

*Telefónica has improved its position in the global ranking of operators by market value; at the same time, it has reorganized its assets into global Business Lines*

A consolidated  
project



*Telefónica, S.A. acquired, in the year 2000, all the shares it did not yet own of Telefónica de Argentina, Telefónica del Perú, Telesp and Tele Sudeste Celular*

## Telefónica, S.A.

During the year 2000, Telefónica has reinforced its position as one of the leading players in the global telecommunications market. In a year of sharp stock market swings, Telefónica has climbed in the ranking of operators by market value; meanwhile, it continued its internal reorganization process to consolidate its position in the new global framework in which the industry is now operating. In this regard, it has achieved major progress in the process of organizing its assets into worldwide Business Lines.

There have been five milestones during the year: the Latin American Tender Offers, the creation of Telefónica Móviles and Telefónica DataCorp, the stock flotation of Telefónica Móviles, Terra's purchase of Lycos, and the acquisition of Endemol.

## Latin American Tender Offers

The tender offers launched by Telefónica, S.A. in Latin America on January 12, 2000 and completed during the month of July, plus the purchase of the shares held by the Argentinean partner CEI (completed in December 2000), permitted Telefónica, S.A. to significantly increase its holdings in the main operators: Telefónica de Argentina (from 28.8% to 97.9%), Telesp (in Brazil, from 17.5% to 86.6%), Telefónica del Perú (from 40% to 93.2%), and Tele Sudeste (from 17.6% to 75.6%), through an unprecedented public share purchase offering. The operation, known as "Operation Verónica", opened the door to the Group's reorganization into global Business Lines by permitting asset organization to be determined by business activity instead of by country.

## Organization by Business Lines

Early in the year, two worldwide Business Lines were created: Telefónica Móviles and Telefónica DataCorp joined the other three created the previous year (Terra, Telefónica Publicidad e Información (TPI) and Telefónica Media). Each of these Lines was created with the objective of becoming a global leader in its sphere of activity. Others would be



added later, such as Atento, Business to Business and Emergia, and Telefónica Latinoamericana would take shape as the Business Line responsible for fixed telephony assets in the Americas. The scheme is completed with Telefónica de España as the company responsible for fixed telephony business in Spain, which is the business that provides the greatest cash flow to the global balance sheet.

Of the above, two companies played a major role during the year: Telefónica Móviles, which was listed on the Stock Exchange and marketed the first mobile Internet services, and Terra, which acquired the U.S. company Lycos, and created Terra-Lycos. Both of these developments are treated in greater detail below, in the sections devoted to each of these businesses.

Regarding the remaining Business Lines, the year 2000 has seen the most traditional business -fixed telephony- resist with considerable success the opening of the market to competition, while at the same time it developed its future plans with a gradual move to Internet services and the integration of voice, Internet and TV services using broadband networks.

Conventional data transmission services evolved towards integrated corporate services thanks to Telefónica DataCorp's strategy of consolidating its international expansion on the basis of a large-capacity communications infrastructure between Europe and the Americas.

In the Media business, the acquisition of Endemol, a leading producer of content for television and the Internet, was an action taken in the present context of convergence between the content production and communications industries.

A similar integration and international expansion route has been taken by TPI, Atento, Emergia and Business to Business.

## Corporate strategies

The organization by Business Lines was developed further thanks to the corporate strategies designed to obtain the greatest possible synergies from the coordinated action of different areas. For example, in past years, important results were obtained with shared purchasing policies with the implementation of an Advanced Purchasing System. In the last few months, other cost optimization systems such as the Shared Service Centers which have achieved major progress and will be further developed during 2001 onwards; the coordinated information system strategies, the first implementation of human resources actions on a global scale (the TIES plan is the most significant), as well as the coordination and development of actions that could be grouped under the generic term of "Institutional Relations".

The Employee's Stock Options Plan (TIES) is an innovative system with the participation of 85,000 employees in over 70 group companies in 12 countries



## Human Capital

Since the new business model was created, one of the main challenges faced by Corporate Human Resources has been to make Telefónica's Human Capital a clearly differentiating factor and a competitive advantage over the competition, by aligning Human Resources actions, policies and programs with Telefónica's new culture, and giving the new model consistency.

All development, identification and training programs are oriented towards this goal, as are specific actions with a global scope, notably the launch of the Employee Stock Options Plan (TIES).

This Program is based on the expected long-term increase in share value, and on a double commitment: by the company and the employees.

Following the approach that has always characterized the Group, Telefónica has once again pioneered a remunerative system, which is the first time that a plan such as this has been established for over 85,000 persons, working in more than seventy companies in 12 different countries on three continents. Furthermore, its features are the same for everyone.

Likewise, the High Potential Youth (JAP) Corporate Program, which is becoming consolidated as a program to identify and develop young people with great potential within the Telefónica Group.

The expansion of Telefónica outside its natural markets has been boosted by Telefónica's presence in universities and internationally recognized business schools, in order to present the Group's business project, and to identify professionals who may in the future contribute to Telefónica's development and its constant commitment and high standards.

The Results and Performance Evaluation System (SRD), that is already being used throughout the Group, permits defining and evaluating each person's objectives and rewarding the individual talent and dedication of every professional.

Among the Company's training programs, the most outstanding is the Senior Management Telefónica Harvard-IESE training course, which is being given to the Group's entire management team, and will continue to be given throughout this year. The Program is designed to maintain that Telefónica as a highly effective, dynamic and competitive organization.

## Institutional Relations

In the field of Institutional Relations, and in an environment in which regulatory measures can have a significant impact on the group's



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results, Telefónica's activities strive to define and consolidate collaboration with administrative, regulatory, industry, and cultural bodies, as well as constantly improve its performance for the shareholders of all the Group's companies listed on the Stock Market.

The goal is to reinforce our efforts, in order to achieve the best possible results for the company, while, at the same time, developing the leading role that Telefónica's position demands: as a promoter of extending the Information Society in all the geographical areas in which Telefónica operates, bringing this business project closer to society.

Throughout the year, actions have been taken to constantly consolidate and increase the value of the Telefónica brand in its global projection, and new brands such as Atento, Emergia, Terra Lycos, Adquira, Atlanet, e-moción, Terra Mobile, and Meditel have been created and developed. Likewise, Vía Digital, Spain's digital TV platform, whose main shareholder is Telefónica Media, has been repositioned, and its image has been changed.

Grupo Telefónica's brand image, based on innovation, proximity, and commitment, uses sponsorship of sporting, institutional, cultural and social events as a vitally important tool. Therefore, maximum effectiveness is envisioned through the use of profitable and efficient actions to achieve an image that is appropriate for the leading Spanish

multinational and the principal telecommunications operator in Latin America, with a potential customer base of over 500 million persons.

In the field of advertising investment, following maximum resource optimization criteria, we have continued to expand the application of centralized purchasing of media advertising, a process begun in Spain in 1997, which already extends to Argentina, Chile and Peru.

Likewise, we have fostered the process to unify internal communications media for the more than 148,000 employees in the Group and, in the on-line communications field, we have created a single model for the Group's presence on the Internet, which is embodied in websites for the different Business Lines and countries.



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