

1996 — *Highlights*

January

— Telefónica and the Institute for the small and medium-sized company (IMPI), part of the Ministry of Industry, sign an agreement to provide information to small and medium-sized companies (PYMES). At the same time, the hotel chain, the Paradores and the Education Institution SEK, sign agreements to update and equip these organisms with the most modern telecommunications infrastructures.

— Telefónica and Iberdrola sign an important strategic telecommunications alliance. The agreement includes the creation of a joint venture to provide value-added services and develop diverse activities within the telecommunications sector. It also includes the optimum use of the infrastructure and its application in Latin America. This agreement will take advantage of both companies' customer bases, operating experience, geographic distribution of activities, management of infrastructures and company image.

— Telefónica Móviles' customer portfolio exceeds one million. Annual growth rate now stands



at 135% and penetration index surpasses 2.6%.

— Telefónica Sistemas exports its management system to Argentina. This system will monitor and control the 20,000 public modular telephones distributed throughout the country through Telefónica de Argentina.

February

— Telefónica agrees to provide the Medical Board access to information highways through InfoVía. Likewise Banco de Santander's home banking system becomes the first interactive system, through InfoVía, to offer access to financial services from the comfort of one's own home. InfoVía currently has 150 Information Provider Centres that can be accessed through this service, making it a multiprovider access service to Internet.

— The Telefónica Group provides the Sierra Nevada 1996 Ski Championships a complete array of global telecommunications services:



voice and data communications, analog and digital GSM mobile telephony, radio-paging, public telephony, special services for journalists and a constant public attention service.

— Telefónica is made the exclusive global telecommunications provider for the intercontinental golf tournament, the «Ryder's Cup», therefore assuring the application of the most modern transmission technology for the coverage of the event.

— Telefónica announces that in the course of 1996 it will invest 71,000 million pesetas in Andalusia, therefore becoming the highest investor in the region.

— The Spanish Commercial Rating Association (AECOC), and Telefónica renew their agreement to operate the EDI AECOM service which is responsible for the development of the most significant technological advances in the increasing of transmission speeds and the development of new communications access routes such as ISDN and InfoVía. AECOM currently embodies the highest number of EDI service users in Spain, growing 300% over the figure for 1995.

— Telefónica Internacional finalizes its entrance into the Argentinian cable TV company MULTICANAL, thereby strengthening the Telefónica

Group's position in the Latin American multimedia sector and complementing its leadership as a telecommunications operator in the area.

March

— Telefónica and Microsoft sign an agreement for the joint development and marketing of their products and services throughout the world. The Company is also granted, through a bidding process, the right to provide the Ministry of Trade and Tourism with its communications network. The Royal Academy of Science agrees to collaborate with Telefónica on the compiling of an electronic edition of scientific and technical vocabulary through Internet and InfoVía.

— The Social Security's General Treasury and its Administrators form an agreement with Telefónica Servicios Avanzados de Información (TSAI) by which this company's electronic mail service Mensatex 400 will be introduced to cover their communications needs: the registering of contributors, TC2, labour related inquiries, etc.

— The new Telefónica Móviles service, Multiasistencia 2424, is created, consequence of the agreement with the European company Multiassistance. This service offers the convenience of a single number attention line through which MovilLine and Movistar customers can make all types of inquiries.

— Telefónica names Arthur Andersen, Peat Marwick and Price Waterhouse as the external auditors for the Group's companies for the years 1996, 1997 and 1998. These companies have been responsible for the auditing over the past few years. Telefónica has divided its 23 principal subsidiaries into three sub-groups, in order to introduce a rotation system among the three auditing companies previously mentioned.

April

— Telefónica sells Sintel to the North American company Mastec for 4,900 million pesetas.

— The Recoletos Group joins Telefónica Sistemas and Proeinsa in the TeleLine project. TeleLine is an interactive on-line service that offers information, communication, entertainment, and Internet connection services, through the telephone network.

— The Telefónica subsidiary TEMASA is granted, following an open international bidding process, the installation contract for the cable-laying ship «Teneo» to lay the



underwater cable Adria I, that will link Croacia, Albania and Greece. TEMASA is also responsible for the laying of the Barcelona-Savona cable, conceded through an international bidding process.

— Telefónica Móviles presents its Automatic Location of Vehicles and Fleet Management Service, «MoviStar Flotas». This service is specially designed to cover the communication, information and location needs of the transport sector.

May

— Unisource and AT&T join forces in Europe through the creation of a Paneuropean communications and multimedia services company. Likewise, AT&T and Unisource will continue to carry out joint investments in other business ventures in order to enhance their service offer.

— The Peruvian daily newspaper «El Comercio» joins Telefónica Multimedia de Perú to develop cable TV.

— Standard & Poor's, the international rating company, concedes Telefónica an AA long-term rating. This comes as a result of the Company's strong position, combined with the Group's sound financial situation.

— Telefónica and the association for the blind, ONCE, agree to create, in a three-year period, 300 jobs for handicapped people and to

introduce joint projects regarding Tele-employment. This agreement forms part of the Telecommunications Access Plan for Disabled People.

— The Generalitat de Catalunya (the Catalan regional government) and Telefónica sign an agreement regarding the implantation of a corporate network for voice, data and image, integrated into a Network Management Centre. IBM also signs a cooperation agreement with Telefónica regarding InfoVía by which both companies will promote this service.

— The first «TeleSpacio» shop opens in Madrid forming part



of Telefónica's new marketing model by which the Company aims to bring their products and services closer to the customer. TeleSpacio is the first shop of its kind in the world, offering virtual television and remote control systems through InfoVía and Internet.

— Coinciding with the first European conference on Regions and Information Society, the pilot project of a «virtual municipality» is initiated in the town of Villena in Alicante. This project has been

developed by the Generalitat Valenciana (the Valencian regional government) and Telefónica, among others.

June

— Telefónica doubles its access capacity to Internet through a second trunk connection with the US. InfoVía is now the most popular access route through the services offered by more than 80 companies which use this application to maintain contact with their subscribers.

— At the extraordinary meeting held by Telefónica de España's Board of Directors, Juan Villalonga Navarro is named Chairman. Prior to this naming he was responsible for Bankers Trust's activities in Spain and Portugal. Whilst addressing the Board, Mr. Villalonga underlines, among other priorities, the strategies for the immediate future, particularly the intention to increase shareholder value, the high quality service to be provided to all our customers, and the support of the rapid introduction of competition, within an unbiased and transparent regulatory framework.

— Telefónica presents its new type of bill in braille «Validai '96» at an international conference. This bill has been developed with the collaboration of the ONCE, and will accompany the ordinary bill.

— At the XIth World Telecommunications

Conference, held in Seville, and attended by more than 500 telecommunications specialists



from all over the world, the Telefónica Group presents an array of multimedia services and applications through ATM networks, information highways, etc.

— Telefónica appoints the North American investment bank, Morgan Stanley, as the coordinator for its European Medium-Term Notes (EMTN) programme for the European market. CS First Boston, Deutsche Morgan Grenfell, Merrill Lynch and Salomon Brothers among others form part of the initial core dealers for the programme.

— Telefónica Móviles' customers exceed 1,500,000 (1,200,000 with MoviLine, and



310,000 with MoviStar), reflecting 50% growth in the customer portfolio. Telefónica Móviles, Hewlett-Packard and Nokia agree to develop the concept of a "Mobile Office" in Spain, through the marketing of a set considered to be the smallest «office» in the world.

— Lotus and Telefónica sign a strategic agreement to collaborate on the implantation of the «Notes Public Network» platform, aimed at the development of such trends as Tele-employment, Intranets, Webs, etc, within the framework of InfoVía.

July

— Reuter's and Telefónica Móviles launch a financial information service for GSM customers.

— Telefónica, the Internet Users Association and SEDISI persuade the Internet connection providers to create a neutral domestic interconnection loop that will simplify communications and avoid Internet traffic from extreme ends of the country having to go through international trunks, which are often saturated with traffic and are more expensive for the customer.

— The Spanish Standardization Association (AENOR) approves Telefónica's billing process.

— Telefónica cuts the price of its international calls by an average 13.3%. This price



reduction, combined with that of year-end 1995, represents an overall price cut in international call tariffs of 25%.

— Telefónica and the Anaya group develop the INFOEDUCA service for school children and university students, through the provision of educational, cultural and entertainment-related information, aimed at the education community in general.

— The hotel chain NH and Telefónica sign an agreement



for the incorporation, in hotels, of the most technologically advanced products and services. Likewise, the Spanish

Savings Banks Confederation (CECA) signs a similar agreement with Telefónica, to install these products and services in their offices.

— Telefónica Internacional prepares its entrance into the Brazilian market, through its participation with RBS Participações and the Companhia de Telecomunicaciones de Chile (CTC) in a consortium that will bid for 35% of the ordinary shares of the Brazilian company Companhia Riograndense de Telecomunicações CRT.

— Telefónica Sistemas de Satélites (TSS) carries out its first commercial transmission in Spain, using a transportable digital ground station, in accordance with the corresponding international regulations.

August

— Telefónica del Perú begins to market the InfoVía service, becoming the second country after Spain, to introduce the information superhighway developed by Telefónica.

— Telefónica Móviles raises the number of countries and service operators through



which it is possible to use MoviStar. This figure now stands at 45 countries and 64 service operators. This has become possible due to open roaming agreements reached with Thailand, Indonesia, the Czech Republic and Taiwan.

September

— Telefónica chooses Zaragoza to be the first province to incorporate nine digits in its dialling. This forms part of Telefónica's new Numbering Plan, as proposed to the Government by Telefónica, in accordance with European Union requirements.

— Telefónica, along with Hewlett-Packard, Microsoft and Banco Santander, organize, coinciding with the international cycling race «la Vuelta de España», the "Vuelta Mágica" (the Magic Tour), using a «magic» bus carrying software which enables the inhabitants of different towns and cities to see, for the first time, how to use the new tools to surf in Internet.

— Telefónica and Microsoft sign a joint distribution and promotion agreement to include InfoVía in the operating system of Microsoft Windows 95. The InfoVía user software will be included in the Spanish version of Windows 95 in pre-loaded PCs to be distributed in Spain and Latin America at the beginning of 1997.

— Telefónica Móviles initiates its promotion campaign to extend

the usage of mobile telephony. This campaign will be carried out over the next few months with the cutting of MoviStar Data prices and the night-time retrieving of voice and fax mail, which will now be included in the time band «Free time».

October

— The multimedia Yellow Pages Web site on Internet, produced by Telefónica Publicidad e Información (TPI) receives an award from the IXth Annual Convention of the US Editors of Yellow Pages (YPPA). TPI now has more than 1.5 million companies registered in its directories, both on InfoVía and Internet.

— Nestcape, a leading company in Internet products, signs an agreement with Telefónica Sistemas as the first systems distributor of Intranet applications in Spain and Latin America. Telefónica presents its technological platform for digital television via satellite to the media. Testing also begins through the Hispasat satellite.

— Telefónica Internacional pre-qualifies in the privatization process of Companhia Riograndense de Telecomunicações.

— Telefónica Móviles launches its «MoviStar Dual» service. This is the first time that GSM mobile telephony has offered the possibility for a company and an employee to share the usage of a mobile telephone and a MoviStar card, as the

card distinguishes between business and personal calls, through a code system. New MoviStar discounts are also launched, namely: the Maxisavings and 3-number contracts. The insurance company MAPFRE chooses MoviStar for its «Automatic Vehicle Finding» service, Segurmóvil. This service is the first of its kind, combining advanced GPS positioning technology with data transmission using GSM.

— The Telefónica Móviles-owned company, RadioRed, responsible for the marketing of mobile land radiocommunications for closed user groups, is granted four new regional licences for the operating of trunking services, becoming the only operator to provide this public service in the existing twelve zones.

— Paul Smits, of Dutch nationality, takes over the presidency of Unisource from the Spaniard, Francisco Ros who becomes the president of AT&T-Unisource Services, the company which will market AT&T and Unisource's products and services in Europe.

November

— Sogecable and Telefónica agree to dissolve the Strategic Agreement signed in July 1995 regarding cable TV, and to terminate their joint venture in Cablevisión and the local operators. Cablevisión becomes wholly-owned by Sogecable, and the Telefónica Group acquire

the shares previously held by Sogecable and Cablevisión in the local operators.

— Telefónica once again doubles the Internet connection speed with the US, now reaching 16 Megabits. Telefónica Transmisión de Datos, this market's leading operator, provides more than 80% of the Internet connections provided by the 230 Internet Access Providers currently existing in Spain.

— Telefónica Romania, a company in which Telefónica Internacional participates, contests before the Rumanian authorities, the bidding process and subsequent granting of licences for the provision of the cellular telephony GSM service, due to the aforementioned company having been excluded.

— Telefónica and Planeta join forces with the Board of Architects in the launching of the first on-line service for the construction sector, to be provided through the joint company BuildNet S.A.

— The Generalitat Valenciana and the company Camerdata, incorporated by the Spanish Chamber of Commerce, sign strategic collaboration agreements for the implantation, in their different activities, of the most advanced telecommunications services.

— Telefónica Móviles cuts its MoviStar service prices by up to 11%, in the «office-hours»

time band, following an interconnection agreement between Telefónica and Movistar, cutting the prices of calls between mobile and fixed telephones. Moviline and Movistar receive the AENOR quality rating in accordance with international standards.

— Telefónica presents the remodelling of the Telefónica Group, whose Management Committee is made up of 12 members who head the Corporate Centre, five Business Units each with its own profit and loss accounts, and two Resources Units.

— Telefónica Publicidad e Información (TPI) and the Valencian Council, sponsor the El Almodín exhibition in Valencia. The exhibition includes 15 sculptures created by the Basque artist Eduardo Chillida, on loan from Telefónica's art collection, the artist himself and the National Art Museum, Reina Sofía.

December

— Telefónica Internacional wins the bidding process for the



privatization of the Companhia Riograndense de Telecomunicações (CRT). This

operation is of high strategic value for Telefónica Internacional as it completes its expansion in MERCOSUR's natural markets.

— The InfoVía service celebrates its first anniversary with record growth rates: more than 840 Service Information Providers, 215,000 users, 36 million calls received and 10 million connection hours. Telefónica is also pioneering the export of this service to two Latin American countries and is acting as the principal vehicle for the expansion of Internet in Spain.

— The Telefónica Group agrees to invest \$85 million in



the construction of Panamerican Underwater System, which will be operating by August 1998 and will represent the most important network in the linking of the South American countries, in the Pacific and Caribbean seas, with the US and Europe.

— Alcampo and Telefónica create the Virtual Hypermarket, which, through the InfoVía service, will offer a new 24-hour distribution centre, open

7-days a week and offering a delivery service.

— Microsoft and Telefónica announce the joint investment of 500 million pesetas in the expansion of computer-related services and telecommunications among small and medium-sized companies. This project will be based on a marketing strategy through which Spanish companies will be offered solutions in the form of the products, technology and services of both companies.

— Telefónica Móviles intensifies its marketing strategy through the launching of a «super» Christmas offer, consisting of a free gift of a basic Movistar handset and 5,000 pesetas worth of free calls included in the SIM Movistar cards purchased over the Christmas period. The 5,000 pesetas in free calls is deducted from subsequent bills.

— Telefónica receives the direct marketing «Echo Gold Mailbox Award» for InfoVía's launching campaign. This award, given by the Direct Marketing Association, is the most important of its kind worldwide.

Telefónica, Planeta and IBM present their joint launching of a computer «set» aimed at promoting the usage of Internet and InfoVía.

— Barcelona is the scenario for the first Telephone Telecard

International Fair to be held in Spain. This fair is sponsored by Cabtel (Telefónica Group) and the Asociación Coleccionistas Targetes Telefónicas. Cabtel's Card Collectors Club has 2,500 members throughout the world.

— The Spanish Quality Rating Association (AENOR) grades Telefónica's quality system in all the Spanish provinces, in accordance with the international UNE standard. The achieving of this grading forms part of the objectives laid down in the Total Quality Company project initiated by Telefónica in 1992, which includes the whole organization.

— On December 20th, the Cabinet grants authorization to the Dirección General del Patrimonio del Estado to transfer the State's share participation in Telefónica to the Sociedad Estatal de Participaciones Patrimoniales (SEPPA), and the subsequent divestiture of this participation (196,738,320 shares) through a Public Share Offering. This therefore means that the State will no longer participate in Telefónica's share capital nor will it be represented on the Board of Directors.

— On December 20th, the European Union approves Telefónica's incorporation into the Unisource Alliance.

Copies of this Annual Report are available to shareholders at the company's offices. They can also be requested by mail at the following address:

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The information required by law is also available to shareholders and to the general public.

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