

## The year of total liberalization

Since December 1st 1998, **Telefónica** has been operating in the Spanish market in an environment of full competition, some aspects of which are in a more advanced stage of development than what can be found in many other countries regarded as champions of liberalization.

By December 31, 1998, Spain already had some ten data-transmission operators, three nation-wide fixed-line operators, another three mobile-telephone operators, plus a growing number of niche operators, in addition to the operators of the respective regional demarcations established for the provision of services via cable TV lines.

Since then, seven more licences have been granted for the provision of national fixed-line telephone services to operators owning their own networks, along with six of restricted scope and another three for fixed-line telephone operators lacking their own infrastructure. A further twenty licence applications are under study.

The degree to which the Spanish market has been liberalized is comparable to the most advanced countries in the European Union.

The liberalization process, which **Telefónica** has supported for years, has been firmly and expeditiously carried out in Spain.

In short, liberalization and the opening up of markets to competition, which **Telefónica** has supported for years, has been firmly and expeditiously carried out



Telefónica is established as the Corporate Center, under which are grouped seven affiliate companies as heads of the different business lines.

The business lines are set up as independent legal entities, with clear profiles regarding their patrimony and results.

in Spain. This followed a transition period during which competition effectively existed in all services, although the basic telephone service was limited to a duopoly where the Spanish State held an important shareholding in the second operator.

The accelerated pace of liberalization, its lack of continuity and the systematic application of asymmetrical regulatory criteria have allowed our principal competitors to obtain extraordinarily high operating margins. This has occurred even as critical issues such as the access deficit and its relation to tariff rebalancing, and interconnection tariffs which set prices below real costs, have provoked disputes and appeals brought before the courts.

#### Corporate restructuring

In spite of these difficulties, throughout 1998 **Telefónica** has maintained its commitment to leadership both in Spain and in the other markets where it operates. The company is working hard to broaden and diversify its services and, at the same time,

to rationalize its organization for greater flexibility and efficiency.

**The Shareholders' Meeting** held on March 17, 1998 adopted a new management model for the company, in response to the challenges posed by the changes that have taken place in the environment where **Telefónica** operates. These changes have influenced not only the **Group's** size and international scope, but also the liberalization of telecommunications in Spain, the rising prominence of multimedia services, projects and activities, as well as the quantitative aspects of the **Group's Companies** and their growing complexity.

Consequently, a new organizational structure was created in which each business area is set up as an independent legal entity, with clear profiles regarding their patrimony and results.

As a result of the corporate restructuring, **Telefónica, S.A.**, as the parent company, became the corporate center. Under it, the main affiliate companies head the different

business lines, namely: **Telefónica Sociedad Operadora de Servicios de Telecomunicaciones en España, S.A. (Telefónica de España), Telefónica Internacional, Telefónica Móviles, Telefónica Intercontinental, Telefónica Media, Telefónica Interactiva,** and **Telefónica Data**, each one of which coordinates the different **Group** companies within its respective scope of activity.

#### A symbol for understanding

Over the past few years, **Telefónica** has undergone a process of progressive change that has produced the consolidation of a new **Telefónica**. The **Company** has gone from working basically under a monopoly system on the domestic level, to a company operating in a competitive market with multinational reach. It has been transformed from a telephone company into a communications company; from a public service provider into a provider of diversified services to a broad range of customers.

In 1998, **Telefónica** needed to draw together all of its worldwide

operations under a more international structure, with a view to operating in the same way and with the same brand in all geographic and business markets where the **Company** operates.

**Telefónica** therefore decided, at the end of the past year, to make a change in its corporate image. The name of **Telefónica** was adopted as a single trademark to stand as a symbol of change and, at the same time, to make possible the integration of the different activities and help consolidate a worldwide organization.

The new **Telefónica** brand also seeks to act as a symbol for understanding, underlining the concepts of concern for customers and commitment towards the different countries in which **Telefónica** is present.

The new corporate identity symbolizes change, enables the integration of activities and helps consolidate a worldwide organization.

The **Telefónica** trademark is a symbol for understanding which seeks to emphasize the concepts of commitment and concern for customers.

