

## *Spain's leading multinational*

1996 has witnessed the consolidation of the Telefónica Group's leading position within the newly-created global telecommunications market. The policy of expansion into new markets, developed over the past few years, has achieved a business volume that has made Telefónica Spain's foremost multinational.

At the same time, and in line with the liberalization policies being introduced in the sector, at both a European and world level, these have resulted in a separation between regulatory organisms and operators, and a general trend towards privatization has been reflected by leading operators. With this in mind, the Spanish government decided to totally privatize Telefónica de España's share capital at the beginning of 1997. All the tranches of the Public Offering, launched at the beginning of 1997, have been highly successful, registering more than one million new investors, attracted by the excellent performance of our shares: at the end of October 1995 our share price stood at 1,615 pesetas, whereas, at the end of 1996, when the new Public Offering

was announced, our share price had soared to over 3,000 pesetas, 79% growth in less than a year, and almost double the growth reflected by the Spanish stock market. Demand exceeded 5.45 times the 196 million state-owned shares on offer.

1996 was also a year of profound restructuring, taking advantage of the experience and capacity gleaned in the more than seventy years that Telefónica has operated in the telecommunications marketplace with one clear objective: to provide our shareholders with a high degree of profitability on an investment that not only offers yield, but also inspires a sense of security and continuity. In order to achieve this, clear market orientation and customer satisfaction are vital, along with the confirmation of our capacity to face the challenges posed by the competition.

With this objective in mind, the Telefónica Group's business strategy is based on the firm commitment to maintain our leading position in all the telecommunications markets, especially those of Latin American; the



consolidating of our ever-increasing presence internationally and the maximizing of the Group's potential and synergies. Telefónica is moulding itself into a global telecommunications operator with the capacity to provide the wide range of services demanded by our customers, in markets that often cross our national frontiers.

### **The new organization**

A key point in this process is the reorganization of the Group's business units, which was carried out at the end of 1996, based on the clear defining of our customers and the segmenting of our markets in order to consistently offer «made-to-measure» services. This new structure allows us to provide a highly competitive range of services, therefore taking advantage of the potential that each market has to offer.

The Telefónica Group's customers form five large groups: corporate clients, the general public, mobile telephony users, our Latin American customers and the customers in those countries in which we intend to operate or already have

interests. With this in mind, five Business Units have been created, each of which focuses on its respective market. These Units are the following: Retail Clients, Corporate clients, Telefónica Móviles, Telefónica Internacional, and International.

Each Unit is entirely responsible for its own area, from the designing of the products to be marketed, to the setting of prices and the drawing up of publicity campaigns or the control of their distribution lines.

This autonomous management of each business line is complemented by the existence of the Corporate Centre which oversees the Group's business orientation at all times, with a view to fostering the Group's synergies. There are also two Common Resources Units (Infrastructures and Resources) which are responsible for providing their services to the previously mentioned Units.

The entire organization is managed by the Management Committee which is the decision-making body and draws up

## Telefónica Group's Management Committee



the proposals to be made to the Executive Committee and the Board of Directors. The Management Committee is made up of the Chairman, and those responsible for the Corporate Core, the Business Units and the Common Resources Units.

The Board of Directors has taken a more active role in the management and control of the Company, guaranteeing the financial markets a high

degree of transparency. New independent members have joined the Board, all of whom are outstanding professionals with vast experience, not only in the business world but also in legal matters.



### **Our priorities ... and their goals**

Coinciding with the remodelling of our organization, the Telefónica Group laid down a series of priorities aimed at expanding and innovating the telecommunications business in the countries where the Group has a strong foothold, at the same time as consolidating the Group's position as the unquestionable leader in the mobile business and, making Telefónica a company with worldwide presence in its own right, or through the forming of alliances and the optimizing of the portfolios of our subsidiaries.

This remodelling task is being confronted using sound policies regarding the undertaking of ambitious projects to improve the selecting of



assets and investments, and increased productivity levels.

### **The consolidating of our leadership in mobile telephony**

Mobile services have come to play a vital role in any telecommunications company; mobile telephony has become a huge communications system, not only used by individuals, but also as the communication among computers, and the Telefónica Group therefore intends to consolidate its leadership not only in Spain, but also in international markets.

### **The development of businesses outside Spain**

At a moment in which the growth possibilities within Spain (at least regarding our traditional businesses) are going to be influenced by the action to be taken by the competition, it is crucial that all potential opportunities for new businesses must be taken advantage of. Therefore, one of our main priorities is that of confirming our leadership in the Latin American markets; another is that of accessing new markets.

**Communication**  
*is making the World smaller*  
*and our Company bigger*

Regarding the Latin American markets, three lines of action have been drawn up: maximum advantage must be taken of the current high growth potential offered by these countries; the panamerican project must be exploited to the full, as this is going to offer companies a made-to-measure communications services operator; and, finally, we must storm the Spanish-speaking North American market, as this is made up of approximately 30 million inhabitants. We would like to take this opportunity to remind you that Telefónica Larga Distancia de Puerto Rico has been authorized to offer domestic traffic throughout the whole of the United States.

In relation to our other markets, we have recently begun to investigate the business possibilities in North Africa and Asia. Contact has already been established with the Moroccan operator which is forecast to be privatized in 1997, and throughout the year visits will be made to other countries in the area. Concerning Asia, we intend to access its markets through the forming of alliances, as we did in Latin America.



**Optimizing the value of other subsidiaries**

The Group also has other companies with significant value and high development potential, namely: Telyco, Cabitel, Telefónica Publicidad e Información, the Telefónica Sistemas Group, Telefónica Transmision de Datos, and Telefónica Multimedia.

We will expand on the evolution of our different business units on subsequent pages.

