
SECURITIES AND EXCHANGE COMMISSION
FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2000

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission file number: 1-9531

TELEFÓNICA, S.A.
(Exact name of registrant as specified in its charter)

KINGDOM OF SPAIN
(Jurisdiction of incorporation of organization)

Gran Vía, 28, 28013 Madrid, Spain
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Shares, nominal value one euro each, listed on the New York Stock Exchange not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the New York Stock Exchange.

American Depositary Shares, each representing the right to receive three shares, listed on the New York Stock Exchange.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

The number of issued shares of each class of stock of Telefónica, S.A. as of December 31, 2000 was:

Shares, nominal value one euro each: 4,340,710,735

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark which financial statement item the registrant has elected to follow.

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FORWARD-LOOKING STATEMENTS

This Annual Report contains statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this Annual Report and include statements regarding our intent, belief or current expectations with respect to, among other things:

- the effects on our results of operations of the introduction of competition in the Spanish telecommunications market
- trends affecting our financial condition or results of operations
- acquisitions or investments which we may make in the future
- our capital expenditures plan
- supervision and regulation of the Spanish telecommunications sector
- our strategic partnerships
- the potential for growth and competition in current and anticipated areas of our business

Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those in the forward-looking statements as a result of various factors. The accompanying information contained in this Annual Report, including, without limitation, the information under “Information on the Company”, “Operating and Financial Review and Prospects” and “Quantitative and Qualitative Disclosures About Market Risk” identifies important factors that could cause such differences. Readers are cautioned not to place undue reliance on those forward-looking statements, which speak only as of the date hereof. We undertake no obligation to release publicly the result of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date hereof, including, without limitation, changes in our business or acquisition strategy or planned capital expenditures, or to reflect the occurrence of unanticipated events.

CERTAIN TERMS AND CONVENTIONS

Effective in April 1998, we changed our name from Telefónica de España, S.A. to Telefónica, S.A.

Our ordinary shares, nominal value one euro each, are currently listed on each of the Madrid, Barcelona, Bilbao and Valencia stock exchanges under the symbol “TEF”. They are also listed on various foreign exchanges such as the London, Frankfurt, Paris, Buenos Aires and Tokyo stock exchanges, and are quoted through the Automated Quotation System of the Spanish stock exchanges and through the SEAQ International System of the London Stock Exchange. American Depositary Shares (“ADSs”), each representing the right to receive three shares, are listed on the New York Stock Exchange under the symbol “TEF” and on the Lima Stock Exchange. ADSs are evidenced by American Depositary Receipts (“ADRs”) issued under a Deposit Agreement with Citibank, N.A., as Depositary. Brazilian Depositary Shares (“BDSs”), each representing the right to receive one share, are listed on the São Paulo Stock Exchange. BDSs are evidenced by Brazilian Depositary Receipts (“BDRs”) issued under a Deposit Agreement with Banco Bradesco, S.A., as Depositary.

As used herein:

- “Telefónica” and terms such as “we,” “us” and “our” mean Telefónica, S.A. and its consolidated subsidiaries unless the context otherwise requires

- “Telefónica de España” means Telefónica de España, S.A., our wholly-owned subsidiary that conducts our fixed-line telephone services business in Spain, and its consolidated subsidiaries
- “Telefónica Móviles” means Telefónica Móviles, S.A., our subsidiary that conducts our worldwide wireless communications services business, and its consolidated subsidiaries
- “Telefónica Media” means Telefónica Media, S.A., our subsidiary that conducts our worldwide audiovisual content and media communications business, and its consolidated subsidiaries
- “Telefónica Internacional” means Telefónica Internacional, S.A., our subsidiary that conducts some of our Latin American business, and its consolidated subsidiaries
- “Telefónica Data” means Telefónica DataCorp, S.A., our subsidiary that conducts our worldwide data transmission business, and its consolidated subsidiaries
- “Terra Networks” means Terra Networks, S.A., our subsidiary that conducts our worldwide Internet-related business, and its consolidated subsidiaries

PRESENTATION OF CERTAIN FINANCIAL INFORMATION

We have historically published our financial statements in Spanish pesetas (“pesetas” or “Ptas”). Beginning January 1, 1999, we began publishing our financial statements in both pesetas and euro. In this Annual Report, references to “dollars” or “\$” are to United States dollars. References herein to “euro” or “€” are to the single currency of the participating member states in the Third Stage of the European and Economic Monetary Union pursuant to the treaty establishing the European Community, as amended from time to time. For the convenience of the reader, this Annual Report contains translations of certain peseta amounts into United States dollars at specified rates. These translations should not be construed as representations that the peseta amounts actually represent such dollar amounts or could be converted into dollars at the rate indicated. Unless otherwise stated, the translations of pesetas into dollars have been made at Ptas 177.233 per \$1.00, which is equivalent to \$0.9388 = €1.00, the Noon Buying Rate in New York City for cable transfers in euro as certified for customs purposes by the Federal Reserve Bank of New York (the “Noon Buying Rate”) on December 29, 2000.

PART I

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

Item 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

The information in this section should be read in conjunction with our consolidated financial statements, and the notes thereto, included elsewhere in this Annual Report. Our consolidated financial statements have been prepared in accordance with Spanish GAAP, which differ in certain respects from U.S. GAAP. Please refer to note 25 to our consolidated financial statements for a discussion of these differences.

The basis of presentation and principles of consolidation are described in detail in note 2 to our consolidated financial statements.

	At and for the year ended December 31,					
	1996	1997	1998	1999	2000	2000
	(millions of pesetas, except per share and per ADS data)					(millions of dollars, except per share and per ADS data) (1)
INCOME STATEMENT DATA						
Revenue from operations.....	2,0	2,36	2,9	3,8	4,7	26,7
Other operating revenue	37,7	41,29	19,3	33,1	44,3	250
Internal expenditures						
capitalized.....	127,3	117,95	124,3	138,9	149,5	844
Increase in inventories (net).....	2,9	3,02	8,4	12,3	18,6	105
Goods purchased.....	(228,6	(334,06	(366,6	(681,0	(1,0	(5,6
External services and local taxes.....	(242,7	(299,52	(370,2	(661,4	(962,7	(5,4
Personnel costs	(554,6	(570,89	(650,1	(734,0	(850,5	(4,7
Provision for depreciation and amortization	(526,2	(602,64	(725,4	(1,0	(1,1	(6,5
Trade provisions	(26,5	(35,75	(106,1	(94,1	(126,6	(715)
Other operating expenses.....	(19,3	(21,99	(24,2	(22,3	(23,4	(132)
Total operating costs before financial expenses and goodwill amortization.....	(1,5	(1,86	(2,2	(3,2	(4,1	(23,2
Operating profit	575,9	660,44	815,2	794,7	824,9	4,6
Financial income (expense).....	(166,8	(174,81	(222,8	(247,9	(268,1	(1,5
Exchange (losses) gains.....	(9,7	(12,92	(6,7	72,2	(41,3	(233)
Income (loss) from associated companies.....	7,8	9,94	12,1	(646)	(26,8	(151)
Amortization of goodwill on consolidation	(16,7	(33,31	(21,1	(32,3	(83,2	(470)
Profit from ordinary activities	390,3	449,36	576,7	586,0	405,2	2,2
Extraordinary income	31,9	51,66	54,7	337,6	715,8	4,0
Losses on sale of fixed assets	(45,0	(27,51	(26,2	(39,2	(39,9	(225)
Extraordinary expenses.....	(101,4	(135,87	(203,2	(889,9	(604,0	(3,4
Income before tax and minority interest	275,8	337,64	402,0	(5,4	477,1	2,6
Corporate income tax.....	(56,9	(73,53	(91,8	126,1	(40,3	(227)
Income before minority interest	218,9	264,11	310,1	120,6	436,8	2,6

At and for the year ended December 31,						
	1996	1997	1998	1999	2000	2000
	(millions of pesetas, except per share and per ADS data)					(millions of dollars, except per share and per ADS data) (1)
Minority interest	(58,6	(74,0	(92,5	(109,1	(20,0	(113)
Net income	160,2	190,0	217,5	11,5	416,7	2,3
Net income per share(2)	171	202	212	4	96	0.5
Dividends per share	89	102	-	-	-	-
Weighted average number of shares (thousands)	939,4	939,4	1,0	3,2	3,9	
Net income per ADS(2)(3)	512	607	637	11	288	1.6
Dividends per ADS(3)	267	306	-	-	-	-
Weighted average number of ADSs (thousands)	313,1	313,1	341,6	1,0	1,3	
U.S. GAAP						
Total revenues	1,8	2,2	2,6	3,5	4,5	25,6
Total costs and expenses	(1,5	(1,7	(2,1	(2,7	(3,9	(22,5
Profit from ordinary activities	373,7	425,4	500,2	728,3	557,1	3,1
Income (loss) before tax	311,2	226,1	272,2	(61,0	293,7	1,6
Corporate income tax	(30,4	(28,2	(56,6	153,3	48,9	276
Net income	280,8	197,8	214,4	92,2	308,8	1,7
Net income per share(2)(4)	299	211	216	28,3	78,7	0.4
Net income per ADS(2)(3)(4)	897	632	648	84,8	236,23	1.3
BALANCE SHEET DATA						
Spanish GAAP:						
Cash	12,6	10,4	23,7	30,9	127,3	719
Property plant and equipment (net)	3,9	4,1	4,6	5,9	6,4	36,3
Total assets	5,4	6,2	8,0	10,6	15,3	86,7
Total long-term liabilities	1,6	1,9	2,2	2,9	4,1	23,1
Total shareholders' equity (net)	1,8	1,9	2,5	2,4	4,3	24,3
U.S. GAAP:						
Cash	9,3	7,0	21,8	39,8	112,9	637
Property, plant and equipment (net)	3,3	3,2	3,9	5,0	6,3	35,9
Total assets	4,5	5,1	7,1	9,8	17,9	101,4
Total long-term liabilities	1,4	1,5	2,2	2,5	3,4	19,3
Total shareholders' equity (net)	1,7	1,9	2,4	2,8	7,3	41,6
CASH FLOW DATA						
Spanish GAAP:						
EBITDA(5)	1,1	1,2	1,5	1,8	1,9	11,1
Net cash provided by operating activities	851,6	1,0	1,1	1,2	1,9	11,0
Net cash used in investing activities(6)	812,1	1,1	1,9	1,1	(3,6	(20,4
Net cash used in (received from) financing activities	71,0	(170,9	(770,4	(388,0	2,5	14,4
U.S. GAAP:						
EBITDA(5)	832,8	905,7	1,3	1,5	1,8	10,1
Net cash provided by operating activities	753,3	880,7	924,4	1,1	2,7	15,3
Net cash used in investing activities(6)	629,8	938,8	2,0	1,2	(4,2	(20,0
Net cash used in (received from) financing activities	132,8	(170,3	(649,2	(306,1	2,4	13,7

(1) Translated into U.S. dollars from pesetas at Ptas 177.233 = \$1.00, which is the peseta equivalent of the euro Noon Buying Rate of \$0.9388 = €1.00 on December 29, 2000.

- (2) The reduction of per share data and per ADS data in 1999 is due to the combined effect of the decline in net income and a 3 for 1 stock split.
- (3) Each ADS represents three shares. Figures do not include any charges of the Depositary.
- (4) U.S. GAAP earnings per share and per ADS have been computed using the weighted average number of shares outstanding for all periods.
- (5) Earnings before interest, taxation, depreciation and amortization. EBITDA has been included to provide additional information relating to our ability to generate cash from operations. EBITDA is not a measure of financial performance under Spanish or U.S. GAAP and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles. Management believes that they are useful to an investor in evaluating our company because they are widely used in the telecommunications industry as a measure to evaluate a company's operating performance before debt expense and its cash flow. EBITDA is not calculated identically by all companies and the presentation here may not be comparable to other similarly titled measures of other companies. Management's discretionary use of funds depicted by EBITDA may be limited by working capital, debt service and capital expenditure requirements and by restrictions related to legal requirements, commitments and uncertainties.
- (6) Includes net cash outflow for capital expenditures and for investments in affiliates.

Exchange Rate Information

The following table sets forth certain information concerning the Noon Buying Rate for dollars expressed in pesetas per \$1.00:

Year Ended December 31,	Noon Buying Rate			
	Period End	Average(1)	High	Low
1996	129.86	126.97	131.55	120.95
1997	152.40	147.14	158.80	129.80
1998	142.15	149.42	157.41	136.80

Source: Federal Reserve Bank of New York.

- (1) The average of the Noon Buying Rates on the last day of each full month during the relevant period.

The euro has been introduced as a new currency in the following 12 European Union member states: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, The Netherlands, Portugal and Spain. The respective currencies of the participating member states, including the Spanish peseta, are nondecimal subdivisions of the euro until January 1, 2002 and to up to six months thereafter. The exchange rate at which the Spanish peseta has been irrevocably fixed against the euro is Ptas 166.386 = €1.00. Beginning January 1, 2002, the participating member states will issue new euro-denominated bills and coins for use in cash transactions. By March 1, 2002, the participating member states will withdraw the bills and coins denominated in their respective currencies from circulation, and they will no longer be legal tender for any transactions.

The Federal Reserve Bank of New York no longer quotes a Noon Buying Rate for the currencies of any of the participating member states, including Spain. The Noon Buying Rate for the euro on May 31, 2001 was \$0.8455 = €1.00. The equivalent exchange rate in pesetas, translated at the irrevocably fixed exchange rate of Ptas 166.386 = €1.00, was approximately Ptas 196.79 = \$1.00.

The following table describes, for the periods and dates indicated, information concerning the Noon Buying Rate for the euro. Amounts are expressed in U.S. dollars per €1.00.

Period	Noon Buying Rate			
	Period End	Average (1)	High	Low
Year Ended December 31, 1999	1.0070	1.0588	1.1812	1.0016
Year Ended December 31, 2000	0.9388	0.9207	1.0335	0.8270
Month Ended November 30, 2000	0.8694	0.8552	0.8694	0.8382
Month ended December 31, 2000	0.9388	0.8983	0.9304	0.8755
Month ended January 31, 2001	0.9308	0.9376	0.9535	0.9181
Month ended February 28, 2001	0.9212	0.9205	0.9395	0.9057
Month ended March 31, 2001	0.8794	0.9083	0.9340	0.8794
Month ended April 30, 2001	0.8874	0.8925	0.9435	0.8794
Month ended May 31, 2001	0.8455	0.8753	0.8937	0.8455

Source: Federal Reserve Bank of New York.

(1) The average of the Noon Buying Rates for the euro on the last day of each month during the relevant period.

Monetary policy within the members of the euro zone is set by the European Central Bank. The European Central Bank has set itself the objective of containing inflation and will adjust interest rates in line with this policy without taking account of other economic variables such as the rate of unemployment. It has further declared that it will not set an exchange rate target for the euro.

On January 4, 1999, the Madrid Stock Exchange began quoting share prices, including those of Telefónica, in euro. Currency fluctuations may affect the dollar equivalent of the euro price of our shares listed on the Spanish stock exchanges and, as a result, the market price of our ADSs, which are listed on the New York Stock Exchange. Currency fluctuations may also affect the dollar amounts received by holders of ADRs on conversion by the Depositary of cash dividends (if any) paid in euro on the underlying shares.

Prior to the euro conversion, our consolidated results were affected by fluctuations between the Spanish peseta and the currencies in which the revenues and expenses of some of our consolidated subsidiaries are denominated (principally the Brazilian real, the Argentine peso, the Chilean peso, the Peruvian nuevo sol and the U.S. dollar). Following the euro conversion, our consolidated results are affected by fluctuations between the euro and the currencies in which the revenues and expenses of our consolidated subsidiaries are denominated. See “Item 11—Quantitative and Qualitative Disclosures About Market Risk.”

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

We must successfully implement our business plans as planned, but factors beyond our control may prevent us from doing so, which could have a material adverse effect on our business.

Our ability to increase our revenues and maintain our position as a leading European and Latin American provider of advanced telecommunications and Internet services will depend in large part on the successful, timely and cost-effective completion of our business plan, including our plan to operate our various businesses along global business lines.

Factors beyond our control that could affect the implementation and completion of our business plan include:

- our ability to obtain applicable government, shareholder and other approvals
- our ability to enter into necessary contracts with third parties
- our ability to secure the timely performance of independent contractors hired to engineer, design and construct portions of our network

- our ability to manage costs
- our ability to attract and retain highly skilled and qualified personnel
- difficulties in developing and introducing new technologies
- difficulties in having the Internet accepted as a medium for advertising
- the growth of free Internet access in many core markets that may increase competition
- the need to establish and maintain strategic relationships
- declining prices for some of our services
- difficulties in integrating our acquired businesses
- the effect of future acquisitions on our financial condition and results of operations
- the effect of adverse economic trends on our principal markets
- the effect of foreign exchange fluctuations on our results of operations
- the potential lack of attractive investment targets

We operate in a highly competitive industry with participants that have significant resources and existing customers, which could intensify price competition and limit our ability to increase our market share.

If we are unable to compete effectively against our competitors, it could lead to price reductions, lower revenue, under-utilization of our services, reduced operating margins and loss of market share. Some of our competitors in certain markets where we operate have, and some potential competitors may enjoy, competitive advantages, including the following:

- greater name recognition
- greater financial, technical, marketing and other resources
- larger customer bases
- well-established relationships with current and potential customers

We are subject to laws and regulations in multiple jurisdictions, and if we fail to comply with them, our business could be materially and adversely impacted.

As a multinational telecommunications company, we are subject to different laws and regulations in each of the jurisdictions in which we provide services. We cannot assure you that regulators, judicial authorities or third parties will not challenge our compliance with applicable laws and regulations before national or local courts. In the event we are found not to have complied with applicable laws and regulations, we may be subject to damage awards, fines, penalties and suspensions, which would increase estimated costs and reduce our ability to compete effectively. It is also possible that future regulatory, judicial and legislative changes concerning various aspects of our business may have an adverse effect on where and how we can provide our telecommunications services.

The industry in which we conduct our business is subject to rapid technological changes and such changes could have a material adverse effect on our ability to provide competitive services.

The telecommunications industry is in a period of rapid technological change. Our future success depends, in part, on our ability to anticipate and adapt in a timely manner to technological changes. We expect that new products and technologies will emerge and that existing products and technologies will further develop. These new products and technologies may reduce the prices for our services or they may be superior to, and render obsolete, the products and services we offer and the technologies we use, and may consequently reduce the revenues generated by

our products and services and require investment in new technology. As a result, our most significant competitors in the future may be new entrants to our markets which would not be burdened by an installed base of older equipment. It may be very expensive for us to upgrade our products and technology in order to continue to compete effectively.

Our future profitability depends in part upon the development of UMTS technology and of demand for UMTS services and products, which are unproven.

Telefónica Móviles, our subsidiary that conducts our worldwide wireless communications services business, has made substantial payments to acquire, alone or through consortia in which it participates, UMTS licenses in Spain, Germany, Italy, Austria and Switzerland and may participate in the award processes for UMTS licenses in other countries that will require additional payments if it is successful. Telefónica Móviles will also be required to make substantial investments during the next several years in order to build out UMTS networks and develop related services and products.

Our future profitability is dependent in part upon the capabilities and widespread market acceptance of UMTS technology. UMTS technology, however, is unproven. It may not develop in a timely manner or, if developed, it may not provide the expected advantages over existing technologies. In addition, demand is unproven for UMTS-based services and products, and may not develop as we anticipate. If UMTS technology is not developed on a timely basis, or if it does not deliver the anticipated advantages or gain widespread acceptance, we would be materially and adversely affected because revenues of UMTS-related services would fail to offset UMTS-related financial costs and operating expenses.

Loss of key personnel could weaken our business expertise and delay the completion of our network and other business plans.

Our operations throughout the world are managed by a small number of key executive officers. The loss of our key executive officers in the future could significantly impede our financial plans, product development, network completion, marketing and other objectives. We believe that the growth and future success of our business will depend in large part on our continued ability to attract and retain highly skilled and qualified personnel. The competition for qualified personnel in the telecommunications industry is intense. We cannot assure you that we will be able to hire or retain necessary personnel.

The costs and difficulties of acquiring and integrating businesses could impede our future growth and adversely affect our competitiveness.

We intend to evaluate, and may enter into, acquisition transactions in order to, among other things, sell our services in countries in which we do not currently have sales operations or enhance our product portfolio. Any such acquisitions may expose us to the following risks:

- the difficulty of identifying appropriate acquisition candidates in the countries in which we do business or intend to do business
- the difficulty of assimilating the operations and personnel of the acquired entities
- the potential disruption to our ongoing business caused by senior management's focus on the acquisition transactions
- our failure to successfully incorporate licensed or acquired technology into our network and product offerings
- the failure to maintain uniform standards, controls, procedures and policies
- the impairment of relationships with employees as a result of changes in management and ownership

Additionally, in connection with an acquisition, we will generally record goodwill that must be amortized and which would reduce our earnings per share. We cannot assure you that we would be successful in overcoming these risks, and our failure to overcome these risks could have a negative effect on our financial condition.

A material portion of our foreign operations and investments is located in Latin America, and we are therefore exposed to risks inherent in operating and investing in Latin America.

Our foreign operations and investments in Latin America are subject to risks including the following:

- government regulations and administrative policies may change quickly
- many countries impose currency restrictions and other restraints on movements of funds
- in some countries, there is a risk that the government may expropriate assets
- some countries impose burdensome taxes or tariffs
- political changes may lead to changes in the business environment in which we operate
- in most countries our operations are dependent on concessions and other agreements with the government
- economic downturns, political instability and civil disturbances may disrupt operations in individual markets

In addition, revenues from operations of our Latin American subsidiaries, their market value and the dividends and management fees collected from them are exposed to material country risk as a result of adverse economic conditions in the region that may adversely affect demand, consumption and exchange rates. For example, in January 1999, as a result of adverse economic conditions in Brazil, Telefónica Internacional wrote down the book value of its investments in Brazil in the amount of Ptas 119,374 million.

Forward-looking statements may not be realized.

All statements in this prospectus that are not clearly historical in nature are forward-looking. Examples of forward-looking statements include:

- statements concerning our operations and prospects
- the size of European and Latin American telecommunications markets
- estimated demand forecasts
- our ability to secure and maintain telecommunications infrastructure licenses, rights of way and other regulatory approvals
- our strategic initiatives and plans for business growth
- plans for entering into strategic relationships and joint ventures
- possible bids for additional licenses or concessions
- industry conditions
- funding needs and financing sources
- network completion and product development schedules
- strategy, plans and timing for the introduction or enhancement of our services and products
- expected characteristics of competing networks, products and services
- other statements of our expectations, beliefs, future plans and strategies, anticipated developments and other matters that are not historical facts

These forward-looking statements are uncertain, and we cannot assure you that any such statements will prove to be correct. Actual results and developments may be materially different from those expressed or implied by such statements. Readers should carefully review the other risk factors set forth in this section for a discussion of factors which could result in any of these forward-looking statements proving to be inaccurate.

Item 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

Overview

We are a limited liability company duly organized and existing under the laws of the Kingdom of Spain. We are:

- a diversified telecommunications and multimedia group which currently provides a comprehensive range of services in Spain and Latin America through one of the world's largest and most modern telecommunications networks
- the leading provider of fixed-line public voice telephone services, wireless communications services, Internet access services and data transmission services in Spain
- the largest telecommunications operator in Latin America, with operations principally in Argentina, Brazil, Chile, El Salvador, Guatemala, Peru and Puerto Rico, and a significant telecommunications operator in Austria and Morocco
- a leading Spanish multinational corporation

We have also expanded our presence in Europe through the acquisition alone or as part of consortia of UMTS licenses in Germany, Italy, Switzerland and Austria.

At December 31, 2000, we managed companies that had approximately 39.7 million access lines in service, 23.2 million wireless subscribers and approximately 982,500 pay television subscribers, including approximately 349,500 cable subscribers and 633,100 direct-to-home satellite television subscribers.

The following table reflects the development of our customer base since 1998.

	At December 31,		
	1998	1999	2000
	(thousands)		
Access lines in service in Spain(1)	18,205	19,226	20,317
Access lines in service in other countries(2).....	15,956	18,194	19,374
Total access lines in service.....	34,162	37,420	39,692
Wireless subscribers in Spain	4,894	9,052	13,669
Wireless subscribers in other countries(3)	3,512	6,455	9,545
Total wireless subscribers.....	8,407	15,508	23,214
Pay television subscribers in Spain.....	288.6	440.1	633.1
Pay television subscribers in other countries(4)	585.8	597.0	349.4
Total pay television subscribers.....	874.4	1,037	982.5

(1) Includes third-party private automatic branch exchange services that use Telefónica de España's network access services.

(2) Includes Telefónica de Argentina, Compañía de Telecomunicaciones de Chile, Telefónica del Perú, Telesp, Telefónica El Salvador and Telefónica Centroamérica Guatemala. Also includes Companhia Riograndense de Telecomunicações in 1998 and 1999.

(3) Includes Telefónica de Argentina, Compañía de Telecomunicaciones de Chile, Telefónica del Perú, Celular CRT, Tele Leste, Tele Sudeste, Telefónica El Salvador and Telefónica Centroamérica Guatemala. Also includes our Puerto Rican wireless operations and Medi Telecom in 2000.

(4) Includes Telefónica del Perú. Also includes Compañía de Telecomunicaciones de Chile in 1998 and 1999.

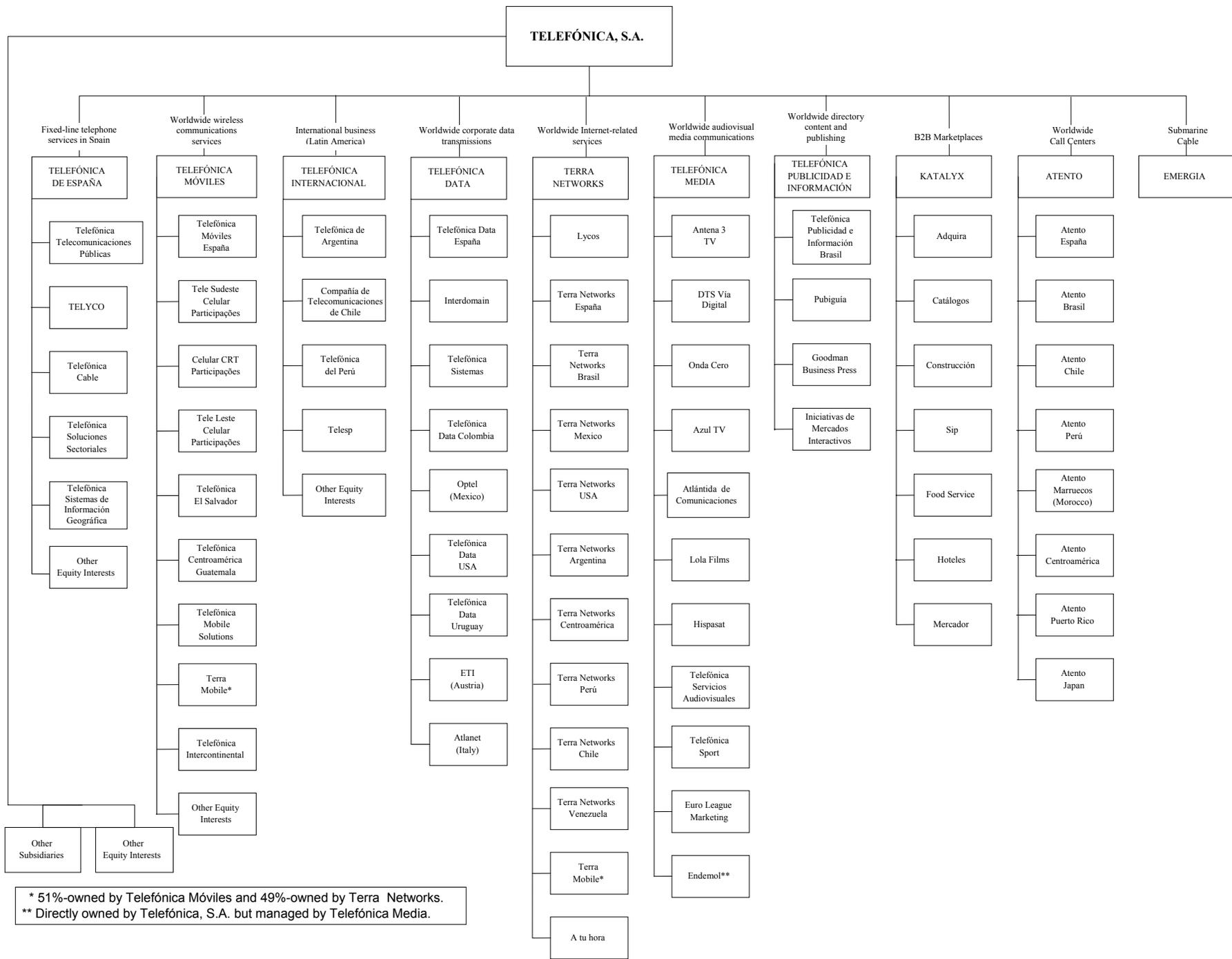
On January 12, 2000, we announced a reorganization of our business along global business lines to enhance our strategic and competitive position globally and in each of these business lines. As part of this reorganization, our Board of Directors formed two new global business divisions, Telefónica Móviles and Telefónica DataCorp. Some or parts of some of our then-existing lines of business were combined with other business lines as a result of the reorganization. As a result of this reorganization, our group is now organized according to six principal lines of business, each of which is headed by an operating subsidiary that is under our direct control. These six principal lines of business are:

- fixed-line telephone services in Spain conducted through Telefónica de España
- worldwide wireless communications services conducted through Telefónica Móviles
- international fixed-line telephone services in the Americas conducted through Telefónica Internacional
- worldwide corporate data transmissions conducted through Telefónica Data
- worldwide Internet-related services conducted through Terra Networks
- worldwide audiovisual content and media communications conducted through Telefónica Media

In addition, we have several other lines of business, including:

- publishing, development and sale of advertising in telephone directories through Telefónica Publicidad e Información, S.A.
- operation of call centers in Europe (Spain and Italy), Latin America, Northern Africa (Morocco) and Asia (Japan) through Atento Holding Telecomunicaciones, S.A.
- development of business-to-business (B2B) marketplaces through Katalyx, S.A.
- provision of broadband communications through submarine fiber optic cable through Emergia

The following chart shows the organizational structure of the principal companies of the Telefónica group at December 31, 2000. As part of the reorganization of our business along global business lines, during 2001 we plan to spin-off or transfer the wireless operations, data operations and directory publishing businesses of certain of our integrated Latin American operators to our respective companies which head those lines of business. See “Information on the Company – International Business in the Americas – Telefónica Internacional”. Such spin-offs or transfers are not reflected in the following chart.



* 51%-owned by Telefónica Móviles and 49%-owned by Terra Networks.
 ** Directly owned by Telefónica, S.A. but managed by Telefónica Media.

In addition, we operate a corporate center. Our corporate center's objectives are to:

- coordinate the group's activities
- efficiently allocate resources among the group
- provide managerial guidelines for the group
- manage the portfolio of businesses
- provide cohesion within the group
- foster synergies among the group's subsidiaries

We may create new business lines in the future.

Our principal executive offices are located at Gran Vía, 28, 28013 Madrid, Spain and our telephone number is (34) 91-584-0306. Our agent for service of process in the United States is Telefónica Internacional USA, Inc., 1001 Brickell Bay Drive, Miami, FL 33131.

B. BUSINESS OVERVIEW

Fixed-Line Telephone Services in Spain – Telefónica de España

Our fixed-line telephone services in Spain are managed by Telefónica de España. The principal services offered by Telefónica de España are:

- fixed-line telephone services, including access lines and local and long-distance calling
- circuit leasing
- Internet access services
- value-added services, including call waiting, call barring and conference calling
- private automatic branch exchange services for companies, under the trade name Ibercom, which, through a telephone switch located on a customer's premises provides voice-grade circuits with advanced features for the local premises, including features such as least-cost routing and call-detail recording
- intelligent network services, including services such as caller identification, phone-messaging and call-forwarding
- integrated services digital network, which provides high speed transmission of voice, data and video through existing fixed-line infrastructure
- leasing and sale of terminal equipment and exchanges
- interconnection services
- public telephone services from phone booths

Historically, fixed-line telephone services in Spain have been our leading business in terms of total revenues. However, their relative contribution to total revenues has decreased since 1998 principally due to the integration of our Brazilian operating subsidiaries in 1998 and the adverse effects of competition, tariff reductions and discount plans in Spain during this period and the rapid growth of our wireless operations in Spain in recent years.

Telefónica de España is developing a multi-dimensional strategy in order to continue to compete effectively in the Spanish telecommunications market. This strategy involves:

- developing a commercial strategy that:
 - creates customer loyalty through incentive programs
 - increases revenues by introducing new and attractive services
 - offers global solutions through integrated approaches contributed by affiliates of the Telefónica group
 - maintains income levels
 - improves the efficiency of the network by increasing the volume of traffic
- achieving operating efficiencies by streamlining our workforce and reducing costs in order to preserve operating margins. Telefónica de España has reduced its workforce from 58,127 employees at year-end 1998 to 41,193 employees at year-end 2000
- decreasing the unit cost of the network and achieving a higher level of asset turnover

Operations

The following table shows the development of Telefónica de España's domestic telecommunications network and growth in usage of that network since 1998:

	At December 31,		
	1998	1999	2000
Spanish access lines in service(1) (thousands)	17,555.7	18,315.	19,003.0
Fixed telephone service, including payphones (thousands)	16,288.6	16,480.	16,373.0
Ibercom(2) (thousands)	762.5	856.5	955.9
Integrated service digital network (thousands)	504.6	978.8	1,674.1
Growth in fixed telephone lines in service, including payphones	2.7%	1.2%	(0.7)%
Fixed lines in service, including payphones, Ibercom and integrated service digital networks, per 100 inhabitants(3)	41.4	49.0	52.5
Fixed telephone lines, payphones, Ibercom and integrated service digital network lines in service per employee	313.2	412.4	493.2
Degree of digitalization	86.3%	86.5%	86.6%
Average days between application and installation	5.0	7.2	8.8
Average line usage (minutes per day)(4)	11.85	13.4	16.8
Growth in average line usage(4)	9.5%	11.9%	25.6%
Internet access users (thousands)	960.0	1,579.	2,504.0
Growth of outgoing international traffic	13.2%	9.2%	19.1%
Growth of incoming international traffic	16.0%	16.0%	9.4%
Fixed telephone lines installed and billed (thousands)	16,766.4	16,998.	17,101.7
Coaxial cable (km)	9,990.0	5,059.	4,787.0
Fiber optic cable (km)	49,653.0	52,511.	54,920.0
Copper cable in domestic long-distance lines (km)	57,802.0	57,430.	57,259.0
Subscriber networks (thousand km-par)(5)	66,237.0	66,713.	67,554.0

(1) Does not include third-party private automatic branch exchange services that use Telefónica de España's network access services.

(2) Ibercom is the tradename for Telefónica de España's private automatic branch exchange service. The number of Ibercom lines is presented on the basis of extensions.

(3) The formula traditionally used to determine the number of fixed lines in service per 100 inhabitants was changed in 1999. This change involves the addition of third-party private automatic branch exchange services that use Telefónica de España's network access services. Application of the new formula to the period ending December 31, 1998 would result in approximately 46.4 lines in service per 100 inhabitants.

(4) Includes interconnection with wireless networks.

- (5) The transmission cables in the subscriber networks contain a variable number of conducting filaments, which are insulated from each other and grouped in pairs. Each such pair is called a “par”.

Line usage continued to increase in 2000. The number of minutes consumed increased 28.9% to 106,400 million. This increase in line usage was mainly due to a 7.9% increase in the number of calls to 36,248 million and a 19.4% increase in the average duration per call to 2.94 minutes. Calls to and from wireless telephones, Internet access traffic and traffic with other fixed-line operators have been the most significant factors contributing to these increases. During 2000, calls to and from wireless telephones increased 30.0%, calls for Internet access increased 109.6% to 23,700 million minutes in 2000 from 11,300 million minutes in 1999 and traffic with other fixed-line operators increased 209.0%. Services such as voice mail are also an important factor in increasing line usage. At December 31, 2000, almost all of Telefónica de España’s lines in service were capable of using network-based voice mail, and more than 9.1 million customers took advantage of this service during 2000.

Despite the growth in Telefónica de España’s domestic telecommunications network in recent years, the level of penetration of fixed telephone service in Spain of approximately 52.5 access lines in service per 100 inhabitants at December 31, 2000, remains relatively low compared to other Western European countries.

International Traffic

Currently, 99.9% of all international traffic originating in Spain is dialed direct. Total revenues from international incoming and outgoing calls increased by 8.1% in 2000 as a result of an 18.2% increase in the number of minutes of international traffic, offset partially by tariff reductions and discounts. During 1998 and 1999, however, total revenues from international traffic decreased because of tariff reductions and discounts, despite an increase in the number of minutes of international traffic in each of those years. Revenues from outgoing calls are usually derived from tariffs paid by customers in Spain, net of our payments to foreign carriers from the portion of the calls carried over such carriers’ networks. Revenues from incoming calls are derived from payments made by foreign carriers. Payment rates and currencies are agreed upon bilaterally under the general auspices of the International Telecommunications Union. Due to Spain’s geographic location between the United States and the Middle East and between Northern Europe and Africa, we also derive revenues from the use of our network to retransmit voice and data traffic and television signals between such regions.

Digitalization

At December 31, 2000, 86.6% of urban lines were digital. In addition, Telefónica de España has completed the upgrade of its telephone exchanges. As a result, Telefónica de España is able to provide basic digital services, such as itemized billing, to 100% of its customers. The high degree of digitalization of Telefónica de España’s network also enables it to provide a broad range of digital services to satisfy customer demands. Telefónica de España’s international switching exchanges and domestic and international transmission links are 100% digitalized.

Cable Telecommunications

Telefónica de España, through Telefónica Cable, provides cable telecommunications services on a pre-commercial basis in the Spanish regions of Extremadura, Castilla-La Mancha, Cataluña, Castilla-Leon and Cadiz. Telefónica has provided cable telecommunications services in Menorca through Telefónica Cable Menorca, S.A. (Tecamesa) since June 1999. Under the pre-commercial service, subscribers are not required to pay for such services. During 2001, we may begin offering services in other regions once the applicable moratorium expires. See “—Regulation—Cable Telecommunications”. Our strategy regarding the offer of cable telecommunications services will depend upon the competitive environment and the obligations we would be required to undertake in order to receive the necessary license for each particular region.

Regulation

Overview

Below is a description of the current Spanish telecommunications regulatory framework. This description should be considered in light of certain developments currently underway in the regulatory and competitive environment that will have a material impact on Telefónica de España’s business and operations in future years.

Prior to efforts that began in 1987 and culminated in full market liberalization in December 1998, we operated as the exclusive provider of telecommunications services in Spain pursuant to government concessions dating to 1946. At present, all telecommunications services provided by us are subject to competition. Retevisión and Lince were the first two operators licensed to provide nationwide fixed-line public voice telephone services, consisting of local, long-distance and international telephone services and the corresponding carrier services. Retevisión launched its services in January 1998, and Lince commenced operations under the trade name UNI2 in December 1998. Since January 1998, licensed cable telecommunications operators have been permitted to offer fixed-line public voice telephone services that originate and terminate within their regions, using their own networks. Also, since December 1998, the provision of fixed-line public voice telephone services has been open to competition from all sources, subject to basic regulatory licensing requirements.

The Spanish government undertook a process of revising the legislative and regulatory scheme applicable to participants in the telecommunications industry in preparation for the December 1998 market opening. As the main step in this process, on April 24, 1998, the Spanish Parliament passed the new General Law on Telecommunications (Law 11/1998). This law was published in the Official Gazette on April 25, 1998 and took effect on April 26, 1998.

The General Law on Telecommunications repealed and replaced nearly all the existing laws and regulations on telecommunications (including laws regulating satellite and cable telecommunications). However, the General Law on Telecommunications does not govern television and radio broadcasting and cable television, and therefore, certain provisions of previous telecommunications statutes dealing with radio and television broadcasting and cable television remain in effect.

In general terms, the General Law on Telecommunications adopted all European Union directives mandating the liberalization of telecommunications services, some of which had already been implemented in Spain. Among other things, the General Law on Telecommunications addresses the following matters relating to our business:

- conditions for granting licenses to provide telecommunications services
- the obligation of telecommunications providers to extend service to rural areas and the financing of associated capital expenditures

Since 1991, we have provided telecommunications services under a state contract entered into with the Spanish government in that year, in accordance with the Telecommunications Regulation Law of 1987. The state contract was approved by the Spanish government on November 21, 1991 and published in the Official Gazette on January 23, 1992. As of the date of this Annual Report, the state contract remains in effect solely with respect to fixed-line telecommunications services. All other services, including data transmission and wireless communications have been liberalized. We have requested the Spanish government to transform our concession into individual licenses for the provision of telecommunications services pursuant to the General Law on Telecommunications.

The State Contract

Generally, the state contract specifies the terms and conditions under which we are authorized to provide telecommunications services in Spain. The contract may be amended or modified in accordance with the legal regime established by the Spanish General Law of Public Contracts and other regulations governing agreements entered into by the government. The state contract may be superseded by European Union directives. Below is a summary of the material provisions of the state contract.

Term. We and the government entered into the current state contract in 1991 for an initial term of 30 years, subject to the standard termination provisions under Spain's General Law of Public Contracts (i.e., breach of contract, expiration of term, pre-emption of services by the Spanish government, cancellation of services for reasons of public interest, bankruptcy or suspension of payments and mutual agreement).

Services. The state contract provides that we may continue to render all services that we provided prior to market liberalization, as long as we fulfill the technological and service requirements set forth by the relevant regulations. This provision in effect grants us a non-exclusive concession to provide any service we have provided in the past, including fixed-line services, data transmission services, wireless services and other value-added services.

Other Obligations. The state contract requires us to:

- pay taxes as required by general tax regulations
- adopt whatever measures are necessary to guarantee privacy in communications
- prepare plans to establish technical conditions, investments, and goals for improvement of services and network upgrades and to present such plans to the Ministry of Science and Technology
- present information to the Secretary of State for Telecommunications and Information Society regarding internal procedures, an annual audit by independent accountants and financial statements that segregate our industrial activities from our investments in other companies and segregate services provided on a monopoly basis from services open to competition
- pay certain royalties

European Union Regulations

Since 1995, the European Union has adopted a number of directives that regulate the provision of telecommunications services in European Union member states, including:

- regulations designed to ensure the full liberalization of the telecommunications sector
- regulations which impose standard conditions throughout member states for granting individual licenses and general authorizations
- regulations regarding interconnection between competing operators
- regulations dealing with the universal service obligation
- regulations requiring member states to allocate wireless radio based services according to the DCS 1800 standard and the UMTS standard

The General Law on Telecommunications and other applicable Spanish law were designed to implement all applicable European Union directives with respect to the provision of telecommunications services.

Regulatory Framework

The provision of telecommunications services in Spain is regulated and overseen by the Spanish government through the Secretary of State for Telecommunications and Information Society, a unit of the Ministry of Science and Technology. The Ministry of Science and Technology has various powers, including in certain cases the authority to grant licenses for telecommunications services and to impose sanctions for certain infringements of the General Law on Telecommunications. An additional independent oversight body, the Telecommunications Market Commission, was created in 1996. The Telecommunications Market Commission has the authority to grant licenses for telecommunications services and serves as arbiter for any conflicts that may arise between operators, subject to the consent of the interested parties. The Telecommunications Market Commission also guarantees free competition, particularly with regard to a plurality of service offerings, access to networks and network interconnection. With regard to the latter, the Telecommunications Market Commission may make a binding decision in any matter of conflict and may fix tariffs, other than for regulated services, such as interconnection charges, in the event of disputes.

The Telecommunications Market Commission has advisory and arbitration responsibilities with respect to tariffs for customer services. It reports on all proposals for tariffs, whether maximum, minimum or fixed, and the regulation of prices for telecommunications services. It also reports on tariff proposals for exclusive services or services for which a dominant operator exists.

The General Law on Telecommunications

The General Law on Telecommunications culminates the liberalization process initiated in 1987 with the enactment of the Telecommunications Regulation Law, and establishes a regulatory framework for telecommunications in accordance with applicable European Union directives. The General Law on Telecommunications provides for free competition in all telecommunications services and for the creation of telecommunications networks, subject to obtaining an individual license or a general authorization. Individual licenses are required:

- to set up or operate public telecommunications networks
- to render voice telephony services to the general public
- to render telecommunications services or set up or operate telecommunications networks using radio spectrum

The Spanish Government may determine pursuant to a Royal Decree other activities and services, the operation of which may require an individual license. In all other cases, only a general authorization is required. A general authorization is automatically granted to any party who fulfills basic licensing requirements. In this case, the individual licenses are to be granted through a bidding contest awarded by the Ministry of Science and Technology.

In accordance with the Eighth Transitory Disposition of the General Law on Telecommunications, Telefónica de España has requested that the state contract be converted into individual licenses in accordance with the General Law on Telecommunications. Telefónica de España is currently negotiating the rights and obligations under the state contract which will exist under the individual licenses granted to Telefónica de España. Such rights and obligations may not afford Telefónica de España any competitive advantage.

Tariffs. A general principle under the General Law on Telecommunications is that operators are free to fix tariffs. Nevertheless, the government's Delegate Commission for Economic Affairs has the authority, subject to a report by the Telecommunications Market Commission, to set fixed, maximum or minimum tariffs, or the criteria to fix them and the mechanism for their control. In doing so, the government's Delegate Commission for Economic Affairs must take into account:

- the effective cost of the service
- the degree of competition in the market for the applicable service

The General Law on Telecommunications recognized the existence of an imbalance in the tariffs charged for fixed-line telephone services as of the date of its enactment and also recognized the need to rebalance such tariffs. The General Law on Telecommunications further recognized the possibility of compensating the dominant operator for the access deficit which may result from the existing rate imbalance. Because the access deficit problem had not been resolved, on December 1, 1998, the date the market was completely open to free competition, we filed a complaint against the Spanish government before the European Commission alleging that the Spanish government failed to comply with European Union directives that require a rate rebalancing prior to the liberalization of the telecommunications markets. In November 1999, we also filed a complaint against the Spanish government seeking compensation for the imbalance in tariffs.

On January 29, 2001, the European Commission issued an opinion addressed to the Spanish government in which it concludes that the Spanish government failed to comply with the relevant European Union directives because the Spanish government did not allow Telefónica de España to raise tariffs sufficiently to cover its costs. The European Commission has the discretion to initiate a formal sanction proceeding against the Kingdom of Spain before the European Community Court of Justice based on the violation of European Community laws.

The Delegate Commission for Economic Affairs of the Spanish government recently approved rate rebalancing measures, which we believe will eliminate the access deficit by 2003. See “– Pricing for Principal Services and the Tariff Structure” below. The Spanish government has also informed the European Commission of these measures, which have been adopted in order to comply with the European Union directives related to the access deficit and

with the above-mentioned opinion of the European Commission. Telefónica de España has also advised the European Commission that it believes these measures will eliminate the access deficit by 2003.

The Spanish government has initiated the process of denying our claim filed in November 1999, which seeks compensation for the imbalance in tariffs that existed at the time the telecommunications market was liberalized.

Interconnection. The General Law on Telecommunications requires owners of public telecommunications networks to allow competitors to interconnect their networks and services at non-discriminatory rates and under non-discriminatory conditions.

The General Law on Telecommunications provides that the conditions for interconnection are to be freely agreed among the parties while the government has the authority to establish the minimum conditions for interconnection agreements, which must be included in all agreements. On July 24, 1998, the government issued a Royal Decree elaborating the regulations relating to interconnection. Where the parties are unable to reach an agreement, the Telecommunications Market Commission may impose the obligation to interconnect upon the conditions it dictates. Similarly, the Telecommunications Market Commission may release certain network owners, temporarily and on a case-by-case basis, from the obligation to interconnect where there are technical or commercial alternatives to such interconnection.

Under the General Law on Telecommunications, interconnection prices may be freely negotiated. However, prices charged by Telefónica de España, as the dominant operator, are determined by the Interconnection Offer Framework, which was initially proposed by us and subsequently modified and approved by the Ministry of Science and Technology. Under our proposal, interconnection prices charged to Telefónica de España's competitors would be consistent with Telefónica de España's actual costs. However, the Ministerial Order dated October 29, 1998, which approved the Interconnection Offer Framework, and its subsequent amendments or modifications provide for interconnection prices that are below Telefónica de España's actual costs. Because Telefónica de España continues to provide interconnection services to its competitors at prices below its costs, Telefónica de España is not able to compete as effectively in the long-distance and international services markets as these companies, which has contributed to its decline in market share since 1999. Accordingly, Telefónica de España has filed an appeal with the *Sala de lo Contencioso Administrativo de la Audiencia Nacional Sección VII* against the Interconnection Offer Framework.

Service Standards. The National Telecommunications Plan defines the objectives for the development of the telephone network, including quality of service standards. The service standards established in the National Telecommunications Plan are binding on us and we have met these service standards for the past five years. We expect to raise the continuing applicability of the National Telecommunications Plan in the context of our negotiations with the government concerning the state contract.

Pursuant to the General Law on Telecommunications, our services must meet standard requirements established by the Ministerial Order dated October 14, 1999.

Public Service Obligation. The General Law on Telecommunications provides that the owners of public telecommunications networks, as well as operators rendering telecommunications services on the basis of an individual license, are subject to certain public service obligations. In addition, some of these obligations may be imposed on operators whose services require a general authorization.

The public service obligations include:

- the universal service obligation, which is elaborated in the Royal Decree of July 31, 1998
- the obligatory telecommunications services obligation
- other public service obligations

The universal service obligation consists of the obligation to provide basic telephony to all end-users within Spain, free telephone directory services, public pay phones throughout Spain and access to telephony services for disabled people. These services must be provided by the dominant operator in each territory, or in certain cases, by another operator, pursuant to regulations yet to be issued. At present, we are the dominant operator in each territory

and, according to the General Law on Telecommunications, we will be considered to be the dominant operator until at least 2005. If meeting the universal service obligation in a particular territory is loss-producing, all operators in that territory could be obligated to contribute to meeting it through the National Fund for Universal Service. The obligatory telecommunications services obligation enables the government to appoint a telecommunications operator to provide certain essential telecommunications services, such as telex, telegraph and maritime communications, and other telecommunications services to the extent the government determines that such services are not adequately provided. We have been designated as the provider of maritime telecommunications services through April 2002. We may in the future be designated as the provider of other telecommunications services.

Terminal Equipment. In line with former legislation, the General Law on Telecommunications provides that consumers may freely purchase or lease any terminal equipment, including telephone sets, and connect that equipment to the telecommunications network. All terminal equipment is required by the General Law on Telecommunications to meet certain technical specifications and safety requirements and is subject to the prior approval of the Secretary of State for Telecommunications and Information Society.

Ownership Limitations. Pursuant to the General Law on Telecommunications, direct or indirect investments in us by foreign persons may not exceed 25% of our share capital unless otherwise provided for by the applicable international treaties or agreements, including the Fourth Protocol of the General Agreement on Trade in Services (GATS), or authorized by the Spanish government. Pursuant to European Union directives, citizens of other European Union member states, including entities domiciled in such countries, are not considered foreign persons for the purposes of this provision. However, under Spanish law any foreign investment by non-European Union governments and state-owned and state-controlled entities (regardless of the amount of such investment) requires the Council of Ministers' prior approval unless otherwise provided for in the applicable treaties. See "Item 10—Additional Information—Exchange Controls and Other Limitations Affecting Security Holders." For purposes of computing the 25% threshold, only holdings of capital stock in excess of 5% and holdings that would entitle the foreign investor to designate a member of our Board of Directors are taken into account. The 25% threshold does not apply to our subsidiaries generally. However, Telefónica Móviles and our other services subsidiaries are independently subject to similar constraints.

Cable Telecommunications

Law 42/1995, the Cable Telecommunications Law, formerly governed the exchange of video, audio and other telecommunications over the cable telecommunications network. The Cable Telecommunications Law has been repealed by the General Law on Telecommunications, except for those provisions dealing with cable television, which remain in effect.

Spain has been divided into 43 geographic regions for cable television regulatory purposes. Although we will be able to provide cable television nationally, we will be required to wait for a period of time (originally 16 months but extended to 24 months in December 1998) computed from the moment the competitor for that region has been granted a license in each franchise region. A lobby of cable operators petitioned the Spanish government to increase the moratorium from 24 months to up to five years. Nevertheless, unlike the previous increase from 16 to 24 months, which was recognized as a possibility under the General Law on Telecommunications, the increase sought by our competitors was not contemplated under such law. Consequently, the Telecommunications Market Commission decided not to seek an extension of the moratorium and rejected the petition of the lobby of cable operators.

We may be entitled to commence providing cable telecommunications services in a specific region immediately after the closing of the auction for the other operator's license if following such auction no license is granted. However, it is not clear whether the Spanish government will allow us to commence providing cable telecommunications services in regions where other cable operators provide services.

Royal Decree 7/2000

On June 23, 2000, the government issued a new Royal Decree relating to the provision of and prices for some telecommunication services. Under the Decree, we were required, as a dominant operator, to:

- beginning January 2001, facilitate segregated and shared access to our local loop pursuant to the conditions and prices established by separate ministerial orders
- beginning November 1, 2000, offer 600 minutes of local calls between 6:00 p.m. and 8:00 a.m. for Ptas 700 per month and 600 minutes of local calls during all hours for Ptas 1,400 per month
- beginning November 1, 2000, offer limited Internet access for Ptas 2,750 per month

Competition

In June 1997, Retevisión, S.A. received a national license to provide fixed-line voice services. It began providing domestic and international long-distance services in January 1998. Retevisión is controlled by a consortium consisting of Endesa, S.A., Unión Eléctrica Fenosa, S.A. and the Italian telecommunications provider, Telecom Italia. In April 1999, the Spanish government sold its remaining 30% stake in Retevisión, completing its privatization.

Retevisión is able to provide national and international long-distance services to all telephone customers in Spain (both residential and business customers). Retevisión reaches local customers by interconnecting with Telefónica de España's network pursuant to the terms of an interconnection agreement finalized in December 1997. Retevisión will have to build its own local loop in order to provide local service.

As of December 1, 1998, fixed-line public voice telephone services in Spain have been open to competition, subject to basic licensing requirements as provided for in the General Law on Telecommunications. In May 1998, the consortium Lince received the third license for the provision of fixed-line telephone services. Lince commenced operations in December 1998 under the trade name UNI2. Lince is comprised of France Telecom and Editel, S.A., a consortium which includes Multitel Cable, S.A. and Ferrovial Telecomunicaciones. Although cable operators have been permitted to use their networks to provide local telephone service since January 1998, they have only begun to operate in some provincial capitals. They have not acquired a significant market share to date.

The Ministerial Order dated September 22, 1998 sets forth the rules applicable to individual licensees for telecommunications services and networks in addition to the terms and conditions applicable to such licensees. The Ministerial Order provides for two different types of licenses for the provision of fixed-line public voice telephone services:

- *Type B license:* This license authorizes the provision of fixed-line telephone service through the establishment or operation of a fixed public telephone network by the licensee. This type of license also permits the licensee to lease its circuits to third parties. Two different categories of Type B licenses are contemplated:
 - a Type B1 license for fixed-line public voice telephone services through the establishment or operation of a fixed telephone network
 - a public Type B2 license for the provision of such services through the establishment or operation of a wireless network
- *Type A license:* This license authorizes the provision of fixed-line public voice telephone service through the use of third-party switching and transmission equipment without the corresponding obligation or right to establish and operate a network as in the case of the Type B license

In addition, a third type of license, a Type C license, authorizes the establishment or operation of public networks, but the holder of such license may not provide fixed-line telephone services to the public. Type C licensees will compete with Telefónica de España in providing network access to Type A and B licensees.

At January 2, 2001, the following licenses had been granted:

- 43 Type A licenses
- 17 Type B1 national licenses
- 38 Type B1 restricted licenses
- 39 Type C1 licenses
- 18 Type C2 licenses

The government has also granted 73 licenses to the cable operators formerly operating under concessions. Each of these operators, except Telefónica Cable, received Type B1 licenses.

Telefónica de España is currently the only significant provider of comprehensive local service. This is expected to change gradually as cable operators develop their networks. In addition, in March 2000, the government issued six new licenses for the provision of local multipoint distribution services (LMDS). The new licensees are expected to compete with Telefónica de España in the local access market. The government has also approved a new Royal Decree, which may have the effect of increasing competition in the local service market. See “–Regulation–Royal Decree 7/2000” above.

Competition in domestic and international long-distance services, particularly in the residential segment, is based on access through interconnection with Telefónica de España. Telefónica de España had an estimated average market share of 92.5% of total Spanish traffic in terms of minutes in 2000, including 86.7% of provincial traffic, 81.6% of interprovincial traffic, 82.3% of international long-distance traffic and 82.5% of fixed-to-mobile traffic. Telefónica de España’s estimated market share in 1999 of total domestic long-distance traffic was 85.7% and its market share of total international long-distance traffic was approximately 87.1%. Telefónica de España faces indirect competition in international services from a number of sources, including calling cards, call-back services and call rerouting by other international operators. In addition, Telefónica de España competes with a number of international operators for the provision of closed user group communications to multinational and large corporate customers and with a number of providers of data transmission services.

Competition in the market for fixed-line public voice telephone services is likely to be based on such distinct factors as:

- the financial strength and operating capacity of competitors
- market conditions, applicable Spanish and European Union regulations with respect to telecommunications services and basic telecommunications infrastructure
- regulations in effect with respect to tariff structures and interconnection rates
- the effectiveness of our efforts to withstand increased competition

Because our capacity to compete will be affected by factors not fully within our control, we cannot predict the degree of any resulting adverse effect on our business and results of operations.

Telefónica de España is fortifying its ability to compete in fixed-line voice services by:

- actively participating in the development of the regulatory framework and seeking a neutral framework through recourse to the legal system when necessary
- developing customer loyalty and incentive programs through discount plans, generating new income by introducing new services and offering global solutions through integrated offerings of the Telefónica group, while seeking to maintain income levels and to improve the efficiency of the network by increasing the volume of traffic

- achieving operating efficiency by streamlining its workforce and reducing costs in order to preserve operating margins
- lowering the unit cost of the network and achieving a higher level of asset turnover. Telefónica de España anticipates a reduction in investments in infrastructure over the next few years as a result of the elimination of waiting lists for service, the fulfillment of service extension requirements and the high degree of digitalization of the network

Pricing for Principal Services and the Tariff Structure

The state contract established a structure for tariffs and regulated prices to ensure the overall financial balance under the contract while safeguarding the principle of universality in the rendering of services. Historically, Telefónica de España's rates were structured so that local telephone services and access lines were subsidized by long-distance and international services. Under the framework of the state contract and prior to the General Law on Telecommunications, rates for basic telephone service were approved by the Spanish government at the proposal of the Ministry of Science and Technology and, since the creation of the Telecommunications Market Commission, after a hearing of the Telecommunications Market Commission.

The General Law on Telecommunications recognized the existence of an imbalance in the rates in effect as of the date of its publication and the need to rebalance the rates, as well as the possibility of compensating the dominant operator for the access deficit which may result from the existing rate imbalance. In view of the rate imbalance, the Ministerial Order of July 31, 1998 established new prices for basic telephone services and approved a plan for discounting principal services. Per-line monthly charges and local tariffs were increased by an average of 16% and 13%, respectively, while prices for provincial, interprovincial and international long-distance calls were decreased by 5%, 15% and 12%, respectively.

We believe that the rate imbalance was not offset by the prices established in the Ministerial Order of July 31, 1998 or the Ministerial Order dated July 31, 2000, which we consider to have been only first steps in the rate rebalancing required for a fully competitive market. We have presented an estimate of our access deficit and have sought further tariff adjustments in order to avoid harming our competitive position. See “—Tariffs” above.

Currently, tariffs are subject to regulatory approval although general guidelines exist regarding the framework for establishing our prices in a liberalized market. The Urgent Measures Decree Law of April 16, 1999 grants jurisdiction to the Ministry of Development to develop a new framework for the regulation of Telefónica de España's prices. During a transitional period, these prices will be subject to price ceilings that may be revised on an annual basis.

Decree-Law 6/99, issued in April 1999, and Decree 16/99, issued in October 1999, established new tariffs for fixed-line telephone services offered by Telefónica de España. These decrees featured aggregate reductions of:

- 8.4% for urban or local calls
- 10% for provincial calls
- 26.3% for interprovincial calls
- 12.5% for international calls
- 6.7% for fixed-to-mobile calls

In addition, Decree 16/99, as a measure of tariff rebalancing, provides for an increase in monthly fees totaling Ptas 300 to be implemented in three increments through August 1, 2001. On January 1, 2000, tariffs for fixed-to-mobile calls were further reduced by 11.8%.

The Ministerial Order of July 31, 2000, established new tariffs for fixed-line telephone services, fixed-to-mobile calls and leased lines featuring limits on annual price increases for these services.

The Delegate Commission for Economic Affairs of the Spanish government, at its meeting on April 19, 2001, approved the following rate rebalancing measures, which we believe will eliminate the access deficit by 2003:

- aggregate tariff reductions of 14.3% through 2003, including a 7% reduction in 2001, 6% in 2002 and 2% in 2003
- an increase in the monthly subscription rate to Ptas 2,100 in 2003
- the elimination of mandatory reductions for fixed-to-mobile tariffs in 2003

In addition, the Delegate Commission for Economic Affairs of the Spanish government approved:

- the establishment of a maximum period of two months for the approval of discount plans relating to Internet connection, service packages, subscription fees, metropolitan service and discounts of more than 25% for interprovincial and international long-distance services and the approval of new services
- the reduction in the time period for the communication of prices to 10 days from 15 days and the price cap to 25 days from 30 days
- the introduction of more flexibility in the approval of discount plans relating to provincial, interprovincial and international long-distance services, including the reduction of the approval period to 25 days if the discounts are less than 15%
- the postponement to January 1, 2002 of the change in billing for public pay telephones to seconds from minutes

These measures were published in the Official Gazette on May 17, 2001 and became effective on May 18, 2001.

The following table sets forth tariffs for access to Telefónica de España's most common services as of April 30, 2001.

Rate Category	Tariff(1)	Percentage Increase (Decrease) since 1999
	(pesetas)	
Connection rate:		
Individual telephone line and integrated service		
digital network link	21,250	-
Primary access	600,000	-
Basic access	28,000	-
Monthly subscription rate:		
Individual telephone line	1,642	13.9%
Integrated service digital network:		
Primary access	57,000	-
Basic access	3,800	-
4 Km 64KB/s digital circuit.....	33,849	(22.7)%

(1) Excludes value-added taxes.

The table below sets forth Telefónica de España's pricing structure as of April 30, 2001 for local and domestic long-distance calls:

	Connection Charge	Pesetas for Three-Minute Calls(1)(2)	
	(pesetas)	Standard Rate(3)	Reduced Rate(4)
Local.....	11.4(5)	12.73	11.95
Provincial.....	15	51.75	35.1
Interprovincial.....	15	79.2	46.14

- (1) Includes call connection charge.
- (2) Calls are billed per second.
- (3) For local calls weekdays from 8 a.m. to 6 p.m., and for provincial and interprovincial calls from 8 a.m. to 8 p.m. on weekdays.
- (4) For remaining time periods and national holidays.
- (5) Includes 160 seconds of talk time.

The following table sets forth prices as of April 30, 2001 for fixed-to-mobile calls originating in Telefónica de España's network and terminating in the respective networks of Telefónica Móviles, Airtel and Amena.

The table below sets forth Telefónica de España's average prices for a three-minute international call to the indicated regions at peak hours at the dates specified.

	At December 31,					
	1998		1999		2000	
	Standard Rates(1)(2)	Discount Rates(1)(3)	Standard Rates(1)(2)	Discount Rates(1)(3)	Standard Rates(1)(2)	Discount Rates(1)(3)
			(pesetas)		(pesetas)	
Western Europe.....	197.0	182.0	170	152	170	152
Rest of Europe and North Africa.....	284.0	236.0	284	236	284	236
United States, Canada and the Caribbean.....	242.0	194-218	197	182	197	182(4)
Latin America.....	500.0	374.0	407	347	407	347
Japan and Australia.....	536.0	491.0	536	491	536	491
Rest of the world.....	602.0	548.0	602	548	602	548

- (1) Includes flat connection charge.
- (2) Applies weekdays from 8 a.m. to 8 p.m.
- (3) Applies weekdays from 8 p.m. to 8 a.m., weekends and national holidays.
- (4) A further reduced rate of Ptas 173 is applied from 3 a.m. to 8 a.m. every day.

Telefónica de España's marketing efforts in response to competition have focused on quality of service and relied on discount plans and the introduction of new services in order to increase consumption. Accordingly, since 1998, Telefónica de España has introduced a number of discount plans for its residential customers. During 2000, residential customers subscribed to approximately 4.9 million of these plans. As a result, at December 31, 2000, residential customers subscribed to a total of 13.6 million discount plans, representing a 57% increase over 8.6 million of these plans at December 31, 1999. Because the plans are not necessarily exclusive, the same customer can take advantage of more than one plan. Any discount plan must be submitted by Telefónica de España to the regulatory agency for prior administrative approval.

The following table sets forth the composition of Telefónica de España's revenues for 1999 and 2000 for the categories shown below. Telefónica de España's revenues from leased circuits and sales of terminals are not shown.

	Percentage of Telefónica de España's Revenue	
	1999	2000
	(Percentages)	
Monthly rate	32.9	35.3
Local calls(1)	17.4	18.1
Provincial calls	6.2	6.8
Interprovincial calls	12.8	10.6
International calls(2)	7.3	11.1
Fixed-to-mobile	14.5	16.3
Other(3)	8.9	2.8

(1) Metropolitan calls and calls to access the Internet.

(2) Includes incoming international calls.

(3) Includes surcharges from calls placed from public pay telephones, intelligent network calls, maritime service and other revenues, deducting discounts in connection with calling plans.

During 1998, revenues from interprovincial long-distance and international calls were adversely affected by increased competition and discounted pricing. The trend continued in 1999 and 2000 with respect to interprovincial long-distance calls, but revenues from international calls improved in 2000 due to a strong increase in traffic. Since the beginning of 1999, following the introduction of competition, Telefónica de España has also experienced some loss in market share for provincial and fixed-to-mobile calls.

Comparative Pricing Information

The table below provides comparative monthly fee pricing information with respect to the other principal European operators at December 31, 2000:

	Telefónica	Deutsche Telekom	France Telecom	Telecom Italia	British Telecom(1)
	(pesetas)				
Residential(2)	1,54	1,82	1,72	1,60	2,27
Business(2)	1,54	1,82	2,10	2,20	3,51

Source: Eurodata, Tarifica, and the operators.

(1) Prices translated into pesetas from British pounds at the average exchange rate for December 2000.

(2) Excludes value-added taxes.

The table below shows the prices for three minute calls during business hours of other principal European operators at December 31, 2000:

	Telefónica	Deutsche Telekom	France Telecom	Telecom Italia	British Telecom(1)
	(pesetas)				
Local(2)	13	18	22	16	27
Domestic long distance(2)	90	53	45	79	54
International long distance(2)	170	53	104	146	195

Source: Eurodata, Tarifica, and the operators.

(1) Prices translated into pesetas from British pounds at the average exchange rate for December 2000.

(2) Excludes value-added taxes.

The table above shows that rates charged by Telefónica de España are generally higher than those charged by the other principal European operators for domestic and international long-distance calls and lower for local calls. This reflects the failure to complete the rate rebalancing prior to the liberalization of the fixed-line telecommunications market in accordance with European Union directives.

Interconnection Prices

The tariffs that Telefónica de España is permitted to charge other operators of fixed-line voice telephone services for access to its local network were initially established by the Ministerial Order dated March 18, 1997. The tariffs that Telefónica de España was permitted to charge wireless operators were based on agreements entered into with the wireless operators within the framework of prior administrative provisions.

Under the General Law on Telecommunications, interconnection prices may be freely negotiated. However, prices charged by Telefónica de España, as the dominant operator, are determined by the Interconnection Offer Framework, which was initially proposed by us in 1998 and subsequently modified and approved by the Ministry of Science and Technology. Under our proposal, interconnection prices charged to Telefónica de España's competitors were consistent with Telefónica de España's costs. However, the Ministerial Order dated October 29, 1998, which approved the Interconnection Offer Framework, and its subsequent amendments or modifications, provide for interconnection prices that are below Telefónica de España's actual costs. In addition, on November 26, 1998, interconnection prices charged to wireless operators were approved, bringing them in line with those approved for the fixed-line operators, which became effective as of July 1, 1999. Because Telefónica de España continues to provide interconnection services to its competitors at prices below its costs, Telefónica de España is not able to compete as effectively in the long-distance and international services markets as these companies, which has contributed to its decline in market share since 1999.

The table below sets forth interconnection prices for switched traffic established by the Ministerial Order dated October 29, 1998. These prices were in effect through June 16, 2000.

	Peak Rate(1)	Standard Rate(2)	Discounted Rate(3)
	(pesetas)		
Type B licenses:			
Local	1.65	1.65	1.05
Single transit(4)	2.65	2.31	1.62
Double transit(5)(6)	5.11	4.44	3.11
Type A licenses:			
Single transit(4)	3.45	3.00	2.10
Double transit(5)	6.64	5.77	4.04

- (1) Applies weekdays and Saturdays during peak hours.
- (2) Applies weekdays during off-peak hours.
- (3) Applies Sundays and national holidays, Saturdays (except peak hours) and other weekdays at night.
- (4) Principally provincial service.
- (5) Principally interprovincial service.
- (6) Applies only to operators with a Type B national license.

On May 25, 2000, the Telecommunications Market Commission approved new interconnection tariffs, which became effective on June 17, 2000. These tariffs are set forth below.

	Interconnection Tariffs (Access and Termination) Ptas/minute	
	Standard Rate(1)	Discounted Rate(2)
Local	1.50	1.06
Single transit	2.50	1.95
Double transit	3.60	3.10

Interconnection Tariffs (Transit)

	Ptas/minute	
	Standard Rate(1)	Discounted Rate(2)
Local	3.10	2.42
Single transit	3.60	3.10
Double transit.....	0.68	0.53

(1) Applies weekdays from 8:00 a.m. to 8:00 p.m.

(2) Applies on Saturdays, Sundays and national holidays, and weekdays from 8:00 p.m. to 8:00 a.m.

Customer Service

In order to adequately respond to the new competitive environment, we have undertaken considerable efforts since 1998 to improve the quality of customer service. Customers were segmented so that the specific needs of each segment could be served. In addition, we increased our call-center capacity to further focus on customer service. After creating a total of 150 new products and services in 1998 and 1999, we developed 75 additional products and services in 2000. Some of the new products created in 2000 were multimedia packages jointly offering telephone service, Internet access and Vía Digital (our direct-to-home satellite television service), various flat rate calling plans and flat rate Internet access plans. These programs have helped slow Telefónica de España’s loss of market share. Another recent product offering is Telefónica de España’s asymmetric digital subscriber line, or ADSL service, which is offered indirectly through Gigacom ADSL. We are capable of providing this service through approximately 12.5 million lines, or 72.7% of total lines, and at December 31, 2000, 44,956 customers subscribed to this service. We expect to expand our offering of this service in 2001.

The business customer service model developed by Telefónica de España, which is aimed at achieving the highest degree of efficiency in customer service, includes the following:

- A 24-hour personal customer service line for purchasing any type of product and service, as well as for handling customer queries
- The *Tiendas Telefónica* (“Telefónica stores”) where customers can test and buy all of the products marketed by Telefónica
- Telefónica’s “virtual” store, accessible from the Internet, which offers the ability to order and purchase online all of the services and products offered by Telefónica
- Catalog sales through which any customer can buy a product by placing a toll-free call to a commercial customer service number

Telefónica is devoting special attention to the corporate customer market, with a sales force that exclusively handles this segment and seeks customized solutions for each type of customer.

Telefónica Telecomunicaciones Públicas

Telefónica Telecomunicaciones Públicas, S.A. (formerly known as Cabinas Telefónica, S.A. or “Cabitel”) is a wholly-owned subsidiary of Telefónica de España, S.A. which operates pay telephones in outdoor and indoor locations, including airports, bus stations, train stations, recreational parks, hospitals and gas stations. In addition, Telefónica Telecomunicaciones Públicas:

- manages phone booths in public thoroughfares and public payphones that are contracted from Telefónica de España
- markets prepaid telephone cards
- generates revenues from advertising on public phone booths

Telefónica de España continues to own the public phone booths although such assets may be transferred to Telefónica Telecomunicaciones Públicas in the future.

Public telephone services on private premises are open to full competition and are not subject to price regulation. The provider is under no obligation to extend this service beyond what the provider considers to be in its business interest, and the provider is free to choose the terminal used, provided that it meets European Union specifications.

At December 31, 2000, Telefónica Telecomunicaciones Públicas had 39,546 pay telephones installed in indoor locations, 66,286 pay telephones installed in outdoor locations and 611 portable call centers installed in special tourist locations. On average, a premium of 35% over the price of a basic telephone call is charged for calls placed from pay telephones located on private premises.

For the year ended December 31, 2000, Telefónica Telecomunicaciones Públicas sold 9.2 million prepaid cards for a net total of Ptas 11,781 million. Revenues from advertising totaled Ptas 1,864 million for the year ended December 31, 2000.

Worldwide Wireless Communications Services – Telefónica Móviles

Telefónica Móviles is a leading provider of wireless communications services in Spain and Latin America and one of the ten largest wireless operators in the world, based upon its total customers at December 31, 2000. Telefónica Móviles was incorporated in February 2000 as the holding company for the Telefónica Group's wireless communications operations. In November 2000, Telefónica Móviles completed an initial public offering of approximately 8% of its ordinary shares. At May 17, 2001, Telefónica S.A. and other Telefónica Group companies held an aggregate of 92.62% of Telefónica Móviles' outstanding share capital.

Telefónica Móviles has operating companies in Spain, Brazil, El Salvador and Guatemala and holds non-controlling interests in other wireless companies that it solely or jointly manages in Brazil and Morocco. Telefónica Móviles also has significant interests in the consortia that acquired UMTS licenses in Germany and Italy. In addition, we have agreed to transfer to Telefónica Móviles our wireless operations in Argentina and Peru, which we expect to occur in mid-2000.

The following table provides a summary overview of Telefónica Móviles' operating companies and those companies in which it has non-controlling minority interests, as well as the Peru and Argentina operations to be spun-off to it and four Mexico wireless operators to be acquired by it:

Country	Name of Company	Service Territory	Ownership Interest at December 31, 2000(1)	POPS (in millions)	Total Customers at December 31, 2000 (in millions)
Telefónica Móviles' Operations:					
Spain	Telefónica Móviles España.....	Nationwide	92.15%	40	13.7
Germany	Group 3G.....	Nationwide	52.71%	82	—
Italy	IPSE 2000.....	Nationwide	42.01%	57	—
Austria	Telefónica Móviles Intercontine	Nationwide	92.15%	8	—
Switzerland	Telefónica Móviles Intercontinental.....	Nationwide	92.15%	7	—
Brazil	Tele Sudeste Celular.....	Rio de Janeiro/Espírito Santo	75.57%	17	2.5
	Celular CRT.....	Rio Grande do Sul	33.80%	10	1.5
	TeleLeste Celular.....	Bahia/Sergipe	9.90%	15	0.7
El Salvador	Telefónica El Salvador.....	Nationwide	40.75%	6	0.2
Guatemala	Telefónica Centroamérica Guatemala.....	Nationwide	47.00%	12	0.1
Morocco	Medi Telecom.....	Nationwide	28.11%	28	0.5

Country	Name of Company	Service Territory	Ownership Interest at December 31, 2000(1)	POPS (in millions)	Total Customers at December 31, 2000 (in millions)
Pending Acquisitions: (2)					
Peru	Telefónica Móviles Peru	Nationwide		25	0.9
Argentina	Telefónica Comunicaciones Personales	Nationwide		37	1.8
Mexico	Baja Celular Mexicana; Movitel del Noroeste; Telefonía Celular del Norte; and Celular de Telefonía	Various states of Mexico		21	1.0
Total				<u>364</u>	<u>22.9</u>

- (1) Represents the ownership interest of the Telefónica Group.
- (2) We plan to transfer to Telefónica Móviles an investment in NewComm Wireless Services, Inc., a wireless operator in Puerto Rico.

Services and Products

Telefónica Móviles' operating companies offer a wide variety of wireless and related services and products to consumer and business customers. Although the products available vary from country to country, the following are Telefónica Móviles' principal services and products:

- *Wireless Voice Services.* Telefónica Móviles' principal service in all of its markets is mobile wireless telephony, and most of Telefónica Móviles' other services and products involve enhancements and additional features for its wireless customers. Telefónica Móviles offers convenient and affordable wireless service with a variety of payment plans and packages, including payment on a contract and pre-paid basis. Telefónica Móviles' networks are designed and managed to provide high quality wireless voice services throughout its markets.
- *Enhanced Calling Features.* Customers in most of Telefónica Móviles' markets now have access to a range of enhanced calling features including voice mail, call hold, call waiting, call forwarding and three-way calling. Customers may receive a number of these services bundled with basic voice service, while other customers may choose to order them as optional supplements to their basic voice service.
- *Wireless Data Transmission.* Telefónica Móviles' networks and systems allow customers to use their handsets for data transmission, including to send messages to other customers, to receive selected information, such as news, sports scores and stock quotes and to provide wireless connectivity for devices such as laptops and personal digital assistants. These offerings are at different stages of development in each of Telefónica Móviles' markets.
- *Wireless Internet.* As part of Telefónica Móviles' strategy to become a leader in the wireless Internet sector, Telefónica Móviles offers Internet access using wireless application protocol technology in a growing number of its service areas, primarily under the *e-moción* brand. *e-moción* was the first wireless Internet access service in the Spanish language and, in Brazil, the first wireless Internet access service in Portuguese. Through wireless Internet access, Telefónica Móviles' customers are able to send and receive e-mail, browse web pages, purchase goods and services in m-commerce transactions and use Telefónica Móviles' other data services. Terra Mobile offers services and applications through its wireless Internet portal.
- *M-payment.* Telefónica Móviles is in the process of developing "m-payment" services to be offered to its customers in Spain through *Mobipay*, a joint venture with Banco Bilbao Vizcaya Argentaria, a major Spanish bank with extensive operations throughout Latin America. *Mobipay* allows Telefónica Móviles' customers to use their handsets as a new wireless payment system, on both a pre- and post-paid basis, for on site (in person) and remote purchasing, including

principally for smaller transactions such as in vending machines, for personal money transfers and at newspaper kiosks. Telefónica Móviles plans to roll out *Mobipay* in the second half of 2001 in Spain and, subsequently, in other countries.

- *Corporate Services.* Telefónica Móviles provides business solutions, including wireless infrastructure in offices, private networking, business-to-business wireless Internet portals that allow for the creation of distributor relationships and portals for corporate customers that provide flexible on-line billing. This market is rapidly developing in Spain through *MoviStar Corporativo 2000*, a service creating wireless virtual private networks for companies, and Telefónica m-Solutions, Telefónica Móviles' wireless solutions consultancy. Telefónica Móviles believes the corporate services market offers potential for growth in Telefónica Móviles' other markets, where it expects low fixed-line penetration to contribute to increased demand for wireless infrastructure for data transmission.
- *Roaming.* Telefónica Móviles has roaming agreements that allow its customers to use their handsets when they are outside of their service territories, including on an international basis. Telefónica Móviles' Spanish operating company was the first operator worldwide to offer international roaming services to pre-paid customers.
- *Other Services.* Telefónica Móviles also has the technology available to provide other value-added wireless services such as location-based services and telematics. Location-based services permit the precise location of the handset to be determined by Telefónica Móviles' networks, which will permit users to receive and access information specific to such location. This is expected to increase the demand for m-commerce applications. Telematics applications enable data to be collected from machines such as cars, trucks and vending machines. Telefónica Móviles believes that this technology will be widely used in fleet management, logistics, security monitoring and consumer markets.

Telefónica Móviles' Operations

Telefónica Móviles' operations currently are conducted in three distinct geographic areas:

- Western Europe
- Latin America
- The Mediterranean basin, which stretches from Morocco to Turkey

Western Europe

Spain

Telefónica Móviles is the leading wireless operator in Spain with approximately 13.7 million customers at December 31, 2000 or approximately twice as many customers as the second largest operator in the country. At December 31, 2000, after five years in a competitive market, Telefónica Móviles estimates that it had approximately 56% of the existing wireless customers in Spain.

The following table presents, at the dates and for the periods indicated, selected statistical data relating to Telefónica Móviles' operations in Spain:

	Year ended December 31,		
	1998	1999	2000
Total customers (in millions at period end)	4.9	9.1	13.7
Pre-paid customers (in millions at period end)	1.8	5.5	8.9
Average monthly revenue per customer (euro)	55	44	34
Average monthly minutes of usage	132	122	108
Population in service territory (in millions at period end)	40	40	40

The Telefónica Group has offered wireless services in Spain since 1982 with the launch of analog wireless services. Digital wireless services were launched in 1995 under the *MoviStar* brand name, which has since become one of the most widely recognized brands in Spain. In March 2000, having achieved the highest rating in the awards process, Telefónica Móviles was awarded a third generation wireless, or UMTS, license covering the Spanish national territory for €131 million.

Network and Technology. Telefónica Móviles' licenses and concessions in Spain permit it to operate both analog and digital networks. Telefónica Móviles also holds one of four nationwide licenses for UMTS services in the country.

Telefónica Móviles' digital network in Spain is based upon the GSM standard, which has been adopted by approximately 170 countries worldwide, including all member countries of the European Union. The prevalence of the GSM standard, together with Telefónica Móviles' international roaming agreements, enables its *MoviStar* customers to make and receive calls throughout Western Europe and in more than 100 countries worldwide. Telefónica Móviles' GSM-based network provides its customers with access to many of the most advanced wireless handsets and a full panoply of services and products.

Telefónica Móviles' concessions entitle it to 52 MHz of spectrum in the 900 MHz band and 26 MHz of spectrum in the DCS 1800 MHz band, which Telefónica Móviles may increase to up to 25+25 MHz by 2003. Telefónica Móviles believes that this spectrum is adequate for its requirements. Under the terms of Telefónica Móviles' UMTS license, Telefónica Móviles is authorized to operate using two paired, or two-way, 15 MHz channels plus one unpaired, or one-way, 5 MHz channel.

Regulation. Prior to the enactment of the General Law on Telecommunications, wireless telephone services were considered to be public services and, as such, were provided pursuant to a system of administrative concessions, which granted to operators the right to provide wireless telephone services and construct and operate the networks required to do so. Some of Telefónica Móviles' rights are still held in the form of administrative concessions that are governed by legislation applicable prior to the enactment of the General Law on Telecommunications. We expect, however, that these concessions will be converted into individual licenses and general authorizations under the General Law on Telecommunications in the near future.

At present, Telefónica Móviles holds administrative concessions to provide wireless services in the following forms:

- analog form on the 900 MHz band
- digital form on the 900 MHz band
- digital form on the DCS-1800 band

Telefónica Móviles' analog service concession expires on January 1, 2007, while its two digital service concessions expire in February 2010 (900 MHz) and July 2023 (DCS-1800).

Under each concession, Telefónica Móviles is required to maintain quality standards and respect the principles of neutrality and non-discrimination. Telefónica Móviles is also subject to certain obligations under each of its concessions, including the payment of certain fees to the Spanish government, contributions to the universal service fund, notification of its rates, and the avoidance of cross-subsidization between its services, among others.

Telefónica Móviles' two digital concessions also impose upon it, among other things, the following additional obligations:

- to comply with minimum coverage obligations
- to guarantee the extension of the service beyond Spain by executing roaming agreements with other telecommunications operators
- to interconnect its network with the network of its competitors

The Ministry of Science and Technology is empowered to amend Telefónica Móviles' concessions, for public interest reasons, subject to the Spanish Public Procurement Law and regulations thereunder. However, if an amendment is financially harmful to Telefónica Móviles, it may be entitled to compensation. This compensation would not, however, cover any harm resulting from the authorization of new competitors.

A concession is subject to revocation or fines and lesser sanctions, upon the occurrence of certain events such as the bankruptcy of the company, transfer of the concession without administrative authorization, failure to abide by the terms of the concession, laws or regulations or reallocation of allotted frequencies on the radio-electric spectrum (in which latter case, Telefónica Móviles would be entitled to compensation).

Telefónica Móviles holds 16 individual licenses under the General Law on Telecommunications, covering the following:

- nationwide UMTS services
- trunking, or closed user group, services
- paging services
- fixed-line telephony

Telefónica Móviles' UMTS license expires in 2020, its trunking licenses in 2014, 2016 and 2020, its paging license in 2012 and its fixed-line license in 2019. All of its licenses can be extended for at least ten years.

Telefónica Móviles' rights and obligations under the individual licenses are similar to those under its administrative concessions, though they generally require more disclosure of rates and product information to the Spanish regulatory authorities and the public and also require Telefónica Móviles to keep independent accounts for each of its activities and services. Telefónica Móviles' licenses also impose some additional obligations.

In the case of Telefónica Móviles' UMTS license, Telefónica Móviles paid to the Spanish Treasury a one-time fee of €131 million in connection with issuance of that license. The Spanish government has adopted legislation imposing additional fees totaling approximately €233 million per year for use of spectrum both for new UMTS licenses as well as existing analog and digital concessions and other uses. During 2000, Telefónica Móviles paid approximately €19 million in these fees. Telefónica Móviles and its competitors have filed claims with the Central Administrative Economic Tribunal challenging the increase in fees.

Telefónica Móviles' licenses may be amended or revoked. Telefónica Móviles' licenses may be amended only for "objective" cause, including a change in law or for "public interest" reasons. Telefónica Móviles would not be entitled to any compensation in the event of an amendment to a license. Amendments to the applicable laws may also result in changes to the obligations of a license holder. Telefónica Móviles' licenses may be revoked if it fails to comply with any of the specified obligations or commitments in these licenses as well as for reasons similar to those applicable to its administrative concessions, as discussed above. In addition, any infringements defined in the General Law on Telecommunications may result in the imposition of sanctions including fines.

Under the General Law on Telecommunications, non-European Union individuals or entities cannot own, directly or indirectly, more than 25% of Telefónica Móviles' assets or share capital, unless such ownership is permitted by authorization of the Spanish government, in cases of reciprocal treatment between Spain and a non-European Union country, or by specific agreement between Spain and a non-European Union country. Spain has ratified the Telecoms Annex to the General Agreement on Trade in Services, or GATS, so that specific authorization will not be required so long as direct or indirect control of 25% or more of Telefónica Móviles' assets or share capital is owned by persons or entities domiciled in countries party to the Telecoms Annex to GATS. Until 2007, the Spanish government holds approval rights for specified fundamental corporate transactions affecting Telefónica Móviles and its Spanish operating company.

Rates. Wireless operators are generally free to fix customer rates for the provision of services under the General Law on Telecommunications, except with respect to analog wireless services for which the Government Commission for Economic Affairs has prescribed maximum rates. In accordance with the General law on Telecommunications, the Government Commission for Economic Affairs may prescribe temporary fixed, maximum

and minimum rates, or criteria for establishing rates, based on actual costs of the services rendered and the degree of competition in the market. The Government Commission for Economic Affairs has imposed rate regulations for analog wireless services. The Government Commission has not regulated rates of digital wireless services to date. The Ministry of Science and Technology is reviewing methods of promoting increased competition in the Spanish telecommunications market. We cannot assure you that the Ministry will not make recommendations affecting the pricing of wireless services in Spain or other aspects of Telefónica Móviles' business.

Interconnection. Because Telefónica Móviles has been classified by the Telecommunications Market Commission as an operator with "significant market power" in the wireless communications and interconnection markets (a classification that is generally defined as the attainment of a market share of more than 25% measured by income tax generated by networks and services in the previous year), Telefónica Móviles is required, among other obligations, to facilitate cost-oriented interconnection rates on a non-discriminatory and transparent basis and report to the Ministry of Economy and the Ministry of Science and Technology regarding its compliance.

Competition. Telefónica Móviles currently has two competitors in Spanish market for wireless communications service: Airtel, which Vodafone Group plc controls; and Retevisión Móvil, which operates under the trade name *Amena* and in which Telecom Italia, Endesa and Unión Fenosa have significant interests. At December 31, 2000, Telefónica Móviles' Spanish operating company had approximately 13.7 million customers, compared to an estimated approximately 6.9 million for Airtel and an estimated approximately 3.8 million for Amena, which translates into an estimated market share of approximately 56% for Telefónica Móviles' operating company and 28% and 16% for Airtel and Amena, respectively. Although Telefónica Móviles anticipates that its market share will continue to decline as its competitors pursue new customers, Telefónica Móviles believes that, to date, it has been successful in preserving and expanding its advantage in terms of absolute numbers of customers and quality of average customer in terms of minutes of usage. The higher quality of its customers is evidenced by an estimated market share in total traffic that is six percentage points higher than its percentage of total customers. Telefónica Móviles estimates that during 1999 and 2000, the overall Spanish market for wireless communications increased by 8.0 million and 9.1 million customers, respectively, of which approximately 52% and 49% became customers of Telefónica Móviles España.

In early 2000, the Spanish government awarded four third generation wireless, or UMTS, licenses, which cover the entire country of Spain. Telefónica Móviles was awarded one of these licenses, while the others were awarded to Amena, Airtel and Xfera consortium, which Vivendi controls and in which Sonora has a minority stake. UMTS based services were initially required to be introduced under the terms of Telefónica Móviles' UMTS license by August 2001. This requirement has been extended until June 2002, or as soon as equipment and handsets are available. The Spanish government has announced that it may, when UMTS technology is a reality, award additional licenses permitting the offer of wireless services, subject to spectrum availability. Telefónica Móviles is likely to seek compensation from the government if the government reallocates to new licensees spectrum previously licensed to Telefónica Móviles.

Germany

Group 3G, a consortium in which Telefónica Móviles holds a 57.2% interest, was awarded a UMTS license in Germany in August 2000 for a total purchase price of €8,471 million. Sonera, a major Finnish wireless communications company, holds the other 42.8% interest in Group 3G through Sonera 3G Holding B.V. Telefónica Móviles' pro rata share of the total purchase price for the UMTS license was €4,845 million.

Business Plan. Group 3G expects to initially focus on the provision of GSM/GPRS services under a roaming agreement in has entered into with an existing operator in order to attract and build an initial customer base. Group 3G expects to subsequently roll-out UMTS-based services progressively, including through the use of network sharing in some areas with other operators, subject to regulatory approvals. Group 3G expects to utilize vendor financing to assist in the development of its operations. Group 3G's business plan calls for commencing operations in the second half of 2001.

Concession. Under the terms of Telefónica Móviles' nationwide UMTS license in Germany, Telefónica Móviles is authorized to operate using two paired, or two-way, 5MHz channels to provide wireless services, including voice and data. Telefónica Móviles is also authorized to operate a single unpaired, or one-way, 5 MHz channel which can be used for wireless data applications. Telefónica Móviles' UMTS license is valid for a term of 20 years.

Agreements. Under our consortium agreement with Sonera, Telefónica Móviles agreed to jointly create an operating subsidiary, with which Group 3G will enter into an arm's-length agreement to provide wireless services under Telefónica Móviles' UMTS license in Germany. Telefónica Móviles will control the operating subsidiary in the same proportion as it controlled the bidding consortium. The consortium agreement with Sonera provides that, upon a change of control of either party that results in the party being controlled by a competitor of the other party, Group 3G or Telefónica Móviles' German operating subsidiary, a call right is triggered under which the party which was not the subject of the change of control may purchase the other party's interest. In addition, if German regulatory authorities require the sale of Sonera's interest in Group 3G as a result of a change of control affecting it or otherwise, Telefónica Móviles may be required to acquire Sonera's interest. Any payment would be based on the cost of the license until August 2001 and, thereafter, fair market value.

Competition. In addition to the license awarded to Telefónica Móviles through Group 3G, five other UMTS licenses were awarded in August 2000, including four UMTS licenses that were awarded to the incumbent wireless service providers in Germany. The four incumbent wireless service providers are:

- T-Mobil, owned by Deutsche Telekom
- Mannesmann A.G., owned by the Vodafone Group
- E-Plus, in which KPN and BellSouth have a significant interest
- Viag Interkom, which is controlled by British Telecom

Mannesmann and T-Mobile are the market leaders in Germany with estimated market shares of approximately 40% each at December 31, 2000. The remaining two wireless service providers, E-Plus and Viag Interkom, had estimated market shares of approximately 14% and 7%, respectively, at the same date. Mobilcom, which is controlled by France Telecom and also received a UMTS license, is currently operating as a wireless reseller for the wireless network service providers and does not have its own wireless network.

Italy

The IPSE 2000 consortium, in which Telefónica Móviles directly and indirectly holds a 45.6% interest, was awarded a UMTS license in Italy in November 2000 for a total payment of €3,269 million. The Telefónica Group also has an additional indirect 4.08% interest in IPSE 2000 through its holding in Atlanet, an Italian company. Telefónica Móviles' partners in this consortium include the following: Sonera, Telefónica Móviles' partner in Group 3G, which has a 12.6% interest; Banca di Roma, which has 10%; Xera, a technology company, which has 5%; Goldenegg, a financial company with strategic investments in the technology field, which has 4.8%; and Acea, an Italian multi-utility company, and Fiat, which together through Atlanet, have 12%. IPSE 2000 has an additional approximately 30 minority interest holders.

Business Plan. IPSE 2000 expects to initially focus on the provision of GSM/GPRS services under roaming agreements it expects to enter into with existing operators in order to attract and build its initial customer base. IPSE 2000 expects to subsequently roll-out UMTS-based services progressively, including through the use of network sharing in some areas with other operators, subject to regulatory approvals. IPSE 2000 expects to utilize vendor financing to assist in the development of its operations.

Concession. Under the terms of the nationwide UMTS license which IPSE 2000 won in the auction, it will be authorized to operate using two paired, or two-way, 10 MHz channels, a further two paired 5 MHz channels and one unpaired, or single, 5MHz channel to provide wireless services, including voice and data services. The UMTS license in Italy will be valid until 2017.

Agreements. Under the terms of the consortium agreement in Italy, Telefónica Móviles will create an operating subsidiary with the other members of the consortium. Telefónica Móviles will have the same interest in this operating subsidiary as it does in the consortium. Under the terms of the consortium agreement, a change of control affecting either Sonera or Telefónica Móviles would trigger a right for Telefónica Móviles to purchase Sonera's interest and a corresponding right for Sonera to obligate Telefónica Móviles to purchase its interest. This right is exercisable on similar terms as their respective put rights with respect to their interests in Group 3G described above. In addition, Telefónica Móviles is permitted by the terms of its agreement to transfer up to 5% of its interest

in IPSE 2000 to Suez Lyonnaise des Eaux, and Goldenegg has the right to transfer to Telefónica Móviles 1.6% of its interest in the IPSE 2000 consortium.

Competition. In addition to the license awarded to IPSE 2000, four other UMTS licenses were awarded in November 2000, including three UMTS licenses that were awarded to the incumbent wireless service providers in Italy. These three incumbent wireless service providers are:

- Telecom Italia Mobile, owned by Telecom Italia
- Omnitel, owned by the Vodafone Group
- Wind, owned by Enel and France Telecom
- blue, owned by British Telecom and other shareholders

At December 31, 2000, Telecom Italia Mobile was the market leader in Italy with an estimated market share of approximately 52%, followed by Omnitel with an estimated market share of approximately 36% and Wind with an estimated market share of approximately 11%.

Austria

On November 2, 2000, Telefónica Móviles was awarded a UMTS license in Austria at a cost of €117 million. Telefónica Móviles did not participate in the Austrian auction as a member of a consortium and, as a result, holds a 100% interest in the license.

Business Plan. Telefónica Móviles expects to initially focus on the provision of GSM/GPRS services under roaming agreements it expects to enter into with existing operators in order to attract and build its initial customer base. Telefónica Móviles expects to subsequently roll-out UMTS-based services progressively, including through the use of network sharing in some areas with other operators, subject to regulatory approvals. Telefónica Móviles expects to utilize vendor financing to assist in the development of its operations.

Concession. Under the terms of the UMTS license, Telefónica Móviles is authorized to operate two sets of two paired 5MHz channels to provide wireless services in Austria.

Competition. In addition to the UMTS license awarded to Telefónica Móviles, six other UMTS licenses were awarded in November 2000, including three licenses that were awarded to incumbent wireless service providers in Austria. The principal wireless service providers are:

- Mobilkom, owned by Austria Telecom and Telecom Italia
- max.mobil, owned by Deutsche Telekom through T-Mobil
- Connect Austria/One, owned by Viag, Orange, TeleDanmark, Telenor and other shareholders
- tele.ring, owned by the Vodafone Group

At December 31, 2000, Mobilkom was the market leader with an estimated approximately 45% market share, followed by max.mobil with an estimated approximately 34% of the market, Connect Austria/One with an estimated approximately 19% market share and tele.ring with an estimated approximately 2% market share.

Switzerland

In January 2001, Telefónica Móviles was awarded, following an auction process, a UMTS license in Switzerland at a cost of €32.5 million. Telefónica Móviles did not participate in the Swiss auction as a member of a consortium, and, as a result, holds a 100% interest in the license.

Business Plan. Telefónica Móviles expects to initially focus on the provision of GSM/GPRS services under roaming agreements it expects to enter into with existing operators in order to attract and build its initial customer base. Telefónica Móviles expects to subsequently roll-out UMTS-based services progressively, including through

the use of network sharing in some areas with other operators, subject to regulatory approvals. Telefónica Móviles expects to utilize vendor financing to assist in the development of its operations.

Concession. Under the terms of the UMTS license, Telefónica Móviles is authorized to operate using two sets of two paired 15 MHz channels to provide wireless services in Switzerland. Telefónica Móviles is also authorized to operate a single unpaired, or one-way, 5 MHz channel which can be used for wireless data applications.

Competition. In addition to the license awarded to Telefónica Móviles, three other licenses were awarded in December 2000, including three UMTS licenses that were awarded to the incumbent wireless service providers in Switzerland. These three incumbent wireless service providers are:

- diAx, owned by TeleDanmark and other shareholders
- Orange
- SwissCom Mobile, owned by the Vodafone Group

At December 31, 2000, SwissCom Mobile was the market leader in Switzerland with an estimated market share of approximately 64%, followed by diAx with an estimated market share of approximately 19% and Orange with an estimated market share of approximately 17%.

Latin America

Brazil

Telefónica Móviles is the leading wireless operator in Brazil based upon the total number of customers of companies that Telefónica Móviles controls or manages. At December 31, 2000, Telefónica Móviles had interests in and managed companies in Brazil with approximately 4.6 million wireless customers, representing an estimated approximately 64% of the total number of wireless customers in its service regions and an estimated approximately 20% of the total number of wireless customers in Brazil. At December 31, 2000, Telefónica Móviles' interest in wireless communications in Brazil consisted of the following:

Region	Company	Voting Interest	Economic Ownership Interest	Customers at December 31, 2000 (millions)	Manages
Rio de Janeiro/Espirito Santo	Tele Sudeste Celular	75.7%	81.3%	2.5	Yes
Rio Grande do Sul	Celular CRT	55.8%	36.7%	1.45	Yes
Bahia/Sergipe	Tele Leste Celular	21.9%	10.7%	0.7	Yes

Telefónica Móviles manages Tele Leste Celular under a management contract with that company and the other principal shareholders of that company. Tele Sudeste Celular and Tele Leste Celular are publicly-held companies. If the public exchange offer for Celular CRT Participações S.A. described below is consummated, Celular CRT will be delisted from the São Paulo stock exchange.

At December 31, 2000, Brazil had a wireless penetration rate of 14% and a fixed-line penetration of 23%. Brazil experienced a 55% increase in the number of wireless telephone users in 2000.

The Brazilian wireless communications market is highly fragmented with approximately 20 wireless service providers operating under wireless licenses. Nine of these wireless operators are former incumbent operators of which eight were created in the 1998 privatization of Telebrás, the former Brazilian state-sponsored monopoly telecommunications provider, and Celular CRT was the former monopoly provider state-owned incumbent in Rio Grande do Sul.

Agreement with Portugal Telecom. On January 26, 2001, we, Telefónica Móviles, S.A. and Portugal Telecom announced our agreement to create a joint venture to consolidate certain of our wireless businesses in Brazil with those of Portugal Telecom. Our goal is to create the leading wireless operator in Brazil, benefiting from expected synergies, enhanced market positioning and improved valuations derived from the combination of our wireless businesses. If fully consummated, including the anticipated contribution of our interest in Tele Leste Celular as

discussed below, the joint venture will be the leading wireless operator in Brazil based on the total number of customers at March 31, 2001 with a total of 9.9 million controlled customers and covering a potential market of over 95 million persons. Its licensed areas include five of the six largest regions in Brazil in terms of gross domestic product and regions accounting for approximately 71% of Brazil's gross domestic product.

Each of the Telefónica Group and the Portugal Telecom Group has agreed to contribute to a 50:50 joint venture certain of its respective wireless businesses in Brazil, including interests in operating companies and holding companies that own cellular or wireless licenses in Brazil as well as other assets or business that are operated for the benefit of those companies. The wireless assets to be contributed by the Telefónica Group include our direct and indirect interests in Tele Sudeste Celular Participações S.A. and Celular CRT Participações S.A. (including shares of Celular CRT Participações S.A. acquired pursuant to the public exchange offer for Celular CRT Participações S.A. described below). The wireless assets to be contributed by Portugal Telecom include its direct and indirect interests in Telesp Celular S.A. and Celular CRT Participações S.A. In addition, the Telefónica Group intends to contribute to the joint venture its interest in Tele Leste Celular.

The consummation of the joint venture is subject to significant regulatory approvals, including the approval of Anatel, the Brazilian telecommunications commission. We cannot assure you that we will obtain the necessary approvals or that the failure to obtain these approvals will not have a material adverse effect on our or Telefónica Móviles' results of operations. In addition, we and Portugal Telecom are currently negotiating definitive documentation relating to the joint venture. This definitive documentation may contain provisions or obligations different from or in addition to those of the joint venture framework agreement.

Agreement with Iberdrola. On April 9, 2001, we entered into an agreement with Iberdrola, S.A. pursuant to which we will acquire, subject to the receipt of necessary government and other approvals, in exchange for an aggregate of 19,136,307 of our shares, the Iberdrola group's shares in the Brazilian fixed-line and wireless operators, or the holding companies that control such wireless operators, in which we and Iberdrola each participate. In accordance with this agreement, we will acquire

- 3.48% of SP Telecomunicações S.A., the holding company which controls Telesp
- 7% of TBS Celular Participações S.A., the holding company that controls Celular CRT Participações S.A.
- 7% of SudesteCel Participações S.A., the holding company that controls Tele Sudeste Celular Participações S.A., as well as an additional interest in Tele Sudeste Celular Participações S.A.
- 62% of Iberoleste Participações S.A., the holding company that controls Tele Leste Celular Participações S.A., as well as an additional direct interest of 3.38% of Tele Leste Celular Participações S.A.

In addition, Iberdrola has agreed to tender all of the shares of Celular CRT Participações S.A. that it directly holds in the proposed tender offer by Telefónica Móviles for all of the shares of Celular CRT Participações S.A. not currently held by Telefónica Móviles or its affiliates. We may enter into an agreement with Telefónica Móviles, S.A. pursuant to which we would transfer the shares in the Brazilian wireless operators that we acquire from Iberdrola, S.A. to Telefónica Móviles in exchange for Telefónica Móviles ordinary shares or cash. We expect Telefónica Móviles to contribute any shares it acquires from us to the joint venture with Portugal Telecom.

Rio de Janeiro/Espírito Santo—Tele Sudeste Celular Participações S.A.

Telefónica Móviles is the leading wireless operator in the Rio de Janeiro/Espírito Santo region of Brazil with approximately 2.5 million customers at December 31, 2000. At December 31, 2000, Telefónica Móviles estimates that it had an estimated approximately 61% of the wireless customers in the Rio de Janeiro/Espírito Santo region. Telefónica Móviles' operations in the region are conducted through Telerj Celular S.A. and Telest Celular S.A., the two operating subsidiaries of Tele Sudeste Celular Participações S.A.

The remaining ownership interest in Tele Sudeste Celular is held, indirectly, by Itochu Corporation, NTT DoCoMo, Inc. and Iberdrola Investimentos Sul S.A., as well as other minority shareholders. We have agreed to purchase Iberdrola's interest in Tele Sudeste Celular as described above. See “—Agreement with Iberdrola”.

The following table presents, at the dates and for the years indicated, selected statistical data relating to Telefónica Móviles' operations in Rio de Janeiro/ Espírito Santo:

	Year ended December 31,		
	1998(1)	1999	2000
Total customers (in millions at period end).....	0.8	1.9	2.5
Pre-paid customers (in millions at period end).....	0.0	0.8	1.5
Average monthly revenue per customer (euro)(2).....	81	38	31
Average monthly minutes of usage	221	168	139
Population in service territory (in millions at period end).....	17	17	17

- (1) The data in the table reflects five months of results of operations. The Telefónica Group did not acquire an interest in Tele Sudeste Celular until July 1998.
- (2) The reduction of average revenue per user, during 1999, was affected by the devaluation of the Brazilian *real*. On average, the Brazilian *real* was valued at *reais* 1.84 per euro in 1999 compared to *reais* 1.30 per euro in 1998.

Network and Technology. Telefónica Móviles' licenses in Rio de Janeiro/Espírito Santo permit it to operate both an analog network and a digital network, which is based upon the CDMA standard. Due to the absence of nationwide licenses in Brazil and current regulations restricting ownership of licenses by a single entity in multiple regions, roaming agreements within Brazil are important for operators. Telefónica Móviles' roaming agreements with other networks in Brazil and abroad enable its customers to make and receive calls throughout Brazil and in over 100 countries worldwide.

Telefónica Móviles' licenses entitle it to 25 MHz of spectrum in the 800 MHz band. Telefónica Móviles believes that this spectrum is adequate for its requirements.

Telefónica Móviles invested a total of approximately €484 in building out and enhancing its network in Rio de Janeiro/Espírito Santo in 1999 and 2000.

Competition. Telefónica Móviles currently has one competitor in the Rio de Janeiro/Espírito Santo market for wireless communications service: Algar Telecom Leste S.A., or ATL, which is controlled by SBC Communications. ATL began operations in December 1998. Telefónica Móviles estimates that during 1999 and 2000, the overall Rio de Janeiro/Espírito Santo market for wireless communications increased by 1.8 million and 1.3 million customers, respectively, of which approximately 55% and 56% became customers of Tele Sudeste.

Rio Grande do Sul—Celular CRT Participações S.A.

Telefónica Móviles is the leading wireless operator in the Rio Grande do Sul region of Brazil with approximately 1.45 million customers at December 31, 2000, or more than two and one-half times the number of customers of the other wireless operator in the region. At December 31, 2000, Telefónica Móviles estimates that it had 74% of the wireless customers in Rio Grande do Sul. Telefónica Móviles' operations in Rio Grande do Sul are conducted through Celular CRT Participações S.A., a company in which it, directly and indirectly, held a 36.7% equity interest at December 31, 2000 but controls through its ownership of the majority of voting shares.

On February 27, 2000, Telefónica Móviles announced a proposed exchange offer to acquire all of the outstanding ordinary and preferred shares of Celular CRT Participações S.A. not held by Telefónica Móviles or its affiliates, in exchange for securities of Telefónica Móviles. Pursuant to the proposed exchange offer, Telefónica Móviles will offer 4 American depository shares or Brazilian depository receipts in exchange for an aggregate of 57 ordinary or preferred shares of Celular CRT Participações S.A. The proposed exchange offer is subject to regulatory and other approvals in Brazil and the United States.

The following table presents, at the dates and for the periods indicated, selected statistical data relating to Telefónica Móviles' operations in Rio Grande do Sul:

	Year ended December 31,		
	1998(1)	1999	2000
Total customers (in millions at period end).....	0.5	1.0	1.45
Pre-paid customers (in millions at period end).....	0.0	0.4	0.9
Average monthly revenue per customer (euro)(2)	81	28	28
Average monthly minutes of usage	190	164	127
POPs in service territory (in millions at period end)	10	10	10

- (1) Until May 1998, Celular CRT Participações S.A. was part of an integrated operation.
- (2) The reduction of average revenue per user, during 1999, was affected by the devaluation of the Brazilian *real*. On average, the Brazilian *real* was valued at *reais* 1.84 per euro in 1999 compared to *reais* 1.30 per euro in 1998.

Network and Technology. Telefónica Móviles' licenses in Rio Grande do Sul permit it to operate both an analog network and digital network, which is based upon the TDMA standard. Telefónica Móviles' roaming agreements with other networks in Brazil and abroad enable its customers to make and receive calls throughout Brazil and in over 100 countries worldwide.

Telefónica Móviles' licenses entitle it to 25 MHz of spectrum in the 800 MHz band. Telefónica Móviles believes that this spectrum is adequate for its requirements.

Competition. Telefónica Móviles currently has one competitor operating in the Rio Grande do Sul market for wireless communications services: Telet S.A., which is owned by America Movil, in which Bell Canada International has an interest. At December 31, 2000, Telefónica Móviles' Rio Grande do Sul operations had approximately 1.45 million customers or an estimated approximately 74% market share compared to an estimated approximately 26% for Telet. Telet began its operations in March 1999. Telefónica Móviles estimates that during 1999 and 2000, the overall Rio Grande do Sul market for wireless communications increased by 608,000 and 827,000 customers, respectively, of which 70% and 59% became Telefónica Móviles' customers.

Bahia/Sergipe—Tele Leste Celular Participações S.A.

Tele Leste Celular, in which Telefónica Móviles holds a 10.7% equity interest and which Telefónica Móviles manages pursuant to a management contract, is the leading wireless operator in the Bahia/Sergipe region of Brazil with approximately 0.7 million customers at December 31, 2000, or an estimated approximately 57% more customers than the other wireless operator in the region. Telefónica Móviles estimates that Tele Leste Celular had approximately 61% of the wireless customers in Bahia/Sergipe at December 31, 2000. Tele Leste Celular's operations in Bahia/Sergipe are conducted through its two operating subsidiaries, Telebahia Celular S.A. and Telergipe Celular S.A.

We have agreed with Iberdrola to acquire, subject to the receipt of necessary government and other approvals, Iberdrola Investimentos Sociedade Unipessoal, Ltda.'s 62% interest in Iberoleste Participações as well as an additional 3.38% interest in Tele Leste Celular Participações S.A. See "—Agreement with Iberdrola" above. Telefónica Móviles manages Tele Leste Celular's two operating subsidiaries under management agreements that entitle Telefónica Móviles to 1% of net revenues from wireless operations.

The following table presents, at the dates and for the periods indicated, selected statistical data relating to Tele Leste Celular's operations in Bahia/Sergipe. Telefónica Móviles accounts for its interest in Tele Leste Celular under the equity method.

	Year ended December 31,		
	1998(1)	1999	2000
Total customers (in millions at period end).....	0.3	0.5	0.7
Pre-paid customers (in millions at period end).....	0.0	0.2	0.4
Average monthly revenue per customer (euro)(2).....	81	28	28
Average monthly minutes of usage	225	173	139
Population in service territory (in millions at period end).....	15	15	15

- (1) The data in this table for 1998 reflect five months of results of operations.

- (2) The reduction of average revenue per user, during 1999, was affected by the devaluation of the Brazilian *real*. On average, the Brazilian *real* was valued at *reais* 1.84 per euro in 1999 compared to *reais* 1.30 per euro in 1998.

Network and Technology. Tele Leste Celular operates both analog and digital networks. Tele Leste Celular's digital network is based upon the CDMA standard. Tele Leste Celular invested a total of approximately €160 million in building out and enhancing its network in Bahia/Sergipe in 1999 and 2000. At December 31, 2000, Tele Leste Celular's network consisted of four digital switching centers, 248 digital radio base stations and 253 analog base stations, giving coverage to over 71.5% of the population.

Competition. Telefónica Móviles currently has one competitor in the Bahia/Sergipe market for wireless communications service: Maxitel, which is controlled by Telecom Italia. At December 31, 2000, Tele Leste Celular operations had approximately 0.7 million customers, or an estimated approximately 61% market share, compared to an estimated approximately 0.4 million for Maxitel. Telefónica Móviles estimates that during 1999 and 2000 the overall Bahia/Sergipe market for wireless communications increased by 0.5 million and 0.3 million customers, respectively, of which approximately 60% and 51% became customers of Tele Leste Celular.

Peru

Telefónica Móviles, S.A.C., or Telefónica Móviles Peru, is the leading wireless operator in Peru with approximately 900 thousand customers at December 31, 2000 or more than double the number of customers of the other three operators in the country combined. Telefónica Móviles estimates that Telefónica Móviles Peru had an estimated approximately 70% of the existing wireless customers in Peru at December 31, 2000.

In March 2001, as a preliminary step in the transfer to Telefónica Móviles of the Telefónica Group's wireless operations in Peru, we transferred to Telefónica Móviles an approximately 16.5% interest in Telefónica del Peru S.A.A. in exchange for 65,939,564 ordinary shares of Telefónica Móviles. In accordance with the resolution of the shareholders of Telefónica del Peru S.A.A. to divide the company along business lines, Telefónica del Peru S.A.A. is expected in mid-2001 to spin-off its wireless operations in the form of shares of Telefónica Móviles, S.A.C. and its data operations. Telefónica Móviles has agreed with other members of the Telefónica Group who are shareholders of Telefónica del Peru S.A.A. to exchange, following such spin-offs, the shares of such data operations that Telefónica Móviles receives in the spin-off, as well as the shares Telefónica Móviles holds in Telefónica del Peru S.A.A., for the shares in Telefónica Móviles S.A.C. that the other members of the Telefónica Group receive in the spin-off. Following the spin-off and share exchanges, Telefónica Móviles expects to hold a 93.2% interest in Telefónica Móviles, S.A.C. and will not hold any interest in such data operations or Telefónica del Peru S.A.A.

The following table presents, at the dates and for the periods indicated, selected statistical data relating to Telefónica Móviles Peru:

	Year ended December 31,	
	1999	2000
Total customers (in millions at period end).....	0.7	0.9
Pre-paid customers (in millions at period end).....	0.5	0.7
Average monthly revenue per customer (euro)	30	24
Average monthly minutes of usage	122	83
Population in service territory (in millions at period end).....	25	26

Network and Technology. Telefónica Móviles Peru operates both analog and digital networks. Its digital network is based upon the CDMA standard. It has roaming agreements enabling Telefónica Móviles Peru's contract customers to make and receive calls in over 100 countries including most of the Americas.

Telefónica Móviles Peru's licenses entitle it to 25 MHZ of spectrum in the 800 MHZ band. We believe that this spectrum is adequate for Telefónica Móviles Peru's requirements.

Competition. Telefónica Móviles Peru currently has three competitors in the Peruvian market for wireless communications service: BellSouth; Nextel Peru; and TIM Peru. At December 31, 2000, Telefónica Móviles Peru had an estimated approximately 69% market share in the wireless market in Peru. At December 31, 2000, BellSouth had an estimated approximately 29% market share in the wireless market and Nextel Peru had less than

2% of the wireless market. In addition, Stet Mobile Holdings, which is controlled by Telecom Italia, received a concession for a GSM/PCS license in March 2000 and recently commenced operations as TIM Peru.

At December 31, 2000, Telefónica Móviles Peru had approximately 900 thousand customers, compared to an estimated approximately 361 thousand for BellSouth and approximately 20 thousand for Nextel Peru. Telefónica Móviles estimates that during 1999 and 2000, the overall Peruvian market for wireless communications increased by approximately 270 thousand and 260 thousand customers, respectively, of which approximately 77% and 72% became customers of Telefónica Móviles Peru.

Argentina

Telefónica Comunicaciones Personales S.A. is the second largest wireless operator in Argentina with approximately 1.8 million customers at December 31, 2000, or approximately 0.3 million customers fewer than the largest wireless operator. Telefónica Móviles estimates that Telefónica Comunicaciones Personales had approximately 26% of the existing wireless customers in Argentina at December 31, 2000.

In January 2001, as a preliminary step in the transfer to Telefónica Móviles of the Telefónica Group's wireless operations in Argentina, we transferred to Telefónica Móviles 15.1% of the common stock of Telefónica de Argentina S.A. in exchange for 174,863,364 ordinary shares of Telefónica Móviles. In accordance with the resolution of the shareholders of Telefónica de Argentina S.A. to divide the company along business lines, Telefónica de Argentina S.A. is expected in mid-2001 to spin-off its wireless operations in the form of shares of Telefónica Comunicaciones Personales S.A. and its data operations. Telefónica Móviles has agreed with other members of the Telefónica Group who are shareholders of Telefónica de Argentina S.A. to exchange, following such spin-offs, the shares of such data operations that it receives in the spin-off, as well as the shares Telefónica Móviles holds in Telefónica de Argentina S.A., for the shares of Telefónica Comunicaciones Personales that the other members of the Telefónica Group receive in the spin-off. Following the spin-offs and share exchanges, Telefónica Móviles expects to hold a 97.9% interest in Telefónica Comunicaciones Personales S.A. and will not hold any interest in such data operations or Telefónica de Argentina S.A.

The following table presents, at the dates and for the period indicated, selected statistical data relating to Telefónica Comunicaciones Personales:

	Year ended December 31,	
	1999(1)	2000
Total customers (in millions at period end)(2)	1.1	1.8
Pre-paid customers (in millions at period end)(2)	0.5	1.1
Average monthly revenue per customer (euro)(3)	57	43
Average monthly minutes of usage	139	112
Population in service territory (in millions at period end)	37	37

- (1) The fiscal year of Telefónica Comunicaciones Personales currently ends on September 30. The selected statistical data in the table has been presented for twelve-month periods ended December 31 of the years indicated to facilitate comparison with the other operating companies.
- (2) Includes, for periods prior to December 1, 1999, one-half of the customers of Miniphone S.A., which represented Telefónica Comunicaciones Personales' proportional interest in that company.
- (3) For periods prior to December 1, 1999, calculated as the average of average revenue per user for Telefónica Comunicaciones Personales, in Southern Argentina, and in Greater Buenos Aires for Miniphone weighted for the number of customers and taking one-half of Miniphone's customers (based upon the Telefónica Group's interest in that company).

Telefónica Comunicaciones Personales provides wireless services in each of Argentina's three service regions: Greater Buenos Aires; Southern Argentina; and Northern Argentina.

Network and Technology. Telefónica Comunicaciones Personales operates both analog and digital networks. Its digital network is based upon the TDMA standard. It has roaming agreements enabling its customers to make and receive calls in over 100 countries worldwide.

Telefónica Comunicaciones Personales' licenses entitle it to 12.5 MHz of spectrum in the 800 MHz band and 30 MHz of spectrum in the 1900 MHz band in Greater Buenos Aires, 25 MHz of spectrum in the 800 MHz band and 20 MHz of spectrum in the 1900 MHz band in Southern Argentina and 40 MHz of spectrum in the 1900 MHz band in Northern Argentina. Telefónica Móviles believes that Telefónica Comunicaciones Personales' spectrum is adequate for its requirements.

Competition. Telefónica Comunicaciones Personales has increased its market share from the fourth position in the market at 20% at June 30, 1999 to second at 26% at December 31, 2000. Telefónica Comunicaciones Personales currently has three competitors in the Argentine market for wireless communications services, each of which provides services on a nationwide basis. Telecom Personal holds an estimated approximately 30% of the wireless market and is controlled by France Telecom and Telecom Italia through Telecom Argentina. BellSouth's Movicom has an estimated approximately 23% of the wireless market. CTI Móvil has a market share of an estimated approximately 20% and is controlled by Verizon. Telefónica Móviles estimates that during 1999 and 2000, the overall Argentine market for wireless communications increased by 1.7 million and 2.1 million customers, respectively, of which approximately 49% and 33%, respectively, became customers of Telefónica Comunicaciones Personales.

El Salvador

Telefónica Móviles is the second largest of three wireless operators in El Salvador, after less than two years of operation, with approximately 230 thousand customers at December 31, 2000, or an estimated approximately 34 thousand customers fewer than the largest operator. Telefónica Móviles estimates that it had 36% of the existing wireless customers in El Salvador at December 31, 2000. Telefónica Móviles' El Salvador operations are conducted through Telefónica El Salvador, S.A. de C.V., in which it indirectly owns a 44.2% interest.

Guatemala

Telefónica Móviles has gained approximately 142 thousand customers in Guatemala from its launch in October 1999 through December 31, 2000, representing an estimated approximately 23% of the existing wireless customers in Guatemala at that date. Telefónica Móviles' Guatemala operations are conducted through Telefónica Centroamérica Guatemala, S.A., in which it indirectly holds a 51% interest.

Mexico

Telefónica Móviles has agreed to acquire from Motorola, Inc. its interest in four wireless operators in Mexico. The companies operate in four of the nine wireless regions of Mexico and began operations in 1990, the year in which Teléfonos de Mexico, S.A. de C.V., or Telmex, the state-owned telecommunications monopoly, was privatized. The interests Telefónica Móviles has agreed to acquire include the following: 100% of Baja Celular Mexicana, S.A. de C.V., or Bajacel, which has licenses to operate in the Mexican States of Baja California, Baja California Sur, and parts of Sonora; 90% of Movitel del Noroeste, S.A. de C.V., or Movitel, which has licenses to operate in the Mexican States of Sinaloa and parts of Sonora; 100% of Telefonía Celular del Norte, S.A. de C.V., or Norcel, which has licenses to operate in the Mexican States of Chihuahua, Durango, and parts of Coahuila; and 100% of Celular de Telefonía, S.A. de C.V., or Cedetel, which has licenses to operate in the Mexican States of Nuevo Leon, Tampaulipas, and parts of Coahuila. The purchase price for these wireless operators is an aggregate of U.S.\$1,857.3 million in shares of Telefónica, S.A. or, at Telefónica Móviles' option, U.S.\$1,798.9 million in cash. If Telefónica Móviles elects to pay for this acquisition in shares of Telefónica, S.A., we will issue shares having a market value at closing of U.S.\$1,857.3 million to complete the acquisition and then transfer the wireless operators to Telefónica Móviles in exchange for Telefónica Móviles ordinary shares of equivalent value, based upon Telefónica Móviles' initial public offering price. Accordingly, Telefónica Móviles would transfer 203,036,862 ordinary shares to us. This transaction is expected to close in mid-2001.

Puerto Rico

We plan to transfer to Telefónica Móviles our investment, through Telefónica Internacional, S.A., in NewComm Wireless Services, Inc., a Puerto Rican wireless operator with approximately 150 thousand customers at December 31, 2000. This investment is in the form of a U.S.\$19.96 million note that is convertible into up to 49.9% of the capital stock of NewComm Wireless, subject to receipt of necessary U.S. regulatory authorizations. However, under the terms of the joint venture agreement with ClearComm, L.P., the majority shareholder of NewComm Wireless, ClearComm has the right to purchase the convertible note or the shares into which the note is convertible

at a significant premium to face value. Telefónica Móviles currently manages the day-to-day operations of NewComm Wireless under a management agreement entered into between Telefónica Internacional, S.A. and NewComm Wireless.

Mediterranean Basin

Morocco

Medi Telecom, S.A., in which Telefónica Móviles holds a 30.5% interest and shares management responsibilities, is the second largest wireless operator in Morocco with approximately 515 thousand customers at December 31, 2000, compared with an estimated approximately one million for the former monopoly telecommunications provider. After nine months of operations, Telefónica Móviles estimates that Medi Telecom had approximately 28% of the wireless customers in Morocco at December 31, 2000. Medi Telecom is also owned by Portugal Telecom International, which has a 30.5% equity interest and with which Telefónica Móviles shares management responsibilities; BMCE, a Moroccan bank, which has a 20% equity interest; Holdco (Afriquia), a petroleum and distribution company, which has an 11% equity interest; and CDG, a Moroccan public investment company, which has an 8% equity interest.

Wireless Internet and Data Initiatives

E-moción—Wireless Internet Service Provider

In June 2000, Telefónica Móviles launched *e-moción*, its wireless Internet service provider. Initially launched in Spain, *e-moción* offers Telefónica Móviles' customers wireless access to the Internet, including the ability to browse any wireless application protocol site and access to a broad and fast growing menu of links to wireless content providers, which, in the case of Spain, number more than 160. All of Telefónica Móviles' operating companies have launched *e-moción*.

Terra Mobile—Wireless Portal

Terra Mobile is a joint venture between Telefónica Móviles, which holds a 51% interest, and Terra Networks, which holds the remaining 49% interest, to create a major wireless Internet portal. Terra Mobile is present in Finland, Sweden, Germany, the United Kingdom, Spain and Brazil, with 4 million registered users in March 2001, including 1 million in Germany. Terra Mobile has entered into agreements with operators giving it access to approximately 100 million potential customers.

Wireless Data Services

m-Payment Services. Telefónica Móviles is working with merchants and financial institutions to develop m-payment services that will increase the use of its network. These products and services often require special equipment for the merchant or customers such as dual slot handsets or special SIM cards. Due to higher costs per transaction, these products and services to date have not been launched in the consumer retail market.

Mobile Payment System. Telefónica Móviles, Banco Bilbao Vizcaya Argentaria, S.A., Banco Santander Central Hispano, S.A. and Airtel, S.A. are developing a new, simple, fast, low cost and secure mobile payment system that offers merchants and customers the capability for onsite (in person) or remote automated transactions including with vending machines, for personal money transfers, micropayments and for value added services like electronic invoicing. The new payment system will be an open system, which other financial institutions, wireless operators and payment processing companies in Spain are able to join. Amena, a wireless operator in Spain, has agreed to join the project, and several other financial institutions have agreed in principle to join the project.

The project will involve an initial investment by its participants of approximately €42 million in the aggregate in two companies established to set up the payment systems platform in Spain and abroad, respectively. We expect that mobile payment services will be launched in Spain on a pilot basis in the fourth quarter of 2001 and commercially before the end of the year.

Worldwide Audiovisual Content and Media Communications – Telefónica Media

Telefónica Media conducts our worldwide audiovisual content and media communications business. Since 1998, we have strengthened our position in the audiovisual market in order to take advantage of synergies between our various areas of activity, including media, production, broadcasting and audiovisual content offerings. In November 2000, we announced the restructuring of Telefónica Media into three business areas in order to consolidate its leading position in the audiovisual sector and to benefit from the convergence of telecommunications, audiovisual content and the Internet. The three business areas are

- Pay television
- Free-to-air television and radio
- Audiovisual content

Pay Television

We offer direct-to-home (DTH) satellite television service in Spain through DTS Distribuidora de Televisión Digital, S.A. (“DTS”), a joint venture along with a number of television broadcasters. DTS markets its services under the Vía Digital trademark. At December 31, 2000, Vía Digital had 633,059 subscribers. For the year then ended, Vía Digital had operating revenues of Ptas 36,612 million and a net loss of Ptas 42,262 million. We account for our interest in Vía Digital by the equity method.

During 1999, we increased our ownership interest in Vía Digital to 68.6%. In January 2000, Vía Digital issued additional ordinary shares. We purchased some of these shares, but fewer than our proportionate interest in the company. As a result, our interest in Vía Digital declined to 48.6%. As part of the capital increase, we gave a new shareholder of Vía Digital who subscribed for the majority of the capital increase the right to require that we either (1) repurchase, if legally permitted, or (2) identify a buyer who will purchase on June 30, 2003, its interest in Vía Digital at the price paid by it plus interest as provided in the agreement. We also have the right exercisable through that date to require such shareholder to sell to our designee its interest at such price.

Vía Digital offers more than 70 video broadcast channels, 30 audio channels, 16 radio broadcast channels, as well as interactive services through its nationwide direct-to-home satellite service. Vía Digital's programming offerings and interactive television service provide its subscribers with an integrated offering of high-quality entertainment, information and services.

In March 1999, Vía Digital acquired the exclusive rights to broadcast the United European Football Association Champions League on pay-per-view through the 2002-2003 season. In June 1999, Sogecable and Telefónica Media entered into an agreement relating to joint broadcast rights for the “National Championship Soccer League” and the “King's Cup of Spain” through the 2008-2009 season. As part of this agreement, Telefónica Media granted to Sogecable joint rights to broadcast the United European Football Association Champions League.

Vía Digital is subject to competition from Canal Satellite Digital, which is owned by Sogecable. Sogecable's shareholders include Grupo Prisa, a Spanish media company, Canal Plus France and other financial shareholders. Canal Satellite Digital began offering satellite-based broadcasting service in March 1997. Vía Digital also competes with Quiero TV, which was launched by Retevisión in May 2000. In the near future, with the entrance of new cable TV operators, Vía Digital expects the number of competitors and services on offer to increase.

Free-to-air television and radio

Antena 3

Antena 3 was one of the leading private commercial television stations in Spain in 2000 in terms of advertising share and audience share. At December 31, 2000, Telefónica Media directly owned 47.4% of Antena 3. Since we acquired an interest in Antena 3 in 1997, Antena 3's operating margin has increased to Ptas 30,281 million in 2000 from Ptas 5,636 million in 1997. In addition, Antena 3's net profits have increased to Ptas 21,377 million in 2000 from a net loss of Ptas 3,648 million in 1997. We account for our interest in Antena 3 by the equity method.

Antena 3's objectives during 2000 were three-fold:

- strengthen its leadership among private Spanish television stations and among the most attractive audiences for advertisers. According to market research conducted by Sofres, Antena 3 had a market share of 21.6% in 2000. In 2000, Antena 3 was the leader among viewers who are 44 years of age and under and those who are in the middle class. As a result, Antena 3 was able to capture 27.9% of the television advertising market and improved its efficiency rating (i.e., its share of the television advertising market divided by its total viewer market share) to 1.3.
- substantially reduce Antena 3's cost basis
- diversify into new areas of business such as theme channels and interactive television

The development of new audiovisual broadcasting technologies such as digital terrestrial television as well as the granting of licenses to new television operators may adversely affect Antena 3's advertising revenues as advertisers reallocate their advertising budgets.

Atlántida de Comunicaciones S.A.

In 1998, the Telefónica Group acquired an initial stake in Atlántida de Comunicaciones, an Argentine holding company, which owns the publishing company Atlántida and the Argentine television channels, Telefé and Televisoras Provinciales, as well as Radio Continental. In 2000, we acquired in several steps the remaining interest in Atlántida de Comunicaciones in exchange for our shares.

Onda Cero Radio Network

In 1999 Telefónica Media acquired all of the shares of Uniprex, which owns the Onda Cero radio network, and Cadena Voz de Radiofusión, S.A. These companies maintain radio network coverage through 300 proprietary or associated radio stations which carry the programming of Onda Cero Radio, Europa FM, Onda Melodía, Onda Cero Radio Internacional, Radio Voz and Onda Rambla. In 2000, Onda Cero Radio ranked second in the Spanish conventional radio station market in terms of listening audience.

Audiovisual content

Endemol Entertainment

In July 2000, we acquired 99.2% of Endemol Entertainment Holding N.V., one of Europe's leading television producers, through an exchange offer outside the United States. We issued 6.2 of our shares for each Endemol share, for an aggregate amount of 213,409,097 new shares. See "—Public Takeover Offers".

Torneos y Competencias

Torneos y Competencias, in which Telefónica Media held a 20% stake at December 31, 2000, holds broadcasting rights for Argentine soccer.

Patagonik Film Group

In 2000, Telefónica Media acquired from affiliates of The Walt Disney Company and Grupo Clarín a 30% interest in Patagonik Film Group for Ptas 1,428 million. Patagonik is a film content production company, based in Argentina, that produces audiovisual content for Hispanic markets in Latin America and the United States.

Telefónica Servicios Audiovisual

Telefónica Servicios Audiovisuales is the principal provider in Spain and Latin America of satellite and television audiovisual technical services and signal compression and up-links for satellites.

Other Investments

In 1999, we acquired a 5% stake in Pearson plc for Ptas 103,391 million and sold our 20% stake in Recoletos Compañía Editorial to Pearson plc. We have announced our intention to sell our stake in Pearson plc.

International Business in the Americas – Telefónica Internacional

The Telefónica group's international business in Latin America is conducted through Telefónica Internacional. Under the reorganization of our business along global business lines announced by our Board of Directors on January 12, 2000, some or all of some of our current lines of business, including Telefónica Internacional, have been or may in the future be combined with other business lines.

In October 2000, Telefónica Internacional transferred its interests in Tele Sudeste Celular, Tele Leste Celular, Celular CRT, Telefónica Centroamérica Guatemala and Telefónica El Salvador to Telefónica Móviles in exchange for shares of Telefónica Móviles. We expect to transfer pursuant to a spin-off Telefónica de Argentina's and Telefónica del Perú's wireless operations to Telefónica Móviles in mid-2001. Telefónica Internacional also expects to transfer certain of its data and directory publishing businesses in Latin America to the respective Telefónica companies which head those lines of business during 2001.

In 2000, Telefónica Internacional consolidated its leadership position in the telecommunications sector in Latin America by:

- increasing its ownership interest in several of its Latin American operating companies through public tender offers
- strengthening the competitive position of the operators under its management

The following tables set forth information (including market share data to the extent such information is available) with respect to the principal telecommunications operators that are members of the Telefónica Internacional group. Information is given at December 31, 2000, unless otherwise specified.

<u>Company</u>	<u>Country</u>	<u>Population (in Millions at December 31, 2000)</u>	<u>Services Provided</u>	<u>Competition</u>
Compañía de Telecomunicaciones de Chile	Chile	15.2(1)	Basic telephony Domestic long distance International long distance Public telephony Wireless communications Leasing and sale of equipment and terminals Paging Data transmission	All existing telephone services in Chile are deregulated.
Telefónica de Argentina	Argentina	37.0	Basic telephony Domestic long distance International long distance Wireless communications(2) Paging Yellow pages Internet-related services Value-added services	All existing telephone services in Argentina are deregulated.
Telefónica del Perú	Peru	25.7	Basic telephony Long distance Wireless communications(3) Cable television Yellow pages Paging Data transmission (3)	All existing telephone services in Peru are deregulated, except for new PCS licenses which have been awarded on an exclusive basis for a three-year period.
Telefónica Larga Distancia de Puerto Rico, Inc.	Puerto Rico	3.8	Long-distance services	Free competition.

Company	Country	Population (in Millions at December 31, 2000)	Services Provided	Competition
Telecomunicações de São Paulo–TELESP	Brazil	38.5(4)	Basic telephony Domestic long distance Public telephony Data transmission Yellow Pages Value-added services	All existing telephone services in Peru are deregulated.

- (1) Estimated population at June 30, 2000.
- (2) Telefónica de Argentina's wireless communications operations are expected to be transferred to Telefónica Móviles in mid-2001.
- (3) Telefónica del Peru's wireless communications operations and data transmission operations are expected to be transferred to Telefónica Móviles and Telefónica Data, respectively, in mid-2001.
- (4) Population of coverage area.

The following table sets forth additional information regarding the principal telecommunications operators that are members of the Telefónica Internacional group. Information is at and for the year ended December 31, 2000, unless otherwise specified.

Company	Employees	Total Revenues(1)	Net Profit (loss)(1)	Shareholders' Equity
			(billions of pesetas)	
Compañía de Telecomunicaciones de Chile.....	7,102	266.3	(36.1)	346.4
Telefónica de Argentina(2).....	12,270	651.7	61.8	581.2
Telefónica del Peru.....	6,359	239.6	14.9	236.5
Telefónica Larga Distance de Puerto Rico, Inc.	175	14.1	(0.4)	17.01
Telecomunicações de São Paulo–TELESP.....	14,038	723.7	144.8	1,158.5

- (1) Consolidated data.
- (2) Data for the twelve-month period ended September 30, 2000.

The following table sets forth additional information regarding the principal telecommunications operators that are members of the Telefónica Internacional group. Information is at and for the year ended December 31, 2000, unless otherwise specified.

Company	Year Acquired	Interest (1)	Management
Compañía de Telecomunicaciones de Chile	1990	43.6%	Telefónica Internacional appoints the majority of board members.
Telefónica de Argentina	1990	92.9%	Telefónica Internacional has control of Telefónica de Argentina through its stake in COINTEL. In addition, Telefónica has a management contract with Telefónica de Argentina.
Telefónica del Peru	1994	93.2%	Telefónica Internacional appoints the majority of board members and has a management contract.
Telefónica Larga Distancia de Puerto Rico, Inc.	1992	98.0%	Telefónica Internacional appoints the majority of the board of directors.
Telecomunicações de São Paulo—TELESP	1998	86.6%	Managed by Telefónica Internacional, which has a management contract.

(1) Direct and indirect stake held by Telefónica, S.A.

Brazilian Activities

On July 29, 1998, Telefónica Internacional successfully bid for four of the 12 operators that were auctioned during the privatization of Telebrás, the Brazilian state-owned telecommunications monopoly. Telefónica Internacional-led consortiums acquired 51.79% of the voting shares of Telesp, Tele Sudeste Celular and Tele Leste Celular. For a description of Tele Sudeste Celular and Tele Leste Celular, See “—Worldwide Wireless Communication Services—Telefónica Móviles”. In addition, Telefónica Internacional acquired a significant stake in the consortium, Portelcom Participações S.A., which successfully bid for Telesp Celular.

In January 1999, as a result of adverse economic conditions in Brazil, Telefónica Internacional wrote down the book value of its investments in Brazil in the amount of Ptas 119,374 million. In addition, on January 27, 1999, Telefónica Internacional prepaid its debt to the Brazilian government in connection with financing the acquisition of the privatized entities. As a result of the devaluation of the Brazilian *real*, Telefónica Internacional paid Ptas 165,391 million less than the outstanding book value of its debt at December 31, 1998.

Telesp

Telesp provides fixed-line and other telecommunications services in the Brazilian state of São Paulo under concessions and licenses from Brazil’s federal government. In mid-2000, we completed an exchange offer for the Telesp shares and ADSs held by minority investors. In July 2000, Telefónica Internacional agreed to exchange its interest in Portelcom Participações S.A., the holding company which controls Telesp Celular, for Portugal Telecom’s minority interest in SP Telecomunicações S.A., the holding company through which we control Telesp. In addition, Telefónica Internacional paid an aggregate of approximately U.S.\$60 million to Portugal Telecom pursuant to the terms of the agreement. At December 31, 2000, we held an approximately 86.6% interest in Telesp. In April 2001, we agreed to acquire an additional 3.48% of SP Telecomunicações S.A. from the Iberdrola group, subject to necessary approvals. See “Worldwide Wireless Communications—Telefónica Móviles—Latin America—Brazil—Agreement with Iberdrola”.

At December 31, 2000, Telesp managed approximately 10.6 million access lines in service, representing an increase of 28.4% over 1999. During 2000, Telesp installed an average of 215,000 lines per month. In 2000, the digitalization of Telesp’s network increased to 94% and it had a productivity ratio of 790 lines in service per employee at December 31, 2000.

The following table provides information with respect to Telesp's telecommunications network at and for the periods indicated.

	At December 31,		Percentage Increase/(Decrease)
	1999	2000	
Lines installed (thousands)	9,548	12,480	31%
Lines in service (thousands)	8,251	10,596	28%
Penetration rate in São Paulo	23.8%	29.5%	5.7%
Lines in service per employee	566	790	40%
Average days between application and installation	34	12	

Telesp is subject to competition for local telephone services from a "mirror" license holder. It is subject to competition for interprovincial long-distance services from a "mirror" license holder, Embratel and Embratel's "mirror" license holder. Data transmission and value-added services have been liberalized in Brazil.

The Telefónica Group will have the right to operate fixed-line telephone services throughout the entire national territory of Brazil beginning in 2002, subject to the fulfillment of certain quality and expansion targets established in Telesp's concession contract by December 31, 2001.

Telefónica Internacional has entered into a management contract pursuant to which Telefónica Internacional received 1% of Telesp's revenues until 2000, which amount was reduced to 0.5% through 2002, and will then be reduced to 0.2% beyond that date. The contract expires December 31, 2003 and may be renewed.

Companhia Riograndense de Telecomunicações

In July 2000, we sold our remaining stake in Companhia Riograndense de Telecomunicações S.A., the largest fixed-line and value added services operator in the Brazilian state of Riograndense do Sul, in order to comply with Brazilian regulations which required its sale.

Other Principal Subsidiaries

Compañía de Telecomunicaciones de Chile

Compañía de Telecomunicaciones de Chile, in which Telefónica Internacional held a 43.6% stake at December 31, 2000, is the largest telecommunications operator in Chile. According to its estimates, Compañía de Telecomunicaciones de Chile owns approximately 90% of the access lines in service in Chile and had an access line penetration rate of 21.2% at December 31, 2000. Compañía de Telecomunicaciones de Chile provides:

- local telephone service
- domestic and international long-distances services
- wireless communications services
- multimedia services

Compañía de Telecomunicaciones de Chile managed 2.7 million lines in service at December 31, 2000. Compañía de Telecomunicaciones de Chile's productivity ratio increased to 582 lines per employee in 2000 from 425 lines per employee in 1999. At December 31, 2000, Compañía de Telecomunicaciones de Chile had 1.2 million wireless subscribers, representing a 6% increase over 1999 and an estimated approximately 36% market share. Compañía de Telecomunicaciones de Chile's wireless operations are managed by Telefónica Móviles.

In January 1999, Compañía de Telecomunicaciones de Chile and Sonda, the leading data transmission provider in Chile, signed a strategic alliance pursuant to which Compañía de Telecomunicaciones de Chile acquired a 60% stake in Sonda.

In May 2000, Compañía de Telecomunicaciones de Chile agreed to sell its 40% stake in Metrópolis-Intercom, the second largest cable TV provider in Chile, to Cordillera.

Equity securities of Compañía de Telecomunicaciones de Chile trade on the Santiago and New York stock exchanges under the symbol "CTC."

Telefónica de Argentina

Telefónica de Argentina is a leading provider of fixed-line public telecommunications services and basic telephone services in Argentina. Telefónica de Argentina is licensed to provide local and domestic long-distance and international services, international data transmission and domestic and international telex services throughout Argentina. At December 31, 2000, Telefónica de Argentina's telecommunications network had approximately 4.3 million lines in service and a penetration rate of 11.3%. At that date, its market share for local telephony was 52%, its market share for domestic long-distance was 41% and its market share for international long-distance was 47%.

During 2000, we increased our stake in Telefónica de Argentina through a public exchange offer for Telefónica de Argentina shares and ADSs held by minority investors and our acquisition of 50% of Compañía de Inversiones en Telecomunicaciones (COINTEL), which held a 52.9% stake in Telefónica de Argentina. As a result, at December 31, 2000, we held an approximately 92.9% interest in Telefónica de Argentina.

We have a management contract with Telefónica de Argentina under which we have agreed to manage Telefónica de Argentina's business and provide services and expertise regarding Telefónica de Argentina's entire range of activities in return for a percentage of Telefónica de Argentina's operating margin equivalent to 9% of its gross margin prior to amortization and interest expense.

Telefónica de Argentina provides basic telephone services throughout Argentina. Similarly, Telecom Argentina, Compañía de Teléfonos del Interior S.A., an affiliate of GTE Mobile International Inc., and Compañía de Teléfonos del Plata S.A., an affiliate of BellSouth, were awarded licenses to provide the same basic telephone services throughout Argentina as of October 10, 1999.

The Argentine telecommunications market was fully liberalized in November 2000. Interconnection prices were reduced by 50%, and in order to increase competition in the long-distance market, consumers are permitted to select their long-distance carrier. Telefónica de Argentina expects that the introduction of full competition in the Argentine telecommunications market will result in a loss of market share.

In accordance with the resolution of the shareholders of Telefónica de Argentina to divide the company along business lines, Telefónica de Argentina expects to spin-off its wireless operations to Telefónica Móviles in mid-2001.

Equity securities of Telefónica de Argentina trade on the Buenos Aires and New York stock exchanges under the symbol "TAR."

Telefónica del Perú

Telefónica del Perú is the leading global telecommunications operator in Peru. At December 31, 2000, Telefónica del Perú had approximately 1.7 million lines in service, including public telephone lines operated by Telefónica del Perú, and 349,000 cable television subscribers. Telefónica del Perú's access line penetration rate was 6.7% at December 31, 2000. In 1999, the degree of digitalization of Telefónica del Perú's network increased to 96%.

Under a management contract between Telefónica Internacional and Telefónica del Perú, Telefónica Internacional provides Telefónica del Perú with management and technical support in exchange for management and technology transfer fees equivalent to 9% of its operating margin before depreciation and amortization and 1% of its revenues.

In mid-2000, we completed an exchange offer for the Telefónica del Perú shares and ADSs held by minority investors. At December 31, 2000, we held an approximately 93.2% interest in Telefónica del Perú.

In accordance with the resolution of the shareholders of Telefónica del Perú to divide the company along business lines, Telefónica del Perú expects to spin-off its wireless and data operations in mid-2001 to Telefónica Móviles and Telefónica Data, respectively.

Telefónica Larga Distancia de Puerto Rico

At December 31, 2000, the Telefónica Group held a 98% interest in Telefónica Larga Distancia de Puerto Rico, Inc. In 2000, Telefónica Larga Distancia's customers consumed 429.3 million minutes, approximately 20% of which related to traffic with the United States.

Impresora Comercial Publiguías

Telefónica Internacional and Compañía de Telecomunicaciones de Chile have 51% and 9% interests, respectively, in Impresora Comercial Publiguías, S.A., a telephone directory publisher in Chile. Impresora Comercial Publiguías has a contract with Compañía de Telecomunicaciones de Chile, which expires in 2002, pursuant to which Compañía de Telecomunicaciones de Chile receives 40% of Publiguías's overall billing. During 2000, Compañía de Telecomunicaciones de Chile received \$24.2 million pursuant to this contract.

Other Investments

Telefónica Internacional also owns equity stakes in a number of other Latin American service providers, which are not under its management, including:

- *Compañía Anónima de Teléfonos de Venezuela (CANTV).* CANTV, in which the Telefónica Group held a 6.91% stake at December 31, 2000, is the leading provider of telecommunications services in Venezuela. At December 31, 2000, CANTV had approximately 2.6 million access lines in service and approximately 1.7 wireless customers.
- *Cablevisión S.A.* Cablevision is an Argentine cable company in which Telefónica Internacional held a 35.9% stake at December 31, 2000. We have entered into a put-call agreement with an affiliate of Citicorp Equity Investments pursuant to which its affiliate has the option to purchase our stake in Cablevision, and we have the option to sell our shares of Cablevision to its affiliate. On May 4, 2001, we exercised our option to sell our shares of Cablevision for approximately U.S. \$712 million.
- *Infonet Services Corporation.* At December 31, 2000, we held a 14.32% stake in Infonet Services Corporation, a data telecommunications firm that uses telecommunications tools to electronically link offices within a global company and to speed the transfer of information between them. The remaining shares in Infonet are publicly held.

Worldwide Corporate Data Transmission – Telefónica Data

Telefónica Data manages our data transmission business on a global basis. The Telefónica Data group consists of subsidiaries operating in each of the countries where data transmission services are being developed. Telefónica Data has entered into collaboration agreements with Telefónica Internacional under which Telefónica Data has agreed to manage with Telefónica Internacional the data transmission operations of Telefónica Internacional's affiliates in some Latin American countries, including Argentina, Brazil and Chile. As part of our reorganization along global lines of business, in 2000, we transferred to Telefónica Data, Acea Telefónica, our joint venture to provide voice, data and Internet services in Lazio, Italy, and the data transmission operations of European Telecom International in Austria. In addition, we expect to transfer pursuant to spin-offs the data transmission operations of some of our Latin American subsidiaries to Telefónica Data in mid-2001.

Telefónica Data intends to become an overall provider of corporate communications solutions. As technological development permits, Telefónica Data will provide a single connection to data, voice and fax services, and through interconnection with the Internet protocol network, to:

- wireless services
- the traditional fixed-line network
- content available through the Internet

Telefónica Data's strategy includes the following objectives:

- emphasis on customer service with direct responsibility for customer satisfaction and the management of new distribution channels
- geographic expansion as a multinational company
- development of a single network infrastructure, with centralized management, and a platform of common services for all countries
- centralization of technological and development strategies
- development of a catalog of global services, including solutions customized for each market segment

Revenues from corporate data transmission in Spain totaled approximately Ptas 118,000 million in 2000, Ptas 95,000 million in 1999 and Ptas 75,000 million in 1998. These amounts derive from services such as:

- *Iberpac* Básico – a data transmission service based on X.25 protocol which enables a reliable interchange of information between multiple destinations
- *UNO* Service – a data transmission service based on the X.25 protocol and on the Virtual Private Network (VPN), which is marketed to large corporate customers such as banks and insurance companies
- Frame Relay – a data transmission service designed to satisfy the use and interconnection requirements of Local Area Networks (LAN)
- InfoInternet – a gateway to Internet service using the IP Network. Users access the Internet through a permanent connection to the IP Network
- *UNO IP Voz* – enables the transportation of voice and data using an exclusive line on the IP Network
- *Data&Voz* – permits integrations of voice and data transmission in one single line

During 2000, the Telefónica Data group's total number of end-user connections totaled 415,444. Telefónica Data's estimated market share for network services (mostly Internet access services) in Spain was approximately 35.2% in 2000. Most data transmission services are currently provided through a switch network that is independent from our fixed-line network.

In June 1998, Telefónica Data launched the new Internet Protocol network, which enhances our ability to market value-added services such as e-mail and other messaging and posting services. Telefónica Data has established itself as a leading provider of global services based on the Internet Protocol and value-added services for corporate customers. In addition, Telefónica Data is responsible for traditional data transmission services, maximizing their value and managing service migration within the Internet Protocol environment.

In July 1999, Telefónica Data España, Telefónica Data's operating subsidiary in Spain, obtained an individual Type A license, which permits it to offer its corporate customers bundled voice and data services packages via one single connection. The license also allows interconnection with other operators and their users. Telefónica Data España also holds a Type C license, which permits it to render data transmission services.

In 2000, Acea Telefónica merged with Telexis, a member of the Fiat group. As a result of the merger, we own 34% of the resulting company, Atlanet, and have management control. We invested approximately €100 million as part of the transaction.

In October 2000, Telefónica Data entered into an agreement with Banco Santander Central Hispano to manage the banking group's international data network, which covers more than 20 countries throughout Europe and Latin America. Telefónica Data has also entered into agreements with respect to the management of Repsol YPF's international data network and Banco Bilbao Vizcaya Argentaria's international data back-up network.

In December 2000, Telefónica Data entered into an agreement with America Online to provide network services (national switched access and international network capacity) to America Online's principal companies in key markets in Latin America and Europe.

In January 2001, we acquired from Bertelsmann AG its affiliate, MediaWays GmbH, for a total purchase price of Ptas 246,119 million. MediaWays specializes in Internet services, data transmission and other value-added services for business, and is expected to become the platform for the development of Telefónica Data in Europe.

Worldwide Internet-Related Services – Terra Networks

Our worldwide Internet-related services business is led by Terra Networks. Terra Networks was created in December 1998 to operate the Spanish residential and small office/home office Internet access business carried on by the Telefónica group since December 1995. In November 1999, Terra Networks completed an initial public offering of approximately 30% of its ordinary shares. In 2000, our ownership interest in Terra Networks decreased to 36.87% at December 31, 2000 mainly due to Terra Networks' acquisition of Lycos, Inc. pursuant to a share exchange. We account for our interest in Terra Networks on a consolidated basis because we exercise effective control over Terra Networks as a result of our ownership interest.

Terra Networks is one of the most popular Internet networks in the United States, Europe and Asia and the leading portal to Spanish and Portuguese-speaking markets. It is the result of the combination in October 2000 of Terra Networks, a global Internet company and the leading provider of Internet access and interactive content and services to the Spanish and Portuguese-speaking world, and Lycos, Inc., the Internet's leading multi-brand network.

Through a network of separately-branded websites and joint venture partnerships, Terra Networks has the largest global footprint of any Internet network with more than 120 websites in 42 countries. Terra Networks currently holds the leading position in five of its primary markets:

- Latin America
- the U.S. Hispanic market
- Spain
- Canada
- South Korea

Terra Networks offers a suite of Internet services in a variety of languages that provides its users with:

- portal and network services that incorporate a wide variety of content individually-tailored for each market and featuring enhanced functionality
- access to the Internet (in Spain and certain countries in North America and Latin America)
- a range of online advertising, marketing and e-commerce opportunities
- multiple solutions for customers' Internet needs, such as web design and hosting and communication

At December 31, 2000, Terra Networks provided Internet access to more than 6.1 million customers and its portals and network of separately-branded sites generated more than 350 million average daily page views in December 2000. It has achieved this growth through:

- its assumption of direct management responsibility for the Internet activities of the Telefónica group companies in Spain in April 1999, and in Peru and Chile in October 1999
- its acquisition of strong local providers of Internet services, including:
 - the leading Spanish portal, which was acquired in April 1999
 - a leading Brazilian portal and Internet service provider and an e-commerce provider, which was acquired in June 1999
 - a leading Mexican portal and an Internet service provider and e-commerce provider, which Terra Networks agreed to acquire in October 1999
 - most significantly, 100% of Lycos, Inc., the Internet's leading multi-brand network, in October 2000
- the rapid growth of the business lines that it operates

Terra Networks entered into a number of important contracts and joint ventures and made a number of strategic investments and acquisitions during 2000 and early 2001. Among these were:

- a strategic alliance between Terra Networks and Banco Bilbao Vizcaya Argentaria signed on January 4, 2000, whereby Terra Networks has agreed to acquire a significant stake in Uno-e, Banco Bilbao Vizcaya Argentaria's online bank, and Banco Bilbao Vizcaya Argentaria purchased a 3% interest in Terra Networks for Ptas 80,000 million
- a strategic alliance between Terra Networks and DeRemate.com, a leading online auction provider in Latin America, signed on February 5, 2000, whereby Terra Networks acquired a 30% interest in DeRemate.com
- the acquisition of a majority stake in Bumeran.com International Holdings, Ltd., one of the leading career websites in Latin America
- the acquisition of a majority stake, together with its joint venture partner, Amadeus Global Distribution Travel, S.A., in OneTravel.com, a leading U.S. online travel website
- the acquisition of Raging Bull, a premier financial community website providing individual investors with free online access to financial information such as real-time stock quotes, news, original editorials and discussion boards

In addition, in connection with Terra Networks' acquisition of Lycos:

- Bertelsmann, one of the largest media companies in the world, entered into an agreement to purchase advertising, placement and integration services from Terra Networks. Bertelsmann is obliged to pay \$325 million to Terra Networks for these services during the first two years following consummation of the combination of Terra Networks and Lycos in October 2000. From the third to the fifth year following consummation of the combination, Bertelsmann will buy up to \$675 million in additional services. Taking into account the joint projects to be developed between Telefónica and Bertelsmann, we have agreed to purchase, if necessary, any portion of those services that Bertelsmann does not buy, up to \$675 million.
- We agreed to underwrite a €2.2 billion rights offering completed by Terra Networks in September 2000. In connection with this rights offering, we acquired 35,483,871 newly-issued shares of Terra Networks for an aggregate of approximately €2.2 billion.

- Telefónica Móviles and Terra Networks established Terra Mobile to develop portals accessible from wireless application protocol-enabled mobile telephones. Telefónica Móviles has a 51% stake in Terra Mobile and Terra Networks has the remaining stake.

Other Lines of Business

Telefónica Publicidad e Información

Telefónica Publicidad e Información publishes and develops and sells advertising in telephone directories in Spain and Brazil. In addition to printed directories, it offers directories online and in telephone-based format. In June 1999 Telefónica Publicidad e Información completed an initial public offering of approximately 35% of its ordinary shares to institutional and retail investors. Telefónica Publicidad e Información's shares trade on the Spanish stock exchanges. Telefónica Publicidad e Información was the first Spanish advertising company and Internet service provider to be publicly traded.

Its core products are:

- *Páginas Amarillas* ("Yellow Pages"), an annual advertising directory containing certain information on all companies, businesses and professionals in a particular geographical area classified by sector, location and alphabetical order. The directory contains approximately 1,600,000 listings and 315,000 paid advertisements. *Páginas Amarillas* was consulted by over 21 million users (over 20 million residential users and over 1 million businesses) in 2000, according to market research carried out by Emer-GfK on behalf of Telefónica Publicidad e Información. According to this research, there were more than 1 million daily consultations during 2000. In 2000, there were a total of 62 books published and over 15 million copies printed.
- *Páginas Blancas* ("White Pages"), which includes residential, professional and business telephone numbers in a particular geographic area, classified by location and alphabetical order. The directory has been redesigned and new content and information has been added, offering information of general interest to users. From January through October 2000, 24 million users consulted the directory, 23 million of which were residential users and one million were businesses. During 2000, there was a total of 61 white page guides published and 16 million copies printed.
- *Páginas Amarillas Online (PAOL)* ("Yellow Pages Online"), the largest and most complete online database of Spanish businesses in terms of number of listings (1,600,000) and with the largest number of online advertisers in Spain. The website received an average of 900,000 visits per month in 2000, with 1,543,000 visits in December 2000. According to an independent audit carried out by Oficina de Justificación de Medios, *Páginas Amarillas Online* ranked as one of the most visited websites in Spain (with 232.2 million page views in December 2000). *Páginas Amarillas Online* is the first online directory to use the new digital geographical information system (GIS) which enables the user to print maps showing the location of businesses.
- *Páginas Amarillas Habladas* (operator-assisted Yellow Pages), launched in March 1999, offers operator-assisted information over the telephone for all companies, businesses, professionals, products and services located in the *Páginas Amarillas*. In the fourth quarter of 2000, this service received 373,144 calls, representing an increase of 28% over the same period of 1999 and 4.9% more than the third quarter of 2000. In 2000, this service received 1,410,379 calls.
- *Europages*, available in paper, CD-Rom and over the Internet is the most comprehensive trans-European directory containing information on major European export companies, classified by activity and then grouped by country of origin. The *Europages* are edited annually by Euredit, a company in which Telefónica Publicidad e Información has a 5% stake. Telefónica Publicidad e Información is responsible for managing the advertising business and the distribution of the directory in Spain.

Telefónica Publicidad e Información has acquired from us substantially all brand names related to its business activities except *Europages*, for which it is the exclusive agent in Spain. Under a May 1999 assignment deed with

Telefónica, Telefónica Publicidad e Información acquired approximately 300 trademarks, including *Páginas Amarillas Online*, *Páginas Amarillas Habladas*, *Páginas Amarillas* and *Páginas Azules* (the map section contained within *Páginas Amarillas*). These trademarks have been registered in Telefónica Publicidad e Información's name at the Spanish Office of Patents and Trademarks.

As part of our 1999 corporate reorganization, Telefónica Publicidad e Información sold or liquidated certain of its subsidiaries. At December 31, 2000, Telefónica Publicidad e Información held interests in the following subsidiaries:

- TMP Worldwide, which sells advertising in Yellow Pages to large clients and in which Telefónica Publicidad e Información has a 75.6% interest
- Euredit, which publishes European directories and in which Telefónica Publicidad e Información has a 5% interest
- Telefónica Publicidade e Informação, which markets, edits and distributes white pages in Brazil, in which Telefónica Publicidad e Información has a 51% interest
- Publiguías, the leading publisher of directories in Chile, in which Telefónica Publicidad e Información acquired a 51% in 2000

In May 1999, we and Telefónica Publicidad e Información entered into new contracts governing the publication, marketing and sale of *Páginas Amarillas* and *Páginas Blancas*. Under the *Páginas Amarillas* contract, Telefónica Publicidad e Información pays us a variable fee based on the number of registers and individual updates. Such fees were approximately Ptas 535.5 million in 2000. Under the *Páginas Blancas* contract, Telefónica Publicidad e Información pays us a commission determined by the revenues generated from advertising and the costs associated with the *Guías Básicas de Referencia* ("Basic Guides").

For the year ended December 31, 2000, the Telefónica Publicidad e Información Group's sales exceeded Ptas 53,600 million (excluding sales to other members of the group), representing an increase of 29.8% over the previous year. The Telefónica Publicidad e Información Group's sales represented 1.1% of our total consolidated revenues in 2000. If sales to other members of the group are included, Telefónica Publicidad e Información's total sales exceeded Ptas 62,500 million in 2000, representing an increase of 12.3% over the previous year.

Atento

We formed Atento in 1999 to hold and develop our call center business. Atento offers integrated telephone assistance services and telemarketing services. In addition, Atento provides staff and rents call center positions to third parties. It currently operates in 14 countries on four continents, including Europe (Spain and Italy), Latin America, Northern Africa (Morocco) and Asia (Japan).

On April 23, 2001, Banco Bilbao Vizcaya Argentaria agreed to transfer its domestic and international call center business to Atento in exchange for a 9% stake in Atento. See "—Our Strategic Alliance with Banco Bilbao Vizcaya Argentaria".

Katalyx

In 2000, we created Katalyx to develop and operate electronic business-to-business (B2B) marketplaces, known as e-marketplaces, in Spain and Latin America. Katalyx has established an e-marketplace under the trade name Adquira for buyers and sellers of goods and services in Spanish and Portuguese-speaking markets.

Emergia

We formed Emergia to provide broadband telecommunications services through a high capacity fiber optic submarine cable in Latin America. During 2000, Emergia created the infrastructure necessary to begin operating its network in the first quarter of 2001.

International Strategic Partnerships

Portugal Telecom. In 1997, we acquired 3.5% of Portugal Telecom S.A., the exclusive provider of fixed-line public telephone services in Portugal, for Ptas 41.2 billion. Portugal Telecom acquired 1% of us in open-market transactions. In March 1998, we and Portugal Telecom agreed to form a joint venture to exploit telecommunications opportunities in certain emerging markets, including Morocco, where our consortium began operating the second wireless network in 2000.

In January 2001, we and Telefónica Móviles entered into another joint venture agreement with Portugal Telecom to consolidate certain of our wireless assets in Brazil with those of Portugal Telecom. For a description of the terms of the joint venture agreement, which is subject to regulatory and other approvals, see “—Worldwide Wireless Communications Services—Telefónica Móviles—Latin America—Brazil—Agreement with Portugal Telecom”. In connection with this joint venture agreement, we have also agreed to increase our stake in Portugal Telecom to up a 10% voting interest, subject to the approval of Portugal Telecom’s shareholders and the Portuguese government, and Portugal Telecom is considering increasing its stake in us to up to a 1.5% voting interest.

Lucent Technologies. In January 1999, we and Lucent Technologies entered into a strategic cooperation agreement to establish a framework for joint product development, services and market initiatives. In addition, we sold to Lucent 50% of our stake in Amper, S.A., representing 12.2% of Amper’s outstanding shares, for Ptas 6,800 million. In February 2000, we sold a 6.1% interest in Amper, S.A. for Ptas 2,794 million, which reduced our interest in Amper from 12.2% to 6.1%. Amper is Spain’s largest manufacturer of telecommunications equipment and systems.

IBM. In March 1999, we and International Business Machines Corporation entered into an agreement to offer business solutions to companies in Spain and Latin America based on information technologies. In 2000, Telefónica Data and IBM entered into an agreement regarding their intent to develop Internet data centers.

Ariba.com. On February 10, 2000, we and Ariba.com, a leading provider of Intranet and Internet based business-to-business electronic commerce solutions for operating resources, reached an alliance agreement under which we will provide business-to-business e-commerce services on the Ariba platform network through our subsidiaries. These virtual marketplaces, also known as B2B marketplaces, are commerce sites on the Internet that allow large communities of buyers and suppliers to meet and trade with each other.

Cisco Systems. In July 1999, we and Cisco Systems, a leader in providing networking products and services for corporate customers, agreed to explore opportunities to design, develop and provide new telecommunications services and products.

Our Strategic Alliance with Banco Bilbao Vizcaya Argentaria

On February 11, 2000, we announced a broad strategic global alliance with Banco Bilbao Vizcaya Argentaria, S.A., which we believe was the first of its kind between a major telecommunications company and a bank. The strategic alliance provides a broad framework that must be implemented under specific agreements in order to pursue the identified projects. Some of these projects are currently in the process of being developed.

Mobile Payment Systems. Through Telefónica Móviles, we, Banco Bilbao Vizcaya Argentaria, Banco Santander Central Hispano and Airtel are developing a mobile payment system to allow customers to use their wireless handsets in lieu of cash or credit cards to purchase goods and services and carry out other transactions.

Uno-e Bank. Uno-e bank, Spain’s first Internet bank, was launched in March 2000 and pursues a financial supermarket strategy, offering its own financial products as well as those of third parties. At March 31, 2001, Uno-e bank had 80,000 customers and managed a total of €358 million.

In March 2000, Uno-e Bank and First-e group plc announced their intention to merge. In April 2001, the parties announced their subsequent decision to discontinue the merger process due to adverse market conditions and the desire to focus on their respective markets.

On April 23, 2001, Terra Networks’ board of directors approved Terra Networks’ acquisition of a 49% stake in Uno-e bank in accordance with our strategic alliance with Banco Bilbao Vizcaya Argentaria and subject to the receipt of necessary approvals.

Call Centers. On April 23, 2001, Banco Bilbao Vizcaya Argentaria agreed to transfer its domestic and international call center business to Atento, our subsidiary that conducts our call center business, in exchange for a 9% stake in Atento. The agreement contemplates the creation of a central call center in order to provide global support to customers of the Banco Bilbao Vizcaya Argentaria group and the Telefónica Group.

Electronic Ticketing. On April 23, 2001, we agreed to acquire through Telefónica Media a 47.5% stake in Tick Tack BBVA Ticket, Banco Bilbao Vizcaya Argentaria's electronic ticketing business, which sells tickets to entertainment events.

Other Alliance Projects. Other important projects contemplated by the strategic alliance include:

- electronic commerce, where Banco Bilbao Vizcaya Argentaria intends to purchase a 40% interest in Telefónica B2B, our business-to-business electronic commerce subsidiary. In addition, we and Banco Bilbao Vizcaya Argentaria have agreed to jointly develop business-to-consumer and consumer-to-consumer electronic commerce projects
- wireless application protocol, where we and Banco Bilbao Vizcaya Argentaria intend to jointly develop projects using wireless application protocol technology, which allows wireless handsets to connect to the Internet
- Internet start-up businesses, where Banco Bilbao Vizcaya Argentaria has agreed to invest up to \$200 million in Communicapital Partners, an investment fund led by us that invests in new technology and Internet businesses

Supervisory Committee. We and Banco Bilbao Vizcaya Argentaria have established a supervisory committee to oversee and implement the strategic alliance. The supervisory committee is headed by Banco Bilbao Vizcaya Argentaria's co-chairmen and our chairman and consists of other senior officers of the two companies.

Other. Banco Bilbao Vizcaya Argentaria agreed to increase its interest in us to up to 10% less one share through open market purchases of additional Telefónica shares, and we expect to purchase in the market up to a 3% interest in Banco Bilbao Vizcaya Argentaria and become Banco Bilbao Vizcaya Argentaria's largest shareholder. Banco Bilbao Vizcaya Argentaria has two vice-chairmen on our Board of Directors and we have one board member on Banco Bilbao Vizcaya Argentaria's Board of Directors.

Several Spanish government agencies, including the Spanish antitrust authorities, may review the effects of the strategic alliance. It is possible that governmental approval, including approval of the Spanish antitrust authorities, may be required for some of the projects on an individual basis.

Our Strategic Alliance with Caja de Ahorros y Pensiones de Barcelona (La Caixa)

La Caixa, which is an approximately 4% shareholder of Telefónica, also has agreed to participate in our strategic alliance with Banco Bilbao Vizcaya Argentaria through:

- a 20% interest in Telefónica B2B
- an investment of up to \$200 million in Communicapital Partners

La Caixa may participate in additional aspects of our strategic alliance with Banco Bilbao Vizcaya Argentaria in the future. La Caixa will also participate actively in the design and development of our real estate project, Telefónica Inmobiliaria, to optimize its management.

Capital Expenditures and Divestitures

We have invested over Ptas 4,732 billion in capital expenditures since January 1, 1999 (Ptas 5,864 billion including financial investments). Of this amount, Ptas 3,514 billion was invested in 2000 (Ptas 4,097 billion including financial investments).

Our principal capital expenditures in 2000 were:

- intangible investments (Ptas 2,181,652 million), including Ptas 2,025,184 for the acquisition of UMTS licenses by Telefónica Móviles in Spain, Germany, Italy and Austria and Ptas 17,620 million in research and development expenses
- tangible investments made by Telefónica Internacional (Ptas 673,061 million)
- tangible investments made by Telefónica de España (Ptas 239,006 million)
- tangible investments made by Telefónica Móviles (Ptas 166,844 million)
- tangible investments made by Atento (Ptas 120,218 million)

In 2000, Telefónica Móviles had capital expenditures of approximately Ptas 1.1 billion related to its acquisition alone or through consortia of UMTS licenses in Germany, Italy, Spain and Austria. Telefónica Móviles expects to make substantial additional capital expenditures to build out UMTS networks and roll-out operations in countries in which it has been awarded licenses. Telefónica Móviles' participation in additional competitions for UMTS licenses in other countries would require significant additional funding requirements. Because UMTS technology is new and has not yet been built-out for commercial operations, there remains significant uncertainty regarding the final cost of network build-outs.

Tangible (property and equipment) and intangible asset divestitures in 1998, 1999 and 2000 were not material.

Financial Investments and Divestitures

Our principal financial investments in 2000 were made by Telefónica Internacional (Ptas 159,975 million), Telefónica Móviles (Ptas 53,497 million), Telefónica Media (Ptas 46,263 million) and Telefónica, S.A. (Ptas 118,283 million).

We have also made significant divestitures during this period. Our principal divestitures in 2000 were divestitures in companies accounted for under the equity method of Ptas 27,010 million, comprised principally of Companhia Riograndense de Telecomunicações S.A. and Amper, S.A. See note 2.c to our consolidated financial statements.

Public Takeover Offers

In mid-2000 we completed separate exchange offers under which we offered to exchange our shares and ADSs for the outstanding ordinary shares, preferred shares and American Depositary Receipts of Telecomunicações de São Paulo S.A. — TELESP, Tele Sudeste Celular Participações S.A., Telefónica de Argentina S.A. and Telefónica del Perú, S.A. In connection with these exchange offers, we issued 700,774,917 new shares (in the form of shares and ADSs). As a result of these exchange offers, at December 31, 2000, we held

- an approximately 86.6% interest in Telesp
- an approximately 75.6% interest in Tele Sudeste Celular Participações
- an approximately 92.9% interest in Telefónica de Argentina (including shares acquired outside the exchange offer)
- an approximately 93.2% interest in Telefónica del Perú

In July 2000, we acquired approximately 99.2% of Endemol Entertainment Holding N.V., one of Europe's leading television producers, in an exchange offer outside the United States for 100% of the outstanding shares of Endemol Entertainment Holding BV. We issued 6.2 of our shares for each Endemol share for an aggregate amount of 213,409,097 new shares. See “—Worldwide Audiovisual Content and Media Communications—Telefónica Media—Audiovisual Content—Endemol Entertainment.”

On October 27, 2000, Terra Networks acquired Lycos, Inc., a leading web media company and the owner of Lycos Network, one of the most visited hubs on the Internet, for 302,031,974 shares of Terra Networks. See “— Worldwide Internet-Related Services—Terra Networks”.

On February 27, 2001, Telefónica Móviles announced its intention to launch an exchange offer under which Telefónica Móviles would offer to exchange its Brazilian depositary receipts or American depositary shares for 100% of the outstanding ordinary shares and preferred shares of Celular CRT Participações S.A. not owned by Telefónica Móviles or its affiliates. The exchange offer is subject to regulatory and other conditions and approvals. If the exchange offer is fully consummated, Telefónica Móviles will issue approximately 112.4 million new shares (in the form of Brazilian depositary receipts and American depositary shares).

C. ORGANIZATIONAL STRUCTURE

Please see “— A. History and Development of the Company—Overview.”

D. PROPERTY, PLANTS AND EQUIPMENT

Description of Property

Domestic Network

In order to provide residential and other telecommunications services in Spain, we operate a full service telecommunications network. We benefit from an intensive capital investment program carried out over the last decade, which focused on network expansion as well as network upgrading. As a result, we now have:

- a network consisting of fiber optic cable to the curb in every Spanish city with a population of more than 50,000
- switching including synchronous digital hierarchy
- an asynchronous transfer mode rollout launched in 1996
- System 7 signaling throughout

Our infrastructural development objective is to achieve a fully digital system which permits simultaneous voice, data, text and image transmission, and which permits cost-efficient network management and maintenance. Consistent with this aim, we are moving towards a simplified two-level network hierarchy through the use of remote units and we are presently increasing operational efficiencies through centralizing our network monitoring and management functions.

The local digitalization rate in our network has increased from 56.7% in 1995 to 86.6% at December 31, 2000, and our long-distance lines are now 100% digitalized. All international services are also 100% digitalized.

We have continued to increase the number of integrated service digital network lines in our network. At December 31, 2000, we had approximately 1,674.4 thousand integrated service digital network lines, a 71.1% increase compared with the number of integrated service digital network lines in service at December 31, 1999. This will enable provision of a further range of services over the network, including simultaneous image transmission and voice telephony over the same line. Currently, we are marketing integrated service digital network primarily to commercial and high-usage residential customers. We expect that integrated service digital network costs will decline significantly in the coming years, thereby making integrated service digital network services more attractive to a larger customer base and increasing overall traffic over our network.

In carrying out our infrastructural development program, we have increased the use of fiber optic cables in our network. The table below shows the total length of the four basic types of cable in our network as of the dates indicated.

	At December 31,				
	1996	1997	1998	1999	2000
Coaxial cable (km).....	10,2	10,12	9,95	5,05	4,78
Fiber optic cable (km).....	43,0	47,02	49,65	52,51	54,92
Copper cable in domestic long distance lines (km)	58,4	58,14	57,80	57,42	57,25
Subscriber networks (thousand km-par)(1)	64,5	65,45	66,22	66,71	67,55

(1) The transmission cables in the subscriber networks contain a variable number of conducting filaments, which are insulated from each other and grouped in pairs. Each such pair is called a “par”.

In carrying out our infrastructural development program we have consistently used a core group of primary equipment suppliers, including AT&T/Lucent Technologies, Ericsson and Alcatel, in order to maintain technological compatibility while at the same time decreasing dependence on any one vendor. We believe that our relationships with our primary vendors are stable and exhibit a high degree of cooperation with respect to our particular infrastructural needs.

Spain’s demographic makeup and topography present significant challenges to the provision of basic telephone service throughout the country, particularly in rural areas. Our continuing rural expansion program has been funded in part by local Spanish authorities. We are able to use alternative technologies in order to extend service into remote and thinly populated areas in compliance with our universal service obligation, and we have installed wireless access where these are more cost-efficient than extending fixed-line service.

International Network

We operate four international switches, all of which are digital. In addition, all of our international circuits are digital. We also have interests in five international satellite communications organizations or companies, including:

- Intelsat (0.82%), the global satellite consortium
- Inmarsat (1.18%), the maritime satellite organization
- Eutelsat (2.43%), the European regional satellite organization
- Hispasat (22.7%), the communications satellite organization which carries the Via Digital DTH satellite television service
- New Skies Satellites (0.75%), the communications satellite company that was formerly part of Intelsat

We are also one of the world’s leading submarine cable operators. We are currently participating in the following projects: SAT-3, Pencan 7, Alpal 2, Maya 1, TAT 14 and SAM-1. We currently participate in 37 international underwater cable systems (13 of which are moored in Spain) and own 14 domestic cables (12 of which are fiber optic).

The SAT-3, a fiber-optic undersea cable system linking southern Europe and the West Coast of Africa, is being built by a consortium which consists of Telefónica de España, Marconi, Telekom South Africa, Concert and more than 20 other carriers. We expect to fund \$32 million of the estimated \$278 million cost of the project, which will span 7,019 miles. The cost of Pencan 7, which consists of two dedicated pairs of fiber optic cables linking the Canary Islands with the Spanish mainland, is being divided among Telefónica de España and other parties.

On July 5, 1999, Tyco Submarine Systems Ltd. agreed with Telefónica Internacional to build and install a fiber optic network comprised of submarine and terrestrial cable. This cable will start in Las Toninas, Argentina and Valparaiso, Chile and end in Boca Raton, Florida. The total cost for the marine and terrestrial parts of this installation is expected to reach \$1.32 billion.

On October 27, 1999 an agreement was signed with Tyco for the management and maintenance of the SAM-1 cable for an initial period of five years. Pursuant to an agreement dated December 22, 1999, the submarine cable is owned and operated by our affiliate, Emergia, S.A., in which Tyco currently has a 6.0% stake and in which we hold the remaining stake. Cable operations began in July 2000 and were completed in March 2001.

Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. OPERATING RESULTS

Presentation of Financial Information

The information in this section should be read in conjunction with our consolidated financial statements, and the notes thereto, included elsewhere in this Annual Report. Our consolidated financial statements have been prepared in accordance with Spanish GAAP, which differ in certain respects from U.S. GAAP. Please refer to note 25 to our consolidated financial statements for a discussion of these differences.

Changes in the Composition of the Group

In 1999, Telesp and Tele Sudeste, two of our principal Brazilian subsidiaries, which we acquired in August 1998, were consolidated for the first time. They were accounted for under the equity method in 1998. Unless otherwise indicated, financial information for 1999 reflects the full effect of the consolidation of Telesp and Tele Sudeste.

In 2000, as a result of the completion of exchange offers for some of our Latin American affiliates, we increased our shareholdings in Telesp to approximately 86.6%, Tele Sudeste to approximately 75.6%, Telefónica de Argentina to approximately 92.9% (including shares acquired indirectly outside the exchange offer in 2000) and Telefónica del Peru to approximately 93.2%. Although we previously consolidated these entities, the increase in our ownership interest resulted in a reduction in minority interests.

We also made several other acquisitions during 2000, the most significant of which were our acquisition of 99.2% of Endemol Entertainment Holding N.V., Terra Networks' acquisition of 100.0% of Lycos, Inc. and our acquisition of 80.9% of CEI Citicorp Holdings S.A. Please see note 2 to our consolidated financial statements for a discussion of the principles of consolidation and a description of the principal changes in the composition of the group affecting our financial statements during the periods covered by the consolidated financial statements.

Other Significant Accounting Changes

Several accounting changes affected results during 1999. The principal changes were:

- Due to a change in accounting principles regarding the amortization period for goodwill, during 1998 goodwill was amortized over ten years while during 1999 goodwill was amortized over 20 years.
- Due to the liberalization of the Spanish market for fixed telephone services in December 1998, the significant increase in competition, resulting from 70 new licenses for the provision of fixed telephony being granted to new entrants during the first nine months of 1999 and regulatory measures, we decided to write-off or to accelerate the amortization of certain assets used by us to provide fixed telephone services. See note 4 to our consolidated financial statements. Below is further information about these write-offs:

Fixed Assets	Change in Useful Life (years)	Extraordinary Provisions (in millions of pesetas)
Research and development assets.....	5 to 3	6,006.4
Curb to customer wiring.....	10 to 5	28,002.8
Terminals.....	7 to 4	6,505.7
Research and development (project revision)	—	9,800.1
Software (project revision).....	—	8,036.4
Total.....		58,351.4

- We made a provision at the end of 1999 of Ptas 444.2 billion to cover the costs of expected streamlining of our work force during the period 1999-2000. The financing costs of the streamlining plan were provisioned and charged to results of operations in 1999.

There were no significant accounting changes affecting results during 2000.

General Information

The discussion below should be considered in light of the following important business and regulatory and competitive developments that affected our group during the periods discussed below.

Significant Business Developments

- The Spanish market for wireless communications services grew significantly during 2000. Our wireless subscribers in Spain increased by approximately 51.0% to 13.67 million at December 31, 2000 from 9.05 million at December 31, 1999.
- We acquired newly-issued UMTS licenses, individually or as part of consortia, in Germany, Italy, Austria and Switzerland, at an aggregate cost of approximately Ptas 1.1 billion. We expect to make substantial additional capital expenditures to build our UMTS networks and roll out operations in countries in which we have been awarded UMTS licenses.
- Telefónica Móviles conducted an initial public offering and we divested some non-strategic assets.

Regulatory and Competitive Developments

The discussion below should be considered in light of recent changes in the regulatory framework and competitive environment for fixed-line public telephone services (which consists of local, long-distance and international telephone services) and wireless communications services in Spain. See “Item 4—Information on the Company.”

Fixed-Line Public Telephone Services. In January 1998, Retevisión commenced operations, initially providing domestic and international long-distance services. Retevisión also provides local telephone services as of September 1998. This marked the end of our monopoly on such services. In addition, throughout 1998, regionally-licensed cable operators began providing cable television as well as offering local telephone service and access lines. On December 1, 1998, a second domestic operator, Lince, commenced offering national and international long-distance telephone services in Spain under the trade name UNI2.

As of December 1, 1998, the provision of fixed-line services was opened to competition from all market entrants, subject to basic regulatory licensing requirements. Also as of that date, the Telecommunications Market Commission has the exclusive responsibility for regulating the telecommunications market.

At January 2, 2001, the Telecommunications Market Commission had granted:

- 43 Type A licenses
- 17 Type B1 national licenses
- 38 Type B1 restricted licenses
- 39 Type C1 licenses
- 18 Type C2 licenses

The government has also granted 73 licenses to the cable operators formerly operating under concessions. Each of these operators, except Telefónica Cable, received Type B1 licenses. See “Item 4—Information on the Company – Fixed-line Telephone Services in Spain – Telefónica de España – Competition.” In addition, in March 2000, the government issued six new licenses for the provisions of local multipoint distribution services (LMDS). The new licensees are expected to compete with Telefónica de España in the local access market.

The Telecommunications Market Commission has tended to apply policies favoring new entrants into the telecommunications market. Moreover, as the dominant operator, we will be subject to certain obligations through December 31, 2005, including the requirement to provide our competitors access to our network. During 1999 new

competitors entered the market such as Jazztel, RSL Com, British Telecom, Comunitel, Airtel and COLT, among others. As of December 31, 2000, our competitors had an estimated market share of approximately 13.3% of provincial traffic, 18.4% of interprovincial traffic, 17.7% of international traffic and 17.5% of fixed-to-mobile traffic. We expect this competition to intensify in the future. Moreover, certain of our competitors, including Retevisión and Lince, have common shareholders with the cable operators and have entered into collaboration agreements.

The full liberalization of the telecommunications market was undertaken in December 1998 without the rate rebalancing that we considered necessary. As a result, tariffs have not been in line with our real costs. Instead tariffs are presently below our real costs for those services for which competition does not yet exist and above our costs for those services, such as long-distance, that are highly competitive. The maintenance of a charge for access lines below our costs has led to an access deficit. In addition, interconnection prices which we charge our competitors for access to our network are currently lower than our costs. Consequently, our competitors have been able to obtain a sufficient operating margin for long-distance services and capture a large volume of traffic with limited investment. We believe, however, that rate rebalancing measures recently approved by the Delegate Commission for Economic Affairs of the Spanish government will eliminate the access deficit by 2003. See “Information on the Company – Pricing for Principal Services and Tariff Structure”.

In order to maintain competitive prices, we have applied discounts which totaled over Ptas 28 billion in 1998, Ptas 45 billion in 1999 and Ptas 105 billion in 2000. We anticipate that in the near future we will lose some market share in access lines and local traffic when cable operators deploy their networks. Additionally, losses of market share for domestic and international telephone services may be significant if we remain subject to restrictions by virtue of our position as the dominant operator and as long as the current tariff structure remains in place.

In addition, we anticipate that, as a consequence of competition, prices for the recently liberalized services will decline and operating margins may diminish. The exact scope of increased competition and any adverse effects on our results and market share will depend on a variety of factors that cannot now be assessed with precision and that are beyond our control.

In addition, in June 2000 the Spanish government issued a new Royal Decree relating to the provision of and prices for some telecommunication services. Under this decree, we are required, as a dominant operator, to:

- beginning January 2001, facilitate segregated and shared access to our local loop pursuant to the conditions and prices established by separate ministerial orders
- before November 15, 2000, facilitate the use of alternative carriers by persons placing local telephone calls
- beginning November 1, 2000, offer 600 minutes of local calls between 6:00 p.m. and 8:00 a.m. for Ptas 700 per month and 600 minutes of local calls during all hours for Ptas 1,400 per month
- beginning November 1, 2000, offer limited Internet access for Ptas 2,750 per month

Wireless Services. Currently, we face competition from Airtel and Retevisión Móvil. Retevisión Móvil was granted the third digital wireless communications license and commenced operations under the trade name Amena in January 1999. Since the entry of this competitor, our market share has declined from an estimated approximately 70% market share to an estimated approximately 56% market share at December 31, 2000. We will face a fourth competitor Xfera, a consortium in which Sonera and Vivendi are participants, under the UMTS standard, beginning in late 2001 or when handsets and equipment are available. The Spanish government has announced that it may, when UMTS technology is a reality, award additional licenses permitting the offer of wireless services, subject to spectrum availability. We believe that the existence of more than four operators would significantly reduce operating margins.

In June 1999, the Telecommunications Market Commission declared that Telefónica Móviles and Airtel were dominant operators in the wireless telecommunications market. At the same time, it declared that Telefónica Móviles was the dominant operator in the interconnection market, with a market share in excess of 25%. The Telecommunications Market Commission subsequently declared in July 2000 that Airtel was also a dominant operator in the interconnection market. As a result, the price Telefónica Móviles and Airtel charge to other

operators terminating calls in their respective network must be related to the costs of providing the service. In addition, the Telecommunications Market Commission may set the maximum price that Telefónica Móviles may charge such operators.

In 2000, Telefónica Móviles paid a one-time fee of €131 million in connection with Telefónica Móviles' acquisition of a new third generation wireless license in Spain, which will allow Telefónica Móviles to deploy the new UMTS technology. Telefónica Móviles is required to pay the Spanish treasury an annual fee for the use of the radio-electric spectrum. During 2000, Telefónica Móviles paid approximately €19 in such fees to the Spanish treasury. The Spanish government recently increased substantially the fees for use of radio-electric spectrum both for new UMTS license as well as Telefónica Móviles' existing analog and digital concessions and other uses. As a result, Telefónica Móviles expects to pay additional fees of approximately €233 million per year for use of the radio-electric spectrum.

Results of Operations

A summary of our results of operations during 1998, 1999 and 2000 are shown below.

	Year Ended December 31,		
	1998	1999	2000
	(in billions of pesetas, except per share data)		
Revenue from operations	2,906.2	3,819.7	4,739.6
EBITDA	1,540.7	1,811.1	1,983.1
Operating profit	815.3	794.8	927.1
Pretax income (loss)	402.0	(5.4)	477.1
Net income	217.6	11.6	416.7
Net income per share	212.3	3.5	96.0
Number of shares outstanding (millions).....	1,024.9	3,262.8	4,340.7

The table below sets forth certain consolidated revenue and expense items as a percentage of consolidated revenue from operations for the periods indicated.

	Year ended December 31,		
	1998	1999	2000
Revenue from operations	100.0%	100.0%	100.0%
Goods purchased	12.0	18.0	21.0
External services and local taxes	13.0	17.0	20.0
Personnel costs	22.0	19.0	18.0
Provision for depreciation and amortization	25.0	27.0	24.0
Trade provisions	4.0	2.0	3.0
Other operating income	5.0	5.0	0.9
Other operating expenses	1.0	1.0	3.2
Total operating costs before financial expenses and goodwill amortization	77.0	84.0	87.0
Operating profit	28.0	21.0	17.0
Financial income (expense)	8.0	6.0	(6.5)
Exchange losses (gains)	0.0	2.0	0.9
Income (loss) from associated companies	1.0	0.0	(0.6)
Amortization of goodwill on consolidation	1.0	1.0	1.8
Profit from ordinary activities	20.0	15.0	8.6
Extraordinary income	2.0	9.0	15.1
Losses on sale of fixed assets	1.0	1.0	0.7
Extraordinary expenses	7.0	23.0	13.6
Income (loss) before tax and minority interests	14.0	(0.1)	10.1
Corporate income tax	3.0	(3.0)	0.9
Minority interests	3.0	3.0	0.4
Net income	8.0	0.3	8.8

The tables below set forth an analysis of consolidated revenue from operations for the periods indicated.

	Year ended December 31,		
	1998	1999	2000
	(millions of pesetas)		
Fixed-line telephone service	931	918	859
Leased circuits.....	123,809	72	79
Interconnection.....	43	44	49
ISDN	70	126	190
Pay telephone service.....	138	128	120
Data transmission(1)	60	— (1)	— (1)
Other	283	313	297
Total revenue from operations for Telefónica de España	1	1	1
Telefónica Internacional.....	893 (2)	1 (3)	2 (4)
Telefónica Móviles	468	622	873,392
Telefónica Data	76	95	153
Telefónica Media	11	16	120
Terra Networks	926	6	50
Telefónica Publicidad e Información	43	55	68
Atento.....	18	33	87
Other subsidiaries.....	227	279	290
Total revenue from operations for consolidated subsidiaries	3	4	5
Intercompany sales.....	(484)	(509)	(594)
Total revenue from operations	2	3	4

The table below shows the contribution to our total revenue from operations for consolidated subsidiaries of our principal lines of business.

	Year ended December 31,		
	1998	1999	2000
Fixed-line telephone service	27.5%	21.2%	16.1%
Leased circuits.....	3.7	1.7	1.5
Interconnection.....	1.3	1.0	0.9
ISDN	2.1	2.9	3.6
Pay telephone service.....	4.1	3.0	2.3
Data transmission(1)	1.7	—	—
Other	8.4	7.3	5.6
Revenues from operations for Telefónica de España.....	48.7	37.1	29.9
Telefónica Internacional.....	26.3	(2) 37.3 (3)	39.3 (4)
Telefónica Móviles	13.8	14.4	16.4 (4)
Telefónica Data	2.3	2.2	2.9
Telefónica Media	0.3	0.4	2.3
Terra Networks	—	0.2	0.9
Telefónica Publicidad e Información	1.3	1.3	1.3
Atento.....	0.5	0.8	1.6
Other subsidiaries.....	6.7	6.5	5.5
Total revenue from operations for consolidated subsidiaries.....	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

(1) These data transmission services were transferred to Telefónica Data in 1999.

(2) Includes the full effect of the consolidation of Telefónica de Argentina in 1998.

(3) Includes the full effect of the consolidation of Telesp and Tele Sudeste in 1999.

(4) During 2000, as part of the reorganization of the Telefónica group along global business lines, Telefónica Internacional transferred to Telefónica Móviles shares representing its interest in: Tele Sudeste Celular; Celular CRT; Tele Leste Celular; and two holding companies that own 86.7% and 100.0% of Telefónica El Salvador and Telefónica Centroamérica Guatemala, respectively. In addition, Telefónica Intercontinental transferred to Telefónica Móviles shares representing its interest in Medi Telecom.

The table below shows the contribution to our consolidated net income of our principal business lines.

	Year ended December 31,		
	1998	1999	2000
	(in millions of pesetas)		
Telefónica de España	120,489	(315,538)	40,8
Telefónica Internacional	23,860	63,362	115,565 (1)
Telefónica Móviles	80,333	93,635	107,010 (1)(2)
Telefónica Data	643	5,905	(8,3
Telefónica Media	(12,365)	(17,144)	(103,5
Terra Networks	(416)	(12,900)	(92,3
Telefónica Intercontinental	(118)	(2,137)	— (2)
Holding and other subsidiaries	17,518	110,974	(16,3
Adjustments in consolidation	(12,359)	85,420	374,0
Consolidated net income	217,584	11,581	416,7

- (1) During 2000, as part of the reorganization of the Telefónica group along global business lines, Telefónica Internacional transferred to Telefónica Móviles shares representing its interest in: Tele Sudeste Celular; Celular CRT; Tele Leste Celular; and two holding companies that own 86.7% and 100.0% of Telefónica El Salvador and Telefónica Centroamérica Guatemala, respectively.
- (2) During 2000, as part of the reorganization of the Telefónica group along global business lines, Telefónica Intercontinental transferred to Telefónica Móviles shares representing its interest in Medi Telecom.

The table below shows the impact of consolidation of Telesp and Tele Sudeste in 1999 on our results of operations:

	Telefónica 1999(1)	% Change 1998 vs. 1999(2)	Telesp + Tele Sudeste(3)	Telefónica 1999 (4)	% Change 1998 vs. 1999(5)
	(in billions of pesetas)				
Operating revenues	3,164.4	8.89	655.3	3,819.7	31.49
Operating expenses	1,696.8	22.62	373.5	2,070.3	49.62
EBITDA	1,521.1	(1.27)	290.1	1,811.2	17.55
Operating profit (loss)	677.7	(16.87)	117.0	794.8	(2.52)
Income (loss) before tax	(56.0)	(139.30)	50.6	(5.4)	(100.20)
Net income (loss)	11.6	(94.67)	0.0	11.6	(94.67)

- (1) Historical 1999 data for Telefónica, S.A. and its consolidated subsidiaries adjusted to show Telesp and Tele Sudeste accounted for under the equity method.
- (2) Historical 1998 data for Telefónica, S.A. and its consolidated subsidiaries versus historical 1999 data for Telefónica, S.A. and its consolidated subsidiaries adjusted to show Telesp and Tele Sudeste accounted for under the equity method.
- (3) Impact of the full consolidation of Telesp and Tele Sudeste in 1999.
- (4) Historical 1999 data for Telefónica, S.A. and its consolidated subsidiaries.
- (5) Historical 1998 data for Telefónica, S.A. and its consolidated subsidiaries versus historical 1999 data for Telefónica, S.A. and its consolidated subsidiaries.

Year Ended December 31, 2000 Compared with Year Ended December 31, 1999

Revenue from operations

Our revenue from operations, which accounted for 95.9% and 95.5% of our consolidated total revenue for 2000 and 1999, respectively, increased by 24.1% to Ptas 4,739,588 million in 2000 from Ptas 3,819,724 million in 1999. The growth in revenue from operations was primarily attributable to increased results of operations from Telesp, Telefónica de Argentina and Telefónica Móviles.

The Telefónica de España Group's revenues from operations decreased 1.1%, or Ptas 15,511 million, to Ptas 1,425,490 million during 2000. Telefónica de España's revenue from operations decreased 1.5%, or Ptas 21,837 million, to Ptas 1,414,980 million during 2000, compared to an increase of 1.1% in 1999. This decrease was principally due to average tariff reductions imposed during 2000 of 12.2% and a reduction of 3% in interconnection prices charged to the wireless networks which took effect July 1, 2000, the loss of market share for domestic long-distance to other carriers, and the introduction of discount calling plans. As of December 31, 2000, there were nearly 4,898 million active plans. The decrease was offset partially by:

- a €0.6 increase in the monthly service charge per line approved by the Spanish government, which became effective in August 2000
- a 25.6% increase in telephone usage, as measured on the basis of minutes of use per day per line (including ISDN lines and Ibercom lines), to 16.83 minutes per day (including interconnection traffic)
- a 43.7% increase in revenues from supplementary services (ISDN, intelligent networks, Centrex, broadband services and VPN), which collectively made up 17% of Telefónica de España's revenue from operations for 2000

The growth in line usage was attributable to:

- a 109.6% increase in usage of our Internet service to 23,700 million minutes in 2000 from 11,300 million minutes in 1999
- a 96.1% increase in incoming traffic from other operators to 20,600 million minutes in 2000 from 10,500 million minutes in 1999

Telefónica Móviles' revenue from operations increased 45.3%, or Ptas 205,260 million, to Ptas 658,188 million during 2000. This increase was principally due to the consolidation in 2000 of Tele Sudeste Celular and Celular CRT, which were transferred to Telefónica Móviles by other members of the Telefónica Group. Revenues from Telefónica Móviles' newly-acquired Latin American operations are included as of their respective date of transfer in October 2000. Net revenues from Telefónica Móviles' operations in Spain increased 29.7% to Ptas 583,504 million in 2000 from Ptas 449,841 million in 1999 due to an increase of 51% in wireless subscribers to approximately 13.67 million at December 31, 2000 compared with approximately 9.05 million at December 31, 1999, partially offset by a 23% decline in average revenue per user which was principally attributable to rate reductions and to a change in the customer mix as the number of pre-paid customers increased to 65.1% of Telefónica Móviles' customer base in Spain. Due to lower average minutes of use than contract customers, prepaid customers generally contribute to lower average revenue per customer.

Telefónica Internacional's revenues from operations increased by 32.3% to Ptas 2,088,811 million during 2000. Telefónica Internacional's revenues from operations in 2000 include the results from its Latin American wireless operations transferred to Telefónica Móviles through their respective date of transfer in October 2000. The increase in 2000 was principally due to the following:

- Revenue from operations generated by Telefónica del Perú denominated in pesetas increased by approximately 24% during 2000. If denominated in local currency, revenues from operations increased by 7.9% during 2000. The increase in revenues in pesetas was higher than the increase in local currency due to the appreciation of the U.S. dollar against the peseta, which was partially offset by the depreciation of the Peruvian nuevo sol against the U.S. dollar of approximately 0.5% on average. The increase in revenues from operations in local currency was mainly due to a 12% increase in local fixed-line traffic and a 26% increase in the number of wireless subscribers, offset partially by the decrease in long-distance traffic.
- Revenue from operations generated by Telefónica de Argentina denominated in pesetas increased 43.1%, while revenue denominated in local currency increased by 23.9%. The increase in revenues in pesetas was higher than the increase in local currency due to the appreciation of the U.S. dollar against the peseta. The increase in revenue was mainly due to a 67.2% increase in wireless subscribers and, to a lesser extent, an 8.3% increase in fixed-line customers. Revenues

from operations were offset in part by negative macroeconomic conditions in Argentina and the entry of new competitors into the marketplace.

- Revenue from operations generated by Compañía de Telecomunicaciones de Chile denominated in local currency decreased by approximately 0.7% to Chilean pesos 832,104 million during 2000, while revenues in pesetas increased by 5.9%. This 0.7% decrease was due principally to a 2.3% decrease in revenues from fixed-line telephony principally due to a 13.1% decrease in revenues from long-distance services. The decrease was offset in part by a 1.1% increase in revenues from wireless communications as a result of a 35.1% increase in interconnection revenues due to the growth in the number of wireless subscribers. The increase in revenues in pesetas was higher than the increase in local currency due to the appreciation of the U.S. dollar against the peseta of approximately 15.5% on average, which was partially offset by the depreciation of the Chilean peso against the dollar of approximately 8.3% on average.
- Revenue from operations generated by Telesp denominated in Brazilian *reais* increased by 37.4% during 2000, while revenues in pesetas increased by 57.2%. This increase was due principally to a 28.4% increase in the number of lines in service and an increase in local fixed-line traffic. The increase in revenues in pesetas was higher than the increase in the local currency due to the appreciation of the U.S. dollar against the peseta, which was partially offset by the depreciation of the Brazilian *real* against the U.S. dollar of approximately 1% on average.

Telefónica Data's revenue from operations increased by 60.1% to Ptas 153,114 million during 2000 principally due to increases in the number of client connections and Internet traffic through its network.

Terra Networks' revenue from operations increased 657.2% to Ptas 50,580 million in 2000 from Ptas 6,680 million in 1999. This increase was principally due to a 530.6% increase in access revenues to Ptas 19,800 million and a 2,916.5% increase in advertising revenues to Ptas 18,129 million. These increases were due in part to the inclusion of a full year of financial results of companies Terra Networks acquired in 1999 and the results of Lycos, Inc., which was acquired in October 2000. At December 31, 2000, Terra Networks had approximately 4.1 million subscribers. It generated more than 350 million average daily page views during December 2000.

Operating expenses

Operating expenses, which consist of increase in inventories (net), goods purchased, external services and local taxes and personnel costs, increased by 35.3% during 2000 principally due to increased expenses at our operating companies that are in the development and expansion phase of their business and the consolidation of companies we acquired or in which we increased our stakes during 2000, including Atlántida de Comunicaciones S.A. and Endemol Entertainment Holding N.V., and newly-formed companies, including Katalyx, Emergia and Terra Mobile.

The Telefónica de España Group's operating expenses increased by 9.2% during 2000 to approximately Ptas 979,000 million from Ptas 897,000 million in 1999. Telefónica de España's operating expenses increased 7.4% to Ptas 887,687 million in 2000 from Ptas 826,529 million in 1999. Goods purchased at Telefónica de España increased by 26.5% principally due to a 25.1% increase in interconnection costs related to fixed-to-mobile interconnections. External services increased 11.6% due to the outsourcing of activities as a result of workforce reductions. Personnel expenses declined 7.0% during 2000 as a result of the streamlining of Telefónica de España's workforce, which had 41,193 employees at December 31, 2000, a decrease of 11.6% from the number of employees at December 31, 1999. As a result, Telefónica de España had a productivity ratio of 493 lines per employee at December 31, 2000, a 19.6% improvement over the productivity ratio of 412 lines per employee at December 31, 1999.

Operating expenses at Telefónica Móviles increased by 45.4% during 2000 principally due to the consolidation in 2000 of companies transferred to Telefónica Móviles by members of the Telefónica Group. Operating expenses at Telefónica Móviles' newly-acquired Latin American operations are included as of their respective date of transfer in October 2000.

- Goods purchased at Telefónica Móviles' Spanish operations increased 24.3% to Ptas 164,082 million in 2000 from Ptas 132,022 million in 1999 mainly due to the higher cost of handsets, interconnection costs and roaming costs as a result of the increase in the number of customers. As a percentage of net

revenues from operations generated by Telefónica Móviles' Spanish operations, goods purchased decreased to 28.1% for 2000 from 29.3% for 1999. External services at Telefónica Móviles' Spanish operations increased to 25.4% to Ptas 306,912 million in 2000 from Ptas 244,811 million in 1999 principally due to higher commercial activity and distributor incentives. As a percentage of net revenues of operations generated by Telefónica Móviles' Spanish operations, external services decreased to 52.6% for 2000 from 54.1% for 1999. Personnel expenses at Telefónica Móviles' Spanish operations increased 40.9% to Ptas 27,344 million in 2000 from Ptas 19,395 million for 1999 principally due to an 18.1% increase in personnel to 3,937 people at year-end 2000 from 3,372 people at year-end 1999. As a percentage of net revenues from operations generated by Telefónica Móviles' Spanish operations, personnel expenses increased to 4.7% for 2000 from 4.3% for 1999.

- Goods purchased at Telefónica Móviles' Latin American operations were Ptas 28,459 million in 2000. Goods purchased represented 39% of net revenues from operations generated by Telefónica Móviles' Latin American operations in 2000. External services at Telefónica Móviles' Latin American operations were Ptas 14,749 million in 2000. External services represented 20.2% of net revenue from operations generated by Telefónica Móviles' Latin American operations in 2000. Personnel expenses at Telefónica Móviles' Latin American operations were Ptas 4,371 million in 2000. Personnel expense represented 6% of net revenues from operations generated by Telefónica Móviles' Latin American operations in 2000.

Telefónica Internacional's operating expenses increased by 24.2% to Ptas 1,074,569 million during 2000 principally for the reasons described below. Telefónica Internacional's operating expenses in 2000 include the operating expenses of its Latin American wireless operations transferred to Telefónica Móviles through their respective date of transfer in October 2000. Note that the percentage increases or decreases below were calculated based on local currency amounts as opposed to amounts that have been converted into pesetas.

- Telefónica del Perú's operating expenses increased by approximately 4.5% principally as a result of a 7.3% increase in external services, mainly due to a 77% increase in marketing expenses relating to the fixed-line telephony business and a 16.4% increase in professional services related to its wireless business.
- Telefónica de Argentina's operating expenses increased by 33.8% during 2000, principally due to a 266.9% increase in goods purchased mainly due to expenses incurred as a result of the liberalization of the telecommunications market, which resulted in a 267.1% increase in interconnection costs.
- Telesp's operating expenses increased by 31.3% during 2000 mainly due to an increase in goods purchased as a result of an increase in interconnection costs due to the growth in fixed-to-mobile traffic.

The increase in operating expenses of Telefónica Internacional was partially offset by an 8.0% decrease in Compañía de Telecomunicaciones de Chile's operating expenses mainly due to a 10.6% decrease in personnel expenses and a 33.8% decrease in external services. The decrease in personnel expenses was due in part to a reduction in the number of employees in the fixed-line telephony business.

Telefónica Data's operating expenses increased by 99.0%, or Ptas 75,527 million, during 2000 due to:

- a 177% increase in personnel expenses due to a 169% increase in headcount to 2,292 individuals at December 31, 2000 compared to 850 individuals December 31, 1999
- an 84% increase in external services during 2000 principally due to increased marketing expenses

Terra Networks' operating expenses increased by 471%, or Ptas 91,167 million, to Ptas 110,942 million during 2000, principally due to:

- a 547.2% increase in goods purchased to Ptas 32,216 million in 2000 from Ptas 4,978 million in 1999

- a 562.1% increase in personnel expenses to Ptas 19,445 million in 2000 from Ptas 2,937 million in 1999
- a 400.0% increase in other operating expenses to Ptas 59,281 million in 2000 from Ptas 4,860 million in 1999

These increases were due in part to the inclusion of a full year of operating expenses of companies Terra Networks acquired in 1999 and the operating expenses of Lycos, Inc., which was acquired in October 2000.

EBITDA

EBITDA consists of revenue from operations plus other operating revenue and internal expenditures capitalized, less operating expenses, trade provisions and other operating expenses. Our EBITDA increased by 9.5%, or Ptas 171,931 million, to Ptas 1,983,113 million during 2000 principally due to the growth of our wireless operations and fixed-line telephony in Latin America, offset by decreased margins in fixed-line telephony in Spain and increased expenses in connection with development costs in our businesses with high growth potential.

Telefónica de España's EBITDA decreased by 10.6%, or approximately Ptas 88,856 million, during 2000. This decrease was mainly due to tariff reductions affecting Telefónica de España's results.

Telefónica Móviles' EBITDA increased by 36.0%, or approximately Ptas 80,787 million, during 2000. As a percentage of net revenues from operations, EBITDA decreased to 46.4% for 2000 from 49.5% for 1999. EBITDA for Telefónica Móviles' Spanish operations increased 32.3% to Ptas 297,934 million for 2000 from Ptas 225,203 million for 1999. EBITDA for Telefónica Móviles' Spanish operations increased, as a percentage of net revenues from Telefónica Móviles' Spanish operations, to 51.1% for 2000 from 50.1% for 1999. EBITDA for Telefónica Móviles' Latin America operations accounted for 7.7% of Telefónica Móviles' EBITDA in 2000. EBITDA for Telefónica Móviles' Latin American operations represented 32.2% of net revenues from Telefónica Móviles' Latin American operations.

Telefónica Internacional's EBITDA increased by 35.6%, or Ptas 999,293 million, during 2000. In 2000, the EBITDA of Telefónica de Argentina increased by 28.0%, or Ptas 235,999 million, to Ptas 302,055 million. As measured in local currency, EBITDA of Telefónica Argentina increased 10.8% to 1,674 million Argentine pesos due to increased operating revenues as a result of the increase in the number of wireless subscribers and an increase in local fixed-line traffic, offset partially by an increase in operating expenses as a result of the introduction of competition for fixed-line telephony, higher connection charges and an increase in advertising, sales and equipment expenses. The EBITDA of Telefónica del Perú increased by 28.3%, or Ptas 95,208 million, to Ptas 122,142 million. As measured in local currency, EBITDA of Telefónica del Perú increased 11.6% to 2,386 million nuevo soles due to a 7.5% increase in operating income as a result of an increase in local fixed-line traffic and an increase in the number of wireless subscribers. The EBITDA of Compañía de Telecomunicaciones de Chile increased by 10.8%, or Ptas 99,224 million, to Ptas 104,394 million. As measured in local currency, EBITDA of Compañía de Telecomunicaciones de Chile decreased 0.2% to 332,039 million Chilean pesos due to the 2.3% decrease in revenues from local fixed-line telephony as a result of tariff reductions and the negative impact of the change from billing in minutes to billing in seconds which took effect in February 2000 and mainly affected revenues from wireless and long-distance services, offset in part by the 8.0% decrease in expenses as a result of the company's cost control efforts. The EBITDA of Telesp increased by 63%, or Ptas 237,662 million, to Ptas 387,336 million. As measured in local currency, EBITDA of Telesp increased 42.5% to 3,934 million Brazilian *reais* due to a 28.4% increase in the number of lines in service.

Telefónica Data's EBITDA decreased by 63%, or Ptas 12,520 million, due to the inclusion of subsidiaries that are still in their start-up phases, which have yet to generate income.

Terra Networks had negative EBITDA of Ptas 59,774 million during 2000 compared to negative EBITDA of Ptas 12,880 million in 1999 due to the inclusion of a full year of companies Terra Networks acquired in 1999 and Lycos, Inc. which was acquired in October 2000.

Operating profit

Operating profit, which consists of revenue from operations, internal expenditures capitalized, operating expenses, other operating revenue, provision for depreciation and amortization, other operating expenses and trade

provisions, increased by 3.8% during 2000 to Ptas 824,939 million from Ptas 794,764 million in 1999 principally due to a 9.5% increase in EBITDA, offset in part by a 13.9% increase in depreciation costs in connection with our fixed-line operations in Latin America.

Operating profit of Telefónica Móviles increased 30.6% to approximately Ptas 195,232 million during 2000 from approximately Ptas 150,300 million in 1999.

Operating profit at Telefónica Internacional increased 43.7% to approximately Ptas 475,850 million during 2000 from approximately Ptas 331,305 million in 1999.

Telefónica Data's operating loss in 2000 was approximately Ptas 5,041 million during 2000 compared to an operating profit of approximately Ptas 10,369 million in 1999.

Terra Networks' operating loss in 2000 was approximately Ptas 73,669 million during 2000 compared to an operating loss of approximately Ptas 13,934 million in 1999.

Profit from ordinary activities

Profit from ordinary activities, which consists of operating profit, amortization of goodwill on consolidation, financial income (expense), exchange (losses) gains and income (loss) from associated companies, decreased by 30.9%, or Ptas 180,788 million, to Ptas 405,272 million from Ptas 586,060 million during 1999. Losses from associated companies increased significantly to Ptas 26,846 million in 2000 from Ptas 646 million in 1999 as a result of negative contributions by companies associated with Telefónica Móviles, Telefónica Media and Terra Networks, respectively. Amortization of goodwill on consolidation increased 158% to Ptas 83,289 million in 2000 from Ptas 32,334 million in 1999 principally due to acquisitions by Terra Networks and Telefónica Media during 2000. Financial expense increased 76.2% to Ptas 309,532 million in 2000 from Ptas 247,985 in 1999 due to the increase in debt related to the acquisition of UMTS licenses and the strengthening of the U.S. dollar, in which the majority of the debt of the Telefónica Group's Latin American subsidiaries is denominated, together with an increase in U.S. interest rates.

Income (loss) before tax and minority interest

Income before tax and minority interest, which consists of profit from ordinary activities, extraordinary income, losses on sales of fixed assets and extraordinary expenses, was Ptas 477,140 million in 2000 compared to a loss before tax and minority interest of Ptas 5,434 million in 1999, principally due to extraordinary gains of Ptas 482,204 million realized in connection with the revaluation of our interest in Telefónica Móviles in connection with its initial public offering and Ptas 75,474 million from our sale of 3% of Terra Networks, offset in part by the recording of pre-retirement and early retirement provisions of Ptas 267,976 million in 2000.

Corporate income tax

Provision for corporate income tax at the consolidated level was Ptas 40,302 million in 2000 compared to a corporate income tax credit of Ptas 126,115 million in 1999, principally due to an increase in non-deductible expenses such as the amortization of goodwill and the inability to deduct the losses of companies accounted for by the equity method from our taxable income.

Minority interests

Minority interests decreased 81.6% to Ptas 20,072 million in 2000 from Ptas 109,100 million in 1999, primarily due to the increase in our ownership interest in Telesp, Tele Sudeste, Telefónica de Argentina and Telefónica de Peru as a result of the completion of our exchange offers for these Latin American affiliates.

Net income

Consolidated net income increased by Ptas 405,185 million, or 3,498.7%, from net income of Ptas 11,581 million in 1999 to Ptas 416,766 million in 2000. This increase was due to the various factors described above.

Year Ended December 31, 1999 Compared with Year Ended December 31, 1998

Revenue from operations

Our revenue from operations, which accounted for 95.5% and 95.0% of our consolidated total revenue for 1999 and 1998, respectively, increased by 31.4% to Ptas 3,819,724 million in 1999 from Ptas 2,906,021 million in 1998. Of the increase in 1999, approximately Ptas 655 billion was due to the consolidation in 1999 of Telesp and Tele Sudeste. If these companies had not been consolidated, revenues from operations would have increased 8.9% during 1999 mainly due to the operations of Telefónica Móviles and Telefónica Data.

Whereas we calculate revenues from operations both before and after adjustments for sales to other members of the group, prior to 2000, we limited our analysis in such area strictly to revenues from operations before adjustments for sales to other members of the group. Accordingly, in this section we disclose revenues from operations both before and after adjustments for sales to other members of the group and limit our discussion solely to revenues before adjustments for sales to other members of the group. In the aggregate, we believe that sales to other members of the group did not have a significant impact on the percentage fluctuations during the period discussed.

Telefónica de España's revenue from operations (including sales to other members of the group) increased 0.8% or Ptas 12,661 million to Ptas 1,604,564 million during 1999, compared to a decrease of 0.8% in 1998. This increase was principally due to:

- a 3.6% increase in the average number of lines in service (including ISDN lines and Ibercom lines) combined with a 11.9% increase in telephone usage, as measured on the basis of minutes of use per day per line (including ISDN lines and Ibercom lines), to 13.4 minutes per day (including interconnection traffic)
- a 64.4% increase in revenues from supplementary services (ISDN, intelligent networks, Centrex, broadband services and VPN), which collectively made up 10.3% of Telefónica de España's revenue from operations for 1999
- a 3.7% increase in revenues from leased circuits

The increase in the average number of lines in service was partly due to the introduction of new products such as the ASDL service. The growth in line usage was attributable to:

- a 34.5% increase in usage of the InfoVía (Internet) service from 105.0 million hours in 1998 to 141.2 million hours in 1999
- a 15% increase in voicemail services to approximately 8.3 million users as of December 31, 1999 from 7.2 million users as of December 31, 1998
- an 8.4% increase in interconnection with other operators

Telefónica de España's revenue growth was partially offset by tariff reductions imposed during 1999 of 10.6% for intra-provincial calls, 26.3% for inter-provincial calls and 12.5% for international calls and a reduction of 7.1% in interconnection prices charged to wireless networks which took effect July 1, 1999, the loss of market share for domestic long-distance to other carriers, and the introduction of discount calling plans. As of December 31, 1999, there were nearly 12 million active plans.

Telefónica de España's revenue from operations excluding sales to other members of the group increased 1.1% or Ptas 15,158 million to Ptas 1,436,817 million during 1999.

Telefónica Móviles' revenue from operations (including sales to other members of the group) increased 32.9% or Ptas 154,093 million to Ptas 622,112 million during 1999. This increase was principally due to an increase of 85.0% in wireless subscribers to approximately 9.05 million at December 31, 1999 compared with approximately 4.89 million at December 31, 1998. The number of subscribers per 100 inhabitants also increased from 12.2% at December 31, 1998 to 22.6% at December 31, 1999.

This growth was principally due to a threefold increase in the number MoviStar Active (pre-paid) users and a more than doubling of contracts with companies and professionals. Revenues from operations also increased due to a 69.4% increase in wireless traffic from approximately 8.0 billion minutes in 1998 to 13.6 billion minutes in 1999. The overall increase in revenues from operations was offset in part by a 19% decline in average revenue per user due to deep price reductions and the growth of lower-priced prepaid calls.

Telefónica Móviles' revenue from operations excluding sales to other members of the group increased 35.4% or Ptas 118,331 million to Ptas 452,706 million during 1999.

Telefónica Internacional's revenues from operations (including sales to other members of the group) increased by 14.9% to Ptas 1,026,579 million during 1999, without giving effect to the consolidation of the Brazilian subsidiaries. This increase was principally due to the following:

- Revenues from operations from our Chilean subsidiaries denominated in local currency increased by approximately 12% to Chilean pesos 850,301 million during 1999, while revenues in pesetas increased by 5%. This 12% increase was due principally to the consolidation of Globus and Sonda in 1999 and the revenues of Startel, which more than doubled its wireless subscribers in 1999. The increase was offset in part by a tariff decrease approved in August, which negatively impacted revenues by approximately Ptas 24,000 million in 1999. The increase in revenues in pesetas was lower than the increase in local currency due to the depreciation of the Chilean peso against the U.S. dollar of approximately 12% on average, which was partially offset by the depreciation of the peseta against the dollar.
- Revenue from operations generated by Telefónica del Perú denominated in pesetas increased by approximately 3% during 1999. If denominated in local currency, revenues from operations increased by 9% during 1999. The depreciation of the Peruvian nuevo sol against the U.S. dollar by over 11% on average was the principal reason for the smaller increase in revenues from operations in pesetas. Revenues from operations in local currency were positively affected by an increase in the number of lines in service of approximately 9% and an increase in the number of wireless subscribers of 41.1%.
- Revenue from operations generated by Telefónica de Argentina denominated in pesetas increased 7%, while revenue denominated in local currency increased by 3%. The increase in revenue was mainly due to an increase of 96.8% in wireless subscribers and, to a lesser extent, a 4.5% increase in fixed-line customers. Revenues from operations were offset in part by negative macroeconomic conditions in Argentina and the entry of new competitors into the marketplace.

Telefónica Internacional's revenue from operations excluding sales to other members of the group increased 14.9% or Ptas 132,582 million to Ptas 1,024,224 million during 1999, without giving effect to the consolidation of the Brazilian subsidiaries.

Telesp and Tele Sudeste generated revenue from operations (including sales to other members of the group) of approximately Ptas 460,000 million and approximately Ptas 130,000 million, respectively, in 1999.

Telefónica Data's revenue from operations (including sales to other members of the group) increased by 25.2% to Ptas 95,627 million during 1999 principally due to increases in the number of client connections and Internet traffic through its network. Telefónica Data Groups' revenue from operations excluding sales to other members of the group increased 21% or Ptas 13,532 million to Ptas 77,897 million during 1999.

Terra Networks' revenue from operations (including sales to other members of the group) was Ptas 6,680 million in 1999 compared with Ptas 925.8 million in 1998. At December 31, 1999 Terra Networks had approximately 1.3 million subscribers. It generated approximately 434 million page views during December 1999.

Operating expenses

Operating expenses increased by 49.7% during 1999 principally due to the impact of the consolidation of Telesp and Tele Sudeste, which represented approximately Ptas 370,000 million, or 27.0 percentage points of the 49.7% increase. Without giving effect to the consolidation of the Brazilian subsidiaries, our personnel expenses increased by 0.4% during 1999, with a strong decrease at Telefónica de España, goods purchased increased by

43.4%, principally at Compañía de Telecomunicaciones de Chile and Telefónica de Argentina, and external services increased by 58.9%, principally due to a strong increase at Telefónica Móviles and Telefónica de Argentina.

Telefónica de España's operating expenses increased by 7.6% during 1999 to approximately Ptas 897,000 million from Ptas 834,000 million in 1998. Goods purchased at Telefónica de España increased by 38.2% due to higher interconnection costs, and external services increased due to increased expenses relating to the promotion of telephone usage and customer loyalty (principally commissions and advertising). Personnel expenses declined 10.3% during 1999 as a result of the streamlining of Telefónica de España's workforce, which had 46,619 employees at December 31, 1999, a decrease of 19.8% from the number of employees at December 31, 1998. As a result, Telefónica de España had a productivity ratio of 412 lines per employee at December 31, 1999, a 31% improvement over the productivity ratio of 313 lines per employee at December 31, 1998.

Operating expenses at Telefónica Móviles increased by 44.6% during 1999. Goods purchased grew due to higher interconnection charges due to the strong increase in customers and the resulting increase in traffic through other networks, both fixed and wireless. External services increased by 65% during 1999 due to the increase in expenses related to marketing and advertising to promote customer loyalty. Personnel expenses increased by approximately 30% due to the addition of 515 new employees.

Telefónica Internacional's operating expenses increased by 21.4% to Ptas 862,330 million during 1999 principally for the reasons described below. Note that the percentage increases or decreases below were calculated based on local currency amounts as opposed to amounts that have been converted into pesetas.

- Compañía de Telecomunicaciones de Chile's operating expenses increased by 52% mainly due to a 28% increase in personnel expenses, a 79% increase in goods purchased and a 30% increase in external services. The increase in personnel expenses was due in part to severance costs associated with a headcount reduction of 1,008 employees. The increase in external services and goods purchased was mainly due to the acquisition of Sonda. Operating expenses also increased due to higher expenses associated with the implementation of new policies for controlling bad debts.
- Telefónica del Perú's operating expenses decreased by approximately 1% principally as a result of a 13% increase in personnel expenses and a 29% increase in external services. These increases were offset by a 68% decrease in provisions for doubtful accounts in 1999. Provisions for doubtful accounts decreased in 1999 compared with 1998 primarily because of higher provisions recorded in the earlier period to eliminate all accounts that were over 120 days past due, which better reflected Telefónica del Perú's experience. This charge followed an extensive review by Telefónica del Perú of its customer base prompted by weak economic conditions in Peru. Telefónica del Perú now fully provides for all accounts that remain outstanding for more than 120 days.
- Telefónica de Argentina's operating expenses increased by 6% during 1999, principally due to a 28% increase in external services principally due to expenses incurred as a result of the liberalization of the telecommunications market and an increase in personnel expenses of approximately 1%. These factors were offset in part by a decrease in provisions for doubtful accounts of 54%.

Telefónica Data's operating expenses increased by 17.9%, or Ptas 75,584 million, during 1999 due to:

- a 33.4% increase in personnel expenses due to a 33.2% increase in headcount to 850 individuals at December 31, 1999 compared to 638 individuals December 31, 1998
- an increase in external services during 1999 of 93.7% principally due to increased marketing expenses

EBITDA

Our EBITDA increased by 17.6% or Ptas 270,470 million to Ptas 1,811,182 million during 1999. If Telesp and Tele Sudeste had not been consolidated during 1999, our EBITDA would have decreased by 1.3% or approximately Ptas 19,600 million in 1999.

Telefónica de España's EBITDA decreased by 4.4% or approximately Ptas 38,500 million during 1999. This decrease was mainly due to tariff reductions affecting Telefónica de España's results.

Telefónica Móviles' EBITDA rose 15.9% or approximately Ptas 30,800 billion during 1999. The ratio of EBITDA to operating revenues decreased from 41.5% in 1998 to 36.2% in 1999 due to an approximately 45% increase in operating expenses resulting from a strong growth in the client base. Average revenue per user decreased 19% due to increased costs associated with the increased client base.

Telefónica Internacional's EBITDA increased by 61.2% or Ptas 279,700 million during 1999. If Telefónica Internacional and Tele Sudeste had not been consolidated during 1999, Telefónica Internacional's EBITDA would have decreased 2.3% or approximately Ptas 10,400 million. In 1999, the EBITDA of Telefónica de Argentina increased by 4.3% or Ptas 9,658 million to Ptas 235,524 million, the EBITDA of Telefónica del Perú increased by 15.3% or Ptas 12,630 million to Ptas 95,209 million and the EBITDA of Compañía de Telecomunicaciones de Chile decreased by 26.6% or Ptas 34,289 million to Ptas 94,823 million.

Telefónica Data's EBITDA increased by 68.0% or Ptas 8,100 million due to an increase in the number of Internet product offerings, a market in which Telefónica Data had a market share estimated to be in excess of 60%. In addition, Telefónica Data benefited from its strong relationship with its largest clients.

Operating profit

Operating profit decreased by 2.5% during 1999 to Ptas 794,764 million from Ptas 815,278 million in 1998 due to a sharp increase in depreciation, which rose 40.1% compared with the 17.8% rise in EBITDA. Of this increase in depreciation, 23.9 percentage points, or approximately Ptas 173,100 million, was contributed by the consolidation of Telesp and Tele Sudeste. Our operating profit, excluding Telesp and Tele Sudeste, decreased by 16.9% during 1999. This decrease was due principally to a 24.3% decrease in operating profit at Telefónica de España resulting from a 13.6% increase in depreciation due to its new policy of depreciating certain fixed assets used to provide fixed-line telephony services. If the depreciation criteria had remained the same, our overall operating profit would have increased by 2.5%.

Operating profit of Telefónica Móviles increased 16.5% to approximately Ptas 150,300 million during 1999 from approximately Ptas 129,000 million in 1998.

Profit from ordinary activities

Profit from ordinary activities increased by 1.6% or Ptas 9,354 million to Ptas 586,060 million during 1999 from Ptas 576,706 million in 1998. If Telesp and Tele Sudeste had not been consolidated during 1999, our profit from ordinary activities would have decreased 21.2%.

Income (loss) before tax and minority interest

Income (loss) before tax and minority interest decreased from income before tax and minority interest of Ptas 402,010 million in 1998 to a loss before tax and minority interest of Ptas 5,434 million in 1999. This reduction was principally due to the recording of pre-retirement and early retirement provisions of Ptas 444,172 million in 1999. Additionally, other extraordinary expenses rose by Ptas 57,058 million in 1999. These increases in extraordinary expenses were partially offset by extraordinary revenues from gains obtained on disposals of holdings in consolidated companies of approximately Ptas 263,600 million in 1999. These gains principally consisted of Ptas 99,741 million from the sale of Telefónica Publicidad e Información, Ptas 82,885 million from the sale of Terra Networks and Ptas 35,852 million from the sale of Temasa. We had gains on disposals of holdings of approximately Ptas 23,900 million in 1998.

Corporate income tax

We recorded a corporate income tax credit at the consolidated level of Ptas 126,115 million in 1999 compared to a corporate income tax expense of 91,875 million in 1998. This change was principally due to the tax credit associated with the above-mentioned pre-retirement and early retirement provision recorded in 1999. This provision, being tax deductible, generated a tax income of Ptas 155,460 million in 1999. The reduction was also due to the write-offs related to the Brazilian investments, which are deducted when calculating corporate tax and cancelled in the process of consolidation adjustments. In addition, capital gains on the sale of our investments, such

as the Terra Networks or Telefónica Publicidad e Información public offerings, did not form part of the taxable income base.

Minority interests

Minority interests increased 17.9% to Ptas 109,100 million in 1999 from Ptas 92,551 million in 1998, primarily due to the full effect of the consolidation of Telesp and Tele Sudeste in 1999. Had Telesp and Tele Sudeste not been consolidated during 1999, minority interests would have decreased by 59.3% to Ptas 37,649 million.

Net income

Consolidated net income decreased by Ptas 206,003 million, or 94.7%, from net income of Ptas 217,584 million in 1998 to Ptas 11,581 million in 1999. This decrease was due to the various factors described above, most notably the increase in extraordinary expenses due to the recording of the pre-retirement and early retirement provisions discussed above.

Principal Differences Between U.S. GAAP and Spanish GAAP

The principal differences between U.S. GAAP and Spanish GAAP relevant to us are the recognition of goodwill, the effect of changes in the parent company's interest in a subsidiary as part of a broader corporate reorganization, the revaluation of fixed assets, the recognition of deferred taxes, the capitalization of interest during construction and start-up costs, the capitalization of research and development and capital increase expenses, the recording of provisions for early retirement, the consolidation of subsidiaries, the recognition of unrealized exchange losses, the recognition of revenues (SAB 101) and the recognition of unrealized gains on securities. See note 25 to the consolidated financial statements included elsewhere herein.

We have performed in 2000 and prior years some business combinations accounted for under Spanish GAAP using the pooling of interest method. Under U.S. GAAP, these acquisitions were recorded using the purchase accounting method. In the case where a capital increase in a subsidiary is carried out to effect a business combination that is part of a broader corporate reorganization and which is accounted for using the purchase accounting method, under U.S. GAAP Telefónica recognizes the increase in its investment as a result of the capital increase by crediting shareholders' equity.

Prior to 1988, Spanish GAAP permitted the revaluation of fixed assets. As a result of such revaluation, in years prior to 1988, we stated our property, plant and equipment at the then current replacement cost less accumulated depreciation, and credited the revaluations to the surplus account shown on the balance sheet under "other reserves". Depreciation was calculated each year based on the then current gross replacement cost using estimated remaining useful lives. Between 1988 and 1995, Spanish GAAP did not permit such revaluations, and we used historical cost basis accounting. In 1996, new legislation permitted us to write-up the value of certain of our assets. This write-up was reversed in the reconciliation to U.S. GAAP of shareholders' equity.

In accordance with Spanish GAAP, interest incurred during periods exceeding 12 months in which assets are under construction may be capitalized. However, interest incurred during construction is required to be expensed under U.S. GAAP.

Start-up costs are capitalized under Spanish GAAP, but not under U.S. GAAP.

Spanish GAAP requires that research and development expenses and capital increase expenses be capitalized and amortized over a period not exceeding five years. Such expenses are expensed in current periods and reduced from capital proceeds, respectively, under U.S. GAAP.

Under Spanish GAAP, provisions are recorded for early retirement expenses in the period during which management announces the early retirement programs. Under U.S. GAAP, early retirement provisions are recorded in the period during which an agreement is reached with the employee.

Under Spanish GAAP exchange gains may be deferred. Under U.S. GAAP, exchange gains are included in income on a current basis.

Under Spanish GAAP, revenues and expenses are recognized on accrual basis, i.e., when the goods and services are actually provided, regardless of when the resulting monetary or financial flow occurs. Under U.S. GAAP, according to SAB 101, some revenues and related costs must be deferred.

SFAS No. 115 requires certain investments in financial assets to be classified on the basis of the purpose for which they were acquired (held-to-maturity securities, trading securities or available-for-sale securities). The treatment of the unrealized gains and losses differs depending on the classification:

- unrealized gains and losses (other than permanent diminutions in value) on securities that we consider held-to-maturity are not recorded
- unrealized gains and losses on securities considered available-for-sale are not recorded in the income statement but included as a separate equity caption
- unrealized gains or losses on trading securities are recorded in the income statement

These criteria differ from Spanish GAAP.

For additional information concerning significant differences between U.S. GAAP and Spanish GAAP, as well as a reconciliation of net income and shareholders' equity to U.S. GAAP, please see note 25 to the consolidated financial statements included elsewhere herein.

Introduction of the Euro

In April 1997, we created the Office for the Euro Project, which was responsible for determining and evaluating the potential impact of the conversion to the euro as well as planning and coordinating the necessary changes.

The majority of our information systems and applications were modified during 1998 in order to offer information in both pesetas and euro as of January 1, 1999. In addition, during 1999 we began developing a plan to modify such systems and applications in order to commence operating exclusively in euro as of January 1, 2002. These modifications are being introduced throughout 2001. The mission critical systems are expected to be completely modified by mid-2001 in order to conduct tests throughout the remainder of the year.

Our estimated cost of changes necessary in order to accommodate the conversion to the euro is Ptas 5,000 million, 70% of which will be applied towards the conversion of IT systems and 30% of which will be used for training programs. Through December 31, 2000, 60%, or approximately Ptas 3,000 million, of the total estimated costs had been expensed.

The above euro discussion contains forward-looking statements that are made pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These statements include, without limitation, our estimated costs of changes necessary in order to accommodate the conversion to the euro and the expected date on which our systems and applications will commence operating exclusively in euro.

B. LIQUIDITY AND CAPITAL RESOURCES

The table below sets forth our consolidated cash flows for the periods indicated.

	Year ended December 31,			
	1998	1999	2000	2000
				(billions of dollars)
	(billions of pesetas)			
Net cash inflow from operating activities.....	1,249	1,587..	2,216	12.5
Net cash outflow for interest paid less dividends and interest charged.....	(128.6)	(296.4)	(252.1)	(1.4)
Net cash outflow for capital expenditures	(749.2)	(1,251.1)	(3,561)	(20.1)
Net cash outflow for investments in affiliates	(1,208)	(345.7)	(34.4)	(0.2)
Net cash outflow before financing activities	(837.0)	(306.5)	(1,631)	(9.2)
Net cash inflow from financing activities.....	770.4	388.0	2,563	14.5
Effects of exchange rate changes on cash.....	18.8	(18.6)	(53.1)	(0.3)
Net increase (decrease) in cash and cash equivalents.....	<u>(47.8)</u>	<u>63.0</u>	<u>878.3</u>	<u>5.0</u>

Positive figures refer to cash inflows and negative figures or those in brackets refer to cash outflows.

Net cash inflow from operating activities increased by 39.6% to Ptas 2,216.1 billion during 2000 from Ptas 1,587.5 billion during 1999. This strong growth was principally due to the positive performance of the Telefónica Móviles group and the Telefónica Internacional group, whose EBITDA increased 36.0% and 35.6%, respectively, in 2000. Net cash inflow from operating activities increased by 27.1% to Ptas 1,587.5 billion in 1999 from Ptas 1,249.3 billion in 1998.

Net cash outflow for interest paid less dividends and interest charged decreased by 15.0% in 2000 to Ptas 252.1 billion in 2000 from Ptas 296.4 billion in 1999. The decrease was principally due to the decrease in net interest paid, the main component of net cash outflow, to Ptas 336 billion in 2000 from Ptas 366 billion in 1999. Net cash outflow for interest paid less dividends and interest charged increased by 130% in 1999 to Ptas 296.4 billion in 1999 from Ptas 128.6 billion in 1998. Most of the increase in 1999 was due to the consolidation of Telesp and Tele Sudeste. Net interest paid declined at both Telefónica de España and Telefónica Móviles, and remained relatively steady at Telefónica Internacional, without giving effect to the consolidation of Telesp and Tele Sudeste.

Net cash outflow for capital expenditures increased by 184.5% to Ptas 3,561.2 billion in 2000. Tangible capital expenditure payments for 2000 amounted to Ptas 1,268.9 billion, mainly consisting of capital expenditures by Telefónica Internacional, Telefónica de España and Emergia. Intangible capital expenditures for 2000 amounted to Ptas 2,292.3 billion, principally investments by Telefónica Móviles, S.A. in connection with its acquisition of UMTS licenses. Net cash outflow for capital expenditures amounted to Ptas 1,251.8 billion and Ptas 749.2 billion in 1999 and 1998, respectively.

Net cash outflow due to investments in affiliates decreased by 90.0% to Ptas 34.4 billion during 2000 from Ptas 345.7 billion in 1999.

Our main investments during 2000 were:

- the acquisition of an additional interest in DTS Distribuidora de Televisión Digital, S.A., which resulted in a cash outflow of Ptas 31,489 million
- the acquisition of an additional interest in Media Park, S.A., which resulted in a cash outflow of Ptas 10,500 million
- the acquisition of a 51% stake in the Venezuelan Rodven Group, which resulted in a cash outflow of Ptas 8,531 million.
- the acquisition of a 27.73% interest in OneTravel.com, which resulted in a cash outflow of Ptas 2,655 million

The principal transactions in 2000 which generated cash inflow were:

- the public offering of 7.85% of Telefónica Móviles, S.A. which resulted in cash inflow of Ptas 549,892 million
- the sale of a 3% interest in Terra Networks, which resulted in a cash inflow of Ptas 75,474 million
- the sale of a 16.7% interest in Companhia Riograndense de Telecomunicações S.A., which resulted in a cash inflow of Ptas 9,983 million
- the sale of shares of Emergia Holding, N.V., which resulted in a cash inflow of Ptas 5,518 million
- the sale of a 0.27% stake in Infonet Services Corporation, which resulted in a cash inflow of Ptas 4,017 million
- the sale of a 6.1% stake in Amper, S.A., which resulted in a cash inflow of Ptas 904 million

In 2000, net cash outflow before financing activities increased 432.3% principally due to the significant increase in net cash outflow for capital expenditures, which more than offset the increase in cash inflow from operating activities and the decrease in net cash outflow for investments in affiliates.

In 1999, net cash outflow for investments in affiliates decreased by 71.4% to Ptas 345.7 billion from Ptas 1,208.5 billion in 1998. The increase in cash inflow from operating activities, combined with the sharp drop in net cash outflow due to investments in affiliates, even with the increase in cash outflow for capital expenditures, resulted in a considerable improvement during 1999 in net cash outflow before financing activities, which decreased by 63.4%.

Net cash flow due to financing activities amounted to an inflow of Ptas 2,563.0 billion in 2000, compared to an inflow of Ptas 388.0 billion in 1999 and Ptas 770.4 billion in 1998. Positive net cash flow from financing activities in 2000 was principally the result of debenture issues of U.S.\$10 billion, €650 million and 66,200 million Japanese yen. We had positive net cash flow from financing activities in 1999 principally as a result of debenture issues in the Spanish market of €500 million, €300 million and €30 million, respectively, and floating rate notes totaling €500 million with one year maturity and an interest rate linked to 3-month EURIBOR outside Spain. We had positive net cash flow from financing activities in 1998 as a result of a capital increase of Ptas 427,000 million in May 1998 and Ptas 105,000 million in loans received from the European Investment Bank.

The following table sets forth the amortization schedule for certain of our consolidated debt as of December 31, 2000:

	Maturity					Subsequent Years	Total
	2001	2002	2003	2004	2005		
	(millions of pesetas)						
Debentures and bonds.....	422,473	67,999	101,177	182,758	476,303	1,235,262	2,485,972
Other negotiable instruments.....	75,128	—	—	—	—	—	75,128
Notes payable	12,408	—	—	—	—	—	12,408
Loans and credits.....	397,592	44,868	70,856	170,896	258,935	247,458	1,190,605
Loans in foreign currency.....	840,771	101,238	200,923	150,132	85,573	211,717	1,590,354
Total.....	<u>1,748,372</u>	<u>214,105</u>	<u>372,956</u>	<u>503,786</u>	<u>820,811</u>	<u>1,694,437</u>	<u>5,354,467</u>

For details of the composition of, and changes in, our debt, see notes 15 and 16 to the consolidated financial statements included elsewhere herein.

As the preceding table indicates, we will be required to repay a significant amount of debt during 2001 with 33% of consolidated debt maturing in 2001. Notwithstanding these significant cash outlays in the coming years, we believe that we will be able to gradually reduce the level of this consolidated debt. In order to achieve this objective, we expect to:

- make future borrowings on significantly more favorable terms than in the past when much of our debt was at fixed rates substantially above current market rates and
- increase our reliance on self-financing.

Of our Ptas 5,354 billion of consolidated debt at December 31, 2000, approximately 4.5% represented zero-coupon obligations and the average interest rate on all of our outstanding debentures and bonds was 8%. In November 1996, we established a \$1.5 billion Euro Medium Term Note (“EMTN”) program. The maximum aggregate principal amount that may be issued under the EMTN program was increased to \$2 billion on June 12, 1998. Of this amount, \$1,161 million was issued and outstanding at December 31, 2000. In addition, we had approximately Ptas 486 billion of unused credit lines at the consolidated level at December 31, 2000. We believe that our EMTN program and available credit lines will provide us with substantial flexibility for our future capital needs as existing debt is retired.

C. RESEARCH AND DEVELOPMENT

Our research and development policy is aimed at:

- developing new products and services in order to gain market share
- fostering customer loyalty
- increasing revenues
- improving management
- increasing the quality of our infrastructure and services to improve customer service
- reducing costs

Our research and development activities are principally conducted by Telefónica Investigación y Desarrollo, S.A. Telefónica Investigación y Desarrollo conducts experimental and applied research and product development to increase the range of our services and reduce operating costs. It also provides technical assistance to our Latin American operations. Telefónica Investigación y Desarrollo's activities include the following:

- the development of telephone services, particularly the development of new value-added services for the public, corporate, wireless and multimedia sectors, and the automation of customer services
- the development of interactive services, focusing on the development of information services and new infrastructure to provide such services, primarily in the Internet Protocol environment
- the development of management systems designed to strengthen infrastructure and its quality and to develop innovative solutions for the management of Telefónica's networks and services
- the development of business support systems intended to provide innovative solutions for business processes
- innovation in business services intended to reinforce technological skills in the areas of networks, software and information technologies

Approximately 52% in 2000 and 64% in 1999 of Telefónica Investigación y Desarrollo's research and development was for the benefit of Telefónica de España while approximately 40% in 2000 and 36% in 1999 was for the benefit of the Telefónica Group's other subsidiaries, particularly Telefónica Móviles and Telefónica Data.

Our total research and development expenses (including those of Telefónica Investigación y Desarrollo) totaled Ptas 21,928 million, Ptas 15,022 million and Ptas 17,620 million in 1998, 1999 and 2000, respectively. These expenses represented 0.8%, 0.4% and 0.4% of our consolidated revenues in each of those years, respectively.

Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

We are managed by our Board of Directors, which consists of 20 members. All members of the Board of Directors are elected to five-year terms by our shareholders during a general meeting of shareholders. Between general meetings, the Board of Directors may appoint directors to fill vacancies on the Board of Directors, subject to ratification at the next general meeting. The Board of Directors, which meets monthly, elects from among its own members the chairman and the vice chairmen, and delegates day-to-day management of the group to a standing committee of the Board of Directors which meets bi-weekly. The Board of Directors has also constituted an audit and control committee, a hiring and compensation committee, a human resources committee, a regulatory committee and a service quality and customer care committee, each of which is composed of between a minimum of three directors and a maximum of five directors.

Board of Directors

As of April 26, 2001, the directors of Telefónica, S.A., their respective positions on the Board of Directors and the year they were appointed to such positions were as follows:

<u>Name</u>	<u>Age</u>	<u>First Appointed</u>	<u>Current Term Ends</u>	<u>Current Position and Present Principal Occupation or Employment; Material Positions Held During Past Five Years*</u>
César Alierta Izuel(1)	55	1997	2002	Chairman and Chief Executive Officer, Telefónica, S.A. (since 2000); Director, Altadis, S.A.
Isidro Fainé Casas(1)(8)	58	1994	2001**	Vice Chairman, Telefónica, S.A.; General Manager, Caja de Ahorros y Pensiones de Barcelona; Chairman, Autopistas Concesionaria Española, S.A.; Vice Chairman, Sociedad General de Aguas de Barcelona, S.A.; Director, Terra Networks, S.A.; Director, Banco Herrero, S.A.; Director, Gas Natural, S.A.; Director, Sociedad de Aparcamientos de Barcelona, S.A.; Director, Inmobiliaria Colonial, S.A.
Pedro Luis Uriarte Santamarina(7).....	58	2000	2005	Vice Chairman, Telefónica, S.A.; Vice Chairman and Managing Director, Banco Bilbao Vizcaya Argentaria, S.A.; Director, Corporación G. Financiera
Fernando Abril-Martorell Hernández(1)	39	2000	2001**	Managing Director, Telefónica, S.A.; Director, Telefónica Móviles, S.A.; Director, Terra Networks, S.A.; General Manager of Finance, Telefónica, S.A.; Director of Treasury, J.P. Morgan (Madrid)
Gaspar Ariño Ortiz(5).....	65	1997	2002	Director, Telefónica, S.A.; Managing Director, Asesores Juridicos Agrupados, S.A.; Alternate Director, Telefónica de Argentina, S.A.; Alternate Director, COINTEL, S.A.; General Manager, Aror, S.L.
Pedro Ballvé Lantero(3)(4).....	47	1997	2002	Director, Telefónica, S.A.; Chairman Campofrío Alimentación, S.A.; Chairman, Telepizza; Director, Banco Santander Central Hispano, S.A.
Maximino Carpio García(1)(2)(3).....	55	1997	2002	Director, Telefónica, S.A.; Director, Telefónica Móviles, S.A.; Director, Economic and Social Council of Spain
Carlos Colomer Casellas(1).....	57	2001	2001**	Director, Telefónica, S.A.; Chairman, The Colomer Group; Director, Altadis, S.A.; Director, Banco Santander Central Hispano, S.A.
José Javier Echenique Landiribar(1)(3)(5)(7).....	49	1995	2001**	Director, Telefónica, S.A.; Director, Autopista Concesionaria Española, S.A. (ACESA); Director, Corporación IBV Servicios y Tecnologías, S.A.; General Manager, Banco Bilbao Vizcaya Argentaria, S.A.; Vice Chairman, BBVA e-commerce

<u>Name</u>	<u>Age</u>	<u>First Appointed</u>	<u>Current Term Ends</u>	<u>Current Position and Present Principal Occupation or Employment; Material Positions Held During Past Five Years*</u>
Alfonso Ferrari Herrero	59	2001	2001**	Director, Telefónica, S.A.
Luis Fernando Furlán.....	54	2000	2001**	Director, Telefónica, S.A.; Chairman, Sadia, S.A.; Director, Panamco Pan American Beverages; Director, IBM Latin America; Director, ABN AMRO Bank (Brasil)
José Ignacio Goirigolzarri Tellaache(2)(7)	47	2000	2005	Director, Telefónica, S.A.; General Manager, Banco Bilbao Vizcaya Argentaria, S.A.; Director, Banco Frances; Director, BBVA e-commerce
Miguel Horta e Costa(9)	52	1998	2003	Director, Telefónica, S.A.; Vice Chairman, Portugal Telecom, S.A.; President, Executive Committee of Portugal Telecom, S.A.; Director, Portugalia Airlines; Director, Telesp S.A.; Vice President, Telesp Celular S.A.; Director, Telesp Celular Participações S.A.
Luis Lada Diaz	52	2000	2001**	Director, Telefónica, S.A.; Chairman and Chief Executive Officer, Telefónica Móviles, S.A.
Ignacio Larracochea Jausoro(6)	47	1997	2002	Director, Telefónica, S.A.; Managing Director, Johnson & Johnson, LTD; Director, Telefónica Publicidad e Información, S.A.
José Maldonado Ramos(1)(5)(6)(7).....	49	1999	2004	Director, Telefónica, S.A.; Director-General Secretary, Banco Bilbao Vizcaya Argentaria, S.A.
Antonio Massanell Lavilla(2)(4)(6)(8)	46	1995	2001**	Director, Telefónica, S.A.; Assistant General Manager, Caja de Ahorros y Pensiones de Barcelona; Director, Telefónica Móviles, S.A.
Mario E. Vázquez.....	65	2000	2001**	Director, Telefónica, S.A.; Director, Banco Río de la Plata, S.A.; Chairman, Río Compañía de Seguros, S.A.; Director, Riobank International; Director, Corporación Metropolitana de Finanzas, S.A.; Director, Heller Financial Argentina, S.A.; Director, Motorcare Argentina, S.A.; Director, Acsa Loss Control, S.A.; Director, Central Puerto, S.A.
Antonio Viana-Baptista(1)(9).....	43	2000	2005	Director, Telefónica, S.A., Chairman, Telefónica Internacional, S.A.; Director, Terra Networks, S.A.; Chairman and Chief Executive Officer, Telefónica DataCorp., S.A.; Director, Telefónica de España, S.A.; Director, Atento Holding Telecomunicaciones, S.A.; President COINTEL, S.A.; Vice President, Telefónica de Argentina, S.A.; President, Telefónica, Data Brasil Holding, S.A.; Director, SP Telecomunicações; Director, Telefónica del Peru Holding, S.A.; Director, Telefónica

<u>Name</u>	<u>Age</u>	<u>First Appointed</u>	<u>Current Term Ends</u>	<u>Current Position and Present Principal Occupation or Employment; Material Positions Held During Past Five Years*</u>
Antonio Alonso Ureba(1)	43	2001	2001**	Internacional de Chile, S.A.; Alternate Director, Compañía de Telecomunicaciones de Chile, S.A.; Alternate Director, Telefónica Móvil Chile, S.A.; Vice President, Telefónica del Perú, S.A.A.; Director, Telefónica Larga Distancia de Puerto Rico, Inc.; Director, Portugal Telecom, S.A.; Director, Atlantet, Spa. Director, Telefónica, S.A.; Secretary of the Board, Telefónica, S.A.

- (1) Member of the Standing Committee of the Board of Directors.
- (2) Member of the Audit and Control Committee of the Board of Directors.
- (3) Member of the Hiring and Compensation Committee of the Board of Directors.
- (4) Member of the Human Resources Committee of the Board of Directors.
- (5) Member of the Regulatory Committee of the Board of Directors.
- (6) Member of the Service Quality and Customer Care Committee of the Board of Directors.
- (7) Nominated by Banco Bilbao Vizcaya Argentaria, S.A.
- (8) Nominated by Caja de Ahorros y Pensiones de Barcelona.
- (9) Citizen of Portugal.

* Where no position is shown, principal occupation for past five years was as director of Telefónica.

** Current term ends at annual general shareholders' meeting to be held on June 15, 2001.

Spanish law permits limited liability companies to serve as members of the Board of Directors. A company serving in such a capacity must appoint a natural person to represent it at the meetings of the Board of Directors.

In order to achieve a reasonable balance between outside directors who are independent and those who are appointed by Telefónica's significant shareholders, the Board of Directors' regulations provide that the number of independent outside directors shall be greater than the number of outside directors appointed by Telefónica's significant shareholders, of which there are currently six.

The Standing Committee is a body empowered to make decisions on general matters on behalf of the Board of Directors and has the delegated authority to carry out our Board of Directors' powers as permitted by our by-laws and Spanish corporate law. The members of the Standing Committee are César Alierta Izuel, Isidro Fainé Casas, Fernando Abril-Martorell Hernández, Maximino Carpio Garcia, Carlos Colomer Casellas, José Javier Echenique Landiribar, José Maldonado Ramos, Antonio Viana-Baptista and Antonio Alonso Ureba.

The Audit and Control Committee is responsible for providing support to the Board of Directors in supervising the correct application of generally accepted accounting principles, reviewing compliance with internal control systems and maintaining the integrity of the preparation of individual and consolidated audits. The members of the Audit and Control Committee are Antonio Massanell Lavilla, Maximino Carpio García and José Ignacio Goirigolzarri Tellaeche.

The Hiring and Compensation Committee is responsible for informing the Board of Directors of the proposals for naming Board of Directors members, members of Board of Directors committees and top members of management of Telefónica and its subsidiaries. In addition, the Hiring and Compensation Committee is responsible for approving contracts and compensation packages for top members of management, determining Directors' compensation, informing the Board of Directors of incentive plans and developing and maintaining a register of information concerning Directors and top members of management. The members of the Hiring and Compensation Committee are José Javier Echenique Landiribar, Maximino Carpio Garcia, Alfonso Ferrari Herrero and Pedro Ballvé Lantero.

The Human Resources Committee is responsible for making proposals to the Board of Directors regarding the adoption of agreements with personnel. The members of the Human Resources Committee are Pedro Ballvé Lantero and Antonio Massanell Lavilla.

The Regulatory Committee is responsible for keeping the Board informed of personnel matters and making proposals to the Board of Directors for adopting policies in connection with regulatory matters. The members of the Regulatory Committee are José Javier Echenique Landiribar, Gaspar Ariño Ortiz and José Maldonado Ramos.

The Service Quality and Customer Care Committee is responsible for assuring and monitoring the standards of quality of all services provided by the Telefónica Group and is committed to focusing on the customer satisfaction of all of its clients. The members of the Service Quality and Customer Care Committee are Ignacio Larracochea Jausoro, José Maldonado Ramos and Antonio Massanell Lavilla.

Executive Committee

The members of our executive management committee at April 26, 2001, and the years of their appointments to their respective positions were as follows:

<u>Name</u>	<u>Position</u>	<u>Appointed</u>	<u>Age</u>
César Alierta Izuel	Chairman of the Board of Directors and Chief Executive Officer, Telefónica, S.A.	2000	55
Fernando Abril-Martorell Hernández	Managing Director, Telefónica, S.A.	2000	39
Joaquim Agut Bonsfills	Chairman of the Board of Directors and Chief Executive Officer, Terra Networks, S.A.	2000	47
José María Alvarez-Pallete Lopez	General Manager of Corporate Finances, Telefónica, S.A.	1999	37
Francisco de Bergia González	General Manager, Telefónica, S.A.	2000	52
Guillermo Fernández Vidal	Managing Director, Telefónica DataCorp., S.A.	1998	55
Luis Lada Díaz	Chairman of the Board of Directors and Chief Executive Officer, Telefónica Móviles, S.A.	2000	52
Julio Linares López	Chairman of the Board of Directors and Chief Executive Officer, Telefónica de España, S.A.	1998	55
Oscar Maraver Sánchez-Valdepeñas ...	General Manager of Corporate Human Resources, Telefónica, S.A.	2001	51
Juan José Nieto Bueso	Chairman of the Board of Directors and Chief Executive Officer, Telefónica Media, S.A.	2000	34
Antonio Palacios Esteban	General Manager of Resources, Telefónica, S.A.	2000	50
Calixto Ríos Pérez	General Manager of Institutional Relations, Telefónica, S.A.	2000	57
Antonio Viana-Baptista	Chairman of the Board of Directors and Chief Executive Officer, Telefónica Internacional, S.A.	1998	43
Angel Vilá Boix.....	General Manager of Corporate Development, Telefónica, S.A.	2000	36
Antonio Alonso Ureba.....	General Secretary and Secretary of the Board of Directors, Telefónica, S.A.	2001	43

In addition to the above, the senior management of Telefónica, S.A. is comprised of one general manager, 10 deputy general managers and 26 assistant general managers from Telefónica, S.A.

B. COMPENSATION

In 2000 the compensation paid to the members of our Board of Directors and our executive officers amounted to Ptas 3,830 million.

We provide pension, retirement or similar benefits to our directors with executive functions and to our executive officers. We set aside or accrued Ptas 40 million during 2000 for these benefits.

The cost to the Telefónica Group of the compensation plans linked to the share market price in which directors participate as executives amounted to Ptas 185 million in 2000.

Incentive Plans

We currently have two incentive compensation plans to retain and motivate our officers and employees. The TOP plan, which is directed exclusively towards officers of the Telefónica group, requires eligible officers to purchase our shares in the open market at market prices and hold these shares for specified periods in order to receive additional cash compensation calculated on the basis of any increase in the value of our shares. The TIES plan, which is directed to all employees of the Telefónica group, requires eligible employees to purchase our shares at below market prices and to receive options, based on the number of shares purchased by each eligible employee, whose value will depend on any increase in the value of our shares over an initial reference value. The RISE plan, which was directed exclusively to eligible officers, expired in 2000. In addition, Telefónica Publicidad e Información, Terra Networks and Telefónica Móviles have or their respective shareholders have approved incentive plans for their respective employees.

TOP

On May 26, 1999, our Board of Directors approved a stock option plan called TOP proposed by its Hiring and Compensation Committee. This stock option plan is effective for a period of four years and three months from its June 28, 1999 commencement date and is open to up to 500 officers throughout the Telefónica Group. Our shareholders approved the TOP plan at our annual general shareholders' meeting in April 2000.

All beneficiaries are required to acquire in the open market at market prices and hold, during the entire effective period, a specified number of shares in an amount corresponding to the beneficiary's management responsibility. If all eligible officers elect to participate in the plan, the total number of shares acquired by them would be 270,237 shares, or 810,711 shares after giving effect to stock splits and anti-dilution provisions of the plan.

Under this management incentive plan, participating officers will receive the following number of options over our shares for each share acquired by such person and deposited under the plan:

- 10 type A options, with an exercise price equal to the market price of the shares on the date that the plan was initiated, €46.18 adjusted for stock splits and anti-dilution provisions
- 10 type B options, with an exercise price equal to the market price described above plus 50% of the market price

At April 26, 2001, the exercise price for the type A options initially granted adjusted for stock splits and anti-dilution provisions was equal to €14.5052, and the exercise price for the type B options initially granted adjusted for stock splits and anti-dilution provisions was €21.7554.

In October 2000 and February 2001, we granted new options under the TOP plan. These options have the same characteristics as the options previously granted under the TOP plan, except that the exercise price for these options was fixed at the market price on the respective date of grant.

Participants in the plan may exercise these options:

- beginning in its second year following effectiveness in an amount equal to one-third of the total options granted
- again in each of the third and fourth years following effectiveness in an amount equal to one-third of the total options granted

As adjusted for all stock splits and stock dividends, a plan participant will, upon exercise of an option, receive, at our election, either:

- cash in an amount based on the difference between the average price of our shares on the Madrid Stock Exchange during the 10 business days prior to July 28, 2001, August 28, 2002 and September 28, 2003, depending on when the option was exercised, and the exercise price of such option; or
- one of our shares

Options granted under this plan are neither listed nor transferable. This incentive plan is subject to anti-dilution and other provisions customary for transactions of this type and to the condition that the participant not terminate his employment with the Telefónica group voluntarily and unilaterally prior to the exercise date.

In order to cover the economic exposure derived from the implementation of the TOP plan we have entered into hedging contracts with two financial institutions. The maximum total cost to us of the plan, assuming all eligible participants fully participate in the plan, will be approximately Ptas 12,000 million. As adjusted for all stock splits, beneficiaries of the TOP plan have deposited an aggregate of 810,711 shares under the plan, for which they have received an aggregate of 8,107,110 type A options and 8,107,110 type B options.

TIES

On February 23, 2000, our Board of Directors approved a new stock option plan called Telefónica Incentive Employee Shares, which we refer to as TIES. The TIES plan is open to all eligible employees of Telefónica, S.A. and certain affiliates. Employees who participate in any other similar incentive plan or who are managers or general managers may not participate in the TIES plan.

The TIES plan consist of two parts:

- *The Initial Allocation.* At the commencement of the TIES plan, eligible employees were able to subscribe for shares at the discounted price of €5 per share. The number of shares an eligible employee was able to subscribe for in the initial allocation was based on such employee's wage level. Such shares may not be sold during the entire life of the TIES plan. As part of the initial allocation, we offered 1,197,880 shares, of which 1,123,072 were subscribed.
- *The Variable Allocation.* Each eligible employee was able to receive a certain number of options to purchase shares of Telefónica, S.A., which the employee will be able to exercise in order to purchase an additional number of shares at the same discounted price of €5 per share. The options are non-negotiable and may not be assigned or transferred by the employee. The maximum number of shares issuable in respect of options assigned to employees is 31,504,244, of which a reserve of 4.5% is held for new beneficiaries.

The TIES plan will have a duration of four years from the date of delivery of the options. Participants in the plan may exercise the options in three stages:

- *First Stage:* on the first business day following the second anniversary of the date of delivery of the options.
- *Second Stage:* on the third anniversary of the date of the delivery of the options.
- *Third Stage:* on the first business day following the fourth anniversary of the date of the delivery of the options.

The number of options exercisable at each stage will be a function of:

- the revaluation of the price per share determined on the open market on each date of exercise with respect to an initial reference value, such that the greater the revaluation per share on the exercise date, the greater the number of options the beneficiary will be able to exercise on that date; and
- the number of shares which make up the beneficiary's initial allocation

The following basic conditions, among others, apply to the exercise of the options:

- the beneficiary must retain the initial allocation until the relevant date of exercise of the options
- the beneficiary must not participate in any other similar incentive plan
- the beneficiary must have rendered his or her services continuously through the date of exercise of the options, as a permanent employee, except in certain circumstances

C. BOARD PRACTICES

Please see “—A. Directors and Senior Management.”

D. EMPLOYEES

Employees and Labor Relations

The table below sets forth the number of employees at the dates indicated for the parent company of the Telefónica Group, each of the groups which comprise our different lines of business and other subsidiaries:

Line of Business	Year Ended December 31,		
	1998	1999	2000
Telefónica, S.A.	—	542	64
Telefónica de España.....	5	48	4
Telefónica Móviles.....		3	
Telefónica Internacional.....	2	44	4
Telefónica Data.....		1	
Telefónica Media.....	24	1	
Terra Networks.....	7	2	
Atento.....		23	4
Katalyx.....	—	—	36
Emergia.....	—	—	8
Telefónica Publicidad e Información.....		1	
Other.....		130	
Total Employees.....	10	127	14

Management believes that labor relations are generally good. In May 1997, Telefónica de España entered into a new collective bargaining agreement which provided for a 2.6% increase in wage levels during 1997, a 2.1% increase during 1998 and a 2.9% increase in 1999, with an additional productivity bonus per active employee, of Ptas 50,000 per employee. In 2000, wage levels for Telefónica de España increased 4%, and the productivity bonus per active employee totaled Ptas 52,000 per employee.

Our retired employees are provided with certain pension benefits. While Telefónica de España contributes the required amounts to fund these benefits over time, there remains an unfunded past service liability, which is estimated to be approximately Ptas 77 billion. We have agreed to fund this obligation over a period ending in 2007.

In order to adapt to the new competitive environment, we have, among other things, implemented voluntary pre-retirement and early retirement plans in recent years. As a result of the agreements reached individually with Telefónica de España’s personnel and as a result of the Labor Force Reduction Plan approved by the Ministry of Labor and Social Affairs to be implemented in 1999 and 2000, 11,273 employees were terminated in 1999.

In 2000, the terminations contemplated by the Labor Force Reduction Plan were achieved through the voluntary retirement of a total of 6,062 employees, as a result of which a provision was recorded with a charge to “Extraordinary Expenses” for 2000 of Ptas 141,870 million. Accordingly, the provision for pre-retirements and early retirements recorded at December 31, 2000, covers all the obligations assumed in connection at that date in connection with our voluntary pre-retirement and early retirement plans.

E. SHARE OWNERSHIP

At April 26, 2001, the following members of our Board of Directors beneficially owned an aggregate of 407,288 shares, representing approximately 0.009% of our capital stock.

Name	No. of Shares Beneficially Owned
César Alierta Izuel.....	165,346
Isidro Fainé Casas.....	1,502
Pedro Luis Uriare Santamarina.....	2,500
Fernando Abril-Matorell Hernández.....	29,695
Gaspar Ariño Ortiz.....	6,605

Name	No. of Shares Beneficially Owned
Pedro Ballvé Lantero.....	116,445
Maximino Carpio García.....	4,998
Carlos Colomer Casellas.....	500
José Javier Echenique Landiribar.....	7,066
Alfonso Ferrari Herrera.....	1,675
Luis Fernando Furlán.....	12,010
Miguel Horta e Costa.....	318
Luis Lada Díaz.....	27,377
Ignacio Larracoechea Jausoro.....	3,670
José Maldonado Ramos.....	30
Antonio Massanell Lavilla.....	1,887
Mario E. Vázquez.....	10
Antonio Viana-Baptista.....	19,532
Antonio Alonso Ureba.....	7,797

As of April 26, 2001, members of or executive committee (excluding members of our Board of Directors listed above), our general managers, deputy general managers and assistant general managers beneficially owned an aggregate of 544,601 shares, representing approximately 0.012% of our capital stock.

None of our directors and executive officers beneficially owned shares representing one percent or more of our share capital at that date.

At April 26, 2001, the following members of our Board of Directors and executive officers held options to acquire our ordinary shares pursuant to our TOP plan. For a description of the terms of this plan, see Item 6.B above.

Name	No. of Type A Options	Exercise Price for each Type A Option (euro)	No. of Type B Options	Exercise Price for each Type B Option (euro)
César Alierta Izuel.....	175,000	22.69	175,000	30.63
Fernando Abril-Martorell Hernández.....	125,000	22.69	125,000	30.63
Luis Lada Díaz.....	77,970	14.5052	77,970	21.7554
Antonio Viana-Baptista.....	77,970	14.5052	77,970	21.7554
José María Alvarez-Pallete López.....	77,970	14.5052	77,970	21.7554
Guillermo Fernández Vidal.....	77,970	14.5052	77,970	21.7554
Rafael Hernández García.....	77,970	14.5052	77,970	21.7554
Julio Linares López.....	77,970	14.5052	77,970	21.7554
Juan José Nieto Bueso.....	77,970	14.5052	77,970	21.7554
Angel Vilá Boix.....	77,970	14.5052	77,970	21.7554
Antonio Palacios Esteban.....	77,970	14.5052	77,970	21.7554
Francisco Bergia González.....	45,270	14.5052	45,270	21.7554
Oscar Maraver Sánchez- Valdepeñas.....	32,700	18.45	32,700	24.9075
Calixto Rios Pérez.....	45,270	14.5052	45,270	21.7554
	32,700	18.45	32,700	24.9075
	77,970	18.45	77,970	24.9075

None of our Directors and executive officers held options in respect of shares representing one percent or more of our share capital at that date.

Item 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

General

At April 1, 2000, we had outstanding 4,549,355,310 shares, each having a nominal value of 1 euro per share.

At December 31, 2000, according to information publicly available to Telefónica, S.A. beneficial owners of 5% or more of our voting stock were as follows:

Name of Beneficial Owner	Shares	
	Number	Percent
Banco Bilbao Vizcaya Argentaria, S.A.(1).....	274,616	6.46%
Chase Manhattan Bank, N.A.(2).....	392,163	9.79%

(1) Based on information obtained from a filing on Schedule 13D made with the Securities and Exchange Commission on November 30, 2000.

(2) Held by Chase Manhattan Bank, N.A. on behalf of beneficial owners.

In May 1995, three Spanish banks, Banco Bilbao Vizcaya, S.A., Caja Postal y Banco Hipotecario, S.A., and Caja de Ahorros y Pensiones de Barcelona (La Caixa) signed an agreement to vote a portion of their shares as a block at our shareholders' meetings. This agreement applied to an aggregate of 7.5% of our issued and outstanding shares. The voting agreement referred to above expired on May 25, 2000, and the parties or their respective successors agreed not to extend it.

As part of our strategic alliance with Banco Bilbao Vizcaya Argentaria, Banco Bilbao Vizcaya Argentaria agreed to increase its interest in us to up to 10% less one share through open market purchases of additional Telefónica shares. According to Banco Bilbao Vizcaya Argentaria's most recent public disclosure in respect of its ownership of our shares, no such purchases have been made. In addition, such filing discloses that during the period from March 1, 2000 through November 30, 2000, Banco Bilbao Vizcaya Argentaria sold an aggregate of 23,346,568 of our shares, representing approximately 2.7% of our share capital.

All outstanding shares have the same rights.

Limitations on Certain Transactions

In January 1997, in connection with the final phase of our privatization, the Spanish government adopted a requirement of prior government approval with respect to a limited number of fundamental corporate and control transactions affecting us, including the acquisition of 10% or more of our capital stock or the capital stock of Telefónica Móviles and the sale of assets material to the provision of fixed telephone services. The approval requirement applied in connection with the transfer of certain assets of Telefónica, S.A. to our wholly owned subsidiary Telefónica de España in November 1998 and will apply to subsequent transfers by Telefónica de España.

B. RELATED PARTY TRANSACTIONS

In February 2000, we entered into separate strategic alliances with our significant shareholders, Banco Bilbao Vizcaya Argentaria and Caja de Ahorros y Pensiones de Barcelona. These transactions are described in "Item 4—Information on the Company—Other Activities—Our Strategic Alliance with Banco Bilbao Vizcaya Argentaria" and "—Our Strategic Alliance with Caja de Ahorros y Pensiones de Barcelona."

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

Item 8. FINANCIAL INFORMATION

Consolidated Financial Statements

Please see Item 18.

Legal Proceedings

We are party to various lawsuits arising in the ordinary course of our business. We do not believe that the outcome of any of these lawsuits, individually or in the aggregate, will have a significant effect on our consolidated financial position or results of operations.

We have been informed of the existence of a legal proceeding to contest the validity of the resolutions adopted by our extraordinary shareholders' meeting of February 4, 2000. This proceeding derives from our alleged failure to comply with the shareholder plaintiff's right to information, our alleged failure to comply with the regulations relating to the celebration of shareholders' meetings and our alleged failure to comply with the necessary requirements to validly exclude pre-emptive rights in connection with the capital increases. We believe that this proceeding will be resolved in a manner satisfactory to Telefónica, S.A.

On June 5, 2000, eight administrators of the pension fund for Compañía de Telecomunicaciones de Chile, S.A., a subsidiary of Telefónica, S.A., filed a complaint in a Chilean court against nine directors of Compañía de Telecomunicaciones de Chile and CTC Mundo. The complaint seeks \$28,695,813 for economic damage suffered as a result of the sale of Telefónica, S.A.'s subsidiary, CTC Internet.

We have recently become aware that International Discount Telecommunications Corporation, Terra Networks' former joint venture partner, filed a lawsuit in the state court of New Jersey against us, Terra Networks, S.A., Terra Networks USA, Inc. and Lycos, Inc. alleging the breach of the joint venture agreement between Terra Networks and International Discount Telecommunications Corporation dated October 1999, the breach of the termination agreement between such parties, fraud and violation of U.S. securities laws. International Discount Telecommunications Corporation seeks damages in an unspecified amount in its amended complaint. We believe that the outcome of this litigation, which is at a preliminary stage, will not be unfavorable to us or Terra Networks. Nonetheless, we do not believe that an adverse resolution of this claim would materially affect our business.

Proceedings and Convictions

During the last five years, neither we nor, to the best of our knowledge, any person listed in Item 6 above:

- has been convicted in a criminal proceeding, excluding traffic violations or similar misdemeanors, or
- has been a party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, United States federal or state laws or finding any violation with respect to such laws

Dividend Information

At the extraordinary general meeting of shareholders held on June 24, 1998, we announced our new dividend policy aimed at providing an alternative to cash dividend payments. The objective of this policy is to strengthen our capacity to finance value-creating projects while enabling our shareholders to obtain liquidity by trading their shares. In connection with this policy during 1999, we carried out three capital increases charged to freely disposable reserves. At the annual general shareholders' meeting of April 7, 2000, our shareholders approved two new capital increases charged to freely disposable reserves. The first of these capital increases was approved by our Board of Directors on December 20, 2000 and carried out on January 24, 2001 through the issuance of one new share for every 50 shares outstanding. In January 2001, our board of directors approved the second capital increase which was effected on March 28, 2001.

The table below sets forth the annual cash dividends per share paid by us during the past five years.

Fiscal Year Ended December 31,	Cash Dividends per Share	
	Pesetas (1)	\$ (2)
2000	—	—
1999	—	—
1998	—	—
1997 (3).....	102	.66 (4)
1996 (5).....	89	.63 (4)

- (1) Peseta amounts reflect nominal amounts at date of payment.
- (2) Translated to dollars at the Noon Buying Rate on the date of payment, unless otherwise indicated. See “Exchange Rates.”
- (3) An interim dividend was paid in January 1998 and a final dividend was paid in May 1998.
- (4) The interim dividend payment has been translated into dollars at the Noon Buying Rate for the day following the interest payment date because the interest payment date was a national holiday in the United States as a result of which a Noon Buying Rate was not available on such date.
- (5) An interim dividend was paid in January 1997 and a final dividend was paid in June 1997.

Item 9. THE OFFER AND LISTING

A. OFFER AND LISTING DETAILS

General

Our ordinary shares, nominal value one euro each, are currently listed on each of the Madrid, Barcelona, Bilbao and Valencia stock exchanges under the symbol “TEF”. They are also listed on various foreign exchanges such as the London, Frankfurt, Paris, Buenos Aires and Tokyo stock exchanges, and are quoted through the Automated Quotation System of the Spanish stock exchanges and through the SEAQ International System of the London Stock Exchange. Our ADSs are listed on the New York Stock Exchange and the Lima Stock Exchange. Our BDSs are listed on the São Paulo Stock Exchange. Our shares are eligible for deposit in the Euroclear system.

The table below sets forth, for the periods indicated, the reported high and low quoted closing prices, as adjusted for all stock splits, for the shares on the Madrid Stock Exchange, which is the principal Spanish market for our shares.

	Per Share	
	High	Low
	(pesetas)	
1996	1,0	563
1997	1,6	990
1998	2,6	1,4
1999(1)		
First Quarter.....	2,5	1,9
Second Quarter	2,7	2,2
Third Quarter	2,7	2,2
Fourth Quarter	4,3	2,3
2000(1)		
First Quarter.....	5,4	3,8
Second Quarter	4,4	3,3
Third Quarter	4,2	3,4
Fourth Quarter	3,9	2,9
November	3,7	3,0
December.....	3,4	2,9
2001(1)		
First Quarter		
January.....	3,5	2,9
February.....	3,4	2,8
March.....	3,2	2,6

	Per Share	
	High	Low
Second Quarter		
April.....	3,34	2,94
May.....	3,04	2,94

(1) Peseta equivalent of the share price in euro translated at the irrevocably fixed rate of exchange of Ptas 166.386 = €1.00.

On January 4, 1999, the Madrid Stock Exchange began quoting share prices in euro. On May 31, 2001, the closing price of our shares on the Automated Quotation System was €18.07 per share (equivalent to Ptas 3,006), equal to \$15.28 at the Noon Buying Rate for cable transfers in euro as certified for customs purposes by the Federal Reserve Bank of New York on that date.

Our ADSs are listed on the New York Stock Exchange under the symbol “TEF” and are quoted through SEAQ International. Citibank, N.A. is the Depository issuing ADRs evidencing the ADSs pursuant to the Deposit Agreement dated as of November 13, 1996, as amended as of December 3, 1999 and as of June 23, 2000, among Telefónica, the Depository and the holders from time to time of ADRs. Each ADS represents the right to receive three shares.

The table below sets forth, for the periods indicated, the reported high and low sales prices, as adjusted for all stock splits, of our ADSs on the New York Stock Exchange:

	Per ADS	
	High	Low
	(dollars)	
1996	20.641	12.500
1997	28.266	20.016
1998	46.797	25.906
1999		
First Quarter.....	50.813	38.109
Second Quarter	48.172	39.188
Third Quarter	47.672	41.469
Fourth Quarter	76.766	43.344
2000		
First Quarter.....	91.250	66.688
Second Quarter	73.828	51.484
Third Quarter	69.563	53.344
Fourth Quarter	60.500	44.281
November	57.016	44.281
December.....	51.969	44.281
2001		
First Quarter.....	61.641	44.016
January.....	59.250	47.188
February.....	56.922	45.766
March.....	55.188	42.297
Second Quarter	56.125	48.375
April.....	53.938	46.500
May.....	53.687	45.687

Source: Dow Jones.

As of December 31, 2000, approximately 284,191,500 of our shares were held in the form of ADSs by 1,252 holders of record, including Cede & Co., the nominee of The Depository Trust Company. The number of ADSs outstanding was 146,491,407 at December 31, 2000.

Securities Trading in Spain

The Spanish securities market for equity securities consists of four stock exchanges located in Madrid, Bilbao, Barcelona and Valencia and the Automated Quotation System, or *Mercado Continuo*. During 2000, the Automated

Quotation System accounted for the majority of the total trading volume of equity securities on the Spanish stock exchanges.

Automated Quotation System. The Automated Quotation System links the four Spanish stock exchanges, providing those securities listed on it with a uniform continuous market that eliminates certain of the differences among the local exchanges. The principal feature of the system is the computerized matching of buy and sell orders at the time of entry of the order. Each order is executed as soon as a matching order is entered, but can be modified or canceled until executed. The activity of the market can be continuously monitored by investors and brokers. The Automated Quotation System is operated and regulated by Sociedad de Bolsas, S.A., a corporation owned by the companies that manage the stock exchanges. All trades on the Automated Quotation System must be placed through a brokerage firm, an official stock broker or a dealer firm that is a member of a Spanish stock exchange. Beginning January 1, 2000, Spanish banks were able to become members of a Spanish stock exchange and are therefore able to place trades on the Automated Quotation System.

In a pre-opening session held from 8:30 a.m. to 9:00 a.m. each trading day, an opening price is established for each security traded on the Automated Quotation System based on a real-time auction in which orders can be entered, modified or cancelled but are not executed. During this pre-opening session, the system continuously displays the price at which orders would be executed if trading were to begin. Market participants only receive information relating to the auction price (if applicable) and trading volume permitted at the current bid and offer price. If an auction price does not exist, the best bid and offer price and associated volumes are shown. The auction terminates with a random period of 30 seconds in which share allocation takes place. Until the allocation process has finished, orders cannot be entered, modified or cancelled. In exceptional circumstances (including the inclusion of new securities on the Automated Quotation System) and after giving notice to the National Securities and Markets Commission (the "CNMV"), the Sociedad de Bolsas may establish an opening price without regard to the reference price (the previous trading day's closing price), alter the price range for permitted orders with respect to the reference price and modify the reference price.

The computerized trading hours are from 9:00 a.m. to 5:30 p.m. During the trading session, the trading price of a security is permitted to vary up to a maximum so-called "static" range of the reference price, provided that the trading price for each trade of such security is not permitted to vary in excess of a maximum so-called "dynamic" range with respect to the trading price of the immediately preceding trade of the same security. If, during the trading session, there exist matching bid and ask orders over a security within the computerized system which exceed any of the above "static" and "dynamic" ranges, trading on the security is automatically suspended and a new auction is held where a new reference price is set, and the "static" and "dynamic" ranges will apply over such reference price. The "static" and "dynamic" ranges applicable to each particular security are set up and reviewed periodically by the Sociedad de Bolsas.

Between 5:30 p.m. and 8:00 p.m., trades may occur outside the computerized matching system without prior authorization of the Sociedad de Bolsas, at a price within the range of 5% above the higher of the average price and closing price for the day and 5% below the lower of the average price and closing price for the day if there are no outstanding bids or offers, respectively, on the system matching or bettering the terms of the proposed off-system transaction and, if, among other things, the trade involves more than €300,000 and more than 20% of the average daily trading volume of the stock during the preceding three months. These trades must also relate to individual orders from the same person or entity and be reported to the Sociedad de Bolsas before 8:00 p.m. At any time trades may take place (with the prior authorization of the Sociedad de Bolsas) at any price if:

- the trade involves more than €1.5 million and more than 40% of the average daily volume of the stock during the preceding three months
- the transaction derives from a merger or spin-off process, or from the reorganization of a group of companies
- the transaction is executed for the purposes of settling a litigation or completing a complex group of contracts or
- the Sociedad de Bolsas finds other justifiable cause

Information with respect to the computerized trades between 9:00 a.m. and 5:30 p.m. is made public immediately, and information with respect to trades outside the computerized matching system is reported to the Sociedad de Bolsas by the end of the trading day and published in the *Boletín de Cotización* and in the computer system by the beginning of the next trading day.

Clearance and Settlement System. Transactions carried out on the Spanish stock exchanges are cleared and settled through the Servicio de Compensación y Liquidación de Valores, S.A. (the “SCL”). Only members of the system are entitled to use it, and membership is restricted to authorized broker members of the Spanish stock exchanges, the Bank of Spain (when an agreement, approved by the Spanish Ministry of Economy and Finance, is reached with the SCL) and, with the approval of the CNMV, other brokers not members of the Spanish stock exchanges, banks, savings banks and foreign settlement and clearing systems. The SCL is owned by its members (excluding, if applicable, the Bank of Spain) and by the companies which manage the local exchanges. The clearance and settlement system and its members are responsible for maintaining records of purchases and sales under the book entry system. Shares of listed Spanish companies are held in book entry form. The SCL, which manages the clearance and settlement system, maintains a registry reflecting the number of shares held by each of its member entities (each an *entidad adherida*) as well as the amount of such shares held on behalf of beneficial owners. Each member entity, in turn, maintains a registry of the owners of such shares. Spanish law considers the legal owner of the shares to be:

- the member entity appearing in the records of the SCL as holding the relevant shares in its own name or
- the investor appearing in the records of the member entity as holding the shares

The SCL has approved certain regulations introducing the so-called “T+3 Settlement System” by which the settlement of any transactions must be made three business days following the date on which the transaction was carried out.

Obtaining legal title to shares of a company listed on a Spanish stock exchange requires the participation of a Spanish official stockbroker, broker-dealer or other entity authorized under Spanish law to record the transfer of shares. To evidence title to shares, at the owner’s request the relevant member entity must issue a certificate of ownership. In the event the owner is a member entity, the SCL is in charge of the issuance of the certificate with respect to the shares held in the member entity’s name.

Brokerage commissions are not regulated. Brokers’ fees, to the extent charged, will apply upon transfer of title of shares from the Depository to a holder of ADRs in exchange for such ADSs, and upon any later sale of such shares by such holder. Transfers of ADSs do not require the participation of an official stockbroker. The Deposit Agreement provides that holders depositing shares with the Depository in exchange for ADSs or withdrawing shares in exchange for ADSs will pay the fees of the official stockbroker or other person or entity authorized under Spanish law applicable both to such holder and to the Depository.

Securities Market Legislation

The Securities Market Act of July 28, 1988 (Law 24/1988) which became effective in 1989, restructured the organization and supervision of the Spanish securities markets. This legislation and the regulations implementing it:

- established an independent regulatory authority, the CNMV, to supervise the securities markets
- established a framework to regulate trading practices, public offerings, tender offers and insider trading
- required stock exchange members to be corporate entities
- required companies listed on a Spanish stock exchange to file annual audited financial statements and to make public quarterly financial information
- established the legal framework for the Automated Quotation System
- exempted the sale of securities from transfer and value-added taxes

- deregulated brokerage commissions and
- provided for transfer of shares by book-entry or by delivery of evidence of title

Effective in November 1998, Law 24/1988 was amended by Law 37/1998, of November 16, 1998. The amendment introduced the following changes:

- The concept of the “investment services company” was created. Brokers, dealers and portfolio managing companies are considered to be investment services companies. These companies are entitled to render investment services and complementary activities. Banks are not considered to be investment services companies, although they may render investment services upon becoming members of the Spanish stock exchanges.
- An investment services company must be authorized by the Ministry of Treasury in order to render investment services and complementary activities. Once authorization is obtained, the founders of the investment services company must incorporate the company as a corporation (*sociedad anónima*) or a limited liability company (*sociedad de responsabilidad limitada*) and, once incorporated, the company must be registered with the Commercial Registry and the CNMV Registry. This registration must be published in the State Official Gazette.
- The European principle of “single passport” or “single license” was introduced within the Spanish legal system. Under this principle, an investment services company may render investment services and complementary activities within European Union member countries, either through a branch or directly. Any necessary authorizations and licenses must be obtained from the authorities of the country of domicile (the “home country principle”), but the applicable market conduct rules are those set forth in the legislation of the country in which the investment services company renders its services (the “host country principle”).
- Spanish investment services companies wishing to render their services overseas must be authorized. However, in the event that they wish to provide services within the European Union, they need only give prior notice to the CNMV.
- An investment guarantee fund was created to protect investors from the insolvency of any investment services company. This fund has the same purpose as the deposit guarantee fund, which is currently in charge of refunding deposits made in insolvent Spanish financial entities. Spanish investment services companies are obligated to maintain a stake in the investment guarantee fund through participation in the share capital of the managing company of the fund.
- Finally, a number of amendments to the Spanish Corporations Law were included. Rights to issue preferred and non-voting stock were extended broadly. In addition, the amendments provided for a new redeemable class of stock to be issued by listed companies.

B. PLAN OF DISTRIBUTION

Not applicable.

C. MARKETS

Please see “—A. The Offering and Listing.”

D. SELLING SHAREHOLDERS

Not applicable.

E. DILUTION

Not applicable.

F. EXPENSES OF THE ISSUE

Not applicable.

Item 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not applicable.

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

The following summary describes certain material considerations concerning our capital stock and briefly describes certain provisions of our by-laws (*estatutos*) and Spanish law. Copies of our by-laws are included as an exhibit to this Annual Report.

Corporate Objects

Section 4 of Part I of our by-laws sets forth our corporate objects:

- delivery and exploitation of any and all kinds of public and private telecommunication services and, to such end, to design, install, preserve, repair, improve, acquire, dispose of, connect, administer, manage and perform whatever other activities other than those mentioned above with respect to any types of networks, lines, satellites, items of equipment, systems and items of technical infrastructure, both existing or to be created in the future, including the property upon which any and all of the above items are set up
- delivery and exploitation of any and all types of ancillary or supplementary services, as well as of any services that may stem from communication activities
- research and development, promotion and application of any and all component principles, items of equipment and systems which are directly or indirectly used in telecommunications
- manufacturing, production and, generally, any and all forms of industrial activities related to telecommunications
- acquisition, disposal and, generally, any and all forms of trade activities related to telecommunications

Director Qualification

In order to be elected as a Director, a person must have held a number of our shares representing a par value of no less than €3,000 for at least three years prior to his or her election. These shares may not be transferred so long as such person remains a Director. This requirement does not apply to any person who, at the time of his or her appointment, has either a labor or professional relationship with the company or is expressly exempt from such requirement by a vote of at least 85% of the Board of Directors.

Description of Telefónica Capital Stock

Description of Share Capital

At May 15, 2001, our issued share capital, consisted of 4,549,355,310 ordinary registered shares with a nominal value of €1.00 each. Our shareholders have delegated to the board of directors the authority to increase the share capital by up to 1,568,063,187. The board's authorization to increase the share capital expires on March 26, 2004.

Meetings and Voting Rights

We hold our ordinary general shareholders' meeting during the first six months of each fiscal year on a date fixed by the board of directors. Extraordinary general shareholders' meetings may be called, from time to time, at the discretion of our board of directors or upon the request of shareholders representing 5% of our paid-in share capital. We publish notices of all ordinary and extraordinary general shareholders' meetings in the Official Gazette

of the Commercial Registry and in at least one newspaper in Madrid at least fifteen days before the relevant meeting.

Each share of Telefónica entitles the holder to one vote. However, only registered holders of shares representing a par value of at least €300, which currently equals at least 300 shares because our shares have a par value of €1 each, are entitled to attend a general shareholders' meeting. Holders of shares representing a par value of less than €300, meaning less than 300 shares, may aggregate their shares by proxy and select a representative that is a shareholder to attend a general shareholders' meeting or delegate his/her voting rights by proxy to a shareholder who has the right to attend the shareholders' meeting. However, under our by-laws no shareholder may vote a number of shares exceeding 10% of the total outstanding voting capital.

Any share may be voted by proxy. Proxies must be in writing and are valid only for a single meeting.

Only holders of record five business days prior to the day on which a general meeting of shareholders is scheduled to be held may attend and vote at the meeting. Under the deposit agreement for the ADSs, our depository accepts voting instructions from holders of ADSs. The depository executes such instructions to the extent permitted by law and by the terms governing the shares. The depository or its nominee, whichever is applicable, will be entitled to vote by proxy the shares represented by the ADSs.

Shareholders representing, in person or by proxy, at least 25% of our subscribed voting capital constitute a quorum for a general meeting. If a quorum is not present at the first meeting, then the meeting can be held on second call. Regardless of the number of shareholders present at the second meeting, they are deemed to constitute a quorum.

Shareholders representing, in person or by proxy, at least 50% of our subscribed voting capital constitute a quorum on a first call for shareholders' meetings at which shareholders will be voting on any of the following actions:

- issuance of bonds
- increase or reduction of share capital
- amendment of corporate purpose
- any other amendment of our by-laws
- merger, split or spin-off of Telefónica.

When a quorum is present on the first call, these special resolutions must be adopted by the affirmative vote of shareholders representing a majority of our present subscribed voting capital.

If a quorum for the meeting is not present after the first call, upon a second call for the meeting, 25% of our subscribed voting capital will constitute a quorum. When shareholders representing less than 50% of the subscribed voting capital are in attendance, these special resolutions must be adopted by a vote of two-thirds of those shareholders present.

A shareholder who owns shares on the record date will not be entitled to vote his/her shares in a general meeting of shareholders if the shareholder, individually or as part of a group, has not complied with the notification requirements relating to the acquisition of additional shares beyond certain threshold amounts.

Dividends

Shareholders vote on final dividend distributions at the shareholders' meeting. Distributable profits are equal to:

- net profits for the year; plus
- profits carried forward from previous years; plus
- distributable reserves; minus

- losses carried forward from previous years; minus
- amounts allocated to reserves as required by law or by our by-laws.

The board of directors can make interim dividend payments without a prior shareholder vote on the issue. However, under those circumstances, the dividend is limited to distributable net profits of the current year and is subject to certain legal requirements.

Registration and Transfers

Our shares are in registered book-entry form. Transfers executed through stock exchange systems are implemented pursuant to the stock exchange clearing and settlement procedures carried out by the Spanish clearing institution. Transfers executed outside of stock exchange systems, that is over the counter, are implemented pursuant to the general legal regime for book-entry transfer, including registration by the Spanish clearing institution.

There are no restrictions to the transfer of our shares.

Liquidation Rights

Under Spanish law, upon our liquidation the shareholders would be entitled to receive, on a pro rata basis, any assets remaining after the payment of our debts and taxes and liquidation expenses.

C. MATERIAL CONTRACTS

In February 2000, we entered into separate strategic alliances with our significant shareholders, Banco Bilbao Vizcaya Argentaria and Caja de Ahorros y Pensiones de Barcelona. These transactions are described in “Item 4—Information on the Company—Other Activities—Our Strategic Alliance with Banco Bilbao Vizcaya Argentaria” and “—Our Strategic Alliance with Caja de Ahorros y Pensiones de Barcelona.”

On May 16, 2000, we and Terra Networks entered into various agreements in connection with Terra Networks’ proposed acquisition of Lycos, Inc. These agreements are described in “Item 4—Information on the Company—Worldwide Internet-Related Services—Terra Networks—Terra Networks’ Acquisition of Lycos.”

In October 2000, Telefónica Móviles entered into an agreement to acquire Motorola, Inc.’s wireless operators in Mexico in exchange for shares of Telefónica, S.A. valued at \$U.S.1,857.3 million or, at Telefónica Móviles’ option U.S.\$1,798.9 million in cash. These transactions are described in “Item 4—Information on the Company—Worldwide Wireless Communications Services—Telefónica Móviles—Mexico”.

On January 26, 2001, we, Telefónica Móviles, S.A. and Portugal Telecom announced an agreement to create a joint venture to consolidate our wireless assets in Brazil with those of Portugal Telecom, subject to the approval of ANATEL, the Brazilian telecommunications commission. The terms of the joint venture are described in “Item 4—Information on the Company—Worldwide Wireless Communications Services—Telefónica Móviles—Latin America—Brazil—Agreement with Portugal Telecom”. In addition, as part of this agreement, we have agreed, subject to Portugal Telecom’s shareholders’ approval and the approval of the Portuguese government, to increase our stake in Portugal Telecom to up to 10% through open market purchases. Portugal Telecom is also considering increasing its stake in us to up to 1.5%.

Our new stock option plan, TIES, was adopted in 2000. The terms of this plan are described in “Item 6—Directors, Senior Management and Employees—Incentive Plans—TIES.”

D. EXCHANGE CONTROLS

Exchange Controls and Other Limitations Affecting Security Holders

Restrictions on Foreign Investment

Pursuant to the General Law on Telecommunications, direct or indirect investments in us by foreign persons may not exceed 25% of our share capital, unless otherwise provided for in any of the applicable treaties or authorized by the Spanish government. Pursuant to European Union directives, citizens of other European Union member states, including entities domiciled in such countries, are not considered foreign persons for the purposes of

this provision. For purposes of computing the 25% threshold, only holdings of capital stock in excess of 5% and holdings that would entitle the foreign investor to designate a member of our Board of Directors are taken into account. See “Item 4—Information on the Company—Business Overview—Fixed Line Telephone Services in Spain—Regulation—The General Law on Telecommunications—Ownership Limitations.”

The Spanish stock exchanges and securities markets are open to foreign investors. Pursuant to Law 18/1992 on Foreign Investments and Royal Decree 664/1999, foreign investors may freely invest in shares of Spanish companies. Royal Decree 664/1999 provided for the liberalization of the legal regime of foreign investments in Spain. The only requirement is notice given to the Foreign Investments Registry of the Treasury Ministry after making the investment, except that prior notice is required if the investor is domiciled in a tax haven.

Pursuant to a decree adopted in January 1997 in connection with our privatization, prior Government approval is required for a limited number of fundamental corporate and control transactions affecting us, including the acquisition of 10% or more of our and Telefónica Móviles’ capital stock and the sale of assets material to the provision of fixed telephone services. The approval requirement applied in connection with the transfer of certain assets of Telefónica, S.A. to its wholly owned subsidiary Telefónica de España in November 1998 and will apply to subsequent transfers by Telefónica de España.

Trading by Telefónica in its own Shares or Shares of Companies under its Control

At December 31, 2000, we held 10,987,564 shares of treasury stock, representing 0.25313% of our capital stock.

The Spanish Corporations Law prohibits the purchase by us and our subsidiaries of shares in the secondary market except in the following limited circumstances:

- such a purchase of shares must be authorized by a general meeting of shareholders of Telefónica and, in the case of a purchase of shares by a subsidiary, also by a general meeting of shareholders of the subsidiary
- the shares so purchased have no economic or voting rights while held by Telefónica and have no voting rights while held by its subsidiaries
- the purchaser must create reserves equal to the purchase price of any shares that are purchased and, if a subsidiary is the acquirer, the reserve must also be recorded by the parent company and
- the total number of shares held by Telefónica and its subsidiaries may not exceed 5% of the total capital of Telefónica

Any acquisition of shares of Telefónica exceeding, or that causes Telefónica’s and its subsidiaries’ holdings to exceed, 1% of Telefónica’s share capital must be reported to the CNMV.

At a general meeting of shareholders held in April 2000, Telefónica’s shareholders authorized the Board of Directors to acquire shares of Telefónica for a period of 18 months from the date of authorization. This authorization supersedes the previous authorization to acquire up to 159,942,445 shares, which authorization was granted by the shareholders at the general meeting of shareholders held in March 1999. The new authorization also applies to companies under our control. Pursuant to the new authorization, the aggregate nominal value of the shares held by us or any of our subsidiaries cannot exceed 5% of our shareholders’ equity. Consistent with applicable Spanish laws and regulations and the authorization of our shareholders, from time to time we or our affiliates engage in transactions involving securities of members of the Telefónica Group. These transactions may include purchases of shares of group members, forward contracts with respect to these shares and other similar transactions.

Other Restrictions on Acquisitions of Shares

A person or group of persons that directly or indirectly exercises beneficial ownership or control of 5% or more of the outstanding shares, or which increases or decreases the number of shares which it owns or controls to an amount which equals or exceeds any multiple of 5% of such outstanding shares, must inform the following entities of such ownership:

- Telefónica
- the Stock Exchange Management Companies of the Spanish stock exchanges on which the shares are listed
- the CNMV and
- in the case of a foreign person or group of persons, the General Directorate of Commercial Policy and Foreign Investments

A person or group that is a member of our Board of Directors must report any acquisition or transfer, regardless of size, of our capital stock. A person or group of persons that fails to inform any of the above entities after reaching any of the indicated thresholds may incur fines and penalties. Additionally, if a company fails to inform us after reaching ownership or control of 10% of the outstanding shares or increases the shares it controls to equal or exceed any successive multiple of 5%, the rights corresponding to those shares will be suspended until a proper notification to us is made. For reporting requirements concerning acquisition by us or our affiliates of our shares, see “—Trading by Telefónica in Shares” above.

Dividend and Liquidation Rights

At the extraordinary general meeting of shareholders held on June 24, 1998, we announced our new dividend policy aimed at providing an alternative to cash dividend payments. The objective of this policy is to strengthen our capacity to finance value-creating projects while enabling our shareholders to obtain liquidity by trading their shares.

Payment of a final dividend is proposed by our Board of Directors but must be authorized by our shareholders at the general meeting of shareholders. According to Spanish law and our by-laws, dividends may only be paid out of profits or distributable reserves if the value of our net worth is not, and as a result of such distribution would not be, less than its capital stock. Pursuant to Spanish law, we are required to reserve 10% of our fiscal year net income until the amount in its legal reserve reaches 20% of our capital. Our legal reserve is currently at 20%.

Dividends payable by us to non-residents of Spain are subject to a Spanish withholding tax at the rate of 25%. The Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income entered into between Spain and the United States provides that certain holders of ADRs or shares that are residents for purposes of that treaty in the United States may be entitled to a reduced withholding tax and, therefore, a refund of any withholding levied in excess. See “—E. Taxation”.

Upon a liquidation of us, our shareholders would be entitled to receive pro rata any assets remaining after the payment of our debts and taxes and expenses of the liquidation. Any change in the rights of shareholders to receive dividends and payment upon liquidation would require an amendment to our by-laws by resolution adopted by a general meeting of shareholders. If there were more than one class of shares, such amendment would also require the approval of each class of shareholders affected by the amendment.

Preemptive Rights and Increases of Share Capital

Pursuant to the Spanish Corporations Law, shareholders and holders of convertible bonds have preemptive rights to subscribe for any new shares and for bonds convertible into shares. Such rights may not be available under special circumstances if precluded by a resolution passed at a meeting of shareholders in accordance with Article 159 of the Spanish Corporations Law, or the Board of Directors, if authorized. Further, such rights, in any event, will not be available in the event of an increase in capital to meet the requirements of a convertible bond issue or a merger in which shares are issued as consideration. Such rights

- are transferable
- may be traded on the Automated Quotation System and
- may be of value to existing shareholders because new shares may be offered for subscription at prices lower than prevailing market prices

Shares issuable upon exercise of rights must be registered under the Securities Act of 1933 in order to be offered to holders of ADRs. If we decided not to register the shares, the rights would not be distributed to holders of ADRs. Pursuant to the Deposit Agreement, however, holders of ADRs are entitled to receive their proportionate share of the proceeds, if any, from the sale by the Depository of any rights accruing to holders of ADRs.

E. TAXATION

Spanish Tax Considerations

The following summary describes the material Spanish tax consequences to United States Residents (as defined below) of the acquisition, ownership and disposition of ADSs or shares of Telefónica, S.A. This summary does not address all tax considerations that may be relevant to all categories of United States Residents, some of whom (such as life insurance companies, tax-exempt entities, dealers in securities or financial institutions) may be subject to special rules. In particular, the summary deals only with United States Residents that hold ADSs or shares as capital assets and who do not at any time own individually, nor are treated as owning, 10% or more of the shares, including ADSs, of Telefónica, S.A.

As used herein, the following terms have the following meanings:

- (1) “Treaty” means the Convention between the United States and Spain for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on income together with a related Protocol.
- (2) “United States Resident” means a U.S. Holder (as defined below under “U.S. Tax Considerations”) that is a resident of the United States for purposes of the Treaty and entitled to the benefits of such Treaty, whose holding is not effectively connected with (1) a permanent establishment in Spain through which such U.S. Holder carries on or has carried on a business, or (2) a fixed base in Spain from which such U.S. Holder performs or has performed independent personal services.

Holders of ADSs or shares who are not United States Residents should also consult their own tax advisors, particularly as to the applicability of any tax treaty. The statements regarding Spanish tax laws and the Treaty set out below are based on interpretations of those laws in force as of date of this Annual Report. Such statements also assume that each obligation in the Deposit Agreement and any related agreement will be performed in full accordance with its terms.

Taxation of Dividends

Under Spanish law, dividends paid by a Spanish resident company to a holder of shares or ADRs not residing in Spain for tax purposes and not operating through a permanent establishment in Spain are subject to an income tax withheld at source on the gross amount of dividends, currently at an 18% tax rate. However, under the Treaty, a United States Resident is subject to the Treaty-reduced rate of 15%.

To benefit from the Treaty-reduced rate of 15%, a United States Resident must provide:

- a certificate from the United States Internal Revenue Service (the “IRS”) that to the best knowledge of the IRS such holder is a United States Resident; and
- a certificate from the Depository (in the case of holder of ADSs) or the holder's broker (in the case of holders of shares) representing that, at the dividend payment date, such holder is the beneficial owner of the ADSs or shares

To get direct application of the Treaty-reduced rate of 15%, the certificates referred to above must be provided to us no later than the tenth day of the month next succeeding the relevant dividend payment date. Otherwise we will apply the normal 18% rate. Before dividends are paid, we will notify the Depository of the dividend to be paid and the steps to be followed to obtain the benefit of the reduced tax rate available under the Treaty.

If the certificates referred to above are not provided to us on or before the dividend payment date, the United States Resident may afterwards obtain a refund of the 3% withheld in excess.

Spanish Refund Procedure

The Royal Decree 326/1999 and Order of December 22, 1999 (the "Order") prescribe the procedure for requesting from the Spanish taxing authorities a refund of the amount of income taxes withheld in excess of the Treaty-reduced rate. To pursue the refund claim, the Order requires the United States Resident to file:

- a Spanish "210 Form"
- the two certificates referred to above and
- a certificate issued by Telefónica, S.A. providing that Spanish income tax was withheld with respect to such United States Resident

The refund claim must be filed within two years from the date in which the withheld tax was collected by the Spanish tax authorities.

United States Residents are urged to consult their own tax advisors regarding refund procedures and any U.S. tax implications thereof.

Taxation of Capital Gains

Under Spanish law, any capital gains derived from securities issued by persons residing in Spain for tax purposes are considered to be Spanish source income and, therefore, are taxable in Spain. Spanish income tax is generally levied at a 35% tax rate on capital gains obtained by non-residents of Spain who are not entitled to the benefit of any applicable treaty for the avoidance of double taxation and who do not operate through a fixed base or a permanent establishment in Spain. Spanish income tax will be levied at an 18% tax rate on capital gains if such gains arise from:

- dividends and other earnings derived from the participation in a company's equity;
- interest and other earnings derived from the assignment of goods; and
- earnings derived from the transfer or refund of shares and investments in "collective investment schemes" such as investment companies or investment funds.

Capital gains realized by United States Residents arising from the disposition of shares or ADSs will not be taxed in Spain provided that the seller has not maintained a direct or indirect holding of at least 25% in our capital during the twelve months preceding the disposition of the stock. United States Residents may be required to establish that they are entitled to this exemption by providing to the relevant Spanish tax authorities an IRS certificate of residence in the United States, together with the corresponding Spanish tax form.

Spanish Wealth Tax

Individuals who hold shares or ADRs located in Spain are subject to the Spanish Wealth Tax (Spanish Law 19/1991), which imposes tax on property located in Spain on the last day of any year. Individuals who hold shares or ADRs located outside of Spain are not subject to the Spanish Wealth Tax. However, the Spanish tax authorities may argue that all shares of Spanish corporations and all ADRs representing such shares are located in Spain for Spanish tax purposes. If such a view were to prevail, non-residents of Spain who held shares or ADRs on the last day of any year would be subject to the Spanish Wealth Tax for such year at marginal rates varying between 0.2% and 2.5% of the average market value of such shares or ADRs during the last quarter of such year, as published by the Spanish Ministry of Economic Affairs. Non-residents of Spain should consult their tax advisors with respect to the Spanish Wealth Tax.

Spanish Inheritance and Gift Taxes

Transfers of shares or ADRs on death and by gift are subject to Spanish inheritance and gift taxes, respectively, if the transferee is a resident of Spain for tax purposes, or if the shares or ADRs are located in Spain at the time of death, regardless of the resident beneficiary. However, the Spanish tax authorities may seek to tax inheritances or gifts of shares or ADRs independently of the place or residence of the beneficiary. The applicable tax rate, after

applying all relevant factors, ranges between 0% and 81.6% for individuals. Gifts of shares granted to corporations are subject to corporate tax which is generally levied at the rate of 35%.

Expenses of Transfer

Transfers of shares or ADRs will be exempt from any transfer tax (*Impuesto sobre Transmisiones Patrimoniales*) or value-added tax. Additionally, no stamp tax will be levied on such transfers.

U.S. Tax Considerations

The following summary describes certain United States federal income tax consequences to U.S. Holders (as defined below) of the acquisition, ownership and disposition of ADSs or shares, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to acquire such securities. The summary applies only to U.S. Holders that hold ADSs or shares as capital assets and does not address special classes of holders, such as:

- certain financial institutions
- insurance companies
- dealers in securities or foreign currencies
- holders holding ADSs or shares as part of a hedge, straddle or other conversion transaction
- holders whose “functional currency” is not the U.S. dollar
- holders liable for alternative minimum tax
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes or
- a holder that owns 10% or more of the voting shares of Telefónica, S.A.

In addition, the summary is based in part on representations of the Depositary and assumes that each obligation provided for in or otherwise contemplated by the Deposit Agreement or any other related document will be performed in accordance with its terms. The U.S. Treasury has expressed concern that parties to whom ADRs are released may be taking action that are inconsistent with the claiming of foreign tax credits. Accordingly, the analysis of the creditability of Spanish taxes described below could be affected by actions that may be taken the U.S. Treasury.

The summary is based upon tax laws of the United States including the Internal Revenue Code of 1986, as amended to the date hereof (the “Code”), administrative pronouncements, judicial decisions and final, temporary and proposed Treasury Regulations, changes to any of which may affect the tax consequences described herein possibly with retroactive effect. U.S. Holders of ADSs or shares should consult their own tax advisors as to the United States, Spanish or other tax consequences of the purchase, ownership and disposition of such securities in their particular circumstances, including the effect of any state or local tax laws.

As used in this particular section, a “U.S. Holder” is a beneficial owner of ADSs or shares that is, for United States federal income tax purposes:

- a citizen or resident of the United States
- a corporation created or organized in or under the laws of the United States or of any political subdivision thereof or
- an estate or trust the income of which is subject to United States federal income taxation regardless of its source

For United States federal income tax purposes, U.S. Holders of ADSs will be treated as the owners of the underlying shares.

Taxation of Distributions

To the extent paid out of current or accumulated earnings and profits of Telefónica, S.A. (as determined in accordance with United States federal income tax principles), distributions made with respect to ADSs or shares (other than certain distributions of capital stock of Telefónica, S.A. or rights to subscribe for shares of capital stock of Telefónica, S.A.) will be includible in the income of a U.S. Holder as ordinary dividend income before reduction for any Spanish income tax withheld by us. Such dividends will not be eligible for the “dividends received deduction” generally allowed to corporations under the Code. To the extent that a distribution exceeds Telefónica, S.A.’s current and accumulated earnings and profits, it will be treated as a nontaxable return of capital to the extent of the U.S. Holder’s tax basis in the ADSs or shares, and thereafter as capital gain. The amount of the distribution will equal the U.S. dollar value of the pesetas or euro received, calculated by reference to the exchange rate in effect on the date such distribution is received (which, for holders of ADSs, will be the date such dividend is received by the Depositary), whether or not the Depositary or U.S. Holder in fact converts any pesetas or euro received into U.S. dollars at that time. Any gains or losses resulting from the conversion of pesetas or euro into U.S. dollars will be treated as ordinary income or loss, as the case may be, of the U.S. Holder and will be U.S. source. Dividends generally will constitute foreign source “passive” or “financial services” income for U.S. foreign tax credit purposes.

Subject to certain generally applicable limitations, a U.S. Holder will be entitled to a credit against its U.S. federal income tax liability, or a deduction in computing its U.S. federal taxable income, for Spanish income taxes withheld by us. However, any taxes withheld in excess of the rate provided in the Tax Treaty will not be eligible for credit against the U.S. Holder’s federal income tax unless such holder exhausts all remedies to recover such excess withholding, including the seeking of competent authority assistance from the Internal Revenue Service, without obtaining a refund. See “Spanish Tax Considerations—Taxation of Dividends” and “—Spanish Refund Procedure” above for a description of how a U.S. Holder can secure the Tax Treaty rate for withholding on dividends paid by us or obtain a refund if amounts withheld on dividends paid by us exceed the Tax Treaty rate. A U.S. Holder may be required to recognize ordinary income or loss attributable to currency fluctuations upon its receipt of a refund in respect of Spanish withholding tax to the extent that the U.S. dollar value of the refund differs from the U.S. dollar equivalent of the refund amount on the date the underlying dividend was received.

A U.S. Holder must satisfy minimum holding period requirements in order to be eligible to claim a foreign tax credit for foreign taxes withheld on dividends. A foreign tax credit is not allowed for foreign taxes withheld on dividends in circumstances where the U.S. Holder is under an obligation to make related payments in connection with positions in “substantially similar or related property”.

Taxation of Capital Gains

We believe that we have not been, are not, and are not likely to become a “passive foreign investment company.” Accordingly, gain or loss realized by a U.S. Holder on (i) the sale or exchange of ADSs or shares or (ii) the Depositary’s sale or exchange of shares received as distributions on the ADSs will be subject to United States federal income tax as capital gain or loss in an amount equal to the difference between the U.S. Holder’s tax basis in the ADSs or shares and the amount realized on the disposition. Gain or loss, if any, will be U.S. source. U.S. Holders should consult their tax advisors regarding the United States federal tax treatment of capital gains, which may be taxed at lower rates than ordinary income for individuals, and losses, the deductibility of which is subject to limitations.

Deposits and withdrawals of shares in exchange for ADSs will not result in taxable gain or loss for United States federal income tax purposes.

Information Reporting and Backup Withholding

Dividends paid on ADSs or shares to a U.S. Holder may be subject to information reporting requirements of the Code. Such dividends may also be subject to backup withholding at the rate of 31% unless the U.S. Holder (1) is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact or (2) provides a taxpayer identification number on a properly completed Form W-9 or a substitute form and certifies that no loss of exemption from backup withholding has occurred and that such holder is a U.S. person. Any amount withheld under these rules will be creditable against the U.S. Holder’s federal income tax liability. A U.S. Holder who does not provide a correct taxpayer identification number may be subject to certain penalties.

F. DIVIDENDS AND PAYING AGENTS

Not applicable.

G. STATEMENTS BY EXPERTS

Not applicable.

H. DOCUMENTS ON DISPLAY

Where You Can Find More Information

We file Annual Reports on Form 20-F and furnish periodic reports on Form 6-K to the SEC. You may read and copy any of these reports at the SEC's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms.

Our SEC filings are also available to the public from commercial document retrieval services. Some SEC filings of ours are also available at the website maintained by the SEC at "<http://www.sec.gov>."

Our ADSs are listed on the New York Stock Exchange under the symbol "TEF." Our ADSs are also listed on the Lima Stock Exchange. Our shares are listed on the Madrid, Barcelona, Bilbao and Valencia stock exchanges under the symbol "TEF" and on various foreign exchanges such as the London, Frankfurt, Paris, Buenos Aires and Tokyo stock exchanges. Our BDRs are listed on the São Paulo Stock Exchange. You may inspect any periodic reports and other information filed with the SEC by us at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

We, as a foreign private issuer, are exempt from the rules under the Exchange Act which prescribe the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act.

We are also subject to the informational requirements of the Spanish securities commission and the Spanish stock exchanges and we file reports and other information relating to our business, financial condition and other matters with the Spanish securities commission and the Spanish stock exchanges. You may read such reports, statements and other information, including the annual and biannual financial statements, at the public reference facilities maintained in Madrid and Barcelona. Some of our Spanish securities commission filings are also available at the website maintained by the Spanish securities commission at <http://www.cnmv.es>.

Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The principal market risks to which Telefónica was exposed in 2000 were interest rate risk and foreign currency exchange rate risk. These were Telefónica's principal market risks in 1999 as well. Telefónica actively manages both risks, in part with financial derivatives. All of Telefónica's financial derivative transactions are entered into for hedging purposes. However, Telefónica is required to classify some of its exchange rate forward contracts and currency options as held for trading purposes if (1) these financial derivatives are being used to hedge expected foreign income or (2) the hedges are put in place in holding companies (mainly Telefónica, S.A., Telefónica Móviles, S.A. and Telefónica Internacional, S.A.) while the underlying debt is kept in their respective Latin American subsidiaries. Instruments that are classified as held for trading purposes are carried at market prices, and gains or losses arising therefrom are recorded immediately in the income statement as financial revenue or expense, as appropriate.

Telefónica pursues several derivative strategies, including options or swaps in order to hedge either the debt's fair value or cash flows for interest expenses. In some cases, when we determine to swap debt from fixed rates into floating rates (or vice versa) at certain target levels, we sell to financial institutions the right to enter into the swap at some future date. The sale of such options is classified as held for trading purposes. All other financial derivatives held by Telefónica at December 31, 2000, were classified as hedges under Spanish GAAP. Gains or losses on these instruments are recorded as adjustments to the underlying transactions. In general, Telefónica's counterparties in its financial derivatives transactions are financial institutions.

Interest rate risk

Telefónica uses several derivative strategies, including swaps and options to manage its exposure to interest rate fluctuations. Giving effect to these derivative transactions, at December 31, 2000 approximately 52% of Telefónica's long-term debt portfolio bore interest at a fixed rate. Telefónica's floating rate debt portfolio is principally subject to fluctuations in the London Interbank Offered Rate (particularly for the U.S. dollar LIBOR), the European Interbank Offered Rate (EURIBOR) and the Brazilian Selic, Brazil's prime rate.

Exchange rate risk

The exchange rate risk to which Telefónica is exposed derives principally from both (1) its long-term debt portfolio that is denominated in (or swapped into) currencies other than the peseta or the currencies of those countries that have adopted the euro and (2) the fact that Telefónica conducts a substantial amount of business in, and has substantial investments in, countries outside of Spain, principally Latin American countries. Telefónica has incurred foreign currency-denominated debt obligations in order to fund investments outside Spain, primarily in Latin America. Consequently, over 98% of Telefónica's foreign debt obligations (excluding those which are denominated in currencies of countries which have adopted the euro) are denominated in U.S. dollars or Latin American currencies. Telefónica hedges its debt-related exchange rate exposure to the extent that it considers necessary and hedges are commercially available. Telefónica from time to time hedges its exchange rate exposure arising from foreign-currency dividend streams, management fees and attributed net income from its principal non-Spanish subsidiaries. Telefónica uses swaps, options and exchange rate forward contracts to manage its exposure to exchange rate fluctuations. Giving effect to these derivative transactions, Telefónica was exposed to foreign currency fluctuations on approximately 69% of its long-term debt at December 31, 2000.

Tabular description of market rate sensitive instruments

The tables below describe the financial instruments bearing interest or exchange rate risk for the companies consolidated in the Telefónica Group.

The tables below have been prepared as follows:

- The debt obligations are ordered according to their final characteristics and taking into account the effect of the associated derivative instruments. They are classified according to the currency in which they are denominated, within the following categories:
 - Euro
 - European currencies other than the euro
 - U.S. dollar
 - Latin American currencies
 - Asian currencies
- Each such group is further divided into:
 - Floating rate interest
 - Fixed rate interest
 - Interest rate bounded with options
- Each column shows the notional amount of each debt obligation maturing in the year indicated at the top of the column through 2005. The notional amount outstanding after 2005 is shown in the next column. The column "Total" sums all of the notional amounts.
- Notional amounts do not include accrued interest, except for zero coupon bonds, which include accrued interest from inception to December 31, 2000.
- The fair value columns show the value for (1) the underlying debt, (2) the derivatives linked to the underlying debt and (3) the total (the sum of the two previous values).

**SENSITIVITY TO INTEREST RATES AND EXCHANGE RATES OF DEBT OBLIGATIONS AT
DECEMBER 31, 2000**

	Maturity Dates							Fair Value			
	2001	2002	2003	2004	2005	Subsequent	Total	Underlying Debt	Associated Derivatives	Total	Book Value
	(millions of pesetas)										
Euro	(108,370)	28,117	132,473	150,923	494,403	487,182	1,184,726	2,022,222	(771,582)	1,250,639	1,184,726
Floating Rate.....	(251,678)	(9,688)	16,500	87,422	247,151	304,286	393,993	1,161,365	(768,438)	392,927	393,993
Spread.....	0.02%	(10.12%)	0.16%	0.28%	0.44%	0.03%	0.61%				
Fixed Rate.....	143,307	37,805	115,972	63,501	247,252	182,895	790,733	860,856	(3,144)	857,712	790,733
Interest Rate.....	12.95%	8.21%	5.47%	6.68%	7.79%	5.42%	7.77%				
Other European Currencies	1,170	1,170	1,170	52,760	-	-	56,271	3,451	54,620	58,071	56,271
Instruments in GBP	-	-	-	52,760	-	-	52,760	-	54,620	54,620	52,760
Floating Rate.....	-	-	-	31,656	-	-	31,656	-	32,603	32,603	31,656
Spread.....	-	-	-	-	-	-	-	-	-	-	-
Fixed Rate.....	-	-	-	21,104	-	-	21,104	-	22,017	22,017	21,104
Interest Rate.....	-	-	-	6.25%	-	-	6.25%	-	-	-	-
Instruments in CHF	1,170	1,170	1,170	-	-	-	3,511	3,451	-	3,451	3,511
Fixed Rate.....	1,170	1,170	1,170	-	-	-	3,511	3,451	-	3,451	3,511
Interest Rate.....	2.18%	2.18%	2.18%	-	-	-	2.18%				
America	217,017	696,021	359,866	270,044	313,325	1,121,146	2,977,418	2,286,511	846,154	3,132,666	3,008,591
Instruments in USD	(252,945)	615,461	257,099	128,442	291,344	1,003,939	2,043,340	1,679,461	529,624	2,209,085	2,073,337
Floating Rate.....	368,363	458,060	112,101	47,237	85,807	282,512	1,354,080	1,070,735	286,249	1,356,985	1,354,797
Spread.....	1.93%	0.21%	0.35%	0.34%	1.18%	0.68%	0.85%				
Fixed Rate.....	(621,308)	157,401	144,998	81,205	205,537	686,101	653,933	568,420	244,109	812,529	683,214
Interest Rate.....	5.92%	6.94%	6.90%	7.90%	7.78%	7.88%	9.27%				
Bounded Rate.....	-	-	-	-	-	35,326	35,326	40,306	(735)	39,571	35,326
Less than 3 years.....						35,326	35,326				
More than 3 years.....											
Instruments in CAD	18	18	18	18	16	-	88	83	-	83	98
Fixed Rate.....	18	18	18	18	16	-	88	83	-	83	98
Interest Rate.....	3.00%	3.00%	3.00%	3.00%	3.00%	-	3.00%				
Instruments in ARS	229,897	-	-	31,330	-	30,887	292,114	52,599	235,000	287,599	292,114
Floating Rate.....	239,092	-	-	-	-	-	239,092	-	235,000	235,000	239,092
Spread.....	-	-	-	-	-	-	-	-	-	-	-
Fixed Rate.....	(9,196)	-	-	31,330	-	30,887	53,022	52,599	-	52,599	53,022
Interest Rate.....	9.51%	-	-	10.38%	-	11.25%	11.03%				
Instruments in BRL	103,658	10,408	10,228	61,895	12,835	8,678	207,702	191,532	13,186	204,718	208,869
Floating Rate.....	79,195	10,408	10,228	61,895	12,835	8,678	183,239	189,793	(9,589)	180,204	184,506
Spread.....	100% CDI	100% CDI	100% CDI	100% CDI	100% CDI	100% CDI	100% CDI				
Fixed Rate.....	24,464	-	-	-	-	-	24,464	1,739	22,775	24,513	24,363
Interest Rate.....	10.38%	-	-	-	-	-	10.38%				
Instruments in CLP	3,842	-	-	-	-	-	3,842	-	4,258	4,258	3,842
Fixed Rate.....	3,842	-	-	-	-	-	3,842	-	4,258	4,258	3,842
Interest Rate.....	10.98%	-	-	-	-	-	10.98%				
Instruments in PEN	79,806	3,503	-	-	-	7,539	90,848	30,009	58,289	88,298	90,848
Floating Rate.....	39,236	-	-	-	-	7,539	46,775	12,337	32,669	45,006	46,775
Spread.....	0.83%	-	-	-	-	6.96%	1.82%				
Fixed Rate.....	40,571	3,503	-	-	-	-	44,074	17,673	25,620	43,293	44,074
Interest Rate.....	14.20%	13.81%	-	-	-	-	14.17%				
Instruments in UF	45,777	66,631	92,520	48,359	9,130	70,103	332,520	332,827	(1,006)	331,821	332,520
Floating Rate.....	51,499	58,141	84,767	23,419	3,774	-	221,600	221,626	(736)	220,890	221,600
Spread.....	0.85%	0.85%	0.85%	0.85%	0.85%	-	0.85%				
Fixed Rate.....	(5,722)	8,490	7,753	24,940	5,355	70,103	110,920	111,202	(270)	110,931	110,920
Interest Rate.....	(1.00%)	6.36%	6.38%	6.37%	6.36%	6.36%	6.74%				
Instruments in VEB	6,963	-	-	-	-	-	6,963	-	6,804	6,804	6,963
Floating Rate.....	6,963	-	-	-	-	-	6,963	-	6,804	6,804	6,963
Spread.....	-	-	-	-	-	-	-				

	Maturity Dates						Fair Value				
	2001	2002	2003	2004	2005	Subsequent	Total	Underlying Debt	Associated Derivatives	Total	Book Value
Asia.....	-	-	-	-	-	-	-	(33,283)	32,835	(448)	-
Instruments in JPY.....	-	-	-	-	-	-	-	(33,283)	32,835	(448)	-
Fixed Rate.....	-	-	-	-	-	-	-	(33,283)	32,835	(448)	-
Interest Rate.....	-	-	-	-	-	-	-	-	-	-	-
Africa.....	3,637	-	-	-	-	-	3,637	-	3,736	3,736	3,637
Instruments in MAD.....	3,637	-	-	-	-	-	3,637	-	3,736	3,736	3,637
Fixed Rate.....	3,637	-	-	-	-	-	3,637	-	3,736	3,736	3,637
Interest Rate.....	11.00%	-	-	-	-	-	11.00%	-	-	-	-
Total.....	113,454	725,308	493,509	473,726	807,727	1,608,328	4,222,053	4,278,901	165,763	4,444,664	4,253,226
Exchange Rate Options.....	36,965	-	-	-	-	-	36,965	-	-	-	-

Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

Item 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

Item 15. RESERVED

Not applicable.

Item 16. RESERVED

Not applicable.

PART III

Item 17. FINANCIAL STATEMENTS

We have responded to Item 18 in lieu of responding to this Item.

Item 18. FINANCIAL STATEMENTS

Please see pages F-1 through F-93.

Item 19. EXHIBITS

Exhibits

Exhibit Number	Description
1.1	Amended and Restated Articles of Association.
1.2	Amended and Restated Articles of Association (English translation).
4.1	Framework Agreement dated January 12, 2000, by and between Caja de Ahorros y Pensiones de Barcelona and Grupo Telefónica.*
4.2	Framework Agreement dated January 12, 2000, by and between Caja de Ahorros y Pensiones de Barcelona and Grupo Telefónica (English translation).*
4.3	Framework Agreement dated February 11, 2000, by and between Banco Bilbao Vizcaya Argentaria, S.A. and Telefónica, S.A.*
4.4	Framework Agreement dated February 11, 2000, by and between Banco Bilbao Vizcaya Argentaria, S.A. and Telefónica, S.A. (English translation).*
4.5	Amended and Restated Rights Offering Agreement dated May 16, 2000, among Telefónica, S.A., Terra Networks, S.A., and Lycos, Inc.

Exhibit Number	Description
4.6	Amended and Restated Agreement and Plan of Reorganization dated September 20, 2000, among Terra Networks, S.A., Lycos, Inc. and Lycos Virginia, Inc.
4.7	Strategic Alliance Memorandum of Understanding dated May 16, 2000, among Bertelsmann AG, Telefónica, S.A., Terra Networks, S.A. and Lycos, Inc.**
4.8	Mexican Stock Purchase Agreement among Motorola, Inc., Telefónica, S.A. and Telefónica Móviles, S.A. dated as of October 10, 2000.
4.9	Global option plan (TIES).***
4.10	Joint Venture Agreement dated as of January 23, 2001 among Telefónica, S.A., Telefónica Móviles, S.A., Portugal Telecom SGPS S.A. and PT Móveis SGPS, S.A.†
8.1	List of Subsidiaries.

* Incorporated by reference to the registration statement of Telefónica, S.A. on Form F-4, registration number 333-11356.

** Incorporated by reference to Telefónica's Annual Report on Form 20-F for the fiscal year ended December 31, 1999.

*** Incorporated by reference to the registration statement on Form S-8, registration number 333-13902.

† Confidential material appearing in this document has been omitted and filed separately with the Securities and Exchange Commission in accordance with the Securities Exchange Act of 1934, as amended, and Rule 24b-2 promulgated thereunder. Omitted information has been marked through.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing this Form 20-F and has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

TELEFÓNICA, S.A.

By: /s/ Antonio Alonso Ureba
Name: Antonio Alonso Ureba
Title: General Secretary and Secretary of
the Board of Directors

Date: June 7, 2001

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