

Retail Clients

This market segment, with 12.5 million customers, represents one of the principal Business Units within the Telefónica Group's recent restructuring. This Unit has two main targets which are, to increase the profitability of our services and new businesses, and to raise margins. In order to achieve this we have introduced a series of marketing channels into the market by which the customer has become the focal point of our business. One example of this policy is that throughout 1996 seventy new products and services were introduced.

Solutions incorporated into the basic telephone service

Over 1996, the degree of digitalization of the access plant, with 16.3 million lines, increased significantly to reach 67.4%. This has enabled us to enhance the range of services on offer to include such services as Itemized Billing, which is available to 14.1 million lines. Throughout 1996, this charge-free service grew by 29.5%, also offering the customer itemized billing of metropolitan calls on request. At the

same time, we completed the studies necessary to be able to provide the customer with more informative billing, in line with his/her needs.

Telephone usage

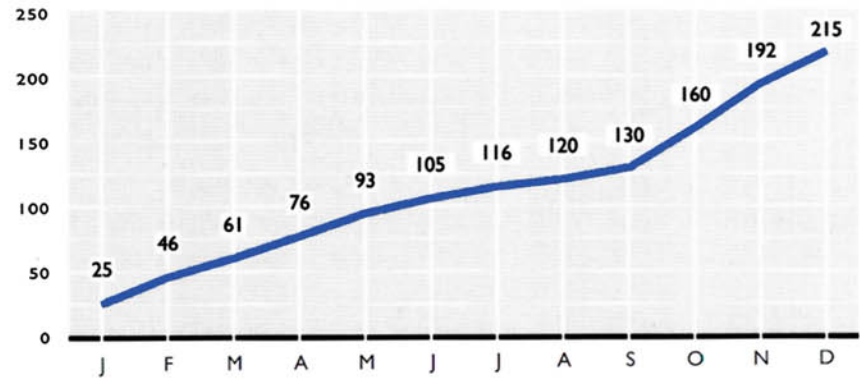
Usage per line rose more than 9% throughout 1996, with the performance registered by fixed-mobile traffic being particularly outstanding, having grown by 100%.

Regarding the attention to demand for lines, the waiting period stood at an average of three days, compared with four the previous year.

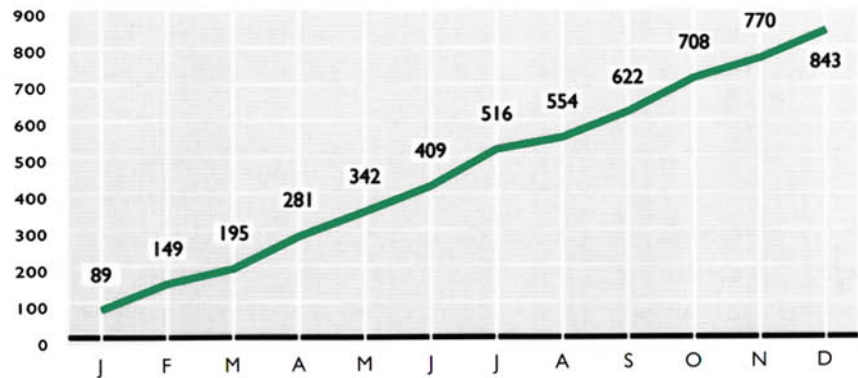
Star services

In 1996 a huge publicity effort was made, launching campaigns on all the media channels, television, radio and newspapers, and through new commercial platforms and direct marketing. These campaigns aimed to increase the usage and penetration among the general public of such services as: Call Waiting, Call Forward, etc. At December 1996, the number of

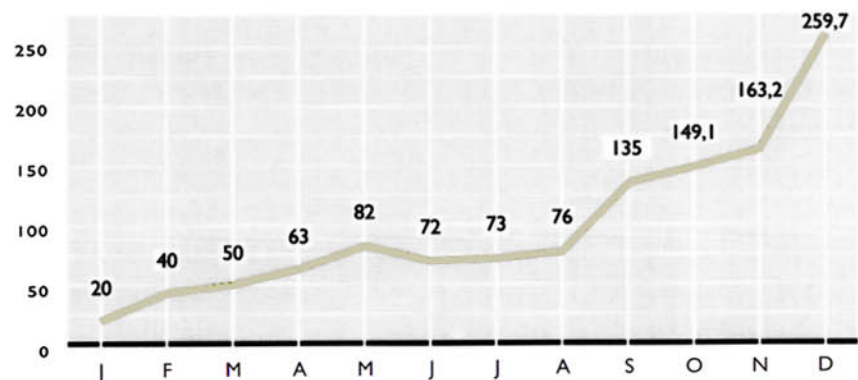
Number of lines (Thou.)



Information provider centres



Calls - daily average (Thou.) (*)



* Since June, calls of less than 30 seconds are not accounted

lines using these new services had risen 40%, to total 1,151,771.

The Telefónica Group's continuous effort to increase its direct relationship with the customer was also reflected in the national launching of the Answering Service, the «star» of the supplementary services. This service allows the customer to retrieve unanswered telephone calls or calls received while the line is engaged, without the need to install any additional equipment.

The convenience and user-friendly handling of this service, combined with the fact that the customer retrieves the calls free-of-charge from his/her home, and that the service is provided in the varying local languages of Spain, has made this service extremely popular, so much so that at year-end 1996, the number of telephone lines provided with this service totalled 4,041,256.

InfoVía/Internet

In response to the market's demands for electronic information, the InfoVía

service was launched at the beginning of 1996. This service offers Telefónica customers owning a PC to access all the service and information providers throughout Internet. In the course of the year, InfoVía became a universal information access channel to information highways both within Spain and abroad, and has come to represent Internet's principal expansion vehicle in Spain.

Over the twelve-month period, the effort made to extend this «star» service paid off, as the following record figures were achieved: 843 information service providers, 215,000 lines used to access the InfoVía service, and 36 million calls registered, resulting in a total of 10 million connection hours. Telefónica is also pioneering the export of this service to those Latin American countries in which it is already an established telecommunications operator.

InfoVía is also the gateway to Virtual TeleSpacio, through whose surfing system the shop may be accessed and purchases made, using a PC.



Service catalogue aimed at increasing profitability

Throughout 1996, more than one million telephone sets were sold, ranging from basic telephones with specific supplementary facilities to those that embody an answering machine or both an answering machine and fax, and particularly the most popular models such as cordless telephones.



Continuous customer service and sales

Our new Telemarketing system and our Customer Care Telephone Service (for which Telemanagement and Telesales 004 are responsible) aim to attend to our customers 24-hours a day, 365-days a year. At year-end 1996, over 80% of our customers were already receiving 24-hour attention, and more than 12.6 million calls had been attended to, therefore confirming this service to be Telefónica's most active sales channel, having generated more than 40% of the sales registered.

Distribution network through TeleSpacio

This distribution system, which has been in existence since May 1996, permits a personal approach to our customers and allows us to continuously adapt to their needs.

The four shops now attending to our customers (two in Madrid and two in Barcelona) are unique premises where, not only can our customers purchase our products and services, but he/she will also be provided with information on over 200 Telefónica products and services. Every one of these shops is equipped with a state-of-the-art telecommunications infrastructure that offers seven interactive audio-visual systems with a duration of more than four hours: access in real time to different services (Infovia, Internet, Teline, Videoconferencing,...), a pilot channel of video-on-demand, screens offering digital satellite TV, and the most advanced broadband technology under development.

TeleSpacio, representing the most «visual» section of our new commercial network, will soon bring us closer to our customers through an extensive network of shops - both Telefónica-owned and through franchise agreements - and a distribution network which will include department stores, commercial malls and small retail outlets.

Millions of people in 18 countries
Speak, do business and communicate
via Telefónica

Personal attention to our customers

This customer approach policy also includes a sales channel of extreme importance which uses two direct marketing tools, these being Telesales and Personal Attention, accessed through the freephone number 900 123 004 managed by Estratel. This subsidiary has one of the most advanced technological platforms, enabling it to offer a wide range of products and services, at the same time as guaranteeing their quality and competitiveness. In 1996, its market share stood at 23.2%, compared with 14.8% the previous year.

Another key channel within the distribution network is that of the Telefónica subsidiary Telyco, which has more than 1,500 sales and customer care points throughout the country, where the customer is provided with a complete range of services. In 1996 it registered turnover totalling 55,000 million pesetas, and its logistic activity has become particularly significant in providing the customer an integral

service. These services aim to achieve maximum customer loyalty.

Continuous customer care

Customer care forms an essential part of the Telefónica Group's policy to improve quality. With this in mind, in 1996, our Operator and Inquiry Services reflected considerable improvements. The rate of attention to calls - more than 218 million calls were received - reached 95.1%, almost 6 percentage points higher than the previous year. This service uses highly professional operating resources, therefore reflecting significantly improved productivity. As a result of this strategy, all the Spanish provinces received the AENOR quality rating of ISO 9000.

Tariff cuts

Telefónica continued its strategy regarding international communications, through the cutting of the prices of all its communication services and, also, offering high volume customers special discounts. In July, an average 13.3% price



cut was introduced, which, combined with the cuts that took place at the end of 1995, resulted in an overall decrease in international tariffs of around 25% in under a year. Telefónica has announced that in 1997 further cuts will be introduced in international and long distance tariffs, along with a price-freeze in metropolitan calls.

Telefónica Publicidad e Información

Within the General Public business unit, mention must be made of the 26% penetration level in potential market achieved by Telefónica Publicidad e Información (TPI), through its principal



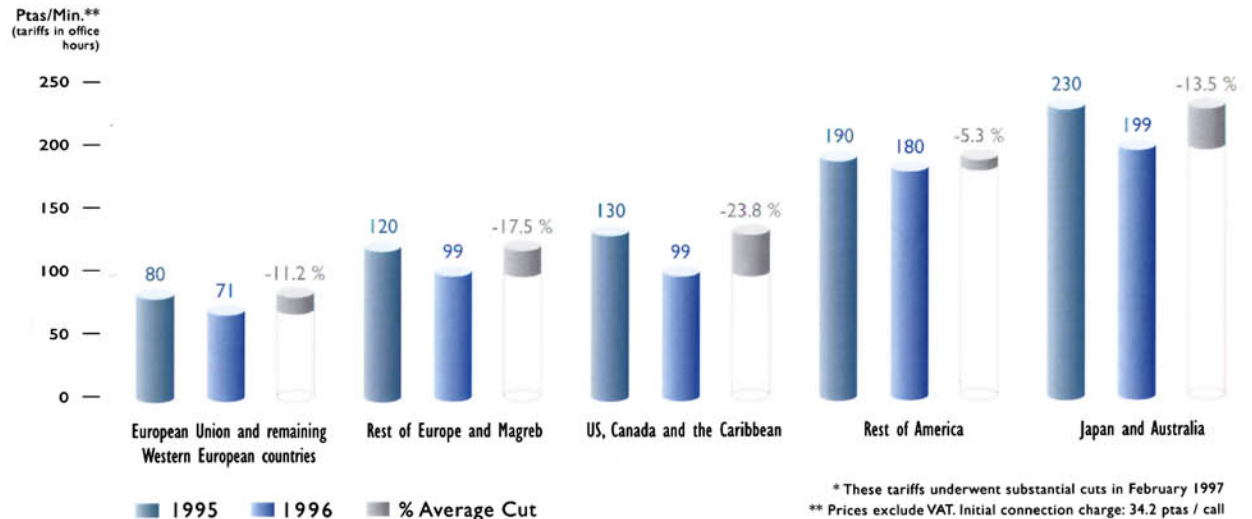
product, Yellow Pages, as this penetration level is on a par with the European average. With an eye to the future, this company has already begun to renovate the technology of its information systems and therefore plays a vital role in the new information highways. Proof of this was the prize received from the North American Association of Yellow Pages Editors at its IXth yearly convention for TPI's multimedia web site in Internet.

reflection of the consolidation of this company's leadership in all its business lines, not only Yellow Pages, but also direct marketing, telephone marketing - carried out by Estratel- and multimedia products that have developed to such an extent that they are becoming increasingly user-friendly, in reponse to a dynamic market. Their contribution to customer segmentation is therefore a vital ingredient in the General Public business.

The 15.2% increase in revenue and the 8% rise in customers over 1996, are a

TPI's strategy for the next few years is based on the evolution and

New international tariffs
In force since July 1996*



development of its existing products, providing the value added that the market demands, combined with the introduction of new services developed from the information highways and the commitment to the international expansion of its business lines. With this aim, new Yellow Pages projects for InfoVía and Internet have begun, which will be included in the Telefónica Group's other services such as Infomail and electronic shopping.

Cabitel

Within the framework of liberalized public telephony, Cabitel has continued its expansion to reach 58,234 outdoor public telephones throughout Spain, and 23,685 indoor public telephones. Likewise, the effort made in the development of prepaid telephone cards should also be underlined, as this has become the most highly used electronic system, having grown 20.1%, measured by the nominal value of the cards sold. At year-end 1996, this company's turnover had risen 20.2% to total more than 40,960 million pesetas.

Digital television

Telefónica has entered the digital television market as a step towards the launching of an extensive range of interactive multimedia products. In order to manage this business, Telefónica has pioneered the establishing of the company Distribuidora de Televisión Digital (DTD), in which participations are also held by other television broadcasting companies namely, Radiotelevisión Española, Televisa (Mexico), Canal 9, Televisión de Galicia, Telemadrid, Cadena COPE and the publishing groups Grupo Recoletos, Unidad Editorial, Crónicas P. Leonesas, Las Provincias and Epoca. In December 1996, this new company began pilot broadcasting through the satellite Hispasat that offers high quality coverage throughout Spain, part of



Europe and Latin America. The share capital can be increased through the participation of other multinational communications groups.

