

Fixed Telephony

Telefónica has more than 34 million fixed telephony lines, 18 million of which are in Latin America.

By the end of 1999, Telefónica directly managed 34 million fixed telephony lines. Spain accounts for 16 million lines, controlled by Telefónica de España; while the rest are managed by the companies grouped within Telefónica Internacional.

Spain

In its first financial year as the fixed-telephony business Line of Activity, Telefónica de España was able to maintain a 94.7% market share of total traffic, despite operating in a liberalized environment. Revenues also increased, to more than 1.6 billion pesetas.

This market share represents a 3-point loss compared to the previous year, in a market competing with fully established global operators since the beginning of the year, with other operators that entered in the course of the year, in addition to several cable operators and two mobile operators (using B1 fixed telephony licenses). By the end of 1999, over 100 licenses had been granted in Spain.

This performance has enabled operating revenues to increase by 0.8% over 1998, surpassing 1.6 billion-pesetas, in spite of several rate cuts and the important substitution effect from mobile telephony. Minutes per line and day amounted to 13.40, increasing by 11.9% over the previous year.

The reasons for these results can be largely explained by two factors: one the one hand, a tariff and price restructuring which made Telefónica's offer more competitive; and on the other, its commercial and marketing policy based on market segmentation, innovation and an integrated telephony offer covering all customer needs simply and economically, in comparison with the offers from other competitors.

Commercial Activity

Throughout the year, 70 new services were placed on the market, enabling invoicing generated by new products and



New terminals, such as the Domo, facilitate the marketing of services which generate consumption and/or value-added.

services (ISDN, Intelligent Network, Internet ...) to amount to 164,791 million pesetas. This invoicing turnover in itself amounted to 10.3% of total operating revenue.

The packaging and integration of products and services (multimedia packages) also made significant progress, increasing the range of consumption and/or value-added-generating products (maintenance services, supplementary services: call waiting, caller identification, three-party service ...).

The marketing of discount plans for the general public and businesses also intensified. Overall, 8,646,145 plans were subscribed during the year, bringing the total number of active plans at 31st December to nearly 12 million.

The network automatic answering service, used by the end of 1999 by more than 8.3 million customers, continues to be promoted.

A notable increase in sales volumes can be attributed to the reinforcement of commercial activity, with a higher qualified sales force, suited to the characteristics and needs of each market segment (Large Corporate Customers, Small and Medium-Sized Companies, Businesses, Professionals and Residential Customers), and the incorporation of new distribution methods (Internet on-

line channel; complementary, external distribution networks, etc.).

Commercial activity in the business market also took the form of new solutions for equipment renewal through the Innovatel Plan, which allowed 10,000 companies to renew their equipment.

Furthermore, call-centers for the general public have been transformed and consolidated, which has increased and improved the operational capacity of customer assistance and enabled the handling of over 12.3 million incoming calls.

The strong growth of the Internet has made it possible to start deployment of new flat-rate and high-speed services (such as ADSL), as well as significantly increase the sale of ISDN lines, effectively doubling the plant of lines in service. Also, a whole set of additional solutions for video conferencing, distance working, etc. has been developed based on ISDN.

In 1999, Telefónica Cable's pre-commercial activity began, enabling the gradual introduction of the "Imagenio" product (pioneer in the use of new VDSL technology).

Cost Reduction

Improvements in customer care were compatible with a cost-reduction strategy, reinforcing Telefónica de España's



Call-centers serving the general public handled over 12.3 million incoming calls.



10.3% of Telefónica de España's operating revenue was generated by new products and services (ISDN, Intelligent Network, Internet...)

competitiveness. The most important item is personnel expenses, which decreased by 11% with respect to 1998. Productivity has increased in parallel, standing at 412.4 lines per employee (representing a 31.7% increase with respect to the end of the previous year). Redundancy measures have significantly contributed to lower personnel expenses, with the agreement to eliminate 10,849 jobs (5,380 in 1999 and 5,479 in 2000). As a result, Telefónica de España's workforce consisted of 46,619 employees by the end of 1999; 19.8% less than in 1998.

With respect to other operating expenses, discretionary management spending continued to decrease. An approximate 8,500 million peseta savings has been obtained under the headings of work, supply and services outsourcing and other personnel expenses, permitting an increase in commercial expenses (advertising, promotion, sales commissions and others) without affecting the profit and loss account, in order to respond to a new competitive environment.

Asset Revaluation

The financial effort carried out in 1999 was important, in anticipation of the depreciation rate of certain equipment and

installations not meeting the forecast periods, due to the competitive environment.

Plant Improvement

During 1999, the switching plant was upgraded to incorporate new features in response to regulatory requirements (basically, call-by-call operator selection, automatic carrier pre-selection and portability services).

The decision to develop bandwidth (ADSL and VDSL) and a Multi-Service Network (based on modern technology, such as ATM switches and DWDM transmission) will allow Telefónica to achieve optimum positioning in the immediate future with a view to meeting the demand for new products and services and to drive the carrier wholesale capacity business.

Telefónica's GigaADSL Internet Access service proposal to authorized operators, offering permanent high-speed connection, and simultaneous voice services, is a decisive step in this policy.

Telefónica's international IP center tripled its Internet traffic capacity in 1999 with respect to Europe and the United States. This, together with the Columbus-3 submarine cable system,



Telefónica Telecomunicaciones Pública (TTP) has 66,889 payphones on public thoroughfares throughout Spain, from which revenues increased by 1.3% in 1999, despite competitive pressure.

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soon to enter service, will make Telefónica one of the world's leading Internet-traffic operators.

Also consolidated in this financial year was a new investment process, establishing an investment volume in accordance with best European practice, based on an investment/revenues ratio which, in 1999 stood at 18.9%, in contrast to the European average of 20.5%.

Early in 1999, an Environmental Management System was implemented to identify those areas where the company's activities affect the environment, as well as to promote the relevant corrective actions, with a view to minimizing and, insofar as possible, eliminating their impact in the future, while at the same time, furthering sustainable development.

With this aim, a specific organization and environmental policy were set up. Initial results obtained are provided in the Environmental Report (available in electronic format on Telefónica's Internet web site).

Finally, a new organizational model adapted to the business segmentation and entirely customer-oriented has been created. This new organization is based on a change in the corporate

culture where salaries are tied to objectives, according to a model which relies on the values of professionalism, teamwork, incentivated individual responsibility, leadership, commitment and transparency. During the year, over 1.8 million student-hours were spent on training.

Public Payphones

Telefónica's public payphone business in Spain is run by TTP (Telefónica Telecomunicaciones Públicas). In 1999, in the context of liberalization of the public payphone market (with greater competitive pressure every year), TTP once again held a leading position in the sector.

At the end of the financial year, the installed plant on public thoroughfares stood at 66,889 terminals, as a result of both relocating scarcely used terminals to areas of heavy demand and eliminating highly loss-making terminals thereby obtaining greater plant profitability. Total revenues have increased by 1.3% and average revenue per terminal and year by 1,56% with respect to 1998.

A total of 122 agreements have been entered into with Local Authorities, 40% of which cover very important cities.

Telefónica de España Main Products/Services Sold

	In 1999
Personal Cards	918,113
Discount Plans	8,646,145
Intelligent Network Numbers	11,887
Basic Line "Renove"	3,027,193
Network Answering Service Connections	3,682,033
New Ibercom Connections	306,906
Basic ISDN Access	187,025
Famitel Terminals	197,164

Telefónica de España Plant at end 1999

	Units	% change with respect to 1998
Basic Telephone Lines	16,480,426	1.2
Ibercom Connections	856,529	12.3
Basic ISDN Access	355,493	100.6
Primary ISDN Access	8,928	78.3
Digital Circuits Rentals	42,946	22.5
Intelligent Network Numbers	30,486	35.4
Active "Clear Plans"	11,722,321	153.1
Cards In Service	2,153,015	46.7
CAR Active Voice Mail	8,352,307	16.3
Additional Active Services	18,421,234	88.2

Latin America (*) Fixed Lines In Service

	Dec. 99	% change 99/98	Dec. 98
MANAGED OPERATORS	18,440,486	15.5%	15,968,908
Telefónica CTC Chile	2,592,397	-2.2%	2,649,786
TASA	4,082,713	4.5%	3,905,353
Telefónica del Perú	1,689,098	8.6%	1,555,749
Telesp+Ceterp	8,427,843	31.5%	6,409,457
CRT (wireline)	1,630,157	12.5%	1,448,563
Telefónica El Salvador	18,278	-	-
FINANCIAL HOLDINGS	2,585,861	-1.1%	2,615,931
CANTV	2,585,861	-1.1%	2,615,931
TOTAL	21,026,347	13.1%	18,584,839

(*)Companies grouped within
Telefónica Internacional in 1999

TTP increased its advertising sales by 23.97%



Telefónica de Argentina has a 54% market share in Domestic Long Distance and a 50% market share in International Long Distance.

Private Area plant increased by 4,100 terminals (representing a 13% increase over 1998), bringing the total to 35,900 installations.

During the year, mixed installations (Tarjetel, a system integrating telephone and TV) amounted to 500, representing a 41% increase. Moreover, sales in of automatic toll-service terminals (TRMA/Teletup) reached a figure of 28,900 units sold, representing a 22% increase over the previous year.

Also significant was the invoicing for advertising sales (a 23.97% increase over 1998). Commercial costs in this regard decreased by 1.81% with respect to the previous year.

Membership in telephone-card collecting increased by 188, for a total of 4,475 at year end.

Operational costs for maintenance of terminals on private premises have also decreased, and new products have been marketed through distribution networks.

These efforts have enabled Telefónica Telecomunicaciones Públicas to make favorable progress, reflected in revenues of 58.423 billion pesetas, showing a slight 1.15% increase with respect to 1998. Income before taxation amounted to 6.103 billion pesetas.

Latin America

Throughout the financial year, Telefónica Internacional consolidated its leading position in the Latin American market, both by strengthening the position of affiliated operators and by expanding its area of activity into new markets.

At year end, Telefónica had a total of 21 million fixed lines in service in Latin America (directly managing 18.4 million), representing a 13% year-on-year growth rate. Early in 2000, within the organization model by global lines of business, the Board of Directors of Telefónica, S.A. decided to apply a single policy to basic telephony activities in Latin America.

Brazil

Telesp closed 1999 with a total of 8.3 million lines in service (not including Ceterp, referred to below), representing a 29% increase with respect to the closing of 1998. The network was 87% digitized including a total of 566 lines in service/employee with respect to productivity.

In November, the respective General Shareholders' Meetings of TELESP PARTICIPAÇÕES, TELESP S.A. and CTBC approved the



integration of CTBC into TELESP S.A., and the simultaneous integration of the resulting company into TELESP PARTICIPAÇÕES, and of SPT into TELESP PARTICIPAÇÕES. The name of the final resulting company is TELESP, S.A. This outcome simplifies the corporate structure.

In December, TELESP, S.A. acquired a 72.6% stake in CETERP, a company which operates fixed and mobile telephony in the Riberao Preto region, in the State of Sao Paulo. By the end of 1999, CETERP had approximately 175,000 lines in service and 57,000 cellular customers. This transaction was part of a policy to fulfill, in advance of the deadline, the quality and service expansion goals required by the regulating authorities, enabling TELESP to offer other services and to have early access to other Brazilian areas.

Companhia Riograndense de Telecomunicações (CRT) had over 1.6 million lines in service, representing a penetration of 17 lines per 100 inhabitants. The company's network is practically 100% digitized, enabling an increase in value-added services as well as heavier traffic per line. In accordance with the directives of the Brazilian regulatory authorities, at the beginning of 2000 Telefónica was in the process of disinvesting its equity stake in CRT.

Argentina

Telefónica de Argentina's (TASA) plant in service grew by 4.5% up to 4,082,713 lines at 31/12/99, representing a penetration of 24 lines per 100 inhabitants in Southern Argentina.

The period of transition towards competition ended on October 10, 1999, with four operators licensed to operate on a national level (Telefónica being one of these). As of October, customers living in the inner regions of the country and, as of November, customers within the Buenos Aires Metropolitan Area, could choose their long-distance operator both at national and international levels through a pre-subscription process. By the end of 1999, TASA's share of these markets increased to 54% and 50%, respectively.

Chile

Telefónica CTC Chile closed 1999 with almost 2.6 million lines in service, reaching a penetration of 20 lines per 100 inhabitants. Service lines per employee grew from 383 in 1998 to 459 in 1999.

On May 3rd, the Chilean Government published the main aspects of its new tariffs proposal for Telefónica CTC Chile's regulated services over the next 5 years (1999-2004). The decree

Telefónica El Salvador attained a 40% market share in International Long Distance during its first year of activity.



came into effect in August, superseding the earlier decree of 4 May 1994, and will imply a considerable effort to improve efficiency on the part of the company.

Peru

Telefónica del Perú closed the period with over 1.6 million lines thanks to the marketing of innovative products adapted to the characteristics of the Peruvian market, such as the "people's phone" (a fixed telephone with a limit on consumption). Digitization reached 95.3% and penetration 6.7%.

Central America

Telefónica El Salvador has consolidated its position as a telecommunications operator, with the launch of its offerings of fixed telephony, public payphones and data transmission during the year, obtaining a 40% market share in international long distance. In addition, a new company was formed (Telefónica Multiservicios, S.A.) with local partner Amnet (a cable television company) for the provision of telephone services over Amnet's network, which furnishes immediate access to over 50,000 customers.

Telefónica Guatemala also began operating in July 1999.

Furthermore, in May, Telefónica Internacional announced its agreement with Tyco to build and develop a fiber-optic submarine cable endowed with the most advanced technology in transmission capacity for voice and data traffic. This system (SAM 1) will link South America, Central America and the United States, in combination with Telefónica's terrestrial network to fully interconnect the most important Latin American cities. The first phase will start service in December 2000 and the system is expected to be fully operational by July 2001.

Likewise, in September, Telefónica Internacional signed a cooperation agreement with IDT (a US long-distance operator) to participate in the SAM 1 cable and develop joint projects for the marketing of products aimed at the US Hispanic market.

Atento

In 1999, Telefónica formed a company to encompass the Group's call-center business. This new Line of Business is called "Atento" and aims to globally develop the call center business worldwide, particularly in Latin America and Spain, as well as in the United States (the latter being a medium-term objective).

By the end of 1999, the number of call center positions throughout the world managed by Atento amounted to 13,499, employing 21,590 people worldwide.



For each market sector, Atento offers a portfolio of different services: integrated telephone assistance, telemarketing, provision of staff, rental of positions, etc.

Throughout 1999 in Latin America, Atento set up companies in Brazil, Guatemala, El Salvador, Peru, Chile and Puerto Rico.

By the end of 1999, the number of call center positions throughout the world managed by Atento amounted to 13,499, employing 21,590 people worldwide. In Spain this activity was under the management of Estratel which, once it has become Atento España, is expected to become a part of the Group early in 2000.

