

# The Telefónica Group in 2003

A LEADER ON THE SPANISH AND PORTUGUESE-SPEAKING MARKETS, INTEGRATING GLOBAL COMMUNICATION SOLUTIONS, FOCUSING ON THE CUSTOMER AS THE CENTRE OF ITS ACTIVITY AND COMMITTED TO THE SOCIETY IN WHICH IT OPERATES

## A GROUP LEADER ON THE SPANISH AND PORTUGUESE-SPEAKING MARKETS

Telefónica is a world leader in the telecommunications sector and the reference operator in the Spanish and Portuguese-speaking markets. Its customer base now numbers close to 100 million customers, out of a potential market of 500 million people.

Telefónica is a leader in terms of the size of its activity. The Group is present on three continents, performing significant operations in 15 countries, and it has activity of some kind in another 40 countries. Through this presence, Telefónica has over 43 million fixed lines and 55 million mobile telephone lines. Over 148,000 professionals work in the Group to carry out this activity.

Telefónica is also the leader on the financial markets. In February 2004 Telefónica was the sixth operator in the world in terms of stock exchange capitalisation and ranked fifth on the EuroStoxx50. Over 1.6 million shareholders trust the management and profitability of the Company, backing this leadership.

Telefónica is an operator committed to Latin America. The Group has had a stable presence in the region over the last 14 years, having invested nearly 65,000 million dollars in infrastructure and acquisitions. In 2003, Telefónica is the reference operator in Brazil, Argentina, Chile and Peru, and is already developing significant operations in Puerto Rico, Colombia, Mexico and Venezuela, among other countries in the region. Spanish-speaking markets account for 62% of the Group's customers, while 36% are in Portuguese-speaking markets. The Telefónica Group has attained the highest market share in the region, reaching 25 million fixed lines, and 35 million mobile customers; furthermore, it offers integrated communication solutions for businesses.

Telefónica is a multidomestic operator for different reasons. First, because its offerings in each country consider the singularities of the

market, adapting itself to the needs of each local society. Secondly, because it is the only operator that is incumbent in all the countries relevant to its business. And thirdly, because the contribution to the gross operating margin from markets different from its country of origin is the greatest among the major telecommunications companies in the world.

## A GLOBAL AND INTEGRATED TELECOMMUNICATION SOLUTIONS OPERATOR

Over the last few years, the Telefónica Group has concentrated on telecommunications, its core business, reinforcing its presence in fixed and mobile telephony. This is the reason why it has divested some non-strategic assets in 2003.

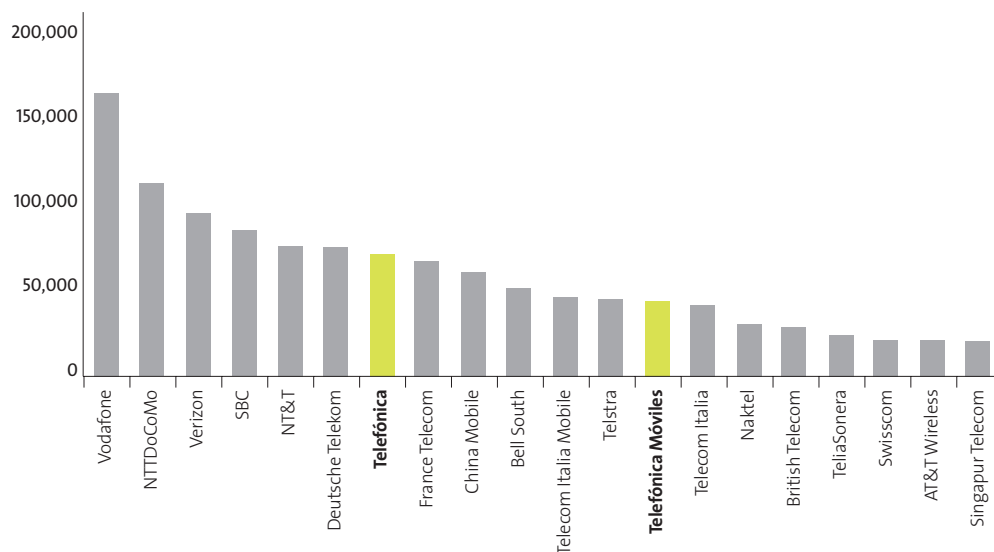
As a result, the new business model is geared to satisfying the communication needs of all its customers, from the clear vocation of service that has always characterised the group.

The businesses of the Telefónica Group are organised around the following lines of activity and subsidiaries:

- **Fixed line telephony and corporate services**, in Spain and Latin America, where these activities are performed, respectively, by *Telefónica de España* and *Telefónica Latinoamérica*.
- **Mobile telephony**, in Spain, Latin America and the Mediterranean Basin; this business line is managed by *Telefónica Móviles*.
- **Internet**, in Spain and Latin America, *Terra Lycos* centres its activity on providing Internet access services, and content: websites, online advertising, etc.
- **Other telecommunication businesses**, including *Telefónica Contenidos*, grouping the production and content diffusion businesses in Spain, Latin America, the United States, and part of Europe; TPI (*Telefónica Publicidad e*

**RANKING BY STOCK EXCHANGE CAPITALISATION  
OF TELECOMMUNICATIONS COMPANIES (FIXED, MOBILE AND DATA)**

*(Data at the close of period 2003)*



Información), the guides and directories publishing businesses in Spain and Latin America; and Atento, which manages contact center services through multi-channel platforms, in Spain, Latin America and Morocco.

Together with these lines of activity, the Group has a series of subsidiaries and institutions that support core business activities. These include: Telefónica I+D, the subsidiary that channels the innovation of new products, services and applications; Fundación Telefónica, responsible for driving the social and cultural action of the Group to benefit underprivileged sectors in the countries where it operates; Fonditel and Antares, financial institutions of insurance, investment and pension funds.

Furthermore, there is a Corporate Centre, responsible for defining global strategy and corporate policies, management of common activities, and generation of support policies. This integrated corporate structure aims for

common construction and reciprocal synergies among the business lines.

**A GROUP THAT PLACES ITS CUSTOMERS AT THE CENTRE OF ITS ACTIVITY**

In 2003, Telefónica modified its operating structure in order to place customers at the centre of its activity. The objective was to transform the Group into a more commercial organisation; from product oriented companies to an integrated Group that satisfies its customers' global communication needs.

To that end, Telefónica has identified four major commercial segments to organise and reinforce its commercial activity: Individuals, Households, SMEs and Corporations and Administrations. With this segmentation, Telefónica aims to satisfy the needs of the customers in a personalised manner, to meet their expectations.

This is a twofold model based on two main drivers: growth in the main businesses such as broadband and mobiles; and development in fixed telephony in Latin America.

The challenge facing Telefónica, through the commercial offer of the companies forming the Group, is to transform technology into accessible solutions and services that provide customers with clear and relevant benefits. It is therefore essential to have detailed knowledge of the customers' real needs, to keep ahead with innovative solutions adapted to their expectations, and to fulfil the commitments acquired to build a relation based on confidence.

#### **BROADBAND AND MOBILITY: THE FUTURE**

During 2003, the Group has advanced in the two main areas that shape the new generation of products for the coming years. First broadband (ADSL) both in the home and in companies, opens up new possibilities of growth in making solutions, content and applications. Secondly, the mobile third generation (UMTS) that creates new possibilities of mobile data services.

Broadband is one of the main driving forces of growth of the Company. In 2003, the Group had 2.7 million ADSL customers. Telefónica is betting on broadband, setting the benchmark in Europe, with 1.6 million connections in Spain, 266,526 in Germany and 769,680 in Latin America.

The importance of ADSL to the Group lies in its capacity to create new services and applications for the customers.

On the one hand, Imagenio allows value-added content and services to enter homes, through television based on ADSL technology. Likewise, Wi-Fi technology, provides wireless high speed Internet access, allowing customers flexible, mobile connection.

#### **A GROUP WITH A VISION IN MOVEMENT**

Telefónica has a specific vision: it wishes to become "*the operator trusted by all those who approach it: customers, employees, shareholders and society at large*". Such confidence comes from honouring the commitments acquired, and doing so in proximity and nearness.

Confidence is shown in specific commitments. First, the group has acquired a *commitment to corporate governance and transparency*. In this sense, the Group has published in 2003 its second Corporate Governance Report. In compliance with the Spanish law, Telefónica has extended this report to all its listed subsidiaries, emphasising the operating procedures of the governing bodies and management of the Group.

Secondly, the Group also has a commitment to *corporate responsibility*. In 2003, the Group published its second annual report, a report that has also been published by its listed companies. This commitment, in addition to covering effective management of the business, involves a commitment to the workplace, respect for the environment, greater social integration and cohesion, and opportunities for its suppliers, partners, etc. In the longer term, a commitment to create wealth and development in the societies where Telefónica operates.

Thirdly, the Group has the *commitment to corporate solidarity*. In this sense, Telefónica strongly backs the underprivileged sectors of society.

Fundación Telefónica is responsible for channelling social and cultural action in Spain, Brazil, Argentina, Chile, Peru and Morocco. In 2003, more than 14 million people benefited directly from the social and cultural programmes organised by the Company. One of the key points of Fundación Telefónica is to ease access to education in the different societies where it works. Fundación Telefónica, the company itself, and the solidarity of its

employees, have enabled such significant actions as the “Corporate Volunteer Programme” or the “Asociación Telefónica de Asistencia a Minusválidos”, ATAM, a major reference in the disability sector.

Fourthly, *Telefónica has the commitment to be an innovative company.* In 2003, the Group invested 1,902 million euros in R&D&i. Convinced that technological advances help society to progress; Telefónica seeks new solutions that improve quality and place it in the avant garde of new technologies and the information society. Reduction of the digital divide is a commitment the Telefónica Group assumes as the principal axis of its corporate strategy.

The Group thus, founds its leadership on corporate values that define its personality and show its aspirations. Thus, proximity and commitment define the identity of the organisation and associate it with key reference values in relations with the main stakeholders; returns and transparency for the shareholders; quality and compliance for the customers; clarity in relations and professional development for employees; and lastly, contribution and proximity for society. The sum of these values results in establishment of a bond of confidence. A confidence that is undoubtedly earned day by day, acquiring specific commitments and fulfilling them. All of this goes to show that Telefónica can deliver what it promises.







## MARKET SIZE

### Customers by line of activity

(Data in thousands)

	Lines in Service	Cell phone customers	Pay TV Customers	ADSL lines
<b>Europe</b>				
Spain	T. de España 17,424	T. Móviles España 19,661		T. de España 1,660
Germany / United Kingdom				TData Deutschland 227
<b>Latin America</b>				
Argentina	T. Argentina 4,169	TCP Argentina 1,824		T. Argentina 69
Brazil	Telesp 12,297	CRT Celular 2,523		Telesp 484
		TeleSudeste Celular 3,709		
		TeleLeste Celular 1,126		
		Global Telecom 1,691		
		Global Telesp Celular 7,495		
		TeleCentro Oeste 4,113		
Chile	T. CTC Chile	CTC. Móvil 2,270		T. CTC Chile
El Salvador	T. El Salvador 30	T. El Salvador 248		
Guatemala	T. Guatemala 28	T. Guatemala 157		
Peru	T. del Perú	TEM Perú 1,507	Cable Mágico 363	T. del Perú 91
Puerto Rico		New Com Wireless 175		
Venezuela	CANTV 2,734	CANTV 2,681		
<b>Africa</b>				
Morocco		Medi Telecom 2,060		

## DISTRIBUTION OF REVENUE

### Revenue by countries

Countries-contribution (% revenue per operations/ total)

	dec 01	dec 02	dec 03	Dif. 03/02	Dif. 02/01
Spain	51	59	62	3 p.p.	8 p.p.
Brazil	19	18	17	-1 p.p.	-1 p.p.
Argentina	13	4	4	0 p.p.	-9 p.p.
Peru	5	5	4	-1 p.p.	0 p.p.
Chile	5	5	5	0 p.p.	0 p.p.
Mexico	1	2	2	0 p.p.	1 p.p.
Europe	4	4	4	0 p.p.	0 p.p.
Rest and eliminations	2	3	2	-1 p.p.	1 p.p.

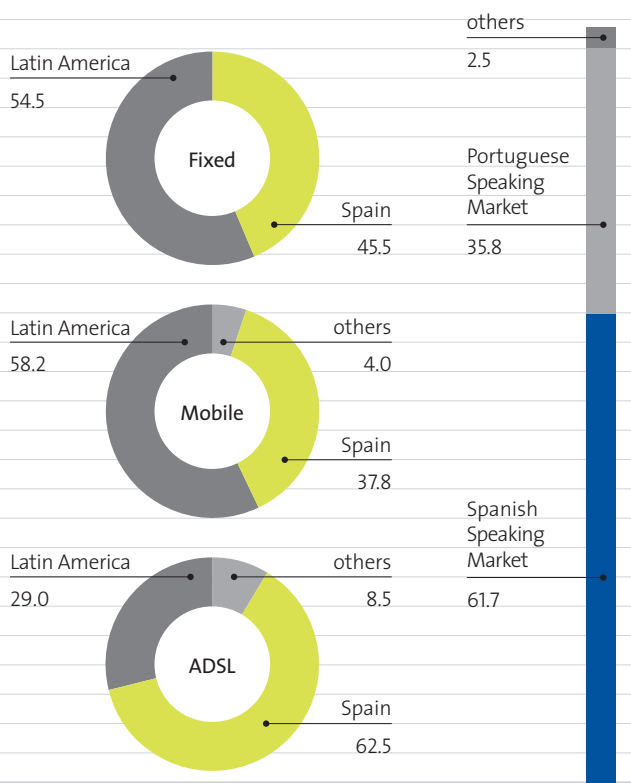
## CUSTOMER DISTRIBUTION 2003

### Managed by LINES

(Data in %)

### By reference language

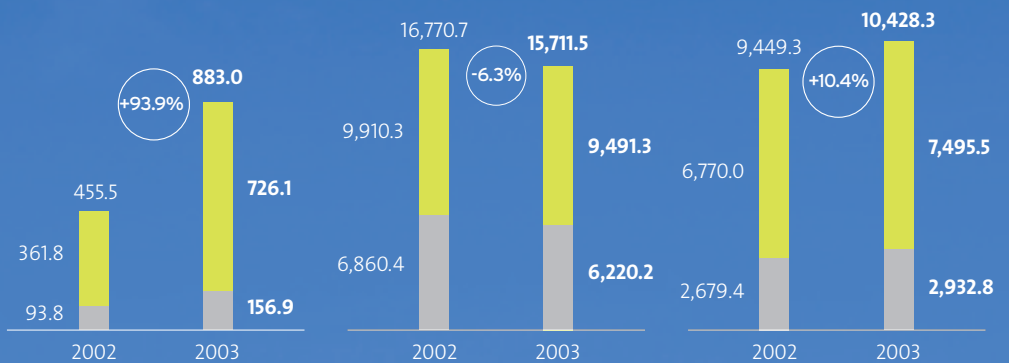
(Data in %)



# Growth

## Business Growth (revenue in current euros)

Spain Latin America and others



Telefónica is committed to distributing an annual minimum dividend of 0.4 euros per share over the period 2004-2006

Profitability for shareholders of Telefónica in 2003 for all items is 46% (dividend, bonus share issues, extraordinary distributions and share price increase)

Telefónica is the 5th telecommunications company in the world, in terms of stock market capitalisation (10th March, 2004)

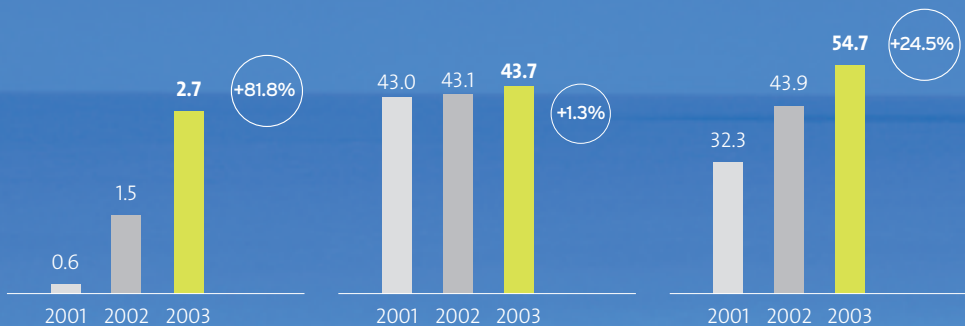
Telefónica generated in 2003 cash flow\* for 8,875 million euros.

## Commercial transformation (in millions of total customers)

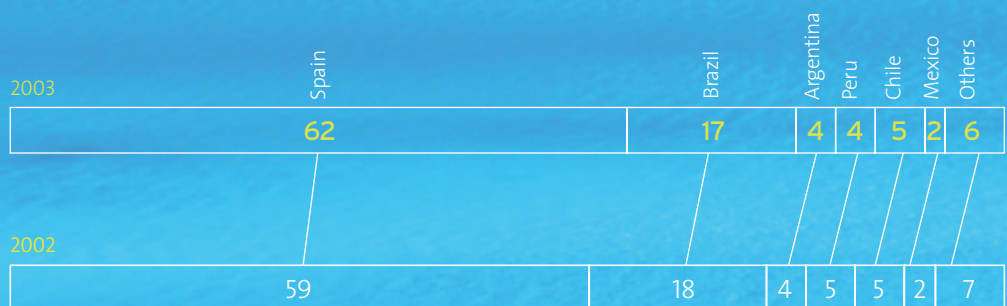
BROADBAND

FIXED LINES

MÓVILES



## Revenues by countries (in percentages)



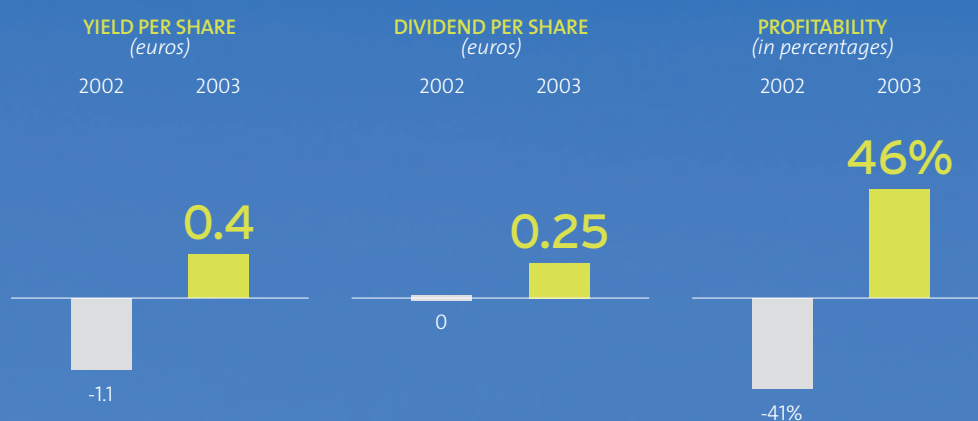
(\*) Cash flow: EBITDA-CAPEX



# Profitability

Highlights 2003

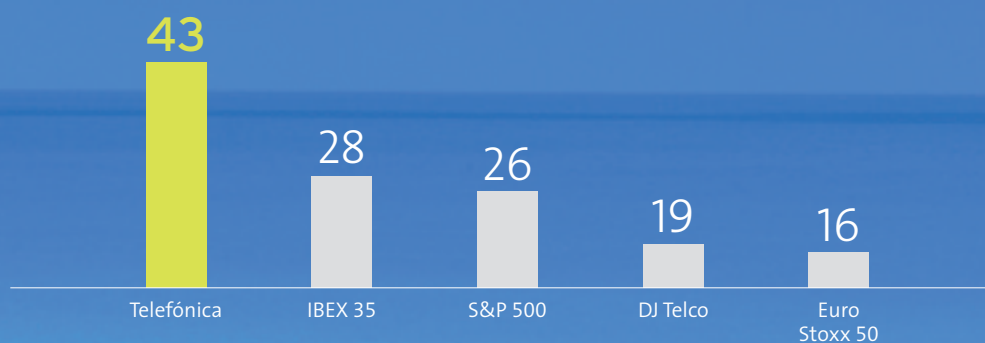
## Shareholder Remuneration



Telefónica hit the 100 million<sup>th</sup> customer mark in 2003

In 2003, more than 11 million new customers signed up with the company.

## Stock market performance (revaluation in 2003)



ADSL connections grew to 2.7 million in 2003, 82% more than in 2002.

Brazil is the second country in terms of revenue for Telefónica.

## Financial data

JANUARY – DECEMBER

	2003	2002	Var. %
Income by operations	28,399.8	28,411.3	(0.0)
EBITDA	12,602.1	11,724.2	7.5
Operating result	6,327.9	5,031.8	25.8
Result before taxes	3,362.5	(14,601.1)	—
Net income	2,203.6	(5,576.8)	—
Net income per share	0.44	(1.10)	—
Average n° of shares, millions (1)	4,984.6	5,057.0	(1.4)

(1) Weighted average of number of shares for the period adjusted for free capital increases drawn on reserves during the period that imply a change in the number of shares without a correlative change in Assets, as if they had taken place at the beginning of the first declared period. There were two free rights issues drawn on reserves involved, which were registered at the Business Register on the 18th February 2003 and 24th April 2003, respectively. Likewise, the figure for 2003 is affected by the reduction of capital through cancellation of its own shares as from 11th April 2003, the date of its approval by the AGM, which was registered at the Business Register on 10th June 2003. Thus, the average number of shares at the end of the period is 4,984,615,303 shares.