committee is made up of 12 members who head the Corporate Centre, five Business Units each with its own profit and loss accounts, and two Resources Units.

— Telefónica Publicidad e Información (TPI) and the Valencian Council, sponsor the El Almudín exhibition in Valencia. The exhibition includes 15 sculptures created by the Basque artist Eduardo Chillida, on loan from Telefónica's art collection, the artist himself and the National Art Museum, Reina Sofía.

December

— Telefónica Internacional wins the bidding process for the



privatization of the Companhia Riograndense de Telecomunicações (CRT). This

operation is of high strategic value for Telefónica Internacional as it completes its expansion in MERCOSUR's natural markets.

— The InfoVía service celebrates its first anniversary with record growth rates: more than 840 Service Information Providers, 215,000 users, 36 million calls received and 10 million connection hours. Telefónica is also pioneering the export of this service to two Latin American countries and is acting as the principal vehicle for the expansion of Internet in Spain.

— The Telefónica Group agrees to invest \$85 million in



the construction of Panamerican Underwater System, which will be operating by August 1998 and will represent the most important network in the linking of the South American countries, in the Pacific and Caribbean seas, with the US and Europe.

— Alcampo and Telefónica create the Virtual Hypermarket, which, through the InfoVía service, will offer a new 24-hour distribution centre, open

7-days a week and offering a delivery service.

— Microsoft and Telefónica announce the joint investment of 500 million pesetas in the expansion of computer-related services and telecommunications among small and medium-sized companies. This project will be based on a marketing strategy through which Spanish companies will be offered solutions in the form of the products, technology and services of both companies.

— Telefónica Móviles intensifies its marketing strategy through the launching of a «super» Christmas offer, consisting of a free gift of a basic Movistar handset and 5,000 pesetas worth of free calls included in the SIM Movistar cards purchased over the Christmas period. The 5,000 pesetas in free calls is deducted from subsequent bills.

— Telefónica receives the direct marketing «Echo Gold Mailbox Award» for InfoVía's launching campaign. This award, given by the Direct Marketing Association, is the most important of its kind worldwide.

Telefónica, Planeta and IBM present their joint launching of a computer «set» aimed at promoting the usage of Internet and InfoVía.

— Barcelona is the scenario for the first Telephone Telecard

International Fair to be held in Spain. This fair is sponsored by Cabtel (Telefónica Group) and the Asociación Coleccionistas Targetes Telefónicas. Cabtel's Card Collectors Club has 2,500 members throughout the world.

— The Spanish Quality Rating Association (AENOR) grades Telefónica's quality system in all the Spanish provinces, in accordance with the international UNE standard. The achieving of this grading forms part of the objectives laid down in the Total Quality Company project initiated by Telefónica in 1992, which includes the whole organization.

— On December 20th, the Cabinet grants authorization to the Dirección General del Patrimonio del Estado to transfer the State's share participation in Telefónica to the Sociedad Estatal de Participaciones Patrimoniales (SEPPA), and the subsequent divestiture of this participation (196,738,320 shares) through a Public Share Offering. This therefore means that the State will no longer participate in Telefónica's share capital nor will it be represented on the Board of Directors.

— On December 20th, the European Union approves Telefónica's incorporation into the Unisource Alliance.

Copies of this Annual Report are available to shareholders at the company's offices. They can also be requested by mail at the following address:

Telefónica de España, S.A.
Oficina de Accionistas
General Perón, 38 - planta 15
Edificio Master's II
28020 Madrid

The information required by law is also available to shareholders and to the general public.

Publisher:

Telefónica de España S.A.
Department of Institutional Relations

Graphic Design and Production:

Carlos Serrano G.A.H.
Ricardo Serrano García
Ignacio Martínez-Laya
Editorial A.M.3.

Photography:

Sylvia Polakov (Portrait page 8)
Archivo Telefónica
Alejandro Cherep
C. Casariego
Luis Davilla

Process engraving:

Lucam y Cromotex

Photo Composition:

Cromotex

Printing:

Gráficas Muriel S.A.

Paper:

Consort Royal era: Ecological and partially recycled
Acquerello and Nettuno: Ecological

Binding:

Ramos S.A.

Date of publication: March, 1997

Legal Deposit: M-8081-1997

This Annual Report has also been published
in CD-ROM format

