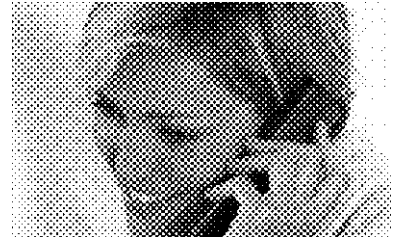


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Fixed line Telephony



Telefónica de España's decisive bet on broadband services is reflected in the significant increase in the availability of ADSL lines.

Fixed telephony

Fixed line telephony is the Group's main source of cash-flow. In 2000 the business earned revenues totalling EUR 22,766 million, of which EUR 10,183 million were generated in Spain and the remainder in the Americas. The business in Spain is run by Telefónica de España, while the Latin American operators form part of Telefónica Latinoamericana.

Telefónica de España

The liberalization of telecommunications in Spain was completed in 2000, and the outcome of this process confirms the successful adaptation of Telefónica de España to the new business environment. The three key factors behind the Company's business are its dynamic

commercial policy, the growing importance of new services and the optimization of management, which has made Telefónica one of Europe's most efficient operators.

In June 2000 the Spanish Government approved a raft of major liberalizing measures, which continued in December when the Commission for Economic Affairs approved the Subscriber Loop Service (Oferta de Bucle de Abonado or OBA), establishing the price payable by operators for access to the subscriber loop at EUR 13.0 per month. This measure was implemented as a result of the European Economic Community's recommendation to member States that they should take steps to ensure that the local loop was open to competition. Indirect access for local traffic and the opening of the loop will enable subscribers to choose their operator for metropolitan calls from 2001 onwards.

As a consequence of these measures, Telefónica de España has greater freedom to set prices since August 2000 in accordance with the "Price Cap" regime. This will give the Company greater commercial flexibility and help with the rebalancing of rates.

Meanwhile, Telefónica has continued with its efforts to recover the Access Deficit, and has requested permission to correct the imbalance in rates with a proposal to increase monthly subscription charges to bring them into line with actual costs. In April of 2000 after



Telefónica de España has implemented an active price reduction policy. The "Europa 15" plan, which is aimed at international traffic had 193,698 subscribers by December 2000, while the "Pais 30" plan for interprovincial traffic had 478,839 subscribers



In July Telefónica de España launched "Telefónica On-line" an interactive communications channel between the company and its customers. The launch included an original advertising campaign in various communications media

revision of the price cap, Telefónica was allowed to raise the subscription charge by stages, so that by the end of 2003, this charge will stand at EUR 12.62. Telefónica de España also expects the Regulator shortly to approve compensation for the incumbent operator's obligation to provide the universal service via the Spanish National Compensation Fund for the Universal Service (not yet started up).

In response to the new market rules, Telefónica de España has launched an active commercial policy based on price cuts to generate customer loyalty and gain market share. The discount plans have met with an excellent reaction and franchised products have boosted use of the service to reach 16.83 minutes per line per day at the end of 2000. This represents growth of 25.6% compared to 1999.

In November Telefónica de España launched a flat rate Internet charge, as well as an economy subscription plan for metropolitan traffic. Both of these offerings were extraordinarily well received by the market.

The success of this commercial policy has meant that the loss of market share in all areas has been moderate and less than what was initially foreseen at the start of the year, both for traffic and lines.

Telephone traffic has continued to increase, thanks to the excellent customer response to discount plans and economy subscription plans for metropolitan traffic, as well as the growth of new services, which have been responsible for the excellent performance of

market share. The "Europa 15" plan for international traffic had 193,698 subscribers in December, while the number of subscribers to the "Pais 30" plan, aimed at interprovincial traffic was 478,839. The "Bono Ciudad" and "Bono Ciudad Plus" economy plans for metropolitan traffic had 260,065 and 435,576 subscribers, respectively, at the end of the year, which was above all expectations. Finally, over 74,000 customers now enjoy flat rate Internet access.

Telefónica de España's decisive move into broadband services is reflected in the marked increase in the number of ADSL lines. At the end of the year, there were 12.5 million ADSL lines, well above the objective of 10.5 million, and 100 GigADSL nodes and 633 DSLAM concentrators had been installed. At the end of December 2000 there were some 47,950 users.

The roll-out of broadband means GigADSL technology reaches 90% of Telefónica de España's exchanges, with 54,920 km of optical fiber laid at the year end. This has enabled Telefónica de España to offer not only high-speed Internet access, but also multimedia services such as video, television, video-conferencing, and music on demand. The fibre optic network connects all cities with over 10,000 inhabitants, representing 66% of customers. Also, 100 DWDM systems have been installed in the Transportation Network, making further headway with the task of modernisation.

ISDN also continues to meet with an excellent response, with 77.9% growth in basic services and 632,466 lines in service. Primary access has increased by 52.8% to reach 13,639 accesses in service.

Continuing with the policy of constantly upgrading and extending the services offered to the customer, the Company has launched the network caller identification service (CAR), which is currently used by over 9 million customers. Meanwhile, voicemail boxes have taken some 1,811 million calls throughout 2000.

Profit and Loss Account

Telefónica de España's sales declined by only 0.3% compared to the preceding year, mainly as a consequence of the EUR 0.6 increase in monthly subscription charges applied from August onwards and the rapid expansion of ISDN and Wholesale Services. The growth rates achieved in these services largely offset the decline in market share, as well as the fall in effective revenues per minute as a result of the reduction of rates/prices and the intensification in the volume of discounts. The growing importance of new services (Internet access, ISDN, broadband, Centrex, Intelligent Networks and VPN), which have maintained a combined growth rate of over 45% and now represent over 17% of total revenues, clearly demonstrates the Company's

commitment to the expansion and development of advanced services.

Tight control of spending, which continues to be affected by costs related to revenue generation (interconnection and commercial), has been maintained. Operating expenses prior to interconnection have decreased by 1.8% and, together with the strong performance of sales, this has meant that EBITDA has declined by only 10.5%, which is considerably better than initial forecasts for 2000.

Telefónica de España has continued its firm commitment to apply cost-reduction programs, which have enabled it to become one of Europe's most efficient operators. At the end of 2000, the workforce comprised 41,193 employees, and the productivity ratio, measured in terms of equivalent lines in service per employee, stood at 493.2, up 19.6%.

With a view to the future, Telefónica de España has stated its commitment to continue with a policy of efficiency and innovation based on customer relations and a clear bet on quality as the key factor differentiating the Company from its competitors. The Company also intends to press ahead with its transformation into an "e-company".

Telefónica Latinoamericana

As a consequence of Operation Veronica, described at the beginning of this report, and the subsequent segregation by lines of business

The U.S. carrier CTI was acquired in November 2000

FIXED TELEPHONE LINES IN SERVICE IN LATIN AMÉRICA

(in thousands)

	DEC. 99	DEC. 00	% CHANGE
Chile - Telefónica CTC	2,592	2,701	4.2%
Argentina - TASA	4,041	4,327	7.1%
Perú - TDP	1,689	1,717	2%
Brasil - TELESP	8,251	10,596	28%
Venezuela - CANTV (*)	2,586	2,606	0.8%
Total lines in service	19,159	21,947	15%

(*) without management control

carried out by Telefónica, S.A. in 2000, Telefónica has become Latin America's largest single investor and is now the undisputed leader in the fixed telephony business, managing over 19 million lines. The integrated management of the fixed telephony businesses in Latin America will generate very significant synergies and economies of scale. This is expected to lead to an increase of 120% in the contribution made by Latin America to the results of the Telefónica Group in 2001.

Telefónica Latinoamericana's geographical expansion during the year has been marked by the acquisition in November 2000 of the US-based carrier CTI, which will be incorporated into the international traffic management model of the Latin American operators. This should lead to a notable increase in inbound traffic from the USA. The high level of capillarity in the Telefónica Latinoamericana operators, coupled with the Emergia fiber optic network, will enable Telefónica to offer optimum connectivity to corporate customers.

The rapid expansion of operations in Brazil throughout 2000 has made it possible to offset the effects of recession in Argentina and Peru and the impact of the new tariffs decree in Chile.

At 31 December 2000, Telefónica Latinoamericana had a total of 22 million lines in service, of which 19.3 million were managed directly. This represents year-on-year growth of 15%.

Telefónica Latinoamericana generated IBITDA in excess of 5,300 million euros in 2000, accounting for more than 45% of the Telefónica Group's total EBITDA.

Brazil

Telesp, the operator in São Paulo State, had a total of 10.596 million lines in service at 31 December 2000, representing an increase of 28% compared to the preceding year.

The rate of new monthly subscriptions of lines was 215,000 subscriptions/month, with a 53% cut in waiting lists. A digitization rate of 94% was achieved for the network, while productivity increased to 790 lines/employee, making Telesp one of the world's most efficient operators.

Telesp has developed an aggressive plan for the deployment of ADSL in São Paulo which is intended to bring the number of ADSL lines close to figures for European countries such as Spain or the United Kingdom.

In October 2000, Telesp sold its interest in Ceterp Celular to Telesp Celular, whose majority shareholder is Portugal Telecom. At the same time, Telefónica Internacional and Portugal Telecom exchanged their respective shareholdings in SPT (the holding company for Telesp fixed

The network in Brazil reached 94% digitisation, while productivity rose to 790 lines in service/employee, making the Brazilian company one of the world's most efficient operators



telephony) and Portelcom (the Telesp Celular holding company). This operation has enabled Telefónica Internacional to increase its interest in Telesp by 4.7 points.

Telesp will bring forward compliance with requirements in the State of São Paulo to 31 December 2001, enabling the Telefónica Group to opt for licences to provide telecommunications services of all kinds in Brazil without territorial restrictions. The potential market to which Telefónica will gain access is equivalent to its current fixed telephony business in the State of São Paulo.

Argentina

Telefónica de Argentina (TASA) had 4.327 million lines in service at 31 December 2000, representing growth of 7.1% with a particularly significant increment in local/line traffic as a consequence of the positive evolution of internet traffic.

At 31 December 2000, TASA's share of the local, long distance national and international markets was 52%, 41% and 47%, respectively, and the Company has thus maintained its position as the country's leading telecommunications operator. The market was fully liberalized in November 2000 resulting in a 50% cut in interconnection charges and the launch of direct dialling for long distance competition, though

this will not actually take effect until the end of 2001. In 2000, TASA achieved a productivity gain of 12% to 494 lines in service per employee.

Chile

Telefónica CTC Chile had 2.7 million lines in service at 31 December 2000, representing year-on-year growth of 4% in comparison with 1999. Lines in service per employee have increased from 459 in 1999 to 582 in 2000, making the company the Group's second most productive operator.

In 2000 Telefónica CTC Chile has for the first time experienced the impact of the tariffs decree over the course of a full fiscal year. The Company has succeeded in cutting costs significantly. In the second half of the year, CTC Chile launched the LDN flat rate.

Perú

Telefónica del Perú had 1.7 million lines at 31 December 2000, mainly as a result of marketing innovative prepaid products specially adapted to the Peruvian market and aimed at low-income segments of the population. Digitization reached a rate of 96%, while vacancies declined by 2 points.



Telesp will bring forward compliance with objectives in the State of São Paulo, thus enabling the Telefónica Group to opt for the provision of telecommunications services throughout Brazil without restrictions

The opening of the market in November 1999 did not have a significant impact on the loss of market share for long distance national calls, which remained at around 96%. Negotiation of the new Tariffs Decree commenced in January 2001, although it was initially planned for June 2001. This will give rise to a cut in interconnection charges of 42%.

During 2000 the company has made a major effort to rein in costs, which has enabled it to maintain an EBITDA margin of 69% and to increase the ratio of lines in service per employee to 516 LIS/employee.

Puerto Rico

TLD, the long distance operator in Puerto Rico, restructured in 2000, resulting in a 21% cut in the total workforce.

Objectives for 2001

Growth in the region is expected to stabilize in 2001, and the outlook is for inflation to remain generally moderate in line with 2000.

A summary of Telefónica Latinoamericana's overall objectives for 2001 is as follows:

- To consolidate Brazil as the basis for the future growth of Telefónica Latinoamericana by bringing forward compliance with the Telesp requirements from December 2003 to December 2001. This would enable Telefónica to provide long distance international services in São Paulo and fixed telephony services of all kinds throughout Brazil.
 - Defence of the profitability of TASA and Telefónica del Perú (TDP) in the new competitive and regulatory environment.
 - Minimization of the negative impact of the tariffs decree on Telefónica CTC Chile.
 - Materialization of synergies following the successful completion of Operation Veronica through the use of Shared Service Centers, the development of Competence Centers, adoption of common information systems and changes in the production system. These actions should provide efficiency gains and reduce spending.
- At the same time, the operators will continue with common projects (such as the expansion of broadband), development of regional products and e-business initiatives with centralized financing from Telefónica Latinoamericana.

SIGNIFICANT VARIABLES OF LATIN AMERICAN OPERATORS (1)

(Millions of dollars)

	OPERATING INCOME		EBITDA BEFORE FM		NET RESULT	
	Jan-Dec 2000	% change 99/00	Jan-Dec 2000	% change 99/00	Jan-Dec 2000	% change 99/00
Brasil - TELESP	3,363	31%	2,213	42%	801	51%
Argentina - TASA (*)	2,858	3%	1,686	(1%)	343	(25%)
Chile - Telefónica CTC	956	(10%)	423	(7%)	(120)	15%
Perú - TDP	1,019	2%	706	2%	114	(37%)
Puerto Rico - TLD	80	(1%)	(1.3)	c.s.	(12.9)	347%
Venezuela - CANTV	2,603	(5%)	1,070	(8%)	65	(51%)
Aggregated under management (**)	8,276	11%	5,027	14%	1,125	6%

(1) Excluding mobiles results

(*) Oct. 1999 - Sept. 2000

(**) Excluding CANTV due to outside management control



ECONOMIC DATA BY COUNTRY

	Population (millions)	Per cápita GDP (dollars)	% GDP growth (year 2000)*	% GDP growth (year 2001)*	% Inflation (year 2000)*	% Inflation (year 2001)*
Chile	15.24	4,656	5.6%	5.7%	4.50%	3.80%
Argentina	37.0	7,686	0.7%	2.8%	0.2%	0.90%
Perú	25.7	2,112	4.0%	2.5%	4.00%	4.50%
Brazil (**)	35.1	5,248	3.9%	4.2%	6.40%	4.60%

(*) Estimated at 31/12/00

(**) Population and per capita GDP of São Paulo State