

1989: Investment drive

For Telefónica, last year was the year of the investment drive.

Capital expenditure in fixed assets and advances for plant rose by 63% over 1988 to 583,762 million pesetas. Our capital expenditure programme was significantly higher than that carried out by telecommunications operators in neighbouring countries, accounting for 5.3% of Spain's fixed assets investment. This intense activity enabled Telefónica to make considerable inroads into meeting levels of demand and improving service quality. It also helped us strengthen the network infrastructure to equip it to carry a wide range of new communications services.

The number of local line installations rose by 51.7% to reach 1,471,696, of which 87.3% used digital technology. At the end of 1989, the total number of local lines installed rose to 13,160,000, with 19.6% digitization (10.8 percent in 1988). In addition, the number of trunk lines installed in transit exchanges totalled, 1,831,000, of which 47.4% operated with digital technology (33.3 percent in 1988), which will help to enhance the quality of network traffic and strengthen its capacity to carry advanced communications services.

As regards demand, in 1989 the number of requests for connection to the telephone network continued to grow, with applications reaching 1,494,397, 138,000 more than the previous year. Out of this total number, 1,394,145 applications were for basic tele-

phone services—8% more than 1988—, while 100,252 were requests for Ibercom bus and communications lines, representing an increase of 49% over the previous year.

Traffic per line increased by 5.1% in 1989, showing a more moderate growth rate than the exceptional 8.6 percent rise recorded in 1988.

As a result of Telefónica's tremendous investment drive, aimed at meeting demand for lines and network usage, by the end of the year, telephone service penetration in Spain stood at 30 lines per 100 inhabitants, as opposed to 28 lines per 100 inhabitants at the end of 1988. The basic telephone network had 11,797,159 local lines in service by the year-end, witnessing a growth of 7.5% compared to existing plant at the end of 1988.

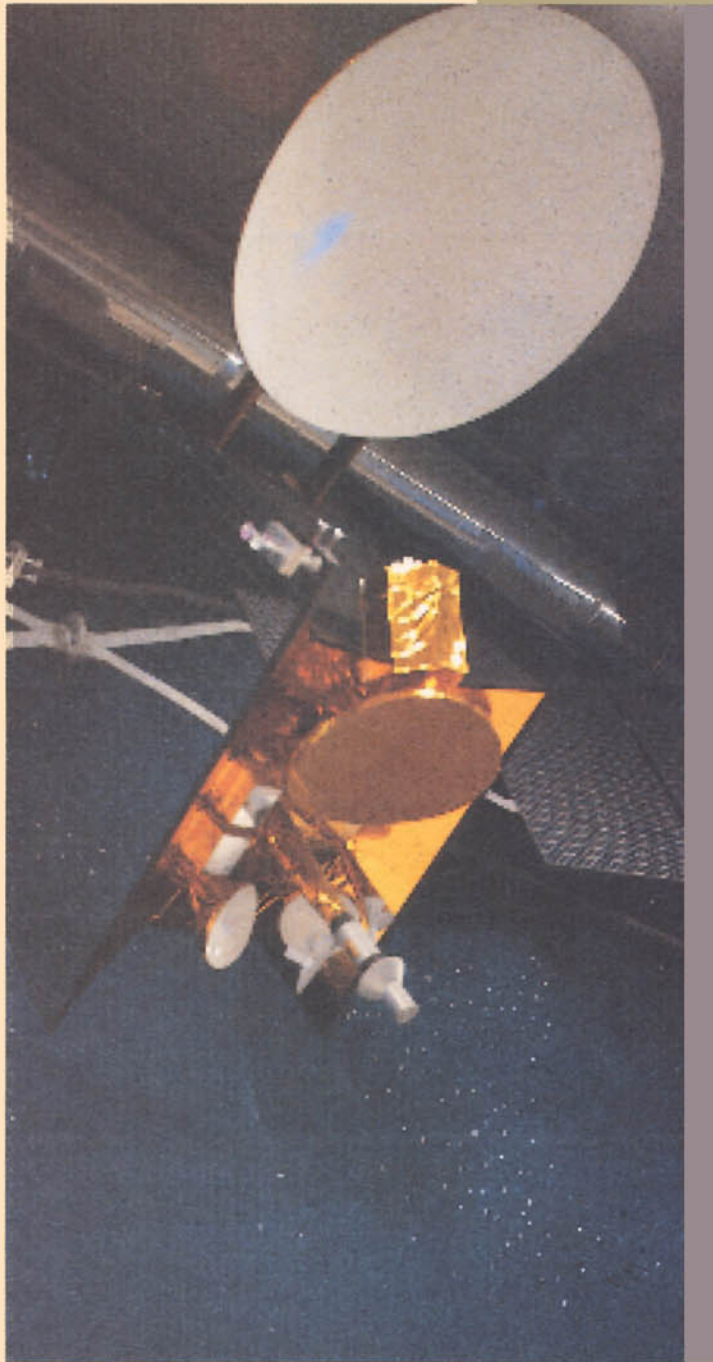
Throughout last year, 1,083,883 demands for telephone lines were met, that is 12% more than the year before. The capital expenditure programme enabled us to reduce the waiting list to 503,249 applications, representing a 7% fall over 1988.

During last year, Telefónica devoted special attention to extending the telephone service throughout rural areas. Funds set aside for extending the basic service in the rural community rose by 71% and over 266,000 rural inhabitants enjoyed the benefits of these investments. As a result, by December 31, 1989, 98% of Spain's population had access to a local or public telephone service.

The capital expenditure programmes also enabled us to make substantial progress in

meeting the demands for business communications and new services. The number of connections to the Iberpac public data network grew by 22.5%, while the Automatic Mobile Telephone Service continued on an upward trend, with a 156% increase in subscriber numbers over 1988. There were equally outstanding increases in the Electronic Transfer of Funds service—where the number of terminals connected doubled—and in the Telefax service, where subscriber numbers rose by 85% over the previous year. As for Value Added Services, Telefónica, via its subsidiary Telefónica Servicios TS1, had a wide range on offer, including Electronic Mail, Voice Mail, Electronic Data Interchange and International Corporate Communications.

During 1989, Telefónica complemented its basic activity as Spain's network operator by taking part in a number of projects, aimed at safeguarding the Company's competitive status. Of particular note, was the acquisition of 10% of ENTEL Chile, a company providing trunk and international services in the same country, and the holding option in a joint venture with Cable & Wireless and Motorola to operate a personal mobile communications network in the United Kingdom. Also worth mentioning, was Telefónica's 25% partnership in the Hispasat project, which aims to operate the Spanish telecommunications satellite, Hispasat 1.



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High level
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1990-1994 STRATEGIC PLAN

Another important development during last year was the drawing up of the 1990-1994 Strategic Plan, which establishes Telefónica's corporate goals for the next five years and defines the main priorities of the different sectorial policies. Enhancing service quality, meeting the demand for basic telephony and shortening the waiting list are the fundamental objectives of the Plan. In addition, Telefónica will have to face a two-fold challenge: on the one hand, technological modernization, which will allow us to offer a wider range of services and thereby become more competitive; on the other, the gradual internationalization of Telefónica's activities, diversifying the current areas of business into foreign markets with high growth and high profit potential. All this will take place within an increasingly liberalized marketplace, as a result of the European Community Directives on telecommunications. The accomplishment of these strategic goals for the 1990-1994 period will entail capital expenditure programmes to the tune of approximately 3 trillion pesetas. This will enable us to put around 5 million telephone lines into service over the next five years.

The capital expenditure proposed in the 1990-1994 Strategic Plan will be subject at all times to the continuation of Telefónica's finan-

cial solvency and will concentrate especially on the activities which are most likely to generate internal funds.

Finally, to successfully face the challenges mentioned, the plan proposes to gradually adapt service charges to the relative costs of the different services and to adopt a new management model, which will allocate resources efficiently and strengthen Telefónica's competitive standing.

In this respect, in 1989 we reorganized the Company's managerial structures, clearly marking out the responsibilities of the different networks and services in order to meet clients' and users' needs more effectively in the respective areas of business.

FINANCIAL PERFORMANCE

Given Telefónica's intense investment drive during 1989, we consider the Company's financial results to be satisfactory. Profit before tax rose to over 93,000 million pesetas and net income increased by 9.6% to 68,898 million pesetas.

Funds generated from operations rose to 334,658 million pesetas, representing an in-

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