

## Consolidation and expansion of audiovisual services.

During 1998, **Telefónica** strengthened its leading position in the audiovisual business by capitalizing on the synergies produced in the different areas of activity in communications media, broadcasting and audiovisual content. These activities are coordinated through **Telefónica Media**, the affiliate company which groups together, among others, subsidiaries and associated companies in the following areas

### Media

#### Antena 3 TV

The outcome of its first year under **Telefónica** management has been excellent: operating revenues increased fourfold, going from Pta. 5.636 billion in 1997 to Pta. 20.892 billion in 1998.

After-tax results logically reflected the improved financial situation in **Antena 3**: from a loss of Pta. 3.648 billion in 1997,

**Antena 3 TV** achieved operating revenues of Pta. 20.892 billion, a fourfold increase.

The profit made by **Antena 3** -13.143 billion pesetas - puts the company in the forefront of the audiovisual sector in Europe.

to a net profit of Pta.13.143 billion in 1998.

If 1997 can be considered a year of accounting adjustments and transition towards a new business model for **Antena 3**, 1998 should be remembered for the new managerial style and implementation of organizational changes that were introduced during the period, to which the excellent results obtained can be largely attributed.



Antena 3 is the absolute leader  
by audience ratings among  
middle- and upper-middle-class viewers  
under 55 years of age,  
residing in areas with more than  
10,000 inhabitants.



In fulfillment of the objectives set during the past financial year by **Antena 3** three different courses of action were followed:

First, consolidation of its leading position among the private sector Spanish television channels; and particularly, its status as the channel of choice for advertisers. **Antena 3** is the absolute leader by audience ratings, attracting 24.2 % of the middle- to upper-middle-class viewers under the age of 55 residing in areas with more than 10,000 inhabitants - representing over half of the Spanish population.

Secondly, with respect to the management of economic results, a drastic reduction in the cost base of **Antena 3**, to make way for new initiatives and investments. This policy is complemented by an increase

in commercial revenues. **Antena 3** obtained a profit margin of 28.4% in 1998 effectively placing it in the forefront of the European television broadcasting sector.

Lastly, diversification into new areas of activity: theme channels, interactive television and commercial initiatives such as telemarketing, licences and merchandising, advertising events and production, etc. These developments have further diversified the business into different geographical locations and activities, thereby helping **Antena 3** change from a television channel serving the general public, to an audiovisual group with a wide variety of products and services. In short, **Antena 3** now holds its place in the market as a corporation known for its audiovisual content and multi-thematic activities with international scope.

#### Vía Digital

During 1998 **Telefónica** expanded its presence in the audiovisual business by increasing its stake in **Distribuidora de Televisión Digital, S.A. (D.T.S.)** up to 36.95%. DTS markets pay-TV

services under the **Vía Digital** brand.

Although market penetration did not reach the target number of subscribers in 1998, results were nevertheless satisfactory. At 31 December, despite strong competition from the rival Spanish digital platform, **Vía Digital** had billed over 282,000 subscribers.

Customer perception also improved during 1998, with higher levels of viewer brand retention, thanks to better advertising and working guidelines designed to improve service levels and content offerings, such as outstanding films from first-rate producers, both domestic (Lola Films) and foreign (Metro Goldwyn Mayer), musical and sporting events (international boxing and football competition), and retransmission of the world's best bullfighting, among others.

#### Hilo Musical

**ST Hilo** successfully developed its lines of business in 1998. The company's production of digital theme channels with transmission capability via satellite or cable networks,

increased 25% over the previous year. This brings its digital music subject matter up to nearly 90,000 offerings. The company has also developed a specialized music area for its business customers, who can select the type of music needed for a particular business environment. The distribution of this new product will start at the end of next year.

### Broadcasting

**Telefónica Servicios Audiovisuales (TSA)** is on its way to becoming the leading operator of digital TV broadcasting services in Spain.

In addition, TSA is the principal provider of audiovisual technical services via satellite for Spain and Latin America, as well as in the field of signal processing and satellite up-links.

In the field of TV broadcasting, **TSA** has launched a new digital platform for Europe called "**Europa TV**", with five channels. **TSA** has also expanded the Spanish public television channel for the Americas

to 10 channels, and **Antena 3** started broadcasting in America.

During the year, **TSA** also included production among its activities. Consequently, **TSA** is now the only Spanish provider to offer audiovisual services in any configuration, with the flexibility that such a competitive market demands. **TSA** is also preparing for its entry into digital terrestrial TV broadcasting during 1999.

### Content

During 1998, the activity in the field of audiovisual content was developed through communications media under **Telefónica Group** management, as well as by companies devoted to production and exercising copyrights, in which **Telefónica Media** has a stake.

Film production has achieved notable success under Lola Films, which has strengthened its position as Spain's leading film producer, in terms of both revenue and distribution.



Vía Digital had more than 280,000 subscribers.

**Telefónica Servicios Audiovisuales** is the leading operator of digital TV services in Spain.

