



Telefónica

A N N U A L

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1993 HIGHLIGHTS

JANUARY. With the purchase of 51% of "Publiguías", Telefónica Internacional starts business in the yellow pages sector in Chile. The operation, which amounted to 5 million dollars, went ahead in association with the Chilean Telephone Company (CTC), who hold 9% of the company's share capital.

FEBRUARY. Telefónica's Board of Directors approves additional investment aimed at equipping telephone exchanges with the technology necessary for facilitating the Itemized Bill service.

Telefónica Sistemas becomes the head of a new group of companies, especially dedicated to providing solutions to the growing, complex demands of Telefónica's corporate clients.

MARCH. Seven new public European operators sign an agreement in Madrid to join the ATM pilot project, a protocol relating to the implementation throughout all Europe of an infrastructure based on the Asynchronous Transfer Mode (ATM).

APRIL. Telefónica presents to the General Meeting of Shareholders its public commitment to a wide range of improvements and service developments. The universalization of the service, line installation in under 20 days, quality upgrading, itemized billing, network modernization, the development of new services and a reduction in the telephone bill are the 7 points included in the "Public Commitment" made by Telefónica to our clients and to society in general.

Telefónica's chairman declares that the company's commitment to Spanish society is to make Telefónica the FAVOURITE telecommunications services supplier of present and future customers.

Telefónica presents to the General Meeting of Shareholders and to the public in general, the Company's new corporate identity, represented by a new company logo.

MAY. Telefónica launches the cellular mobile Telephony Service "Telemobil" in Romania, only a year after being granted the license to operate the service and form the company Telefónica Romania.

Telefónica promotes the construction of "Unisur", the first underwater cable from Southern Latin America. It will enter into service in 1994 and, via connection (in Brazil) with the cables Americas I and Columbus II, Unisur will give Argentina direct connection to the other continents.

Telefónica will develop a vast program of corporate management through the "Proyecto Arco" to harmonize the company's marketing activity, integrating into one application all the corporate management processes.



JUNE. Spain's first radio broadcast is transmitted through Telefónica's Integrated Services Digital Network (ISDN).

Telefónica launches the "Moviline" service. The company Telefónica Servicios Móviles (TSI) is responsible for the launching and marketing of this mobile telephony service.

Telefónica automates maritime communications via satellite through INMARSAT. Maritime shipping communications in all the oceans of the world can be made automatically via satellite from any telephone without going through the operator.

Telefónica begins marketing the Integrated Services Digital Network (ISDN). The ISDN, a digital network which is capable of integrating any kind of information (voice, data, text or image) through one single connector, offers users better quality communications, faster transmission and greater flexibility.

JULY. Telefónica's 14th million line goes into service. The line was contracted in Reus (Tarragona). Telefónica signs a contract in Rabat to lay an underwater cable between Estepona and Tetuán. The project will cost a total of 1,100 million pesetas and will start operating in 1994 with a capacity of 15,360 basic circuits.

SEPTEMBER. The Madrid Savings Bank (Caja de Madrid) is the first entity to sign an agreement with Telefónica for the immediate implantation of the ISDN Business Network developed by Telefónica.

Telefónica's Board of Directors approves the execution of the "Fotón Plan". In brief, this plan consists of connecting with fibre optics all the Corporate Clients' buildings with their corresponding telephone exchange. Anticipated investment for the first two years of the plan amounts to 46,500 million pesetas, with the result that, within a relatively short period of time, all towns of over 50,000 inhabitants will have an optical infrastructure. One of the main advantages of the introduction of fibre optics is the integration into the same network, at high speed, of voice, data and high definition image.

OCTOBER. The Government Representative within Telefónica authorizes the Company to implement Itemized Billing. Throughout 1994 all customers whose telephone is connected to a digital telephone exchange (almost 6 million) will receive an itemized bill. Gradually, by 1997, all Telefónica's 14 million clients will receive the service. Telefónica's itemized bill service is optional and free of charge.

Telefónica Sistemas de Satélites (TSS) and Unisource Satellite Services sign a collaboration agreement to operate jointly in the world market of satellite business communications, with an investment, over 5 years, of 15,000 million pesetas. Unisource Satellite Services (USS) is a subsidiary of Unisource and has the same authorized activity as TSS.

NOVEMBER. Telefónica puts the Ibercom National Maintenance Centre into operation, with an investment of 3,000 million pesetas.

Telefónica announces the commissioning of ORBINET, a new international communications network for corporate clients. ORBINET is a basic digital infrastructure consisting of 15 nodes currently under installation in the main European and Latin American capital cities. Capable of transmitting integrally on one single channel voice, data and image it will carry all kinds of global communications and has the capacity to include new ATM (asynchronous transference mode) protocols.

Fifty thousand families in the rural areas of Galicia now have telephone access thanks to cellular mobile technology. The system, which was started only a year and a half ago as a result of the agreement signed between Telefonica and the Galician Regional Government, has led to the elimination of so-called "areas outside local zones".

This is one of the fundamental consequences of the rural telephony plans drawn up between Telefónica and the Autonomous Regional Governments, in order to make the telephone service available to all Spain's citizens under the same price and quality conditions wherever they may reside.

The Mediterranean Maintenance Agreement signed by Telefónica, Iritel and France Telecom comes into force for the maintenance of the 51,000 kilometres of underwater cable in the 14 countries in the area.

DECEMBER. On the first day of the month, Unisource and Telefónica sign an agreement to establish close cooperation. Unisource is composed of PTT Telecom Nederlands, Swiss Telecom PTT and Swedish Telia, the operators of Holland, Switzerland and Sweden respectively. Under the agreement the signatories will work together in Europe and in the rest of the world for their mutual benefit.

Telefónica is awarded a license in Uruguay to exploit Cellular Mobile Telephony in a consortium also consisting of France Telecom and Stet.

Telefónica participates from Spain in the inauguration of the Pan-European ISDN, EURIE '93.



Telefónica

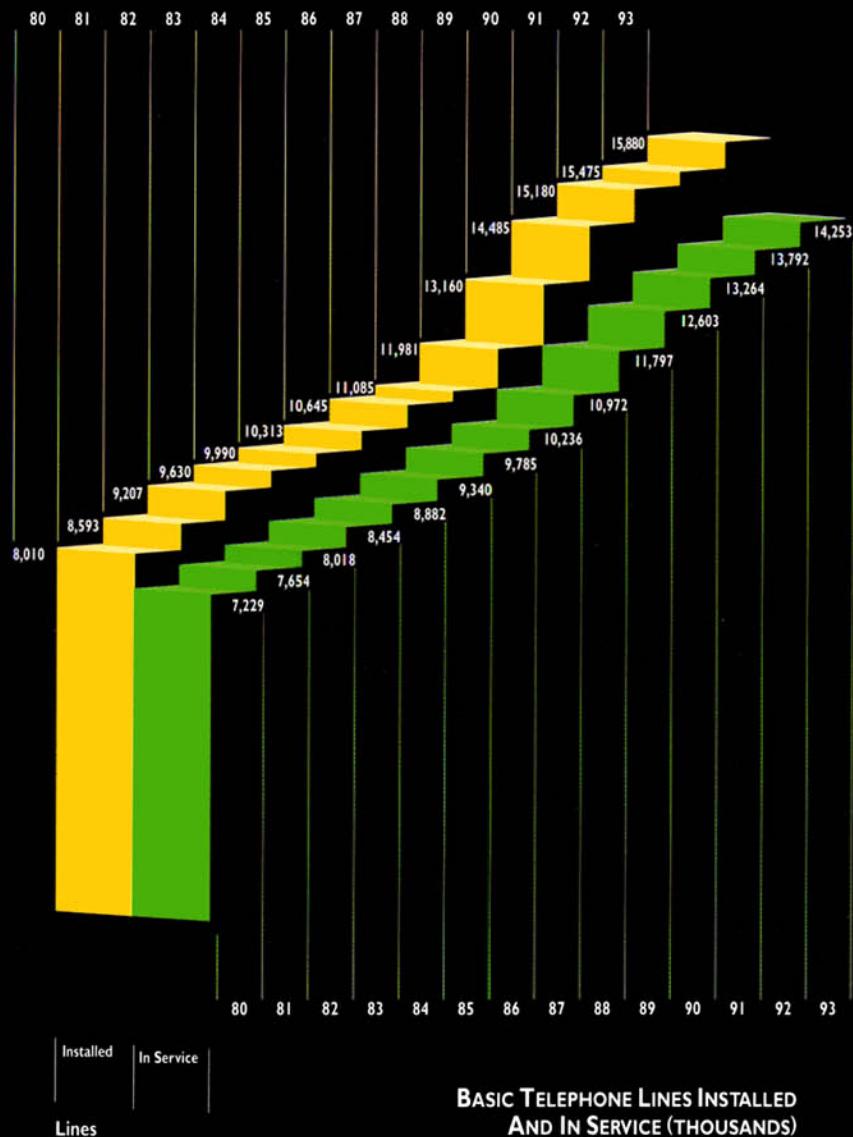
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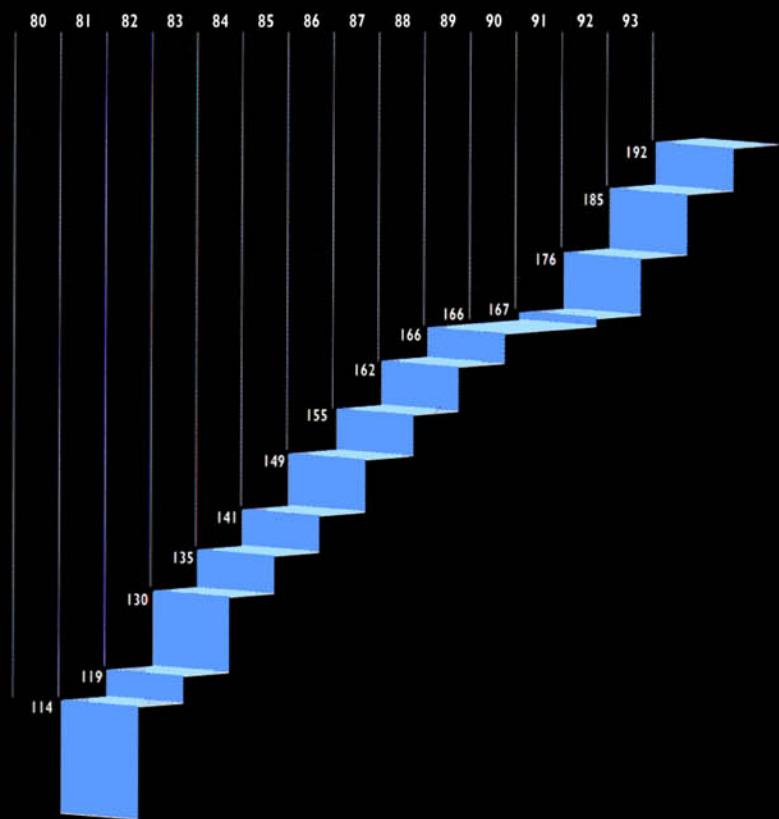
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HIGHLIGHTS

| | 1989 | 1990 | 1991 | 1992 | 1993 |
|---|----------|----------|----------|----------|----------|
| Lines in service (thousands) | | | | | |
| Basic Telephony | 11,797.2 | 12,602.6 | 13,264.4 | 13,792.2 | 14,253.5 |
| IBERCOM | 145.9 | 255.5 | 375.0 | 481.6 | 572.5 |
| Automatic Mobile Telephony | 29.8 | 54.7 | 108.5 | 180.3 | 257.3 |
| Basic Telephone lines in service per 100 inhab. | 30.4 | 32.4 | 34.1 | 35.3 | 36.4 |
| % Average growth in line usage | 5.1 | 2.3 | 4.1 | 4.1 | (3.5) |
| Employees | 71,155 | 75,350 | 75,499 | 74,437 | 74,340 |
| Basic Telephone lines in service per employee | 165.8 | 167.3 | 175.7 | 185.3 | 191.7 |



BASIC TELEPHONE LINES
IN SERVICE PER EMPLOYEE

HIGHLIGHTS

| | 1989 | 1990 | 1991 | 1992 | 1993 |
|--|-----------|-----------|-------------|-------------|-------------|
| Demand for new basic Telephone and IBERCOM lines (thousands) | 1,494.4 | 1,444.6 | 1,237.8 | 1,205.4 | 1,261.0 |
| Operating revenue (ptas. millions) | 714,839.0 | 852,542.0 | 1,008,031.0 | 1,154,696.0 | 1,220,084.0 |
| Financial debt ratio (%) | 45.2 | 51.9 | 55.1 | 58.4 | 57.1 |
| Capital expenditure in fixed assets (ptas. millions) (*) | 606,363.0 | 708,545.0 | 616,026.0 | 439,391.0 | 381,507.0 |
| Cash-flow (ptas. millions) | 302,461.0 | 344,906.0 | 402,149.0 | 466,365.0 | 491,440.0 |
| Net income (ptas. millions) | 68,898.0 | 75,788.0 | 80,847.0 | 83,899.0 | 84,837.0 |

LETTER TO SHAREHOLDERS

Dear shareholder,

With a renewed commitment to our clients and to Spain in general, last year the company spontaneously took on fresh challenges. The first of these related to quality upgrading and service expansion in the rural community, aimed at providing equal opportunities in telephone service access to all of Spain's citizens, no matter where they reside, under the same price and quality conditions. Further achievements related to the radical fall in the waiting time for the installation of new lines, the introduction of the itemized bill service, the maintaining of average tariff rises below the consumer price index, the constant network modernization and the development of new services. Naturally, these achievements met with the full approval of our clients, who are well aware that we have honoured our pledges. To them we now renew this commitment to carry on working towards the provision of greater and better services. We are greatly encouraged by the fact that satisfaction levels with Telefónica services rose considerably throughout the past year, evidence that our efforts of the last years have received due recognition.

The placing of greater demands on ourselves last year coincided with the severe slump in Spain's economy. This was reflected, among other things, in the marked increase in the number of service cancellations, in the repeated fall in net demand for lines and in the lowest revenue growth rate of the last few years. However, the development of internal policies aimed at restraining operating costs, improving productivity and adapting the rate of investment to the new levels of demand led to an increase in profit before tax and the continuing improvement in the structure of our Profit and Loss Account. There were two particularly significant milestones in the company's development last year: the final elimination of the waiting list and the achievement of over a 110% rate of self-financing of investments, which resulted in a fall in the borrowing rate of over one point. These figures are proof in themselves of the level of maturity reached by Telefónica in its role as Spain's telecommunications operator.

Together with the strengthening of Telefónica's financial base (which will be enhanced in the immediate future by the falling trend in interest rates), with the highest service quality and customer care levels in the Company's history, with the consolidation of our international presence, which, in just five years, has transformed Telefónica into Spain's leading multinational company, with the bringing forward of the liberalization of voice telephone services (other services have already been liberalized by law) and with the acceleration in the incorporation rate of technological innovations, we are witnessing a growing demand for advanced services, especially those arising from the convergence of telecommunications, computer technology and the audiovisual world.

At this crucial time when Spain should be promoting itself towards the future via multimedia services, following in the wake of the world's most advanced countries, Telefónica can confidently state that its basic infrastructures are equipped to gradually advance towards the provision of these new broadband services and to satisfy the telecommunications requirements of Spain's population and the Spanish economy in the decisive years to come. For this purpose, there has been a major deployment of fibre optics between exchanges and user terminals in the form of urban loops in Spain's major cities, to be further expanded under the recent formation of the Fotón Plan and this, together with the ISDN expansion and the imminent introduction of state-of-the-art automatic mobile switching systems, will allow the treatment of all types of signals (voice, data and image). In short, we are well on the way to building the future telecommunications networks of the XXI Century.

With kind regards

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



A COMMITMENT TO SOCIETY

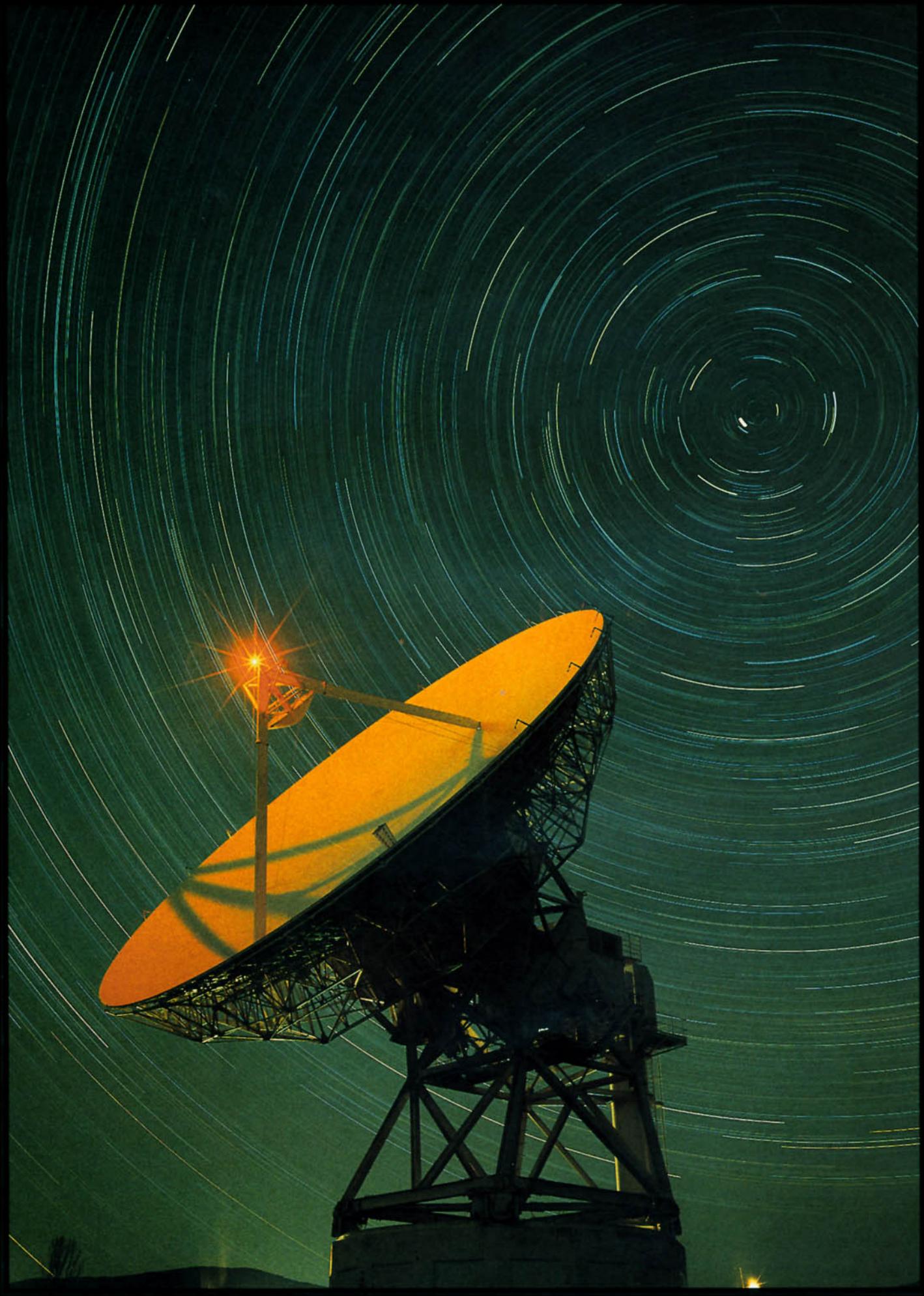
The high technology and advanced systems used by the Company transmit the image of Telefónica's new commitment

THE LEGAL FRAMEWORK. Telefónica is Spain's telecommunications services provider under the terms of the Contract between the Company and the Spanish State. In December 1991, this contract was renewed after major modifications had been introduced in order to adapt it to the new legal framework of the Telecommunications Act (LOT) and to European Community policy reflected in the different Directives on this matter. The Contract also establishes that the terms shall be modified if supranational regulations, which should be incorporated into national legislation, subsequently alter the legal framework for the provision of services.

The 1991 Contract also incorporated quality indicators, setting minimum levels for the different services. In return for the concession of the service as a monopoly, the Royal Decree 2248/84 established Telefónica's obligations as regards service extension in the rural community, which is a fundamental aspect of our commitment to the universalization of the telephone service.

Another of the instruments established in Spain for the ordering of the sector is the National Telecommunications Plan, which spans the period 1991-2002, though subject to four-yearly reviews. This Plan establishes the liberalization of data transmission and circuit leasing services as from January 1, 1993 and of mobile services as from January 1, 1994. The LOT was also modified along these lines in December 1992.

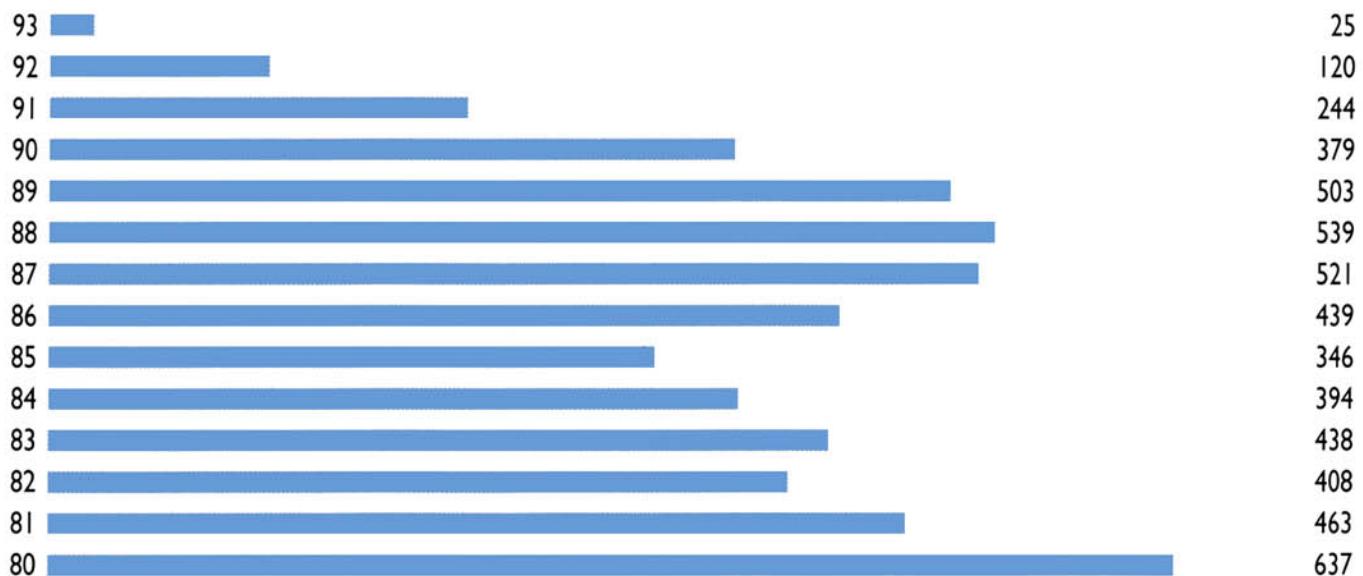
Under the telecommunications legal structure, 1993 witnessed major changes, partly as a result of the developments that have taken place in Spain in service provision and partly due to the liberalized environment derived from European policy. It was also a year when matters related to the liberalization of the telephone service, which had previously only been discussed in specialized forum, began to be widely aired in the media. This was largely a result of the publication of the Report on the telecommunications sector drawn up by the Competition Defence Tribunal.



THE PUBLIC COMMITMENT OF A PRIVATE COMPANY. In this respect, we should point out that, in April 1993, Telefónica immediately took on a series of commitments with Spain. To highlight these, a publicity campaign was launched under the slogan *The Public Commitment of a Private Company*. One of the principal commitments was to service provision to outlying areas and rural zones. This was agreed under the terms of the Service Expansion in the Rural Community Operational Plan, passed by the government in March, which also established collaboration procedures with the Autonomous Regions and other Local Authorities for the development of the above-mentioned Plan. By 1996 at the latest, there will be a true universalization of the service, whereby every citizen will have equal access to the basic telephone service, under the same price and quality conditions, wherever they may reside. In contrast to the Royal Decree of 1984, which did not anticipate the fulfilment of this objective before well into the 21st Century, the introduction of radio technology (Cellular Access) for basic telephone service provision, an initiative of which Telefónica is one of the world's pioneers, will enable us to reach this ambitious target almost immediately.

The radical fall in waiting time for the installation of new telephone lines, which stood at 8 days at 1993 year-end, and the consequent permanent elimination of the waiting list; the gradual implementation of the free itemized bill service, already benefiting almost two and a half million telephone service subscribers; the steady implementation of new services, such as the ISDN (to name just the most significant) and the continuing network modernization measures, fully described on the following pages; the average fall in tariffs in real terms and the considerable improvements in many of the service quality indicators: all are achievements of which Telefónica can rightly be proud. And although they all show the ample fulfilment of our solemn commitment to the Spanish people, they do not yet represent the full accomplishment of the Company's ambitions regarding quality

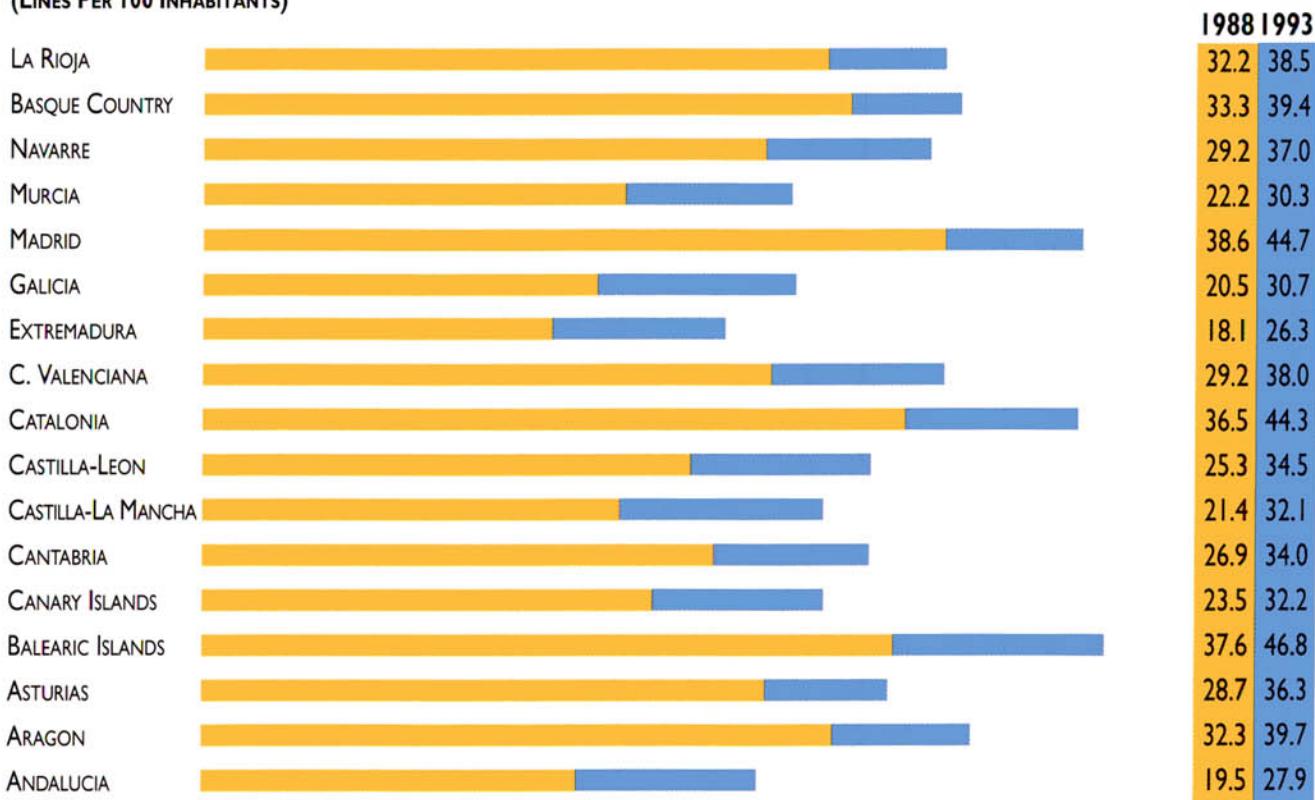
**BASIC TELEPHONY
WAITING LIST
(THOUSANDS)**



enhancement and the range of services offered. And what is still more important, the positive response to all this from our users is evidence of the synchrony between the commitments we made and our users' expectations and needs, thus enhancing notably the image of Telefónica among our clients.

THE FUTURE LIBERALIZATION OF THE BASIC TELEPHONE SERVICE. As a consequence of the mandatory review of the EC Services Directive, in June 1993 the Committee of Telecommunications Ministers approved the liberalization of the voice telephone service and the abolishment of the exclusive rights of current operators by 1998 at the latest. They also established, as a prerequisite for this liberalization, the restructuring of tariffs to represent the costs of the different services and the elimination of the existing crossed subsidies. As a result of these agreements, the concessionary period of the basic telephone service monopoly, which was fixed for a period of thirty years in the 1991 Contract, has been drastically reduced. It is also true that Spain was granted a supplementary period of five years to carry out the necessary adaptations, on account of both the imbalance reflected in the telephone tariffs and the greater efforts demanded for the extension of its networks.

**BASIC TELEPHONE
SERVICE DENSITY
IN AUTONOMOUS REGIONS
(LINES PER 100 INHABITANTS)**

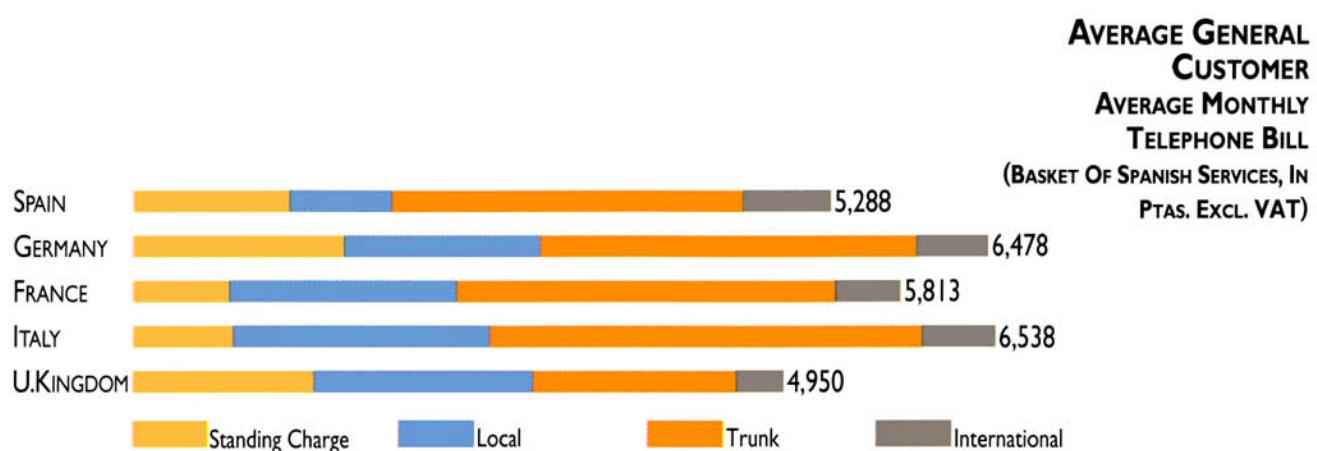


Telefónica followed these events, including the public debate over the liberalization of the telephone service, with the close attention they deserve. It seems that a certain consensus of opinion is in favour of not waiting until the end of the additional five-year period granted to Spain by the EU in June 1993 and of directing regulatory action towards the liberalization of the basic telephone service to coincide with the majority of the other EU members, that is to say, January 1 1998, ensuring that the necessary tariff adjustments have also been carried out by that date.

Over the last few years, Telefónica has designed its corporate strategy and organization fully aware of the inevitability of the liberalization process and even anticipating the possibility of it being brought forward, as has in fact happened. More important in our minds than establishing when it will happen, is the fact that the debate which has taken place has also disposed of certain doubts relating to the process, allowing us to specify the Company's plans for the future.

Far from being a hindrance, these doubts have been a help in spurring us on in our endeavours to continue offering our customers enhanced quality and a wider range of services. Indeed, the adoption of these public commitments, anticipating the demands imposed both by the Concessionary Contract and by the National Telecommunications Plan, responds to a competitive corporate vision and is clear evidence of, not only our will, but also our capacity to set for ourselves more ambitious targets aimed at satisfying our customers.

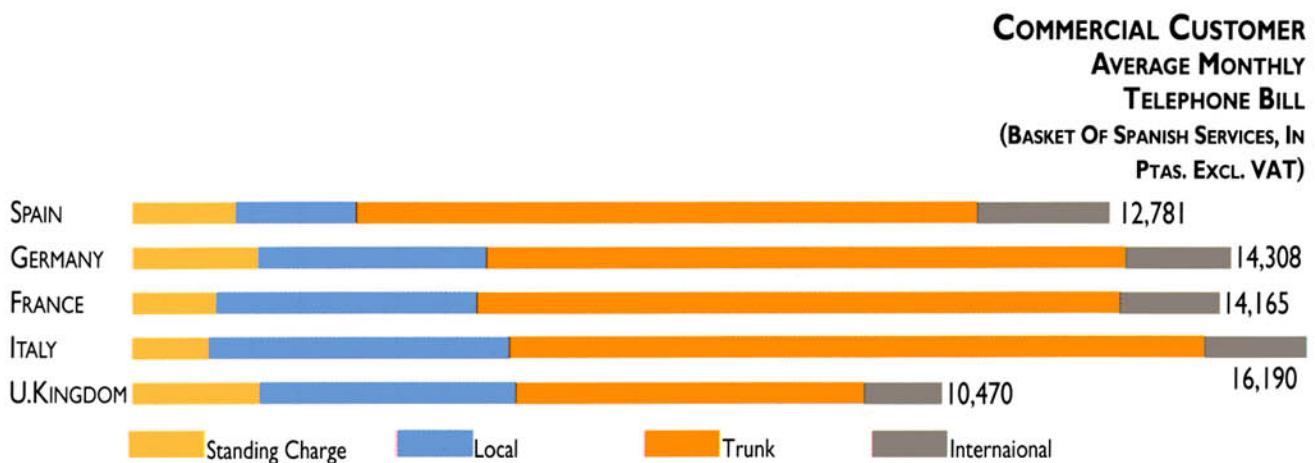
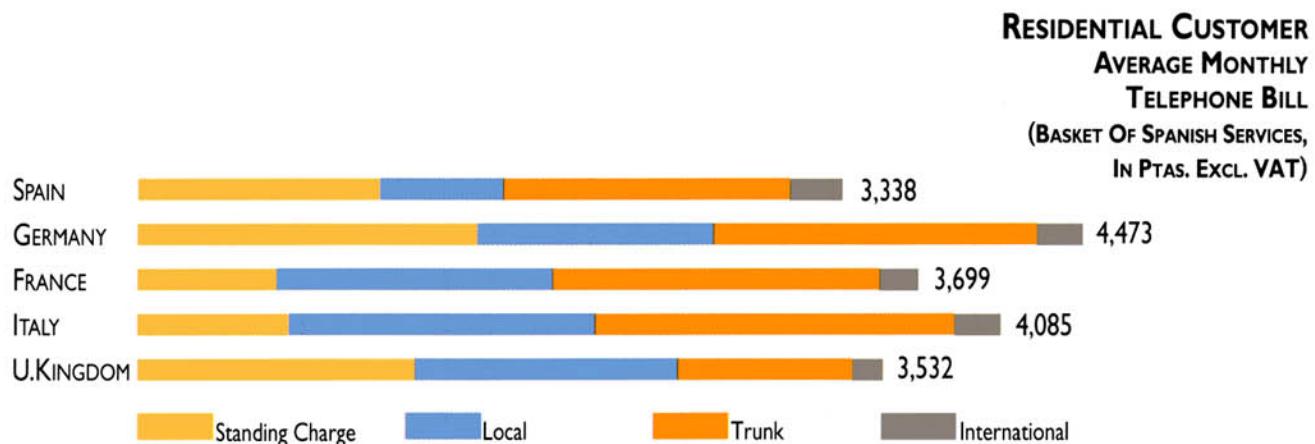
THE TELEPHONE BILL. Service quality must also be considered in relation to its cost, since what matters is the relation between both. The difficulty of comparing telephone charges internationally is one which is fully recognized. Despite this, there can be few doubts as to the low cost in Spain of the majority of calls made, that is local calls. However, although it is a simplification and affects a relatively small number of calls, what is frequently compared is the cost of a call to another country and the cost of a call from that same country. Such a comparison is certainly not a favourable one for Spain, but in any case it is affected by the exchange rate applied. Now that the overvaluation of Spain's currency has been corrected, this comparison is much more realistic and consequently



more favourable to Spanish tariffs. Even so, this clearly does not give the whole picture. The only accurate way to compare tariffs is to start with consumption structure and work out the cost of the average telephone bill applying the tariffs in force in each country to that structure, taking into account the distribution of bill items, types of services, time bands, etc. Applying this procedure we find that the average bill of a residential user in Spain is less than that of the five major EU countries.

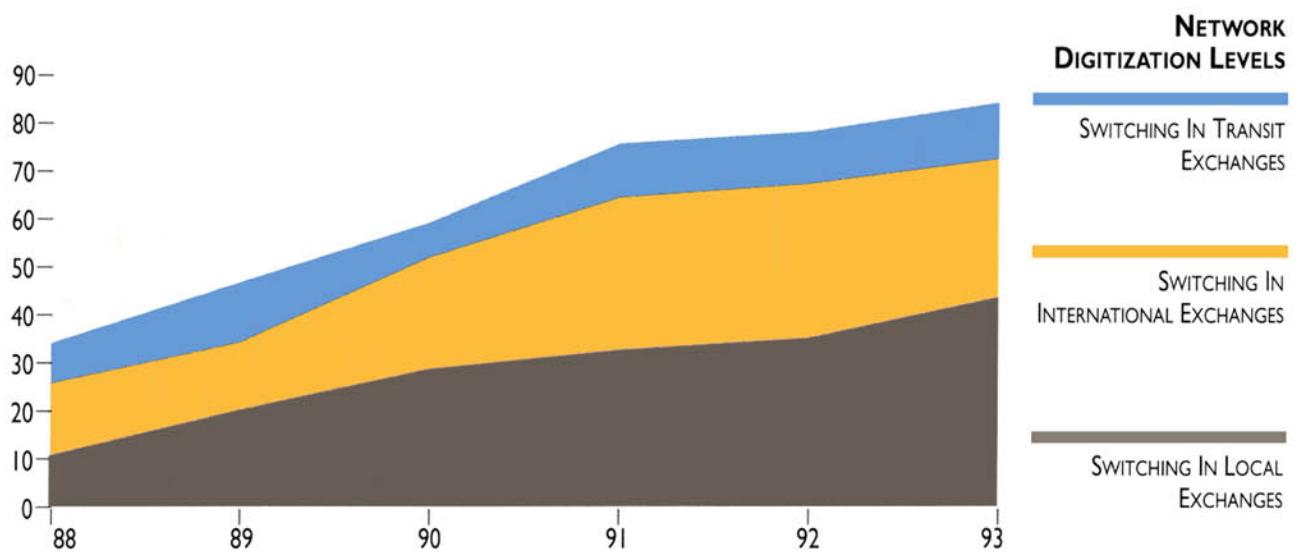
TOWARDS A MULTIMEDIA WORLD. All that we have said shows that 1993 was a year of transition. Along with achieving the highest ever levels of basic telephone service quality and penetration and consolidating other services, such as data transmission and mobile telephony, the new competitive framework for the supply of telecommunications services in our country, beginning with the liberalizing of data transmission and circuit leasing services, took on a more definite shape..

In addition, while society's demands for greater availability of all types of services continued to grow, the alternatives offered by technological innovations continued to provide new possibilities

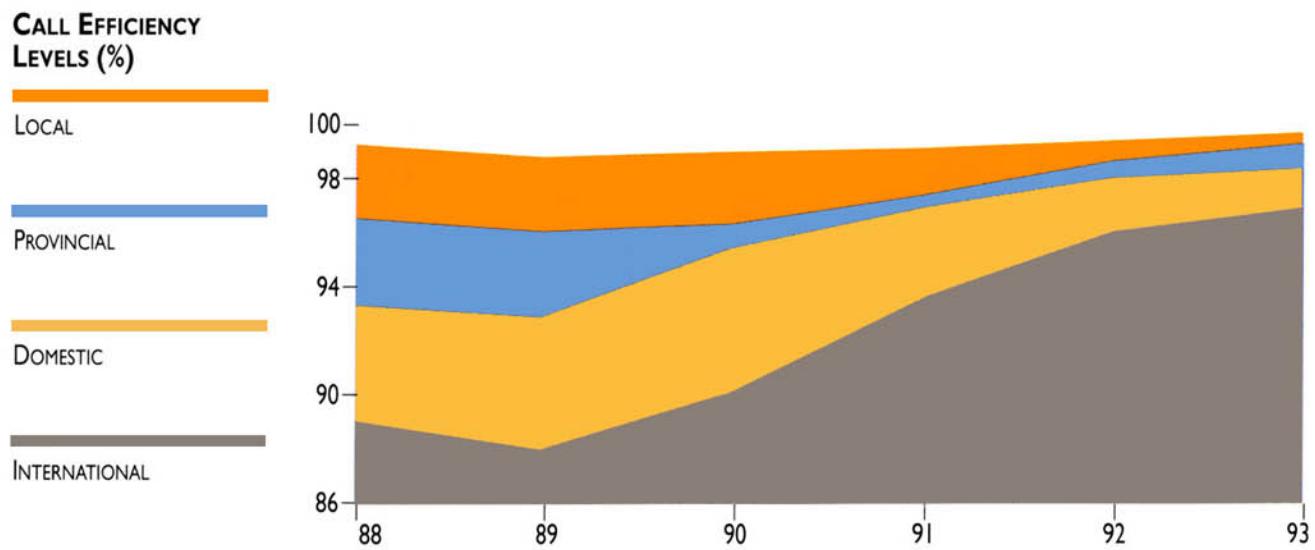


for increasing the supply of these services. In particular, during 1993 we saw greater convergence between computer technology, telecommunications and the audiovisual sector, reflected in a series of mergers and strategic alliances both in the USA and in Europe, giving rise to a process of globalization of services. In the same direction, in 1993 Telefónica entered into collaboration with the consortium UNISOURCE, formed initially by Dutch, Swedish and Swiss operators, aimed at providing its multinational clients with a worldwide voice and data service. As a result of our steady expansion in the Latin American region, Telefónica has also become Spain's leading multinational company, a process which has also encouraged the internationalization of other companies.

If we add to all the above, the fact that in 1993, for the first time, Telefónica achieved a



self-financing level of investments of over 110%, we can confidently say that almost all the conditions exist for a fresh leap forward both quantitatively and qualitatively in the Company's activity. In the face of the oncoming basic telephony liberalized market, this leap forward can be none other than the development of advanced Transeuropean networks, as outlined in the White Book published by the EU, and the incorporation of a range of new multimedia services, which will lead us forward to the the telecommunications of the 21st Century, already underway.



TELEPHONE SERVICE

During 1993 there were 1,136,148 telephone line applications, representing a rise of 6.3% over the previous year. The number of cancelled applications was 210,975, making the net number of applications 925,173.

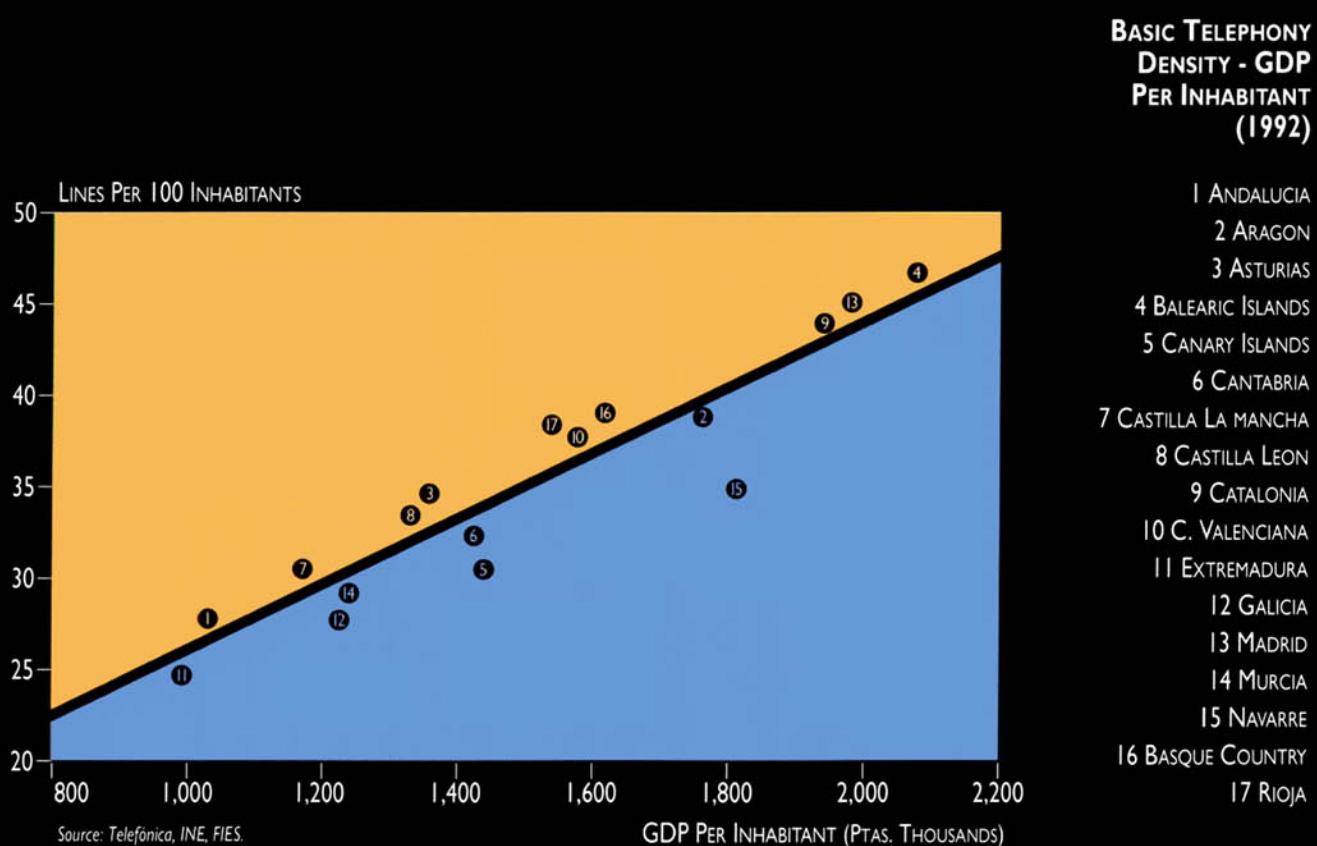
It is significant that at year-end there were only 24,766 applications pending, implying that the waiting list has finally been eliminated, with average waiting time for the installation of a new line reduced to 8 days.

Average usage per line fell by 3.5% in 1993 over the year before. This drop was due to both the recessive trend in the economy and the fall in consumption of certain intelligent network services.

At year-end, the basic telephone network had 14,253,470 local lines in service, representing a rise of 3.3% over 1992 and a telephone density of 36.4 local lines per 100 inhabitants. A proportion of these lines in service (65,591 at December 1993) are carried by cellular access technology. In addition to all this, there were the 572,460 advanced telephony lines (Ibercom) in service at the end of 1993, 18.9% up on the previous year.

During 1993, international service coverage was extended to 11 new countries or territories to reach a total of 217. Of these, 206 have automatic access from Spain. The outbound automatic service reached a figure of 801.8 million minutes, a growth of 4.8% over 1992. A significant milestone in 1993 was the automation of the maritime shipping service via the INMARSAT satellite system.

The wide range of facilities available to all kinds of customers illustrates the major service quality enhancement





SERVICE EXPANSION IN THE RURAL COMMUNITY. In 1993 we stepped up our efforts and activity to expand the basic telephone service to the rural community, aiming to meet the full demand for service in the shortest time possible. The great progress made was a result of the common interests and joint efforts of not only Telefónica but also of the large number of Local Authorities and private individuals. This ended in the approval by the Cabinet, in March 1993, of the Operational Plan for Telephone Service Expansion in the Rural Community, which in turn led to the signing of agreements with local authorities in nearly all the Spanish provinces during the year. Thanks to these efforts and to cellular access mobile technology we have made both a qualitative and a quantitative leap forward in service expansion, adapting for the rural community mobile communications technology as an alternative to conventional techniques.

During 1993, 1,911 new local zones were created, 57 public telephones installed and 8,885 lines outside local zones were put into service. In total we met the demand of 87,028 new rural subscribers, 57,884 of them applying the cellular access technology mentioned above.

Compared to the year before, there was a 73.1% increase in local subscribers through the creation of local zones. Moreover, all requests for public service telephones were met, although the number was significantly less than in 1992. This is due to the fact that access to the private telephone service is now readily available making demand for public phones less urgent. Similar subscriber trends were also recorded in areas outside local zones.

BASIC TELEPHONE LINES IN SERVICE PER AUTONOMOUS REGION
(At 31/12/93)



Looking at the year globally, 193,038 citizens became new local subscribers and public telephony was made available to a total of 3,898 people who had no previous access to this service. By 1993 year-end, 97.09% of Spain's total population had a telephone service in their home, while 98.75% had access to some type of telephone service.

ITEMIZED BILL SERVICE. In 1993 the itemized bill service was launched. This service, which is offered to Telefónica customers free of charge, provides a breakdown of all calls made, apart from local and free calls. Information includes the number called, date, time of call commencement, duration, number of units and call charge. Throughout the year, over 2,400,000 customers received this information. Telefónica is committed to providing this free service to all our customers by 1997.

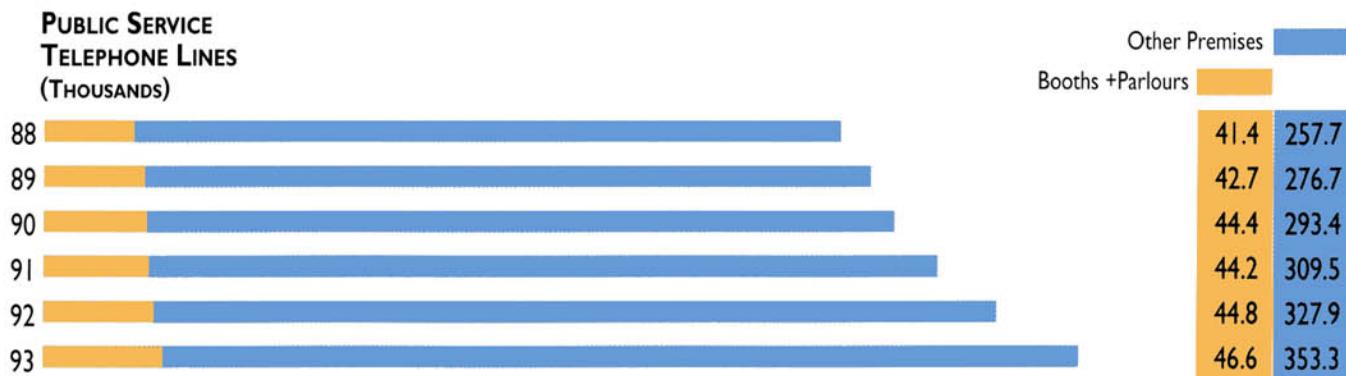
TELEPHONE SERVICE QUALITY. Call efficiency levels continued to improve during 1993. December's figures show the following efficiency rates for the different types of calls:

| | |
|------------------------|--------|
| Local: | 99.65% |
| Provincial: | 99.08% |
| Interprovincial: | 98.89% |
| International: | 97.74% |

Service quality enhancement was clearly evident from the fall in repair call rate (to the Network Connection Point) per 100 lines and month, which reached a figure of 2.24. Likewise there was an improvement in repair rate. The average duration of service fault was 12.6 hours, with 86.8% of repairs carried out in under 24 hours. As a result, in December 1993, 92% of our customers claimed to be satisfied or very satisfied with the repair service.

One of Telefónica firm objectives is to develop a Total Quality System to ensure excellence in customer service. In relation to this objective, the ARCO system was designed as an innovative integrated solution with advanced functionality, covering the whole marketing management cycle.

Development of The ARCO system is going ahead in conjunction with the organization and marketing strategy projects, thus guaranteeing the necessary convergence to ensure that global objectives are achieved. The system will be gradually introduced over the next four years, bringing greater efficiency and productivity for the benefit of our clients.



PUBLIC TELEPHONY. During 1993 the number of public telephone booths continued to rise to reach a total of 44,801 by year-end. We also continued to implement our plant modernization policy through the installation of Modular Telephones. By the end of the year, the number of modular phones stood at 32,297, almost double that of the previous year.

Cabitel, a Telefónica subsidiary, also expanded its activity in the installation of Cash Phones by 46%, recording a total of 7,498 phones by the end of 1993.

During the year, almost 2,900,000 Telefónica prepaid phone cards were sold for use in modular telephones. This figure represents more than a 200% rise over the number sold the previous year.

For the celebration of the Jacobite year in Santiago de Compostela, we installed a public telephone centre in the city with 25 booths. We also installed over 900 modular phone booths along the Pilgrim Route, which accepted cash, prepaid phone cards or credit cards.

New versions of the Modular Telephone Operating System (SETM) and of the Validation and Billing Centre were incorporated into the plant. These systems facilitate the work of the maintenance staff both in the repair of faults and in the detection and elimination of fraud.

SUPPLEMENTARY TELEPHONE SERVICES. During 1993 promotion campaigns continued for Call Waiting, Conference Calls and Selective Call Diversion services with the number of net contracts reaching 364,000. The Remote Call Charge Meter and Line Hunting services achieved the growth levels forecast.

INTELLIGENT NETWORK SERVICES. During 1993 Intelligent Network Services were boosted and restructured into the following four groups:

- Flexible Billing services: Automatic Reverse Charge (Line 900) and Call Sharing services (Lines 901 and 902)
- Additional Billing services (Line 906)
- Personal services: Personal Telephony (Line 904) and Credit Call service
- Chat lines and Televoting services (Line 905)

With regard to these services, of particular note was the launch of the 906 prefix within the Additional Billing services.

On the technical front, extension of the Intelligent Network infrastructure continued, with the addition of two new Intelligent Network Agencies (AIR) and two Intelligent Network Centres (CIR). Likewise, there was an increase of over 100% in the number of lines. As a result of all this, there has been a notable rise in call treatment capacity through this network.

Installation proceeded of the Control and Management System and of the Intelligent Network Centres, which will facilitate the provision of Virtual Private Network services.

On the international front, special mention should be made of the increase in usage of the Direct

Spain Service. During 1993, the service was extended to 44 countries, registering a total of 750,000 calls, with around 5 million minutes of conversation, representing a growth of more than 75% over the previous year.

The International 900 Service was also in great demand.

The inbound service registered 78,000 calls with 150,000 minutes of conversation, while in outbound traffic there were 3.7 million calls with a total of 10 million minutes. These figures represent an increase of 144% and 123%, respectively, over 1992.

VOICE SERVERS. During 1993, Telefónica promoted the use of Voice Servers among companies and institutions which use extensively the Telephone network for business and service activities. The new product, Manager Vox, has opened up the possibilities of voice technology to traditional professional activities (Finance, Administration, Services, Education, etc) beyond those linked exclusively to the intelligent network services.

Among the most significant sites where installations entered into service in 1993 were the Ministry of Economy and Finance, the Catalonian Government headquarters, the University of Distance Learning (UNED), the Spanish Railway Company (RENFE), Seville and Huelva Savings Banks, Microsoft Spain, Sanitas, the VISA pilot project and the contracting of an application for the Madrid Stock Exchange.

PABX DIGITAL ACCESS SERVICES. Since February 1993, Telefónica has offered Digital Access Service to the Public Telephone Network for PABX and other multiline equipment, consisting in the supply of 30 digital channel systems, both for access to public exchanges and for interconnection between PABX's or PABX modules and numbering of the said Telephone Network for direct addressing.

OPERATION AND INFORMATION SERVICES. Management of the Technical Assistance Service (002) during 1993 led to improvements in customer call answering time, which stood at 4.1 seconds. An important new feature is the possibility available to the customer of contracting special maintenance services, such as "Fonoexpress" for immediate service and "By Appointment" to comply with the client's requirements.

In 1993 the Information Service (003) attended to 2% more calls than in the previous year. Implementation of the Espatel System was completed with the installation of the last 24 centres. Regarding service quality, average answering times improved by 1.6 seconds over 1992.

Domestic connections via the Operator (009) registered a rise of 9.5%, compared to the previous year, in the number of calls made, and average answering time improved by 21.4%. The range of facilities was expanded to include Bill to Third Party, with pre-designated hour.

There was also a positive trend in the General Information Service (098), which registered an increase of 13% in the number of calls. This healthy performance extended to the other 09X services: Speaking Clock (093), Weather Report (094), Radio News (095), Alarm Call (096) and Sports Information (097).

DIRECTORIES. During 1993 we published 21 Phone Directories and the Fax Directory, with an edition of over 7.5 million volumes. There were over 115,000 sales of complementary insertions and sales campaigns were carried out in 23 publications.

TERMINALS. 1993 confirmed the success of the FORMA telephone terminal and also customer preference for renting over purchasing. FORMA obtained a high market share of new connections, which clearly demonstrates clients' confidence in the equipment marketed by Telefónica.

During the year a new range of small and medium capacity advanced digital PABX was approved. This range, which spans from 6 to 200 extensions, includes modular and cordless equipment and covers the whole market spectrum with state-of-the-art technology. At the same time, a tripartite agreement was reached with the Galician Government, the Jacobite Committee and Telefónica to update Galicia's hotel plant with one of the latest systems in this new range.

BASIC TELEPHONE SERVICE IN THE SPANISH PROVINCES (at 31.12.93)

| | Lines in Service | Population (Nº Inhab.) | Extension (KM. ²) | Density (Inhab./Km. ²) | Lines per 100 Inhab. | Lines per Km. ² |
|-----------------------|-------------------|------------------------|-------------------------------|------------------------------------|----------------------|----------------------------|
| ALAVA | 106,548 | 274,443 | 3,047 | 90.07 | 38.8 | 35.0 |
| ALBACETE | 101,436 | 343,277 | 14,862 | 23.10 | 29.5 | 6.8 |
| ALICANTE | 496,788 | 1,313,157 | 5,863 | 223.97 | 37.8 | 84.7 |
| ALMERIA | 130,428 | 459,924 | 8,774 | 52.42 | 28.4 | 14.9 |
| ASTURIAS | 397,647 | 1,094,481 | 10,565 | 103.59 | 36.3 | 37.6 |
| AVILA | 63,485 | 173,568 | 8,048 | 21.57 | 36.6 | 7.9 |
| BADAJEZ | 164,155 | 649,768 | 21,657 | 30.00 | 25.3 | 7.6 |
| BALEARES | 335,700 | 717,644 | 5,014 | 143.13 | 46.8 | 67.0 |
| BARCELONA | 2,085,752 | 4,680,234 | 7,733 | 605.23 | 44.6 | 269.7 |
| BURGOS | 127,503 | 352,833 | 14,309 | 24.66 | 36.1 | 8.9 |
| CACERES | 114,776 | 411,268 | 19,945 | 20.62 | 27.9 | 5.8 |
| CADIZ | 295,518 | 1,171,931 | 7,385 | 158.69 | 25.2 | 40.0 |
| CANTABRIA | 180,436 | 530,277 | 5,289 | 100.26 | 34.0 | 34.1 |
| CASTELLON | 174,055 | 450,515 | 6,679 | 67.45 | 38.6 | 26.1 |
| CIUDAD REAL | 137,907 | 475,618 | 19,749 | 24.08 | 29.0 | 7.0 |
| CORDOBA | 196,684 | 758,731 | 13,718 | 55.31 | 25.9 | 14.3 |
| LA CORUÑA | 351,526 | 1,098,592 | 7,876 | 139.49 | 32.0 | 44.6 |
| CUENCA | 64,912 | 204,380 | 17,061 | 11.98 | 31.8 | 3.8 |
| GERONA | 244,473 | 515,955 | 5,886 | 87.66 | 47.4 | 41.5 |
| GRANADA | 228,747 | 794,992 | 12,531 | 63.44 | 28.8 | 18.3 |
| GUADALAJARA | 60,551 | 146,005 | 12,190 | 11.98 | 41.5 | 5.0 |
| GUIPUZCOA | 268,159 | 676,539 | 1,997 | 338.78 | 39.6 | 134.3 |
| HUELVA | 113,177 | 447,095 | 10,085 | 44.33 | 25.3 | 11.2 |
| HUESCA | 80,693 | 208,146 | 15,613 | 13.33 | 38.8 | 5.2 |
| JAEN | 157,167 | 638,230 | 13,498 | 47.28 | 24.6 | 11.6 |
| LEON | 173,282 | 526,886 | 15,468 | 34.06 | 32.9 | 11.2 |
| LERIDA | 136,904 | 355,086 | 12,028 | 29.52 | 38.6 | 11.4 |
| LUGO | 101,970 | 381,838 | 9,803 | 38.95 | 26.7 | 10.4 |
| MADRID | 2,235,423 | 5,000,639 | 7,995 | 625.47 | 44.7 | 279.6 |
| MALAGA | 391,850 | 1,236,001 | 7,276 | 169.87 | 31.7 | 53.9 |
| MURCIA | 320,801 | 1,057,558 | 11,317 | 93.45 | 30.3 | 28.3 |
| NAVARRA | 193,048 | 521,937 | 10,421 | 50.09 | 37.0 | 18.5 |
| OURENSE | 106,922 | 341,302 | 7,278 | 46.90 | 31.3 | 14.7 |
| PALENCIA | 60,387 | 185,403 | 8,035 | 23.07 | 32.6 | 7.5 |
| LAS PALMAS | 246,548 | 774,294 | 4,072 | 190.15 | 31.8 | 60.5 |
| PONTEVEDRA | 273,993 | 899,552 | 4,477 | 200.93 | 30.5 | 61.2 |
| LA RIOJA | 102,077 | 265,128 | 5,034 | 52.67 | 38.5 | 20.3 |
| SALAMANCA | 118,719 | 358,868 | 12,336 | 29.09 | 33.1 | 9.6 |
| SEGOVIA | 57,259 | 147,067 | 6,949 | 21.16 | 38.9 | 8.2 |
| SEVILLA | 477,838 | 1,642,177 | 14,001 | 117.29 | 29.1 | 34.1 |
| SORIA | 33,415 | 94,269 | 10,287 | 9.16 | 35.4 | 3.2 |
| TARRAGONA | 232,593 | 547,783 | 6,283 | 87.18 | 42.5 | 37.0 |
| TENERIFE | 238,533 | 730,720 | 3,170 | 230.51 | 32.6 | 75.2 |
| TERUEL | 49,767 | 143,102 | 14,785 | 9.68 | 34.8 | 3.4 |
| TOLEDO | 169,305 | 492,085 | 15,368 | 32.02 | 34.4 | 11.0 |
| VALENICA | 811,380 | 2,133,942 | 10,763 | 198.27 | 38.0 | 75.4 |
| VALLADOLIZ | 174,434 | 496,719 | 8,202 | 60.56 | 35.1 | 21.3 |
| VIZCAYA | 453,977 | 1,154,742 | 2,217 | 520.86 | 39.3 | 204.8 |
| ZAMORA | 70,830 | 212,847 | 10,559 | 20.16 | 33.3 | 6.7 |
| ZARAGOZA | 343,992 | 843,062 | 17,252 | 48.87 | 40.8 | 19.9 |
| NATIONAL TOTAL | 14,253,470 | 39,130,610 | 504,750 | 77.52 | 36.4 | 28.2 |

Source: Population estimates based on the 1991 census; Area, Instituto Geográfico Nacional.

NETWORK DEVELOPMENT AND MODERNIZATION

Network digitization levels and new services place Telefónica in a vanguard, leading position

BASIC NETWORK DEVELOPMENT AND MODERNIZATION. During 1993, 1,019,674 local lines were installed, practically all of them digital. These lines correspond to both service expansion and plant upgrading. With regard to the latter 625,481 analog lines were replaced, with digitization levels in local exchanges reaching 41.4%.

Work continued on all the digital switching systems, with greater emphasis on the older ones, to enable us to supply new services. In this way, we succeeded in achieving our target of itemized bill provision to 2.4 million lines.

Throughout the year, five new interprovincial and sixty intraprovincial digital transit exchanges came into operation, which, together with the extensions carried out, allowed us to reach digitization levels of 85.5% in trunk lines, rising to 93% if we consider only the interprovincial Transit Network. We should also mention that upgrading of all plant equipment continued throughout the year, aimed at incorporating new facilities as soon as possible.

At the same time, there was a consolidation of rural telephony technology via cellular access. New versions of software from the mobile communications centre of the TMA-900 analog system were made available, which improve service operations, as well as terminals offering new facilities such as voice encryption, authentication and data transmission.

As regards transmission, testing got underway of the Synchronous Digital Hierarchy equipment. In addition, we continued with experiments taking fibre optics right to the home in Tres Cantos and San Cugat. Under the Fotón Plan, specifications were drawn up for fibre optics systems for Narrow and Broadband Services.

In the provinces of Alicante, Murcia and the Canary Islands implementation went ahead of the new network model in which the nodal areas are composed of two exchanges working to share the load.



Barcelona. We also proceeded with the connection of all the Transit Network exchanges via these systems and consolidated in 1993 the availability of all the programmed routes. This enabled us to reach a 100% retrieval capacity in the Transit Network during the same year, except for some frames carried by the Underwater Systems with the Balearic Islands and the Canary Islands.

Over 3,000 kms. of fibre optics land cable was laid, 1000 kms. of which correspond to the Transit Network. In addition, optical connection of all the provincial capital cities was completed, with a structure of approximately 14,400 kms. of cable, and the underwater optical cable Penbal IV was extended during the year.

Network retrieval capacity as a result of plant breakdown was significantly improved during 1993, due to the completion of 18 Telecontrolled Automatic Switching Systems for the retrieval of 140 Mbit/s frames.

Digitization of the External Plant Register continued and reached a 41% penetration level nationally, which corresponds with a register digitization equivalent to 6.4 million lines.

INTERNATIONAL LAND EXCHANGES AND NETWORK. The increase of traffic supervision in real time by the International Network Dynamic Management system led to the start of a process of network optimization, which in turn meant that, for the first time in many years, there was no growth in circuits. As a result, following major modernization, the international network amounted to 23,665 circuits, with digitization levels reaching 87.2% and call inefficiency rate standing at 2.26% (December 1993), well below the 4% established in the Contract with the State.

During the year, the following installations were completed and came into service:

- Extensions of the Madrid-Alcobendas, Barcelona-Castellbisbal and Seville-Pineda International Exchanges.
- 565 Mbit/s fibre optical systems between the Buitrago and Guadalajara Satellite Communications Centres.
- International Customer Support Centre (CISC) in Madrid-Alcobendas.

As for the dismantling of analog plant, operations were completed at the Valencia-Campanar International Exchange and the special subscriber Barcelona-Sepúlveda exchange, together with the radiolinks with Portugal (Cáceres-Torresnovas and Conil-Sesimbra).

INTERNATIONAL UNDERWATER CABLE. In 1993 two international underwater cables came into operation: the SAT-2 and the BARMAR. The former links the Republic of South Africa with Europe and has a mooring in Tenerife. It has a 7,680 Kbit/sec capacity and a length of 206 kms. in Spanish waters. BARMAR links Spain with France, is 362 kms. long and has a capacity of 15,369 basic 64 Kbit/s circuits. Mooring points are in Barcelona and Marseilles.

Including these cables, the total length of optical fibre underwater cable moored in Spanish territory was 9,057 kms. at 1993 year-end. These figures confirm once again Telefónica's status as one of the world's leaders in infrastructures of this type.

Concerning maintenance, we should mention the commissioning of the Spanish cable ship

Teneo, under the terms of the Underwater Cable Mediterranean Agreement. This agreement, signed in 1993 for a period of 5 years, ensures the maintenance and repair of underwater cables belonging to the 14 countries situated in the Mediterranean, Adriatic and Red Seas. Concerning network modernization, the analog plant corresponding to the TAT-5 cables between Spain-United States and Spain-United Kingdom was dismantled.

SATELLITE COMMUNICATIONS. During 1993 the plant upgrading plan was completed, with the incorporation of digital technology into all the stations which access to the INTELSAT satellites for the Atlantic areas and EUTELSAT for Europe. Hence, Telefónica's satellite communications plant is fully equipped to supply any kind of public service, no matter how advanced.

The plant restructuring process went ahead as scheduled. The Barcelona 7 and 9 earth stations were adapted to carry out underwater cable repair services and TV EUTELSAT control respectively.

With regards to business communications, the Valencia-Paterna Teleport entered into service with two aerials: Valencia 1, which will work with the EUTELSAT system and Valencia 2, which will operate in the INTELSAT system. In addition, a new station (Madrid 6) was installed in the Madrid-Alcobendas Teleport to work with the Hispasat national system.

OPERATION AND INFORMATION STRUCTURE. With the commissioning of the Espatel service in 24 Centres in 1993, implementation of the Espatel Network was completed in all provinces. The first phase of the Espatel National Management Centre was also implemented, which includes the control of alarm systems and centralized distribution and network traffic control.

The quality of the Operation and Information services was enhanced by the incorporation of new recordings and of the Automatic Audible Reply System (SARA). There were also major improvements in accesses to the 003 Data Base Service, to facilitate consulting operations and increase the efficiency of response to clients.

NEW NETWORK OPERATION AND MAINTENANCE STRUCTURE. By the end of 1993, 45 Provincial Supervision and Operation Centres were in service, albeit provisionally. Each centre supervises, operates, manages and maintains the Network in the corresponding provincial area.

Proceedings also commenced for the creation and configuration of the National Supervision and Operation Centre. With a global view of the network and services, this centre will form the highest hierarchy in the New Operation and Maintenance Structure.

SECURITY. During the year, integral security systems were installed in 40 strategic buildings. In addition, 376 other buildings were provided with remote security systems, which allow for the reception of and response to alarms from a permanently manned centre and the supply of various types of teleservices. This system earned Telefónica the Trophy for the "Best Domestic Security System" in 1993.

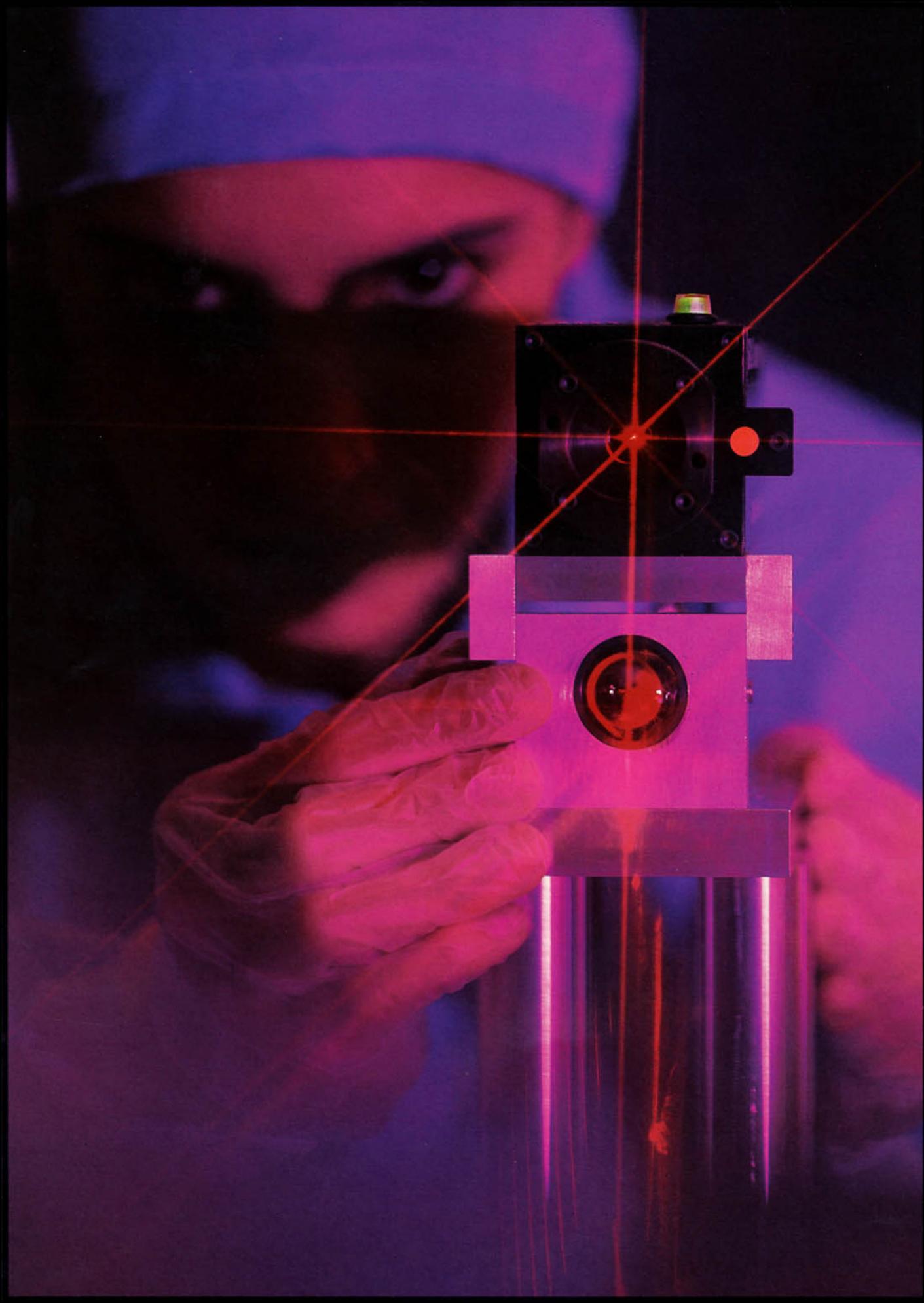
BUSINESS COMMUNICATIONS AND MOBILE SERVICES

Telefónica provides both national and international companies with the latest tailor-made infrastructures

IBERCOM. Throughout 1993, there were 124,867 applications for Ibercom lines, 8.8% fewer than the previous year, reflecting the influence of the economic recession on Spanish business activities. At year-end there were 572,460 lines in service, almost 18.9% more than in December 1992. There was a 23.3% rise in new Ibercom Access Networks, all served by the existing supply capacity, which increased by only 1.5%.

In order to keep up with trends in this important market, we continued to design new services and commercial products. The Ibercom-Owner service was launched, aimed at the medium to top business market sector. Marketing of this service differs from the Ibercom service in that it consists of the purchase of the PABX and all the terminals and in the contracting of a series of facilities, such as; Digital Access to the Front-end Centre, numbering integrated in the Basic Telephone Network, standard maintenance (except for terminals), etc. The Ibercom Service has also been incorporated into the Integrated Services Digital Network (ISDN), under the modality Ibercom-ISDN.

Now available to clients are configurations of the MD 110 equipment known as "Closed Packet". These include the sale of switching equipment, internal power, integrated distributor and a limited number of digital phones. These packets range from 48 to 208 lines and offer attractive cost savings.



IBERPAC. The Iberpac packet switching data transmission network continued to grow during 1993. There were 60 new centres and a 13% increase in network capacity for all types of user connections. 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 5.8%. At the same time, international access was extended from the Iberpac network to 182 public networks in 8 countries.

Iberpac also serves as back-up for a variety of data communications services, such as the X-28 and X-32 services and the Electronic Transfer of Funds and Ibertex.

As regards the X-28 service (DATEX 28), during 1993, Network User Identification (NUI) was further developed, with procedures enabling users to change their access codes and use the service via the 047 and 048 accesses from anywhere in Spain. This gave rise to an increase of 25% in the number of NUIs used.

The X-32 service (DATEX 32) was launched in 1993. In its first year of existence it has proved to be a viable option for connections which are too disperse or infrequent to require dedicated access.

The Iberpac-UNO service continued to expand. This service aims to meet the virtual private data network requirements of our corporate clients. At the end of 1993, there were 17,414 direct access connections in service distributed among 28 clients.

Thanks to the developments described above, Telefónica maintained its leading position in packet switching data transmission. The Iberpac network is the second largest in the world in terms of number of connections and the first in terms of penetration. This excellent position is clearly shown in the number of connections installed at 31.12.93.

| | |
|-------------------|--------|
| RSAN | 2,142 |
| X-25 | 56,732 |
| UNO Network | 17,414 |

LEASED CIRCUITS. There was a slight fall-off in the upward trend in demand for leased circuits over the year, due, to some extent, to the current economic climate. However, it is worth noting that, although, in absolute terms, the number of circuits fell, current network global information capacity grew significantly, as a result of the replacement of analog circuits by digital ones.

During 1993, the Ibermic Network extension plan proceeded, with increases both in coverage and provision to the different centres. There were notable improvements in all the parameters referring to installation and repair times. The global quality index of the circuits was also enhanced, in compliance with international regulations (ETSI).

Nine new videoconferencing rooms came into operation. Service was established with Hong Kong, Singapore, Brazil and Chile, bringing the total number of countries to 24.

The leased circuits currently on offer have also evolved in line with EEC regulations, covering the stages programmed in the ONP Directive. In this respect, service provision was increased by the incorporation of several types of circuits (2Mbit/s Structured Circuits, 2 and 4 wire Special Quality Analog Circuits) and by the definition of new interfaces.

Steps were also taken to increase new services provision outside the ONP regulating framework, with, for example, the Teleaction Service. In 1993 this service was piloted, with highly satisfactory results, in Madrid and Granada, with the participation of alarm centres and clients from various sectors (banks, jewellers, etc.).

On the international front, 309 circuits of all types were installed, bringing the total number of circuits in service to 1,157. As regards One-stop Shopping, 3 new agreements were reached with operators in Finland, Nicaragua and Switzerland.

To sum up, the number of circuits in service at the end of 1993 was as follows:

| | |
|-------------------------------|--------|
| Telegraphic and telex | 17,506 |
| Analog | 23,032 |
| Digital up to 64 Kbps. | 32,705 |
| Digital 64 Kbps | 1,365 |
| Digital 2 Mpbs and over | 209 |

IBERTEX. Despite the economic climate, Ibertex consolidated its position as the service which brings data transmission to the public at large. There was upgrading in quality and in the provision of accessible services (750 Service Centres).

The number of calls made reached 11.5 million, with a total of 1.6 million usage hours. At year-end, it was estimated that existing terminals numbered 485,000, making Telefónica Europe's second operator in terms of extension of this service.

SATELLITE COMMUNICATIONS. At the start of 1993 marketing commenced via HISPASAT of the space capacity of the 1A satellite and satellite 1B was also successfully launched. These events caused high expectations in the use of satellite communications among Spain's business community.

The most significant activity in this field of operations was as follows:

- Service operations continued of the CLH network (formerly CAMPSA), to reach 150 stations in 1993, while the Network was transferred to HISPASAT.
- New networks entered into service for the "El País" newspaper, AENA and SAICA (pilot phase).
- VSAT networks were contracted for ST Hilo and CGS Mensatel, with a total of 225 initial remote stations.
- Satellite services were provided to a wide range of customers, with applications in areas such as protection of the environment, management and control of mobile fleets, repair of land circuits and distribution of information for various media sources.

INTEGRATED SERVICES DIGITAL NETWORK. The pilot program, which commenced with clients in 1992, came to an end and in July 1993 the ISDN Commercial Services were launched, in accordance with European regulations.

The major business sectors in 14 Spanish provinces had access to the ISDN during 1993, with an available capacity of 8,700 Basic and 950 Primary Accesses, covering 15% of Spain's population.

On an international level, there is ISDN access with 13 countries, including the major European states, Australia, United States, Japan and Singapore. We should also mention Telefónica's participation in the Euro-ISDN, which will enable Spanish clients to connect to European information lines.

In order to promote the service and contribute to the development of the ISDN and all its possible applications, two projects were initiated in 1993: the ISDN Catalogue and the magazine ISDN Forum.

The development of the ISDN provides a multitude of applications. Telefónica is already working, in collaboration with our clients, on several of them: distance editing, high quality voice transmission, stereo music, rapid data transmission, interconnection of local computer networks, backup of dedicated lines, access to image data bases and nx64 kbit/s videoconferencing.

INTERNATIONAL BUSINESS NETWORKS. During 1993 the FNA (Financial Network Association) basic network was set up, designed to carry communications for companies in the financial sector. Piloting of the service commenced with real clients, as a prior step to launching the service on the market in 1994.

MOBILE SERVICES. In 1993 development of mobile services continued, with Automatic Mobile Telephony (TMA) maintaining a healthy growth rate. At year-end the TMA service had 257,261 customers, representing a 42.7% growth over the previous year's customer figures. During the year a total of 3,780 radio channels were installed, taking installed plant figures up to 14,885 by the year-end. As a result of these installations, coverage has been extended to 92% of the population.

As regards customer service, itemized billing is now available to all users of Telefónica's Automatic Mobile Telephony service and there is a permanent information collection and customer complaint service. It is also significant that TMA service provision is immediate as no waiting list exists.

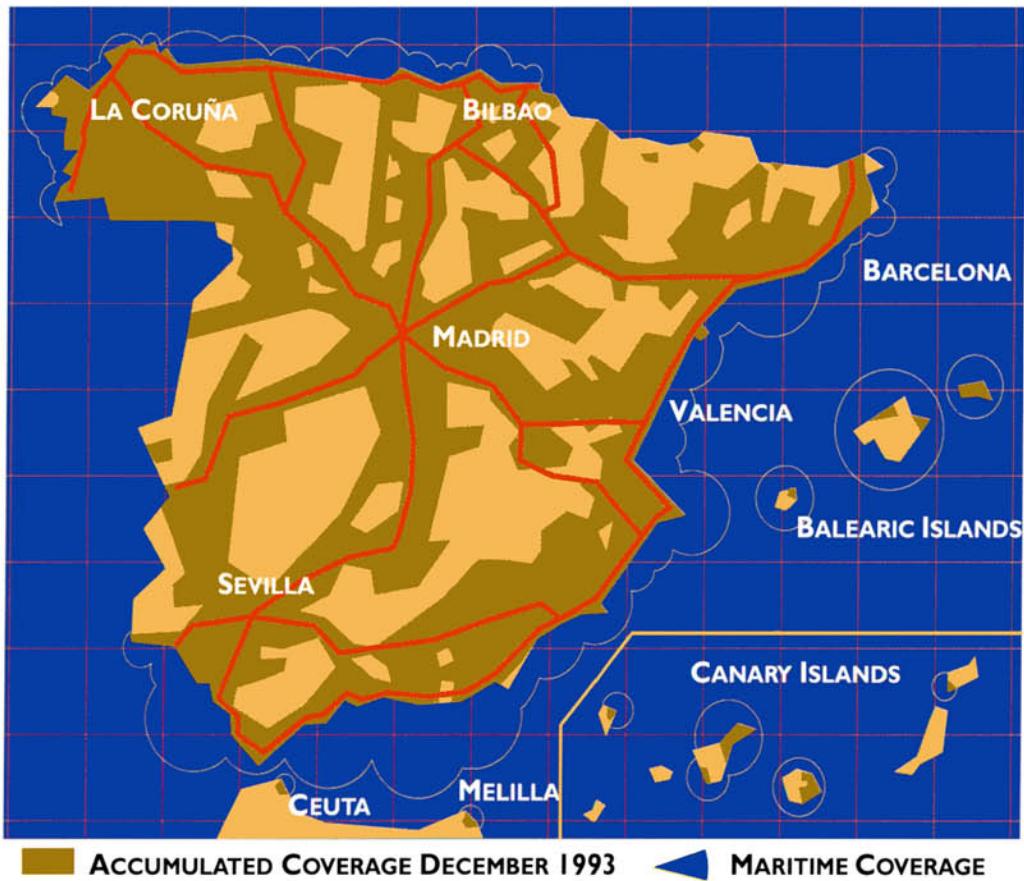


Already some areas of mobile communications are open to competition, such as the radiopaging service. Telefónica's radiopaging Mensatel service is the market leader with 49,023 clients at 1993 year-end.

Pre-marketing tests began on the TMA cellular digital service (GSM), which is already being marketed in other neighbouring European countries. Coordination work with other operators also continued for the setting up of future European mobile services, such as ERMES for radiomessaging and the Aircraft Public Communications Service, soon to be incorporated.

With regard to the maritime service, worthy of mention is the automation of the North East, Straits of Gibraltar and Canary Island Zones, with the consequent improvement in ship to shore communications.

T.M.A. -900A MOBILE SYSTEM COVERAGE



New products and services are born with the support of solid research and quality control, ready to compete with throughout the world

RESEARCH AND DEVELOPMENT

In 1993, Telefónica's Research and Development activity focused on providing the company with advanced Telecommunications services, in order to enhance our competitive capacity in a fully competitive marketplace dominated by interactive multimedia services.

As regards broadband services, the demonstrator RECIBA was endowed with new concepts, functions and elements relating to the network, services and operations to transform it into a superb "showpiece" for demonstrating to our clients and to the various world telecommunications sectors the scope and range of possibilities of broadband multimedia communications.

An agreement was signed with Madrid Polytechnic University (UPM) to create a direct communications infrastructure between the ETSI-UPM and Telefónica offices. Under this agreement, the CIBELES project was drawn up to research into multimedia technologies.

In addition, work on the ISABEL project continued. This is a collaboration project between Telefónica and Telecom Portugal to interconnect the RECIBA (Madrid) and RIA (Aveiro) demonstrators and is a European Union initiative. Under the project, there have been demonstrations of distance education (a Summer School) and in October, one of the first European 34 Mbit/s communication lines was established with ATM technology.

As regards the ISDN, demonstrators were developed of new services, such as videotex, multimedia, videotelephony, multiconferencing and telepayment.



High quality customer care and service require advanced management systems. A qualitative step forward was taken in this direction, with management systems even being made available to the clients themselves. In this respect, management facilities of the Basic Telephone Network, the Iberpac Network and Ibercom were extended. Development also began of management systems for future broadband networks and operating systems. In addition, development of management systems for mobile networks also got underway.

As regards upgrading of electromechanical systems, field tests were carried out on the new electronic register (MORE) on PC-1000 equipment. The application of this system will facilitate services such as multifrequency dialling from user terminals, detailed call register and numbering extension.

An area was also set up to attend to the strategic Access Systems and work continued on the analysis and planning of networks, testing and qualification systems and quality upgrading.

On the international front, we took part in preparations for the implementation of a European broadband pilot network based on Asynchronous Transference Mode switching techniques. This project is being developed by 18 operators in 15 different countries. The technologies corresponding to the international node and to the nodes for the domestic section have already been selected.

We also continued to play an active part in the main international programs, participating effectively in supranational standardization. This activity was centred in EURESCOM, the European programs RACE, ESPRIT and COST and in the consortium TINA.

Local area network interconnection tests proceeded on the VSAT networks and a satellite data transmission experiment began, consisting of bringing data from remote points to use for environmental control, fire detection, etc.

As regard intelligent network services, work was completed on the specification and analysis of the necessary equipment for the provision of virtual private networks through the Intelligent Network. Work also continued on the development of the current Intelligent Network towards the Standardized Intelligent Network, which must give Telefónica control over software for the creation of services and consequently autonomy in the provision of services to our clients.

With regards to mobile communications, experiments were carried out on data transmission for analog cellular systems on 900 MHz and the finishing touches applied to the technology for the pan-European digital mobile communications system (GSM) on the same band.

Research was also carried out into different telephone terminal technologies with a view to increasing Telefónica's range of products, with special emphasis on upgrading functions and quality. As regards the Network Connection Point, modifications were introduced in order to enhance

performance, giving rise to the qualification of new versions, among them those that facilitate the connection of various lines to one single equipment.

During 1993 special attention was paid to operating systems. Development continued of the Operation and Maintenance Structure (EOC), the different elements of which were progressively introduced into the plant, increasing efforts to achieve functional optimization and reduction of costs. Also incorporated was a version of the Operation and Maintenance System (SOC) which includes new facilities for transmission and radio plant and also allows connection of various systems of this type through the Iberpac Network.

In addition, testing began on another version of the SOC which incorporates the first phase of the EOC-Exterior Plant with the connection to the SOC of the Centralized Cable Supervision System. The specifications of the module for the management and control of the compressor-descrictor equipment were defined, as well as those for the interface for communications with the flow distribution and control panel. This will improve network conservation levels and, at the same time, optimize the use of maintenance resources.

Also incorporated into the plant was a new Reduced Sectorial Control System (SCR-R) and the Concentrated Channels Plant terminal (TPCC), designed to pick up alarms and remote controls, as well as guaranteeing clear connections. Moreover, the necessary work began on development of a Traffic Management System (SGT), owned by Telefónica, which will control telephone traffic both nationally and internationally.

The requirements were also established for the future Optical Access Network Operating Systems and tests began on the Buildings Alarms and Teleservices Centralization System. This system picks up, processes and sends to the operator information relating to the maintenance of buildings. It is likely to be available on a provincial level and development is anticipated of a multiprovincial system controlling the provincial centres.

Related to Research and Development activity is the management of Telefónica-owned technologies developed by the company or acquired from third parties. This involves their protection through registration in the Official Industrial or Intellectual Property Registers and the administration of the resulting operating rights.

During the past year, Telefónica reached the figure of 1,092 title deeds in Spain and abroad, either already granted or in the process.

These Technological Holdings give Telefónica the opportunity to assimilate and control the features of the different technologies and their development, give us a distinctive mark in the face of competitors and also diversify supplies.

TELEFONICA INTERNATIONAL ACTIVITY

The Company's international presence, mainly in Latin America, was strengthened during 1993 with the opening up of new markets

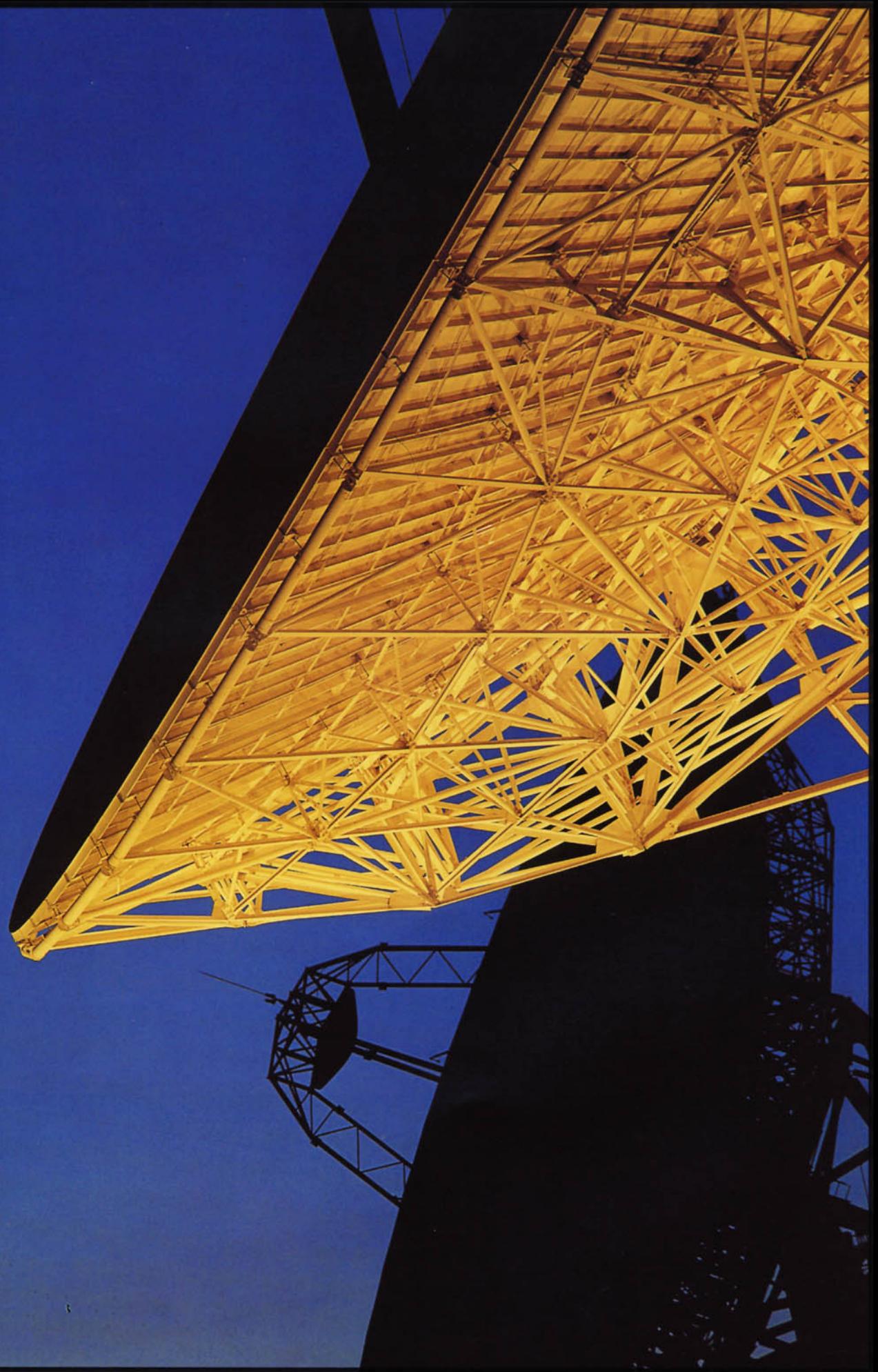
THE INTERNATIONALIZATION OF TELEFONICA. 1993 represented the start of the international consolidation of Telefónica. The company strengthened its position in the markets where holdings already existed and expanded its international base towards new business areas, mainly in Latin America.

Financial performance was positive and there was a notable improvement in service indicators. The financial profitability of Telefónica's investments abroad exceeded 15%. There were extremely favourable trends in the case of holding companies listed on the Stock Exchange (CTC, TASA, and Entel-Chile), with more than a 350% latent capital gain over purchase price.

As regards service, holding companies showed significant improvements over the already healthy results of the previous year. In this respect, we should mention the fast rate of line installations and the notable increase in digitization levels. Telefónica de Argentina ended the year with over 2.8 million lines installed (14% growth) with 42% digitization. CTC had a total of 1.6 million lines installed (20.9% growth), with 100 digitization. CANTV had 2.7 million lines installed at the end of 1993 (15.1% growth), with 46% digitization.

Holding companies operating in the international long-distance sector (Entel-Chile, Telintar and TLD Puerto Rico) achieved major increases in market shares and in global traffic levels.

As regards the international expansion of the Telefónica Group, 1993 saw an increase in holdings in the Argentine market through TASA (from 8% to 19.4%) and the subscription of 43.6% of CTC convertible bonds. The holding in the data transmission company, Infonet, also rose to 7.17% of capital.



These new purchases reflect the confidence held in the Telefónica Group in the markets where it operates and the surety of being able to seize fresh opportunities in the different business areas.

As well as these increases in holdings, in 1993 the Telefónica Group was also awarded the license for cellular mobile telephony in Columbia. We also extended activity in the Caribbean through the penetration of TLD into the Virgin Islands market. We should also highlight the major drive in the Yellow Pages sector via our holdings in Publiguías (Chile) and Páginas Doradas (Argentina).

In the European market, Telefónica holdings in the Portuguese radiopaging company, Contactel, and the Romanian cellular operator, Telefónica Romania, showed favourable trends in growth.

An important agreement was reached in 1993 with the consortium UNISOURCE, comprising Dutch, Swiss and Swedish operators. As a result of this initiative, Telefónica will improve service to our international clients providing them with the latest communications services.

To sum up, in 1993 Telefónica consolidated and expanded internationally, successfully meeting the challenges in the established markets and increasing its global business presence, searching out fresh opportunities with high growth potential.

It should be noted that Telefónica is Spain's leading multinational company. Our international presence and activity is not only producing major financial benefits but is also setting us on the way to becoming, in the next few years, one of the few leading operators in the Telecommunications sector.

Moreover, the benefits derived from internationalization are not just to the advantage of Telefónica but also serve to encourage the internationalization of other Spanish companies, a matter of great importance to Spain's economy.

INTERNATIONAL ORGANISATIONS. Our aim is to strengthen Telefónica's presence on the international front and we therefore continued to play an active role in international telecommunications organisations, namely ITU (International Telecommunications Union), ETNO (Association of European Telecommunications Network Operators), EURESCOM (European Research and Strategic Communications Institute), ETSI (European Telecommunications Standards Institute), EUTELSAT, INTELSAT and INMARSAT, protecting our interests through presentations and the contribution of Telefónica personnel in the work of these organisations.

Because of the special significance which Latin America has for Telefónica, through the organization AHCIET (Latin American Association of Research Centres and Telecommunications Companies) there was an increase in the development of activities of mutual interest, such as data base access, network management, ISDN implementation, service quality upgrading, etc.

REGIONAL PROGRAMS. During 1993, Telefónica continued to take part in the EC programs promoted by FEDER (European Regional Development Fund) aimed at correcting imbalances between the regions in the area of telecommunications.

Of particular significance were the developments made in the introduction and modernization of infrastructures, the promotion of advanced telecommunications services and the development of new services and applications, under the STAR, TELEMATICA, ARCO and PRISMA Programs.

Under the Regional Development Programs, aimed at developing the most underprivileged regions of the European Community (Objective 1 Regions) and the Regional Restructuring Programs, whose objective is the redevelopment of areas suffering from major industrial decline (Objective 2 Regions) the extension and upgrading of telecommunications infrastructures went ahead through participation in the Operating Programs in Aragon, Canary Islands, Castilla-La Mancha, Castilla-León, Catalonia, Ceuta, Valencia, Extremadura, Galicia, Melilla, Murcia, Navarre, North Huelva and Cordoba. We also participated in the Regis Program in the Canary Islands and in the IRTA Program in Valencia.

In addition, we contributed to the development of rural areas (Objective 5B) through intervention in the Operating Programs in Aragon, Balearic Islands, Cantabria, Catalonia, Madrid, the Basque Country and La Rioja.

TELEFONICA INTERNACIONAL GEOGRAPHICAL POSITIONING



The current specialization in all fields has led to major restructuring of the affiliated companies

THE TELEFONICA GROUP

GROUP AFFILIATES. Telefónica's subsidiary companies continued the upgrading of management performance and of the organization of the different businesses operating in the competitive marketplace.

In this respect, we should mention the major restructuring which took place around Telefónica Sistemas, aimed at providing global solutions to the requirements of corporate clients in the area of advanced data, communications and integrated systems. The Group members are: Telefónica y Sistemas at the head, working in systems engineering and telecommunications networks and infrastructures; Telefónica Sistemas de Satelite, in the engineering, management and marketing of satellite communications; Telefónica Sistemas de Ingeniería de Productos, supplying the infrastructure for public communications networks; Telefónica Servicios Avanzados de Información, providing value added services; Telefónica Seguridad y Comunicaciones, operating in security systems; Telefónica Gestión de Sistemas, dedicated to the operating and exploitation of data processing systems and finally Gestired, working in network management and operations. Gestired has holdings in Tissat, Excel Data and Telecom Balles.

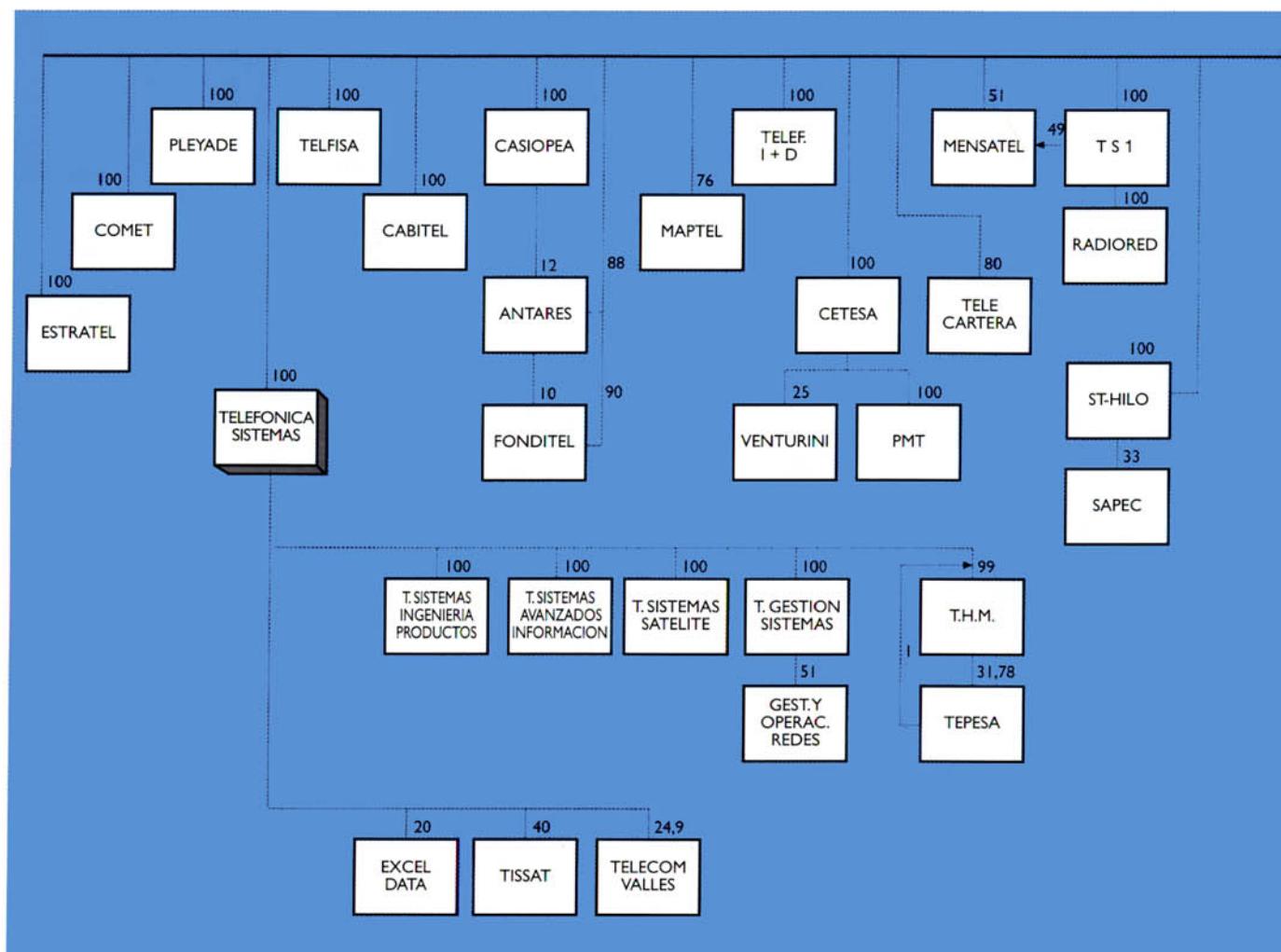
Telefónica Mobile Services emerged as the leading company in the dynamic and increasingly competitive mobile communications sector. During 1993 marketing of the TMA service was enhanced by the creation of the brand and distribution network MOVI-LINE , while Radiopaging activity was segregated with the creation of the operating company CGS Mensatel. In addition, Radio Red, a consortium of companies , was set up to bid for the public tender for the provision of the Mobile Radiocommunications Land service in Closed User Groups (Trunking).



The company Telecarta was formed to act as holder of Telefónica's shares in Sogecasa. The Grupo Argentaria have a 20% holding in the company.

As regards investments made by Telefónica, of particular significance was the increase in our share in Cointel (a holding controlled by Telefónica de Argentina) as a result of the acquisition of the holding previously in the hands of Sociedad Comercial de Plata (5.24%) and the Central Hispano Bank (13.46%), for a total amount of 317 million dollars. In addition, there were other smaller investments, such as the 51% acquisition of Publiguías-Chile and the 2% increase in the holding in Infonet. We also made the payments pending in Telefónica Romania and Contactel.

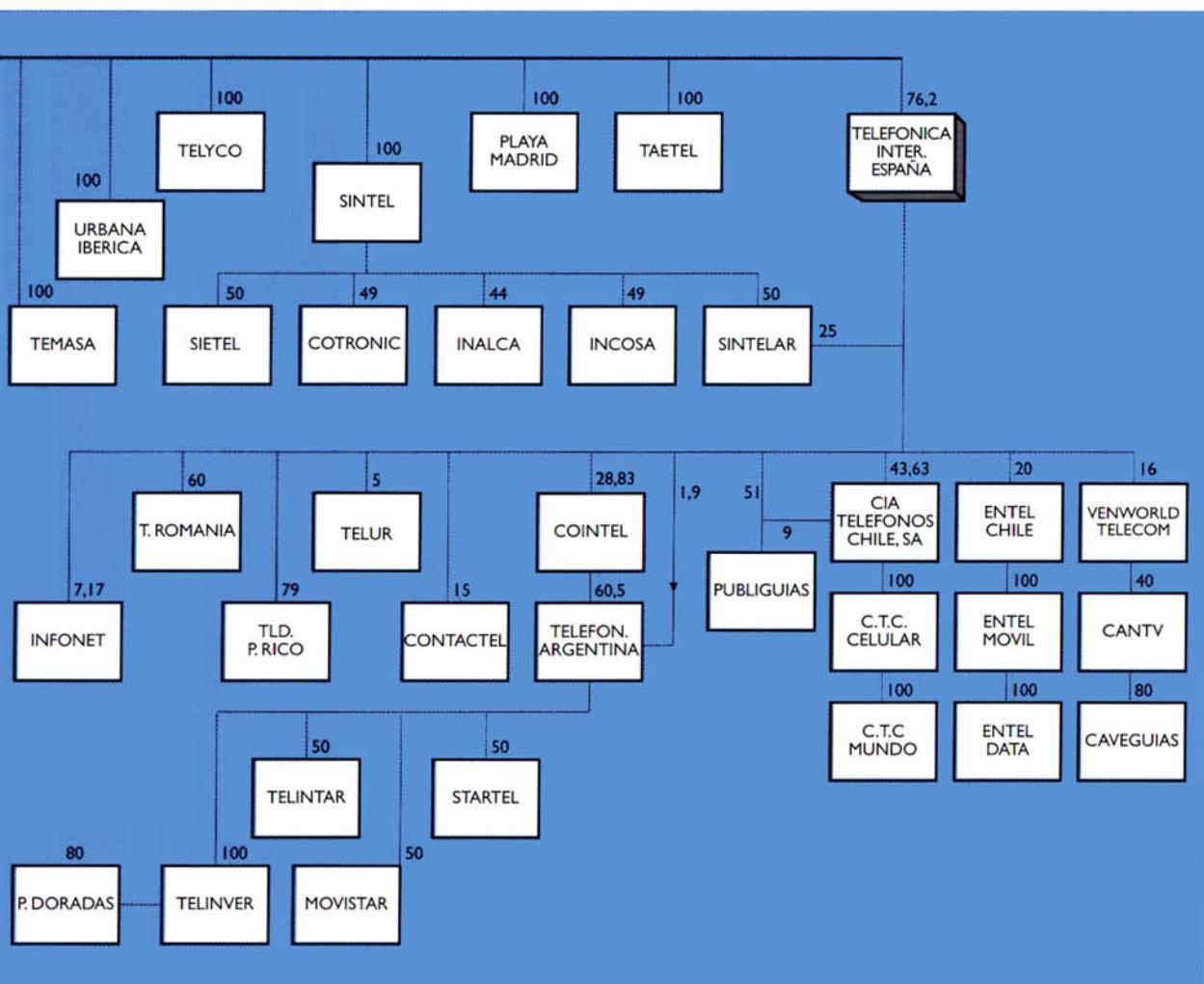
MAIN TELEFONICA AFFILIATES



GROUP HOLDING COMPANIES. As regards holding companies, we should start by saying that the recessive climate affected the activity of this group of companies throughout 1993. Despite this, some facts are worth highlighting.

The communications system, Hispasat, was in full operation by the end of 1993 with the launch and start-up of the second satellite, Hispasat 1B.

Indelec underwent a total transformation, with Ericsson becoming a new technological partner and the signing of agreements between shareholders for a capital increase of 1,040 million pesetas, 240 of which was provided by Telefónica. In 1995 there will be a purchase option of the company's total share package, representing 30% of share capital.



HUMAN RESOURCES

The National Dance Company, sponsored by Telefónica is an example of the professional status of the human potential at the company's disposal

At 1993 year-end Telefónica had a total workforce of 74,340 employees, a decrease of 0.13% over the previous year. During the year the permanent workforce grew by 283 employees and the number of temporary staff fell by 380.

Of particular significance was the consolidation of the Pension Plan, with the changeover from the old social fund system to the new, finally completed. 65,885 employees, that is 88.6% of the workforce, are subscribed to the new Plan. Following the election of members to the Control Committee, Internal Regulations were approved and the plan went into full operation. Pensioners of the previous Telefónica fund (ITP), now dismantled, agreed to accept the offer of supplementing their State pension.

In order to meet the challenges and commitments of the coming years, energetic measures were taken to realign staff and management structures to ensure the effective development of human resources.

Training activity accounted for a total of 2.5 million hours/pupil, with an average of 33 hours training per employee. The most significant activities were the Basic Network training program, which represented 34.5% of the total, customer care with 29% and the restructuring Program for the Data Processing Centres in which over 1000 employees took part.

Special mention should be made of the Management Training and Development Programs which were practically completed in all the Provincial Centres. Over 6,200 people took part in these programs, with a total of 204,000 hours.

On a final note, management and Telefónica specialists collaborated closely on international projects, especially in America. At 1993 year-end, there were 76 employees working in subsidiaries or associated companies, in addition to the 48 temporary missions developed throughout the year.



SELECTED OPERATING DATA

TELEPHONE AND DATA TRANSMISSION SERVICE

| | 31-12-89 | 31-12-90 | 31-12-91 | 31-12-92 | 31-12-93 |
|---|----------|----------|----------|----------|----------|
| Local lines in service (thousands) | 11,797.2 | 12,602.6 | 13,264.4 | 13,792.2 | 14,253.5 |
| of which Public Telephony Services | 319.5 | 337.8 | 353.6 | 372.7 | 399.9 |
| Cellular Access | | | | 7.1 | 65.6 |
| Cellular Mobile Services (thousands) | 29.8 | 54.7 | 108.5 | 180.3 | 257.3 |
| IBERCOM lines in service (thousands) | 145.9 | 255.5 | 375.0 | 481.6 | 572.5 |
| Numbers of Intelligent Network in service | | | | | 4,307 |
| IBERPAC network connections (% growth) | 22.6 | 15.9 | 11.7 | 4.9 | 5.8 |
| Data transmission (D/T) circuits (% growth) | 7.8 | 12.9 | 5.5 | 4.5 | -0.2 |
| ISDN equivalent lines in service | | | | | 640 |
| Dataphones (thousands of terminals) (*) | 129.6 | 163.1 | 171.2 | 183.2 | 192.3 |
| IBERTEX (thousands of terminals) (*) | 50 | 120 | 300 | 390 | 485 |
| Videconferencing (no of Conference Rooms) | 8 | 15 | 26 | 41 | 50 |
| Automatic trunk circuits (thousands) | 387.7 | 519.1 | 661.8 | 738.9 | 766.0 |
| International Circuits (thousands) | 13.3 | 16.5 | 19.8 | 25.8 | 23.7 |

(*) Estimate

INFRASTRUCTURE

| | 31-12-89 | 31-12-90 | 31-12-91 | 31-12-92 | 31-12-93 |
|--|----------|----------|----------|----------|----------|
| Local lines installed (thousands) | 13,160.0 | 14,485.2 | 15,180.6 | 15,475.1 | 15,879.7 |
| of which digital lines (thousands) | 2,582.0 | 4,115.0 | 5,100.8 | 5,628.9 | 6,574.5 |
| (% total) | 19.6 | 28.4 | 33.6 | 36.4 | 41.4 |
| Trunk lines (thousands) | 1,831.0 | 2,311.0 | 2,644.0 | 2,705.5 | 2,677.0 |
| of which digital (thousands) | 867.0 | 1,377.0 | 1,989.4 | 2,127.2 | 2,288.2 |
| (% total) | 47.4 | 59.6 | 75.2 | 78.6 | 85.5 |
| International trunk lines (thousands) | 48.8 | 65.1 | 89.8 | 98.9 | 97.4 |
| of which digital (thousands) | 17.0 | 33.2 | 58.0 | 67.0 | 70.2 |
| (% total) | 34.8 | 51.1 | 64.6 | 67.5 | 72.2 |
| Coaxial Cable (km.) | 10,531 | 10,566 | 10,634 | 10,707 | 10,706 |
| Fibre-optics cable (km.) | 8,018 | 15,131 | 20,290 | 22,056 | 24,857 |
| Trunk pair cable (Km.) | 56,492 | 57,280 | 58,034 | 58,554 | 59,109 |
| Subscriber cables (thousands of Km.-par) | 47,003 | 51,591 | 54,928 | 57,763 | 59,975 |
| Underwater cables (thousands circuits x Km.) | 43,912 | 50,164 | 63,423 | 114,943 | 117,811 |
| of which digital (thousands circuits x Km.) | 19,950 | 26,202 | 39,461 | 90,981 | 93,849 |
| (% total) | 45.4 | 52.2 | 62.2 | 79.2 | 79.5 |
| Satellite earth stations (no stations) | 36 | 46 | 64 | 72 | 74 |

TRENDS IN USAGE PER LINE AND DEMAND FOR NEW LINES

| | 1989 | 1990 | 1991 | 1992 | 1993 |
|--|---------|---------|---------|---------|---------|
| Average growth in usage per line | 5.1 | 2.3 | 4.1 | 4.1 | -3.5 |
| Applications for new telephone lines (thousands) | 1,394.1 | 1,316.9 | 1,118.0 | 1,068.5 | 1,136.1 |
| (% annual growth rate) | 8.2 | -5.5 | -15.1 | -4.4 | 6.3 |
| Applications for new IBERCOM lines (thousands) | 100.3 | 127.6 | 119.8 | 136.9 | 124.9 |
| (% annual growth rate) | 49 | 27.3 | -6.1 | 14.3 | -8.8 |

INTERNATIONAL BROADCASTING

| | 1989 | 1990 | 1991 | 1992 | 1993 |
|------------------------------|-------|-------|-------|-------|-------|
| Radio (thousands of minutes) | 480.0 | 413.7 | 647.0 | 508.8 | 448.3 |
| TV (thousands of minutes) | 129.0 | 133.2 | 203.8 | 194.7 | 67.7 |

***Financial
Review***

SELECTED FINANCIAL DATA
(NON-CONSOLIDATED FIGURES IN MILLIONS OF PESETAS)

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1993 \$ (1) |
|-----------------------------------|-------------|-------------|-------------|-------------|-------------|------------------------|
| Operating revenue | 714,839 | 852,542 | 1,008,031 | 1,154,696 | 1,220,084 | 8,579.2 |
| Operating expenses | 358,787 | 424,214 | 477,507 | 536,149 | 547,156 | 3,847.4 |
| Financial expenses | 114,149 | 159,308 | 199,592 | 217,434 | 235,319 | 1,654.7 |
| Depreciation and amortization (*) | 233,563 | 269,118 | 321,302 | 382,466 | 406,603 | 2,859.1 |
| Net income | 68,898 | 75,788 | 80,847 | 83,899 | 84,837 | 596.5 |
| Cash flow | 302,461 | 344,906 | 402,149 | 466,365 | 491,440 | 3,455.6 |
| Share capital | 462,482 | 463,479 | 463,479 | 463,480 | 469,735 | 3,303.0 |
| Shareholders' equity | 1,267,925 | 1,294,504 | 1,324,368 | 1,376,751 | 1,397,712 | 9,828.2 |
| Long-term debt | 826,234 | 1,008,254 | 1,387,343 | 1,593,504 | 1,529,151 | 10,752.5 |
| Interest-bearing debt | 1,068,071 | 1,434,864 | 1,655,122 | 1,851,480 | 1,755,615 | 12,344.9 |
| Capital expenditure (**) | 606,363 | 708,545 | 616,026 | 439,391 | 381,507 | 2,682.6 |

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

(**) Investment in tangible and intangible fixed assets, including advances to suppliers and stocks for fixed assets.

(1) Figures in millions of dollars. Exchange rate 30-12-93: 1\$ = 142.214 ptas.

FINANCIAL RATIOS (NON-CONSOLIDATED)
(FIGURES IN %, UNLESS OTHERWISE INDICATED)

| | 1989 | 1990 | 1991 | 1992 | 1993 |
|--|-------------|-------------|-------------|-------------|-------------|
| Operating margin/Operating revenue (1) | 58.4 | 56.9 | 59.1 | 59.5 | 61.4 |
| Financial expenses/Operating revenue (2) | 16.0 | 18.7 | 19.8 | 18.8 | 19.3 |
| Operating margin/Average net plant (3) | 18.3 | 18.2 | 19.7 | 21.5 | 23.4 |
| Fixed assets coverage (4) | 86.8 | 82.1 | 87.7 | 90.7 | 89.8 |
| Guarantee ratio (5) | 45.3 | 40.0 | 37.5 | 36.6 | 37.6 |
| Self-financing ratio (6) | 40.9 | 41.0 | 55.6 | 91.8 | 112.2 |
| Financial debt ratio (7) | 45.2 | 51.9 | 55.1 | 58.4 | 57.1 |
| Debt repayment capacity (years) (8) | 4.3 | 4.8 | 4.9 | 4.5 | 4.1 |
| Financial expenses coverage (times) (9) | 1.3 | 1.2 | 1.2 | 1.1 | 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 + Deferred taxes + Long term debt/Fixed assets + Deferred expenses + Taxes paid in advance.

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

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

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

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

(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

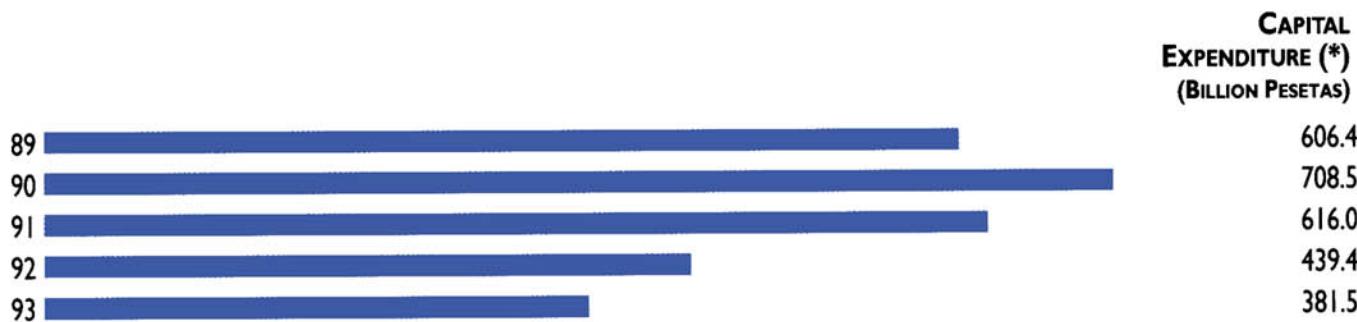
TELEFONICA IN THE SPANISH ECONOMY

Throughout 1993 the recession suffered by the Spanish economy, which had become apparent in the last few months of 1992, worsened. The sharp drop in economic activity, which in turn had a drastic effect on employment, resulted in a negative 1% growth in Gross Domestic Product.

Following the general trend of European economies, domestic demand fell by more than 3.5%, largely due to the weakness reflected by private consumption and the significant decrease in gross capital formation, both of which registered negative rates of 2.3% and 10.3% respectively. Nevertheless, this recession has been lessened by the positive performance shown by foreign demand, which rose by almost 3.0% in a year in which overall growth in world trade fell off considerably.

The favourable performance of relative prices has benefited from the annual 15% depreciation of the peseta compared with the currencies of other industrialized countries. This has permitted a substantial reduction in the Spanish economy's trade imbalance, placing the deficit for trade balance at 1.1% of G.D.P., when in 1992 this figure was 3.3%. The notable growth in exports and the significant drop in imports were due to both the fall off in domestic demand and foreign goods and services becoming more expensive as a consequence of the depreciation of the peseta.

A characteristic of the worldwide recession has been its impact on the industrial sector with production having fallen by almost 5% over the year and, to a lesser extent, its effect on the agricultural and services sectors. Overall employment has gone down by 4.3%; within this figure the areas most seriously affected have been those of industry and construction dropping more than 9%. This



(*) INCLUDES TANGIBLE AND INTANGIBLE INVESTMENTS. NON CONSOLIDATED FIGURES

slump, combined with the growth in first-time employment, has triggered a vast increase in unemployment, 24.8% higher than the previous year, placing the unemployment rate at 23.9% of the active population.

The sharp fall in employment, the moderate growth in labour costs and the depreciation of the peseta have contributed to the recovery in the unit margins of Spanish companies. This has been achieved with no impediment to the slowdown in retail prices over the last year. Consumer prices have risen an average 4.6% compared with the 5.9% registered in 1992 and the G.D.P. deflator has grown 2.5 percentage points less than in 1992.

The improved financial structure of Spanish companies and the strong growth in private savings have permitted the gradual decrease in interest rates. This process has been favoured by the broadening of fluctuation bands of E.M.S. currencies, which has allowed a greater degree of independence in monetary policies.

Public deficit has reached 7.1% of G.D.P., reflecting a considerable worsening of this figure compared with that of the previous year. This has been caused by the fiscal policy and the economic recession. The public deficit's steady improvement combined with the increase in the profitability of companies, assisted by low interest rates, will boost investment and therefore the recovery from the present slump.

In this climate, Telefonica has achieved a 3.3% real growth in its value added; this rate being considerably higher than that registered the previous year and that of G.D.P. Telefonica's gross

| TELEFONICA IN THE SPANISH ECONOMY | | (AS A % OF THE NATIONAL TOTAL) | | | | |
|---|--|--------------------------------|------|------|------|------|
| | | 1989 | 1990 | 1991 | 1992 | 1993 |
| Gross value added. | | 1.58 | 1.65 | 1.78 | 1.74 | 1.79 |
| Gross operating profit. | | 2.06 | 2.15 | 2.42 | 2.32 | 2.33 |
| Gross savings. | | 2.71 | 2.60 | 3.02 | 3.16 | 3.29 |
| Gross capital formation. | | 5.61 | 5.70 | 4.66 | 3.43 | 3.17 |
| PRICES (1) | | | | | | |
| - G.D.P. deflator | | 7.0 | 7.4 | 7.0 | 6.5 | 4.1 |
| - Consumer prices (annual average) | | 6.8 | 6.7 | 5.9 | 5.9 | 4.6 |
| - Telefonica. (2) | | 2.7 | 6.4 | 5.8 | 3.3 | 2.7 |
| (1) Growth rate | | | | | | |
| (2) Average yearly effect on service prices due to tariff increases | | | | | | |

Source: I.N.E. and Telefonica.

| GROSS VALUE ADDED | | (REAL GROWTH RATES) | | | | |
|-------------------|--|---------------------|------|------|------|-------|
| | | 1989 | 1990 | 1991 | 1992 | 1993 |
| National economy | | 4.7 | 3.7 | 2.3 | 0.8 | (1.0) |
| Services Sector | | 5.3 | 4.2 | 3.3 | 2.8 | 0.9 |
| Telefonica | | 11.8 | 8.8 | 11.8 | 1.4 | 3.3 |

Source: I.N.E. and Telefonica.

operating profit has grown by almost 8%, despite the negative impact of exchange losses over value added, due to the depreciation of the peseta. In 1992 this item only registered a 1% increase. The Spanish economy's gross operating profit grew by 6% in 1993.

Telefonica's gross savings represented 3.29% of gross domestic savings, amply financing the gross capital formation carried out in 1993. Telefonica's gross capital formation's decrease has lessened compared with the figure for 1992, precisely the opposite of the trend reflected by the economy. Telefonica prices have risen half of those of the Consumer Price Index and 4.5 percentage points lower than the increase registered by the prices of the Spanish services sector.

Finally, Telefonica has continued to consolidate its presence in the Latin American economy. After several years of notable improvement in the economy, this area is one of high international investment interest. The increased flexibility on capital movement, the improved stability of their respective currencies and the favourable fiscal treatment of foreign capital gains, have made this area particularly profitable for foreign investment. Telefonica stands out for having centred its international expansion in Latin America, in an emerging market as is that of the telecommunications sector.

MANAGEMENT REPORT

Telefonica's consolidated income before tax for 1993 totalled 121,212 million pesetas which, after deducting the provision made for corporate tax, resulted in a figure for consolidated net income of 96,367 million pesetas. These two items have reflected growth rates for the year of 28.3% and 19.3% respectively, figures which are considerably higher than those of the parent company.

The reasons for these varying performances can be found in the contributions from the associated companies, above all those derived from the Chilean and Argentinian operators in which Telefonica Internacional holds participations and also the differences in financial revenue between the consolidated group and the parent company.

The parent company's (Telefónica de España) income before tax reached 107,468 million pesetas reflecting an annual increase of 7.8%. As the fiscal benefits derived from the investments made for the World Fair and the 1992 Olympic Games are no longer applicable, the effective corporate tax rate rose, which was, in turn, reflected in net income which totalled 84,837 million pesetas, 1.1% higher than in 1992.

The fall off in demand for telecommunications services, caused by the economic recession in Spain in 1993, resulted in a slowdown in revenue from operations which registered its lowest figure in recent years.

In order to tackle this problem, Telefonica tightened its control on expenses which reduced operating expenses and improved the ratio between operating margin and revenue from operations.

The restraint on investment initiated in 1992 has been reflected in the lower increase in plant in

service causing slowdowns in the growth rates of both depreciation and cash-flow. Nevertheless, increases in resources and the restraint on investment have permitted total self-financing of these same items, achieving the highest self-financing rates registered in the history of the Company.

REVENUE FROM OPERATIONS. As has already been mentioned, the drop in economic activity in 1993 affected the demand for telecommunications services. Consolidated revenue from operations grew by 7.3%, a lower rate compared with previous years, to total 1,297,437 million pesetas.

This increase in consolidated revenue is due to the moderate growth shown by the parent company's revenue and the inclusion in Telefonica Internacional's revenue of the sales registered by the Puerto Rican operator, Telefonica Larga Distancia and the Chilean yellow pages company, Publiguías, companies which in 1993 were consolidated for the first time through the global integration method.

Telefonica's revenue from operations amounted to 1,220,084 million pesetas, going up by 5.7%, the lowest increase in recent years. Of these 5.7 percentage points, tariffs contributed 2.4 points while the remaining 3.2 points derived from the higher activity registered as a result of a rise in the number of clients and a greater usage of certain services.

Among those services whose revenue has been above average, the following stand out: the Ibercom service 26.6%, mobile telephony 25.2% and advertising 17.2%. However, it must be underlined that these components do not have any relevant weight within revenue, where basic telephony continues to be the major component making up 75% of revenue and therefore shaping the overall growth of revenue from operations.

Regarding usage of the telephone service, it must be stressed that although average usage per line has gone down an overall 3.5%, as the year progressed the performance of this item improved, so that by the last quarter the decrease had slowed to 1.9% compared with the 5.0% drop registered in the first quarter.

Basic telephony has also shown signs of recovery over the twelve-month period, closing the year with a 6.3% increase in applications registered, while the fall in net demand slowed to 11.8%.

**OPERATING
REVENUE (*)
(BILLION PESETAS)**

| | | |
|----|--|---------|
| 89 | | 714.8 |
| 90 | | 852.5 |
| 91 | | 1,008.0 |
| 92 | | 1,154.7 |
| 93 | | 1,220.1 |

(*) NON-CONSOLIDATED FIGURES

Mobile telephony grew by 12.1% in the number of applications registered which confirms the favourable outlook for the development of this service despite the difficult economic situation.

Regarding the services aimed at the business sector, 1993 has been a year of general slowdown with decreases registered in the number of line applications for the Ibercom service, integrated business communications and leased circuits, and increases in the connections to the Iberpac network for packet-switched data transmission.

OPERATING EXPENSES. Faced with the slowdown in the growth of revenue, Telefonica has intensified its policy of restraint on expenses in order to improve operating margin. The figure registered by the parent company for operating expenses totalled 547,156 million pesetas which reflects an annual growth rate of 2.1% compared with 12.3% in 1992.

RESULTS - PROFIT MARGINS 1989/1993

| Description | 1989 | 1990 | 1991 | | |
|--|----------------|-------------|----------------|-------------|----------------|
| | Amount | % Struct. | Amount | % Struct. | Amount |
| + Revenue from operations | 714,839 | 100.0 | 852,542 | 100.0 | 1,008,031 |
| - Operating expenses personnel | | | | | |
| Personnel expenses | 270,939 | (37.9) | 313,903 | (36.8) | 352,824 |
| Taxes | 13,953 | (2.0) | 16,602 | (1.9) | 20,560 |
| External services | 73,895 | (10.3) | 93,709 | (11.0) | 104,123 |
| + Internal expenditure capitalized in fixed assets | 61,071 | 8.5 | 57,080 | 6.7 | 65,633 |
| = Operating margin | 417,123 | 58.3 | 485,408 | 56.9 | 596,157 |
| + Other operating revenue | 8,373 | 1.2 | 13,887 | 1.6 | 20,682 |
| - Depreciation of fixed assets | 218,002 | (30.4) | 250,615 | (29.3) | 291,870 |
| - Other operating expenses | 4,636 | (0.5) | 1,823 | (0.1) | 5,353 |
| - Trade provisions (*) | 7,179 | (1.0) | 8,582 | (1.0) | 11,014 |
| = Operating profit | 195,679 | 27.4 | 238,275 | 27.9 | 308,602 |
| + Financial revenue | 11,726 | 1.6 | 13,868 | 1.6 | 5,640 |
| - Financial expenses | 104,935 | (14.7) | 149,362 | (17.5) | 188,360 |
| - Exchange losses | 7,331 | (1.0) | 6,815 | (0.8) | 7,277 |
| - Amortization of deferred charges | 1,883 | (0.3) | 3,131 | (0.4) | 3,955 |
| = Profit from ordinary activ. | 93,256 | 13.0 | 92,835 | 10.9 | 114,650 |
| + Extraordinary revenue | 5,142 | 0.7 | 10,777 | 1.3 | 9,290 |
| - Provisions for fixed assets (*) | 187 | (0.0) | 3,638 | (0.5) | 6,313 |
| - Extraordinary expenses | 5,138 | (0.7) | 6,786 | (0.8) | 19,080 |
| = Income before tax | 93,073 | 13.0 | 93,188 | 10.9 | 98,547 |
| - Corporate tax | 24,175 | (3.4) | 17,400 | (2.0) | 17,700 |
| = Net income | 68,898 | 9.6 | 75,788 | 8.9 | 80,847 |
| + Net income | 68,898 | 9.6 | 75,788 | 8.9 | 80,847 |
| + Amortization of deferred charges | 1,883 | 0.3 | 3,131 | 0.4 | 3,955 |
| + Depreciation of fixed assets | 218,002 | 30.4 | 250,615 | 29.3 | 291,870 |
| + Dismantled plant pending depreciation | 13,678 | 1.9 | 15,372 | 1.8 | 25,477 |
| = Cash-flow | 302,461 | 42.3 | 344,906 | 40.5 | 402,149 |

(*) Homogenized figures.

(1) Figures in millions of dollars. Exchange rate 30-12-93: 1\$ = 142.214 ptas.

(2) 89-93 compound rate

The principal component within this item, that of personnel expenses, rose to 408,103 million pesetas, growing 3.9%, although this figure is 7.4 percentage points below that of 1992. Both the cost-saving management measures introduced and the slight decrease in the number of employees have contributed to the reduction in this component.

At year-end the active workforce totalled 74,340, of which 11.5% corresponds to the central organization and the rest to the territorial organization. Personnel productivity, measured by the number of lines in service per employee, went up 4% compared with the previous year.

The item subcontractors, supplies and services went down 4.9% compared with 1992, with overall decreases in all its components, especially in that of the leasing of satellite capacity, 18.4%, which was of prime importance during the World Fair and the Olympic Games. The rental of buildings and equipment was the only component that remained stable with a slight 0.8% decrease.

(NON-CONSOLIDATED FIGURES IN MILLIONS OF PESETAS)

| % Struct. | Amount | % Struct. | Amount | % Struct. | Increases (%) | | 1993 \$ (I) |
|-------------|----------------|-------------|----------------|-------------|---------------|-------------|-------------------|
| | | | | | over | 89.93 | |
| | | | | | 92 | (2) | |
| 100.0 | 1,154,696 | 100.0 | 1,220,084 | 100.0 | 5.7 | 14.3 | 8,579.2 |
| (35.0) | 392,736 | (34.0) | 408,103 | (33.4) | 3.9 | 10.8 | 2,869.6 |
| (2.0) | 22,260 | (1.9) | 23,871 | (2.0) | 7.2 | 14.4 | 167.9 |
| (10.3) | 121,153 | (10.5) | 115,182 | (9.4) | (4.9) | 11.7 | 809.9 |
| 6.5 | 68,920 | 6.0 | 75,742 | 6.2 | 9.9 | 5.5 | 532.6 |
| 59.1 | 687,467 | 59.5 | 748,670 | 61.4 | 8.9 | 15.7 | 5,264.4 |
| 2.1 | 23,346 | 2.0 | 23,632 | 1.9 | 1.2 | 29.6 | 166.2 |
| (28.9) | 341,903 | (29.6) | 372,401 | (30.5) | 8.9 | 14.3 | 2,618.6 |
| (0.4) | 13,252 | (1.1) | 10,507 | (0.9) | (20.7) | 22.7 | 73.9 |
| (1.1) | 16,769 | (1.5) | 24,115 | (2.0) | 43.8 | 35.4 | 169.6 |
| 30.6 | 338,889 | 29.3 | 365,279 | 29.9 | 7.8 | 16.9 | 2,568.5 |
| 0.6 | 23,074 | 2.0 | 10,191 | 0.8 | (55.8) | (3.4) | 71.7 |
| (18.7) | 199,561 | (17.3) | 203,124 | (16.6) | 1.8 | 18.0 | 1,428.3 |
| (0.7) | 12,411 | (1.1) | 27,243 | (2.2) | 119.5 | 38.8 | 191.6 |
| (0.4) | 5,462 | (0.5) | 4,952 | (0.4) | (9.3) | 27.3 | 34.8 |
| 11.4 | 144,529 | 12.5 | 140,151 | 11.5 | (3.0) | 10.7 | 985.5 |
| 0.9 | 8,148 | 0.7 | 8,392 | 0.7 | 3.0 | 13.0 | 59.0 |
| (0.6) | 11,306 | (1.0) | 4,436 | (0.4) | (60.8) | N/S | 31.2 |
| (1.9) | 41,647 | (3.6) | 36,639 | (3.0) | (12.0) | 63.4 | 257.6 |
| 9.8 | 99,724 | 8.6 | 107,468 | 8.8 | 7.8 | 3.7 | 755.7 |
| (1.8) | 15,825 | (1.4) | 22,631 | (1.9) | 43.0 | (1.6) | 159.2 |
| 8.0 | 83,899 | 7.3 | 84,837 | 7.0 | 1.1 | 5.3 | 596.5 |
| 8.0 | 83,899 | 7.3 | 84,837 | 7.0 | 1.1 | 5.3 | 596.5 |
| 0.4 | 5,462 | 0.5 | 4,952 | 0.4 | (9.3) | 27.3 | 34.8 |
| 28.9 | 341,903 | 29.5 | 372,401 | 30.4 | 8.9 | 14.3 | 2,618.6 |
| 2.5 | 35,101 | 3.0 | 29,250 | 2.4 | (16.7) | 20.9 | 205.7 |
| 39.9 | 466,365 | 40.4 | 491,440 | 40.3 | 5.4 | 12.9 | 3,455.6 |

Regarding the consolidated figures, it must be pointed out that personnel expenses have followed a trend similar to that of the parent company, growing by 4.4%, while the increase in external services, 6.8%, has been somewhat higher. The proportion between operating expenses compared with revenue from operations went down from the 50.8% registered in 1992 to 49.4% in 1993.

OPERATING MARGIN AND OPERATING PROFIT. Consolidated operating margin reached 765,638 million pesetas, 9.5% over the figure for 1992. The ratio between operating margin and revenue from operations went from 57.8% in 1992 to 59.0% in 1993 as a result of the restraint on expenses.

After having made provisions for amortizations and depreciation on fixed assets, to the amount of 374,259 million pesetas, consolidated operating profit reached 369,726 million pesetas, rising by 6.6%.

In the parent company, the higher application of the company's own employees in the installation of terminals and external plant has resulted in a 9.9% increase in internal expenditure capitalized in fixed assets which has also contributed, along with the restraint on operating expenses, to the achieving of an improved operating margin which totalled 748,670 million pesetas, having grown 8.9%.

Telefonica's provisions for amortizations and depreciation on fixed assets amounted to 372,401 million pesetas (99.5% of the total for the consolidated group) resulting in a 8.9% increase and the average rate of depreciation of plant in service went from 7.6% in 1992 to 7.8% in 1993.

In consequence, Telefonica's operating profit totalled 365,279 million pesetas, 7.8% higher than the figure registered the previous year.

PROFIT FROM ORDINARY ACTIVITIES. The principal components that make up consolidated financial expenses reflected varying performances in 1993.

OPERATING
MARGIN (*)
(BILLION PESETAS)



(*) Non-consolidated figures

SELF-FINANCING OF
CAPITAL
EXPENDITURE(*)



(*) Non-consolidated figures

Interest payments totalled 208,757 million pesetas, registering a slowdown in growth, going from 5.5% in 1992 to 3.2% in 1993.

The lower financial cost derived from the successive cuts in interest rates combined with Telefonica's high self-financing ratio, allowing the company to reduce its indebtedness, have been the factors that influenced this performance.

It must be underlined that the positive effect of these measures, hardly noticed in 1993, will become considerably more apparent in 1994, strengthened by the lower indebtedness foreseen for 1994. The early redemption carried out at the end of 1993 has not had any particular effect on the year's results, but the full impact of this policy will become effective in 1994, a year in which Telefonica intends to refinance a large part of its debt at lower interest rates.

This restraint on interest payments contrasts with the unfavourable trend reflected by the provision for exchange losses, which rose to 27,243 million pesetas, 119.5% higher than in 1992. The devaluation of the peseta in the E.M.S. in May 1993, combined with the two 1992 devaluations and the depreciation against the dollar and the yen are the main contributors to this performance, bearing in mind that Spanish legislation permits the deferring of exchange losses throughout the life of a debt.

If the consolidated group and the parent company registered almost identical performances in financial expenses, the same cannot be said of financial revenue. This item's performance along with that of revenue from associated companies is the reason for the differing results from ordinary activities for the consolidated group and the parent company, the former having registered a 10.0% rise and the latter a 3.0% drop.

Regarding financial revenue, it must be stressed that in 1992 Taetel distributed dividends charged to the capital gains derived from the sale of Telettra S.p.A. in 1991, which in 1993 resulted in a 55.8% decrease in the parent company's financial revenue, dropping from 23,074 million

| OPERATING REVENUE | (NON-CONSOLIDATED. IN MILLIONS OF PESETAS) | | | | | | | Increases % |
|---------------------------------|--|----------------|------------------|------------------|------------------|----------------|------------|-------------|
| | 1989 | 1990 | 1991 | 1992 | 1993 | \$ (I) | Over '92 | (*) '89-93 |
| Subscriber service charges | 184,001 | 207,119 | 230,885 | 253,751 | 276,280 | 1,942.7 | 8.9 | 10.7 |
| Data and image transmission | 69,230 | 87,628 | 103,852 | 115,669 | 112,433 | 790.6 | (2.8) | 12.9 |
| Domestic automatic service | 314,984 | 374,472 | 465,584 | 539,564 | 579,671 | 4,076.1 | 7.4 | 16.5 |
| Trunk calls through operator | 988 | 1,642 | 2,266 | 2,861 | 3,271 | 23.0 | 14.3 | 34.9 |
| International service | 96,902 | 113,857 | 124,492 | 135,005 | 132,672 | 932.9 | (1.7) | 8.2 |
| Mobile, land and maritime serv. | 4,583 | 8,696 | 14,255 | 25,989 | 32,754 | 230.3 | 26.0 | 63.5 |
| Advertising | 7,299 | 8,506 | 10,017 | 12,806 | 15,007 | 105.5 | 17.2 | 19.7 |
| REVENUE FROM SERVICES | 677,987 | 801,920 | 951,351 | 1,085,645 | 1,152,088 | 8,101.1 | 6.1 | 14.2 |
| Connection fees and other items | 36,852 | 50,622 | 56,680 | 69,051 | 67,996 | 478.1 | (1.5) | 16.5 |
| OPERATING REVENUE | 714,839 | 852,542 | 1,008,031 | 1,154,696 | 1,220,084 | 8,579.2 | 5.7 | 14.3 |

(*) Compound rate

(I) Figures in millions of dollars. Exchange rate 30-12-93: 1\$ = 142.214 ptas.

pesetas recorded in 1992 to the present figure of 10,191 million pesetas, although the Group's revenue was not affected by this and therefore grew by 81.5%.

The second factor, which contributed to the aforementioned difference between the consolidated group and the parent company, was that of income from associated companies. This item grew from the 8,583 million pesetas registered in 1992 to 15,378 million pesetas in 1993, principally due to the contributions made by the Chilean and Argentinian operators through Telefonica Internacional.

INCOME BEFORE TAX AND NET INCOME. Consolidated income before tax reached 121,212 million pesetas, rising 28.3% over the figure for the previous year, with an 18.3 percentage point improvement in profit from ordinary activities.

Both Telefonica and the Group have shown similar performances due to the drop in the figure registered for extraordinary expenses, coming as a result of the lower rate of accelerated depreciation on dismantled plant following the high increases of previous years.

The conclusion, in 1993, of the fiscal benefits derived from the 1992 World Fair and Olympic Games, resulted in a considerable increase, for both the consolidated group and the parent company, in the effective corporate tax rate which was around 21% in both cases.

After the provision made for corporate tax, consolidated net income totalled 96,367 million pesetas, reflecting a 19.3% increase.

The contributions to consolidated net income of each of the members of the Group have been as follows: Telefonica, after the adjustments made for the consolidation procedure, contributed 84.5% of the total. The subsidiaries controlled by Telefonica made up 17.9% of the result; of these subsidiaries, those controlled by Telefonica Internacional stand out contributing 17.1% of the overall amount; Cetesa (yellow pages) contributed 2.4% and CABITEL (public telephones) 0.5%. Lastly, the contributions made by the associated companies, in which Telefonica holds minority stakes and does not play any role in their management, have, in general terms, been negative, resulting in a negative 2.4% contribution to consolidated net income; among these companies those that stand out are Amper (1.0% of total), Hispasat (1.0%) and Eritel (0.6%).

**CASH-FLOW NET (*)
(BILLION PESETAS)**

| | |
|----|-------|
| 89 | 302,5 |
| 90 | 344,9 |
| 91 | 402,1 |
| 92 | 466,4 |
| 93 | 491,4 |

Depreciation and Amortization

Net Income

| | |
|------|-------|
| 68,9 | 233,6 |
| 75,8 | 269,1 |
| 80,9 | 321,3 |
| 83,9 | 382,5 |
| 84,8 | 406,6 |

(*) NON CONSOLIDATED FIGURES

CASH-FLOW AND SELF-FINANCING. Despite the slowdown in the growth of revenue, consolidated cash-flow amounted to 504,830 million pesetas, reflecting a 8.5% increase for the year. This has therefore permitted the self-financing of the investment made.

In the parent company, Telefonica, cash-flow reached 491,440 million pesetas compared with a figure for non-financial investment (including both investments in fixed assets and intangible assets) of 381,507 million pesetas. This has placed Telefonica's self-financing ratio at 112.2% surpassing, for the first time in the Company's recent history, the 100% bench mark.

| BALANCE SHEETS 1989/1993 | | (IN MILLIONS OF PESETAS) | | | | |
|--|--|--------------------------|------------------|------------------|------------------|------------------|
| ITEMS | | 1989 | 1990 | 1991 | 1992 | 1993 |
| | | | | | | \$ (1) |
| FIXED ASSETS | | 2,518,894 | 2,977,228 | 3,303,059 | 3,365,365 | 3,343,388 |
| Capital increase expenses | | 3,251 | 2,170 | 1,219 | 359 | 162 |
| Net intangible assets | | 10,665 | 17,812 | 28,248 | 41,609 | 55,520 |
| Property, plant and equipment | | 3,985,031 | 4,575,823 | 5,016,908 | 5,306,956 | 5,489,734 |
| Depreciation of fixed assets | | (1,527,442) | (1,689,133) | (1,847,338) | (2,090,267) | (2,308,229) |
| Property plant and equipment-net | | 2,457,589 | 2,886,690 | 3,169,570 | 3,216,689 | 3,181,505 |
| Investments | | 47,389 | 70,556 | 104,022 | 106,708 | 106,201 |
| DEFERRED EXPENSES | | 59,451 | 66,213 | 75,004 | 203,486 | 224,113 |
| TAXES PAID IN ADVANCE | | | | | | 13,616 |
| CURRENT ASSETS | | 214,331 | 249,394 | 290,152 | 348,316 | 328,977 |
| Consumable inventories | | 8,320 | 8,161 | 5,319 | 5,019 | 3,832 |
| Accounts receivable | | 202,449 | 236,151 | 274,045 | 329,144 | 317,323 |
| Cash and banks | | 936 | 2,562 | 4,579 | 10,238 | 6,232 |
| Prepayments | | 2,626 | 2,520 | 6,209 | 3,915 | 1,590 |
| ASSETS = LIABILITIES AND SHAREHOLDERS' EQUITY | | 2,792,676 | 3,292,835 | 3,668,215 | 3,917,167 | 3,910,094 |
| SHAREHOLDERS' EQUITY (1) | | 1,267,925 | 1,294,504 | 1,324,368 | 1,376,751 | 1,397,712 |
| Paid in share capital | | 462,482 | 463,479 | 463,479 | 463,480 | 469,735 |
| Reserves | | 759,667 | 778,411 | 803,216 | 829,372 | 866,327 |
| Net income for the year | | 68,898 | 75,788 | 80,847 | 83,899 | 84,837 |
| Interim dividend | | (23,122) | (23,174) | (23,174) | — | (23,187) |
| DEFERRED INCOME (2) | | 25,147 | 40,193 | 60,785 | 58,723 | 54,765 |
| PROVISIONS FOR LIABILITIES AND CHARGES (3) | | 147,185 | 173,180 | 202,479 | 211,813 | 216,094 |
| DEFERRED TAXES (4) | | | 9,807 | 20,187 | 52,904 | 53,003 |
| LONG TERM DEBT (5) | | 826,234 | 1,008,254 | 1,387,343 | 1,593,504 | 1,529,151 |
| Debentures, bonds and promissory notes issued | | 279,827 | 383,732 | 589,011 | 696,811 | 685,614 |
| Debts with credit institutions | | 466,204 | 527,827 | 624,335 | 602,800 | 540,494 |
| Debts with group and associated companies | | — | 12,129 | 91,849 | 103,586 | 122,403 |
| Other creditors | | 80,203 | 84,566 | 82,148 | 190,307 | 180,640 |
| PERMANENT CAPITAL (1+2+3+4+5) | | 2,266,491 | 2,525,938 | 2,995,162 | 3,293,695 | 3,250,725 |
| SHORT TERM DEBT | | 526,185 | 766,897 | 673,053 | 623,472 | 659,369 |
| Debentures, bonds and promissory notes issued | | 160,478 | 347,656 | 185,496 | 130,225 | 167,267 |
| Debts with credit institutions | | 81,359 | 78,954 | 82,283 | 127,751 | 59,197 |
| Other creditors | | 264,217 | 318,595 | 385,179 | 344,799 | 416,078 |
| Prepayment | | 20,131 | 21,692 | 20,095 | 20,697 | 16,827 |
| UNUSED CREDIT FACILITIES | | 29,979 | 86,084 | 36,215 | 38,498 | 126,044 |
| | | | | | | 886.3 |

(1) Figures in millions of dollars. Exchange rate 30-12-93: 1\$ = 142.214 ptas.

FINANCIAL ACTIVITY AND INDEBTEDNESS. From an economic-financial viewpoint, 1993 marked a reversal in the trend registered in past years. The high investment needs of the installation programmes carried out since 1988, in order to cover the demand for telecommunications services in Spain, the elimination of the waiting list, the modernization of infrastructure and the boosting of the development of new services, obliged Telefonica to resort to the capital markets as the Company was unable to generate the funds necessary.

The high usage of external funding resulted in indebtedness rising to over a billion pesetas between 1988 and 1992 and a growth in the indebtedness ratio of around 20 percentage points.

Once these difficulties had been overcome, 1993 witnessed a radical change in the conditions that had characterized the previous period. The slowdown in investment needs and Telefonica's steady growth in capacity to generate funds have allowed the total self-financing of investment and a 96,000 million pesetas cut in indebtedness. The most significant feature of this change was that of the forming of solid bases which will allow Telefonica to confidently face the imminent period of change in which services will be liberalized, competition will grow and strategic agreements and alliances will be made with other operators. Thanks to this strengthened financial position Telefonica will be able to take on the expansion and modernization programmes necessary and at the same time continue its process of financial improvement initiated in 1993.

In 1993, in accordance with the statement of source and application of funds of Telefonica, those derived from operations rose to 594,310 million pesetas which compared with the 331,046 million pesetas registered in 1989 demonstrate the steady increase in the Company's capacity to generate resources over the past few years.

The funds applied to investment activities totalled 404,505 million pesetas, reflecting a 10% decrease when compared with 1992 which underlines the continued restraint on investment following the intense investment effort made over the 1989-1991 period.

In 1993, this strengthening of Telefonica's financial position was reflected in a 96,000 million peseta drop in financial indebtedness and, for the first time in recent years, a fall in indebtedness ratio.

CONSOLIDATED RESULTS-PROFIT MARGINS 1991/1993
(IN MILLIONS OF PESETAS)

| | 1991 | | 1992 | | 1993 | | Increase % over '92 | 1993 \$ (I) |
|---|----------------|-------------|----------------|-------------|----------------|-------------|------------------------|----------------|
| | Amount | % Struct | Amount | % Struct | Amount | % Struct | | |
| + Operating revenue | 1,048,998 | 100.0 | 1,208,938 | 100.0 | 1,297,437 | 100.0 | 7.3 | 9,123.1 |
| - Operating expenses | | | | | | | | |
| Personnel expenses | 391,516 | (37.3) | 429,626 | (35.6) | 448,402 | (34.6) | 4.4 | 3,153.0 |
| Taxes | 20,990 | (2.0) | 22,976 | (1.9) | 23,981 | (1.8) | 4.4 | 168.6 |
| External services | 140,410 | (13.4) | 161,186 | (13.3) | 168,519 | (13.0) | 4.5 | 1,185.0 |
| + Int. expend.capit.in fixed assets | 108,437 | 10.3 | 103,929 | 8.6 | 109,103 | 8.4 | 5.0 | 767.2 |
| = Operating margin | 604,519 | 57.6 | 699,079 | 57.8 | 765,638 | 59.0 | 9.5 | 5,383.7 |
| + Other operating revenue | 18,082 | 1.7 | 23,618 | 2.0 | 33,068 | 2.5 | 40.0 | 232.5 |
| - Depreciation of fixed assets | 293,903 | (28.0) | 343,179 | (28.4) | 374,259 | (28.8) | 9.1 | 2,631.7 |
| - Other operating expenses | 5,855 | (0.6) | 13,766 | (1.1) | 28,905 | (2.2) | 110.0 | 203.3 |
| - Other provisions and charges | 12,155 | (1.1) | 18,787 | (1.6) | 25,816 | (2.0) | 37.4 | 181.5 |
| = Operating profit | 310,688 | 29.6 | 346,965 | 28.7 | 369,726 | 28.5 | 6.6 | 2,599.7 |
| + Financial revenue | 6,333 | 0.6 | 4,318 | 0.3 | 7,837 | 0.6 | 81.5 | 55.1 |
| - Financial expenses | 191,809 | (18.3) | 202,300 | (16.7) | 208,757 | (16.1) | 3.2 | 1,467.9 |
| - Exchange losses | 6,094 | (0.6) | 12,439 | (1.0) | 25,936 | (2.0) | 108.5 | 182.4 |
| - Amort. of deferred charges | 3,991 | (0.4) | 5,810 | (0.5) | 4,954 | (0.4) | (14.7) | 34.8 |
| + Particip. in assoc. Comp. profits | 7,717 | 0.8 | 9,391 | 0.8 | 20,176 | 1.6 | 114.8 | 141.9 |
| - Amort. of goodwill on consol | 872 | (0.1) | 808 | (0.1) | 4,798 | (0.4) | 493.8 | 33.7 |
| = Profit from ordinary activ. | 121,972 | 11.6 | 139,317 | 11.5 | 153,294 | 11.8 | 10.0 | 1,077.9 |
| + Extraordinary revenue | 32,692 | 3.1 | 10,804 | 0.9 | 14,904 | 1.1 | 37.9 | 104.8 |
| - Extraordinary expenses | 24,373 | (2.3) | 53,201 | (4.4) | 41,405 | (3.2) | (22.2) | 291.2 |
| - Min. int. in earn. of consol. subsid. | 1,772 | (0.2) | 2,461 | (0.2) | 5,581 | (0.4) | 126.8 | 39.2 |
| = Income before tax | 128,519 | 12.2 | 94,459 | 7.8 | 121,212 | 9.3 | 28.3 | 852.3 |
| - Corporate tax | 24,272 | (2.3) | 13,698 | (1.1) | 24,845 | (1.9) | 81.4 | 174.7 |
| = Net income | 104,247 | 9.9 | 80,761 | 6.7 | 96,367 | 7.4 | 19.3 | 677.6 |
| + Net income | 104,247 | 9.9 | 80,761 | 6.7 | 96,367 | 7.4 | 19.3 | 677.6 |
| + Amort. of deferred charges | 3,991 | 0.4 | 5,810 | 0.5 | 4,954 | 0.4 | (14.7) | 34.8 |
| + Depreciation of fixed assets | 293,903 | 28.0 | 343,179 | 28.4 | 374,259 | 28.8 | 9.1 | 2,631.7 |
| + Dismant. plant pending deprec. | 25,477 | 2.5 | 35,355 | 2.9 | 29,250 | 2.3 | (17.3) | 205.7 |
| = Cash-flow | 427,618 | 40.8 | 465,105 | 38.5 | 504,830 | 38.9 | 8.5 | 3,549.8 |

(I) Figures in millions of dollars. Exchange rate 30-12-93: 1\$ = 142.214 ptas.

Annual
Accounts

Edificio Price Waterhouse
Paseo de la Castellana, 43
28046 Madrid

Juan Bravo, 3 b
28006-Madrid

Price Waterhouse



AUDIBERIA

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, 1993 and 1992 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. 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, 1993 and 1992, 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.
4. The accompanying Director's Report for 1993 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 1993. 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 accounting records.

Price Waterhouse Auditores, S.A.

ROAC Member nº. S0242

Augusto San Segundo

March 25, 1994

Audiberia
Osorio, Navarro y Cía, S.R.C.
ROAC Member nº. S0677

Alfonso Osorio Iturmendi

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

| In million pesetas | Parent Company | | Consolidated group | |
|--|-----------------------|------------------|---------------------------|------------------|
| ASSETS | 1993 | 1992 | 1993 | 1992 |
| A. SUBSCRIBED SHARES NOT PAID-IN (UNREQUESTED PAYMENTS) | - | - | - | 1 |
| B. LONG TERM ASSETS | 3 343 388 | 3 365 365 | 3 436 855 | 3 409 276 |
| I. Cost of new equity capital | 162 | 359 | 226 | 503 |
| II. Intangible assets (Note 5) | 55 520 | 41 609 | 63 207 | 50 778 |
| Research and development expenses | 50 454 | 36 500 | 48 812 | 36 415 |
| Finance leasing | - | - | 3 505 | 4 759 |
| Other intangible assets | 30 670 | 19 345 | 38 863 | 25 678 |
| Accumulated amortization | (25 604) | (14 236) | (27 973) | (16 074) |
| III. Fixed assets (Note 6) | 3 181 505 | 3 216 689 | 3 172 110 | 3 211 231 |
| Land and buildings | 438 189 | 403 197 | 441 443 | 406 830 |
| Technical installations and machinery | 116 795 | 111 478 | 129 800 | 122 393 |
| Telephone installations | 4 538 490 | 4 308 549 | 4 502 870 | 4 275 703 |
| Furniture, equipment and other | 113 059 | 103 854 | 127 986 | 114 406 |
| Construction in progress | 250 007 | 325 061 | 249 356 | 329 974 |
| Advance payments for fixed assets | 16 589 | 30 804 | 14 977 | 30 352 |
| Installation equipment | 16 605 | 24 013 | 16 605 | 24 013 |
| Accumulated depreciation | (2 308 229) | (2 090 267) | (2 310 927) | (2 092 440) |
| IV. Investments (Note 7) | 106 201 | 106 708 | 201 312 | 146 764 |
| Investments in group companies | 84 055 | 81 919 | - | - |
| Investments in associated companies | 11 578 | 11 676 | 151 679 | 82 352 |
| Other investments | 17 437 | 16 328 | 28 330 | 58 757 |
| Credits to group companies | 1 060 | 2 014 | - | - |
| Other credits | 795 | 1 200 | 22 057 | 3 560 |
| Long-term deposits and financial guarantees | 1 077 | 911 | 1 405 | 4 354 |
| Depreciation Reserve | (9 801) | (7 340) | (2 159) | (2 259) |
| C. GOODWILL ON CONSOLIDATION (Note 7.8) | - | - | 48 236 | 13 226 |
| D. DEFERRED EXPENSES (Note 8) | 224 113 | 203 486 | 225 589 | 205 811 |
| E. LONG TERM PREPAID TAXES (Note 10) | 13 616 | - | 14 109 | - |
| F. CURRENT ASSETS | 328 977 | 348 316 | 377 094 | 378 838 |
| I. Subscribed shares not paid-in | - | - | 22 | - |
| II. Inventories | 3 832 | 5 019 | 16 505 | 18 552 |
| Inventories | 3 832 | 5 019 | 17 074 | 19 576 |
| Advances | - | - | 400 | 193 |
| Provisions | - | - | (969) | (1 217) |
| III. Accounts receivable | 317 323 | 329 144 | 332 841 | 337 400 |
| Subscribers and customers (Note 11) | 288 378 | 273 452 | 308 964 | 293 739 |
| Group companies | 11 165 | 7 127 | - | - |
| Associated companies | 751 | 131 | 4 359 | 778 |
| Sundry accounts receivable | 38 001 | 45 080 | 43 970 | 42 080 |
| Personnel | 9 498 | 9 041 | 10 047 | 9 492 |
| Taxes receivable (Note 18) | 6 726 | 20 876 | 8 703 | 22 666 |
| Reserve for bad debts (Note 11) | (30 429) | (20 356) | (36 288) | (25 044) |
| Reserve for sundry accounts receivable | (6 767) | (6 207) | (6 914) | (6 311) |
| IV. Short term investments | 1 201 | 6 449 | 11 804 | 7 115 |
| Credits to group companies | 1 080 | - | - | 242 |
| Short-term securities portfolio | 121 | - | 11 167 | 2 768 |
| Other credits | - | 6 449 | 637 | 4 105 |
| V. Cash and banks | 5 031 | 3 789 | 7 996 | 5 909 |
| VI. Prepayments | 1 590 | 3 915 | 7 926 | 9 862 |
| TOTAL ASSETS (A+B+C+D+E+F) | 3 910 094 | 3 917 167 | 4 101 883 | 4 007 152 |

Balance sheets at December 31

| LIABILITIES AND SHAREHOLDERS' EQUITY | Parent Company | | Consolidated group | |
|---|-----------------------|------------------|---------------------------|------------------|
| | 1993 | 1992 | 1993 | 1992 |
| A. SHAREHOLDERS' EQUITY (Note 12) | 1 397 712 | 1 376 751 | 1 437 055 | 1 392 005 |
| I. Share premium | 469 735 | 463 480 | 469 735 | 463 480 |
| II. Share premium | 43 067 | 33 467 | 43 067 | 33 467 |
| III. Revaluation reserve | 653 780 | 653 780 | 649 316 | 649 316 |
| IV. Reserves | 169 394 | 142 004 | 201 671 | 164 860 |
| Legal reserve | 57 796 | 49 406 | 57 796 | 49 406 |
| Other reserves | 111 598 | 92 598 | 92 125 | 84 306 |
| Consolidation reserve | - | - | 20 653 | 14 112 |
| Differences on foreign currency translation for consolidation | - | - | 31 097 | 17 036 |
| V. Unappropriated profit | 86 | 121 | 86 | 121 |
| VI. Group profit and loss | 84 837 | 83 899 | 96 367 | 80 761 |
| Profit for year | 84 837 | 83 899 | 81 771 | 73 831 |
| Profit from associated companies | - | - | 20 177 | 9 391 |
| Profit attributed to outside shareholders | - | - | (5 581) | (2 461) |
| VII. Interim dividend | (23 187) | - | (23 187) | - |
| B. OUTSIDE SHAREHOLDERS' INTERESTS (Note 12.2) | - | - | 41 798 | 31 044 |
| C. DEFERRED INCOME (Note 13) | 54 765 | 58 723 | 55 326 | 58 732 |
| Capital grants | 49 860 | 46 983 | 49 860 | 46 983 |
| Deferred unrealized exchange gains (Note 9) | - | 8 861 | 44 | 8 870 |
| External contributions not repayable | 4 905 | 2 879 | 5 422 | 2 879 |
| D. PROVISIONS FOR RISKS AND EXPENSES (Note 14) | 216 094 | 211 813 | 231 775 | 215 796 |
| E. LONG TERM DEFERRED TAXES (Note 10) | 53 003 | 52 904 | 57 131 | 56 016 |
| F. LONG TERM CREDITORS | 1 529 151 | 1 593 504 | 1 569 568 | 1 610 878 |
| I. Debentures, bonds and other issues (Note 15) | 685 614 | 696 811 | 708 440 | 722 284 |
| Debentures and non-convertible bonds | 679 494 | 658 999 | 681 345 | 660 823 |
| Debentures and convertible bonds | - | 28 063 | 9 300 | 37 363 |
| Other negotiable documents issued | 6 120 | 9 749 | 17 795 | 24 098 |
| II. Debts with financial institutions (Note 16) | 540 494 | 602 800 | 681 881 | 690 728 |
| III. Debts with group and associated companies (Note 17) | 122 403 | 103 586 | - | 18 565 |
| IV. Other accounts payable | 180 040 | 178 656 | 179 161 | 178 975 |
| Other debts | 132 497 | 147 677 | 131 618 | 147 996 |
| Notes payable | 47 543 | 30 979 | 47 543 | 30 979 |
| V. Uncalled subscriptions on shares (Note 7) | 600 | 11 651 | 86 | 326 |
| Group companies | 600 | 11 351 | - | - |
| Associated companies | - | 300 | - | 300 |
| Other companies | - | - | 86 | 26 |
| G. SHORT TERM CREDITORS | 659 369 | 623 472 | 709 230 | 642 681 |
| I. Debentures, bonds and other issues (Note 15) | 167 267 | 130 225 | 167 271 | 122 991 |
| Debentures | 118 671 | 17 362 | 118 666 | 17 546 |
| Other negotiable documents issued | 32 631 | 96 759 | 32 631 | 89 327 |
| Interest on debentures and other negotiable documents | 15 965 | 16 104 | 15 974 | 16 118 |
| II. Debts with financial institutions (Note 16) | 59 197 | 127 751 | 87 815 | 153 818 |
| Loans and other debts | 47 426 | 115 574 | 74 717 | 140 694 |
| Interest due | 11 771 | 12 177 | 13 098 | 13 124 |
| III. Debts with group and associated companies (Note 17) | 41 459 | 68 265 | 19 358 | 25 626 |
| Group companies | 24 326 | 44 132 | - | - |
| Associated companies | 17 133 | 24 133 | 19 358 | 25 626 |
| IV. Trade creditors | 179 470 | 134 416 | 211 046 | 165 676 |
| Advance payments received on orders | - | - | 6 016 | 5 001 |
| Debts for purchases and services rendered | 118 059 | 93 717 | 140 403 | 117 670 |
| Notes payable | 61 411 | 40 699 | 64 627 | 43 005 |
| V. Other non-trade debts | 195 149 | 142 118 | 205 592 | 152 851 |
| Taxes payable (Note 18) | 71 516 | 41 237 | 75 372 | 45 297 |
| Other (Note 19) | 123 633 | 100 881 | 130 220 | 107 554 |
| VI. Accruals | 16 827 | 20 697 | 18 148 | 21 719 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (A+B+C+D+E+F+G) | 3 910 094 | 3 917 167 | 4 101 883 | 4 007 152 |

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

| In million pesetas | Parent Company | | Consolidated group | |
|---|-----------------------|----------------|---------------------------|----------------|
| DEBIT | 1993 | 1992 | 1993 | 1992 |
| EXPENSES | | | | |
| Reduction in inventories | - | - | 2 268 | 1 908 |
| Supplies | - | - | 63 067 | 58 395 |
| Other purchases | - | - | 33 210 | 31 227 |
| Purchases from other companies | - | - | 29 857 | 27 168 |
| Personnel costs (Note 23.2) | 408 103 | 392 736 | 448 402 | 429 626 |
| Depreciation and amortization | 372 401 | 341 903 | 374 259 | 343 179 |
| Tangible | 360 674 | 334 833 | 361 506 | 335 183 |
| Intangible | 11 368 | 6 210 | 12 260 | 6 820 |
| Expenses | 359 | 860 | 493 | 1 176 |
| Trade provisions | 24 115 | 16 769 | 25 816 | 18 787 |
| Variation in provision for doubtful accounts receivable | 22 077 | 15 855 | 22 432 | 16 353 |
| Variation in other provisions | 2 038 | 914 | 3 384 | 2 434 |
| Other operating expenses | 149 560 | 156 665 | 159 050 | 141 186 |
| Subsidiary companies external services | 21 755 | 33 646 | - | - |
| External services | 93 427 | 87 507 | 106 164 | 104 444 |
| Taxes | 23 871 | 22 260 | 23 981 | 22 976 |
| Other operating expenses | 10 507 | 13 252 | 28 905 | 13 766 |
| I. OPERATING PROFIT | 365 279 | 338 889 | 369 726 | 346 965 |
| Financial expenses with subsidiary companies | 8 816 | 9 598 | - | - |
| Financial expenses with associated companies | - | - | 38 | 12 |
| Other financial expenses | 194 308 | 189 963 | 208 694 | 202 286 |
| Amortization of costs of formalizing debts | 4 952 | 5 462 | 4 954 | 5 810 |
| Variation in provisions for investments | - | - | 25 | 2 |
| Losses on exchange (Note 9) | 27 243 | 12 411 | 28 631 | 12 802 |
| II FINANCIAL INCOME | | | | |
| Participation in losses of associated companies | - | - | 3 467 | 2 924 |
| Amortization of goodwill on consolidation | - | - | 4 798 | 808 |
| III. PROFIT FROM NORMAL OPERATIONS | 140 151 | 144 529 | 153 294 | 139 317 |
| Variation in investments provision for investments in group companies | 4 436 | 11 306 | 1 974 | 9 874 |
| Losses on fixed assets | 19 956 | 29 589 | 20 062 | 30 661 |
| Losses on disposal of investment in consolidated companies | - | - | 205 | 107 |
| Extraordinary expenses (Note 23.3) | 16 683 | 12 058 | 19 164 | 12 559 |
| IV. EXTRAORDINARY NET PROFIT | - | - | - | - |
| Profit attributed to the shareholders' interests | - | - | 5 620 | 2 554 |
| V. PROFIT BEFORE TAX | 107 468 | 99 724 | 121 212 | 94 459 |
| Corporate income tax (Note 22) | 22 631 | 15 825 | 24 845 | 13 698 |
| VI. NET PROFIT FOR YEAR | 84 837 | 83 899 | 96 367 | 80 761 |

Profit and loss accounts for years ended December 31, 1993 and 1992

| CREDIT | Parent Company | | Consolidated group | |
|--|-----------------------|----------------|---------------------------|----------------|
| | 1993 | 1992 | 1993 | 1992 |
| INCOME | | | | |
| Net sales to group companies (Note 23.1) | 17.256 | 8.638 | - | - |
| Net sales and services rendered (Note 23.1) | 1.202.828 | 1.146.058 | 1.297.437 | 1.208.938 |
| Increase in inventories | - | - | 2.980 | 3.561 |
| Work carried out by Company on own fixed assets | 75.742 | 68.920 | 109.103 | 103.929 |
| Other operating income | 23.632 | 23.346 | 33.068 | 23.618 |
| Sundry trade income | 23.479 | 22.852 | 32.620 | 22.738 |
| Grants | 153 | 494 | 318 | 726 |
| Excess provision for risk and expenses | - | - | 130 | 154 |
| I. OPERATING LOSS | | | | |
| Income from shareholdings | 6.717 | 20.587 | 1.456 | 1.084 |
| Group companies | 5.270 | 19.331 | - | - |
| Associated companies | 25 | 181 | 25 | - |
| Other companies | 1.422 | 1.075 | 1.431 | 1.084 |
| Income from other negotiable documents and credits | 3.474 | 2.487 | 6.381 | 3.234 |
| Group companies | 322 | 438 | - | - |
| Associated companies | - | - | 570 | - |
| Other companies | 3.152 | 2.049 | 5.811 | 3.234 |
| Gains on exchange | - | - | 2.695 | 363 |
| II.FINANCIAL LOSS | 225.128 | 194.360 | 231.810 | 216.231 |
| Participation in profit of companies consolidated by the equity method | - | - | 23.643 | 12.315 |
| III.LOSS ON NORMAL OPERATIONS | | | | |
| Profit on sales of fixed assets | 809 | 254 | 5.011 | 322 |
| Profit on sales of shareholdings in consolidated companies | - | - | - | 35 |
| Capital grants (Note 13) | 5.377 | 3.693 | 5.377 | 3.693 |
| Extraordinary income (Note 23.3) | 2.206 | 4.201 | 4.516 | 6.754 |
| IV.EXTRAORDINARY LOSS | 32.683 | 44.805 | 26.501 | 42.397 |
| Profit attributed to the shareholders' interests | - | - | 39 | 93 |
| V.LOSS BEFORE TAX | - | - | - | - |
| VI.NET LOSS FOR YEAR | - | - | - | - |

Annual accounts of Telefonica de España, S.A. and of Telefonica consolidated group for

NOTE I - OPERATIONS AND GENERAL INFORMATION

I.1 Parent company

a) Telefónica de España, S.A. (Telefónica or "the Company") is a commercial corporation which was incorporated in Madrid on April 19, 1924. Its main corporate purpose is to provide and operate all types of public and private telecommunication services, and to this purpose, is the State's licensee for the supply of certain public services, according to the Contract of Concession undersigned with the State's Administration on December 26, 1991.

b) Concession

In accordance with the New State Contract and the standing legislation in telecommunications, some of these services are rendered in a monopoly arrangement, while others are supplied by Telefónica in a regime of either free or restricted competition.

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

As the concessionaire of public services, and according to the aforementioned contract, Telefónica is submitted to regulated prices and to a tariff regime; the tariff regulations for services will allow the principle of universality for the supply of 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 Inversiones Hispano-Chilenas, B.V. (Holland); Telecartera, S.A.; Telefónica Servicios Avanzados de Información, S.A.; Telefónica Gestión de Sistemas, S.A.; Gestión y Operación de Redes, S.A.; Radiored Uno, S.A.; Radiored, S.A.; Radiored Barcelona, S.A.; Radiored Valencia, S.A.; Radiored Málaga-Costa del Sol, S.A. The group has disposed of the company Servicios Telefónicos Auditex, S.A., the associated companies Semiconductores, S.A. and Ecomfy, S.A. (previously Efecom, S.A.). Consolidates for the first time Casiopea, Re, S.A. and Telefónica Rumanía (Rumania) by the full consolidation method, and Venworld Telecom, C.A. by the equity consolidation method.

I.2 Subsidiary companies

Cabinas Telefónicas, S.A. (CABITEL), Plaza de Carlos Trías Beltrán, 7 - 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. - Inmenble Centre Europe n° 5 Pza. de la Gare L-1616 (Luxembourg)

Reinsurance.

At year end it has the following subsidiary:

- 12% in Seguros de Vida y Pensiones Antares, S.A.

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. Comandante Zorita, 4 - 28020 Madrid
- 50% in Cleon, S.A. - Property sales promotion. Pº Castellana, 83-85 - 6^a planta 28046 Madrid
- 5.8% in Barcelona Tecnología, S.A. - Capital risk company. Tuset, 8 - 6^a 1^o Izda. 08006 Barcelona
- 1.26% in Catalana D'Iniciatives, C.R., S.A. - Promotion of non-finance companies. Travessera de Gracia 56 - 08006 Barcelona.

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. 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. Avda. Manoteras, 12 - Madrid
- 100% in Central de Compras Papel, S.A. - Purchase of paper and graphic art material. Avda. Manoteras, 12 - Madrid
- 25% in Venturini, S.A. - Printing and graphic arts. C/ Industria, 17 Tres Cantos (Madrid)
- 5% in Euredit, S.C.E. - Publication European annual directories. Avda. Fredland 9, 75008 París (France)

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. Pedro Texeira, 8 - 28020 MADRID

Pension funds administration.

years ended December 31, 1993 and 1992

Maptel, S.A. C/ Orense, 11 - 28020 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.

At the year end it has the following associated company:

- 10% in Fonditel Entidad Gestora de Fondos de Pensiones, S.A.

Servicios de Teledistribución, S.A. (S.T. Hilo), Covarrubias, 1 - 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. C/ Nicolás Morales 9, 28019 Madrid

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 c/ Carlos Pellegrini 1163. Buenos Aires (Argentina)
- 50% in Sietel, S.A. - Telecommunications installations. c/ Mar-Iver 125 piso 12 Santiago de Chile (Chile)
- 50% in Sintel - Abengoa Servicios 2000 - Telecommunications installations c/Infante D. Carlos, 16 - 2ºD - Sevilla.
- 49% in Coltronic, S.A. - Telecommunications installations c/Completa 6, Edificio MILTON, 10-A - Málaga.
- 49% in Incosa - Telecommunications installations. Polígono de Pocomaco, parcela A-2 Nave I, - La Coruña.
- 44% in Inalca, S.A. - Telecommunications installations c/Ramón y Cajal s/nº la Cava Deltebre - Tarragona.
- 39% in Sistemas Avanzados de Control - Traffic control systems. C/ Estudio 3, Aravaca (Madrid)

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

Acquisition, holding and disposing of shares in other companies.

Telecomunicaciones Marinas, S.A. (TEMASA), Silva 1 - 4º 4 - 28013 MADRID

Sounding, laying and repairing underwater cables.

Telecartera, S.A. Beatriz de Bobadilla, 3 - 28040 Madrid

Acquisition, holding and disposing of shares in other companies.

At year end it has the following associated company:

- 33,33% in Sociedad General de Cablevisión, S.A. Organization activities in relation to cable television systems. Gral. Martínez Campos, 53 28010 Madrid.

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 Inversiones Hispano-Chilenas Holding, B.V. (Holland) - Holding Company
- 100% in Telefónica International, S.A. (LUXEMBOURG) - Holding company.
- 100% in Telefónica International Holding B.V. (HOI LAND) - 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.
- 54,93% Publiguías Chile, S.A. (Chile) Telephonic guide edition.
- 43,63% in Compañía de Teléfonos de Chile (CTC) - Basic telephone service operator in Chile.
- 28,83% in Cointel, S.A. (Argentina) - Holding company
- 25% in Sintelar, S.A. (Argentina) - Telecommunications installations.
- 20% in Entel Chile - Operator of long distance telephone services in Chile.
- 14,9% in Telecommunicaciones Ultramarinas de Puerto Rico - Telecommunications operator.
- 16% in VenWorld Telecom - Holding company.
- 15% in Contactel (Portugal) - Telecommunications Operator (Telepager).
- 19,39% in Telefónica Argentina, S.A. - Telecommunications operator in the southern region of Argentina.
- 5,38% in Infonet Services Corporation - Telecommunications operator.
- 5% in Telur, S.A. - Manufacture of telecommunications equipments.
- 2,92% in Geostar Corp - In bankruptcy.

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, 3 - 28020 MADRID

Systems engineering.

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

- 100% in Telefónica Sistemas de Satélites, S.A. Satellite's telecommunication services. Ramírez de Arellano, 19 - Madrid.
 - 100% in Telefónica Servicios Avanzados de Información, S.A. Ramírez de Arellano, 19 - Madrid.
 - 100% in Telefónica Gestión de Sistemas, S.A. Outsourcing of systems. Sor Angela de la Cruz, 3 - Madrid
 - 100% in Telefónica de Sistemas Ingeniería de Productos, S.A. Design of projects, development, installations and maintenance of Tesys equipment. Ramírez de Arellano, 19 - Madrid.
 - 99% in T.H.M. Control Integrado, S.A. Protection and control systems engineering. General Aranda, 40, 28010 Madrid.
- 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.
 - 90% in T.D.S. - Marketing Tesys equipment. 17993 Cowandruine, CA 92714 (USA)
 - 51% in Gestión de Operación de Redes, S.A. Network management including technical assistance, consulting and commercializing of products and formation. Sor Angela de la Cruz, 3 - Madrid.
 - 40% in Tissat, S.A. Systems engineering and added value services. Plaza de Tetuan, 11 - Valencia.
 - 24,9% in Telecom Vallés, S.A. Sale of equipment. San Sebastián, 164 - Tarrasa.
 - 20% in Excel-Data, Intelligent cards manufacturing. Concha Espina, 65 - Madrid.

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

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

TS - I Telefónica Servicios, S.A. Plaza de la Independencia, 6 - 28001 MADRID

Operation of added value services and mobile technology.

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

- 100% en Radiored Uno, S.A. Plaza de la Independencia, 6 - Madrid
- 100% en Radiored, S.A. Plaza de la Independencia, 6 - Madrid
- 100% en Radiored Barcelona, S.A. Plaza de la Independencia, 6 - Madrid
- 100% en Radiored Valencia, S.A. Plaza de la Independencia, 6 - Madrid
- 100% en Radiored Málaga-Costa del Sol, S.A. Plaza de la Independencia, 6 - Madrid
- 100% en Radiored Sevilla-Cádiz, S.A. Plaza de la Independencia, 6 - Madrid
- 100% en Radiored Santiago-La Coruña, S.A. Plaza de la Independencia, 6 - Madrid
- 100% en Radiored Bilbao, S.A. Plaza de la Independencia, 6 - Madrid
- 100% en Radiored Zaragoza, S.A. Plaza de la Independencia, 6 - Madrid
- 49% in Compañía Gestora de Servicio Mensatel, S.A. - Added value services. Manuel Tovar, 35, 28034 Madrid
- 9,6% in Videotex Information, S.A. - Marketing services. Manuel Tovar, 35, 28034 Madrid

Urbana Ibérica, S.A. Pº Castellana, 10-13 - 28046 MADRID

Promotional activities for residential property.

The subsidiary companies have been audited by the following firms:

| Subsidiary Companies | Auditors | Subsidiary Companies | Auditors |
|--|--|--|------------------|
| Antares | Price Waterhouse | Sintelar | Arthur Andersen |
| Cabitel | Arthur Andersen | T.H.M. | Arthur Andersen |
| Casiopea | Peat Marwick | T.S.-I | Arthur Andersen |
| Cetesa | Arthur Andersen | Taetel | Price Waterhouse |
| Cleón | Peat Marwick | Telefónica Gestión de Sistemas | Arthur Andersen |
| Comet | Peat Marwick | Telefónica North America | Peat Marwick |
| Estratel | Peat Marwick | Telefónica Chile, B.V. (Holanda) | Arthur Andersen |
| Fonditel | Audiberia | Telefónica Chile, S.A. (Chile) | Arthur Andersen |
| Gestired | Arthur Andersen | Telefónica Internacional | Arthur Andersen |
| Inversiones Hispano-Chilenas | | Telefónica Venezuela, B.V. (Holanda) | Arthur Andersen |
| Holding, B.V. (Holanda) | Arthur Andersen | Telefónica Romania (Rumania) | Arthur Andersen |
| Inversiones Hispano-Chilenas, S.A. (Chile) | Arthur Andersen | Telefónica Larga Distancia (P. Rico) | Arthur Andersen |
| Maptel | Peat Marwick | Telefónica Internacional Holding, B.V. (Holanda) | Arthur Andersen |
| Mensatel | Arthur Andersen | Telefónica Servicios Avanzados de Información | Arthur Andersen |
| Playa de Madrid | Peat Marwick | Telefónica Sistemas de Ingeniería de Productos | Arthur Andersen |
| Pléyade | Price Waterhouse | Telefónica Sistemas | Arthur Andersen |
| Promotora de mercados | Arthur Andersen | Telefónica International, S.A. (Luxemb.) | Arthur Andersen |
| Publiguías Chile, S.A. (Chile) | Arthur Andersen | Telefónica Sistemas de Satélites | Arthur Andersen |
| S.T.Hilo | Peat Marwick | Telfisa | Peat Marwick |
| Sietel | Chau, Tapia y Ortega, corresponsales de Moore Stephens | Telyco | Arthur Andersen |
| Sintel | Arthur Andersen | Temasa | Peat Marwick |
| | | Tidsa | Arthur Andersen |
| | | Urbana Ibérica | Peat Marwick |

I.3 Associated and participated companies

Amper, S.A. C/ María de Molina, 37bis - 28006 MADRID

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

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), Parque Tecnológico, 108 Zamudio (VIZCAYA)

Manufacture and marketing of mobile radio equipment for communications purposes.

Pabellón de Operadores Europeos de Telecomunicaciones, S.A. - (P.O.E.T.) C/ Beatriz de Bobadilla, 3 - 28040 Madrid

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

Sistemas Técnicos de Loterías del Estado, S.A. Manuel Tovar, 9 - 28034 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.

Sofres AM, S.A., Pza. Carlos Trías Bertrán, 7 - 28020 Madrid

Market research

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

Factoring company.

Torre Collserola, S.A. Ctra Vallvidrera-Tibidabo, s/n - 08017 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

Catalana Iniciatives, S.A. - Pº de Gracia, 2 - 08007 Barcelona

Promotion of non financial corporation.

Darsa Gaditana, S.A. Avda. Marconi 34 - 11011 Cádiz

Building of residence homes and premises

Promoció de Ciutat Vella, Rambles, 77 - 08002 Barcelona

Urban rehabilitation of the Ciutat Vella integrated rehabilitation area

Reto 2000, S.A. - Pza. San Vicente, 3 45001 Toledo

The making of a project for the suppression of the aerial telecommunication network in the historic centre of Toledo.

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, 1993 and 1992.

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, 1992 had been approved by the General Meeting of Shareholders on April 16, 1993.

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 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 comparison

Due to the fact that installation equipments are presented as fixed assets, the variation in provision for obsolescence of inventories which covers their devaluation, appears as extraordinary expenses in the paragraph "Variation in provisions for fixed assets". There has been an adaption of the amount of 1992, in which year this amount was shown in the paragraph "Variation in provisions for current assets".

c) 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 | | 84 837 |
| Surplus | | 86 |
| Total available for distribution | | 84 923 |

DISTRIBUTION

| | |
|---|---------------|
| Interim dividend of 5% for each of the shares numbered 1 to 927,496,319 payable as from February 17, 1994 | 23 187 |
| Complementary dividend of 7.4% for each of the shares numbered 1 to 939,470,820, pending approval | 34 761 |
| Dividend | 57 948 |
| Legal reserve | 8 484 |
| Final dividend and voluntary reserve | 18 400 |
| Surplus | 91 |
| Total proposed distribution | 84 923 |

INTERIM DIVIDEND

The Board of Directors, on December 22, 1993, and in accordance with the financial information made available to them, agreed, as article 216 of the Corporations outstanding, the distribution of a 1993 interim gross dividend of 25 Ptas for each of the outstanding shares, numbered 1 to 927,496,319, from which the applicable tax will be withheld.

Budget status - Annual liquidity Budget

| | |
|--|---------------|
| Anticipated cash receipts for the period 1/1/94 to 31/12/94 | 1 674 273 |
| Anticipated payments for the period 1/1/94 to 31/12/94 | 1 606 629 |
| Accounting to justify an interim dividend distribution (forecast at January 27, 1993). | |
| Profit January 1, 1993 to November 30, 1993 | 79 999 |
| Surplus 1992 | 86 |
| Previous' years losses | - |
| Compulsory reserves provision | (8 000) |
| Distributable profit | 72 085 |
| Proposed interim dividend | 23 187 |
| Financial position (Forecast at January 27, 1993) | |
| Funds available for distribution | |
| Cash and banks | 5 521 |
| Short term investments | 29 845 |
| Available credits | 106 621 |
| Proposed interim dividend | (23 187) |
| Difference | 118 800 |

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 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, 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 - 18 | 13 - 18 |
| Exchange equipment | 10 - 20 | 10 - 20 |
| Transmission equipment | 5 - 15 | 5 - 15 |
| Local and domestic long distance networks | 8 - 25 | 8 - 25 |
| 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.

In 1993 new technical studies of the useful lives have been made to adequate the amortization to the estimated depreciation of the fixed assets. These new studies are in line with the sector's fiscal percentages and have resulted in an increase of the depreciation charge for 1993 of 8,645 million pesetas. In these cases in which the useful life is under fiscal percentages, a special amortization plan has been obtained from the Inland Revenue.

d) Long term investments - net shareholdings in 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.j).
- d) 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.
- e) 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).
- f) Deferred expenses for the amortization of the deficit of current employees at 1992: according to the rebalancing plan at December 31, 1992, the difference between the contribution amount for the pension plan and the amount debited in the profit and loss account to amortize the deficit for current employees of 1992 in 28 years was included in this paragraph. With the actual rebalancing plan, this provision is considered unnecessary, having cancelled the total amount of this provision of December 1992 (See note 20).

f) Inventories:

Inventories and stocks are valued at their weighted average cost. 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.
- In all cases, Telefónica Group companies fulfill all the requirements to receive the grants.

h) Retirement pensions and collective endowment insurance

The retirement pensions of Telefónica's personnel are cared for by the Social Security.

In accordance with the statutory collective agreement, retired personnel at June 30, 1992, receive a non revaluable pension complement chargeable to Telefónica as detailed in note 20.

Until June 30, 1993 current personnel had the chance to enlist the Pension Plan unfolded through the offer of June 30, 1992, ratified by the employees on September 17, 1992, contained in the statutory collective agreement with the workers representatives. The description of the commitments assumed and the accounting principles applied are explained in note 20.

According to the terms of the agreement, personnel who have not joined the Pension Plan at June 30, 1993 can remain on the Collective Endowment Insurance. For this consideration, charges are made based on a percentage of the regulatory salary indexes, calculated in accordance actuarial studies (Note 21).

i) Corporate income tax

Corporate income tax is charged against the corresponding year. The timing differences between the amount to be paid and the total charged on the profit and loss account are considered prepaid or deferred taxes according to their nature.

j) Valuation of foreign currency accounts

In accordance with the Third Transitory Disposition of Royal Decree 1643/90 of December 20, unrealized foreign 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.

As a result of the coming into effect of the Order of the Ministry of Economy and Resources dated March 12th 1993 concerning the accounting treatment of currency exchange differences for regulated companies (BOE number 64; March 16th 1993) there has been a change in the treatment of exchange differences losses have been linearly 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 corresponding to future years, will be included as "deferred expenses" and linearly distributed to maturity.

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

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

k) Income and expenses

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

However, according to the prudence concept, 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, 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. 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 adjustments 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 treated 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 consolidation 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 at December 31, 1993.

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 consolidated annual accounts do not include the fiscal effect of the incorporation of the foreign subsidiaries reserves to the parent company consolidated financial statements, due to the fact that reserves have not been transferred and will not be distributed at the end of the period, and will be used as a financing source of the foreign subsidiaries to reduce their endowment.

i) 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 | Licences for indef. use of software | Other intangible assets | Total | Research and development expenses | Leasing | Licences for indef. use of software | Other intangible assets | Total |
| 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 |
| Additions 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 |
| Additions | 13 954 | 10 645 | 680 | 25 279 | 12 398 | 41 | 11 920 | 1 167 | 24 896 |
| Reductions | - | - | - | - | - | 8 | 72 | 35 | 116 |
| Transfers | - | - | - | - | - | (1 140) | - | - | (1 140) |
| Disposal of Audiotex | - | - | - | - | - | 147 | - | - | 148 |
| Exchange rate variation and others | - | - | - | - | - | - | - | 836 | 836 |
| Balances at December 31, 1993 | 50 454 | 27 583 | 3 087 | 81 124 | 48 812 | 3 505 | 29 177 | 9 686 | 91 180 |

The movement on amortization is as follows:

| | PARENT COMPANY | | | | CONSOLIDATED | | | | |
|------------------------------------|-----------------------------------|-------------------------------------|-------------------------|---------------|-----------------------------------|--------------|-------------------------------------|-------------------------|---------------|
| | Research and development expenses | Licences for indef. use of software | Other intangible assets | Total | Research and development expenses | Leasing | Licences for indef. use of software | Other intangible assets | Total |
| 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 |
| Transfers | - | - | - | - | - | (278) | - | - | (278) |
| Balance at December 31, 1992 | 4 673 | 8 582 | 981 | 14 236 | 5 139 | 503 | 9 050 | 1 382 | 16 074 |
| Additions | 5 116 | 6 129 | 123 | 11 368 | 4 867 | 221 | 6 376 | 796 | 12 260 |
| Reductions | - | - | - | - | - | 5 | 9 | - | 14 |
| Transfers | - | - | - | - | (15) | (416) | 15 | - | (416) |
| Disposal of Audiotex | - | - | - | - | - | - | - | 12 | 12 |
| Exchange rate variation and others | - | - | - | - | (214) | - | - | 295 | 81 |
| Balances at December 31, 1993 | 9 789 | 14 711 | 1 104 | 25 604 | 9 777 | 303 | 15 432 | 2 461 | 27 973 |
| Net intangible assets | 40 665 | 12 872 | 1 983 | 55 520 | 39 035 | 3 202 | 13 745 | 7 225 | 63 207 |

NOTE 6 - TANGIBLE ASSETS

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

| | PARENT COMPANY | | | | | | |
|--|---------------------|----------------|----------------|---------------------|----------------|----------------|---------------------|
| | Balance at 12.31.91 | Additions | Reductions | Balance at 12.31.92 | Additions | Reductions | Balance at 12.31.93 |
| Land and buildings | 349 255 | 54 078 | 136 | 403 197 | 35 289 | 297 | 438 189 |
| Technical installations and machinery | 102 156 | 11 424 | 2 102 | 111 478 | 8 895 | 3 578 | 116 795 |
| Exchange equipment | 1 349 879 | 134 740 | 35 996 | 1 448 623 | 86 828 | 50 971 | 1 484 480 |
| Transmission equipment | 638 032 | 97 133 | 7 008 | 728 157 | 82 424 | 14 742 | 795 839 |
| Local and domestic long distance networks | 1 727 291 | 197 088 | 64 643 | 1 859 736 | 186 907 | 71 341 | 1 975 302 |
| Subscriber equipment and other installations | 253 922 | 35 667 | 17 556 | 272 033 | 42 502 | 31 666 | 282 869 |
| Furniture, office and other equipment | 88 554 | 15 359 | 59 | 103 854 | 9 667 | 462 | 113 059 |
| Total fixed assets in service | 4 509 089 | 545 489 | 127 500 | 4 927 078 | 452 512 | 173 057 | 5 206 533 |
| Net movement on: | | | | | | | |
| Construction in progress | 449 774 | (122 441) | 2 272 | 325 061 | (74 661) | 393 | 250 007 |
| Advances to suppliers of fixed assets | 13 154 | 17 650 | - | 30 804 | (14 215) | - | 16 589 |
| Stock Installation equipment | 44 891 | (20 878) | - | 24 013 | (7 408) | - | 16 605 |
| Total fixed assets | 5 016 908 | 419 820 | 129 772 | 5 306 956 | 356 228 | 173 450 | 5 489 734 |

The movement on accumulated depreciation is as follows:

| | PARENT COMPANY | | | | | | |
|--|---------------------|----------------|---------------|---------------------|----------------|----------------|---------------------|
| | Balance at 12.31.91 | Additions | Reductions | Balance at 12.31.92 | Additions | Reductions | Balance at 12.31.93 |
| Buildings | 74 504 | 8 204 | 76 | 82 632 | 9 393 | 21 | 92 004 |
| Technical installations and machinery | 44 174 | 7 489 | 1 474 | 50 189 | 7 607 | 2 738 | 55 058 |
| Exchange equipment | 592 633 | 102 311 | 16 764 | 678 180 | 125 999 | 40 464 | 763 715 |
| Transmission equipment | 262 163 | 46 459 | 4 857 | 303 765 | 54 964 | 8 841 | 349 888 |
| Local and domestic long distance network | 672 792 | 117 645 | 51 828 | 738 609 | 116 759 | 60 157 | 795 211 |
| Subscriber sets and other related installation | 166 667 | 39 437 | 16 870 | 189 234 | 30 861 | 30 129 | 189 966 |
| Furniture, office and other equipment | 34 405 | 13 288 | 35 | 47 658 | 15 091 | 362 | 62 387 |
| Total accumulated depreciation | 1 847 338 | 334 833 | 91 904 | 2 090 267 | 360 674 | 142 712 | 2 308 229 |
| Total net fixed assets | 3 169 570 | 84 987 | 37 868 | 3 216 689 | (4 446) | 30 738 | 3 181 505 |

CONSOLIDATED

| | Balance at 12.31.91 | Additions | Reductions | Balance at 12.31.92 | Additions | Reductions | Balance at 12.31.93 |
|--|------------------------|----------------|----------------|------------------------|----------------|----------------|------------------------|
| Land and buildings | 353 754 | 53 896 | 820 | 406 830 | 35 947 | 1 334 | 441 443 |
| Technical installations and machinery | 110 614 | 14 909 | 3 130 | 122 393 | 11 339 | 3 932 | 129 800 |
| Exchange equipment | 1 337 786 | 134 770 | 35 996 | 1 436 560 | 85 823 | 50 979 | 1 471 404 |
| Transmission equipment | 632 184 | 96 912 | 7 008 | 722 088 | 82 127 | 14 750 | 789 465 |
| Local and domestic long distance networks | 1 711 457 | 197 433 | 64 643 | 1 844 247 | 185 410 | 71 326 | 1 958 331 |
| Subscriber equipment and other installations | 251 647 | 38 717 | 17 556 | 272 808 | 42 612 | 31 750 | 283 670 |
| Furniture, office and other equipment | 98 400 | 16 937 | 931 | 114 406 | 15 124 | 1 544 | 127 986 |
| Total fixed assets in service | 4 495 842 | 553 574 | 130 084 | 4 919 332 | 458 382 | 175 615 | 5 202 099 |
| Net movement on: | | | | | | | |
| Construction in progress | 446 829 | (114 361) | 2 494 | 329 974 | (80 219) | 399 | 249 356 |
| Advances to suppliers of fixed assets | 13 275 | 17 198 | 121 | 30 352 | (15 375) | - | 14 997 |
| Stock Installations equipment | 46 498 | (22 485) | - | 24 013 | (7 408) | - | 16 605 |
| Total fixed assets | 5 002 444 | 433 926 | 132 699 | 5 303 671 | 355 380 | 176 014 | 5 483 037 |

The movement on accumulated depreciation is as follows:

| | Balance at 12.31.91 | Additions | Reductions | Balance at 12.31.92 | Additions | Reductions | Balance at 12.31.93 |
|--|------------------------|----------------|---------------|------------------------|----------------|----------------|------------------------|
| Buildings | 75 131 | 8 348 | 83 | 83 396 | 9 614 | 110 | 92 900 |
| Technical installations and machinery | 46 109 | 8 178 | 1 780 | 52 507 | 8 645 | 2 885 | 58 267 |
| Exchange equipment | 590 724 | 101 243 | 15 557 | 676 410 | 125 002 | 40 464 | 760 948 |
| Transmission equipment | 261 142 | 45 981 | 4 098 | 303 025 | 54 564 | 8 841 | 348 748 |
| Local and domestic long distance network | 670 026 | 116 865 | 52 247 | 734 644 | 115 830 | 60 157 | 790 317 |
| Subscriber sets and other related installation | 165 596 | 39 140 | 17 384 | 187 352 | 30 945 | 30 236 | 188 061 |
| Furniture, office and other equipment | 40 201 | 15 682 | 777 | 55 106 | 17 480 | 894 | 71 686 |
| Total accumulated depreciation | 1 848 929 | 335 437 | 91 926 | 2 092 440 | 362 080 | 143 587 | 2 310 927 |
| Total net fixed assets | 3 153 515 | 98 489 | 40 773 | 3 211 231 | (6 700) | 32 421 | 3 172 110 |

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

| | PARENT COMPANY | | CONSOLIDATED | |
|---|----------------|----------------|----------------|----------------|
| | 1993 | 1992 | 1993 | 1992 |
| Land and buildings | | | | |
| Technical installations and machinery | 15 771 | 5 304 | 16 698 | 5 304 |
| Exchange equipment | 105 558 | 74 200 | 105 558 | 74 200 |
| Transmission equipment | 145 098 | 121 161 | 145 098 | 121 161 |
| Local and domestic long distance networks | 94 600 | 48 234 | 94 600 | 48 234 |
| Subscriber and other installations | 97 163 | 86 071 | 97 163 | 86 071 |
| Furniture, office and other equipment | 15 578 | 9 676 | 19 104 | 11 939 |
| Totals | 473 768 | 344 646 | 478 221 | 346 909 |

6.3 The investment budget for 1994 amounts to 484,651 million pesetas (476,416 in Telefónica) of which 437,015 million pesetas (430,594 in Telefónica) will be invested in tangible assets 37,636 million pesetas (35,822 in Telefónica) in intangible assets and the remainder largely in investments in companies. The continued and long-term nature of Telefónica's investments indicates that a part of this budget is related to the completion of projects initiated in previous years.

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

6.5 At December 31, 1993 there were assets totalling 6,985 million pesetas regulated 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.

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

6.7 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 | Accum. deprec. | Fixed assets | Accum. deprec. | Fixed assets | Accum. deprec. | Fixed assets | Accum. Revaluation deprec. reserve |
| 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 44,959 million (Ptas 45,671 million in 1992).

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

6.9 Inventories are shown net of reserve for obsolescence. The total reserve in Telefónica amounts to 6,669 million pesetas (7,844 million pesetas in 1992). The charge to the reserve in 1993 based on estimates made, was 1,906 million pesetas (9,357 million pesetas in 1992).

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 12.31.91 | Additions | Reductions | Transfers | Balance at 12.31.92 | Additions | Reductions | Transfers | Balance at 12.31.93 | | | | | | | |
| Investments in Group companies | 81 382 | 1 034 | 183 | (314) | 81 919 | 2 476 | 340 | - | 84 055 | | | | | | | |
| Investments in associated companies | 14 405 | 2 163 | - | (4 892) | 11 676 | 383 | 481 | - | 11 578 | | | | | | | |
| Other investments | 11 211 | 2 811 | 2 900 | 5 206 | 16 328 | 7 828 | 6 719 | - | 17 437 | | | | | | | |
| Loans to Group Companies | - | 2 014 | - | - | 2 014 | 20 | 974 | - | 1 060 | | | | | | | |
| Loans to employees | 1 642 | 179 | 621 | - | 1 200 | 112 | 517 | - | 795 | | | | | | | |
| Guarantees and deposits | 774 | 261 | 124 | - | 911 | 464 | 298 | - | 1 077 | | | | | | | |
| Total | 109 414 | 8 462 | 3 828 | - | 114 048 | 11 283 | 9 329 | - | 116 002 | | | | | | | |
| b) Movement on reserve for depreciation | | | | | | | | | | | | | | | | |
| | Balance at 12.31.91 | Additions | Reductions | Transfers | Balance at 12.31.92 | Additions | Reductions | Transfers | Balance at 12.31.93 | | | | | | | |
| Investments in Group companies | 4 490 | 33 | 685 | (27) | 3 811 | 378 | 783 | - | 3 406 | | | | | | | |
| Investments in associated companies | 266 | 2 169 | 102 | 27 | 2 360 | 2 990 | 191 | - | 5 159 | | | | | | | |
| Other investments | 636 | 533 | - | - | 1 169 | 78 | 11 | - | 1 236 | | | | | | | |
| Total | 5 392 | 2 735 | 787 | - | 7 340 | 3 446 | 985 | - | 9 801 | | | | | | | |
| c) Movement on payments pending on shares | | | | | | | | | | | | | | | | |
| | Balance at 12.31.91 | Additions | Reductions | Transfers | Balance at 12.31.92 | Additions | Reductions | Transfers | Balance at 12.31.93 | | | | | | | |
| Investments in Group companies | 27 252 | 114 | 16 015 | - | 11 351 | - | 10 751 | - | 600 | | | | | | | |
| Investments in associated companies | 1 490 | 300 | 1 490 | - | 300 | - | 300 | - | - | | | | | | | |
| Total | 28 742 | 414 | 17 505 | - | 11 651 | - | 11 051 | - | 600 | | | | | | | |
| Total Investments | 75 280 | 5 313 | (14 464) | - | 95 057 | 7 837 | (2 707) | - | 105 601 | | | | | | | |
| | CONSOLIDATED | | | | | | | | | | | | | | | |
| a) Movement on investments: | | | | | | | | | | | | | | | | |
| | Balance at 12.31.91 | Additions | Reductions | Transfers | Balance at 12.31.92 | Additions | Reductions | Transfers | Balance at 12.31.93 | | | | | | | |
| Investments in associated companies | 61 516 | 752 | 54 | 20 138 | 82 352 | 72 242 | 12 133 | 9 218 | 151 679 | | | | | | | |
| Other investments | 51 791 | 6 999 | 3 435 | 3 402 | 58 757 | 11 408 | 6 885 | (34 950) | 28 330 | | | | | | | |
| Other loans | 2 315 | 1 388 | 1 047 | 904 | 3 560 | 19 449 | 940 | (12) | 22 057 | | | | | | | |
| Guarantees and deposits | 1 456 | 327 | 153 | (276) | 4 354 | 527 | 3 475 | (1) | 1 405 | | | | | | | |
| Total | 120 078 | 9 466 | 4 689 | 24 168 | 149 023 | 103 626 | 23 433 | (25 745) | 203 471 | | | | | | | |
| b) Movement on reserve for depreciation | | | | | | | | | | | | | | | | |
| | Balance at 12.31.91 | Additions | Reductions | Transfers | Balance at 12.31.92 | Additions | Reductions | Transfers | Balance at 12.31.93 | | | | | | | |
| Other investments | 1 597 | 574 | 71 | 159 | 2 259 | 222 | 239 | (83) | 2 159 | | | | | | | |
| Total | 1 597 | 574 | 71 | 159 | 2 259 | 222 | 239 | (83) | 2 159 | | | | | | | |
| c) Movement on payments pending on shares | | | | | | | | | | | | | | | | |
| | Balance at 12.31.91 | Additions | Reductions | Transfers | Balance at 12.31.92 | Additions | Reductions | Transfers | Balance at 12.31.93 | | | | | | | |
| Investments in associated companies | 1 490 | 300 | 1 490 | - | 300 | - | 300 | - | - | | | | | | | |
| Other investments | 33 | - | 7 | 26 | 60 | 60 | - | - | 86 | | | | | | | |
| Total | 1 523 | 300 | 1 497 | 326 | 60 | 300 | 60 | - | 86 | | | | | | | |

7.2 Details of subsidiary and associated companies and other shareholdings

| | (In million of pesetas) | SHARE CAPITAL | PERCENTAGE OF DIRECT PARTICIPATION | | NET BOOK VALUE IN TELEFONICA | |
|--|-------------------------|---------------|--|-------|------------------------------------|---------------|
| | | | 1993 | 1992 | 1993 | 1992 |
| Subsidiary companies | | | | | | |
| Cabinas Telefónicas, S.A. (CABITEL) <u>Plaza de Carlos III, 7 (MADRID) - 28020</u> | (**) (*) | 200 | 200 | 100 | 100 | 201 200 |
| Casiopea Reaseguradora, S.A. <u>Inmueble "Centre Europe", 5 Pza. de la Gare L-1616 (LUXEMBURGO)</u> | | 574 | 498 | 100 | 100 | 198 498 |
| Compañía Española de Tecnología, S.A. (COMET) <u>Paseo de la Castellana, 83-85 (MADRID) - 28046</u> | (**) (*) | 469 | 469 | 100 | 100 | 365 435 |
| Compañía Gestora del Servicio Mensatel, S.A. <u>Manuel Tovar, 35 (MADRID) - 28034</u> | (*) | 600 | 10 | 51 | 51 | 306 4 |
| Compañía Publicitaria de Exclusivas Telefónicas, S.A. (CETESA) <u>Avenida de Manoteras, 12 (MADRID) - 28050</u> | (**) (*) | 434 | 434 | 100 | 97.33 | 776 696 |
| Estrategias Telefónicas, S.A. (ESTRATEGI) <u>Príncipe de Vergara, 110 (MADRID) - 28002</u> | (**) (*) | 230 | 150 | 100 | 100 | 220 140 |
| Fonditel Entidad Gestora de Fondos de Pensiones, S.A. <u>Pedro Texeira, 8 (MADRID) - 28020</u> | | 700 | 100 | 90 | 75 | 613 75 |
| Maptel, S.A. <u>Orense, 11 (MADRID) - 28020</u> | | 150 | 150 | 76 | 76 | 163 220 |
| 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> | (**) | 1 500 | 1 320 | 88 | 100 | 720 720 |
| Servicios de Teledistribución, S.A. (S.T. HILO) <u>Covarrubias, 1 (MADRID) - 28010</u> | (**) (*) | 210 | 210 | 100 | 99.17 | 297 293 |
| Sistemas e Instalaciones de Telecomunicación, S.A. (SINTEL) <u>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 |
| Telecartera, S.A. <u>Beatriz de Bobadilla, 3 (MADRID) - 28040</u> | | 60 | 0 | 80 | 0 | 20 0 |
| 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. (TEFI FISA) <u>Paseo de la Castellana, 151 (MADRID) - 28046</u> | (**) (*) | 500 | 500 | 100 | 100 | 614 472 |
| Telefónica Internacional de España, S.A. <u>Jorge Manrique, 12 (MADRID) - 28006</u> | | 79 900 | 79 900 | 76.22 | 76.22 | 60 904 50 227 |
| 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> | (**) (*) | 1 403 | 534 | 100 | 100 | 2 366 1 352 |
| Teleinformática y Comunicaciones, S.A. (TELYCO) <u>Raimundo Fdez. Villaverde, 28 (MADRID) - 28003</u> | (**) (*) | 575 | 50 | 100 | 100 | 368 50 |
| THM, Control Electrónico Integrado, S.A. <u>General Arrando, 40-B (MADRID) - 28010</u> | (**) (*) | 0 | 420 | 0 | 99 | 0 253 |
| T.S.-I, Telefónica Servicios Móviles, S.A. <u>Plaza de la Independencia, 6 (MADRID) - 28001</u> | (**) (*) | 940 | 940 | 100 | 100 | 1 578 1 082 |
| Urbana Ibérica, S.A. <u>Paseo de la Castellana, 151 (MADRID) - 28046</u> | | 264 | 264 | 100 | 100 | 14 14 |
| Total subsidiary companies | | | | | 80 049 | 66 757 |

(*) Companies included in the consolidated corporate income tax return for the year 1993

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

| NET EQUITY ASSIGNED IN BALANCE SHEET | PROFIT (LOSS) ASSIGNED IN P/L ACCOUNT | | OPERATIONS | |
|--|--|---------|------------|---|
| | 1993 | 1992 | 1993 | 1992 |
| 1 506 | 1 540 | 466 | 604 | Marketing, installation, management and operation of public telephones. Operating the foregoing for advertising purposes. |
| 574 | 7 038 | 0 | 0 | Reinsurance. |
| 365 | 435 | (69) | (34) | Activities relating to added value services projects. |
| 328 | 4 | 24 | (2) | Publishing guides, and advertising on all types of support equipment. |
| 4 652 | 4 193 | 2 345 | 2 559 | Market research to measure audience and opinion. |
| 342 | 315 | (52) | 43 | Promotion, marketing and market research relating to direct marketing. |
| 607 | 76 | (24) | 1 | Pensions Funds Administration.. |
| (3) | 77 | (80) | (47) | Data processing consulting and digital cartography. |
| 161 | 189 | (28) | 3 | Distribution of all types of articles operation of sporting and hostelry. |
| 159 | 104 | 107 | 81 | Distribution, promotion and production of insurance contracts, operating as a broker. |
| 218 | 1 093 | 70 | 101 | Life insurance and pensions. |
| 656 | 565 | 85 | 108 | Supplying music line services and installation and maintenance of equipment. |
| 5 181 | 7 426 | (2 272) | 344 | Installation of cable laying equipment in the telecommunications field. |
| 5 656 | 7 653 | 703 | 1 950 | Acquisition, holding and disposition of shares in other companies. |
| 20 | 0 | (28) | 0 | Holding of shares. |
| 3 245 | 2 769 | 475 | 359 | Surveying, laying and repairing underwater cables. |
| 614 | 472 | 142 | 38 | Treasury and financial advisory support services to Group companies. |
| 119 521 | 79 061 | 16 469 | 7 175 | Investment in foreign telecommunications. |
| 2 329 | 1 925 | 404 | 362 | Research and development. |
| 1 | 1 | 0 | 0 | Financial intermediary. |
| 3 091 | 1 351 | 839 | 289 | Systems engineering. |
| 352 | 267 | (440) | (896) | Promotion, marketing and distribution of telephonic and telematic equipment and services. |
| 0 | 894 | 0 | 244 | Protection and control systems engineering. |
| 1 543 | 1 082 | 461 | 614 | Operation of added value services. Managing and commercializing mobiline. |
| 207 | 199 | 8 | 10 | Promotional activities for residential property. |
| 152 325 | 118 729 | | | |

| | SHARE CAPITAL | | PERCENTAGE OF DIRECT PARTICIPATION | | NET BOOK VALUE IN TELEFONICA | |
|---|---------------|--------|--|-------|------------------------------------|---------------|
| (In million of pesetas) | 1993 | 1992 | 1993 | 1992 | 1993 | 1992 |
| Associated companies | | | | | | |
| Amper, S.A. María de Molina, 37 bís (MADRID) - 28006 | 6 977 | 6 977 | 15.35 | 15.35 | 113 | 1 277 |
| Sofres, Audiencia de Medios, S.A. Plaza Carlos Trías Bertrán, 7 (MADRID) 28020 | 580 | 400 | 40 | 40 | 139 | 149 |
| Efecom, S.A. Ríos Rosas, 44 A (MADRID) - 28003 | 0 | 350 | 0 | 20 | 0 | 21 |
| Eritel, S.A. Paseo de la Castellana, 141 (MADRID) - 28046 | 993 | 993 | 36.56 | 36.57 | 0 | 659 |
| Hispasat, S.A. Gobelás, 41-45 planta 2º La Florida (MADRID) - 28023 | 20 000 | 20 000 | 25 | 25 | 4 052 | 5 000 |
| Industria Electrónica de Comunicaciones, S.A. (INDEFLEC) Parque Tecnológico, 108 Zamudio (VIZCAYA) - 48016 | 1 400 | 600 | 30 | 30 | 238 | 110 |
| Pabellón de Operadores Europeos de Telecomunicaciones, S.A. Beatriz de Bobadilla, 3 (MADRID) - 28040 | 520 | 520 | 38.46 | 38.46 | 1 | 7 |
| Sistemas Técnicos de Loterías del Estado, S.A. Manuel Tovar, 9 (MADRID) - 28034 | 2 000 | 2 000 | 31.75 | 31.75 | 635 | 635 |
| Sociedad General de Cablevisión, S.A. General Martínez Campos, 53 (MADRID) - 28010 | 0 | 60 | 0 | 33.33 | 0 | 20 |
| Telefónica, Fiat Factoring, S.A., Entidad de Financiación Paseo de la Castellana, 83-85 (MADRID) - 28046 | 800 | 800 | 50 | 50 | 415 | 293 |
| Torre de Collserola, S.A. Ctra. Vallvidrera-Tibidabo, s/n (BARCELONA) - 08017 | 2 000 | 2 000 | 42 | 42 | 826 | 845 |
| Total associated companies | | | | | 6 419 | 9 016 |
| Shareholdings | | | | | | |
| Agencia Efe, S.A. Espronceda, 32 (MADRID) - 28003 | 3 931 | 3 934 | 0.36 | 0.36 | 4 | 9 |
| Agrupación de Empresas Ley 18/1982 de 26 de Mayo (ACEFHAT) Torrent de l'Olla, 218/220 (BARCELONA) - 08012 | 110 | 110 | 20 | 20 | 22 | 22 |
| Alcatel Standard Eléctrica, S.A. Ramírez de Prado, 5 (MADRID) - 28045 | 56 410 | 56 410 | 13.24 | 13.24 | 5 206 | 5 206 |
| ATT Network Systems International B.V. Larenseweg, 50 P.O. Box 1168 - 1200 BD Hilversum (HOLANDA) | 15 135 | 11 390 | 5.84 | 5.84 | 2 490 | 2 554 |
| Catalana D'Iniciatives C.R., S.A. Passeig de Gràcia, 2 (BARCELONA) - 08007 | 5 000 | 0 | 2.35 | 0 | 136 | 0 |
| Club de Inversores para el Desarrollo de la Provincia de Alicante, S.A. | 250 | 0 | 1 | 0 | 3 | 0 |
| Darsa Gaditana, S.A. Avenida Marconi, 34 (CADIZ) - 11011 | 10 | 4 | 10.24 | 10.24 | 1 | 1 |
| Financial Network Association (F.N.A.) | 8 | 3 | 8.33 | 10 | 2 | 0 |
| Iniciatives, S.A. Passeig de Gràcia, 2 (BARCELONA) - 08007 | 0 | 3 100 | 0 | 3.23 | 0 | 140 |
| Promoció de Ciutat Vella, S.A. Rambles, 77 (BARCELONA) - 08002 | 2 800 | 2 800 | 3.57 | 3.57 | 100 | 89 |
| Reto 2000, S.A. Plaza de San Vicente, 3 (TOLEDO) - 45001 | 2 | 2 | 21.74 | 21.74 | 1 | 1 |
| Other investments | (***) | | | | 8 236 | 7 137 |
| Total Shareholdings | | | | | 16 201 | 15 159 |
| Total Group | | | | | 102 669 | 90 932 |

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

(*) Information at September 1993.

(++) Information at June 1993.

(+) Information at December 1992.

(**) Information corresponding to the year 1991.

| NET EQUITY ASSIGNED IN BALANCE SHEET | 1993 | 1992 | PROFIT (LOSS) | | OPERATIONS |
|--|----------------|---------|-------------------------------|------|--|
| | | | ASSIGNED IN P/L ACCOUNT | 1993 | |
| | | | | | |
| 127 | 1 278 | (1 066) | (1 686) | | Development, manufacture, and repair of telephonic and telematic terminals and components. |
| 73 | 74 | (106) | (64) | | Market research to measure audience and opinion |
| 0 | 21 | 0 | (30) | | Providing economic and financial information by telematic means to companies and brokers. |
| 0 | 832 | (832) | (397) | | Data processing software applications. |
| 4 052 | 5 002 | (950) | 2 | | Operation of telecommunications satellite. |
| 238 | 110 | (130) | (257) | | Manufacture and marketing of mobile radio equipment for communication purposes. |
| 1 | 7 | (6) | (151) | | Design, installation, operation and management of the pavilion for European Telecommunications Operators in the Seville Expo 92. |
| 1 230 | 818 | 417 | 266 | | Development manufacture and installation of lottery control systems by means of games terminals. |
| 0 | 20 | 0 | 0 | | Development, manufacture and installation of electronic in the telecommunications sector. |
| 396 | 292 | 104 | (121) | | Factoring company. |
| 826 | 849 | (20) | 28 | | Communications tower. |
| 6 943 | 9 303 | | | | |
| | | | | | |
| 4(+) | 0 | (6)(+) | 0 | | News agency |
| 22 | 0 | 0 | 0 | | Development of a project for the management of works on the public ways in Catalonia. |
| 6 359 | 5 854 | 409 | (1 964) | | Design, manufacture and commercialization of electronic and telecommunication equipment. |
| 1 386 | 1 526 | (430) | (822) | | Marketing development and marketing of all network products, principally for public telecommunications. |
| 127(•) | 0 | 3(•) | 0 | | Promotion of activities which generate wealth, employment and wellbeing of citizens. |
| 3(•) | 0 | 0 | 0 | | Development of the state of Alicante |
| 8(++) | 0 | 0 | 0 | | Edification of urban states for sales or lease |
| 0 | 0 | 0 | 0 | | |
| 0 | 128 | 0 | 5 | | Promotion of initiatives for generating wealth, occupation and well-being of the community. |
| 100(++) | 89(••) | | (4)(••) | | Urban rehabilitation of the Ciutat Vella integrated rehabilitation area. |
| 0 | 0 | (6) | 0 | | |
| 0 | 7 170 | | | | |
| 8 009 | 14 767 | | | | |
| 167 277 | 142 799 | | | | |

| (M - Million of monetary units) (m - Thousands of monetary units) | SHARE CAPITAL | M.U. | CURRENCY | BOOK VALUE | PROVISION | SUBSCRIBED SHARES NOT PAID IN | NET EQUITY ASSIGNED IN BALANCE SHEET 1993 |
|--|------------------|------|----------|---------------|-----------|-------------------------------------|--|
| Subsidiary companies | | | | | | | |
| Cabinas Telefónicas, S.A. (CABITEL) | 200 | M | Peseta | 201 | | | 1 506 |
| Autocontrol de la Publicidad | - | - | Peseta | 0 | | | 0 |
| Casiopea Reaseguradora, S.A. | 3 600 | m | ECUS | 498 | | | 574 |
| Seguros de Vida y Pensiones Antares, S.A. | 1 500 | M | Peseta | 180 | | 135 | 113 |
| Compañía Española de Tecnología, S.A. (COMET) | 469 | M | Peseta | 1 102 | 736 | | 365 |
| Cleon, S.A. | 1 350 | M | Peseta | 675 | 31 | | 644 |
| Catalana D'iniciatives C.R., S.A. | 5 000 | M | Peseta | 100 | 21 | | 68 |
| Satel, S.A. | 125 | M | Peseta | 56 | 30 | 26 | 0 |
| Barcelona Tecnología, S.A. | 173 | M | Peseta | 10 | | | 10 |
| Compañía Gestora del Servicio Mensatel, S.A. | 600 | M | Peseta | 306 | | | 328 |
| Cía. Publicitaria de Exclusivas Telefónicas,S.A.(CETESA) | 434 | M | Peseta | 776 | | | 4 652 |
| Promotora de Mercados Telemáticos, S.A. | 10 | M | Peseta | 10 | | | 134 |
| Ventunni, S.A. | 500 | M | Peseta | 125 | | | 209 |
| Central de Compras de Papel, S.A. | 10 | M | Peseta | 10 | | | 9 |
| Euredit, S.A. (FRANCIA) | 3 | M | F. F. | 13 | | | 13 |
| Estrategias Telefónicas, S.A. (ESTRATEL) | 230 | M | Peseta | 220 | | | 342 |
| Fonditel Entidad Gestora de Fondos de Pensiones, S.A. | 700 | M | Peseta | 630 | 17 | | 607 |
| Maptel, S.A. | 150 | M | Peseta | 220 | 57 | | (3) |
| Playa de Madrid, S.A. | 40 | M | Peseta | 54 | | | 161 |
| Pleyade Peninsular Correduría de Seguros, S.A | 10 | M | Peseta | 10 | | | 159 |
| Seguros de Vida y Pensiones Antares, S.A | 1 500 | M | Peseta | 1 320 | | 600 | 1 218 |
| Fonditel Entidad Gestora de Fondos de Pensiones, S.A. | 700 | M | Peseta | 70 | 3 | | 67 |
| Inmovilizaciones Financieras | - | - | Peseta | 4 234 | 3 | | 4 373 |
| Servicios de Teledistribución, S.A. (S.T. HILO) | 210 | M | Peseta | 297 | | | 656 |
| Sapec, S.A. | 60 | M | Peseta | 13 | | | 46 |
| Sistemas e Instalaciones de Telecomunic., S.A. (SINTEL) | 1 100 | M | Peseta | 2 935 | | | 5 181 |
| Servicios 2000, A.I.E. | 5 | M | Peseta | 3 | 3 | | (34) |
| Sietel, S.A. (CHILE) | 330 | m | P. Ch. | 0 | | | 118 |
| Sintelar, S.A. (ARGENTINA) | 10 | M | P. Arg. | 5 | | | 500 |
| Cotronic, S.A. | 10 | M | Peseta | 10 | | | 55 |
| Incasa, S.A. | 10 | M | Peseta | 7 | | | 58 |
| Inalca, S.A. | 10 | M | Peseta | 12 | | | 106 |
| S.A.C., S.A. | 490 | M | Peseta | 191 | 191 | | (97) |
| Telinter (VENEZUELA) | 125 | m | Bolívar | 0 | | | 0 |
| U.T.E.S. | - | - | Peseta | 9 | | | 9 |
| Taetel, S.L. | 4 700 | M | Peseta | 4 700 | | | 5 656 |
| Telecartera, S.A. | 60 | M | Peseta | 48 | 28 | | 20 |
| Sociedad General de Cablevisión, S.A. | 60 | M | Peseta | 54 | 36 | | 18 |
| Telecomunicaciones Marinas, S.A. (TEMASA) | 1 376 | M | Peseta | 1 326 | | | 3 245 |
| Telefonía y Finanzas, S.A. (TELFISA) | 500 | M | Peseta | 2 099 | 1 485 | | 614 |
| Telefónica Internacional de España, S.A | 79 900 | M | Peseta | 60 904 | | | 119 521 |
| Publigráficas, S.A. (CHILE) | 1 782 | m | P. Ch. | 936 | | | 973 |
| Sintelar, S.A. (ARGENTINA) | 98 | M | P. Arg. | 279 | | | 279 |
| Telefónica Internacional, B.V. (HOLANDA) | 1 154 | M | Fl. H. | 62 009 | | | 101 802 |
| Inversiones Hispano-Chilenas, S.A. (CHILE) | 29 628 | m | \$ USA | 3 951 | | | 10 314 |
| Inversiones Hispano-Chilenas, B.V. (HOLANDA) | 200 | m | Fl. H. | 3 955 | | | 3 954 |
| Telefónica Chile, S.A. (CHILE) | 42 | M | \$ USA | 7 480 | | | 25 955 |
| Telefónica Internacional, S.A. (LUXEMBURGO) | 12 870 | m | \$ USA | 685 | | | 594 |
| Telefónica Larga Distancia, (PUERTO RICO) | 112 | M | \$ USA | 16 093 | | | 11 596 |
| Telefónica USA, Inc. (USA) | 5 | m | \$ USA | 1 | | | (92) |
| Telefónica Chile, B.V. (HOLANDA) | 100 | m | Fl. H. | 24 647 | | | 7 484 |
| Telefónica Venezuela, B.V. (HOLANDA) | 40 | m | Fl. H. | 3 | | | (8 488) |
| Cía. de Invers. en Telecomunic., S.A. (ARGENT.) | 852 | M | P. Arg. | 37 300 | | | 37 300 |
| Compañía de Teléfonos de Chile, S.A. (CHILE) | 290 586 | M | P. Ch. | 74 457 | | | 74 457 |
| Empresa Nacional de Telecomunic. de Chile, S.A. (CHILE) | 60 497 | M | P. Ch. | 7 100 | | | 7 100 |
| Telefónica de Argentina, S.A. (ARGENTINA) | 2 298 | M | P. Arg. | 7 380 | | | 7 380 |
| Contactel (PORTUGAL) | 1 200 | M | Escudos | 172 | | | - |
| Datos Corporation (USA) | - | - | - | 9 | 9 | | - |
| Gocestar (USA) | - | - | - | 605 | 605 | | - |
| Infonet Services Corporation (USA) | 28 550 | m | \$ USA | 839 | | | - |
| Telecomunicaciones Ultramarinas (PUERTO RICO) | 15 336 | m | \$ USA | 3 402 | | | - |
| Telefónica Rumanía (RUMANIA) | 5 | M | \$ USA | 449 | | | 383 |
| Telur, S.A. (RUSIA) | 5 600 | m | Rublos | 53 | | | - |
| Venworld (VENEZUELA) | 1 885 | M | \$ USA | 17 825 | | | 17 825 |

Subsidiary companies

| | | | | | | |
|---|-------|---|--------|---------------|--------------|------------|
| Telefónica Investigación y Desarrollo, S.A. (TIDSA) | 1 000 | M | Peseta | 1 000 | | 2 329 |
| Telefónica North America, Inc. | 10 | - | \$ USA | 1 | | 1 |
| Telefónica Sistemas, S.A. | 1 403 | M | Peseta | 2 366 | | 3 091 |
| THM, Control Electrónico Integrado, S.A. | 420 | M | Peseta | 943 | | 973 |
| Telefónica Sistemas de Satélites, S.A. (T.S.S.) | 10 | M | Peseta | 10 | | 52 |
| Telefónica Servicios Avanzados de Inform., S.A. (T.S.A.I.) | 10 | M | Peseta | 10 | | 12 |
| Telefónica Gestión de Sistemas, S.A. (T.G.S.) | 50 | M | Peseta | 50 | | 50 |
| Telefónica Sistemas de Ingen. de Productos, S.A. (T.S.I.P.) | 150 | M | Peseta | 150 | | 201 |
| Gestión y Operación de Redes, S.A. | 70 | M | Peseta | 36 | 14 | 23 |
| Telecom Vallés, S.A. | 121 | M | Peseta | 26 | 13 | 13 |
| Tepesa, S.A. | 225 | M | Peseta | 80 | | 106 |
| Tissat, S.A. | 100 | M | Peseta | 40 | 4 | 36 |
| Excel Data, S.A. | 150 | M | Peseta | 30 | 8 | 22 |
| T.D.S. (U.S.A.) | 450 | m | \$ USA | 218 | 218 | 0 |
| I.M.I. | 10 | M | Peseta | 1 | | 1 |
| Teleinformática y Comunicaciones, S.A. (TELYCO) | 575 | M | Peseta | 575 | 207 | 352 |
| T.S.-I, Telefónica de Servicios, S.A. | 940 | M | Peseta | 2 453 | 875 | 1 543 |
| Radiored, S.A. | 10 | M | Peseta | 10 | | 10 |
| Radiored Valencia, S.A. | 10 | M | Peseta | 10 | | 3 |
| Radiored Bilbao, S.A. | 10 | M | Peseta | 10 | | 3 |
| Radiored Zaragoza, S.A. | 10 | M | Peseta | 10 | | 3 |
| Radiored Uno, S.A. | 10 | M | Peseta | 10 | | 3 |
| Radiored Barcelona, S.A. | 10 | M | Peseta | 10 | | 2 |
| Radiored Sevilla-Cádiz, S.A. | 10 | M | Peseta | 10 | | 2 |
| Radiored Santiago-La Coruña, S.A. | 10 | M | Peseta | 10 | | 2 |
| Radiored Málaga Costa del Sol, S.A. | 10 | M | Peseta | 10 | | 2 |
| Compañía Gestora del Servicio Mensatel, S.A. | 600 | M | Peseta | 294 | | 315 |
| Videotex Información, S.A. | 375 | M | Peseta | 36 | 36 | 0 |
| Urbana Ibérica, S.A. | 264 | M | Peseta | 14 | | 207 |
| Total Telefónica's direct subsidiaries | | | | 84 055 | 3 405 | 600 |
| Other Companies | | | | 277 431 | 1 225 | 244 |
| | | | | | | 307 046 |

CONSOLIDATED

| (M - Million of monetary units) (m - Thousands of monetary units) | SHARE CAPITAL | M.U. | CURRENCY | BOOK VALUE | PROVISION | SUBSCRIBED SHARES NOT PAID IN | NET EQUITY ASSIGNED IN BALANCE SHEET 1993 |
|--|------------------|------|-----------|----------------|--------------|-------------------------------------|--|
| Associated companies | | | | | | | |
| Amper, S.A. | 6 977 | M | Peseta | 3 050 | 2 936 | | 127 |
| Sofres A.M., S.A. | 580 | M | Peseta | 386 | 247 | | 73 |
| Eritel, S.A. | 993 | M | Peseta | 659 | 659 | | 0 |
| Hispasat, S.A. | 20 000 | M | Peseta | 5 000 | 948 | | 4 052 |
| Industria Electrónica de Comunicaciones, S.A. (INDELEC) | 1 400 | M | Peseta | 389 | 152 | | 238 |
| Pabellón de Operadores Europeos de Telecomunic., S.A. | 520 | M | Peseta | 200 | 199 | | 1 |
| Sistemas Técnicos de Loterías del Estado, S.A. | 2 000 | M | Peseta | 635 | | | 1 230 |
| Telefónica Fiat Factoring, S.A. Entidad de Financiación | 800 | M | Peseta | 415 | | | 396 |
| Torre de Colserola, S.A. | 2 000 | M | Peseta | 844 | 18 | | 826 |
| Total Telefónica's direct associates | | | | 11 578 | 5 159 | 0 | 6 943 |
| Participated companies | | | | | | | |
| A.T.T. Network Systems International, B.V. | 206 | M | Fl. H. | 3 087 | 597 | | 1 386 |
| Agencia Efe, S.A. | 3 931 | M | Peseta | 140 | 136 | | 4(*) |
| Agrup. de Emp. Ley 18/1982 de 26 de Mayo (ACEFHAT) | 110 | M | Peseta | 22 | | | 22 |
| Alcatel Standard Eléctrica, S.A. | 56 410 | M | Peseta | 5 206 | | | 6 359 |
| Catalana D'Iniciatives C.R., S.A. | 5 000 | M | Peseta | 140 | 4 | | 127(*) |
| Club de Invers. para el Desarrollo Prov. de Alicante, S.A. | 250 | M | Peseta | 3 | | | 3(*) |
| Compañía de Fibra Óptica Telcor, S.A. | - | | Peseta | 35 | 35 | | |
| Darsa Gaditana, S.A. | 10 | M | Peseta | 1 | | | 8(+) |
| Eurescom | | | D.M. | 1 | | | |
| European Silicom Structures, S.A. | - | | ECUS | 460 | 460 | | |
| Eurosat | 406 | m | Fr. Suizo | 5 | 5 | | |
| Eutelsat | - | | | 1 550 | | | |
| Financial Network Association (F.N.A.) | 7 500 | m | Fr. Belga | 2 | | | |
| Inmarsat | - | | | 814 | | | |
| Intelsat | - | | | 5 871 | | | |
| Promoció de Ciutat Vella, S.A. | 2 800 | M | Peseta | 100 | | | 100(+) |
| Proyecto Cartuja 93 | - | | | - | | | |
| Reto 2000, S.A. | 2 | M | Peseta | - | | | |
| Total participated companies | | | | 17 437 | 1 237 | 0 | 8 009 |
| Total Telefónica's direct companies | | | | 113 070 | 9 801 | 600 | 167 277 |

(+) Information from June/93.

(*) Information from September/93.

(*) Information from December/92.

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

| COMPANY | 1993 | 1992 |
|---|-------|-------|
| SUBSIDIARY COMPANIES | | |
| Seguros de Vida y Pensiones Antares, S.A. | 12.00 | - |
| Compañía Publicitaria Exclusiva Telefónica, S.A. (CETESA) | - | 2.67 |
| Compañía Gestora del Servicio Mensatel, S.A. | 49.00 | 48.90 |
| Fonditel Entidad Gestora de Fondos de Pensiones, S.A. | 10.00 | 25.00 |
| Servicios de Teledistribución, S.A. (S.T. Hijo) | - | 0.83 |

7.4 In 1993, Telefónica has disposed of its holdings in Efecom (now ECOMYF, S.A.) with a loss of 51 million pesetas and in Control Electrónico Integrado, S.A. (T.H.M.) which generated a gain of 616 million pesetas.

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

| | PARENT COMPANY | | CONSOLIDATED | |
|---|----------------|---------|--------------|---------|
| | 1993 | 1992 | 1993 | 1992 |
| Dividend received | 5 295 | 19 512 | 5 900 | 19 750 |
| Acquisition of goods and services by the Telefónica Group | 93 848 | 109 328 | 125 518 | 111 203 |

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

| Subsidiary Companies | Currency | Stock Exchange | Share price | | | |
|----------------------|----------------|--------------------------------|------------------|--------|---------------------------------|--------|
| | | | Year-end 1993 | 1992 | Average last quarter 1993 | 1992 |
| Amper _____ | Peseta | Madrid | 142 | 170 | 167 | 190 |
| CTC (CHILE) _____ | Peso chileno | Santiago/New York | 2 550 | 1 315 | 2 156 | 1 228 |
| Entel (CHILE) _____ | Peso chileno | Santiago | 4 910 | 2 120 | 3 463 | 1 989 |
| TASA (ARGENTINA) | Peso argentino | Buenos Aires/New York y Portal | 7.28 | 0.3133 | 5.66 | 0.2832 |

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

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

| | Balance at 12.31.91 | Additions | Reductions | Transfers | Balance at 12.31.92 | Additions | Balance at 12.31.93 |
|--|------------------------|--------------|------------|-----------|------------------------|---------------|------------------------|
| Companies consolid. by the full consolid. method | 180 | 7 595 | 72 | (108) | 7 595 | 426 | 8 021 |
| Companies consolid. by the equity method | 7 732 | 80 | 31 | 108 | 7 889 | 39 382 | 47 271 |
| Total | 7 912 | 7 675 | 103 | - | 15 484 | 39 808 | 55 292 |
| Accumulated amortization | | | | | | | |
| Companies consolid. by the full consolid. method | 36 | 27 | 25 | (38) | - | 907 | 907 |
| Companies consolid. by the equity method | 1 439 | 781 | - | 38 | 2 258 | 3 891 | 6 149 |
| Total | 1 475 | 808 | 25 | - | 2 258 | 4 798 | 7 056 |
| Goodwill pending amortization | 6 437 | 6 867 | 78 | - | 13 226 | 35 010 | 48 236 |

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

| | Balance at 12.31.91 | Additions | Reductions | Balance at 12.31.92 | Additions | Reductions | Balance at 12.31.93 |
|--|------------------------|---------------|--------------|------------------------|---------------|--------------|------------------------|
| Companies consolid. by the full consolid. method | 5 881 | 3 766 | 2 934 | 6 713 | 3 548 | 1 162 | 9 099 |
| Companies consolid. by the equity method | 1 415 | 8 032 | 2 048 | 7 399 | 7 164 | 3 009 | 11 554 |
| Total | 7 296 | 11 798 | 4 982 | 14 112 | 10 712 | 4 171 | 20 653 |

NOTE 8. DEFERRED EXPENSES

The balances and amortization schedule are as follows:

| | Maturities | | | | | | Balance 12.31.93 | Balance 12.31.92 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------------|---------------------|
| | 1994 | 1995 | 1996 | 1997 | 1998 | Subsequent | | |
| Debt formalization expenses _____ | 5 240 | 3 940 | 3 475 | 2 718 | 1 947 | 3 707 | 21 027 | 21 901 |
| Exchange losses _____ | 9 628 | 9 438 | 8 743 | 7 786 | 6 273 | 15 311 | 57 179 | 19 473 |
| Interest on long term notes _____ | 4 540 | 4 372 | 3 946 | 3 388 | 3 741 | 4 474 | 24 461 | 29 055 |
| Interest on commercial notes _____ | 1 127 | 4 | - | - | - | - | 1 131 | 3 134 |
| Financing Annex 91 contract _____ | 6 845 | 3 516 | 25 | - | - | - | 10 386 | 15 264 |
| Liabilities Compliments (deficit) _____ | 8 143 | 8 143 | 8 143 | 8 143 | 8 143 | 69 214 | 109 929 | 113 756 |
| Deferred Expenses deficit assets amortization | - | - | - | - | - | - | - | 903 |
| Total | 35 523 | 29 413 | 24 332 | 22 035 | 20 104 | 92 706 | 224 113 | 203 486 |

| | Maturities | | | | | | Balance 12.31.93 | Balance 12.31.92 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------------|---------------------|
| | 1994 | 1995 | 1996 | 1997 | 1998 | Subsequent | | |
| Debt formalization expenses _____ | 5 242 | 3 941 | 3 477 | 2 720 | 1 948 | 3 712 | 21 040 | 22 845 |
| Exchange losses _____ | 9 628 | 9 438 | 8 743 | 7 786 | 6 273 | 15 311 | 57 179 | 19 473 |
| Interest on long term notes _____ | 4 540 | 4 372 | 3 946 | 3 388 | 3 741 | 4 474 | 24 461 | 29 055 |
| Interest on commercial notes _____ | 655 | 4 | - | - | - | - | 659 | 3 134 |
| Interest on leasing operat. and other _____ | 718 | 469 | 247 | 119 | 89 | 293 | 1 935 | 1 381 |
| Financing Annex 91 contract _____ | 6 845 | 3 516 | 25 | - | - | - | 10 386 | 15 264 |
| Liabilities Cumpliments déficit _____ | 8 143 | 8 143 | 8 143 | 8 143 | 8 143 | 69 214 | 109 929 | 113 756 |
| Deferred Expenses deficit assets amort. | - | - | - | - | - | - | - | 903 |
| Total | 35 771 | 29 883 | 24 581 | 22 156 | 20 194 | 93 004 | 225 589 | 205 811 |

NOTE 9. DEFERRED EXCHANGE DIFFERENCES

Due to new criteria adopted in 1992 (Note 4.j) unrealized exchange losses have been deferred amounting to 57,179 million 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 | |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------------|---------------------|
| | 1994 | 1995 | 1996 | 1997 | 1998 | Subsequent | Balance at 12.31.93 | Balance at 12.31.92 |
| Deferred realized exchange losses | 9 628 | 9 438 | 8 743 | 7 786 | 6 273 | 15 311 | 57 179 | 19 473 |
| Deferred unrealized exchange gains | - | - | - | - | - | - | - | (8 861) |
| Total | 9 628 | 9 438 | 8 743 | 7 786 | 6 273 | 15 311 | 57 179 | 10 612 |

| | Maturities | | | | | | CONSOLIDATED | |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------------|---------------------|
| | 1994 | 1995 | 1996 | 1997 | 1998 | Subsequent | Balance at 12.31.93 | Balance at 12.31.92 |
| Deferred realized exchange losses | 9 628 | 9 438 | 8 743 | 7 786 | 6 273 | 15 311 | 57 179 | 19 473 |
| Deferred unrealized exchange gains | - | - | - | - | (19) | (25) | (44) | (8 870) |
| Total | 9 628 | 9 438 | 8 743 | 7 786 | 6 254 | 15 286 | 57 135 | 10 603 |

Details of the charges to expenses for the year:

| | PARENT COMPANY | | CONSOLIDATED | |
|--|----------------|---------------|---------------|---------------|
| | 1993 | 1992 | 1993 | 1992 |
| For Repayment of loans | 6 241 | 5 528 | 7 624 | 5 919 |
| Deferred losses O.M. March 12, 1993 (Note 4.j) | 22 642 | 6 864 | 22 642 | 6 864 |
| Services charges in foreign currency and other | (1 640) | 19 | (1 635) | 19 |
| Total | 27 243 | 12 411 | 28 613 | 12 802 |

NOTE 10. LONG TERM PREPAID AND DEFERRED TAXES

The balance detail is as follows:

| | PARENT COMPANY | | CONSOLIDATED | |
|--|----------------|---------------|---------------|---------------|
| | 1993 | 1992 | 1993 | 1992 |
| Long term prepaid taxes | | | | |
| Currency exchange differences | 10 328 | - | 10 328 | - |
| Complementary pensions for retired employees | 1 342 | - | 1 342 | - |
| Pension plan for current employees | 1 946 | - | 1 946 | - |
| Other | - | - | 493 | - |
| Total | 13 616 | - | 14 109 | - |
| Long term deferred taxes | | | | |
| Tax regulations amortization | 47 021 | 48 347 | 48 598 | 50 416 |
| Collective endowment insurance | 579 | - | 579 | - |
| Consolidation adjustments | 5 403 | 4 557 | - | - |
| Intragroup adjustments | - | - | 7 954 | 5 600 |
| Total | 53 003 | 52 904 | 57 131 | 56 016 |

NOTE 11. ACCOUNTS RECEIVABLE FROM CUSTOMER

The balance detail at December 31, is as follows:

| | PARENT COMPANY | | CONSOLIDATED | |
|---------------------------------|----------------|----------------|----------------|----------------|
| | 1993 | 1992 | 1993 | 1992 |
| Service billed | | | | |
| Customers | 108 554 | 108 227 | 129 140 | 128 514 |
| Former subscribers | 28 255 | 18 807 | 28 255 | 18 807 |
| Accounts pending classification | 1 951 | 1 908 | 1 951 | 1 908 |
| Unbilled (Telefónica) | 138 760 | 128 942 | 159 346 | 149 229 |
| | 149 618 | 144 510 | 149 618 | 144 510 |
| Provision for bad debts | 288 378 | 273 452 | 308 964 | 293 739 |
| | (30 429) | (20 356) | (36 288) | (25 044) |
| Total | 257 949 | 253 096 | 272 676 | 268 695 |

The balance of public customers accounts amounts to 84,131 millions pesetas (83,447 millions pesetas in 1992).

During the 1993 year cancelled bad debts amounted to 11,119 million pesetas. (7,767 million pesetas in 1992).

NOTE 12. SHAREHOLDERS' EQUITY

12.1 The amount and movements in shareholder's equity during the years ended at December 31 1992 and 1993, were as follows:

| | PARENT COMPANY | | | | |
|---|---|--------------------|---------------|---|---|
| | Distribution of 1991 profit | Other movements | 1992 | Distribution of 1992 profit | Other movements |
| | 1991 | | 1992 | | 1993 |
| Stated capital | 463 479 | - | 1 463 480 | - | 6 255 469 735 |
| Capital surplus | 33 467 | - | 33 467 | - | 9 600 43 067 |
| Revaluation and reserve | 653 780 | - | 653 780 | - | - 653 780 |
| Legal reserve | 41 321 | 8 085 | 49 406 | 8 390 | - 57 796 |
| Voluntary reserve | 74 498 | 18 100 | 92 598 | 19 000 | - 111 598 |
| Unappropriated retained earnings | 150 | (29) | 121 | (35) | - 86 |
| Profit for year | 80 847 | (80 847) | 83 899 | (83 899) | 84 837 84 837 |
| Interim dividend | (23 174) | 23 174 | - | - | (23 187) (23 187) |
| Total | 1 324 368 | (31 517) | 83 900 | 1 376 751 | (56 544) 77 505 1 397 712 |
| | CONSOLIDATED | | | | |
| | Distribution of 1991 consolidated profit | Other movements | 1992 | Distribution of 1992 consolidated profit | Other movements |
| | 1991 | | 1992 | | 1993 |
| Stated capital | 463 479 | - | 1 463 480 | - | 6 255 469 735 |
| Capital surplus | 33 467 | - | 33 467 | - | 9 600 43 067 |
| Revaluation and reserve | 649 316 | - | 649 316 | - | - 649 316 |
| Legal reserve | 41 321 | 8 085 | 49 406 | 8 390 | - 57 796 |
| Voluntary reserve | 52 920 | 18 100 | 84 306 | 8 887 | (1 068) 92 125 |
| Reserve in consolidation | 7 296 | 23 400 | (16 584) | 14 112 | 6 975 (434) 20 653 |
| Unappropriated retained earnings | 150 | (29) | 121 | (35) | - 86 |
| Profit for year | 104 247 | (104 247) | 80 761 | (80 761) | 96 367 96 367 |
| Interim dividend | (23 174) | 23 174 | - | - | (23 187) (23 187) |
| Differences on foreign currency translation for consolidation | 1 251 | - | 15 785 | 17 036 | - 14 061 31 097 |
| Total | 1 330 273 | (31 517) | 93 249 | 1 392 005 | (56 544) 101 594 1 437 055 |

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, 1993 the State held approximately 31.86% of the shares (32.28% in 1992). 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 | Characteristics of issue | |
|---------------------------------|---------------------|--------------|---------------------------------------|--------|
| | | | Price as a percentage of par value | Cash |
| 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 | 436 480 | - | - |
| Capital increase May 1993 | 537 168 | 268 | 214.976% | 577 |
| Capital increase July 1993 | 2 148 | 1 | 250.536% | 3 |
| Capital increase September 1993 | 220 237 | 110 | 245.704% | 270 |
| Capital increase October 1993 | 675 754 | 338 | 246.200% | 832 |
| Capital increase November 1993 | 11 041 984 | 5 521 | 255.898% | 14 218 |
| Capital increase December 1993 | 34 378 | 17 | 259.204% | 45 |
| At December 31, 1993 | 939 470 820 | 469 735 | | |

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.

12.2 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 | Differences on foreign currency translation | Results | Total | 1992 |
|--------------------|--------------------------|------------|---|---------|--------|------|
| AUDIOTEX | 49 | 41 | - | 156 | 197 | |
| MAPTEL | 24 | 39 | - | (15) | 24 | |
| SINTELAR | 25 | 19 | 12 | 79 | 110 | |
| T.I.NTERNACIONAL | 23.78 | 20,454 | 5 307 | 2 239 | 28 000 | |
| T.H.M. | 1 | 8 | - | 2 | 10 | |
| T.L.D. Puerto Rico | 21 | 2 703 | - | - | 2 703 | |
| | | 23 264 | 5 319 | 2 461 | 31 044 | |
| | | | | | | 1993 |
| Company | % Minority participation | Net equity | Differences on foreign currency translation | Results | Total | |
| AUDIOTEX | - | - | - | - | - | |
| MAPTEL | 24 | 24 | - | (25) | (1) | |
| SINTELAR | 25 | 3 | 25 | 246 | 274 | |
| T. INTERNACIONAL | 23.78 | 22 491 | 9 661 | 5 138 | 37 290 | |
| T.H.M. | 0.68 | 6 | - | 1 | 7 | |
| T.I.D. Puerto Rico | 21 | 2 703 | 626 | (212) | 3 117 | |
| GESTIRED | 49 | 34 | - | (14) | 20 | |
| PUBLIGUIAS | 45 | 325 | 34 | 470 | 829 | |
| TELEFONICA ROMANIA | 40 | 273 | - | (16) | 257 | |
| TELECARTERA | 20 | 12 | - | (7) | 5 | |
| | | 25 871 | 10 346 | 5 581 | 41 798 | |

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.I.I.M., Control Electrónico Integrado, S.A. Tepesa owns the other 1% (Tepesa is owned by T.H.M. in 31.78%). For the Companies located abroad outside shareholders' interests include the differences on foreign currency translation.

12.3 Movement of outside shareholders' interests:

| | 1991 | Addition of companies | Profit or loss | Differences on foreign currency translation | Other movements | Dividends paid | Disposals of companies | 1992 |
|--------------------|---------------|-----------------------|----------------|---|-----------------|----------------|------------------------|---------------|
| Audiotex | 41 | - | 156 | - | - | - | - | 197 |
| Maptel | 39 | - | (15) | - | - | - | - | 24 |
| Sintelar | 19 | - | 79 | 12 | - | - | - | 110 |
| T. Internacional | 20 959 | - | 2 239 | 5 007 | (205) | - | - | 28 000 |
| T.L.D. Puerto Rico | - | 2 703 | - | - | - | - | - | 2 703 |
| T.H.M. | 46 | - | 2 | - | - | - | (38) | 10 |
| Total | 21 104 | 2 703 | 2 461 | 5 019 | (205) | - | (38) | 31 044 |

| | 1992 | Addition of companies | Profit or loss | Differences on foreign currency translation | Other movements | Dividends paid | Disposals of companies | 1993 |
|--------------------|---------------|-----------------------|----------------|---|-----------------|----------------|------------------------|---------------|
| Audiotex | 197 | - | - | - | - | - | (197) | - |
| Gestired | - | 34 | (14) | - | - | - | - | 20 |
| Maptel | 24 | - | (25) | - | - | - | - | (1) |
| Publiguias | - | 325 | 470 | 34 | - | - | - | 829 |
| Sintelar | 110 | - | 246 | 13 | - | (95) | - | 274 |
| T. Internacional | 28 000 | - | 5 138 | 4 354 | (202) | - | - | 37 290 |
| T.L.D. Puerto Rico | 2 703 | - | (212) | 626 | - | - | - | 3 117 |
| Telefónica Romania | - | 273 | (16) | - | - | - | - | 257 |
| Telecartera | - | 12 | (7) | - | - | - | - | 5 |
| T.H.M. | 10 | - | - | - | (3) | 1 | - | 7 |
| Total | 31 044 | 644 | 5 580 | 5 027 | (205) | (96) | (197) | 41 798 |

Other movements of Telefónica Internacional reflect the portion ascribed to the outside shareholders of the variation in the consolidation reserve caused by the incorporation of Cointel to the Group.

NOTE 13. DEFERRED INCOME

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

| | PARENT COMPANY | | CONSOLIDATED | |
|---|----------------|---------------|---------------|---------------|
| | 1993 | 1992 | 1993 | 1992 |
| Capital grants | 49 860 | 46 983 | 49 860 | 46 983 |
| Deferred unrealized exchange gains (Note 9) | - | 8 861 | 44 | 8 870 |
| External contributions not repayable | 4 905 | 2 879 | 5 422 | 2 879 |
| Total | 54 765 | 58 723 | 55 326 | 58 732 |

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

| | Balance 12.31.91 | Additions | Amortizat. | Balance 12.31.92 | Additions | Amortizat. | Balance 12.31.93 |
|--|---------------------|---------------|--------------|---------------------|--------------|--------------|---------------------|
| From official organisations, autonomous communities and local government bodies | 13 019 | 6 301 | 1 506 | 17 814 | 2 873 | 2 110 | 18 577 |
| From European Economic Community: | | | | | | | |
| STAR Program | 15 847 | 6 672 | 1 698 | 20 821 | 347 | 2 367 | 18 801 |
| FEDER Program | 4 084 | 1 658 | 409 | 5 333 | 2 052 | 575 | 6 810 |
| IRTA Program | 498 | 1 561 | 50 | 2 009 | 1 163 | 206 | 2 966 |
| Other | 581 | 455 | 30 | 1 006 | 1 819 | 119 | 2 706 |
| Total | 34 029 | 16 647 | 3 693 | 46 983 | 8 254 | 5 377 | 49 860 |

NOTE 14. PROVISIONS FOR RISKS AND EXPENSES

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

| | PARENT COMPANY | | | | | | | | |
|---|----------------|------------------------|-------------------|----------------|----------------|------------------------|---------------|-------------------|----------------|
| | 1991 | Provisions for year | Add. Applicat. | Transfers | 1992 | Provisions for year | Applicat. | Add. Transfers | 1993 |
| Self insurance for damages in plant | 3 051 | - | 444 | - | 2 607 | - | 690 | - | 1 917 |
| For contingencies (Note 20) | 51 098 | - | (51 098) | - | - | - | - | - | - |
| For contribution to employee benefit systems (Note 20.2) | 18 829 | - | (18 829) | - | - | - | - | - | - |
| For establishing pensions (Note 20) | 76 615 | 12 531 | 89 146 | - | - | - | - | - | - |
| Provision for rebalancing plan | - | - | - | - | 4 128 | - | 813 | 4 941 | |
| For Pensioners' integrating cost in Social Security System | - | - | 55 683 | 55 683 | 3 113 | - | - | - | 58 796 |
| For endowment (Note 21) | 52 886 | 8 965 | 37 651 | (112) | 24 088 | 4 038 | 5 805 | - | 22 321 |
| For complementary pensioners annuity | - | 5 127 | 7 717 | 132 025 | 129 435 | 10 089 | 15 870 | 4 465 | 128 119 |
| Total | 202 479 | 26 623 | 134 958 | 117 669 | 211 813 | 21 368 | 22 365 | 5 278 | 216 094 |
| | CONSOLIDATED | | | | | | | | |
| | 1991 | Provisions for year | Add. Applicat. | Transfers | 1992 | Provisions for year | Applicat. | Add. Transfers | 1993 |
| Self insurance for damages in plant | 3 660 | 179 | 640 | (3) | 3 196 | 55 | 784 | 9 233 | 11 700 |
| For contribution to employee benefit systems (Note 20.2) | 19 613 | 10 | 8 | (19 615) | - | - | - | - | - |
| For establishing pensions (Note 20) | 76 765 | 12 731 | 89 201 | - | 295 | 247 | 101 | - | 441 |
| Provision for rebalancing plan | - | - | - | - | 4 128 | - | 813 | 4 941 | |
| For Pensioners' integrating cost in Social Security System | - | - | 55 683 | 55 683 | 3 113 | - | - | - | 58 796 |
| For endowment (Note 21) | 52 886 | 8 965 | 37 651 | (112) | 24 088 | 4 038 | 5 805 | - | 22 321 |
| For complementary pensioners annuity | - | 5 127 | 7 717 | 132 025 | 129 435 | 10 089 | 15 870 | 4 465 | 128 119 |
| For contingencies and other provision | 53 081 | 338 | 8 | (50 312) | 3 099 | 2 068 | 104 | 394 | 5 457 |
| Total | 206 005 | 27 350 | 135 225 | 117 666 | 215 796 | 23 738 | 22 664 | 14 905 | 231 775 |

NOTE 15 - DEBENTURES, BONDS AND OTHER ISSUES

15.1 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 |
| Balance 12/31/91 | 597 744 | - | 6 381 | 22 561 | 128 365 |
| New issues | 95 220 | - | - | - | 273 754 |
| Repayments, conversions and exchanges | (67 870) | - | - | - | (295 611) |
| Revaluations and other movements | 44 163 | - | 723 | 5 502 | - |
| Balance 12/31/92 | 669 257 | - | 7 104 | 28 063 | 106 508 |
| New issues | 86 677 | - | - | - | 101 588 |
| Repayments, conversions and exchanges | (10 606) | - | (7 936) | (29 242) | (169 345) |
| Revaluations and other movements | 52 837 | - | 832 | 1 179 | - |
| Balance 12.31.93 | 798 165 | - | - | - | 38 751 |
| Detail of maturities | | | | | |
| Long term | 679 494 | - | - | - | 6 120 |
| Short term | 118 671 | - | - | - | 32 631 |
| Accrued interest net yet payable | 15 965 | - | - | - | 15 965 |
| | 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 |
| Balance 12/31/91 | 599 603 | - | 6 381 | 22 561 | 117 422 |
| New issues | 95 220 | 9 300 | - | - | 273 754 |
| Repayments, conversions and exchanges | (67 523) | - | - | - | (295 611) |
| Revaluations and other movements | 43 965 | - | 723 | 5 502 | 17 860 |
| Balance 12.31.92 | 671 265 | 9 300 | 7 104 | 28 063 | 113 425 |
| New issues | 86 699 | - | - | - | 101 588 |
| Repayments, conversions and exchanges | (10 790) | - | (7 936) | (29 242) | (169 345) |
| Revaluations and other movements | 52 837 | - | 832 | 1 179 | 10 878 |
| Balance 12.31.93 | 800 011 | 9 300 | - | - | 56 546 |
| Detail of maturities: | | | | | |
| Long term | 681 345 | 9 300 | - | - | 17 795 |
| Short term | 118 666 | - | - | - | 32 631 |
| Accrued interest net yet payable | 15 974 | - | - | - | 15 974 |

15.2 There are two commercial paper issue programs in Telefónica, as follows:

| | Balance limit | Par value | Method of acquisition |
|----------------------------------|------------------|---------------------|--------------------------|
| Public issues | 200 000 millones | 500 000 pesetas | Monthly competitive bids |
| Company and institutional issues | 200 000 millones | 100 millones mínimo | Operations |

15.3 The details of the debentures and bonds of the consolidated Group outstanding at December 31, 1993 are as follows.

| Issue | | Interest % | Total | 1994 | 1995 | 1996 | 1997 | 1998 | Subsequent YEARS |
|--------------------------|-------------|------------|----------------|----------------|---------------|---------------|----------------|----------------|---------------------|
| Debentures | | | | | | | | | |
| June 1984 | Zero coupon | 14.8556 | 10 151 | 10 151 | - | - | - | - | - |
| June 1986 | Variable | 11.6500 | 14 807 | - | - | - | - | - | 14 807 |
| July 1987 | Variable | 10.2500 | 798 | - | - | - | 798 | - | - |
| January 1988 | | 12.5000 | 28 447 | - | - | - | - | 28 447 | - |
| May 1989 | | 12.2500 | 2 022 | - | - | 2 022 | - | - | - |
| July 1989 | | 12.0000 | 10 180 | - | - | - | - | - | 10 180 |
| December 1989 | Variable | 7.7278 | 4 800 | 800 | 800 | 800 | 800 | 800 | 800 |
| 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 | 10 170 | - | - | - | - | - | 10 170 |
| February 1990 Series E | Zero coupon | 12.8531 | 3 317 | - | - | - | - | - | 3 317 |
| February 1990 Series F | Zero coupon | 12.5793 | 368 | - | - | - | - | - | 368 |
| June 1990 | Zero coupon | 14.0081 | 47 647 | - | 47 647 | - | - | - | - |
| July 1990 | Zero coupon | 14.4358 | 47 784 | - | - | 47 784 | - | - | - |
| December 1990 | Zero coup | 13.5761 | 29 312 | - | - | - | - | - | 29 342 |
| January 1991 | | 12.0000 | 20 | - | - | - | - | - | 20 |
| February 1991 Serie A | | 14.2500 | 30 000 | - | - | - | - | 30 000 | - |
| February 1991 Serie B | Zero coupon | 14.4676 | 44 040 | - | - | - | - | 44 040 | - |
| March 1991 | Zero coupon | 14.4813 | 7 340 | - | - | - | - | 5 872 | 1 468 |
| 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 | 28 299 | - | - | - | - | - | 28 299 |
| A September 1994 | Zero coupon | 9.8749 | 45 648 | 45 648 | - | - | - | - | - |
| B September 1996 | Zero coupon | 10.0000 | 42 042 | - | - | 42 042 | - | - | - |
| C September 1998 | Zero coupon | 10.1250 | 31 351 | - | - | - | - | 31 351 | - |
| D September 2001 | Zero coupon | 10.2500 | 42 234 | - | - | - | - | - | 42 234 |
| January 1992 | | 12.0000 | 257 | - | - | - | - | - | 257 |
| January 1992 | | 12.0000 | 220 | - | - | - | - | - | 220 |
| A November 1995 | | 10.0625 | 14 058 | - | 14 058 | - | - | - | - |
| B November 2000 | | 10.0625 | 20 439 | - | - | - | - | - | 20 439 |
| C November 2002 | | 10.0625 | 19 315 | - | - | - | - | - | 19 315 |
| A October 1996 | | 7.7500 | 900 | - | - | 900 | - | - | - |
| B October 2000 | | 8,0000 | 5 507 | - | - | - | - | - | 5 507 |
| C October 2004 | | 8,2500 | 8 002 | - | - | - | - | - | 8 002 |
| B.I.F.E. Bank | | 9,8500 | 22 | - | - | - | - | - | 11 11 |
| Bonds | | | | | | | | | |
| November 1985 | | 11.7500 | 3 383 | - | 3 383 | - | - | - | - |
| January 1988 | Zero coupon | 10.0000 | 2 067 | 2 067 | - | - | - | - | - |
| 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 | 9.2075 | 400 | - | - | - | 400 | - | - |
| January 1991 | Variable | 9.2075 | 1 370 | - | - | - | 1 370 | - | - |
| February 1991 | | 13.9375 | 3 440 | - | - | - | 3 440 | - | - |
| February 1991 | Variable | 9.2075 | 400 | - | - | - | 400 | - | - |
| April 1991 | Zero coupon | 14.5154 | 67 185 | - | - | - | - | - | 67 185 |
| April 1991 | | 12.3750 | 10 160 | - | - | - | 10 160 | - | - |
| April 1991 | Variable | 9.2075 | 300 | - | - | - | 300 | - | - |
| May 1991 | | 12.3750 | 4 437 | - | - | - | 4 437 | - | - |
| July 1991 | Variable | 9.2075 | 5 100 | - | - | - | 5 100 | - | - |
| July 1992 | Zero coupon | 14.5154 | 4 889 | - | - | - | - | - | 4 889 |
| February 1992 | | 11.1875 | 1 470 | - | - | - | 1 470 | - | - |
| November 1992 | | 12.9375 | 400 | - | - | - | 400 | - | - |
| April 1993 | | 12.2500 | 21 000 | - | - | - | 21 000 | - | - |
| May 1993 | | 11.7500 | 2 468 | - | - | - | 2 468 | - | - |
| Total Issues | | | 800 011 | 118 666 | 65 888 | 65 764 | 100 927 | 160 521 | 288 245 |

15.4 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 | DUE DATE OF AMORTIZATION | % REPAYMENT | ACTUAL VALUE | REPAYMENT VALUE |
|------------------------|--------------------------|-------------|--------------|-----------------|
| Debentures | | | | |
| June 1984 | 07.05.1994 | 400 000 | 10 151 | 10 889 |
| February 1990 serie D | 02.26.2000 | 336 154 | 10 170 | 21 447 |
| February 1990 serie E | 02.26.2005 | 613 338 | 3 317 | 12 776 |
| February 1990 serie F | 02.26.2010 | 1 069 470 | 368 | 2 503 |
| June 1990 | 06.22.1995 | 192 610 | 47 647 | 57 783 |
| July 1990 | 07.20.1997 | 257 000 | 47 784 | 77 100 |
| December 1990 | 12.28.2005 | 675 000 | 29 342 | 135 000 |
| February 1991 serie B | 02.28.1998 | 257 500 | 44 040 | 77 250 |
| March 1991 | 03.01.1998 | 257 729 | 1 468 | 2 577 |
| March 1991 | 06.01.1998 | 266 659 | 1 468 | 2 667 |
| March 1991 | 09.01.1998 | 275 899 | 1 468 | 2 759 |
| March 1991 | 12.01.1999 | 285 353 | 1 468 | 2 854 |
| March 1991 | 03.01.1999 | 295 022 | 1 468 | 2 950 |
| April 1991 serie B | 04.17.2001 | 360 000 | 28 299 | 72 000 |
| A September 1994 | 09.18.1996 | 132 715 | 45 648 | 48 828 |
| B September 1996 | 09.18.1996 | 161 135 | 42 042 | 54 459 |
| C September 1998 | 09.18.1998 | 196 531 | 31 351 | 49 401 |
| D September 2001 | 09.18.2001 | 265 543 | 42 234 | 89 687 |
| Bonds | | | | |
| January 1988 | 01.26.1994 | 177 156 | 2 072 | 2 086 |
| April 1991 zero coupon | 04.15.1999 | 295 740 | 67 185 | 137 519 |
| July 1991 zero coupon | 07.15.1999 | 295 740 | 4 889 | 10 351 |
| | | | 463 879 | 872 886 |

15.5 Additional information

| | PARENT COMPANY | | CONSOLIDATED | |
|---|----------------|--------|--------------|--------|
| | 1993 | 1992 | 1993 | 1992 |
| Interest expenses | 93 900 | 84 844 | 93 923 | 84 875 |
| The amounts from the issues subject to tax benefits are as follows: | | | | |
| Debentures in local currency | - | 2 834 | - | 2 834 |
| Debentures in foreign currency | - | 30 061 | - | 30 061 |

The average cost of the debentures and bonds outstanding is 12.22% for 1993 (12.57% in 1992).

15.6 The Eurobonds issue at Frankfurt's stock market of 100 million german marks was amortized on its maturity date on May 1993. The issue of convertible bonds at London's stock market of 200 million US dollars has been cancelled by premature amortization of 83.53 million US dollars and by conversion of 116.46 million US dollars in ordinary shares of Telefónica.

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.

15.7 In October 1993 there was an issue of 105,000 million pesetas (which may be increased to 150 million pesetas). These will be subscribed over a one-year period. At December 31, 1993, 14,409 debentures had been subscribed for.

NOTE 16. DEBTS WITH CREDIT ENTITIES

16.1 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 | | | | | |
|-----------------------------|----------------|------------|---------|-----------|------------|---------|--------------|------------|---------|-----------|------------|---------|
| | 1993 | | | 1992 | | | 1993 | | | 1992 | | |
| | Long term | Short term | Total | Long term | Short term | Total | Long term | Short term | Total | Long term | Short term | Total |
| Notes payable at face value | 52 950 | 10 365 | 63 315 | 63 315 | 365 | 63 680 | 52 950 | 10 365 | 63 315 | 63 315 | 4 784 | 68 099 |
| Loans and credits | 179 300 | 31 160 | 210 460 | 258 241 | 115 209 | 373 450 | 220 075 | 40 760 | 260 835 | 331 861 | 131 318 | 463 179 |
| Loans in foreign currency | 308 244 | 5 901 | 314 145 | 281 244 | - | 281 244 | 408 856 | 23 592 | 432 448 | 295 552 | 4 592 | 300 44 |
| Total | 540 494 | 47 426 | 587 920 | 602 800 | 115 574 | 718 374 | 681 881 | 74 717 | 756 598 | 690 728 | 140 694 | 831 422 |

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

| | PARENT COMPANY | | | | | |
|---------------------------|----------------|---------------|---------------|---------------|---------------|----------------|
| | Maturities | | | | | |
| | 1994 | 1995 | 1996 | 1997 | 1998 | Subsequent |
| Notes payable | 10 365 | 365 | 15 365 | 365 | 1 314 | 35 541 |
| Loans and credits | 31 160 | 11 724 | 8 402 | 32 656 | 25 250 | 101 268 |
| Loans in foreign currency | 5 901 | 19 053 | 44 252 | 27 464 | 42 269 | 175 206 |
| Total | 47 426 | 31 142 | 68 019 | 60 485 | 68 833 | 312 015 |
| | | | | | | 12.31.93 |

| | CONSOLIDATED | | | | | |
|---------------------------|---------------|---------------|---------------|---------------|----------------|----------------|
| | Maturities | | | | | |
| | 1994 | 1995 | 1996 | 1997 | 1998 | Subsequent |
| Notes payable | 10 365 | 365 | 15 365 | 365 | 1 314 | 35 541 |
| Loans in foreign currency | 23 592 | 19 074 | 48 311 | 35 582 | 69 799 | 236 090 |
| Loans and credits | 40 760 | 12 337 | 8 995 | 33 300 | 42 183 | 123 260 |
| Total | 74 717 | 31 776 | 72 671 | 69 247 | 113 296 | 394 891 |
| | | | | | | 12.31.93 |

16.3 Additional information:

| | PARENT COMPANY | | | | CONSOLIDATED | | | |
|---------------------------|--------------------|------------------|-----------------------|--------------------|------------------|-------|--------|--------|
| | Financial expenses | Accrued interest | Average interest rate | Financial expenses | Accrued interest | | | |
| | 1993 | 1992 | 1993 | 1992 | 1993 | 1992 | 1993 | 1992 |
| Loans in foreign currency | 31 794 | 25 308 | 8 165 | 5 449 | 6.99 | 7.50 | 39 947 | 25 308 |
| Loans and credits | 33 872 | 45 681 | 3 606 | 6 728 | 13.13 | 13.42 | 34 308 | 52 480 |
| Notes payable | 4 595 | 4 111 | - | - | 13.40 | 13.34 | 4 595 | 4 111 |

16.4 Loans and credit facilities accounts reflect only the accounts actually borrowed. Unused facilities are disclosed in Note 24.

16.5 At December 31, 1993 a total of 52,243 million pesetas in foreign currency loans is eligible for the tax benefits established by Decree Law 19/1961 and Law 61/1978.

16.6 Details of Telefónica Group loans denominated in foreign currency from financial institutions are as follows:

| | 1993 | | 1992 | |
|-------------------|----------|---------------|----------|---------------|
| | Amount | Exchange rate | Amount | Exchange rate |
| Foreign currency | | | | |
| US dollars | 412.8 | 142.356 | 325.0 | 114.795 |
| German marks | 325.5 | 82.358 | 205.5 | 71.036 |
| Swiss francs | 422.5 | 96.382 | 422.5 | 78.681 |
| Dutch florins | 258.9 | 73.615 | 258.9 | 63.227 |
| Japanese yen | 38 520.6 | 1.27388 | 45 520.6 | 0.92131 |
| French francs | 649.9 | 24.251 | 649.9 | 20.849 |
| ECUs (XEU) | 804.5 | 159.439 | 804.4 | 138.581 |
| Pesetas (ESP) (*) | 12 750.0 | 1.000 | 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.

16.7 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 | Semianual variable | - |
| 1992 | NLG 82.1 MM | 10 years | 5 years | 10 semestres | Quarterly variable | - |

NOTE 17 - DEBTS WITH GROUP AND ASSOCIATED COMPANIES

The detail at December 31, 1993 is as follows:

| | PARENT COMPANY | | | | | | CONSOLIDATED | | | | | |
|---------------------------|----------------|---------------|----------------|----------------|---------------|----------------|--------------|---------------|---------------|---------------|---------------|---------------|
| | 1993 | | | 1992 | | | 1993 | | | 1992 | | |
| | Long term | Short term | Total | Long term | Short term | Total | Long term | Short term | Total | Long term | Short term | Total |
| Loans | 118 975 | - | 118 975 | 83 436 | - | 83 436 | - | - | - | - | - | - |
| Purchases and services: | | | | | | | | | | | | |
| From Group companies | - | 24 142 | 24 142 | - | 43 948 | 43 948 | - | - | - | 18 565 | 25 626 | 44 191 |
| From Associated companies | - | 17 133 | 17 133 | 18 565 | 24 133 | 42 698 | - | 19 358 | 19 358 | 18 565 | 25 626 | 44 191 |
| Corporation Tax | 3 428 | 184 | 3 612 | 1 585 | 184 | 1 769 | - | - | - | - | - | - |
| Total | 122 403 | 41 459 | 163 862 | 103 586 | 68 265 | 171 851 | - | 19 358 | 19 358 | 18 565 | 25 626 | 44 191 |

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 further loan from the European Investment Bank granted in 1993 through Telfisa of 300 million ECUS to be used in pesetas, of an equivalent amount of 38,700 million pesetas. In 1993 the first disposal of 20,000 million pesetas has been made, with a 15 year period of maturity, with a 5 year grace period, and to be amortized in 19 yearly payments and variable quarterly interest rate.
- c) 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 18 - TAXES PAYABLE:

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

| | PARENT COMPANY | | CONSOLIDATED | |
|---|----------------|---------------|---------------|---------------|
| | 1993 | 1992 | 1993 | 1992 |
| Taxes payable and recoverable | | | | |
| Payroll withholding taxes | 7 649 | 7 370 | 8 375 | 8 144 |
| Value added tax | 21 254 | 11 374 | 21 998 | 13 168 |
| Dividend and interest at withholding taxes | 933 | 457 | 1 130 | 669 |
| Corporate income tax | 18 595 | - | 19 099 | 363 |
| Local government taxes | 1 172 | 2 609 | 1 180 | 2 613 |
| Social Security Contributions | 21 913 | 19 427 | 22 745 | 20 123 |
| Foreign taxes | - | - | 845 | 217 |
| Total | 71 516 | 41 237 | 75 372 | 45 297 |
| Taxes recoverable: | | | | |
| Payments on account of corporate income tax: | | | | |
| Tax withheld from income at source | 1 235 | 49 | 2 553 | 1 014 |
| Payments on account on consolidate corporate income tax returns | 346 | 760 | 346 | 760 |
| Payments on account on individual income tax returns | - | - | 2 | - |
| Taxes surcharges and Social Security payments recoverable | 542 | 579 | 553 | 914 |
| Corporate income tax-consolidated 1990 | 1 128 | 2 | 1 128 | 2 |
| Taxes paid in advance | 739 | 16 602 | 767 | 16 698 |
| VAT pending deduction | 2 736 | 2 884 | 2 736 | 3 142 |
| Foreign taxes | - | - | 618 | 136 |
| Total | 6 726 | 20 876 | 8 703 | 22 666 |

NOTE 19 - OTHER ACCOUNTS PAYABLE

This heading comprises the following amounts:

| | PARENT COMPANY | | CONSOLIDATED | |
|-------------------------------------|----------------|----------------|----------------|----------------|
| | 1993 | 1992 | 1993 | 1992 |
| Remuneration payable | 18 656 | 17 877 | 20 939 | 20 751 |
| Exchange of telephone services | 14 491 | 14 270 | 14 491 | 14 270 |
| Guarantee deposits | 7 899 | 9 721 | 7 899 | 9 721 |
| Expenses accrued and due | 39 451 | 32 107 | 39 523 | 32 107 |
| Dividends payable | 23 201 | 7 647 | 23 201 | 7 647 |
| Institución Telefónica de Previsión | (8 846) | (343) | (8 846) | (343) |
| Sundry creditors | 28 781 | 19 602 | 33 013 | 23 401 |
| Total | 123 633 | 100 881 | 130 220 | 107 554 |

NOTE 20 - PENSIONS

20.1 Up to the time of the publication of the Order from the Ministry of Labour and Social Security dated December 30th 1991 (published in the Spanish Official Bulletin nº 1, January 1st 1992) which stated that active employees and pensioners at that time under the Institución Telefónica de Previsión (I.T.P.) would be integrated into the Social Security general regime from January 1st 1992 onwards. Telefónica personnel had benefited from a social welfare system provided by I.T.P. Therefore since January 1st 1992, Telefónica and its employees have been contributing to the Social Security system for the coverage previously provided by the I.T.P., and payments to the latter have ceased.

The I.T.P., which is currently being liquidated in accordance with the resolution by the General Office of Insurance pursuant to which the dissolution order of July 10th 1992 was published, was a mutual employee benefit fund created under the Ley de Montepíos y Mutualidades de Previsión Social dated December 6th 1941 and its Regulations of May 26th 1943. It was, therefore, an independent legal entity and, as such, was governed by its own regulations approved by the Subsecretariat of Social Security on January 28th 1977.

20.2 In accordance with the dissolution Order previously mentioned, the resolution reached by the General Office of Planning and Economic Organization of Social Security on May 25th 1992 stated that the cost of integration of retired personnel would amount to 130 683 million pesetas.

Based on this ministerial order the liquidators of I.T.P. proceeded to pay 65 000 million pesetas to the Social Security, retaining an additional 10 000 million pesetas as provisions to cover the payments to be made on behalf of the Social Security. Of the retained amount 4 154 million pesetas remained and was transferred to the Social Security by the liquidators in July 1993.

The 55 683 million pesetas remaining for the previously mentioned overall total cost of 130 683 million pesetas will be paid over a ten year period. Over the first two years only interest will be paid, amortizing over the remaining eight years the principal amount with its corresponding interest.

Payment of the interest for the two-year grace period was made by the I.T.P. liquidators in yearly payments of 4 455 million pesetas, the first of which was made in December 1992 and the second in December 1993.

Annual payments of 9 690 million pesetas will be made over the remaining eight years in December of each year. The first of such payments will be made in December 1994.

Once I.T.P. has been liquidated, Telefónica de España, S.A. will be obligated to cover the difference between the total cost of 130 683 million pesetas and the liquidation value of I.T.P. This difference is estimated at 58 796 million pesetas for which a corresponding provision has been made (note 14).

20.3 Telefónica, which presented an offer on June 30th 1992 that was accepted by the employees on September 17th of the same year, reached a collective statutory agreement with the union representatives.

The most significant term of the agreement involves the creation of a Pension Plan under the Law 8/1987 of June 8 for Pension Schemes and Funds with the following points:

- a) An employment system pension Plan.
- b) Defined contribution.
- c) Obligatory contributions by participating employees.
- d) Financial capitalization on an individual basis.
- e) The Promoter contributes 6.87% of the participating employees' basic salary. For personnel who joined Telefónica after June 30th 1992, the contribution is 4.51% of their basic salary.
- f) The direct contribution of the participating employee will be a minimum 2.2% of his basic salary.
- g) Entitlements for past services were recognized to a maximum amount of 237 696 million pesetas. Employees who chose not to join the Plan during the one year period on beginning July 1st 1992 (the date on which the scheme came into force) have no rights regarding entitlements for past services and therefore the amount previously mentioned for these consolidated entitlements decreased in the corresponding amount.
- h) The financing of consolidated rights would be carried out, as deemed necessary, through provisions already accounted for in the amount of 121 350 million pesetas. The effective transfer of this amount would be made not later than the year 2002 applying an effective annual interest rate of 6.7% in accordance with the Rebalancing Plan.

The remaining deficit, up to a maximum of 116 346 million pesetas, would be financed over twenty eight years pursuant to the Rebalancing Plan not yet approved by the General Office of Insurance. The effective annual interest rate for the financing of this deficit will be 6% with payments to be made at the beginning of each month.

i) The plan became effective July 1st 1992. The time period stipulated for incorporation into the Plan was the one year period beginning that date, although there may be, at a future date, additional incorporation periods in accordance with the law and with no recognition of consolidated rights for past services.

20.4 66 158 employees had joined the Plan as of December 31 1993. In accordance with actuarial calculations the consolidated rights for these employees amount to 228 118 million pesetas. The final amount will depend on the outcome of certain individual situations currently under study, although these should not cause any significant changes.

20.5 During the fiscal year a new Rebalancing Plan has been drafted to comply with General Office of Insurance regulations. The draft has not been approved yet, but in essence it would result in a two-year acceleration of the transfer of the provisions for the consolidated rights, whose transfer would therefore be made not later than the year 2000.

In accordance with the conditions laid down for incorporation to the Plan, transfers of 33 130 million pesetas have been made as follows:

| | | |
|---|--|-----------------|
| Transferred in 1992 | | 9 153 |
| Transferred in 1993 | | 23 977 |
| Corresponding to 1992 for those employees who joined the Plan in 1993 with backdated rights in accordance with the 1st Transitory Provision of Telefónica's Pension Plan's regulation | | 1 445 |
| Corresponding to 1993 | | 22 532 |
| Pending transfer for the adjustment of the Rebalancing Plan | | 33 130 1 110 |
| Total | | 34 240 |

The existing debt will be amortized following a systematic plan in accordance with the Rebalancing Plan. The provision made for 1993 amounts to 4 128 million pesetas (in 1992 the figure was 8 13 million pesetas).

At the end of the fiscal year the total figure for consolidated rights liabilities pending transfer to the Plan amounted to 215 145 million pesetas, for which provisions amounting to 107 757 million pesetas have been made. The Promoter's contribution for 1993 totalled 16 566 million pesetas (6 231 million pesetas in 1992).

20.6 One of the agreements within the overall solution to the Company's social welfare scheme was reached on July 8th, 1992 with the employees' representatives in relation with the supplementary pension to be received by those employees 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, had it been recognized by, the ITP.

The aforementioned supplementary payments, once quantified, will be fixed, to be received for life, and not revisable. Upon death of the employee the spouse recognized as such before June 30th 1992 is entitled to 60% of the payment.

NOTE 21 - COLLECTIVE ENDOWMENT INSURANCE

At December 31st 1993 Telefónica had provisions totalling 22 321 million pesetas to cover liabilities accrued in accordance with actuarial calculations. These provisions will be used to cover the payments to be made to retired personnel under 65 who have not been entitled to endowment insurance and will also cover the 7 056 current employees who have chosen not to join the Pension Plan and who will be entitled to the endowment insurance once they reach the age of 65.

Telefónica has made provisions of 4 038 million pesetas for this purpose charged to 1993 results (in 1992 this figure was 8 965 million pesetas). The payments made throughout 1993 amounted to 5 805 million pesetas (the figure for 1992 was 5 444 million pesetas).

NOTE 22 - TAXATION

The years open to inspection for the main taxes are:

- Corporate income tax: 1988 through 1992.
- Corporate income tax for companies filing a consolidated tax return: 1990 through 1992.
- Local government taxes: 1988 through 1993.
- Value added tax: 1988 through 1993.
- Capital transfer tax: 1988 through 1993.
- Dividend and interest withholding taxes: 1988 through 1993.
- Payroll withholding tax: 1988 through 1993.

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

| | | |
|---|----------|----------------|
| Profit before tax | | 107 468 |
| | Increase | Decrease |
| PERMANENT DIFFERENCES: | 4 195 | 1 583 |
| Adjusted profit per accounts | | 110 080 |
| TIMING DIFFERENCES: | | |
| Originating in present year | 32 748 | 1 654 |
| Originating in previous year | 13 463 | 4 052 |
| Taxable income | | 150 585 |
| Individual Taxable income rest of tax group | | 2 534 |
| Intra group eliminations | | |
| Fixed assets sales | | (4 123) |
| Dividends | | (2 651) |
| Taxable Income (Tax Group) | | 146 345 |

| CORPORATE INCOME TAX: | | Accrued | Deferred | Prepaid | Payable | Group |
|--|----------|----------|----------|----------|----------|----------|
| Rate of 35% : | | | | | | |
| On adjusted profit per accounts | 38 528 | (4 133) | 10 044 | - | 52 705 | 51 221 |
| On taxable income | - | - | - | - | - | - |
| Deductions: | | | | | | |
| Double taxation relief | (2 614) | - | - | - | (2 614) | (2 338) |
| Allowances | (360) | - | - | - | (360) | (360) |
| Investment tax credits | (13 014) | 3 899 | (13 547) | (30 460) | (29 928) | - |
| Employment | - | - | - | - | - | - |
| Total deductions | 22 540 | (234) | (3 503) | 19 271 | 18 595 | |
| Taxes paid abroad and other | 1 730 | | | | | |
| Repercussion for consolidated tax | (974) | | | | | |
| Surplus of provisions corporate income tax 92 | (665) | | | | | |
| | 22 631 | | | | | |
| RECONCILIATION OF PROFIT BEFORE TAX PER CONSOLIDATED ACCOUNTS AND TAXABLE INCOME: | | | | | | |
| Profit before tax per accounts | | | | | | 121 212 |
| PERMANENT DIFFERENCES: | | | | | | |
| Individual corporations | | | | | | 2 537 |
| Losses on foreign governments | | | | | | (3 497) |
| Losses on associated companies | | | | | | (20 176) |
| Eliminations included on consolidation and not included on corporate income tax report | | | | | | 2 203 |
| Amortization of goodwill on consolidation | | | | | | 4 798 |
| Deduction of taxable losses | | | | | | (323) |
| Losses of non tax consolidating companies | | | | | | 205 |
| Adjusted profit per accounts | | | | | | 106 959 |
| TIMING DIFFERENCES: | | | | | | |
| Individual corporations increase | | | | | | 47 133 |
| Individual corporations decrease | | | | | | (7 049) |
| Profit of transparent corporations 1992 | | | | | | 3 662 |
| Profit of transparent corporations 1993 | | | | | | (3 145) |
| Taxable income | | | | | | 147 560 |
| CORPORATION TAX | | Accrued | Payable | Deferred | Prepaid | |
| Rate of 35% : | | | | | | |
| On adjusted profit per accounts | 37 436 | - | (4 407) | 10 079 | | |
| On taxable income | - | 51 646 | - | - | - | - |
| Deductions: | | | | | | |
| Double taxation relief | (2 338) | (2 338) | - | - | - | - |
| Allowances | (360) | (360) | - | - | - | - |
| Investment tax credits | (13 201) | (29 849) | 3 377 | (13 547) | | |
| total | 21 537 | 19 099 | (1 030) | (3 468) | | |
| Taxes paid abroad | | 3 308 | | | | |
| total | | 24 845 | | | | |

There are carry-over investment tax credits which were not applied due to insufficient tax liabilities in the following amounts: 1989, 18.008 million pesetas; 1990, 30.180 million pesetas; 1991, 27.977 million pesetas; 1992, 19.000 million pesetas; and 1993, 19.248 million pesetas. As a result of the prescription of the term of application, 12.945 million pesetas of 1988 have been cancelled. They have profitted of fiscal deductions for reinvestment totalling 537 million pesetas.

Timely differences have derived from: 22.642 million pesetas, of exchange differences caused by keeping a cash fiscal criteria; 13.463 million pesetas of reversion of tax regulation amortization applied on previous years; 5.561 million pesetas of the Pension Fund rebalancing plan (surplus over payments); 3.016 million pesetas of spare provision of the Pension Plan for 1992; 2.511 million pesetas of charges for complement of retired personnel (surplus over payments); 1.874 million pesetas of provision charges for depreciation of investments as a result of applying the fiscal standard of deduction on the following year; 1.654 million pesetas of payments for collective insurance endowment (surplus of payments over charges for provision); 4.052 million pesetas of reverted prepaid taxes of 1992.

Advance payments of the Group for corporate income tax, amount to 346 million pesetas and the withholding tax to 1.235 million pesetas.

NOTE 23- INCOME AND EXPENSES

23.1 The distribution of sales by products is as follows:

| | PARENT COMPANY | |
|----------------------------------|------------------|------------------|
| Concepts | 1993 | 1992 |
| Subscribed payments | 276 280 | 253 751 |
| Transmission of data and images | 112 433 | 115 669 |
| National automatic service | 579 671 | 539 564 |
| Operator trunk calls | 3 271 | 2 861 |
| International service | 132 672 | 135 005 |
| Marine portable service | 32 754 | 25 989 |
| Advertising | 15 007 | 12 806 |
| Connection fees | 43 930 | 44 014 |
| Marketing of terminals and other | 24 066 | 25 037 |
| Operating income | 1 220 084 | 1 154 696 |
| | CONSOLIDATED | |
| Concepts | 1993 | 1992 |
| Parent company | 1 220 084 | 1 154 696 |
| International Telephone Group | 18 338 | 1 767 |
| Other subsidiaries | 161 106 | 156 395 |
| Intra - group sales | (102 091) | (103 920) |
| Total | 1 297 437 | 1 208 938 |

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

| AVERAGE NUMBER OF EMPLOYEES: | PARENT COMPANY | | CONSOLIDATED | |
|---|----------------|----------------|----------------|----------------|
| Category | 1993 | 1992 | 1993 | 1992 |
| General management | 1 141 | 1 129 | 1 482 | 1 155 |
| University graduates and special technicians | 4 007 | 3 941 | 5 277 | 5 302 |
| Personnel with higher education degrees and technicians | 6 640 | 6 726 | 7 994 | 8 106 |
| Personnel in charge and operators of internal plant | 18 225 | 18 240 | 18 240 | 18 240 |
| Personnel in charge and operators of external plant | 20 755 | 21 079 | 20 835 | 21 079 |
| Applications operator and data processing assistants | 732 | 1 080 | 732 | 1 080 |
| Administrative personnel | 10 702 | 10 482 | 12 727 | 12 237 |
| Subscribed service personnel | 3 510 | 3 467 | 3 709 | 3 722 |
| Operation personnel | 5 923 | 6 031 | 5 923 | 6 031 |
| Warehouse, office and garage personnel | 1 757 | 1 798 | 1 757 | 1 801 |
| Auxiliary personnel | 975 | 965 | 982 | 971 |
| Manual workers | -- | -- | 3 297 | 2 807 |
| Other personnel | 22 | 30 | 1 101 | 1 271 |
| Total | 74 389 | 74 968 | 84 056 | 83 802 |
| PERSONNEL COSTS: | PARENT COMPANY | | CONSOLIDATED | |
| Concepts | 1993 | 1992 | 1993 | 1992 |
| Salaries and wages | 302 599 | 292 661 | 334 097 | 318 288 |
| Pensions Funds | 18 022 | 24 065 | 18 233 | 24 470 |
| Social Security and other expenses | 87 482 | 76 010 | 96 072 | 86 868 |
| Total | 408 103 | 392 736 | 448 402 | 429 626 |

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

| EXTRAORDINARY INCOME | PARENT COMPANY | | CONSOLIDATED | |
|---|----------------|------|--------------|------|
| Concept | 1993 | 1992 | 1993 | 1992 |
| Reversion of fixed assets contributions for COOB 92 and EXPO 92 | 881 | | 881 | |
| Indemnities for breach of contract | 533 | | 533 | |
| Insurance compensation | 146 | | 146 | |
| Complementary income tax report | 161 | | 849 | |
| Miscellaneous | 485 | | 2 107 | |
| Total | 2 206 | | 4 516 | |

| EXTRAORDINARY EXPENSES | PARENT COMPANY | CONSOLIDATED |
|---|----------------|---------------|
| | 1993 | 1993 |
| Concept | | |
| Pension complements | 8 292 | 9 130 |
| Donations | 1 080 | 1 080 |
| Sponsorship costs of COOB 92, EXPO 92 COM 92 and XACOBEO 93 | 1 784 | 1 784 |
| Irrecoverable costs of rejected projects | 405 | 405 |
| Charge on provision for contingencies | 3 113 | 3 113 |
| Complementary income tax report | 1 138 | 1 369 |
| Expenses for exhibitions and other functions | 614 | 615 |
| Miscellaneous | 257 | 1 668 |
| Total | 16 683 | 19 164 |

NOTE 24 - OTHER INFORMATION

24.1 Compensation of Directors

The total amount paid to Telefónica's directors during the year 1993 for salaries, wages and expense allowances was 125 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 1993 amount to 2.272,328 pesetas.

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

24.2 Unused credit facilities:

| | PARENT COMPANY | | CONSOLIDATED | |
|---|----------------|---------------|----------------|----------------|
| | 1993 | 1992 | 1993 | 1992 |
| Unused long term credit facilities | 32 079 | 4 682 | 126 693 | 85 224 |
| Other credit facilities (floating credit lines) | 62 000 | 21 627 | 62 000 | 21 627 |
| Short term credit facility | 31 965 | 12 189 | 41 946 | 30 085 |
| Total | 126 044 | 38 498 | 230 639 | 136 936 |

24.3 Commitments:

| | | | | |
|-------------------------------------|--------|--------|--------|-------|
| Guarantees for financial operations | 75 073 | 75 201 | 85 579 | 2 795 |
| Guarantees granted to employees | 2 646 | 2 924 | 2 646 | 6 603 |

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 25- SUBSEQUENT EVENTS

25.1 Loans in foreign currency

In January 1994, the following loans have amortized in advance:

a) Loan of the European Bank of Investments, granted through the I.C.O. in 1989, with a maturity of 15 years, used in 3 multi-currencies, 52.4 million ECU'S, 61.7 million dutch florins, and 46.6 million swiss francs.

b) Loan of the Swiss Bank granted in 1990 of 75 million US dollars, with a maturity of 8 years, to be amortized by a single payment and variable interest rate from 3 to 6 months.

25.2 Foreign operations

a) In January 1994 the COCELCO consortium, in which Telefónica's group participates in 35%, has obtained the license to operate through mobile technology in the west region of Colombia.

b) In February 1994, through public licitation, the Telefónica Group was the successful bidder of 35% of the equity of the peruan companies CPT and ENTEL, which control 95% of the telecommunication market in Perú. The requirements are included in the privatization document. The bidden amount totals 2.002 million of US dollars for the aforementioned adjudication.

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

| APPLICATION | 1993 | 1992 | Sources | 1993 | 1992 |
|---|----------------|----------------|--|----------------|----------------|
| 1. Funds applied to operations | - | - | 1. Funds provided by operations | 594 310 | 602 512 |
| 2. Establishment costs and cost of formalizing debts | 2 172 | 5 127 | 2. Contributions from shareholders: | | |
| 3. Acquisition of long-term assets: | | | a) Capital increases | 6 255 | - |
| a) Intangible assets | 25 279 | 19 571 | b) Share premiums | 9 600 | - |
| b) Fixed assets | 376 982 | 423 048 | 3. Deferred income | 10 702 | 17 669 |
| c) Long term investments | 21 961 | 23 540 | 4. Long term deferred taxes | 161 | 1 310 |
| d) Advances to suppliers | (14 215) | 17 650 | 5. Long term liabilities: | | |
| e) Installation materials | (5 502) | (11 521) | a) Loans and credits | 73 037 | 121 225 |
| 4. Long term prepaid taxes | 2 866 | - | b) Other | 44 529 | 215 518 |
| 5. Dividends | 79 731 | 31 517 | 6. Sale proceeds of fixed assets: | | |
| 6. Cancellations or transfers to short-terms of long-term liabilities | | | a) Fixed assets | 10 783 | 6 792 |
| a) Loans and credits | 168 154 | 79 971 | b) Long term investments | 9 451 | 3 973 |
| b) Other | 135 401 | 137 051 | 7. Provision and deferred expenses | 1 716 | - |
| 7. Provisions | 22 365 | 134 958 | | | |
| 8. Deferred taxes | 586 | 343 | | | |
| Total applications | 815 780 | 861 255 | Total sources | 760 544 | 969 000 |
| Excess of sources over applications | | | Excess of applications over sources | | |
| (Increase in working capital) | | 107 745 | (Decrease in working capital) | 55 236 | - |
| | 815 780 | 969 000 | | 815 780 | 969 000 |

CHANGES IN WORKING CAPITAL PER PARENT COMPANY

| INCREASE IN WORKING CAPITAL | 1993 | 1992 | DECREASE IN WORKING CAPITAL | 1993 | 1992 |
|--|---------------|----------------|---|---------------|----------------|
| 1. Shareholders for uncalled share capital | - | - | 1. Shareholders for uncalled share capitals | - | - |
| 2. Inventories | - | - | 2. Inventories | 1 187 | 300 |
| 3. Accounts receivable | | 55 099 | 3. Accounts receivable | 11 821 | - |
| 4. Accounts payable | | 50 183 | 4. Accounts payable | 39 767 | - |
| 5. Own shares | - | - | 5. Own shares | - | - |
| 6. Short term investments | - | 6 449 | 6. Short term investments | 5 248 | - |
| 7. Cash and banks | 1 242 | - | 7. Cash and banks | - | 790 |
| 8. Prepayments and accruals | 1 545 | - | 8. Prepayments and accruals | - | 2 896 |
| Total | 2 787 | 111 731 | Total | 58 023 | 3 986 |
| Changes in working capital | 55 236 | - | Changes in working capital | - | 107 745 |
| | 58 023 | 111 731 | | 58 023 | 111 731 |

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

| APPLICATION | 1993 | 1992 | SOURCES | 1993 | 1992 |
|--|----------------|----------------|---|----------------|----------------|
| 1. Funds applied to operations | - | - | 1. Funds provided by operations | 602 317 | 597 806 |
| 2. Establishment costs and cost of formalizing debts | 1 854 | 5 810 | 2. Contributions from shareholders: | | |
| 3. Acquisition of long-term assets: | | | a) Capital increases | 6 255 | 1 |
| a) Intangible assets | 24 896 | 19 774 | b) Share premiums | 9 600 | - |
| b) Tangible fixed assets | 374 920 | 435 556 | c) Participations of minority shareholders | 584 | - |
| c) Long term investments | 64 640 | 10 663 | 3. Deferred income | 11 805 | 17 669 |
| d) Advances to suppliers | (13 680) | 17 077 | 4. Long term deferred taxes | 161 | - |
| e) Installation materials | (5 502) | (13 128) | 5. Long term liabilities | 145 881 | 343 629 |
| 4. Long term prepaid taxes. | 2 866 | - | 6. Sale of long-term assets: | | |
| 5. Dividends | 79 827 | 31 517 | a) Intangible fixed assets | - | 2 |
| 6. Funds used on acquisition of participations | 490 | 12 872 | b) Tangible fixed assets | 12 465 | 8 671 |
| 7. Cancellations or transfer to short-terms | | | c) Long-term investments | 15 829 | 4 780 |
| of long-term liabilities | 326 665 | 224 824 | 7. Provision and deferred expenses | 1 716 | - |
| 8. Provision | 22 664 | 135 225 | 8. Funds used by sales of participation | - | 328 |
| 9. Deferred tax | 586 | 343 | 9. Increase of working capital by acquisition | | |
| 10. Decrease in working capital due to disposal | | | of new subsidiaries companies | 10 053 | 1 457 |
| of subsidiary companies | 204 | - | Total applications | 884 960 | 880 533 |
| 11. Variation of working capital due to | | | Excess of sources over applications | | |
| differences in currency translation | 4 530 | - | (Increase in working capital) | - | 974 343 |
| Total applications | 884 960 | 880 533 | Total sources | 816 666 | 974 343 |
| Excess of sources over applications | | | Excess of applications over sources | | |
| (Increase in working capital) | - | 93 810 | (Decrease in working capital) | 68 294 | - |
| | 884 960 | 974 343 | | 884 960 | 974 343 |

CHANGES IN WORKING CAPITAL PER CONSOLIDATED GROUP

| INCREASE IN WORKING CAPITAL | 1993 | 1992 | DECREASE IN WORKING CAPITAL | 1993 | 1992 |
|--|---------------|---------------|--|---------------|---------------|
| 1. Shareholders for uncalled share capital | 22 | - | 1. Shareholders for uncalled share capital | - | 40 |
| 2. Inventories | - | - | 2. Inventories | 2 047 | 1 867 |
| 3. Accounts receivable | - | 49 482 | 3. Accounts receivable | 4 559 | - |
| 4. Accounts payable | - | 43 052 | 4. Accounts payable | 70 121 | - |
| 5. Own shares | - | - | 5. Own shares | - | - |
| 6. Short term investments | 4 688 | 5 770 | 6. Short term investments | - | - |
| 7. Cash and banks | 2 088 | - | 7. Cash and banks | - | 803 |
| 8. Prepayments and accruals | 1 635 | - | 8. Prepayments and accruals | - | 1 784 |
| Total | 8 433 | 98 304 | Total | 76 727 | 4 494 |
| Changes in working capital | 68 294 | - | Changes in working capital | - | 93 810 |
| | 76 727 | 98 304 | | 76 727 | 98 304 |

The reconciliation net profit to funds provided by operations:

| | PARENT COMPANY | | CONSOLIDATED | |
|---|----------------|----------------|----------------|----------------|
| | 1993 | 1992 | 1993 | 1992 |
| Net profit for the year | 84 837 | 83 899 | 96 367 | 80 761 |
| Net profit attributed to the shareholders' interests | - | - | 5 581 | 2 461 |
| Net profit attributed to the associated companies | - | - | (20 176) | (9 391) |
| | | | 81 772 | 73 831 |
| ADDITIONS: | | | | |
| Dividends from associated companies | - | - | 7 849 | 6 267 |
| Depreciation | 372 401 | 341 903 | 374 259 | 343 179 |
| Amortization | 4 952 | 5 462 | 4 954 | 5 810 |
| Amortization of Consolidation Goodwill | - | - | 4 798 | 808 |
| Reserve for deterioration in value of long term investments | 2 530 | 1 949 | 68 | 519 |
| Exchange losses | 27 122 | 9 066 | 27 157 | 9 086 |
| Provision for pension fund | - | 12 531 | - | 12 731 |
| Charge on collective endowment insurance | 4 038 | 8 965 | 4 038 | 9 492 |
| Dismantled plant non amortized | 29 250 | 35 101 | 29 250 | 35 355 |
| Provision adjustment inventories | 1 906 | 9 357 | 1 906 | 9 357 |
| | 3 113 | - | 3 113 | - |
| Deferred interest | 69 600 | 58 406 | 70 072 | 58 964 |
| Deferred taxes and other | - | 31 321 | - | 27 836 |
| Amortization of COOB92 and Expo 92 | 1 784 | 5 738 | 1 784 | 5 738 |
| Lost on sale of intangible fixed assets | - | - | 208 | 188 |
| Financial provision and liabilities compliments | 18 381 | 9 040 | 18 381 | 9 040 |
| Charge on other provisions | - | - | 2 370 | - |
| Provision for deficit of current employees | 4 128 | - | 4 128 | - |
| Losses on disposal of consolidated companies | - | - | 205 | - |
| REDUCTIONS: | | | | |
| Profit on sale of long term investment | 564 | 145 | 4 767 | 162 |
| Profit on sale of fixed assets | 9 539 | 5 621 | 9 539 | 5 682 |
| Capital grants | 5 377 | 3 693 | 5 377 | 3 693 |
| Deferred and prepaid taxes | 10 226 | - | 10 289 | - |
| Outside contributions refundable and other | 4 026 | 767 | 4 023 | 858 |
| Funds provided by operations | 594 310 | 602 512 | 602 317 | 597 806 |

Sources applied for purchases or sales of participations:

| Effects on working capital | Purchases | | Sales | |
|---|-----------------|---------------|--------------|------------|
| | 1993 | 1992 | 1993 | 1992 |
| Purchaser financial investment and consolidated change criteria | (988) | - | - | - |
| Intangible assets | - | (3 522) | 136 | 396 |
| Tangible assets | 199 | (3 525) | 32 | 677 |
| Investments | 1 | - | 32 | 46 |
| Goodwill | 426 | (7 595) | - | 46 |
| Minority interest | (61) | - | (197) | - |
| Exchange differences | - | 2 371 | - | - |
| Provisions | (9 472) | - | - | - |
| Long term Liabilities | (158) | 12 872 | (2) | (309) |
| Losses on sales of consolidated companies | - | - | (205) | - |
| Working capital | (10 053) | 601 | (204) | 856 |
| Purchase or sale price of participations | 490 | 12 872 | 1 | 328 |

MANAGEMENT REPORT ON TELEFONICA DE ESPAÑA, S.A.

From a global viewpoint, Telefonica's activities in 1993 can be categorized as satisfactory in a year in which the Spanish economy has gone through recession.

Regarding the management of services, the achievements accomplished throughout the year have been decidedly favourable. The waiting list, that a few years ago totalled over half a million applications pending, was totally eliminated. Customer service was also improved, significantly cutting the average waiting period which, by December 1993, had fallen to eight days. Those clients whose applications have not been attended to within a 20-day period have received the gift of a telephone set as promised by Telefonica's President at the Annual General Shareholders' Meeting and the Company has achieved quality levels comparable with those of the most developed countries within the European Community.

Another facility aimed at improving customer service was that of detailed invoicing free of charge which, at the end of the year, was offered to two million subscribers. It is foreseen that during the course of 1994 this service will be extended to all those subscribers whose lines correspond to a digital exchange and by 1997 this service will cover all subscribers.

This improved customer service is due, in large part, to Telefonica's policy of modernization of installations which continued throughout 1993. Of the new lines installed, 61% have been aimed at the modernizing of the network, substituting those lines whose technology has become obsolete. As a result of this, the degree of digitalization has risen 5 percentage points to reach 41.4%. In July 1993, Telefónica launched its Integrated Services Digital Network which provides voice, text, data and image services through a single access point. With the aim of further modernizing installations, in the last quarter of the year the Fotón Plan was introduced in order to offer digital continuity to all Telefonica's corporate clients through the connecting, using optic fibre, of their buildings to the corresponding digital exchange.

Another singularly important event for Telefónica in 1993 was that of the liberalizing, in Spain, of data transmission services, coming as a result of the process of telecommunications liberalization taking place throughout the European Community. In 1994 this process will continue with the granting of a second licence for mobile telephony.

With a view to gaining ground in the ever-growing competitive arena of data transmission Telefonica launched, in 1993, its ISDN Business Network, a service designed to meet the telecommunications needs of Spanish corporate clients. This service combines those offered by the Red UNO network, specialized in data transmission, with those of the Integrated Services Digital Network along with the virtual networks carried by the Intelligent Network. Regarding the international arena, Telefonica has developed a new communications network for business clients, Orbinet, which was launched at the beginning of 1994 and will offer international connections with the principal European and Latin American capitals.

From a financial viewpoint, the 1993 fiscal year has somewhat reversed the performances registered previously. For the first time in Telefonica's recent history a situation of total self-financing of investment was reached due to the continued growth in the Company's capacity to generate funds, which has permitted a 96,000 million peseta cut in indebtedness, therefore changing the trend of this variable.

Service performance

The number of applications registered for basic telephony totalled 1,136,148, growing by 6.3%. However, the high number of line cancellations caused by the economic recession has placed net demand at 347,755 applications, 11.8% lower than in 1992. The number of new connections made to the service rose to 1,020,821, 6.2% higher than last year's figure. At year-end, basic telephone lines in service totalled 14,253,470, a 3.3% increase over December of 1992. The weakness in demand and the sustained installation effort carried out over the past few years and throughout 1993, have resulted in the total elimination of the waiting list, as the 24,766 applications pending at the end of the year (95,648 fewer than the previous year) can be considered to be a normal number with an average 8-day waiting period.

Mobile telephony has continued the high-growth trend registered over the past few years, although it has also been affected by the unfavourable economic climate. The number of new connections registered over the year amounted to 108,398 which reflects a 12.1% increase when compared with the previous year. The figure for subscribers to mobile telephony reached 257,261 a 42.7% increase over the figure for 1992.

The integrated business communications service Ibercom has also suffered the effects of the recession registering 124,867 applications, 8.8% down on the previous year. Similarly, the number of new connections to the service fell 9.7%, to total 119,519. At year-end the Ibercom service had 572,460 extensions, 18.9% higher than in December 1992.

The performance reflected by data transmission services for the business sector has been influenced by both the economic situation and the business sector's tendency to drift from one service to another. The number of applications for leased circuits amounted to 8,718 compared with the 9,833 registered the previous year, resulting in a 11.3% decrease compared with 1992. The number of connections carried out in order to cover this demand totalled 7,839 which also represents a fall off of 10.6%. Regarding the packet-switched data transmission network Iberpac, applications registered went up 18.5% to reach 26,180, while the number of connections made was 19,385, reflecting a 8.1% drop.

Investment activity

Telefonica's total investment for 1993 amounted to 403,468 million pesetas, 12.8% lower than the previous year. Investment in intangible assets rose to 25,279 million pesetas, compared with 19,571 million pesetas in 1992. This increase reflects the important growth in research and development activities and the purchasing of software licences. Financial investment totalling 21,961 million pesetas went down 6.7% compared with 1992.

Gross investment in fixed assets, which includes investment in plant, variations in stock installation equipment and advances to suppliers of fixed assets, amounted to 356,228 million pesetas, having gone down 15.1%, which confirms the continued restraint exercised on this item initiated the previous year.

The principal components that made up investment in fixed assets in 1993 have been installations in external plant, 35% of the total, switching equipment, 23%, and radio and transmission equipment contributed 19%.

Throughout 1993, 1,019,674 subscriber lines and 188,609 trunk lines have been installed, of which almost all are digital. The total number of subscriber lines installed at year-end was 15,879,700, growing 2.6% over the figure for December 1992. The level of digitalization reached 41.4%, which represents a 5 percentage point increase. In December 1993, the number of lines with the capacity to provide detailed invoicing totalled 3,985,335; the number of Ibercom lines installed reached 108,671 and automatic mobile telephony lines totalled 427,414.

Research and development activities

The total figure for investment in research and development reached 13,954 million pesetas, making up 3.5% of investment. The principal projects into which these resources have been channelled are those of new facilities for packet-switching equipment, new possibilities for wide-band multimedia communications, displays of new services such as multimedia videotex, videotelephony, multipoint conferencing, telepayment and other concepts.

Economic results

Telefónica's economic results can be categorized as satisfactory in a year that has been characterized, from a macroeconomic viewpoint, by the recession and the depreciation of the peseta.

Net income, totalling 84,837 million pesetas grew by 1.1%. However, income before tax reflected a more positive performance going from 99,724 million pesetas in 1992 to 107,468 million pesetas in 1993, growing by 7.8%. This performance comes despite the economic slump, which has affected revenue from operations which went up 5.7%, the lowest rate in recent years, and the negative effects of exchange losses for an amount of 27,243 million pesetas, caused by the depreciation of the peseta, when the figure for 1992 was 12,411 million pesetas. This performance has therefore been possible due to the restraint on personnel and operating expenses.

Financial performance

From a financial point of view, 1993 has been a year in which Telefónica's fund generation capacity, reflected by a figure for funds provided by operations totalling 594,310 million pesetas, was considerably greater than the resources applied to investment and distribution of dividends, which has allowed the Company total self-financing for the first time in recent years.

The favourable trend reflected by the price of Telefónica shares over the year has permitted the conversion of the outstanding bonds corresponding to the US \$ 200 million Convertible Bond Issue carried out on the Euromarket in July 1988. Following the conversion, this issue has been totally redeemed. This conversion has resulted in a 15,855 million peseta increase in equity (6,255 million pesetas in share capital and 9,600 in share premium) through the issuing of 12,511,669 new shares, therefore raising the total number of shares to 939,470,820 at December 1993.

In consequence, Telefónica's indebtedness has gone down throughout the year to reach 95,865 million pesetas of which 64,353 million pesetas correspond to long term debt and 31,512 million pesetas to short term.

The Board of Directors has agreed to propose, at the Annual General Shareholders' Meeting, the distribution of a dividend of 62 pesetas per share debited to the 1993 results. This payment per share is one peseta higher than in 1992, resulting in a total amount of 57,948 million pesetas to be distributed in dividends.

Outlook

The forecasts for 1994 show that demand for basic telephony will follow a trend similar to that of 1993. The foreseen number of subscriber line applications is around 1,080,000 and net demand will reach approximately 355,000 lines and more than 900,000 new connections are foreseen.

Forecasts for investment, which includes both fixed and intangible assets, place the figure at 466,000 million pesetas with total self-financing. One million lines will be installed of which almost all will be digital. More than 80% of these lines will be used to modernize plant installed and the remaining 20% to cover new demand.

Acquisition of own shares (Treasury stock)

No treasury stock was acquired during the year.

MANAGEMENT REPORT ON CONSOLIDATED GROUP

1993 has been a year of intense activity for the Telefónica Group, both in Spain and abroad, with activities aimed at the strengthening of the strategy followed over recent years, combining the specializing in business lines with geographical diversification. From an economic-financial viewpoint, 1993 has been generally positive, reflecting results that fulfilled the favourable expectations of the last few months of the year.

Within Spain, Telefónica's activities have been aimed at the adopting of measures that will allow the Company to face, from the best possible position, the imminent competition derived from the liberalization of data transmission services, which took place last year, and the granting of a second cellular mobile telephony licence to be carried out within the next few months.

In order to attend to the demands of business clients, Telefónica has launched a group of companies using the subsidiary, Telefónica Sistemas, as a nucleus. Telefónica Servicios Avanzados de Información has been formed to offer intercommunication services among businesses. Those services worthy of mention are those of access to data bases, electronic mail and clearing centres. Telefónica Sistemas de Ingeniería de Productos will specialize in the designing of projects, installation, supplying and maintenance of Tesys data transmission equipment. Telefónica Gestión de Sistemas has been created as a supplier of outsourcing services, while Telefónica Sistemas de Satélites (TSS), a systems engineering company, will specialize in the networks for satellite communications.

In October 1993, TSS signed a collaboration agreement with Unisource Satellite Services in order to, jointly, operate worldwide business communications via satellite which represented the first step towards the finalizing, at the end of the same year, of a far-reaching cooperation agreement, between Telefónica and the Unisource consortium, aimed at improving the service to international clients. The Unisource consortium is made up by PTT Telecom Netherlands, Swiss Telecom PTT and Swedish Telia. The agreement covers the harmonizing of the commercial offer for data transmission services, satellite communications, business and other networks and their supporting infrastructure. This collaboration will permit the offer of worldwide international communications through a single contract with any one of the partners.

In order to tackle the imminent competition created by the granting of a second licence for cellular mobile telephony in 1994, Telefónica, through its subsidiary, Telefónica Servicios Móviles (TSI) has consolidated its position within automatic mobile telephony with the launching of MOVILINE which has meant the introduction of a new commercial strategy, with an extensive distributor network and the designing of new ways to gain connection to the service. At the same time, coverage has continued to expand and new facilities have been developed.

In the international arena, Telefónica, through its subsidiary Telefónica Internacional, has maintained its policy of consolidating existing businesses and markets and has also branched out into new business lines and countries.

Telefónica Internacional has confirmed its presence in Argentina with the purchasing of the participations previously held by Banco Central Hispano and Sociedad Comercial del Plata in COINTEL which in turn holds a 60.5% participation in Telefónica de Argentina (TASA). TASA is responsible for the operating of the telephone service in the southern area of Buenos Aires and South Argentina.

As a result of these acquisitions, Telefonica's stake in COINTEL has gone from 10.1% to 28.8% and that of TASA has risen from 8.1% to 19.4%. This increase in participation has meant an investment amounting to 317.5 million dollars. It must be underlined that Telefónica Internacional participates in the management of 5.8 million subscriber lines in service in Latin America.

In March, Movistar, a company within the Telefónica Internacional Group, with 50% participations held by Telefónica de Argentina and Telecom Argentina, launched its cellular telephony service, Miniphone, in Buenos Aires. In 1993, Telefónica Rumania also initiated its cellular telephony service, Telemobil, in Bucharest.

Regarding data transmission, the participation held in INFONET went from 5.4% to 7.1% with an investment of 1.9 million dollars. In the directories and yellow pages business, 60% of the Chilean company Publiguías was acquired in January 1993, 51% through Telefónica Internacional and the remaining 9% through the Compañía de Teléfonos de Chile (CTC) with a total investment figure for the Group of 7 million dollars.

With regard to cellular mobile telephony, it must be mentioned that in December 1993 the international consortium led by Telefónica, Telecom and Stet, was granted the licence to operate a second cellular telephony system in Uruguay. Telefónica de Argentina, holding a 40% participation, is the consortium's leader, while Telefónica Internacional controls 10%.

After the close of the year, in January 1994, the consortium COCELCO, in which the Telefonica Group holds a 35% participation (26% Telefónica Internacional and 9% the Compañía de Teléfonos de Chile Celular) obtained a licence to operate a cellular mobile telephony system in the western area of Colombia in which the urban areas Cali and Medellin are located. The licence was obtained for 158 million dollars.

On February 28th 1994 the Peruvian government resolved the bidding procedure for 35% of the share capital of the telecommunications operators, CPT and ENTEL, which together control 95% of telecommunications in Peru. The outcome of this procedure was that Telefonica Internacional's 2,002 million dollar offer was the winning bid with a maximum three-month period in which to make this participation effective.

Economic results

The Telefonica Group's economic results for 1993 have reflected a favourable performance in a year in which the Spanish economy has been going through recession. This is, in large part, due to the more favourable economic climate in the Latin American countries where the Telefonica Group has been expanding and consolidating its presence.

Consolidated net income rose to 96,367 million pesetas, 19.3% higher than the figure for the previous year, while income before tax grew by 28.3% to reach 121,212 million dollars.

The Group's revenue from operations totalled 1,297,437 million pesetas which, compared with the 1,208,938 million pesetas registered in 1992, reflects a growth of 7.3%. Telefonica's revenue, making up 94.0% of the total, grew by 5.7%, that of the Telefónica Internacional Group, contributing 1.4% to the total has increased ten-fold as a result of the incorporation of the revenue from Publiguías (the yellow pages in Chile) and Telefónica Larga Distancia de Puerto Rico; the revenue from the remaining subsidiaries, totalling 161,106 million pesetas (12.4% of the total) grew by 3.0%, while sales among the Group companies, deducting 7.8% from total revenue, went from 103,920 million pesetas in 1992 to 102,091 million pesetas in 1993.

A factor of vital importance when analysing the economic performance of the Telefonica Group throughout 1993 is that of the income derived from the associated companies which totalled 23,643 million pesetas, growing by 92.0%. Those contributions to income made by the Latin American operators, in which Telefónica Internacional holds participations, are the main components of this total, especially that of the Compañía de Teléfonos de Chile (CTC) followed by that of Telefónica de Argentina (TASA), Compañía Anónima de Teléfonos de Venezuela (CANTV) and Entel-Chile.

The principal contributions to the Telefonica Group's consolidated net income have been as follows: the parent company made up 84.5% of total, Telefónica Internacional, 17.1%, and the remaining subsidiaries have contributed an overall 0.8%; that of CETESA (yellow pages) is particularly outstanding making up 2.4% of the total figure. Finally, the associated companies, in which Telefónica holds minority participations and has no control in the management, contributed a negative 2.4% to the total. Of these companies, those that stand out are Amper (1.0% of the total) Hispasat (1.0%) and Eritel (0.6%).

Investment and self-financing

The Telefonica Group's total investment for 1993 amounted to 445,764 million pesetas, reflecting a 5.9% decrease when compared with 1992. Of the total, 79.8% corresponds to investment in fixed assets and 5.6% to investment in intangible assets, principally research and development expenses and the acquisition of software licences. The remaining 14.6%, 65,130 million pesetas, corresponds to financial investment, which reflects the intense activity carried out in order to increase existing participations and acquire others in telecommunications companies, above all, those in Latin America. The Telefonica Group's funds provided by operations amounted to 602,317 million pesetas, which has allowed total self-financing of investments.

Acquisition of own shares (Treasury stock)

Throughout 1993 no Treasury stock has been acquired.

Shareholder Information

**RECONCILIATION OF NET INCOME AND SHAREHOLDERS' EQUITY AS REPORTED 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 1.I.c)*, may not conform with generally accepted accounting principles in the United States.

As a result of Telefonica'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 4.I.i.)* | Deferred taxes arising from timing differences between income and taxable income must be accounted for. Since January 1, 1993 FAS n°.109 has come into force. |
| 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. Costs of new equity capital (see note 4.I.a)* | US GAAP requires expenses of raising capital to be deducted from the proceeds of the new capital. |
| 5. Income per share is not required to be in the financial statements nor in any other obligatory financial information. | Net income per share is required to be shown. |
| 6. Endowment insurance (see note 4.I.h)* | From January 1, 1989 the FASB n° 87 has been applied to record the cost for past services |
| 7. Allowance for funds during construction | Interest accrued up to the time when the assets come into service are accounted for. |
| 8. Exchange rate differences | Changes in investment value due to exchange rates, are accounted for as shareholders' equity or results (FAS n°.52). |

RECONCILIATION OF CONSOLIDATED NET INCOME AND SHAREHOLDERS' EQUITY, AT DECEMBER 31

| | 1992 | 1993 |
|--|------------------|------------------|
| NET INCOME FOR THE YEAR AS REPORTED IN THE SPANISH STATUTORY ACCOUNTS AT DECEMBER 31 | 80,761 | 96,367 |
| ADJUSTMENTS FOR U.S. GAAP PURPOSES: | | |
| Reversal of depreciation of revalued portion of fixed assets | 45,671 | 44,959 |
| Research and development expenses. Net effect between prior write-offs and current amortization | (8,306) | (7,530) |
| Reversal of self-insurance | (387) | (690) |
| Reversal of amortization of costs of new equity capital | 993 | 493 |
| Exchange rate differences | 0 | 2,386 |
| Adjustment of endowment insurance cost | 16,640 | 0 |
| Allowance for funds under construction | - | 16,640 |
| Lower amount due to the effect of fixed assets revaluations, of the dismantled plant not depreciated | 16,242 | 8,480 |
| Deferred taxes due to adjustments | (2,950) | (18,777) |
| Total adjustments | 150,270 | 132,934 |
| Accumulated effect to January 1, 1993 due to FAS 109 application | 0 | 41,113 |
| Approximate net income for the year in accordance with US GAAP: | 150,270 | 174,047 |
| SHAREHOLDERS' EQUITY AS REPORTED IN THE SPANISH STATUTORY ACCOUNTS AT DECEMBER 31 | 1,392,005 | 1,437,055 |
| INTERIM DIVIDEND | 0 | 23,187 |
| | 1,392,005 | 1,460,242 |
| ADJUSTMENT FOR US GAAP PURPOSES: | | |
| Reversal of net effect of revaluation of fixed assets and related accumulated depreciation | (191,521) | (146,562) |
| Charges to provisions | 2,607 | 1,917 |
| Research and development expenses. Net effect between prior write-offs and current amortization | (31,276) | (38,806) |
| Costs of new equity capital | (503) | (226) |
| Allowance for funds under construction | 130,870 | 138,116 |
| Lower amount due to the effect of fixed assets revaluations, of the dismantled plant not depreciated | 44,518 | 52,998 |
| Deferred tax due to U.S. GAAP adjustments | (34,858) | (12,446) |
| Approximate shareholders' equity in accordance with U.S. GAAP | 1,311,842 | 1,455,233 |

*Notes in brackets refer to the financial statement on pages 65 to 107 of this Annual Report.

SHARE CAPITAL

| | 1989 | 1990 | 1991 | 1992 | 1993 |
|-----------------------------|------------|------------|------------|------------|------------|
| Share capital (Million pts) | 462,481.73 | 463,479.04 | 463,479.04 | 463,479.58 | 469,735.41 |
| Earnings per share (pts) | 74.5 | 81.8 | 87.2 | 90.5 | 90.8 |
| Price/earnings ratio | 11.92 | 10.27 | 14.10 | 12.60 | 20.54 |
| Dividend pay out (%) | 73.83 | 67.27 | 67.65 | 67.40 | 68.30 |
| Price/Cash-Flow per share | 2.72 | 2.26 | 2.84 | 2.27 | 3.55 |

The share capital of Telefónica at December 31, 1993 was 469,735,410,000 pesetas, represented by 939,470,820 bearer shares of a nominal value of 500 pesetas, fully paid in.

Since 1989 the following capital increases have been carried out, all through bond conversions.

| Year | Number of shares issued (thousands) | Issue price (Pts) | Amount issued (Millions of Pts.) | |
|------|-------------------------------------|-------------------|----------------------------------|-----------|
| | | | Nominal | Effective |
| 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 |
| 1993 | 12,511.7 | 1,267.23(*) | 6,255.8 | 15,855.2 |

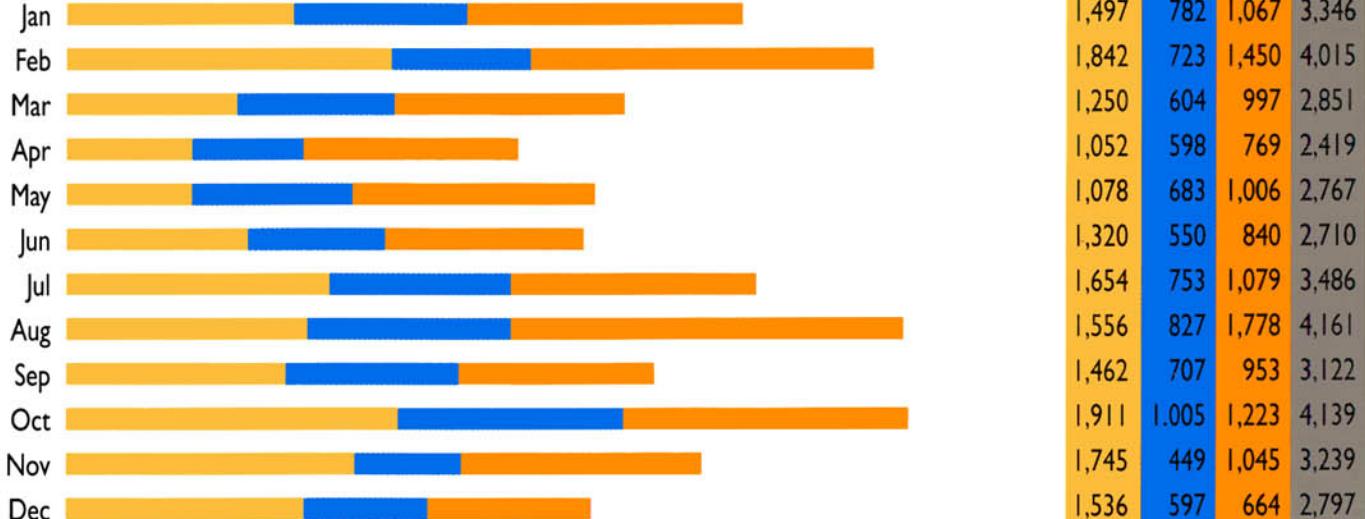
* average issue price

SHARES 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 (*)

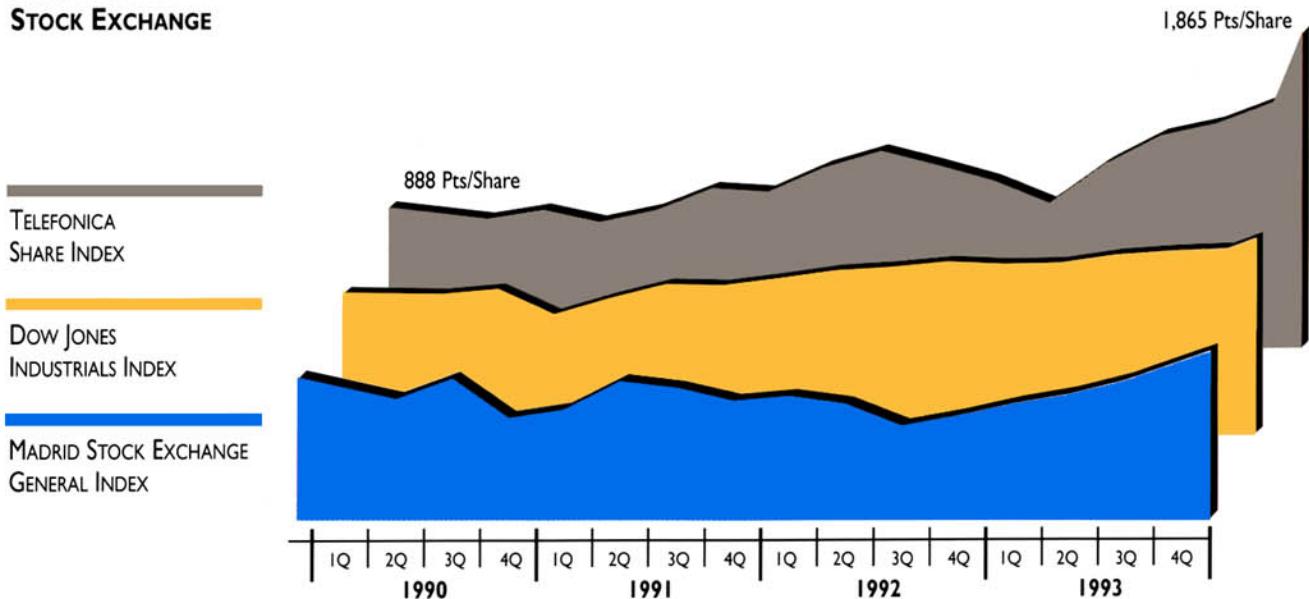
Option contracts on Telefónica shares are negotiated on the Spanish Financial Futures Market (MEFF-RV) and on the American Stock Exchange (AMEX) (*)

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

**TELEFONICA SHARE
TURNOVER, SPANISH STOCK
EXCHANGES, NEW YORK
STOCK EXCHANGE
AND SEAQ INTERNATIONAL**



**TELEFONICA SHARE PRICE
INDEXES, MADRID STOCK
EXCHANGE AND NEW YORK
STOCK EXCHANGE**



MARKET PRICES. The table below shows high, low and closing prices on the continuous Spanish Market in pesetas.

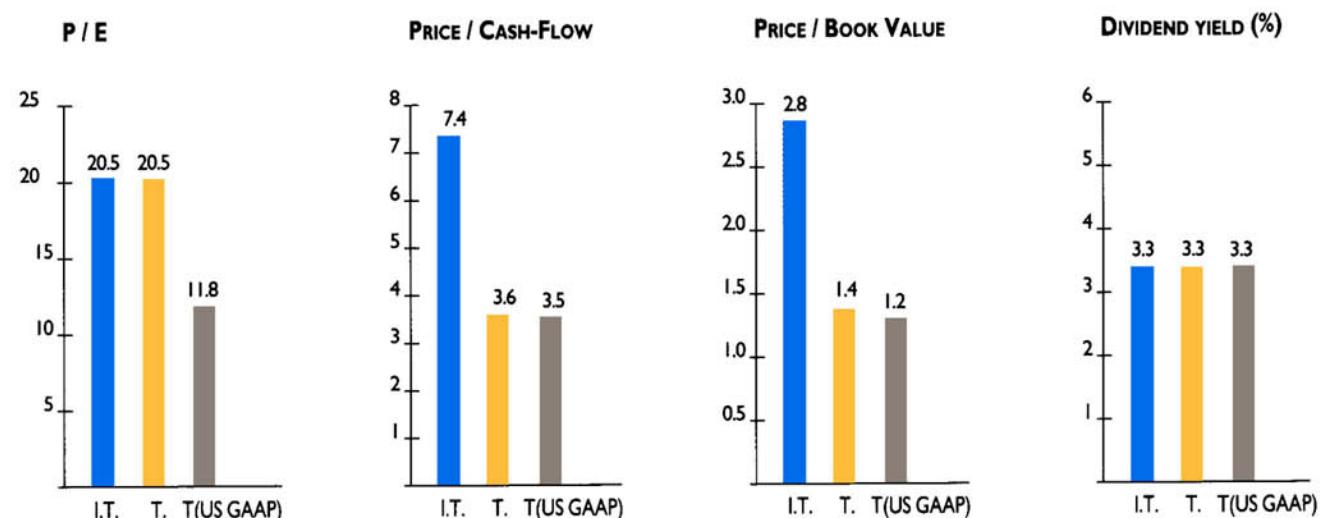
| Year | High | Low | Closing |
|------------------|----------|----------|----------|
| 1989 | 1,086.25 | 865.00 | 888.00 |
| 1990 | 984.00 | 763.00 | 840.00 |
| 1991 | 1,290.00 | 832.00 | 1,230.00 |
| 1992 | 1,300.00 | 862.00 | 1,140.00 |
| 1993 1st quarter | 1,370.00 | 1,135.00 | 1,325.00 |
| 1993 2nd quarter | 1,450.00 | 1,270.00 | 1,390.00 |
| 1993 3rd quarter | 1,670.00 | 1,355.00 | 1,565.00 |
| 1993 4th quarter | 1,880.00 | 1,560.00 | 1,865.00 |

DIVIDEND POLICY. Telefónica usually pays an interim dividend at year end and a final one 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:

| | 1991 | 1992 | 1993 |
|--------------|-----------------|-----------------|-----------------|
| Interim | 25 ptas. | 25 ptas. | 25 ptas. |
| Final | 34 ptas. | 36 ptas. | 37 ptas. (*) |
| Total | 59 ptas. | 61 ptas. | 62 ptas. |

* To be approved by the General Meeting of Shareholders in accordance with the proposal for net income distribution.

TELEFONICA: INTERNATIONAL COMPARISONS AT 31-12-93



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

T.: Telefonica (Data According to Spanish accounting principles)

T(US GAAP): Telefonica (Data according to US accounting principles)

STATE SHAREHOLDING IN TELEFONICA 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 1993 made on February 17, 1994, it was verified that the State shareholding is as follows:

| | Interest as % of share capital | | | | | |
|---|--------------------------------|-------------|-------------|-------------|-------------|-------------------------|
| Spanish State | 31.86 | | | | | |
| STOCK MARKET CAPITALIZATION | | | | | | Average growth % |
| | 1989 | 1990 | 1991 | 1992 | 1993 | 93/89 |
| Telefónica | 821.2 | 778.6 | 1,140.2 | 1,056.7 | 1,729.8 | 20.5 |
| Total Madrid Stock Exchange | 13,457 | 11,744 | 14,303 | 13,332 | 18,286 | 8.0 |
| Telefónica weight on the Madrid Stock Exchange Index (%) | 7.95 | 6.53 | 7.80 | 9.25 | 9.43 | |

Figures in billions of pesetas, unless otherwise stated.

| TELEFONICA GROUP SHARES | | | | | | |
|--------------------------------|------------------|-------------|--------------------|-------------|-----------------------------|-------------|
| Associated companies | CTC Chile | | Entel Chile | | Telefónica Argentina | |
| | 1992 | 1993 | 1992 | 1993 | 1992 | 1993 |
| Capitalization (mill.\$ USA) | 2,956 | 5,110 | 513 | 1,061 | 3,693 | 8,590 |
| Closing price (\$ USA) | 3.44 | 5.95 | 5.55 | 11.5 | 3.13 | 7.29 |
| Price/earnings ratio | 16.0 | 21.6 | 5.6 | 13.4 | 13.5 | 25.3 |
| Price/Cash-Flow | 10.4 | 14.2 | 4.3 | 9.6 | 6.0 | 11.8 |
| Dividend yield (%) | 3.5 | 2.1 | 12.8 | 5.6 | 3.2 | 1.4 |

Management

(At March 20th, 1994)

BOARD OF DIRECTORS**Chairman**

Cándido Velázquez-Gaztelu Ruiz

Vice-chairmen

José María Concejo Alvarez

Claudio Boada Vilallonga

Chief Executive

Germán Ancochea Soto

Directors

(Representing shareholders)

Eduardo Abril Abadín

Santos Castro Fernández

Miguel Cruz Amorós

Isidro Fainé Casas

José Montes Fernández

José Constantino Nalda García

Marcos Peña Pinto

Marcial Portela Alvarez

Juan Manuel Rebollo Castrillo

Epifanio Ridruejo Brieva

Mateo Ruiz Oriol

José Enrique Serrano Martínez

Juán Antonio Vázquez de Parga y Pardo

Carlos Westendorp y Cabeza

Directors

(Representing the Government)

Julián Arévalo Arias

Juan Antonio Blanco Magadán

Elena Salgado Méndez

Gonzalo Cedrún Rábago

Eugenio Triana García

Secretary

(non director)

Heliodoro Alcaráz García de la Barrera

Vicesecretary

(non director)

Mariano Aldama Magnet

Government Representative

(non director)

Javier Nadal Ariño

Changes recorded in the Board of Directors of Telefónica de España, S.A. after the end of the 1993 financial year.

Isidro Fainé Casas was appointed director representing shareholders, in place of

José Vilarasau Salat, on 26-1-94

Arturo Romaní Biescas retired as director on 26-1-94

EXECUTIVE COMMITTEE**Chairman**

D. Cándido Velázquez-Gaztelu Ruiz

Vice-chairmen

José María Concejo Alvarez

Claudio Boada Vilallonga

Chief Executive

Germán Ancochea Soto

Directors

Juán Antonio Blanco Magadán

Isidro Fainé Casas

Mateo Ruiz Oriol

Elena Salgado Méndez

Eugenio Triana García

Juán Antonio Vázquez de Parga y Pardo

Epifanio Ridruejo Brieva

(Advisory member)

Secretary

(non director)

Heliodoro Alcaráz de la Barrera

Vice-secretary

(non director)

Mariano Aldama Magnet

Government Representative

(non director)

Javier Nadal Ariño

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

Cesar Vacchiano López

General Manager of Sales and Quality

Guillermo Fernández Vidal

General Manager of Business Communications

Rafael Hernández García

General Manager of Network

Francisco Mochón Morcillo

Assistant General Manager of Finance

and Budgetary Control

Heliodoro Alcaraz García de la Barrera

General Secretary and Secretary to 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 Serranc

Subsidiaries and Holdings

Francisco García Aguilera

Training and Technology Foundation

José Manuel Morán Criado

Commercial Management

Antonio Cantón Góngora

Corporate Clients

José Luis Guezuraga Villa

Accounts and Control

Isidro López Cuadra

Strategic Planning

José Alberto Blanco Losada

Planning and Technology

Carlos Díaz- Guerra Alvarez

Security

José Luis Fernández Dopico

Human Resources and Organization

Oscar Maraver Sánchez-Valdepeñas

Plant

Jesús Medina Franco

Network Operation and Maintenance

Manuel Badenes Moles

Customer Service

Augusto Serrano Santarromana

Data Processing

Alfredo García París

General Meeting of Shareholders

Date: April 15, 1994

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 Company

offices or by requests in writing to :

Telefónica de España, S.A.

Financial Department

General Perón, 38 - planta 15

Edificio Master's II

28020 MADRID

The information required by law is available

to shareholders and the general public.

TELEFONICA.

PRESS OFFICE

GENERAL DEPARTMENT OF CORPORATE RELATIONS AND COMMUNICATIONS

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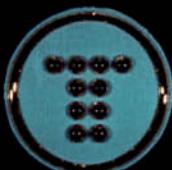
Color Separations: Progreso Gráfico, S.A.

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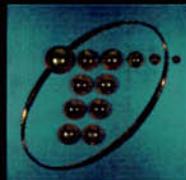
A SHORT HISTORY



1924



1984



1993

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. 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.



D. Estanislao de Urquijo y Ussia
1924 - 1945



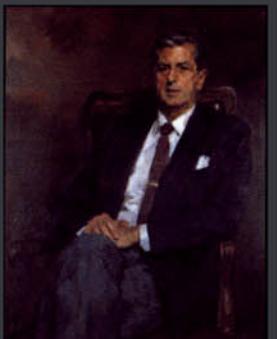
D. José Navarro Reverter y Gomis
1945 - 1965



D. Antonio Barrera de Irímo
1965 - 1973



D. José Antonio González-Bueno
1973 - 1976



D. Tomás Allende y García-Baxter
1976 - 1980



D. Salvador Sánchez-Terán
1980 - 1982



D. Luis Solana Madariaga
1982 - 1989

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 (31.8% at the end of December 1993). The company is, however, governed by the regulations laid down by the Government and the European Union. 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 1993 year end, Telefónica de España controlled assets worth 3.9 billion pesetas, managed a network of 15,879,700 telephone lines and had a workforce of 74,340. Operating revenue in 1993 amounted to over 1.2 billion pesetas. Telefónica de España is Spain's leading company in terms of turnover, shareholder funds, total assets and number of employees.



TELEFÓNICA
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