

INTERNATIONAL OUTLOOK

Within the sector's new make-up, the concept of the domestic market as a national one no longer applies. The international scope and character of a global operator are two features that have become the unquestionable qualities that make a leader. Today, **Telefónica's** domestic market is made up by both Spain and Latin America where a complete range of communications services is being operated and managed.

Throughout 1997, Latin America continued to be the core focus of **Telefónica Internacional's** investment and management activity, achieving, once again, increased yield on investment and customer satisfaction, at the same time as widening its range of activities to include other such areas as audiovisual content and the media. All this has therefore created value for our shareholders as well as further strengthening the leading position of the **Telefónica**-managed companies in their respective countries and that of the **Telefónica Group** in the Spanish-speaking world.

The **Telefónica**-managed companies have also contributed to the economic development of their countries, strengthening the growth of other sectors, as a result of the services provided by their up-to-date infrastructures, the high investment level and the significant contributions made to the respective State Treasuries, to name but a few factors.

Over the year, **Telefónica** continued its intense search for and evaluation of investment opportunities, with the Brazilian market being our number one priority in the region. 1997 witnessed our entrance into this market through our participation in the management of the **Compañía Riograndense de Telecomunicaciones (CRT)**, as the consortium led by **Telefónica Internacional** won the international public bidding held in December 1996. This consortium is also made up of the **CTC Group** and **Telefónica Argentina**, along with the local operator **RBS**, Brazil's third ranking multimedia group, in terms of billing, and the country's leader in the southern region.

Telefónica continues to hold its position of leadership in the Spanish-speaking markets



The Brazilian market takes priority in Latin America

The management carried out in **CRT** during 1997, has reflected a significant improvement in all its financial and operating indicators, at the same time as contributing its considerable experience at a moment when the liberalization of the Brazilian telecommunications market is imminent.

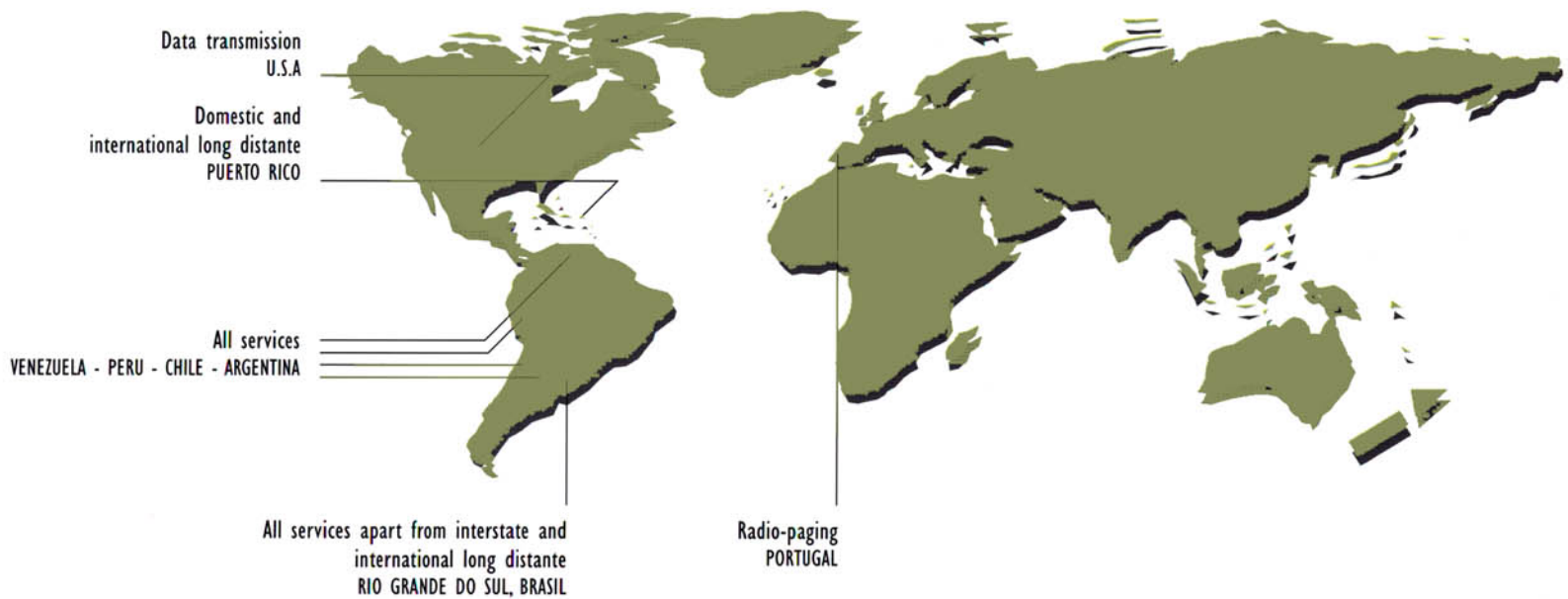
In 1997, **Telefónica** increased its participation in **Cointel**, **Telefónica de Argentina's** majority shareholder, from 33.16% to 50%, thereby further strengthening its

TELEFÓNICA INTERNACIONAL GROUP'S COMPANIES

Company	Country	Population (Mill.)	Services	Competition
CTC	Chile	14,6	Basic Telephony, Long Distance, Public Telephony, Mobile Telephony, rental and sale of equipment and terminals, cable TV, Radio-paging and Data Transmission.	All telephone services in Chile are liberalized.
TASA	Argentina	17,8 (1)	Basic Telephony, Long Distance, Mobile Telephony, Radio-paging, Yellow Pages and other value added services.	Basic Telephony and domestic and international long distance are under monopoly, through one of the two existing licenses. The remaining services are liberalized.
Telefónica del Perú	Peru	24.6	Basic Telephony, Long Distance, Mobile Telephony, Radio-paging and cable TV.	Telefónica del Perú offers local and domestic and international long distance services, all with exclusive rights. The remaining services in Perú are liberalized.
CRT	Brazil	9.52 (1)	Basic Telephony, Mobile Telephony, leasing of Data Transmission lines, Yellow Pages, 900 Service, value added service and the insertion of advertising in the press.	The services provided in the area of Rio Grande do Sul are not liberalized.
CANTV	Venezuela	22.8	Basic Telephony, Long Distance, Public Telephony, Mobile Telephony, Public Telecommunications Centres, Private Networks, Rural Telephony Services, Data Transmission and directory information services.	Basic Telephony, domestic and international Long Distance, and switched services are provided under monopoly until 2000. The remaining services are liberalized, except Mobile telephony which is under a duopoly.
TLD	Puerto Rico	3.8	Long distance services.	Liberalized.
Cablevisión	Argentina	35.6	Cable TV.	Liberalized.
T y C	Argentina	35.6	Audiovisual content and Media.	Liberalized.
Cocelco	Colombia	35.8	Mobile telephony.	Undergoing liberalization.
Infonet	USA	N/A	Data transmission.	Liberalized.
Contactel	Portugal	10	Radio-paging.	Liberalized.
TUPR	Puerto Rico	22.8	Inter-island and international long distance via satellite and radio.	Liberalized.
TYSSA	Argentina	35.6	Telecommunications systems consulting.	Liberalized.

(1) Population in area of coverage.

Telefonica Internacional: Geographical Location



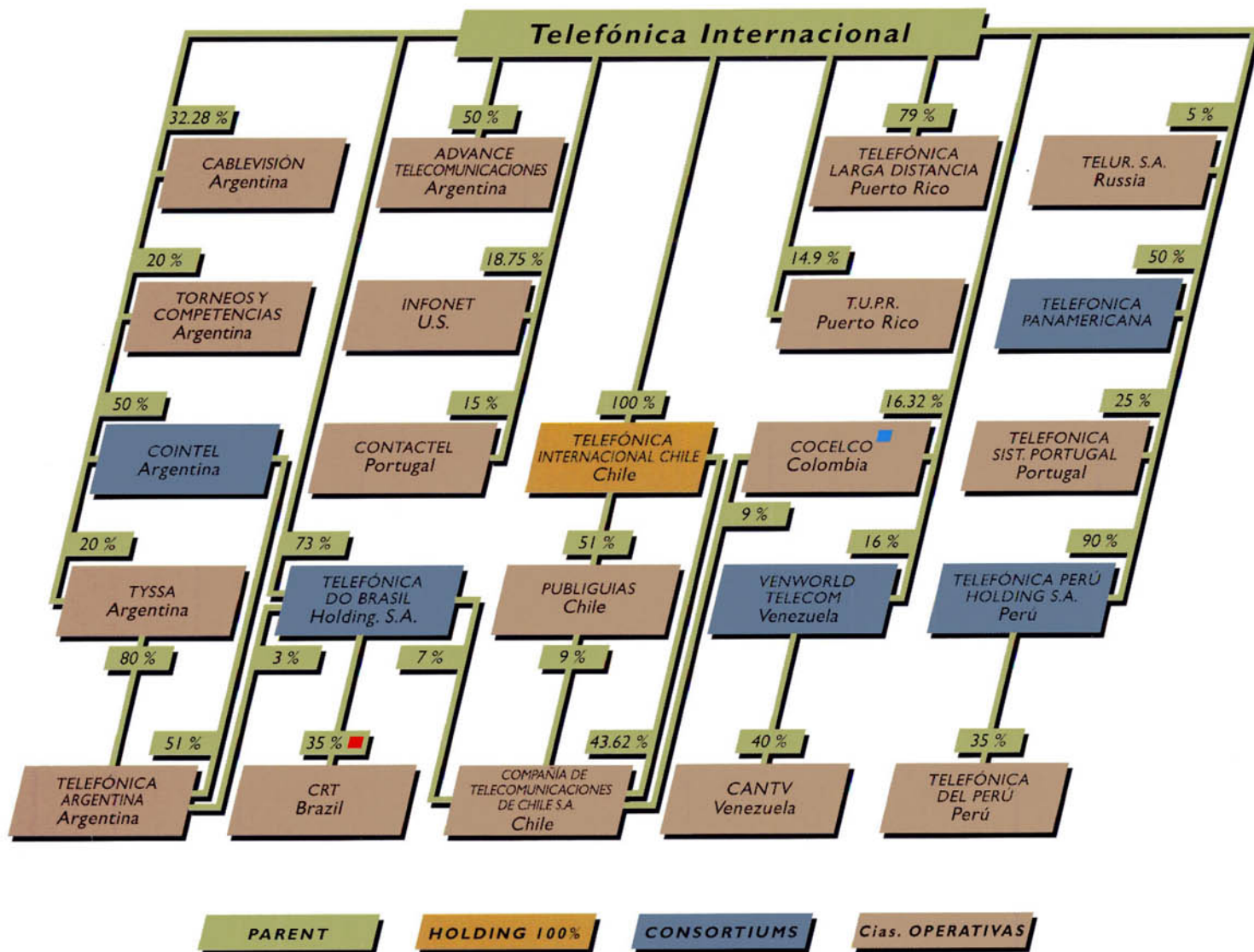
OPERATING INDICATORS

Country	Company	Lines service (1)			Cellular customers			Cable TV customers		
		31-dec-97	31-dec-96	% growth	31-dec-97	31-dec-96	% growth	31-dec-97	31-dec-96	% growth
Argentina	Tasa (2) Cablevisión (3)	3,821,703	3,450,040	10.8 %	620,237	190,477	225.6 %	1,043,111	n.a.	
Chile	CTC	2,393,707	2,056,353	16.4 %	220,070	175,085	25.7 %	256,524	216,630	18.4 %
Perú	T. del Perú	1,645,920	1,436,022	14.6 %	319,749	130,895	144.3 %	252,225	101,387	148.8 %
Brazil	CRT	1,031,806	781,799	32.0 %	359,652	170,427	111.0 %			
Venezuela	CANTV	2,738,450	2,494,859	9.8 %	346,000	213,655	61.9 %			
		11,631,586	10,219,073	13.8 %	1,865,708	880,539	111.9 %	1,551,860	318,017	388.0 %

(1) Include pay-phones.

(2) The information on Tasa corresponds to the fiscal year that closes on September 30.

(3) Includes 50% of the companies VCC, UIH Bahía Blanca and UIH Santa Fe. Does not include Mandeville's customers (430,113)



TISA's structure at 31-XII-1997

■ Telefónica de España a direct 14.51% stake in COCELCO
■ Telefónica do Brazil Holding, S.A. holds a 35% stake in CRT with voting rights; the consortium holds 13.45% in the total share capital

commitment in the management of the **Company**. The remaining 50% is held by Citicorp Equity Investment (CEI), the Argentinian subsidiary of the Citicorp Group.

Within the **Telefónica Group's** commitment to the management of companies which hold positions of leadership in their sector, as well as embodying a wide spectrum of business lines, a policy of divestiture has been introduced for those investments which do not fulfill these requirements. In consequence, the participation held in **Telefónica Rumania** was sold, sale and purchase agreements were signed regarding the divestiture of the investment in **Multicanal** (Argentina) and our withdrawal from **Cocelco** (Colombia) was negotiated, as the Group did not hold a controlling stake in this company.

International Businesses

In 1997, the companies managed by **Telefónica Internacional** in Latin America continued to reflect strong growth in the lines in service in their respective countries, achieving the overall growth figure of almost 14% compared with the previous year. At year-end, **Telefónica Internacional** managed more than 11.6 million basic telephony lines, registering a net increase of 1.4 million lines.

Telefónica de Argentina surpassed the figure of 3.8 million lines with a penetration ratio of 23 lines per 100 inhabitants, therefore maintaining its position as Latin America's leading telecommunications company. Its network digitalization reached 89.5%, and this is expected to be totally digitalized during the first half of 1998.

CTC, reflecting an average annual growth in plant in service of 19% since it was purchased, recorded a net increase in lines of 350,000, raising the total figure to 2.4 million, making it the only operator offering services throughout the whole country.

Telefónica del Perú exceeded the figure of 1.6 million lines, with 88% digitalization.

At the same time, **CRT's** plant in service grew by more than 30%, registering, 60% digitalization.

Regarding mobile telephony, **Telefónica de Argentina** has increased its customer base threefold, now numbering more than 600,000 between its two subsidiaries:



Telefónica manages 11.6 million lines in Latin America

The Telefónica-managed companies in Latin America reflected strong growth in all services



Miniphone in Buenos Aires and **TCP** inland. In Chile, **CTC** acquired 45% of the company Startel, in which it already held a 55% stake. This company was created in June 1996 through the merger of **CTC** and **VTR**'s mobile businesses. This acquisition will undoubtedly permit an even greater degree of convergence between fixed and mobile services, to which **Startel** already has 220,000 subscribers. **Telefónica del Perú**'s customers increased by 144% when compared with the year before, therefore continuing its position of leadership, holding a 73% market share with 320,000 customers.

In terms of public telephony, **Telefónica de Argentina** consolidated its market leadership, reaching the figure of 55,686 lines, reflecting a 16.5 % increase. Likewise, **Telefónica del Perú** registered 38,290 lines (19% annual growth), **CTC** 12,387 (10% annual growth) and **CRT** 29,112 (80% growth).

Regarding directories and yellow pages, in Chile, **Publiguías**, in which 51% is held by **Telefónica** and 9% by **CTC**, its market penetration is 53.6%, publishing almost 3 million copies. In Argentina, the **Telefónica** subsidiary, **Telinver**, publishes the **Paginas Doradas** (Golden Pages) covering 26% of the total market. Both of these companies have greatly improved the quality of their publications, both in terms of its paper edition and in terms of adapting to the multimedia environment.

In Argentina, **Advance Telecomunicaciones** has become the company with the most extensive Internet access network in the country. **Advance** is a joint venture between **Telefónica Internacional** and **CEI**, able to offer on-line and data transmission services, having acquired 100% of **Compuserve Argentina**'s share capital.

In Peru, **Cable Mágico**, **Telefónica del Perú**'s cable TV subsidiary, has reflected significant growth throughout the year and in Chile, **Metropolis-Intercom**, in which **CTC** participates, has consolidated its position as the country's second cable TV operator.

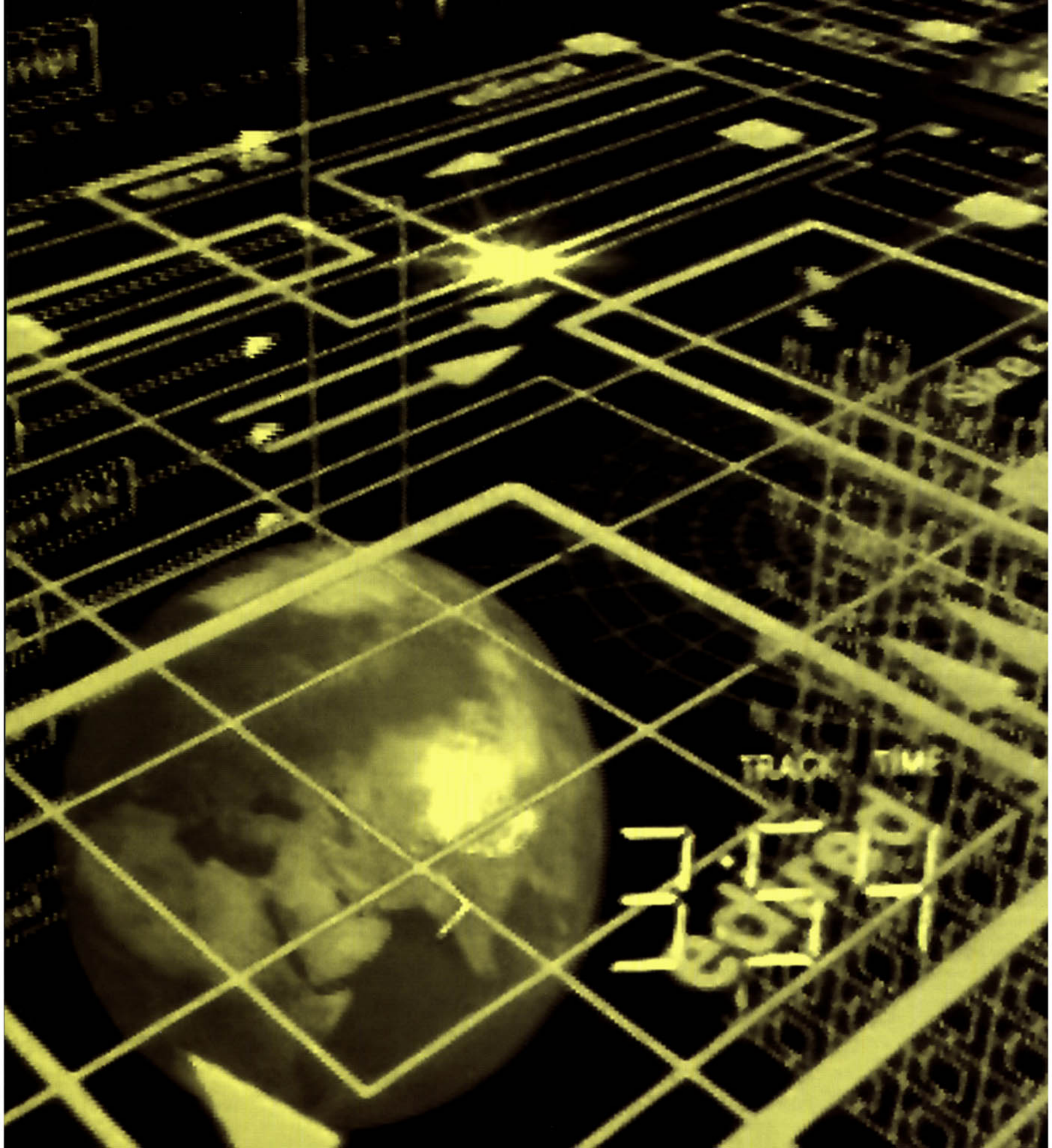
Telefónica, along with Citicorp Equity, has recently acquired participations in three Argentinean cable TV companies, **Cablevisión**, **VCC** and **Mandeville**, as well as taking up a minority stake in **Torneos and Competencias**, a company which controls the football rights in Argentina as well as several businesses which deal with sports events and, also, a 30% participation in Editorial Atlántida, which, in turn, controls the television stations Canal 9 and Telefe.

Moving into new markets

Morocco, whose operator is soon to be privatized, has become one of the **Group's** international objectives, not only due to its proximity, but also due to its development potential. With this imminent privatization in mind, **Telefónica Maroc** has been incorporated, which will compete in the bidding for the second GSM licence, as well as in the privatization of the telecommunications operator ITISSALAT AL-MAGHRIB. In order to successfully carry out this operation, and as is now **Telefónica's** normal practice, it will also have the support of local operators and its international alliances.

Telefónica has also turned its attention to the development of the telecommunications market in other regions, without disregarding the opening up of new business activities, always in line with its priority target of enhancing shareholder value.

**Telefónica is moving into new markets
with the firm intention of becoming
one of the world's five
leading operators**



TRACK TIME

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