



*fixed telephony*

## Grupo Telefónica de España. Consolidated Results

(figures in millions of Euros)

	2002	january-december 2001	% Change
Operating revenues	10,272.1	10,220.4	0.5
Telefónica de España	9,829.0	9,831.5	(0.0)
Others and withdrawals	443.1	388.9	13.9
Work on fixed assets <sup>1</sup>	179.2	195.1	(8.2)
Operating expenses	(5,868.6)	(5,703.4)	2.9
Other net revenues (expenses)	(65.5)	(203.9)	(67.9)
<b>EBITDA</b>	<b>4,517.2</b>	<b>4,508.2</b>	<b>0.2</b>
Amortization/Depreciation	(2,701.8)	(2,804.5)	(3.7)
<b>Operating income</b>	<b>1,815.4</b>	<b>1,703.7</b>	<b>6.6</b>
Income associated companies	(2.4)	(1.8)	31.3
Financial income	(398.5)	(403.1)	(1.2)
Amortization Goodwill	(8.2)	(0.7)	n.s.
Extraordinary income	(373.7)	286.1	c.s.
<b>Income before taxes</b>	<b>1,032.7</b>	<b>1,584.2</b>	<b>(34.8)</b>
Tax provision	(224.7)	(506.6)	(55.6)
<b>Income prior to minority shareholders</b>	<b>808.0</b>	<b>1,077.6</b>	<b>(25.0)</b>
Income from minority shareholders	(0.1)	0.0	n.s.
<b>Net profit (loss)</b>	<b>807.9</b>	<b>1,077.6</b>	<b>(25.0)</b>

(1) Includes work in progress

## Grupo Telefónica Latinoamérica. Consolidated<sup>1</sup> Results

(figures in millions of Euros)

	2002	january-december 2001	% Var.
Operating revenues	6,954.1	10,137.4	(31.4)
Work on fixed assets <sup>2</sup>	63.4	212.5	(70.2)
Operating expenses	(3,407.5)	(4,719.6)	(27.8)
Other net revenues (expenses)	(263.3)	(467.3)	(43.7)
<b>EBITDA</b>	<b>3,346.7</b>	<b>5,163.0</b>	<b>(35.2)</b>
Amortization/Depreciation	(1,999.4)	(2,625.7)	(23.9)
<b>Operating income</b>	<b>1,347.3</b>	<b>2,537.3</b>	<b>(46.9)</b>
Income associated companies	(4.3)	8.4	c.s.
Financial income	(1,181.1)	(1,318.5)	(10.4)
Amortization Goodwill	(89.7)	(86.6)	3.6
Extraordinary income	(317.2)	164.6	c.s.
<b>Income before taxes</b>	<b>(245.0)</b>	<b>1,305.1</b>	<b>c.s.</b>
Tax provision	103.7	136.2	(23.8)
<b>Income prior to minority shareholders</b>	<b>(141.3)</b>	<b>1,441.3</b>	<b>c.s.</b>
Income from minority shareholders	(41.3)	(166.4)	(75.2)
<b>Net profit (loss)</b>	<b>(182.6)</b>	<b>1,274.9</b>	<b>c.s.</b>

(1) Includes fixed telephony business in Latin America

(2) Includes work in progress

Throughout the year, Telefónica de España launched new Value-Added services on ADSL, both for companies (Business Solutions) and the residential segment.



*As of the financial year 2003 there has been a change to the calculation for the Equivalent Lines in service for fixed telephony within the Grupo Telefónica. This new criterion introduces different treatment of the ISDN Primary Accesses and of the 2/6 accesses for exchanges and Ibercom.*

## Spain

It was a difficult year for the fixed telephony sector in Spain, characterised by limited market growth, tough competition and extremely demanding regulatory requirements. Within this context, and in line with the previous financial year, the year's management was centred on three strategic priorities:

- Defence of revenue from traditional business.
- Growth in Internet and Broadband business.
- Progress in the Company's transformation.

### Defence of traditional Business

Telefónica de España's traditional business did not find itself in a very favourable climate and was confronted with considerable regulatory pressure. As such, the access market, measured in standard lines, increased by 0.6% and the voice traffic market by 1.2%. The application of the *Price Cap* did, however, allow significant progress to be made in rebalancing price rates, with an increase in the subscription share in basic lines of 11.5% and a reduction in traffic services of 13.9%.

On the commercial front, Telefónica de España continued to modernise traditional services, amongst which 11 million voice mails (CAR), 450,000 text messages and more than 5 million lines with call identification can be highlighted. Taking this into consideration, and the loss of share in access and traffic, revenue from traditional business in the parent company only decreased by 1.3%.

Lastly, throughout 2002, Telefónica de España, against a backdrop of rigorous and strict compliance with regulatory requirements, made advances in the

services it provides to other operators. This was the result of approved resolutions by the Comisión del Mercado de las Telecomunicaciones (Telecommunications Market Commission) within the framework of OBA 2002 (Subscriber Loop Service).

### Increase in Internet and Broadband Business

Throughout 2002, Telefónica de España continued to make great progress in the Internet and Broadband business. As a result of the dedicated commitment to ADSL technology, accesses in Spain exceeded 957,000. Despite this considerable increase in Broadband, the Narrow Band Internet traffic volume remained virtually unchanged (-1%) and, as such, Grupo Telefónica strengthened its leadership position in ISP Internet and Broadband.

Throughout the year, a series of new Value-Added services was launched on ADSL technology, both in the Company segment (ADSL Solution «Intranet», «Web» (March), ADSL Solution «e-Business» and ADSL Solution «net-LAN») and the Residential segment: Video conference and Internet Games.

Within the framework of the commitment to the Information Society and Broadband, on 7 January 2002 the pilot trial started in Alicante for the Imagenio Service, a leisure and entertainment service which provides Digital Television, Digital Audio, Broadband Internet (in Television and PC) and Video on demand; all via a telephone line using ADSL technology.

### Progress in the Company's Transformation

By using the Leader Programme, there was progress in the Company's transformation, achieving fixed goals en route to a truly e-Company; Telefónica



*The Digital Home was created in 2002 as a priority under Telefónica de España's strategic plans*

online has more than 1.3 million registered users, e-domus portal receives 18,000 employee visits per day and in the e-Agora portal there are already approximately 5,000 users of registered providers.

The Strategic Change Project «Excelent.es», as one of the strategic priorities for improving the quality received by clients, met its objective in achieving 85.8% customer satisfaction, tripling that of 2001. With regard to Broadband, 87.3% of ADSL retail clients had a very positive or positive view on the service's functioning at the end of 2002. These results were achieved using Seis Sigma as the improvement methodology applied.

With reference to human capital, it is important to highlight the numerous initiatives which were implemented during last year; amongst which were, the evaluation of online ability and knowledge for the more than 40,000 employees, online training courses and surveys for all personnel.

#### **Telefónica de España's Results**

All of this also generated notable profits in the profit and loss account. Specifically, the net expenditure for the Interconnection of the parent company only grew 2.1%. This was, on the one hand, the result of the evolution of personnel costs (+3.2%), showing the stability in Telefónica de España's staff in 2002 and, on the other hand, by the contention policy (+0.7%) of remaining operating expenses. Furthermore, with a reduction of investment by 6.9% the investment ratio over revenue improved by 1.3 pp.

The Grupo Telefónica de España achieved a slight growth, both in Revenue from Operations (+0.5%)

and EBITDA (+0.2%) as well as a significant increase of Free Cash Flow (+25.3%).

#### **Latin America**

July marked an important turning point, with Telefónica de São Paulo (Telesp) starting to offer its customers a comprehensive Long-Distance, National, interstate and international service (LDN and LDI), consolidating its position as leader in providing long-distance national intrastate calls in São Paulo.

Telefónica Latinoamérica has continued to support Internet business services and Broadband using ADSL technology. At year-end 2002, it had more than 450,000 clients, 85.5% more than at the close of 2001.

#### **Brazil Good Results in the new Long-Distance Service**

In 2002 Telesp achieved an EBITDA of 1,903 million euros, with a growth of 8% in local currency. A particularly important factor was the creation of 1,092 million euros of Free Cash Flow, thanks to improvements in the EBITDA and particularly to the rationalising of investments, which have been reduced by 63.4% in local currency.

After reaching its target figures ahead of schedule in September 2001, Telesp started to offer its Long-Distance service from São Paulo for International Long-Distance calls (ILD) in May 2002 and its National Long-Distance (NLD) interstate service in July. By year-end 2002 Telesp had obtained a quota of 83% for intrastate NLD, 36% for interstate NLD and 32% for ILD in the month of December.

*From July 2002 Telefónica de São Paulo (Telesp) provides international and interstate national long distance services*

*In Chile "Plan Revolution" was launched in 2002 for International Long Distance with the objective of obtaining revenue levels similar to the previous financial year.*



Broadband experienced an important rate of growth, closing the year with 333,281 ADSL customers, 68% higher than year-end 2001.

Despite the incorporation of new types of business, the optimising of internal organisation processes and taking advantage of synergies have made the continued improvement in productivity possible, reaching 1,314 lines per employee by the end of the year, compared to 1,192 the previous year.

#### **Argentina Management adapted to a hostile Environment**

In 2002, Telefónica de Argentina (TASA) faced up to the profound deterioration of the economic situation by adopting an organisational model suited to the country's macroeconomic conditions. This allowed the Company to obtain a solid operational result in local currency amounting to 1,174 million pesos of EBITDA, although after the strong depreciation of the peso this amount finally stood at 394 million euros.

An aggressive policy of reduction and control of operational costs was therefore implemented, aimed at compensating for reduced income as a result of the freezing of tariffs and the deterioration of the main operational variables. The Long-Distance market was particularly resilient to the economic crisis, with the loss of -11.4% in national traffic and -16.9% in international traffic.

With regard to the control of operational costs, there was a particularly effective control of late payments, making it possible to significantly reduce provisions for bad debts and a year-on-

year reduction of operating costs by 12.2% in local currency. There was also a significant reduction in investments (-68% in local currency compared to 2001), with priority being given to projects with short-term returns and higher profit margins to resist a particularly volatile economic climate.

#### **Chile Organisation to obtain Profits**

2002 was a year of intensive organisation in Telefónica CTC Chile, focused on recovery of income and cost control within the framework of an extremely unfavourable regulatory market. Nevertheless, Chile's fixed telephone operator was able to close the year with positive results.

In order to create income, major efforts were made through the initiatives launched as 'Plan Revolution' for LDI calls, or plans created for different customer segments. These, together with advances in the implementation of ADSL, made it possible to obtain a similar level of income to that of the previous year.

Free Cash Flow was 262 million euros, and the company's productivity reached 980 lines per employee, 22% over the previous year.

#### **Peru Growth focused on Public Telephony and pre-paid Products**

Telefónica del Perú has consolidated its position as leader in the local market, increasing the number of fixed telephone lines by 5.4%. Its growth has been focused on the development of Public Telephony and pre-paid products together with control



«Super15» played lead role in the advertising campaign for fixed telephony in Brazil.

of consumption, representing 36% of the programme at year-end 2002.

The operator's level of revenues was 1,273 million euros, with a growth of 1.9% in local currency with regard to the previous year. There was positive growth of Public Telephony compared to Long-Distance contracts.

ADSL has been consolidated as the operator's main venture in the area of Broadband coverage, with more than 34,000 lines installed, also including cable modem.

The substantial efforts made to contain material and immaterial investment levels by the Company (-46,8% in local currency) made it possible to increase operating cash flow by 30.7% in local currency over the previous year. These efforts have played a decisive role in reducing the Company's financial debt.

### Results for Telefónica Latinoamericana

Despite the year having been marked by profoundly unstable macroeconomic conditions, 2002 was the year in which Telefónica Latinoamérica consolidated its holdings in the Spanish and Portuguese-speaking market. It was therefore possible to increase Free Cash Flow by more than 52%, by applying a rigorous policy of cost controls and making use of combined efforts between operators.

As a result, in the financial year 2002, Telefónica Latinoamérica provided Grupo Telefónica with an EBITDA of 3,347 million euros, and a Free Aggregated Cash Flow of 1,952 million euros.

*Despite the macroeconomic climate of great uncertainty in Latin America, 2002 saw the consolidation of Telefónica Latinoamérica's commitment to Spanish and Portuguese-speaking countries*

### Leading position of Telefónica in fixed-line telecommunications in Latin America

	LIS <i>(figures in millions of lines)</i>	Market Share <i>(figures as a percentage)</i>
Telefónica	21	26
Telemar	15	18
Telmex	14	17
Brasil Telecom	9	11
Verizon	4	5
Telecom Argentina	3	4
Others	18	18

*Does not include CANTV. As of financial year 2003 a change has been introduced in the method of calculation for Equivalent Lines in service for fixed telephony within the Telefónica Group. This new criterion introduces a different treatment of the ISDN Primary Accesses and of the 2/6 accesses for exchanges and Ibercom.*