



*corporate services*

## Telefónica Data Group. Consolidated Results<sup>1</sup>

(figures in millions of euros)

	2002	january-december 2001	% Change
Operating revenues	1,731.4	1,849.7	(6.4)
Work on fixed assets <sup>2</sup>	9.9	21.2	(53.2)
Operating expenses	(1,553.3)	(1,841.6)	(15.7)
Other net revenues (expenses)	(18.1)	(5.7)	219.8
<b>EBITDA</b>	<b>169.9</b>	<b>23.6</b>	<b>620.1</b>
Amortization/Depreciation	(198.3)	(189.8)	4.5
<b>Operating income</b>	<b>(28.4)</b>	<b>(166.2)</b>	<b>(82.9)</b>
Income associated companies	(38.7)	(5.1)	n.s.
Financial income	(76.8)	(58.7)	31.0
Amortization Goodwill	(68.2)	(101.3)	(32.7)
Extraordinary income	(836.8)	(272.8)	206.7
<b>Income before taxes</b>	<b>(1,048.9)</b>	<b>(604.1)</b>	<b>73.6</b>
Tax provision	547.8	56.2	n.s.
<b>Income prior to minority shareholders</b>	<b>(501.1)</b>	<b>(547.9)</b>	<b>(8.5)</b>
Income from minority shareholders	36.4	61.7	(41.0)
<b>Net profit (loss)</b>	<b>(464.7)</b>	<b>(486.2)</b>	<b>(4.4)</b>

(1) Includes all of Grupo Telefónica's data business

(2) Includes work in progress

Telefónica Data Group placed special emphasis on fostering the efficiency and profitability of its operations in 2002. For this reason, divestitures were carried out in those businesses unable to offer guarantees for the future profitability of their investments. In the second quarter of 2002, the Company's subsidiary in Austria, ETI, was sold, and at the end of the year operations were brought to a halt in Uruguay. In July 2002 operations with Atlanet, its Italian subsidiary, were consolidated using the equity method.

Specific programmes were developed throughout 2002 aimed at improving operating efficiency by applying strict controls over investments and expenditure, with a 15.7% decrease in operating costs. As a way of laying the foundations for the future growth of income, the Group's negotiating capacities in the provision of higher added value services were reinforced, based on Broadband and the services offered by the Data Centers.

### Incumbent Markets

In Spain, 2002 marked the consolidation of a business model focused on offering value-added services to major clients. As a result of Telefónica Data's new organisational structure (concentrating system and customer consultation services in the Business Solutions Line), the financial results for Spain are similar to those in 2001, without including the equivalent results from Telefónica Systems in Spain. Total income maintained a steady rate of growth throughout the whole of 2002 (5% compared to the previous year), reaching a total of 775 million euros.

In the area of networks for major clients and Corporations, private virtual networks and Internet access grew by 8.9%, with a 60% increase in the number of connections and traffic volume. Income from this business amounted to 737 million euros, representing an increase of 8.9% over the previous year.

International Internet traffic reached levels of 9 Gigabits per second, consolidating Telefónica Data's international network as Spain's leading international Internet provider.

Improvements in operational efficiency and cost control have made it possible to achieve an EBITDA of 185 million euros, with a margin of 23.9%. This represents an increase over the previous year of 18%, and 1 percentage point.

Considerable improvements have been achieved regarding income in local currencies in incumbent Latin American markets, together with controls over spending and investment, in a scenario marked by downward economic trends and an unfavourable evolution of exchange rates. Income from Argentina, Brazil, Chile and Peru amounted to 344 million euros, representing a decrease of 20% compared to the previous year. Income would have increased by 16% if we only excluded the effect caused by exchange rates in Argentina and by 30% in the four countries as a whole.

The company maintained a solid position in the Brazilian market throughout 2002, with results improving over the previous year's with a growth in income of 48% (in local currency). Services started to be offered outside of the São Paulo area in 2002. The

*During 2002, Grupo Telefónica Data's business capacity was strengthened in services of greater added value based on Broadband and the Data Centres' services*



*2002, was the year for the consolidation of the business model in Spain based on value-added managed services oriented towards Major Clients*

EBITDA for Brazil amounted to 55 million reales, with a growth margin of 11 points, reaching 13.8%.

Argentina's economic situation had a profound effect on the corporate market and operations. Efforts were concentrated on adapting operations to the macro-economic situation by renegotiating contracts, defining new payment methods to reduce uncertainty, controlling debts and keeping the CAPEX firmly under control.

In Chile, income increased by 24% compared to the previous year (in local currency). There were particularly outstanding improvements in the growth of income from international services, amounting to 137% in local currency.

The Company maintained its market position in Peru throughout 2002, with an increase in income of 4% compared to the previous year in local currency and a substantial improvement of the EBITDA (16% of income).

### **Expanding Markets**

In Germany and the United Kingdom (Telefónica Deutschland) income amounted to 399.9 million euros, 8.3% below the previous year. This was mainly due to the migration of clients to Broadband, less narrow-band traffic, and lower service prices imposed by regulatory commissions.

In the case of narrow band Internet access services, Telefónica Deutschland was the first and only IP operator to adapt all of its network to the new interconnection offer that makes connection possible using local rates throughout the whole of

Germany. The cost efficiency achieved made it possible to capture important ISP customers, with Telefónica Deutschland being consolidated as the leading alternative provider of this type of service.

In the case of Broadband access, Telefónica Deutschland is also the first and only alternative carrier that has established a national platform for connectivity and IP transport based on DSL. After three months in service, the platform is already used by an important number of ISPs, reaching a total of 30,000 users. Telefónica Deutschland's EBITDA amounted to a total of 25.1 million euros, 8% lower than the previous year, with its subsidiary in the United Kingdom offering the highest growth in margins.

In the Americas where the Telefónica Group has recently started operations, income amounted to 51 million euros, representing an increase of 27% compared to 2001. The strategy and viability of each operation was reviewed throughout 2002; there was an increase in shares in Telefónica Data Colombia, operations were brought to a close in Uruguay and new strategies were defined for the United States and Mexico.

In the United States, after the incorporation of a new managerial team, business was re-focused to concentrate on marketing the services of the Data Center in Miami, and the selling of our holdings in Latin America to North American clients.

Faced with a lack of growth in operations in Mexico, special emphasis was placed on seeking synergies with other areas within the Group and to identify joint commercial activities with the United States.



*Throughout 2002, Telefónica Data made a considerable effort to make profit on the International Network's business unit assets*

## Solutions

In the second quarter of 2002 it was decided to create the Business Solutions area, as part of a strategy aimed at exploring new opportunities for growth for the Telefónica Group.

Telefónica Solutions was initially created from four companies which had previously carried out these activities within the Telefónica Group: Telefónica Systems, Katalyx, Art Media and Telefónica Mobile Solutions. Its objectives are to help clients through advisory services, designing and integrating all the component elements for business solutions provided by new information and communications technologies.

The results for the Solutions Area include those of Telefónica Systems and Art Media's third and fourth quarter of operations. Income for 2002 stood at 83 million euros, with a negative EBITDA of 6 million euros.

At present, a process of functional and operational consolidation is under way between these four companies, thereby optimising structural costs and the company's position within the market.

## International Network

Significant efforts were made throughout 2002 to make the assets of the International Network's business unit profitable. In order to do so, contracts were re-negotiated with third parties, new services were developed and the unit responsible for the commercial service for global clients was reinforced.

Within this context, income from the International Network amounted to 77 million euros, an increase of 24% compared to the previous year.

## Results for the Telefónica Data Group

Income from operations for the Telefónica Data Group amounted to 1,731.4 million euros for 2002, 6.4% lower than the previous year. Income was mainly affected by developments in exchange rates in America (incumbent), and changes in the consolidation perimeter. Without these two effects, income would have grown by approximately 8%. As a result of efforts made to improve profitability, the Group's accumulated EBITDA amounted to 169.9 million euros, compared to 23.6 million euros in 2001. The EBITDA margin of 9.8% achieved represents an improvement of 8.5 percentage points over the same figure from the previous year.

The Group's policy of containing investments has resulted in a reduction of 54% compared to the previous year, reaching a figure of 225.7 million euros for 2002. The majority of investments were made in Spain and Brazil.