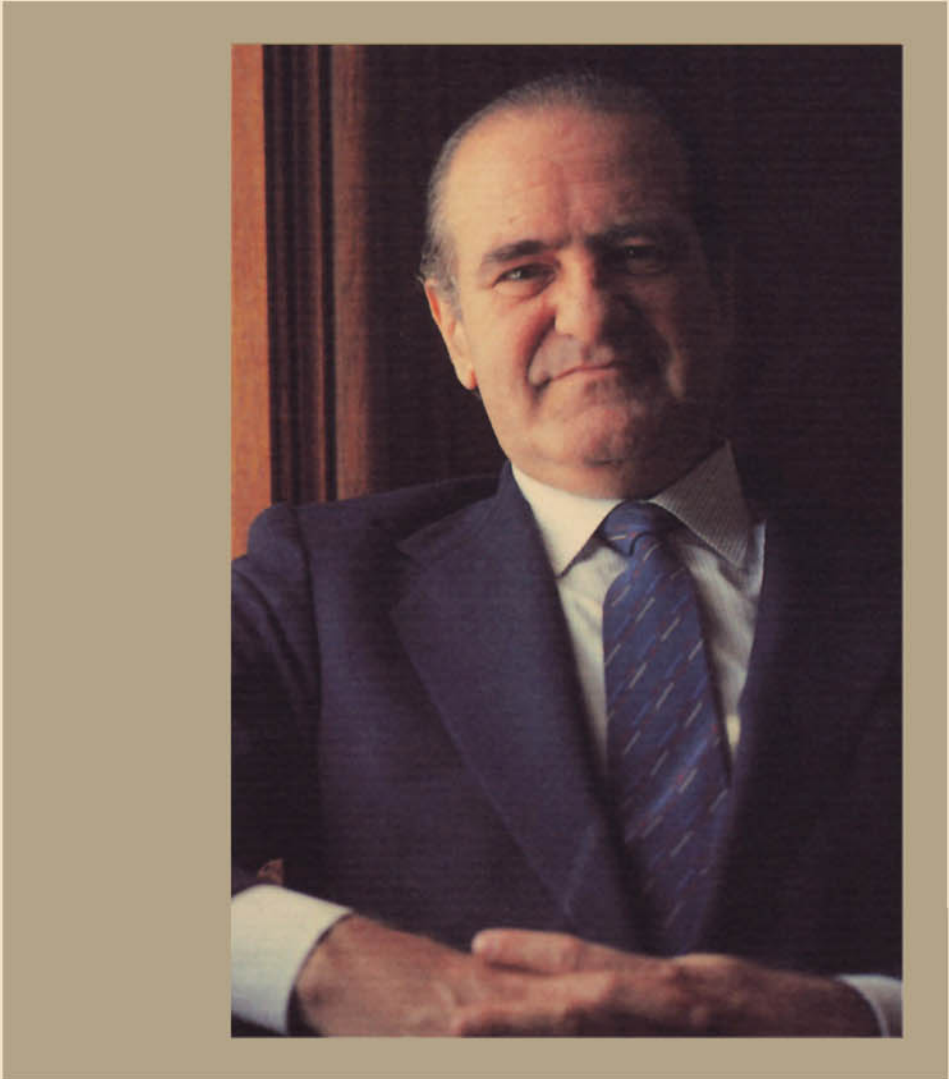


Dear Shareholder,

I would like to take this opportunity to greet you for the first time and share with you some brief thoughts concerning our company.

I am not exaggerating when I say that Telefónica is today facing a historic challenge. At the same time as performing our essential public service role, we must consolidate our reputation as a profitable and fast-evolving enterprise. Along with constantly striving to meet our clients' demands, who wait with understandable impatience, even greater efforts are called for to keep up with and at the forefront of the technological revolution which is leading us by leaps and bounds towards a new kind of society. Our presence in the domestic market is now expanding towards global horizons where, in a keenly competitive arena, we must capitalize on the wealth of opportunities presented by the promising world of new value added services. A new environment, which both sets the way and urges on those who have taken on the responsibility of carrying on the task already initiated by my predecessor, Luis Solana.

To imagine our road over the next few years will be free of obstacles would be to deceive ourselves. We trust that the whole legal and institutional framework of the telecommunications sector will soon be clarified and Telefónica's role in particular clearly defined. Within this new framework, we are set to accomplish our mission, which is undoubtably an essential ingredient of Spain's economic development over the next decade. I sincerely believe that Telefónica has sound financial foundations and an exceptional human resource base. It is our task to ensure that the best possible use is made of these assets in order to further expand and strengthen our Company. My purpose in drawing your attention to these brief lines is to share with you my hope and trust in the future of Telefónica.



A handwritten signature in black ink, reading "Cándido Velázquez-Gaztelu Ruiz". The signature is fluid and cursive, with a long horizontal stroke extending to the left from the bottom of the name.

Cándido Velázquez-Gaztelu Ruiz
Chairman of the Board of Telefónica de España