





# Letter to Shareholders

Dear Shareholder,  
1987 will be remembered as a turning-point in the history of our industry, brought about by the enactment of the Telecommunications Bill (LOT) which heralds the start of a new era for **Telefónica**.

The telecommunications industry worldwide is undergoing a far-reaching transformation of its institutions and technologies. If we are to protect the interests of shareholders and employees it is essential that the legal framework within which we operate keep pace with this transformation. Therefore, far from decrying this new legislation, we welcome the fact that the government has introduced a new Law, passed by Parliament, which clearly defines the regulatory environment for our industry. This in turn will ensure that the efforts of management and workers, aided by new technologies and financial resources, will continue to bear fruit.

The new Bill and its consequences for Spain and for **Telefónica** itself, clearly reflect the changes that are currently taking place throughout the industrial world. By the year 1992, when Spain finally becomes a full member of the European Economic Community, a freely competitive market will be a harsh reality and those companies which are ill-prepared to compete in it will be hard hit.

Fortunately, the new legislation ensures that by that date **Telefónica** will be ready and waiting to meet the challenge from our European neighbours head-on.

Naturally, we are not just sitting back and letting things happen. In fact, even before the new legislation came into force, **Telefónica**'s management was already planning to give the Company a corporate facelift to meet the new era. Enhancing marketing and selling techniques, decentralising operations, encouraging technological innovations, expanding globally, redefining industrial group activities and, above all, significantly increasing capital expenditures; these are the main features of **Telefónica**'s new corporate strategy.

Perhaps the two concepts which best sum up **Telefónica**'s situation today are consolidation and expansion. A solid financial base, a regularized fiscal framework, an explosive surge in demand and especially, the benefits we are reaping from our forward-looking strategy, all bear witness to this definition.

A sweeping transformation is also taking hold of our traditional industrial policy. We are gradually breaking old ties by selling off our shareholdings in telecommunications equipment manufacturing companies and starting to use our purchasing power as a basic tool to create new enterprises and support technological innovation and

research. These steps are evidence of our whole-hearted commitment to a national industrial policy, which in no way detracts from our active participation at the forefront of the major European telecommunications groups.

It will come as no surprise that an integral part of the consolidation process is to expand **Telefónica**'s global presence as a network administrator in line with the new international focus of the telecommunications sector. We have already made significant inroads on the international front and will continue to extend our global horizons.

In conclusion and as a final indication of the extent to which the new era has made its presence felt, **Telefónica** is keeping up with the times even in name: we are no longer the old *Compañía Telefónica Nacional de España* but are now the new **Telefónica de España, S. A.**

I trust that as shareholders you will continue to support and follow with interest the joint efforts of us all to lead our Company successfully into the future.

**Luis Solana**  
Chairman of the Board of  
**Telefónica de España.**

