

mobile telephony



Telefónica Group's Mobile Business. Consolidated Results

(figures in millions of Euros)

	january-december		
	2002	2001	% Var.
Operating revenues	9,449.3	8,730.0	8.2
Work on fixed assets ¹	75.3	128.6	(41.4)
Operating expenses	(5,600.3)	(5,250.9)	6.7
Other net revenues (expenses)	(94.3)	(189.3)	(50.2)
EBITDA	3,830.0	3,418.3	12.0
Amortization/Depreciation	(1,391.9)	(1,331.8)	4.5
Operating expenses	2,438.1	2,086.6	16.8
Income associated companies	(159.5)	(119.2)	33.8
Financial income	(364.1)	(384.6)	(5.3)
Amortization Goodwill	(101.6)	(73.2)	38.7
Extraordinary income	(12,077.8)	(119.1)	n.s.
Income before taxes	(10,264.8)	1,390.5	c.s.
Tax provision	2,130.4	(622.5)	c.s.
Income prior to minority shareholders	(8,134.4)	768.0	c.s.
Income from minority shareholders	4,389.9	91.8	n.s.
Net profit (loss)	(3,744.5)	859.7	c.s.

(1) Including work in progress

Throughout the year 2002, in a growing climate of competition and changing conditions for the development of new technologies, Telefónica Móviles has succeeded in reinforcing its position as the leading company in the key markets for its current and future development. At the same time it has redefined its strategy in Europe notably increasing its capacity to generate cash flow in the short and medium-term. Telefónica Móviles has taken the lead over other operators who subsequently followed the initiative to strengthen the impact on its value of variations in marketing expectations for new technologies.

The solidity of Telefónica Móviles is demonstrated by its having achieved 1,825 million euros of free cash flow, an annual increase of 134%. This also indicates the company's future possibilities, as it allows the company to continue improving the quality and strength of its balance sheet, while exploring the most interesting investment options, either in markets which represent a high growth potential, as is the case of Mexico or Brazil, or in the development of new technologies. It will also allow the company to continue with its policy of paying dividends to its shareholders.

Consolidation of Leadership in key Markets

During 2002, Telefónica Móviles succeeded in consolidating its position as one of the largest mobile telephone operators worldwide, a position which became even stronger during the first months of 2003. For example, Móviles closed the financial year with more than 41.4 million active customers, representing an increase of 38.9% over the previ-

ous year. By the end of January 2003, as a result of growth operations in Latin America, the company already had 45 million customers throughout the world. More than half of those customers reside in Latin America, reflecting the diversification of Telefónica Móviles' sources of revenue.

Spain

In Spain, Telefónica Móviles closed 2002 with more than 18.4 million customers, an increase of 10%, once again making it the largest incumbent operator with the greatest national market share among large European countries (estimated at 55% at December 2002).

Telefónica Móviles España is the only Spanish operator with a positive differential between its share of outgoing traffic and its client share. The outstanding success of the Company's marketing campaigns throughout the year can be demonstrated by the fact that churn has decreased by one percentage point throughout the year, reaching monthly rates of 1%. Another factor which explains this success is the greater weight of contract customers, which has meant that the growth of minutes of use (MOU) has increased in year-on-year terms for the first time in the Company's history.

The greater quality of the client portfolio has also favoured an increased importance of data services and contents. These grew by 30% during the year, to reach 12% of average revenue per user.

The high acceptance of the offer of more advanced products and services, of which Multimedia

Telefónica Móviles Group. Proforma consolidated Results

(figures in millions of Euros)

	january-december		
	2002	2001	% Var.
Operating revenues	9,139.8	8,411.1	8.7
Operating expenses	(5,364.8)	(4,999.7)	7.3
Other net revenues (expenses)	(39.2)	(77.7)	(49.5)
EBITDA	3,735.8	3,333.7	12.1
Amortization/Depreciation	(1,316.4)	(1,258.2)	4.6
Operating expenses	2,419.4	2,075.5	16.6
Income associated companies	(159.5)	(119.2)	33.8
Financial income	(316.2)	(328.1)	(3.6)
Amortization Goodwill	(87.1)	(53.8)	61.9
Extraordinary income	(12,075.9)	(100.7)	n.s.
Income before taxes	(10,219.3)	1,473.7	c.s.
Tax provision	2,130.8	(628.8)	c.s.
Income prior to minority shareholders	(8,088.5)	845.0	c.s.
Income from minority shareholders	4,364.0	48.4	n.s.
Net profit (loss)	(3,724.5)	893.4	c.s.
Net profit before non-recurrent extraordinary results¹	1,405.8	957.0	46.9

(1) During 2002, excluding the impact of extraordinary items attributable to the writedown of assets and the restructuring of operations in Germany, Austria, Italy and Switzerland, as well as the writedown of Terra Mobile goodwill. During 2001, excluding the impact of extraordinary provisions, writedown of assets and bringing TCP's financial year into line with the rest of the TM Group.

Messaging Service (MMS) is one example, allows for positive expectations regarding the contribution of these new services to the Company's revenue.

Finally, and as a result of all of these factors, EBITDA per client reached 16.5 Euros and the EBITDA margin rose by 2.5 percentage points to 51.6%, making Telefónica Móviles one of the most profitable European operators, with the best management indicators.

Latin America

In Latin America, Telefonica Móviles' operations have produced increased profits as a whole, despite the region's difficult economic climate and the devaluation of some currencies.

In Brazil, Telefónica Móviles has consolidated its leadership with the creation of Brasilcel, the joint venture with Portugal Telecom, which has a market share of more than 60% in the markets where it is present. The agreement to purchase the operator Tele Centro Oeste (TCO) has strengthened this leadership position. With TCO, Brazilian Telefónica Móviles operators had more than 16.8 million clients at the end of 2002, bringing the differential with the second operator in Brazil, at that time, to more than 11 million clients with a leading position in Sao Paulo, Río de Janeiro, Brasilia and Porto Alegre.

With this differential, a result of its size, Telefónica Móviles will be able to achieve significant cost reductions in Brazil, increase the level of loyalty amongst its current clients, and have an important share of new clients.

In Mexico, the second-largest Latin American market, following the purchase and integration of the operator Pegaso PCS, the Telefónica Móviles Group has consolidated itself as the second national operator and the only real alternative to the dominant operator.

Telefónica Móviles México finalised the year 2002 with more than 2.4 million clients and an increase in its share of new clients which grows every quarter. This, together with the deployment of a new network which, during 2003, will have covered the country's main cities, along with a commercial launch based on a single brand, will enable Telefónica Móviles to lead the transition of the Mexican market to new mobile phone services.

Redefining Business in Europe

In July 2002, Telefónica Móviles decided to redefine its short and medium-term objectives in Germany, Austria, Italy and Switzerland, given the delay in the availability of UMTS technology and the need to review the business model, to reflect the situation of the market, technology, competition and financial and regulatory matters.

The new valuations obtained from business plans in Germany, Austria, Italy and Switzerland led to accounting for extraordinary provisions attributable to the writedown of assets and to the provisions of restructuring costs. This decision enables an important generation of cash flow in the Telefónica Móviles Group which will allow it to maintain the soundness and quality of its balance sheet and will also give it flexibility to optimise its strategy.



Telefónica Móviles offices in Monterrey, México

Telefónica Móviles was the first European operator to adopt a decision of this kind. The market reaction was unanimous in its approval and ratification.

In the fourth quarter of the year, exposure in Germany, Austria and Switzerland was totally eliminated and a writedown was taken for the goodwill of Terra Mobile which centres its activities in Spain, its principal market.

Grupo Telefónica Móviles Results

The income reported for the Telefónica Group's (Grupo Telefónica Móviles + Telefónica Móvil Chile) total mobile telephony operations amounted to 9,449.3 million euros in 2002 representing a growth of 8.2% compared to the previous year. The EBITDA for the same period amounted to 3,830 million euros, a year-to-year improvement of 12.0%.

Despite the downward trend in the international economic situation and increased competition in its markets, Telefónica Móviles enjoyed continuous growth in its operations.

The EBITDA reached 3,736 million euros, representing a rate of growth of 12.1%, which reflects an increase in revenue of 8.7% amounting to 9.14 billion euros within a strict policy of cost contention. Without taking into account the effect of fluctuations in Latin American exchange rates, the increase in business was 18.7% and EBITDA increased by 9.1%.

The net profit, excluding the effect of extraordinary provisions, amounted to 1,406 million euros, 46.9% more than in 2001.

The accumulated result for the financial year (including the effect of all provisions and write-downs and the impact of exchange rate differences in Latin American currencies) presents a loss of 3,725 million euros, slightly better than the losses of 4,333 million euros in the first quarter, or the 3,923 million euros in the first nine months of the year.

At the same time Telefónica Móviles continued to show significant improvements in its balance sheet results. The net financial debt was reduced by more than 2 billion Euros (23%) compared to 2001, closing 2002 at 6.97 billion Euros. This reduction is particularly significant given the consolidation perimeter caused by acquisitions in markets with greater growth potential in Latin America which have caused debt to rise by 1,622 million euros.

Investments amounted to 919 million euros, representing 10.1% of revenue. At the same time, the weight of intangible assets compared to the total of the Group's assets was reduced by 46.1%, as opposed to only 26.1% in 2001.

Telefónica Móviles' results demonstrate that in 2002, thanks to major rationalisation and optimisation efforts in investments and strict cost controls, the Company has been strengthened against the wide-ranging process of restructuring which has affected the telecommunications sector on a global scale.

Telefónica Móviles was the first European operator to make a provisioning for restructuring costs in Germany, Austria, Italy and Switzerland