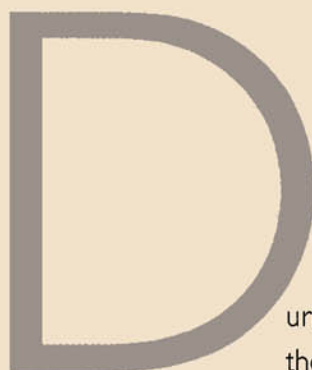


The Telefónica Group



uring the past financial year the Telefónica Group com-

panies firmly established their market positions in the various fields of activity. Sales grew by 44.6% and the major improvements in management efficiency helped raise profit margins and increase the return on shareholders' equity to an average of 27.3%. To safeguard Telefónica's competitive edge in the face of recent moves towards the globalization of telecommunications services and networks, in 1988 we decided to form a new subsidiary company called TS-1 Telefónica de Servicios, S.A., responsible for the promotion and provision of Value Added Services. Telefónica's strategy is to complement its core network business by maintaining a presence in high growth, strategic areas of the market. To further this objective, during 1988 Telefónica invested in a number of ventures, among them:

*INFONET. A company set up to create and operate a worldwide network designed to provide international value added and data transmission services.

*The new panEuropean company LOCSTAR and the North American company GEOSTAR. These enterprises have been set up to develop and exploit radio location and radiopaging services via satellite, covering the continents of Europe and America respectively.