

Corporate Management

Corporate Management has aimed to create appropriate instruments and a dynamic that will optimize the operation of all business units.

Resources

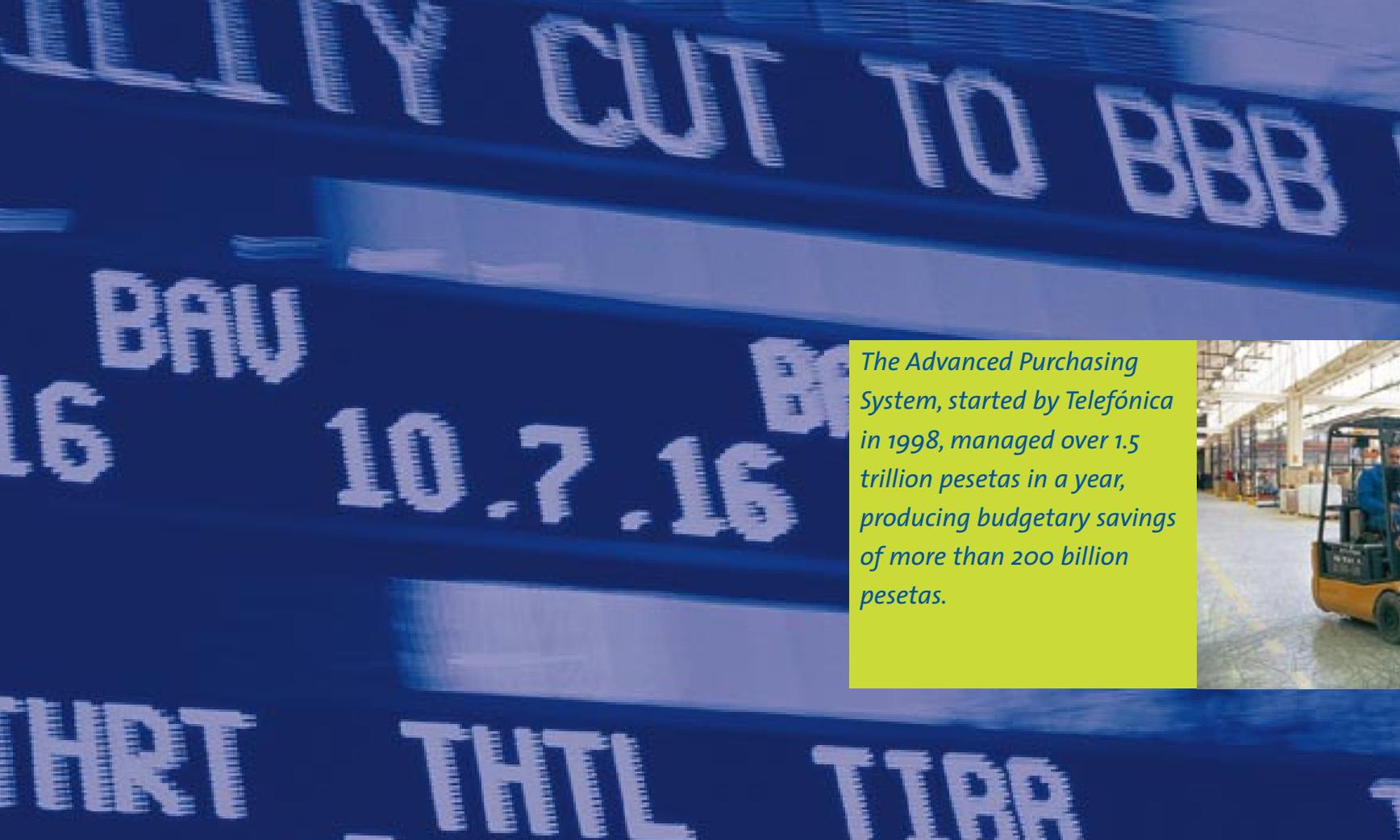
The Advanced Purchasing System put into practice by Telefónica in 1998 managed over 1.5 trillion pesetas in a year, with budgetary savings exceeding 200 billion pesetas. Currently, the purchases of 65 Group companies are being handled through this system, distributed among the various countries where Telefónica is present. Management is carried out through six Purchasing Desks located in Madrid, Sao Paulo, Rio de Janeiro, Lima, Buenos Aires and Santiago de Chile, using unified processes and operating programs in order to take advantage of any existing synergies, as well as implement purchasing on a global or local basis, as appropriate in each case.

Among the main objectives for the coming year is the integration of e-Commerce as a complementary technology to strengthen the present purchasing model.

Human Resources corporate activity during 1999 basically aimed to coordinate Human Resources activity, programs and policy under the new scheme of Lines of Business, so as to gradually obtain a common framework and culture where everybody would have a greater sense of belonging to Telefónica, regardless of the employee's place of work.

In the area of real-estate management, in 1999 there was an intensification of the efforts to rationalize and optimize the real property assets and their related maintenance costs. By accommodating managed services to new market procedures, the company has achieved a cost reduction of 4.132 billion pesetas. The work volume handled by Group companies overall reached 12.5 billion pesetas.

The "Communications City" where Telefónica's new central offices will be located in Madrid, is developing according to plan and is now at the architectural project stage. This complex, which aims to replace the use of rental property with owned assets, is



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expected to produce savings of 5 billion pesetas a year once it comes into use.

Inmobiliaria Telefónica, a company formed as part of the Group's corporate reorganization, has continued the course of action envisioned for its first year of operation.

Financial Management

Financial management has developed through the implementation of three functions:

- * Financial liability management, seeking to limit financial costs and adopt a cautious approach in order to offset possible negative impacts from future currency devaluations affecting Latin American investments.
- * Support for Business Units in investment analysis, the negotiation of investment terms and their execution (SAM-1 cable, tender offers and restructuring in Brazil, preparing tender offers for Latin American operators at the end of the year, GSM license in Morocco...).

* Effectively communicating Telefónica's message to financial markets so that the company's share value is acknowledged by investors and stock-market analysts.

The main outcome of this liability management policy has been a savings of 165,391 billion pesetas (compared to the company's balance at 31st December, 1998) on paying off the debt in Brazilian currency undertaken with the Brazilian government for the acquisition of operators in the Telebrás system. This amounted to 4.056 billion reais (initially equivalent to 3.487 billion dollars at the exchange rate of 1.16 reais to the dollar). At the end of 1999, when the reais had devalued to 1.88, Telefónica decided to pay off its debt together with any accrued interest, paying the equivalent of 2.306 billion dollars (57% of the initial nominal amount in dollars).

Internal Auditing

On the initiative of Telefónica's Auditing and Control Committee, the company has developed an Internal Corporate Auditing project, aimed



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mainly at ensuring compliance with prevailing legislation and regulations, as well as checking the reliability of information, overseeing operational efficiency, and safeguarding the image of the Telefónica Group. To this end, any obstacles or risks that might hinder the fulfilment of any of these objectives are evaluated. Depending on the risks involved, management policies and procedures are developed which seek to adapt each company's processes accordingly.

Regulation

The main challenges confronting the management of regulatory issues in 1999 have been those posed by the liberalization process in the various markets where Telefónica is present, as well as by Telefónica's position as a dominant operator in some of these markets, in addition to the development and growing influence of regulatory frameworks at a supranational level.

This management function has focused on two main objectives:

- * To encourage the most favorable regulatory conditions for the competitive development of Telefónica's business in

markets where it is currently present or plans to have a presence in the future.

- * To maintain a smooth relationship with European and international regulators in order to anticipate and contribute to regulatory developments on the basis of Telefónica's current role as a global convergent operator.

In this context, Telefónica has supported the regulatory model of a competitive system open to new operators who aim for permanence and value creation; operators with the intention of carrying out investments and creating jobs and of making the market grow, through innovation and the development of new services and technology for the benefit of customers.

Last year, Telefónica took part in the most important international fora on the development of future regulatory legislation. At the European level, Telefonica's Brussels office was instrumental in strengthening the company's relations with European Community institutions, such as the European Commission and the European Parliament. In addition, Telefónica has actively participated in many working groups and conferences on regulatory issues.



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Information Systems

In 1999, the most important issue in the area of Information Systems was that of ensuring normal functioning in the face of the "year 2000 effect". Once this was successfully achieved, other relevant issues during the year covered the consolidation of synergy-producing corporate platforms and processes, deployment of a corporate network and improved management systems to reduce delays and maximize the impact of information systems on the Group.





