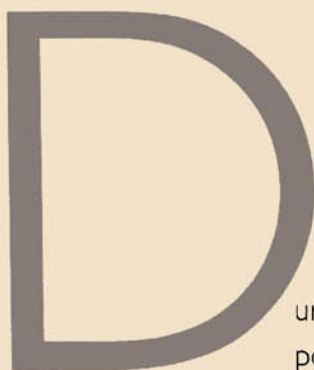


Basic telephone service: a priority



uring 1988, Telefónica responded to the major surge

in demand and to the decline in service quality by devoting particular attention to the basic telephone service.

At year-end, telephone density throughout Spain stood at 28.1 lines per 100 inhabitants, as opposed to 26.1 the previous year. At the same time, telephone penetration into Spanish households improved by 3.5% over 1987 to 71.2 lines per 100 households.

Telefónica's service targets foresee for 1992 an estimated 38 lines per 100 inhabitants and 83 lines per 100 households, which will bring the level of Spain's telephone service penetration into line with her EEC partners.

At the same time, the Company aims to steadily reduce the imbalance in demand and the average waiting period for service installation.

An additional feature of basic telephony up-grading during 1988 was the public telephony development programme. This included a substantial increase in the number of seasonal telephone booths designed to meet the needs of the floating population in tourist areas. Another significant step was the progress made in up-dating public telephony by introducing new methods of payment, such as multi-coin telephones and the preparations for the introduction of electronic card phones.

SERVICE QUALITY. In answer to the decline in service quality, resulting from the surge in demand, in 1988 Telefónica drew up a plan of action and a series of indicators aimed at ensuring a reasonable and consistent level of service quality by directly intervening in the network. Plans include the remodelling of routes and trunk transmission paths to achieve high standards of reliability and efficiency. Network quality targets aim to substantially raise call efficiency levels in the national network from 88% in 1988 to over 95% during the next few years, while maintaining high levels in the number of repairs carried out in less than 24 hours.

During the past year, preliminary works were almost completed for the creation of a National Network Management Centre in 1989. This Centre will supervise and control

the digital telephone network, contributing to enhanced network efficiency and service quality upgrading.

SERVICE EXPANSION IN THE RURAL COMMUNITY. The extension of the service throughout the rural community is another basic feature of Telefónica's response to demand for telephone services. This is particularly important in a country such as Spain, with 63,000 population centres, 66% of which have under 500 inhabitants. The development of rural networks is based on a Four Year Plan, approved in January 1988 by the Cabinet, and on the cooperation agreements signed with local and regional bodies, under the Royal Decree 2248/84. The Company plans to install 5,700 Public Service Telephones in villages of over 50 inhabitants and 2,025 Public Telephones in villages of under 50 inhabitants, creating 2,000 new local zones and meeting the demands of 134,000 subscribers outside local zones. During 1988 we created 429 new local zones in rural areas to the benefit of 18,039 subscribers. In addition, we installed Public Telephones in 910 villages, which until then had been without a telephone service. Telefónica's collaboration with local and regional bodies led to the signing of 25 contracts and 510 cooperation agreements aimed at promoting the extension of the telephone service throughout the rural community.