



## **Letter to shareholders.**

*Dear Shareholder,*

*Last year was a landmark in the company's history, with the signing of a new contract between Telefónica and the Spanish state. The previous contract had been in operation for 45 years and had served as the framework for the regulation of the telecommunications sector during this period. The signing of the new contract served as reaffirmation of Spain's confidence in Telefónica and was a public acknowledgement of the efforts of generations of men and women, and of the shareholders who have financed the company with their savings. Our obligation is to respond by renewing our commitment to serve Spanish society and the Spanish economy.*

*Spain's membership of the European Community has meant that Telefónica is now subject to supranational regulations. One of the basic principles of these is the separation of the regulatory function, which is reserved for the state, from the operation of services, which is the*



*responsibility of the operators concerned. These criteria were already enshrined in the Telecommunications Act, and it was therefore essential to establish a new framework for the relations between the state and Telefónica. The new contract grants us exclusive rights over the operation of the basic telephone service, but it should not be forgotten that this contract, along with Spanish legislation in this area, is subject to the stipulations of future E.C. directives. It seems then that the most likely scenario for the future is one of policies promoting an increasingly competitive market, all of this fuelled by rapid advances in technology.*

*Our response to this daunting challenge can only be a strategy based on service quality and efficiency, so that our present and future customers make us their first choice as a telecommunications services supplier. This is the task we have set ourselves, and in which we are determined to succeed.*

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