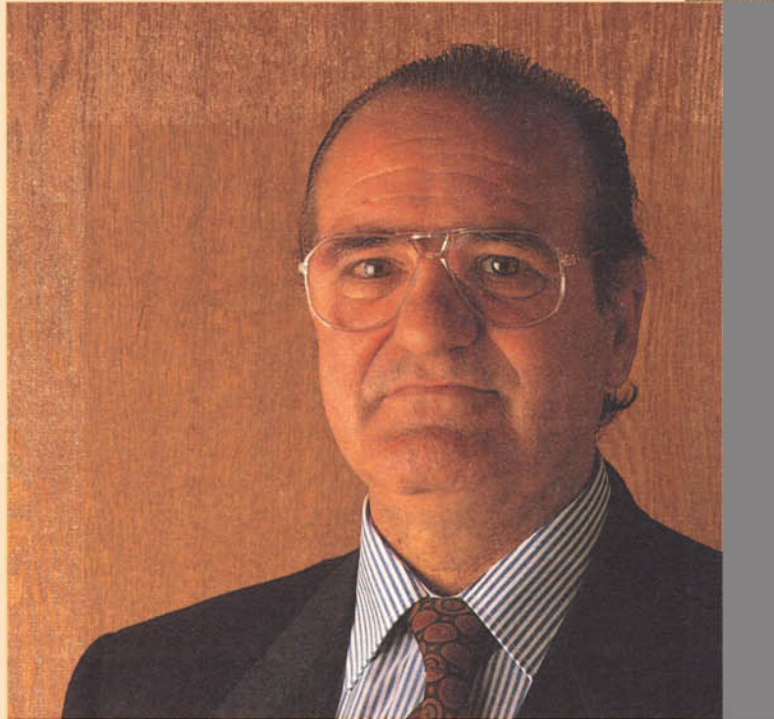


Dear Shareholder,

These brief lines hardly suffice for me to achieve the purpose of this letter: to summarize Telefónica's work throughout 1989, as well as to send you my warmest greetings. I shall therefore restrict myself to what I consider to be the essential features of the Company's development over the last year, a full account of which you will find in this Annual Report.

The year presented us with a set of complex and extremely variable circumstances, for the following reasons: the legitimate and ever-increasing demands of our users, the far-reaching technological and institutional changes taking place within the telecommunications sector and the need to adapt our own structures to meet these changing circumstances. In order to achieve this, the Corporation was reshaped, so as to bring management operations into line with the different Business Areas and a huge capital expenditure programme was embarked upon, aimed at increasing Network capacity. Although demand continued to grow at a considerable speed, for the first time in recent years, line supply actually exceeded the rate of demand, which led to a reduction in the waiting list. What is more, we took some fundamental steps towards achieving one of our main priorities; that is, to substantially enhance, in a relatively short space of time, the quality of our service.

As well as tackling the demands of the present, we have also drawn up a five-year Strategic Plan, aimed at meeting the challenges of the coming years in a determined and consistent fashion. We still have a long way to go but we are well on our way and have a clear idea of our final goal: to achieve the dimensions and corporate efficiency necessary to compete in the Single European Market under the most favourable conditions possible and to offer both our private and business clients the services they deserve. The challenge now facing us is to effectively employ the resources at our disposal to enable us, in the shortest time possible, to keep pace with Spain's development and to keep abreast of the times.



A handwritten signature in black ink, reading "Cándido Velázquez-Gaztelu Ruiz". The signature is written in a cursive style with a long horizontal stroke extending to the left.

Cándido Velázquez-Gaztelu Ruiz

**Presidente**