

## Telefónica Móviles outdistances its competitors

The past year was another milestone in the growth of the Spanish cellular market, with an annual gain of 63% and a penetration rate of 17.9%. At the end of the year, **Telefónica Servicios Móviles** had 4,994 mobile telephone customers, representing a 54% improvement over the previous year, with 4,001,072 **MoviStar** customers and 893,192 **MoviLine** customers.

**Telefónica Móviles** saw even greater consolidation of its leadership position in 1998 with a net gain of 1,706,568 customers. This brought the differential with respect to the second mobile operator to over 2,700,000 customers, a 35% increase compared to the previous year. In the case of **MoviStar**, most of the gain in customers - 1,913,971 new connections - came from the prepaid service, which at end 1998 accounted for almost 44% of the total customer base of the **MoviStar** service.

**Telefónica Móviles** ranked among the six largest European cellular operators by volume of customers at the end of 1998.

The creation of one of the most extensive commercial distribution networks in the country has been essential for the growth of the **Telefónica Móviles** customer base. This commercial network has successively incorporated new distribution channels such as newspaper stands, tobacconist's shops, gasoline filling stations, and the like, with the objective of bringing the wide range of products and services on offer ever closer to the customer.

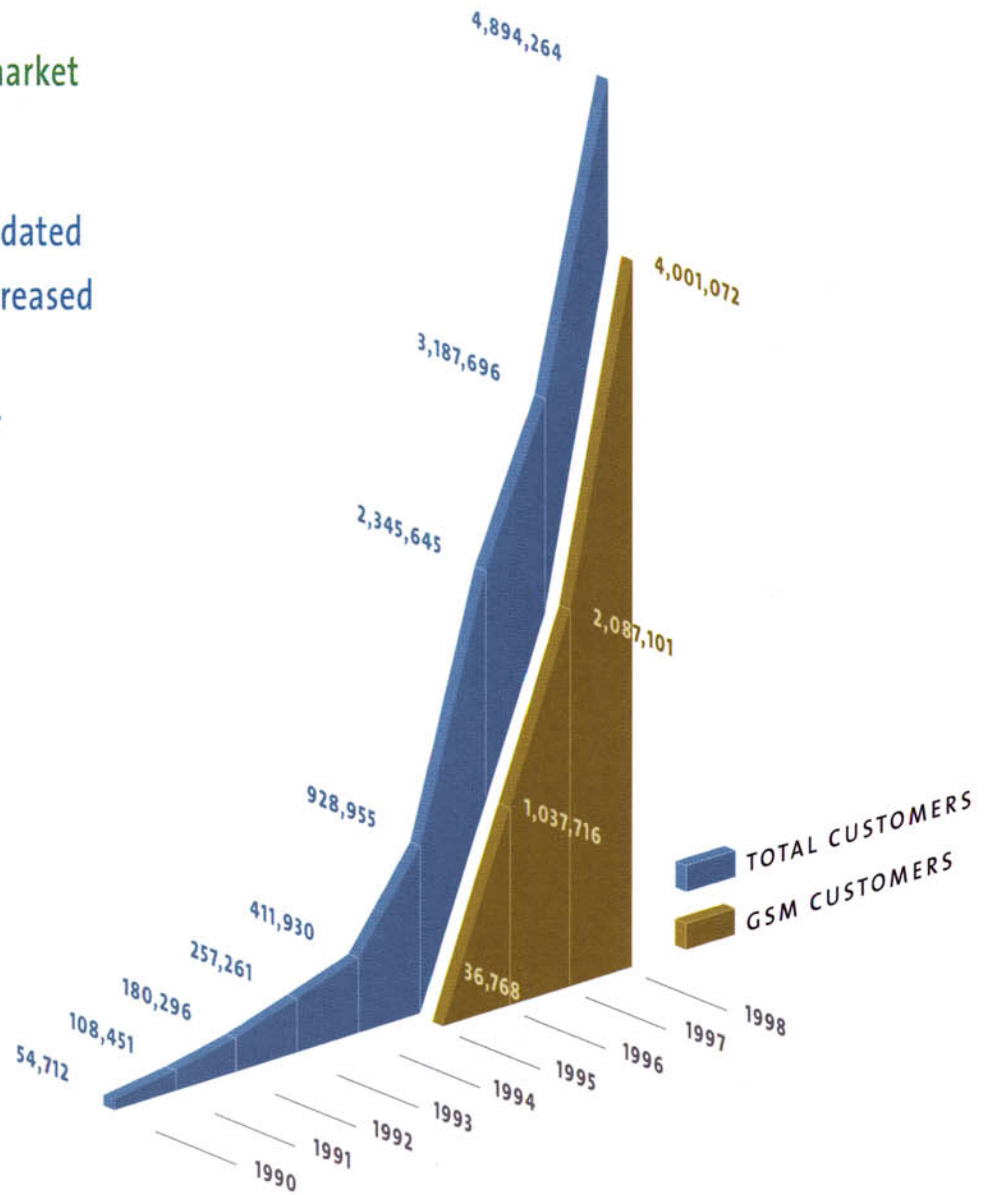
Another outstanding event was the securing of a licence to operate in the 1800 MHz frequency band, which represented an outlay



### Cellular customers of Telefónica Móviles

In 1998, the Spanish cellular market grew 63%.

Telefónica Móviles has consolidated its leadership position and increased the differential with respect to the second mobile operator by 35%.



SELECTED FINANCIAL DATA FOR 1998 (Consolidated figures)

| (Million Pesetas)                    | 1998      | 1997      | Δ %     |
|--------------------------------------|-----------|-----------|---------|
| Operating revenue                    | 468,203   | 362,938   | 29.0 %  |
| Income before tax                    | 119,573   | 38,982    | 206.7 % |
| Investments during the year          | 92,269    | 100,203   | -7.9 %  |
| Accumulated gross investments        | 560,778   | 465,749   | 20.4 %  |
| Added Value                          | 219,820   | 137,672   | 59.7 %  |
| Total Assets                         | 459,449   | 400,459   | 14.7 %  |
| Shareholders' funds                  | 169,392   | 124,047   | 36.5 %  |
| Network base stations                | 6,927     | 4,968     | 39.4 %  |
| Mobile Telephony Users               | 4,894,264 | 3,187,696 | 53.5 %  |
| MensaTel Customers                   | 391,574   | 344,689   | 13.6 %  |
| RadioRed Customers                   | 24,469    | 17,612    | 38.9 %  |
| Basic Telephony with Cellular access | 252,028   | 238,626   | 5.6 %   |

of approximately 29 billion pesetas. The system will be deployed in the main capitals where higher levels of traffic are concentrated, thus allowing constant customer growth over the next few years while maintaining the standards of quality upheld by the **MoviStar** service.

The evolution of **Telefónica Móviles** in 1998 is clearly reflected in the table shown above.

Operating revenues increased 29% for a total of Pta. 468 billion. Income before tax rose from Pta. 39 billion a year earlier, to almost Pta. 120 billion, or 25%

of revenue in 1998. Net profit rose by Pta. 80 billion, a threefold increase in net profit compared to 1997, representing 37% of total **Group** profit.

At the close of 1998, **Telefónica Móviles** managed total net assets amounting to some 460 billion pesetas, following investments during the year totalling over Pta. 92 billion. **Telefónica Móviles** devoted resources totalling approximately Pta. 14.5 billion to research and development activities, in different areas of the business such as **Services**, **Information Systems** and **Network Development**.

At the end of 1998, **Telefónica Móviles** had more than a hundred service offerings, developed and conceived to meet the needs of every type of customer.

**Mensatel**, the radiomessaging service, is the undisputed leader, with a market share of 78%.



Telefónica Móviles has always relied on quality of service as the principal differentiating factor and holds quality certificates for all of its organizational, technological and commercial processes, under the most exacting standards.

In December 1998, and by resolution of the company's **Board of Directors**, a declared dividend was paid out for the first time in the history of the company, in the amount of Pta. 35 billion, which represented 43.6% of the net profit for the financial year and a payment to shareholders' funds amounting to 28.3%.

### Quality of Service

One of the factors guaranteeing the quality standards to which the company adheres is the degree of coverage of its service, measured both in terms of population and of territory. Both the **Moviline** and **Movistar** services offer its customers nearly total coverage, reaching 99% of the population and 98% of the national territory.

**Telefónica Móviles** has already been awarded quality certificates for each and every one of its organizational, technological and commercial processes under the most demanding quality standards (standard ISO 9001). This testifies to the company's consistent reliance on quality of service as the principal

differentiating competitive factor. Moreover, **Telefónica Móviles** has implemented during 1998 a complex **Environmental Management System** which has received the AENOR Certificate of Environmental Quality ISO-14001.

By end 1998, the **Movistar** service relied on approximately 7,000 base stations - up 2,000 from the previous year - to ensure adequate coverage throughout the country. It was also the first to provide coverage in the maritime corridors between the eastern coast of Spain and the Balearic Islands, and between the Canary Islands.

In 1998, 30 roaming agreements were reached with other operators, providing customers with coverage in 76 countries through more than 137 operators. Also in 1998, **Telefónica Móviles** signed a roaming agreement for the satellite communications service provided by Iridium, which will provide customers with coverage in almost any point on the earth.

The **Enhanced Full Rate (EFR)** coding mechanism, offering sound quality on a par with that of fixed communication networks

was implemented throughout the **MoviStar** network during 1998.

**Telefónica Móviles** is the first operator to incorporate this technical solution in Spain in its entire network.

### An attractive offer

As a result of the company's determined efforts in research and development, **Telefónica Móviles** has asserted its leadership in value-added services. More than one hundred services, developed and conceived to meet the communication needs of its customers, were on offer by the end of 1998. Outstanding among these are services focused on the business market, such as **MoviStar Corporativo 2000**, offered conjointly with **Telefónica**, **MoviStar Enlace Oro** or **MoviStar Gestión**, among others, which make available to this market segment the most advanced technological solutions. Additionally, data communications services such as **MoviStar Telemática** and **MoviStar Datos Express**, have been upgraded to provide higher data transmission speeds via GSM above 25kbit/s,

or to include Internet services, such as **MoviStar Net**.

The offer of prepaid cards to activate mobile telephone service (**MoviStar Activa**, **Activa 4**, **Activa Joven**, **Activa Próxima** and **MoviLine Óptima**), is aimed at the general public. They offer a wide range of pricing plans that fit different consumption patterns. In order to offer greater freedom to its prepaid service customers, in December of 1998, **Telefónica Móviles** introduced the ability to re-program cards for different price plans between cards so that customers can switch to the formula that best suits them.

**MensaTel** finished 1998 as the undisputed leader of the Spanish radio-messaging market, with a market share of nearly 78%. **MensaTel** serves both the professional market segment, which uses the service as a business tool, and the youth-oriented market segment, with the **MensaTel Beeper**. Closed user-group messaging services are provided by **RadioRed**, another **Telefónica** service to finish strongly in 1998, once again leading the market with an estimated 75% market share.



