

Telefónica Móviles

It would be difficult to find any other sector within the Spanish economy that over the past few years has witnessed such meteoric growth as mobile telephony did last year.

The figure of almost 3 million customers - 8 of every 100 Spaniards - reflects the qualitative leap that this country has taken in this market, ahead of many other European countries.

Four out of every five mobile telephony customers have opted for our services MoviLine or MoviStar. In consequence, in its first year of complete responsibility for all its operating activities and under competition, Telefónica Móviles has more than proven its position as the leading national operator. This leadership is not only reflected by the number of customers, but also by the higher standard of quality, the more varied price range and the greater number of services on offer, when compared with our competitors. This company's principal aims are to guarantee customer satisfaction, at the same time as enhancing shareholder value and

motivating its workforce by making sure that each employee plays an integral part in the business project. All these things combined have made Telefónica Móviles the unquestionable leader it is today.





At year-end 1996, Telefónica Móviles had doubled, for the second year running, its customer base which stood at 2,345,645, reflecting a 153% increase over 1995. Of this figure 1,307,929 subscribed to the MovLine service, and 1,037,716 to MoviStar. In consequence, Telefónica Móviles now holds a market share of almost 80%, and what is of even greater

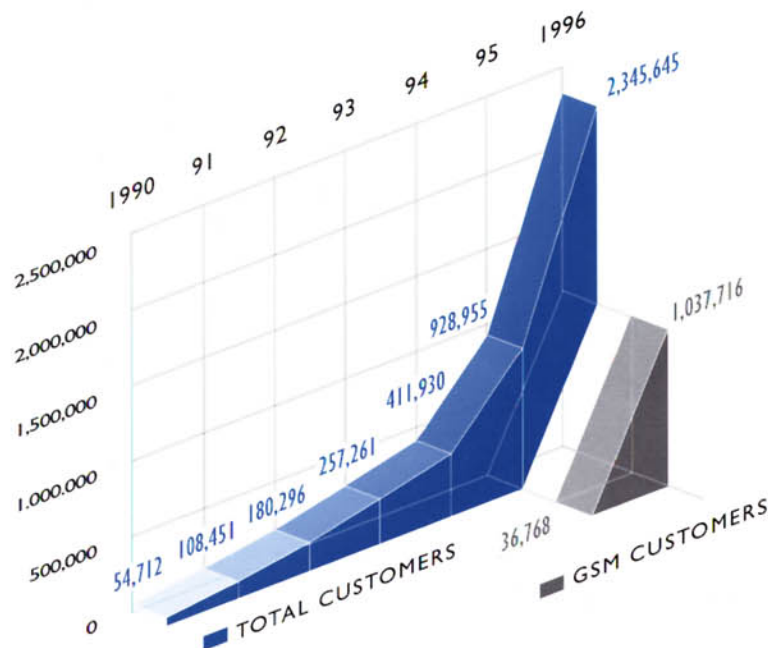
importance, has achieved a differential with its competitor of 1,700,000 customers, an 86% advance over the December 1995 differential.

Some of the milestones in this growth are the following: in January, MoviLine and MoviStar reached the joint figure of 1,000,000 customers which by November had become 2,000,000. Before the end of the year, MoviStar alone had achieved its first million customers, only 16 months after its launching.

Compared with leading European operators, Telefónica Móviles has registered the highest growth rate for the year and is second in its number of new customers, in absolute terms. Therefore, over the past three years the Company has gone from twelfth place to sixth in terms of customers.

This significant growth has been possible thanks to the stimulus that Telefónica Móviles has given the mobile market in Spain, through its extensive distribution network which, with more than 6,600 sales outlets, has enabled us to work

Telefónica Móviles' cellular customers



Consolidating our leadership in mobile communications

more closely with our customers and offer easier access to our services. Telefónica Móviles has gone to great lengths to promote its services and to surmount any barriers in the receiving of new customers, so in a year in which market positions were set, more than 37% of the company's revenue was channelled into marketing.

Service pioneers

Despite the fact that the Spanish market has achieved a certain degree of maturity, with forecast growth rates now becoming more moderate, the road ahead promises to be even harder than what has already been achieved, and, even though mobile telephony is now a part of many Spanish people's lives, its usage still tends to be limited to voice telephony for professionals and 15% of Spanish families. The ground to be covered presents a great challenge for Telefónica Móviles: the extending of the service to other communication areas such as data, text, etc, as the vehicle to increasing the productivity levels of our companies, at the same time as increasing penetration in the

residential market. With this in mind, Telefónica Móviles has launched its new services «factory», introducing an average of one new service per month and proving its capacity to provide the market with applications whose only boundaries will be those of the market's own capacity of absorption.

To name but a few of the new services launched last year, Corporate MoviStar, Multiassistance 2424, Reuters Financial Information, Telebanking, Fax Mail, MoviStar Photo, MoviStar X.28 and MoviStar Activa, the rechargeable prepaid card, which need no contract, nor monthly charges or bills. Telefónica Móviles has also increased the type of contracts it has on offer. In the spring of 1996, the Family Contract was introduced, which was followed by the Provincial MaxiSavings contract and the 3-Number MaxiSavings, which offer savings of up to 35% over the base price. These contracts permit Telefónica Móviles to offer the most extensive range of services and prices currently in the market and, without a doubt, the best attention to our customers' varying needs.



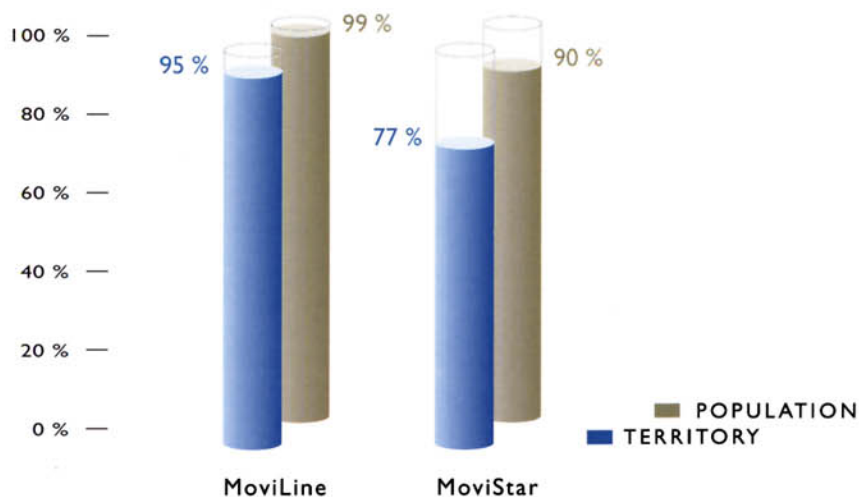
Quality is coverage

The back-up to these services and significant increase in customers is also of vital importance, and this has been reflected in the improvements made in the Telefónica Móviles networks, which last year alone carried 1,574 million calls, as well as providing connection to 220,260 basic telephony customers with cellular access. The number of base stations has doubled, with an average of eight a day having been installed. In



consequence, at the end of 1996, and in terms of vehicle phones, coverage reached 99% of the population and 95% of the country in the MoviLine service. Regarding MoviStar, the growth in coverage has been even more spectacular, as at year-end it had reached 90% of the population and 77% of the country. Lastly, the network has not been any the less, with the MoviStar network having installed an average of two exchanges a month. The overall investment figure resulting from this effort amounted to 141,102 million pesetas in 1996.

MoviLine and MoviStar coverage at December 1996



Guaranteed quality

The Company's constant desire to improve its services and customer care has paid off as, in November of last year, Telefónica Móviles received the AENOR Quality Rating of ISO 9000 in all its processes and services.

The best services on offer

Telefónica's mobile communications group, made up of Telefónica Servicios Móviles, CGS MensaTel and the

**SERVICE QUALITY STANDARDIZATION OF THE TELEFÓNICA DE ESPAÑA
GROUP COMPANIES**

	Rating	Date	Scope of rating
TEMASA (Maritime telecommunications)	ISO 9002 (Lloyd's)	August 1996	Quality of the management of installation and maintenance services of underwater cable communications using cable-laying ships and remote control vehicles.
TELEFÓNICA MÓVILES	ISO 9001	November 1996	Mobile telephony service, designing of mobile telephony and value-added services, designing of construction and operating of networks, marketing and distribution management, customer care and billing.
TELEFÓNICA SISTEMAS INGENIERÍA PRODUCTOS (T.S.I.P.)	ISO 9001	October 1996	Quality of network systems engineering services and telecommunications infrastructures.

SERVICE QUALITY STANDARDIZATION IN TELEFÓNICA DE ESPAÑA

	Rating	Date	Scope of rating
Provincial/territorial divisions	ISO 9001 (Aenor)	1994-1996	Basic telephony services, International communications, Data transmission, Public telephony, Information and Advertising. All the provincial divisions, along with the three territorial divisions (Canary Islands, Extremadura and Galicia) formed to date, have been standardized.
Billing	ISO 9001 (Aenor)	June 1996	All billing procedures.
International Communications	ISO 9001 (Aenor)	October 1996	International telecommunications services both domestically and internationally, and international network global services for operators and high volume customers in Spain and worldwide.



 TELEFÓNICA MÓVILES GROUP HIGHLIGHTS (million ptas.)

	1995 (*)	1996
Operating Revenue	120,548	258,906
Pre-tax Income	23,181	21,109
Capital Expenditure	89,401	141,102
Own Workforce	1,096	1,831
Total Assets	201,598	352,744

(*) Includes the activities carried out by Telefónica de España S.A. up to the transfer of licences to Telefónica Servicios Móviles, S.A.

RadioRed group, recorded consolidated revenues for 1996 of over 268,000 million pesetas, assets of more than 352,000 million pesetas and a workforce of over 3,500 people, with an average age of 29, of which 1,831 are directly employed and the remaining number carry out specific activities for Telefónica Móviles through subcontractors.

The combination of liberalized services offered by this Group, confirm our position as the sector's undeniable leader.

MoviLine has found its niche in the combining of mobile services that are ideal for personal use -

sightseeing, mountaineering, adventure sports - and business activities - agriculture, cattle farming, hunting, fisheries, distribution, etc - which offer extensive coverage even in sparsely populated areas. In these areas (both land and sea), which now have almost complete coverage, MoviLine provides high sound quality, coverage and complementary services, compatible with the most advanced analog technology. Despite this, MoviLine continues to pay close attention to the marketing and management effort required to maintain its leading position in the different segments that contribute to the business's global profitability.

MoviStar continues to be the best and most competitive answer for those customers that need communications in highly populated urban areas and major roadways. This service is able to offer a vast range of advanced data and text applications, in accordance with the most demanding quality standards throughout the world and with

international coverage. To be precise, MoviStar customers can use their handset to receive or make calls in 51 countries and with 78 service operators, a number that is constantly increasing.

MensaTel offers its radio-paging service nationally in the form of written, numeric or alphanumeric messages, along with the possibility to receive updated information on such things as the stock market and general information, etc. This company has maintained its leading position in a market that has been highly competitive for several years, and will shortly be boosted by the introduction of new types of contracts.

Regarding radio telephony in closed user groups, the **RadioRed** Group is the only operator that has aimed to gain presence in the eleven licenced areas, having been granted the three remaining ones in 1996, these being the Balearic and Canary Islands and the region of Estremadura. This therefore permits a more global and

personal offer, making RadioRed the market's leader and reference point.

Telefónica Móviles is therefore the only mobile communications operator who provides a global range of services, and, in the case of mobile telephony, offers more services, more diversified pricing, the greatest levels of coverage, the best relationship with customers and distributors, and, most importantly, the highest quality.





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