

## Telefónica in Spain

As mentioned above, **Telefónica** faces a new situation of full competition in Spain following the application of a regulatory framework which leaves many critical points unresolved. This imposes commercial limitations on **Telefónica** that do not apply to Telefónica's competitors.



### Telefónica de España

The persistence of asymmetrical regulation which has not corrected either the access deficit or tariff imbalances, has significantly slowed the growth rate for operating revenue in **Telefónica de España**. Its relative weight with respect to total **Group** revenues was reduced by 3.4 percentage points, to 48.6 per cent, down from 52% in the preceding year. Nevertheless, the strong performance of the **ISDN**, leased-line and data transmission services has compensated for the reduced revenue from the basic telephone service.

Even so, the net profit of **Telefónica de España** totalled Pta. 150.126 billion, an increase of 12.2% over the 1997 results.

On the other hand, the large-scale introduction of new technologies in **Telefónica de España** infrastructure, and the progress made in rationalizing company management, have made it possible for the company not only to offer a wider and more complete range of services, but also to improve productivity, which stands at 313 lines per employee, an increase of 17.4% in annual terms.

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In spite of the limitations, Telefónica ended 1998 with an estimated market share of 98.5% of total traffic minutes, and of 93.1% in long-distance traffic.

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1998 with an average estimated market share for the year of 98.5% of total traffic minutes, and its average yearly market share of the long-distance traffic (interprovincial and international) was 93.1%.

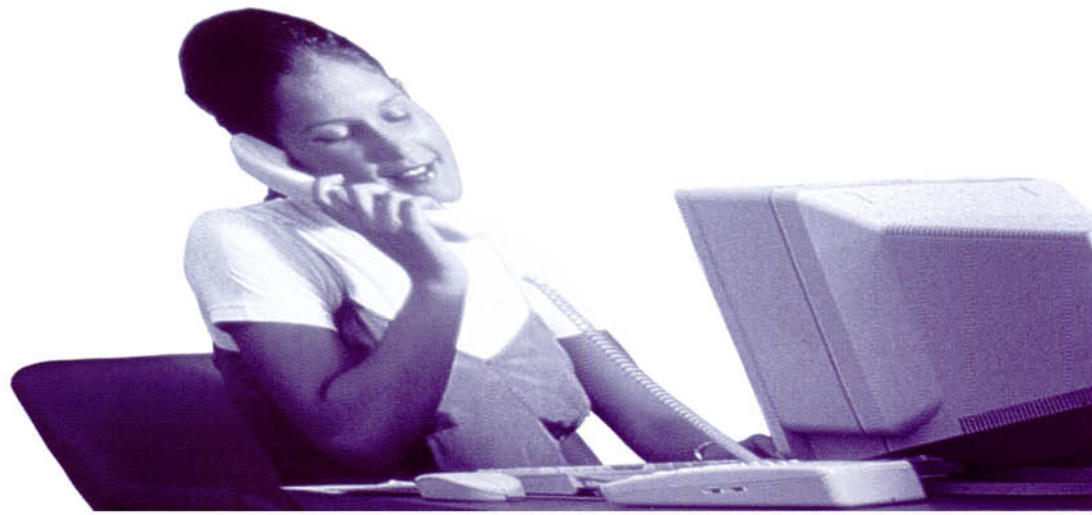
During the year, **Telefónica** made determined efforts to improve the quality of its customer-care service, tailored for each customer segment (Corporate Clients, Small and Medium-sized Enterprises, Autonomous Professionals, General Public), by implementing targeted customer care in order to obtain a better knowledge of their needs and service expectations. Significant among these initiatives was the further enhancement of the comprehensive maintenance service scheme provided through the **Centro Nacional de Supervisión y Operación (CNSO)**, allowing the quality of **Telefónica's** network to rank among the best European practice.

In response to customer demands, 80 new products and services have been put on the market during the past year, with the introduction of new marketing formulas.

New products and services (**ISDN, Data Transmission, Intelligent Network Services, Infovia**, etc.) showed considerable progress, with sales figures totalling Pta. 118.218 billion, accounting for 7.2% of operating revenue.

#### Residential Market

Residential markets in Spain and Latin America show important differences due to the disparity in their respective maturity levels. Whereas in Latin America the objective is to raise the telephone penetration level and increase attention to new customers, in Spain, where the



service is nearing maturity, with high density levels, the focus is on average consumption per line. Consumption in Spain grew 9.5% in 1998, or an average 11.9 minutes per line and day. This increase was possible thanks to the strong performance of supplementary services, the **Infovia** traffic, which totalled 105 million hours, as well as to reductions in average tariffs, particularly those for provincial, interprovincial and international services.

The concept of a «new telephone line», established in 1997, found expression last year through two new products: **Línea Básica** and **Línea Duplo**, which are prepared to handle supplementary services such as telephone answering service, call waiting, three-way conferencing, call diversion, etc.

The development of the network automatic answering service was particularly impressive, with 7 million customers using the service by end 1998.

The «**Clear Plans**» were also very successful in 1998. These plans offered discounts on provincial,

interprovincial and international calling rates. By the end of 1998, 5 million **Plans** with discount options had been subscribed.

### BusinessMarket

**Telefónica's** commercial strategy for this market is based on the introduction of new



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Infonegocio offers Internet access and presence for small and medium-sized enterprises.



products and services, as well as on a comprehensive services offering, and the improvement of customer-care systems.

Telefónica's new Internet Protocol (IP) Network is one of the new services designed to help businesses improve their competitive advantage. It provides new access services and information exchange capabilities, thanks to a better utilization of the potentialities of Internet technology.

The new IP services represent a new generation that builds upon the attributes of Internet network technologies, coupled with the security features of conventional data networks.

The Telefónica IP Network serves two main functions: on the one hand, to carry UNO-IP permanent access services, and the switched access services (Infovía Plus); on the other, to carry value-added network services such as InfoMail, InfoHost, InfoEDI and InfoInternet.

Within the Large Clients segment, Ibercom has continued its positive evolution as a corporate service

that has been enhanced with new marketing formulas such as Ibercom Clave and Ibercom Master, as well as by new value-added services and new terminals.

The advantages of the IP network have also caused a trend to migrate to it from the conventional X-25 data services.

Special attention has also been given to quality of service and customer care through the launch, among other efforts, of the Comprehensive Maintenance Plans for businesses with service level agreements.

Customer care services have been specifically developed for small- and medium-sized enterprises (SMEs), such as the CENTREX service, which makes available to our customers all of the features of a modern exchange without the need to install equipment. Moreover, TSAI, a Group company, markets the InfoNegocio service designed to facilitate Internet access and presence for SMEs.

During 1998, Telefónica created the Innovatel Plan, designed

to bring new information technologies closer to SMEs. Through this plan, discounts of up to 100% are offered in the acquisition of exchanges and other telephone products and services. The **Innovatel Plan** now has 150,000 subscribers.



### International Telephone Traffic

**Telefónica** registered strong growth in international traffic in 1998, showing an increase of 15% compared to the previous year. Communications originating in mobile networks showed an even more spectacular growth of 46%.

International calls benefited from the discounts offered through the **Clear Plans** and an average tariff reduction of 12.4%.

### Cable Telecommunications

In 1998, the Spanish cable map took its final shape, comprising forty-three demarcations in which **Telefónica Cable** is also entitled to operate, although the moratorium imposed

on **Telefónica** by the Regulatory Authority was lengthened in December, from 16 to 24 months.

Nevertheless, **Telefónica** has continued to set up **Local Operating Companies** in the different demarcations, with the participation of partners from the financial, industrial and mass-media sectors on a local and national level.

During the year, **Telefónica Cable** brought into service a platform which brings together digital TV, Internet access and interactive services, using the most advanced technologies available.

**Telefónica Cable** also started trials of digital cable TV transmissions in Barcelona, and carried out trial transmissions of interactive

**Telefónica de España** has shown a substantial advance in productivity, achieving 313 lines per employee, an improvement of 17.4% in annual terms.

**Telefónica** is entitled to operate in all of the cable demarcations, although the moratorium on operation imposed by the regulatory authority was extended to 24 months.

Telefónica Publicidad e Información, leader in the directories and classified advertising sector, has furthered its development by exploiting new technologies.



multimedia services to potential customers over broadband networks. Both were groundbreaking events in Spain.

#### Directories and Classified Advertising

**Telefónica Publicidad e Información** is the leading company in the Spanish directories and classified advertising sector. During 1998, the company published 15 million copies of the «**Yellow Pages**» and 11 million copies of the «**White Pages**» telephone directory. These production figures represent an increase of 23% over the previous year. At the same time, the company introduced a new design to add value and increase their usefulness for customers and users.

**Telefónica Publicidad e Información** consolidated its Internet product «**Páginas Amarillas On Line**» and initiated the launch of «**Páginas Habladas**» (talking pages), continuing its development of non-conventional media

and exploiting the possibilities offered by the new technologies.

Consequently, in 1998 revenues rose by 19.6% compared to the preceding year and income before tax increased 4.3%.

**EstraTel** strengthened its position as leader in the telemarketing sector in Spain, in 1998, with a 61% increase in revenues and an 11% rise in profits.

In addition to this quantitative growth, the company also made determined efforts to enter new markets and embark on new value-added activities to improve its competitive position.

In the course of 1998, **EstraTel** carried out investments in material assets amounting to Pta. 2.131 billion, and opened five new operating centers in Madrid, Seville, Valencia and La Coruña, thus enabling the company to support over 4,000, fully computerized, directory assistance stations of its own.

**EstraTel's** constant attention to quality of service earned it an AENOR ISO 9001 quality certificate.



## Public Payphones

**Telefónica Telecomunicaciones Públicas (TTP)** was able to continue holding its number one position in the Spanish public payphone business during 1998, despite the fully competitive environment, through its provision of high-quality services and maintenance of installations equipped with the most advanced technology.

In the past year, **Telefónica** payphones installed on public thoroughfares numbered 67,038 points of communication, up 5.6% from a year earlier, and the number of indoor installations totalled 32,077 terminals.

In 1998, the company was awarded the AENOR ISO 9001 quality certificate. This award accredits the company's traditional concern for maintaining the quality of its products and services.

**Telefónica Telecomunicaciones Públicas** reported a very positive performance in 1998. Revenues totalled 50.487 billion pesetas, representing an increase of 14.23% compared to 1997, and income before tax rose to 6.4 billion pesetas; up 44% from 1997.



The number of Telefónica's payphones installed on public thoroughfares totalled more than 67,000 points of communication, and more than 32,000 indoor terminals.





