

Letter from the Chairman



César Alierta
Chairman of Telefónica

Dear Shareholder:

For years now, the telecommunications sector has been marked by fast growth and rapid change driven by three parallel and closely related factors: globalization, the acceleration of technological change and the unrelenting reconfiguration of business groups.

Traditionally, these circumstances have been reflected in the rising stock market valuation of the sector's main players. During the past year, however, this situation changed temporarily as a consequence of the need to undertake new technological developments and open up new service horizons and business opportunities.

This is, in fact, nothing new. Historically, telecommunications companies have always had to innovate, staking enormous investments on future developments. The results are in general use today, and without these investments the current level of development of our society would be unthinkable.

For a Company such as Telefónica, which occupies a leading position in the world ranking and whose mission is to play a key role in the sector, the launch and development of new technologies and the design of new services is both an inescapable requirement and a tremendous opportunity.



Nevertheless, any business must weigh the risks involved and address them from the point of view of returns. In Telefónica, we have succeeded in uniting these two criteria with prudence, and our activity has been recognized by the leading international rating agencies. In fact, Telefónica is currently at the head of the sector in Europe, in terms of market capitalization.

The Group has a presence in 46 countries with over 68 million customers, generating revenues of 4.7 trillion pesetas and net profits of 416 billion pesetas. These figures clearly reflect the Group's strength today and its potential for growth and expansion in Latin America, Europe and North Africa.

Telefónica is a vibrant project in a state of constant evolution. Starting from its position as a global operator, our intention is to consolidate Telefónica's position in all of its markets and business segments. It is only through leadership that Telefónica will be able to play a significant role in an increasingly competitive sector which, as I mentioned at the beginning of this letter, is subject to relentless restructuring.

Our Company has developed and grown in a highly competitive environment to become the leading multinational in Spanish and Portuguese speaking markets. We hope soon to conquer commanding positions in other markets.

The Annual Report provides detailed information on the activities undertaken by Telefónica in 2000. The current situation of the company represents an excellent starting point from which to take up new challenges and seize the opportunities undoubtedly awaiting us in the future. We may thus look forward to an exciting project, and, at the same time as thanking you for your confidence to date, I wish to invite you to share this future.



César Alierta
PRESIDENT OF TELEFÓNICA