

## Letter to shareholders



Dear Shareholder,

*1992 has been a year of great significance for both Spain and for Telefónica. In fact 1992 marked the culmination of a period of spectacular expansion in all directions and profound change in institutional structures. It was not an easy task to restore Telefónica to its rightful place at the forefront of Spain's public services. When we accepted the challenge, on taking over the leadership of the Company just over four years ago, we could scarcely imagine that the results we can present today would be so positive. This statement does not imply self-complacency but is rather an attempt to give due justice to all the men and women of Telefónica who, through their determination and wisdom, deserve such recognition. No sense of false modesty should lead us to hide the fact that over the last four years our Company has, through its own limited means, undertaken the largest investment and improvement plan ever carried out by a company in Spain. As a result, from whatever angle one looks at it, the Telefónica of today is bigger and better than ever before.*

*The challenge of meeting the increase in demand has been met by installing the necessary lines. Consequently the waiting list has been reduced to merely symbolic levels and is scheduled to disappear altogether in 1993. As far as modernization and technological advances, there has been a notable increase in digitization levels and an enhancement of network services, particularly in the domestic transit network. In order to meet the growing service requirements of Spain's economy, developments have been made in advanced voice services, packet switching data transmission, mobile*

services and intelligent network services. As far as quality levels, the Company beat its own record with regards to the performance of the basic telephone network. We have furthered the processes of liberalization and globalization of telecommunications by consolidating our international presence. In fact Telefónica is now the second largest telecommunications company in Latin America in terms of number of lines managed and is the only foreign operator with direct access to the United States market.

The major events which took place in Spain in 1992, namely the Olympic Games in Barcelona and the World Expo in Seville, presented further challenges to our Company. Telefónica met all the demands of these events, and, without undue effort, beat the record in the number of images distributed throughout the world. In answer to the final challenge of extending the telephone service to all corners of Spain, the rural service extension program was accelerated along with cellular access implantation.

The major investment plan which all this activity required led to an inevitable increase in the company's borrowing rate. However, this should be offset against the steady increase in profits and the fact that many other items registered more encouraging figures which tend to consolidate, in the short term, the healthy financial situation of the company. This is despite the contributions to the new Pension Fund, which has solved for good the problem of the social provision for our employees. We have also been able to increase the shareholders' dividend, which has been frozen for a long period.

We have now entered a new cycle which, despite bringing fresh challenges, also offers new opportunities. Following liberalization of value added services, terminals and part of mobile services, we are now competing for data transmission services and circuit leasing, soon to be followed by cellular telephony and, in the not too distant future, by the basic telephone service itself. We have been steadily preparing ourselves for these events through enhancements both in organization and corporate culture. We are now ready and waiting both to take on new challenges and to renew our commitment to serve Spanish society and the Spanish economy.

With kind regards

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