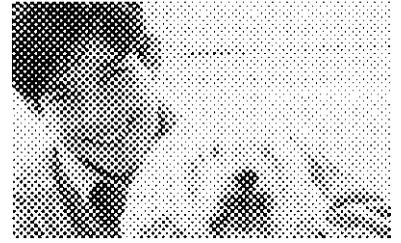


*The highlight in the
field of commercial
activities has been the
strategic alliance
formed with America
On Line in December*

Corporate
Services



During 2000 the Data Business has been spun off from the operations of the Telefónica Group in Brazil-Sao Paulo, Argentina and Peru within the framework of the bids made for control of its Latin American subsidiaries

Telefónica DataCorp

In 2000 Telefónica DataCorp has successfully consolidated the international presence of this global activity, laid the foundations to move up the value chain with services provided to corporate clients, the natural client base, and reached major strategic agreements with both Spanish and international clients.

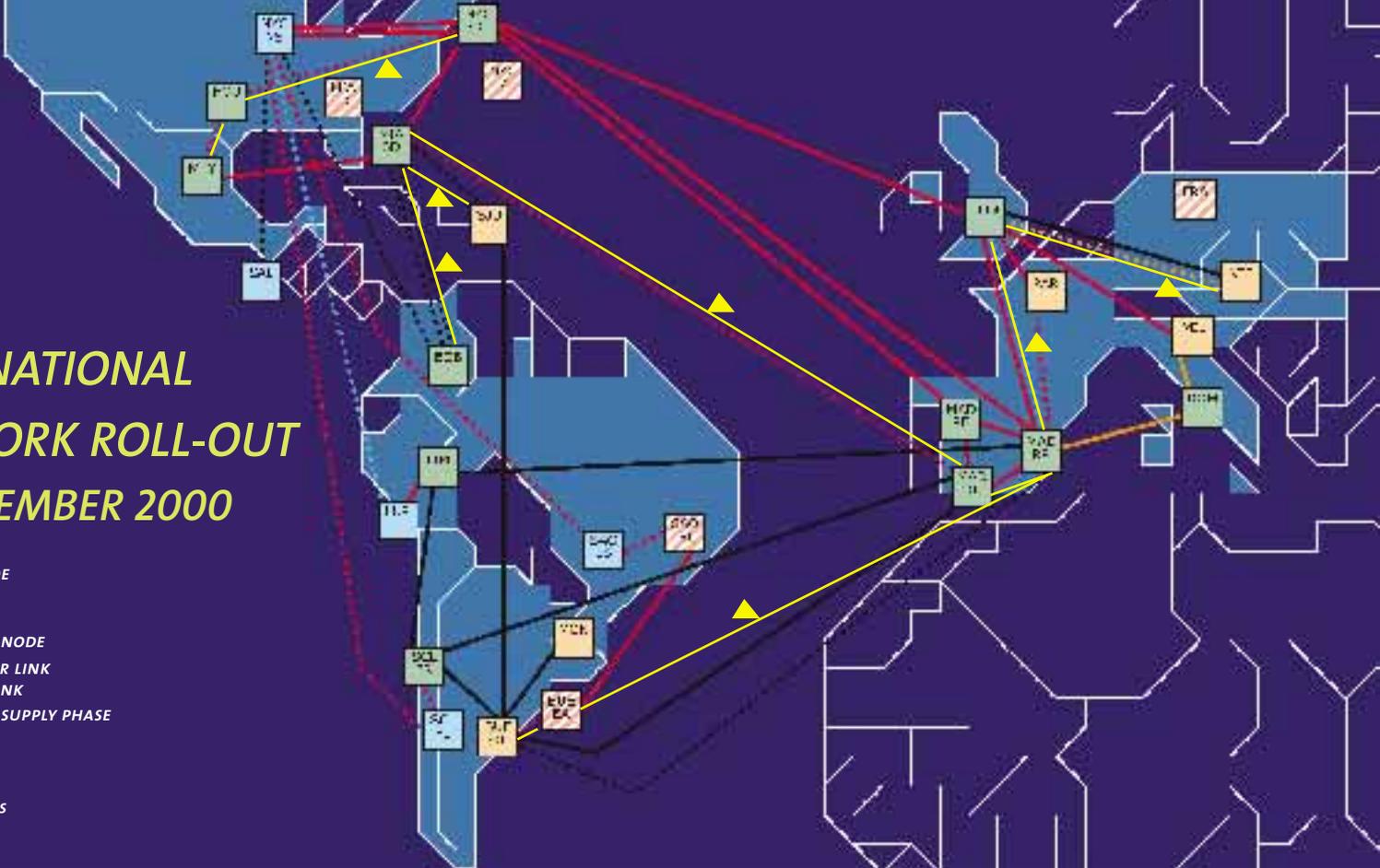
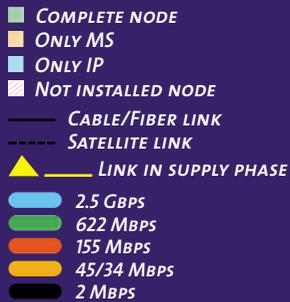
International expansion in 2000 has seen the segregation of the Data Business in the Telefónica Group subsidiaries in Brazil-Sao Paulo, Argentina and Peru within the framework of the tender offers made for the Latin American subsidiaries. The remaining actions necessary to execute this segregation and the contribution of the new spin-off companies to the Telefónica DataCorp Group should be completed within the first half of 2001. The results of the Telefónica DataCorp Group for 2000 do not yet include the consolidation of the operators

affected by the tender offers, although they are already functioning as if they formed an integral part of the Group, which has been active in supporting their efforts to achieve business objectives in corporate Data and Value Added Services.

In addition to the effort made with the operators spun off during the year, Telefónica DataCorp has laid the foundations for the consolidation of its business in America with the incorporation of new subsidiaries in Mexico, Uruguay and the United States, as well as backing the expansion of the Telefónica Group's European presence. Telefónica DataCorp has thus taken over the operations of European Telecom International (Austria) and ACEA-Telefónica (Lazio-Rome) from Telefónica Intercontinental. Both of these businesses have been re-engineered this year to focus on corporate communications. In Italy, Telefónica DataCorp has acquired Telexis, a FIAT Group company specializing in communications, which has been integrated with ACEA-Telefónica to create Atlanel. In Germany, a deal has been worked out with the Bertelsmann Group to incorporate mediaWays (Germany) into the Telefónica DataCorp Group during 2001.

International investments have continued apace during the year to create and consolidate Telefónica DataCorp's international network, which will serve as the platform providing all international data services

INTERNATIONAL NETWORK ROLL-OUT IN DECEMBER 2000



required by the Telefónica Group companies, including international Internet access, from 2001 onwards.

In September, Telefónica DataCorp reached an agreement with Hispasat, which is 22.7% owned by Telefónica Media, to incorporate satellite technology into the international network. This will make it possible to scale up the capacity of Internet connection more quickly and expand the service offered in Latin American countries.

Significant progress has been made with the implementation of Telefónica DataCorp Internet Centers (TICs), as an integral part of the Telefónica DataCorp service strategy. The TICs provide a basis from which to provide value added services (web-hosting, applications and e-commerce platforms). At December 2000, Telefónica DataCorp had 1,792 m² of operational TICs at its facilities in Madrid (864m²), Miami (200m²), Sao Paulo (240m²), Buenos Aires (110m²) and Lima (387m²).

In the field of Professional Services over IP Technology it has been decided during the year that Telefónica Sistemas should be transferred to the Telefónica DataCorp Group.

The formalization of an alliance with America On Line Inc., the US-based world leader in interactive services, in December 2000, was a major event in the area of commercial activities. As a result of this alliance Telefónica DataCorp will provide network services (domestic switched access and international network capacity) to the main

America Online companies in key Latin American and European markets.

A framework agreement was made with Terra-Lycos in April, under which Telefónica DataCorp will provide connection to its backbone international network and access networks in the countries in which both companies have a common presence. Telefónica DataCorp will provide Terra-Lycos with access to its (IP protocol) Intranet, connecting up offices in Spain and nine other countries in America. This project is expected to generate revenues of half a million dollars per year for a period of three years.

An agreement was made with Banco Santander Central Hispano (BSCH) in October to manage the banking group's International Network, which covers over 20 countries in Europe and Latin America. This project will require investment of around USD 6 million (approximately ESP 1,000 million) over the next three years. Repsol too has awarded the management of its International Network to Telefónica DataCorp, and Banco Bilbao Vizcaya Argentaria (BBVA) outsourced its international Back-up Network to this Telefónica Unit.

In the field of strategic alliances for the development of new services, Telefónica DataCorp entered into an agreement with VeriSign, a leading US provider of electronic security services for the Internet, in September 2000. This agreement relates to the incorporation of the U.S.

INTERNATIONAL EXPANSION OF TELEFÓNICA DATACORP

- TDATA CORP DOMINANT
- TDATA CORP NEW ENTRANT
- COLLABORATION WITH DATA UNIT
- POP (POINT OF PRESENCE)



company's digital certification solutions and public key infrastructures (PKI) into the data operators' range of solutions. Also, an agreement was made with Teldat in March for the joint development and worldwide marketing of services.

Results

As a consequence of these agreements and operations, the results of Telefónica DataCorp for 2000 reflect revenues of EUR 920.2 million (20.8% up on the prior year) generated in Spain, Colombia, Mexico, Uruguay, Austria and Italy, and EBITDA of EUR 44.8 million.

In 2000 Telefónica Data Spain generated revenues of EUR 717.8 million (24% up on 1999) and EBITDA of EUR 119.6 million (EBITDA margin of 16.3%). The revenues generated from Frame Relay services have grown 37.3% compared to the same period of 1999 and revenues from IP services by 146.3%.

The difference between the Group EBITDA margin and the margin achieved in Spain is a consequence of the integration of subsidiaries that are still in the early stages of their business development into the Group, as well as the significant expenditure incurred during the year to lease new international loops in order to establish the international

network in accordance with the objectives set by the Telefónica Group from 2001 onwards.

Within the Spanish subsidiary of the Telefónica DataCorp Group, the InfoNegocio.com service had attracted over 300,000 users by November 2000. At December 2000 the service has over 370,000 users, which is eight and half times the number of users at the end of 1999.

The Telefónica Data Spain IP Network carried over 1,100 million minutes of Internet traffic per month for the first time in March 2000, rising to 1,650 million minutes by December. This represents year-on-year growth of over 100%. During 2000, 43,108 ADSL connections to the Telefónica Data Spain IP Network were established.

On the basis of pro forma figures for Telefónica DataCorp prepared at December 2000 to include the income generated by the Data Operators in Argentina, Brazil-São Paulo and Peru, as well as the operators already included in the results announced at December 2000 and the mediaWays business, the volume of Telefónica DataCorp's business at the end of 2000 was in the region of EUR 1,487 million. This is the starting point for an exciting year in 2001, when Telefónica DataCorp will conduct its operations fully in accordance with the business model for the global business line initially implemented in 1999.

In this context, Telefónica DataCorp's activity will be structured around the following lines of business:

The expected CAGR worldwide for the period from 2000 to 2003 is in the region of 20% to 30% for the Data Communications business

- **Business Communications Services**, grouping all services provided using both conventional technologies (X.25, FR, ATM) and IP technology permitting connectivity services, data transmission, virtual private networks and integrated communications for business.

- **Internet Services**, comprising access to the IP Network/Internet for New Economy Players (ISPs, ASPs, B2Bs and B2Cs).

- **Hosting Services**, grouping Housing, Hosting, Content Distribution and Managed and Security Services.

- **IP Solutions**, grouping Consultancy, Projects, IP Systems Integration and Outsourcing services for our clients' networks, systems and applications.

Despite the concentration caused by the disappearance of the weaker dot coms (Telefónica DataCorp's natural clients), analysts remain positive about the outlook for the sector in which Telefónica DataCorp competes. The expected CAGR worldwide for the period from 2000 to 2003 is in the region of 20% to 30% for the Data Communications business, 90% to 100% for Hosting/ASP and 40% to 50% in Professional IP Services.

In this context, the key objectives are as follows:

1) To become the leading provider of data communication and Internet support services for Major Corporations and New Economy Players (ISPs, ASPs, B2Bs and B2Cs) within the Telefónica DataCorp's geographical area of influence.

2) To boost value added services in order strengthen customer loyalty and offset the decline in the prices of basic data communications services.

3) To reaffirm the position of Telefónica DataCorp as a multinational activity within the Telefónica Group by consolidating its business and operational model in Latin America and Western Europe.

4) To build up an International Network capable of meeting the needs of all Telefónica Group International Data Services operators and providing connectivity with Internet backbones.