A global company

Telefónica has become a leader in the telecommunications, Internet and media sectors, in a market covering over 550 million people.

In 1999 the groundwork was laid for the transformation of Telefónica into a global player in the telecommunications, Internet and media sectors. This project (conceived nearly three years ago) gave Telefónica a leading position in the Spanish/Portuguese-speaking market, covering over 550 million people.

Financial markets have generally expressed their trust in Telefónica, reflected in a 96.2% revaluation of Telefónica's shares during this financial period and a market cap of 80.910 billion euros, in comparison with the figure of 38.870 billion euros at the end of the preceding year.

This new company model is based on reorganizing the business along Lines of Activity, initially reflected on the first day of the year with the corporate separation of Telefónica de España, the company now in charge of the line of activity of fixed telephony in Spain. During the year, other lines of business were consolidated, this time on a global level with two particularly outstanding "stars": Terra and TPI. Both of these companies were listed on the Spanish stock exchange, with revaluations of the minority tranche price rising by 360% and 227%, respectively, by the end of the year. The result has been a significant widening Telefónica's business structure.

Both of these operations are a good indicator of Telefónica's firm acceptance of the Internet as a key to global development of its business project. This global project should be understood in two ways: on the one hand, as an openly receptive approach towards new business (such as the Internet or Media, the star of 2000) and, on the other hand, as a growing international presence. In this regard, 1999 witnessed an opening up to new countries (Italy, Austria, Morocco, El Salvador, Guatemala...), and a consolidation of Telefónica's presence in countries where it already operated, particularly Brazil.

In January 2000 an important event took place regarding the new company structure: the Board of Directors approved the proposal to carry out offers for the acquisition of 100% of the minority shareholdings in various Latin American affiliates (Telefónica de Argentina, Telefónica del Perú, Telesp and Tele Sudeste).

This operation was approved on February 4, 2000 at an Extraordinary Shareholders' Meeting.

The main objective of the take-over bid is to facilitate the Group's restructuring by business units (fixed telephony, mobile telephony, data transmission, Internet, business-to-business e-commerce, media, directories and telephone-assistance services). This new focus will make Telefónica bigger while allowing each business line to take its place among the world's leaders in each sector.

In 1999, Telefónica Móviles became the fastest-growing European operator, with over 9 million Spanish customers. To this figure another 6.5 million customers in Latin America should be added (10 counting the financial participations), managed by Telefónica Internacional in 1999, but now, in 2000, controlled by a single, global, mobile-telephone company, becoming the world's sixth-largest, with 19 million customers.

Data became a global business line in 1999 with the creation of Telefónica Data, which was already operating in Spain and Latin America. This led, in January 2000, to the creation of Telefónica DataCorp, one of the world's largest companies specializing in data transmission.

In fixed telephony, Telefónica de España has continued as undisputed leader of the sector, maintaining a significant market share in spite of having to operate within a totally open, competitive environment. Expansion in fixed telephony has continued in Latin America, reaching 21 million lines in service (18.4 million under direct management).

Telefónica Media is one of the world's major companies in the field of production, ownership and broadcasting of audiovisual services in the Spanish/Portuguese-speaking community. During 2000, part of its share capital is expected to be floated on the Spanish Stock Exchange.

During 1999, the Atento Group was established to bring together all of the call-center services existing within the Telefónica Group, as well as to globally develop this business worldwide, with Latin America as the priority region, and the United States as the target region in the medium term.

In January 2000, Telefónica B2B Inc. was formed to develop business-to-business e-commerce in Spanish/Portuguese-speaking countries.

This structure by business lines on a global scale benefits from the flexibility inherent to operational decentralization, while
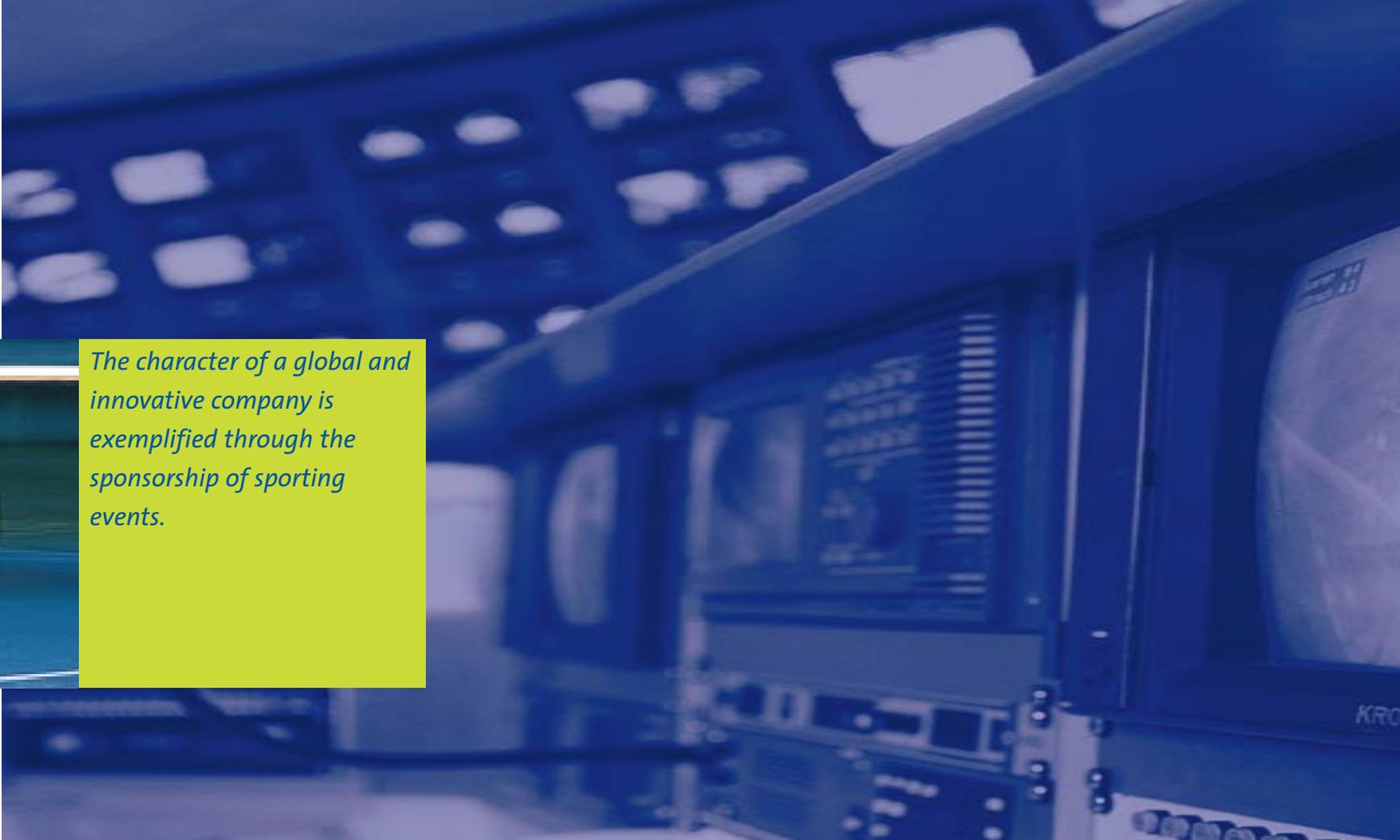
The character of a global and innovative company is exemplified through the sponsorship of sporting events.

coordinated management of the units enables each one to exploit the strength derived from forming part of one of the leading multinational companies in the sector. This coordinated management approach is clearly reflected in the brand identity solidly established in each market.

Throughout 1999, Telefónica has carried out intense global promotional activities with respect to both its corporate image and main commercial trademarks. The sponsoring of cultural and sports events has provided one of the best opportunities available for bringing the company closer to society and for it to be acknowledged as a global and innovative company, adapting to the needs of its customers.

Telefónica has initiated a stable relationship with the world of sports, because this represents three values strongly rooted in the company's business policy: rigor, competitiveness and teamwork.

Sports sponsorships have been linked both to important international figures and young hopes, as well as to disabled sports players.

As an example of this intense worldwide sponsoring activity, Telefónica became, in 1999, the first and only telecommunications company to act as main sponsor of a Formula 1 team.