

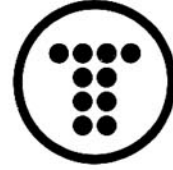


**Telefónica**

Annual Report for 1984

Compañía Telefónica Nacional de España S.A.





# Telefónica

Annual Report for 1984





# Board of Directors

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## **CHAIRMAN**

D. Luis Solana Madariaga

## **VICE-CHAIRMEN**

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D. José María Concejo Alvarez  
D. José María Amusátegui de la Cierva

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D. Diego Martínez Boudes

## **DIRECTORS** (Representing Shareholders)

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D. Emilio Botín-Sanz de Sautuola y García de los Ríos  
D. Jaime Carvajal y Urquijo  
D. Luis Delso Heras  
D. Francisco Javier Eiroa Villarnovo  
D. Eugenio Estévez Cepeda  
D. Alfonso Fierro Viña  
D. Francisco José García Zapata  
D. Jesús González del Yerro  
D. Juan Majó Cruzate  
D. José Montes Fernández  
D. Juan Manuel Rebollo Castrillo  
D. Ramón Soler Amaro

## **DIRECTORS** (Representing the Government)

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D. Francisco Javier Moral Medina  
D. Saturnino Suanzes de la Hidalga

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D. Manuel María de Araluce y Araluce

## **VICE-SECRETARY**

D. Mariano Aldama Magnet

## **GOVERNMENT DELEGATE**

Doña María Paz Fernández Felgueroso

During 1984 D. LUIS DE USERA Y LOPEZ-GONZALEZ acted as a Vice-Chairman, and D. MIGUEL MUÑIZ DE LAS CUEVAS as a Director (resigning on November 14, 1984); 1984 also saw the appointment of D. EMILIO BOTIN-SANZ DE SAUTUOLA Y GARCIA DE LOS RÍOS and D. JOSE MONTES FERNANDEZ as Directors.



# Management Committee

D. Luis Solana Madariaga, *Chairman*

D. Diego Martínez Boudes, *Managing Director*

D. José Antonio Adell García, *General Manager*

D. Germán Ramajo Romero, *General Manager*

D. Carlos Viada Fernández-Velilla, *General Manager*

D. Luis Terol Miller, *Secretary*

D. Pedro Higuera Delgado and D. Miguel C. Moreno Toledano formed part of the management committee in 1984 as General Manager and Technical General Secretary, respectively.

# Deputy General Managers

**D. Víctor Goyenechea Fuentes,**  
Affiliates and Associates and  
Industrial

**D. José Luis Fernández Dopico,**  
Security

**D. Enrique Used Aznar,**  
Technology

**D. Jaime Comenge Puig,**  
International Coordination

**D. Faustino Rivero Morales,**  
Inspection

**D. Juan Cruz Larrea Arechavala,**  
Internal and Auditing

**D. José María Vázquez  
Quitana,**  
Internal Plant

**D. Francisco Ferre Ferre,**  
External Plant

**D. Luis Lada Díaz,**  
Network Management

**D. Crisanto Plaza Bayón,**  
Planning Office.

**D. Juan Manuel Barreiro  
de las Llanderas,**

Commercial Management

**D. Antonio López Barajas y  
García Valdecasas,**

Technical Assistance

**D. José Ignacio Esteve Espinosa,**  
Commercial Services

**D. José Luis Franganillo  
Asensio,**

Procurement and Administration

**D. Antonio Bertrán Astola,**  
Internal Data

Process and Systems

**D. Heliodoro Alcaraz García  
de la Barrera,**

Labour Relations and Organization

**D. José Caballero Guerrero,**  
Economic Control

**D. Francisco Javier Monzón  
de Cáceres,**

Finance and Controls

**D. Roberto Velázquez Martín,**  
Social Relations and Information  
Service (SIRS)

# Area Managers

## **Barcelona**

---

D. Francisco Gómez Novella

## **Madrid**

---

D. Enrique Esparcia García

## **Northeast**

---

D. Manuel Badenes Moles

## **Northwest**

---

D. Augusto Serrano Santarromana

## **Southeast**

---

D. Manuel Conejos Valdés

## **Southwest**

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D. José Luis García Arizti

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To the Shareholders:

Once again, on writing the introduction to the Annual Report of Telefónica, I should like to set out several general ideas that may serve as a background for analysing the information that follows.

In December of this year, 1985, I will have had the honour of being Chairman of Telefónica for three years. Three years in the life of a Company that held its sixtieth anniversary a few months ago is, obviously, not very long. But I believe that although it has been a short period of time for the Company, it is a good moment to take the opportunity of self-analysis by the new management in front of the Shareholders, and to check the degree of fulfilment of the plans with which the new team reached maximum responsibility in the Company.

I believe that the first idea that should be emphasised is that you, the Shareholder, are participating in one of the key companies in the future of Spain, both in the service and industrial sectors. I consider that Telefónica management in these three years have demonstrated that they understand this role of the Company, of promoting it and reinforcing its presence in Spanish society and in all international forums.

But this general importance of the Company becomes even more relevant on confirming that during this period Telefónica has been recovering from the crisis that affected it - as it affected all companies - and that we are laying the foundations to ensure a better future, on a more solid financial base, with better employment prospects and more brilliant from the technology point of view, providing a more complete service; in a word, more socially and economically profitable, which two parameters a company with a joint public and private shareholding has to apply.

During this time we have implemented new services that will help bring about our idea of making the telephone a key instrument in our fellow citizens' lives over the coming years. We can assure Shareholders that the service is being expanded without forgetting our responsibility towards you. In this balancing act perhaps the greatest problem facing us is expanding the telephone service in the rural environment.

A Royal Decree on this matter has called for the Autonomous Communities, Provincial Councils, etc., to collaborate with Telefónica to enable it to fulfil the function commissioned to it by the State as a public utility with monopoly, without detriment to profitability. We hopefully anticipate that this joint collaboration will allow all Spanish citizens to be close to a telephone within a few years, even should they not have one of their own.

But together with this image of the basic service of Telefónica, we cannot forget our responsibility, be it direct or indirect, towards Spanish technology, towards the creation of companies in the electronics, communications and information technology sectors.

It is obvious that Telefónica cannot have the fundamental vocation of turning itself wholly into an industrial holding company, but even so it is difficult to forget the possibilities that a Company like Telefónica has for the creation of industry and technology, given its important procurement capacity.

At least, this is how we, the present Managers of Telefónica, have understood the situation and I feel that the Shareholders can be proud that their savings are reinforcing Spanish industry.

However, I can understand the worry of some Shareholders who doubt that this effort is being properly remunerated. To avoid any doubt whatsoever, the Management of Telefónica wish to start, as soon as possible, the negotiations required to allow shares in various industrial projects to be distributed among Telefónica Shareholders, in the correct proportions and in the fairest possible way.

Perhaps this whole effort of service and reindustrialization is properly demonstrated by the corporate change of image that we are carrying out. The new Logos, these new colours and symbols of Telefónica are, in my opinion, the clearest way of telling users, Shareholders and society in general that we are trying, to move into the future with verve, while not losing our traditions.

But I must once again insist that this change of image is not only formal, it is also a change of attitudes. Thus, for example, Telefónica Shareholders must know that today they also participate in an ambitious but realistic project for international activities,

that has led us to implement projects in Latin America, China, the United States, Canada, etc.

Undoubtedly, however, in the introduction of the Chairman of Telefónica to the Annual Report, words should give way to numbers.

Consequently, I would ask you to examine our Balance Sheet and Statement of Profit and Loss with great care, in the certainty that you are going to find a telephone utility that, while undoubtedly not perfect, has not stopped improving over this period. The 1984 Balance Sheet is better than in 1983.

I even think that the simplest way of confirming that Shareholders have understood this is the trend of Telefónica shares in the Stock Exchange, which have recovered levels which, while still undervaluing the Company in my belief, are way above the low share prices found by the present Management of the Company when they arrived.

I should very much like you and all of the Shareholders to evaluate the effort made by Telefónica workers and Management to ensure that the savings that you have entrusted to us are properly remunerated, while we render a basic public service to the nation.

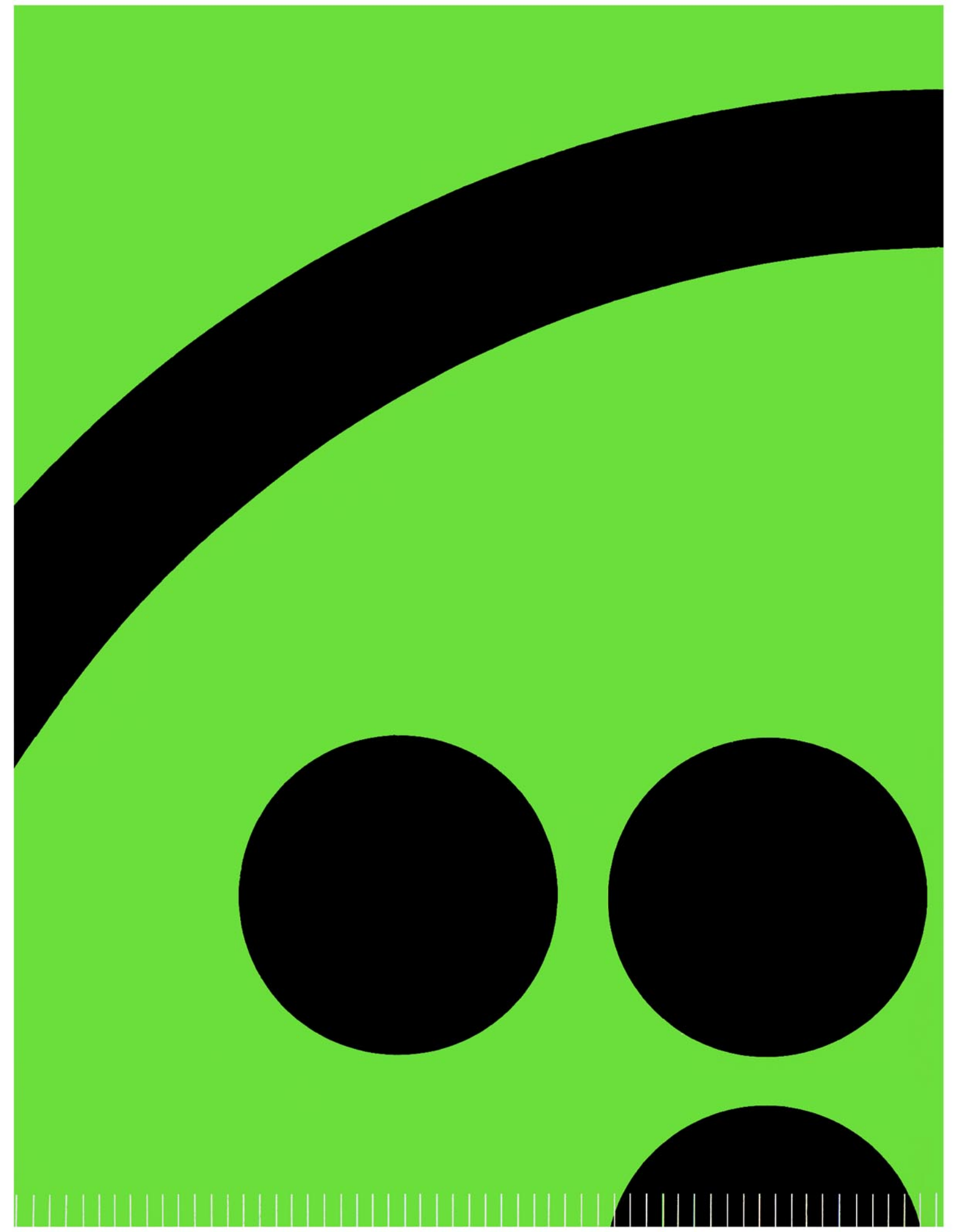
Many thanks for the trust that your shareholding in Telefónica signifies; I am sure that we will not disappoint you and that the Annual Report that you now hold in your hands will be the best confirmation of everything that I have been able to say in this open letter.



**Luis Solana Madariaga**  
Chairman of the Board of Directors  
of the Compañía Telefónica Nacional  
de España.

## HIGHLIGHTS

Items	1983	1984	% 84/83
Number of telephones .....	13,345,332	13,825,459	3.6
Telephones per 100 inhabitants .....	34.9	35.8	2.6
Lines in service .....	8,453,707	8,881,727	5.1
Applications pending .....	296,043	266,979	-9.8
Trunk calls (thousands of units) .....	2,415,832	2,565,816	6.2
Trunk calls per subscriber .....	285.7	288.7	1.1
Automatic trunk calls (percent) (STD) .....	98.3	98.8	0.4
Outgoing international calls (thousands of units) .....	71,099	78,402	10.3
Automatic international calls (percent) (IDD) .....	97.0	97.2	0.2
Length of trunk lines (km) .....	87,011,699	92,346,245	6.1
Number of employees .....	66,830	66,781	-0.07
Gross investment for the year (millions of pesetas) ....	159,861	175,417	9.7
Value of telephone equipment and installations (millions of pesetas) .....	1,979,411	2,258,886	14.1
Share capital (millions of pesetas) .....	288,374	320,416	11.1
Revenue from services (millions of pesetas) .....	296,883	349,226	17.6







# I. Networks and Services

In 1984, to meet the demand for the range of telecommunications services required within acceptable quality levels, prices and delivery dates, Telefónica reinforced its strategy of the previous year, concentrating on the priorities of expanding and modernising networks and services, and by perfecting operating procedures.

In order to meet these requirements more efficiently and to improve control over activities and objectives, the Company was restructured into areas better defined by their particular responsibilities.

Within this structure the General Networks division is responsible for Company network design, planning and management, together with the programming, coordination, design, installation and maintenance of individual facilities, both in Spain and abroad.

## Service and Network development

Over the last year, Telefónica has steadily continued with the plant modernisation policy of previous years and has accelerated the introduction of modern digital switching and transmission systems, in order to build the powerful digital telecommunications structure that our country needs as a contribution to economic recovery. In this way the first steps have been taken towards the local and trunk networks of the future; the Spanish Economy is sensibly affectable by the telecommunications infrastructures of these sectors.

An Installations Plan was prepared in 1984 for the 1985-1988 period, covering and itemising all of the works necessary to achieve the infrastructure desired.

The services development policy has been strengthened and promoted in 1984, a critical year for the general implementation of services such as Teletex, Ibertex and Dataphone, facsimile terminal connection having been standardised via the Telefax service.

An expansion and development plan was prepared in 1984 for Ibercom, a new digital network capable of providing companies and institutions with the possibility of transmitting high-speed data together with teleprocessing and other complementary services. This will make Ibercom an efficient complement to Iberpac as part of the services Telefónica has targeted for business communications.

## Plant growth

Trends in the main telephone parameters are given below as a statistical view of the Company's activity in 1984.

A total of 508,350 automatic telephone lines that is, subscriber trunk dialling (STD) or direct long-distance and local dialling, and 48,725 trunk (or long-distance) links were installed.

The trunk network was fitted with 1,155 channel groups, 504 transmission systems and 290 radio relay link transceivers.

In the Teleprocessing field, 7,153 gates with 422 TESYS-1 units and 4 TESYS-5 units have been installed for the IBERPAC Network. Furthermore, 289 pulse systems were installed.

For marine and overland mobile services 120 transmitters and receivers were installed.

The paging system was commissioned in Galicia, bringing the coverage of this service up to 18 provinces.

Local network pair cable for 1,913,916 km. was installed together with 2,317.2 km. of trunk pair cable and 277,6 km. of coaxial cable. All of these networks were laid in 2,757 km. of ducting and 7,295 km. of pole lines.

The international network was provided with 43 channel groups and 168 units were installed in the international switching centres. With respect to the international data transmission service (TIDA), expansion of coverage corresponds to improved quality and quantity of hardware, by installation of the TESYS equipment employing in-house technology, in the Madrid International Data Node to substitute existing lower performance equipment.

One of the major achievements of 1984 was the commissioning of the MERIDIAN Submarine Cable, which has involved a major design engineering effort in cable communications, covering 1,341 km. between Rodiles (Asturias) and Veurne (Belgium), of which 807 km. are cable buried in the seabed. This has provided a more economic and secure routing that directly connects Northern and Southern Europe, avoiding the overland routing of telephone links via Italy, France, and the United Kingdom.

Work has also continued on installing the Satellite Communications Earth Station at Guadalajara, which will operate in the European Eutelsat system, nearing completion at the end of 1984.

Furthermore, a major effort has been made to expand the IBERPAC network in 1984, inaugurating the X-25 connection in accordance with the latest international data transmission standards. This has enabled IBERPAC capacity to be tripled within a year, providing it with a structure capable of handling all packet switching data transmission demand that institutions and companies may generate in the immediate future.

The Company has invested 106,700 million pesetas in the plant expansion described. Of this, 5,800 million pesetas corresponds to investment in the MERIDIAN Submarine Cable.

Properties built to house telephone plant comprise 267 buildings, of which 263 are for switching exchanges and the remaining 4 for radio and transmission buildings.

### Attention to rural areas

Under this heading, one hundred and fifty-two thousand automatic lines have been dedicated to rural areas, comprising 30% of all automatic lines installed. Of these, 9,000 substituted an identical number existing in exchanges that had run out of capacity to cover local demand; 106,000 have been assigned to cover demand from towns already provided with an automatic service. The remaining 37,000 lines have been allocated to expanding the automatic telephone service. It should be emphasised that the province of Valencia is now completely automatic, bringing the number of provinces with a completely automatic service to 14.

The allocation of lines to rural areas mentioned involves plant growth for this purpose of approximately 13%, while overall line growth has only been 4%.

The policy of bringing the telephone closer to rural areas has continued during 1984 on the basis of the official regulations in force. New Local Zones (NLZ) have been created in accordance with Ministry Order 27294/78, to provide a local service to population centres of over 300 inhabitants and Public Service Telephones (PST) have been installed in accordance with Royal Decree 1218/81 in villages of over 50 inhabitants. Furthermore, the installation of PST's has been strongly promoted in Asturias and Galicia in 1984, in accordance with the Special Plans for these areas, together with the Special Plan to provide PST's in the province of Jaén.

A total of 117 NLZ's were brought into being in 1984, together with 924 PSTs for these reasons.

The Government promulgated a new Royal Decree for Rural Service Expansion at the end of 1984 that modifies the present approach for providing this service. A Service Expansion Plan is being drawn up on the basis of the new legal and regulatory framework.

### Introduction of new technologies

In line with plant modernization policy, equipment based on new technology has been incorporated over the last year, providing a highly significant boost to the rapid evolution of communications technology.

In the field of switching, 46,000 lines for electronic systems and 127,000 lines for semi-electronic systems were installed. Also, a further 10,000 conventional lines were converted to semielectronic technology, signifying a gain of 183,000 lines employing electronic and semielectronic technology, representing 36% of all automatic lines installed in the year. The total number of lines employing these new technologies at December 1984 amounted to 852,300, or 9% of the total installed automatic subscriber lines at that date.

Simultaneously, a total of 107,400 electro-mechanical rotary switch lines have been dismantled.

The introduction of electronics to trunk switching has continued at a much faster pace, as all new items of plant installed are electronic. The number of electronic trunk links installed during the year amounts to 29,442, or 60% of the total trunk links installed in the same period. At the year end, 5% of installed trunk links employed this state-of-the-art technology.

With respect to radio transmission, 24 digital 34 MBit/s transceivers have been installed. A 140 MBit/s coaxial cable system was also installed.

Simultaneously, collaboration has been provided for introducing optical-fibre cables into plant, and work continues on testing the cables installed in the Madrid and Zaragoza link networks and on the incorporation of new splicing techniques and tools to ensure correct implementation.

To enable network evolution to Integrated Digital Transmission and Switching (RDSI-Red Digital de Servicios Integrados), work has continued on developing subscriber network projects that facilitate conversion of the existing multi-network to the series network, incorporating the new equipment necessary.

The last year has seen the successful beginning of the installation in the IBERPAC network centres of the new TESYS-5 having a capacity of 12 packet switches, equivalent to the same number of the previous TESYS-1 equipment; the latter will still be used in switching centres of lesser importance or associated to TESYS-5 as local exchanges.

## Network management

As mentioned previously, a total of 266 towns have been converted to automatic telephone service in 1984, their subscribers now enjoying an automatic service as compared to the previous operator-only facilities.

Also in 1984 three primary areas were incorporated into the international automatic service with continental scope, while 11 provincial capitals and two primary areas were integrated into the same service at full intercontinental level.

A total of 217,180 trunk circuits and 9,151 international circuits were in service at the end of 1984, 11,386, and 368, respectively, being activated during the year, increases of 5.5%, and 4.2%.

The telephone service showed solid growth throughout the year, having reached a figure of 2,565.8 million trunk calls and 78.4 million international calls, with growth rates over 1983 of 6.2% and 10.3%, respectively, with degrees of automation of 98.8% and 97.2%.

International TV transmissions, and those between the Iberian Peninsula and the Canary Islands amounted to 869, and 7,485 hours, respectively, totalling 2,766 programmes, an increase in relayed hours exceeding 16% as compared to 1983.

Service indicators: a relative improvement of 12.5% over the previous year, should be mentioned in the subscriber automatic service in 1984, which measured as a percentage of Plant faults, is 1.4%.

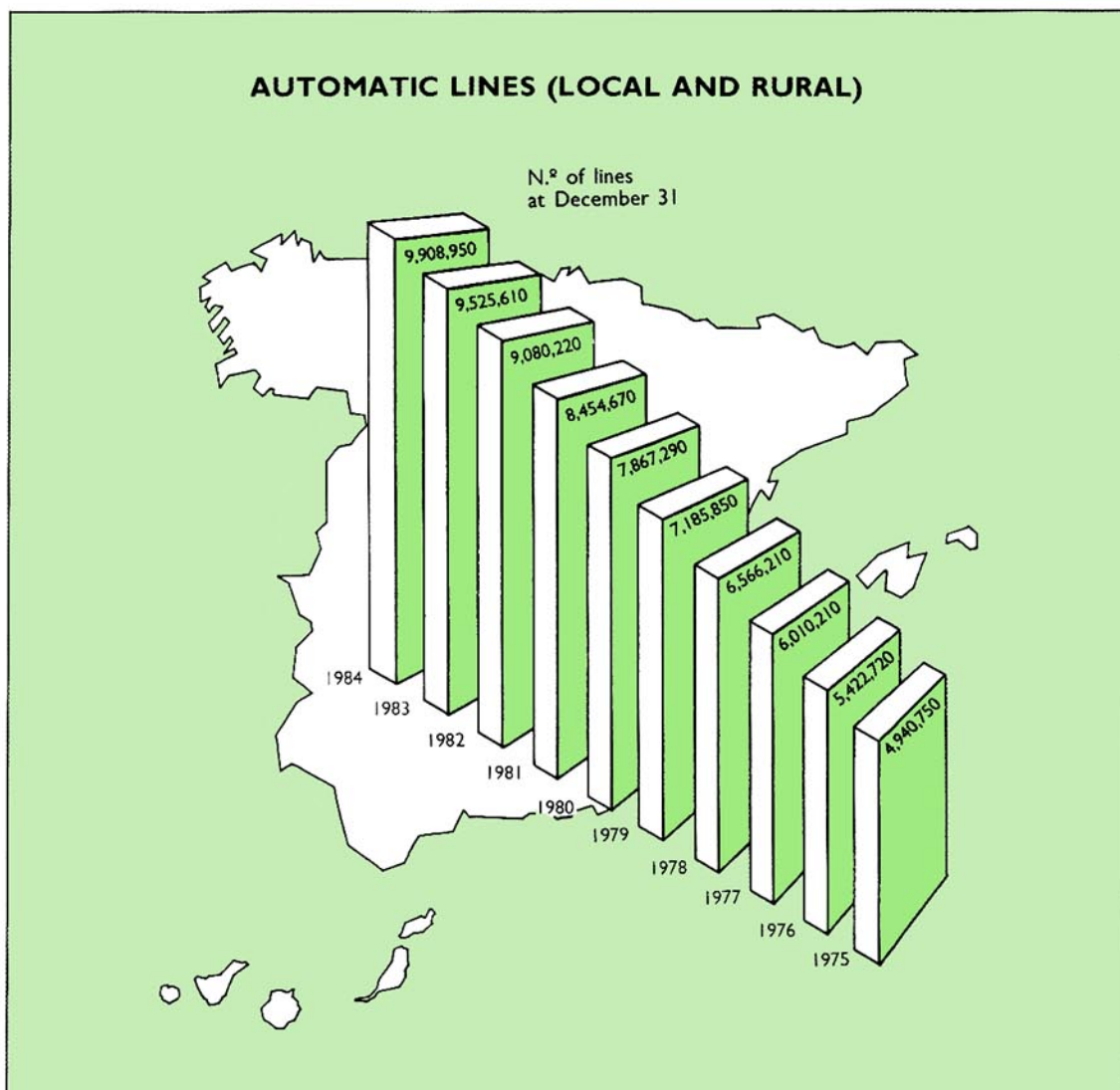
In order to facilitate traffic measurement and to monitor service quality the first 100 traffic and contingencies automatic monitors (TCAM) were equipped in the rural networks, together with subscriber service quality measuring equipment (SSQM) in Madrid, Zaragoza, Logroño and Orense.

In line with the sustained expansion of the network and international services that Telefónica provides, four countries (Malaysia, Pakistan, Sri Lanka and Zaire) have been incorporated into the network of direct telephone connections that at the end of the year covered 93 countries and territories, of which 55 are accessible by satellite. To the former must be added those that are reached via other countries, giving a total of 188 countries or territories with which telephone communications are possible from Spain. By way of illustration, it should also be added that of the 9,151 international circuits previously mentioned, which cover practically the whole world, 96% are in automatic service and 10.6% via satellite.

With respect to the International Data Transmission Service (IDTS) it can be stated that with the expansion to eight new countries, 1984 has marked the final consolidation which, at the year end, accounted for 24 countries in Europe, America and Asia that, given their importance, make it possible to say that this service has a worldwide coverage.

Operation of the Inmarsat system has also been improved, automating access by Telefónica operators to vessels anywhere in the world. At the end of 1984, there were 35 vessels under the Spanish flag provided with equipment to handle this system.

Telefónica has continued collaborating with NASA in back-up for their manned and unmanned space missions, facilitating the network to properly establish communications.





## 2. Commercial Activities

In 1984, work has continued on developing new structures, systems and procedures to facilitate and expedite relations between Telefónica and its subscribers.

Following these lines, implementation of the MIGA (Mecanización Integral de la Gestión de Abonados or Integrated Automation of Subscriber Management) project has been continuing in the provinces of Seville, Córdoba, Almería, Zaragoza, Huesca, Salamanca, Soria, Segovia, Avila, Ciudad Real, Castellón, Tarragona, Lérida, Gerona, Barcelona and Madrid. Furthermore, the development and implementation of new subscriber offices (UGIS) continued, integrating the activities of the Commercial, Maintenance and Billing activities, with 13 such subscriber offices operating at the year end.

The "Telecontracting" system has been implemented in 40 provinces as a new method of executing new-subscriber contracts over the telephone, avoiding time-wasting trips for potential subscribers.

Information technology facilities have been provided at 13 new offices for billing management, and 62 are now completely computerised. The direct debit magnetic tape billing system has incorporated 42 more banking institutions; for the company, 87% of the bills were being settled by this method by the end of the year.

Telephone Directories covering 47 areas were published, totalling 17,197,263 copies. In 10 Directories the information pages gave the general information both in Spanish [Castilian] and in the corresponding regional language of the area concerned. Also, the Business Year Book was published, comprising 10 volumes and a general information Appendix, with a print-run of 8,000 copies per volume. A total of 99 supplements were also published to include new subscribers and modifications arising after the copy date of the Directories.

The 003 Information Service [Directory Inquiries] received 75 million calls during the year, with 76.5% of these having been answered utilising the CARD-COM (computerised) system. Work continued in 1984 on opening up the 9XY-03 level for local subscribers in the towns of Badajoz, Córdoba, Mérida, Gijón, Oviedo, Pontevedra and Vigo. Furthermore, in relation to expanding this facility to provincial area subscribers, this level has been experimentally opened up throughout the entire province of Cádiz with satisfactory results.

As part of the User-Office Expansion Plan, offices have been inaugurated in Santa Cruz de Tenerife and Las Palmas de Gran Canaria in 1984.

### Service quality

During 1984 3,180,014 fault reports were recorded for subscriber equipment, representing 0.4 annual reports per telephone in service, i.e. one recorded per telephone every 50 months. Of the total received, 75% were corrected within 24 hours.

With respect to public telephone maintenance, fault reports recorded in 1984 fell by 6.1% with respect to 1983, 88.4% of these being repaired in less than 24 hours. All of this has contributed to the degree of availability of public coin-operated telephones reaching an average of 96.5% this year.

Development of the Microprocessor Telephone Booth Control System (CCM and SRC 2,000 Systems) has continued, being installed two prototypes in the provinces of Castellón and Cádiz, with highly satisfactory results, signifying a major step forward in plant control and service efficiency.

### Service promotion and demand

A total of 773,812 applications for telephone lines were recorded as received in 1984 which-although slightly lower than the 783,867 received in 1983, the highest figure ever reached in the history of the Company-is still at record levels, at around 17% higher than the average yearly demand over the previous 5 years.

During the year, the stock of telephone equipment in service increased by 425,020 lines and 480,127 telephones, and outstanding applications were reduced by 9.8% with respect to those pending the previous year.

At the year's end Spain had a total of 8,881,727 lines in service and 13,825,457 telephones, representing 35.8 telephones per 100 inhabitants.

With respect to teleprocessing services, a total of 33,537 circuit applications were received during the year, representing an increase of 30.8% over those received in 1983, and signifying a year-on-year increment of 17,753 in the number of circuits installed.

With respect to Public Telephones (PT) a new policy has been initiated that divides installations into two clearly differentiated areas:

— *P.T. belonging to Telefónica.*—At the end of 1984 there were 38,858 coin-operated public telephones installed.

Of these telephones in service, 2,374 are installed in multiple telephone booth groups, to facilitate service availability.

Those cities with a seasonal populations increase had over one thousand coin-operated Public Telephones and 222 seasonal over-the-counter multi-boothed staffed phoning centres with 1,617 lines temporarily installed, providing seasonal services complementing the permanently installed equipment.

— *P.T. not belonging to Telefónica.*—The total number of P.T. not belonging to Telefónica at December 31, 1984 amounted to 151,709. Of these, 13,046 were Public Telephones installed for social purposes jointly with the Provincial Councils, where ownership corresponds to the Local Authorities of the districts in which they are installed.

Call boxes &/or the aforementioned staffed centres are now being opened in 1984 in organizations, or such bodies as have ownership of them. These are serviced and managed by the entity or organization responsible for the building in which they are installed, and are designed to cover telephone demand generated by the users of the principal activity of the organization or entity that installs them.

Considering a different aspect, with the implementation of the Paging System subscribers to this service amounted to 11,437 at the end of the year.

The traffic handled by Coastal Stations of the Mobile Marine Service in 1984 was 666,710 radio calls, 350,955 radiotelegrams, 87,134 navigation aid reports, 2,449 radio medical services, 1,175 radiotelexes and 111 emergency services.

## New services

New services marketed during the year include "Fixed Destination Call Forwarding" that allows for automatic forwarding of all calls corresponding to a certain telephone number to another designated number in the Spanish network.

In the teleprocessing field, Telefónica, in its determination to contribute to the modernization of our country by implementing the most up-to-date telecommunications services, has achieved the following in 1984:

### New subscribers to teleprocessing services

Point-to-point data transmission .....	4,365
Switched telephone network data transmission .....	2,014
Coded Alarm service .....	3,235
Dataphones .....	809
Telegraphy .....	517
Telefax .....	322
Private videotex .....	121
Iberpac network .....	6,405

A service worthy of emphasis is the strong demand for the Dataphone Service having exceeded all forecasts, with 1,960 applications pending connection at the end of the year, which gives an idea of the wide acceptance and rapid spread of this service.

### TELEPHONE/INHABITANT DATA

Year	No. of telephones	% year-on-year increase	Telephones per 100 inhabitants	Av. waiting time for a telephone. Months
1972	5,712,549	11.4	16.5	24
1973	6,331,474	10.8	18.1	25
1974	7,042,968	11.2	20.0	19
1975	7,835,970	11.3	22.0	16
1976	8,604,768	9.8	23.9	13
1977	9,527,781	10.7	26.2	14
1978	10,311,423	8.2	28.0	14
1979	11,107,624	7.7	29.4	13
1980	11,844,623	6.6	31.0	12
1981	12,384,656	4.6	32.9	11
1982	12,820,190	3.5	34.0	10
1983	13,345,332	4.1	34.9	9
1984	13,825,459	3.7	35.8	7

### 3. Technology

As part of the consolidation policy outlined the previous year, Telefónica has been newly organized to meet the challenges: i.e. promoting technological development in the sector; generation of in-house technology for expanding and modernising services; and in improving technical qualification processes, necessary not only as a tool for Telefónica's own requirements, but also as a backup for industrial initiatives.

An immediate consequence of the new work methods established has been the preparation of a technological programme which sets out the requirements over a two-year period, detailing the time schedule and the human resources and funds necessary for their implementation.

The funds employed during the year amount to 3,081 million pesetas (869 million pesetas of investment and 2,212 million pesetas of expenses) which represents 0.9% of revenue from services, an amount that is growing with respect to previous years and is, in consequence, coherent with the technology development policy adopted.

Specific achievements worthy of mention include the following:

#### Network Structure

Experiments and the first pilot installations of miscellaneous supplementary telephone services have been carried out in the Atocha Exchange (direct line, abbreviated dialling, call waiting, call forwarding, consultation, and 3-way calling) with a video conferencing facility between Madrid and Barcelona.

Of special importance is the SICÉ (Servicio Integral de Comunicaciones de Empresa or Integral Business Communications Service) which comprises digital communications in the office itself, integrating these functions with those of data transmission (applied to various services) and enabling the formation of private or exclusive trunk or local networks. In reality this is an advance of the RDSI (Red Digital de Servicios Integrados or Integrated Digital Transmission and Switching Service) with application for the business world, which is where highly complex advanced facilities and services are in demand which may well not be required by ordinary or domestic users for many years.

In order to start to establish these services, the first installations of the Ibercom Network Terminal Centres have been carried out, the laborious job of selecting the best system being completed with the end result that the MD110 system to be manufactured by Intelsa was chosen.

Under the heading of Networks, progress continues on studies relating to the RDSI (Integrated Digital Transmission and Switching Service), both for the narrow and wideband types. Specific experiments have been made in this field and strategies have been prepared to introduce compatibility with the Iberpac Network and those to be developed in the future. Work has also started with respect to the RACE, the EEC wideband network.

Mention must be made of the common channel signalling network, a fundamental infrastructure for establishing the future RDSI and preparing strategy for introducing cable television distribution networks.

Finally, under this heading, the expansion of the Iberpac Network has continued by applying the X-25 protocol.



## Subscriber equipment

Among developments in 1984 (inhouse, jointly or under contract) are the SATAI 5/10/3, 6/24/7, 2/2/1 and 3/6/2, which complete the whole new range of this type of systems in the TEIDE line. Furthermore, the '0' Dataphone should be mentioned under the heading of Teleprocessing Terminals, together with the Multipurpose Modem and the Iberx Subscriber equipment.

Where technical qualification has been completed in 1984 with a view to the introduction of Subscriber equipment this mainly concerns the 'Benjamín' handset, a supplementary intecom system, and the call forwarding device with variable destination.

Finally, it is worth mentioning the activity carried out to extend availability of the future digital telephone and a range of equipment which will enrich and renovate the present lines (multi-function telephone, high capacity automatic dialler, hands-free telephone, new data-phones, digital SATAI, audio-conferencing terminals, etc.).

## Switching

At the end of the year the first 2,000 subscribers had been connected to the 1240 Digital Exchange in Salamanca-Concejo, as an advanced stage in final commissioning. The necessary work has also been carried out to establish a pilot RDI (Red Digital Integrada or Integrated Digital Network) on the basis of the 1240 system, in the Collado-Villalba Sector.

The AXE system continues to be adapted to the specific requirements and applications of the Spanish network (mobile and transmission exchanges) initiating work on the version of AXE employing more advanced technology, the introduction of which is planned in the next few years.

The intense work on completing and perfecting development of the TESYS system is worth a specific mention. This is in order to ensure fulfilment of international commitments and the requirements of Telefónica itself. In this sense the first "Maximum Configuration" TESYS installation has been commissioned and work on increasing switching speed and expanding complementary management facilities (billing, statistics, etc.) is being completed. Similarly, the old data network equipment is being replaced by TESYS 1.

Furthermore, studies have been initiated on TESYS system evolution strategy, in order to start work on the next technological generation of the system. TESYS models have also been incorporated into the Switch Programming Centre (SPC) in order to guarantee proper high level support for operation and maintenance. maintenance.

## Transmission

Special attention continues to be given to the introduction of digital methods, disposing of a complete repertoire of digital systems employing coaxial cable and optical fibres, which will allow this process to be completed. Attention has also been paid to new radio applications, with the advanced state of development of a multi-access rural digital system (MARD) being notable, thus completing the scheme initiated with the MAR system, which has been so well received in the international markets.

Studies and experiments have been started on the transmission of TV programmes and other signals via the EUTELSAT communications satellite.

Advances have been made in systems and equipment availability for the configuration of Ibermic services (high speed digital circuit leasing) and for mobile services.

## External plant

**D**ue to the type of activities included under this heading, work has been highly varied, directed to permanent overhauling and up-dating of complementary elements and materials (splices, junction boxes, civil works, etc.) and to the improvement of maintenance services.

Worthy of mention is the specification and introduction of cables with new characteristics (low attenuation, new fillers, fire-resistant sheath, etc.); the perfecting of all optical fibre cable laying and measurement engineering, the introduction of an alarm system using the switched network, the overhaul of interior network engineering to enable future compatibility with the RDSI network and cable TV, together with a multitude of projects designed to ensure the technological evolution of local subscriber networks.

## Operating aids

**T**he efforts made to facilitate and make operations more efficient are worthy of special mention, applying the opportunities offered by new technologies.

In this sense, the plan has been designed to establish an integrated control system for the full stock of installed equipment called Operation and Maintenance Structure (EOC-Estructura de Operación y Conservación) together with the Multi-functional Plant Terminal (TPMF-Terminal de Planta Multifuncional) and the Sectorial Control System (SCS-Sistema de Control Sectorial), comprise the basic elements of this Operation and Maintenance Structure, whose implementation is to spread, in the course of the next few years.

Similarly as well as the corresponding job of defining all engineering and strategy, specific experiments have been carried out in 1984 on some related equipment: the VCR (Vigilancia de la Calidad de la Red-Network Quality Monitoring), the PDLA (Probador de Líneas de Abonado - Subscriber Line Tester), the Remote Subscriber Connection and Disconnection Equipment and the CCM (Control de Cabinas por Microprocesador - Microprocessor Control of Telephone Booths).

## Applied research

**G**iven the rapid evolution of telecommunications technologies (electronics, information technology, etc.), it is necessary to make a major net research effort in order to remain technically competitive and to ensure the backup required at a later date, when carrying out projects that are to provide specific products.

In this sense, the "exploratory developments" are of special importance, which allow the feasibility of a new idea or technology to be confirmed. Among activities in progress during 1984, worthy of mention are a video telephone, a millimetre-wave digital link, a low cost message synthesizer and an ultrasonic coin recognition system.

In the field of technological research, work has been carried out on frontier subjects, such as the digital processing of signals (voice and graphics) and artificial intelligence.

Of major significance, as it directly affects development work in the future, is integrated circuit design. In this sense, the integration of various technologies has continued (predoped CMOS, chip library and custom designed circuits), (1) the termination of an integrated circuit design for the medium capacity SATAL in the Teide line being worthy of special mention.

(1) These are three integrated circuit design methods. The first two are based on combining off-the-shelf components in such a way as to allow a particular final result to be obtained. In the last one, the complete design is tailor-made for a specific application.



## 4. Industrial Policy

The first 1983-1986 Coordinated Four-Year Plan of Telefónica and in turn its coordination with the National Information Technology and Electronics Plan, were based on the possibilities of using Telefónica's enormous purchasing power to promote industrial activity in the sector.

This Plan has been continued and up-dated by the 1985-1988 Four-Year Plan that establishes the fundamental and active participation of Telefónica in the sector, not only as the supplier of an essential service, but as the centre and locomotive of an industrial group with coordinated activities, a competitive capacity, high technology and a major exporting capability.

The major instrument of this industrial policy within the Four-Year Plan has been the Industrial Purchasing Plan (PIC or Plan Industrial de Compras).

### The Industrial Purchasing Plan

This partial development of the Four-Year Plan comprises the principal instrument of group industrial policy. With the support that the existence of a specific known market planned over time signifies, it becomes possible for group companies to diversify and adapt their products/markets and increase their competitiveness. The basic characteristics of the Industrial Purchasing Plan are as follows:

- To guarantee availability of supplies by diversifying suppliers.
- To allow allocation of purchasing and procurement by applying rational criteria in function of manufacturers' capacity and prices.
- To promote the export capacity of Spanish industry by obtaining competitive prices, commitments to assimilate new technologies and diversify products/markets.
- To favour the preparation of plans for the assimilation of new technologies, forecast to reach over 80% by the end of the relevant plan period.
- To achieve a degree of procurement from Spanish industry of 94% throughout the four-year period, rising to 99% in the particular case of telecommunications hardware as such.

## The Telefónica group

The operations of different industries related to telecommunications and dependent on Telefónica have allowed results to be consolidated via the Industrial Purchasing Policy and the investments scheduled under the Four-Year Plan. These results increasingly point towards the consolidation of a strong, active industrial group, with complementary coordinated activities and increasingly less to a conglomerate of companies absolutely dependent on Telefónica, without individual business opportunities of a significant nature outside the sphere of influence of the holding company.

Although sales to Telefónica accounted for nearly 60% of overall group sales (73,044 million pesetas), which demonstrates the importance of Telefónica as group locomotive, sales to other Spanish companies exceeded 30%, and exports nearly 10%.

It can be stated that the results of activities initiated last year are extremely satisfactory.

AMPER not only reorganised its financial structure but was in profit at the year end, maintaining its important market share (exports have increased by 45%, now comprising 20% of total sales).

The agreements for restructuring the ITT industrial group, which were signed with the collaboration of Telefónica and the Government, have avoided the possibility that the resolution of the ITT group crisis should be accompanied by an enormous social cost, up-dated and revised with fair results for both parties.

The restructuring of Hispano Radio Marítima has allowed company structure to improve and created the possibility of new commercial networks and the revitalization of existing ones. It is forecast that the company will be in profit by 1985.



The agreements signed by Telettra and Ericsson relating to subsidiaries with shareholdings of these companies in Spain (Intelsa and Telettra Española) place emphasis on exports, proposing ambitious but attainable objectives over 3 to 5 years (exports of at least 25% of turnover) together with technology transfer and a more flexible and dynamic development capacity in Spain.

Furthermore, the agreements signed with Fujitsu open up major possibilities in the field of information technology, totally complementary to telecommunications.

These results confirm that the Telefónica group is increasingly shaping up as a coordinated industrial enterprise, important for the economic and technological future of the sector.

### Future projects

The results and application of the Plan and of a coherent homogeneous industrial policy have also allowed a series of possibilities to open up where future results will be significant, not only with respect to industrial production but also relating to innovation and technological capacity.

Important agreements have been signed with technological leaders which have resulted in joint ventures being formed in Spain. In the case of INDELEC, dedicated to mobile communications, with Philips as the main technological partner, or Control Electrónico Integrado (THM), jointly formed with MBB-Hormann in the field of security.

The importance of Telefónica's investments in submarine cables has made an independent maintenance facility advisable, and in this respect it was decided to build a cable ship.

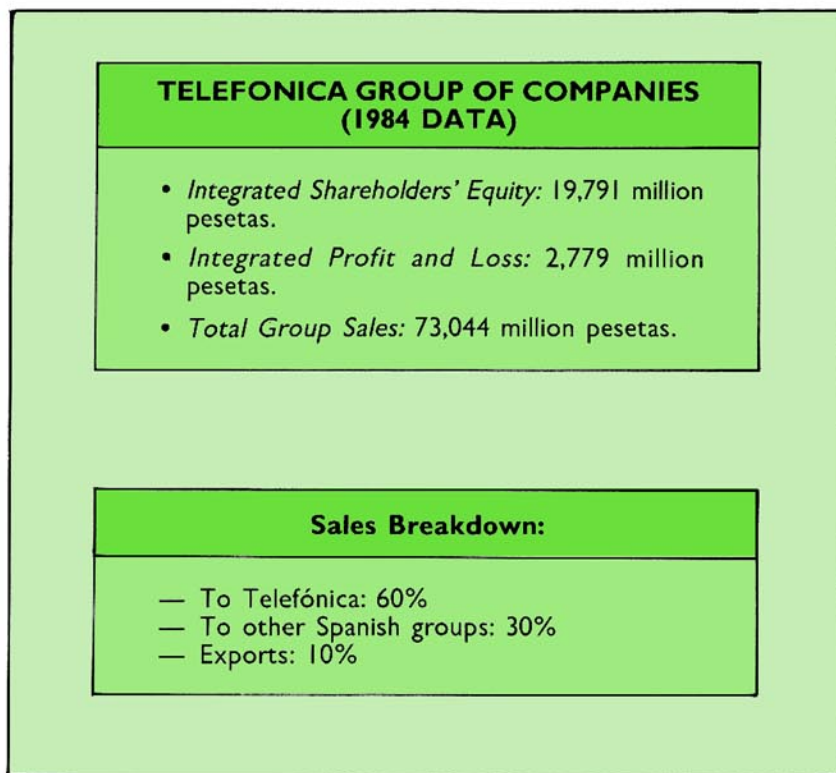
The convenience of having a second supplier of TESYS equipment and to be able to count on a company with a sufficiently high technological level dedicated to the industrialisation of voice/data equipment, has led to the formation of Telefonía y Datos.

The Memorandum of Understanding signed with ATT defines the creation of a joint venture for designing and manufacturing integrated circuits. ATT is a leader in microchip technology and the project includes for a high level of exports, to ensure the future viability of the company ATT Microelectrónica España.

Communications of the future are based on optical fibres due to their higher capacity, speed and performance. Telefónica has initiated the introduction of these cables and large scale utilization is planned over the next three or four years (electrical utilities, RENFE, Defence, cable TV, etc.). Given the strategic nature of both product and manufacturing technology, Telefónica has initiated conversations which are now at an advanced state of maturity with the principal world leaders, with a view to forming a company in Spain for the manufacture of optical fibres complementary to the existing cable industry structure.

Other projects in progress are: digital mapping services (that would not only cover the requirements of Telefónica, but would also provide a service to Councils, Ministries, etc.) value added networks, connectors, etc.

The need for overall coordination of the growing activities of the Telefónica group to enable their participation in large-scale projects has also made it advisable to create a firm of consulting engineers for turnkey projects. The integration of group services and commercial networks will require a specialist company in the field of sales and marketing.



## TELEFONICA GROUP OF COMPANIES

1984 Data

NAME	SHARE CAPITAL	TELEFONICA SHARE-HOLDING (%)	1984 TURNOVER (millions of pesetas)	PROFIT AND LOSS	STAFF SIZE
AMPER, S. A. ....	800	87.5	4,271	138	870
CABLES DE COMUNICACIONES, S. A. ....	782	49	5,770	765	376
CETESA .....	434	97.33	4,910	67	1,019
CONTROL ELECTRONICO INTEGRADO, S. A. (THM) .....	80	55	—	(2)	4
COSESA .....	700	99.14	5,457	1	426
ELASA .....	300	100	1,810	128	490
ENTEL, S. A. ....	350	100	2,960	61	631
GRAFIBUR .....	325	100	571	58	107
HISPANO RADIO MARITIMA .....	500	100	1,939	(373)	314
INDELEC .....	300	30	—	(20)	5
INTELSA .....	2,600	49	11,476	1,305	2,180
SECOINSA .....	8,681	23.75	10,291	158	973
SINTEL, S. A. ....	1,100	100	13,749	496	2,980
STANDARD ELECTRICA....	12,335	20.64	52,763	(650)	15,633
TELEFONICA INTERNATIONAL .....	1,750,000 DM	100	—	1,580.62 DM	1
TELETTRA ESPAÑOLA, S.A.	800	51	9,770	101	1,748
URBANA IBERICA, S. A....	330	100	70	(104)	1
TELEFONIA Y DATOS*.....	225	100	—	—	—
TELECOMUNICACIONES MARINAS* .....	600	100	—	—	4

\* Companies already formed in 1985.

() Figures in brackets are losses.



## Activities abroad

Telefónica planned and coordinated its international presence in 1984 together with its affiliate and associate companies, with a joint approach to the Spanish image of the sector. Consequently, the Department of International Coordination has been formed together with Telefónica International, a holding company of the Telefónica Group, with registered offices in Luxembourg.

A consequence of this is the promotion of three areas of activities:

1. Consultancy work for other countries, especially in Latin America.
2. Rational marketing of Telefónica Group systems and equipment.
3. Creation of joint ventures with companies in other countries.

In this sense we would especially mention the signing of various cooperation agreements with Argentina, Costa Rica and El Salvador, already ratified, and the establishment of heads of agreement with Guatemala, Honduras and Panamá.

With regard to marketing Telefónica Group equipment, the supply and installation of a data transmission network employing Spanish technology in Canada is noteworthy, in competition with other proposals from various countries.

Also worthy of mention is the presence of the Telefónica group in the Popular Republic of China for the first time, in the CHINA COMM-84 Trade Fair, which allowed several initial overall cooperation agreements to be signed for the development of telecommunications with the Ministry of Communications and the Peking Academy of Sciences, together with the formation of a joint venture in the province of Zhejiang for the manufacture of rural telephone equipment.

Telefónica participated in the Spain-Argentine workshops on electronics and information technology which took place in Buenos Aires, where several items of data transmission equipment were presented and demonstrated. The Company attended the Latin American Trade Fair of Tampa (Florida) as a guest country. Finally, the Company had a very notable participation in the exhibition held simultaneously with the VIII Plenary Assembly of the CCITT,

organised in Torremolinos (Málaga), itself an outstanding success, which was organised in close collaboration with the Spanish Authorities.

Telefónica has reached a definitive organizational formalization of its relationship with the Inter-government Bureau of Information Technology (IBI), international organization dependent on UNESCO, with maximum prestige in the field of information technology and teleprocessing, which selected our Company's TESYS technology for packet switching data transmission networks.

Undoubtedly, the coordination by Telefónica of all of its companies will permit a more solid image of the Telefónica Group to be offered internationally in the near future, and will improve efficiency when penetrating new markets.

Furthermore, some achievements in technology have had considerable commercial success both in Spain and abroad. These products include the Dataphone, the MAR (Multi-Access Rural) system, the EMCO equipment (traffic measurement) and, naturally, the TESYS system, one of Telefónica's most important technology assets.

Other activities forming part of the Company's projection abroad include those related with AHCINET (Asociación Hispanoamericana de Centros de Investigación y Estudios de Telecomunicaciones or Latin American Association of Telecommunications Studies and Research Centres) of which Telefónica is a member, and main promoter. These activities include two meetings of specialists (on Public Terminals and Network Planning, respectively), the active participation in the SIT project (Servicio de Información en Telecomunicaciones or Telecommunications Information Service) and participation in the Telecommunications R & D and New Services Seminars.

Another activity worthy of mention is the start of preparatory work for the organization of ECOC 86 (European Conference on Optical Communications) which has fallen to Telefónica. This meeting will bring together around 1,000 world specialists in this suggestive subject in Spain and the organization of the Conference is a real challenge.

## 5. Planning

Of the corresponding Annual Report called last year the "Year of the Plan" due to the relevance that preparation of the 1983-1986 Coordinated Four-Year Plan and its approval by the Government had for the Company, 1984 has consequently the year of global planning in pursuit of future management, and has culminated in the drawing up of the 1985-1988 Four Year Plan that continues and updates the previous one.

In these years, Telefónica has perfected its planning system and has converted the planning processes for installations and investments into a set of actions that has allowed management of funds employed to be improved and the necessary management and technological changes to be implemented.

The 1985-1988 Plan in this context proposes to provide cohesion to everybody's efforts and to ensure that progress is made on those activities that allow the Company to advance, both with respect to networks or services, and in the satisfaction of the demands that society will make in the immediate future.

### Objetives of the 1985-1988 Plan

The 1985-1988 Plan has been designed on the basis of the triple objective of developing services, modernising infrastructure and promoting the industrial sector related with Telefónica's equipment. It follows that management and service objectives should be defined that enable this to be achieved, which can be described as follows:

#### SERVICES OBJECTIVES

##### a) TELEPHONISE SPAIN

Which means developing and expanding the basic telephone service.

##### b) PROMOTE INNOVATION

Which requires the up-dating of the telephone service (e.g. incorporation of new telephone facilities) and the expansion of other telecommunications services (tele-processing, mobile services, business communications, etc.).

##### c) INTRODUCTION OF MULTI-PURPOSE NETWORK MANAGEMENT

Which will enable Telefónica to be ready when an infrastructure has to be provided to users that require networks for transmitting more than simple telephone conversations.



This unavoidably requires the following management objectives:

<b>MANAGEMENT OBJECTIVES</b>
a) <b>INFRASTRUCTURE MODERNIZATION</b>  — Conversion to digital switching equipment. — Digital conversion of the major transmission paths.
b) <b>UP-DATING METHODS FOR RUNNING THE INFRASTRUCTURE</b>  — Introduction of technical solutions for advanced operation. — A more flexible and efficient relationship with the subscriber.
c) <b>ACHIEVEMENT OF MORE INTEGRATED AND VERSATILE MANAGEMENT THAN THAT REQUIRED BY THE TELEPHONE SERVICE UP UNTIL NOW, DUE TO THE APPEARANCE OF NEW SERVICES AND THE MOVE INTO NEW BUSINESS AREAS.</b>
d) <b>APPLICATION OF NEW MANAGEMENT AND ORGANIZATION FORMULAE, PROMOTION OF DECENTRALIZATION AND INCREASED EFFICIENCY AND SPEED OF RESPONSE TO THE DEMANDS OF MODERN SOCIETY.</b>

## The 1985-1988 Plan as a future management tool

The 1985-1988 Plan, drawn up on the basis of the objectives explained above, also includes a multiple future management project that turns planning into a management modernization tool, for updating services and favouring technological progress in areas where, for various reasons, an appreciable lag was occurring compared to the potential of today's techniques and equipment.

The Plan thus becomes an instrument that requires finely tuned coordination, a reduction in delivery dates for the availability and technical qualification of equipment and an organization that enables new management formulae to be adopted as society demands them and new technologies impose them.

This ambitious project makes planning a decisive aid when managing a dynamic environment and preparing future management, reducing waste, indicating new procedural formulae and achieving levels of efficiency similar to the other more advanced countries.

## Sub-plans of the Master Plan

The 1985-1988 Master Plan contains, as is to be expected from the above, a set of functional and instrumental plans that define 60 investments that are grouped together under 12 specific investment headings. It also includes a series of action policies and, when implemented, proposes to achieve economic and financial results that continue with the business reorganization process initiated.

This is illustrated in the figure below (the contents of the Master Plan) and, in turn, the installations plan and the instrumental plans are exactly represented in their corresponding diagrams.

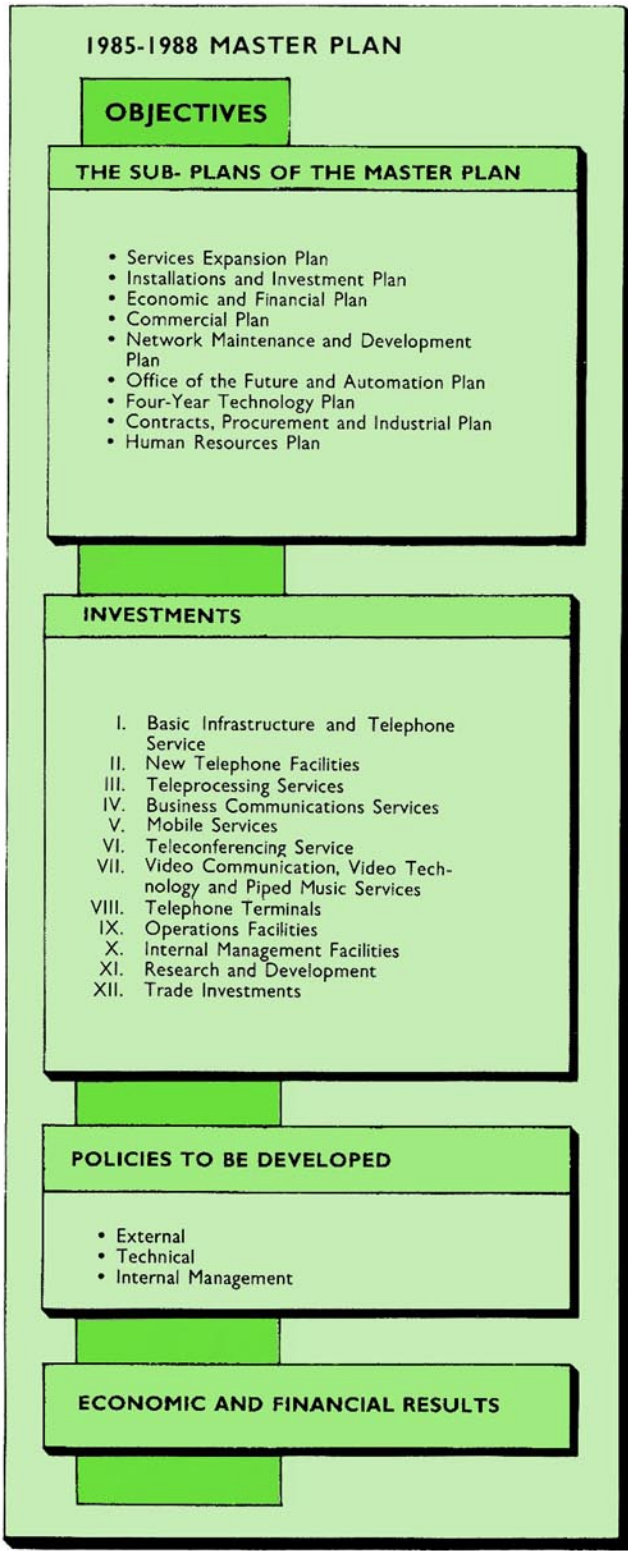
The instrumental plans are, in reality, true horizontal projects, that in close coordination, involve the different functional areas responsible for partial activities to combine to achieve a specific objective. Some of these have the purpose of optimising resource utilization, avoiding onerous or non-productive lack of coordination, while others are methodological procedures to accelerate innovation and technology up-dating processes for infrastructure and equipment. Fulfilment, which signifies short action periods, is essential to ensure achievement of the "technological leap" that the 1985-1988 Plan has as its basic objective, and it will only be

possible to talk about "future management" if the technical facilities to make this possible are in place at the very start.

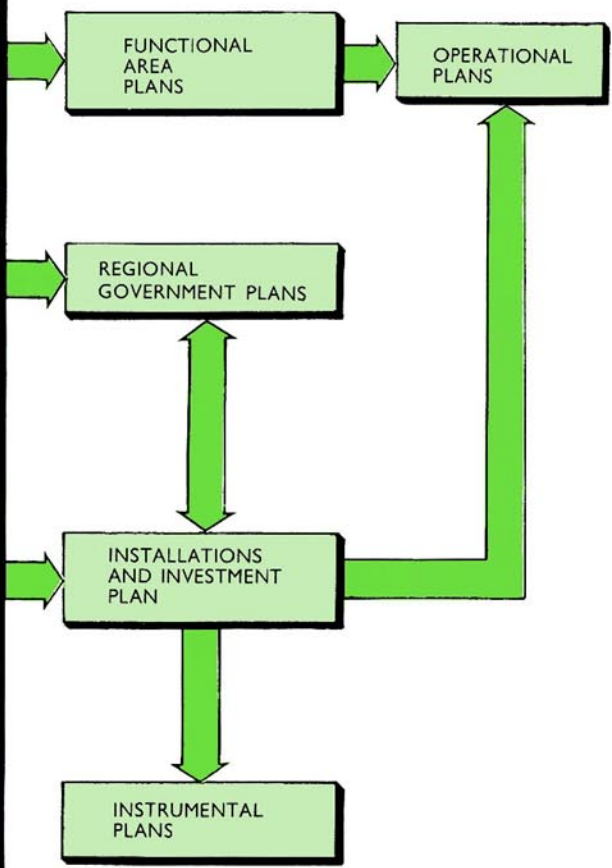
Lastly, the operational plans that were incorporated into planning in 1984, propose the achievement of a special "shared management by objectives" scheme, centred on functional areas, which will be developed in greater detail and depth in following years. In the end this is the same as a "multiple coherence and integration programme" that manages to combine the partial objectives of each unit with the corporate objectives set out in the Plan.

<b>INSTRUMENTAL PLANS</b>
<b>MODERNIZATION PLANS</b>
<ul style="list-style-type: none"> <li>• ROTARY SWITCH SUBSTITUTION PLAN</li> <li>• AUTOMATION PLAN</li> <li>• PC-32 REUTILIZATION PLAN</li> <li>• BATTERY REPLACEMENT PLAN</li> <li>• DIESEL GENERATOR PROVISION PLAN</li> </ul>
<b>SERVICES IMPROVEMENT AND EXPANSION PLANS</b>
<ul style="list-style-type: none"> <li>• SERVICE EXPANSION PLAN</li> <li>• CONCENTRATOR PLAN</li> <li>• IBERPAC NETWORK PLAN</li> </ul>
<b>TECHNOLOGICAL ACCELERATION PLANS</b>
<ul style="list-style-type: none"> <li>• NEW SWITCHING EQUIPMENT PLAN</li> <li>• NEW RADIO AND TRANSMISSION EQUIPMENT PLAN</li> <li>• MOBILE SERVICES PLAN</li> </ul>
<b>NEW SERVICES AND NETWORKS IMPLEMENTATION PLANS</b>
<ul style="list-style-type: none"> <li>• IBERCOM NETWORK PLAN</li> <li>• INITIATION OF NUMERATION FOR NEW SPECIAL SERVICES PLAN</li> <li>• IBERMIC NETWORK PLAN</li> <li>• NEW SERVICE INTRODUCTION PLAN</li> </ul>
<b>MANAGEMENT AND COORDINATION PLANS</b>
<ul style="list-style-type: none"> <li>• EQUIPMENT DELIVERY PLAN</li> <li>• EQUIPMENT PLAN FOR THE TECHNICAL OPERATIONS PLAN</li> <li>• SUBSCRIBER OFFICES PLAN</li> <li>• MEETING POINT PLAN</li> <li>• OFFICE BUILDINGS PLAN</li> </ul>





**THE CONTENTS OF THE PLAN**



## TELEFONICA AT THE START AND THE END OF THE PLAN

TECHNOLOGICAL PARAMETERS	31-12-84	31-12-88
<b>LOCAL LINES INSTALLED (thousands)...</b>	9,986.9	11,446.9
— Automatic (% of those installed) .....	9,909.0 (99.2)	11,446.9 (100)
Electronic (% of automatic) .....	124.0 (1.3)	1,021.3 (8.9)
Conventional (% of automatic) .....	9,785.0 (98.7)	10,425.6 (91.1)
— Manual (% of those installed) .....	77.9 (0.8)	—
<b>EQUIVALENT LOCAL LINES (thousands) ...</b>	3,372.6	3,747.3
— Electronic (% of total) .....	106.8 (3.2)	478.1 (12.8)
— Conventional (% of total) .....	3,265.8 (96.8)	3,269.2 (87.2)
<b>LINES DISMANTLED .....</b>		564,745
— Electronic .....		—
— Conventional .....		490,920
— Manual .....		73,825
<b>NUMBER of Automatic Mobile Telephones (including Vehicle Automatic Telephones)</b>	1,291	9,193
<b>RADIO-PAGING SYSTEM SUBSCRIBERS..</b>	—	17,157
<b>PAGING SYSTEM SUBSCRIBERS .....</b>	11,437	17,934
<b>PRIVATE RADIO TELEPHONE USERS .....</b>	—	640
<b>AUDIO CONFERENCING .....</b>	—	5,110
— High Quality Rooms .....	—	10
— Standard Rooms .....	—	5,100
<b>VIDEO CONFERENCING (Rooms) .....</b>	—	23
— Public .....	—	10
— Private .....	—	13
<b>CABLE TV CONNECTIONS .....</b>	—	24,000
<b>COAXIAL CABLE (Kms) .....</b>	9,933	10,880
<b>DETAILED BILLING (thousands with ac.) ...</b>	135	1,348
<b>OPTICAL FIBRE (Km. of cable) .....</b>	—	2,785
<b>TELETEX TERMINALS (In service) .....</b>	—	7,100
<b>VIDEOTEX TERMINALS (In service) .....</b>	121	12,850
<b>DATAPHONE TERMINALS (In service) .....</b>	809	8,712
<b>TELEFAX TERMINALS (In service) .....</b>	1,532	5,769
<b>SICE-IBERCOM NETWORK (lines) .....</b>	—	64,000
<b>DATA TRANSMISSION CONNECTIONS:</b>		
— Switched telephone network .....	7,955	15,099
— Telegraphy and Telex .....	42,753	53,311
— D/T Circuits .....	25,125	34,972
— IBERPAC Network .....	21,316	67,141
— Tele-Alarms .....	14,351	32,317



## TELEFONICA AT THE START AND THE END OF THE PLAN

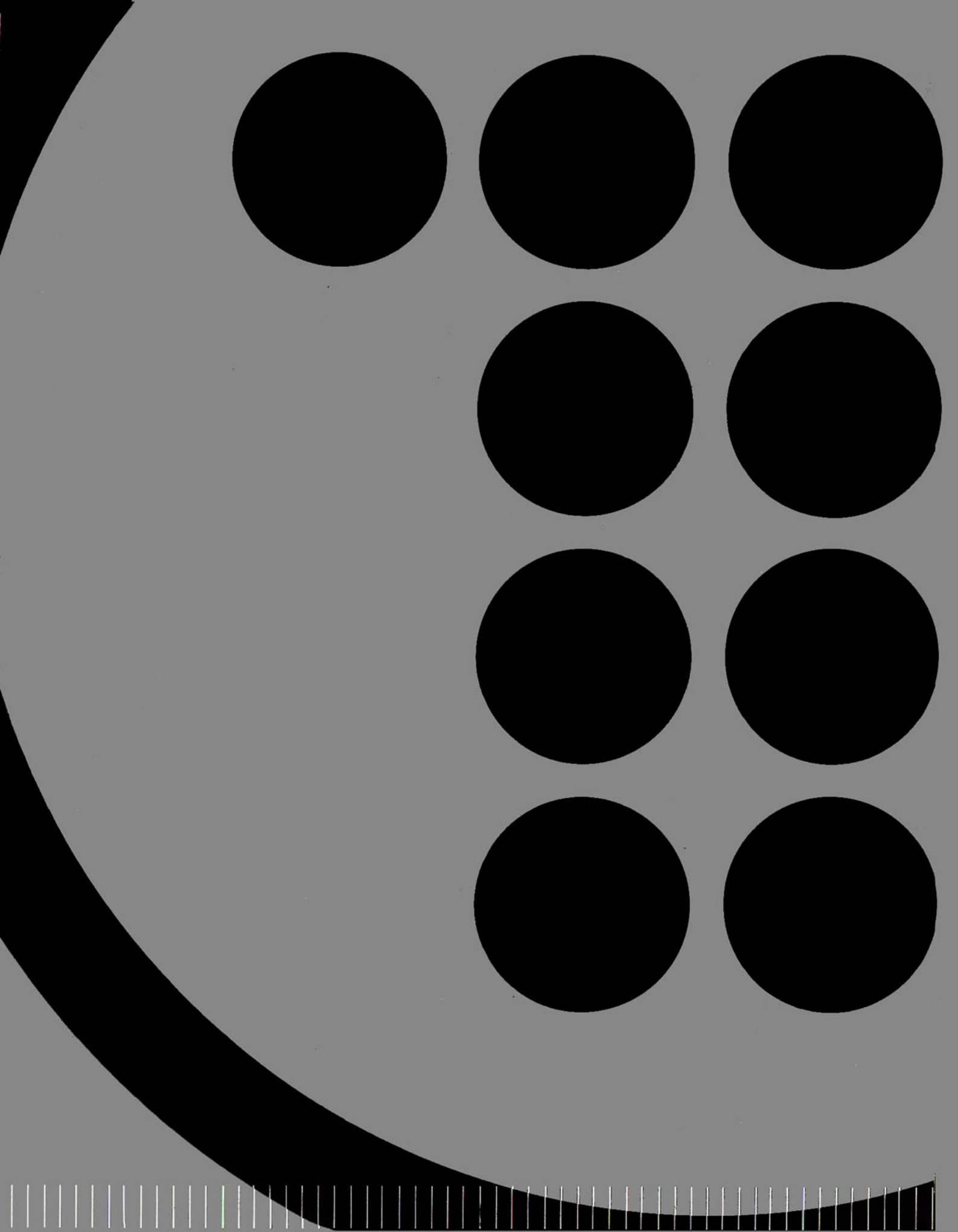
SERVICE PARAMETERS	31-12-84	31-12-88
NO. OF STATIONS (thousands) .....	13,825	15,803
STATIONS/LINE .....	1.56	1.52
NUMBER OF TELEPHONES/100 inhab. ....	35.8	39.9
LINES IN SERVICE (thousands) .....	8,881	10,361
— Automatic .....	8,814	10,361
— Manual .....	67	—
APPLICATIONS PENDING (thousands) .....	266.9	—
PUBLIC SERVICE TELEPHONES (PST) .....	13,000	16,046
TELEPHONE DENSITY, LINES/100 INHAB. ....	23.0	26.2
LINES VACANT (%) .....	11.3	9.5
DEGREE OF AUTOMATION (%) .....	99.2	100
PERCENTAGE OF HOMES WITH TELEPHONE ...	49.8	59
NEW LOCAL ZONES TO BE FORMED .....		588
TRUNK CALLS (millions/year) .....	2,565.8	3,208.9
NUMBER OF TRUNK LINES (thousands) .....	217.9	259.2
COUNTRIES VIA DIRECT DIALLING .....	93	110
EUROPEAN AUTOMATIC SERVICE CONNECTED SUBSCRIBERS (%) .....	99.6	99.9
INTERCONTINENTAL SERVICE AUTOMATION (%) .....	80	90
PUBLIC TELEPHONES .....	38,858	45,620

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## INVESTMENT AND INSTALLATION PLAN

INVESTMENT AND INSTALLATION PLAN	
INTERIOR PLANT	SUBSCRIBER TERMINALS
SWITCHING TRANSMISSION RADIO INFORMATION TECHNOLOGY POWER SUPPLY EQUIPMENT MOBILE SERVICES	TELEPHONE TERMINALS TERMINALS FOR TELEPROCESSING SERVICES PUBLIC TELEPHONES AND BOOTHS AUDIO CONFERENCING VIDEO CONFERENCING
EXTERIOR PLANT	OTHER INVESTMENTS
OPTICAL FIBRES COAXIAL CABLES LOCAL NETWORKS TRUNK NETWORKS DUCTING	SOCIAL AFFAIRS AND TRAINING WAREHOUSE FACILITIES DATA PROCESSING RESEARCH AND DEVELOPMENT PROTECTION
REAL ESTATE	
LAND PLOTS BUILDINGS SUBSCRIBER OFFICES MEETING POINTS	





## 6. Economy and Finance

The economic and financial objectives that Telefónica established the year before, as defined in the 1983-1986 Four Year Plan, have been consolidated in 1984 in coordination with the other management and activity objectives.

These objectives were as follows: to intensify commercial action to improve income generation, to reinforce policies for the rationalization and control of spending, to promote restructuring of the different assets to a maximum and to improve and strengthen the basic financial and asset balances.

Advances have been made on all of these fronts in 1984, thus laying firm foundations on which the Company can build its future activity, maintaining the strong rates of investment and service expansion required of the Company, as manifested in the 1985-1988 Plan.

Despite the progress made, efforts to improve management and the economic and financial situation will have to continue to take pride of place in the coming years. The fundamental objectives of Telefónica continue to be an increase in self-financing capacity, continuation of restructuring and rationalization policies, improvement in the level of borrowings, etc.

In the following pages, complementary to the audited financial statements and the detailed notes attached thereto, an analysis is made of the financial and economic management performance and the results obtained, both from an internal point of view and considering the general economic environment in which the Company has been operating, together with developments in the different financial markets in which the Company has a presence.

Although this external context has demonstrated clearly positive aspects in 1984, it will continue to be a major conditioning factor in 1985, so that the basic financial and economic objectives set out will continue to be maintained this year, involving reinforcing existing efforts to these ends, in particular with respect to the financial structure. To the extent made possible by the progressive liberation and innovation of the markets, a trend that can be clearly be appreciated in domestic markets, new fund-raising and management formulae and instruments will be used to achieve a better financial structure, in both quantitative and qualitative terms.

The March, 1985 capital increase for a nominal amount of 40,052 millions Ptas was completely satisfactory and was granted full support by our shareholders, confirming the important and solid appraisal given to Telefónica shares by the market, allowing them to rise steadily to levels significantly higher than in previous years.

In this same context, and as complementary action to the measures already adopted to increase the shareholder base and to attract new shareholders' equity, progress has been made in negotiations to obtain a listing of the Company's shares in various major foreign stock exchanges.

At the same time, measures have been taken to reduce and improve the characteristics of foreign borrowings, and the degree to which this type debt is employed (if the external conditioning factors of the country's monetary and economic policy so permit, Telefónica will consider repaying a significant part of its present foreign debt before maturity).

The beneficial effects that this will all have on the future economic and financial situation of the Company ensure the stability of 1984's achievements and their strengthening and improvement over the coming years.

### I. Economic environment

Throughout 1984 the Spanish economy evolved positively with respect to recovery in the basic economic balances. This behaviour has been the result of an economic policy basically emphasizing money supply and incomes and aiming to achieve targets in both, and from a highly favourable international environment, which has enabled overall production to grow by 2%, of which international trade has contributed with 3.1 percentage points, compensating for a drop in domestic demand of 1.1%.

This growth rate, although less than OECD Companies overall (which has been 4.8%, boosted by the United States and Japanese economies) has been similar to that of the EEC.

In these other countries, growth has been basically supported by domestic demand, as they started from overall situations that were generally more balanced, requiring less intense structural changes; this has allowed them to slow the fall in employment. On the other hand, the Spanish economy, on having to carry out these structural changes in the last two years and with a less balanced growth as mentioned above, has recorded a record loss of employment, with the unemployment rate being 21.7% at the end of 1984.



The evolution of the following economic figures demonstrates the achievements made:

- The **balance of payments on the current account** recorded a surplus of 2,069 million dollars, after five successive years of deficits, since the start of the second oil crisis.

The surplus for basic balance reached 5,371 million dollars, with net foreign reserves amounting to 15,788 million dollars, 6,000 million dollars higher than the low point recorded in June 1983, thus producing a general improvement in the solvency and liquidity indicators of the economy.

- **Inflation**, measured by the RPI increase at the year end, stood at 9%, with this rate being the lowest for the last 11 years and, in turn, signifying the most important reduction in relative prices for this period, on having achieved a reduction in the inflation differential with OECD countries from 6.9 percentage points in 1983 to 3.9 percentage points in 1984; and, with the EEC, from 5.3 to 2.5 percent points over the same period.
- With respect to the **budget deficit**, despite its size and structure continuing to be a cause for worry, 1984 saw a favourable trend in terms of its proportion of G.D.P. this being reduced to 4.8% as compared to 5.4% in 1983 (in which a containment was also achieved in this sense) - thus staying in line with the OECD countries.
- Lastly, given the weakness in domestic consumption, **gross savings** have grown strongly, the highest growth rate since 1970 which, together with the fall in gross investment in the economy, has generated net lendings to the rest of the world; consequently, Spain has changed from having major finance requirements with negative investment growth in recent years, to a significant international financing capacity.

The realignment mentioned of the basic economic balances has become evident at an overall business level in the execution of a major financial restructuring and adjustment, strengthening the growth in gross operating profit. Nevertheless, this process has followed different paths according to companies' degree of dependence on the domestic market. Those which have not been able to benefit from the positive behaviour of international trade have been forced, to a greater extent than those less constrained by domestic

demand, to continue the adjustment process, basically operating on the investment and employment variables. This, on the other hand, explains the behaviour of these two variables in the economy overall.

In this environment, Telefónica's activity indicators have been influenced by the trend of domestic demand, affecting the net gain in lines; however, the important growth rate of 1983 has been maintained in absolute terms. Consumption growth, measured by the traffic indicators, has also moderated: the total number of trunk calls grew by 6.2%, against 8.3% the previous year; average consumption per line has grown by 1.6%, less than the 2.3% for 1983, but higher than the average rate observed for 1980-1982.

Nevertheless, despite this activity trend, Telefónica has made a positive contribution to the country's overall output. Real value added growth of 6.7% compared to 2% for the nation overall and 2.2% for the services sector, means that in this respect its share of the Spanish economy continues to grow.

In turn, the price containment of this value added is significantly below the corresponding gdp deflator, positively contributing to the considerable reduction recorded in the inflation rate.

This trend in the Company's basic parameters, together with a cost containment policy, has allowed, whilst keeping employee numbers steady, an increase in the gross operating profit of 19.6% to be obtained, which has been in line with the general picture of the Spanish economy, as mentioned above.

In turn, a real growth in gross investment which, given the relative importance of the Company in total national investments, contributed to reducing their falling off, without having affected the Company's basic financial balances, since gross domestic savings grew by 22%.

In conclusion, the progress made by Telefónica demonstrates the solid potential of the Company to maintain a stable rate of growth. Its capacity to generate value added has allowed it to face up to an unfavourable environment on the demand side, maintaining its level of employment and rate of investment while continuing to improve its financial structure and internal organization.

From a global perspective, the results obtained in the economy in general provide a greater operating margin for economic policy in 1985, laying the foundations for a more sustained period of recovery in line with the international



economic background, an environment that will be positive for Telefónica, given the reinforcement achieved in its capacity for expansion.

## 2. Financial markets

The aforesaid considerable improvement in the Companies' operating profits, weak investment in real terms, disinflation and the achievement of the trade balance, together with the capital call on international financial markets, especially at the beginning of the year, favoured by the pronounced upturn in activity levels together with the levelling off of the public sector borrowing requirement and its new financing institutional framework, allowed a financing programme to be developed in 1984 within the overall objectives desired by the monetary authorities.

Thus, during 1984 the credit funds available were able to meet demand without problems, with a diversification of markets and a parallel improvement in loan terms and cost conditions.

This development occurred progressively throughout the year, becoming clearly evident in the second half after the balance of payments and inflation prospects were favourably reduced in general, which facilitated the reduction in domestic and international interest rate differentials.

The effects of this trend were transmitted quite quickly to the money markets which, in turn, induced investors and lenders to intensify their supply of long-term funds and to diversify their placings in different markets, with a strong effect on the share and fixed interest security

markets, leading to a rapid increase in turnover and placing volumes, despite the gradual reduction that has been occurring in the yields available.

This trend became evident somewhat later in the credit and loan markets (the last four months of the year), reducing the prime rates for asset operations, although maintaining the differential with other interest rates.

At the end of the year, a clear intensification, and generalization of this panorama can be appreciated, with an abundant supply of funds and clear-cut competition between the different lenders.

In this context, Telefónica has consolidated and continued with its financial policy initiated the year before of expanding and diversifying its sources of funds in order to consolidate its financial structure, dampen the impact of future changes in the institutional markets, promote the inflow of permanent resources (paying special attention to obtaining shareholders' equity) and improve current asset management, stabilising working capital and providing it with suitable coverage, quantitatively and qualitatively.

In the international field, the Company has exploited the general favourable environment and the clear interest shown in our sector by both lenders and risk capital investors.

All of this has been carried out with a global view of the universal nature and interdependence of markets, attempting to overcome certain traditional ways of regarding them, which will allow a greater flexibility and efficiency to be achieved in resource management and utilization.

SIGNIFICANT TELEFONICA-SPANISH ECONOMY VARIABLES 1983-1984 (Thousands of million of current Pesetas)						
					Telefónica %	
	Telefónica		Spain		Spain	
	1983	1984	1983	1984	1983	1984
Total gross value added .....	323.6	373.2	22,682.8	25,870.4	1.43	1.44
Gross value added: service sector .....	323.6	373.2	13,152.1	15,009.5	2.46	2.49
Total capital investment .....	164.2	180.2	4,307.8	4,635.0	3.81	3.89
Employment (thousands) .....	66.8	66.8	10,776.5	10,475.8	0.62	0.64
Employment in Telefónica and Industrial Group (1) (thousands) .....	77.9	78.0	10,776.5	10,475.8	0.72	0.74

Figures in terms of national accounts.  
(1) Not including Standard nor Secoinsa.

## Credit and Loan Market

In this market Telefónica has continued with the activities initiated in 1983, achieving the double objective of making it a stable and basic source for raising funds, both to cover its large cash flow and to obtain long-term finance, thus widening its possibilities for cash calls in the free finance markets, compared to the progressive reduction (accelerated at the beginning of 1985) in the privileged institutional circuits for raising funds.

At the end of the year, the financing capacity of this market had been reinforced. The number of entities granting the Company this type of risk amounted to 70 at the year end, having increased by 12 during 1984.

## Fixed Interest Security Markets

The presence of Telefónica in the fixed interest security markets has been particularly relevant in 1984. This is due to several reasons: on the one hand, due to the volumes issued; secondly, due to its capacity to gain access to non-privileged

finance markets, consolidating the Company's position in them, especially with relation to attracting funds from small investors and savers; additionally, by the diversity of instruments used (floating rate and fixed interest issues, zero coupon bonds, issues convertible into shares); fourthly, by the reduction obtained in nominal interest rates (from 15% to 14%); and, lastly, due to the long-term nature of all of these funds obtained.

The different issues by Telefónica, exploiting the positive factors existing in these markets mentioned at the beginning of these comments, obtained a warm reception and the initial volumes had to be extended in view of the demand, and in the last issue it was even necessary to make a pro rata allocation for subscription applications above one million pesetas.

On the other hand, despite the important volume issued in absolute terms, the Company evaluates the pressure exerted on these markets as being not excessive, as proven by the fact that the total net amount placed by Telefónica was only 5.6% of total market volume.

<b>TELEFONICA - ISSUES OF FIXED INTEREST SECURITIES</b>						
<b>(millions of pesetas)</b>						
	<b>(1)</b>		<b>(2)</b>		<b>Net Placings</b>	
	<b>Total Issued</b>	<b>Total Placed</b>	<b>Redemptions</b>	<b>Savings Banks</b>	<b>Other Markets</b>	<b>Total (1)-(2)</b>
1980 .....	28,000	25,600	4,000	20,900	700	21,600
1981 .....	31,000	20,400	2,503	15,094	2,803	17,897
1982 .....	30,000	36,700	15,201	16,900	4,599	21,499
1983 .....	25,000	31,300	19,697	2,200	9,403	11,603
1984 .....	67,455	47,536 *	25,364	4,672	17,500	22,172

\* The difference between the amount issued and placed corresponds to the latest bond issued where the subscription period ended on January 11, 1985; at this date the whose issue was fully placed and even had to be extended by 5,000 million pesetas as result of the strong demand.



## New Financial Instruments

These short-term instruments are being developed in the heart of the Money Market, which has enabled the trend towards lower interest rates mentioned previously to be exploited.

The expansion of these instruments continued in 1984, particularly in the case of Company promissory notes, with which Telefónica has a direct presence in the Money Market.

The use of this instrument by Telefónica continues through both "direct placings" and "stock exchange placings".

After the opening up of this new market for the Company in 1983, a presence has been maintained during 1984 in line with the objectives set out: to achieve a stable financial relationship with a large group of small savers: to match issue volumes to future prospects, avoiding bunching of important volumes that could make renewal difficult; and, lastly, to adapt their cost and offered yield to market developments.

A broad uniform distribution has been guaranteed for this operation via promissory notes in direct placings, underwritten by a large syndicate of banks and savings banks. Presence in the market with regard to volumes and prices has been regulated by promissory notes placed in the Stock Exchange circuit. In this respect it should be mentioned that the discount rate started the year at 13.94% and by the year end was 11%.

The comparison between the most significant figures of 1983 and 1984 is given below:

<b>TELEFONICA - COMPANY PROMISSORY NOTES (millions of Pesetas)</b>		
	<b>1983</b>	<b>1984</b>
Direct placing .....	17,843.5	26,136.5
Stock Exchange placing .....	4,743	7,999.5
<b>TOTAL PLACINGS IN THE YEAR .....</b>	<b>22,586.5</b>	<b>34,136.0</b>
<b>BALANCE OUTSTANDING AT 31-12.</b>	<b>22,586.5</b>	<b>34,041.5</b>
<b>DISCOUNT RATES APPLIED(%):</b>		
— Direct placing .....	14.2 - 13.4	14.0 - 12.2
— Stock Exchange placing .....	14.0 - 13.2	14.0 - 11.0

The most outstanding aspect of international financial markets in 1984 has been the recovery of activity levels after two years of recession and consolidation of major institutional changes that will influence future market development.

The rate of international financial activity turned sharply upwards during the year, after a persistent recession since 1981. The most reliable estimates for overall turnover in international fixed interest security issues and loans give a figure exceeding 200,000 million dollars, 47% more than the previous year. Bank loans grew by 53%, although part of this figure is due to the arrangement of various jumbo operations (for amounts exceeding 1,000 million dollars) for several international oil companies in order to take-over smaller companies. Bond issues grew by 41%.

Institutional changes include:

- Consolidation of the ECU (European Currency Unit) as a unit on which international private financial transactions are based, that was fully reflected in the international loan market and Eurobond market, in which ECU-denominated issues increased by more than 50% over the previous year.
- The agreement reached in May between the United States and Japan to liberalise access to the Japanese financial market for foreign lenders and to gradually eliminate obstacles impeding yen internationalization, the most obvious result of which has been a significant growth in the Euroyen market and Eurobond issues in the Japanese currency, which reached a volume six times larger in 1984 than in 1983.
- Abolition by the United States Authorities of the 30% withholding tax in July, on income derived from bonds purchased by non-U.S. residents and the development of a bearer-bond market exclusively orientated to foreign investors, which has provided a boost to the dollar-denominated international fixed interest security market.
- Lastly, the position of the major American banks in the international syndicated loan market, a consequence of their risk situation and levels in Latin America.

In this favourable climate for international borrowers, Telefónica arranged four international financing operations in 1984: three international syndicated loans with a multicurrency clause for 100 million dollars, 100 million ECU and 68 million pounds sterling, respectively, and an operation in the domestic Japanese market for 10,000 million yen.

Continuing the policy of the year before, the three objectives of new foreign borrowing in 1984 were: to lengthen the average maturities of operations, to improve the economic conditions thereof and to enter into new financial markets.

Satisfactory results have been obtained on all three accounts:

- For the first objective, average maturities for these operations were extended up to 12.53 years.
- As regards the improvement in economic conditions, the differentials over the Euro-market interbank rates were reduced to 3/8%.
- Lastly, Telefónica introduced itself into two new markets which, as mentioned above, improved substantially in 1984: the ECU and the domestic yen market. In the former, an international syndicated loan was arranged in ECU with a multicurrency clause and possibility of partial or total conversion into ECU-denominated bond issues. The first Installment Sale Facility operation was arranged in the Japanese market, with a total maturity of 15 years at the long-term prime rate with no differential, reviewed half-yearly.

On the other hand, by the end of 1984, 80% of Telefónica's foreign currency debt comprised syndicated loans with a multicurrency clause, allowing active management of this debt by modifying the currency structure.

During this year the U.S. dollar interest differentials in the London inter-bank market were 5 points above the Swiss franc and four points higher than the West German mark, while the peseta depreciated 10% against the U.S. dollar and appreciated 7% against the Swiss franc and 4% with respect to the West German mark.

The forecast and later confirmation of this trend made it advisable to reduce borrowings in dollars and to increase the weighting of European currencies, especially the West German mark, Swiss franc and ECU. Consequently, the Company's foreign debt structure was gra-

dually adapted to the forecasts and trend of the financial market and the international exchange and interest rates, as mentioned, thus achieving a positive effect on the profit and loss account and on net worth by reducing potential losses due to exchange rate fluctuations.

## Shares

The Spanish Stock Exchanges have had a good year in 1984. Investors have evaluated the adjustment achieved in the Spanish economy positively, realising the greater capacity that this grants to economic policy and reacting to the immediate fallout of the considerable reduction in money market interest rates.

Therefore, average share price rises have been historical, reaching 40.66%. Turnover has increased by 108%, particularly significant when taking into account the increases mentioned in share prices and the increase in stock exchange capitalization, which has amounted to 34.7%. This enabled the continuance of the important growth in issue volumes, which commenced in 1983 (and amounted to 28.5% in 1984).

The market for shares has attracted both Spanish and foreign investors during the year.

The balance of purchases by the latter has been 3.4 times higher than that of the year before, demonstrating not only the favourable price and yield conditions of the Spanish Stock Exchange in comparison with world bourses, as shown in the table below (it is also to be remembered that the Spanish Stock Exchange has taken second place in the world ranking for stock exchange index rises) but also the greater trust of these foreign investors in the economic situation of our country and the trend during 1984.

In this context Telefónica has continued and consolidated in 1984 the major Stock Exchange recovery that it had initiated in 1983, boosting the share price by 32.85% and offering a total effective return of 50.7%. In this year the share price rose above par after 7 years of having a below par quote. Turnover volume, which mul-

TELEFONICA AND WORLD BOURSES-1984						
	Share price/ Book value	Share price/ Cash Flow	PER	Dividend yield	Annual Index*	Turnover/Stock Exchange Capitalization
FRANKFURT .....	1.7	4.3	13.5	3.9	107.4	36.8
LONDON .....	1.4	6.4	11.1	4.5	123.6	22.4
NEW YORK .....	1.4	5.6	9.9	4.7	96.1	49.5
PARIS .....	1.2	3.8	15.3	4.4	116.0	24.5
TOKYO .....	2.6	9.3	27.3	1.1	123.6	46.0
ZURICH .....	1.1	5.5	11.4	2.7	—	—
MADRID .....	0.40	3.0	9.0	9.0	140.9	12.5
• INTERNATIONAL INDICES FOR TELECOMUNI- CATIONS SECTOR .....	1.1	4.0	9.2	6.8	115.1	—
• TELEFONICA- MADRID .....	0.4	2.5	10.0	11.5	132.9	7.2

Source: Capital International Perspective.

\* Local Indices.



multiplied by four in 1983, has continued to grow and be consolidated, exceeding the levels achieved the previous year. Furthermore, in 1984 Telefónica shares were dealt in on every working day, amounting to 11.67% of Stock Exchange capitalization and 7% of total turnover volume on the Madrid Stock Exchange. On a wider basis of comparison, the Telefónica stock exchange ratios are among the normal international levels.

Following the general trend described above, foreign investment in Telefónica shares has also grown significantly, exceeding the average levels for the Stock Exchange as a whole, demonstrating not only the favourable environment offered by the Spanish Stock Exchange but also the attention that is being paid to the telecommunications sector, the protagonist of world stock exchanges in 1984.

The favourable evolution of Telefónica shares in 1984 was ratified by the good results achieved

for the capital increase carried out in October for a nominal amount of 32,042 million pesetas, in the ratio of one new share for every nine held, with subscribers paying 70% of face value.

Developments in the prices of shares and subscription rights together with turnover volumes recorded during the capital increase period were completely satisfactory, demonstrating a favourable response from both traditional shareholders and large numbers of small savers, thus greatly diversifying and improving the stability of our shareholder base.

As the capital increase was oversubscribed, it was considered advisable to make the bonds issued in December 1984-January 1985 for an amount of 25,000 million pesetas convertible into shares, for the first time in the history of the Company, thus expanding possibilities for attracting funds while offering savers greater flexibility for decision taking.

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### 3. Results and analysis of financial management

This section analyses the development of the Company from the economic and financial management point of view. Included below are presentations of the Balance Sheets, Statements of Profit and Loss, Statement of Changes in Financial Position and other significant ratios and data, to facilitate detailed analysis.

The *level of activity*, measured by the Revenue from Services, has shown a nominal increase of 17.6%, a satisfactory growth rate in the context of overall activity in the Spanish economy, demonstrating the positive effects of the more active commercial policy put into practice to utilise the considerable growth margin that the present market shares of telephone services still permit in our country.

If we break down this increase into its component parts of real growth and price growth, this positive appraisal is reinforced on having reduced the latter (with respect to 1983) by more than 3 percentage points, compared to a value added deflator for the economy overall, which has grown at a similar rate to that of the previous year.

As a result of the policy of rationalising and improving management, the rate of growth of *operating expenses* has been reduced, allowing for substantial improvements in the *gross operating margin* which, from representing 50.18% of the revenue from services in 1980 and 53.05% in 1983, amounted to 55.47% in 1984.

One basic reason for this trend has been the behaviour of the *salaries and related costs* item, that shows obvious improvements in productivity levels and resource assignment resulting from staff recycling and training activities, with strict internal cost imputation and internal expenditure capitalised in fixed assets growing by only 8.4%.

The improvement in the operating margin has allowed the restructuring policy of the previous year to continue and be consolidated, thus reinforcing the economic and financial balances, the net asset situation and the quality of assets and results obtained.

In this respect, it is interesting to emphasise:

- The **depreciation rate** has been held at 5.2% as opposed to 4.9% in 1982, thus consolidating the 1983 level in accordance with the technical studies on the useful life of plant. The fixed assets were 40% depreciated as at December 31, 1984.



- The **transfer to provisions** has followed the practice established the previous year, dedicating the amounts necessary to this heading in accordance with strict criteria of prudence. The transfer has risen from 3,906 million pesetas in 1982 to 9,808 million pesetas in 1983 and 19,032 million pesetas in 1984, amounting to 14.7%, 35.6% and 58.3% of net profits, respectively.
- The **transfer to exchange loss provisions** is worthy of special mention, having exceeded 14,000 million pesetas and being 167% higher with respect to 1983, thus allowing for the writing off of all exchange losses recorded during the year.
- The **interest expenses** have seen a slowing down compared both to the previous year's growth rate, and to that for the period included in the accompanying data. Nevertheless, the manner of presentation of this item in the table does not allow the favourable trend recorded to be fully appreciated.

Cash and liquid asset management has improved in 1984, in accordance with the possibilities available in the money markets, which has allowed for a significant reduction in net finance costs. For accounting reasons these effects are not shown in the *interest expenses*, but in the income corresponding to this caption (see the important growth in "Other Income" in the Statement of Profit and Loss and its corresponding breakdown).

If we consider this trend overall, the growth in financial charges has been 15.70% in 1984. With the same criterion, it was 21.22% in 1983. As a percentage of revenue from services, it has fallen from 21.2% in 1983 to 18.7% in 1984.

This positive trend has also been achieved in a partially negative environment due to the change recorded in attracting funds from privileged financing circuits, taking into account the considerable amount of funds from this source paid back during the year, with a cost much lower than at present.

## RESULTS - PROFIT MARGINS 1980-1984

(In millions of pesetas)

ITEM	1980	1981	1982	1983	1984	Yearly Growth		
						Rate %	Growth Rate %	1983/82
+ Revenue from Services ...	168,455	204,856	244,925	296,883	349,226	20.0	17.6	21.2
— Levy and Taxes .....	10,107	12,269	14,845	17,959	21,117	20.2	17.6	21.0
= Net Revenue from Services	158,348	192,587	230,080	278,924	328,109	20.0	17.6	21.2
+ Internal Expenditure								
Capitalised in Fixed Assets.	29,150	32,956	39,296	43,959	47,634	13.1	8.4	11.9
— Salaries and Related Costs	85,731	99,134	117,439	132,765	144,686	14.0	9.0	13.1
— Other Costs and Expenses	17,236	19,736	26,098	32,728	37,346	21.3	14.1	25.4
= Gross Operating Margin....	84,531	106,673	125,839	157,390	193,711	23.0	23.1	25.1
+ Connection Fees .....	11,355	11,914	11,925	11,785	12,118	1.6	2.8	(1.2)
+ Non-Reimbursable Contributions and Others .....	2,598	4,385	5,300	5,287	4,902	17.2	(7.3)	(0.2)
+ Surcharges .....	1,788	1,852	1,805	1,953	1,842	0.7	(5.7)	8.2
= Resources provided by								
Operations .....	100,272	124,824	144,869	176,415	212,573	20.7	20.5	21.8
+ Other Income .....	5,797	6,714	7,578	8,676	13,143	22.7	51.5	14.5
— Interest Expenses .....	33,672	47,180	53,654	65,090	77,655	23.2	19.3	21.3
— Non-Operating Expenses..	165	202	351	275	381	23.3	38.5	(21.7)
Extraordinary Items and Others								
— Exchange Loss Provisions.	1,500	3,000	3,000	5,330	14,230	75.5	167.0	77.7
— Transfer to Provisions .....	723	604	906	4,478	4,802	60.5	7.2	394.3
= Gross Operating Profit ....	70,009	80,552	94,536	109,918	128,648	16.4	17.0	16.3
— Depreciation of Fixed Assets .....	46,193	56,674	67,989	82,382	96,028	20.1	16.6	21.2
= Net Profit .....	23,816	23,878	26,547	27,536	32,620	8.2	18.5	3.7



— **Self-financing capacity** strongly, increased by 33%, amounting to 58% of investment in fixed assets (16 percentage points higher than 5 years ago). This demonstrates, on the one hand, the benefit of the adjustment made and, on

the other, the reinforcement of the future capacity of the Company to maintain its rate of investment. Nevertheless, the low starting point means that the rate of self-financing achieved is still insufficient and will have to be in-

## FINANCIAL RATIOS

	1980	1981	1982	1983	1984
A — Current ratio .....	40.51	51.76	47.87	57.47	83.51
B — Solvency ratio .....	57.68	54.16	50.77	51.78	54.05
C — Guarantee ratio .....	90.73	79.56	76.15	77.30	82.44
D — Total gearing .....	43.93	47.56	50.36	49.85	47.96
1. Long term .....	30.87	35.48	37.89	37.35	37.90
2. Short term .....	13.06	12.08	12.47	12.50	10.06
E — Self-financing ratio .....	42.02	45.05	50.94	54.37	57.91
F — Gross Operating Margin ratio .....	50.18	52.07	51.38	53.01	55.47
G — Rate of return from operations					
1. On average shareholders' equity	14.53	15.59	17.25	18.56	19.35
2. On average net capital employed	9.32	9.47	9.77	10.28	10.83
3. On average fixed assets employed	12.45	13.35	14.03	14.97	15.79
H — Rate of return on capital					
1. On paid-in share capital .....	11.10	11.00	11.05	11.18	11.11
2. On stock market capitalization.	17.60	15.10	17.10	16.00	12.00
I — Debt repayment capacity .....	8.19	8.25	8.00	7.68	6.81
J — Resources generated/Interest expenses .....	2.15	1.78	1.83	1.86	1.91
K — Theoretical book value of shares....	249.02	227.24	246.27	246.15	255.63

*Definitions and formulae:*

- 1) Overdrafts are considered at the amount drawn and not the overall limit.  
 2) Remunerated liabilities = Share capital + Debentures + Bank Loans + Promissory Notes + Notes payable to suppliers.

A — (%) $\frac{\text{Current Assets}}{\text{Current liabilities}}$	G.1 — (%) $\frac{\text{Net Cash-Flow}}{\text{Average Shareholders' Equity}}$
B — (%) $\frac{\text{Shareholders' Equity}}{\text{Net Fixed Assets}}$	G.2 — (%) $\frac{\text{Net Cash-Flow}}{\text{Average Net Capital Employed}}$
C — (%) $\frac{\text{Shareholders' Equity}}{\text{Remunerated liabilities}}$	G.3 — (%) $\frac{\text{Funds Generated by Operations}}{\text{Average Net Fixed Assets}}$
D — (%) $\frac{\text{Debt Finance}}{\text{Total liabilities}}$	H.1 — (%) $\frac{\text{Net Profit}}{\text{Average Paid-In Share Capital}}$
I — (%) $\frac{\text{Medium and Long-Term Debt}}{\text{Total liabilities}}$	H.2 — (%) $\frac{\text{Net Profit}}{\text{Stock Market Capitalization}}$
2 — (%) $\frac{\text{Current Liabilities (excluding transitory accounts)}}{\text{Total liabilities}}$	I. (years) $\frac{\text{Remunerated liabilities}}{\text{Resources Generated}}$
E — (%) $\frac{\text{Annual Self-Financing}}{\text{Investment in Fixed Assets}}$	J. (ratio) $\frac{\text{Resources Generated}}{\text{Interest Expenses}}$
F — (%) $\frac{\text{Gross Operating Margin}}{\text{Revenue from Operations}}$	K. (%) $\frac{\text{Total Assets (less intangibles) - Liabilities}}{\text{Paid-In Share Capital at Year End}}$



creased in the coming years to place it at more acceptable levels, which will require continuing efforts to be made in this direction.

The trend mentioned above was appreciated by our shareholders and risk capital investors in the Company who, considering the support that these factors give to the dividend paid by

Telefónica, have continued to respond favourably to cash calls via capital increases, as mentioned in the preceding pages.

Furthermore, the return on capital has been reinforced: while the return on paid up share capital has been maintained, the stock market yield has fallen by 4 percentage points, demonstrating the improvement in the evaluation

INCOME								
(In millions of Pesetas)						Yearly Growth Rate % 1980/1984	Growth Rate % 1984/1983	Growth Rate % 1983/82
ITEM	1980	1981	1982	1983	1984			
	Amount	Amount	Amount	Amount	Amount			
Revenue from Services.....	168,454	204,855	244,925	296,883	349,226	20.0	17.6	21.2
Connection Fees and								
Others .....	13,953	16,299	17,225	17,072	17,020	5.1	(0.3)	(0.9)
Income from Investments.....	641	942	1,481	1,964	6,183	76.2	214.8	32.6
Other Income .....	6,944	7,625	7,902	8,665	8,802	6.1	1.6	9.7
<b>Income .....</b>	<b>189,992</b>	<b>229,721</b>	<b>271,533</b>	<b>324,584</b>	<b>381,231</b>	<b>19.0</b>	<b>17.4</b>	<b>19.5</b>
Itemisation of Revenue from Services								
Subscriber Service Charges	44,749	55,059	65,337	74,916	111,086	25.5	48.3	14.7
National Data Processing								
Charges .....	8,577	11,758	14,722	21,245	24,568	30.1	15.6	44.3
National Automatic Service								
Charges .....	83,648	102,295	122,054	148,023	149,646	15.6	1.1	21.3
Trunk Calls through								
Operator .....	2,129	2,252	2,554	2,201	2,217	1.0	0.7	(13.8)
International Service								
Charges .....	24,354	28,040	32,620	40,299	51,149	20.4	26.9	23.5
Mobile and Maritime								
Service Charges .....	649	772	983	1,087	1,437	21.9	32.2	10.6
Directories and Year Books	4,348	4,679	6,655	9,112	9,123	20.3	0.1	36.9

Telefónica had an income of 381,231 million pesetas in 1984, signifying a nominal growth of 17.4 percent as compared to 1983, demonstrating the important growth rate in real terms.

Under the heading of Income, the most significant item is Revenue from Services at 349,226 million pesetas, representing 91.6% of total 1984 income, with the same share of income as in 1983.

The following comments can be made on developments this year in comparison with previous years:

1. In the services included under the Revenue from Services, the most significant increase was for Subscriber Service Charges which had reached a figure of 111,086 million pesetas in 1984, an increase of 48.3% over 1983, mainly due to the change in the tariff structure in 1984.

Nevertheless, this has clearly been compensated for by the introduction of 140 free billing pulses per month for automatic calls, which has meant that income from the National Automatic Service has practically not grown in 1984 (1.1%) (with this being the major income item for Telefónica).

2. Behaviour of the other telephone and teleprocessing revenue items in 1984 is similar to the weighted growth of Revenue from Services. Most notable are: National Data Processing, which has generated 24,568 million pesetas. This increase, nearly 16%, is high but very much lower than that recorded in previous years, at the beginning of a spectacular potential growth that still has a medium-term outlook; and the Interna-

tional Service at 51,149 million pesetas, which increased by 26.9% over 1983, nearly three points higher than that obtained in that year (23.5%).

3. The trend in connection fees has stabilised with respect to 1983, due to the different bases for comparison, arising from the price reduction of March 25, 1983, with an acceptable nominal growth rate if the comparison is made on an homogeneous basis.
4. With respect to other income, the increase in income from investments is worthy of emphasis and is a result, as mentioned in the corresponding section, of the changes in Cash and Liquid Asset management.



## EXPENSES

(Millions of Pesetas)						Yearly Growth Rate % 1980/84	Growth Rate % 1984/1983	Growth Rate % 1983/1982
ITEM	1980	1981	1982	1983	1984			
Operating Expenses .....	73,982	86,116	104,592	121,809	134,779	16.2	10.6	16.5
Interest Expense .....	33,672	47,180	53,654	65,090	77,655	23.2	19.3	21.3
Depreciation and Amortization .....	46,193	56,674	67,989	82,382	96,028	20.1	16.6	21.2
State Levy and Taxes .....	10,107	12,269	14,845	17,959	21,117	20.2	17.6	21.0
Transfer to Exchange Loss Provision .....	1,500	3,000	3,000	5,330	14,230	75.5	167.0	77.7
Transfer to Self-Insurance Provision .....	723	604	906	909	1,000	8.4	10.0	0.3
Transfer to Provision for Bad Debts .....	—	—	—	2,000	3,507	—	75.4	—
Transfer to Provision for Contingencies and Others .....	—	—	—	1,569	295	—	(81.2)	—
<b>Total Costs and Expenses .....</b>	<b>166,177</b>	<b>205,843</b>	<b>244,986</b>	<b>297,048</b>	<b>348,611</b>	<b>20.3</b>	<b>17.4</b>	<b>21.2</b>
<b>Itemisation of Operating Expenses</b>								
Salaries and Related Cost..	85,731	99,134	117,439	132,765	144,686	14.0	9.0	13.1
Outside Work, Supplies and Services .....	16,614	19,090	25,443	30,540	35,375	20.8	15.8	20.0
Other Operating Charges..	787	848	1,006	1,075	1,744	22.0	62.2	6.9
Provision for Accrued Expenses not accounted for .....	—	—	—	1,388	608	—	(56.2)	—
Investment Expenses .....	(29,150)	(32,956)	(39,296)	(43,959)	(47,634)	13.1	8.4	11.9
<b>Total Operating Expenses .....</b>	<b>73,982</b>	<b>86,116</b>	<b>104,592</b>	<b>121,809</b>	<b>134,779</b>	<b>16.2</b>	<b>10.6</b>	<b>16.5</b>

In the context of an expense rationalization and control policy, total expense growth in 1983 (which amounted to 348,611 million pesetas) has been 17.4%, i.e. 3.8% points less than the year before and 2.9% points less than the overall period considered.

The different expense items can be divided into two main groups: Firstly, that comprising items corresponding to the Company's regular activities and which it is possible to affect directly, applying specific policies for improving management and running; and a second group to cover those items basically determined by more independent external behaviour variables.

In the first group one may thus include operating expenses, interest expense, state levy and taxes and, to a certain extent, the transfer to the self-insurance provision and depreciation and amortization. All of these, with the exception of the transfer to the self-insurance provision, have grown at rates below those of 1983 and the five-year period overall.

The second group then includes the remaining transfers to provisions. In this group, with the exception of the provision for contingencies and others (which started from a very high base in 1983, the first year in which a provision was set up for this item, therefore involving a considerable sum), growth rates are very high, higher than previous years, reflecting policy criteria and maintaining the line marked out the year before of cost recognition and restructuring through the results.

The most outstanding aspects and items of greatest significance are commented on below (interest expenses are discussed in detail in the analysis of economic and financial activity included in this section):

The effort to rationalise expenses takes on a special importance in the item for operating expenses which, amounting to 134,779 million pesetas, only grew by 10.6%, nearly 6% points less than the 1983 increase. The main component, Salaries and Related Costs,

contributed 144,686 million pesetas, 9% more than in 1983.

Equally significant within this same item is the investment expenses heading, a negative component of operating expenses that represents the application of internal Company funds to investments. This increase has only been 3,675 million pesetas, or a growth of 8.4% over 1983, due mainly to two causes: improved construction management, and the reassignment of part of the employees normally engaged in this work to maintenance of new plant.

The depreciation charge has been 96,028 million pesetas, representing an increase of 16.6% with respect to 1983. The depreciation rate is 5.2% of average depreciable plant, in accordance with the technical studies on the useful life of plant.

The other components do not require special comment, except that the policy initiated the previous year relating to bad debt has been maintained, involving a provision of 3,507 million pesetas in 1984.



made of the Company by investors, in terms of the share price.

At a financial level the policy applied throughout 1984 has continued, with the already established objectives of 1983, generally improving on the achievements already made in that year.

The objectives of this policy, apart from the qualitative aspects already mentioned, can be summarised through the following aspects:

- To improve degree of the self-financing, establishing investment levels in accordance with the capacity of fixed assets used in operations to generate funds.
- To diminish relative borrowing levels, encouraging the expansion of risk capital and self-financing.

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<b>STATEMENT OF CHANGES IN FINANCIAL POSITION FOR 1980-1984</b>					
(Millions of Pesetas)					
(After Profit Distribution)					
	1980	1981	1982	1983	1984
Depreciation and Amortization	46,193	56,674	67,989	82,383	96,028
+ Net Variations in Reserves and Provisions .....	2,484	2,682	6,584	4,542	5,556
= Net Self-Financing (1) .....	48,677	59,356	74,573	86,924	101,584
+ Non-Reimbursable Contributions for Irrevocable Rights of Use.....	47	193	(30)	13	477
+ Capital Increase .....	—	13,351	—	33,644	22,387
+ Debentures and Bonds Issued...	28,000	35,092	34,384	30,537	47,280
+ Other Medium and Long-Term Loans .....	53,365	59,234	57,822	83,329	125,995
= Increase in Net Capital Employed (2) .....	81,412	107,870	92,176	147,523	196,139
Basic Finance (1+2) .....	130,089	167,226	166,749	234,447	297,723
+ Increase in Working Capital ...	12,712	—	24,314	—	—
= Total Sources and Applications..	142,801	167,226	191,063	234,447	297,723
+ Debentures redeemed .....	4,004	2,503	15,201	19,699	25,364
+ Amortization of Long and Medium-Term Loans .....	22,009	18,684	21,913	31,819	53,278
= Applications of Finance (3) .....	26,013	21,187	37,114	51,518	78,642
+ Investment in Fixed Assets ....	115,839	131,753	146,379	159,861	175,417
+ Other Investments .....	(865)	(3,069)	5,318	15,659	(14,835)
= Total Gross Investments (4) ...	114,974	128,684	151,697	175,520	160,582
+ Inventories for Fixed Assets (5).	1,814	1,955	2,252	4,256	4,538
= Basic Applications (3+4+5) ....	142,801	151,826	191,063	231,294	243,762
+ Increase in Working Capital ...	—	15,400	—	3,153	53,961

The difference between the increase in working capital as shown in this table and that audited is as follows:

• Increase in Working Capital .....	53,961
• Increase in Stocks .....	4,538
• Increase in 1984 Dividends .....	5,119
• Increased Stock Provision .....	(49)
TOTAL .....	63,569



## BALANCE SHEETS FOR 1980/1984

(After Profit Distribution)

(In millions of Pesetas)

ITEMS	1980	1981	1982	1983	1984
Issued Share Capital .....	213,610	240,312	240,312	288,374	320,416
Revaluation Reserve .....	287,871	279,897	281,090	344,722	419,719
Other Reserves and Surplus .....	28,657	25,568	30,628	35,620	40,318
Provisions and others .....	6,611	6,594	47,664	50,307	52,090
<b>Shareholders' Equity ...</b>	<b>536,749</b>	<b>552,371</b>	<b>599,694</b>	<b>719,023</b>	<b>832,543</b>
Debentures and Bonds in Pesetas .....	203,313	222,479	247,942	255,529	277,445
Debentures and Bonds in Foreign Currency .....	—	4,092	11,598	19,356	19,743
Other Medium and Long-Term Debt .....	109,207	171,899	232,283	304,415	377,279
<b>Medium and Long-Term Debt Finance .....</b>	<b>312,520</b>	<b>398,470</b>	<b>491,823</b>	<b>579,300</b>	<b>674,467</b>
<b>Net Capital Employed .</b>	<b>849,269</b>	<b>950,841</b>	<b>1,091,517</b>	<b>1,298,323</b>	<b>1,507,010</b>
Fixed Assets .....	1,348,870	1,451,190	1,667,754	1,903,232	2,182,144
Accumulated Depreciation .....	(522,039)	(553,823)	(659,630)	(754,311)	(868,250)
Fixed Assets under construction .....	48,367	53,018	59,036	76,179	76,742
Advance Payments on Plant .....	10,705	5,663	9,988	14,531	12,756
Inventories for Fixed Assets .....	12,856	15,093	17,494	22,251	26,441
<b>Net Fixed Assets .....</b>	<b>898,759</b>	<b>971,141</b>	<b>1,094,642</b>	<b>1,261,882</b>	<b>1,429,833</b>
Net Intangible Assets .....	922	878	2,256	3,797	4,803
Investments .....	16,564	20,687	22,054	37,677	33,895
Deferred Charges .....	4,823	6,284	7,884	9,186	13,461
Unrealised Exchange Losses .....	9,515	20,855	54,378	75,972	58,164
<b>Total Net Assets .....</b>	<b>930,583</b>	<b>1,019,845</b>	<b>1,181,214</b>	<b>1,388,514</b>	<b>1,540,156</b>
Consumable Inventories ...	1,582	1,799	2,051	2,523	2,993
Subscriber Accounts Payable .....	37,954	43,494	52,022	61,587	65,895
Other Receivables .....	10,217	15,020	12,764	21,583	21,016
Cash and Banks .....	5,630	13,717	15,521	36,195	77,977
Short-Term Liabilities .....	136,697	143,034	172,055	212,079	201,027
<b>Working Capital .....</b>	<b>(81,314)</b>	<b>(69,004)</b>	<b>(89,697)</b>	<b>(90,191)</b>	<b>(33,146)</b>
<b>Total Net Assets = Total Net Liabilities..</b>	<b>985,966</b>	<b>1,093,875</b>	<b>1,263,572</b>	<b>1,510,402</b>	<b>1,708,037</b>



## VALUE ADDED IN THE LAST FIVE YEARS

(Millions of Pesetas)

	1980	1981	1982	1983	1984
Total Income (1) .....	+219,142	+262,677	+310,829	+368,542	+428,865
Outside Work, Supplies and Services ...	16,614	19,090	25,443	30,540	35,375
Other Operating Charges .....	787	848	1,006	1,075	1,744
Total External Cost and Charges .....	— 17,401	— 19,938	— 26,449	— 31,615	— 37,119
Value Added .....	201,741	242,739	284,380	336,927	391,746
Salaries and Related Costs .....	85,730	99,134	117,439	132,765	144,686
Remuneration and Interest .....	56,609	69,917	79,142	90,885	108,031
— Remuneration to Shareholders (dividends) .....	23,497	23,497	26,434	27,095	32,214
— Interest Expense (on loans) .....	33,112	46,420	52,708	63,790	75,817
State Levy and Taxes .....	10,107	12,269	14,845	17,958	21,117
Upkeep of production facilities (depreciation charges, provisions, reserves, etc.) .....	49,295	61,419	72,954	95,319	117,912

(1) Includes work carried out by the Company on fixed assets.

The value added generated by Telefónica in 1984 amounted to 391,746 million pesetas, an increase of 16.3% in nominal terms and 7 points in real terms in relation to 1983.

The breakdown of value added and its change over the previous year demonstrates the facts that have been discussed in greater detail in the preceding pages, of which the following should be mentioned:

1. Productivity increases achieved, that allow greater value added generation per unit cost.

2. Action taken to reinforce and improve financial and asset balances.
3. Intensification of the policy of transfer to provisions and write-offs, in order to preserve asset quality.

Treasury payments, which increased by 17.6% in 1984, practically all correspond to the State Levy applicable to Telefónica's activities.

- To raise the degree of financial coverage of fixed assets and working capital, by a major rebalancing on the basis on better compensated guarantee, solvency, and current ratios, in order to improve financing capacity with respect to third parties.
- Lastly, to improve the resources generated/remunerated liabilities and resources generated/interest expenses ratios, in order to widen and improve the Company's real capacity for expansion.

The degree to which these objectives have been attained has been generally fully satisfactory, although further efforts are necessary in some cases. On the other hand, in other areas, the levels required have already been achieved.

Thus, working capital has been improved to a satisfactory level, if the high non-operating current liabilities with which Telefónica operates are taken into account. It could be stated in this sense that liquidity is already at a sufficient level to enable more qualitative elements to be incorporated into financial management, as occurred in 1984.

## PAYMENTS TO THE TREASURY AND SOCIAL SECURITY

(Millions of Pesetas)

	1984	1983	Increase	
			Absolute	Relative %
I Payments to the Treasury .....	112,222	95,264	16,958	17.8
Due as taxpayer:				
— State Levy .....	20,846	17,678	3,168	17.9
— Tax on interests charged to affiliates and others .....	271	281	(10)	(3.6)
Taxes withheld as intermediary:				
— Tax on telephone use .....	58,533	48,732	9,801	20.1
— Income Tax .....	16,472	13,965	2,507	17.9
— Capital Tax .....	9,153	9,024	129	1.4
— Non-resident Corporation Tax .....	177	81	96	118.5
Indirect Taxes:				
— Turnover Tax .....	6,770	5,503	1,267	23.0
II Net Payments to Social Security Organizations...	17,159	15,994	1,165	7.3
Total Payments .....	129,381	111,258	18,123	16.3

Total payments by Telefónica to the Treasury and Social Security in 1984 have amounted to 129,381 million pesetas, an increase of 16.3% with respect to 1983.

The main items of this payment and their growth in 1984 are detailed in the corresponding table.

In this sense, it should be mentioned that this improvement has not involved major increases in total remunerated liabilities, but has been carried out by transforming short-term debts into long-term ones, without this transformation causing marginal increases in financial costs. Similarly, the greater diversification in the Company's financial current assets should be emphasised, new instruments, and a more rational management of traditional ones, being employed.

Furthermore, this has been carried out simultaneously with an improvement of the guarantee and solvency ratios, as shown in the table below. This result has seen the influence of the policy of increasing shareholders' equity and adapting the volume of investments, together with the depreciation rate in the former and self-financing in the latter.

Self-financing capacity, although improvement continues as mentioned earlier, must continue to increase in the future.

Gearing has been severely corrected, and now shows a clearly falling trend after having stabilised in 1983. This correction has been intensified at the short term level, with a positive effect on marginal financing costs.

On the other hand, although the present gearing is higher than in 1980, the different liquidity situation in these two years should be taken into account, with a better balanced situation existing at the present after correcting the considerable risk compensation in the early years of this five-year period.

Financial policy, in turn, on having been marked by the need to match debt to the real capacity for generating resources, has committed a substantial improvement in the capacity to repay debt, improving in several of these years, and also in the ratio of resources generated to interest expenses, where the former are almost double the latter.

With respect to revolving fund policies, the improvements initiated the year before have continued and a more compensated development has been achieved in the growth of net current assets from operations. With respect to net current assets other than from operations, the traditional tendency has continued, improving the management of these in line with the earlier comments for working capital.

All of this has enabled a major restructuring of the Company's financial balances, and thanks to the easier situation, it is now possible to initiate and intensify qualitative debt policies, without this meaning that the objectives indicated are not to be aimed at in the future.

It can therefore be stated that Telefónica's capacity has improved quantitatively and qualitatively, having a present growth potential greater than that of previous years.

This greater solvency and solidity, on the other hand, has been achieved while maintaining a positive rate of activity and real investment, substantially improving the return on assets employed in operations and other profitability ratios with the consequent benefit for the shareholder, both directly and through the rise in share prices that this has led to on the Stock Exchanges.

# Auditing Shareholders' Report

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MR. FERNANDO PEREZ OLIVARES HINOJOSA and MR. JOSE CARLES ABELLO, designated Auditors of the Accounts for the year of 1984 by the Annual General Meeting of Shareholders of the Compañía Telefónica Nacional de España, held on June 29, 1984, state that they have analysed the Balance Sheet, Statement of Profit and Loss, Statement of Changes in Financial Position, and Statement of Movement and Direct Applications to Reserves, together with the 25 Notes thereon and the external reports of the auditors and the Spanish statutory auditors, included in the Company's Annual Report and they have found them in accordance with the information requested by and provided to them, so that they consider that they give a true and fair view of the financial situation of the Company and consequently propose approval thereof by the Annual General Meeting.

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And in testimony of which, we sign this Report in Madrid on the 24th of May, 1985.

The image shows two handwritten signatures in black ink. The signature on the left is for Fernando Pérez-Olivares Hinojosa, featuring a large, stylized 'F' and 'O'. The signature on the right is for José Carles Abelló, written in a more fluid, cursive style.

Mr. Fernando Pérez-Olivares Hinojosa

Mr. José Carles Abelló



# Independent Auditors' Report

## To the Board of Directors Compañía Telefónica Nacional de España Madrid

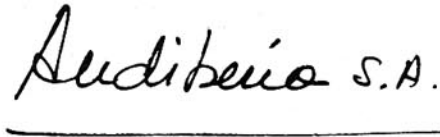
1. We have examined the balance sheet of Compañía Telefónica Nacional de España (TELEFONICA) at December 31, 1984, the statements of profit and loss, of movements and direct applications to reserves and of changes in financial position for the year then ended together with the explanatory notes, as set out on pages 58 to 77. Our examination was made in accordance with generally accepted auditing standards.
2. As indicated in Note 1 to the financial statements, tariffs corresponding to the services provided by TELEFONICA are submitted annually to the Spanish government for approval, with the prior intervention of the Government Delegate in the Company and agreement of the Prices Commission. Consequently, TELEFONICA falls within the group of regulated entities whose peculiarities permit that income and expenses may be attributable to each period not only on the accrual basis but also when the related specific concepts of revenue and cost are computed as part of the approved tariffs. On this basis, the recovery of the amounts invested or deferred in the assets of the Company, particularly deferred exchange losses, will depend upon the adequate future consideration, in tariffs, of these concepts.
3. The employees of the Company are covered by a social benefit plan governed by the mutual pension fund "Institución Telefónica de Previsión" (ITP). The characteristics of this plan and the difficulties associated with its viability are explained in Note 23 to the financial statements. At present negotiations are in process between the interested parties in order to determine a new scheme of social benefits assumable by the parties involved.  
In our independent auditor' report of May 31, 1984 with respect to the financial statements as at December 31, 1983, we qualified our opinion due to the uncertainty existing with respect to the potential liabilities, if any, that could have resulted for TELEFONICA as a consequence of the negotiations concerning the social benefits plan. Based upon the opinion of qualified independent legal counsel, which has confirmed TELEFONICA's compliance with all its contractual obligations to ITP, as well as its legal independence from ITP, we understand that there exists no other secondary responsibility of TELEFONICA to ITP than that expressed in Note 23 to the financial statements.



4. In our opinion, the financial statements referred to in paragraph 1 present fairly the financial position of Compañía Telefónica Nacional de España at December 31, 1984, and the results of its operations, movements in reserves and changes in financial position for the year then ended, in conformity with accounting principles generally accepted in Spain and, as explained in paragraph 2, those required or permitted by the specific regulations governing TELEFONICA's activities, applied on a basis consistent with that of the preceding year. Accounting principles which are of significance in the preparation of the financial statements are described in Note 2.
5. These financial statements and related notes were originally issued in the Spanish language; the translation into English is solely for the convenience of international readers.



Price Waterhouse



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Audiberia, S. A.  
(Member of Fox  
Moore International)

Madrid, April 29, 1985

# Spanish Statutory Auditors' Report

MR. PEDRO RODRIGUEZ SAN ROMAN and MR. ENRIQUE FERNANDEZ PEÑA, full members of the Institute of Spanish Statutory Auditors, in compliance with the mandate from the Management Committee of Compañía Telefónica Nacional de España, S. A., in accordance with Article 47 of the stock Exchange Regulations in force (Decree 1506/67 of June 30) have examined the Balance Sheet of the Company at December 31, 1984 together with the Statement of Profit and Loss corresponding to that year.

In the examination carried out we have jointly taken into account the work and reports prepared by the firms Price Waterhouse and Audiberia, S. A., which have audited the Company's accounts during 1984, all in accordance with Telefónica.

The said review has given rise to this Report 17/85 that is issued with the remarks and observations given below.

## I. General remarks

- 1.1. The figures contained in the Balance Sheet and Statement of Profit and Loss audited come from the Company's general ledger and auxiliary books, in accordance with general account groupings, shown in detail in the annual accounts.
- 1.2. The Company's Balance Book number 3, legalized on May 30, 1973 under number 8,756 shows the Trial Balances on March 31, June 30, September 30 and December 31, 1984.
- 1.3. The Company's Day Book number 23, legalized on August 5, 1977 under the number 12,002, shows the summary of the entries made each month, in accordance with the account groupings mentioned in 1.1.

## 2. Remarks on the Balance Sheet

### 2.1. Fixed assets.

This item has increased by 175,417 million Pesetas in 1984, fundamentally corresponding to purchases, works contracted with third parties and direct imputations amounting to 151,426 million Pesetas, and on the other hand, to indirect investment costs of 17,662 million Pesetas and interest expenses charged to the works amounting to 6,329 million Pesetas. Interest has been calculated at 9% by applying a rate of 0.75% per month on

the balance of the work in progress at the end of the previous month, without including interest expenses already charged.

The fixed assets have been revalued in accordance with Article 3 of the law of December 31, 1945 by 143,342 million Pesetas, credited to accumulated Depreciation for the year in 57,784 million Pesetas and charged to the revaluation surplus in 85,558 million Pesetas. This authorization, which the Company may carry out after obtaining prior approval from the Ministry of Finance, has been applied to the fixed asset inventory at December 31, 1983.

### 2.2. Accumulated depreciation and amortization of assets.

The relevant credit items charged to the 1984 results amount to 96,028 million Pesetas (95,427 million Pesetas of depreciation of fixed assets and 601 million Pesetas of amortization of intangible assets). The overall percentage of the average value of depreciable plant (without including the revaluation pending mentioned above) has been 5.20%.

### 2.3. Net shareholdings in companies.

Investments in the Telefónica group have been valued on the basis of the corresponding company balance sheets at December 31, 1983 and represent a reduction of 949 million Pesetas that had been charged to the Voluntary Reserve. The income received as dividends during 1984 from these shareholdings has amounted to 395 million Pesetas.

**2.4. Loans to affiliates and associates.**

In the balance on this account at the year end the most significant amount corresponded to the borrowings of Telefonía y Finanzas, S. A. (an affiliate in which Telefónica has a 100% interest), a stock exchange share dealing company permitted for this purpose by the Spanish Stock Exchanges (Article 41 of the Stock Exchange Regulations in force). This balance was practically settled in the first quarter of 1985.

**2.5. Unrealized exchange losses.**

The revaluation of foreign currency borrowings at the year end amounted to 58,164 million Pesetas. This amount is the future potential loss that the Company will have to withstand in the coming years if present exchange parities are maintained. In order to cover these losses the Coordinated Four Year Plan with the Government (1983/1986) includes this item in the tariff provision.

During 1984 the company has absorbed and charged to results 14,230 million Pesetas and 1,394 million compensated by positive exchange differences, corresponding to the collection of payment for services in foreign currency.

At the year end the Self-Insurance Provision for exchange losses had a balance of 21,598 million Pesetas, which reduces the above-mentioned risk of 58,164 million Pesetas.

**2.6. Inventories.**

The policy of not reflecting purchases carried out when the invoices are being processed at the year end continues: we have been informed that this policy will be modified in the future.

**2.7. Accounts receivable.**

The caption "Subscribers" includes ex-subscribers where debt collection is doubtful, amounting to a total of 3,961 million Pesetas, pending revaluation. There are provisions of 2,884 million Pesetas to cover this amount in the "Provision for bad-debt" item.

**2.8. Share capital.**

The company, thus authorized by the Annual General Meeting of Shareholders held on June 11, 1982, has carried out a capital increase of 32,042 million Pesetas on the basis of one new share for every one held, with 30% of the nominal value charged to the Reserves (14,419 million Pesetas).

**2.9. Statutory reserve.**

The balance in this account has increased by 400 million Pesetas due to the distribution of profits for 1983 with a balance of 6,905 million Pesetas at December 31, 1984.

**2.10. Voluntary reserve and revaluation surplus.**

These have been increased by 85,558 million Pesetas, as a result of net plant revaluation, and reduced by 9,012 million Pesetas due to the part charged to reserves of the capital in-

crease, and 949 million Pesetas as a consequence of the reduction in the valuation of shareholdings in group companies. Furthermore, this item includes the balance on the Share Premium Reserve account, amounting to 1,733 million Pesetas.

**2.11. Technological development reserve.**

The balance on this account has increased by 4,292 million Pesetas due to the difference between material recovered and dismantling costs.

**2.12. Debentures and bonds.**

Debentures amounting to 67,455 million Pesetas have been issued in 1984, of which 47,536 million Pesetas have been received. The total amount of the difference plus an extension of 5,000 million Pesetas were received in January, 1985. A total of 75,889 million Pesetas have been obtained via other financial instruments.

2.13. **Pensions.**

Telefónica employees are the beneficiaries of a social welfare scheme, with pensions that substitute and complement the Social Security. These pensions are provided by the Institucion Telefónica de Prevision (ITP), a pension fund with an independent legal status created in accordance with the law of December 6, 1941 and the regulations of May 26, 1943 relating to mutual benefit funds.

The circumstances and explanations of this matter are described in Note 23 to the Financial Statements. The latest calculations by actuaries show that, given the qualitative and quantitative importance of the services provided by this institution, the resources that it possesses and the contributions made by employees and Telefónica (4.3% and 9% of the regulatory salary, respectively) are insufficient to cover the obligations to beneficiaries in the future, both with respect to retired personnel and those in active service. For this reason negotiations have commenced between the interested parties, creating a tripartite Commission for this purpose (ITP, Trade Unions and Telefónica).

In our report of last year we qualified our opinion relating to the eventual liabilities that may arise for Telefónica as a result of these negotiations, announced in May, 1984.

This year, on the basis of an independent legal report demonstrating compliance with all contractual obligations with the ITP and the non-existence of legal responsibility for Telefónica, the said qualification on contingencies not reflected in the annual accounts is eliminated.

**3. Remarks on the Statement of Profit and Loss**

3.1. **Income.**

The estimate of income items for the year is considered to be correct. The estimate carried out the year before included insignificant variations on the final figures.

3.2. **Costs and expenses.**

The costs and expenses imputed by the Company are considered to have been settled reasonably and are correctly accounted for in the fiscal year.

On the basis of the verifications made, jointly with the work and reports of the firms Price Waterhouse and Audiberia, S. A., we hereby issue the following:



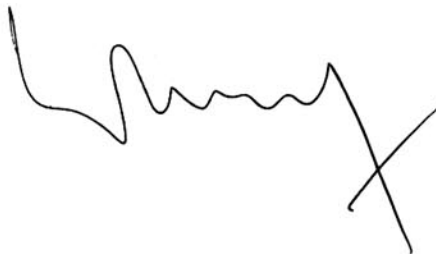
## REPORT

*As a result of the review carried out it is our professional opinion, that the Balance Sheet and the Statement of Profit and Loss of the Compañía Telefónica Nacional de España, S. A., attached, present a true and fair view of the financial situation of the Company at December 31, 1984 and that they have been prepared and submitted in accordance with generally accepted accounting principles in Spain and are substantially coherent with previous years, in accordance with the contracts and agreements in force with the Spanish authorities and subject to the considerations that we have indicated.*

*And considering our professional work as commissioned to have finished, we issue this document with one original and six copies, issued in six numbered pages of official paper from the Institute of Spanish Statutory Auditors, to which two appendices, also numbered, are attached and which we sign, seal, and paraph in Madrid on May 22, Nineteen hundred and eighty-five.*



Enrique Fernández Peña



Pedro Rodríguez San Román

# Balance sheet at December 31

(before distribution of profits)

(In millions of pesetas)

ASSETS	1984	1983
<b>FIXED ASSETS (Note 3)</b> .....	1,403,392	1,239,631
Land .....	30,914	30,290
Buildings and power equipment .....	141,170	129,361
Telephone installations .....	1,997,616	1,732,669
Other fixed assets .....	12,444	10,912
	<hr/>	<hr/>
Accumulated depreciation .....	2,182,144 (868,250)	1,903,232 (754,311)
	<hr/>	<hr/>
Fixed assets under construction:	1,313,894	1,148,921
Work in progress .....	76,742	76,179
Advances to suppliers .....	12,756	14,531
	<hr/>	<hr/>
<b>INTANGIBLE ASSETS (Note 4)</b> .....	4,803	3,797
Research and development and others .....	5,882	4,923
Accumulated amortization .....	(1,079)	(1,126)
	<hr/>	<hr/>
<b>INVESTMENTS</b> <b>(Notes 5 and 6)</b> .....	33,895	37,677
Shares and others .....	22,238	20,536
Loans to group companies .....	9,162	14,924
Loans to employees .....	2,205	2,056
Guarantees and deposits .....	290	161
	<hr/>	<hr/>
<b>DEFERRED CHARGES (Note 7)</b> .....	13,461	9,186
<b>UNREALIZED EXCHANGE LOSSES</b> <b>(Note 8)</b> .....	58,164	75,972
<b>INVENTORIES (Note 9)</b> .....	29,434	24,774
Inventories on hand .....	30,267	25,225
Obsolescence reserve .....	(833)	(451)
	<hr/>	<hr/>
<b>ACCOUNTS RECEIVABLE</b> .....	78,038	75,155
Subscribers (Note 10) .....	68,779	63,063
Provision for bad debts (Note 10) .....	(2,884)	13,985
Miscellaneous receivables .....	12,810	(1,476)
Provision for bad debts .....	(667)	(417)
	<hr/>	<hr/>
<b>CASH AND BANKS (Note 11)</b> .....	77,977	36,195
Unused facilities - cash and banks .....	44,209	32,538
Short term investments .....	31,171	—
Funds in transit and others .....	2,597	3,657
	<hr/>	<hr/>
<b>OTHER CURRENT ASSETS AND</b> <b>PREPAYMENTS</b> .....	23,761	20,333
Prepayments .....	8,873	8,015
Interim dividend .....	14,419	12,316
Debentures pending subscription .....	469	2
	<hr/>	<hr/>
<b>Total</b> .....	<u>1,722,925</u>	<u>1,522,720</u>
<b>MEMORANDUM ACCOUNTS</b> <b>(Note 25)</b> .....	64,406	50,163

Notes 1 to 25 form an integral part of this statement.

LIABILITIES	1984		1983	
<b>SHAREHOLDERS' EQUITY</b> .....		780,047		668,275
Share capital (Note 12) .....	320,416		288,374	
Reserves: (Note 13)				
Statutory reserve .....	6,905		6,505	
Voluntary reserve and revaluation surplus .....	422,286		347,289	
Technological development reserve .....	30,372		26,080	
Unappropriated profit .....	68		27	
	459,631		379,901	
<b>NON-REIMBURSABLE CONTRIBUTIONS FOR RIGHTS OF USE AND OTHERS (Note 14)</b> .....		2,768		2,291
<b>PROVISIONS (Note 15)</b> .....		49,322		48,016
Risk and exchange loss self-insurance .....	29,198		29,187	
Other provisions .....	20,124		18,829	
<b>LONG TERM DEBT</b> .....		674,936		579,302
Debentures and bonds (Note 16) .....	297,657		274,887	
Loans and credit facilities (Note 17) .....	338,630		270,718	
Loans from the Institución Telefónica de Previsión (ITP) .....	18,289		15,064	
Notes payable to suppliers (Note 18) .....	13,818		13,875	
Collective insurance for employees (Note 24).....	6,542		4,758	
<b>SHORT TERM DEBT</b> .....		149,596		171,126
Loans and credit facilities (Note 17) .....	37,179		43,069	
Suppliers (Note 18) .....	12,709		12,062	
Notes payable to suppliers (Note 18) .....	21,891		41,710	
Taxes payable (Note 19) .....	43,797		37,246	
Social Security payable .....	4,242		4,533	
Other creditors (Note 20) .....	21,947		19,307	
Dividend payable (Note 21) .....	7,831		13,199	
<b>ACCRUALS (Note 22)</b> .....		33,636		26,174
Accrued expenses and deferred income .....	30,412		24,024	
Interest payable-ITP .....	3,224		2,150	
<b>PROFIT AND LOSS</b> .....		32,620		27,536
Profit for the year .....	32,620		27,536	
<b>Total</b> .....		1,722,925		1,522,720
<b>MEMORANDUM ACCOUNTS (Note 25)</b> .....		64,406		50,163

Notes 1 to 25 form an integral part of this statement.



## STATEMENT OF PROFIT AND LOSS FOR THE YEARS ENDED DECEMBER 31

(In millions of pesetas)

	1984	1983
<b>INCOME</b> .....	365,779	313,422
Revenue from services .....	349,226	296,883
Connection fees .....	12,118	11,785
Suburban connection fees and others .....	1,966	1,814
Surcharges .....	1,842	1,953
Private exchange maintenance .....	374	842
Amortization of irrevocable rights of use .....	253	145
<b>COSTS AND EXPENSES</b> .....	320,340	273,408
Salaries and related costs .....	144,686	132,765
Outside work, supplies and services .....	34,279	30,189
Taxes .....	271	281
Provision for bad debts (subscribers) .....	3,206	2,000
Other charges .....	2,204	3,866
Exchange losses .....	14,230	5,330
Financial expenses .....	75,817	63,790
Sundry expenses .....	1,744	1,074
Depreciation of fixed assets .....	95,427	82,266
Amortization of intangible assets .....	601	116
Amortization of deferred charges .....	1,838	1,300
Internal expenditure capitalized in fixed assets:		
Labour, materials and overhead .....	(47,634)	(43,959)
Notional interest allocated to construction in progress .....	(6,329)	(5,610)
<b>OPERATING PROFIT</b> .....	45,439	40,014
<b>OTHER INCOME</b> .....	8,027	5,200
	53,466	45,214
<b>STATE LEVY</b> .....	(20,846)	(17,678)
<b>NET PROFIT</b> .....	32,620	27,536

Notes 1 to 25 form an integral part of this statement.

**STATEMENT OF CHANGES IN FINANCIAL POSITION  
FOR THE YEARS ENDED DECEMBER 31**  
(before distribution of profits)

(This statement has been prepared in accordance with the classification of short and long term debts, described in Note 2.2 k)

Millions of pesetas

	1984		1983
<b>SOURCES</b>			
Net profit for the year .....	32,620		27,536
Depreciation and amortization .....	97,866		83,682
Net movements in reserves and irrevocable rights of use .....	4,769		2,832
Self-insurance and exchange differences .....	16,433		8,615
<b>FUNDS PROVIDED BY OPERATIONS..</b>	<b>151,688</b>		<b>122,665</b>
Capital increase .....	22,387		33,644
Loans to affiliates .....	5,548		—
Debentures issued .....	47,280		30,537
Foreign currency loans .....	54,101		28,026
Other loans, credit facilities and notes payable...	71,894		55,920
<b>TOTAL SOURCES .....</b>	<b>352,898</b>		<b>270,792</b>
<b>APPLICATIONS</b>			
Dividends .....	27,095		26,434
Additions to fixed assets .....	175,417		159,861
Other additions:	8,175		24,189
Advances to suppliers of fixed assets .....	(1,775)	4,543	
Intangible assets .....	1,607	1,658	
Investments in affiliates .....	2,230	15,386	
Deferred charges .....	6,113	2,602	
Debentures redeemed .....	25,364		19,699
Amortization of foreign currency loans .....	25,610		10,411
Amortization of other loans, credit facilities and notes payable .....	27,668		21,408
<b>TOTAL APPLICATIONS .....</b>	<b>289,329</b>		<b>262,002</b>
<b>NET MOVEMENTS .....</b>	<b>63,569</b>		<b>8,790</b>
<b>COMPOSITION OF NET MOVEMENTS:</b>			
Increase in inventories .....	4,660		4,728
Increase in receivables .....	2,816		16,072
Increase in cash and banks .....	41,782		20,675
Increase in prepayments .....	858		5,054
Variation in short term debt .....	14,162		(32,990)
Increase in accruals .....	(8,180)		(7,524)
Variation in dividend accounts .....	7,471		2,775
<b>Total .....</b>	<b>63,569</b>		<b>8,790</b>

Notes 1 to 25 form an integral part of this statement .



## STATEMENT OF MOVEMENTS AND DIRECT APPLICATIONS TO RESERVES FOR THE YEARS ENDED DECEMBER 31

(In millions of pesetas)

	1984	1983
Balance at the beginning of the year .....	379,901	311,607
Profit from preceding year .....	27,536	26,546
Dividend declared .....	(27,095)	(26,434)
Portion of capital increase charged to reserves (Note 12) .....	(9,612)	(14,419)
— Asset revaluation (devaluation):		
Fixed assets (Note 3) .....	85,558	80,344
Investments .....	(949)	(562)
— Direct operational applications:		
Technological development reserve (Note 2.2.b) .....	4,292	4,550
Provision for bad debts - prior years .....	—	(1,731)
Balance at the end of the year, before distribution of profits .....	<u>459,631</u>	<u>379,901</u>

Notes 1 to 25 form an integral part of this statement.

### NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1984 AND 1983

#### NOTE 1 - ACTIVITY AND CONTRACT WITH THE STATE

##### 1.1 Conditions of the Concession Agreement

The law of December 31, 1945 authorized the Government to execute a contract with the Compañía Telefónica Nacional de España (TELEFONICA). The contract regulating the conditions of the concession was approved by Decree of October 31, 1946. For this reason TELEFONICA is a limited company regulated by the specific rules of this contract.

Condition 2 of the contract defines the monopoly services that the Company can operate within the scope of the "Telephone System" which allows for the transmission of speech, independently of the procedure used.

TELEFONICA services were expanded under the Decree of December 21, 1970 and the Order of October 26, 1978, to include monopoly of port and coastal communication services and non-monopoly services for information and data transmission.

##### 1.2 Fiscal status

The fiscal status of TELEFONICA is established in Condition 7, by which the State shares in the

Company's revenue and, consequently, as the most significant factor, has the right to receive annually a levy of 15% of the net profit of the Company, such amount never to be less than 6% of the Company's gross revenue from services, as defined by Condition 24 of the contract.

The amounts to be received by the State under the terms of Condition 7, are considered for all legal purposes as a tax. Also, by virtue of the national scope of the Company's services, it is exempt from all other taxes or contributions, excise taxes or duties of any kind, it being understood that the exemptions and exceptions from taxes, excise taxes and duties established in this condition will be fully effective, even if this is not specifically stated in the laws or stipulations regulating the levying of such taxes (Condition 26).

##### 1.3 Tariff situation

The arrangement for authorizing tariffs for the services rendered is set out in Condition 19 of the Concession Agreement and in subsequent regulations. The tariffs will be reviewed, at the Company's request, when for two consecutive years they do not give a sufficiently high yield to cover all the operating expenses, allocate the required amount for the depreciation of the installations and properties of the company, accumulate and maintain the statutory reserve referred to in Condition 7 of the contract or any other required by law, and, obtain a surplus in each fiscal year of not less than 5% of the paid-in share capital plus reserves defined under heading e) of Condition 24.

## PROPOSAL FOR DISTRIBUTION OF THE PROFIT FOR THE YEAR 1984

	Millions of pesetas
Unappropriated profit brought forward from previous year .....	68
Net profit for the year .....	32,620
Total available for distribution .....	32,688
<b>PROPOSED DISTRIBUTION</b>	
5% Interim dividend on shares N.º 1 to 576,748,073 payable as from November 11, 1984 .....	14,419
6% Final dividend on the same shares pending approval .....	17,302
11% dividend on shares n.º 576,748,074 to 640,831,193 (proportional to the period paid-up) pending approval .....	493
Total dividends .....	32,214
To statutory reserve .....	400
Unappropriated profit carried forward .....	74
Total proposed distribution .....	32,688

### NOTE 2 - BASES OF PRESENTATION AND SIGNIFICANT ACCOUNTING PRINCIPLES

#### 2.1 Bases of presentation

- a) The financial statements have been prepared based on the accounting records of TELEFONICA of each year.
- b) The financial statements are presented before the proposed distribution of the profit for the year. The distribution of 1984 profits is subject to approval by the Shareholders' General Meeting.
- c) Due to the need to have a statement of profit and loss which shows as far as possible the direct and indirect results of service operations, certain operational concepts, which are considered as not forming part of distributable net profit, (such as, those corresponding to plant dismantling, corrections to the valuation of trade investments, and other extraordinary items) are applied directly to the Company's reserves. Consequently, the statement of profit and loss and the statement of movements and direct applications to reserves should be read and considered together.

#### 2.2 Significant accounting principles

- a) Accounting standards  
The accounting principles adopted in drawing up the financial statements are, in general, in accordance with generally accepted accounting

principles in Spain, together with others required or allowed under the conditions of concession and by virtue of the character of a regulated enterprise, especially those referring to the revaluation of fixed assets and investments, treatment of exchange differences, the self-insurance fund and plant dismantling.

All amounts in the notes to the financial statements are expressed in MILLIONS OF PESETAS.

- b) Fixed assets and method of depreciation  
TELEFONICA, with the approval of the Ministerio de Hacienda (Finance Ministry), can revalue its assets in order to bring them into line with the real value of its properties and installations (Condition 24). Should this revaluation give rise to an increase in asset values such increase will not be included in the basis for the calculation of the State levy.

In line with the above, fixed assets are valued at their estimated replacement cost, in accordance with the explanations given in Note 3. Revaluations at replacement value, net of the corresponding revaluation of depreciation funds, are credited to the revaluation surplus account. Additions are accounted for at their respective purchase price and installation cost, including direct labour and materials used, together with an allocatable share of the overheads and a notional interest allocation to the start-up date of the asset concerned.

Idle facilities (due to scrapping or dismantling of the plant) are deducted from the value of the corresponding fixed asset account. At the same time, an equivalent amount is deducted from the

value of the accumulated depreciation, on the overall assumption (periodically reviewed) that the facilities dismantled are the oldest and that these are fully depreciated. Furthermore, the residual value of dismantled facilities is charged to a corresponding inventory account and credited to the technological development reserve and this account, where applicable, is charged with the inherent cost of dismantling the plant.

The annual depreciation charge is calculated using the straight-line method, by applying coefficients, in line with the useful life of the assets, to the net revalued amounts.

- c) Maintenance and repair of fixed assets.  
The amounts resulting from the maintenance and repair of fixed assets, when they do not relate to an increase or improvement, are charged to expenses in the year in which they are incurred.
- d) Intangible assets.  
The items recorded by the company as intangible assets comprise labour costs and costs of outside services and supplies incurred in developing new product lines. Amortization is scheduled over a maximum period of 5 years from completion of the projects.  
The rights acquired for the use of equipment and installations owned by others as a consequence of official concessions or irrevocable rights of use, are valued at their respective historical purchase cost and are amortized by the straight-line method over periods not exceeding the estimated term of recovery through revenue.  
Intangible assets, when fully amortized, are cancelled.
- e) Investments - Net investments in companies  
The financial statements do not present the consolidated financial position of TELEFONICA and its subsidiaries. Consolidation exercises have been carried out and the results reflect that there is no significant impact on the Company's financial statements.  
The valuation of the Company's investments in other companies is annually adjusted against the Company's reserves, on the basis of the theoretical equity value of these companies, using the balance sheets as at December 31 of the previous fiscal year, as approved by the Annual General Meeting of Shareholders. Dividends are recorded as revenue when received.
- f) Deferred charges  
Debenture issue expenses are amortized on a straight-line basis over the period of the issues. The remainder of deferred charges are amortized on the straight-line method over periods of between 5 and 10 years.

- g) Valuation of foreign currency accounts  
Foreign accounts are valued at the end of the year at the official exchange rate ruling in the Madrid foreign exchange market. The differences are recorded each year in the "Unrealized exchange losses" account. These are charged to expenses each year, as realized, in accordance with the repayment of the foreign currency debt to which they relate. The fixing of tariffs of each year takes into consideration the recovery of these deferred expenses. Furthermore, the 4-year plan, agreed to with the Spanish Government, contemplates the recovery of these deferred expenses, for the period which it covers, through tariff charges.
- h) Inventories  
Inventories are valued, in general, at their weighted average purchase cost, which is lower than the net replacement cost or realizable value.
- i) Invoicing and accounting for revenue from services  
Revenue from services is accounted for on the accrual basis. For this reason, at the end of each year adjustments are recorded to recognise prepayments with respect to services invoiced bi-monthly in advance, and to accrue for unbilled services provided.
- j) Pensions and other social services  
Retirement pensions of TELEFONICA employees are covered by the "Institución Telefónica de Previsión" (ITP), whose relationship with the Company is described in Note 23.  
Contributions made by TELEFONICA to ITP are charged to expenses together with other payroll costs.
- k) Short and long term debts  
For the purposes of the balance sheet, debts are classified according to the maturity dates, from the time they are contracted and up to settlement, as follows:  
Short term — Maturity up to 18 months  
Long term — Maturity over 18 months  
Notwithstanding, the corresponding Notes disclose the maturities within the 12 months from balance sheet date, and those subsequent to 12 months.



## NOTE 3 — FIXED ASSETS

3.1 The composition by type of fixed asset and movements during 1984 are as follows:

Items	Gross book value at 31-12-1983	Revaluation	Additions for the year	Dismantled plant and retirements	Gross book value at 31-12-1984
Land .....	30,290	—	630	(6)	30,914
Buildings and power equipment .....	129,361	4,099	8,066	(356)	141,170
Exchange equipment .....	577,449	50,757	45,488	(2,943)	670,751
Wire and cable transmission equipment .....	155,398	13,144	9,924	(2,079)	176,387
Radio and satellite communication transmission equipment .....	31,847	2,446	3,217	(460)	37,050
Local and trunk networks .....	737,149	64,998	58,071	(11,911)	848,307
Subscriber sets and other related installations .....	230,826	7,898	47,709	(21,312)	265,121
Furniture, office and other equipment .....	9,052	—	1,230	(217)	10,065
Other installations .....	1,860	—	519	—	2,379
Fixed assets in service .....	1,903,232	143,342	174,854	(39,284)	2,182,144
Work in progress .....	76,179	—	563	—	76,742
Gross additions .....			175,417		
Advances to suppliers for fixed assets.	14,531	—	(1,775)	—	12,756
Fixed assets .....	1,993,942	143,342	173,642	(39,284)	2,271,642

3.2 Service and operating conditions and the obligations of the Concession Agreement require TELEFÓNICA to maintain a permanent investment programme to ensure a service with the most up-to-date and efficient equipment.

The investment budget for 1985 amounts to Ptas 198,969 million, of which Ptas 191,215 is to be invested in fixed assets, and the remainder largely in companies. The continuous and long-term nature of TELEFÓNICA's investments means that a part of this budget is related to the completion of projects initiated in previous years.

The fixed asset additions comprise the following:

	1984	1983
Labour .....	25,145	24,094
Material from stock .....	35,324	30,857
Suppliers .....	49,583	51,617
Contractors and other direct charges .....	41,374	32,480
Overhead and others .....	17,662	15,203
Interest allocation .....	6,329	5,610
Total .....	175,417	159,861

3.3. Condition 9 of the State Contract stipulates that those fixed assets of TELEFÓNICA related to telephones services cannot be mortgaged. In accordance with this, these assets at December 31, 1984 are not pledged under loan contracts, except for isolated operations involving insignificant amounts. At the same date assets amounting to Ptas 237,700 million, are subject to legal regulations (mainly inspection by the relevant authorities) derived from Decree Law 19/1961 and Law 61/1978, which regulates the benefits obtained for the reduction of withholding tax on interest on the loans and borrowings indicated in Notes 16 and 17.

3.4 The insurance policies contracted by TELEFÓNICA cover all of the assets owned by the Company, with the exception of the local and trunk networks and the subscriber sets to which corresponding self-insurance provisions are applied.

3.5 Revaluation of fixed assets.

The revaluations made to date, in accordance with the requirements of the conditions of the Concession Agreement mentioned in Note 2.2 b) have resulted in the following movements:

Year	Revaluation	Increased depreciation	Revaluation reserve
From 1946 to			
1978 .....	338,895	162,674	176,221
1979 .....	174,682	105,840	68,842
1980 .....	188,544	120,647	67,897
1982 .....	109,053	68,796	40,257
1983 .....	134,420	54,076	80,344
1984 .....	143,342	57,784	85,558
Total .....	1,088,936	569,817	519,119

The revaluation process comprises the valuation of the inventory of physical units at replacement prices of the previous year. These prices are obtained by applying the corresponding price increase index of the supplier or suppliers to the average historical prices, or by estimated values given by the Company's technical departments. In the latter case the total surplus is compared to that obtained by an indexing procedure, the lower of the two being applied. The same indexes used to revalue fixed assets are applied to revalue the accumulated depreciation.

### 3.6 Dismantled plant

During the year 1984 the fixed assets and accumulated depreciation accounts were reduced by Ptas 39,284 million, crediting the technological development reserve with Ptas 4,292 million being the net effect of costs and revenue arising from dismantling.

For the purposes of the above calculation, dismantled plant is considered to be the oldest plant, generally corresponding to fully depreciated equipment, in accordance with the criteria followed in accounting for dismantling (Note 2.2.b).

### 3.7 Accumulated depreciation of fixed assets

The composition of the accumulated depreciation and its movements during 1984 are as follows:

Group	Accumulated depreciation at 31-12-83	Revaluation	Transfer	Dismantled plant	Depreciation for the year	Accumulated depreciation at 31-12-84
Buildings and power equipment .....	37,280	1,678	408	(362)	3,981	42,170
Exchange equipment .....	213,192	17,876	(655)	(2,943)	23,140	251,918
Wire and cable transmission equipment..	84,000	6,908	32	(2,079)	9,422	98,220
Radio and satellite communication transmission equipment .....	18,430	1,447	(65)	(460)	1,643	21,124
Local and trunk networks .....	292,028	26,367	1,914	(11,911)	28,960	333,529
Subscriber sets and other related installations .....	103,804	3,508	(1,635)	(21,312)	27,168	114,803
Furniture, office and other equipment ....	5,385	—	13	(217)	1,076	6,257
Other installations .....	192	—	—	—	37	229
<b>Total .....</b>	<b>754,311</b>	<b>57,784</b>	<b>12</b>	<b>(39,284)</b>	<b>95,427</b>	<b>868,250</b>

3.8 TELEFONICA, each year revises the useful lives of its plant with the objective of adapting such lives to the effects of new investments and obsolescence. The results obtained from these revisions enable the Company to determine with greater accuracy, the rates of depreciation applicable to each fixed asset, taking into account not only its type, but also in each case, the conditions under which it is operating and other special factors which might affect its rate of depreciation.

The rate of depreciation applied during 1983 and 1984 has been an average of 5.2% of depreciable fixed assets.

The following table indicates the useful lives of the various types of fixed assets used by the Company, and which results in the overall average depreciation rate of 5.2%:

Group	Years
Buildings .....	40-50
Power equipment .....	21-24
Exchange equipment .....	23-24
Radio and transmission equipment.	15-16
Land-based infrastructure .....	44-48
Poles and wires .....	22-24
Cables .....	20-22
Subscriber sets .....	8-9
Subscriber sets installation .....	9-16
Booths, furniture, equipment, workshops, etc. ....	7
Other fixed assets .....	12
Finished projects not grouped .	22-23



## NOTE 4 — INTANGIBLE ASSETS

These accounts are detailed as follows:

	Book value at 31-12-84	Book value at 31-12-83	% amortization
Research, studies and development projects .....	4,581	2,983	20
Allocations to systems and installations .....	—	646	10
Installation concessions .....	1,301	1,294	4
Gross intangible assets .....	5,882	4,923	
Less: Accumulated amortization .....	1,079	1,126	
Net intangible assets .....	4,803	3,797	

## NOTE 5 — INVESTMENTS - SHAREHOLDINGS IN COMPANIES

5.1. The details at December 31 are as follows:

	1984	1983
Net interest in companies (Note 2.2 e) .....	16,637	15,791
Other investments .....	5,601	4,745
Total .....	22,238	20,536

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5.2. Transactions during 1984 and 1983 between TELEFONICA and companies in which it has an interest have been as follows:

	Dividends received		Interest charged by TELEFONICA		Acquisitions of goods and services by TELEFONICA	
	1984	1983	1984	1983	1984	1983
Affiliates .....	217	102	2,238	904	22,601	16,625
Associates .....	178	79	3	1	64,072	56,278
Total .....	395	181	2,241	905	86,673	72,903

Interest charged to related companies has been at market rates.

5.3 .The information presented in the following tables under the titles "Income before taxes" and "Equity value at December 31, 1984" have been prepared based on the financial statements of Group companies at December 31, 1984. The calculation of the equity value takes into account audit adjustments required to present the best estimate of the share of net worth at the end of 1984.

5.4 Relevant data for TELEFONICA Group companies is as follows:

Company name	Share capital	TELEFONICA direct holding %	Book value	Equity value at December 31, 1984	1984 income before tax profit (loss)
<b>Affiliates:</b>					
Comercial de Servicios Electrónicos, S. A. (COSESA) .....	700	99.14	1,699	1,609	1
ENTEL, S. A. ....	350	100.00	385	572	61
Compañía Publicitaria de Excluyas Telefónicas, S. A. (CETESA) .....	434	97.33	642	672	67
Hispano Radio Marítima, S. A.....	500	100.00	1,026	636	(373)
Gráficas de Burgos, S. A. (GRAFIBUR) .....	325	100.00	342	398	58
Electrónica Aragonesa, S.A. (ELASA) .....	300	100.00	323	384	128
Telefonía y Finanzas, S. A. (TELFISA) .....	500	100.00	1,235	399	(652)
Compañía Financiera de la Telefonía Española B.V. ....	1	100.00	1	1	—
Sistemas e Instalaciones de Telecomunicación, S.A. (SINTEL) .....	1,100	100.00	2,363	2,775	496
Amper, S. A. ....	800	87.50	396	598	138
Urbana Ibérica, S. A. ....	330	100.00	184	1	(104)
Telefónica Internacional .....	25	100.00	25	25	—
Control Electrónico Integrado, S.A. ....	80	55.00	11	44	—
			<b>8,632</b>	<b>8,114</b>	
<b>Associates:</b>					
Telettra Española, S. A. ....	800	51.00	1,568	1,331	101
Cables de Comunicaciones, S. A. (CCSA) .....	782	49.00	1,053	1,207	765
Industrias de Telecomunicación, S. A. (INTELSA) .....	2,600	49.00	1,283	2,151	1,305
Standard Eléctrica, S. A. (SESA)...	12,335	20.64	3,625	3,148	(650)
Sociedad Española de Telecomunicaciones, S. A. (SECOINSA)..	8,681	23.75	239	731	158
INDELEC .....	300	30.00	75	84	—
			<b>7,843</b>	<b>8,652</b>	
<b>Others:</b> .....			<b>162</b>	<b>23</b>	
<b>Total</b> .....			<b>16,637</b>	<b>16,789</b>	

## NOTE 6 — INVESTMENTS - LOANS TO GROUP COMPANIES

The balances at December 31, represent financial advances given by TELEFONICA to group companies:

Company	1984	1983
Affiliates .....	8,710	14,679
Associates .....	38	19
Others .....	414	226
Total .....	<u>9,162</u>	<u>14,924</u>

The most important item included in affiliates relates to TELFISA, the treasury stock holding company. Balances with this company have been virtually settled at the beginning of 1985.

## NOTE 7 — DEFERRED CHARGES

The balances at December 31 comprise the following:

	1984	1983
Debenture and bond issue expenses.	12,500	8,329
Capital increase expenses .....	895	737
Others .....	66	120
Total .....	<u>13,461</u>	<u>9,186</u>

Amortization criteria are described in Note 2.2 f); the amortization charge for 1984 was Ptas 1,838 million (1983 — Ptas 1,300 millions).

## NOTE 8 — UNREALIZED EXCHANGE LOSSES

The accounting principles applicable are described in Note 2.2 g).

Debts in foreign currency are stated in the balance sheet at the closing exchange rate for the year in the Madrid Foreign Exchange Market.

The amortization calendar in function of the foreign exchange debt maturity, is as follows:

1985 .....	5,680
1986 .....	9,533
1987 .....	8,698
Subsequent to 1987 .....	34,253
Total .....	<u>58,164</u>

The amount of exchange losses realized in 1984, corresponding to repayment of debts and other payments was Ptas 15,624 million (1983—Ptas 6,934 million) of which Ptas 14,230 million (1983 — Ptas 5,330 million) were absorbed by charges against the year's profit and Ptas 1,394 million (1983 — Ptas 1,604 million) compensated by exchange gains generated by service charges in foreign currency.

### Activity

- Marketing of electronic equipment and services for telecommunications.
- Development and implementation of projects in data processing systems and services.
- Promotion of advertising services for directories, telephone booths and others.
- Marketing and maintenance of electronic marine communication equipment and navigation aids.
- Printing telephone directories.
- Manufacture and repair of telephones.
- Investment management.
- Financial operations.
- Telecommunication cable and line laying and equipment installation.
- Development, manufacture and repair of telephone and telematic terminals. Manufacture of components (hybrid and flexible circuits).
- Real estate activities.
- Export of telecommunication equipment & resources.
- Systems engineering.
- Development, manufacture and installation of electronic telecommunication equipment, especially in transmission and radio.
- Installation and sale of cables for telecommunications and electrical applications.
- Manufacture and installation of telecommunication equipment, especially public and private switchboards and defence systems.
- Manufacture of telephone and telegraph transmission and exchange systems.
- Data transmission and data processing equipment.
- Manufacture of portable and mobile communication equipment.



## NOTE 9 — INVENTORIES

The inventories in TELEFONICA warehouses or belonging to the Company and deposited in third parties' stores at December 31 are valued in accordance with the criteria described in Note 2.2.h) and are as follows:

	1984	1983
Installation materials .....	25,557	21,557
Maintenance materials and spare parts .....	3,571	2,525
Consumables .....	1,139	1,143
Obsolescence reserve .....	30,267	25,225
	(833)	(451)
Total .....	29,434	24,774

## NOTE 10 — SUBSCRIBERS

The balances at December 31, comprise:

	1984	1983
<b>Services billed:</b>		
Private subscribers .....	8,293	5,317
Public entity subscribers .....	11,277	10,877
Ex-subscribers .....	3,961	3,219
Uncollectible and pending classification .....	84	143
	23,615	19,556
<b>Unbilled services</b> .....	45,164	43,507
	68,779	63,063
<b>Provision for bad debts</b> .....	(2,884)	(1,476)
<b>Total</b> .....	65,895	61,587

During 1984 the movement of the provision for bad debts account was as follows:

Balance of provision at beginning of 1984 .....	1,476
Provision for 1984 charged to income .....	3,206
Cancellation of bad debts, net of telephone usage tax .....	(1,798)
Balance of provisions at close of 1984 .....	2,884

## NOTE 11 — CASH AND BANKS

- 11.1 In accordance with the procedures described in Note 17.4, the total of short and long-term credit facilities granted are registered under the classification "Unused facilities-Cash and Banks". At December 31, 1984 of the total balance of this classification, Ptas 43,680 million represent unused credit facilities (1983—23,807 million).
- 11.2 The heading "Short term investments" represents investments in liquid money market instruments.

## NOTE 12 — SHARE CAPITAL

All of the shares of the Company on issue at December 31, 1984 have been fully subscribed and paid, and are bearer shares of Ptas 500 par value each; of these, 75% are not transferable to foreigners.

The State has a direct 32% shareholding, together with a further interest estimated at 15% through official institutions; the total number of shareholders is estimated to be approximately 700,000.

The table below reflects the movements of share capital:

Issue of November 15, 1983 .....	
Balance December 31, 1983 .....	
Issue of October 11, 1984 .....	
Balance December 31 1984 .....	
Issue of March 25, 1985 .....	

## NOTE 13 — RESERVES AND UNAPPROPRIATED PROFIT

13.1 Of the total of reserves and unappropriated profit of TELEFONICA, the statutory reserve is the only one specifically regulated by the State Contract (Condition 24); this contemplates its free distribution for any use as well as precludes the possibility to increase this reserve by charge against other reserves. With respect to the remainder, there do not exist any legal restrictions on the free distribution of the voluntary, technological development and revaluation reserves.

13.2 The movement on the Reserve accounts during 1984 has been as follows:

	December 31, 1983
Statutory reserve .....	6,505
Voluntary reserve: .....	347,289
— Revaluation surplus .....	433,561
— Share increase (discount) .....	(52,859)
— Share premium .....	1,733
— Allocations to extraordinary provisions .....	(39,196)
— Revaluations of investments .....	5,781
— Other .....	(1,731)
Technological development reserve .....	26,080
Unappropriated profit .....	27
Total .....	379,901



## NOTE 14 — NON-REIMBURSABLE CONTRIBUTIONS FOR RIGHTS OF USE AND OTHERS

These items correspond to one-time payments received from third parties for leasing a certain number of circuits of a "Communication System" belonging to TELEFONICA and included in the Company's fixed assets. These amounts are credited to income on a straight-line basis over the period of the concession.

## NOTE 15 — PROVISIONS

The composition of balances at December 31, is as follows:

Number of shares	Face value	Ratio	Price	Paid-in
96,124,679	48,062	1 × 5	70%	33,643
576,748,073	288,374			
64,083,120	32,042	1 × 9	70%	22,430
640,831,193	320,416			
80,103,899	40,052	1 × 8	80%	32,042

	1984	1983
Exchange losses .....	21,598	22,587
Self-insurance .....	5,928	4,928
Contingencies .....	1,672	1,672
	29,198	29,187
Secondary responsibility for complementary pensions of ITP .....	18,829	18,829
Others .....	1,295	—
	20,124	18,829
Total .....	49,322	48,016

The provisions for exchange losses and for secondary responsibility, created in 1982, do not correspond to conventional accounting practices and were motivated by criteria of exceptional prudence, thus linking free reserves with possible but not probable contingencies, such as:

- With respect to exchange losses, revenues (tariffs) in future periods will not allow the usual practice of absorbing the realized losses in each year.
- With respect to secondary responsibility with ITP, this provision is set-up, as an independent act by TELEFONICA, to cover the possibility that it could be necessary in the future to complement the cost of the complementary pensions of ITP.

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Movements during 1984		December 31, 1984
Allocation	Application	
400		6,905
		422,286
85,558		519,119
—	(9,612)	(62,471)
—		1,733
—		(39,196)
—	(949)	4,832
—		(1,731)
4,292		30,372
41		68
90,291	(10,561)	459,631

## NOTE 16 — DEBENTURES AND BONDS

### 16.1 Composition and movements:

	Balance 31-12-83	New issues	Repay- ments	Other movements	Balance 31-12-84
Debentures and bonds in pesetas:					
— Non-convertible .....	255,531	47,455	(25,364)	211	277,833
— Convertible and/or exchangeable.	—	20,000	—	—	20,000
Debentures and bonds in foreign currency .....	19,356	—	—	387	19,743
	274,887	67,455	(25,364)	598	317,576
Convertible bonds pending subscrip- tion .....	—	(19,919)	—	—	(19,919)
Total .....	274,887	47,536	(25,364)	598	297,657

### 16.2 Redemption

Year of redemption	1985	1986	1987	Subsequent	Total
Amount .....	34,663	38,467	48,772	175,755	297,657

### 16.3 Additional information:

	1984	1983
Interest expense .....	33,097	29,580
Accrued interest at December 31 .....	12,474	11,218
Issues subject to fiscal benefits (Decree Law 19/1961 and Law 61/1978):		
Debentures in pesetas .....	205,047	230,411
Debentures in foreign cur- rency .....	18,669	18,310

The interest rate for debentures and bonds in circulation varies between 5.75% and 15% p.a.

16.4 Foreign currency debentures were issued for US dollars 50 million and Deutsche Mark 200 million and have been revalued at the official closing exchange rate of each currency at year end. The revaluation charged in 1984 to the unrealized exchange losses account amounts to Ptas 387 million (1983 — Ptas 2,221 million).

16.5 Issues have been subscribed at par value and interest due is paid periodically with the exception of an issue in 1984 of Zero Coupon Bonds for Ptas 3,000 million, which are optionally redeemable in the years 1989, 1991 or 1994 at respectively 200%, 264% or 400% of their par value.

16.6 In December 1984, an issue of exchangeable or convertible bonds for Ptas 20,000 million was placed in circulation. This issue was increased to Ptas 25,000 million in January 1985. At December 31, 1984, Ptas 81 million had been subscribed and paid up. The balance of the issue was subscribed during the first months of 1985. This issue is optionally convertible or exchangeable into shares of TELEFONICA from 1986 until 1988 or redeemable at par value after 1989. The Company has made the necessary arrangements to meet commitments in the case that holders of the bonds opt for the exchange into shares.

## NOTE 17 — LOAN AND CREDIT FACILITIES

17.1 As mentioned in Note 2.2 k) these accounts are classified in the balance sheet according to maturity dates at the time they are contracted. The balances at December 31 are as follows:

	1984			1983		
	Long term	Short term	Total	Long term	Short term	Total
Loans in foreign currencies .....	213,697	1,219	214,916	186,662	7,745	194,407
Loans and credit facilities in pesetas .....	98,841	2,600	101,441	81,367	15,400	96,767
Other loans .....	3,125	1	3,126	2,689	4	2,693
Promissory notes (face value) .....	40,257	35,632	75,889	—	22,607	22,607
	355,920	39,452	395,372	270,718	45,756	316,474
Less:						
Deferred interest on promissory notes .....	17,290	2,273	19,563	—	2,687	2,687
Total .....	338,630	37,179	375,809	270,718	43,069	313,787

17.2 The maturities are as follows:

	Maturities				Total 31-12-84
	1985	1986	1987	Subsequent	
Loans in foreign currencies .....	14,586	23,453	23,029	153,848	214,916
Loans and credit facilities in pesetas .....	26,783	32,600	38,150	3,908	101,441
Other loans .....	—	—	—	3,126	3,126
Promissory notes .....	35,632	3,115	13,817	23,325	75,889
Total .....	77,001	59,168	74,996	184,207	395,372

17.3 Additional information:

	Financial charges		Interest accrual (deferral)		Interest rates	
	1984	1983	1984	1983	1984	1983
Loans in foreign currency .....	15,556	10,130	3,226	3,253	4.5-13%	4.5-11%
Loans and credit facilities in pesetas .....	9,084	12,679	1,979	1,951	14-17%	14-17%
Promissory notes .....	7,482	834			14-17%	14.5%
Long term .....			(17,290)			
Short term .....			(2,273)	(2,687)		

17.4 Credit facilities granted are accounted for as bank balances and as credits payable for the total amount of the limit granted (see Note 11.1). The disclosure of credit facilities not used at December 31, is as follows:

	1984	1983
Loans and credit facilities - long term	41,670	18,831
Loans and credit facilities - short term	2,010	4,976
	43,680	23,807

At December 31, 1984, there exist other credit facilities in addition to those included in the balance sheet, amounting to Ptas 45,000 million, represented by new loans not drawn down and by floating credit facilities which are accounted at the time they are utilized.



17.5 At December 31, 1984 of the total foreign currency loans, Ptas 146,996 million are covered by the fiscal benefits of Decree Law 19/1961 and Law 61/1978 (interests payable are subject to a withholding income tax at a minimal rate).

In accordance with the accounting criteria mentioned in Note 2.2 g), the amount of exchange differences arising from these loans in 1984 resulted in a credit to the account of unrealized exchange losses of Ptas 1,457 million (in 1983 there was a charge of Ptas 20,717 million).

The composition of foreign currency debt at December 31, 1984 is as follows:

Currency	Millions
US Dollars (US\$) .....	242.5
Deutsche Marks (DM) .....	1,014.1
Swiss Francs (SF) .....	1,305.9
Canadian Dollars (Can\$) .....	10.0
Swedish Crowns (SKR) .....	34.4
Dutch Florins (DFL) .....	50.0
Pounds Sterling (£) .....	74.0
ECU's .....	75.0

17.6 Promissory notes are accounted for as liabilities, at their face value, less interest deferred at December 31. Interest costs are accounted for over the period during which the notes are in force, with the charge to results being calculated using financial methods. Estimated charges attributable to expenses in future periods are as follows:

	1985	1986	1987	Subsequent	Total
Interest on promissory notes - long term .....	4,079	4,613	3,447	5,151	17,290
Interest on promissory notes - short term .....	2,273	—	—	—	2,273

At December 31, 1984, Ptas 3,780 million of promissory notes issued were still pending discount in the hands of the agent bank, for sale through the stock exchange. At the same date, there exist agreements on the part of various banking institutions, to place Ptas 14,840 million of promissory notes related to issues between January 1 and July 1, 1985.

## NOTE 18 — SUPPLIERS AND NOTES PAYABLE TO SUPPLIERS

The balances at December 31 are as follows:

	Short term		Long term		Total	
	1984	1983	1984	1983	1984	1983
Suppliers .....	12,709	12,062	—	—	12,709	12,062
Notes payable to suppliers .....	21,891	41,710	13,818	13,875	35,709	55,585
Total .....	34,600	53,772	13,818	13,875	48,418	67,647

These balances at December 31, 1984 include Ptas 13,715 million corresponding to transactions with affiliated and associated companies, Ptas 7,495 million relating to transactions with suppliers in foreign currencies, and the remainder to Spanish suppliers and contractors.

	1985	1986	1987	Subsequent	Total
Repayment schedule of notes payable .....	26,378	4,931	1,910	2,490	35,709

## NOTE 19 — TAXES PAYABLE

The balances, at December 31, comprise the following:

	1984	1983
State levy .....	20,846	17,678
Tax on telephone use and other ....	14,798	12,805
Payroll withholding tax .....	4,468	3,898
Tax withholdings on dividends and interest .....	3,685	2,865
Total .....	43,797	37,246

## NOTE 20 — OTHER CREDITORS

These comprise the following groups of accounts:

	1984	1983
Staff bonus provision .....	7,807	7,109
Telephone service interchange .....	3,301	2,903
Guarantee and deposits .....	1,353	1,293
Imports on the Company's account .	1,383	1,965
Other creditors .....	8,103	6,037
Total .....	21,947	19,307

## NOTE 21 — DIVIDENDS PAYABLE

At December 31, 1984, the net dividends payable amounted to Ptas 7,831 million after deducting 18% income withholding tax.

On November 11, 1984, TELEFONICA declared an interim dividend with respect to results of 1984, as detailed in the proposed distribution of the profit. In a calculation of the net worth of TELEFONICA, this interim dividend (included in the assets in the balance sheet) should be considered as a deduction of the profits pending distribution for the year.

## NOTE 22 — ACCRUALS

22.1 Accrued expenses and deferred income  
This item covers the following accounts:

	1984	1983
Accrued interest .....	17,679	16,422
Services billed in advance .....	7,737	5,186
Other .....	4,996	2,416
Total .....	30,412	24,024

22.2 Interest payable ITP:  
This figure includes the interest corresponding to the ITP loan. In accordance with the existing agreement, the year's interest is payable on January 1st of the following year.

## NOTE 23 — PENSIONS

23.1 TELEFONICA employees benefit from a social service system with substitutory and complementary pensions to those provided in Spain by the Social Security, and from a Group Endowment Insurance scheme (the latter as explained in Note 24).

All benefits, other than the Group Endowment Insurance, are covered by the "Institución Telefónica de Previsión (ITP)", a mutual pension fund created under the "Ley de Montepíos y Mutualidades de Previsión Social" (Social Service Mutual Fund Law) of December 6, 1941 and the regulations pertaining thereto of May 26, 1943. In accordance with the above legal framework, ITP is an entity with a completely independent legal status, and as such is governed by its own Regulations as approved by the Sub-secretary of Social Security on January 28, 1977.

23.2 Benefits provided by ITP to its members are of various types, and are detailed in Article 4 of the Institute's Revised Text of Regulations, and mainly include retirement pensions, permanent disability, widowhood, orphanhood and other rights, pensions bonus payment and other auxiliary and subsidiary benefits. Pension benefits are calculated in relation to length of service, applying a percentage scale to the pension-base salary up to a limit of 90% of such base salary the maximum current retirement pension is Ptas 4.2 million per annum. The regulations of ITP provide for the revaluation of pensions based on the salary increases granted to personnel currently employed.

The members covered by this plan comprise approximately 8,900 retired personnel (pensioners) and 62,300 currently on the payroll, whose actual contributions represent 4.3% of their total gross salary (pension-base salary).

23.3 To meet the abovementioned combination of benefits ITP relies principally on the profits earned on its assets, and the contributions of TELEFONICA and those of its members. During 1984 the contributions of TELEFONICA amounted to Ptas 9,078 million and those of its employees to Ptas 4,337 million.

23.4 In addition, TELEFONICA has given ITP a guarantee of up to Ptas 8,000 million (included under Memorandum accounts of the balance sheet). This guarantee was authorised in 1977 in accordance with the guarantee required by Transitory Requirement 4, of the ITP Regulations, which reads: "TELEFONICA guarantees the effectiveness of the benefits to be satisfied by ITP during a period of 10 years".

For its part ITP, as principal respondent, is obliged, if the guarantee should not be renewed or whensoever it considers necessary, to readjust its revenue or the benefits granted or to be granted (article 19 and transitory stipulation 4 of the ITP's Regulations).

23.5 Furthermore, TELEFONICA has a provision of Ptas 18,929 million charged in 1982 against the revaluation surplus, and which, as indicated in Note 15, was set up considering the possibility that it could be necessary, in the future, to cover eventual shortages in the complementary pension benefits.

- 23.6 The financial policy of ITP is governed by the regulations in force, and requires the establishment of the necessary reserve funds in order to meet the benefits of its retired members. Based on actuarial studies carried out on ITP's situation, using a capitalization factor of 8%, the following matters are disclosed:
- a) Presently there is an underfunded liability of Ptas 41,583 million in order to comply with the aforementioned requirement.
  - b) If the actual required benefit levels were maintained, the contributions required to eliminate the deficit mentioned in a) above and establish and maintain the necessary funding levels, would be significantly greater than those currently paid.
  - c) However, the projections available indicate that, on the basis of current contributions and benefits, ITP will have sufficient funds and future net income to meet its obligations for the next 10 or 12 years.
- 23.7 In view of the problematic situation, negotiations between the interested parties have been commenced with a three party commission (ITP, TELEFONICA and Unions) having been formed, with the following objectives:
1. The study and analysis of the present position of ITP.
  2. Defining the position to be taken with respect to new situations or actions external to ITP which could affect it, and specifically, the possibility of the integration of the substitutory part of the pension benefits into the National Social Security Scheme.
  3. The viability study of the future of social benefits of TELEFONICA's employees.
- 23.8 It is probable that the previously mentioned integration of the substitutory part of social benefits into the National Social Security scheme will occur in the near future. In the opinion of the Company, the integration will not produce any impact on the net worth of the Company for the periods ended up to December 31, 1984.
- 23.9 At the same time, and as a consequence of the aforementioned, it is probable in the near future, that a new complementary pension plan will be defined, being established on sound financial bases. This plan should be structured on the basis of the new legal rules currently in force (Law 33/84 of Private Insurance and its future Regulations still pending announcement) or, where applicable, based on other legal foundations that could be announced shortly (for example, Regulation of Pension Funds). It is expected that these will incorporate the requirement to apply capitalisation systems in order to determine the financing schemes and the setting up of liabilities.
- 23.10 Any increase over the present costs of the social benefits system currently supported by TELEFONICA, that could derive from the circumstances outlined in this Note, will have its effect on future periods, being incorporated in the general situation as outlined in Note 2.2 a) as to the effect on future tariff structures. The guarantee which the Company has presently given to ITP (See Note 23.4) will be subject to the definitive solution adopted in the new plan previously referred to.

## NOTE 24 — ENDOWMENT INSURANCE

TELEFONICA's employees have the right to receive a single payment for endowment insurance on reaching 65 years of age, whether still at work or retired. This payment is variable in each case, depending on the personal situation of each employee (labour position, collective insurance scale to which the employee belongs, etc.), with a variable limit.

Until December 31, 1982, the Company maintained a policy with an insurance company. During 1983, with effect from January 1 of that year, TELEFONICA changed this policy, modifying the contract to reduce capital, and agreeing with the insurance company that the accumulated mathematical reserves as at December 31, 1982 be applied in the future, to payments of benefits under the scheme, as they become due.

At December 31, 1984, the accumulated mathematical reserves of the insurance company relating to this policy amounted to Ptas 8,875 million.

To cover this concept, TELEFONICA, maintains a provision of Ptas 8,355 million of which Ptas 6,542 million are accounted for under long term debts and the balance (Ptas 1,813 million) under short term, having charged Ptas 4,473 million of additional provisions against profits in 1984.

As a result of the actuarial studies that have been carried out, and on the basis that the cost of the endowment insurance should be absorbed throughout the working life of the employees, it was concluded that:

- a) the annual charge for the year 1984, being approximately 4.2% of the overall payroll costs, is sufficient to cover this objective, and
- b) at December 31, 1984, the present value of the future commitments, calculated at an interest rate of 6% applied on actual salaries, amounts to approximately Ptas 76,000 million.



**NOTE 25 — MEMORANDUM  
ACCOUNTS**

The detail of balances at December 31, is as follows:

	<b>1984</b>	<b>1983</b>
Guarantees of financial operations ....	2,975	4,016
Guarantee to ITP (see Note 23) .....	8,000	8,000
Guarantees granted to employees ..	4,906	4,312
IGTE (Turnover tax) .....	21,752	14,982
Promissory notes .....	20,740	14,270
Others .....	6,033	4,583
Total .....	<u>64,406</u>	<u>50,163</u>

The heading "Guarantees of financial operations" refers mainly to guarantees given by TELEFONICA to cover financial operations of affiliated and associated companies.

The heading "Turnover Tax" relates to the taxes paid by TELEFONICA to its suppliers for this concept as from October 1, 1979.

The heading "Promissory notes" includes the nominal value of underwritten promissory notes pending delivery to the agent bank for discount and the unused balances on credit facilities obtained to support the liquidity of the promissory notes.

## 7. Human resources and labour relations

The major feature of human resource management is that policy in this area responds to the clear desire to modernise and professionalise labour relations and to the growing need to adopt more sophisticated methods in two fields where technological development and administrative control have a great influence: staff assignments, and performance and cost-benefit analyses.

Furthermore, within the general management philosophy implied in the Four Year Plan, an attempt has been made to incorporate personnel management on a basis both more flexible and forward-looking, including revues of the Company's functional organisation and its basic structures.

The intention also is to improve labour relations and to promote Trade Union participation, while fully recognising the institutional role of the Trade Unions and their necessary critical collaboration in the Company's future plans.

Finally, in order to accelerate the process of qualification of the Company's workforce and to enable them to adapt to technological change, personnel training and recruitment activities have been promoted separately, for two reasons: firstly, to supplement Spanish professional training deficiencies as efficiently as possible and, secondly, to avoid technical obsolescence of human resources where feasible.

As far as the implementation of these policies is concerned, and with respect to the workforce, 1984 has seen a major effort of adjustment in order to keep staff levels stable in relation to the preceding year.

Consequently, 1,092 new direct jobs were created in 1984, bringing the total number of full-time employees to 62,877, a similar figure to the 62,883 registered at the end of 1983.

This has involved a considerable effort in order to maintain and improve the service, together with a significant increase in productivity in line with the salary review agreement, involving a break with previous policy and allowing the Company to face a highly technical future with a properly qualified restructured staff. The table at the end of this Annual Report shows the effort made to incorporate highly qualified staff to replace personnel leaving the Company and retiring, in categories that will become increasingly more affected by technological changes. This whole process has been set out and qualified in the Human Resource Four-Year Plan that is annually up-dated, incorporating and correcting the new data and forecast results. This mechanism has revealed the need to continue with the study of the functions and responsibilities of the different labour groups, adapting them to the present situation.

<b>TELEFONICA STAFF DISTRIBUTION</b>	
<b>NUMBER OF EMPLOYEES</b>	
<b>DEPARTMENTS</b>	<b>1984</b>
Technical Assistance .....	14,924
External Plant .....	16,664
Maintenance .....	11,530
Commercial Management .....	6,766
Commercial Services .....	2,470
Administration and Procurement .....	1,758
Data Processing .....	1,821
International and Traffic .....	988
Internal Plant Engineering .....	881
Other .....	5,015
<b>TOTAL STAFF IN ACTIVE SERVICE .....</b>	<b>62,817</b>
Staff temporarily absent (on leave, illness, etc.) .....	3,964
<b>TOTAL EMPLOYEES .....</b>	<b>66,781</b>

Among the characteristics of personnel on active service we would emphasize:

- Improvement in the level of qualifications, aim of the new recruitment policy involving professionally qualified staff now representing 7.4% of all personnel in 1984 compared to 6.6% at the end of 1983.

In this respect it should be emphasized that, throughout 1984, a study has been prepared of personnel in active service having a university qualification, but carrying out functions below their status. For the more than 1,000 employees in this situation, an action programme is being designed within the employment programme to allow them to be promoted to functions more in line with their real level of qualifications.

- The two factors, characterising the Telefónica employee as a young employee with considerable experience, average age 38.3 years and weighted seniority of 15.6 years, are maintained.

From the human resource management point of view it is interesting to underline some aspects of the year in question.

- On March 21, 1984 the economic review of the XII Collective Wage Agreement was signed between both parties, Telefónica and U.G.T. (The General Workers' Union), specifying a salary rise of 6.5%, an increased productivity bonus and a reduction of absenteeism, amounting to 1192 million pesetas (1.12%) plus a salary review based on the outcome of the forecast Retail Price Index that, as a consequence of deviation arising in relation to the objectives set by the Government in their economic policy, represented 0.4%. The economic review overall represented a salary increase of 8.02%.
- Absenteeism fell in 1984 to 12.23 working days lost per employee, the lowest level for recent years.



- The 37 hour 30 minute working week was extended to all labour groups in Telefónica during the year.
- Productivity, in terms of gross revenue from services per employee, amounted to 5,559 million pesetas, with a real growth of 2.76% as compared to 1983, considerably above the growth rates recorded in previous years.

- In the area of advanced technologies 30 courses have been given on Systems (ARE, AXE, PC-2000 and 1240), with a total attendance of 419 students. Furthermore, 45 courses have been given on auxiliary equipment and devices, with 346 students attending.
- In training abroad and postgraduate studies, 11 courses have been held involving 444 students.

d) Finally, two preparatory courses have been organized and completed for the promotion of 238 employees.

Emphasis is to be placed on the growing role of recycling in the immediate future, adapting capacity to new technological requirements. Training is conceived as a basic part of the planning process, as limiting new appointments to the number of employees leaving the Company means that it is only possible to cover the personnel requirements of new services by internal reclassifications. Furthermore, a series of ambitious projects have been initiated with the incorporation of the latest training technologies, such as video, computers, etc., from which important results are expected.

With respect to personnel administration, worthy of mention in this field are the efforts being made to classify and rewrite the internal labour regulation, and the incorporation in Telefónica of new recruitment methods, simplifying procedures and improving computerised control.

The services provided by Social Affairs are maintained, rationalising and clarifying their running. To this line, the services have been given a new approach, with the Company maintaining control and management, while the services themselves tend to be given to our subsidiary Playa de Madrid, S. A. to cater for.

<b>ABSENTEEISM INDEX</b>	
YEAR	WORKING DAYS LOST PER EMPLOYEE
<b>1980</b>	<b>13.2</b>
<b>1981</b>	<b>13.2</b>
<b>1982</b>	<b>12.93</b>
<b>1983</b>	<b>13.49</b>
<b>1984</b>	<b>12.23</b>

With respect to recruitment, 1984 has seen a wholesale adjustment effort to keep staff levels stable in relation to the year before. This year has involved a detailed analysis of requirements and the facilities available, together with a major uptrend in productivity in line with the wage agreements. This experience has allowed further work to be carried out on resource assignment and planning mechanisms. Similarly, new work methods and systems are being studied for incorporation into Telefónica, to allow improvements to be made in the quality of the results and the performance of our staff.

Training activities in 1984 have concentrated on four major areas, as follows:

a) Eight training courses for jobs in which 437 new employees have participated.

b) Twenty-two courses as part of promotion schemes involving 945 students.

c) The following activities are worthy of emphasis, under the heading of recycling and perfecting:

- In the area of administrative training, with a total of 5,903 employees/course participating in 633 different activities.

- In technical training 13,592 students have participated in 1,248 courses.

Other sections of this Annual Report describe in detail the situation and activities of the Institución Telefónica de Previsión (the Company's Pension Fund) and the Collective Endowment Insurance Policy for Company employees, which are the basis of the social welfare system covering Telefónica staff. It is not necessary to repeat the importance of this matter with regard to social affairs. Telefónica, aware of this, and given the net worth of this institution, the changes that have occurred and that are foreseeable in the general regulation for this type of central welfare systems, offered to collaborate with Trade Union representatives and with the ITP's governing bodies in designing a new social welfare system on a solid financial basis adapted to the corresponding legal framework.

The following activities are worthy of mention in the field of work safety:

- The performance of simulated emergency evacuations from buildings housing more than 80 persons (an activity being substantially subjected at present to reformulation, taking the guidelines produced by the Civil Protection Department into account).
- Performance of ergonomic studies on telephone work, to allow consideration from a multidisciplinary preventative point of view.

- Distribution of safety and hygiene regulations and principles.
- Improvement of training through educational resources and programmes and the achievement of wider participation in professional courses.
- Perfectioning of tools and protection facilities.
- Improvement of accident investigation, designing preventative measures.
- Preparation of chemical-product labelling specifications.

Negotiations on the XIII Collective Salary Agreement were completed in the first part of 1985. This Agreement, signed within the framework of the social and economic agreement contains, apart from a series of major management objectives, particularly including the rewriting of the Company's labour regulations, the use of new contracting regulations in force in Spain.

We would not like to finish without paying our respects to the memory of our companions who lost their lives in accidents at work:

- Mr. Cándido Castedo Amado
- Mr. Jesús de María Mamolar
- Mr. Manuel Matros Jorge
- Mr. Juan Molina Rodríguez
- Mr. Francisco Tello Sánchez

and to whose families we reiterate our condolences.

<b>TRAINING ACTIVITY</b>		
<b>COURSES</b>	<b>No. of Courses</b>	<b>No. of Students</b>
<b>Employees:</b>		
— Entrance .....	8	437
— Promotion .....	22	945
<b>Perfectioning:</b>		
— Administrative training .....	633	5,903
— Technical training .....	1,248	13,592
— Advanced systems .....	75	865
— Training abroad and postgraduate studies .....	11	444
Preparation for promotion .....	2	238
<b>TOTAL .....</b>	<b>1,999</b>	<b>22,424</b>

## 8. Telefónica, the institution

**T**elefónica continued to develop systems and structures in 1984 that allowed it to improve management and running from a qualitative point of view. One result of this is the implementation of the internal Auditing Section, complementary to the financial and accounting audit carried out by independent firms. The work carried out in this field has led to over 20 reports being prepared on various management areas, that have allowed problems to be detected and analysed and alternative solutions to be discussed in economically transcendent areas, such as: the contracting of construction works, buildings and maintenance, purchases and warehouses, affiliate companies, etc. For its part, the General Inspectorate of the Company has, as part of its specific activities, made 48 inspections on different matters throughout the year.

The Legal Department, apart from their work as advisors and their share in drawing up contracts executed by Telefónica, both in Spain and abroad, has continued to defend the integrity of the legal framework of the concession with the different organizations having jurisdiction.

During 1984 Telefónica continued to develop the Integral Security Plan, that not only includes implementing security measures in buildings, but also covers staff training and the drawing up of standards.

**I**n the field of territorial organization, the process of decentralization of functions and responsibilities to provincial branches continued during the year, with the idea of effectively bringing Management closer to service users and, in effect, making the provinces more operational. Functional groups have been promoted to fulfil these objectives that, until then, had only had a minor representation and 16 new exterior plant provincial offices have been created, to design link and subscriber networks and to propose projects for works complementary to the subscriber network. Furthermore, the automation of Maintenance-Switching continues in order to improve service quality, determine maintenance cost, and control installed plant.

On the other hand, Telefónica has held frequent close contacts with the Executive Bodies of the different local Corporations and Autonomous Communities. The background of collaboration ranges from expanding the rural telephone system to industrial agreements, such as the one made with Indelec, a Company in which the Basque Government has an interest, through its industrial companies.

The existence of Autonomous Communities having their own co-official language has led Telefónica to print bilingual telephone directories and to incorporate these languages into different areas: advertising, labelling, public attention service, etc., always counting on the advice and collaboration of the corresponding organizations in each Autonomous Community.

We think that this effort by both Telefónica and the Autonomous Communities is even more important, considering that telecommunications does not have to be transferred to them under the terms of the Constitution.



Internationally, Telefónica is actively participating in the International Telecommunications Union (ITU) and in the Conference of European Post and Telegraph Authorities (CEPT) covering Western Europe together with Yugoslavia. In the ITU, Telefónica participates as a private company with recognised operations" in the International Radio Communications Committees (CCIR) and in the Committee of Telegraph and Telephone Systems (CCITT).

These Committees, with management participation by top Telefónica executives, include many study commissions, work groups, etc., and hold plenary assemblies every 4 years in which the activities and recommendations prepared during the preceding study period are reviewed and approved.

With respect to the CEPT, Telefónica representatives participate in their activities at the invitation of the Spanish Government, with different positions on various committees and work groups.

Telefónica holds the Chairmanship of the Eurodata Board of Directors, a foundation dedicated to carrying out market surveys, especially in the field of Data Transmission and new teleprocessing services.

With respect to international organizations for setting up and operating satellite systems that are international property, the Spanish State is present as a signatory to formation agreements for the INTELSAT systems (International Organization for Telecommunications via Satellite), INMARSAT (International Organization for Maritime Communications by Satellite) and EUTELSAT (European Organization for Telecommunications by Satellite). In all three cases the Spanish State has designated Telefónica to sign the corresponding Operation Agreements, which means their involvement in the governing bodies, meetings of signatories and meetings of the Boards of Directors, together with the Meetings of Governors.

In 1984, when Telefónica celebrated the 60th anniversary of the Company's foundation, the new corporate image was implemented, introducing visual signs of identity and communication more in line with modern-day reality, with the Company's values, and with the future projection that is essential for a telecommunications company.

The new logo, ten points arranged in the shape of a T inside a circle is the updated schematic version of the old Company symbols, and will be progressively incorporated into all of Telefónica's activities and publications.



# General Information on the Company

In compliance with the requirements of Ministry Orders dated November 17, 1981 and February 26, 1982.

## Non-financial information on the Company

1. The Compañía Telefónica Nacional de España has its registered offices in Madrid, Gran Vía, 28.

2. The Company was incorporated by a public document authorised by the Notary Public of the Illustrious College of Madrid, Mr. Alejandro Roselló y Pastors, on April 19, 1924, entered with number 141 in his official records and inscribed in the Madrid Register of Companies in Volume 152, page 122, sheet 5083, inscription 1.

By public document authorised in Madrid on April 18, 1953 by the Notary Public of Madrid, Mr. Alejandro Bérnago Llabrés, entered with number 1333 in his official records, the Articles of Association of the Compañía Telefónica Nacional, S. A., were adapted to the Law on S. A. Companies (Spanish Companies Act) on July 17, 1951. This public document was inscribed in the Madrid Register of Companies in Volume 818, book 368 of the 3rd section of the Book of Companies, page 102, sheet 5083, inscription 135.

3. In accordance with the provisions of Article of Association in force, "the object of this Company is the installation, repair, improvement, purchase, sale, operation and administration of all classes of telephone services, lines and networks and of any other telecommunications procedure used at present or that may be discovered in the future; the provision of other auxiliary telecommunications procedure used at present or that may be discovered in the future; the provision of other auxiliary telecommunications services; the purchase, sale and mortgaging of all classes of goods and chattels, buildings and real estate, rights and concessions and the manufacture, agreement, purchase or sale, negotiation, provision, operation of suitable materials, machines and tools with no exception whatsoever that may be useful for carrying out the functions described".

In accordance with the stipulations of Condition I of the Contract of Concession approved by the Decree of October 31, 1946, the Compañía Telefónica Nacional de España, S. A. is committed to establish, develop and operate a comprehensive and homogenous local and trunk telephone system throughout the Peninsula, adjacent islands and areas of Spanish sovereignty, with the appropriate complementary and auxiliary services. The Company is also committed, in accordance with Condition 15 of the Contract



of Concession and to the extent that service requirements make this necessary, to successively install the most up-to-date equipment and materials.

4. Interested persons may consult the Articles of Association, books and financial statements in the Shareholders' Office that this Company has opened to the public in its registered offices. In the same office, anybody may request the brochures on the increases in capital and debentures issued over the last three years.

5. Article 16 of the Articles of Association establishes that the Annual General Meetings shall be held every year prior to June 30 in the place and on the day and hour fixed by the Board of Directors. Extraordinary General Meetings shall be held after giving prior notice that describes the cause thereof, and includes the agenda, either on the initiative of the Board of Directors itself or when the Board of Directors are so requested, in accordance with the relevant procedures, and clearly expressing the objective thereof, by shareholders that can demonstrate a minimum holding of 1/10 of the paid-in share capital.

### **Information on Share Capital**

1. At December 31, 1984, the share capital was 320, 415, 596, 500 pesetas, being fully paid in and subscribed.

2. The General Meeting of Shareholders held in Madrid on June 11, 1982, authorized the Board of Directors, to the extent that business requirements in their opinion made this necessary, to increase the capital without requiring the agreement or holding of a General Meeting, issuing new shares for this purpose once the amount of previous issues has been completely paid up, until the share capital of the Company reaches the amount of 360, 467, 545, 500 pesetas.

Similarly, the General Meeting of Shareholders of the Compañía Telefónica Nacional de España at their Meeting held on June 23, 1983 authorized the Board of Directors to issue debentures of any kind, including convertible debentures, up to the maximum authorized by the legislation in force at the time of issue.

3. All of the shares forming the share capital of Compañía Telefónica Nacional de España are 500 pesetas nominal value bearer shares, 75% of which are stamped to demonstrate their nontransferability to foreigners (Article 6 of the Articles of Association).

4. Article 6 of the Articles of Association requires that, if the new share issues should exceed the maximum authorized for the Board of Directors to carry out new capital increases without the need of agreement from, or the holding of, a General meeting, (the limit of which is at present that the share capital of the Company may reach the sum of 360, 467, 545, 500 pesetas), agreement to this shall be by the General Meeting and by the majority of the share capital, determined in accordance with the applicable legislation in force.

5. The share capital at December 31, 1981 was 240, 311, 697, 000 pesetas and at December 31, 1984, after the capital increase of that year, amounted to 320, 415, 596, 500 pesetas.

Over this period the following capital increases have taken place:

Year	Ratio	Type	Payment by Shareholder	Nominal Amount in Millions of Pesetas
1981	1×8	At par	50%	26,701.3
1983	1×5	At par	70%	48,062.3
1984	1×9	At par	70%	32,041.6

The Compañía Telefónica Nacional de España is the parent Company of a Group of Companies listed earlier in the Annual Report with a shareholding of 100%.

The Spanish State holds a 31.51% interest in the share capital of the Company.

The associated and affiliate Companies hold a total interest of 4.5% in the capital of the Company.

As the shares in the Company are not registered, it is impossible to find out the number of shares held by the members of the Board of Directors or Managers of both the Company and the affiliate and associate Companies.

### Personnel

In 1984 the 37 and a half hour working week was extended to all groups of workers in the Company.

A total of 54,875 working hours were lost due to strikes.

The staff in service during December 1983-December 1984 and their average basic salary was:

	No. of Employees December 1983	No. of Employees December 1984	Average basic salary in 1984 (pesetas)*
Office Manager .....	395	478	1,900,992
University-Qualified Staff .....	1,405	1,695	2,370,861
Auxiliary and Technically Qualified Staff ...	2,786	2,959	1,865,262
Draughtsmen and Photographers .....	194	232	1,375,133
Technical Operators and Plant Supervisors .....	7,483	7,331	1,472,574
Mechanical Fitters .....	4,868	4,616	1,299,454
Network Group and Gang Foremen .....	2,577	2,515	1,489,633
Linesmen, Splicers and Drivers .....	19,972	19,971	1,291,263
Administrative Supervisors .....	1,126	1,091	1,574,487
Subscriber Service Representatives and Supervisors .....	2,508	2,566	1,381,273
Administrative Staff .....	8,784	8,680	1,283,902
Traffic Monitors and Managers ** .....	750	730	1,393,028
Operators .....	5,552	5,488	1,285,995
Warehouse Officials, Foremen and Assistants and Other Trades .....	1,179	1,185	1,239,757
Auxiliary Staff .....	1,251	1,219	1,166,273
Telegraph, Radiotelephone and Radiotelegraph Operators .....	57	52	1,317,023
Traffic and Technical Assistants .....	22	20	1,535,757
Systems Analysts and Engineers .....	127	122	2,235,404
Programmer/Analysts and Programmers ...	241	257	1,796,495
Information Technology Operators and Assistants .....	1,546	1,610	1,422,963

\* Includes the salary review and productivity bonus.  
 \*\* Via the XIII Collective wage Agreement the traffic monitors are now called Supervision Operators and the garage foremen, Vehicle Maintenance Foremen.

### **Company policy on staff benefits and particularly on all classes of pensions**

The economic review agreement was signed on March 21, 1984 for the second year that XII Collective Wage Agreement is in force, the basic contents of which were as follows:

The basic salaries agreed are given in the preceding list.

The accumulated long-service payment at January 31, 1983 was increased by 5%.

Bonus, extra and compensation payments were increased by 5%.

Payments for child and school assistance were increased by 5%.

Compensation payments for accommodation and meals in Spain were increased by 6%.

Social welfare funds were raised by 5%, establishing a total of 587 millions pesetas for 1984.

The granting of all types of pensions for company employees is regulated by the regulations of Institución Telefónica de Previsión, the pension fund of the Company, inscribed in the Official Register under number 174.

The Institution is financed by contributions from employees and from the Company itself; the latter amounted to 9,078 million pesetas in 1984.

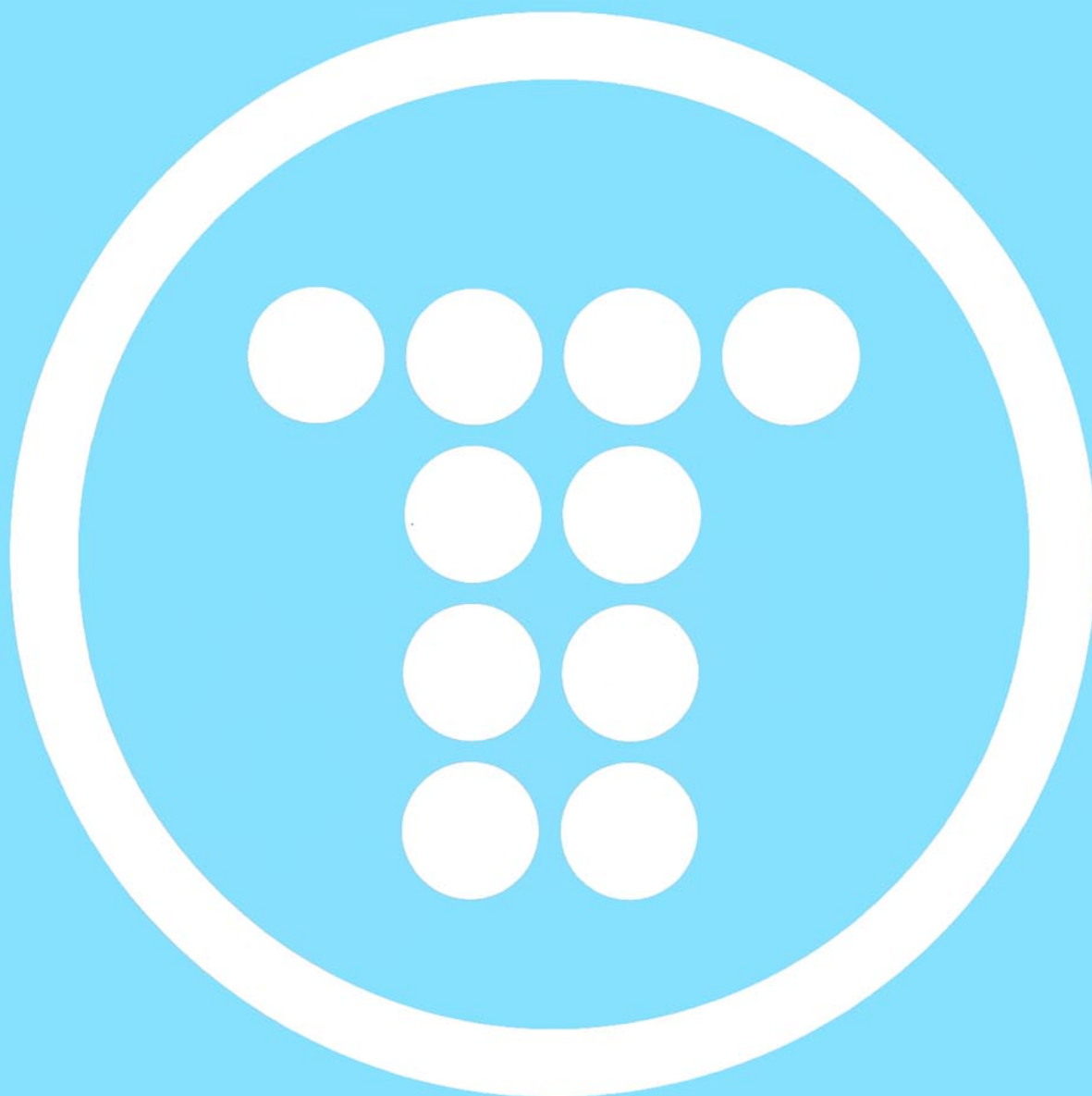
The collective endowment insurance policy for employees is partly paid for by the Company. This payment amounted to 4,935 million pesetas in 1984.

All of the expenses from the above items in 1984 are included in the Statement of Profit and Loss under the heading of Salaries and Related Costs.

During 1984 the Company also granted loans to employees on the basis of payments in advance of the following month's salary or wages and advances of three months' wages, to be paid back over 24 months. These loans are interest-free and figure in the Company's Balance Sheet under the caption of Investments, in the "Loans to Employees" item.







**Telefónica**

Annual Report for 1984

Compañía Telefónica Nacional de España S.A.

