

Mobile Services

Telefónica has more than 19 million Mobile telephone customers (9 m in Spain and 10 m in the Americas)

Mobile services account for more than 19 million customers, 9 million of which are managed by Telefónica Móviles (Telefónica Mobiles). The rest are in the Americas, being managed by Telefónica Internacional until the beginning of 2000, when the new Business Line for management of mobile services on a global scale was created.

Spain

The Spanish cellular market registered record figures in 1999, becoming one of the European markets that has shown highest growth (112,5%). In Europe, growth rates averaged 67,8%. This spectacular growth has brought about an increase in the service's

penetration rate of 19,9 percentage points arriving at 37,6%. With this increase, the Spanish cellular market had 15 million users by the end of 1999.

In this atmosphere of strong growth, Telefónica Móviles has maintained its indisputable leadership position, as shown by the fact that more than 52% of the net gain in customers has been for Telefónica despite the increase in competitors. By the end of last year, Telefónica Móviles has increased its number of customers in 4,158,083 new connections, which results in a 157% increase in net gain in comparison to the previous year.

At the end of the financial year, Telefónica Móviles had a total of 9,052,347 customers, 85% more than the previous year. By market segments, the method of prepaid cards, the main driver of this growth, accounts for more than 5,5 million (61% of customer total), trebling its user base in only one year. With regard to contract customers, which exceed 3,5 million, it is important to mention the extraordinary performance that the business sector has shown, particularly the MoviStar Corporate service, which throughout the past year has almost quadrupled its number of lines.

Taking into account the customer figures reported by competing operators, whose accounting criteria are less exacting



MoviStar Activa offers its users the possibility of checking their call details over the Internet

than those applied by Telefónica, at the end of 1999, Telefónica's market share was more than 60%, although the traffic share is estimated to be higher. Given these figures, Telefónica Móviles is positioned as the operator with the largest share of the GSM market among the major European operators.

This spectacular increase is sustained by a business culture focused on quality and customer service, an innovative spirit, devoting attention to the development of a strongly-motivated workforce, and an extensive capillary distribution network.

Quality

Telefónica's quality of service was acknowledged with the renewal of the ISO 9001 quality certificate in each company process. The company also has an Environmental Management System certified by AENOR (ISO14001 standard). Additionally, and in order to fortify the company's internal commitment to quality, during 1999, Telefónica Móviles initiated a management evaluation project developed by the European Foundation for Quality Management (EFQM), which will mean carrying out a total, periodic and systematic review of management and results

over the next few years.

With the aim of offering the best-quality coverage, Telefónica Móviles owned 9,120 sites by the end of 1999, 2,193 of which entered into service last year, multiplying the base stations that use the new 1,800 MHz band in population areas where the greater volume of traffic is concentrated. The company also has a dual GSM network, which will allow it to meet continued customer growth during the next few years while maintaining the standards of Telefónica MoviStar's service quality. Thus, traffic growth has been outdistanced by the growth of network capacity, which increased by 80% in 1999.

In the area of international coverage, 44 new roaming agreements were signed in 1999, this means that Telefónica's customers can receive its service in 93 countries through 181 operators.

From a commercial point of view, in 1999, Telefónica Móviles has increased the number of services and facilities available to its customers, thanks to the important effort made in Research and Development, with an investment close to 20 billion pesetas.



Telefónica Móviles (Spain) is positioned as the operator with the largest GSM market share among the major European operators.



In 1999, the first mobile-Internet convergent services were launched

Innovative spirit

Telefónica Móviles' vision on the future of the convergence between mobile telephone services and the Internet has led to the development and launch of premiere services in this field.

Outstanding service offers are MoviStar's Internet Premium, a pioneer service worldwide that enables billing for only the information transmitted, not the total connection time. MoviStar Net enables the reception and answering of electronic mail messages on a mobile terminal, making a decisive step forward in the convergence of both services, thus improving their functionality for the customer. Another of the messaging services orientated towards Internet is MoviStar Mail (MoviStar Correo), which enables Telefónica MoviStar users to send, receive and answer electronic mail from their mobile phones, offering all users a mail account and their own IP address.

The company has developed, together with Terra Networks, the first mobile portal in Spain using WAP technology (Wireless Application Protocol), which enables access to a wide array of information services (news, economic news, stock quotations, lottery results, traffic information, etc.)

During 1999, Telefónica Móviles concluded agreements with important companies in order to incorporate new content to its

service offerings. This has been the case, for example, with TV broadcasters and news agencies such as CNN, Antena 3 and Reuters, whose information is accessible to Telefónica MoviStar customers.

In November, the fixed-mobile convergent telephone offer was launched through the MoviStar Combi service once the B1 licence was obtained for the provision of a fixed-telephone service using the indirect access code 1075.

As regards prepaid services, MoviStar Activa has included for its users the possibility to consult details of their calls through the Internet, which represents a pioneer service both in Spain and worldwide.

Other factors which have marked the positive evolution of this market have been the progressive reduction in prices, transferring advantages obtained to the end user by securing the economies of scale achieved through the ever-growing volume of customers who show their trust in our services. This has encouraged the introduction of new price offers which can be adapted to satisfy the needs of all our customers.

The extension of Telefónica Móviles' commercial distribution network - with more than 13,000 points of sale -, has brought to customers a wide range of products and business services and, has

MensaTel maintains its indisputable leadership in its business area, in both the professional and residential segments.



Telefónica Móviles' investment program in Spain amounts to 130.572 billion pesetas, doubling the installed plant in switching centers.

been particularly effective in increasing the ease of recharging prepaid cards. Additionally, Telefónica Móviles has opened a new electronic shop-window in Internet (<http://www.movistar.com>), from which the potential customer can shop for all of the company's services.

In the radio-paging market, MensaTel maintains its indisputable leadership, both in the professional and residential segments, with a total market quota of 63%. In addition, in the in closed-user-group, mobile, radio telephone service, or Trunking, RadioRed is also the leader, with an estimated market share of 80% at the end of 1999.

It is important to mention that after the close of the period, UMTS and TETRA licences, announced in 1999, were awarded in Spain. As a recipient of a UMTS licence, Telefónica Móviles acquired the ability to build a third-generation mobile network and provide broadband multimedia cellular services. With its TETRA licence, Telefónica is authorized to build a digital mobile communications network for closed user-groups – trunking – throughout the country. These two new licences guarantee continuity in technological progress offered by Telefónica Móviles, as well as the leadership of its mobile services offering in Spain.

In order to serve the growing demand and, at the same time, fulfil the exacting quality standards established, Telefónica Móviles developed an important investment program in 1999, amounting to 130.572 billion pesetas overall, which has made possible a twofold increase of installed plant in the switching centers.

Another result of this commitment is the new Development and Technology Center launched by Telefónica Móviles for the development of new applications and experimentation with new technologies.

Human Capital

An important part of the development and leadership achieved by Telefónica Móviles is, without doubt, due to its human resources. During 1999, 500 new people joined the company, resulting in a workforce of 3,372 professionals by the end of the fiscal year, of which about 35% are university graduates. The sector's strong dynamism is complemented by a young staff whose average age is 32, and 44% of employees are women. During 1999, 150,000 hours were dedicated to training in different courses for all company areas.

Telefónica Móviles (Spain)
Evolution of the main financial figures for 1999
(Consolidated figures)

(FIGURES IN MILLIONS)	PESETAS	EUROS	% CHANGE 99/98
Operating revenues	622,159	3,739	32%
EBITDA	225,205	1,353	16%
Net income	93,538	562	16%
Investments in the year	130,572	785	41%
Cumulative gross investments	691,350	4,155	23%
Added value	257,059	1,545	16%
Total assets	566,896	3,407	23%
Shareholders' equity	223,625	1,344	32%

	1999	1998	% CHANGE 99/98
Network sites	9,120	6,927	31%
Mobile telephone users	9,052,300	4,894,300	84%
Millions of minutes	13,660	8,028	70%
Millions of messages	454	134	239%

Mobile Telephony in the
Americas (*)
Evolution of the customer base

	dec. 99	% change 99/98	dec. 98
Managed Operators	6,455,669	101.9%	3,197,315
Telefónica CTC Chile	1,153,794	108.2%	554,225
TASA	1,050,780	96.8%	534,035
Telefónica del Perú	711,638	41.1%	504,339
Ceterp celular	59,960	-	-
Celular CRT	967,574	78.3%	542,695
TeleSudeste Celular Par.	1,851,753	139.8%	772,141
TeleLeste Celular Par.	535,009	98.3%	269,828
Telefónica El Salvador	125,069	522.7%	20,052
Telefónica Guatemala	49,392	-	-
MoviStar-Puerto Rico	47,903	-	-
Financial stakes	4,074,229	66.7%	2,443,327
CANTV	1,181,273	84.8%	639,107
Telesp Celular Par.	2,892,956	60.3%	1,804,220
TOTAL	10,529,898	86.7%	5,640,642

(*) Companies grouped in Telefónica Internacional in 1999



Telefónica expects to win 321,000 customers in its first year of operation in Morocco.



The Americas

At year end, Telefónica had more than 10 million mobile telephone customers in Latin America (6.5 million managed directly, and 4 million indirectly, through financial stakes), which represents over 80% more than at the close of the previous year.

Brazil

In Brazil, all the cellular companies managed by Telefónica consolidated their leadership position in 1999. Despite the start of operations by competitors, by the end of 1999, TeleSudeste (Rio de Janeiro and Espírito Santo) held a market share of 67%; Celular CRT (Rio Grande do Sul) held 84% and TeleLeste (Bahía and Sergipe) held 67%.

The dynamism of the commercial policies based on the introduction of the prepaid service, price cuts, and a wide range of services, has marked the expansion of this service, allowing an increase in the customer base of up to 1.85 million in the case of TeleSudeste (a year-on-year growth of 140%), more than 535,000 customers in TeleLeste (+98%), and nearly one million customers in Celular CRT (+78%).

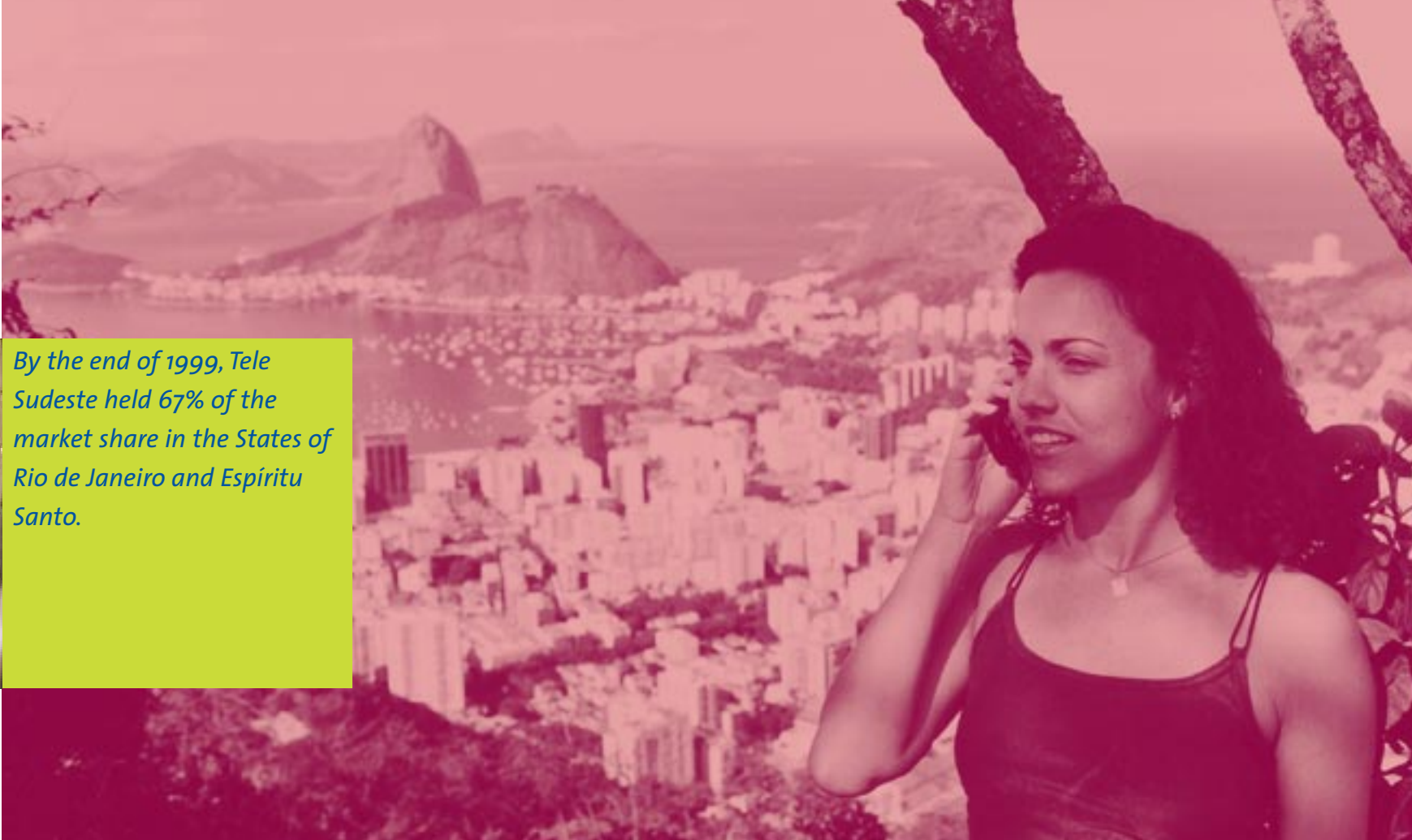
In July, tender offers were carried out for the cellular operators of Rio de Janeiro (Telerj Celular), Espírito Santo (Telest Celular), Bahía (TeleBahía Celular) and Sergipe (Telergipe Celular) – the last two in conjunction with Iberdrola. These operations enabled the optimization of Telefónica Internacional's investment portfolio in Brazil, significantly increasing its financial stakes and reducing the average acquisition cost.

Argentina

In June, TCP, a fully-owned subsidiary of Telefónica Argentina, obtained several PCS licences that will allow it to be present throughout the national territory. Also, on 30/9/99, Miniphone, the cellular company that operated in Buenos Aires, and was owned 50/50 between TASA and Telecom, was split, with the 50% corresponding to TASA merging with TCP. This company closed the year with more than 1,050,000 customers which represents an year-on-year growth of 97%.

Chile

In Chile, the customer portfolio of Startel (cellular subsidiary of Telefónica CTC Chile) increased to 1,153,794 at December 31, 1999,



By the end of 1999, Tele Sudeste held 67% of the market share in the States of Rio de Janeiro and Espiritu Santo.

which means it doubled its number of customers with respect to the previous year, attributable in part to the introduction, in February 1999, of the CCP (Calling Party Pays) System.

Peru

In March, Telefónica in Peru created Telefónica Móviles S.A.C., thus affirming the growing importance and expansion of the cellular business in Peru. In 1999, Peru Telefónica Móviles Perú surpassed 700,000 customers (a year-on-year increase of 41.1%) and increased its market quota by 3 points (reaching 70%) compared to the previous year, positioning itself as the indisputable leader of the cellular telephone market in Peru.

Central and North America

MoviStar began to operate in Puerto Rico in September and closed its fiscal year with a total of 47,903 customers, surpassing the forecast of 40,000, which represents 6% of the market total and 40% of all new customers. By the end of the year, network construction had reached the main cities on the island and its completion is foreseen for the first months of 2000.

Telefónica El Salvador has obtained almost 125,000 cellular customers, which represents a market share of 35% in its first year of operation. As regards Telefónica Guatemala, in less than three months in operation, it has attained nearly 50,000 cellular customers.

Mediterranean Basin

Morocco

In 1999, Telefónica obtained the second mobile licence in Morocco (through Telefónica InterContinental). The commercial launch of this service is planned for the first half of 2000. The aim is to reach 321,000 customers, including prepaid, corporate and economy customers. Taking advantage of the explosion predicted in the Moroccan cellular market, Medi Telecom expects to obtain revenues of some 17 billion pesetas by the end of the year. Investments in the network will amount to 14,200 million pesetas.



UMTS represents, for Telefónica Móviles, the opportunity to offer broadband multimedia cellular services in Europe

Main projects for the year 2000

UMTS in Europe

One of Telefónica's strategic objectives for the years 2000 and 2001 is to obtain licences for operating mobile services in Europe with UMTS technology. UMTS is the third generation of mobile systems in Europe, which enables the offering of high bandwidth, mobile multimedia data services, making it ideal for wireless-Internet service offerings. This new technology will begin to operate in January 2002.

Telefónica InterContinental is the Line of Activity that has led these strategies in this new market in Europe in 1999. The UMTS strategy is pan-European in nature, with priority in the markets of the United Kingdom, Germany, France, Italy and Switzerland.

Telefónica is aware that the success of the UMTS telephony system does not only depend on obtaining licences and operating them in the year 2002. The company also recognizes the need to carry out a series of strategic actions during the current and following year:

- Creation of a pan-European operator with two parallel structures: one on a European scale, with strategic partners in which Telefónica will have a majority stake, and an operator on a local scale in each country.
- Offering of wireless Internet services by setting up new companies with the UMTS partners, or the acquisition of existing companies.
- Acquisition of alternative mobile operators in the main European countries with the aim of gaining a customer base prior to the launch of UMTS.
- Creation of a unique mobile brand associated with UMTS.

Turkey

By April 2000, three DCS 1.800 licences are expected to be awarded in Turkey, a country of 65 million inhabitants. Telefónica is bidding for one of them in a consortium which includes three of Turkey's main business groups: Sabanci, Dogan and Dogos. The forecasts of the Business Plan, carried out by Telefónica InterContinental, foresee a penetration rate in the mobile telephone sector of 40% by the year 2005, compared to the existing 12% at December, 1999.



Telefonica

