

1990 saw the consolidation of the major investment drive of the previous year. Capital expenditure in fixed assets and advances for plant reached 703,697 million pesetas, 20.5% more than in 1989. However, if a comparison is made with 1988's investment figures, the annual rate of growth rose to 40.2%. In 1990 Telefónica's capital expenditure programme was again much higher than that of telecommunications operators in neighbouring countries.

C ONTINUING INVESTMENT DRIVE

Telefónica's importance to the Spanish economy becomes apparent when we consider that this investment accounts for 5.5% of the country's gross capital formation.

This intense activity resulted in a record number of line installations and a considerable improvement in service quality. We were also able to considerably reduce the waiting list and step up plant modernization, and thus widen the range of telecommunication services available to the Spanish public.

1,565,000 lines were installed during 1990, bringing the total number of lines installed at the end of the year to 14,485,150, with 28.4% digitization, compared with 19.6% in 1989.

1990 also saw a fall in the demand for new lines over 1989, and a slowing down of the growth rate of average usage per line.

By the end of the year, telephone service penetration in Spain stood at 31.9 lines per 100 inhabitants as opposed to 300 lines per 100 inhabitants at the end of 1989. The basic telephone network had 12,602,640 local lines in service by the end of 1990, witnessing a growth of 6.8% compared with existing plant at the end of 1989.

During 1990, 1,137,367 demands for telephone lines were met, a 4.9% rise over the year before. The waiting list fell steeply to 379,892 applications at the end of December 1990, a 24.5% fall over the previous year's figure, with the ratio waiting list/line applications reaching an all-time low. During the year Telefónica devoted special attention to extending the telephone service in rural areas, to the benefit of 308,025 rural inhabitants. As a result, by the end of December 1989, 98.5% of Spain's population had access to the telephone service.

By keeping up this intense investment drive Telefónica was able to improve its range of business communications and new services. The number of connections to the Iberpac public data network grew by 15.9%, and the Automatic Mobile Telephone Service, besides increasing subscriber numbers by 83.6%, widened the range of products on offer with the introduction of the 900 Mhz (TMA-900A) waveband mobile system. Telefax recorded a 50% increase in subscriber numbers, while in the Electronic Transfer of Funds service the number of terminals connected rose by 25.8%. The Videoconferencing



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service extended its coverage both in Spain and abroad, and there are now 15 Conference Rooms available. Telefónica has also continued to provide technical assistance for TV and radio broadcasts.

Due to the modernization of the network brought about by the investment drive, we have been able to widen the range of supplementary telephone services available. In the area of Intelligent Network Services special mention should be made of the 96% increase in the number of subscribers to the 900 service.

In the field of Value Added Services, Telefónica increased its presence through its subsidiary TSI, with a range of services including Electronic Mail, Voice Mail, Electronic Data Interchange and International Corporate Communications.

During 1990, Telefónica complemented its basic activity as Spain's network operator by acquiring holdings in the telecommunications network operators of other countries. Profit making potential was the criterion underlying Telefónica's participation in these projects.

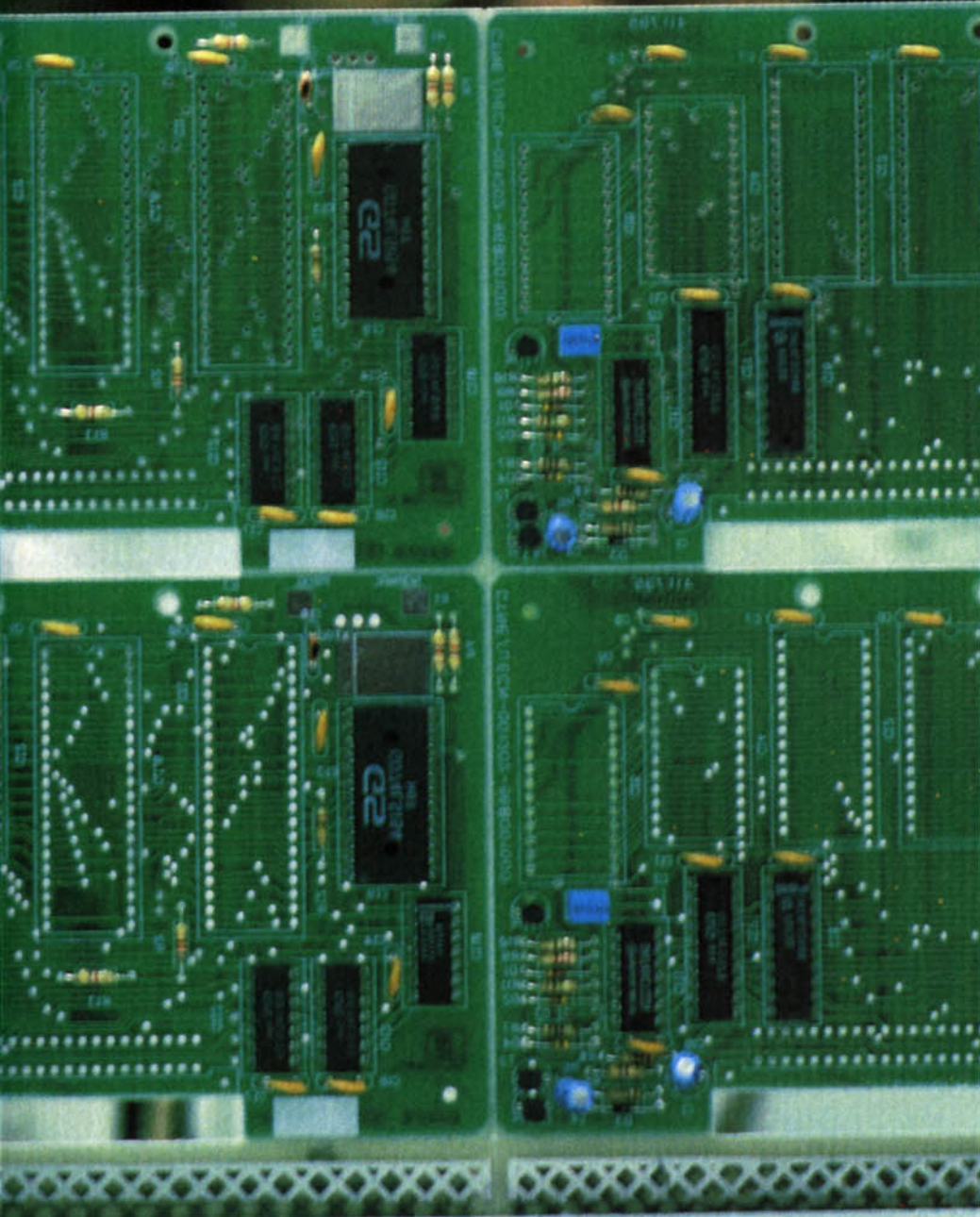
1991 - 1995 Strategic Plan

The 5-year strategic plan has gradually established itself as our basic tool for the medium and long term planning of the company. This is due to the relatively long periods of time necessary for the implementation of new services and for the achievement of a return on the investment necessary to meet the growing demand in terms of quantity, quality and diversity.

While keeping to our basic strategic aims, priorities and policies, Telefónica has also been able to fulfil other more specific forecasts and objectives, making any modifications considered necessary in terms of the development of the telecommunication services market as a whole. In this way, although slight adjustments are made to the strategic plan each year, planning is always carried out within the framework of the 5 year time span.

Quality improvement remains the prime objective of the plan and its subsidiary programmes. Accordingly, the quality improvement goals of the 1991-1995 plan have been brought forward one year, with the aim of achieving quality standards on a par with the most advanced countries by 1992. In fact, this will already have been achieved in most Spanish provinces in 1991. We have also brought forward our targets for reducing the waiting list, with the aim of bringing it down to a merely residual level in the shortest possible period of time.

Fully aware as we are of the demands that will be made upon us by the liberalization of telecommunications in a much more competitive environment, we have strengthened the organization of the company. We decided to restore a post of long-standing tradition in the company, that of chief executive (formerly managing director), who will be directly responsible for the area of finance. We set up a General Corporate Planning



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Department to bring together the areas of Economic Studies and Analysis, Strategic Planning (now raised to the status of General Sub-department), Subsidiaries and Holdings, and Corporate Relations and Communications. A General Resources Department was also set up, integrating the areas of Human Resources, Accounts and Control and Data Processing.

Financial performance

Telefónica's financial performance in 1990 can be considered as on the whole positive. Our net income was 75,788 million pesetas, 10.0% up on 1989. Cash flow generated reached 344,906 million pesetas, an increase of 14.0% over the previous year.

Earnings per share stood at 81.8 pesetas, and cash flow per share at 372.1 pesetas, representing an annual growth of 9.8% and 13.8% respectively.

These satisfactory results came in a year in which the investment drive initiated in 1988 reached its peak, with capital expenditure in fixed assets rising to 703,697 million pesetas, an all-time high for Telefónica. This exceptional volume of investment obliged Telefónica to rely heavily on external financing, and this was reflected in the financial ratio trends.

TELEPHONE SERVICE

During 1990 there were 1,444,556 telephone line applications, representing a slight fall of 2.2% over the previous year. It is significant, however, that out of the total number of requests recorded, 127,611 were for Ibercom integrated business communications lines, an increase of 27.3% over 1989.

As for average usage per line, there was a 2.3% growth in 1990, compared with 5.1% the previous year. This reflected the slower rate of growth of the Spanish economy during last year.

At year-end, the basic telephone network had 12,602,640 local lines in service, representing a rise of 6.8% over 1989, and a telephone density of 31.9 lines per 100 inhabitants. In addition, there were 255,490 Ibercom lines in service at the end of 1990, 75.1% up on the previous year.

Modernization

During 1990 Telefónica installed 1,565,000 new subscriber lines, practically all of which were digital. Out of this total, over 300,000 were digital lines installed to replace dismantled lines, clear evidence of the company's effort to modernize the network.