

## A COMMITMENT TO SOCIETY

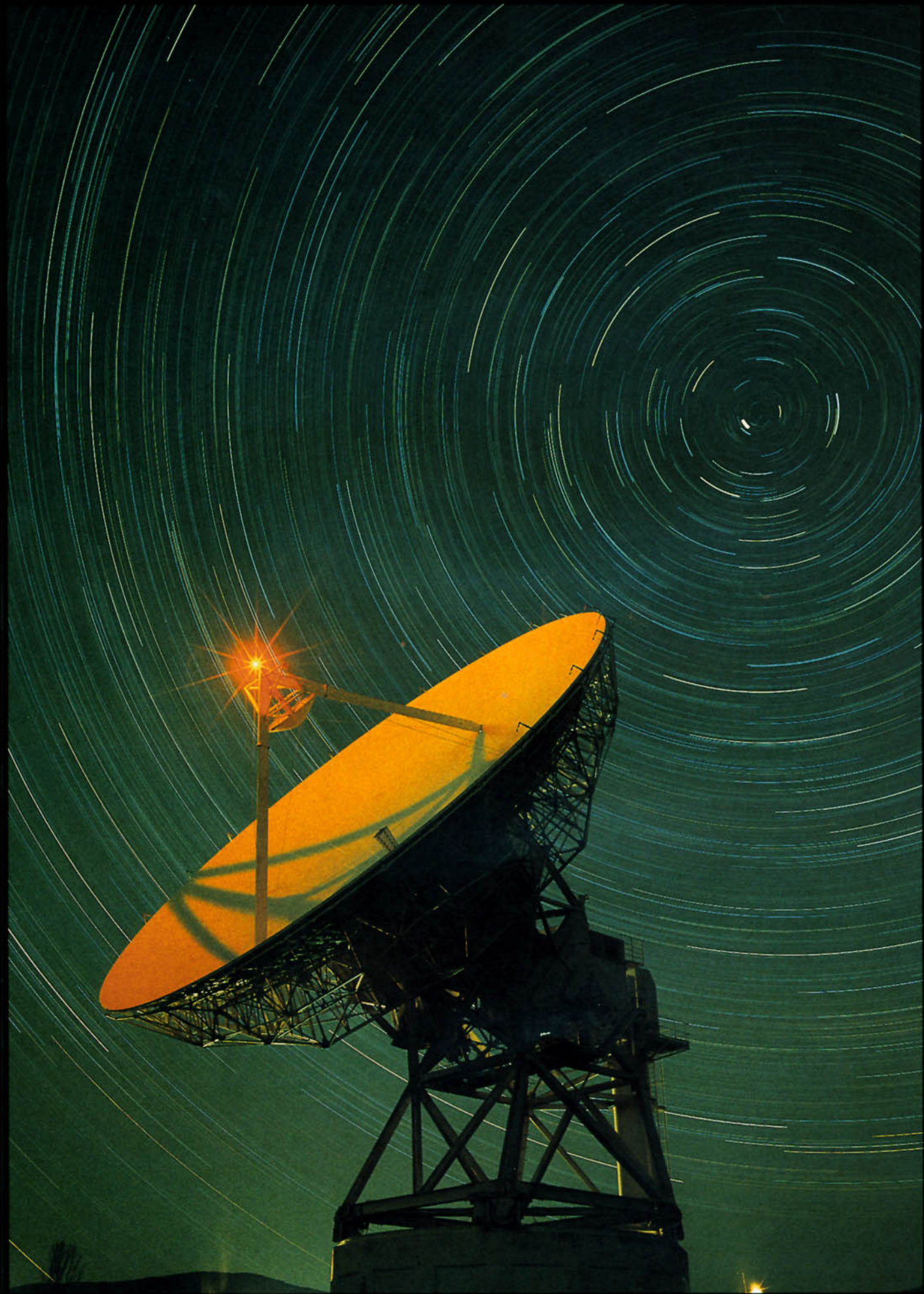
The high technology  
and advanced  
systems used by the  
Company transmit  
the image of  
Telefónica's new  
commitment

**THE LEGAL FRAMEWORK.** Telefónica is Spain's telecommunications services provider under the terms of the Contract between the Company and the Spanish State. In December 1991, this contract was renewed after major modifications had been introduced in order to adapt it to the new legal framework of the Telecommunications Act (LOT) and to European Community policy reflected in the different Directives on this matter. The Contract also establishes that the terms shall be modified if supranational regulations, which should be incorporated into national legislation, subsequently alter the legal framework for the provision of services.

The 1991 Contract also incorporated quality indicators, setting minimum levels for the different services. In return for the concession of the service as a monopoly, the Royal Decree 2248/84 established Telefónica's obligations as regards service extension in the rural community, which is a fundamental aspect of our commitment to the universalization of the telephone service.

Another of the instruments established in Spain for the ordering of the sector is the National Telecommunications Plan, which spans the period 1991-2002, though subject to four-yearly reviews. This Plan establishes the liberalization of data transmission and circuit leasing services as from January 1, 1993 and of mobile services as from January 1, 1994. The LOT was also modified along these lines in December 1992.

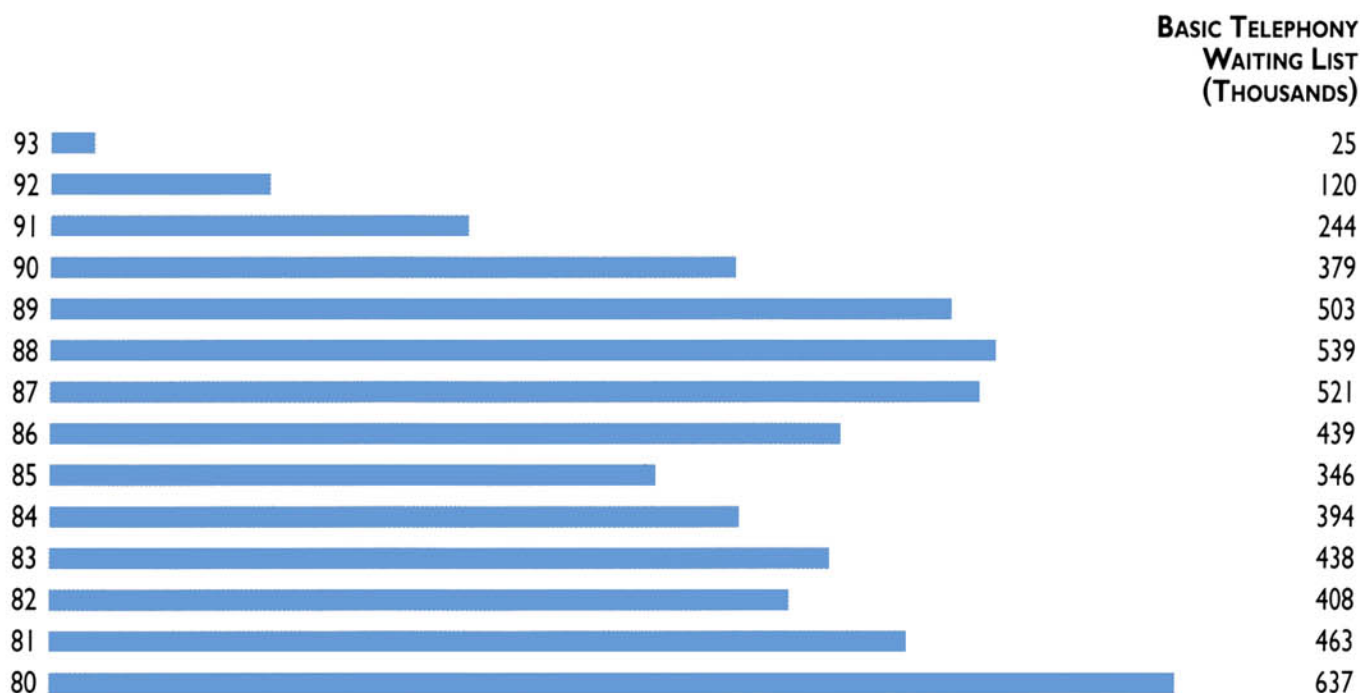
Under the telecommunications legal structure, 1993 witnessed major changes, partly as a result of the developments that have taken place in Spain in service provision and partly due to the liberalized environment derived from European policy. It was also a year when matters related to the liberalization of the telephone service, which had previously only been discussed in specialized forum, began to be widely aired in the media. This was largely a result of the publication of the Report on the telecommunications sector drawn up by the Competition Defence Tribunal.





**THE PUBLIC COMMITMENT OF A PRIVATE COMPANY.** In this respect, we should point out that, in April 1993, Telefónica immediately took on a series of commitments with Spain. To highlight these, a publicity campaign was launched under the slogan *The Public Commitment of a Private Company*. One of the principal commitments was to service provision to outlying areas and rural zones. This was agreed under the terms of the Service Expansion in the Rural Community Operational Plan, passed by the government in March, which also established collaboration procedures with the Autonomous Regions and other Local Authorities for the development of the above-mentioned Plan. By 1996 at the latest, there will be a true universalization of the service, whereby every citizen will have equal access to the basic telephone service, under the same price and quality conditions, wherever they may reside. In contrast to the Royal Decree of 1984, which did not anticipate the fulfilment of this objective before well into the 21st Century, the introduction of radio technology (Cellular Access) for basic telephone service provision, an initiative of which Telefónica is one of the world's pioneers, will enable us to reach this ambitious target almost immediately.

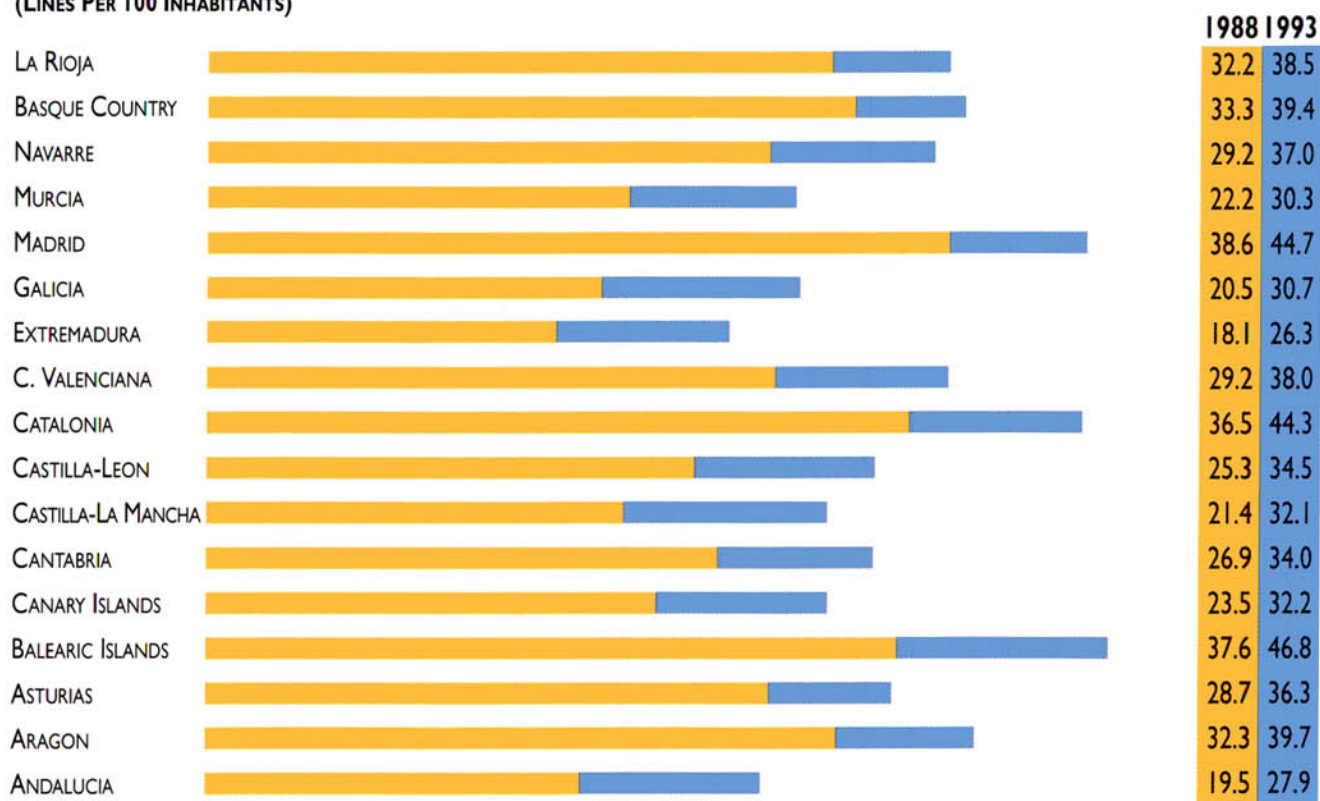
The radical fall in waiting time for the installation of new telephone lines, which stood at 8 days at 1993 year-end, and the consequent permanent elimination of the waiting list; the gradual implementation of the free itemized bill service, already benefiting almost two and a half million telephone service subscribers; the steady implementation of new services, such as the ISDN (to name just the most significant) and the continuing network modernization measures, fully described on the following pages; the average fall in tariffs in real terms and the considerable improvements in many of the service quality indicators: all are achievements of which Telefónica can rightly be proud. And although they all show the ample fulfilment of our solemn commitment to the Spanish people, they do not yet represent the full accomplishment of the Company's ambitions regarding quality



enhancement and the range of services offered. And what is still more important, the positive response to all this from our users is evidence of the synchrony between the commitments we made and our users' expectations and needs, thus enhancing notably the image of Telefónica among our clients.

**THE FUTURE LIBERALIZATION OF THE BASIC TELEPHONE SERVICE.** As a consequence of the mandatory review of the EC Services Directive, in June 1993 the Committee of Telecommunications Ministers approved the liberalization of the voice telephone service and the abolishment of the exclusive rights of current operators by 1998 at the latest. They also established, as a prerequisite for this liberalization, the restructuring of tariffs to represent the costs of the different services and the elimination of the existing crossed subsidies. As a result of these agreements, the concessionary period of the basic telephone service monopoly, which was fixed for a period of thirty years in the 1991 Contract, has been drastically reduced. It is also true that Spain was granted a supplementary period of five years to carry out the necessary adaptations, on account of both the imbalance reflected in the telephone tariffs and the greater efforts demanded for the extension of its networks.

**BASIC TELEPHONE  
SERVICE DENSITY  
IN AUTONOMOUS REGIONS  
(LINES PER 100 INHABITANTS)**

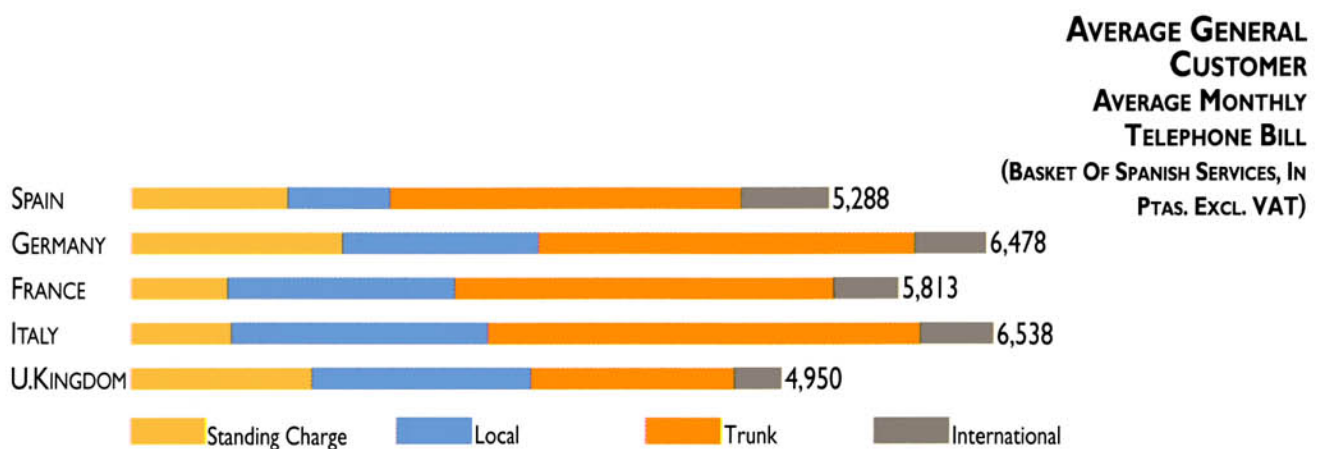


Telefónica followed these events, including the public debate over the liberalization of the telephone service, with the close attention they deserve. It seems that a certain consensus of opinion is in favour of not waiting until the end of the additional five-year period granted to Spain by the EU in June 1993 and of directing regulatory action towards the liberalization of the basic telephone service to coincide with the majority of the other EU members, that is to say, January 1 1998, ensuring that the necessary tariff adjustments have also been carried out by that date.

Over the last few years, Telefónica has designed its corporate strategy and organization fully aware of the inevitability of the liberalization process and even anticipating the possibility of it being brought forward, as has in fact happened. More important in our minds than establishing when it will happen, is the fact that the debate which has taken place has also disposed of certain doubts relating to the process, allowing us to specify the Company's plans for the future.

Far from being a hindrance, these doubts have been a help in spurring us on in our endeavours to continue offering our customers enhanced quality and a wider range of services. Indeed, the adoption of these public commitments, anticipating the demands imposed both by the concessionary Contract and by the National Telecommunications Plan, responds to a competitive corporate vision and is clear evidence of, not only our will, but also our capacity to set for ourselves more ambitious targets aimed at satisfying our customers.

**THE TELEPHONE BILL.** Service quality must also be considered in relation to its cost, since what matters is the relation between both. The difficulty of comparing telephone charges internationally is one which is fully recognized. Despite this, there can be few doubts as to the low cost in Spain of the majority of calls made, that is local calls. However, although it is a simplification and affects a relatively small number of calls, what is frequently compared is the cost of a call to another country and the cost of a call from that same country. Such a comparison is certainly not a favourable one for Spain, but in any case it is affected by the exchange rate applied. Now that the overvaluation of Spain's currency has been corrected, this comparison is much more realistic and consequently

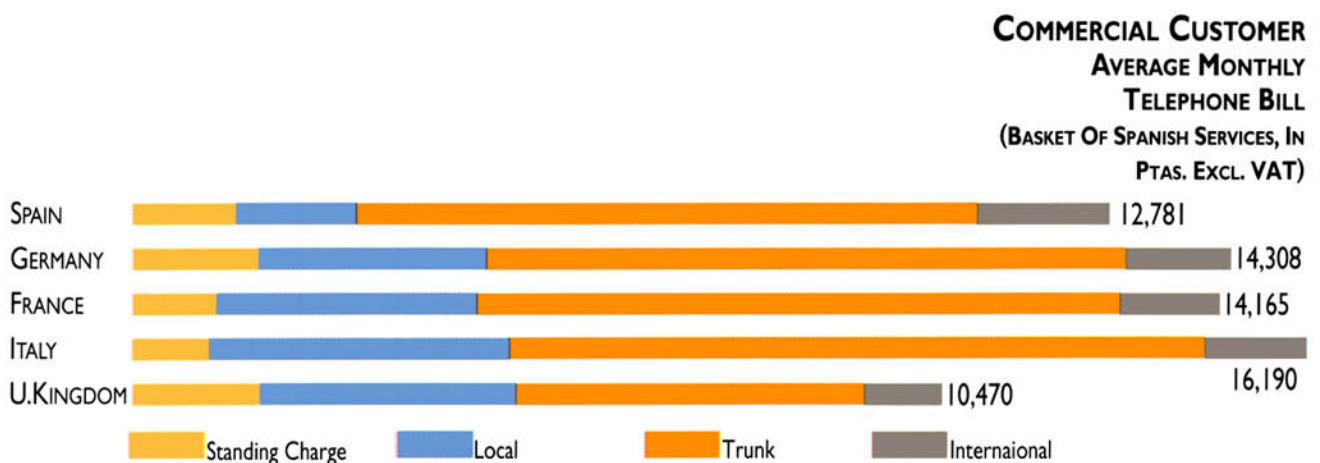
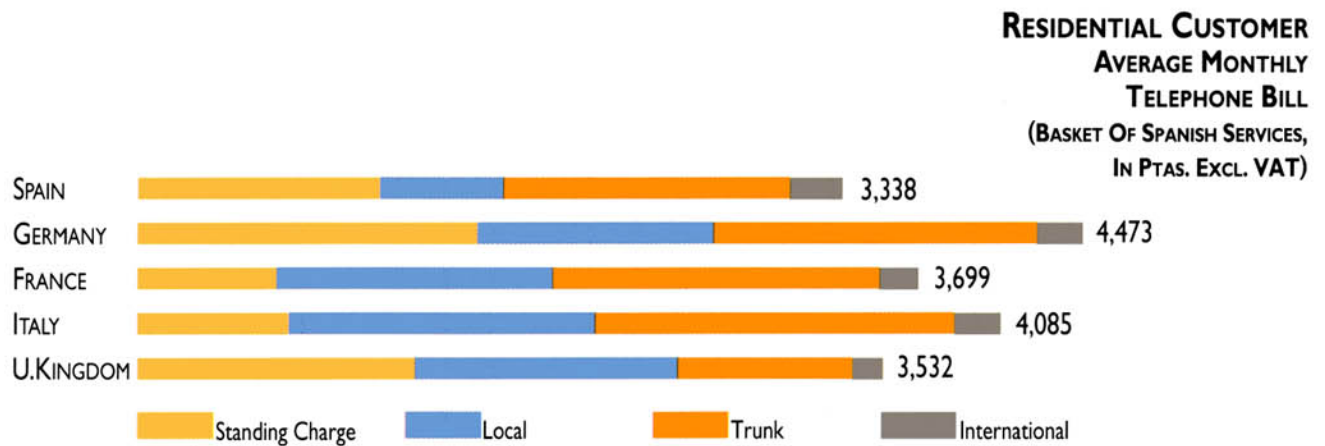




more favourable to Spanish tariffs. Even so, this clearly does not give the whole picture. The only accurate way to compare tariffs is to start with consumption structure and work out the cost of the average telephone bill applying the tariffs in force in each country to that structure, taking into account the distribution of bill items, types of services, time bands, etc. Applying this procedure we find that the average bill of a residential user in Spain is less than that of the five major EU countries.

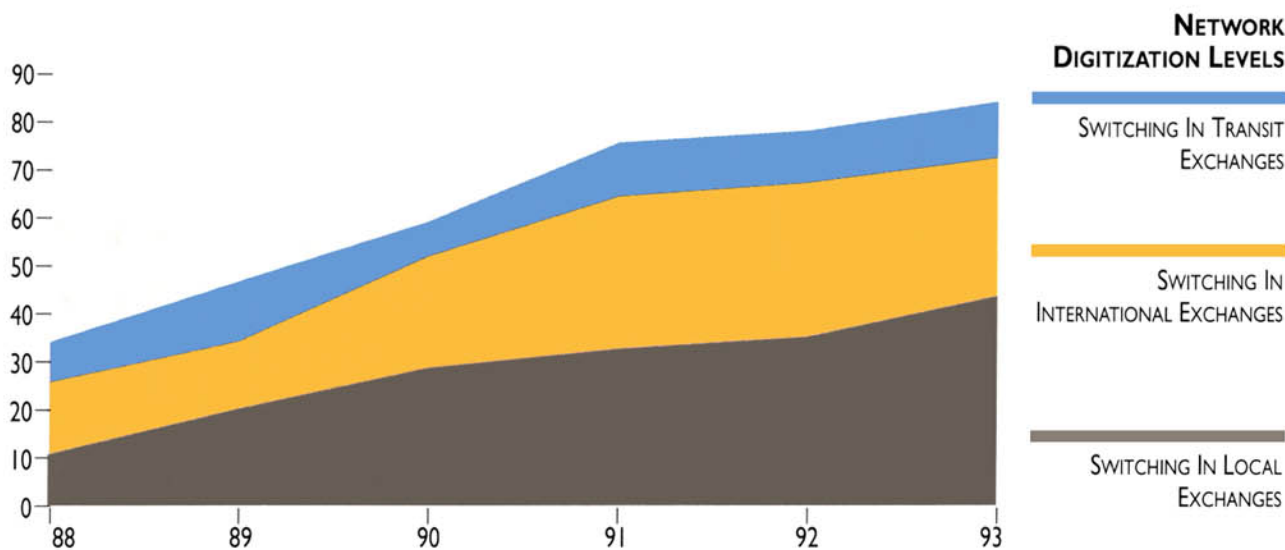
**TOWARDS A MULTIMEDIA WORLD.** All that we have said shows that 1993 was a year of transition. Along with achieving the highest ever levels of basic telephone service quality and penetration and consolidating other services, such as data transmission and mobile telephony, the new competitive framework for the supply of telecommunications services in our country, beginning with the liberalizing of data transmission and circuit leasing services, took on a more definite shape..

In addition, while society's demands for greater availability of all types of services continued to grow, the alternatives offered by technological innovations continued to provide new possibilities



for increasing the supply of these services. In particular, during 1993 we saw greater convergence between computer technology, telecommunications and the audiovisual sector, reflected in a series of mergers and strategic alliances both in the USA and in Europe, giving rise to a process of globalization of services. In the same direction, in 1993 Telefónica entered into collaboration with the consortium UNISOURCE, formed initially by Dutch, Swedish and Swiss operators, aimed at providing its multinational clients with a worldwide voice and data service. As a result of our steady expansion in the Latin American region, Telefónica has also become Spain's leading multinational company, a process which has also encouraged the internationalization of other companies.

If we add to all the above, the fact that in 1993, for the first time, Telefónica achieved a



self-financing level of investments of over 110%, we can confidently say that almost all the conditions exist for a fresh leap forward both quantitatively and qualitatively in the Company's activity. In the face of the oncoming basic telephony liberalized market, this leap forward can be none other than the development of advanced Transeuropean networks, as outlined in the White Book published by the EU, and the incorporation of a range of new multimedia services, which will lead us forward to the telecommunications of the 21st Century, already underway.

#### CALL EFFICIENCY LEVELS (%)

