

International Businesses

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

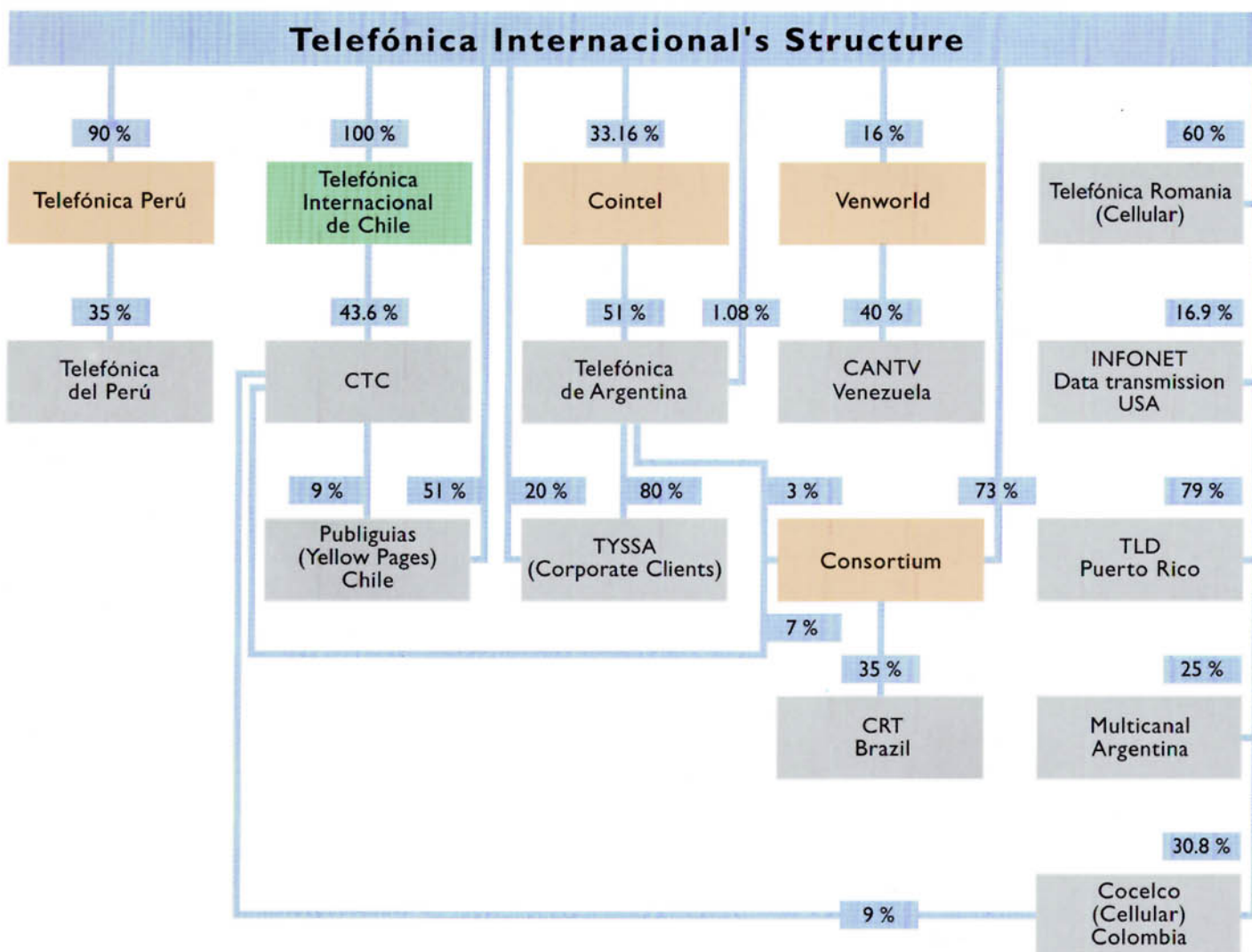
At year-end 1996, approximately 12.4 million customers used the basic telephony, cellular telephony and cable TV provided by one of Telefónica Internacional's participated companies. In the businesses open to competition, such as long distance, cellular telephony or cable TV, these participated operators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

Taking advantage of growth opportunities

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

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

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



TISA's structure at 31-12-1996

CONSORTIA
HOLDINGS
PARTICIPATED

The development of businesses and services

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

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

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

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

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

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

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



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

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

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



homes, reflecting a 664% increase compared with 1995.

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

The Panamerican Project

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

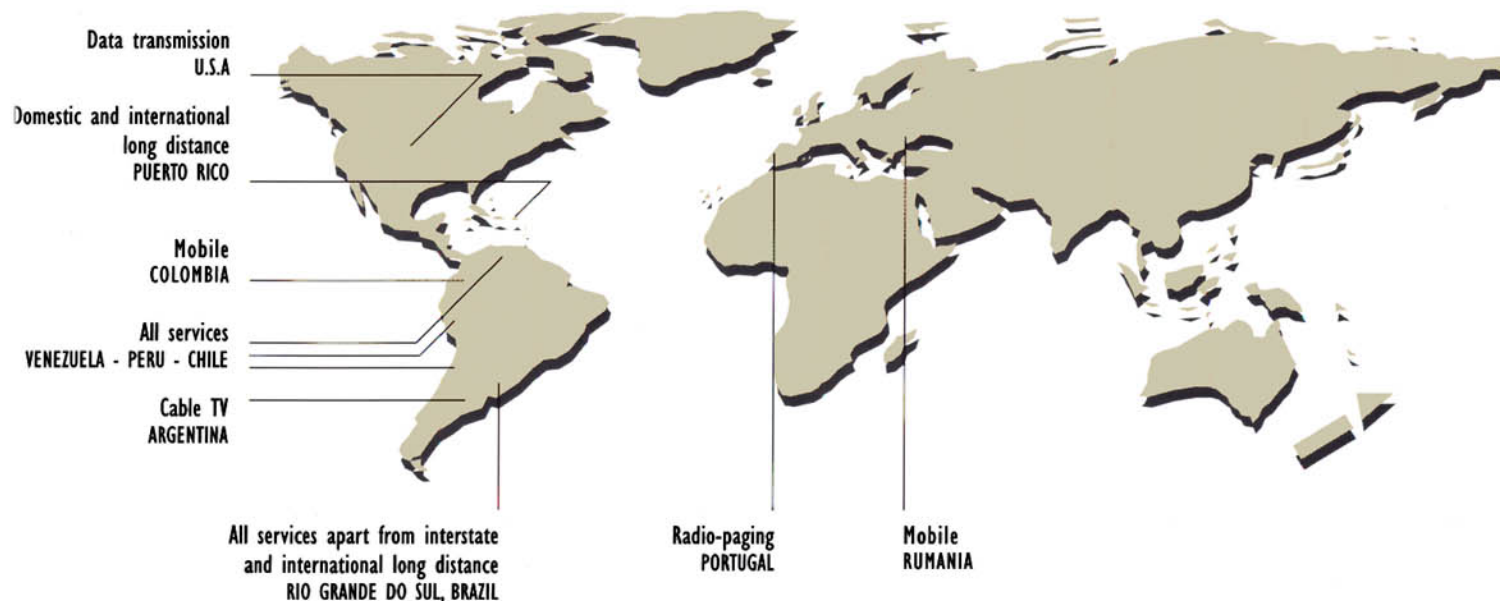
America, Telefónica Internacional continued the development of its Panamerican Project, which is now undergoing pre-commercial launching tests.

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

PARTICIPATIONS: COUNTRIES AND BUSINESSES

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

Telefónica Internacional: Geographical Location



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



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

Increased profitability of businesses

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

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

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

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

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

The trust of our investors

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

In Japanese, in English or in German,

Telefónica means the same:

Profitability

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

Other investments

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

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

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

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

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

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

