

## MULTIMEDIA ACTIVITIES

The interactive multimedia services are going to become one of the most important items in the profit and loss accounts if the exponential growth shown by on-line applications is anything to go by.

The Spanish market has 535,000 lines that use **InfoVía**, 149% up on the figure for the previous year. This growth means that the number of calls and connection hours registered has risen five-fold. In 1997 **Telefónica** began work on the new Red IP network (Internet Protocol) which will begin to operate, in its initial phase, in 1998. This new platform will enhance **InfoVía's** competitive edge, offering new access services and the exchange of information that will take greater advantage of the potential offered by Internet technology within a new regulatory framework for access services.

In order to adapt this new offer to the different user segments, two specific service packages have been created, one for corporate needs and the another for retail customers.

**UNO-IP Corporativo** includes carrier and value added services (professional electronic mail services, Web Hosting...) which cover the needs of companies wanting to create virtual Intranets, this being a natural evolution of the **UNO** service, as this is under high demand in this market segment, as well as the needs of information service and access to Internet providers.

**InfoVía Plus** is the service aimed at the retail customer, which, besides including the traditional on-line services (WWW, E-mail services, news groups), also offers the most recent developments such as à la carte information and audio and video IP.

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In 1998, the new Red IP network will become operative improving the capacity of the Internet access services





The advances made in the on-line services resulted in **Telefónica Servicios Avanzados de Información (TSAI)** launching a 100% operative commercial electronic platform through such services as **Infomall** (a virtual shopping mall) for the promoting of transactions between consumers and virtual retail outlets, and **EdiRed** (the EDI service through Internet) for business transactions among companies. In this way, **TSAI** offers a complete electronic commercial service, as its **EDI Compensation Centre** has been recognised by the Spanish Tributary Agency as qualified to provide electronic billing.

1997 also witnessed the strengthening of **TeleLine**, the Spanish-speaking on-line service belonging to **Telefónica Multimedia** which offers more than 6,000 pages of information and programming exclusively for its customers. Throughout 1998 our objectives will follow a similar course, increasing the number of channels on offer, as well as the information provided, the number of databases and the new services exclusive to our customers, in which quality, the Spanish language and their interactive nature will be of prime importance.

**ST Hilo**, the **Group** company renowned for its **Hilo Musical** service, has launched a new business line with the production of digital channel broadcasting with CD quality. These channels can be transmitted via both satellite and cable networks, offering 70,000 different types of subject matter and 6,000 hours of digital music.

### Audiovisual Businesses

Over the past few years technological advances have permitted a technological convergence and the appearance of interactive multimedia services. As a consequence, the members of diverse industries have come together to compete within the same information hyper-industry, in which the provision of content is becoming an ever-more important business line.

In 1997, **Telefónica** took up an active role in this arena, with two main objectives: on the one hand, the Spanish-speaking market and, on the other, the preparing and distribution of audiovisual content, with particular attention being paid to the 35 million existing customers and the market potential of raising this figure to 200 million.

This market-focused strategy allows **Telefónica** to apply its considerable knowledge of commercial relations and its extensive partner network to the development of

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the new business opportunities opening up, benefiting both our shareholders and the Company's partners, at the same time as taking advantage of our know-how in Spanish-speaking markets.

It must also be remembered that these investments represent a foothold in the future coming together of telecommunications and entertainment services.

Within the industry's value-chain, **Telefónica** will focus its efforts on the packaging and distribution of programmes, along with taking an active role in mass audience TV stations both in Spain and Latin America.

Distribution, be it by way of physical carriers such as satellite systems, or cordless networks, represents a natural form of development for **Telefónica's** basic capacities, providing clear synergies and allowing us to take advantage, not only of our tangible assets but also of what could possibly be considered our most valuable asset, our customer relations. The installation of earth digital television is going to mean the opening up of a clearly obvious business opportunity for us.

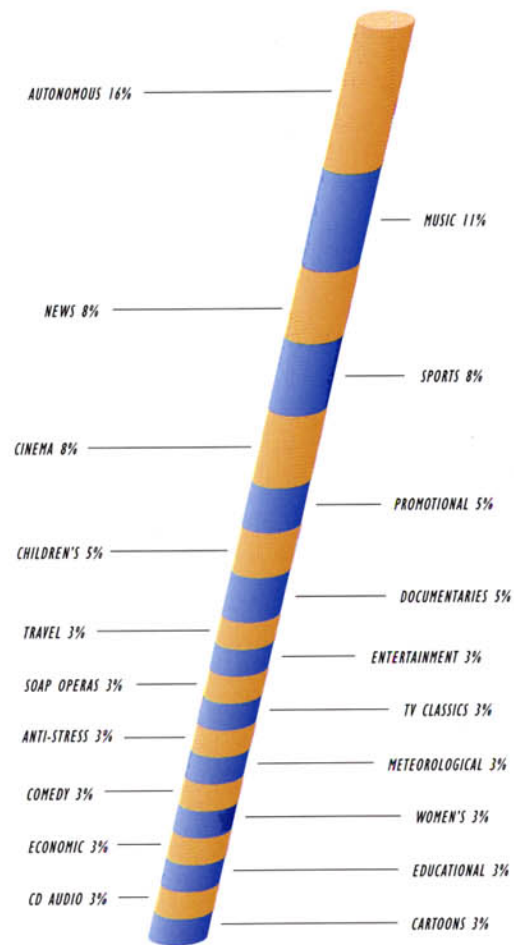
### Personal Television: **Vía Digital**

In January 1997, the company, **Distribuidora de Televisión Digital (D.T.S.)** was incorporated, with **Telefónica** holding a 35% stake, which, in September of that same year, launched a pay TV service under the trade name **Vía Digital**, based on the concept of personal television.

This product has broken away from conventional models, creating a totally new line of business. Instead of offering a limited number of channels focused on a small sector of the population, the offer starts with a basic package of 35 channels, with a reasonable connection charge and monthly subscription fees that fit the pocket of any segment of the market. This commercial policy has proven to be correct, as after only three and a half months on the market, **Vía Digital** already has 200,000 subscribers.

**Vía Digital** now offers, over and above the basic package of 35 TV and 30 music channels, 52 additional channels grouped into different programme packages which include pay-per-view football and cinema and will shortly provide interactive services on meteorological information, teledownloading software, telebanking and also Internet access via satellite.

**Vía Digital**  
Basic package programmes  
(January 1998)



## Vía Digital will offer interactive services, one of which being Internet access via satellite



Previous to the launching of **Vía Digital**, Europe's most advanced **Digital Distribution Centre** was constructed and placed in service. This represented yet another new line of activity for **Telefónica**, and has also allowed the Company to create a centre, with characteristics similar to those of **Televisión Española**, as its support for the distribution of 10 digital channels in Latin America.

### Antena 3 TV

As a continuation of the **Group's** audiovisual policy, on July 25th, 1997, **Telefónica** acquired a 25% participation in **Antena 3 TV**, therefore completing the range of television supports currently found in the marketplace: hertzian, cable, satellite and interactive.

As has been previously mentioned, the international markets are following a clear trend towards globalization, from both geographical and technological viewpoints. As a consequence of this acquisition, **Telefónica** is now in a position to guarantee access to audiovisual content for its global telecommunications services, particularly in terms of the rights to broadcast football games, which is the key to success in the Spanish media today.

**Antena 3 TV** is Spain's leading private television station, in terms of both audience ratings and revenue. In 1997 its market share stood at 22.7% for viewers and 30% for advertising.

**Antena 3 TV's** objectives are focused, on the one hand, on consolidating its leadership within the private TV stations, and developing programmes that are popular with both viewers and advertisers and, on the other, taking maximum advantage of the synergies and opportunities that will arise from the Company's position as a multimedia corporation. This dedication to leadership is also focused on the international audiovisual marketplace, particularly in the area of Latin America.



### Cable Communications

As a result of current legislation, the launching of cable TV operations in Spain has had to be postponed until 1998. To date, **Telefónica** has established **Local Operators** in different areas, incorporating the necessary media, financial and industrial partners from these same areas.

In line with its commitment as a global operator, **Telefónica** is interested in grasping the opportunities that arise in the cable communications arena, profiting from the possible synergies within the **Group**.

All the activities that take place in this line of business will always make the creation of value for our shareholders a priority.



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