



MULTIMEDIA SERVICES

In 1994 Telefónica Multimedia was set up in order to market and operate entertainment and leisure services. During 1995 its main task was to explore and define markets, products and services for the introduction of cable television services.

Telefónica Multimedia developed its activity in four lines of business, in order to secure a strong foothold in the telecommunications of the future:

CABLE TELEVISION

The Cable Telecommunications Law was approved in December 1994. Throughout 1995 Telefónica Multimedia worked in order to take

full advantage of the new legal framework. In July, Cablevisión, was relaunched. This company, in which Telefónica has a holding along with Canal Plus, Argentaria, Iberdrola and Abengoa, was formed in 1992 to serve cable television operators.

In December 1995, cable television operations were already underway in 43 locations throughout Spain. During 1996 activity will expand and we shall see an increase, as far as current legislation permits, in both the number of clients and localities served.

Business is conducted through operating companies which offer the service in these places. Telefónica, apart from transporting signals, has at least a 51% holding in these companies.



During last year, Telefónica Multimedia was mainly concerned with exploring the markets.



In addition, the expansion of optical fibres carried out as part of the PLAN FOTON will allow Telefónica to speedily secure a strong competitive position with excellent prospects, in all places with fibre optics in the subscriber loop.

The ability to provide a rapid response as far as network availability, is vital but is not enough if we are to compete successfully in a totally free market, such as the Spanish cable one. The key to success is to offer the market a whole array of quality programs and services at attractive prices.

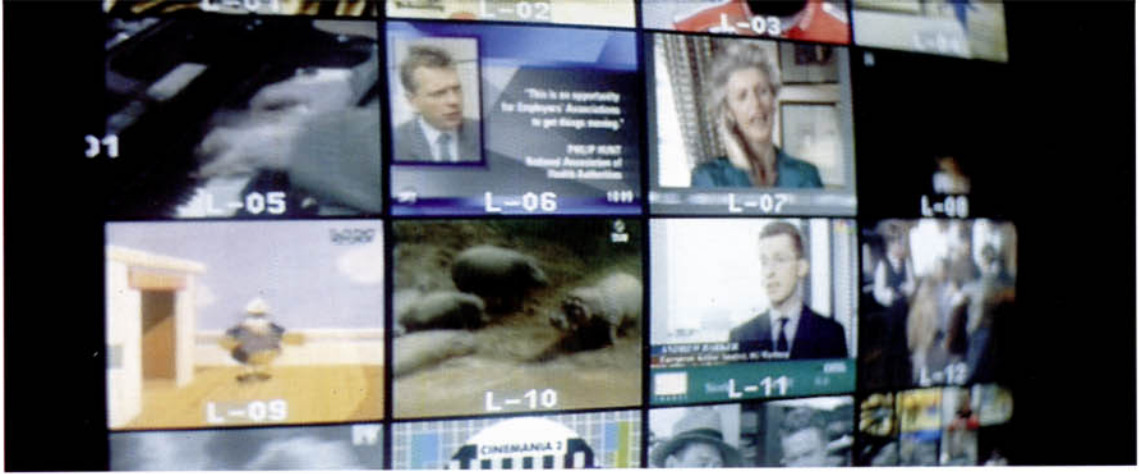
The provision of programs to local operators is one of Cablevisión's fundamental jobs. The development and supply of interactive multimedia services is another of the business areas undertaken by Telefónica Multimedia.

PRODUCTS AND MULTIMEDIA SERVICES

The introduction of Telefónica's cable networks, the design of which can be regarded as among the most advanced, both on a European and worldwide level, enables us to offer interactive services with far higher transfer speeds than those of conventional networks and therefore a much richer quality of image and sound; in short, high quality video and high fidelity sound.

These possibilities will be gradually applied to all areas of activity which require the use of interactive communication. However, the initial phase will focus principally on eight major product lines:

- Telebanking
- Teleshopping
- Tele-education
- Telemedicine
- Teleworking
- Access to on-line services
- Connection to INFOVIA and INTERNET
- Games.



At present, Telefónica Multimedia is developing these services and prototypes will shortly be presented publicly, with marketing due to start in 1996.

SATELLITE TELEVISION

Where the cable doesn't reach, the satellite will. Over 40% of the country's population live in small localities and to take them these services -principally television but also others- it is more appropriate to employ the possibilities offered by the distribution of programs via satellite. What is more, not only does this provide fast, economical coverage to extensive areas, it can also broadcast an enormous number of channels, thanks to new digital techniques.

This business area is still in the early stages. In 1996 we shall start to develop it towards the residential and tourist markets in Spain and to the Latin American market, where in the latter case, special emphasis will be given to the provision of contents.

S.T. HILO

The commercialization of the HILO MUSICAL (piped music) service, consisting in the telephone cable transmission of six music channels, is in the hands of the company Servicios de Tele-distribución, S.A. (S.T.Hilo), which also handles the sale and installation of Megaphony, A.M.T. and Mensatel.

Among the company's short-term goals, is the creation of a Customer Service Center and the incorporation of integrated computerization to improve and simplify the current information and management systems. Though still under study, we have planned for the installation of a new Program Broadcasting Center which will house the latest technologies in Music Transmission and Broadcasting Systems via cable.