Telefónica Internacional, Latin American Leader

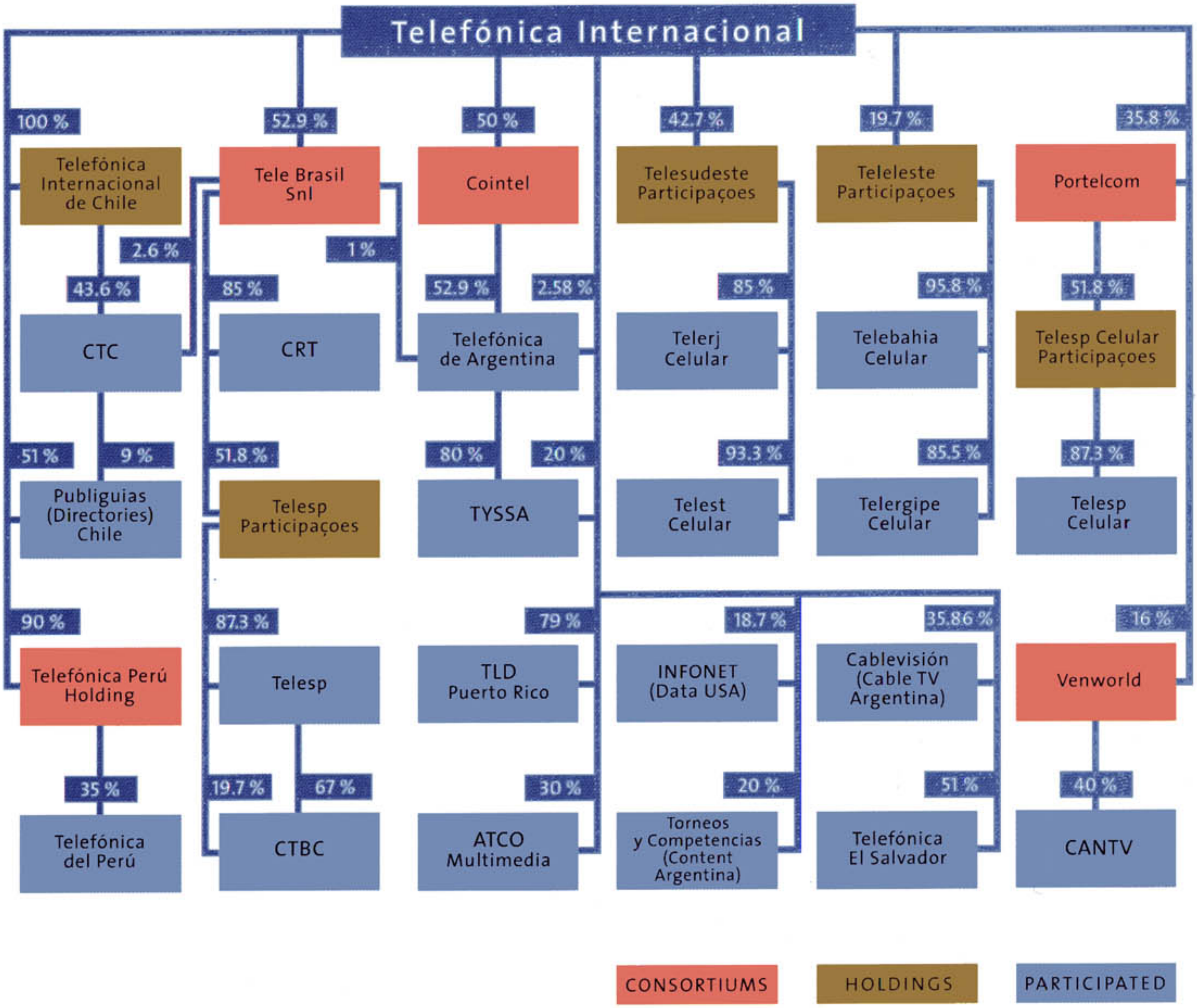
Within the framework of the globalization process that is re-defining the telecoms sector throughout the world, **Telefónica Internacional** has maintained its determination to become the leading telecoms operator in Latin America. In 1998, **Telefónica Internacional** strengthened its management role in the companies where it owns a shareholding, with a view to improving its competitive position in the respective countries and tapping new markets with attractive growth potentials.

Telefónica Internacional made a successful bid for acquiring an important group of businesses in the July 1998 privatization of Brazil's **Telebras** system. As a result, the consortiums led by **Telefónica Internacional** now participate in the management of 4 of the 12 operating companies auctioned by the Brazilian government during the privatization process.

At the conclusion of the privatization process,

Telefónica's growth strategy consists of participation in the privatization processes of state-run operating companies, and seeking and evaluating new investment opportunities as a second operator of comprehensive services.

the consortiums led by **Telefónica Internacional** won 51.79 % of the voting shares of **Telesp Participaçoes** (together with Portugal Telecom, Banco Bilbao Vizcaya and Iberdrola); **Tele Sudeste Celular Participaçoes** (together with NTT and Itochu), and **Tele Leste Celular Participaçoes** (together with Iberdrola).



TISA´s structure at 12/31/1998

Telefónica Internacional also acquired a stake in the **Portelcom** consortium which was awarded **Telesp Celular Participaçoes**.

These acquisitions make **Telefónica Internacional** the leading operator in Brazil, the largest communications market of the region, thus consolidating its leadership position in the Latin American communications market overall.

The strategic advantages of the new Brazilian holdings, with their dominant positions in areas characterized by high levels of economic development, and, at the same time, a high growth potential in the telecoms sector, with ready integration and operation possibilities, promise a quick return on the investments undertaken.

Prior to the sale of the **Telebras** holding, **Telefónica Internacional** increased its shareholding in **Companhia Riograndense de Telecomunicaçoes (CRT)** raising its stake to 85.1% of the ordinary shares (31.56% of total equity) on acquiring, in June 1998, the package of shares remaining in state hands (the initial phase of privatization took place in December 1996).

During 1998, the growth strategy followed by **Telefónica Internacional** combined participation in the privatizations of state-run operating companies, principally in Brazil, while exploring and evaluating new investment opportunities as a second operator of comprehensive communications services, with the objective of capitalizing on the experience and competitive capacity of the **Group** as the basis for expansion.

In this context, **Telefónica Internacional** secured control of **Telefónica El Salvador** (formerly **INTEL**), the company which won the second licence for the provision of all telecommunications services in El Salvador in competition with the dominant operator CTE. This operation forms part of the project to create **Telefónica Centroamérica**, whose purpose is to serve as a platform for the expansion of **TISA** in the region. **Telefónica Centroamérica** includes as partner the Mesoamérica Fund, an investment fund formed by Bain

Telefónica has become the principal operator in Brazil, the largest communications market of the region.

TELEFÓNICA INTERNACIONAL GROUP COMPANIES

Company	Country	Population (Mill.)	Services	Competition
CTC	Chile	14.8	Basic telephony, Long distance, Public payphones, 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	16.6	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 a monopoly until Nov. '99 through one of the two existing licences. The remaining services are liberalized.
Telefónica del Perú	Peru	24.6	Basic telephony, Long distance, Mobile telephony, Radio-paging and Cable TV.	Liberalized.
CRT	Brazil	9.52 (1)	Basic telephony, Mobile telephony, Leasing of data-transmission lines, Yellow pages, 900 service, Value-added services, Classified advertising.	The services provided in the State of Rio Grande do Sul are not open to competition except mobile telephony.
CANTV	Venezuela	23.2	Basic telephony, Long distance, Public payphones, Mobile telephony, Public telecommunications centers, Private networks, Rural telephony, Data transmission and Directory assistance.	Basic telephony and domestic and international switched long distance services are provided under a monopoly until 2000. The remaining services are liberalized, except mobile telephony which is under a duopoly.
TLD	Puerto Rico	3.8	Long distance.	Liberalized.
Cablevisión	Argentina	35.6	Cable TV.	Liberalized.
T y C	Argentina	35.6	Audiovisual content and Media.	Liberalized.
Infonet	USA	N/A	Data transmission.	Liberalized.
Contactel	Portugal	10	Radio-paging.	Liberalized.
TUPR	Puerto Rico	3.8	Intra-island and international long distance via satellite and radio.	Liberalized.
TYSSA	Argentina	36.1	Telecommunications consultancy.	Liberalized.
Telesp Participaçoes	Brazil (Sao Paulo)	34.1 (1)	Local telephony, Intraregional long distance and Data transmission.	Under a monopoly until mirror companies start operations (local and intraregional) and Embratel (intraregional) after July '99. On 1/1/2002 total opening of market to new entrants and current licence holders and mirror companies if they meet objectives early; entry of mirror companies in the remaining regions if they meet their objectives of 31/12/2003; entry of current licence holders in the remaining regions if they meet their objectives of 31/12/2003.
Telesudeste Celular Participaçoes	Brazil (Rio de Janeiro, Espiritu Santo)	16.6 (1)	Cellular telephony.	Under a duopoly until 1/1/2001 when PCS licences will be auctioned.
Teleste Celular Participaçoes	Brazil (Bahia, Sergipe)	14.5 (1)	Cellular telephony.	Under a duopoly until 1/1/2001 when PCS licences will be auctioned.
Telesp Celular Participaçoes	Brazil (Sao Paulo)	34.1 (1)	Cellular telephony.	Under a duopoly until 1/1/2001 when PCS licences will be auctioned.
Telefónica El Salvador	El Salvador	6.1	Basic telephony, Long distance, Mobile telephony and Data transmission.	Liberalized.

(1) Population in area of coverage

Positioning of Telefónica Internacional

Capital of the US and some of the most important Central American business groups.

During the past year, **Telefónica Internacional** has maintained as its priority objective the creation of value for its shareholders by increasing the profitability of its investments, strengthening management from positions of control, and assuming a leadership role in its developing markets.

With this aim, the **Group** operating companies have concentrated their efforts on intensifying the customer focus of their activities, by giving a comprehensive response to their communication needs, as well as on efficiently managing their resources with a view to improving the quality and productivity indicators of the companies.

In the future, **Telefónica Internacional** will combine the consolidation of the investments made with the aim of maximizing their profitability, with the search for new business oppportunities in the region which guarantee company growth in the coming years.

International Businesses

At end 1998, **Telefónica Internacional** participated

TAMAÑO DEL MERCADO. GRUPO TELEFÓNICA INTERNACIONAL

	Lines in service			Cellular customers			Cable TV customers		
Company	DEC-31-98	VAR 98/97	DEC-31-97	DEC-31-98	VAR 98/97	DEC-31-97	DEC-31-98	VAR 98/97	DEC-31-97
CTC	2,649,786	10.7 %	2,393,707	554,225	151.8 %	220,070	280,570	9.4 %	256,524
TASA	3,905,353	1.8 %	3,837,125	840,471 (1)	10.1 %	763,273	–	–	–
TELEFÓNICA DEL PERÚ	1,555,746	-5.5 %	1,645,920	504,339	57.8 %	319,706	305,200	21.0 %	252,225
TELESP + CTBC FIJA	6,407,452								
CRT (2)	1,438,600	39.4 %	1,031,806	552,658	53.8 %	359,344			
TELESUDESTE CELULAR (3)				772,141	–	–			
TELELESTE CELULAR (4)				226,785	–	–			
TELEFÓNICA EL SALVADOR (6)				20,052	–	–			
TOTAL UNDER T.I. MANAGEMENT	**15,956,940**	**79.1 %**	**8,908,558**	**3,470,671**	**108.8 %**	**1,662,393**	**585,770**	**15.1 %**	**508,749**
CANTV	2,615,854	-3.2 %	2,702,609	639,107	70.5 %	374,875			
TELESP CELULAR				1,804,220	–	–			
CABLEVISIÓN (5)							1,501,997	44.0 %	1,043,111
TOTAL	**18,572,794**	**60.0 %**	**11,611,167**	**5,913,998**	**190.3 %**	**2,037,268**	**2,087,767**	**34.5 %**	**1,551,860**

(1) Cellular customers at 12/31/98 include 612,873 customers of 227,598 customers of TCP.
(2) Cellular customers at 12/31/98 include 542,695 cellular customers + 9,963 customers of Ruralcel.
(3) Includes the cellular customers of Telerj (Rio de Janeiro) and Telest (Espiritu Santo).
(4) Includes the cellular customers of Telebahia (Bahia) and Telergipe (Sergipe).
(5) The merger-division process concluded on 7/1/98, therefore the data from Dec. 1998 cannot be compared to Dec. 1997.
(6) Telefónica El Salvador started the Movistar service on 7 Dec. 1998.

in the management of more than 18.5 million lines, which represents an interannual growth of 60%, primarily resulting from its winning control of **Telesp Participaçoes**, which closed 1998 with plant in service exceeding 6.4 million lines. The entry of the company in Brazil has also enabled the **Group** to significantly enlarge the **Group** customer base in cellullar communications to over 5.9 million customers at end 1998, a figure three times the number of customers recorded in the preceding year.

Despite the slowdown experienced in the Latin American economies, the revenues of **Telefónica Internacional** grew 7.7%. However, as a result of the important investments carried out, particularly the acquisitions in the Brazilian market, profits fell by 22.4%, to Pta. 27.266 billion, representing 26.3% of total consolidated revenues.

Telefónica de Argentina had nearly 4 million lines in service, representing a penetration rate of 23 lines per 100 inhabitants. This allowed **Telefónica de Argentina** to maintain its position as leading telecommunications company in the region. Since May 1998, the company has a 100% digitized network, capable of supporting the marketing of new value-added services aimed at residential and corporate customers.

CTC achieved a net gain of over 250,000 lines during 1998 for a total of 2.6 million lines in service, the only company that provides fixed-line telephone services throughout the country.

In order to strengthen its competitive position in the long-distance market segment, **CTC** acquired 100% of **VTR Larga Distancia** in October 1998. After only two years competing in this business segment, **CTC's** market share has risen to 40%.

In Peru, **Telefónica del Perú** closed the year with more than 1.5 million lines, achieving 90% digitization of the network.

CRT recorded 39% growth of its plant in service during 1998, closing the year with more than 1.4 million lines. In only two years under **Telefónica Internacional** management, the plant in service of **CRT** has maintained an annual average growth of 36%, with an increase in the degree of digitization of 20 percentage points, bringing it to 71%.

In mobile telephony, **Telefónica de Argentina** closed the year with over 800,000 customers, distributed between its two affiliates, **Miniphone**, with operations in Buenos Aires, and **TCP**, whose area of coverage is located mainly in the southern part of the country. In Chile, **CTC** ended the year with nearly 555,000 customers through its affiliate Startel, registering an interannual growth of 152%, the result of the agressive marketing policies applied and

During the year, Telefónica consolidated its position in all of the countries where it operates, gaining a notable enlargement of its customer base in the different service segments.

of the gradual reduction in service prices.

Telefónica del Perú enlarged its customer base 1.5 times in 1998, to more than 500,000 customers, thus continuing its leading position with a 66% market share.

The competitive capacity of the **Telefónica Group** was evident last year following the successful marketing push of the cellular service in El Salvador, when **Telefónica El Salvador** attracted over 20,000 customers in only 20 days of operation (capturing a 22% market share).

During 1998, the commitment of the **Telefónica Group** to give the cellular operations greater autonomy, to facilitate their expansion and development, involved structuring the cellular holdings in Perú and Brasil (**CRT**) as independent affiliates, in line with the cellular operators in Chile and Argentina.

In the public payphone service, **Telefónica de Argentina** had a total of 72,286 lines, representing an annual growth of 25%. Likewise, **Telefónica del Perú** closed 1998 with 47,040 lines (23% more than in 1997), **CTC** with 13,619 (an interannual increase of 11%), **CRT** with 36,345 lines (25% interannual growth) and **Telesp Participaçoes** with nearly 162,000 public payphones.

In the telephone directory business, the **Chilean Company Publiguías**, in which **Telefónica Internacional** holds a 51% equity stake, and **CTC** with 9%, has achieved a 54% penetration of the market, with over 3 million copies published. In Argentina, **Telinver**, publisher of **Páginas Doradas**, closed 1998 with a 13% growth in advertising sales, thanks to product improvements and more effective marketing processes. During the year, the companies have continued to further the development of multimedia-based products (CD-Rom), with the aim of encouraging new lines of business and fresh sources of revenue.

The operations of **Telefónica Internacional** in the region's cable TV business have consolidated its position in the respective local markets, managing a combined total of over 2 million customers. In Argentina, **Cablevisión** had a total of 1.5 million customers at the end of the year, representing an annual growth rate of 44%, while in Chile and Peru, **Metropolis-Intercom** and **Cable Mágico** attained 280,000 and 305,000 customers (an interannual growth of 9% and 21%) respectively. In addition, **CTC's** shareholding in **Metropolis-Intercom** rose to 40% in 1998 (up 10%).

Lastly, in the field of «on-line» service provision and access to the Internet network, **Advance Telecomunicaciones** is the leading Internet service provider in Argentina, with a market share of 43%. Since May 1998, **Advance Telecomunicaciones** was set up as an affiliate 100% controlled by **TASA** following the transfer of shares held by **TISA** and **CEI** to **Telefónica de Argentina**.

The successful bid to control Telefónica El Salvador comes within the Group's expansion plans in Central America.

At year-end, Telefónica participated in the management of 18.5 million lines in Latin America, with an annual growth of 60%.