



Juan Villalonga
Chairman and CEO of
Telefónica S.A.

Dear Shareholder:

In 1999, the strength of Telefónica's business project was confirmed. Confirmed by the business model. Confirmed by value creation.

Our business model is based on accelerating the development of three major priorities: Leadership in the "New Economy", exemplified by the explosive growth of the Internet and mobile telephones; disaggregation, as a way to multiply our innovative and creative capabilities; and the focus on our natural market, the 550 million speakers of Spanish and Portuguese who today comprise our chief asset.

Telefónica's leadership in the New Economy is evident with the advent of Terra as a major pace-setter in the sector worldwide, as well as an outstanding leader in our market. It has also been evident with the creation of the new Telefónica Móviles, which groups all of our cellular operators into the world's fifth-largest mobile company.

The disaggregation of high-growth business units has enabled us to dramatically increase our flexibility, offer maximum



Project of the new Telefónica's offices in Madrid

transparency and enhance the intrinsic value of our company.

Our focus on the Spanish- and Portuguese-speaking market allows us to achieve unique economies of scale and places us on a solid strategic platform from which to launch a strong entry into other major world markets.

Our main competitors have wanted to follow our lead. This is why we will improve and redouble our efforts in this project, increasing our competitive advantage.

Our project has also been endorsed by the increase in the value of our shares. During 1999, the value of Telefónica shares grew 96.2%, surpassing all of the main national stock indexes of the countries where we operate and overtaking the average performance of our global competitors. In fact, from 1995 to 1999, Telefónica has created more shareholder value than any other integrated-services operator in the world. We have therefore fulfilled our main goal of achieving exceptional yields for our shareholders.

In our sector it is very difficult to predict the future, but I can guarantee to you that we will be steadfast in maintaining the integrity of our business project and in our commitment to the interests of all our shareholders.

A handwritten signature in white ink on a dark blue background. The signature reads "Juan Villalonga" in a cursive script.

Juan Villalonga
Chairman and CEO of Telefónica S.A

