

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.

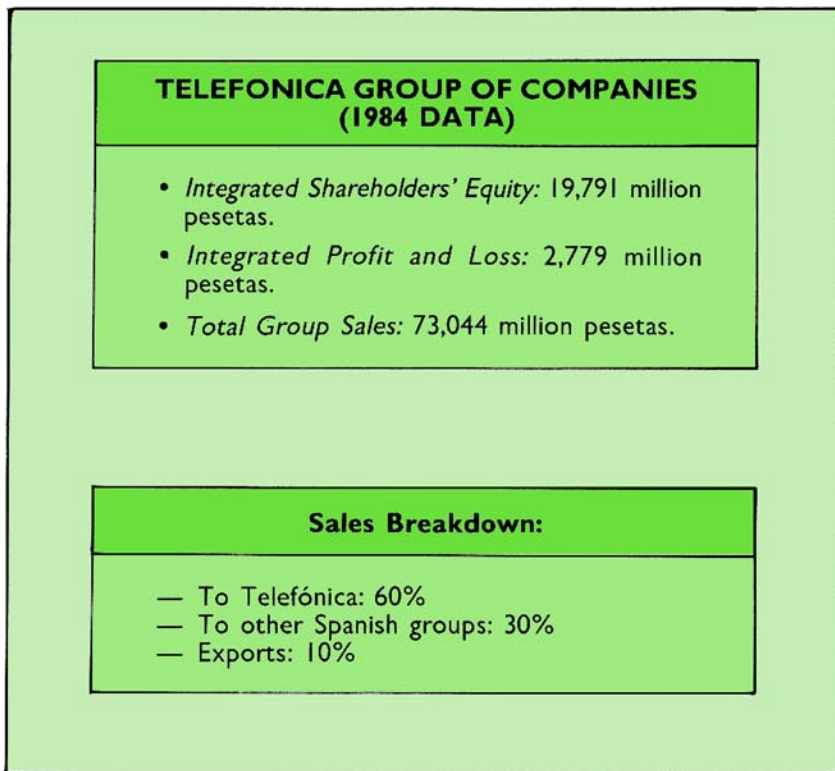
The convenience of having a second supplier of TESYS equipment and to be able to count on a company with a sufficiently high technological level dedicated to the industrialisation of voice/data equipment, has led to the formation of Telefonía y Datos.

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.