



ANNUAL REPORT

Telefónica

1992

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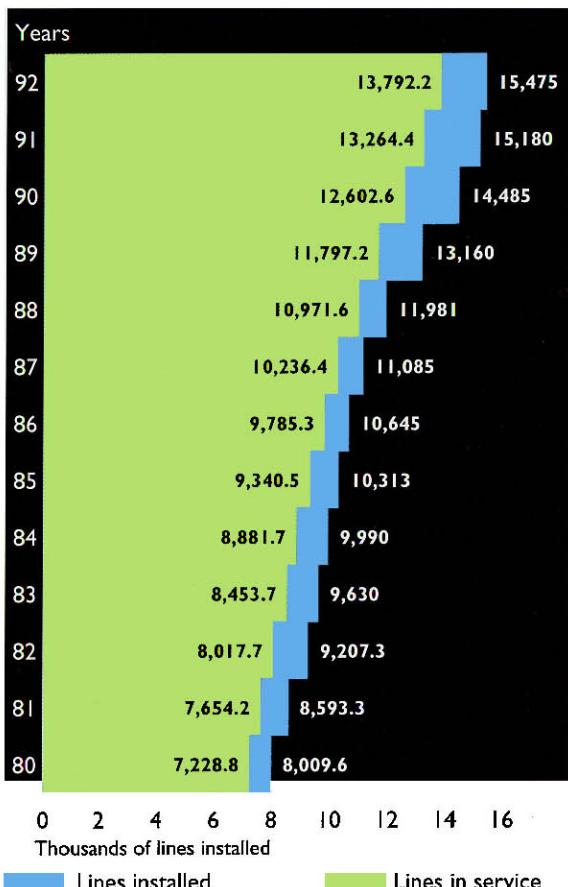


Annual Report 1992

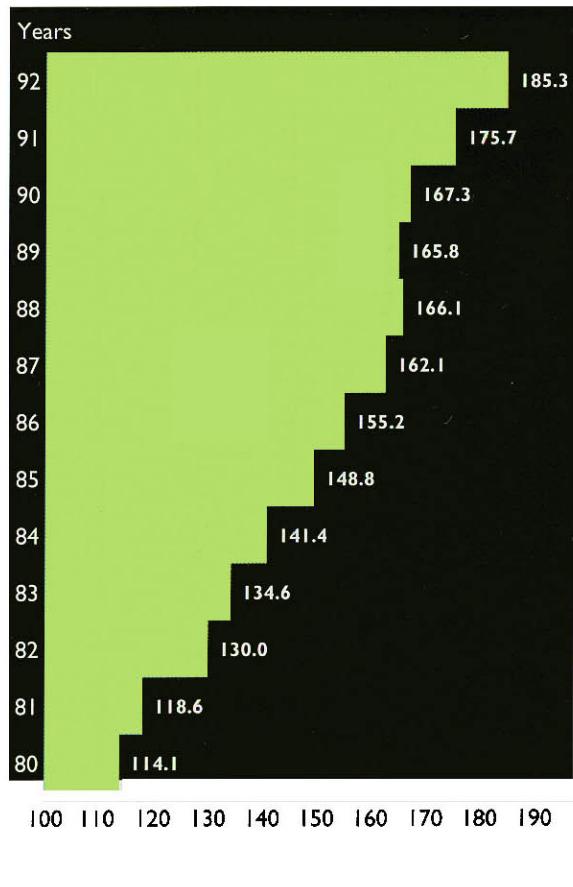
Highlights

	1988	1989	1990	1991	1992
Lines in service (thousands)					
Basic telephony	10,971.6	11,797.2	12,602.6	13,264.4	13,792.2
IBERCOM	68.9	145.9	255.5	375.0	481.6
Automatic Mobile Telephony	11.6	29.8	54.7	108.5	180.3
Basic telephone lines in service per 100 inhab.	28.3	30.4	32.4	34.1	35.3
% Average growth in line usage	8.6	5.1	2.3	4.1	4.1
Employees	66,062	71,155	75,350	75,499	74,437
Basic telephone lines in service per employee	166.1	165.8	167.3	175.7	185.3
Demand for new basic telephone and IBERCOM lines (thousands)	1,356.4	1,494.4	1,444.6	1,237.8	1,205.4
Operating revenue (Ptas. millions)	614,829	714,839	852,542	1,008,031	1,154,696
Financial debt ratio (%)	39.2	45.2	51.9	55.1	58.4
Capital expenditure in fixed assets (Ptas. millions)	372,960	600,983	692,830	601,417	419,820
Cash flow (Ptas. millions)	276,092	302,461	344,906	402,149	466,365
Net income (Ptas. millions)	62,845	68,898	75,788	80,847	83,899

Basic Telephony lines installed and in service



Basic Telephone lines in service per employee



Letter to shareholders



Dear Shareholder,

1992 has been a year of great significance for both Spain and for Telefónica. In fact 1992 marked the culmination of a period of spectacular expansion in all directions and profound change in institutional structures. It was not an easy task to restore Telefónica to its rightful place at the forefront of Spain's public services. When we accepted the challenge, on taking over the leadership of the Company just over four years ago, we could scarcely imagine that the results we can present today would be so positive. This statement does not imply self-complacency but is rather an attempt to give due justice to all the men and women of Telefónica who, through their determination and wisdom, deserve such recognition. No sense of false modesty should lead us to hide the fact that over the last four years our Company has, through its own limited means, undertaken the largest investment and improvement plan ever carried out by a company in Spain. As a result, from whatever angle one looks at it, the Telefónica of today is bigger and better than ever before.

The challenge of meeting the increase in demand has been met by installing the necessary lines. Consequently the waiting list has been reduced to merely symbolic levels and is scheduled to disappear altogether in 1993. As far as modernization and technological advances, there has been a notable increase in digitization levels and an enhancement of network services, particularly in the domestic transit network. In order to meet the growing service requirements of Spain's economy, developments have been made in advanced voice services, packet switching data transmission, mobile

services and intelligent network services. As far as quality levels, the Company beat its own record with regards to the performance of the basic telephone network. We have furthered the processes of liberalization and globalization of telecommunications by consolidating our international presence. In fact Telefónica is now the second largest telecommunications company in Latin America in terms of number of lines managed and is the only foreign operator with direct access to the United States market.

The major events which took place in Spain in 1992, namely the Olympic Games in Barcelona and the World Expo in Seville, presented further challenges to our Company. Telefónica met all the demands of these events, and, without undue effort, beat the record in the number of images distributed throughout the world. In answer to the final challenge of extending the telephone service to all corners of Spain, the rural service extension program was accelerated along with cellular access implantation.

The major investment plan which all this activity required led to an inevitable increase in the company's borrowing rate. However, this should be offset against the steady increase in profits and the fact that many other items registered more encouraging figures which tend to consolidate, in the short term, the healthy financial situation of the company. This is despite the contributions to the new Pension Fund, which has solved for good the problem of the social provision for our employees. We have also been able to increase the shareholders' dividend, which has been frozen for a long period.

We have now entered a new cycle which, despite bringing fresh challenges, also offers new opportunities. Following liberalization of value added services, terminals and part of mobile services, we are now competing for data transmission services and circuit leasing, soon to be followed by cellular telephony and, in the not too distant future, by the basic telephone service itself. We have been steadily preparing ourselves for these events through enhancements both in organization and corporate culture. We are now ready and waiting both to take on new challenges and to renew our commitment to serve Spanish society and the Spanish economy.

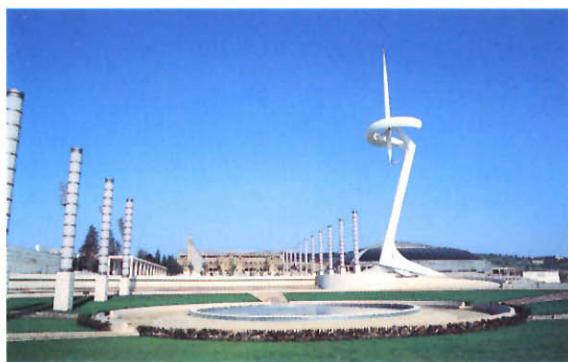
With kind regards

Cándido Velázquez-Gaztelu Ruiz
Chairman of the Board
of Telefónica de España



The culmination of our endeavours

Telefónica's activity throughout 1992 has undoubtedly been determined by its decisive participation in the events which took place in Spain during the year, namely the World Expo in Seville, the Olympic Games in Barcelona and the role of Madrid as European Cultural Capital. However, given the efforts of the past months, both in investment and in the whole-hearted dedication of the workforce, we should make special mention of an exceptional achievement: over 3,500 million people throughout the world were able to watch a live transmission of impeccable quality of the entire Olympic spectacle.



Telefónica Tower on the Montjuic Olympic Site

This was acknowledged by the major international radio and television operators, who enjoyed the use of the state-of-the-art technology put at their disposal by Telefónica, to transmit simultaneously thousands of images to the furthest corners of the planet, beating all the records registered up to now for an event of this nature.

Telefónica is proud to have been able to offer such a valuable contribution to enhancing the international reputation of our

country, by fulfilling, in this exemplary way, its public service duty. We are also proud to have been able to show off our high technological standards by applying the latest telecommunications resources and techniques, proving once again our capacity to provide Spain with the most advanced services. As we already highlighted in the 1991 Annual Report, Telefónica offered a foretaste of this capacity on the occasion of the Middle East Peace Conference held in Madrid in the autumn of 1991. The Company contributed to the successful staging of this event by providing the



Cartuja | Digital Exchange, EXPO '92

participants and world media with all the necessary circuits, equivalent to 60,000 telephone lines, with less than one week's notice.

Meeting demand

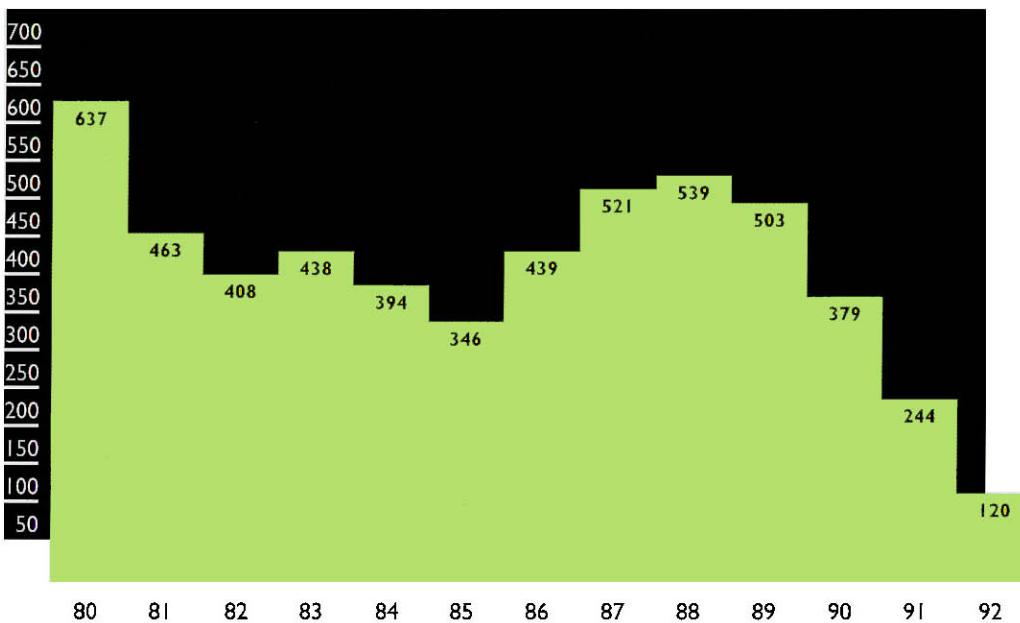
None of these achievements are due to chance or improvisation but are rather the result of a deliberate policy steadily put into practice to furnish Telefónica with the capacity to provide bigger and better

telecommunications services. Sufficient emphasis has been placed on the enhancement of the Basic Telephone Network, a public service for which Telefónica is the sole provider. Between 1989 and 1992 we installed almost 5 million new telephone lines, increasing both supply and network modernization, achieving digitization levels in local exchanges of 36.4%, density levels of 35.3 lines per 100 inhabitants (as opposed to 28.3 in 1988) and of 80 residential lines per 100 households, with a total of 13,792,156 lines in service and 15,475,000 marketable lines installed. Furthermore, whereas in 1988 there was a waiting list of over 500,000, by 1992 year-end the figure was down to only 120,000, of which 46,000 were already being attended to. In 1993 we anticipate being able to meet all requests for new telephone lines in any of the established local zones in less than 20 days.

Once the waiting list has been reduced to practically nothing, it becomes evident that the differences in telephone service density levels between Spain and other advanced European Community countries are to a large degree determined by the basic differences

Waiting list

Thousands of pending applications

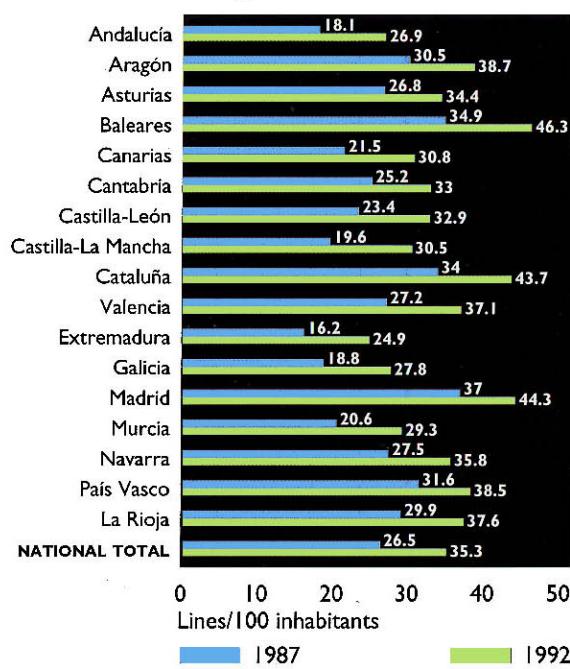


in respective income levels. In fact regions such as the Balearic Islands, Catalonia and Madrid, with density levels of around 45 lines per 100 inhabitants, are within the European average, while areas such as Andalucía, Extremadura, Galicia and Murcia record levels of fewer than 30 lines per 100 inhabitants. This is also partially explained by the differences existing in income levels per inhabitant of the respective Autonomous Regions.

Service extension

We should also highlight the steps undertaken to expand the service to the less developed areas of the country, thereby meeting our obligations, despite the lower profitability of these lines. Density levels recorded in these areas at 1992 year-end represented a growth, compared to four years ago, which was more than proportional to national growth levels. These efforts will continue over the next few years. Already in 1992 we began to introduce radio technology ("cellular access"), installing over 7,000 telephones to

**Basic Telephone service density
in autonomous regions**



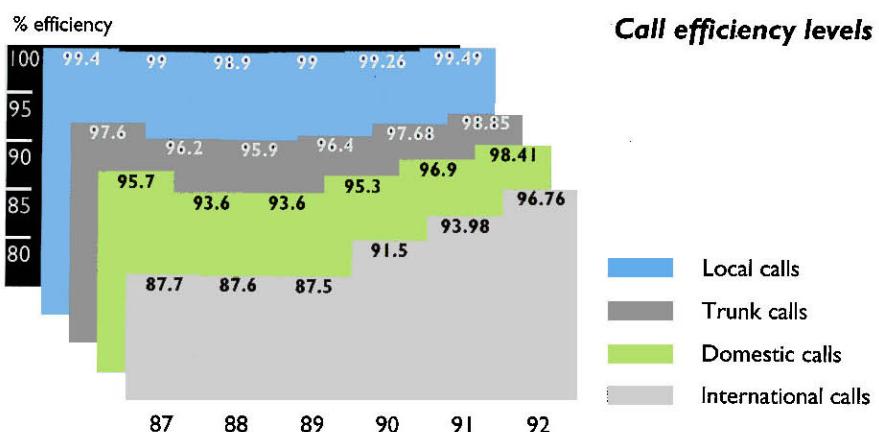
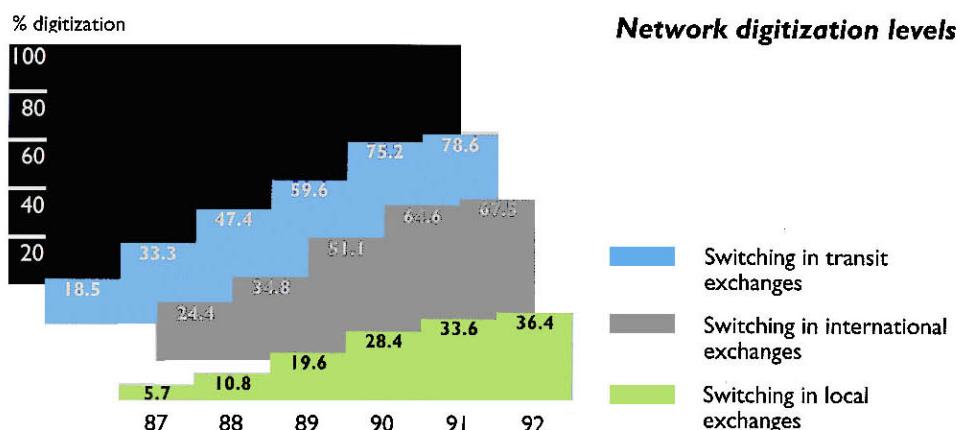
**Basic Telephone lines in service
per autonomous region at 31.12.92**



meet demand in areas of scattered population and low population density. By 1996 we aim to be providing a telephone service under identical conditions to all Spanish citizens regardless of where they reside.

Quality up-grading

There has also been a substantial enhancement of service quality over the last four years. At 1992 year-end the percentage of failed calls due to network performance had fallen to the lowest levels ever recorded, especially in international calls, where figures were well within the target established in the National Telecommunications Plan for the year 1994. Without doubt, the reason for this improvement in network quality, which is now on a par with that of the major world operators, lies firstly in the increased digitization levels, with the



commissioning of new digital exchanges or the modernization of the analog plant, and secondly in the widespread installation of fibre optic systems, the upgrading of signalling systems and the increased efficiency of traffic flow management. In fact the most outstanding improvements were seen in the domestic transit network, which went from extremely low digitization levels to the prospect of total digitization by 1994. Incorporated into the network from 1992 is the new Synchronous Digital Hierarchy equipment and the network is now ready to carry additional increases in traffic and to manage them more efficiently.

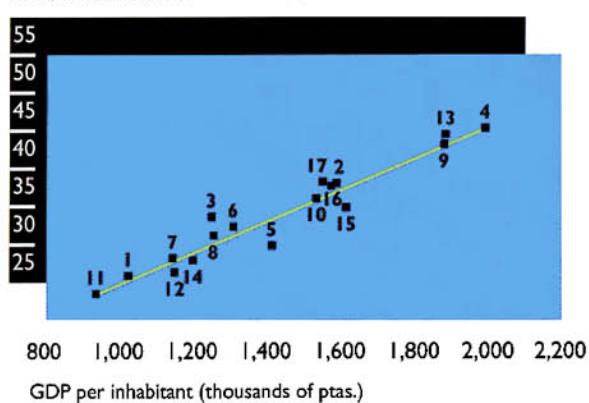
New advanced services

Another of the notable features of the last five years has been the major development in new services. Some of these, such as the packet switching data transmission service (IBERPAC) had already achieved high levels of implantation, while others, such as the advanced voice and data services (IBERCOM) and mobile telephony were still in the early stages. At the time, Telefónica was a pioneer in introducing packet switching into the public network, applying TESYS technology developed in our own research laboratories. The new generations of this equipment and the configuration of a new

Density-GDP per inhabitant 1991

Basic telephone service market

Lines/100 inhabitants



- 1 Andalucía
- 2 Aragón
- 3 Asturias
- 4 Baleares
- 5 Canarias
- 6 Cantabria
- 7 Castilla-La Mancha
- 8 Castilla-León
- 9 Cataluña
- 10 Comunidad Valenciana
- 11 Extremadura
- 12 Galicia
- 13 Madrid
- 14 Murcia
- 15 Navarra
- 16 País Vasco
- 17 La Rioja

advanced network will enable us to meet the challenge presented by the liberalization of the data transmission market. In 1992 the IBERCOM service witnessed important developments. By the end of the year there were around 500,000 extensions installed in the central offices of our major corporate and institutional clients. The advanced features of the service anticipate those due to be incorporated, in the near future, into the Integrated Services Digital Network (ISDN), whose introduction into the Basic Network began last year. In addition, the Automatic Mobile Telephony service reached a figure of 180,000 users. This relatively new service goes from strength to strength and has great potential for future development. Given the limitation of the 450 Mhz radioelectric spectrum, this development has been possible thanks to the implantation in 1990 of a new 900 Mhz. network, with coverage reaching most cities and communication routes. A new addition soon to be introduced is a digital network (GSM) in line with EEC standards. Finally, 1992 witnessed the appearance of the new Intelligent Network services (prefix 90X), which already enjoy a high profile in other developed countries, due to both the type of additional facilities they allow and because they offer the necessary support for the development of a host of liberalized, value added services, distributors of all kinds of information.

Financial performance

Despite the massive investment program, which has enabled Telefónica to simultaneously meet the demand for services, modernize the plant and develop new services, we have also tackled the problem of the staff pension fund. The old "Telefónica Institution Fund", whose medium and long-term solvency was under question, has been replaced by a Pension Fund with the capacity to reasonably meet the needs of our active workforce and of our pensioners through additional payments on top of the Social Security contribution. As

we anticipated, this has led to an increase in the Company's borrowing level, which has, nevertheless, already reached its peak and which it will be possible to reduce in the immediate future. Many other financial ratios, such as the improvement in the ratio of gross sales to total assets, the maintenance of the operating margins, the reduction in the ratio of financial expenses to operating revenue, the improvement in self-financing of capital expenditure (which in 1992 exceeded 95% for the first time in the Company's history) and the increase in cash flow, emphasize the significant enhancement of our financial position. Apart from growth, this healthy position is also evident from improvement in profit quality, with an increase in amortization rates and a reduction in internal

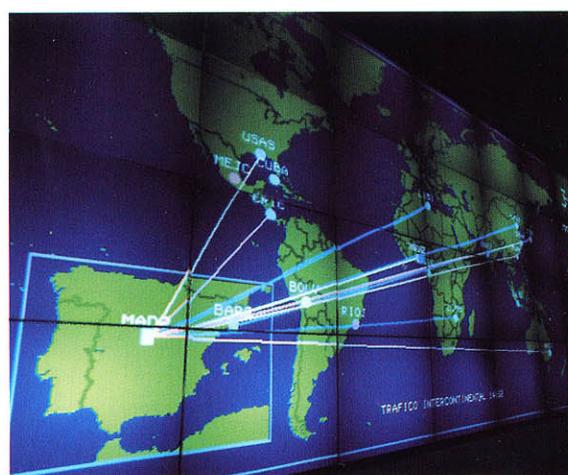
Telefónica Head Office, Madrid



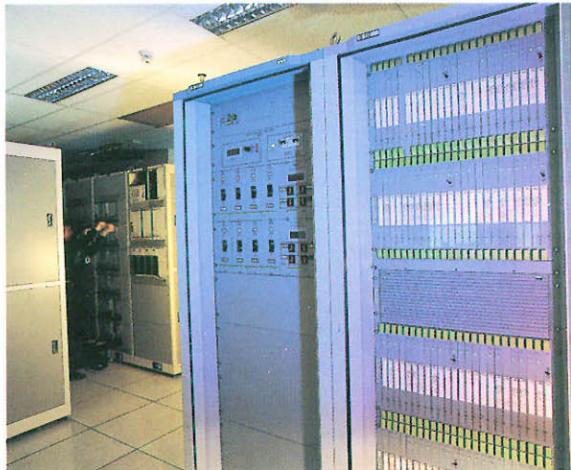
expenditure capitalized in fixed assets. As a result, after many years, we were finally able to increase the shareholder dividend. All these circumstances have logically been duly appreciated by the major international Stock Markets, on all of which Telefónica's shares are listed, reflecting a 50% share revaluation during the last three years.

International projection

One of the determining features of the development of the telecommunications sector is, without doubt, the trend towards increasing liberalization of services, subject to the norms established in the European Community Directives. The liberalization of telecommunications in Spain began at the end of 1987, with the passing of the Telecommunications Act, which was modified in December 1992. This legal instrument, together with the 1991-2002 National Telecommunications Plan and the Contract between Telefónica and the Spanish State, renewed at 1991 year-end, mark out a new, more competitive environment, within which the Company must develop in the immediate future. Apart from terminals and value added services, certain mobile services, such as the radiomessage service and closed group radiotelephony are now also liberalized. Circuit leasing and data transmission services will be liberalized from January 1, 1993 and cellular telephony from 1994. Given the



Dynamic network management guarantees service quality.

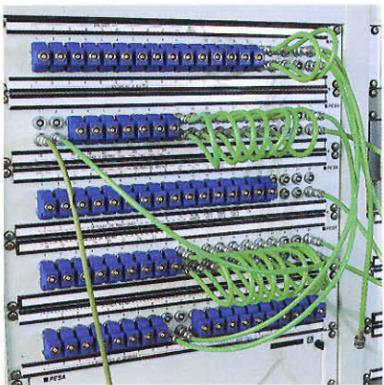


The Iberpac network is among Europe's most advanced

growing trend away from monopolies, telephone services themselves may well be affected. These same trends, commencing with the privatization of state companies or agencies, have also occurred in other countries and Telefónica has taken full advantage of the opportunities which have sprung up for international expansion, especially into the Latin American market. This policy has enhanced our competitive position in the world markets and, in a very short time, turned us into Spain's leading multinational company and the first foreign operator with direct access to the US market.

A company to compete with

The fresh challenges arising from liberalization have also obliged us to restructure our organization and transform a monopolistic corporate culture. The company has evolved towards a new operating framework which is far more focussed on meeting customers needs within a competitive environment. In this respect, the organization has been gradually modified, from a typically functional scheme towards a configuration in well defined areas of business and corporate support. All this, together with the striving to improve management and decision-making processes, have given rise to increased internal efficiency and service quality. Systems such as SIADE, which offers computerized back-up to decision-making have been introduced and



developed, along with sophisticated planning assistance models such as MISTELA, which can simulate in real time all the company's activity. Steady progress has also been made both in computer support systems to the different business activities, such as Cost Accounting, which enable us to know more precisely the cost and margins of the different networks and services. An ambitious plan is also underway to renew the company's information systems applying the latest technological platforms. In addition a new Total Quality management system has been introduced aimed at achieving the ambitious targets established in the Company's Strategic Plans and at providing the support for the necessary change in corporate culture.

We can never consider that we have completed these tasks, since, in a dynamic sector like ours, new business opportunities are constantly arising along with new and unexpected threats which need to be warded off. However, Telefónica has proved over the last five years that it is capable of facing the greatest challenges, even under relatively hostile circumstances. In our constant striving for excellency, we hope, in this new liberalized era, to remain true to the Mission we have set ourselves, which is none other than TO BE THE FIRST CHOICE OF PRESENT AND FUTURE CLIENTS AS A TELECOMMUNICATIONS SERVICES SUPPLIER.



Telephone service

During 1992 there were 1,205,387 telephone line applications, representing a fall of 2.6% over the previous year. It is significant that 136,912 of these applications were for Ibercom integrated business communication lines, 14.3% more than in 1991.

Average usage per line grew by 4.1% in 1992 over the previous year.

At year-end, the basic telephone network had 13,792,156 local lines in service, representing a rise of 4.0% over 1991, and a telephone density of 35.3 lines per 100 inhabitants. In addition, there were 481,530 Ibercom lines in service at the end of 1992, 28.4% up on the previous year.

During 1992 the waiting list fell dramatically to 120,414 applications for new lines at the year-end, representing under half the figure for



Consumers have made the Forma telephone their first market choice

the year before. Of these, over a third were in the process of being installed at the end of the year.

Service quality

1992 saw a major enhancement of service quality. Global network inefficiency stood at 0.79%, implying a 99.21% call efficiency rate. In addition, the repair call rate per line stood at 0.44% in 1992, meaning that each telephone generated a repair call every 2.2 years, as opposed to every 1.4 years in 1988. Likewise, the number of repairs carried out in under 24 hours rose to 80%.



AENA (Domestic Airports and Air Navigation) have a customized communications system

In the Transit Network strategic measures have continued in the plant, aimed at supervising network performance in real time, thereby optimizing traffic flow control to ensure better use of network capacity through the Traffic Management Centre. In addition, specific plant was created to strengthen network Structural Security for the 1992 events, both with fixed plant and portable equipment.

The quality of both the incoming and outgoing international service improved considerably, reaching similar levels to neighbouring countries. International call efficiency rate was 96.8% in 1992, as opposed to 94% the previous year.

In 1992 implantation commenced of the Total Quality Plan in 6 Provincial Areas. This initiative, which is part of the Business Plan for Total Quality, will be adjusted in each case to suit the particular needs of the province. The main objective is to introduce Quality Management in order to reach the necessary service levels to fully satisfy our clients expectations.

Network development and modernization

During 1992, Telefónica installed a total of 619,371 local lines, practically all of which were digital. Of this total, around 274,000 corresponded to digital



Advanced communications guarantee air navigation safety

replacements of dismantled plant. Digital switching in local exchanges rose to 36.4% at year-end.

At the end of 1992 there were 2,705,500 trunk lines in transit exchanges, 2.3% up on 1991. Digitization also rose from 75.2% to 78.6% in the same period, signifying a considerable contribution to service quality enhancement.

Throughout the year 4 new domestic digital transit exchanges came into operation, which, together with the extensions carried out in another 30, allowed us to increase capacity to the equivalent of



Spain's high-speed train (AVE) is equipped with mobile communications systems

162,506 new trunk lines and produced a 9.5% rise in the traffic capacity of the Transit Network over 1991. We also managed to regularize the traffic flow routes, in accordance with the new network structures.

During 1992 we continued the process of connecting all the transit network exchanges through fibre optic Digital Transmission Systems and consolidated the availability of the major routes. During the year, we laid over 900 Kms of fibre optical land cable.

Telefónica drew up specific plans to ensure adequate network infrastructure in Seville and Barcelona, in order to meet the coverage demand of the EXPO and the Olympic Games. At the same time, network Structural Security was strengthened via the installation of fixed switching and transmission equipment, especially in the Madrid, Barcelona and Seville nodes, so as to guarantee a 100% service retrieval capacity in case of network breakdown.

The process of development and modernization of the network continued with the incorporation of new technology software packages into the switching exchanges of the three present systems.



AVE passengers can use the public telephone during their journey.

Technical specifications were also defined in relation to the telephone network for the adjustment of the Numeration Plan and specifications were finalized for the future introduction of dynamic port techniques into the transport network with two hierarchic levels.

The development and gradual incorporation of the Operation and Maintenance Structure (EOC) continued. With respect to network management, the Automatic Flow Management System was commissioned, which controls and protects the digital transmission network at 140 Mbit/s.

Of particular significance to regular users was the qualification of the control function of the Network Connection Point with telediagnosis (PCR-T), from the Subscriber Lines Remote Tester (PDLA), which allows remote measuring of the elements in the client's home.

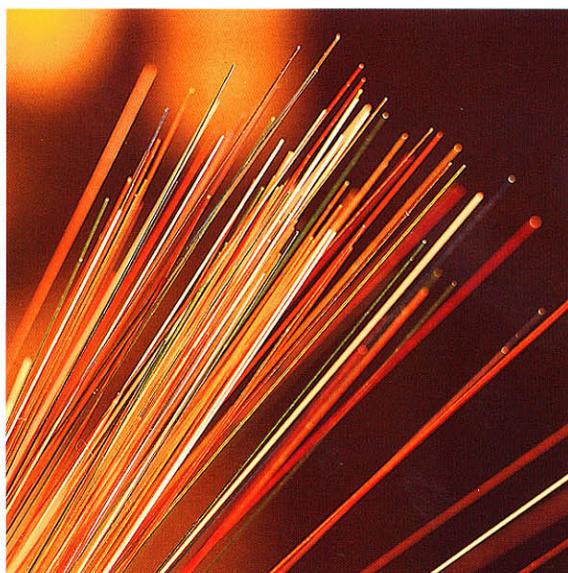
The requirements have also been specified for the operation of the Common Channel nº 7 signalling network and work has commenced towards obtaining the future Customer Integrated Management System. In the area of transmission, the first 2.5 Gbit/s Synchronous

Digital Hierarchy was qualified and the planning completed of an experiment named "Synchronous Islands"

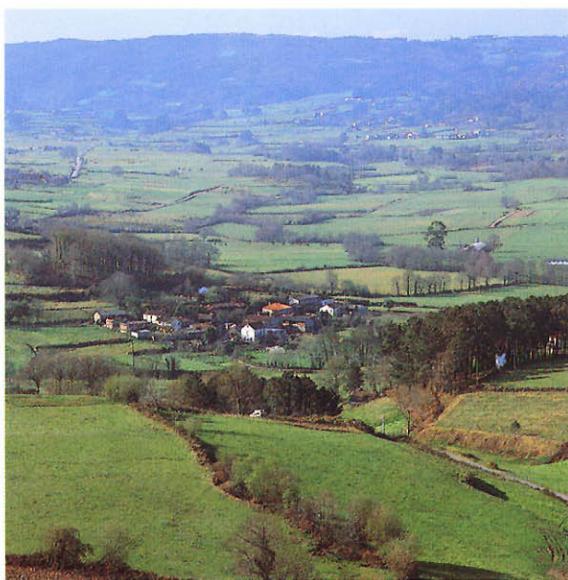
Two experimental systems taking fibre optics right to the home were carried out, with two different suppliers, in Tres Cantos (Madrid) and San Cugat del Vallés (Barcelona). In Tres Cantos the second phase of the experiment has been completed, initiated in 1991, incorporating both a greater number of subscribers and an owner interface with the switching centre.

As regards radiocommunications, new systems of small capacity radio links were introduced designed to meet customer needs and work continued on preparations for the incorporation of the new Synchronous Digital Hierarchy.

The International Network was also modernized and extended. In 1992 there was an increase of 9,000 lines in the Valencia-Campanar International Digital Exchange. Land transmission with Portugal in the Badajoz-Elvas connection was improved thanks to the installation of fibre optics. 565 Mbit/s systems were installed in various routes and digital operators came into service in Madrid and Barcelona.



The telephone network has over 22,000 kilometres of fibre optical cable in service



"Cellular access" guarantees the universality of the telephone service. In the photo, the Silleda Valley (Pontevedra)

Underwater cable

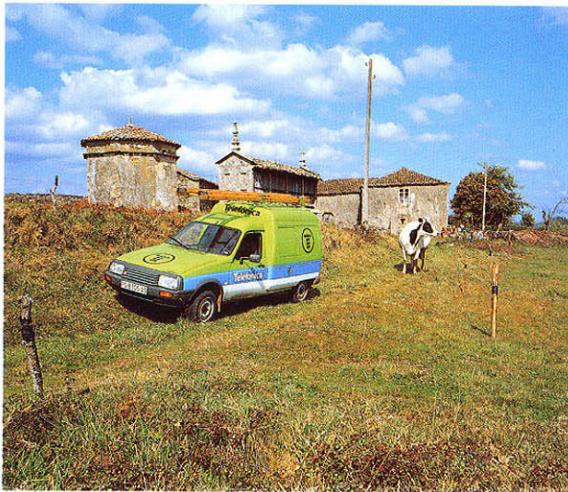
During 1992 two underwater cables came into operation: One of these is the TAT-9 between North America and Europe, with moorings in the United States and Canada on the American side and in Great Britain, France and Spain on the European side. The other cable is the PENCAN 5, linking the Iberian Peninsula to the Canary Islands. This cable has a 30,720, 64 Kbit/s basic circuit capacity and measures 1,592 Kms. The operating of these two new cables confirm Telefónica's leading position in the area of underwater cables.

Service expansion in the rural community

Apart from Telefónica's interest and efforts to expand the service to the smallest localities, we should also highlight the dedication and collaboration of a large number of Local Authorities who have given priority to service expansion, within the procedures laid down in the Royal Decree 2248/84 of November 28. As a result, 1,104 new local zones were created, 416 public telephones installed, 219 of which are in localities of fewer than 50 inhabitants. At the same time, we also met the demand for telephones in areas outside local zones by putting 16,505 lines into service.

As a result of this activity 162,048 citizens became new local subscribers and throughout 1992, the telephone service was brought to a total of 202,291 people who before had no access to it. With regards to Spain's total population, 96.7% possess or could possess a telephone service in their home while 98.6% have access to some type of telephone service.

In 1992 a system was designed to enable us to do away with the concept of "outside local zones". This system will allow us to answer requests for telephone service from any part of the country,



By 1996 the whole of Spain will be a local zone

under the same conditions, as far as price and installation time, as applications from residents in local zones. This novel solution was made possible due to the combination of technical advances, institutional support and the determination and drive of Telefónica towards the complete extension of the telephone in Spain. Consequently, the objective stated for 1996 in the "1992-1996 Basic Service Expansion in the Rural Community Operational Plan" is that the whole of Spain be considered, as far as connection fees, a single local zone.

Technical progress of particular significance included the

incorporation of cellular technology into the service expansion in the rural community. This original solution enabled us to attend to a total of 7,107 new subscribers during 1992.

Public telephony

By the end of 1992 the number of public telephone booths had reached 42,898. In line with our modernization policy, 41.7% of booths had a Modular Telephone, which accept both coins and cards, issued by either Telefónica or other entities.



Cellular access rural telephone antenna in Galicia

The celebration in Spain of the Olympic Games and the EXPO called for a major drive to meet the demand for public telephone services. In Barcelona and the other Olympic centres a total of 1,750 new terminals were installed, representing a 42% increase over the previously existing public telephone plant. In the EXPO held in Seville 700 Modular Telephones were installed on the Cartuja site, along with four integrated communication centres and a audioconferencing room.

Also developed for the 1992 events was the Commentator's Telephone, specially designed for the media attending these great events.

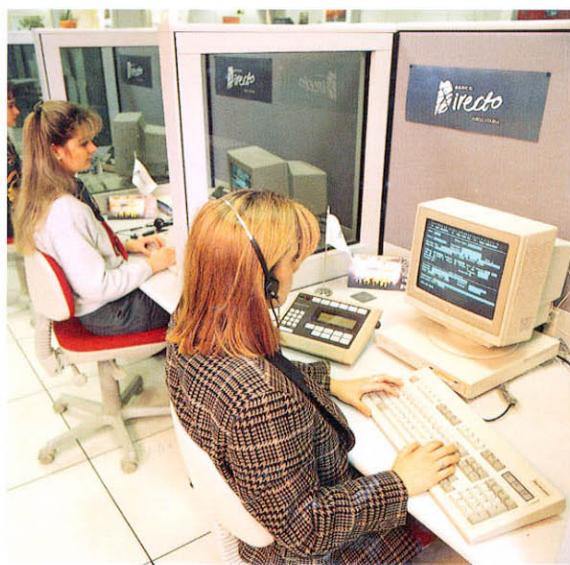
Supplementary Telephone Services

Call Waiting, Conference Calls, Call Rerouting, Pre-programmed dialling and Abbreviated dialling services increased their number of net contracts in 1992 to 320,000, representing a 350% increase over the previous year's number. A decisive factor in this spectacular growth was the promotion campaign during the second half of the year on market sectors formed by new subscriptions and the massive number changes.

Other supplementary services, such as the Remote Call Charge Meter, Line Hunting and Detailed Information services maintained a steady growth over previous years, to reach an accumulated number of net contracts slightly over 500,000 services.

Intelligent Network Services

In 1992 a wide range of new services and facilities appeared on the market. These services are marketed under the name IRIS Services and, derived from the introduction of the Intelligent Network, constitute a significant milestone in Telefónica's commercial range of advanced services, initiated in 1988 with the Line 900 Automatic Reverse Charge service.



Home banking is possible thanks to new advanced communications services. Banco Directo-Argentaria

The following is a list of areas covered classified into marketed service groups:

- Flexible Charging services, which include, apart from Line 900, Shared Call services (Line 901 and 902)
- Additional Charging services (Line 903)
- Personal Services. Personal Telephony (Line 904) and the Credit Call service (083 Access) belong to this group
- Mass Calls and Televoting services. This is mainly covered by the different modalities of the Survey Line (Line 905)

On the international front, special mention should be made of the extension, in 1992, of the Direct Spain Service to 15 more countries (to reach a total of 41). 500,000 calls were attended to, representing a 100% rise in traffic over the previous year. The 900 service was extended from 15 to 28 countries, with 300% more users.

Throughout 1992 specification work has progressed. Specifications were completed for the nº 7 signalling (PARI) between the Intelligent Network Agency and the Intelligent Network Centre, thereby completing the international recommendations available.



The SER radio station broadcasts quality music via satellite



Customers are the main beneficiaries of the Caixa savings bank High Speed Data Network

Operation and Information Services

The gradual implantation of the Espatel System has enabled us both to improve and facilitate client access to the 002 (Technical Assistance) and 003 (Information) Services and to increase the performance of the resources employed in the provision of these services. In 1992 almost 170 million calls were attended to, 8% more than in 1991. The 009 Trunk Service via the Operator also recorded a significant growth rate.

Terminals

In 1992 the FORMA telephone was launched on the market and was very well received by customers, with renting preferred to purchasing. Development also began of a telephone with answering machine incorporated to add to the FORMA range, with synthesized voice storage.

Despite the liberalization of the terminals market, Telefónica kept an excellent grip on the market, which clearly demonstrates our clients' faith in the equipment marketed by the Company.



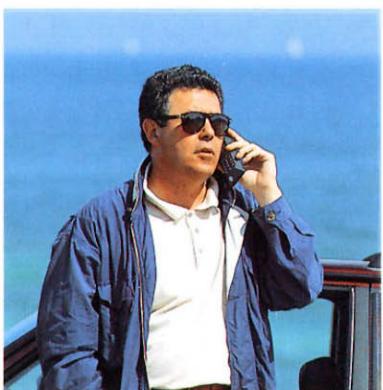
Business Communications and new services

Iberpac

The Iberpac packet switching data transmission network continued to grow during 1992. There were 47 new centres and a 13.7% growth in the number of new applications attended. A 8.6% increase in network capacity for all types of user connections was achieved. All the extensions were carried out on the Iberpac X.25 network, which carries internationally standardized protocols.

During the year, direct access connections went up by 4.9%. At the same time, international access was extended from the Iberpac network to 157 public networks in 78 countries.

Iberpac also serves as back up for a variety of data communication services, such as the X-28 and X-32 services, and the Electronic Transfer of Funds and Ibertyx services. As regards the X-28 service, during 1992, the 047 and 048 accesses were installed over the whole country. The estimated number of terminals is 20,000, of which 3,000 belong to users working in the identified mode. The



New services grew significantly

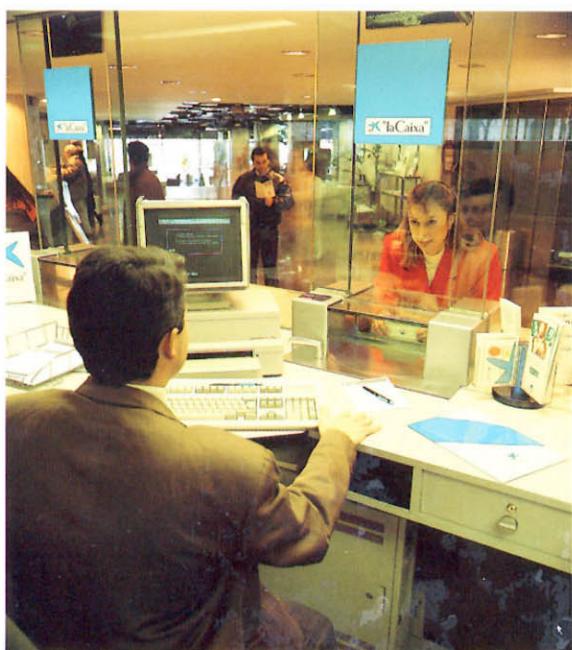
growth in connection time stood at 65%. As for the X-32 (DATEX 32) service, during the year, the 042 access opened at a national level.

In 1992 the extension to the plant of the TESYS B system, version I, was authorized for transit applications. This new system will bring major improvements to the TESYS AX. It has a switching capacity of up to 60,000 packets/second and incorporates standard protocols defined by the CCITT. Also authorized is the TESYS B in its office version (TB-500).

The Iberpac-UNO service continued to expand. This service aims to meet the virtual private data network needs of our corporate clients. At the end of 1992, we had contracted 12,581 direct access connections with 24 clients.

Ibercom

During 1992 the number of lines in service grew by 28.4%, representing, in terms of new Ibercom Access Networks, an increase of 37%. The number of front-end Centres rose by 25.7%.



The Caixa Data Network links up all its branches

In order to improve customer service, a new version of the Ibercom Control System and the Ibercom Alarm Retrieval Plant Terminal were incorporated. Apart from increasing the range of MD-110 exchanges in operation, this version allows improvement in alarm treatment.

In 1992, version EC.6 of the MD-110 system was made available with a pre-ISDN connection. This new product offers notable advantages over previous versions, both in price and technical facilities, incorporating an ISDN (308 + D) connection and automatic distribution of calls.

Among the range of new services introduced into the Ibercom Service during the year, special mention should be made of the Ibercom Plus. This enables users to establish voice, data and image communications within their organization at a fixed cost.

Ibermic

During 1992 the Ibermic Network implantation plan continued. Coverage was extended so that currently almost all the local telephone exchanges



24-hour banking thanks to data transmission services



Interactive television through the Ibertex network

have access centres. Provision to the different centres also increased with the installation of multiplex distributors and numeric distributors which give greater flexibility in the formation of point-to-point circuits. This activity was carried out to meet the growing demands of the last few years for leased circuits. The trend has moved towards digital circuits with most demand being for the highest speeds of the range.

Satellite communications

In 1992 we put the finishing touches to a series of supplementary installations, which enabled the satellite communications infrastructure to reach its maximum operational capacity, with the reliability required to cope with the great events held in Spain during the year. The aerials of the Seville Teleport and the Barcelona-8 aerial came into service, all of them designed to provide business services via EUTELSAT.

The modernization plan progressed. The INTELSAT and EUTELSAT satellite stations were digitized in order to provide all types of public services. Also worthy of mention was the incorporation of 5 digital Portable Earth Stations housed in the Guadalajara SCC. These are designed to provide temporary business services, videoconferencing, special events, etc.



Fibre optics ensure high quality image and sound. RTVE television broadcasting control in the Prado del Rey centre

As regards the VSAT networks for corporate clients, the CAMPSA II, Diario MARCA and DATASAT networks all entered into service.

Ibertex

The Ibertex service continued to grow during 1992, with an increase over the previous year of 50% in the number of calls and 35% in the number of usage hours.

The opening of access level 034 within the "kiosk" system proceeded. There was also a 50% increase in the number of service centres offering their information through the IBERTEX network, representing a 60% increase in services available.

Telefax

40,000 Telefax lines were contracted in 1992. This service continues to be a basic, essential tool for companies and professionals.

Electronic funds transfer

By the end of the year there were over 183,000 terminals for business transactions with credit cards (dataphone) connected to the network, representing an approximate 7% rise over the year before.

Mobile services

Mobile services, especially Automatic Mobile Telephony (TMA), consolidated their position as one of the fastest growing sectors within telecommunications. In December 1992 the TMA service had 180,296 subscribers, representing a 66.2% growth over the previous year.

Also incorporated into the plant was the user equipment for Closed Group Radiotelephony (RTGC) which supported the service during the Olympic Games and the EXPO.

Tests on the new Pan-European cellular digital mobile communications system (GEM) were completed and the service is due to be launched in 1993. Work also continued on a new Pan-European Digital One-way, Radiomessage Unified System (ERMES) and the Aircraft Communications Public Service.

Videoconferencing

During 1992 15 new videoconferencing rooms came into operation, 9 of which included new generation codecs which provide digital speeds of 64

Mobile Telephony brings us a new lifestyle



Kbit/s to 2Mbit/s. Traffic flow was 42.6% up on the previous year, with 766 hours of videoconferencing taking place.

International videoconferencing agreements have now been reached with 16 countries. Service provision increased from the initial 2 Mbit/s to 384 and 768 Kbit/s. During 1992 there were 419 transmissions representing 47,455 minutes and a rise of 177% over the previous year.

AUDIO-VISUAL COMMUNICATIONS

This item includes temporary radio and television broadcasts. There were 3,854 international radio operations, totalling over 500,000 minutes and 4,087 international TV transmissions, 29 of which were broadcast via portable earth stations, with a duration of over 194,000 minutes. A total of 305 domestic transmissions were also broadcast via portable earth stations.

The activity carried out during the Olympic Games deserves special mention. 466 leased circuits of various types and duration were put into service. Of these, there were 46 digital circuits at

The Castellbisbal International Communications Complex (Barcelona)



64 Kbit, which amounted to 208 equivalent basic circuits. Over 80% were installed immediately on application, despite the heavy demand. 40 permanent TV channels were made available for international distribution via Telefónica Earth Stations, together with 148 TV channels for the contribution network from the various CIRTV centres.

There were also 408 programs available for temporary broadcasts with a duration of over 29,000 minutes and 205 temporary broadcasts to 19 countries were handled.

As regards the EXPO in Seville, apart from the specific infrastructures for the direct and diversified connection to the international network, 30 temporary and 11 permanent leased circuits were installed. Of the latter, particular mention should be made of the three 2 Mbit/s and the one 256 Kbit/s circuits.

Value added Services

During the second half of 1992 we piloted a new easy, simple to operate,

The Distance Learning University (UNED) supports its students via the Ibertex service



radiomessage service designed for the public at large. This service named the "Fonobuzón" service was piloted in the provinces of Barcelona, Malaga and Madrid.

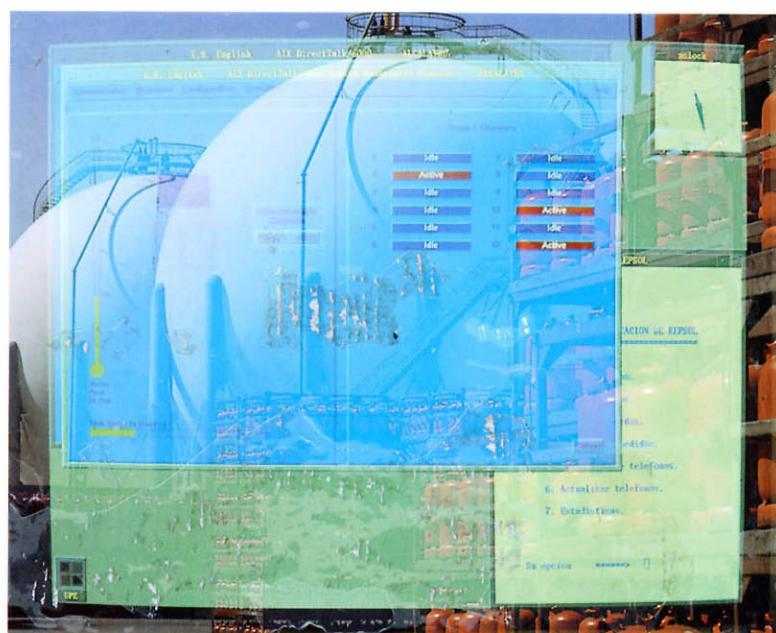
Virtual private networks

During 1992 the International Virtual Private Network was launched on a trial basis, with the connection of Ibercom to the virtual public networks of the American operators, ATT, MCI and US Sprint, the Japanese operators KDD and the United Kingdom operator BT.

Business networks

In line with our policy of participating in any feasible initiatives or joint ventures proposed between the world's leading telecommunications operators, Telefónica joined the FNA (Financial Network Agreement), together with 11 operators. The FNA aims to provide telecommunications back-up to companies in the financial sector.

Repsol Butano has automated its ordering service





Credit card payment is widespread through
Electronic Funds Transfer

Integrated Service Digital Network

During 1992 we introduced new ISDN-NB switching centres into the network and also continued work on establishing a ISDN development plan for the incorporation of supplementary services adapted to ETSI standards. The testing of an ISDN began with the participation of 40 clients with basic access and the integration of Ibercom IAN's into the ISDN.

The ISDN was the basic telecommunications infrastructure used in the 1992 events held in Spain. In the case of the Seville EXPO this infrastructure was of particular interest to manufacturers of terminals, telecommunications equipment, the computing sector and business services sector, who were able to try out their equipment, software and services through this technology. At the Olympic Games it was designed particularly for the press, radio and television, using group 4 multimedia, videoconferencing, videotelephony and fax.



Regional programs

Telefónica continued to play an active role in the EC programs promoted by FEDER aimed at correcting imbalances between the regions. The STAR and TELEMATICA programs were of particular significance.

We continued to take part in the regional development and restructuring programs in operation in the Canary Islands, Castille-La Mancha, Castille and León, Catalonia, Valencia, Extremadura, Galicia, Madrid, Murcia and the cities of Ceuta and Melilla, as well as the Regis program (Canary Islands). Participation also continued in the "Objectives 5B" operating programs for the Autonomous Regions of Aragon, the Balearic Islands, Cantabria, Catalonia, Madrid, Navarre, the Basque Country and Rioja.



Cellular access rural telephony has helped to correct regional imbalances



International activity

1992 was a period of consolidation and growth for the international activity of the Telefónica Group. In December the acquisition of a 79% holding in Telefónica Long Distance of Puerto Rico (TLD) was completed. For Telefónica this represents a gateway into the North American telecommunications market.

With regards to mobile services, in March our 15% holding in Contactel was formalized and in November this company began offering the radiopaging service in Portugal. Also in March we reached an agreement for a 60% holding in Telefónica Roumania which is licensed to provide cellular mobile telephony in this country.

To support this expansion in our activity, we counted on the excellent performance during the year of the operators in which



Madrid-Barajas Airport Control Tower
(AENA)

Telefónica already has significant participations in: Compañía de Teléfonos de Chile (CTC), Entel Chile, Telefónica de Argentina (TASA) and Compañía Anónima de Teléfonos de Venezuela (CANTV). Overall revenue from international investments rose by 58% over the previous year to 11,970 million pesetas.

During the year Telefónica Internacional holdings carried out a major investment drive, which was reflected in the connecting of 668,000 new lines. As a result, we are involved in the management of over five million lines in service and have significantly strengthened our position at an international level.

Subscribers to the cellular mobile service in the holding companies of the Chilean and Venezuelan operators exceeded 58,000 by the end of 1992. In 1993, both, the Argentinian (Movistar) and the

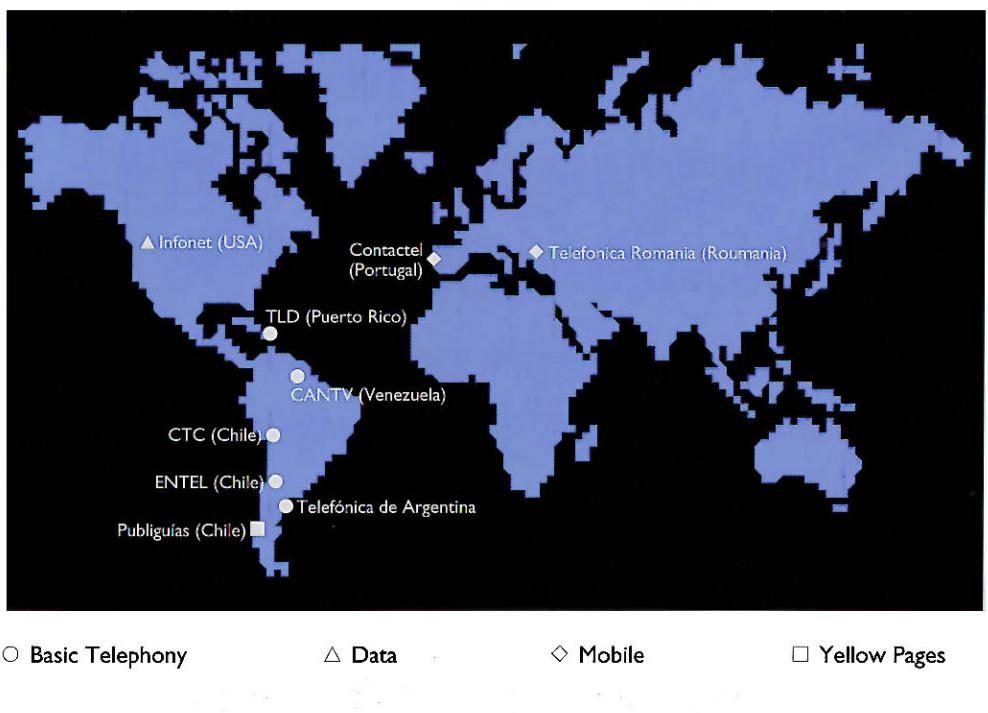


Telefónica exports its expertise to America and Europe. In the photo, an RTVE television studio connected by fibre optics to a digital line

Rumanian cellular operators (Telefónica Romania) are due to begin the provision of this service.

Successful satisfaction of demand by the holding companies was accompanied by a notable improvement in financial performance. CTC profits rose to \$184.4 million (25.4% real growth) and ENTEL's net income stood at \$91.7 million (13.7% real growth). Equally significant were TASA's profits, which rose to \$221 million (80.7% growth) and CANTV's performance, whose forecast income

Telefónica International Investments



stands at \$245 million, which compares favourably with the 8.4 obtained in 1991.

The Telefónica Group required considerable human resources management to achieve this international expansion. We now have 107 Telefónica employees working in the holding companies.

During 1992 Telefónica continued to play an active role in international telecommunications organizations. As well as our

habitual presence on the UIT committees and groups (principally CCITT and CCIR) and the ETSI, where we chair several committees, the company also belongs to ETNO (Association of European Telecommunications Network Operators), where we hold a position on the Management Board and chair several working parties.

Telefónica and her affiliates continued to play a role in a large number of EURESCOM projects, in several EEC Marco Program projects (particularly RACE and ESPRIT) and in other European projects such as CTC, COST and EUREKA.

Another body in which we have an especially high profile is AHCIET (Latin American Association of Research Centres and Telecommunication Companies). On the occasion of the 1992 special events, the Association held its major meetings in Spain. After eleven years AHCIET reached maturity in the accomplishment of its founding aim: the cooperation between its members for the development of the Latin American Community in the telecommunications sector.

We should also mention Telefónica's participation in the EIP project (European Interconnectivity Platform), promoted by the EEC Commission. This serves as a base for the support of communication processes between the different European administrations. We were also involved in the launch of the ISABEL project, as part of the RACE program, which will be developed by Telecom Portugal and Telefónica and aims to connect the two broad band islands of Aveiro and Madrid.

In the process of increasing our international profile, Telefónica has continued to pursue the policy of previous years, strengthening our relations with other public network operators.



Human resources

In 1992 after a long period of negotiation a solution was found to the question of Telefónica's pension fund. An agreement, which had previously been supported by the workforce in a ballot, was reached with the staff representatives. This agreement promises a Pension Plan for the active workforce with the following features: fixed contribution and individual and financial capitalization. For the pensioners of the previous Telefónica fund (ITP), we agreed to supplement their State pension to guarantee them the last amount recognised in the ITP, without subsequent revaluation.

At 1992 year-end Telefónica had a total workforce of 74,437 employees, a decrease of 1.4% over the previous year. During the year the permanent workforce grew by 543 employees and the number of temporary staff went down by 1,605.

In order to successfully meet market, technological and management



Technology and human resources are the key to a global service

challenges, Telefónica stepped up its Human Resources development and training programs.

As regards development plans, as scheduled, we took steps to incorporate the Managers Development Program. By the end of the year, almost 50% of the Provincial Organization had been incorporated into the plan and the first phase of the Management Promotion Inventory had been implemented affecting nearly 100% of the Central Organization.

As regards training, special emphasis was placed both on quantity (13,000 courses and 2.5 million hours training) and quality (teacher training, use of computer technology, inauguration of the Central School and training models and equipment). Particularly significant was the training aimed at management improvement in which 3,620 directors and 1,028 managers took part.



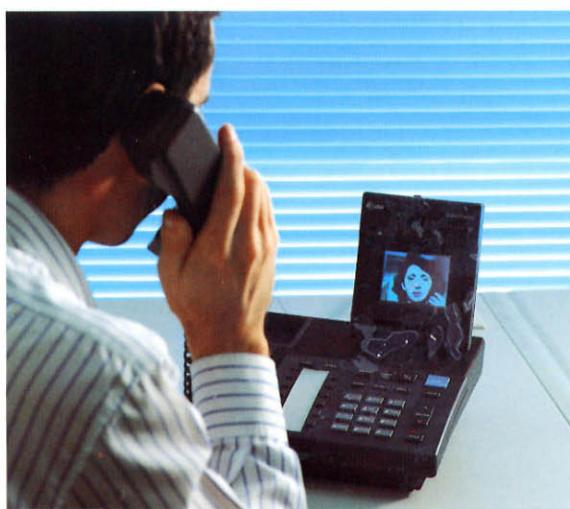
In 1992 we held 13,000 training courses



Research and development

The Research and Development projects carried out by Telefónica I+D and Telefónica Sistemas enabled us to make up for the shortcomings of some of our suppliers and, in certain key areas, to rely less on them. R+D activity also contributed to international standardization and the generating of industrial and intellectual property.

The most outstanding areas of activity were the development of operating aids (Operations and Maintenance Structure, Ibercom Control System and the Unified Standardized Operating Platform), packet switching (Tesys-B, Iberpac Network Operating Structure) Broadband ISDN (RECIBA, RECIBA II), plant modernization (New Electronic Registers), Narrow band ISDN (Traffic Generating System for nº7 Signalling System), planning instruments (Network Traffic Management), public telephony (Verification and Billing Centre) and European projects (RACE, ESPRIT, EURESCOM).



Within the next few years, personal calls via videotelephones will be the norm



The Telefónica Group

The companies that make up the Telefónica Group were not untouched by the general slowdown of the economy, which affected the whole of the Spanish economy during 1992. Consequently, growth rates, both in sales and profits, saw a notable drop.

However, the main efforts of the Group were focused on continuing the upgrading of management performance and the organization of the affiliate companies in the different businesses they operate in the competitive marketplace. In this respect, we should mention the creation of the Mensatel Service Management Company (CGS Mensatel), which was granted one of the three licenses given by the Authorities for the operation of the Radiopaging Service and which will compete in this liberalized sector of the telecommunications market.



The Telefónica Group companies use an infrastructure which is constantly being upgraded. Armuña de Tajuña Satellite Communications Centre Antenna

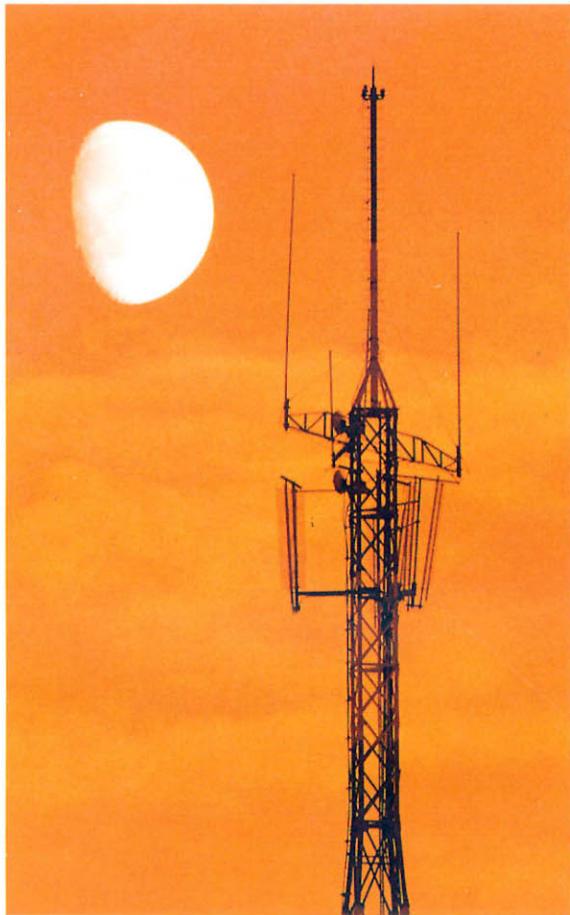


Telefónica Head Office Tower in Madrid

In September 1992 we reduced our holding in Ecotel, a company which carries out television viewing surveys, selling 60% of our holding to the French group Sofres. Telefónica now holds 40% of the company's share capital.

As regards Telefónica's holding companies, activity during 1992 was also affected by the economy's slowdown. In line with the strategy of reducing Telefónica's shareholdings in the supply companies, the most significant operations towards this end were as follows:

- Merger of Alcatel Standard S.A. with Telettra España S.A. for which a capital increase was agreed resulting in a reduction in Telefónica's shareholding to 13.24% of the merged company.



Radio communications act as a support for a wide range of services

- Reduction in Telefónica's stake in Eritel to 36.55% as a result of the capital increase agreed for the purchase by this company of Central Informática S.A.

We also acquired a 20% stake in Efecom. This company offers financial data transmission information services in real time to financial intermediary companies.

On a final note, we should highlight the launching of the first Hispasat satellite and the completion of the Barcelona Telecommunications Complex (Torre Collserola S.A.), which entered into service on June 1 to meet the requirements of the Olympic Games.

Selected operating data

Telephone and data transmission services		31-12-88	31-12-89	31-12-90	31-12-91	31-12-92
		10,971.6	11,797.2	12,602.6	13,264.4	13,792.2
Local lines in service (thousands)		10,971.6	11,797.2	12,602.6	13,264.4	13,792.2
of which Public Telephony Services (thousands)		299.1	319.5	337.8	353.6	372.7
Cellular Access		-	-	-	-	7.1
Cellular Mobile Services (thousands)		11.6	29.8	54.7	108.5	180.3
Ibercom lines in service (thousands)		68.9	145.9	255.5	375.0	481.6
Iberpac network connections (% growth)		33.7	22.6	15.9	11.7	4.9
Data transmission (D/T) circuits (% growth)		5.8	7.8	12.9	5.5	4.5
Dataphones (thousands of terminals) (*)		56.6	129.6	163.1	171.2	183.2
Ibertex (thousands of terminals) (*)		2.5	50.0	120.0	300.0	390.0
Videoconferencing (number of Conference Rooms)		2	8	15	26	41.0
Automatic trunk circuits (thousands)		311.8	387.7	519.1	661.8	738.9
International circuits (thousands)		11.7	13.3	16.5	19.8	25.8

(*) Estimate

Infrastructure		31-12-88	31-12-89	31-12-90	31-12-91	31-12-92
		11,981.0	13,160.0	14,485.2	15,180.6	15,475.1
Local lines installed (thousands)		11,981.0	13,160.0	14,485.2	15,180.6	15,475.1
of which digital lines (thousands)		1,297.0	2,582.0	4,115.0	5,100.8	5,628.9
(% total)		10.8	19.6	28.4	33.6	36.4
Trunk lines (thousands)		1,356.0	1,831.0	2,311.0	2,644.0	2,705.5
of which digital (thousands)		452.0	867.0	1,377.0	1,989.4	2,127.2
(% total)		33.3	47.4	59.6	75.2	78.6
International trunk lines (thousands)		41.9	48.8	65.1	89.8	98.9
of which digital (thousands)		10.2	17.0	33.2	58.0	67.0
(% total)		24.4	34.8	51.1	64.6	67.5
Coaxial cable(Km)		10,454	10,531	10,566	10,634	10,707.0
Fibre-optics cable (Km)		3,664	8,018	15,131	20,290	22,056.0
Trunk pair cable (Km)		53,140	56,492	57,280	58,034	58,554.0
Subscriber cables (thousands of Km-par)		41,833	47,003	51,591	54,928	57,763.0
Underwater cables (thousands circuits x Kms)		24,879	43,912	50,164	63,423	114,943.0
of which digital (thousands circuits x Kms)		917	19,950	26,202	39,461	90,981.0
(% total)		3.7	45.4	52.2	62.2	79.2
Satellite earth stations (number of stations)		27	36	46	64	72.0

Trends in usage per line and demand for new lines		1988	1989	1990	1991	1992
		8.6	5.1	2.3	4.1	4.1
Average growth in usage per line		8.6	5.1	2.3	4.1	4.1
Applications for new telephone lines (thousands)		1,289.1	1,394.1	1,316.9	1,118.0	1,068.5
(% annual growth rate)		17.9	8.2	-5.5	-15.1	-4.4
Applications for new Ibercom lines (thousands)		67.3	100.3	127.6	119.8	136.9
(% annual growth rate)		59.3	49.0	27.3	-6.1	14.3

International broadcasting		1988	1989	1990	1991	1992
		387.0	480.0	413.7	647.0	508.8
Radio (thousands of minutes)		387.0	480.0	413.7	647.0	508.8
TV (thousands of minutes)		73.0	129.0	133.2	203.8	194.7



Financial Review



Selected financial data

Figures in millions of pesetas

	1988	1989	1990	1991	1992	1992 \$ (I)
Operating revenue	614,829	714,839	852,542	1,008,031	1,154,696	10,073.9
Operating expenses	304,193	358,787	424,214	477,507	536,149	4,677.5
Financial expenses	99,519	114,149	159,308	199,592	217,434	1,896.9
Depreciation and amortization (*)	213,247	233,563	269,118	321,302	382,466	3,336.7
Net income	62,845	68,898	75,788	80,847	83,899	732.0
Cash flow	276,092	302,461	344,906	402,149	466,365	4,068.7
Share capital	460,620	462,482	463,479	463,479	463,480	4,043.5
Shareholders' equity	1,245,071	1,267,925	1,294,504	1,324,368	1,376,751	12,011.1
Long-term debt	597,441	826,234	1,008,254	1,387,343	1,593,504	13,902.1
Interest-bearing debt	777,500	1,068,071	1,434,864	1,655,122	1,851,480	16,152.8
Capital expenditure (**)	372,960	600,983	692,830	601,417	419,820	3,662.6

(*) Including write-off of dismantled plant pending depreciation.

(**) Including advances to suppliers and stocks for fixed assets.

(I) Figures in millions of dollars. Exchange rate 30-12-92: 1\$ = 114.623 ptas.

Economic trends

During 1992 the main trend in the Spanish economy was a sharp decline in activity and, as a consequence, a significant fall in employment levels. The recession affecting the international economy finally hit our economy, partly as a result of Spain's ever increasing integration into the European Community.

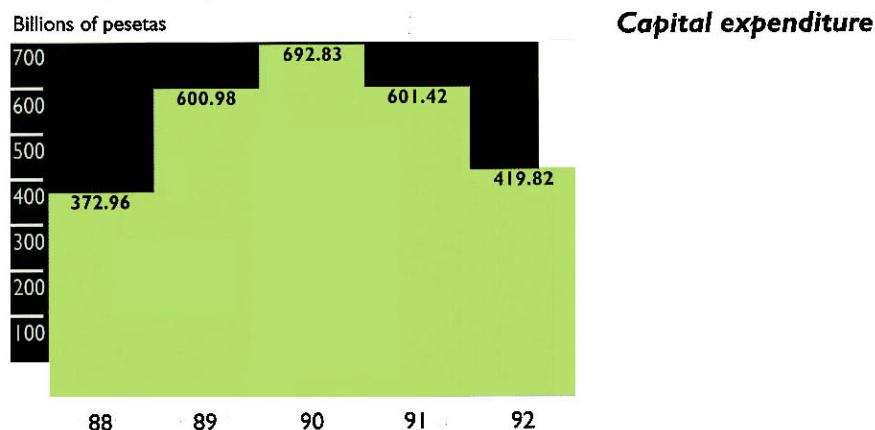
The questioning of the European Union by some member countries has given rise to the recurrent appearance of monetary instability, which casts some doubt on the ability of some economies to fulfill the requirements established in the Maastricht treaty. This questioning has led to a considerable fall in the expectations of the financial agents concerning the future of those economies, such as the Spanish economy, which show imbalances in some of the basic economic areas.

Hence demand dropped off gradually throughout the year and this, together with the trend in production costs, particularly labour costs, resulted in a sharp fall-off in business income with a severe effect on investment. Added to this was the high level of domestic interest rates, to a large extent accentuated by the instability of the European Monetary System.

The remaining demand components also lost ground as the year progressed. The growing budgetary imbalance and the ending of the activity related to the events held in Spain in 1992, led to a notable curb on public spending in the second half of the year. Private consumption also fell as a result of the drop in disposable family income, unemployment, direct and indirect tax increases, the reduction in certain social benefits and the poor economic forecasts. In short, domestic demand grew by only 1.4% in 1992, less than half the growth rate of the previous year.

The foreign sector, however, made a more positive contribution to domestic product than in previous years. The drop in domestic demand and the devaluation of the central parity of the peseta in the E.M.S. was a disincentive to imports, which saw a significant fall in growth rate. Exports grew at a similar rate to the previous year. The lack of drive in foreign demand prevented Spain's export figures from fully enjoying the favourable effect of the relative fall in price of their unit costs.

However, there was a noticeable worsening in the current account balance of our balance of payments. A major contributing factor was the important reduction in the traditional surplus of the services and transfers balance, with this imbalance reaching 3.4% of G.D.P. What is more, this was financed with much less ease and more unstably than in the years of economic boom. Foreign liabilities via credits



grew to the detriment to direct foreign investments and \$15,800 million were lost in reserves as a result of the difficulties facing Spain's currency.

The increase in average V.A.T. rates and in other special taxes, along with the likely impact of the devaluation of domestic prices, partly concealed the sharp fall in inflationary trends in the Spanish economy during last year. The increased opening up of the economy generated low growth rates in final prices in those sectors open to foreign competition, with the consequent fall-off in profit margins. This, without doubt, would largely explain the fall in investment demand in the Spanish economy.

Telefónica in the Spanish economy

In line with these trends, the increase in real terms of Telefónica's gross value added was more modest in 1992 than the year before. However, it was still more than that of the national economy and of the services sector, which, in the end, was what kept domestic product growth on an upward trend. Nevertheless, Telefónica's participation in the national economy, in nominal terms, went from 1.78% to 1.76% of G.D.P., due to the downward trend in final prices. Whereas the G.D.P. deflator rose by 6.0%, average prices in Telefónica increased by only 3.3%.

Telefónica's gross operating surplus felt the effects of the devaluation of the peseta in its foreign currency borrowing. As a result, the Company's contribution to the gross surplus of the national economy was down on the previous year, although it was still up on the years immediately before.

In contrast, Telefónica's gross savings gained more importance within the national context, representing 3.17% of gross national savings. Due to the slowdown of the Company's investment rate, the growth in

internal savings led to a fall of around 200,000 million pesetas in financing requirements.

The Telefónica Group continued its international expansion especially in Latin America. In this area the successful implementation of restrictive monetary policies and structural adjustments continued, aided by low interest rates in the United States and Japan. This allowed foreign capital to continue to flow in, under not especially favourable circumstances, given the fall in the cost of raw materials and the low international demand.

Telefónica in the Spanish economy

as a % of the national total, except prices

	1988	1989	1990	1991	1992
Gross value added	1.55	1.58	1.65	1.78	1.76
Gross operating profit	2.01	2.05	2.15	2.41	2.31
Gross savings	2.58	2.69	2.57	2.96	3.17
Gross capital formation	4.21	5.60	5.69	4.65	3.39
Prices (1)					
• G.D.P. deflator	5.6	6.9	7.3	6.9	6.0
• Consumer prices (annual average)	4.8	6.8	6.7	5.9	5.9
• Telefónica (2)	1.0	2.7	6.4	5.8	3.3

(1) Growth rate

(2) Average yearly effect on service prices due to tariff increases

Source: I.N.E. and Telefónica.

Gross value added

Real growth rates

	1988	1989	1990	1991	1992
National economy	5.2	4.8	3.6	2.3	1.0
Services sector	4.9	5.3	4.2	3.4	2.2
Telefónica	8.1	11.8	8.8	11.8	2.6

Source: I.N.E. and Telefónica.

Management discussion

Telefónica

From a financial point of view, the 1992 fiscal year brought Telefónica an operating revenue of 1,154,696 million pesetas (a growth of 14.5%), which in

resulted in a pre-tax profit of 99,724 million pesetas, 1.2% more than in 1991. After applying the provision for corporate tax, net income amounted to 83,899 million pesetas, representing a 3.8% growth over the previous year.

These results enable us to submit for approval by the General Meeting of Shareholders the proposal to set aside 56,544 million pesetas for the payment of dividends and to increase reserves by 27,355 million pesetas, 4.6% more than in 1991.

The above proposal for the distribution of the 1992 profits will lead to a dividend pay-out ratio of 67.4% and will strengthen the Company's equity base and hence its solvency.

Earnings per share stood at 90.5 pesetas, representing a growth of 3.8% with respect to 1991.

Taxes

In 1992, the local and regional levies and property taxes charged to Telefónica amounted to 22,260 million pesetas, with an increase of 8.3% over the previous year.

The provision for corporate tax fell by 10.6% in 1992 to 15,825 million pesetas. This amount represents an effective corporate tax rate of 15.9% (18.0% in 1991), after the tax deductions for investments in the Olympic Games and the World Expo have been taken into consideration.

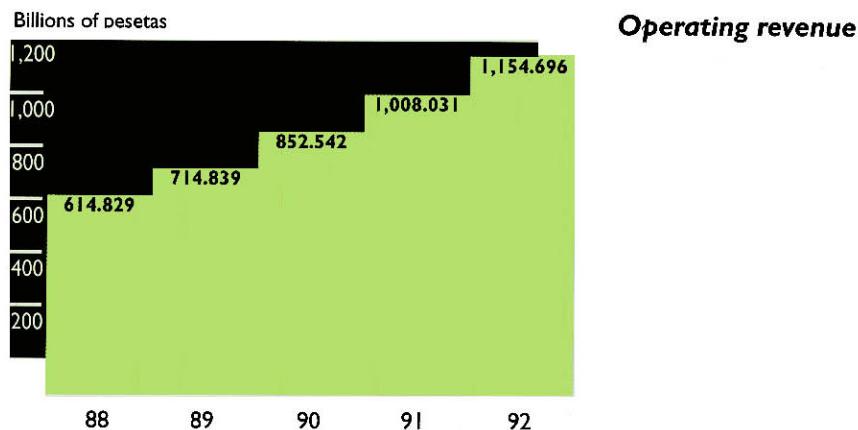
Operating revenue

Operating revenue reached satisfactory levels, rising by 14.5% over 1991 to reach the figure of 1,154,696 million pesetas.

3.3% of this increase was due to the adjustments in service charges, as a result of the average rise in tariffs of 2.6% which came into force on May 15, 1992 and also as a consequence of the 5.85% increase in charges, introduced on April 14, 1991. Consequently, in 1992, the real growth in operating revenue amounted to 10.8%, accounted for by the increase both in service usage and in the number of subscribers to Telefónica's networks. Looking at the various components, revenue from the domestic automatic service, which, similar to last year, accounted for 46.7% of total operating revenue, rose by 15.9% over the previous year to 539,564 million pesetas. Revenue from subscriber charges represented 22.0% of operating revenue, reaching 253,751 million pesetas, with a 9.9% growth over 1991.

International service revenue grew by 8.4% to 135,005 million pesetas (11.7% of operating revenue). Revenue from data and image transmission rose by 11.4% over 1991 to reach a figure of 115,669 million pesetas, accounting for 10.0% of operating revenue, a similar proportion to the previous year.

Revenue from mobile services witnessed an exceptional growth of 82.3%, although the turnover of 25,989 million pesetas still represents only a modest 2.3% of total revenue. Finally, there was a positive trend in advertising revenue, which rose by 27.8% over the previous year to stand at 12,806 million pesetas.



Operating revenue

In millions of pesetas

	1988	1989	1990	1991	1992	1992 \$ (I)	91	Increases % over 88-92*
Subscriber service charges	166,726	184,001	207,119	230,885	253,751	221,38	9.9	11.1
Data and image transmission	52,393	69,230	87,628	103,852	115,669	1,009.1	11.4	21.9
Domestic automatic serv.	271,770	314,984	374,472	465,584	539,564	4,707.3	15.9	18.7
Trunk calls through oper.	1,249	988	1,642	2,266	2,861	25.0	26.3	23.0
International service	87,497	96,902	113,857	124,492	135,005	1,177.8	8.4	11.5
Mobile land and maritime service	2,417	4,583	8,696	14,255	25,989	226.8	82.3	81.1
Advertising	6,164	7,299	8,506	10,017	12,806	111.7	27.8	20.1
Revenue from services	588,216	677,987	801,920	951,351	1,085,645	9,471.5	14.1	16.6
Connection fees and other items	26,613	36,852	50,622	56,680	69,051	602.4	21.8	26.9
Operating revenue	614,829	714,839	852,542	1,008,031	1,154,696	10,073.9	14.5	17.1

* 88-92 compound rate

(I) Figures in millions of dollars. Exchange rate 30-12-92: 1\$ = 114.623 ptas.

This good revenue performance took place within a context marked by the continuing downward trend in applications for new lines. Telephone usage, however, performed well, due undoubtedly to the international events which took place in Spain during the year. There were 1,068,475 requests for basic telephone lines, 9.3% fewer than in 1991, and 136,912 applications for Ibercom business communication extensions, representing an annual increase of 14.3%. In the basic service, net applications, after deducting cancelled requests and subscriptions, fell by 28.3% over the previous year to 394,420 lines. Average usage per line grew by 4.1%, the same rate as in 1991.

In response to the falling trend in demand for services, Telefónica cut back its capital expenditure program. Gross expenditure in fixed assets amounted to 419,820 million pesetas, a fall of 30.2% over 1991. During the year 961,676 requests for new lines were met, 7.2% fewer than in 1991, and digitization levels of local lines installed rose to 36.4% (33.6% in 1991). The expenditure program enabled us to reduce the waiting list to 120,414 applications, 50.7% less than at the end of 1991. Finally, part of the expenditure went towards the continued upgrading of network quality, with the installation of 207,628 digital trunk lines.

Financial ratios

Figures in %, unless otherwise indicated

	1988	1989	1990	1991	1992
Operating margin/Operating revenue (1)	59.7	58.4	56.9	59.1	59.5
Financial expenses/Operating revenue (2)	16.2	16.0	18.7	19.8	18.8
Operating margin/Avg. net plant (3)	18.3	18.3	18.2	19.7	21.5
Fixed assets coverage (4)	90.0	86.8	82.1	87.7	90.7
Guarantee ratio (5)	52.5	45.3	40.0	37.5	36.6
Self-financing ratio (6)	60.3	41.1	41.5	56.3	94.6
Financial debt ratio (7)	39.2	45.2	51.9	55.1	58.4
Debt repayment capacity (years)(8)	3.5	4.3	4.8	4.9	4.5
Financial expenses coverage (times)(9)	1.3	1.3	1.2	1.2	1.1

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

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

(3) Operating margin/Average net fixed assets.

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

(5) Shareholders' equity + Deferred income/Assets.

(6) Net income - Dividends + Depreciation of plant and equipment + Dismantled plant pending depreciation/Capital expenditure in fixed assets + Advances to suppliers + Stocks for fixed assets.

(7) Interest bearing debt/Shareholders' equity + Deferred income + Financial debt - Capital increase expenses - Deferred expenses (except promissory note interest)

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

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

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

Operating expenses

Operating expenses reached the figure of 536,149 million pesetas, representing an annual growth of 12.3%.

Personnel expenses, including the provision for the setting up of a pension fund, increased by 11.3% and represented 73.3% of operating expenses. This trend is partly accounted for by the incorporation, from January 1, of Telefónica employees into the State Social Security system, the provision for the setting up of the pension fund carried out in the first half of the year and the contribution to the said fund during the latter half of the year. All this forms part of the new social welfare fund which replaced the old Telefónica Institution Fund. (I.T.P.).

The number of current employees stood at 74,437 at the end of the year, 1,062 fewer than in December 1991. 11.2% of personnel were employed in the central organization and the other 88.8% in the territorial structures. Productivity levels continued to improve during

1992, as is demonstrated by the number of lines in service per employee, which rose by 6.2% to reach 188.7.

As a result of the Company's increased activity during the year, external services represented 22.6% of operating expenses, rising by 16.4%. Expenses resulting from the leasing of satellite transmission capacity grew by 54.3% in order to meet the needs of the Olympic Games and the World Expo.

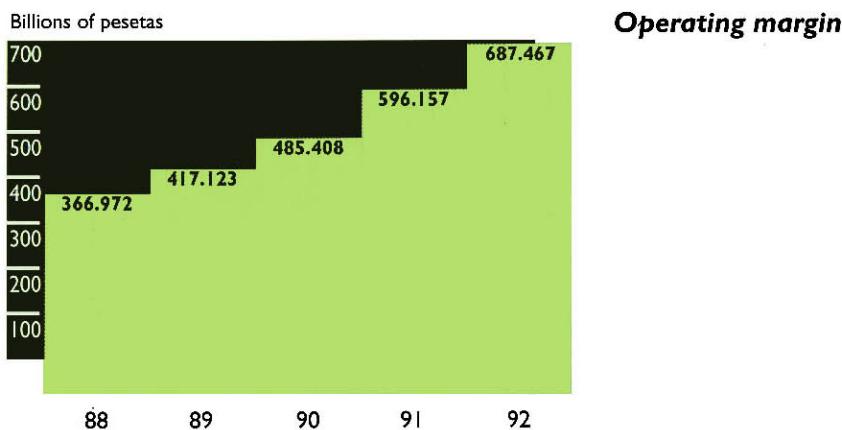
Taxes, which accounted for 4.1% of total operating expenses, rose by 8.3% to 22,260 million pesetas. The main component is the compensation for the local and provincial taxes which represents 2% of gross income from turnover.

Operating margin

The above-mentioned trends in operating revenue and expenses gave rise to a 15.3% increase in the operating margin. This reached the figure of 687,467 million pesetas, representing 59.5% of last year's operating revenue.

Other expenses

In 1992, financial expenses amounted to 217,434 million pesetas, representing a



Results - Profit margins 1988/1992

In millions of pesetas

Description	1988		1989	
	Amount	% Struct.	Amount	% Struct.
+ Revenue from operations	614,829	100.0	714,839	100.0
- Operating expenses				
Personnel expenses (*)	231,296	(37.6)	270,939	(37.9)
Taxes	12,570	(2.0)	13,953	(2.0)
External services	60,327	(9.8)	73,895	(10.3)
+ Internal expenditure capitalized in fixed assets	56,336	9.2	61,071	8.5
= Operating margin	366,972	59.7	417,123	58.3
+ Other operating revenue	9,811	1.6	8,373	1.2
- Depreciation of fixed assets	201,244	(32.7)	218,002	(30.4)
- Other operating expenses	2,152	(0.4)	4,636	(0.5)
- Other provisions and charges	1,330	(0.2)	7,179	(1.0)
= Operating profit	172,057	28.0	195,679	27.4
+ Financial revenue	8,880	1.4	11,726	1.6
- Financial expenses	84,866	(13.8)	104,935	(14.7)
- Exchange losses	12,046	(2.0)	7,331	(1.0)
- Amortization of deferred charges	2,607	(0.4)	1,883	(0.3)
- Provision for investments depreciation	254	0.0	187	0.0
= Profit from ordinary activities	81,164	13.2	93,069	13.0
+ Extraordinary revenue	4,194	0.7	5,142	0.7
- Extraordinary expenses	1,270	(0.2)	5,138	(0.7)
= Income before tax	84,088	13.7	93,073	13.0
- Corporate tax	21,243	(3.5)	24,175	(3.4)
= Net income	62,845	10.2	68,898	9.6
+ Net income	62,845	10.2	68,898	9.6
+ Amortization of deferred charges	2,607	0.4	1,883	0.3
+ Depreciation of fixed assets	201,244	32.6	218,002	30.4
+ Dismantled plant pending depreciation	9,396	1.5	13,678	1.9
= Cash flow	276,092	44.9	302,461	42.3

(*) homogenized figures

(I) 88-92 compound rate

Exchange rate 30-12-92: 1\$ = 114.623 ptas

8.9% growth over the previous year, as opposed to the 25.3% growth in 1991. These figures highlight the positive trend for this item and confirm the rapid slowdown first noted in the previous year. The main reason for this trend was the reduction in investment during 1992. The slowdown in financial expenses would have been even more significant had it not been for the depreciation of the peseta since last September. This led to an average loss in the peseta's value of 11% during the year against the currencies which make up Telefónica's foreign debt. As a result, we had to make a provision for exchange losses of 12,411 million pesetas, with an annual rise of 70.6%.

1990		1991		1992		1992 \$	Increases %	
Amount	% Struct.	Amount	% Struct.	Amount	% Struct.	In millions	over 91	88-92 (I)
852,542	100.0	1,008,031	100.0	1,154,696	100.0	10,073.9	14.5	17.1
313,903	(36.8)	352,824	(35.0)	392,736	(34.0)	3,426.4	11.3	14.2
16,602	(1.9)	20,560	(2.0)	22,260	(1.9)	194.2	8.3	15.4
93,709	(11.0)	104,123	(10.3)	121,153	(10.5)	1,057.0	16.4	19.0
57,080	6.7	65,633	6.5	68,920	6.0	601.3	5.0	5.2
485,408	56.9	596,157	59.1	687,467	59.5	5,997.6	15.3	17.0
13,887	1.6	20,682	2.1	23,346	2.0	203.7	12.9	24.2
250,615	(29.3)	291,870	(28.9)	341,903	(29.6)	2,982.9	17.1	14.2
1,823	(0.1)	5,353	(0.4)	13,252	(1.1)	115.6	147.6	57.5
9,382	(1.1)	15,214	(1.5)	26,126	(2.3)	227.9	71.7	110.5
237,475	27.9	304,402	30.2	329,532	28.5	2,874.9	8.3	17.6
13,868	1.6	5,640	0.6	23,074	2.0	201.3	309.1	27.0
149,362	(17.5)	188,360	(18.7)	199,561	(17.3)	1,741.0	5.9	23.8
6,815	(0.8)	7,277	(0.7)	12,411	(1.1)	108.3	70.6	0.7
3,131	(0.4)	3,955	(0.4)	5,462	(0.5)	47.6	38.1	20.3
2,838	(0.4)	2,113	(0.3)	1,949	(0.2)	17.0	(7.8)	N/S
89,197	10.5	108,337	10.7	133,223	11.5	1,162.3	23.0	13.2
10,777	1.3	9,290	0.9	8,148	0.7	71.1	(12.3)	18.1
6,786	(0.8)	19,080	(1.9)	41,647	(3.6)	363.4	118.3	139.3
93,188	10.9	98,547	9.8	99,724	8.6	870.0	1.2	4.4
17,400	(2.0)	17,700	(1.8)	15,825	(1.4)	138.0	(10.6)	(7.1)
75,788	8.9	80,847	8.0	83,899	7.3	732.0	3.8	7.5
75,788	8.9	80,847	8.0	83,899	7.3	732.0	3.8	7.5
3,131	0.4	3,955	0.4	5,462	0.5	47.6	38.1	20.3
250,615	29.3	291,870	28.9	341,903	29.5	2,982.9	17.1	14.2
15,372	1.8	25,477	2.5	35,101	3.0	306.2	37.8	39.0
344,906	40.5	402,149	39.9	466,365	40.4	4,068.7	16.0	14.0

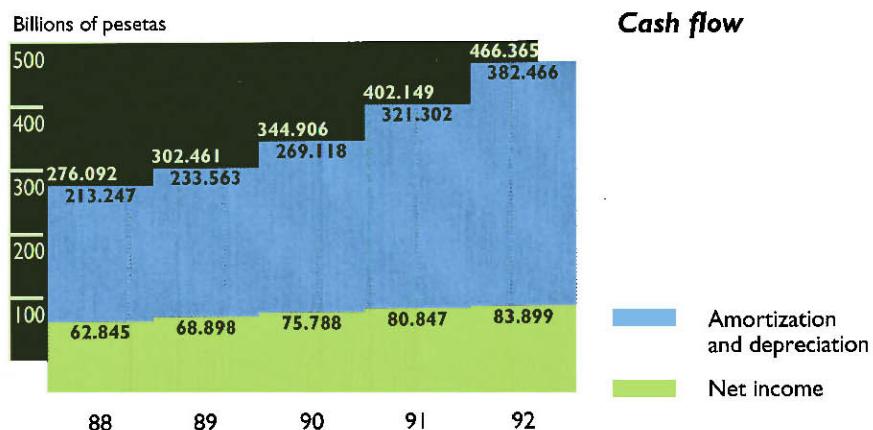
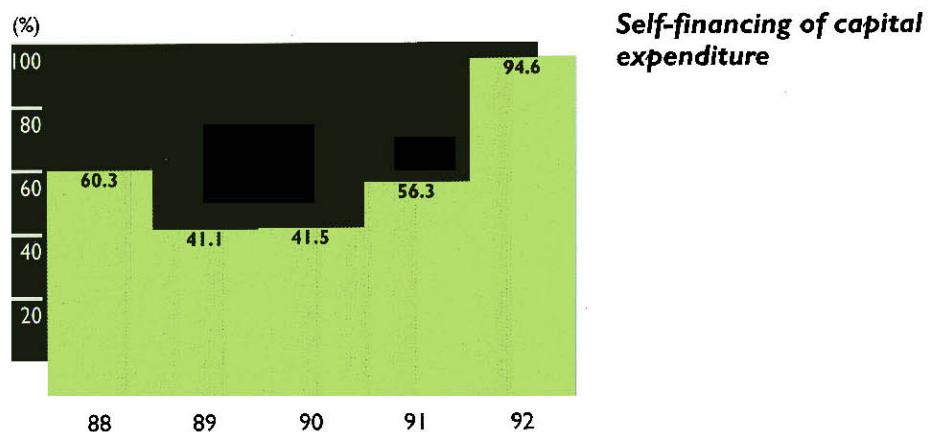
Other provisions and charges reflected the Company's continuing prudent financial strategy of recent years, with an increase of 71.7% compared to 1991. Provision for bad debts stood at 15,855 million pesetas, 47.1% more than the previous year, while provision for stock depreciation rose by 122.8% to 9,357 million pesetas.

Provision for depreciation of fixed assets totalled 341,903 million pesetas, 17.1% more than 1991. This growth in 1992 depreciation was mainly due to the major increase in plant in service which took place in 1991 and which had its full effect on the provisions made in 1992. Average plant depreciation rate was 7.6%, as opposed to 7.5% in 1991.

Financial revenue and extraordinary items

Financial revenue went up by 309% during last year, to reach a figure of 23,074 million pesetas. The main reason for this trend lies in the dividend share-out made by our affiliate Taetel debited to the capital gains obtained from the sale of Telettra S.p.A. in 1991. Net extraordinary items recorded a loss of 33,499 million pesetas in 1992, as opposed to a loss of 9,790 million in 1991.

This figure is a consequence of an extraordinary income of 8,148 million pesetas (12.3% less than in 1991), particularly the capital grants and the revenue derived from work carried out for the Olympic Games and the World Expo, and of some extraordinary expenses which rose to 41,647 million pesetas, an annual increase of 118.3%. The most significant items among these expenses were the sponsorship costs of the 1992 events, supplementary pension payments to retired staff, and, above all, charges for write-off of



dismantled plant pending depreciation which amounted to 35,101 million pesetas, an annual growth of 37.8%. This last item is accounted for as an extraordinary expense, though, being an accelerated depreciation item by its very nature, it can be added to the depreciation of fixed assets, raising total depreciation and amortization during 1992 to 382,466 million pesetas, 19.0% up on the previous year.

Cash flow

Cash flow generated in 1992 amounted to 466,365 million pesetas, representing an annual growth of 16.0%, similar to that of the previous year. The main cash flow component was depreciation and amortization, which, including the write-off of dismantled plant pending depreciation, represented 82.0% of the total.

Capital expenditure and self-financing

The total amount of capital expenditure in tangible and intangible fixed assets and investments carried out by Telefónica during 1992 reached the figure of 462,931 million pesetas, of which 90.7% (419,820 million pesetas) corresponded to capital expenditure in fixed assets, which includes advances to suppliers and stocks for fixed assets. The Company's total capital expenditure in fixed assets in 1992 was 181,597 million pesetas less than in 1991, representing a fall of 30.2%.

Expenditure in intangible assets totalled 19,571 million pesetas, a yearly increase of 34.0%. 56.2% of this amount corresponded to research and development costs, while 7,408 million pesetas was for the purchase of software. Gross investments in affiliates last year rose to 23,540 million pesetas, a 1.5% increase over 1991.

This moderate capital expenditure program resulted in a high rate of self-financing, amounting to 94.6%, 38.3 percentage points more than in 1991.

Balance sheets 1988/1992

In millions of pesetas

Items	1988	1989	1990	1991	1992	1992 \$(I)
Fixed assets	2,136,854	2,518,894	2,977,228	3,303,059	3,365,365	29,360.3
Capital increases expenses	4,352	3,251	2,170	1,219	359	3.1
Net intangible assets	6,281	10,665	17,812	28,248	41,609	363.0
Property, plant and equipment	3,462,255	3,985,031	4,575,823	5,016,908	5,306,956	46,299.2
Depreciation of fixed assets	(1,373,388)	(1,527,442)	(1,689,133)	(1,847,338)	(2,090,267)	(18,236.0)
Property, plant and equipment - net	2,088,867	2,457,589	2,886,690	3,169,570	3,216,689	28,063.2
Investments	37,354	47,389	70,556	104,022	106,708	931.0
Deferred expenses	34,961	59,451	66,213	75,004	203,486	1,775.3
Current assets	177,192	214,331	249,394	290,152	348,316	3,038.8
Consumable inventories	6,512	8,320	8,161	5,319	5,019	43.8
Accounts receivable	169,799	202,449	236,151	274,045	329,144	2,871.5
Cash and banks	2,044	936	2,562	4,579	10,238	89.3
Prepayments	837	2,626	2,520	6,209	3,915	34.2
Assets = Liabilities						
and shareholders' equity	2,351,007	2,792,676	3,292,835	3,668,215	3,917,167	34,174.4
Shareholders' equity (I)	1,245,071	1,267,925	1,294,504	1,324,368	1,376,751	12,011.1
Paid in share capital	460,620	462,482	463,479	463,479	463,480	4,043.5
Reserves	743,154	759,667	778,411	803,216	829,372	7,235.7
Net income for the year	62,845	68,898	75,788	80,847	83,899	731.9
Interim dividend	(21,548)	(23,122)	(23,174)	(23,174)	-	-
Deferred income (2)	14,649	25,147	50,000	80,972	111,627	973.9
Provisions for liabilities						
and charges (3)(*)	123,522	147,185	173,180	202,479	211,813	1,847.9
Long term debt (4)	597,441	826,234	1,008,254	1,387,343	1,593,504	13,902.2
Debentures, bonds						
and promissory notes issued	247,050	279,827	383,732	589,011	696,811	6,079.2
Debts with credit institutions	283,269	466,204	527,827	624,335	602,800	5,259.0
Debts with group						
and associates companies-	-	-	12,129	91,849	103,586	903.7
Other creditors(*)	67,122	80,203	84,566	82,148	190,307	1,660.3
Permanent capital (I+2+3+4)	1,980,683	2,266,491	2,525,938	2,995,162	3,293,695	28,735.1
Short term debt	370,324	526,185	766,897	673,053	623,472	5,439.3
Debentures, bonds						
and promissory notes issued	123,909	160,478	347,656	185,496	130,225	1,136.1
Debts with credit institutions	56,150	81,359	78,954	82,283	127,751	1,114.5
Other creditors	177,236	264,217	318,595	385,179	344,799	3,008.1
Prepayment	13,029	20,131	21,692	20,095	20,697	180.6
Unused credit facilities	102,090	29,979	86,084	36,215	38,498	335.9

(*) homogenized figures

(I) Figures in millions of dollars. Exchange rate 30-12-92: 1\$ = 114,623 ptas.

The Telefónica Group

Valuation and group composition

At 1992 year end, the net book value of the group companies in Telefónica's balance sheets was 90,932 million pesetas, 24.8% more than the previous year. Subsidiary companies accounted for 73.4% of this total, associated companies for 9.9% and other holdings the remaining 16.7%.

The main changes in the group composition during 1992 were as follows:

Abroad, the group continued to expand into foreign telecommunications services markets, with the formalization of the purchase of Telefónica Larga Distancia de Puerto Rico (TLD). The group acquired a 79% holding in the company at a cost of 142 million dollars.

In Spain, we reduced our 21.14% holding in the associated company, Alcatel Standard Eléctrica, which manufactures telephone transmission and switching systems and is one of Telefónica's main suppliers. This company had a capital increase in which Telefónica did not take part. As a result the holding now stands at 13.24% and the company is now considered a holding company and is no longer consolidated by application of the equity method,

Equally our previous 90% holding in the affiliate Ecotel, a company which carries out market research, audience surveys and opinion polls, was reduced by the sale of 60% of the company to the Sofres group. As a result, it is no longer consolidated by the global integration system but by the equity method.

The contribution of the Telefónica Group Companies to the profit and loss account

	Parent company	Telefónica Group	Telefónica Group contribution as % of parent company total
Operating revenue	1,154,696	54,242	1,208,938 4.7
Internal expenditure capitalized in fixed assets	68,920	35,009	103,929 50.8
Operating expenses	536,149	77,639	613,788 14.5
Financial expenses	199,561	2,737	202,298 1.4
Net extraordinary items	(33,499)	1,804	(31,695) (5.4)
Profit before tax	99,724	(5,265)	94,459 (5.3)
Net profit	83,899	(3,138)	80,761 (3.7)

Figures in millions of pesetas

Consolidated profit and loss

In 1992 the Telefónica Group made a favourable contribution to the parent company's profit and loss account, in a year which saw a steady slow-down in economic activity in Spain.

The operating income of the subsidiary companies was 54,242 million pesetas, representing an annual growth of 32.4% and 4.7% of the parent company's operating income, compared to 4.1% in 1991.

Internal expenditure capitalized in fixed assets and operating expenses showed equally favourable trends. With regards to the former, the subsidiary companies contribution was reduced from 42,804 million pesetas in 1991 to 35,009 million pesetas in the 1992 fiscal year, which helped both to improve the quality of the margins and of the net profit.

The contribution of subsidiaries to operating expenses was 77,639 million pesetas, 2.9% up on the previous year. This restraint on costs meant that the contribution to the parent company's expenses was reduced from 15.8% in 1991 to 14.5% in 1992.

The above figures resulted in a consolidated operating margin of 699,079 million pesetas, 15.6% more than the previous year. Similarly, after deducting the provision for depreciation of fixed assets and other charges, the consolidated operating profit rose from 305,231 million pesetas to 335,970 million pesetas, representing an annual growth of 10.1%.

The global profit of the associated companies also showed a favourable performance, rising by 22.2% over 1991 to 9,391 million pesetas. The Chilean and Argentinian telephone service operators, in which Telefónica has an important management role, contributed profits of 11,938 million pesetas to this result. Among the associated companies recording losses were Amper, Eritel and Indelec.

Telefónica has a minor shareholding in these companies and plays no active management role. Profit from ordinary activities, which includes both subsidiary and associated companies, reached the figure of 128,615 million pesetas, with a growth of 8.6% over the previous year.

Consolidated net extraordinary items recorded a loss of 31,695 million pesetas. Subsidiaries registered a profit of 1,804 million pesetas, against Telefónica's loss of 33,499 million pesetas, due mainly to the major provision for the write-off of dismantled plant pending depreciation.

Consolidated results - profit margins 1991/1992

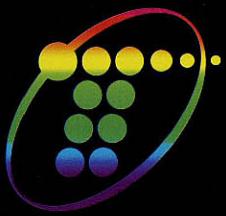
In millions of pesetas

Description	1992		1991		Incr.% over 91	1992 \$ (I)
	Amount	% Struct.	Amount	% Struct.		
+ Operating revenue	1,208,938	100.0	1,048,998	100.0	15.2	10,547.1
- Operating expenses						
Personnel expenses (*)	429,626	(35.5)	391,516	(37.3)	9.7	3,748.2
Taxes	22,976	(1.9)	20,990	(2.0)	9.5	200.5
External services	161,186	(13.3)	140,410	(13.4)	14.8	1,406.2
+ Internal expenditure capitalized in fixed assets	103,929	8.6	108,437	10.3	(4.2)	906.7
= Operating margin	699,079	57.9	604,519	57.6	15.6	6,098.9
+ Other operating revenue	23,618	2.0	18,082	1.7	30.6	206.1
- Depreciation of fixed assets	343,987	(28.5)	294,775	(28.1)	16.7	3,001.0
- Other operating expenses	13,766	(1.1)	5,855	(0.6)	135.1	120.1
- Other provisions and charges	28,974	(2.4)	16,740	(1.6)	73.1	252.8
= Operating profit	335,970	27.9	305,231	29.1	10.1	2,931.1
+ Financial revenue	4,318	0.3	6,333	0.6	(31.8)	37.7
- Financial expenses	202,298	(16.7)	191,752	(18.2)	5.5	1,764.9
- Exchange losses	12,439	(1.0)	6,094	(0.6)	104.1	108.5
- Amortization of deferred charges	5,810	(0.5)	3,991	(0.4)	45.6	50.7
- Provision for investments depreciation	517	(0.1)	(1,057)	0.1	-	4.5
+ Participation in associated companies profits	9,391	0.8	7,717	0.7	21.7	81.9
= Profit from ordinary activities	128,615	10.7	118,501	11.3	8.5	1,122.1
+ Extraordinary revenue	10,804	0.9	32,692	3.1	(67.0)	94.3
- Extraordinary expenses	42,499	(3.5)	20,902	(2.0)	103.3	370.8
- Minority interest in earnings of consolidated subsidiaries	2,461	(0.2)	1,772	(0.1)	38.9	21.5
= Income before tax	94,459	7.9	128,519	12.3	(26.5)	824.1
- Corporate tax	13,698	(1.1)	24,272	(2.3)	(43.6)	119.5
= Net income	80,761	6.8	104,247	10.0	(22.5)	704.6
+ Net income	80,761	6.7	104,247	10.0	(22.5)	704.6
+ Amortization of deferred charges	5,810	0.5	3,991	0.4	45.6	50.7
+ Depreciation of fixed assets	343,987	28.4	294,775	28.0	16.7	3,001.0
+ Dismantled plant pending depreciation	35,355	2.9	25,477	2.4	38.8	308.4
= Cash flow	465,913	38.5	428,490	40.8	8.7	4,064.7

(*) homogenized figures

(I) Figures in millions of dollars. Exchange rate 30-12-92: 1\$ = 114.623 ptas.

As a result of this trend in extraordinary items, net income stood at 80,761 million pesetas, 22.5% down on the year before. In spite of this, consolidated cash flow rose to 465,913 million pesetas, with an annual growth of 8.7%.



Annual accounts



Free translation from the original in Spanish

Independent auditor's report on the annual accounts

To the Shareholders of Telefónica de España, S.A.

1. We have audited the annual accounts of Telefónica de España, S.A. and the consolidated annual accounts of Telefónica de España, S.A. and its subsidiaries at December 31, 1992 and 1991 consisting of the balance sheets, the profit and loss accounts and the notes for the years then ended, whose preparation is the responsibility of the company's management. Our responsibility is to express an opinion on the aforementioned annual accounts as a whole, based on our audit work carried out in accordance with generally accepted auditing standards, which included selected substantive tests of the underlying records of the annual accounts, an assessment of their presentation and of the accounting principles and the estimates applied. Our work on the consolidated annual accounts of Telefónica de España, S.A. and subsidiaries, insofar as it relates to the participation in the group companies mentioned in Note 1.2, is based on the examination and report of other auditors.
2. As indicated in Note 1 to the annual accounts, Telefónica falls within the group of regulated entities whose peculiarities permit that income and expenses may be attributable to each period not only on the accrual basis but also when the related specific concepts of revenue and cost are computed as part of the approved tariffs. On this basis, the recovery of the amounts invested or included in the assets of the Company, particularly deferred exchange differences, will depend upon the adequate future consideration, in tariffs, of recovery of these concepts.
3. On May 18, 1992 we issued our audit report in which we expressed an opinion qualified for the uncertainty with respect to the final outcome of the negotiations to establish an alternative pension scheme. As explained in Notes 19 and 20 these negotiations were concluded in the year 1992, and therefore this uncertainty no longer exists.
4. In our opinion, based on our examination and on the reports of other auditors, the attached annual accounts present fairly, in all material respects, the shareholders' equity and financial position of Telefónica de España, S.A. and the consolidated group at December 31, 1992 and 1991, the financial results of their operations and the consolidated resources obtained and applied for the years ended on those dates, and they contain the necessary and relevant information in order to adequately interpret and understand them, in conformity with generally accepted accounting principles consistently applied, except for the application of the accounting policy contained in the Ministerial Order of March 12, 1993 of the Ministry of Economy and Finance in respect of the treatment of foreign exchange differences (Note 4.j), with which we concur.
5. The accompanying Director's Report for 1992 contains the information that management considers relevant to the company's situation, the evolution of their business and of other matters which do not form an integral part of the annual accounts. We have verified that the accounting information contained in the aforementioned Director's Report coincides with that of the annual accounts for 1992. Our work as auditors is limited to verifying the Director's Report within the scope already mentioned in this paragraph and it does not include the review of information other than that obtained from the company's audited accounting records.

Price Waterhouse Auditores, S.A.
ROAC Member nº. S0242

Augusto San Segundo

March 29, 1993

Audiberia
ROAC Member nº. S0677

Juan Manuel Osorio

Telefónica de España, S.A. and Telefónica Consolidated Group.

In millions of pesetas	Parent Company		Consolidated group	
	1992	1991	1992	1991
ASSETS				
A. SUBSCRIBED SHARES NOT PAID-IN (unrequested payments)	-	-	1	20
B. LONG TERM ASSETS	3,365,365	3,303,059	3,409,276	3,308,224
I. Cost of new equity capital	359	1,219	503	1,496
II. Intangible assets (Note 5)	41,609	28,248	50,778	34,732
Research and development expenses	36,500	25,498	36,415	26,075
Finance leasing	-	-	4,759	5,080
Other intangible assets	19,345	10,776	25,678	13,358
Accumulated amortization	(14,236)	(8,026)	(16,074)	(9,781)
III. Fixed assets (Note 6)	3,216,689	3,169,570	3,211,231	3,153,515
Land and buildings	403,197	349,255	406,830	353,754
Technical installations and machinery	111,478	102,156	122,393	110,614
Telephone installations	4,308,549	3,969,124	4,275,703	3,933,074
Furniture, equipment and other	103,854	88,554	114,406	98,400
Construction in progress	325,061	449,774	329,974	446,829
Advance payments for fixed assets	30,804	13,154	30,352	13,275
Installation equipment	24,013	44,891	24,013	46,498
Accumulated depreciation	(2,090,267)	(1,847,338)	(2,092,440)	(1,848,929)
IV. Investments (Note 7)	106,708	104,022	146,764	118,481
Investments in group companies	81,919	81,382	-	-
Investments in associated companies	11,676	14,405	82,352	61,516
Other investments	16,328	11,211	58,757	51,791
Credits to group companies	2,014	-	-	-
Other credits	1,200	1,642	3,560	2,315
Long-term deposits and financial guarantees	911	774	4,354	4,456
Depreciation Reserve	(7,340)	(5,392)	(2,259)	(1,597)
C. GOODWILL ON CONSOLIDATION (Note 7.8)	-	-	13,226	6,437
D. DEFERRED EXPENSES (Note 8)	203,486	75,004	205,811	77,002
E. CURRENT ASSETS	348,316	290,152	378,838	327,580
I. Subscribed shares not paid-in	-	-	-	40
II. Inventories	5,019	5,319	18,552	20,419
Inventories	5,019	5,319	19,576	20,868
Advances	-	-	193	22
Provisions	-	-	(1,217)	(471)
III. Accounts receivable	329,144	274,045	337,400	287,918
Subscribers and customers (Note 10)	273,452	237,818	293,739	257,114
Group companies	7,127	7,810	-	-
Associated companies	131	141	778	716
Sundry accounts receivable	45,080	34,921	42,080	36,304
Personnel	9,041	6,554	9,492	6,969
Taxes receivable (Note 17)	20,876	4,796	22,666	8,216
Reserve for bad debts (Note 10)	(20,356)	(13,877)	(25,044)	(16,915)
Reserve for sundry accounts receivable	(6,207)	(4,118)	(6,311)	(4,486)
IV. Short term investments	6,449	-	7,115	1,345
Credits to group companies	-	-	242	-
Short-term securities portfolio	-	-	2,768	1,024
Other credits	6,449	-	4,105	321
V. Cash and banks	3,789	4,579	5,909	6,712
VI. Prepayments	3,915	6,209	9,862	11,146
TOTAL ASSETS (A+B+C+D+E)	3,917,167	3,668,215	4,007,152	3,719,263

Balance sheets at December 31

LIABILITIES AND SHAREHOLDERS' EQUITY	Parent Company		Consolidated group	
	1992	1991	1992	1991
A. SHAREHOLDERS' EQUITY (Note 11)	1,376,751	1,324,368	1,392,005	1,330,273
I. Share capital	463,480	463,479	463,480	463,479
II. Share premium	33,467	33,467	33,467	33,467
III. Revaluation reserve	653,780	653,780	650,513	649,316
IV. Reserves	142,004	115,819	163,663	102,788
Legal reserve	49,406	41,321	49,406	41,321
Other reserve	92,598	74,498	83,109	52,920
Consolidation reserve (Note 7.9)	-	-	14,112	7,296
Differences on foreign currency translation for consolidation	-	-	17,036	1,251
V. Unappropriated profit	121	150	121	150
VI. Group profit and loss	83,899	80,847	80,761	104,247
Profit for year	83,899	80,847	73,831	98,335
Profit from associated companies	-	-	9,391	7,683
Profit attributed to outside shareholders	-	-	(2,461)	(1,771)
VII. Interim dividend	-	(23,174)	-	(23,174)
B. OUTSIDE SHAREHOLDER'S INTEREST (Note 11.2)	-	-	31,044	21,780
C. DEFERRED INCOME (Note 12)	111,627	80,972	114,748	84,834
Capital grants	46,983	34,029	46,983	34,029
Deferred unrealized exchange gains (Note 9)	8,861	24,717	8,870	20,082
Deferred taxes and other	55,783	22,226	58,895	30,723
D. PROVISIONS FOR RISKS AND EXPENSES (Note 13)	211,813	202,479	215,796	206,005
E. LONG TERM CREDITORS	1,593,504	1,387,343	1,610,878	1,391,138
I. Debentures, bonds and other issues (Note 14)	696,811	589,011	722,284	603,259
Debentures and non-convertible bonds	658,999	563,900	660,823	565,770
Debentures and convertible bonds	28,063	22,561	37,363	22,561
Other negotiable documents issued	9,749	2,550	24,098	14,928
II. Debts with financial institutions (Note 15)	602,800	624,335	690,728	714,566
III. Debts with group and associated companies (Note 16)	103,586	91,849	18,565	15,479
IV. Other accounts payable	178,656	53,406	178,975	56,311
Other debts	147,677	50,807	147,996	53,549
Notes payable	30,979	2,599	30,979	2,762
V. Uncalled subscriptions on shares (Note 7)	11,651	28,742	326	1,523
Group companies	11,351	27,252	-	-
Associated companies	300	1,490	300	1,490
Other companies	-	-	26	33
F. SHORT TERM CREDITOR	623,472	673,053	642,681	685,233
I. Debentures, bonds and other issues (Note 14)	130,225	185,496	122,991	162,200
Debentures	17,362	40,225	17,546	40,214
Other negotiable documents issued	96,759	125,815	89,327	102,494
Interest on debentures and other negotiable documents	16,104	19,456	16,118	19,492
II. Debts with financial institutions (Note 15)	127,751	82,283	153,818	116,548
Loans and other debts	115,574	67,790	140,694	101,122
Interest due	12,177	14,493	13,124	15,426
III. Debts with group and associated companies (Note 16)	68,265	85,163	25,626	47,887
Group companies	44,132	39,143	-	-
Associated companies	24,133	46,020	25,626	47,887
IV. Trade creditors	134,416	95,433	165,676	122,913
Advance payments received on orders	-	-	5,001	3,406
Debts for purchases and services redered	93,717	55,700	117,670	77,299
Notes payable	40,699	39,733	43,005	42,208
V. Other non-trade debts	142,118	204,583	152,851	214,466
Taxes payable (Note 17)	41,237	30,543	45,297	34,464
Other (Note 18)	100,881	174,040	107,554	180,002
VI. Accruals	20,697	20,095	21,719	21,219
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (A+B+C+D+E+F)	3,917,167	3,668,215	4,007,152	3,719,263

Telefónica de España, S.A. and Telefónica Consolidated Group.

In millions of pesetas	Parent Company		Consolidated group	
DEBIT	1992	1991	1992	1991
EXPENSES				
Reduction in inventories	-	-	1,908	2,335
Supplies	-	-	58,395	33,953
Other purchases	-	-	31,227	33,953
Purchases from other companies	-	-	27,168	-
Personnel costs (Note 22.2)	392,736	352,824	429,626	391,516
Depreciation and amortization	341,903	291,870	343,179	293,903
Tangible	334,833	286,746	335,183	287,360
Intangible	6,210	4,173	6,820	5,452
Expenses	860	951	1,176	1,091
Trade provisions	26,126	15,214	28,972	16,683
Variation in provisions for inventories (Note 6.10)	9,357	4,200	10,185	4,528
Variation in provision for doubtful accounts receivable	15,855	10,779	16,353	11,057
Variation in other provisions (Note 13)	914	235	2,434	1,098
Other operating expenses	156,665	130,036	141,186	134,023
External services subsidiary companies	33,646	30,871	-	-
External services	87,507	73,252	104,444	107,178
Taxes	22,260	20,560	22,976	20,990
Other operating expenses	13,252	5,353	13,766	5,855
I. OPERATING PROFIT	329,532	304,402	336,780	306,160
Financial expenses with subsidiary companies	9,598	7,572	-	-
Financial expenses with associated companies	-	-	12	-
Other financial expenses	189,963	180,788	202,286	191,752
Amortization of costs of formalizing debts	5,462	3,955	5,810	3,991
Variation in provisions for investments	-	-	2	57
Losses on exchange (Note 9)	12,411	7,277	12,802	7,361
II. FINANCIAL INCOME	-	-	-	-
Participation in losses of associated companies	-	-	2,924	661
Amortization of goodwill on consolidation	-	-	808	872
III. PROFIT FROM NORMAL OPERATIONS	135,172	110,450	129,132	117,444
Variation in investments provision for investments in group companies	1,949	2,113	517	(1,057)
Losses on fixed assets	29,589	14,011	29,833	14,050
Losses on disposal of investment in consolidated companies	-	-	107	1,497
Extraordinary expenses (Note 22.3)	12,058	5,069	12,559	5,355
IV. EXTRAORDINARY NET PROFIT	-	-	-	12,847
Profit attributed to the shareholders' interests	-	-	2,554	1,815
V. PROFIT BEFORE TAX	99,724	98,547	94,459	128,519
Corporate income tax (Note 21)	15,825	17,700	13,698	24,272
VI. NET PROFIT FOR YEAR	83,899	80,847	80,761	104,247

Profit and loss accounts for years ended December 31

CREDIT	Parent Company		Consolidated group	
	1992	1991	1992	1991
INCOME				
Net sales to group companies	8,638	7,267	-	-
Net sales and services rendered (Note 22.1)	1,146,058	1,000,764	1,208,938	1,048,998
Increase in inventories	-	-	3,561	3,056
Work carried out by Company on own fixed assets	68,920	65,633	103,929	108,437
Other operating income	23,346	20,682	23,618	18,082
Sundry trade income	22,852	20,511	22,738	17,518
Grants	494	171	726	379
Excess provision for risk and expenses	-	-	154	185
I. OPERATING LOSS				
Income from shareholdings	20,587	2,195	1,084	1,476
Group companies	19,331	1,023	-	-
Associated companies	181	34	-	-
Other companies	1,075	1,138	1,084	1,476
Income from other negotiable documents and credits	2,487	3,445	3,234	4,857
Group companies	438	232	-	-
Associated companies	-	27	-	8
Other companies	2,049	3,186	3,234	4,849
Gains on exchange	-	-	363	1,267
II.FINANCIAL LOSS	194,360	193,952	216,231	195,561
Participation in profit of companies consolidated by the equity method	-	-	12,315	8,378
III.LOSS ON NORMAL OPERATIONS				
Profit on sales of fixed assets	254	2,797	322	21,855
Profit on sales of shareholdings in consolidated companies	-	-	35	-
Capital grants (Note 12)	3,693	1,797	3,693	1,797
Extraordinary income (Note 22.3)	4,201	4,696	6,754	9,040
IV.EXTRAORDINARY LOSS	35,448	11,903	32,212	-
Profit attributed to the shareholders' interests	-	-	93	43
V.LOSS BEFORE TAX	-	-	-	-
VI.NET LOSS FOR YEAR	-	-	-	-

Annual accounts of Telefónica de España, S.A. and of Telefónica Consolidated Group

NOTE I - OPERATIONS AND GENERAL INFORMATION

I.1 Parent company

a) Telefónica de España, S.A. (Telefónica or "the Company") was incorporated in Madrid on April 18, 1924. Its main corporate purpose is to provide and operate all types of public and private telecommunication services, according to Article 4 of the statutes approved by the general meeting of shareholders held on June 15, 1990.

b) Concession

Telefónica is the concessionaire of the State supplying certain services and telecommunication transmission in accordance with the New State Contract entered into with the State Administration on December 26, 1991.

In accordance with the New State Contract, which has a minimum duration of 30 years, Telefónica assumes the management as concessionaire, under a monopoly arrangement, of end-user services and transmission services. End-user services include local, domestic long distance and international telephone service; automatic mobile telephone service; maritime mobile telephone service; public and radiotelegraphic communications; telefax, videotex and teletex services. Transmission services include support transmission service for the basic telephone service; data transmission services by the public packages exchange network and by the public telephone network; and circuits' rental service, except those used as a support for transmission services or for the transmission of images.

The New State Contract also provides that the aforementioned list of end-user services and transmission services under the concession will be modified in accordance with European Community Standards, or, if applicable, Spanish legislation (with respect to the latter Law 32/1992, of December 3, 1992 has been enacted amending Law 31/1987 of December 18, 1987 the Telecommunications Law). The New State Contract also provides that if any of the end-user or transmission services granted under the concession change their juridical regime from that of a monopoly to one of restricted free competition, Telefónica may continue to render the services under the new regime, if it so requests.

The New State Contract also gives Telefónica the right to maintain the overall financial balance of the contract in accordance with Article 74 and related provision of the State Contract Law.

c) Regulation of tariff

In accordance with the New State Contract the tariff regulations for services will allow the principle of universality for the supply basic services and the overall financial balance of the concession to be safeguarded. For that purpose, within the framework of costs and effective management of the productive resources of the concessionaire company, the tariff regulations must ensure that Telefónica can cover both its operating expenses and the requirements for reserves and capital contributions, in the context of an alignment of the tariff structure to that of costs.

d) Tax regime

According to the Telefónica Taxation Law 15/1987 of July 30, 1987 and Royal Decree 1334/1988 of November 4, 1988, from January 1, 1988 Telefónica is subject to the general tax regulations for State taxes. As regards local taxes Telefónica, is required to pay local property taxes but other local and Autonomous Community taxes are substituted by an annual payment equivalent to two per cent of gross invoiced income.

By Ministerial Order dated December 27, 1989 Telefónica obtained authorization from the Spanish tax authorities to file consolidated income tax returns for the years 1990, 1991 and 1992. Such authorization is subject to compliance with certain requirements established by current legislation (Royal Decree Law 15/1977 of February 25, 1977 and Law 18/1982 of May 26, 1982).

Consolidation group changes

The new corporations which have been added to the group are Telefónica Larga Distancia de Puerto Rico, Compañía Gestora del Servicio Mensatel, S.A. and Fonditel, S.A. The group has sold 60% of its holding in ECOTEL, which therefore is consolidated by the equity method (in 1991 it was by the full consolidation method). Added to the consolidation group are the companies TASA and Cointel, which were included last year as other investments, whereas Alcatel Standard Eléctrica is not included in the consolidated group because Telefónica didn't subscribe the last capital increase and its 21,14% participation was reduced to 13,24%, so it is considered as other investments.

I.2 Subsidiary companies

Cabinas Telefónicas, S.A. (CABITEL), Plaza de Carlos Trías Beltrán, s/n - 28020 MADRID

Marketing, installation, management and operation of local public telephones, support networks and related services. Operation for advertising purposes of any local support or service capable of being used for that purpose.

Casiopea Reaseguradora, S.A. - 1 Rue Schiller L - 2519 (Luxembourg)

Reinsurance.

Compañía Española de Tecnologías Avanzadas, S.A. (COMET), Paseo de la Castellana, 83 - 85 (Madrid) - 28046 MADRID

Promotion of business initiatives.

At year end it has the following subsidiary and associated companies and shareholdings:

- 85% in Satel, S.A. - Inactive.
- 50% in Cleon, S.A. - Property sales promotion.
- 30% in Semiconductores, S.A. - Purchase and sales of electronic components.
- 5.8% in Barcelona Tecnología, S.A. - Capital risk company.
- 4.61% in Sociedad Catalana de Riesgos, S.A. - Promotion of non-finance companies.

Compañía Gestora de Servicio Mensatel, S.A. C/ Manuel Tovar, 35 28034 MADRID

Activities relating to value-added services, as provided under the Telecommunication Law.

Compañía Publicitaria de Exclusivas Telefónicas, S.A. (CETESA), Avenida Manoteras, 12 - 28050 MADRID

Publication of guides, and advertising material on, all types of support equipment.

for years ended December 31, 1992 and 1991

At the year end it has the following subsidiary and associated companies:

- 100% in Promotora de Mercados Telemáticos, S.A. - Marketing of advertising products and services.
- 100% in Central de Compras Papel, S.A. - Purchase of paper and graphic art material.
- 25% in Venturini, S.A. - Printing and graphic arts.
- 5% in Euredit, S.C.E. - Publication European annual directories.

Estrategias Telefónicas, S.A. (ESTRATEL), Príncipe de Vergara, 110 - 28002 MADRID

Promotion, marketing and market research relating to direct marketing.

Fonditel Entidad Gestora de Fondos de Pensiones, S.A. Avda. General Perón, 38 - 28020 MADRID

Pension funds administration.

Maprel, S.A. Paseo de la Castellana, 127 - 28046 MADRID

Data processing consulting and digital cartography.

Playa de Madrid, S.A. Paseo de la Castellana, 83 - 85 28046 MADRID

Social and recreational activities. Distribution of all types of articles, operation of sporting and hostel facilities and organization of tourist services.

Pléyade Peninsular, Correduría de Seguros, S.A. C/ General Perón, 38 - 28020 MADRID

Distribution, promotion and production of insurance contracts, operating as a broker.

Seguros de Vida y Pensiones Antares, S.A. - C/ General Perón 38 - 28020 MADRID

Life insurance and pensions.

Servicios de Teledistribución, S.A. (S.T. Hilo), Covarrubias, I - 28010 MADRID

Supply of services in the teledistribution sector for all types of signals, installation and maintenance of equipment.

At the year end it has the following associated company:

- 33% in S.A.P.E.C., S.A. - Manufacture of public address systems.

Sistemas e Instalaciones de Telecomunicación, S.A. (SINTEL), Rafael Calvo, 18 - 28004 MADRID

Installation of cable-laying equipment in the telecommunications field.

At year end it has the following subsidiary and associated companies and shareholdings:

- 50% in Sintelar, S.A. - Telecommunications installations.
- 50% in Sietel, S.A. - Telecommunications installations.
- 50% in Sintel - Abengoa Servicios 2000 - Telecommunications installations.
- 49% in Cotronic, S.A. - Telecommunications installations.
- 49% in Incosa - Telecommunications installations.
- 44% in Inalca, S.A. - Telecommunications installations.
- 39% in Sistemas Avanzados de Control - Traffic control systems.

Taetel, S.L. Beatriz de Bobadilla, 3 - 28040 MADRID

Acquisition, holding and disposing of shares in other companies.

Telecomunicaciones Marinas, S.A. (TEMASA), Silva I - 4º 4 - 28013 MADRID

Sounding and laying and repairing underwater cables.

Telefonía y Finanzas, S.A. (TELFISA), Paseo de la Castellana, 151 - 10º B 28046 MADRID

Treasury management and advisory and financial support services to Group companies.

Telefónica Internacional de España, S.A. C/ Jorge Manrique, 12 - 28006 MADRID

Investment in foreign telecommunications and management of the holdings in the companies which channel these investments.

At year end it has the following subsidiary and associated companies and shareholdings:

- 100% in Telefónica International, S.A. (LUXEMBOURG) - Holding company.
- 100% in Telefónica International Holding B.V. (HOLLAND) - Holding company.
- 100% in Telefónica USA, INC - Representation of Telefónica.
- 100% in Telefónica Chile, S.A. - Holding company.
- 100% in Telefónica Chile, B.V. - Holding company.
- 100% in Telefónica Venezuela, B.V. - Holding company.
- 100% in Inversiones Hispano Chilenas, S.A. - Holding company.
- 79% in Telefónica Larga Distancia (Puerto Rico) - Telecommunication Operator.
- 60% in Telefónica Romania (Rumania) Telecommunications operator.
- 60% in Contactel (Portugal) - Telecommunications Operator (Tele-pager).
- 43.63% in Compañía de Teléfonos de Chile (CTC) - Basic telephone service operator in Chile.
- 25% in Sintelas, S.A. (Argentina) - Telecommunications installations.
- 20% in Entel Chile - Operator of long distance telephone services in Chile.
- 14,9% in Telecomunicaciones Ultramarinas de Puerto Rico - Telecommunications operator.
- 17.65% in Telefónica Hispanoamericana, INC - Manufacture and repair of Telecommunications equipment.
- 16% in VenWorld Telecom - Holding company.
- 15% in Contactel (Portugal) - Telecommunications Operator (Tele-pager).
- 10.13% in Cointel, S.A. - Holding company.
- 8.07% in Telefónica Argentina, S.A. - Telecommunications operator in the southern region of Argentina.
- 5.38% in Infonet Services Corporation - Telecommunications operator.
- 5% in Sesa Rio Telecomunicaciones, S.A. - Manufacture of telecommunications equipment.
- 5% in Telur, S.A. - Manufacture of telecommunications equipments.
- 2.92% in Geostar Corp - In bankruptcy.
- 0.69% in Locstar, S.A. - In liquidation.

Telefónica Investigación y Desarrollo, S.A. (TIDSA) C/ Emilio Vargas, 6 - 28043 MADRID

Research and development of products, exploration, applied investigations and technological reports in the telecommunications field.

Telefónica North America, INC 1209 Orange St. Wilmington/New Castle Country DELAWARE (U.S.A.)

Financial intermediary.

Telefónica Sistemas, S.A., Sor Angela de la Cruz, 9 - 28020 MADRID

Systems engineering.

At year end it has the following subsidiary and affiliated companies and shareholdings:

- 90% in T.D.S. - Marketing Tesys equipment.
- 40% in Tissat, S.A. - Systems engineering and added value services.
- 20% in Excel - Data, S.A. - Manufacture of intelligent cards.
- 12.45% in Telecom Vallés, S.A. - Sale of equipment.

Teleinformática y Comunicaciones, S.A. (TELYCO), Raimundo Fdez. Villaverde, 28 - 28003 MADRID

Promotion, marketing and distribution of telephonic and telematic equipment and services.

THM, Control Electrónico Integrado, S.A. General Arrando, 40 - 28010 MADRID

Protection and control systems engineering.

At year end it has the following subsidiary and associated companies:

- 50% in T.M.I. - Integrated maintenance of security installations.
- 31.78% in T.P. Servicios Integrales de Protección Civil, S.A. (TEPESA) - Training in techniques of all areas of civil protection, security and fire.

TS - I Telefónica Servicios, S.A. C/ Manuel Tovar, 35 - 28034 MADRID

Operation of added value services.

At year end it has the following subsidiary company and shareholdings:

- 51% in Servicios Telefónicos de Audiotex, S.A. - Vocal and audio conference information service.
- 49% in Compañía Gestora de Servicio Mensatel, S.A. - Added value services.
- 12.45% in Telecom Vallés, S.A. - Sale of equipment.
- 9.6% in Videotex Information, S.A. - Marketing services.

Urbana Ibérica, S.A. C/ General Yagüe, 11 - 28020 MADRID

Promotional activities for residential property.

Subsidiary Companies	Auditors	Subsidiary Companies	Auditors	Subsidiary Companies	Auditors
Antares	Price Waterhouse	Playa de Madrid	Peat Marwick	T.S.-I	Arthur Andersen
Audiotex	Arthur Andersen	Pléyade	Price Waterhouse	Telefónica Sistemas	Arthur Andersen
Cabitel	Arthur Andersen	Promotora de mercados	Arthur Andersen	Telfisa	Peat Marwick
Cetespa	Arthur Andersen	S.T.Hilo	Peat Marwick	Telyco	Arthur Andersen
Comet	Peat Marwick	Sintel	Arthur Andersen	Temasa	Peat Marwick
Cleón	Peat Marwick	Tael	Price Waterhouse	Tidasa	Arthur Andersen
Estratel	Peat Marwick	T.H.M.	Arthur Andersen	Urbana Ibérica	Peat Marwick
Fonditel	Price Waterhouse	Telefónica Internacional	Arthur Andersen		
Maptel	Peat Marwick	Telefonica North America	Peat Marwick		

I.3 Associated and participated companies

Amper, S.A. Torrelaguna, 75 - 28027 MADRID

Development, manufacture, repair and marketing of telephonic and telematic terminals and components.

Ecotel, S.A. C/ Bravo Murillo, 60 - 28003 MADRID

Market research to measure audience and opinion.

Efecom, S.A. C/ Ríos Rosas, 44 - A - 28003 MADRID

Financial information services rendered in real time through telematic means to corporations and financial intermediary.

Eritel, S.A. Paseo de la Castellana, 141 - 28046 MADRID

Data processing software applications.

Hispasat, S.A. Gobelas, 41 - 45 - 28023 MADRID

Operation of a telecommunications satellite.

Industria Electrónica de Comunicaciones, S.A. (INDELEC), Avda. Pinoa, 8 Zamudio (VIZCAYA)

Manufacture and marketing of mobile radio equipment for communications purposes.

Pabellón de Operadores Europeos de Telecomunicaciones, S.A. - Plaza de España, 4 - 28008 MADRID

Design, installation, operation and management of the pavilion for European telecommunication operators in the Sevilla Expo 92 Universal Exhibition.

Sistemas Técnicos de Loterías del Estado, S.A. María de Molina 48 - 50 - 28006 MADRID

Acquisition, assembly, installation, maintenance and operation of integrated lottery control systems by means of games terminals, including any apparatus necessary for issuing tickets and retransmission.

Sociedad General de Cablevisión, S.A. C/ General Martínez Campos, 53 - 28010 MADRID

Activities relating with cable television and added value services.

Telefónica Fiat Factoring, S.A. Pº de la Habana, 74 - 28036 MADRID

Factoring company.

Torre Collserola, S.A. Balmes, 150 - 08008 BARCELONA

Construction of a telecommunications tower.

Alcatel Standard Eléctrica, S.A. C/ Ramírez de Prado, 5 - 28045 MADRID

Manufacture of telephonic and telegraphic exchange and transmission systems, exchange equipment and communication cables.

A.T.T. Network Systems International BV Larenseweg P.O. Box 1168 - 1200 Hilversum (THE NEDERLANDS)

Marketing, development and manufacture of all network products, principally for public telecommunications.

Iniciatives, S.A. Pº de Gracia, 2 - 08007 BARCELONA

Promotion of initiatives for generating the wealth, occupation and well-being of the community.

Promoció de Ciutat Vella, Rambles, 77 - 08002 BARCELONA

Urban rehabilitation of the Ciutat Vella integrated rehabilitation area.

NOTE 2 - BASES OF PRESENTATION OF THE ANNUAL ACCOUNTS

a) The attached annual accounts have been presented in accordance with the accounting principles stipulated by current legislation, approved by Royal Decree 1643/1990 of September 20, 1990 and by Law 19/1989 of July 25, 1989 of partial reform and adaptation of Commercial Law to European Community Standards referring to Corporations and the specific regulation which applies, in order to present fairly, the shareholders financial position and the results of the operations and they have been prepared on the basis of the accounting records of Telefónica, and its group companies, at December 31, 1992 and 1991.

The Directors who have formulated the annual accounts estimate that the accounts of the year ended will be approved by the General Meeting of Shareholders without material changes. The comparative accounts at December 31, 1991 had been approved by the General Meeting of Shareholders on June 12, 1992.

Accounts payable are classified at the time they are contracted according to their maturity dates. Long term accounts payable are reclassified as short term when their due date is less than 12 months away. These accounts are recorded at their value reimbursement value except for debentures and zero coupon bonds which are shown in the balance sheet at their issue value plus accrued interest.

b) Data comparaison

As result of the agreement to establish the Pension Fund (Note 19), the amounts for fiscal year 1991 have been adapted in order to compare them to those of 1992. Consequently, the presentation of the financial statements for the year ended 1991 differs from those approved by the Shareholders' General Meeting.

The adaptions made are the following:

Profit and loss account: the heading "Provision for constituting a Pension Fund" included in the chapter "Trade provision" is now included in the chapter "Personnel costs".

Balance sheet: the "Endowment fund" which was included in "other long term creditors" has been reclassified to be included in "Provisions for risks and expenses".

Statement of sources and applications of funds: the reclassifications in the balance sheet have an effect on chapters 5 and 6 of "Applications of Funds" and 1 and 4 of "Sources of Funds".

c) Except as otherwise indicated, all figures contained in the documents comprising the financial statements, balance sheet, profit and loss account and notes thereto, are expressed in millions of pesetas.

NOTE 3 - DISTRIBUTION OF PROFITS

The Directors propose to the Shareholders General Meeting the distribution of the parent company's profit, aggregating the final dividend and voluntary reserve amounts, according to the following:

BASIS OF DISTRIBUTION

Profit for year	83,899
Surplus	121

Total available for distribution	84,020
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DISTRIBUTION

Interim dividend of 5% for each of the shares numbered 1 to 926,959,151 payable as from February 17, 1993	23,174
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Complementary dividend of 7,2% for each of the shares numbered 1 to 926,959,151, pending approval	33,370
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Dividend	56,544
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Legal reserve	8,390
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Final dividend and voluntary reserve	19,000
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Surplus	86
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Total proposed distribution	84,020
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During the year ended 1992 it was paid the final dividend related to 1991 profit pending the final dividend and voluntary reserve, according to the following:

Final dividend from 1991 paid on July 27, 1992 (6.8%)	31,517 Millions
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Voluntary Reserve from 1991	18,100 Millions
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Unappropriated profit brought forward from 1991	121 Millions
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NOTE 4 - SIGNIFICANT ACCOUNTING PRINCIPLES

4.1 Accounting principles

The most significant accounting principles applied in the preparation of the financial statements are as follows:

a) Cost of new equity capital

Costs of issuing shares for the conversion of bonds, and expenses incurred to establish and increase share capital are stated at cost and are amortized on a straight line basis over a period of five years from the date of each capital conversion, constitution or increase.

b) Intangible assets and amortization

Intangible assets include costs incurred in developing new product lines that can be marketed or used in the Company's own telephone network. Costs of completed projects having a possibility of commercial or industrial use are amortized over a period of five years while costs of unsuccessful projects are deducted immediately.

This heading also includes the value of rights acquired for the use of outside equipment and installations and the cost of licences for the use of software for an indefinite period, which are amortized on a straight line basis over a period of 25 and 3 years, respectively.

c) Fixed assets and depreciation

Additions to fixed assets are valued at acquisition cost plus installation cost, which includes direct labor and materials together with allocable share of indirect costs.

The annual depreciation charge is calculated by the straight line method based on the estimated useful lives of the assets. The estimated useful lives are as follows:

TYPES OF FIXED ASSETS	YEARS OF USEFUL LIFE	
	PARENT COMPANY	CONSOLIDATED
Buildings	40	40
Technical installations and machinery	13-19	13-19
Exchange equipment	13-23	13-23
Transmission equipment	5-16	5-16
Local and domestic long distance networks	8-20	8-20
User equipment and other installations	4-8	4-8
Other installations, equipment and furniture	5-10	5-10

Maintenance and repair costs not representing extensions or improvements are expensed when incurred.

d) Long term investments - net shareholdings in companies

In the individual annual accounts of the group companies, long term investments are stated at cost, including related acquisition expenses and, where applicable, the cost of the subscription rights. Capital losses compared with book value are charged against results; these losses are calculated on the basis of the respective underlying net equity values of the investments as shown by the financial statements of each company. Dividends are accounted for as income when received, and capital gains on the sale of shares are accounted for as income in the year in which they are realized.

e) Deferred expenses.

Deferred expenses comprise:

- a) Costs of formalizing debts: valued at their realizable value and are amortized on the same basis as their respective principal amounts.
- b) Interest on notes payable: reflects the difference between the issue price and repayment value of notes with maturity exceeding one year. The interest is charged to results by the accrual method.
- c) Differences on foreign exchange: (see Note 4.).
- d) Sponsorship costs of COOB 92, EXPO 92 and COM 92: The balance remaining has been amortized in the year ended 1992.
- e) Annex 91 suppliers: expenses of supply contracts, with deferred payment terms of three years, entered into with the principal Telefónica suppliers. These expenses are amortized over the same period.
- f) Complements for retired personnel (deficit): reflects the difference between the present value of complementary annuities to Telefónica's retired personnel calculated on an 8% annual interest, and the provision applied for this purpose. They are amortized by the straight line method over a period of 15 years (Note 19).
- g) Deferred expenses of deficit assets depreciation is the difference between the provided funds for the consolidated rights in the Pension Plan for its present employees and the charge in the profit and loss account for deficit assets amortization over a period of 28 years, with growing quotes of 1,06 (Note 19.5).

f) Inventories:

Inventories and stocks are valued at their weighted average cost. Work in process and finished products are stated at the lesser of production cost and market value. Provisions for obsolescence are stated according to the age and rotation of inventories, in order to record its real depreciation.

g) Capital grants

Capital grants are stated at their nominal amounts and are charged to income on a straight-line basis over a maximum period of 10 years, which does not differ significantly from the useful lives of the assets linked to these grants. Sources for the grants are:

- Official Agencies, Autonomous Communities, Local and Regional Administrations, for the extension of the telephone services to rural areas.

- The European Economic Community, for the promotion and development of telecommunication activities among companies in the sector:

all cases, Telefónica Group companies fulfill all the requirements to receive the grants.

h) Retirement pensions and endowment insurance

From January 1, 1992 the retirement pensions for Telefónica's personnel are being attended to by Social Security. Pursuant to the statutory collective bargaining agreement, its pensioners will receive as a complement to the Social Security payments, fixed madly payment by Telefónica on the terms described in Note 19.

Current employees may join the Pension Plan established pursuant to Telefónica's proposal of June 30, 1992, which was accepted by a majority of the personnel in the September 17, 1992 Referendum and recorded in the collective bagainingagreement with the employees representatives (Note 19).

In accordance with the terms of agreement, employees who do not join assume the Pension Plan will be able to continue to benefit from the Endowment Insurance.

Endowment Insurance is provided for on the basis of regulatory salary indices, calculated in accordance with actuarial studies (Note 20).

i) Corporate income tax

Corporate income tax is charged against the corresponding year as either deferred or prepaid taxes depending on timing differences between the amounts to be paid a taxes and book charges.

j) Valuation of foreign currency accounts

In accordance with the Third Transitory Disposition of Royal Decree 1643/90 of December 20, 1991, unrealized foreing exchange losses as of December 31, 1989, have been amortized over a period of three years (1990 to 1992) limited to the maturity date of each transaction. Additionally, for fiscal years 1990 and 1991, in accordance with accounting principles stipulated by current legislation, the criteria has been to classify the exchange differences for each transaction into homogeneous groups by currency and matutity, treating unrealized losses as current expenses and unrealized gains as income to be distributed into several years.

As a result of the coming into effect of the Order of the Ministry of Economy an Resources dated March 12th 1993 concerning the accounting treatment of currency exchange differences for regulated companies (BOE number 64; March 16th 1993) for the 1992 fiscal year there has been a change in the treatment of exchange differences losses have been lineally distributed, for each loan, according to the period of maturity. The fiscal year's profit and loss account reflects exclusively for each transaction the unrealized losses, accumulated linearly from their origin to year end. The remainder of the negative differences that corresponding to future years, will be included as "deferred expenses" and linaerly distributed to maturity.

Positive differences are deferred, until their realization, under the heading "Deferred income".

The treatment of taxes is the same as last year's, and exchange differences are included as taxable income when materialized.

k) Income and expenses

Income and expenses are accounted for on an accrual basis, that is, at the time the corresponding goods and services are purchased or rendered regardless of the time when they are paid for.

However, following the principle of prudence, only profits realized at year end have been accounted for, while foreseeable risks and losses, even if remote, are recorded when they become known.

4.2 Principles of consolidation

a) The Telefónica Group consolidates, by the full consolidation method, the financial statements of its subsidiary companies, that is, companies in which it owns or controls a majority of the votes and in which it has the capacity to nominate the majority of the board members, with the exception of Casiopéa Re., S.A. which, although Telefónica owns 100% of its share capital, is consolidated by the equity method because of its specific operations. The multi-group companies, in which Telefónica owns 50% of its share capital and voting rights, are consolidated by the proportional integration method.

The consolidated subsidiary companies, together with their trade names, registered addresses, percentage ownership and operations, are listed in Notes 1.2 and 7.

b) Transactions between companies in the Group and intercompany balances at year end are eliminated on consolidation, as well as sales and profit included in invoices to Telefónica for telephone installations from subsidiary and associated companies, recognizing those results as the installations are being amortized.

c) As regards the annual accounts of associated companies (that is, those companies outside the Telefónica Group on which Telefónica has a financial investment and an ability to influence its management to a large extent) investments and results for each company are accounted for by the equity method, making adjustements on the basis of the underlying equity as calculated from the balance sheets and profit and loss accounts at each year end.

Associated companies, together with their trade names, registered addresses, percentage ownership and operations, are listed in Notes 1.3 and 7.

d) Stock ownership in other companies (minority-interest companies) is tracted as investment and accounted for at cost.

Ownership in minority-interest companies is set forth in Notes 1.3 and 7.

e) The amount paid for the acquisition of companies in excess of their book value at the purchase date is accounted for as goodwill, which is amortized over a period of five or ten years depending on the period of recovery of each of the investments.

f) For companies located in countries with high rates of inflation, local currency financial statements are translated to US dollars by applying the year-end rate of exchange to the financial statements adjusted for inflation.

g) The financial statements of other companies located abroad have been translated to pesetas by translating the assets and liabilities at the year-end rates of exchange, capital and reserves at historical rates and income and expenses at the average rates for the year. The difference between applying the foregoing bases of translation and applying the year-end exchange rate is presented under the heading, "Differences on foreign currency translation for consolidation".

h) The financial statements of individual companies have been prepared homogeneously following the accounting principles listed in Note 4.1.

NOTE 5 - INTANGIBLE ASSETS

The movement during the year is as follows:

	PARENT COMPANY				CONSOLIDATED			
	Research and development expenses	Licenses for indef. use of software	Other intangible assets	Total	Research and development expenses	Licenses for indef. use of software	Other intangible assets	Total
Balance at December 31, 1990	15,853	4,820	992	21,665	16,373	903	5,616	1,292 24,184
Additions	9,645	4,710	254	14,609	9,737	4,300	5,028	2,049 21,114
Reductions	-	-	-	-	35	123	403	224 785
Balance at December 31, 1991	25,498	9,530	1,246	36,274	26,075	5,080	10,241	3,117 44,513
Additions	11,002	7,408	1,161	19,571	10,433	321	7,718	1,302 19,774
Addition of TLD	-	-	-	-	-	-	-	3,522 3,522
Reductions	-	-	-	-	-	276	-	66 342
Disposal of Ecotel	-	-	-	-	93	245	-	156 494
Transfers	-	-	-	-	-	(121)	-	- (121)
Balance at December 31, 1992	36,500	16,938	2,407	55,845	36,415	4,759	17,959	7,719 66,852

The movement on amortization is as follows:

	PARENT COMPANY				CONSOLIDATED			
	Research and development expenses	Licenses for indef. use of software	Other intangible assets	Total	Research and development expenses	Licenses for indef. use of software	Other intangible assets	Total
Balance at December 31, 1990	1,224	1,829	800	3,853	1,542	44	2,265	834 4,685
Additions	1,347	2,754	72	4,173	1,492	564	2,891	505 5,452
Reductions	-	-	-	-	22	52	282	- 356
Balance at December 31, 1991	2,571	4,583	872	8,026	3,012	556	4,874	1,339 9,781
Additions	2,102	3,999	109	6,210	2,127	324	4,176	193 6,820
Reductions	-	-	-	-	-	56	-	96 152
Disposal of Ecotel	-	-	-	-	-	43	-	54 97
Transfer	-	-	-	-	-	(278)	-	- (278)
Balance at December 31, 1992	4,673	8,582	981	14,236	5,139	503	9,050	1,382 16,074
Net intangible assets	31,827	8,356	1,426	41,609	31,276	4,256	8,909	6,337 50,778

NOTE 6 - TANGIBLE ASSETS

6.1 The details of fixed assets and accumulated depreciation are as follows:

	PARENT COMPANY						
	Balance at 31.12.90	Additions	Retirements	Balance at 31.12.91	Additions	Retirements	Balance at 31.12.92
Land and buildings	293,399	56,318	462	349,255	54,078	136	403,197
Technical installations and machinery	83,520	20,851	2,215	102,156	11,424	2,102	111,478
Exchange equipment	1,181,435	204,146	35,702	1,349,879	134,740	35,996	1,448,623
Transmission equipment	494,151	153,392	9,511	638,032	97,133	7,008	728,157
Local and domestic long distance networks	1,503,812	311,202	87,723	1,727,291	197,088	64,643	1,859,736
Subscriber equipment and other installations	229,586	48,691	24,355	253,922	35,667	17,556	272,033
Furniture, office and other equipment	64,186	24,732	364	88,554	15,359	59	103,854
Total fixed assets in service	3,850,089	819,332	160,332	4,509,089	545,489	127,500	4,927,078
Net movement on:							
Construction in progress	646,434	(196,660)	-	449,774	(122,441)	2,272	325,061
Advances to suppliers of fixed assets	22,447	(9,293)	-	13,154	17,650	-	30,804
Stock Installation equipment	56,853	(11,962)	-	44,891	(20,878)	-	24,013
Total fixed assets	4,575,823	601,417	160,332	5,016,908	419,820	129,772	5,306,956

The movement on accumulated depreciation is as follows:

	PARENT COMPANY						
	Balance at 31.12.90	Additions	Retirements	Balance at 31.12.91	Additions	Retirements	Balance at 31.12.92
Land and buildings	67,754	6,832	82	74,504	8,204	76	82,632
Technical installations and machinery	39,448	6,302	1,576	44,174	7,489	1,474	50,189
Exchange equipment	535,800	86,302	29,469	592,633	102,311	16,764	678,180
Transmission equipment	233,669	35,613	7,119	262,163	46,459	4,857	303,765
Local and domestic long distance networks	646,739	97,205	71,152	672,792	117,645	51,828	738,609
Subscriber equipment and other installations	141,098	44,365	18,796	166,667	39,437	16,870	189,234
Furniture, office and other equipment	24,625	10,127	347	34,405	13,288	35	47,658
Total accumulated depreciation	1,689,133	286,746	128,541	1,847,338	334,833	91,904	2,090,267
Total net fixed assets	2,886,690	314,671	31,791	3,169,570	84,987	37,868	3,216,689

CONSOLIDATED

	Balance at 31.12.90	Additions	Retirements	Balance at 31.12.91	Additions	Retirements	Balance at 31.12.92
Land and buildings	297,201	57,147	594	353,754	53,896	820	406,830
Technical installations and machinery	90,759	22,097	2,242	110,614	14,909	3,130	122,393
Exchange equipment	1,181,435	204,146	47,795	1,337,786	134,770	35,996	1,436,560
Transmission equipment	494,151	153,392	15,359	632,184	96,912	7,008	722,088
Local and domestic long distance networks	1,503,812	311,202	103,557	1,711,457	197,433	64,643	1,844,247
Subscriber equipment and other installations	229,586	49,963	27,902	251,647	38,717	17,556	272,808
Furniture, office and other equipment	75,819	24,856	2,275	98,400	16,937	931	114,406
Total fixed assets in service	3,872,763	822,803	199,724	4,495,842	553,574	130,084	4,919,332
Net movement on:							
Construction in progress	652,840	(205,793)	218	446,829	(114,361)	2,494	329,974
Advances to suppliers of fixed assets	22,584	(9,138)	171	13,275	17,198	121	30,352
Stock Installation equipment	56,853	(10,355)	-	46,498	(22,485)	-	24,013
Total fixed assets	4,605,040	597,517	200,113	5,002,444	433,926	132,699	5,303,671

The movement on accumulated depreciation is as follows:

CONSOLIDATED

	Balance at 31.12.90	Additions	Retirements	Balance at 31.12.91	Additions	Retirements	Balance at 31.12.92
Land and buildings	68,013	7,202	84	75,131	8,348	83	83,396
Technical installations and machinery	40,904	7,017	1,812	46,109	8,178	1,780	52,507
Exchange equipment	535,800	85,732	30,808	590,724	101,243	15,557	676,410
Transmission equipment	233,669	35,239	7,766	261,142	45,981	4,098	303,025
Local and domestic long distance networks	646,738	96,250	72,962	670,026	116,865	52,247	734,644
Subscriber equipment and other installations	141,098	44,299	19,801	165,596	39,140	17,384	187,352
Furniture, office and other equipment	29,185	11,621	605	40,201	15,428	523	55,106
Total accumulated depreciation	1,695,407	287,360	133,838	1,848,929	335,183	91,672	2,092,440
Total net fixed assets	2,909,633	310,157	66,275	3,153,515	98,743	41,027	3,211,231

6.2 Fully depreciated fixed assets at December 31 are as follows:

		PARENT COMPANY		CONSOLIDATED	
		1992	1991	1992	1991
Power equipment		5,304	3,798	5,304	3,798
Exchange equipment		74,200	68,781	74,200	68,781
Transmission equipment		121,161	107,392	121,161	107,392
Local and domestic long distance networks		48,234	78,405	48,234	78,405
Subscriber and other installations		86,071	44,160	86,071	44,338
Furniture, office and other equipment		9,676	8,849	11,939	10,442
Totals		344,646	311,385	346,909	313,156

6.3 Subscriber equipment and other installations at December 31, 1992 includes equipment with a gross value of 162,123 million pesetas (162,055 million pesetas in 1991) net 34,983 million pesetas (net 44,350 million pesetas in 1991) which is subject to sale in accordance with Royal Decree Law 303/1991 of March 8, 1991.

6.4 The consolidated investment budget for 1993 amounts to 559,166 million pesetas (555,525 in Telefónica) of which 497,973 million pesetas (494,332 in Telefónica) will be invested in tangible assets 35,499 million pesetas in intangible assets and the remainder largely in companies. The continued and long-term nature of Telefonica's investments means that a part of this budget is related to the completion of projects initiated in previous years.

6.5 Telefonica's fixed assets used to provide telephone services may not be mortgaged, except when an authorization of the Government Delegate exists.

6.6 At December 31, 1992 there were assets totalling 86,891 million pesetas governed by Decree Law 19/1961 and Law 61/1978 which regulate the tax benefits obtained from the reduction of the withholding tax rates on the interest on the loans and borrowings referred to in Notes 14 and 15.

6.7 Telefónica Group companies are insured against possible risks on fixed assets used in operations, with the exception of the deductibles applicable local and domestic long distance networks and subscriber equipment, for which self-insurance reserves have been made.

6.8 The revaluations of balances made by the parent company up to 1987 (year of last revaluation) have had the following movement for the years shown:

	FROM 1946 TO 1985		1986		1987		TOTAL	
	Fixed assets	Accumul. deprec.	Fixed assets	Accumul. deprec.	Fixed assets	Accumul. deprec.	Fixed assets	Accumul. deprec.
Land	23,140	-	-	-	6,901	-	30,041	-
Buildings	58,061	14,545	-	-	35,221	10,489	93,282	25,034
Power equipment	24,367	11,373	2,697	1,222	4,461	2,378	31,525	14,973
Exchange equipment	408,892	180,280	38,078	15,098	57,672	20,312	504,642	215,690
Transmission equipment	131,107	84,187	11,759	6,922	8,170	3,909	151,036	95,018
Local and domestic long distance networks	535,420	287,030	56,905	20,718	56,620	24,003	648,945	331,751
Subscriber equipment and other installations	31,757	40,936	-	-	(35,910)	(13,287)	(4,153)	27,649
Total	1,212,744	618,351	109,439	43,960	133,135	47,804	1,455,318	710,115
								745,203

The effect of these revaluations on the annual depreciation charge was Ptas 45,671 million (Ptas 57,846 million in 1991).

6.9 The useful lives of the various elements of Telefónica's fixed assets are calculated based on technical studies by the Company, which are revised periodically on the basis of technological development and renewal programs. These useful lives are shown in Note 4.I.c).

6.10 Inventories are shown net of reserve for obsolescence. The total reserve in Telefónica amounts to 7,844 million pesetas (5,342 million pesetas in 1991). The charge to the reserve in 1992 based on estimates made, was 9,357 million pesetas.

NOTE 7 - INVESTMENTS

7.1 The composition and movements with respect to investments, together with the reserve for depreciation, were as follows:

	PARENT COMPANY															
a) Movement on investments:																
	Balance at 31.12.90	Additions	Retirements	Transfers	Balance at 31.12.91	Additions	Retirements	Transfers	Balance at 31.12.92							
Investments in Group companies	26,387	55,854	-	(859)	81,382	1,034	183	(314)	81,919							
Advances for capital increases	14,115	-	14,115	-	-	-	-	-	-							
Investments in associated companies	17,320	3,481	6,396	-	14,405	2,163	-	(4,892)	11,676							
Other investments	12,436	3,103	5,187	859	11,211	2,811	2,900	5,206	16,328							
Loans to Group Companies	-	-	-	-	-	2,014	-	-	2,014							
Loans to employees	2,136	234	728	-	1,642	179	621	-	1,200							
Guarantees and deposits	1,441	164	831	-	774	261	124	-	911							
Total	73,835	62,836	27,257	-	109,414	8,462	3,828	-	114,048							
b) Movement on reserve for depreciation																
	Balance at 31.12.90	Additions	Retirements	Transfers	Balance at 31.12.91	Additions	Retirements	Transfers	Balance at 31.12.92							
Investments in Group companies	1,564	2,976	50	-	4,490	33	685	(27)	3,811							
Investments in associated companies	1,083	266	1,083	-	266	2,169	102	27	2,360							
Other investments	632	6	2	-	636	533	-	-	1,169							
Total	3,279	3,248	1,135	-	5,392	2,735	787	-	7,340							
c) Movement on payments pending on shares																
	Balance at 31.12.90	Additions	Retirements	Transfers	Balance at 31.12.91	Additions	Retirements	Transfers	Balance at 31.12.92							
Investments in Group companies	487	27,490	687	(38)	27,252	114	16,015	-	11,351							
Investments in associated companies	2,500	360	1,408	38	1,490	300	1,490	-	300							
Total	2,987	27,850	2,095	-	28,742	414	17,505	-	11,651							
Total investments	67,569	31,738	24,027	-	75,280	5,313	(14,464)	-	95,057							

a) Movement on investments:

	Balance at 31.12.90	Additions	Retirements	Transfers	Balance at 31.12.91	Additions	Retirements	Transfers	Balance at 31.12.92
Investments in associated companies	61,621	13,354	11,807	(1,652)	61,516	752	54	20,138	82,352
Other investments	15,813	40,233	6,956	2,701	51,791	6,999	3,435	3,402	58,757
Loans to employees	2,839	234	758	-	2,315	1,388	1,047	904	3,560
Guarantees and deposits	1,706	3,654	904	-	4,456	327	153	(276)	4,354
Total	81,979	57,475	20,425	1,049	120,078	9,466	4,689	24,168	149,023

b) Movement on reserve for depreciation

	Balance at 31.12.90	Additions	Retirements	Transfers	Balance at 31.12.91	Additions	Retirements	Transfers	Balance at 31.12.92
Other investments	1,264	1,402	1,069	-	1,597	574	71	159	2,259
Total	1,264	1,402	1,069	-	1,597	574	71	159	2,259

c) Movement on payments pending on shares

	Balance at 31.12.90	Additions	Retirements	Transfers	Balance at 31.12.91	Additions	Retirements	Transfers	Balance at 31.12.92
Investments in associated companies	2,537	398	1,445	-	1,490	300	1,490	-	300
Other investments	26	33	26	33	-	7	-	-	26
Total	2,563	431	1,471	300	1,523	300	1,497	326	

7.2 Details of subsidiary and associated companies and other shareholdings

						PERCENTAGE OF DIRECT PARTICIPATION	NET BOOK VALUE IN TELEFONICA
		SHARE CAPITAL					
In million of pesetas		1992	1991	1992	1991	1992	1991
Subsidiary Companies							
Cabinas Telefónicas, S.A. (CABITEL) <u>Plaza de Carlos Triás Bertrán, s/n (MADRID) - 28020</u>	(**) (*)	200	200	100	100	200	200
Casiopea Reaseguradora, S.A. <u>I Rue Schiller L-2519 (LUXEMBURGO)</u>		498	498	100	100	498	498
Compañía Española de Tecnología, S.A. (COMET) <u>Paseo de la Castellana, 83-85 (MADRID) - 28046</u>	(**) (*)	469	1,100	100	100	435	467
Compañía Gestora del Servicio Mensatel, S.A. <u>Manuel Tovar, 35 (MADRID) - 28034</u>		10		51		4	
Compañía Publicitaria de Exclusivas Telefónicas, S.A. (CETESA) <u>Avenida Manoteras, 12 (MADRID) - 28050</u>	(**) (*)	434	434	97.33	97.33	696	696
Ectel, S.A. <u>Cristóbal Bordiú, 10 (MADRID) - 28003</u>			200		90		311
Estrategias Telefónicas, S.A. (ESTRATEL) <u>Príncipe de Vergara, 110 (MADRID) - 28002</u>	(**) (*)	150	150	100	100	140	140
Fonditel Entidad Gestora de Fondos de Pensiones, S.A. <u>General Perón, 38 (MADRID) - 28020</u>		100		75		75	
Maptel, S.A. <u>Paseo de la Castellana, 127 (MADRID) - 28046</u>		150	150	76	76	220	220
Playa de Madrid, S.A. <u>Paseo de la Castellana, 83-85 (MADRID) - 28046</u>	(**) (*)	40	40	100	100	54	54
Pléyade Peninsular Correduría de Seguros, S.A. <u>General Perón, 38 (MADRID) - 28020</u>	(*)	10	10	100	100	10	10
Seguros de Vida y Pensiones Antares, S.A. <u>General Perón, 38 (MADRID) - 28020</u>	(**) (*)	1,320	1,120	100	100	720	620
Servicios de Teledistribución, S.A. (S.T. HILO) <u>Covarrubias, 1 (MADRID) - 28010</u>	(**) (*)	210	210	99.17	99.17	293	293
Sistemas e Instalaciones de Telecomunicación, S.A. (SINTEL) <u>D.S.: Rafael Calvo, 18 (MADRID) - 28010</u>	(**) (*)	1,100	1,100	100	100	2,935	2,935
Taetel, S.L. <u>Beatriz de Bobadilla, 3 (MADRID) - 28040</u>		4,700	4,700	100	100	4,700	4,700
Telecomunicaciones Marinas, S.A. (TEMASA) <u>Silva, 1 (MADRID) - 28013</u>	(**) (*)	1,376	1,376	100	100	1,326	1,326
Telefonía y Finanzas, S.A. (TELFISA) <u>Paseo de la Castellana, 151 (MADRID) - 28046</u>	(**) (*)	500	500	100	100	472	431
Telefónica Internacional de España, S.A. <u>Jorge Manrique, 12 (MADRID) - 28006</u>		79,900	79,900	76.22	76.22	50,227	34,212
Telefónica Investigación y Desarrollo, S.A. (TIDSA) <u>Emilio Vargas, 6 (MADRID) - 28043</u>	(**) (*)	1,000	1,000	100	100	1,000	1,000
Telefónica North America, Inc. <u>C Trust Center 1209 Orange St. Wilm. Delaware (U.S.A.)</u>		1	1	100	100	1	1
Telefónica Sistemas, S.A. <u>Sor Angela de la Cruz, 3 (MADRID) - 28020</u>	(**) (*)	534	534	100	43.82	1,352	465
Teleinformática y Comunicaciones, S.A. (TELYCO) <u>Raimundo Fdez. Villaverde, 28 (MADRID) - 28003</u>	(**) (*)	50	50	100	100	50	50
THM, Control Electrónico Integrado, S.A. <u>General Arrando, 40-B (MADRID) - 28010</u>	(*)	420	420	99	94.55	253	249
T.S.-I, Telefónica de Servicios, S.A. <u>Manuel Tovar, 35 (MADRID) - 28034</u>	(**) (*)	940	940	100	100	1,082	748
Urbana Ibérica, S.A. <u>Paseo de la Castellana, 151 (MADRID) - 28046</u>		264	330	100	100	14	14
Total subsidiary companies						66,757	49,640

(*) Companies included in the consolidated corporate income tax return for the year 1992

(**) Companies included in the consolidated corporate income tax return for the year 1991

NET EQUITY ASSIGNED IN BALANCE SHEET	PROFIT (LOSS) ASSIGNED IN P/L ACCOUNT		OPERATIONS		
1992	1991	1992	1991	1992	1991
1,540	1,436	604	534	Marketing, installation, management and operation of public telephones. Operating the foregoing for advertising purposes.	
7,038	5,154	0	0	Reinsurance.	
435	467	(34)	(137)	Research and analysis of industrials and services projects.	
4		(2)		Activities relating to added value services.	
4,193	3,083	2,559	1,479	Publishing guides, and advertising on all types of support equipment.	
	131		(50)	Market research to measure audience and opinion.	
315	272	43	134	Promotion, marketing and market research relating to direct marketing.	
76		1		Pensions Funds Administration.	
77	124	(47)	7	Data processing consulting and digital cartography.	
189	186	3	22	Distribution of all types of articles operation of sporting and hostelry.	
104	39	81	29	Distribution, promotion and production of insurance contracts, operating as a broker.	
1,093	892	101	174	Life insurance and pensions.	
565	467	108	74	Supplying music line services and installation and maintenance of equipment.	
7,426	7,461	344	1,466	Installation of cable laying equipment in the telecommunications field	
7,653	23,503	1,950	18,803	Acquisition, holding and disposition of shares in other companies.	
2,769	2,410	359	352	Surveing, laying and repairing underwater cables.	
472	434	38	(1,015)	Treasury and financial advisory support services to Group companies.	
79,061	40,487	7,175	5,683	Investment in foreign telecommunications.	
1,925	1,563	362	135	Research and development.	
1	1	0	0	Financial intermediary.	
1,351	465	289	115	Systems engineering.	
267	1,163	(896)	94	Promotion, marketing and distribution of telephonic and telematic equipment and services.	
894	722	244	322	Protection and control systems engineering.	
1,082	711	614	(230)	Operation of added value services.	
199	189	10	1	Promotional activities for residential property.	
118,729	91,360				

	SHARE CAPITAL	PERCENTAGE OF DIRECT PARTICIPATION		NET BOOK VALUE IN TELEFONICA		
In million of pesetas	1992	1991	1992	1991	1992	1991
Associated Companies						
Alcatel Standard Eléctrica, S.A. Ramírez de Prado, 5 (MADRID) - 28045		35,326		21.14		5,206
Amper, S.A. María de Molina, 37 bis (MADRID) - 28006	6,977	6,977	15.35	7.50	1,277	1,423
Ecotel, S.A. Cristóbal Bordiú, 10 (MADRID) - 28003		400		40		149
EFECCOM, S.A. Ríos Rosas, 44 A (MADRID) - 28003		350		20		21
Eritel, S.A. Paseo de la Castellana, 141 (MADRID) - 28046	993	938	36.57	38.71	659	659
Hispasat, S.A. Gobelos, 41-45 (MADRID) - 28023	20,000	20,000	25	25	5,000	3,750
Industria Electrónica de Comunicaciones, S.A. (INDELEC) Avda. Pinoa, 8 Zamudio (VIZCAYA) - 48016	600	600	30	30	110	150
Pabellón de Operadores Europeos de Telecomunicaciones, S.A. Gran Vía, 28 (MADRID) - 28013	520	800	38.46	25	7	173
CSistemas Técnicos de Loterías del Estado, S.A. Manuel tovar, 9 (MADRID) - 28034	2,000	2,000	31.75	31.75	635	552
CSociedad General de Cablevisión, S.A. General Martínez Campos, 53 (MADRID) - 28010		60		33.33		20
Telefónica. Fiat Factoring, S.A., Entidad de Financiación Paseo de la Castellana, 83-85 (MADRID) - 28046	1,400	300	50	50	293	165
Torre de Collserola, S.A. Ctra. Vallvidrera-Tibidabo, s/n (BARCELONA) - 08017	2,000	2,000	42	41.5	845	571
Total associated companies					9,016	12,649

Shareholdings in Companies						
Alcatel Standard Eléctrica, S.A. Ramírez de Prado, 5 (MADRID) - 28045		56,410		13.24		5,206
ATT Network Systems International B.V. Larenseweg, 50 P.O. Box 1168 - 1200 BD Hilversum (HOLANDA)		11,390	11,390	5.84	5.84	2,554
Iniciatives, S.A. Passeig de Gracia, 2 (BARCELONA) - 08007	3,100	3,100	3.23	3.23	140	140
Promoció de Ciutat Vella, S.A. Rambles, 77 (BARCELONA) - 08002	2,800	2,800	3.57	3.57	89	89
Other investment	(***)				7,170	7,259
Total shareholdings					15,159	10,575

Total Group **90,932** **72,864**

(***) Includes the holding in the telecommunications satellite

(*) Information at September 1992

(**) Information corresponding to the year 1991

NET EQUITY ASSIGNED IN BALANCE SHEET	PROFIT (LOSS) ASSIGNED IN P/L ACOUNT	OPERATIONS		
1992	1991	1992	1991	
	8,011	454		Manufacture of telephonic and telegraphic exchange and transmission systems.
1,278	1,423	(1,686)	(226)	Development, manufacture, and repair of telephonic and telematic terminals and components.
74		(64)		Market research to measure audience and opinion.
21		(30)		Design, installation and management of the pavilion for european telecommunications operators in the Seville Expo 92
832	1,132	(397)	311	Data processing software applications.
5,002	3,750	2	0	Operation of a telecommunications satellite.
110	367	(257)	(119)	Manufacture and marketing of mobile radio equipment for communication purposes.
7	173	(151)	(23)	Design, installation, operation and management of the pavilion for European Telecommunications Operators in the Seville Expo 92.
818	552	266	27	Development manufacture and installation of lottery control systems by means of games terminals.
20		0		Development, manufacture and installation of electronic in the telecommunications sector.
292	164	(121)	(1)	Factoring company.
849	571	28	(23)	Communications tower.
9,303	16,143			
5,854		(1,964)		Manufacture of telephonic and telegraphic exchange and transmission systems
1,526	1,984	(822)	193	Marketing development and marketing of all network products, principally for public telecommunications.
141(•)	133	8 (•)	5	Promotion of initiatives for generating the wealth, occupation and well-being of the community.
89(••)	89	(4)(••)	(4)	Urban rehabilitation of the Ciutat Vella integrated rehabilitation area.
7,170	7,259			
14,780	9,465			
142,812	116,968			

(M - Millions of monetary units) (m - Thousands of monetary units)	SHARE CAPITAL	M.U.	CURRENCY	PERCENTAGE PARTICIPATION	COST VALUE IN GROUP	NET EQUITY ASSIGNED IN BALANCE SHEET AT 31.12.92	CHANCE IN NET EQUITY ASSIGNED 1992-1991
	DIREC.	INDIR.					
Subsidiary Companies							
Cabinas Telefónicas, S.A. (CABITEL)	200	M	Peseta	100	200	1,540	104
Casiopea Reaseguradora, S.A.	3,600	m	ECUS	100	498	7,038	1,884
Compañía Española de Tecnología, S.A. (COMET)	469	M	Peseta	100	1,102	435	(34)
Cleon, S.A.	1,350	M	Peseta	50	675	651	(7)
Compañía Gestora del Servicio Mensatel, S.A.	10	M	Peseta	51	48.9	5	7
Compañía Publicitaria de Exclusivas Telefónicas,S.A.(CETESA)	434	M	Peseta	97,33	2,67	225	4,226
Promotora de Mercados Telemáticos, S.A.	10	M	Peseta	100	10	145	24
Estrategias Telefónicas, S.A. (ESTRATEL)	150	M	Peseta	100	140	315	43
Fonditel Entidad Gestora de Fondos de Pensiones, S.A.	100	M	Peseta	75	25	100	101
Maptel, S.A.	150	M	Peseta	76	220	78	(46)
Playa de Madrid, S.A.	40	M	Peseta	100	54	189	3
Pleyade Peninsular Correduría de Seguros, S.A	10	M	Peseta	100	10	104	65
Seguros de Vida y Pensiones Antares, S.A	1,320	M	Peseta	100	720	1,093	201
Servicios de Teledistribución, S.A. (S.T. HILO)	210	M	Peseta	99,17	0.83	295	530
Sistemas e Instalaciones de Telecomunicación, S.A (SINTEL)	1,100	M	Peseta	100	1,446	6,918	(7)
Servicios 2000, A.I.E.	5	M	Peseta	50	3	(3)	-
Sietel, S.A.	330	m	P. Ch.	50	-	29	23
Sintelar, S.A.	10	M	P. Arg.	50	5	219	168
Taetel, S.L.	4,700	M	Peseta	100	4,700	7,653	(15,850)
Telecomunicaciones Marinas, S.A. (TEMASA)	1,376	M	Peseta	100	1,376	2,769	359
Telefonía y Finanzas, S.A. (TELFISA)	500	M	Peseta	100	500	472	166
Telefónica Internacional de España, S.A	79,900	M	Peseta	76.22	50,223	50,313	16,582
Sintelar, S.A.	95	m	P. Arg.	25	10	110	-
Telefónica Internacional, B.V. (HOLANDA)	1,053	m	Fl. Hol.	100	60,940	68,074	61,737
Inversiones Hispano-Chilenas, S.A. (CHILE)	29,628	m	\$ USA	100	3,193	6,924	2,344
Telefónica Chile, S.A. (CHILE)	42	M	\$ USA	100	6,045	16,612	6,028
Telefónica Internacional, S.A. (LUXEMBURGO)	12,870	M	\$ USA	100	685	487	(73)
Telefónica Larga Distancia, (PUERTO RICO)	1,000	m	\$ USA	79	12,872	10,169	-
Telefónica USA, Inc. (USA)	5	m	\$ USA	100	1	(17)	(9)
Telefónica Chile, B.V. (HOLANDA)	100	m	Fl. Hol.	100	19,919	6,049	1,019
Telefónica Venezuela, B.V. (HOLANDA)	40	m	Fl. Hol.	100	2	1	(1)
Telefónica Investigación y Desarrollo, S.A. (TIDSA)	1,000	M	Peseta	100	1,000	1,925	362
Telefónica North America, Inc.	10	-	\$ USA	100	1	1	-
Telefónica Sistemas, S.A.	534	M	Peseta	100	1,540	1,347	286
Teleinformática y Comunicaciones, S.A. (TELYCO)	50	M	Peseta	100	50	267	(896)
THM, Control Electrónico Integrado, S.A.	420	M	Peseta	99	346	869	243
T.S.-I, Telefónica de Servicios, S.A.	940	M	Peseta	100	2,453	877	166
Servicios Telefónicos de Audiotex, S.A.	150	M	Peseta	51	77	205	163
Urbana Ibérica, S.A.	264	M	Peseta	100	130	199	10
Total subsidiary companies					171,771	198,921	76,683

(M - Millions of monetary units) (m - Thousands of monetary units)	SHARE CAPITAL	M.U.	CURRENCY	PERCENTAGE PARTICIPATION		COST VALUE IN GROUP	NET EQUITY ASSIGNED IN BALANCE SHEET AT 31.12.92	CHANCE IN NET EQUITY ASSIGNED 1992-1991
				DIREC.	INDIR.			
Associated Companies								
Telefónica de España, S.A.								
Amper, S.A.	6,977	M	Peseta	15.35		2,973	2,963	53
Ecotel, S.A.	400	M	Peseta	40		314	138	7
Efecom, S.A.	350	M	Peseta	20		90	51	-
Eritel, S.A.	993	M	Peseta	36.57		569	1,229	97
Hispasat, S.A.	20,000	M	Peseta	25		5,000	5,000	1,250
Industria Electrónica de Comunicaciones, S.A. (INDELEC)	600	M	Peseta	30		180	367	-
Pabellón de Operadores Europeos de Telecomunic., S.A.	520	M	Peseta	38.46		200	159	(14)
Sistemas Técnicos de Loterías del Estado, S.A.	2,000	M	Peseta	31.75		635	552	-
Sociedad General de Cablevisión, S.A.	60	M	Peseta	33.33		20	20	-
Telefónica Fiat Factoring, S.A. Entidad de Financiación	1,400	M	Peseta	50		715	413	249
Torre de Collserola, S.A.	2,000	M	Peseta	42		845	821	250
Compañía Española de Tecnología, S.A. (COMET)								
Semisa, S.A.	39	M	Peseta	30		41	41	17
Compañía Publicitaria de Exclusivas Telefónicas, S.A. (CETESA)								
Venturini, S.A.	500	M	Peseta	25		125	175	(3)
Servicios de Teledistribución, S.A. (S.T. HILO)								
Sapec, S.A.	60	M	Peseta	33		13	38	1
Sistemas e Instalaciones de Telecomunicación, S.A (SINTEL)								
Cotronic, S.A.	10	M	Peseta	49		10	22	-
Incosa, S.A.	10	M	Peseta	49		7	37	-
Inalca, S.A.	10	M	Peseta	44		12	80	-
S.A.C, S.A.	490	M	Peseta	39		191	280	62
Telefónica Internacional de España, S.A.								
Cía. de Inversiones en Telecomunic., S.A. (ARGENTINA)	852	M	P. Arg.	10.13		5,866	5,866	-
Compañía de Teléfonos de Chile, S.A. (CHILE)	290,586	M	P. Ch.	43.63		53,816	58,816	21,314
Entel Chile, S.A. (CHILE)	60,497	M	P. Ch.	20		5,319	5,319	1,730
Telefónica de Argentina, S.A. (ARGENTINA)	2,298	M	P. Arg.	8.07		6,652	6,652	-
Telefónica Sistemas, S.A.								
Telecom Vallés, S.A.	120	M	Peseta	12.45		15	14	1
Tissat, S.A.	100	M	Peseta	40		40	39	1
Excel Data, S.A.	150	M	Peseta	20		30	33	(1)
THM, Control Electrónico Integrado, S.A.								
Tepesa, S.A.	150	M	Peseta	31.78		56	80	-
T.S.-I, Telefónica de Servicios, S.A.								
Telecom Vallés, S.A.	120	M	Peseta	12.45		15	14	1
Total associated companies						83,749	89,219	25,015

CONSOLIDATED

(M - Millions of monetary units)
 (m - Thousands of monetary units)

Shareholdings in CompaniesTelefónica de España, S.A.

	SHARE CAPITAL	M.U.	CURRENCY	PERCENTAGE PARTICIPATION	COST VALUE IN GROUP
				DIREC INDIR.	
Agencia Efe, S.A.	3,934	M	Peseta	0.36	140
Agrupación de Empresas Ley 18/1982 de 26 de mayo (ACEFHAT)	110	M	Peseta	20	22
Alcatel Standard Eléctrica, S.A.	56,410	M	Peseta	13.24	6,035
A.T.T. Network Systems International, B.V.	206	M	Fl.Hol.	5.84	3,087
Compañía de Fibra Optica Telcor, S.A.	-		Peseta	-	35
Darsa Gaditana, S.A.	-		Peseta	-	1
Eurescom	-		D.M.	-	1
European Silicom Structures, S.A.	-		ECUS	-	460
Eurosat	406	m	Franco Suizo	2.40	5
Eutelsat	-	-	-	-	1,520
Financial Network Association (F.N.A.)	2,500	m	Franco Belga	10	-
Iniciatives, S.A.	3,100	M	Peseta	3.23	140
Immarsat	-	-	-	-	844
Intelsat	-	-	-	-	4,766
Promoció de Ciutat Vella, S.A.	2,800	M	Peseta	3.57	100
Proyecto Cartuja 93	-	-	-	-	-
Reto 2000, S.A.	2	M	Peseta	21.74	1

Subsidiaries Companies' Shareholdings

Autocontrol de la Publicidad				1	-
Barcelona Tecnología, S.A.				5.8	10
Central de Compras de Papel, S.A.				100	10
Contactel, S.A.				15	64
Datos Corporation (USA)				4	8
Euredit, S.A.				5	13
Geoestar				2.92	489
Infonet Services Corporation (USA)				5.38	456
Locstar				0.69	97
Otros (inversiones financieras)				-	2,424
Satel, S.A.				85	30
Sociedad Catalana de Capital Riesgo, S.A.				4.61	100
T.D.S.				90	218
Telecomunicaciones Ultramarinas (PUERTO RICO)				14.9	3,402
Telefónica Hispano-Americana, Inc. (PUERTO RICO)				17.65	66
Telefónica Romania, S.A.				60	167
Telinter (VENEZUELA)				18.4	-
Telur, S.A. (Rusia)				5	53
T.M.I.				50	1
U.T.E.S.				-	6
Venworld (VENEZUELA)				16	34,752
Videotex Información, S.A.				9.6	36
Total shareholdings in companies				59,559	

7.3 Indirect stock ownership by of Telefónica of its subsidiary and associated companies is as follows:

COMPANY	1992	1991
SUBSIDIARY COMPANIES		
Compañía Publicitaria Exclusiva Telefónica, S.A. (CETESA)	2.67	2.67
Compañía Gestora del Servicio Mensatel, S.A.	48.90	-
Fonditel Entidad Gestora de Fondos de Pensiones, S.A.	25.00	-
Servicios de Teledistribución, S.A. (S.T. Hilo)	0.83	0.83
Telefónica Sistemas, S.A.	-	56.18
ASSOCIATED COMPANIES		
Amper, S.A.	-	7.84
Pabellón de Operadores Europeos de Telecomunicaciones, S.A.	-	47.50

7.4 In the year 1992 Telefónica disposed 40% of its holdings in ECOTEL, S.A., which generated a gain of 145 million of pesetas.

7.5 The most significant operations during the year between Telefónica and group companies were the following:

	PARENT COMPANY		CONSOLIDATED	
	1992	1991	1992	1991
Dividend received	19,512	1,057	19,750	2,026
Acquisition of goods and services by the Telefónica Group	109,328	209,689	117,203	246,261

The decrease in operations between group companies was due to the fact that Alcatel Standard Eléctrica was no longer part of Telefónica's Group. In 1991 its contribution to these operations amounted to 112,692 thousand million pesetas to Telefónica and 113,673 thousands of millions pesetas to the consolidated group.

7.6 The subsidiary companies listed on the Stock Exchange are the following:

Subsidiary Companies	Currency	Stock Exchange	Share price			
			Year-end		Average last quarter	
			1992	1991	1992	1991
Amper	Peseta	Madrid	170	465	190	547
CTC (CHILE)	Peso chileno	Santiago/New York	1,315	801	1,228	829
Entel (CHILE)	Peso chileno	Santiago	2,120	3,450	1,989	3,300
TASA (ARGENTINA)	Peso argentino	Buenos Aires/New York and Portal	0.3133	0.275	0.2832	0.275

7.7 The provisions of Article 86 of the Corporations Law have been complied with in the acquisitions of shareholdings during the year.

7.8 The composition of goodwill on consolidation is as follows at December 31:

	Balance at 31.12.90	Additions	Balance at 31.12.91	Additions	Retirements	Transfers	Balance at 31.12.92
Companies consolidated by the full consolidation method	-	180	180	7,595	72	(108)	7,595
Companies consolidated by the equity method	6,875	857	7,732	80	31	108	7,889
Total	6,875	1,037	7,912	7,675	103	-	15,484
Accumulated amortization							
Companies consolidated by the full consolidation method	-	36	36	27	25	(38)	-
Companies consolidated by the equity method	603	836	1,439	781	-	38	2,258
Total	603	872	1,475	808	25	-	2,258
Goodwill pending amortization	6,272	165	6,437	6,867	78	-	13,226

7.9 The consolidation reserve consists of the following at December 31:

	Balance at 31.12.90	Additions	Reductions	Balance at 31.12.91	Additions	Reductions	Balance at 31.12.92
Companies consolidated by the full consolidation method	6,684	3,427	4,230	5,881	3,766	2,934	6,713
Companies consolidated by the equity method	3,918	1,208	3,711	1,415	8,032	2,048	7,399
Total	10,602	4,635	7,941	7,296	11,798	4,982	14,112

NOTE 8 - DEFERRED EXPENSES

The balances and amortization schedule are as follows:

	Maturities						PARENT COMPANY	
	1993	1994	1995	1996	1997	Subsequent	Balance 31-12-92	Balance 31-12-91
Debt formalization expenses	4,998	4,563	3,275	2,952	2,228	3,885	21,901	21,636
Exchange losses	2,901	2,744	2,701	2,497	2,231	6,399	19,473	4,070
Interest on long term notes	4,594	4,540	4,372	3,946	3,388	8,215	29,055	33,167
Interest on commercial notes	3,113	21	-	-	-	-	3,134	1,979
Financing Annex 91 contract	4,773	6,739	3,727	25	-	-	15,264	13,426
Sponsorship costs-COOB, EXPO 92 and COM 92-	-	-	-	-	-	-	-	726
Liabilities Compliments (deficit)	7,844	7,844	7,844	7,844	7,844	74,536	113,756	-
Deferred Expenses deficit assets amortization	-	-	-	-	-	903	903	-
Total	28,223	26,451	21,919	17,264	15,691	93,938	203,486	75,004

	Maturities						CONSOLIDATED	
	1993	1994	1995	1996	1997	Subsequent	Balance 31-12-92	Balance 31-12-91
Debt formalization expenses	5,010	4,566	3,277	2,953	2,230	4,809	22,845	21,663
Exchange losses	2,901	2,744	2,701	2,497	2,231	6,399	19,473	4,070
Interest on long term notes	4,594	4,540	4,372	3,946	3,388	8,215	29,055	33,167
Interest on commercial notes	3,113	21	-	-	-	-	3,134	2,011
Interest on leasing operations and other	312	272	234	193	152	218	1,381	1,939
Financing Annex 91 contract	4,773	6,739	3,727	25	-	-	15,264	13,426
Sponsorship costs-COOB, EXPO 92 and COM 92-	-	-	-	-	-	-	-	726
Liabilities Compliments (deficit)	7,844	7,844	7,844	7,844	7,844	74,536	113,756	-
Deferred Expenses deficit assets amortization	-	-	-	-	-	903	903	-
Total	28,547	26,726	22,155	17,458	15,845	95,080	205,811	77,002

NOTE 9 - DEFERRED EXCHANGE DIFFERENCES

Due to new criteria adopted in 1992 (Note 4.1.j) unrealized exchange losses have been deferred amounting to 15,429 millions pesetas which would have resulted in an increase of expenses in the profit and loss account.

The composition of the balance and amortization schedule are as follows:

	Maturities						PARENT COMPANY	
	1993	1994	1995	1996	1997	Subsequent	Balance 31-12-92	Balance 31-12-91
Deferred realized exchange losses	2,901	2,744	2,701	2,497	2,231	6,399	19,473	4,070
Deferred unrealized exchange gains	(38)	(984)	-	(5,954)	(409)	(1,476)	(8,861)	(24,717)
Total	2,863	1,760	2,701	(3,457)	1,822	4,923	10,612	(20,647)

	Maturities						CONSOLIDATED	
	1993	1994	1995	1996	1997	Subsequent	Balance 31-12-92	Balance 31-12-91
Deferred realized exchange losses	2,901	2,744	2,701	2,497	2,231	6,399	19,473	4,070
Deferred unrealized exchange gains	(38)	(984)	-	(5,954)	(409)	(1,485)	(8,870)	(20,082)
Total	2,863	1,760	2,701	(3,457)	1,822	4,914	10,603	(16,012)

Details of the changes to expenses for the year:

	PARENT COMPANY		CONSOLIDATED	
	1992	1991	1992	1991
For Repayment of loans			5,528	6,613
Deferred losses O.M. March 12, 1993 (Note 4.j)			6,864	-
Services changes in foreign currency and other			19	664
Total	12,411	7,277	12,802	7,361

NOTE 10 - ACCOUNTS RECEIVABLE FROM SUBSCRIBER AND CUSTOMER

	PARENT COMPANY		CONSOLIDATED	
	1992	1991	1992	1991
Services billed				
Subscribers and customers	108,227	88,812	128,514	108,108
Former subscribers	18,807	11,941	18,807	11,941
Accounts pending classification	1,908	1,545	1,908	1,545
	128,942	102,298	149,229	121,594
Unbilled (Telefónica)	144,510	135,520	144,510	135,520
	273,452	237,818	293,739	257,114
Provision for bad debts	(20,356)	(13,877)	(25,044)	(16,915)
Total	253,096	223,941	268,695	240,199

The balance of public customers accounts amounts to 83,447 millions pesetas (71,944 millions pesetas in 1991).

During the 1992 year cancelled bad debts amounted to 7,829 million pesetas (7,767 for Telefónica), and during 1991, 5,200 millions pesetas (4,911 for Telefónica).

NOTA 11 - SHAREHOLDERS' EQUITY

11.1 The amount and movements in shareholder's equity during the years ended at December 31, were as follows:

	PARENT COMPANY				
	Distribution of 1990 profit	Other movements.	1991	Distribution of 1991 profit	Other movements
	1990		1991		1992
Stated capital	463,479	-	463,479	-	1 463,480
Capital surplus	33,467	-	33,467	-	- 33,467
Revaluation and reserve	653,780	-	653,780	-	- 653,780
Legal reserve	33,721	7,600	41,321	8,085	- 49,406
Voluntary reserve	57,348	17,150	74,498	18,100	- 92,598
Unappropriated retained earnings	95	55	150	(29)	- 121
Profit for year	75,788	(75,788)	80,847	(80,847)	83,899 83,899
Interim dividend	(23,174)	23,174	(23,174)	23,174	- -
Total	1,294,504	(27,809)	57,673	1,324,368	(31,517) 83,900 1,376,751
	CONSOLIDATED				
	Distribution of 1990 profit	Other movements	1991	Distribution of 1991 profit	Other movements
	1990		1991		1992
Stated capital	463,479	-	463,479	-	1 463,480
Capital surplus	33,467	-	33,467	-	- 33,467
Revaluation and reserve	649,316	-	649,316	-	1,197 650,513
Legal reserve	33,721	7,600	41,321	8,085	- 49,406
Voluntary reserve	58,700	17,150	(22,930)	52,920	18,100 12,089 83,109
Reserve in consolidation	10,602	2,231	(5,537)	7,296	23,400 (16,584) 14,112
Unappropriated retained earnings	95	55	-	150	(29) - 121
Profit for year	78,019	(78,019)	104,247	104,247	(104,247) 80,761 80,761
Interim dividend	(23,174)	23,174	(23,174)	23,174	- -
Differences on foreign currency translation for consolidation	558	-	693	1,251	- 15,785 17,036
Total	1,304,783	(27,809)	53,299	1,330,273	(31,517) 93,249 1,392,005

All the outstanding shares of Telefónica are fully subscribed and paid, and they are bearer shares of 500 pesetas par value each. The shares are quoted on the four Spanish stock exchanges as well as in Frankfurt, London, Paris, Tokyo and New York. At December 31, 1992 the State held approximately 32.28% of the shares (32.28% in 1991) directly and it is estimated that it held a further 1.33% (1.41% in 1991) through government institutions. Under current legislation the foreign ownership in Telefónica cannot exceed in total 25% of the share capital.

The movement on share capital has been as follows:

	Number of shares	Par value	Price as a percentage of par value	Characteristics of issue Cash
At December 31, 1990	926,958,077	463,479	-	-
Movement 1991	-	-	-	-
At December 31, 1991	926,958,077	463,479	-	-
Capital increase January 1992	1,074	1	184.950%	1
At December 31, 1992	926,959,151	463,480	-	-

The above capital increase was made in connection with the conversion of bonds on the London stock exchange.

The General Meeting of Shareholders held on June 15, 1990 gave power to the Board of Directors to issue additional shares during a period not exceeding five years without further notice to and approval of the shareholders, to a maximum share capital of 695,218 million pesetas.

The 5 years term has expired at December 31, 1992 since the year-end of the last revalued balance sheet.

11.2 Outside shareholders' interests

These interests refer to the stake of minority shareholders in the ownership of and last year's results for the following companies:

Company	% Minority participation	Net equity	1991	
			Results	Total
AUDIOTEX	49	74	(33)	41
CLEON	50	663	(5)	658
ECOTEL	10	20	(6)	14
MAPTEL	24	37	2	39
SIELTEL	50	-	6	6
SINTELAR	25	2	15	17
T.H.M.	5.45	27	19	46
T.INTERNACIONAL	23.78	19,186	1,773	20,959
		20,009	1,771	21,780
				1992
Company	% Minority participation	Net equity	Differences on foreign currency transl.	Total
AUDIOTEX	49	41	-	156
MAPTEL	24	39	-	(15)
SINTELAR	25	19	12	79
T.INTERNACIONAL	23.78	20,454	5,307	2,239
T.H.M.	1	8	-	2
T.L.D. Puerto Rico	21	2,703	-	2,703
		23,264	5,319	2,461
				31,044

Beginning in fiscal year 1992 the Telefónica Consolidated Group owns 50% of Sietel, S.A. and Cleon, S.A., which are consolidated by the "proportional" method and therefore do not generate outside shareholders. Telefónica has purchased an additional 4.45% of T.H.M., Control Electrónico Integrado, S.A., so the outside shareholders own 1% of the Company share capital. For the Companies located abroad outside shareholders' interests include the differences on foreign currency translation.

NOTE 12 - DEFERRED INCOME

12.1 The composition of deferred income at December 31 is as follows:

	PARENT COMPANY		CONSOLIDATED	
	1992	1991	1992	1991
Capital grants	46,983	34,029	46,983	34,029
Deferred unrealized exchange gains (Note 9)	8,861	24,717	8,870	20,082
Deferred taxes and other:				
Deferred taxes	48,347	16,940	56,016	28,684
External contributions not repayable	2,879	2,039	2,879	2,039
Tax benefits arising from consolidation	4,557	3,247	-	-
Total	111,627	80,972	114,748	84,834

12.2 The movement on capital grants in the parent company is as follows:

	Balance 31-12-90	Additions	Amortization	Balance 31-12-91	Additions	Amortization	Balance 31-12-92
From official organisations, autonomous communities and local government bodies	8,864	5,104	949	13,019	6,301	1,506	17,814
From European Economic Community:							
STAR Program	7,907	8,763	823	15,847	6,672	1,698	20,821
FEDER Program	-	4,084	-	4,084	1,658	409	5,333
IRTA Program	-	498	-	498	1,561	50	2,009
Other	229	377	25	581	455	30	1,006
Total	17,000	18,826	1,797	34,029	16,647	3,693	46,983

12.3 Taxes deferred as a result of timing differences arising during the year (Note 21) will be cancelled over the useful lives of the related assets.

The tax benefits arising from filing consolidated tax returns, which result from offsetting losses, will be transferred to the subsidiary companies when they obtain profits, whereas those resulting from the elimination of inter-group profits will be applied against future taxes.

NOTE 13 - PROVISIONS FOR RISKS AND EXPENSES

The composition of the balances at December 31 is as follows:

	PARENT COMPANY							
	1990	Prov.for year	Applications	1991	Prov.for year	Applications	Add.-Transf.	1992
Self insurance for damages in plant	3,753	-	702	3,051	-	444	-	2,607
For contingencies (Note 19)	54,544	-	3,446	51,098	-	-	(51,098)	-
For contribution to employee benefit systems (Note 19.2)	18,829	-	-	18,829	-	-	(18,829)	-
For establishing pensions (Note 19)	52,615	24,000	-	76,615	12,531	89,146	-	-
For Pensions' integrating cost in Social Security System	-	-	-	-	-	-	55,683	55,683
For endowment (Note 20)	43,439	13,908	4,461	52,886	8,965	37,651	(112)	24,088
For complementary pensioners annuity	-	-	-	-	5,127	7,717	132,025	129,435
Total	173,180	37,908	8,609	202,479	26,623	134,958	117,669	211,813
	CONSOLIDATED							
	1990	Prov.for year	Applications	1991	Prov.for year	Applications	Add.-Transf.	1992
Self insurance for damages in plant	4,048	371	759	3,660	179	640	(3)	3,196
For contingencies (Note 19)	54,544	-	3,136	51,408	-	-	(51,098)	310
For contribution to employee benefit systems (Note 19.2)	18,829	70	375	19,613	10	8	(19,615)	-
For establishing pensions (Note 19)	52,615	24,220	70	76,765	12,731	89,201	-	295
For Pensions' integrating cost in Social Security System	-	-	-	-	-	-	55,683	55,683
For endowment (Note 20)	43,439	13,908	4,461	52,886	8,965	37,651	(112)	24,088
For complementary pensioners annuity	-	-	-	-	5,127	7,717	132,025	129,435
Other provision	2,571	439	248	1,673	338	8	786	2,789
Total	176,046	39,008	9,049	206,005	27,350	135,225	117,666	215,796

NOTE 14 - DEBENTURES, BONDS AND OTHER ISSUES

14.1 Composition and movements are as follows:

	PARENT COMPANY					
	Debentures and bonds in local currency		Debentures and bonds in foreign currency			
	Non-convertible	Convertible and/or exchangeable	Non-convertible	Convertible and/or exchangeable	Commercial paper	Total
Balance 12/31/90	383,757	-	6,397	21,582	305,570	717,306
New issues	236,667	-	-	-	540,696	777,363
Repayments, conversions and exchanges	(49,020)	-	-	(1)	(717,901)	(766,922)
Revaluations and other movements	26,340	-	(16)	980	-	27,304
Balance 12/31/91	597,744	-	6,381	22,561	128,365	755,051
New issues	95,220	-	-	-	273,754	368,974
Repayments, conversions and exchanges	(67,870)	-	-	-	(295,611)	(363,481)
Revaluations and other movements	44,163	-	723	5,502	-	50,388
Balance 12/31/92	669,257	-	7,104	28,063	106,508	810,932
Detail of maturities						
Long term	658,999	-	-	28,063	9,749	696,811
Short term	10,258	-	7,104	-	96,759	114,121
Accrued interest net yet payable	15,365	-	344	395	-	16,104
	CONSOLIDATED					
	Debentures and bonds in local currency		Debentures and bonds in foreign currency			
	Non-convertible	Convertible and/or exchangeable	Non-convertible	Convertible and/or exchangeable	Commercial paper	Total
Balance 12/31/90	386,768	-	6,397	21,582	320,328	735,075
New issues	236,667	-	-	-	540,696	777,363
Repayments, conversions and exchanges	(49,825)	-	-	(1)	(717,901)	(767,727)
Revaluations and other movements	25,993	-	(16)	980	(25,701)	1,256
Balance 12/31/91	599,603	-	6,381	22,561	117,422	745,967
New issues	95,220	9,300	-	-	273,754	378,274
Repayments, conversions and exchanges	(67,523)	-	-	-	(295,611)	(363,134)
Revaluations and other movements	43,965	-	723	5,502	17,860	68,050
Balance 12/31/92	671,265	9,300	7,104	28,063	113,425	82,157
Detail of maturities						
Long term	660,823	9,300	-	28,063	24,098	722,284
Short term	10,442	-	7,104	-	89,327	106,873
Accrued interest net yet payable	15,379	-	344	395	-	16,118

14.2 There are two commercial paper issue programs, as follows:

	Balance limit	Par value	Method of acquisition
Public issues	200 000 millions	500 000 pesetas	Monthly competitive bids
Company and institutional issues	200 000 millions	100 millions minimum	Operations

14.3 The details of the debentures and bonds of the consolidated Group outstanding at December 31, 1991 are as follows.

Issue	Interest (%)	Total	1993	1994	1995	1996	1997	Subsequent	YEARS
Debentures									
March 1978									
March 1978	11.6397	1,000	1,000	-	-	-	-	-	-
June 1978	11.6397	417	417	-	-	-	-	-	-
October 1978	12.1457	417	417	-	-	-	-	-	-
November 1982	14.2500	1,000	1,000	-	-	-	-	-	-
April 1983	15.0000	3,125	3,125	-	-	-	-	-	-
June 1984	14.8556	8,838	-	8,838	-	-	-	-	-
June 1986	variable	12,7500	14,802	-	-	-	-	-	14,802
July 1987	variable	12,2100	1,132	-	-	-	-	1,132	-
January 1988	12.5000	27,889	-	-	-	-	-	-	27,889
March 1988	12.0000	184	184	-	-	-	-	-	-
May 1989	12.2500	2,022	-	-	-	-	-	-	2,022
July 1989	12.0000	10,140	-	-	-	-	-	-	10,140
December 1989	variable	12,8540	5,600	800	800	800	800	800	1,600
January 1990	12.0000	71	-	-	-	-	-	-	71
February 1990 Series A	12.6000	9,351	-	-	-	-	-	-	9,351
February 1990 Series B	12.6000	1,367	-	-	-	-	-	-	1,367
February 1990 Series C	12.6000	626	-	-	-	-	-	-	626
February 1990 Series D	zero coupon	12,8896	9,009	-	-	-	-	-	9,009
February 1990 Series E	zero coupon	12,8531	2,939	-	-	-	-	-	2,939
February 1990 Series F	zero coupon	12,5793	327	-	-	-	-	-	327
June 1990	zero coupon	14,0081	41,793	-	-	-	-	-	-
July 1990	zero coupon	14,4358	41,756	-	-	-	-	41,756	-
December 1990	zero coupon	13,5761	25,835	-	-	-	-	-	25,835
January 1991	12.0000	20	-	-	-	-	-	-	20
February 1991 Series A	14.2500	30,000	-	-	-	-	-	-	30,000
February 1991 Series B	zero coupon	14,4676	38,473	-	-	-	-	-	38,473
March 1991	zero coupon	14,4813	6,412	-	-	-	-	-	6,412
Private issue, April 1991	14.2500	20,000	-	-	-	-	-	-	20,000
April 1991 Series A	13,5000	10,000	-	-	-	-	-	-	10,000
April 1991 Series B	zero coupon	13,6659	24,896	-	-	-	-	-	24,896
A September 1994	zero coupon	9,8749	41,546	-	41,546	-	-	-	-
B September 1996	zero coupon	10,0000	38,220	-	-	-	38,220	-	-
C September 1998	zero coupon	10,1250	28,468	-	-	-	-	-	28,468
D September 2001	zero coupon	10,2500	38,307	-	-	-	-	-	38,307
January 1992	12,0000	257	-	-	-	-	-	-	257
C November 2002	10,0625	5,232	-	-	-	-	-	-	5,232
Bonds									
November 1985	variable	11,7500	3,383	-	-	3,383	-	-	-
May 1986	9,0000	1,593	1,593	-	-	-	-	-	-
December 1986	9,2500	1,906	1,906	-	-	-	-	-	-
January 1988	zero coupon	10,0000	1,897	-	1,897	-	-	-	-
October 1989	12,7500	20,000	-	-	-	-	20,000	-	-
September 1990	14,2500	60,000	-	60,000	-	-	-	-	-
November 1990	14,0625	600	-	-	-	-	-	600	-
November 1990	variable	13,9875	400	-	-	-	-	400	-
January 1991	variable	13,9875	1,370	-	-	-	-	1,370	-
February 1991	13,9375	3,440	-	-	-	-	-	3,440	-
February 1991	variable	13,9875	400	-	-	-	-	400	-
April 1991	zero coupon	14,5154	58,669	-	-	-	-	-	58,669
April 1991	12,3750	10,160	-	-	-	-	-	10,160	-
April 1991	variable	13,9875	300	-	-	-	-	300	-
May 1991	12,3750	4,437	-	-	-	-	-	4,437	-
July 1991	variable	13,9875	5,100	-	-	-	-	5,100	-
July 1991	zero coupon	14,5154	4,269	-	-	-	-	-	4,269
February 1992	11,1875	1,470	-	-	-	-	-	1,470	-
November 1992	12,9375	400	-	-	-	-	-	400	-
Convertible bonds									
December 1991	11,5000	9,300	-	9,300	-	-	-	-	-
Debentures in foreign currency									
Eurobonds Frankfurt, May 83	variable	8,2500	7,104	7,104	-	-	-	-	-
London, July 1988	variable	8,3500	28,063	-	-	-	-	-	28,063
Total issues		715,732	17,546	122,381	45,976	59,020	71,765	399,044	

14.4 Debentures and zero coupon bonds are presented on the Balance Sheet at their issue price plus interest accrued through December 31 of the stated year.

The schedule of the maturities and percentage of repayment of the debentures and zero coupon bonds is as follows:

ISSUE	DU DATE OF AMORTIZATION	%REPAYMENT	REPAYMENT VALUE
Debentures			
June 1984	05.07.1994	400.000	10,889
February 1990 Series D	26.02.2000	336.154	21,447
February 1990 Series E	26.02.2005	613.338	12,776
February 1990 Series F	26.02.2010	1,069.470	2,503
June 1990	22.06.1995	192.610	57,783
July 1990	20.07.1997	257.000	77,100
December 1990	28.12.2005	675.000	135,000
February 1991 Series B	28.02.1998	257.500	77,250
March 1991	01.03.1998	257.729	2,577
March 1991	01.06.1998	266.659	2,667
March 1991	01.09.1998	275.899	2,759
March 1991	01.12.1998	285.353	2,854
March 1991	01.03.1999	295.022	2,950
April 1991 Series B	17.04.2001	360.000	72,000
A September 1994	18.09.1996	132.715	48,828
B September 1996	18.09.1996	161.135	54,459
C September 1998	18.09.1998	196.531	49,401
D September 2001	18.09.2001	265.543	89,687
Bonds			
January 1988	26.01.1994	177.156	2,101
April 1991 Zero coupon	15.04.1999	295.740	137,519
July 1991 Zero coupon	15.07.1999	295.740	10,351

14.5 Additional information

	PARENT COMPANY		CONSOLIDATED	
	1992	1991	1992	1991
Interest expenses	84,844	71,385	84,875	71,786
The amounts from the issues subject to tax benefits are as follows:				
Debentures in local currency	2,834	10,235	2,834	10,235
Debentures in foreign currency	30,061	25,748	30,061	25,748

The average cost of the debentures and bonds outstanding is 12.57% for 1992 (13.06% in 1991) and for promissory notes is 11.60% for 1992 (12.40% in 1991).

14.6 Foreign currency debentures in the parent company amount to 100 million German Marks and 200 million US dollars, placed in Frankfurt and London Stock Markets respectively.

Outstanding debentures and bonds are stated at the official closing exchange rate of each currency at year end quoted by the Bank of Spain. The resulting exchange gains credited in 1992 to unrealized exchange profits amounted to 4,314 million pesetas (55 million pesetas losses in 1991).

The issue in US dollars gives the holders the right, within the established periods, to convert the debentures into ordinary shares of the Company, according to the terms and conditions of the issue.

14.7 In November 1992 there was an issue of 75,000 million pesetas (which may be increased to 150 million pesetas) in zero-coupon debentures of 100,000 pesetas par value each. These will be subscribed through public auction over a one-year period. At December 31, 1992, 52,322 debentures had been subscribed for.

NOTE 15 - DEBTS WITH CREDIT ENTITIES

15.1 As mentioned in Note 2 a), these accounts are classified in the balance sheet according to their maturity dates. The balances at December 31 are as follows:

	PARENT COMPANY						CONSOLIDATED					
	1992			1991			1992			1991		
	Long term	Short term	Total		Long term	Short term	Total		Long term	Short term	Total	
Notes payable at face value	63,315	365	63,680	63,680	365	64,045	63,315	4,784	68,099	67,804	10,964	78,768
Loans in foreign currency	258,241	115,209	373,450	358,636	64,234	422,870	330,487	131,318	461,805	361,716	77,649	439,365
Loans and credits	281,244	-	281,244	202,019	3,191	205,210	295,552	4,592	300,144	285,046	12,509	297,555
Total	602,800	115,574	718,374	624,335	67,790	692,125	689,354	140,694	830,048	714,566	101,122	815,688

15.2 The years of maturity of the debts are as follows:

	PARENT COMPANY						
	1993	1994	1995	1996	1997	Maturities Subsequent	Balance at 31-12-92
Loans in foreign currency	365	10,365	365	15,365	365	36,855	63,680
Loans and credits	-	11,495	15,956	47,532	22,826	183,435	281,244
Notes payable	115,209	27,731	28,648	17,751	56,599	127,512	373,450
Total	115,574	49,591	44,969	80,648	79,790	347,802	718,374

	CONSOLIDATED						
	1993	1994	1995	1996	1997	Maturities Subsequent	Balance at 31-12-92
Loans in foreign currency	4,784	10,365	365	15,365	365	36,855	68,099
Loans and credits	4,592	10,102	25,207	50,986	44,084	165,173	300,144
Notes payable	131,318	28,321	29,284	21,799	64,152	186,931	461,805
Total	140,694	48,788	54,856	88,150	108,601	388,959	830,048

15.3 Additional information:

	PARENT COMPANY				CONSOLIDATED			
	Financial expenses	Accrued interest	Average interest rate	Financial expenses		Accrued interest		
	1992	1991	1992	1991	1992	1991	1992	1991
Loans in foreign currency	25,308	19,675	5,449	4,590	7.50	7.94	25,308	23,378
Loans and credits	45,681	49,641	6,728	9,903	13.42	13.90	52,480	53,117
Notes payable	4,111	3,942	-	-	13.34	13.49	4,111	4,688

15.4 Loans and credit facilities accounts reflect only the accounts actually borrowed. Unused facilities are disclosed in Note 23.

15.5 At December 31, 1992 a total of 58,711 million pesetas in foreign currency loans is eligible for the tax benefits established by Decree Law 19/1961 and Law 61/1978.

15.6 Details of parent company loans denominated in foreign currency from financial institutions are as follows:

Foreign currency	Amount	1992	1991
		Exchange rate	Exchange rate
US dollars	325.0	114.795	325.0
German marks	205.5	71.036	255.5
Swiss francs	422.5	78.681	500.6
Dutch florins	258.9	63.227	176.8
Japanese yen	45,520.6	0.92131	19,020.6
French francs	649.9	20.849	649.9
ECUs (XEU)	804.4	138.581	654.4
Pesetas (ESB) (*)	12,750.0	1.000	-

(*) This amount includes the disposition in pesetas of a multicurrency loan originally authorized in ECUs by the European Investment Bank.

15.7 Loans denominated in foreign currency include the following:

The Company has multi-option financial facility for 250 million US dollars represented by Telefónica's certificates in Euronotes with maturities of less than six months. When they become due, Telefónica can opt to:

- a) issue new Euronotes;
- b) use the credit facility to refinance the amounts due; or
- c) repay the notes without using such credit facility.

Details of Loans from the European Investment Bank, authorized through the Official Credit Institute are as follow:

Year	Per value	Maturity	Grace period	Amortization	Interest rate	Option
1988 XEU 1.200 MM	15 years	5 years	20 semestres		Fixed for the first 5 years, variable 5th - 10th	Multicurrency
1992 Pts 12.500 MM	15 years	5 years	20 semestres		10.95% fixed for first 6 years, variable next 9 years	-
1992 XEU 150 MM	15 years	5 years	20 semestres		Quarterly variable	-
1992 JPY 19.500 MM	10 years	5 years	10 semestres		Semanual variable	-
1992 NLG 82.1 MM	10 years	5 years	10 semestres		Quarterly variable	-

NOTE 16 - DEBTS WITH GROUP AND ASSOCIATED COMPANIES

The detail at December 31, 1992 is as follows:

	PARENT COMPANY						CONSOLIDATED					
	1992			1991			1992			1991		
	Long term	Short term	Total	Long term	Short term	Total	Long term	Short term	Total	Long term	Short term	Total
Loans	83,436	-	83,436	74,499	-	74,499	-	-	-	-	-	-
Purchases and services:												
From Group companies	-	43,948	43,948	1,871	39,143	41,014	-	-	-	-	-	-
From Associated companies	18,565	24,133	42,698	15,479	46,020	61,499	18,565	25,626	44,191	15,479	47,887	63,366
Corporation Tax	1,585	184	1,769	-	-	-	-	-	-	-	-	-
Total	103,586	68,265	171,851	91,849	85,163	177,012	18,565	25,626	44,191	15,479	47,887	63,366

The loans consist of:

- a) A loan from the European Investment Bank, authorized in 1991 through the subsidiary Telefónica y Finanzas, S.A., (Telfisa) for 600 million ECUs. An amount of 500 million ECUs of the loan facility was used in 1991 in four different currencies. The loan is for a period of 15 years with a grace period of five years. Thereafter the loan is repayable in 20 equal semi-annual installments. The loan bears interest at rates varying quarterly.
- b) A commercial loan facility with the subsidiary Telefónica North America Inc., for up to 125 million US dollars and with maturity in 1997. The loan facility has been used in full. The funds for this loan were raised with commercial paper issued in the USA by the subsidiary and guaranteed by Telefónica.

NOTE 17 - TAXES PAYABLE AND RECOVERABLE

The details of the balances at December 31 are as follows:

	PARENT COMPANY		CONSOLIDATED	
	1992	1991	1992	1991
Taxes payable:				
Payroll withholding taxes	7,370	6,669	8,144	7,389
Value added tax	11,374	5,869	13,168	7,290
Dividend and interest at withholding taxes	457	1,067	669	1,162
Corporate income tax	-	5,386	363	6,379
Local government taxes	2,609	2,945	2,613	2,950
Social Security Contributions	19,427	8,607	20,123	9,280
Foreign taxes	-	-	217	14
Total	41,237	30,543	45,297	34,464
Taxes recoverable:				
Payments on account of corporate income tax:				
Tax withhold from income at source	49	14	1,014	590
Payments on account on consolidate corporate income tax returns	760	2,713	760	2,772
Taxes, surcharges and Social Security payments recoverable	579	522	914	1,179
Corporate income tax-consolidated	2	1,172	2	1,172
Taxes paid in advance	16,602	375	16,698	2,502
VAT pending deduction	2,844	-	3,142	-
Foreign taxes	-	-	136	1
Total	20,876	4,796	22,666	8,216

NOTE 18 - OTHER ACCOUNTS PAYABLE

This heading comprises the following amounts:

	PARENT COMPANY		CONSOLIDATED	
	1992	1991	1992	1991
Remuneration payable	17,877	15,829	20,751	18,753
Exchange of telephone services	14,270	12,987	14,270	12,987
Guarantee deposits	9,721	13,031	9,721	13,049
Expenses accrued and due	32,107	9,855	32,107	10,780
Dividends payable	7,647	29,948	7,647	29,948
Institución Telefónica de Previsión	(343)	80,566	(343)	80,566
Sundry creditors	19,602	11,824	23,401	13,919
Total	100,881	174,040	107,554	180,002

NOTE 19 - PENSIONS

19.1 Up to the time of publication of the order of the Ministry of Labor and Social Security dated December 30, 1991 (published in the Spanish Official Bulletin n°1 of January 1, 1992), requiring that the then current employees and pensioners under the Institución Telefónica de Previsión (ITP) be integrated into the general Social Security system beginning January 1, 1992, Telefónica's personnel were covered by a social welfare system attended to by ITP.

ITP, currently being liquidated in accordance with the resolution by the Dirección General de Seguros pursuant to which the dissolution Order of July 10, 1992 was published, was a mutual employee benefit fund created under the Ley de Montepíos y Mutualidades de Previsión Social dated December 6, 1941 and its Regulations of May 26, 1943. It was therefore a separate legal entity and, as such, was governed by its own regulations approved by the Subsecretariat of Social Security on January 28, 1977.

19.2 In accordance with the Order previously mentioned, the resolution reached by the General Office of Planning and Economic Organization of Social Security dated May 25th, 1992 determined that the cost of integration of retired personnel amounts to 130,683 million pesetas.

Based on said resolution, the liquidators of the ITP have paid 65,000 million pesetas, retaining another 10,000 million pesetas as provisions for payments made by ITP on behalf of Social Security. The remaining 55,683 million pesetas up to the total of 130,683 million, will be amortized over a ten year period, during which over the first two years only the interest will be paid, amortizing over the remaining eight years, the principal amount along with the corresponding interest. Payment of the interest corresponding to the grace period will be made in two yearly payments of 4,455 million pesetas. The first payment was made in December 1992 by the liquidators of ITP and the second to be made in December 1993. The yearly payments of principal plus interest to be made for the remaining eight years will amount to 9,690 million pesetas, to be paid in December of each year of the previously mentioned period. The first of these eight payments is due in December 1994.

Telefónica de España S. A. is obligated to pay the difference between the total cost of 130,683 million pesetas and the liquidation value of ITP. Such difference is estimated at 55,281 million pesetas, for which the corresponding provisions have been made (note 13).

Since January 1st, 1992 Telefónica and its employees have been paying to Social Security the contributions previously made to ITP, and therefore payments to ITP have ceased.

19.3 Since 1985 Telefónica has been holding negotiations with the employees' representatives in order to provide a viable pension scheme for its employees.

After the last offer made by Telefónica on June 30th, 1992, which was accepted by the employees through a referendum held on September 17th, a collective statutory agreement was reached.

The most significant terms of the agreement are as follows:

The creation of a Pension Plan under the Law and Regulations for Pension Schemes and Funds with the following characteristics:

a) Employment system pension plan.

b) Defined contribution.

c) Obligatory contributions by participating employees.

d) A system, financially capitalized on an individual basis.

e) The Promoter will contribute 6.87% of the participating employees' basic salary. For personnel who joined Telefónica after June 30th, 1992 this contribution will be 4.51% of basic salary.

f) Direct contributions by employees will be a minimum amount of 2.2% of basic salary.

g) Telefónica recognizes entitlements for past services up to a maximum of 237,696 million pesetas. Employees not joining the plan during the one year period commencing July 1st, 1992 (the effectiveness date for the plan) will not be entitled to any recognition for past services, which will correspondingly decrease the total amount of entitlements for past services ("Consolidated Rights").

h) To finance the Consolidated Rights, Telefónica will apply, as necessary, provisions already made amounting to 121,350 million pesetas. The effective transfer of this amount to the Pension Plan will be carried out over a ten-year period commencing July 1st, 1992 applying an annual interest rate of 6.5% in accordance with the Rebalancing Plan.

The resulting deficit, up to an amount of 116,346 million pesetas maximum, will be financed over a period of 28 years in accordance with determinations under the Rebalancing Plan awaiting approval by the Dirección General de Seguros. The annual interest rate, to finance this deficit will be 6%, with payments made at the beginning of each monthly period.

i) This Plan came into force on July 1st, 1992. The time period for the employees to join the plan, is one year from that date. Although new incorporation periods might be offered in accordance with the laws in force but without recognition of any entitlements for past services.

19.4 At December 31st, 1992, 50,236 employees out of a total of 74,437 had joined the Plan. In accordance with actuarial calculations, the Consolidated Rights for these 50,236 employees amount to 187,804 million pesetas. According to such calculations, during the last fiscal year 3,283 million pesetas has been paid to the Plan, of which 813 million pesetas has been debited to earnings, and therefore at the end of 1992 the Consolidated Rights remaining to be transferred to the Plan amounted to 184,521 million pesetas. Interests paid to the Plan for the 1992 fiscal year have totalled 5,870 million pesetas, and additional provisions to the amount of 1,406 million pesetas have been made for those employees who have not yet joined.

Over the period July-December 1992, the Promoter contributed 6,231 million pesetas. Additional provisions were made for an amount of 4,014 million pesetas.

19.5 As stated in section 19.4 above, of the 3,283 million pesetas transferred to the Plan, 813 million pesetas have been debited to earnings. This amount corresponds to the repayment of the deficit for the period July 1st, 1992 to December 31st, 1992. Full repayment will be carried out over 28 years with the payments increasing by a ratio of 1.06.

The amount of 904 million pesetas, which is the difference between the payments made in accordance with the Rebalancing Plan and the amounts charged to the results for the fiscal year, has been charged to the deferred expenses account.

19.6 One of the agreements within the overall solution to the Company's social welfare scheme was reached July 8, 1992 with the employees' representatives in relation with the supplementary pension to be received by those personnel who retired on or before June 30th, 1992.

In short, this agreement states that Telefónica will pay to those pensioners covered by ITP on June 30, 1992 and those employees who would have been recognized as pensioners, a complementary amount equivalent to the difference between the State pension received from Social Security up to July 1st, 1992 and that which corresponds to, or would have corresponded to the ITP, were it recognized.

The aforementioned supplementary payments, once specified, will be fixed, to be received for life, and not revisable. Upon decease the spouse is entitled to 60% of this payment provided that this person was recognized as such before June 30th, 1992.

NOTE 20 - ENDOWMENT INSURANCE

Those Telefónica employees who do not join the Pension Plan, on reaching 65 years of age, whether employed at the time or retired, will continue to be entitled to a lump sum payment for endowment insurance. The amount of this payment will depend on the particular circumstances of each employee.

Of the funds accounted at June 30th, 1992, 32,204 million pesetas have been allocated to partially cover the Consolidated Rights recognized in the Pension Plan corresponding to those employees incorporated in the Plan and 112 million pesetas have been allocated to the supplementary pensions for retired personnel.

At December 31st, 1992, Telefónica had existing funds totalling 24,088 million pesetas. These funds will be used to cover the payments to be made to retired personnel under the age of 65 who have not received the endowment insurance. Those employees incorporated into the Pension Plan after July 1st, 1993, will also be covered by these funds.

Telefónica has made provisions for the Fund to the amount of 8,965 million pesetas, which were debited to 1992 income. Provisions made in 1991 amounted to 13,909 million pesetas.

Actuarial calculations indicate that the annual charge for 1992 which incorporates the 15-year amortization of the difference between Projected Benefit Commitments (43,374 million pesetas) and the accumulated funds is sufficient to finance the payment of benefits.

NOTE 21 - TAXATION

The years open to inspection for the main taxes are

- Corporate income tax: 1988 through 1991
- Corporate income tax for companies filing a consolidated tax return: 1990 and 1991
- Local government taxes: 1988 through 1992
- Value added tax: 1988 through 1992
- Capital transfer tax: 1988 through 1992
- Dividend and interest withholding taxes: 1988 through 1992
- Payroll withholding tax: 1988 through 1992

RECONCILIATION OF PROFIT BEFORE TAX PER CONSOLIDATED ACCOUNTS AND TAXABLE INCOME

Profit before tax per accounts	94,459
PERMANENT DIFFERENCES:	
Individual corporations	
Foreign taxable income	4,329
Losses on foreign governments	(417)
Losses on associated companies	2,508
Eliminations included on consolidation and not included on corporate income tax report	(9,392)
Amortization of goodwill on consolidation	1,768
Deduction of taxable losses	808
Losses of non tax consolidating companies	(531)
Adjusted profit per accounts	66
	93,598

TIMING DIFFERENCES

Individual corporations (increases)	9,275
Individual corporations (decreases)	(111,035)
Profit of transparent corporations 1991	18,803
Profit of transparent corporations 1992	(3,657)
Taxable income	
	6,984

CORPORATION TAX	Accrued	Payable	Deferred	Prepaid
Rate of 35%				
On adjusted profit per accounts	32,759	-	40,142	3,246
On taxable income	-	2,444	(6,581)	-
Deductions				
Double taxation relief	(1,802)	(1,802)	-	-
Allowances	(268)	(268)	-	-
Investment tax credits	(20,385)	(11)	(7,257)	13,117
	10,304	363	26,304	16,363
Taxes paid abroad	1,737			
Elimination of prepaid taxes of transparent corporation	1,645			
Matrix and others	12			
	12,400			

RECONCILIATION OF PROFIT BEFORE TAX PER ACCOUNTS OF TELEFONICA AND TAXABLE INCOME

Profit before tax					99,724
		Increase	Decrease		
PERMANENT DIFFERENCES		4,233	601	3,632	
Adjusted profit per accounts				103,356	
TIMING DIFFERENCES:					
Originating in present year		8,402	107,819	(99,417)	
Originating in previous year		981	-	981	
Taxable income				4,920	
Individual Taxable income rest of tax group					6,066
Intra group eliminations					
Fixed assets sales					(2,980)
Dividend					(1,488)
Taxable Income (Tax Group)				6,518	
CORPORATE INCOME TAX					Payable
	Accrued	Deferred	Prepaid	Telefónica	Group
Rate of 35%:					
On adjusted profit per accounts	36,175	37,394	2,941	1,722	2,281
On taxable income	-	-	-	-	-
Deductions:					
Double taxation relief	(1,454)	-	-	(1,454)	(1,281)
Allowances	(268)	-	-	(268)	(268)
Investment tax credits	(20,385)	(7,257)	13,128	-	(732)
Employment	-	-	-	-	-
Total deductions	14,068	30,137	16,069		
Repercussion for consolidated tax	640				
Taxes paid abroad and other	1,173				
Surplus of provisions corporate income tax 1991	(56)				
	15,825				

There are carry-over investment tax credits which were not applied due to insufficient tax liabilities in the following amounts: 1988, 13,122 million pesetas; 1989, 27,954 million pesetas; 1990, 32,713 million pesetas; 1991, 28,440 million pesetas; 1991, 28,440 million pesetas; 1992, 32,507 million pesetas. Reinvestment tax credits for 1992 amount to 22 million pesetas. Timing differences arise from the application of accelerated depreciation in accordance with the final disposition 7^a of Royal Decree 1643/90 of December 20, 1990, except for 8,402 million pesetas, of which 6,967 million are exchange differences originated by application of the cash basis criteria required for tax purposes and 1,435 million pesetas are appropriations for complementary amounts to retired personnel (above payments) (surplus on payments).

Advance payments of the Group for corporate income tax, amount to 760 million pesetas and the withholding tax to 208 million pesetas.

NOTE 22 - INCOME AND EXPENSES

22.1 The distribution of sales by products is as follows:

	PARENT COMPANY	
	1992	1991
Concepts		
Subscribed payments	253,751	230,885
Transmission of data and images	115,669	103,852
National automatic service	539,564	465,584
Operator trunk calls	2,861	2,266
International service	135,005	124,492
Marine portable service	25,989	14,255
Advertising	12,806	10,017
Connection fees	44,014	42,897
Marketing of terminals and other	25,037	13,783
Operating income	1,154,696	1,008,031
	CONSOLIDATED	
	1992	1991
Concepts		
Parent company	1,154,696	1,008,031
International Telephone Group	1,767	333
Other subsidiaries	156,395	134,488
Intra - group sales	(103,920)	(93,854)
Total	1,208,938	1,048,998

22.2 The numbers of employees by category and personnel costs are as follows:

AVERAGE NUMBER OF EMPLOYEES	PARENT COMPANY		CONSOLIDATED	
Category	1992	1991	1992	1991
General management	1,129	1,097	1,155	1,488
University graduates and special technicians	3,941	3,868	5,302	5,078
Personnel with higher education degrees and technicians	6,726	6,739	8,106	7,937
Personnel in charge and operators of internal plant	18,240	17,856	18,240	17,856
Personnel in charge and operators of external plant	21,079	21,473	21,079	21,473
Applications operator and data processing assistants	1,080	1,521	1,080	1,538
Administrative personnel	10,482	10,271	12,237	12,467
Subscribed service personnel	3,467	3,484	3,722	3,484
Operation personnel	6,031	6,278	6,031	6,278
Warehouse, office and garage personnel	1,798	1,806	1,801	2,073
Auxiliary personnel	965	995	971	998
Manual workers	-	-	2,807	2,450
Other personnel	30	36	1,271	1,224
Total	74,968	75,424	83,802	84,344
PERSONNEL COSTS	PARENT COMPANY		CONSOLIDATED	
Concepts	1992	1991	1992	1991
Salaries and wages	292,661	269,994	318,288	301,806
Pensions Funds	24,065	24,000	24,470	24,403
Social Security and other expenses	76,010	58,830	86,868	65,307
Total	392,736	352,824	429,626	391,516

22.3 The following is an analysis of extraordinary income and expenses:

EXTRAORDINARY INCOME	PARENT COMPANY		CONSOLIDATED	
Concept	1992	1992	1992	1992
Work on COOB 92 and EXPO		2,276		2,276
Indemnities for breach of contract		817		856
Alarm systems' income		676		676
Insurance compensation		225		225
Miscellaneous		207		2,721
Total		4,201		6,754
EXTRAORDINARY EXPENSES	PARENT COMPANY		CONSOLIDATED	
Concept	1992	1992	1992	1992
Pension complements		3,913		3,926
Donations		1,188		1,188
Sponsorship costs of COOB 92, EXPO 92 and COM 92		5,738		5,738
Irrecoverable costs of rejected projects		630		630
Expenses for exhibitions and other functions		284		358
Settlement with Racial Electronic España in the disposal of Hispano Radio Marítima		161		161
Miscellaneous		144		558
Total		12,058		12,559

NOTE 23 - OTHER INFORMATION

23.1 Compensation of Directors

The total amount paid to Telefónica's directors during the year 1992 for salaries, wages and expense allowances was 121 million pesetas.

The 4 members of the Board of Directors who are Telefónica's employees have joined the Pension Plan in the same conditions as the rest of the employees. The contributions to the annual cost towards the Pension Fund of these 4 members for 1992 amount to 2,088,301 pesetas.

Telefónica did not grant any loans or credits in favor of the members of the Board of Directors.

23.2 Unused credit facilities:

	PARENT COMPANY		CONSOLIDATED	
	1992	1991	1992	1991
Unused long term credit facilities	4,682	5,431	85,224	80,544
Other credit facilities (floating credit lines)	21,627	18,402	21,627	18,402
Short term credit facility	12,189	12,382	30,085	20,937
Total	38,498	36,215	136,936	119,883

23.3 Commitments:

Guarantees for financial operations	75,201	20,252	2,795	4,175
Guarantees granted to employees	2,924	3,174	6,603	3,174

Guarantees for financial operations include primarily guarantees given by the Company to its subsidiary and participated companies to secure their operations with third parties.

NOTE 24 - SUBSEQUENT EVENTS**INTERIM DIVIDEND**

- The Board of Directors, on January 27, 1993, and in accordance with the financial information made available to them, agreed, as article 216 of the Corporations outstanding, the distribution of a 1992 interim gross dividend of 25 Ptas for each of the outstanding shares, numbered 1 to 926,959,151, from which the applicable tax will be withheld.

BUDGET STATUS - ANNUAL LIQUIDITY BUDGET

Anticipated cash receipts for the period 1/27/93 to 1/27/94	1,693,150
Anticipated payments for the period 1/27/93 to 1/27/94	1,668,700

ACCOUNTING TO JUSTIFY AN INTERIM DIVIDEND DISTRIBUTION (FORECAST AT JANUARY 27, 1993):

Profit January 1, 1992 to December 31, 1992.	83,890
Surplus 1991	121
Previous' years losses	
Compulsory reserves provision	(8,389)
Distributable profit	75,622
Proposed interim dividend	23,174

FINANCIAL POSITION (FORECAST AT JANUARY 27, 1993)

Funds available for distribution	8,237
Cash and banks	38,498
Available credits	
Proposed interim dividend	(23,174)
Difference	23,561

- Telefónica Servicios, S.A. (Group TSI) has disposed of 51% of the equity of Servicios Telefónicos de Audiotex, S.A.

- On February 18, 1993, the European Bank of Investment authorized a loan amounting to 38,700 million pesetas (equivalent to 300 million ECUS) with 15 years of maturity, 5 years grace period, with a multicurrency option including the peseta.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS PER PARENT COMPANY AT DECEMBER, 31

APPLICATION	1992	1991	SOURCES	1992	1991
1. Funds applied to operations	-	-	1. Funds provided by operations	602,512	499,285
2. Establish. costs and cost of formalizing debts	5,127	11,008	2. Contributions from shareholders		
			a) Capital increases	1	-
			b) Share premiums	-	-
3. Acquisition of long-term assets			3. Deferred income	18,979	18,969
a) Intangible assets	19,571	14,609	4. Long term liabilities		
b) Fixed assets	423,048	622,672	a) Loans and credits	121,225	172,419
c) Long term investments	23,540	23,187	b) Other	215,518	351,325
d) Advances to suppliers	17,650	(9,293)	5. Sale proceeds of fixed assets		
e) Installation materials	(11,521)	(7,762)	a) Fixed assets	6,792	17,648
4. Dividend	31,517	50,983	b) Long term investments	3,973	15,573
5. Cancell. or transf. to short-terms of long-term liab.			Total Sources	969,000	1,075,219
a) Empréstitos y otros pasivos análogos	79,971	76,639	Excess of applications over sources		
b) De otras deudas	137,051	154,426	(Decrease in working capital)	-	-
6. Provisions	134,958	4,148		969,000	1,075,219
7. Deferred taxes	343	-			
Total Applications	861,255	940,617			
Excess of sources over applications					
(Increase in working capital)	107,745	134,602			

CHANGES IN WORKING CAPITAL

INCREASES IN WORKING CAPITAL	1992	1991	DECREASES IN WORKING CAPITAL	1992	1991
1. Shareholders for uncalled share capital	-	-	1. Shareholders for uncalled share capital	-	-
2. Inventories	-	-	2. Inventories	300	2,842
3. Accounts receivable	55,099	37,894	3. Accounts receivable	-	-
4. Accounts payable	50,183	92,247	4. Accounts payable	-	-
5. Short term investments	-	-	5. Short term investments	-	-
6. Cash and banks	5,659	2,017	6. Cash and banks	-	-
7. Prepayments and accruals	-	5,286	7. Prepayments and accruals	2,896	-
Total	110,941	137,444	Total	3,196	2,842
Changes in working capital			Changes in working capital	107,745	134,602
110,941	137,444			110,941	137,444

STATEMENT OF SOURCE AND APPLICATION OF FUNDS PER CONSOLIDATED GROUP AT DECEMBER, 31

APPLICATION	1992	1991	SOURCES	1992	1991
1. Funds applied to operations	-	-	1. Funds provided by operations	597,806	507,758
2. Establish. costs and cost of formalizing debts	5,810	11,220	2. Contributions from shareholders a) Capital increases b) Share premiums c) Participations of minority shareholders	1 - - 19,033	-
3. Acquisition of long-term assets a) Intangible assets	19,774	21,114	3. Deferred income	17,669	18,969
b) Tangible fixed assets	435,556	617,010	4. Long term liabilities	343,629	525,026
c) Long term investments	10,663	46,799	5. Sale proceeds of fixed assets a) Intangible fixed assets b) Tangible fixed assets c) Long term investments	2 8,671 4,780	- 24,006 33,765
d) Advances to suppliers	17,077	(9,309)	6. Funds used by sales of participation	328	288
e) Installation materials	(13,128)	(6,155)	7. Incr. of working cap. by acquisit. of new subsid. comp.	1,457	-
4. Dividend	31,517	50,983			
5. Funds used on acquisition of participations	12,872	1,197			
6. Cancell. or transf. to short-terms of long-term liab.	224,824	242,536			
7. Reserve	135,225	4,588			
8. Deferred tax	343	-			
Total Applications	880,533	979,983	Total Sources	974,343	1,128,845
Excess of sources over applications			Excess of applications over sources		
(Increase in working capital)	93,810	148,862	(Decrease in working capital)	-	-
	974,343	1,128,845		974,343	1,128,845

CHANGE IN WORKING CAPITAL

INCREASES IN WORKING CAPITAL	1992	1991	DECREASES IN WORKING CAPITAL	1992	1991
1. Shareholders for uncalled share capital	-	40	1. Shareholders for uncalled share capital	40	-
2. Inventories	-	-	2. Inventories	1,867	3,029
3. Accounts receivable	49,482	47,106	3. Accounts receivable	-	-
4. Accounts payable	43,052	103,800	4. Accounts payable	-	-
5. Short term investments	5,770	-	5. Short term investments	-	5,244
6. Cash and banks	-	720	6. Cash and banks	803	-
7. Prepayments and accruals	-	5,469	7. Prepayments and accruals	1,784	-
Total	98,304	157,135	Total	4,494	8,273
Change in working capital	-	-	Change in working capital	93,810	148,862
	98,304	157,135		98,304	157,135

The reconciliation net profit to funds provided by operations.

	PARENT COMPANY		CONSOLIDATED	
	1992	1991	1992	1991
Net profit for the year	83,899	80,847	80,761	104,247
Net profit attributed to the shareholders' interests	-	-	2,461	1,771
Net profit attributed to the associated companies	-	-	(9,391)	(7,683)
			73,831	98,335
ADDITIONS:				
Dividends from associated companies	-	-	6,267	-
Depreciation	341,903	291,870	343,179	293,903
Amortization	5,462	3,955	5,810	3,991
Amortization of consolidation goodwill	-	-	808	872
Reserve for deterioration in value of long term investments	1,949	2,113	519	(736)
Exchange losses	9,066	9,501	9,086	8,318
Provision for pension fund	12,531	24,000	12,731	24,000
Other provision	8,965	13,908	9,492	15,008
Dismantled plant non amortized	35,101	25,477	35,355	25,477
Provision adjustment inventories	9,357	4,200	9,357	4,200
Deferred interest	58,406	48,783	58,964	48,783
Deferred taxes and other	31,321	10,380	27,836	18,783
Amortization of COOB92 and Expo 92	5,738	629	5,738	629
Lost on sale of consolidated companies	-	-	-	1,497
Lost on sale of intangible fixed assets	-	-	188	429
Financial provision and liabilities compliments	9,040	-	9,040	-
REDUCTIONS:				
Profit on sale of long term investment	145	2,541	162	21,855
Profit on sale of fixed assets	5,621	11,722	5,682	11,761
Capital grant	3,693	1,797	3,693	1,797
Outside contributions refundable and other	767	318	858	318
Funds provided by operations	602,512	499,285	597,806	507,758

Sources applied for purchases or sales of participations,

Effects on working capital	Purchases	Sales
Intangible assets	(3,522)	396
Tangible assets	(3,525)	677
Investments	-	46
Goodwill	(7,595)	46
Exchange differences	2,371	-
Long term liabilities	12,872	(309)
Working Capital	601	856
Purchase or sales price of participations	12,872	328

MANAGEMENT REPORT ON TELEFÓNICA DE ESPAÑA

Demand and Service

Throughout 1992 Telefónica continued to extend and develop its wide range of services in answer to the demand for these services.

The number of applications registered for basic telephony amounted to 1,068,475, 9.3% lower than in the previous year. The number of connections carried out in 1992 totalled 961,676, which represents a 7.2% decrease when compared with 1991. Lines in service, at the end of the year, totalled 13,792,200, an increase of 4.0%. The combination of the Company's investment program and the fall in demand has resulted in the figure for applications pending falling from 244,167 at the end of 1991 to 120,414 at the end of 1992, a drop of more than 50%.

The integrated business communications service, Ibercom, registered 136,912 applications, which is a 14.3% increase. The number of new connections registered in the year was 132,428, 9.4% lower than in the previous year. Lines in service totalled 478,800, a 27.6% increase compared with 1991.

Mobile telephony, with 96,725 new connections, went up 58.7% compared with the previous year. At the end of 1992 the number of subscribers to this service amounted to 180,296, representing an annual growth of 66.2%.

The applications registered for digital circuits rose to 9,833, an increase of 9.4%. Throughout the year, 8,767 connections were carried out, which reflects a growth of 9.4%.

Regarding the Iberpac network, in 1992 the number of applications registered grew by 3.1% and connections rose by 12.5% reaching the figure of 21,089.

Investment activity

Telefónica's total investment in 1992 amounted to 462,931 million pesetas. Investment in intangible assets, totalling 19,571 million pesetas, made up 4.2% of the total. Financial investment amounted to 5.1% and investment in fixed assets, which includes investments in plant, advances to suppliers and installation equipment in stock, totalled 419,820 million pesetas, 30.2% lower than the figure for 1991.

The principal components that have made up investment in fixed assets have been external plant, 31.5%, switching equipment 22.9% and radio and transmission equipment which made up 20.0% of the total figure.

The total number of lines installed at the end of 1992 amounted to 15,475,074, 1.9% higher than in December 1991. Of these lines, 36.4% are digital. At the same date the total number of lines registered by Ibercom and mobile telephony amounted to 92,150 and 325,103 respectively. Finally, a total of 207,628 trunk lines were installed, reflecting a decrease of 51.6% when compared with 1991.

Research and development activity

Throughout 1992 Telefónica's investments in research and development totalled 11,002 million pesetas. The most outstanding areas of activity were, among others, those of packet-switched equipment, new facilities offered by the advanced Audiotex System and the experimental broad band network.

Revenue

Revenue from operations totalled 1,154,696 million pesetas, a 14.5% increase over the figure for the previous year. The most dynamic components were those of sales of terminals and advertising, which went up 83.0% and 27.8% respectively. Revenue from the telephone service, which makes up 82.9% of the total, grew by 14.3%. Revenue from data transmission, which rose to 115,669 million pesetas, registered an 11.4% increase. Lastly, the item connection fees, amounting to 44,014 million pesetas, grew by 2.4%. The new tariffs for 1992 which came into force on May 15th, reflected an average increase of 2.6%.

Internal expenditure capitalized in fixed assets reached 68,920 million pesetas, 5% more than in 1991. Other operating income made up by external contributions, commissions from management services, the Mensatel service and projects for the business sector, rose by 12.9% totalling 23,346 million pesetas.

The figure for financial revenue, totalling 23,074 million pesetas, was four times higher than that registered in 1991. This was principally caused by the dividend payment carried out by Taetel on the capital gains obtained in 1991 for the sale of the participation in Telettra SpA.

Finally, net extraordinary items amounted to 8,148 million pesetas compared with the 9,290 million pesetas for 1991, a 12.3% decrease. It must be underlined that while profits on the sales of fixed assets were ten times lower than in 1991, income from capital grants doubled and the remaining components fell 10.5%.

Expenses

Operating expenses reached 917,430 million pesetas reflecting a 16.1% increase over the figure for the previous year. Personnel expenses, which make up 42.8% of the total, rose to 392,736 million pesetas, growing by 11.3%. At the end of 1992 current employees totalled 74,437, 1,062 fewer than at the end of 1991. Of this figure 11.2% made up the central organization and the remaining 88.8%, the territorial organization. Provision for depreciation and amortization went up to 341,903 million pesetas, 17.1% higher than the previous year. Trade provisions reflected a 71.7% increase totalling 26,126 million pesetas. Provisions for inventories rose to 9,357 million pesetas compared with the 4,200 million pesetas for 1991. Provisions for bad debts also grew significantly, going from 10,779 million pesetas in 1991 to 15,855 in 1992.

The remaining operating expenses, made up by external services, taxes and others, forming 17.1% of the total, reached 156,665 million pesetas, a 20.5% increase.

Financial expenses, reflecting a total figure of 217,434 million pesetas, grew by 8.9%. Among the items that make up this variable, that reflecting the most outstanding performance was financial expenses for debts, which made up 91.8% of the total, rising 5.9% compared with 26.1% the previous year.

This slowdown in financial expenses for debts comes as a result of two factors, firstly, the reduction in investments and the increase in cash-flow have allowed for higher self-financing and secondly, the favourable trend in interest rates, specially over the first six months of the year. Amortization of the cost of formalizing debts, 5,462 million pesetas, reflected an annual growth rate of 38.1%, as a consequence of the significant number of debt issues carried out in 1991.

Finally, exchange losses, totalling 12,411 million pesetas, were 70.6% higher than those registered for 1991, as a consequence of the devaluation of the peseta in 1992.

Among extraordinary expenses, which amounted to 43,596 million pesetas, an annual increase of 105.7%, losses derived from fixed assets represented 67.9% of the total, growing by 111.2% as a result of the high level of accelerated depreciation on dismantled plant. Provisions for financial investments followed a trend similar to that of the previous year, reaching 1,949 million pesetas, while the remaining extraordinary expenses totalled 12,058 million pesetas. Of this figure, the most outstanding items were the expenses related to the Olympic Games, the World Fair and also those derived from the supplementary pensions for retired personnel.

Results

The difference between operating revenue and operating expenses, with figures totalling 1,246,962 and 917,430 million pesetas respectively, has resulted in an operating profit for 1992 of 329,532 million pesetas, 8.3% higher than the previous year.

Financial items, amounting to 23,074 million pesetas for revenue and 217,434 million pesetas for expenses, made for a net financial result of 194,360 million pesetas, representing an 0.2% increase compared with the 193,952 million pesetas registered in 1991.

Profits from normal activities rose to 135,172 million pesetas, 22.4% up on the figure for 1991.

Extraordinary revenue totalled 8,148 million pesetas and extraordinary expenses 43,596 million pesetas, therefore resulting in a net figure of 35,448 million pesetas for net extraordinary items, tripling the 11,903 million pesetas reflected by this item last year.

Income before tax rose to 99,724 million pesetas compared with 98,547 million pesetas in 1991, growing 1.2%. The provisions for corporate tax, amounting to 15,825 million pesetas, was 10.6% down on the previous year's figure and reflected an effective tax rate of 15.9%. This is principally a consequence of the deductions made on the investment for the Olympic Games and the World Fair.

Finally, net income for 1992 totalled 83,899 million pesetas, a 3.8% increase when compared with 1991.

Outlook

Telefónica's outlook for the 1993 fiscal year points towards demand figures similar to those registered in 1992. The estimated number of applications for telephone lines rises to over a million, new connections will reach around 900,000 and the waiting list will be totally cancelled, with only those applications pending which correspond to the average 20 day period for applications in process. The number of lines to be installed in 1993 totals more than 900,000.

The total figure for investments will be 555,525 million pesetas of which 494,332 million corresponds to investment in fixed assets.

Acquisition of own shares (Treasury Stock)

No treasury stock was acquired during the year.

MANAGEMENT REPORT ON CONSOLIDATED GROUP

The year 1992 has proven to be an outstanding one for the Telefónica Group for varying reasons. Firstly, a definite solution has been found to the problem posed by the pension scheme for Telefónica employees. On the other hand, great progress has been made in the expansion and diversification of the Group's international activities. This is reflected by the purchasing of a 79% participation in Puerto Rico's, Telefónica Larga Distancia (TLD) and the 51% participation in Publiguías, the company who provides the yellow pages in Chile.

From a diversification viewpoint, the international yellow pages business has been greatly consolidated in Spain, Chile, Argentina and Venezuela. Regarding the telecommunications services, the number of lines in service controlled outside Spain (either directly or within a partnership), rose to over 5 million. This figure confirms Telefónica's position as an international telecommunications operator. Moreover, the investment made in the Puerto Rican operator is a major breakthrough in the gaining of presence in the North American telecommunications market.

Operating results

In general, the companies that make up the Telefónica Group have shown a favourable performance throughout 1992, despite it having been a year in which the Spanish economy's growth rate has fallen sharply.

Consolidated revenue from operations rose to 1,208,938 million pesetas, 15.2% higher than in 1991. The Group's subsidiaries, in 1991 contributed 40,967 million pesetas, in 1992 this figure rose 32.4% to reach 54,242 million pesetas.

Internal expenditure capitalized in fixed assets totalled 103,929 million pesetas, a decrease of 4.2% compared with the previous year. This item, which in 1991 made up 10.3% of revenue from operations, in 1992 reduced this percentage to 8.6%, therefore contributing to the improved quality of operating profits.

Consolidated operating expenses amounted to 1,003,266 million pesetas, having grown 15.0% compared with the figure registered for 1991. Among operating expenses, the most important item is personnel expenses. This item totalled 429,626 million pesetas, going up 9.7%. These expenses, as a percentage of revenue from operations, went down almost 2 percentage points from 37.3% in 1991 to 35.5% in 1992.

Another item of considerable weight within operating expenses, was accelerated depreciation on dismantled plant, which went from 293,903 million pesetas in 1991 to 343,179 million pesetas in 1992, reflecting an annual growth rate of 16.8%. Its importance in relation to revenue from operations rose from 28.0% in 1991 to 28.4% this year.

As a consequence of the performance reflected by revenue and expenses, consolidated operating profit rose to 336,780 million pesetas, 10.0% higher than the figure registered the previous year.

Financial items

In 1992 consolidated financial expenses amounted to 220,912 million pesetas, an increase of 8.7% compared with the previous year. The Group's subsidiaries contributed 3,478 million pesetas to financial expenses, a 2.5% decrease when compared with 1991. The lower weight of financial expenses within the consolidated results becomes clear when one considers that this item, in 1991 represented 19.4% of revenue from operations compared with 18.3% in 1992, having gone down 1.1 percentage points.

On the other hand, consolidated financial income went from 7,600 million pesetas in 1991 to 4,681 million pesetas in 1992. This financial income was lower than that registered by the parent company, whose figure totalled 23,074 million pesetas, as a result of the dividend payment

made by the subsidiary Taetel as a consequence of the capital gains obtained from the sale of Telefónica's shareholding participation in Telettra S.p.A. in 1991.

Therefore, the Group's net financial income rose to 216,231 million pesetas, 10.6% higher than the previous year and 11.3% higher than that registered by the parent company, even though, as a percentage of consolidated revenue from operations, this figure went down from 18.6% in 1991 to 17.9% in 1992.

Contribution by associated companies and profit from ordinary activities

The activity realized by the Telefónica Group's associated companies is clearly reflected by their contribution to the Group's results. The participation in profit by the companies consolidated by the equity method totalled 12,315 million pesetas, growing by 47.0%. The larger part of this profit derived from the activities carried out in Chilean and Argentinian operators in whose management Telefónica has an outstanding position.

The participation in losses of the companies consolidated by the equity method, in which Telefónica holds a minority participation, playing no active role in their management, went from 661 million pesetas in 1991 to 2,924 million pesetas in 1992. Despite this, the associated companies' net income reflected an overall positive performance going from 7,717 million pesetas in 1991 to 9,391 million pesetas in 1992, which represents an annual growth rate of 21.7%.

Profit from ordinary activities, which includes income from both subsidiaries and associated companies, totalled 129,132 million pesetas, rising 10.0% when compared with the previous year.

Net extraordinary items and net income

In 1992 consolidated net extraordinary items amounted to 10,804 million pesetas, dropping 67% compared with 1991. This drop in net extraordinary items came as a result of the important capital gains obtained in 1991 principally as a consequence of the sale of the participation in Telettra S.p.A.

Consolidated extraordinary expenses, which totalled 43,016 million pesetas having grown 116.8%, are similar to those of the parent company and are mainly due to Telefónica's significant accelerated depreciation on dismantled plant, which went up to 35,101 million pesetas, reflecting an increase of 37.8%.

As a result of this, consolidated net extraordinary items registered a debit balance of 32,212 million pesetas in 1992, compared with the positive amount of 12,847 million pesetas in 1991. For this reason consolidated income before tax, after having deducted results attributed to the shareholders' interests (2,461 million pesetas, an increase of 38.9%) amounted to 94,459 million pesetas, 26.5% lower than the figure registered for the previous year. Despite this, funds provided by operations reached 597,806 million pesetas, a 17.7% increase, and therefore allowed the Group total self-financing of its investments.

Finally, after deducting the provisions for Corporate tax (13,698 million pesetas in 1992 compared to 24,272 million pesetas in 1991), consolidated net income totalled 80,761 million pesetas.

Changes in Group company participations

In 1992, Telefónica sold 60% of its participation in Ecotel, therefore this company has gone from being a subsidiary to being an associated company. Alcatel Standard Eléctrica has changed from its previous state of an associated company to a shareholding company, as Telefónica's participation has gone from 21.14% to 13.24%, as a result of not having participated in the last capital increase.

Subsequent events

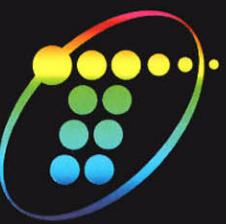
At the beginning of 1993 Telefónica's subsidiary, Telefónica Internacional, acquired 51% of the share capital of Publigráficas, a company which is responsible for the telephone directory business in Chile. The transaction, carried out in association with the Compañía de Teléfonos de Chile, amounted to 5 million dollars.

Research and development

During the year a total of 10,433 million pesetas was invested in research and development, principally in the development of new packet-switched equipment, the experimental broadband network and products to improve the operating and maintenance of the network.

Acquisition of own shares (Treasury stock)

No Treasury stock was acquired throughout 1992.



Shareholder information

**RECONCILIATION OF NET INCOME AND SHAREHOLDERS' EQUITY
AS REPORTED IN IN THE SPANISH STATUTORY ACCOUNTS WITH NET
INCOME AND SHAREHOLDERS'EQUITY IN ACCORDANCE WITH UNITED STATES
GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (U.S. GAAP)**

Certain accounting practices applied by Telefónica in its financial statements prepared for use in Spain, together with others required or allowed under the Conditions of Concession of Telefónica as a regulated entity (Note 2)*, may not conform with generally accepted accounting principles in the United States.

As a result of Telefónica's shares being traded in the New York Stock Exchange, where they have been listed since the middle of 1987, the Company is requested to adjust its net income and shareholders' equity based on American accounting principles. The most significant differences between these accounting practices are summarized below:

Present practice for local Spanish purposes	Treatment for U.S. GAAP Purposes
1. Intangible assets (see note 4.I.b)*	Research and development costs are expenses as incurred. The effect is shown below.
2. Income tax (see note I.I.i)*	Deferred taxes arising from timing differences between income and taxable income must be accounted for.
3. Property, plant and equipment (see note 4.I.c)*	Revaluation of fixed assets is not permitted. Property, plant and equipment and related accumulated depreciation are stated at historical cost values.
4. Investments (see note 4.I.d)*	Investments in subsidiaries should generally be accounted for as follows: <ul style="list-style-type: none"> • More than 50% holding: Consolidated or equity method of accounting. • Between 20% and 50% holding: Equity method of accounting. • Less than 20% holding: At a lower of cost value or net realizable value.
5. Costs of new equity capital	US GAAP requires expenses of raising capital to be deducted from the proceeds of the new capital.
6. Income per share is not required to be in the financial statements nor in any other obligatory financial information.	Per share computations are required to be shown.
7. Endowment insurance (see note 4.I.h)*	From January 1, 1989 the FASB no.87 has been applied to record the costs for past services.
8. Allowance for funds during construction	Interest accrued up to the time when the assets are placed in service are accounted for.

**Reconciliation of consolidated net income and shareholders' equity,
at December 31**

	1991	1992
Net income for the year as reported in the Spanish statutory accounts at December 31	104,247	80,761
Adjustments for US GAAP purposes:		
Reversal of depreciation of revalued portion of fixed assets	57,846	45,671
Research and development expenses		
Net effect between prior write-offs and current amortization	(8,245)	(8,306)
Reversal of self-insurance	(759)	(387)
Reversal of amortization of costs new equity capital	1,091	993
Adjustment of endowment insurance cost	-	1,606
Allowance for funds during construction	34,470	16,640
Less amount due to effect of fixed assets revaluations, of the retired plant not depreciated	10,793	16,242
Deferred taxes due to adjustments	(9,179)	(2,950)
Reversal of charges to provisions	(18,829)	-
Approximate net income for the year in accordance with US GAAP	171,435	150,270
Shareholders' equity as reported in the Spanish statutory accounts at December 31	1,330,273	1,392,005
Interim dividend	23,174	-
	1,353,447	1,392,005
Adjustments for US GAAP purposes:		
Reversal of net effect of revaluation of fixed assets and related accumulated depreciation	(237,192)	(191,521)
Charges to provisions	2,994	2,607
Research and development expenses	(23,063)	(31,276)
Net effect between prior write-offs and current amortization	(1,496)	(503)
Accrual of past service cost of endowment insurance	(1,606)	-
Allowance for funds during construction	114,230	130,870
Less amount due to effect of fixed assets revaluations, of the retired plant not depreciated	28,276	44,518
Deferred tax due to US GAAP adjustments	(31,908)	(34,858)
Approximate shareholders' equity in accordance with US GAAP	1,203,682	1,311,842

* Notes in brackets refer to the financial statement on pages 73 to 114 of this Annual Report



Share Capital

	1988	1989	1990	1991	1992
Share capital (millions of ptas.)	460,620.35	462,481.73	463,479.04	463,479.04	463,479.58
Adjusted earnings per share (ptas)	70.58	74.49	81.76	87.22	90.51
Price/earnings ratio	12.58	11.92	10.27	14.10	12.60
Dividend pay out (%)	75.43	73.83	67.27	67.65	67.40
Price/Cash flow per share	2.86	2.72	2.26	2.84	2.27

The share capital of Telefónica at December 31, 1992 was 463,479,575,500 pesetas, represented by 926,959,151 bearer shares of 500 ptas. nominal value, fully paid in.

Since 1988 the following capital increases have been carried out, all through conversion of bonds:

Year	Number of shares issued (thousands)	Issue price (ptas.)	Amount (millions of ptas.)	
			Nominal	Effective
1988	30,514.9	648.330	15,257.5	19,783.7
1988	628.5	724.605	314.3	455.4
1988	166.2	903.650	83.1	150.2
1988	56,790.5	763.210	28,395.2	43,343.1
1988	416.8	801.705	208.4	334.2
1988	22.8	833.280	11.4	19.0
1988	15.8	817.090	7.9	12.9
1988	18.8	799.045	9.4	15.0
1988	1,930.6	776.340	965.3	1,498.8
1989	3,571.3	782.385	1,785.6	2,794.1
1989	151.5	942.905	75.8	142.9
1990	1,994.6	858.435	997.3	1,712.3
1992	1.1	924.75	0.5	1.0

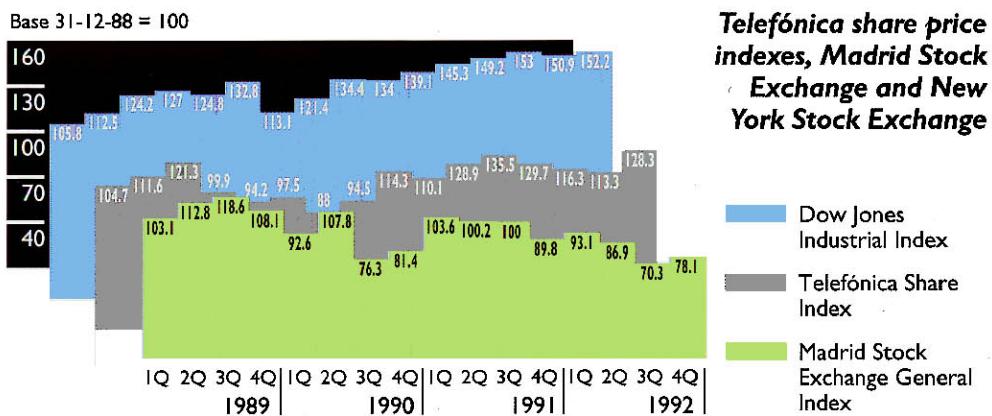
Note: At December 31, 1992 Telefónica had outstanding 199,99 million dollars in convertible Bonds.

Share listings

Telefónica shares are listed on the continuous market on all the Spanish Stock Exchanges (Madrid, Barcelona, Bilbao and Valencia) and on the following foreign Stock Exchanges: London, Paris, Frankfurt, Tokyo, New York (*) and on the London Stock Exchange Seaq International system (*).

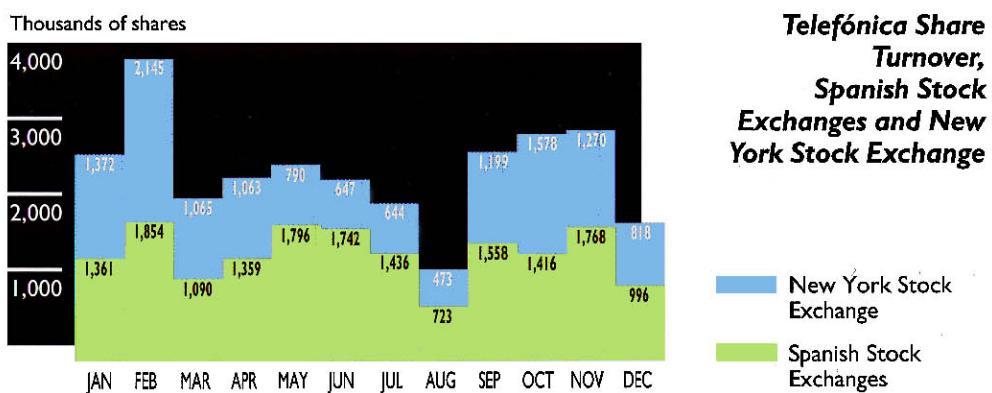
Option contracts on Telefónica shares are negotiated on the Spanish Financial Futures market (MEFF-RV) and on the American Stock Exchange (AMEX) (*)

(*) It is listed on American Depository Receipts (ADR). 1ADR = 3 shares.



Telefónica share price indexes, Madrid Stock Exchange and New York Stock Exchange

- Dow Jones Industrial Index
- Telefónica Share Index
- Madrid Stock Exchange General Index



Telefónica Share Turnover, Spanish Stock Exchanges and New York Stock Exchange

- New York Stock Exchange
- Spanish Stock Exchanges

Market prices

The table below shows high, low and closing prices on the Madrid Stock Exchange in pesetas.

Year	High	Low	Closing
1988	1,048.75	775.00	888.75
1989	1,086.25	865.00	888.00
1990	984.00	763.00	840.00
1991	1,290.00	832.00	1,230.00
1992 1st quarter	1,300.00	1,085.00	1,140.00
1992 2nd quarter	1,200.00	1,010.00	1,035.00
1992 3rd quarter	1,110.00	976.00	996.00
1992 4th quarter	1,190.00	862.00	1,140.00

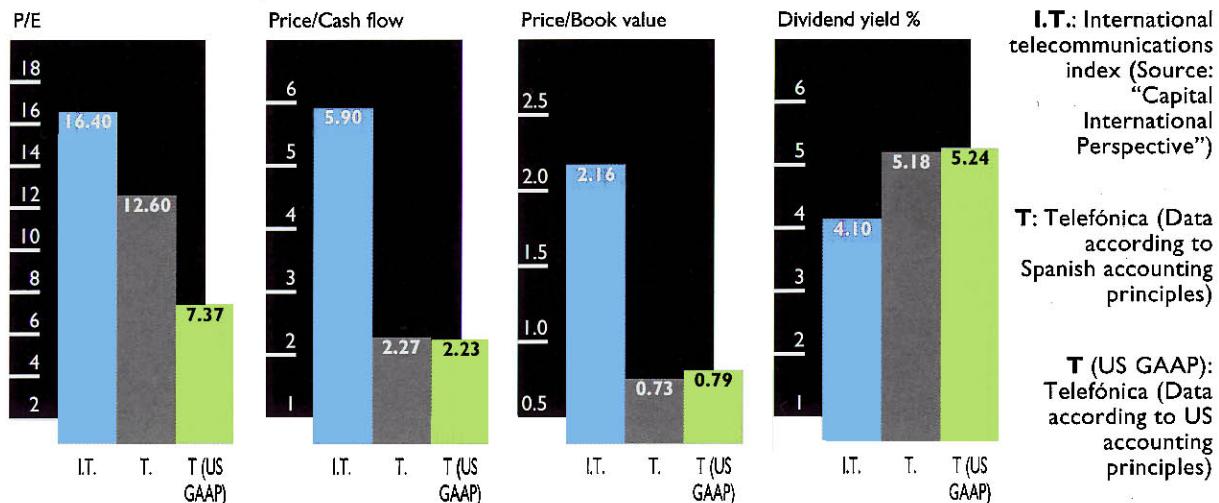
Dividend policy

Telefónica normally pays an interim dividend at year end and a final dividend once the total dividend for the year has been approved by the General Meeting of Shareholders, following the proposal of the Board of Directors. Recent dividends were as follows:

	1990	1991	1992
Interim	25 ptas.	25 ptas.	25 ptas.
Final	30 ptas.	34 ptas.	36 ptas. (*)
Total	55 ptas.	59 ptas.	61 ptas.

(*) To be determined by the General Meeting of Shareholders, in accordance with the proposal for net income distribution.

Telefónica International Comparisons at 31-12-92



State Shareholding in Telefónica de España, S.A.

As Telefónica shares are bearer shares, there is no official register of shareholders. However, on payment of the interim dividend for 1992, on February 17, 1993, it was verified that the state shareholding is as follows:

	Interest as % of Share Capital
Spanish State	32.28
Caja Postal	1.33

Stock Market Capitalization

	1988	1989	1990	1991	1992	Average Growth % 92/88
Telefónica	766.1	821.2	778.6	1,140.2	1,056.7	8.4
Total Madrid Stock Exchange	10,313	13,457	11,744	14,303	13,332	6.6
Telefónica Weighting on the M.S.E. index (%)	9.07	7.95	6.53	7.80	9.25	

Figures in thousands of billions of pesetas, unless otherwise stated.

Telefónica Group Shares

Associated companies	CTC Chile		Entel Chile		Telefónica Argentina	
	1991	1992	1991	1992	1991	1992
S.M Capitalization (millions US \$)	1,855	2,956	853	513	3,422	3,693
Closing price (US \$)	2.16	3.44	9.21	5.55	0.29	0.31
Price/earnings ratio	14.1	16.0	11.8	5.6	29.2	12.6
Price/Cash flow	9.1	10.4	8.9	4.3	9.4	6.0
Dividend yield	4.7%	3.5%	6.3%	12.2%	-	3.0%



Management

(As it stood at March 24, 1993)



MANAGEMENT COMMITTEE

Chairman

Cándido Velázquez-Gaztelu Ruiz

Vice-chairmen

José María Concejo Alvarez
Claudio Boada Vilallonga

Chief Executive

Germán Ancochea Soto

Directors

(Representing shareholders)

Jesús Arango Fernández
José María Carballo Cotanda
Santos Castro Fernández
Miguel Cruz Amorós
Antonio Herrero Alcón
José Montes Fernández
José Constantino Nalda García
Marcial Portela Alvarez
Juan Manuel Rebollo Castrillo
Epifanio Ridruejo Brieva
Arturo Romaní Biescas
Mateo Ruíz Oriol

Ignacio Varela Díaz

Juan Antonio Vázquez de Parga
y Pardo

José Vilarasau Salat
Carlos Westendorp y Cabeza

Directors

(Representing the Government)

José María Giró Roca
Enrique Martínez Robles
Elena Salgado Méndez
Gustavo Suárez Pertíerra
Eugenio Triana García

Secretary

(non Director)

Heliodoro Alcaraz García de la Barrera

Vice-secretary

(non Director)

Mariano Aldama Magnet

Government Delegate

(non Director)

Javier Nadal Ariño

Changes recorded in the Board of Directors of Telefónica de España, S.A. after the end of the 1992 financial year.

Antonio Herrero Alcon and **Juan Antonio Vázquez de Parga y Pardo** were appointed Directors representing shareholders and the general interests of the Spanish State, in place of **Elena Salgado Méndez** and **Eugenio Triana García**, respectively, who had previously been appointed Directors representing the Government.

Antonio Flos Bassols retired as Director representing shareholders and the general interests of the Spanish State. Appointed in his place was **Santos Casto Fernández**.

EXECUTIVE COMMITTEE

Chairman

Cándido Velázquez-Gaztelu Ruiz

Vice-chairmen

José María Concejo Alvarez
Claudio Boada Vilallonga

Chief Executive

Germán Ancochea Soto

Directors

Enrique Martínez Robles
Mateo Ruíz Oriol
Elena Salgado Méndez

Eugenio Triana García

Juan Antonio Vázquez de Parga
y Pardo

José Vilarasau Salat
Epifanio Ridruejo Brieva
(Advisory Member)

Secretary

(non Director)

Heliodoro Alcaraz García de la Barrera

Vice-secretary

(non Director)

Mariano Aldama Magnet



MANAGEMENT COMMITTEE

Chairman

Cándido Velázquez- Gaztelu Ruiz.
Chairman of the Board of Directors.

Members

Germán Ancochea Soto.

Chief Executive.

Antonio López-Barajas y García-Valdecasas.
General Manager of the Telephone Service.

José Caballero Guerrero.

General Manager of Resources.

Manuel A. Blanco Losada.

General Manager of Corporate Planning.

César Vacchiano López.

General Manager of Sales and Quality.

Guillermo Fernández Vidal.

General Manager of Business Communications.

Rafael Hernández García..

General Manager of Network.

Heliódoro Alcaráz García de la Barrera.

General Secretary and Secretary of the Board of Directors.

DEPUTY GENERAL MANAGERS

Economic Studies and Analysis

Crisanto Plaza Bayón

Procurement and Supplies

José Luis Franganillo Asensio

Corporate Relations and Communications

Guillermo Medina González

International Communications

Vicente San Miguel García

International Cooperation

José Luis Rojo Serrano

Subsidiaries and Holdings

Margarita Sánchez López

Finance and Budgetary Control

Francisco Mochón Morcillo

Training and Technology Foundation

José Manuel Morán Criado

Corporate Clients

José Luis Guezuraga Villa

Inspection

Faustino Rivero Morales

Accounts and Control

Isidro López Cuadra

Strategic Planning

José Alberto Blanco Losada

Planning and Technology

Carlos Díaz-Guerra Alvarez

Security

José Luis Fernández Dopico

Personnel Management

Oscar Maraver Sánchez-Valdepeñas

Access Networks

Jesús Medina Franco

Transit Networks

Manuel Badenes Moles

Customer Service

Augusto Serrano Santarromana

Data Processing

Alfredo García París

Notice of the General Meeting of Shareholders

Date: April 16, 1993 (at the second notice)

Time: 12 h

Place: Paseo de la Castellana, 259, Madrid
Pabellón de Deportes de la Ciudad Deportiva
del Real Madrid

Shareholder information

Copies of this Annual Report may be obtained free of charge from the Company offices or by request in writing to:

Telefónica de España, S.A.

Financial Department
General Perón 38-planta 15
Edificio Masters II
28020 MADRID

Also available to shareholders and to the general public is the information demanded under current Legislation.

Published by **Telefónica** Publications Services

PRESS OFFICE

**GENERAL DEPARTMENT OF CORPORATE
RELATIONS AND COMMUNICATIONS**

Design: Margarita Jiménez and Carmen
Santacatalina

Cover: Joan Costa, designer of Telefónica's new corporate logo, presented for the first time at the General Meeting of Shareholders.

Photography: Carlos Casariego

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A short history

The telephone made its début in Spain a year after its invention, shortly after its presentation at the Philadelphia Centenary Exhibition. The first communication via telephone took place on December 16, 1877 between Montjuich Castle and the City of Barcelona. A few months later the first permanent telephone line was installed in Frenegal de la Sierra (Badajoz). The first signs of legislation of telecommunications services date from the Royal Decree of August 11, 1884. This Decree granted monopoly of the telephone service to the State, who awarded the operation of the service to various concessionaires. The trunk service was launched in Spain on March 18, 1891 when the State tendered a license for the construction and operation of a network which was granted to the "Compañía Peninsular de Teléfonos".

At the beginning of the century we find a multitude of concessionaires coexisting. The formation of a single company did not take place until 1924, when the State granted the running of the telephone service to the "Compañía Telefónica Nacional de España". This Company was founded in Madrid on April 19, 1924 with an initial share capital of 135 million pesetas. The main shareholder was the North American company ITT (International Telephone and Telegraph Corporation). One of the first landmarks in Telefónica's history was the launching in 1926 in Santander of the first automatic exchange. On December 29 of the same year, King Alfonso XIII opened the Madrid automatic exchange.

In 1945 and 1946 there were several fundamental changes in the organization and regulation of Telefónica. The state nationalized the Company purchasing the shares held by ITT to become the main shareholder, with 31% of the capital. The process of change culminated in the signing of the State Contract on December 21, 1946. This would serve as Telefónica's operating framework for more than four decades.

In 1955 the number of telephones installed by Telefónica reached the million mark. At that time there were only 11 countries in the world which exceeded this figure. In 1957 the Madrid-Zaragoza-Barcelona coaxial cable entered into service with 432 telephone circuits. In 1962 the two millionth telephone was installed and the third four years later in 1966. 1969 was another important landmark in the history of Spanish telecommunications: thanks to the 10 million kilometres of circuits installed, half of the trunk calls could be selected automatically. In addition, in 1965, integral automation of Spain's network commenced, with trunk communications between Madrid, Zaragoza and Barcelona.

With regards to international communications, we should mention particularly the wide network of underwater cable managed by Telefónica, which places Spain among the world's top three circuit operators. Telefónica has put at the disposal of its users a wide range of advanced services such as data transmission, mobile communications, satellite communications, intelligent network services, etc. The Company is also a leading innovator, as was made evident by Telefónica's inauguration, in 1971, of the world's first public packet switching data network (Iberpac). Moreover, since 1986, Telefónica has offered its clients an integral business communications service known as Ibercom.

At a time when numerous telephone operators are being privatized, it is worth noting that Telefónica has been a private company for a long time, although the State holds a significant share (33.6% at the end of March 1993). The company is, however, governed by the regulations laid down by the Government and the European Community. In this respect, Telefónica is bound by the State Contract of December 26, 1991, which replaced the contract signed between both parties in 1946. Telefónica shares are listed on the major world Stock Exchanges (London, Paris, Frankfurt, Tokyo and New York), as well as on the continuous market of the Spanish Stock Exchanges (Madrid, Barcelona, Bilbao and Valencia).

In response to the internationalization and globalization of financial activity, Telefónica has holdings in several Latin American operators, namely in Chile, Argentina, Venezuela and Puerto Rico. At 1992 year end, Telefónica de España controlled assets worth 3.9 billion pesetas, managed a network of 15,475,100 telephone lines and had a workforce of 74,437. Operating revenue in 1992 amounted to over 1.1 billion pesetas. Telefónica de España is Spain's leading company in terms of turnover, shareholder funds, total assets and number of employees.



TELEFÓNICA DE ESPAÑA