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## **Qualitative and quantitative growth.**

For Telefónica, 1991 was the year of service quality. The investment drive of the last three years bore fruit with the reduction of the rate of failed calls due to network performance to an all-time low, with the most marked improvement noted in international calls. By the end of the year the waiting list had fallen to 244,000 applications for new lines, many of which were at the final stages of preparation to be put into service. In 1991 we made service quality our prime objective, and laid the foundations for future improvements.

New applications for conventional telephone lines were again down on the previous year, while the demand for mobile telephones continued to rise sharply, in line with trends noted in other developed countries. The company continued to invest heavily (almost 60% of total income), but the falling growth in demand ruled out a repetition of the record-breaking levels of 1990.

Throughout 1991 the company continued to expand and modernize the domestic network, with the installation of 11 new digital exchanges and the expansion of another 36. This brought the digitization of switching equipment to 84%, as opposed to 65% in 1990. Digitization of trunk lines in international exchanges was 58% (33% the year before), and there was a notable increase in underwater cable transmission capacity.

There were 13,264,360 lines in service, representing a telephone density of 33.5 lines per 100 inhabitants, taking into account only conventional telephone lines. 1,120,024 new lines were installed, and the net gain in lines in service was 662,000. Practically all of the new lines installed were digital, with around 400,000 replacing dismantled analog lines. As a result, digitization of local exchanges reached 33.6%.



Montjuïc tower by night.



Montjuïc tower by day and detail.





1991 saw the culmination of the plan approved in 1988 by the Spanish government for the extension of the telephone service in rural areas. During the year, the population with access to the telephone service grew by over 230,000. This meant that practically all localities with 50 or more inhabitants had access to a public telephone, and that all populations of over 100 had a local service installed.

During the year we put the finishing touches to the installations designed to cover the events in 1992 in Seville (The World Expo), Barcelona (The Olympic Games) and Madrid (European Capital of Culture). Significant among these were the Barcelona-Castellbisbal and Sevilla-Pineda international exchanges and the teleports in these two cities. However, Telefónica proved its capacity to deal with large scale events last October, when on the occasion of the Middle East Peace Conference in Madrid, we were able to put into operation the structure necessary for a service equivalent to 60,000 telephone lines in less than a week.

But without doubt the outstanding event of 1991 was the signing of the new contract between the Spanish state and Telefónica. The previous contract, signed in 1946, had become completely outdated due to the profound changes which have taken place in the world of telecommunications in recent years. The contract signed last year provides a new framework for the company's activity, by assigning the regulatory function to the government and laying down Telefónica's rights and obligations as the exclusive operator of basic voice services and other services. However, the scope of these will tend to diminish, both as a result of the National Telecommunications Plan and of future European Community directives, which in any case will have to be incorporated into Spanish legislation through the reform of the Telecommunications Act.

### **Strategic Plan 1992-1996.**

The Strategic Plan is the cornerstone of all the company's policies. Although the plan envisages a time span of five years, it is reviewed annually, with either slight adjustments or more structural changes made as necessary. 1991 saw considerable adjustments to the Plan, and, with the prospect of increasingly liberalized markets, Telefónica has defined its mission as one of total dedication to the satisfaction of our customers' needs and demands. With this purpose in mind, a series of guidelines were laid down, both at the corporate level and at the basic working level.

In order to adapt to this new competitive environment, Telefónica continued to update its working procedures, with the aim of making the customer the central focus all its processes. This principle of putting the customer first is at the heart of the "mission" mentioned above, with the necessary emphasis placed on all aspects affecting the quality of the service provided.



For this purpose the company is implementing a Total Quality Plan designed to bring more flexibility to the organization and to ensure constant improvement in the efficiency of our internal procedures. Another reason why quality control was an important issue was the fact that under the new state contract, Telefónica became the only public service company to commit itself to reaching certain standards of service quality, with penalties applied if these are not achieved.

In line with these objectives, the Corporate Clients Management became the General Management of Business Communications, widening its responsibilities in the field of operations. With these measures we hope to more rapidly and efficiently meet the advanced telecommunications services needs of the most demanding sector of the market, and in this way highlight the special nature of this area of our business.

### **Financial performance.**

Telefónica's operating revenue for 1991 was just over 18% up on the previous year, with the total exceeding a billion pesetas for the first time. This good revenue performance, along with the maintenance of the cost control policy, resulted in a 22.8% growth in the operating margin. Net income was also up, with the total reaching 80,847 million pesetas, 6.7% higher than in 1990.

Earnings per share, at 87.2 pesetas, and cash flow per share, at 433.8 pesetas, registered annual growth of 6.7% and 16.6% respectively.

Capital expenditure in fixed assets during the year was 600,863 million pesetas, 13.2% lower than in 1990. This was due to the fall in demand which began in 1990 and continued in 1991.



Detail of the Collserola Communications Tower, Barcelona.