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positioned itself as one
of the world's ten
largest groups by
number of subscribers*

Móviles



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subscribers*

Telefónica Móviles

Five key events made 2000 a milestone year in the recent history of the Telefónica Group's mobile telephony business:

- At the beginning of the year the Group created Telefónica Móviles, S.A., the new holding company for all of its cell-phone businesses except, for the moment, the companies operating in Chile and Puerto Rico.

- Five third generation (UMTS) licences were obtained in Spain, Germany, Italy, Switzerland and Austria, thus expanding Telefónica's sphere of influence to the European market.

- Telefónica was able to consolidate its presence in the Latin American market following the success of Operation Veronica in Argentina, Brazil and Peru and the agreement reached with Motorola to acquire that company's four mobile operators in northern Mexico.

The consolidation of the market has received a further boost from the integration of Telefónica Móviles' operators in Brazil with those of Portugal Telecom under the agreement made in January 2001.

- Telefónica Móviles clearly demonstrated its commitment to service innovation with the June 2000 launch of the wireless internet service portal (WISP) "e-moción" in Spain and Latin America and the creation of Terra Mobile in conjunction with Terra Lycos. This new company will establish, develop and operate the Telefónica Group's global mobile portal in all of the countries where Telefónica Móviles operates.

- Telefónica Móviles was floated in Madrid and New York through an initial public offering (IPO) which was the largest operation of its kind in the history of the Spanish stock market. The flotation was a complete success, with total demand for the shares running at 5.76 trillion pesetas.

As a result of the actions described above, Telefónica Móviles has been able to position itself among the world's ten leading groups by customer volume and establish a firm foundation for its mission to become one of the top global operators.

At the end of 2000 Telefónica Móviles had 21.8 million customers in the companies forming part of the group. If the Telefónica, S.A. subsidiaries in Chile and Puerto Rico, which are



managed by Telefónica Móviles, are included, this figure rises to 23.2 million customers.

On both counts, the spectacular growth enjoyed by the cellular market is apparent, with increments of 52% and 49%, respectively.

All of this has been achieved while Telefónica Móviles has remained the undisputed leader in the majority of the markets where it operates, in an environment marked by intense competitive pressures.

Telefónica Móviles Spain

At 61%, penetration in the Spanish market increased by 23 points during the year. At the end of 2000, the Spanish market had a total of 24.3 million users, representing growth of over 62% during the year.

At 31 December 2000 Telefónica Móviles España closed one of the years, and probably stages, involving the fastest annual growth in terms of customers. During the year, the total customer base grew to 13.669 million, representing a 51% increase (4.617 million new connections). As a result, the Company's market share grew to over 56% and, what is more, the gap with the second operator has widened to 6.7 million customers.

Commitment to the customer

As a consequence of the organisation's strong culture of and commitment to continuous improvement of the quality of service offered to the customer, Telefónica Móviles was once again the first mover in a highly competitive market with the launch of the MoviStar Plus program at the beginning of 2000.

This new subscriber contract rewards customer loyalty to the service by means of reductions in the monthly subscription charge and the inclusion of a points scheme. MoviStar Plus has met with an excellent response in the market, as demonstrated by net subscriber gains for the contract running at 2.5 times the 1999 rate.

The professional segment of the market has also continued to show strong growth with over 800,000 new additions over the year, mainly in the MoviStar Enlace and MoviStar Corporativo 2000 services, which are ground-breakers in the local market.

Ongoing innovation

Another highly significant facet of the Telefónica Móviles culture is ongoing innovation in products and services and the launch of firsts



With the launch of the MoviStar Plus brand at the beginning of the year, Telefónica Móviles Spain has once again proved itself as a first mover in a highly dynamic and competitive market

ahead of the market as a whole.

In 2000 Telefónica Móviles España developed and launched the e-moción Internet access service. e-moción provides a basic tool and platform for accessing the portals of content providers, as reflected in the slogan "el mundo en tus manos" ("the world in your hands").

In order to ensure content for this access portal, Telefónica Móviles Spain has entered into more than 128 agreements with content providers during the year, making a wide range of financial, news, sports, health, reservation and other services available to the user.

At the year end, Telefónica Móviles España had over 500,000 WAP subscribers, with over 6.8 million pages viewed in December.

In addition, and in line with the Company's constant concern to improve the services provided, Telefónica Móviles España has undertaken the roll-out of the GPRS network, also known as 2.5G, and is the first operator on the European scene to offer this service platform with full domestic cover.

GPRS is a packet switching technology, as opposed to the second generation data transmission technology which is based on circuits. GPRS thus offers speeds between 4 and 15 times faster than the current GSM system.

The new technology also introduces the "always on" concept,

which allows mobile communications users to remain connected to the internet or corporate intranet at all times. GPRS may be regarded as a way-station on route to the evolution of third generation UMTS technology. The service was launched in January 2001 after the successful conclusion of pilot tests.

Future projection

In March 2000 Telefónica Móviles España was awarded one of the four licences for the development of UMTS technology in Spain following the invitation to tender issued by the State at the end of 1999. The TME bid received the highest score out of all of the consortia participating in the tender.

This new step in the development of the cell-phone business in Spain will help maintain the Company's leadership in the sector.

Following the award of the licence, Telefónica Móviles España has made various agreements with the main technology suppliers in order to roll out the first stage of its third generation network in accordance with the undertakings given to the Spanish State.

The new wireless networks will enable operators to offer multi-media services as well as conventional voice and data traffic.

During 2000, Telefónica Móviles developed and launched e-moción, the WAP-based mobile internet access service



Constant innovation in products and services is one of the pillars of Telefónica Móviles' strategy

The Americas:

Brazil

The most significant feature of commercial operations in Brazil has been the dynamic growth seen in the prepaid segment launched at the end of 1999. By December 2000 the customer base totalled 4.629 million users with year-on-year growth running at 38%. In spite of tremendous competitive pressure, the Brazilian operators were able to hold their lead and consolidate a strong position in all cases.

One of the main events of the year was the initial presentation of WAP services as a market first in April 2000 and the subsequent commercial launch in July. As in Spain, WAP services are provided through the e-moción access portal. This service is available in all of Telefónica Móviles' operators in Brazil: Tele Sudeste, Tele Leste and Celular CRT.

At the beginning of the year automatic roaming agreements covering the countries in South America were reached in collaboration with the various Telefónica cell-phone companies operating in the area, and the Brazilian operators joined the Americas service together with Spain.

Within the corporate segment, 2000 saw the commercial launch of the Movistar Gestión application. This service is specifically aimed at the business segment and includes facilities for the control of expenditure.

Significant initiatives have also been taken in the consumer section. These have been aimed in particular at the market niches corresponding to the Movistar Top service and the Movistar Torpedo messaging services, both of which were launched commercially during the year.

The agreement for the integration of the Brazilian mobile operators of Telefónica and Portugal Telecom reached in January 2001 will enable Telefónica Móviles to consolidate its position as the undisputed leader of the Brazilian cell-phone market. The resulting company will group companies with a total of over 9.3 million customers at the end of 2000, and a majority share of the market in States which account for over 70% of Brazil's GDP.

Argentina

The first full year since the merger of TCP with Miniphone was closed at 31 December 2000. The work of harmonizing the services



commercialized in the various regions of the country has been undertaken during this period.

In terms of the volume of customers, Telefónica Comunicaciones Personales (TCP) has seen some of the fastest growth of all the Telefónica Móviles operations in America with a 67% increment resulting in a total of 1.757 million customers at the year end. This extraordinary growth in the customer base has enabled TCP to consolidate its position as Argentina's second operator, after jumping two places in the ranking in the space of one year.

After obtaining the PCS licence in northern Argentina in 1999, Telefónica Comunicaciones Personales (TCP) has rolled out the PCS network in the region's main provinces. By December 2000, cover had been provided to over 50% of the northern region's population.

As in the case of Brazil, the "e-moción" internet access service was launched in Argentina in December 2000.

Perú

At 31 December 2000, the customer base of Telefónica Móviles S.A.C. totalled 898,173 with the inclusion of 186,000 new customers during

the year. As in the other American markets, the prepaid system has been the main growth driver accounting for 76% of the customer base.

Telefónica Móviles S.A.C. has succeeded in maintaining a market share of 65% measured in terms of net revenues, which translates into a market share of 69% when measured by customer. The Company has thus maintained its leading position in the Peruvian market.

The main event in the field of new products and service innovation has been the launch by Telefónica Móviles S.A.C. of the "e-moción" internet access service, which has been available since the month of June.

Chile

The year 2000 has been a watershed in the operations of Telefónica Móviles following the implementation of a profitable growth business model at the beginning of the year. This has improved the quality of the company's customer base. In spite of the strong competition surrounding Telefónica's operations in Chile, Startel had a total of 1.224 million customers and a market share of 36% at the year end.



Central América

Operations in Central America, based on a presence in El Salvador, Guatemala and Puerto Rico grew overall by 129% in the first full year of operations.

El Salvador, with a base of 230,319 customers, saw growth of 74%, while Guatemala increased its customer base by 187% to 141,915 at the year end and Puerto Rico achieved annual growth of 221% to close the year with 149,329 customers.

Morocco

MediTelecom commenced its activity as Morocco's second GSM operator in April 2000. After obtaining the licence in 1999, MediTelecom has made a major effort to roll out its network and make the service available in only six months. What is more, it has simultaneously closed significant commercial agreements with the result that only nine months after its commercial debut, MediTelecom already has 515,139 customers and has far outstripped the initial forecasts for the year.

UMTS: A window on Europe

For some time now, one of Telefónica Móviles' key strategic objectives has been to find an opportunity to enter the wider market beyond the Pyrenees, since the Company is keenly aware that a presence in Europe is key to becoming one of the world's major operators.

The first UMTS licences were awarded at the beginning of 2000, initially in Spain where Telefónica Móviles obtained one of the four assigned, and subsequently in Germany, Italy and Austria. A licence was obtained in Sweden at the beginning of 2001.

From the outset, Telefónica Móviles' strategy was to ensure that its presence in the European market would be compatible with the expected return on the investment as well as to seek both technology and financial partners so as to limit the Company's exposure, without relinquishing control of operations.

The 3G Group, in which Telefónica Móviles owns a 57.2% interest and Sonera 42.8%, was awarded one of the UMTS licences in Germany at a cost of 8,471 million euros in August 2000. The investment made by Telefónica Móviles was thus 4,845 million euros.

The German market represents both an opportunity and a challenge for Telefónica Móviles. Thanks to the experience gained



The Terra Mobile portal offers an enormous choice of mobile electronic commerce (m-commerce), business, e-mail, games, fax, information and other services



Medi Telecom (Morocco) now has 515,139 subscribers, far above initial forecasts

in other markets, however, Telefónica Móviles expects to be able to place itself in a privileged position for the launch of its operations.

Telefónica Móviles intends to develop its operations with the help of the relations and experience of other Telefónica Group companies. Telefónica is already present in the German market through mediaWays, the second largest IP network operator in Germany and Terra Lycos, which is the second ranked internet portal. Also, lobox, a mobile internet portal in which Terra Mobile holds a participating interest, is present in Germany with over 782,000 registered users at the end of 2000.

In Italy Telefónica Móviles holds a participating interest of 45.59% in the IPSE 2000 consortium, and in November 2000 it obtained one of the two 2x15+5 MHz licences (the remaining three licences are 2x10+5 MHz) for a total investment of 3,270 million euros of which 1,285 million euros correspond to Telefónica Móviles.

In Austria and Switzerland, Telefónica owns 100% of the companies bidding for UMTS. Licences were awarded in both countries for 117 and 33 million, respectively.

Telefónica Móviles will continue to prospect for new opportunities to enter other markets in Europe, while strictly limiting the search to profitable investments.

Global businesses

In line with the concept underlying its business model, Telefónica Móviles has created two support companies: m-solutions, with the objective of facilitating mobile solutions for operators within the group, and Terra Mobile, whose mission is to boost the development of Internet services using cellular technology.

Telefónica m-solutions, which is 100% owned by Telefónica Móviles, acts as a consultant providing support for the operations of the companies comprising the current mobiles activity, as well as serving external customers. The main activities developed, or in course of development, by this company include the creation of "competence centers" designed to promote the transfer of best practice between markets and contribute to the development of a common culture and set of practices for all Telefónica Móviles Group operators. Also, a division has been created with the intention of pushing the concept of the e-business model further through the optimisation of companies' relations with customers, suppliers, distributors and employees using the advantages offered by the internet. Finally, Telefónica m-solutions has been responsible for the concept known within the Group as "Cellco in a box" which permits a swift roll-out of operations in new markets.



The Antena 3 – MoviStar news service provides mobile access to key current events over the subscriber's handset as they happen

Terra Mobile is a joint venture established with Terra Lycos in which Telefónica Móviles holds a 51% stake. The objective of this company is to create, promote and operate a mobile internet portal. The Terra Mobile portal will enable customers to access a wide range of mobile electronic commerce (m-commerce) services, business, e-mail, games, faxes, information, etc.

In July 2000, Terra Mobile announced the acquisition of Iobox, a Finnish company which is one of Europe's leading mobile portals and content providers. At the end of 2000, Terra Mobile has 3,052,802 registered users and operates in the Finnish, Swiss, German, UK and Spanish markets.

Finally, Telefónica Móviles and Banco Bilbao Vizcaya Argentaria (BBVA) incorporated the company Mobipay International, which is currently 50%.