

# Media

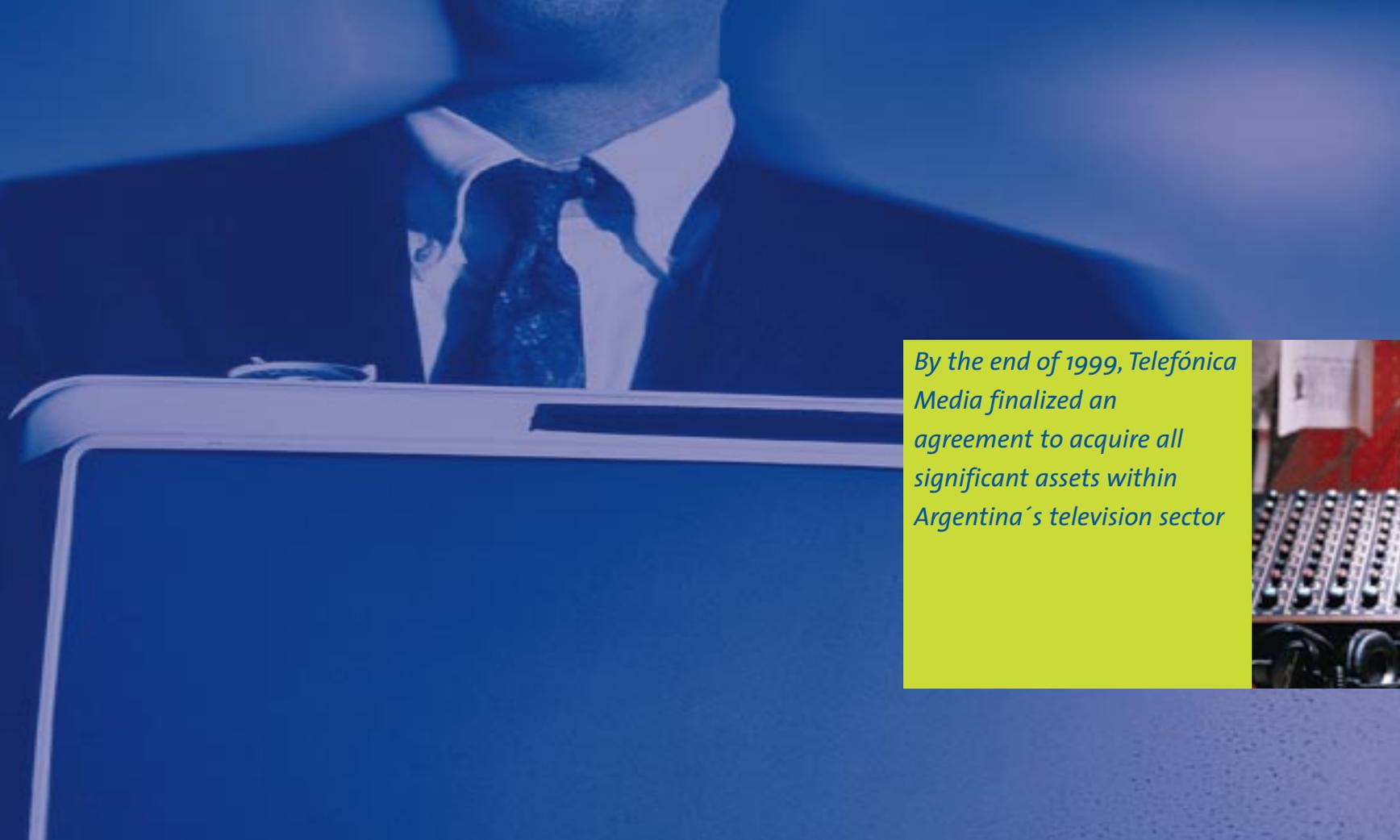
*Telefónica Media is one of the world's largest companies in the field of production, ownership and broadcasting of audiovisual content and services for the Spanish/Portuguese-speaking market.*

Telefónica Media groups and manages the shareholdings of Telefónica S.A. in the Spanish and Latin-American audiovisual services market. By the end of 1999, it had undergone an important capitalization process, generating 337,413 million pesetas; this process will be completed in the year 2000 with the incorporation of new assets. Telefónica Media has therefore become one of the world leaders in the field of production, ownership and promotion of audiovisual programs and services in the Spanish- and Portuguese speaking worlds, with more than 550 million potential customers united by the same language. Telefónica Media is present in the entire value chain of the audiovisual sector; this provides it with great flexibility for distributing and transmitting programs among its different companies.

Telefónica Media exploits synergies with both its own companies and those belonging to Telefónica S.A. These provide it with crucial competitive strength, giving rise to new forms of distribution (such as TDT, broadband satellite services, XDSL), new products (EPG, digital newspapers, educational programs), new business models (programming, advertising, interactive services, TV-commerce), new distribution platforms and new sales channels. In short, Telefónica Media is the vehicle that enables Telefónica to enjoy a privileged position in the audiovisual and interactive programming sectors, from which it operates as the leading provider of complete communications and/or entertainment services in Spain and Latin America. Telefónica Media is present in the Spanish and Latin-American audiovisual markets in four areas of activity: television, radio, production (programs), and systems and services.

## Television

In 1999, Telefónica Media increased its presence in the television industry with the acquisition of important assets in Argentina. In



*By the end of 1999, Telefónica Media finalized an agreement to acquire all significant assets within Argentina's television sector*

Spain, this presence corresponds to Telefónica Media's shareholdings in Antena 3 (open TV) and in Vía Digital (digital pay TV channel).

### **Antena 3**

Antena 3 ended 1999 with spectacular results, recording operating income to the amount of 28.252 billion pesetas, an improvement on the brilliant balance achieved in the previous year in which operating income amounted to 20.892 billion pesetas. In 1999, Antena 3 recorded net consolidated profits of 20.887 billion pesetas, as compared with 13.143 billion pesetas in the previous year. These results were achieved thanks, in part, to increased revenues and tighter spending control, making Antena 3 one of the most profitable private television companies in Europe.

The financial consolidation of Antena 3 since Telefónica took over management of the company has been reflected in many areas, including the development of new areas of business, with a great capacity for generating added value, such as the production of programs, interactive television, telesales, use of databases (Club Megatrix), organization of events and advertising production. In this area, great progress was made in terms of the diversification of traditional business following the acquisition of

the leading cinema-advertising distributor, Movierecord. Antena 3 was the leader in terms of viewers among the private channels in the open TV segment with average viewing figures of 22.8%. It is also the outright leader in terms of the main audience profile targeted by advertisers: people under 55 years of age, of middle and upper class, and resident in towns with more than 10,000 inhabitants.

### **Vía Digital**

Vía Digital began to operate in the satellite pay television segment in September 1997, and since then its subscribers have increased steadily in number. Vía Digital broadcasts 65 television channels, 30 audio and interactive service channels, and had around 450,000 subscribers at 31 December 1999. The offer of programs broadcast by Vía Digital improved last year with the acquisition of important sporting events: the 1999-2000 through 2002-2003 seasons of the Champions League in the pay-per-view section; the 2002 World Cup Finals that will be staged in Korea and Japan; and the Spanish Football League and the Spanish Cup until the 2008-2009 season. Consequently, in 1999 Vía Digital was the Spanish pay television operator that offered most football to its subscribers.



Antena 3 closed the year with spectacular results, obtaining operating income of 28.252 billion pesetas and taking the lead in private European television profitability.



The acquisition of broadcasting rights of films from large North American "majors" and Spanish producers enables Vía Digital to offer a very attractive range of films, including those that have received the most awards at the main film festivals.

In 1999, Vía Digital added interactive banking services, ticket sales, Stock Exchange and weather information to its programs; this eventually gave rise to interactive advertising, a new form of advertising that will generate huge short- and medium-term resources.

### **Telefé**

At the end of 1999, Telefónica Media signed an agreement for the purchase of all the main assets of Argentine television. One of these assets, Televisión Federal S.A. ("Telefé"), is the main open TV channel in the Federal Capital and Greater Buenos Aires, and is also the leading Argentine company in the generation of advertising resources. In 1999, Telefé achieved average viewing figures of 38% and won more than 32% of the advertising investment of Argentine television. Telefé is renowned for its great capacity for producing programs for television and films for cinema, with which it has achieved the highest audience shares in the history of Argentine television. Most of the Telefé's programs are sold to almost 50 counties in Latin

America, the United States, Europe and Asia. Telefé also has seven open TV channels in inland provinces, all known as "Canales del Interior" (Inland Channels). These channels have the most viewers in their respective broadcasting areas. The signal emitted by Telefé reaches more than 12 million homes in the Republic of Argentina, through its open signal, its affiliates and pay TV systems.

### **Canal Azul**

Telearte S.A., is the other asset of Argentine television that was absorbed by Telefónica Media at the end of 1999. Canal Azul is the third open TV channel in the Republic of Argentina, and also broadcasts in the Federal Capital and Greater Buenos Aires. It shows mainly comedies, sports programs, entertainment programs and news. Canal Azul has innovated the Argentine television model, and is the pioneer in TV-based distance learning. It broadcasts to inland provinces through operating companies in Mar de Plata, Resistencia and Paraná (the "Cadenas del Interior").

### **Radio**

Telefónica Media has a strong presence in Spanish and Argentine radio. In Spain, this presence is orchestrated through Uniprex S.A.

Pay TV customers of companies grouped into Telefónica Internacional in 1999

	dec. 99	% change 99/98	dec. 98
<b>Managed Operators</b>	<b>596,314</b>	<b>1.8%</b>	<b>585,770</b>
Telefónica CTC Chile	268,970	-4.1%	280,570
Telefónica del Perú	327,344	7.2%	305,200
<b>Financial stakes</b>	<b>1,453,070</b>	<b>-3.3%</b>	<b>1,501,997</b>
Cablevisión	1,453,070	-3.3%	1,501,997

*Canal Azul has innovated Argentina's television model, through which it has become a pioneer in distance learning*

(Onda Cero) and Cadena Voz de Radiodifusión S.A., both acquired in 1999 and fully owned by Telefónica Media. These two companies operate in the radio market through a coverage network comprising 219 own or associated broadcasters that broadcast programs from the following radio stations: Onda Cero Radio, Europa FM, Onda Melodía, Onda Cero Radio Internacional, Radio Voz and Onda Rambla.

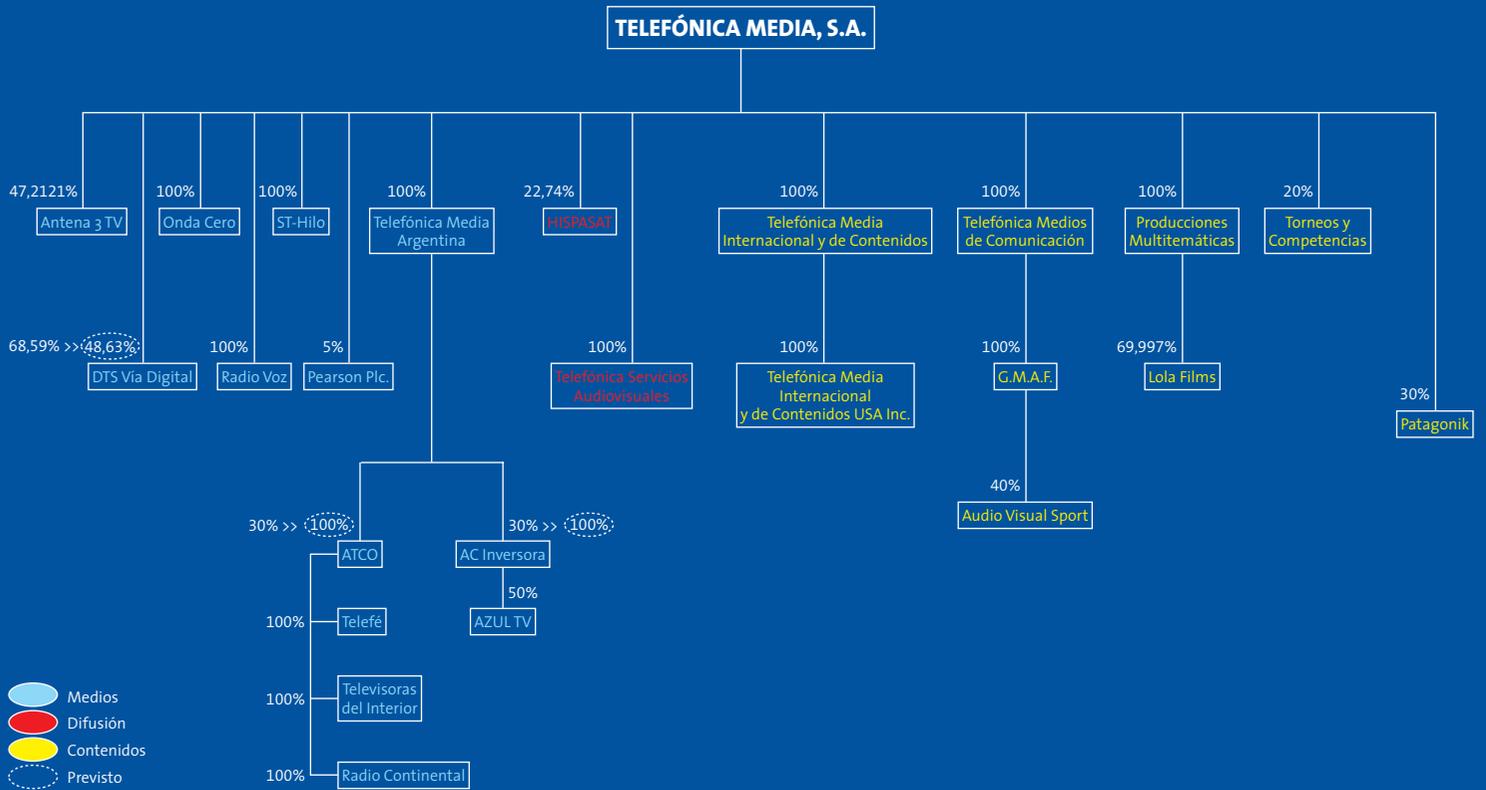
In 1999, Onda Cero Radio became the third conventional Spanish radio channel in terms of the share of revenue and the fourth in terms of the number of listeners. In Argentina, Telefónica Media acquired the AM and FM channels of Radio Continental, the third Argentine radio station in terms of conventional programs (AM) and the first in terms of formula radio (FM).

**Production (content)**

Telefónica Media is involved in television production through the work of Antena 3, Vía Digital, Telefé, Canal Azul and Televisoras del Interior. This activity encompasses the programs of thematic channels, the creation of programs, content, interactive content creation and ownership and use of audiovisual rights.

Telefónica Media is involved in this area of audiovisual activity through its participation in various companies. ST-Hilo, which engages in the production and transmission of specialized audio and ambient music channels; GMAF, through which it has a 40% shareholding in Audiovisual Sport, a company that owns various operating rights for televising football competitions, including most notably the Spanish Football League. In terms of the football television broadcasting operating rights, it is also worth noting the assets that Telefónica Media owns in Argentina through the company Torneos y Competencias, which owns the television broadcasting rights to the Argentine Football League. In terms of programs, mention must also be made of Lolafilms, one of the two leading Spanish cinematographic companies, as well as a minority shareholding in Pearson plc, a leading company in the European multimedia sector. At the end of 1999, Telefónica Media joined forces with Disney and the Clarín Group in the Argentine producer Patagonik Film Group, the producer of programs for the entire Latin-American market. Telefónica Media has its own media for providing programs to the different audiovisual promotion and distribution "windows" integrated in the group.

## Organización y dependencia accionarial



### Audiovisual Systems and Services

Telefónica Media controls the provision of its audiovisual systems and services through Telefónica Servicios Audiovisuales (TSA), of which it is the sole shareholder, and through its shareholding in the company Hispasat, which controls the satellite communications management company of the same name. TSA engages in three business areas: audiovisual services (Digital TV technical platforms, contribution and distribution networks, business TV ...); audiovisual systems (design, engineering, integration and start-up of teleports, technical platforms, mobile units ...); and production services. TSA has embarked upon a process of expansion aimed at the Peruvian, Argentine and Brazilian markets, as the springboard for its future development throughout the whole of Latin America. TSA is also in a position to provide the broadcasting services of Televisión Digital Terrenal.

Mention must also be made of three companies operating in this field that were controlled by Telefónica Internacional in 1999: Cablevisión (Argentina), which had 1.45 million cable television subscribers by the end of the year; Metrópolis-Intercom (Chile), had 270,000 customers, accounting for 25% of households; Telefónica

Multimedia, a subsidiary of Telefónica de Peru for the development of cable television business, had 327,344 customers (7.3% year-on-year growth) and a market share of 94% in Lima.

