



FROM TELEFÓNICA DE ESPAÑA TO THE TELEFÓNICA GROUP

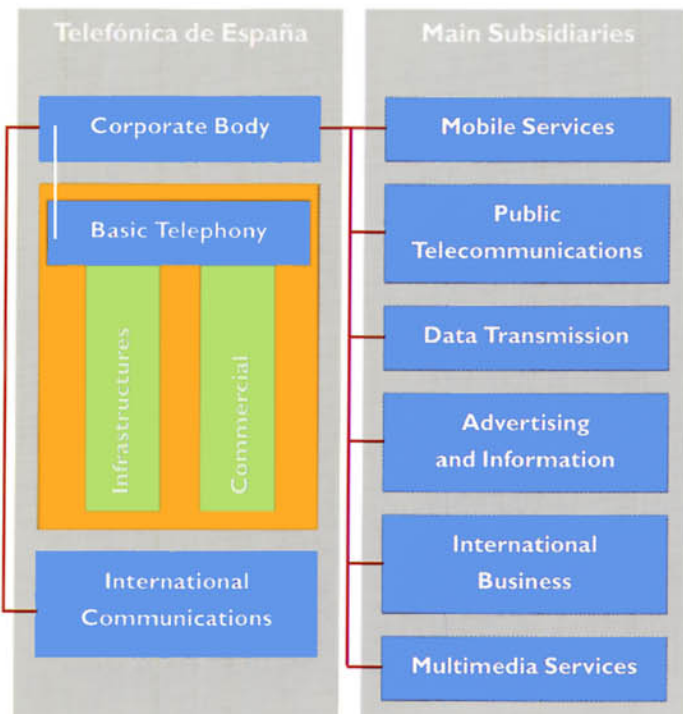
Following the approval for reorganization granted on December 21st 1994 by Telefónica's Board of Directors, a process began and unfolded throughout 1995 to carry out the measures which were agreed upon on that date. This entailed the effective transfer of business to certain subsidiaries created for this purpose, which in turn implied the transfer of assets, management systems, etc. In most cases and insofar as the licenses for the provision of the services was initially granted to Telefónica de España, we needed to obtain prior permission from the National Regulating Body (in our case

the Communications General Secretariat) to proceed with the transfer of the licenses for the provision of the corresponding services to the subsidiary company which would take over the transferred business.

As was pointed out at the time, this reorganization is based on the need to:

- face the challenges resulting from the liberalization of telecommunications, which will presumably reach a peak on January 1 1998 with the total liberalization of voice services and infrastructures.
- respond promptly and efficiently to the increasingly demanding markets, in order to take advantage of new opportunities which may arise.

TELEFÓNICA GROUP BUSINESSES



The chart shows the configuration of the Telefónica Group at the end of 1995. The so-called main subsidiaries are in turn normally the heads of another group, separated into lines of business managed by other subsidiary companies, in which

there is always a majority holding. The lines coming from the Corporate Body indicate that, although this is an essential part of the organization of Telefónica de España, it has a responsibility for the coordination of the Group as a whole.



TELEFÓNICA GROUP MANAGEMENT COMMITTEE

Ignacio Santillana del Barrio
Executive of Telefónica Internacional

Heliodoro Alcaraz García de la Barrera
General Secretary

Francisco Ros Perán
General Manager of International Communications

Carlos Díaz-Guerra
General Manager of Infrastructures

Luis Lada Díaz
Chairman of Telefónica Móviles

Francisco Mochón Morcillo
General Manager of Finance and Management Control

Manuel A. Blanco Losada
General Manager of Corporate Planning

Germán Ancochea Soto
Chief Executive

Cándido Velázquez-Gaztelu Ruiz
Chairman

Antonio López-Barajas
General Manager of Coordination

José Caballero Guerrero
General Manager of Administration and Resources

Guillermo Fernández Vidal
General Sales Manager



- that the managers of the different business areas assume full responsibility for results.
- that, despite the decentralizing nature of certain decisions, there is a joint corporate vision of all the businesses, for whose purpose the Group Management Committee has been formed.

THE STRATEGIC IMPORTANCE OF THE REORGANIZATION

Another major factor in this reorganization is the transparency it brings about in the transactions between the Group companies. It is true that this transparency can also be achieved through the separation of the accounts of the operations of the various businesses and services and it could have proceeded in this way if there had not been other reasons, such as those just mentioned, to establish the legal separation through independent companies. The same can be said with regards to the business areas which in turn exist within each of the main businesses.

It is worth pointing out that the majority of companies forming the main group subsidiaries

already existed prior to the reorganization described above. Such was the case with International Businesses (which were already carried out by Telefónica Internacional), the Advertising and Information business (in the hands of the existing company Cetesa, which changed its name but not its activity to Telefónica Publicidad e Información) the Mobile Services business (in the hands of the Telefónica subsidiary in the marketing of all the services in this area) and Public Telecommunications (the responsibility of Cabiltel in the area of auxiliary services such as collection, cleaning, etc. and the direct operation of telephones inside enclosed areas). The reorganization also took into account the Multimedia Services business, a totally new area, which was entrusted to the newly-formed company, Telefónica Servicios Multimedia; and the Data Transmission business, with a long tradition in Telefónica, which was transferred to the company created for this purpose at the end of 1994. By highlighting the importance of the Telefónica Group and its business configuration, we are emphasizing the strategic importance of this reorganization, while at the same time, of course, recognizing the pre-existence of the Group as such.



During 1995 the process of transferring the assets and human resources of Telefónica de España to the subsidiary Telefónica Móviles was concluded, along with the transfer of the license for the provision of the Automatic Mobile Telephony service, both in analog and GSM mode. As a result, the mobile subsidiary is now responsible for the integrated management of these businesses, which operate in a competitive marketplace following the introduction last October of a second GSM operator into the market. At the appropriate moment, a series of contracts between Telefónica de España and Telefónica Móviles were formalized in order to regulate the relations between both companies.

In May 1995 the Telefónica subsidiary Cabitel acquired from the parent company the assets corresponding to indoor public telephony, an activity which was liberalized in 1994. Management contracts were also signed for the operation of telephone booths in public thoroughfares, which, under the regulations, continue to be the responsibility of Telefónica de España, until the full liberalization of voice services comes about on January 1st 1988. Finally, agree-

ments were established between Telefónica de España and Cabitel to regulate relations between the two companies.

THE WORLDPARTNERS ALLIANCE

Another of the most salient features of Telefónica de España's corporate activity during 1995 was the formal integration into the Unisource alliance, which took place in June through the acquisition of a 25% holding in the company formed for this purpose. The other members of the alliance are the Swedish operator Telia, the Dutch operator PTT Telecom and the Swiss operator Swiss PTT. Unisource's mission is to facilitate Paneuropean services, especially to multinational companies. This event brings to a close another important chapter in Telefónica's international alliances and this increased presence in the European market, through this alliance, complements our introduction in Latin America via Telefónica Internacional.

However, the internationalization and globalization of the economy means that even this major expansion is insufficient. The needs of





multinational companies, an important market segment, in any corner of the globe, are difficult to meet fully even by the world's major operators.

It is these needs which have led to the creation of worldwide international consortiums, among them **WORLDPARTNERS**, the composition of which is shown in the map below.

Through its participation in Unisource, Telefónica de España is able to offer its corporate clients services on a worldwide scale.

THE WORLDPARTNERS ALLIANCE

