

crease of 9.9% over the previous year. Earnings per share stood at 74.5 pesetas, while gross cash flow per share reached 361.8 pesetas, showing increases of 5.5% and 5.7% respectively.

Finally, the financial ratios reflect the high level of external financing last year, which was the result of Telefonica's exceptional capital expenditure activity, aimed at satisfying Spain's telecommunications services requirements.

During 1989 there were 1,494,397 telephone line applications, 10.2% more than the year before. It is significant that out of the total number of requests recorded, 100,252 were for Ibercom integrated business communications lines, that is an increase of 49% over 1988.

A 5.1% growth was recorded in average usage per line.

At year-end, the basic telephone network had 11,797,159 local lines in service, representing a rise of 7.5% over 1988 and a telephone density of 30 lines per 100 inhabitants.

In addition, there were 145,888 Ibercom lines in service at the end of 1989, 111.7% more than the previous year.

#### **MODERNIZATION**

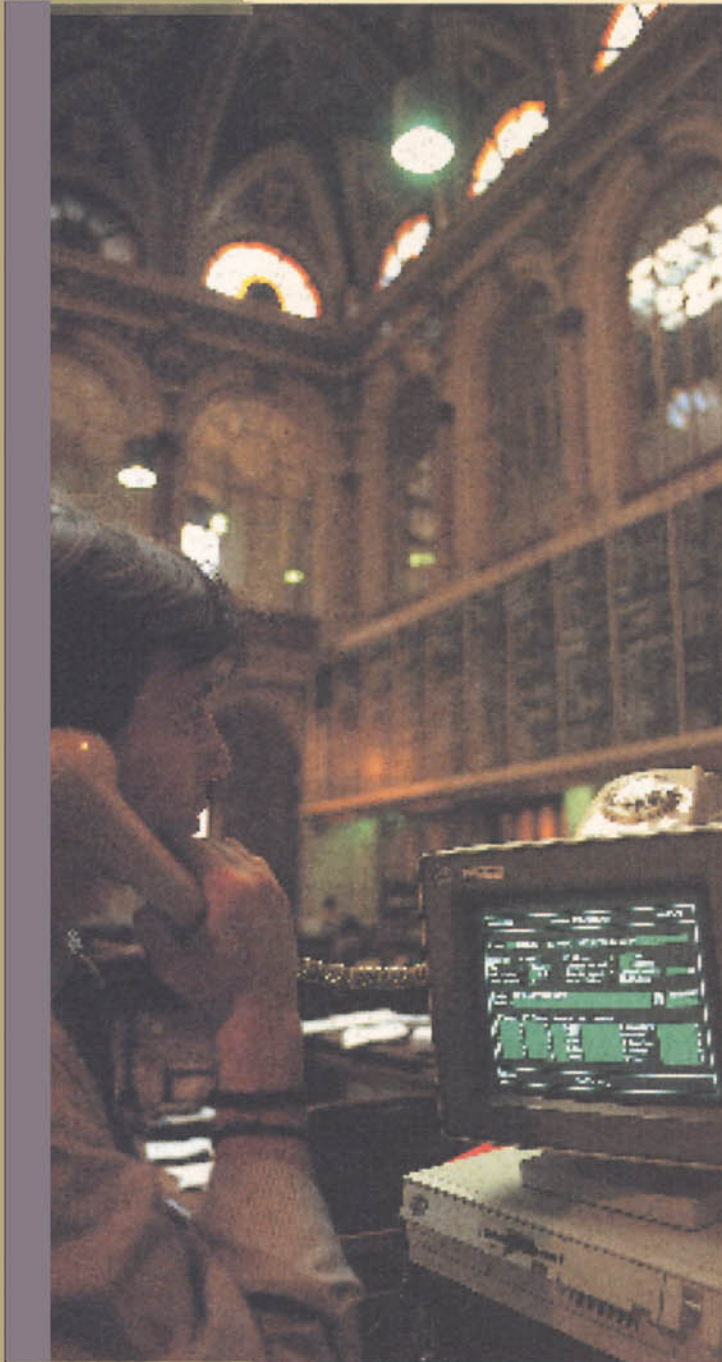
Over last year, Telefónica installed 1,471,696 subscriber lines, that is 51.7% up on 1988.

87.3% of these installations were digital lines, which was a great boost to network modernization and made it possible to increase analog replacement levels by 96%, with over 292,000 lines dismantled.

14 new domestic transit exchanges were installed in the trunk network and 57 others were expanded. As for the international network, particularly significant was the commissioning of an International Digital Exchange in Valencia, with direct European and intercontinental connections via satellite communications and underwater cable systems.

During 1989, 474,629 trunk lines were installed, with 87.5% digitization. By the end of the year, there were 1,831,000 trunk lines in transit exchanges, 47.4% of which were digital (33.3% in 1988).

## **Telephone service**



**Advanced communications.** Telecommunications services are a decisive factor in today's financial markets.

Another feature of the telephone network modernization process was the substantial increase in optical fibre cable installations. In 1989, 4,354 kms. of this modern transmission medium were laid and by the end of the year there were over 8,000 kms. of optical fibre cable installed, representing a 118.8% growth over the previous year.

Between 1990 and 1994 we plan to install 7.8 million local lines, which will amount to over double the number of lines connected to the network in the last four years. By the end of 1994, 56% of subscriber networks will be digital, given that 98% of the new installations will use this technology.

At the same time, to safeguard network quality and services, in the next five years we plan to install 2.8 million trunk lines in transit exchanges and thereby substantially raise the proportion of long distance lines to local lines, achieving 82% digitization by the end of the period.

### **SERVICE QUALITY**

In 1989, Telefónica drew up a quality strategic plan and introduced a package of measures geared towards global quality management, that is, the satisfaction of clients' expectations with regard to their telecommunications requirements.

The quality levels established for 1989 showed a considerable increase in interprovincial call efficiency, which stood at 93%. Our target in the next few years is to raise call efficiency levels in the national network to 95%, while maintaining high levels in the number of repairs carried out in under 24 hours.

Within this concept of global quality, Telefónica's post-sales services play a major role, since they require permanent contact with our clients. In this respect, apart from the information services provided by the operators, we should highlight the fact that almost 10 million repair calls were attended to in 1989, 75% of which were resolved in under 24 hours.

Among the steps being taken to upgrade service quality, of particular interest is the creation of new provincial operational and maintenance organizations and the capital expenditure in network security and instrumentation for network performance control. During last year, work was started on the Dynamic Network Management Centre, to be completed in 1990. This centre will supervise national and international network performance in real time and will allow us to control traffic flow and optimize network capacity.

### **SERVICE EXPANSION IN THE RURAL COMMUNITY**

During 1989, we dedicated special attention to extending the telephone service throughout the rural communities, where our aim is to provide a service to even the most remote parts of the country. The substantial progress made was due to the combined efforts of Telefónica and a large number of private and public entities, included in the Royal Decree 2248/84, which regulates service expansion in rural areas.

These efforts bore fruit in the shape of 685 new local zones and the installation of 1,263

public telephones. These figures represent an increase of 60% and 75% respectively, compared to the previous year.

Furthermore, the company met 14,732 requests from outside local zones, amounting to an increase of 24% over 1988.

In all, the number of inhabitants who reaped the benefits of these service expansion measures rose to 266,753. As a result, by December 31, 1989, 98% of the population enjoyed some form of local or public telephone service.

Capital expenditures on service expansion in 1989 reached 22,905 million pesetas, that is a growth of 71% over the previous year.

### **REGIONAL PROGRAMMES**

Telefónica played an active role in the STAR Programme, which aims to assist the introduction of advanced telecommunications services in the most underdeveloped regions of the European Community.

Telefónica's proposals for the STAR Programme in 1989 include 117 digital switching exchanges, in which 73,574 lines were installed, the laying of 581 kms. of fibre optics and 142 Iberpac data transmission ports.

A regional programme of particular interest was the advanced infrastructures project for the Cabo de Gata-Níjar natural park. This programme entails the extension and modernization of a major part of the telecommunications