

# *Telefonica*

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## QUARTERLY RESULTS

JANUARY-MARCH 2001







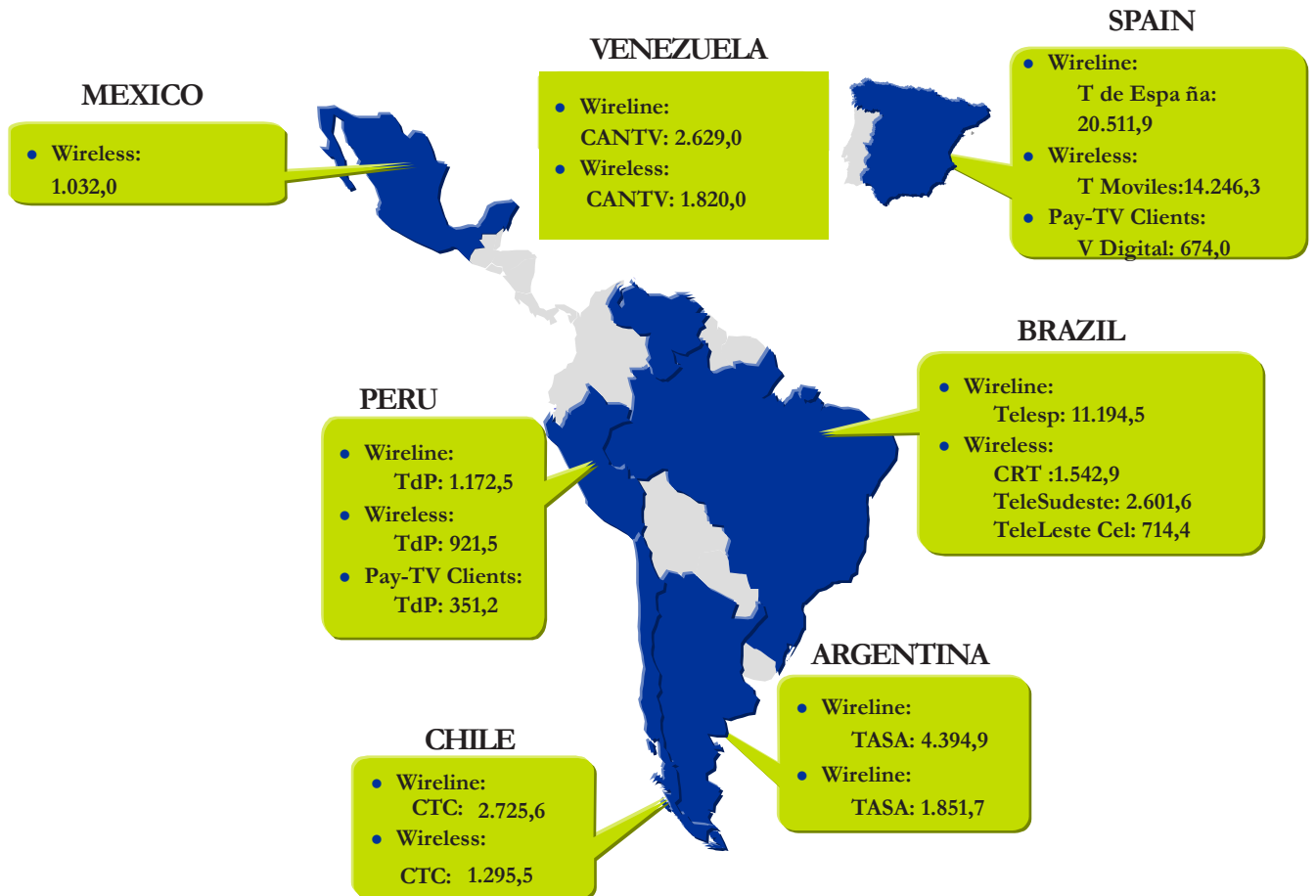
<b>TELEFÓNICA GROUP.....</b>	<b>1</b>
Market Size .....	1
Results .....	3
Selected Financial Data .....	6
 <b>FINANCIAL RESULTS BY BUSINESS LINES ANALYSIS</b>	
<b>FIXED LINE BUSINESS .....</b>	<b>9</b>
Telefónica de España Group .....	9
Telefónica Latinoamericana Group .....	13
<b>CELULAR BUSINESS .....</b>	<b>18</b>
Telefónica Móviles Group .....	18
<b>DATA BUSINESS .....</b>	<b>27</b>
Telefónica Data Group .....	27
<b>MEDIA BUSINESS .....</b>	<b>30</b>
Telefónica Media Group .....	30
<b>INTERNET BUSINESS .....</b>	<b>33</b>
Terra- Lycos .....	33
<b>DIRECTORIES BUSINESS .....</b>	<b>36</b>
Telefónica Directories Business .....	36
<b>CALL-CENTERS BUSINESS .....</b>	<b>39</b>
Atento .....	39
<b>BROADBAND CAPACITY MANAGEMENT BUSINESS .....</b>	<b>41</b>
Emergia .....	41
 <b>ANNEX</b>	
Company included in each Financial Statements .....	43
Relevant Shareholdings of Telefónica Group and its subsidiaries .....	44
Significant Event .....	47
Changes to the sphere and accounting criteria of consolidation .....	51

Notes:

The financial statements in this report have been compiled by translating the company's accounts from pesetas into euros by line. Sub-totals are already stated in euros. This could give rise to small rounding discrepancies.



## MARKET SIZE



(Data in thousands )

Data in thousands

## MARKET SIZE

## TELEFÓNICA GROUP

MARKET SIZE						
	January-March			Thousands		
	2001	2000	% Chg	Weighted figures (*) Mar. 2001	Mar. 2000	%Chg 01/00
<b>LINES IN SERVICE</b>	<b>43,165.5</b>	<b>39,217.5</b>	<b>10.1</b>	<b>37,460.7</b>	<b>24,303.6</b>	<b>54.1</b>
Spain	20,511.9	19,510.6	5.1	20,511.9	19,510.6	5.1
Other countries(1)	22,653.6	19,706.9	15.0	16,948.8	4,793.0	253.6
<b>CELLULAR CLIENTS</b>	<b>27,163.5</b>	<b>18,758.9</b>	<b>44.8</b>	<b>19,259.7</b>	<b>12,205.9</b>	<b>57.8</b>
Spain	14,246.3	10,260.2	38.9	13,192.1	10,260.2	28.6
Other countries (2)	12,917.2	8,498.7	52.0	6,067.6	1,945.8	211.8
<b>PAY-TV CLIENTS</b>	<b>1,025.2</b>	<b>833.8</b>	<b>23.0</b>	<b>654.9</b>	<b>348.5</b>	<b>87.9</b>
Spain	674.0	500.1	34.8	327.6	215.0	52.3
Other countries (3)	351.2	333.7	5.3	327.4	133.5	145.3
<b>TOTAL</b>	<b>71,354.2</b>	<b>58,810.1</b>	<b>21.3</b>	<b>57,375.3</b>	<b>36,858.0</b>	<b>55.7</b>

(\*) Weighted for the economic interest held in each company.

(1) Lines in service: include all the lines in service as of March 2001 and 2000 of Telefónica de España, Telefónica CTC Chile, Telefónica de Argentina, Telefónica del Perú, Telesp and CanTV.

(2) Cellular customers: include all cellular customers as of March 2001 of Telefónica Servicios Móviles España, Medi Telecom, Telefónica Móvil Chile, TCP Argentina, Telefónica Móviles Perú, CRT Celular, TeleSudeste Celular, NewCom Wireless Puerto Rico, Telefónica Móviles Guatemala, Telefónica Móviles El Salvador, Bajacel, Movitel, Norcel, Cedetel and CanTV Celular. Customers of the Mexican companies Bajacel, Movitel, Norcel and Cedetel are not included in March 2000.

(3) Pay-TV customers: include all Pay-TV customers as of March 2001 and 2000 of Via Digital and Cable Mágico.



## RESULTS

The management comments in this report refers to the financial performance of the Telefonica Group in accordance with its new organisational structure by business lines. This structure was adopted following the tender offers made for the minority shareholdings in various Latin American operators, in view of the high level of economic interest finally acquired in them.

In this respect, pro forma profit and loss statements have been prepared for each business in order to provide a meaningful comparison of the results achieved by the Telefonica Group by business lines with those of the previous year.

These pro forma statements are based on the assumption that each business line has a stake in the companies owned by the Group in the corresponding business, irrespective of whether this shareholding has already been transferred or not, although it is Telefónica, S.A.'s intention to do so in the future.

Also in order to facilitate the comparison and analysis of the Telefonica Group results, the companies participating in each business line have been included as of 1 January, irrespective of when consolidation of activities actually took place during the period. The corresponding results for the same period of the previous year are also on a pro forma basis, based on equal assumptions.

It is important to emphasise that the assumptions made in preparing these pro forma statements do not change in any way the overall results of Telefonica Group and that the results themselves have been incorporated from the date of acquisition of each participation by the Group.

In the first quarter of 2001, Telefónica reported consolidated net profits of  $\text{₡}431.8\text{mn}$ , 24.8% higher than in the same quarter of 2000.

At the end of March 2001, Telefonica Group had more than 66.9 million managed customers for its fixed and mobile telephony and pay-tv (71.3 million total customers). This is an increase of approximately 3.1 million since December 2000, and 21.8% more than the customer base as of March 2000 equivalent to a total of 12.5 million new connections.

The main growth driver was cellular telephony with 8.4 million new customers in the last twelve months. This increase occurred despite a slowdown in growth during the last three months. During this period, net gain in new customers for both fixed and mobile was more or less the same, around one million net additions in each business, excluding cellular customers in Mexico.

It is worth noting that with regard to the mobile telephony sector most of the increase in the customer base came from the Spanish market, whereas in the fixed telephone business the increase was mostly in Latin America, particularly in Brazil. Nevertheless, it is important to mention the extraordinary growth in fixed traffic in Spain, which saw a year-on-year increase in total traffic of 39.0%. This was the main factor underlying Telefónica de España's results.

This diversified growth at the operating level produced very positive results in terms of growth, profitability and quality, as reflected in EBITDA level, which rose 10.9% to  $\text{₡}3.128\text{bn}$ , compared with 3.5% increase in the same quarter of the previous year. When analysing the quality of EBITDA achieved, it is worth noting the almost null impact of the exchange rates of Latin American currencies against the Euro, as well as the change in the scope of consolidation resulting from the inclusion of companies that were not consolidated in 1Q00. Both factors have diminished the EBITDA growth.

Telefónica Móviles ranked as the main contributor to this 10.9% increase in EBITDA followed by the fixed telephone business, in particular Telesp of Telefónica Latinoamericana group, and Telefónica de España. In absolute terms, Telefónica Latinoamericana was still the leading contributor to EBITDA with  $\text{₡}1.291,5\text{bn}$ , an 11% increase versus March 2000 and only two percentage points less than its growth in revenues. It is also important to mention the EBITDA growth at Telefónica de España, which was up 6.4% to  $\text{₡}1.255,7\text{bn}$ , driven not only by the strong performance of revenues but also by significant containment of operating costs, which for the first time in many quarters fell in absolute terms, down 0.9% compared with the same period in the previous year.

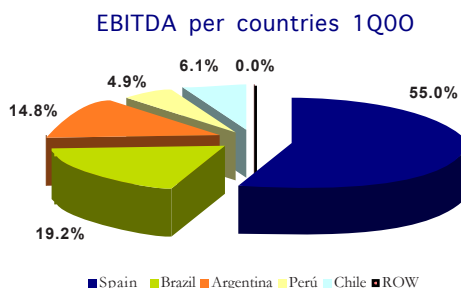
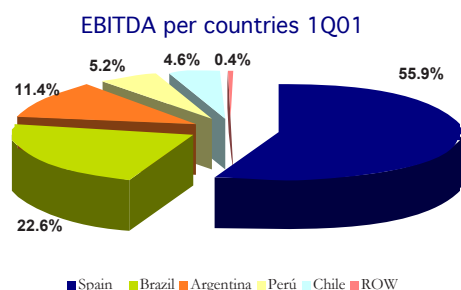
Note that the EBITDA growth of Telefónica de España can not be extrapolated to the rest of the year 2001. Firstly, because recent regulatory measures will quicken market share losses via the start of the unbundling of the local loop and increasing competition in traffic. Secondly, because greater competitive pressure from cable operators, the step-up of the company's price-cutting efforts, and the nominal reductions imposed through the price-cap formula will tend to reduce progressively the monthly operating revenue. These factors will be joined by the cost impact of accelerating broadband roll-out, and renewed commercial efforts to address growing competition.

In relative terms, the highest EBITDA growth of any business lines was reported by Telefónica Móviles with a rise of 28.6% to a total of  $\text{₡}751.2\text{mn}$ . This was a result not only of the significant year-on-year growth seen in both traffic and the customer base, but also of its strategy

## RESULTS

aimed at improving operating profitability and achieving the potential economies of scale achieved by the growth in total customer numbers.

In the consolidated EBITDA, Terra made a negative contribution of  $\text{₹}76,7\text{mn}$ , an improvement of  $\text{₹}26\text{mn}$ , or 26% on 4Q00, as the result of renewed management focus, towards prioritising operating profitability.

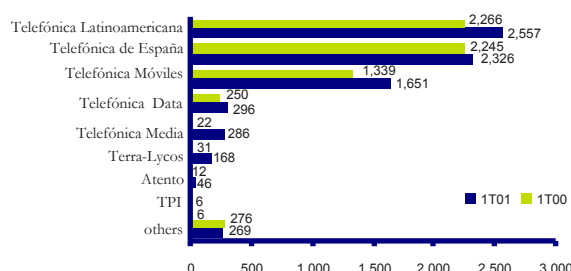


The positive trend in consolidated revenues during the quarter was the main underlying factor driving the above mentioned EBITDA growth. Revenues rose 17.9% year-on-year to a total figure of  $\text{₹}7.603,3\text{bn}$ .

Telefónica Móviles accounted for  $\text{₹}1.94\text{bn}$ , up 17.4% on 1Q00, while Telesp reported total revenues of  $\text{₹}1.106\text{bn}$ , an increase of 22.7%. Telefónica de España saw year-on-year growth of 4.4%, higher than for any quarter in the previous year, with revenues rising to  $\text{₹}2.589\text{bn}$ .

It should be noted that, in spite of the unfavourable exchange rate trend seen in the various Latin American currencies against the Euro, as well as the macroeconomic difficulties in the region, Telefónica Latinoamericana's activities accounted for the largest share of the total group sales at more than  $\text{₹}2.595\text{bn}$ , representing year-on-year growth of 12.9%.

## External Sales Evolution



In the Río de Janeiro Investor Conference hosted by Telefónica, in addition to the already mentioned metrics, the focus was also put on operating profits as a relevant metric of the company's performance. It helps to understand the company's depreciation policy and asset quality, particularly in view of the phase in the investment cycle that the sector is going through, given the potential of broadband and the development of UMTS technology.

In this respect, the first quarter saw a positive change in the trend for the consolidated operating profits compared to the same period in 2000, with a rise of 14.5%. This resulted from the combined effect of higher EBITDA (+10.9% against +3.5% in 1Q00) and a lower increase in depreciation (+8.4% against +10.9% in 1Q00), which among other factors explained the 9% drop in Telefónica de España's depreciation provisions, as a result of the write-offs made during 2000 against unamortised redundant plant and equipment.

It must be mentioned that goodwill rose substantially by 204.5% over the same period in the previous year, to a total of  $\text{₹}155.9\text{mn}$ , as a result of the acquisitions made by Telefónica in 2000. The main contributions to this item came from the investments made by Terra, Grupo Telefónica Media and Telefónica Data. This trend will gradually ease in the next quarters, as the above acquisitions were not included in the accounting consolidation during the first two quarters of 2000.

In addition, minority interests went from a negative  $\text{₹}204.3\text{mn}$  as of March 2000 to a positive  $\text{₹}112.8\text{mn}$  in March 2001 due to the increased stakes in the Latin American subsidiaries in July 2000, and the net losses at Terra-Lycos attributable to minority shareholders.

Finally, the net income for the quarter was impacted by the two following extraordinary factors:



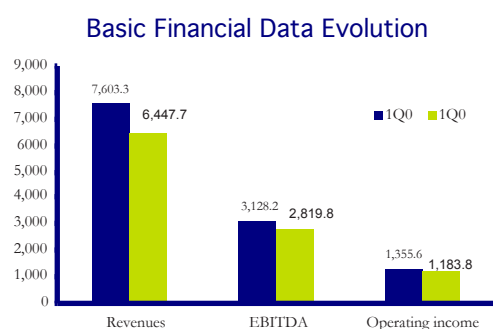
## RESULTS

- Lower capital gains attributable to the Group than in the previous year..

- Contrary wise, lower extraordinary provisions than in the corresponding period of the previous year, the majority of which were against updating commitments in respect of personnel.

Excluding these extraordinary factors, Group net income would have risen by 31.5%.

In addition, it should be pointed out that excluding the negative impact of Terra-Lycos' contribution, net income would have been up by 26.5%.



Results  
JANUARY-MARCH 2001

## SELECTED FINANCIAL DATA

### TELEFÓNICA, S.A.

#### SELECTED FINANCIAL FIGURES

Non-audited figures

(Euros in millions)

	January-March		
	2001	2000	% Chg
Gross operating revenues	7,603.3	6,447.7	17.9
EBITDA	3,128.2	2,819.8	10.9
Operating profit	1,355.6	1,183.8	14.5
Profit before tax	523.9	853.8	(38.6)
Net income	431.8	346.0	24.8
Net income per share	0.10	0.10	(5.8)
<b>Nº OF SHARES , MILLIONS(1)</b>	<b>4,439.4</b>	<b>3,351.0</b>	<b>32.5</b>

(1) Average number of shares in the period. The figure includes capital increases to fund the acquisition of new shareholdings in Telefónica de Argentina, Telefónica del Perú, Telesp, Telesudeste, Endemol and ATCO, it also includes the issuance of new shares in respect of convertible bonds, weighted for the number of days over which they have been traded. Bonus issues charged to reserves are excluded from calculations, as they involve no change in the ownership structure.

### TELEFÓNICA GROUP

#### RESULTS BY COMPANY

Non-audited figures

Euros in millions

	Revenues			EBITDA			Operating profit		
	January-March			January-March			January-March		
	2001	2000	%Chg	2001	2000	%Chg	2001	2000	%Chg
Telefónica de España	2,588.7	2,480.6	4.4	1,255.7	1,180.1	6.4	579.0	436.3	32.7
Telefónica Móviles Group	1,939.3	1,651.7	17.4	751.2	584.0	28.6	446.2	360.4	23.8
Telefónica Latinoam Group	2,594.7	2,297.9	12.9	1,291.5	1,163.8	11.0	634.4	561.8	12.9
Telefónica Data Group	406.4	261.8	55.2	7.2	22.8	(68.2)	(32.5)	1.1	c.s.
Terra-Lycos Group	177.2	35.7	395.7	(76.7)	(61.0)	26.0	(115.2)	(72.6)	58.9
Directories Business	51.6	59.3	(13.0)	(10.9)	4.9	c.s.	(16.3)	0.3	c.s.
Telefónica Media Group	283.7	30.3	n.s.	10.5	(6.6)	c.s.	(6.7)	(15.2)	(55.7)
Atento Group	153.5	91.0	68.7	11.4	10.6	7.4	(4.8)	2.7	c.s.
Other Subsidiaries	255.8	269.0	(4.9)	(73.5)	(65.7)	12.0	(90.4)	(67.2)	34.5
Disposals	(847.6)	(729.6)	16.0	(38.0)	(13.3)	186.0	(38.2)	(23.8)	60.5
<b>GROUP</b>	<b>7,603.3</b>	<b>6,447.7</b>	<b>17.9</b>	<b>3,128.2</b>	<b>2,819.8</b>	<b>10.9</b>	<b>1,355.6</b>	<b>1,183.8</b>	<b>14.5</b>

## SELECTED FINANCIAL DATA

### TELEFÓNICA, S.A.

#### CONSOLIDATED INCOME STATEMENT FULL CONSOLIDATION

Unaudited figures

Euros in millions

	January-March		
	2001	2000	%Var
Operating revenues	7,603.3	6,447.7	17.9
Internal expend capitalized in fixed assets (1)	110.2	221.1	(50.2)
Operating expenses	(4,410.9)	(3,778.5)	16.7
Supplies	(1,651.2)	(1,249.3)	32.2
Personnel expenses	(1,333.4)	(1,167.1)	14.2
Subcontracts	(1,293.4)	(1,223.6)	5.7
Taxes	(132.8)	(138.4)	(4.1)
Other operating income (expense) net	(174.4)	(70.5)	147.5
<b>EBITDA</b>	<b>3,128.2</b>	<b>2,819.8</b>	<b>10.9</b>
Depreciation and amortization	(1,772.6)	(1,636.0)	8.4
<b>OPERATING PROFIT</b>	<b>1,355.6</b>	<b>1,183.8</b>	<b>14.5</b>
Profit from associated companies	(141.1)	(1.3)	n.s.
Financial income (expense) net	(487.7)	(378.8)	28.7
Amortization of goodwill	(232.1)	(76.2)	204.5
Extraordinary income (expense) net	29.2	126.2	(76.8)
<b>INCOME BEFORE TAXES</b>	<b>523.9</b>	<b>853.8</b>	<b>(38.6)</b>
Income taxes	(205.0)	(303.2)	(32.4)
<b>NET INCOME BEFORE MINORITY INTERESTS</b>	<b>319.0</b>	<b>550.4</b>	<b>(42.0)</b>
Minority interests	112.8	(204.3)	c.s.
<b>NET INCOME</b>	<b>431.8</b>	<b>346.0</b>	<b>24.8</b>
<b>OUTSTANDING SHARES (MILLION) (2)</b>	<b>4,439.4</b>	<b>3,351.0</b>	<b>32.5</b>
<b>NET INCOME PER SHARE</b>	<b>0.10</b>	<b>0.10</b>	<b>(5.8)</b>

(1) Including work in process.

(2) Average number of shares in the period. The figure includes capital increases to fund the acquisition of new shareholdings in Telefónica de Argentina, Telefónica del Perú, Telesp, Telesudeste, Endemol and ATCO, and the issuance of new shares in respect of convertible bonds, weighted for the number of days over which they have traded. Bonus issues charged to reserves are excluded from calculations, as they involve no change in the ownership structure.

Note: At the end of the period, the total number of outstanding shares was 4,460,152,265

Results  
JANUARY-MARCH 2001

## SELECTED FINANCIAL DATA

### TELEFÓNICA, S.A.

#### FULL CONSOLIDATION

#### CONSOLIDATED BALANCE SHEET

Unaudited figures

Euros in millions

	March		
	2001	2000	%Chg
Subscribed shares not paid-in	477.3	3.1	n.s.
Long-term assets	67,451.7	51,890.9	30.10
Start up expenses	517.1	186.1	177.80
Intangible net assets	19,952.3	7,156.7	178.79
Fixed net assets	39,094.9	37,580.1	4.03
Investments	7,963.3	6,968.0	14.30
Goodwill on consolidation	8,894.2	4,273.3	108.10
Deferred expenses	831.0	1,269.5	(34.5)
Current assets	16,107.1	11,096.0	45.20
Inventories	849.5	577.6	47.08
Accounts receivable	10,488.1	7,585.0	38.30
Short-term investments	3,430.0	1,727.7	98.50
Cash and banks	620.9	796.9	(22.1)
Other	718.6	408.7	75.82
<b>ASSETS = LIABILITIES</b>	<b>93,837.2</b>	<b>68,532.8</b>	<b>36.90</b>
Shareholders' equity	26,052.9	14,968.2	74.10
Minority interests	9,316.2	11,788.5	(21.0)
Badwill on consolidation	87.5	0.0	n.s.
Deferred income	1,565.3	1,123.6	39.3
Provisions for risks and expenses	6,695.6	6,951.2	(3.7)
Accrued taxes payable	1,696.8	1,235.8	37.3
Long-term debt	23,633.6	16,735.3	41.2
Short-term debt including current maturities	9,997.9	6,755.3	48.0
Interest payable	437.0	420.3	4.0
Other creditors	14,354.4	8,554.5	41.2
<b>FINANCIAL DATA</b>			
Consolidated net debt (1)	<b>29,581</b>	<b>20,966</b>	<b>41.1</b>
Consolidated debt ratio (2)	<b>44.3%</b>	41.9%	2.4 p.p.

(1) Net debt: Long-term debt + Short-term debt including current maturities - Short-term investments - Cash and banks.

(2) Debt ratio: Net debt / (Shareholders' equity + Minority interests + Deferred income + Accrued taxes payable + Net debt)



## FINANCIAL RESULTS BY BUSINESS LINES ANALYSIS

Results  
JANUARY-MARCH 2001

Telefónica

### FIXED LINE BUSINESS

#### TELEFÓNICA DE ESPAÑA GROUP

Telefónica de España has major challenges to face in 2001, given the significant advance made towards the total liberalisation of the market, as a result of the liberalising measures implemented during 2000, the economic impact of which will take place during the current year.

As a result of Telefónica de España's proactive approach towards achieving the tariff rebalancing, a new price regulation framework has been approved which, while remaining within the price-cap system, incorporates a gradual increase in the monthly fee up to ₧12.6 in 2003, which will have to be offset by further price cuts in other services. At the same time, Telefónica will have greater flexibility with regard to discounts and will be able to offer its customers reductions of up to 15% without regulator approval, which strengthens its competitive position and its prospects for the future.

Telefónica de España Group operating revenues for the first quarter of 2001 totalled ₧2,588,7bn representing a year-on-year increase of 4.4%. Parent company revenues accounted for 96.3% of the total, 6% up on the same period of last year. This healthy revenues performance was primarily due to the improved usage revenues, the rise in the monthly fee and the strong growth in ISDN lines, leased circuits and interconnection.

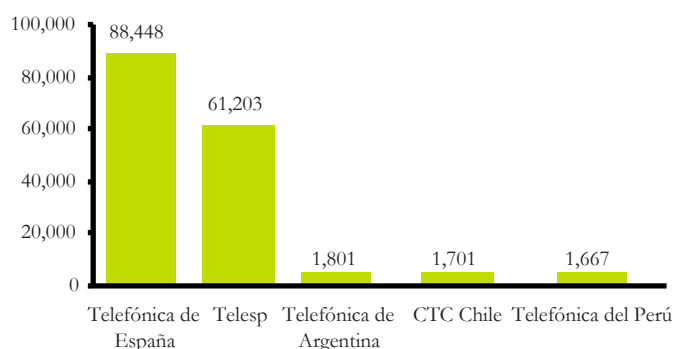
Usage in terms of minutes per line per day was 20.83, an increase of 36.5% on the first quarter of the previous year, mainly due to internet growth and interconnection with fixed line operators. Total traffic was 33.737 billion minutes, a rise of 39% on the same period in 2000. This favourable trend in usage was due both to the growth in incoming traffic, which turned in an extremely healthy performance, jumping by 132.5%, and to a 22.5% rise in outgoing traffic, which accounted for almost 75% of total minutes. The main drivers behind this growth were the Internet (89.5%), Intelligent Network (61%) and International (27.7%). Local traffic saw a 3% drop in the first quarter compared to the same period of the previous year, while provincial traffic and domestic long distance rose by 15.6% and 6.2% respectively. Fixed-to-mobile calls saw year-on-year growth slow to 10.9%, a result of the level of maturity of the Spanish cellular market.

Usage revenues to March were up 4.1% thanks to an

increase in the lines in service and the growth in minutes per line, which offset the decline in effective revenues per minute caused by price reductions and the favorable acceptance of franchised products. Since their launch in November 2000, subscribers to the Bonos Ciudad and Bonos Ciudad Plus schemes (local traffic franchise) now total 465,505 and 886,425 respectively, whilst the flat-rate Internet product had 166,498 subscribers at the end of March and subscriptions to the País 30 (domestic long distance traffic) and Europa 15 (international calls to Europe) schemes rose to 484,461 and 209,091 respectively.

The company's firm commitment to the development of broadband services has intensified the growth of technologies directly related to ADSL, in line with an aggressive plan to drive Internet penetration. ADSL coverage in March reached 13.5 million lines and the number of connections at the quarter-end was 88,448, with the number of daily installations reaching peaks in excess of 1,170. ISDN continued to record significant growth, with a 66.6% increase in basic accesses and primary accesses up 43.7% on the same period in the previous year. The number of accesses in service was 712,830 and 14,551 respectively.

#### ADSL CONNECTIONS





## FINANCIAL RESULTS BY BUSINESS LINES ANALYSIS

Results  
JANUARY-MARCH 2001

*Telefónica*

### FIXED LINE BUSINESS

#### TELEFÓNICA DE ESPAÑA GROUP

Revenues from emerging services again performed well, rising 48.8% and as at March they already accounted for 27.7% of total revenues.

Telefónica de España group operating expenses were ₧1,355.6bn, representing year-on-year growth of 0.9%, due mainly to the impact of interconnection expenses. The group's first quarter operating expenses before interconnection expenses were ₧856.7mn, down 2.5% on the previous year, the result of the downward trend in personnel expenses (-6.2%) and the containment of discretionary expenditure.

Telefónica de España's interconnection costs rose 13.7%, reflecting a slowdown in fixed-to-mobile traffic in line with the current trend in the Spanish cellular market and the strong growth in fixed-to-fixed interconnection.

Supplies and external services expenses in the first quarter recorded a 5.3% increase, mainly due to the 14.7% rise in outsourcing costs, because of the growth in Customer Care activities.

Personnel expenses at Telefónica de España were down 6.2% compared to the first quarter 2000, the result of a 12.5% reduction in the headcount, countered to some extent by the trend in the CPI during 2000 and the salary review for the current year. The headcount at the end of the quarter stood at 41,095, representing an increased productivity level of 499.1 lines per employee.

Telefónica de España's group EBITDA was ₧1,255.7bn, a year-on-year increase of 6.4%, the result of a 4.4% improvement in revenues and a fall of 0.9% in operating expenses. The 32.7% rise in operating profits, which totalled ₧579mn was due to the positive trend in EBITDA and the 9% reduction in depreciation of fixed assets.

The performance of revenues for the quarter cannot be extrapolated to the rest of 2001, due to the economic implications of the latest liberalising measures approved by the Regulator. These will lead to a more rapid loss of market share due to the beginning of the unbundled local loop and the growth of competition.

At the same time, we are expecting greater competitive pressure from cable operators, which together with the company's bigger efforts towards reducing prices through discounts and the application of the nominal price reductions established in the price-cap (CPI-9% by the

end-2001) will mean a downturn in our operating revenue. As a result, a gradual fall in the year-on-year growth rate in operating revenues will take place, which will also be affected, although to a lesser extent, by the growth trend seen in revenues during 2000, especially, in the final part of the year.

As a result of the expected trend in revenue growth and the impact on costs produced by the broadband expansion which Telefónica de España is committed to achieve, together with the additional needs on commercial costs to face the increased competition, EBITDA growth is also unlikely to be sustained in the coming months, and EBITDA in absolute terms will be in line with our forecasts, which means it will remain practically in the same levels compared to the previous year.



# FINANCIAL RESULTS BY BUSINESS LINES ANALYSIS

Results  
JANUARY-MARCH 2001

Telefonica

TELEFÓNICA DE ESPAÑA GROUP

## FIXED LINE BUSINESS

### TELEFÓNICA DE ESPAÑA GROUP

#### TELEFÓNICA DE ESPAÑA

##### SELECTED OPERATING DATA

Unaudited figures

	March		% Var
	2001	2000	
Lines in service (thousands) (1)	20,511.9	19,510.6	5.1%
ISDN basic access	712,830	427,832	66.6%
ISDN primary access	14,551	10,129	43.7%
Lines in service / 100 inhabitants (1)	51.5%	49.0%	2.5 p.p.
ADSL connections	88,448	4,812	n.s.
% ADSL coverage	79.2%	34.2%	45.0 p.p.
Traffic (million of minutes)	33,737	24,267	39.0%
Employees	41,095	46,990	-12.5%
Lines/employees (1)	499.1	415.2	20.2%

(1) Basic telephony lines (including public telephones, Ibercom, ISDN and connections lines with PABX)

#### TELEFÓNICA DE ESPAÑA

##### TELEFÓNICA DE ESPAÑA (INDIVIDUAL) OPERATING REVENUES

Unaudited figures

Euros in millions

	January-March		% Change
	2001	2000	
<b>REVENUE DERIVED FROM USAGE</b>	<b>1,492.7</b>	<b>1,434.3</b>	<b>4.1</b>
Local	460.0	435.7	5.6
Provincial	145.5	142.4	2.2
Domestic long distance	249.7	254.9	(2.0)
International long distance (outgoing) (1)	173.5	127.0	36.6
Fixed to mobile	375.3	356.3	5.3
Interconnection International (Incoming)	65.1	52.5	23.9
Interconnection National Operators (1)	125.6	85.5	47.0
Others	(102.1)	(20.1)	409.1
Monthly fee	816.3	742.8	9.9
Connection fee	64.2	66.1	(2.9)
Customer equipments	65.2	49.7	31.2
Others (2)	55.2	60.6	(8.9)
<b>TOTAL OPERATING REVENUES</b>	<b>2,493.7</b>	<b>2,353.5</b>	<b>6.0</b>

(1) Net of foreign participation

(2) Including special services, IRIS services and others.



# FINANCIAL RESULTS BY BUSINESS LINES ANALYSIS

Results  
JANUARY-MARCH 2001

*Telefónica*

## FIXED LINE BUSINESS

### TELEFÓNICA DE ESPAÑA GROUP

#### TELEFÓNICA DE ESPAÑA GROUP

##### CONSOLIDATED INCOME STATEMENT

Unaudited figures

Euros in millions

	January-March		%	December
	2001	2000	Change	2000
Operating revenues	2,588.7	2,480.6	4.4	10,182.9
Telefonica de España	2,493.7	2,353.5	6.0	9,592.9
Others and eliminations	95.0	127.1	(25.2)	590.0
Internal expend capitalized in fixed assets (1)	42.9	63.2	(32.2)	236.5
Operating expenses	(1,355.6)	(1,367.6)	(0.9)	(5,884.8)
Other operating income (expense) net	(20.3)	3.9	c.s.	(42.1)
<b>EBITDA</b>	<b>1,255.7</b>	<b>1,180.1</b>	<b>6.4</b>	<b>4,492.5</b>
Depreciation and amortization	(676.7)	(743.8)	(9.0)	(2,901.2)
<b>OPERATING PROFIT</b>	<b>579.0</b>	<b>436.3</b>	<b>32.7</b>	<b>1,591.3</b>
Profit from associated companies	0.0	0.0	n.s.	0.1
Financial income (expense) net	(104.8)	(135.2)	(22.5)	(480.9)
Amortization of goodwill	(0.1)	(0.1)	(13.3)	(0.3)
Extraordinary income (expense) net	51.6	(122.5)	c.s.	(806.8)
<b>INCOME BEFORE TAXES</b>	<b>525.7</b>	<b>178.4</b>	<b>194.6</b>	<b>303.4</b>
Income taxes	(143.1)	(38.7)	269.9	(59.0)
<b>NET INCOME BEFORE MINORITY INTERESTS</b>	<b>382.6</b>	<b>139.7</b>	<b>173.8</b>	<b>244.4</b>
Minority interests	(0.0)	(0.1)	(95.2)	0.8
<b>NET INCOME</b>	<b>382.6</b>	<b>139.6</b>	<b>174.0</b>	<b>245.2</b>

(1) Including works in process

Note: TTP has been included on the accounts of Telefónica de España, both in 2000 and 2001.

Note: Telefónica Sistemas Group and TSIP are now consolidated with Telefónica Data, both in 2000 and 2001.





## FINANCIAL RESULTS BY BUSINESS LINES ANALYSIS

Results  
JANUARY-MARCH 2001

Telefónica

### FIXED LINE BUSINESS

#### TELEFÓNICA LATINOAMERICANA GROUP

Telefónica's new organisation structure by global business lines implies that Telefónica Latinoamericana is now the group company which consolidates the fixed telephony business in Latin America (Brazil, Argentina, Chile, Peru, Puerto Rico and Venezuela) as well as the businesses of Advance (Telefónica de Argentina's ISP), Cable Mágico (the cable TV subsidiary of Telefónica del Perú) and Sonda (the computer services subsidiary of Telefónica CTC Chile). It is worth mentioning the acquisition at the end of 2000 of the carrier CTI, aimed at providing more integrated management of international traffic to and from the US, handled by Grupo Telefónica's Latin American operators.

At end-Q1 2001, Telefónica Latinoamericana was managing more than 20 million fixed telephone lines, a year-on-year increase of 16.4%. The major part of this growth resulted from the substantial advance in the number of lines in service at Telesp, which with an average rate of more than 250,000 new lines in service per month, saw its total number of lines in service break the 11 million mark, in line with its strategy to meet the regulatory targets set by Anatel for 2003 by 2001. The year-on-year growth seen in the number of lines in service at Telefónica de Argentina (+6.2%), should also be mentioned. This was driven by the marketing of prepaid and limited expense products and by Telefónica CTC Chile, up 4.6%.

The ADSL project continued to develop with more than 67,000 customers in the region, concentrated mainly in Brazil.

Telefónica Latinoamericana had almost 34,000 employees, with productivity standing at 651 lines in service per employee, a 27% improvement on March 2000.

At end 1Q01, Telefónica Latinoamericana's net income was ₡174.5mn, a year-on-year increase of 118.7% mainly due to the consolidation of new shareholdings as a result of the Verónica transaction (Exchange Offer for TASA,

Telesp and Telefónica del Perú), which reduced the impact of minorities this quarter by ₡151.5mn, and the drop in interest expenses, as a result of less outstanding debt and lower financing costs.

Operating revenues at Telefónica Latinoamericana for the first quarter 2001 were ₡2,594.7bn, a year-on-year increase of 12.9%, primarily the result of the growth in lines in service at Telesp which offset increasing competition in Peru and Argentina. Telesp and TASA accounted for 43% and 31% respectively of Telefónica Latinoamericana's consolidated revenues.

Telefónica Latinoamericana's operating expenses in euros rose by 12.0% compared to the same quarter in the previous year, mainly due to higher interconnection costs at Telesp, the result of both increased traffic and tariffs, increased sales costs at TASA and Telefónica CTC Chile and higher bad debt costs at Telefónica de Argentina, due to the country's worsening economic situation.

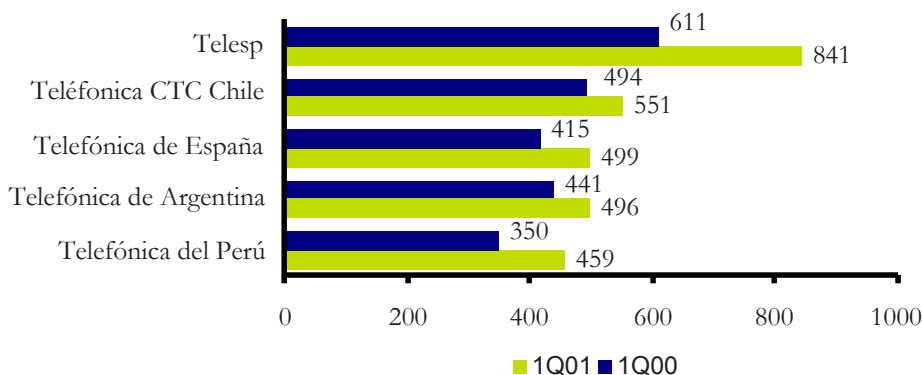
Telefónica Latinoamericana's Group consolidated EBITDA was ₡1,291.5bn, representing an 11% increase on March 2000, basically due to the profits performance at Telesp. The combined contribution of Telesp and TASA to Telefónica Latinoamericana's consolidated EBITDA was 75%.

Highlights of the individual results of the main companies in which Telefónica Latinoamericana has a shareholding are detailed below:

#### BRAZIL

Telesp net income (₡139.2 mn) year-on-year growth of 41% in local currency terms (36.9% in euros) at the end-1Q 2001 for Telesp was mainly due to the 28% rise in the number of lines in service, as well as to the 14.2% (local currency) tariff increase implemented in June 2000, which led to a 29% jump in revenues at the company

#### Lines per employee





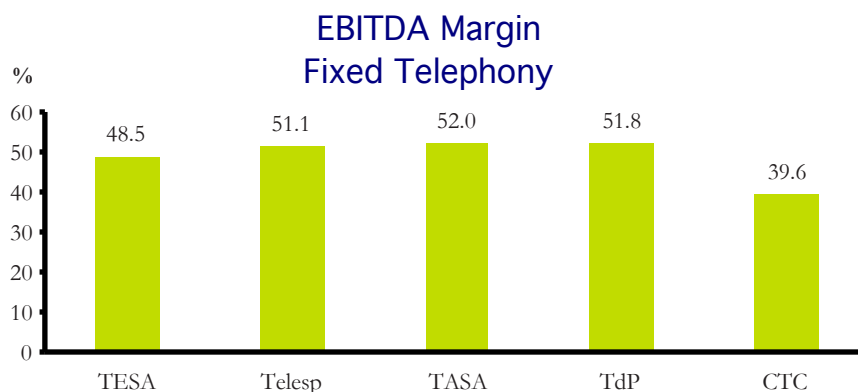
## FINANCIAL RESULTS BY BUSINESS LINES ANALYSIS

Results  
JANUARY-MARCH 2001

*Telefónica*

### FIXED LINE BUSINESS

#### TELEFÓNICA LATINOAMERICANA GROUP



in local currency terms (22.7% in euros) reaching 1,109.04. In addition, at the EBITDA before management fee level, the company saw significant growth both in local currency and in euro terms up 30% and 26.7% respectively, to ₡575.7 mn.

At end-March, Telesp had reduced the waiting list for the number of lines to be installed to 1.5 million, a reduction of 37% compared to December 2000.

The company continued its ADSL marketing strategy and at the end of March had 61,203 customers, with further substantial growth expected over the next months.

Productivity also improved, which should be highlighted, and reached 841 lines per employee, a rise of 37.7% year-on-year.

#### ARGENTINA

In the first quarter of its fiscal year (Oct-Dec00) Telefónica de Argentina saw its EBITDA before management fee in local currency terms drop 18% (down 6.2% in euros to ₡413.2 mn) compared to the same period in the previous year. This was essentially due to higher operating costs as revenues, in spite of increasing competition, remained at a similar level to the previous period (₡784.8 mn). The higher operating expenses were related to higher sales costs, the increased cost of purchases due to the rise in the sale of equipment and to the rise in the bad debt provisions, caused by the deterioration in the country's economic situation.

At the operating level, in the half-year October00-March01, local traffic per line was up 12%, driven by the growth in Internet traffic. The 6% increase in the number of lines in service should also be mentioned, thanks to the prepaid product sales.

#### CHILE

1Q01 EBITDA at Telefónica CTC Chile fell 3% compared to 1Q00 in local currency terms (down 12.6% in Euros to ₡140.1 mn). This was partially due to higher operating costs in relation to interconnection charges because of both increased tariffs and traffic, and to personnel costs stemming from the collective bargaining agreement. In addition, during this period, long distance revenue was down due to tariff reductions.

Operationally, national long distance traffic performed well thanks to the success of the flat rate service launched in September 2000. As a result, domestic long distance market share rose year-on-year by 2.6 p.p. to 38.6%. Furthermore, in March01 Telefónica CTC Chile launched the flat rate for ILD (international long distance calls).

#### PERU

In 1Q01, Telefónica del Perú managed to keep local currency revenues (₡324.3 mn) at the same level as the previous year, in spite of higher competition in the long distance market. This, together with a fall in operating expenses, resulted in an 11% rise in EBITDA year-on-year in local currency terms, (18.8% up in Euros to ₡166.5 mn). However, net income was down 26% in local currency (15.8% in Euros to ₡26.2 mn), due to the impact of higher depreciation charges and to a lower monetary correction.

"Popular" service (prepaid) continued to grow (+20% y-o-y) and the new prepaid service was launched at the beginning of the year, reflecting the basic guidelines of its current sales policy, in line with the country's economic situation. There was also significant growth in lines in the public telephony service, which were up 21%.



# FINANCIAL RESULTS BY BUSINESS LINES ANALYSIS

Results  
JANUARY-MARCH 2001

Telefónica

## FIXED LINE BUSINESS

### TELEFÓNICA LATINOAMERICANA GROUP

#### TELEFÓNICA LATINOAMERICANA

##### COMPANIES FINANCIAL DATA

Unaudited figures

Euros in millions

	March 2001	2000	% Chg
Telesp			
Operating revenues	1,106.4	901.5	22.7
EBITDA	575.7	454.4	28.0
EBITDA margin	52.0%	50.4%	1.6 p.p.
Telefónica de Argentina (1)			
Operating revenues	784.8	739.0	6.2
EBITDA	413.2	440.6	(7.4)
EBITDA margin	52.6%	59.6%	(7.0 p.p.)
Telefónica CTC Chile			
Operating revenues	354.5	373.7	(5.1)
EBITDA	140.1	160.3	(12.6)
EBITDA margin	39.5%	42.9%	(3.4 p.p.)
Telefónica del Perú			
Operating revenues (2)	324.3	260.5	24.5
EBITDA	166.5	140.2	18.8
EBITDA margin	51.3%	53.8%	(2.5 p.p.)

Note: EBITDA before management fees

Note: Data for Telefónica de Argentina include the ISP business of Advance, while those of Telefónica CTC Chile and Telefónica del Perú include Sonda and CableMágico, respectively.

(1) The data for Telefónica de Argentina refer to the period October 2000-December 2000.

(2) The March 2000 revenues stated for Telefónica del Perú are net of fixed-mobile interconnection. Including interconnection, year-on year revenues growth comes to 6% in euros. In this case, EBITDA margin for 1Q00 would be 45.9%

# FINANCIAL RESULTS BY BUSINESS LINES ANALYSIS

Results  
JANUARY-MARCH 2001

*Telefonica*

## FIXED LINE BUSINESS

TELEFÓNICA LATINOAMERICANA GROUP

TELEFÓNICA LATINOAMERICANA

### SELECTED OPERATING DATA

Unaudited figures

	March 2001	2000	% Chg
Lines in service (thousands)	20,025	17,200	16.4
Telesp	11,195	8,754	27.9
Telefónica de Argentina	4,392	4,135	6.2
Telefónica CTC Chile	2,726	2,605	4.6
Telefónica del Perú	1,713	1,706	0.4
ADSL connections	66,372		
Telesp	61,203	-	-
Telefónica de Argentina	1,801	-	-
Telefónica CTC Chile	1,701	-	-
Telefónica del Perú (1)	1,667	-	-
% ADSL coverage			
Telesp	61%	-	-
Telefónica de Argentina	48%	-	-
Telefónica CTC Chile	31%	-	-
Telefónica del Perú	44%	-	-
Total traffic (million of minutes) (2)	28,290	25,819	9.6
Telesp	14,759	13,153	12.2
Telefónica de Argentina	7,455	6,279	18.7
Telefónica CTC Chile	3,953	4,092	(3.4)
Telefónica del Perú	2,123	2,295	(7.5)
Employees	34,574	36,389	(5.0)
Telesp	13,312	14,166	(6.0)
Telefónica de Argentina	8,863	9,375	(5.5)
Telefónica CTC Chile	7,437	7,813	(4.8)
Telefónica del Perú	4,962	5,035	(1.4)
Lines/Employees (3)	651	514	26.7
Telesp	841	611	37.6
Telefónica de Argentina	496	441	12.5
Telefónica CTC Chile	551	494	11.5
Telefónica del Perú	459	350	31.1

Note: Data for Telefónica CTC Chile correspond to its fixed telephony and Sonda businesses. Data for Telefónica de Argentina refer to the period October 2000-December 2000.

(1) Including the lines in service of CABLENET

(2) Including local, DLD and ILD minutes in cumulative terms to March 01. For TASA, cumulative data as of December 00 (first quarter of the company's financial year)

(3) This ratio excludes Sonda employees in the case of Telefónica CTC Chile, and Cable Mágico employees in the case of Telefónica del Perú.



# FINANCIAL RESULTS BY BUSINESS LINES ANALYSIS

Results  
JANUARY-MARCH 2001

Telefonica

TELEFÓNICA LATINOAMERICANA GROUP

## FIXED LINE BUSINESS

### TELEFÓNICA LATINOAMERICANA GROUP

#### TELEFÓNICA LATINOAMERICANA GROUP

##### CONSOLIDATED INCOME STATEMENT

Unaudited figures

Euros in millions

	January-March 2001	2000	% Var	December 2000
Operating revenues	2,594.7	2,297.9	12.9	9,742.7
Internal expend capitalized in fixed assets (1)	44.7	52.1	(14.3)	225.8
Operating expenses	(1,278.1)	(1,144.2)	11.7	(4,533.2)
Other operating income (expense) net	(69.8)	(42.0)	66.1	(261.5)
<b>EBITDA</b>	<b>1,291.5</b>	<b>1,163.8</b>	<b>11.0</b>	5,173.8
Depreciation and amortization	(657.1)	(602.1)	9.1	(2,590.7)
<b>OPERATING PROFIT</b>	<b>634.4</b>	<b>561.8</b>	<b>12.9</b>	2,583.2
Profit from associated companies	(2.0)	0.6	c.s.	(7.4)
Financial income (expense) net	(197.9)	(215.5)	(8.2)	(1,107.7)
Amortization of goodwill	(20.6)	(13.0)	58.1	(122.5)
Extraordinary income (expense) net	(76.3)	8.7	c.s.	(331.9)
<b>INCOME BEFORE TAXES</b>	<b>337.6</b>	<b>342.5</b>	<b>(1.4)</b>	1,013.7
Income taxes	(121.4)	(24.1)	403.6	(155.9)
<b>NET INCOME BEFORE MINORITY INTERESTS</b>	<b>216.2</b>	<b>318.4</b>	<b>(32.1)</b>	857.8
Minority interests	(41.7)	(238.6)	(82.5)	(160.6)
<b>NET INCOME</b>	<b>174.5</b>	<b>79.8</b>	<b>118.7</b>	697.3

(1) Including works in process

Note: Financial statements for 2000 include only the fixed telephony assets of the Telefonía Latinoamericana Group as of 1 January, and the entire stake acquired in the 2000 takeover round.

## FINANCIAL RESULTS BY BUSINESS LINES ANALYSIS

Results  
JANUARY-MARCH 2001

*Telefónica*

### CELLULAR BUSINESS

#### TELEFÓNICA MÓVILES GROUP

In the first quarter of 2001, Telefónica Móviles obtained a combined pro-forma EBITDA of ₧751.2mn, equivalent to year-over-year growth of 28.6%, and achieved an EBITDA margin of 38.7%, an increase of 3.4 percentage points over first quarter 2000. This improvement reflects a strategy based on enhancing operating profitability and the economies of scale achieved by growth in all operators' customer bases. These year-over-year increases show the organic growth of the operations, as in the last twelve months changes to the pro-forma consolidation sphere have not had a significant impact on these figures.

Highlights of these results include:

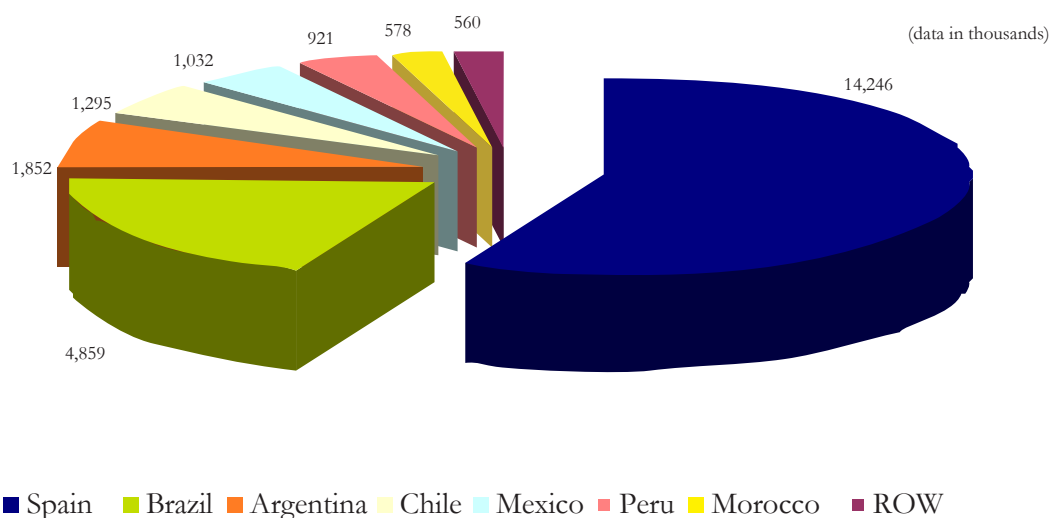
- First quarter operating revenues were ₧1.939,3bn, a 17.4% increase from a year before. This growth is the result of the 39% annual increase in the customer bases of fully consolidated operators and the 30% rise in customer traffic. The growth was, partly offset by an average decline in ARPU of 18%, the depreciation of local currencies against the euro in the last twelve months, and the amounts accrued by Telefónica Móviles España's customers as loyalty programme "points" which were accounted as lower revenue. Revenue contribution from wireless data services is growing, with the total volume

of short messages (SMS) tripling the number for the same period of 2000.

With regard to the performance of customer bases since the beginning of the year, growth rate of net additions has been shaped by, as announced in previous quarters, the selective growth policy adopted by the company, in light of regulatory, technological and macroeconomic uncertainties; the homogenisation among Group operators of Telefónica Móviles' conservative criteria for accounting customers; and the seasonal nature of the first few months of the year, once the Christmas commercial campaigns have ended, and coinciding with the summer period in Latin America.

At the end of March 2001, including those operators in which Telefónica Móviles has an economic stake, the Company had 22.8 million customers in Europe, Latin American and the Mediterranean Basin. Adding the cellular customers of the Chilean, Puerto Rican and Mexican wireless operators managed by Telefónica Móviles, the Company's customer base exceeded 25.3 million at the end of March 2001, an increase of 7.9 million compared with first quarter of 2000.

#### DISTRIBUTION OF MANAGED CUSTOMERS IN MOBILE TELEPHONY





## FINANCIAL RESULTS BY BUSINESS LINES ANALYSIS

Results  
JANUARY-MARCH 2001

Telefónica

### CELLULAR BUSINESS

#### TELEFÓNICA MÓVILES GROUP

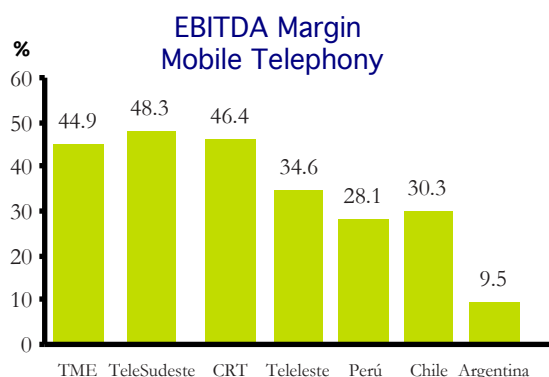
An improvement in profitability levels was registered with EBITDA growth of 11.2 percentage points higher than the operating revenue growth rate.

The increase in EBITDA was driven mainly by the contributions of operators in Spain and Brazil (TeleSudeste Celular and Celular CRT), which together account for 97.7% of consolidated EBITDA.

- Operating expenses (+8.2% vs. +17.4% for revenues) reflected a sharp reduction in subscriber acquisition costs (SACs), economies of scale derived from higher business volumes and productivity improvements. These factors have offset ARPU reductions caused by the price decreases during the last 12 months and the change in the customer mix, with the prepaid segment increasing its weight in Latin American operators. In spite of a higher number of employees, personnel expenses remain at around 5% of revenues.

- Advances in all P&L margins, reflecting better quality results despite higher non operating expenses, mainly due to the increase in financial costs resulting from the ₡8.0bn increase over March 2000 in consolidated financial debt, required to fund business development; and to the rise in interest rates for the Latin American currencies, which affects the debt/hedging denominated in these currencies. This increase in debt levels includes 100% of debt related to the UMTS licenses, while proportionate net debt rose by ₡3,535bn during the same period.

- Growth in net income of 13.4% vs. the first quarter of 2000, to ₡154.4mn, after extraordinary provisions for investments were made, in line with the Company's conservative accounting criteria.



#### BUSINESS PERFORMANCE BY GEOGRAPHIC REGION

##### EUROPE AND MEDITERRANEAN BASIN

###### Spain

The Spanish cellular market surpassed 25.5 million declared customers at the end of March. Of these, around 24 million can be considered active customers, which gives a theoretical penetration rate for the total Spanish population of 64%, or 60% if only active customers are considered. Year-over-year market growth was 20 percentage points, but as announced in previous quarters, the first quarter growth was marked by a slowdown from recent levels of growth (+3 percentage points).

In the new competitive environment, Telefónica Móviles España has continued to show outstanding performance. With a solid and attractive range of services, coupled with a highly successful drive to improve customer satisfaction, Telefónica Móviles' estimated active share of net adds was above 50%, bearing in mind the difficulties of assessing competitors' active customer base. The estimated share of active clients over the period was 58.9% (55.9% of the declared market).

Telefónica Móviles España had 14,246,323 active customers at the end of March 2001, a 39% increase year-on-year. Additionally, the registered customer base, a variable that Telefónica Móviles España had not disclosed previously, is 11.1% higher than the active customer base. Networks channelled a record 6.08 billion airtime minutes of traffic in the quarter, with a year-on-year growth rate of 33%.

It should be noted that Telefónica Móviles España's estimated market share in traffic stands above 61% and is higher than the customer market share. The gap is due to Telefónica Móviles España's higher quality of customers and the use of a more conservative accounting criteria for customer base than the recently suggested by the largest European operator as the industry standard. The gap between its traffic and active customer market share has remained constant over the last few months,





## FINANCIAL RESULTS BY BUSINESS LINES ANALYSIS

Results  
JANUARY-MARCH 2001

*Telefónica*

### CELLULAR BUSINESS

#### TELEFÓNICA MÓVILES GROUP

making Telefónica Móviles España the only Spanish operator with a positive gap.

With regard to customer usage, it should be noted the increasing weight of revenues from data services, that already represent 11.5% of customer revenues, showing annual growth rates much higher than voice revenues growth rates.

In the data business, SMS continued to show strong increases. Telefónica Móviles España handled more than 1.28 billion SMS over the quarter, a 215% increase over the first quarter 2000. In advanced data services, WISP "e-moción" quadrupled its activity from the last quarter of 2000, to over 8 million visits and 59.5 million page views. The WISP "e-moción" currently has 160 service and content providers. Finally, note the successful commercial launch of GPRS handsets to corporate clients, in a process that will gradually be extended over the rest of the year, as the range of GPRS handsets available increases.

The highlight of Telefónica Móviles España's continuing series of customer loyalty and satisfaction initiatives was the introduction of the "frequent numbers" service for both contract and pre-paid customers. This initiative offers customers an attractive single rate on calls and/or SMS to any five MoviStar numbers of their choice. Since January, Telefónica Móviles España has been applying an average reduction of more than 10% in its termination rates. This will be followed by a 7% additional reduction as of 1 May 2001. Despite the cuts in termination rates, which already were included in the company's internal estimates, the substantial improvements in all operating areas of the company have made significant improvements in SAC (down 30% year-on-year) and churn rates, which was helped by the success of the loyalty programs and the launch of a "reward program" for prepaid users.

Despite the regulatory uncertainties and the slowdown in the Spanish market, Telefónica Móviles España's financial results show a general improvement on all fronts. These overall improvements clearly indicate Telefónica Móviles España's ability to foresee shifts and trends in the market:

- Operating revenues were ₣1.3bn, a growth of over 21% versus the same period of 2000. This is particularly

significant as the sums accrued by contract customers as "reward points" under the loyalty programmes are deducted from revenues. The company had increased its efforts in this area over the last few months.

- EBITDA was ₣583.3 million, a 50% increase over the first quarter 2000. Growth was well above both revenues and customer numbers due to the improved operating efficiency of Telefónica Móviles España, and the sharp decrease in SAC. EBITDA margin was 45%, an increase of 8.5 p.p. over the same period last year.

Finally, we would note the measures recently announced by Spain's Ministry of Science and Technology, which have dispelled some doubts about possible new licences and the use of the spectrum assigned to operators that currently provide cellular services in Spain. The Ministry has announced that the necessary spectrum will be progressively released to GSM-1800 MHz licences and has noted that "when UMTS technology is a reality it will be the right time to consider calling processes for new licences based on spectrum availability".

It should be noted that the EBITDA growth rates seen in the first quarter are difficult to extrapolate to the rest of the year due to the following factors: (i) strong customer growth in the first quarter of 2000 at a time when the ability to absorb subscriber acquisition costs were far lower, and (ii) the combined effect of new price reductions for calls from fixed-line operators as of May 2001, and the popularisation of recent commercial programs, such as the "frequent numbers" scheme. All this leads us to believe that year-on-year margin growth is likely to flatten in coming quarters.

#### REST OF EUROPE

In the first few months of 2001, Telefónica Móviles continued to complete its management teams and made progress in reviewing the business plans of group operators in Germany, Italy, Austria and Switzerland, taking into account the new business scenarios in these countries, that basically comprise:

- Anticipate the commercial launch of operations through the roll-out of services using GSM/GPRS technology, allowing the companies to attract customers in these markets prior to the launch of UMTS services.





## FINANCIAL RESULTS BY BUSINESS LINES ANALYSIS

Results  
JANUARY-MARCH 2001

Telefónica

### CELLULAR BUSINESS

#### TELEFÓNICA MÓVILES GROUP

With this aim, Telefónica Móviles and its local partners are at advanced stages of negotiations with other mobile operators to reach national roaming agreements. Agreements of this sort have already been signed in Germany.

- Use a network sharing model with consequent reductions in the initially projected capex and operating expenses associated with networks. Negotiations with other mobile operators for agreements of this kind are well advanced and will be closed once the necessary regulatory approval has been obtained. In the particular case of Germany, the regulator is expected to announce its views on the queries made by the operators, defining the acceptable conditions for network sharing in June.

- Incorporate vendor financing, thus reducing the need for additional contributions to finance the development of operations. Negotiations to close vendor financing agreements with suppliers are at their final stages.

At the same time, Telefónica Móviles continues to take steps towards setting up a common operational framework that allows synergies in Europe to be maximised. These include defining platforms and service catalogues, information systems, etc.

At the end of March, the working teams in Germany and Italy included more than 200 and 140 employees, respectively. In Austria and Switzerland, the CEOs have already been appointed, and while the recruiting of the rest of the management team is well advanced, more than 30 employees are already working in the launch of operations.

#### MOROCCO

The end of Q1 2001 completed the first full year of Medi Telecom operations, whose services were commercially launched on 29 March, 2000. In its first twelve months, the company has far outperformed expectations, obtaining an estimated market share of 29% and a customer base of 577,936.

#### LATIN AMERICA

During the last twelve months, Telefónica Móviles' managed customer base in Latin America, excluding

Mexico, rose by 2.4 million to more than 9.5 million customers, bringing total estimated market share in the Latin American markets where it operates to more than 43%. Once again the prepaid segment, which now makes up 62% of total customers, was the main driver for Latin American growth, bringing the additional benefits of reducing bad debt expense and lower subscriber acquisition costs.

On the marketing front, a key factor is the across-the-board trend towards lower SACs, now down around 17% on average. This reduction highlights the success of the profitable growth strategies adopted by all operators, which aim to establish a clear link between customer profitability and the marketing effort necessary to acquire these clients.

During the first quarter 2001, pursuant to the intention to increase de participation in Latin-America, Telefónica has signed an agreement to acquire all the IBERDROLA group's shareholdings in the Brazilian Telecommunications operators in which both groups are shareholders. The agreement also involves the exchange of shares of the cellular operating companies owned by Iberdrola which will be transferred to Telefónica Móviles in the future.

#### Brazil

At the end of the first quarter 2001, the Brazilian operators managed by Telefónica Móviles—TeleSudeste Celular, Celular CRT and TeleLeste Celular—had approximately 4.9 million clients, having achieved 230,000 net adds in the first three months of the year—a slower growth rate typical of the summer period. Telefónica Móviles' share of net adds of all Brazilian operators was, on average, more than 56%, even though its competitors use different and less conservative criteria to account for their customer bases.

In spite of increasing competitive pressures in their respective markets, the Brazilian operators maintained their lead in the states in which they operate, with market shares ranging from the 62% in the case of TeleLeste Celular to 72% for Celular CRT. The most significant factor affecting the commercial activities of the Brazilian operators in the first quarter of 2001 was the dynamic growth of the pre-paid segment, which now represents around 60% of the total customer base of these operators.



## FINANCIAL RESULTS BY BUSINESS LINES ANALYSIS

Results  
JANUARY-MARCH 2001

*Telefónica*

### CELLULAR BUSINESS

#### TELEFÓNICA MÓVILES GROUP

Telefónica Móviles' operating revenues in Brazil, which include sales figures for TeleSudeste and Celular CRT, rose to ₺329.4 million, an increase of 8% versus the same period last year. This growth was fuelled both by a rise in the customer base itself, which partially offset the drop in ARPU and lower handset sales, as a result of a decline in sales activity; and by the Brazilian real's depreciation against the euro over the past year. Nevertheless, the Brazilian operators made a healthy contribution to Telefónica Móviles' sales, accounting for 17% of the total.

TeleSudeste Celular and Celular CRT had an outstanding performance at the EBITDA level, generating a combined total EBITDA of ₺150.5 million, equivalent to a y-o-y advance of almost 19% and accounting for 45.7% of operating revenues. This is an increase of 4.1 p.p. over the same period of last year. This performance reflects the cost containment policies applied by the companies, with a 10% fall in SAC, the economies of scale deriving from a higher operating volume and productivity improvements, with the average number of connections per employee rising to over 25%.

#### Argentina

Over the last 12 months, TCP has led market growth, obtaining an estimated market share of net adds above 24%. At the end of March 2001, TCP had a customer base of 1.85 million customers, a year-on-year advance of 52%, and an estimated market share of 26%, thus succeeding in narrowing the gap to its closest competitor.

TCP's operating revenues for the first quarter of 2001—that is from October to December 2000—came to ₺192 million, having risen 9.1% year-on-year.

EBITDA was ₺18.3 million, below first quarter 2000 figures, due to TCP's expansion in the north of the country from the second quarter of 2000, and the macroeconomic situation prevailing in the country. These factors have resulted in an erosion of the EBITDA margin, despite the 15% annual reduction in SAC. Nevertheless, from the second quarter of the year, in view of the current market scenario, TCP is taking steps to further rein in its operating costs.

#### Perú

At the end of March, Telefónica Móviles S.A.C had a total client base of 921,495, with a 23% year-on-year growth, equivalent to an estimated 68% market share, despite an intensification of the competitive environment due to the start-up of Peru's fourth operator in January.

Between January and March of this year, Telefónica Móviles SAC generated revenues of ₺68.1 million, up 12.6% y-o-y on the back of an expanding customer base. However, this was partially offset by the y-o-y reduction in ARPU, derived from the increased weighting of the prepaid segment in the total client base (77% vs. 70% in March 2000) and the reduction in the termination fees for fixed-mobile calls which, as of 1 March this year, are billed by the second.

EBITDA came to ₺19.1 million, representing an EBITDA margin of 28%, somewhat lower than in the first quarter of 2000, as a result of the higher commercial efforts made in the first quarter to face the arrival of a new competitor.

#### Chile

At the end of the first quarter 2001, Telefónica Móvil, the subsidiary of Telefónica CTC Chile managed by Telefónica Móviles, had 1.3 million clients, 8% more than at the same period of last year. Underpinning this advance was the company decision to standardise the criteria used for accounting for its customer base with those used by Telefónica Móviles. Following the application of this change, at the end of March 2001 Telefónica Móvil had a market share of 36%. The company also performed well at the operating margin level, posting a significant margin advance on the year end-2000 levels.

Telefónica Móviles is also analysing its potential participation in the process of granting three new 1900 MHz licenses, which is scheduled for completion in the second quarter of the year.



## FINANCIAL RESULTS BY BUSINESS LINES ANALYSIS

Results  
JANUARY-MARCH 2001

Telefonica

### CELLULAR BUSINESS

#### TELEFÓNICA MÓVILES GROUP

##### Mexico

At the beginning of March, Telefónica Móviles took over management of four operators in the north of Mexico (Bajacel, Movitel, Norcel and Cedetel), thereby extending its operations in a region with a potential market of over 20 million people, which include some of the country's richest areas (accounting for over 27% of GDP).

At the end of the first quarter of 2001, these operators had a customer base of 1,032,032 customers, following the application of Telefónica Móviles' conservative criteria for accounting for customer bases had been applied, and a period of transition towards new management of these companies. New competitors starting up operations in the Telefónica Móviles concession areas also affected these numbers.

Since Telefónica Móviles took over management of these Mexican operators it has carried out a number of different activities aimed at the progressive implementation of Telefónica Móviles' business model, working on a new distribution framework, development of IT systems and other management tools, to improve the operator's efficiency. At the same time, the Company is carrying out specific commercial activities, focusing on profitability, offering new services and increasing customer loyalty.

##### Guatemala and El Salvador

At the end of March 2001, the customer base of Telefónica Móviles' subsidiaries in Guatemala and El Salvador totalled 390,067, or 59% more than at the end of March 2000, maintaining their market shares at the same levels as December 2000.

##### Puerto Rico

NewCom Wireless Services, a company managed by Telefónica Móviles, ended the first quarter of the year with 169,575 customers, an annual increase of 171.6% versus March 2000, achieving a market share of 12.5%.

The company's share of net adds in the first three months of the year has positioned it as the second operator with

the highest participation in market growth, despite competing with five other operators in this region.

#### HORIZONTAL BUSINESSES

The following points are of particular importance with regard to horizontal businesses:

Terra Mobile, a joint venture set up with Terra Lycos in mid-2000, had over 4 million registered users in March, a rise of 36% vs. December 2000. This strong growth has allowed Terra Mobile to consolidate its position as the leading European mobile portal, in terms of registered users. It is present in Finland, Sweden, Germany, United Kingdom and Spain.

The steady growth in the number of registered users in Germany, to around one million, should be noted, as it represents a market positioning reference for the upcoming launch of Group 3G operations in this country.

The rapid and extensive response of Spanish users should also be mentioned. Six months after its launch, Terra Mobile has close to ten million page views per month through its internet website and around four million through its wap portal.



# FINANCIAL RESULTS BY BUSINESS LINES ANALYSIS

Results  
JANUARY-MARCH 2001

*Telefonica*

## CELLULAR BUSINESS

### TELEFÓNICA MÓVILES GROUP

#### TELEFÓNICA MÓVILES GROUP

##### COMPANIES FINANCIAL DATA

Unaudited figures

Euros in millions

	March 2001	2000	% Change
<b>TELEFÓNICA MÓVILES ESPAÑA</b>			
Operating revenues	1,299.9	1,067.1	21.8
EBITDA	583.3	388.1	50.3
EBITDA margin	44.9%	36.4%	8.5 p.p.
<b>BRAZILIAN COMPANIES (1)</b>			
Operating revenues	329.4	305.0	8.0
EBITDA	150.5	126.7	18.8
EBITDA margin	45.7%	41.5%	4.2 p.p.
<b>TCP ARGENTINA</b>			
Operating revenues	191.7	175.7	9.1
EBITDA	18.3	35.4	(48.3)
EBITDA margin	9.5%	20.1%	(10.6 p.p.)
<b>TELEFÓNICA MÓVILES PERÚ</b>			
Operating revenues	68.1	60.5	12.6
EBITDA	19.1	22.6	(15.5)
EBITDA margin	28.1%	37.4%	(9.3 p.p.)
<b>T. MÓVILES GUATEMALA Y EL SALVADOR</b>			
Operating revenues	44.8	41.9	6.9%
EBITDA	(5.7)	3.2	c.s.
EBITDA margin	(12.7%)	7.6%	c.s.

Note: EBITDA before management fee.

(1) TeleSudeste Celular and CRT Celular



# FINANCIAL RESULTS BY BUSINESS LINES ANALYSIS

Results  
JANUARY-MARCH 2001

Telefónica

TELEFÓNICA MÓVILES GROUP

## CELLULAR BUSINESS

### TELEFÓNICA MÓVILES GROUP

#### TELEFÓNICA MÓVILES GROUP

##### SELECTED OPERATING DATA

Thousands

	Cellular customers		
	March 01	% Change 01/00	Weighted % Partic. (1)
T Móviles España	14,246	38.9	13,192
TeleSudeste Celular	2,602	30.0	1,975
CRT Celular	1,543	46.3	524
TeleLeste Celular	714	24.5	71
TCP Argentina	1,852	51.7	1,679
T Móviles S.A.C. Perú	921	22.9	795
TEM Guatemala	153	96.1	72
TEM El Salvador	237	41.8	97
NewCom Wireless Puerto Rico	170	171.6	---
Mexican operators (2)	1,032	n.s.	---
Medi Telecom	578	n.s.	163
Telefónica Móvil Chile (3)	1,295	7.5	565
<b>Total</b>	<b>25,344.0</b>	<b>45.7</b>	<b>19,134.0</b>

(1) Number of lines weighted for the Telefónica Group's stake in each company.

(2) Bajacel, Movitel, Norcel and Cedetel. Management control was assumed in March, though we do not consolidate those operations as a transaction process has not yet been concluded.

(3) Managed by TEM and part-owned by the Telefónica Group.

### TELEFÓNICA MÓVILES GROUP

##### PARTICIPATED COMPANIES

Thousands

	March		% Changes
	2001	2000	
Europe and Mediterranean area customers	14,824	10,284	44.1
Contract	4,954	3,723	33.1
Prepaid	9,870	6,561	50.4
Latin America customers	8,022	5,846	37.2
Contract	3,021	2,860	5.6
Prepaid	5,000	2,985	67.5
<b>Total minutes (in millions)</b>	<b>7,984</b>	<b>6,045</b>	<b>32.1</b>

# FINANCIAL RESULTS BY BUSINESS LINES ANALYSIS

Results  
JANUARY-MARCH 2001

Telefonica

## CELLULAR BUSINESS

### TELEFÓNICA MÓVILES GROUP

#### TELEFÓNICA MÓVILES ESPAÑA

Thousands

	March		% Changes
	2001	2000	
Cellular subscribers	14,246	10,260	38.9
Contract	4,922	3,721	32.3
Prepaid	9,324	6,539	42.6
Subscribers net adds in year to date (a)	577	1,208	(52.2)
Contract	155	174	(10.9)
Prepaid	422	1,034	(59.2)
TME Penetration (b)	35.8%	25.7%	10.1 p.p.
Total airtime minutes, in millions (a)	6,080	4,579	32.8
Employees	4,041	3,540	14.2

(a) Accumulated data January-March

(b) Telefonica Móviles cellular line/ 100 inhabitants

### TELEFÓNICA MÓVILES GROUP

#### COMBINED PROFORMA FINANCIAL STATEMENT

Unaudited figures

Euros in millions

	January-March			December 2000
	2001	2000	% Chg	
Operating revenues	1,939.3	1,651.7	17.4	7,398.5
Internal expend capitalized in fixed assets (1)	16.1	13.2	22.2	137.6
Operating expenses	(1,150.0)	(1,062.6)	8.2	4,942.0
Other operating income (expense) net	(54.2)	(18.2)	197.5	(145.4)
<b>EBITDA</b>	<b>751.2</b>	<b>584.0</b>	<b>28.6</b>	<b>2,448.6</b>
Depreciation and amortization	(304.9)	(223.7)	36.3	1,039.5
<b>OPERATING PROFIT</b>	<b>446.2</b>	<b>360.4</b>	<b>23.8</b>	<b>1,409.2</b>
Profit from associated companies	(30.4)	(12.3)	148.1	(97.0)
Financial income (expense) net	(84.9)	(54.9)	54.8	(253.0)
Amortization of goodwill	(7.3)	(7.9)	(8.3)	(29.5)
Extraordinary income (expense) net	(47.7)	(43.6)	9.5	(55.4)
<b>INCOME BEFORE TAXES</b>	<b>275.9</b>	<b>241.7</b>	<b>14.2</b>	<b>974.3</b>
Income taxes	(130.9)	(88.9)	47.2	(335.0)
<b>NET INCOME BEFORE MINORITY INTERESTS</b>	<b>145.0</b>	<b>152.8</b>	<b>(5.1)</b>	<b>639.3</b>
Minority interests	9.4	(16.7)	c.s.	(20.6)
<b>NET INCOME</b>	<b>154.4</b>	<b>136.1</b>	<b>13.4</b>	<b>618.7</b>

Note: Financial statements for 2000 include all the mobile telephony assets held by the Telefonía Móviles Group as of 1 January, and the entire stake acquired in the 2000 takeover round.

(1) Including works in process





## FINANCIAL RESULTS BY BUSINESS LINES ANALYSIS

Results  
JANUARY-MARCH 2001

Telefónica

### DATA BUSINESS

#### TELEFÓNICA DATA GROUP

The first quarter 2001 marked a significant step forward in the integration of the group's data subsidiaries in Brazil (Sao Paulo), Argentina and Peru, all consolidated in Telefónica Data Group accounts for the first time. Note too that over this quarter the takeover of Germany's MediaWays was completed, also fully consolidated as from this quarter.

In line with its policy of using only state-of-the-art technology in its business to offer its clients the best possible service, in February 2001 Telefónica DataCorp signed a strategic agreement with Akamai Technologies Inc, the world's leading provider of content replication, content delivery and streaming (on-line distribution of multimedia content on demand) services. The agreement aims to strengthen the infrastructure to provide Value-Added Services (supported by the "TData Internet Centers") which is already available on a global scale.

Since the start of 2001, Telefónica Data Servicios Internacionales (TDSI), a Telefónica Data Group business unit, has taken over the responsibility for provisioning of international data services, including internet access for all Telefónica Group companies. In the first quarter, there was a rationalisation of the assets, resources and third-party commitments of all Group companies involved in this service. This is to be followed by the acquisition and integration of these services into TDSI in the second quarter.

Also in this first quarter, work continued on the Telefónica Internet Centres (TICs). Highlights were the opening of the new TIC building in Sao Paulo. This TIC, like those in Madrid, Buenos Aires, Peru and Miami, can offer maximum security and top data transfer speeds. Services available include web hosting, web housing and others focused on ASPs (Application Service Providers). At end-March 2001, there were 5 centres with over 25,000 square metres.

Operationally, the group made 458,239 connections to end-March 2001 as the migration from traditional technologies to IP continues. IP now accounts for 69% of connections.

Switched traffic across the Telefónica Data España IP Network rose to 2.19bn minutes in March 2001, a 104% increase on March 2000.

Telefónica Data Group sales at 2001 first quarter were ₧406.4mn, a 55.2% increase on first quarter 2000 pro-

forma, ie, including the Brazil (Sao Paulo), Argentina and Peru data divisions for comparison purposes.

The quarter also saw first-time consolidation of MediaWays sales: ₧106.3mn. Note that MediaWays now has a 35% share of the German internet market, and provides nearly 25% of hosting services to Germany's top 50 web sites.

Telefónica Data España contributed 44.4% of total Telefónica Data Group income, ₧180.5mn—a 21.5% year-on-year rise mainly due to strong growth in internet access and web hosting services.

Telefónica Data España's model has been an outstanding success, making it the undisputed leader in a market deregulated over ten years ago. The group plans to extend the model to all countries where a Telefónica Group company has the network coverage to offer clients a wide and secure service.

Sales from Telefónica Data Brazil, Argentina and Perú totalled ₧84mn in the first quarter of the year—20.7% of total group sales and a 43% rise on pro forma sales 1Q00. Note particularly the strong performance from Telefónica Data Brazil where sales grew by 105% and contributed 6% of group sales in the first quarter 2001 alone.

Finally, the Italian and Austrian subsidiaries made the first quarter of the year sales of ₧29mn.

Telefónica data group sales for the quarter, the first with all subsidiaries' results consolidated, were in line with the group's 2001 estimates.

Consolidated EBITDA in the first quarter of the year was ₧7.2mn, 1.8% of total Telefónica Data Group sales compared to ₧22.8mn in 1Q00. The fall was mainly due to:

- First-time consolidation of recent start-ups such as the Italian subsidiary in Europe which was not consolidated in 1Q00 and, together with ETI Austria, posted an EBITDA 1Q01 loss of ₧12.1mn. There were also the start-up costs of the new Uruguay, Mexico and US subsidiaries (Miami). Together these last three companies posted an EBITDA loss of ₧4.8mn in the first quarter of 2001.



## FINANCIAL RESULTS BY BUSINESS LINES ANALYSIS

Results  
JANUARY-MARCH 2001

*Telefonica*

### DATA BUSINESS

#### TELEFÓNICA DATA GROUP

- First-time consolidation in the first quarter of the year of Latin American subsidiaries covering Brazil (₡-1.8mn), Peru (₡-0.3mn) and Argentina (₡+0.5mn) amounted to a combined EBITDA loss of ₡1.6mn. This is expected to improve steadily over the year

- Deals signed In the last few months with technology suppliers—including Verisign, Akamai and Hewlett-Packard—have already had an impact on costs while the effect on sales should be reflected gradually over the next few quarters.

- There has also been heavy investment in building the International Network and the necessary leasing of circuits.

On the plus side, Telefónica Data España sustained its positive trend in earnings growth, growing EBITDA to ₡39.6mn, a 14% rise year-on-year with a constant EBITDA margin of 22%.

Overall the key point is that while first-time consolidation of new companies into the group and the launch of several new companies and services over the last few months significantly held back company earnings over the quarter, these effects cannot be extrapolated to the rest of 2001. We expect a continuing improvement in sales growth with costs under control, and this should bring substantial improvements to operating profit over the next few quarters.





# FINANCIAL RESULTS BY BUSINESS LINES ANALYSIS

Results  
JANUARY-MARCH 2001

Telefónica

TELEFÓNICA DATA GROUP

## DATA BUSINESS

### TELEFÓNICA DATA GROUP

#### TELEFÓNICA DATA GROUP

##### CONSOLIDATED INCOME STATEMENT

Unaudited figures

Euros in millions

	January-March 2001	2000	% Chg	December 2000
Operating revenues	406.4	261.8	55.2	1,210.3
Internal expend capitalized in fixed assets (1)	9.1	11.1	(18.3)	36.1
Operating expenses	(408.8)	(247.2)	65.3	(1,091.0)
Other operating income (expense) net	0.6	(2.8)	c.s.	(7.3)
<b>EBITDA</b>	<b>7.2</b>	<b>22.8</b>	<b>(68.2)</b>	58.1
Depreciation and amortization	(39.8)	(21.7)	83.1	93.2
<b>OPERATING PROFIT</b>	<b>(32.5)</b>	<b>1.1</b>	<b>c.s.</b>	(35.1)
Profit from associated companies	(0.2)	(0.3)	(40.0)	(1.1)
Financial income (expense) net	(6.9)	(1.0)	601.2	(9.5)
Amortization of goodwill	(20.4)	(1.2)	n.s.	(6.1)
Extraordinary income (expense) net	(3.5)	0.1	c.s.	(23.7)
<b>INCOME BEFORE TAXES</b>	<b>(63.5)</b>	<b>(1.3)</b>	<b>n.s.</b>	(75.5)
Income taxes	(8.3)	(3.6)	130.3	11.0
<b>NET INCOME BEFORE MINORITY INTERESTS</b>	<b>(71.9)</b>	<b>(4.9)</b>	<b>n.s.</b>	(64.5)
Minority interests	11.4	4.4	159.7	16.5
<b>NET INCOME</b>	<b>(60.5)</b>	<b>(0.5)</b>	<b>n.s.</b>	(48.0)

(1) Including works in process

Note: 2000 figures have been restated to include ETI and Telefónica Sistemas, which were previously part of Telefónica Intercontinental and Telefónica de España Group respectively. Include all the data assets of the companies of Telefónica Group



## FINANCIAL RESULTS BY BUSINESS LINES ANALYSIS

Results  
JANUARY-MARCH 2001

*Telefónica*

### MEDIA BUSINESS

#### TELEFÓNICA MEDIA GROUP

The analysis of Telefónica Media Group's first quarter results is greatly affected by its major expansion during 2000, which led to a significant change in its sphere of consolidation. Of particular note is the change in ATCO's consolidation from the equity method in March 2000 to the global integration method after Telefónica Media Group increased its stake in the company from 26.8% to 100%, and the inclusion of Endemol, which from August 2000 was fully consolidated and, therefore, does not appear in the financial statements published in first quarter results for the previous year.

The integration of these two companies has meant an important change in the Telefónica Media Group's consolidated revenue and EBITDA profile.

Telefónica Media Group had positive EBITDA for the second consecutive quarter, of ₪10.5mn, compared to a figure of ₪-6.6mn in the same period last year. This performance is particularly impressive as it comes against a problematic economic backdrop, with the difficult environment that exists for Spanish advertising market and the Argentine economic crisis. These results enable the Company to advance its policy of anticipating EBITDA breakeven for some of the companies, and to reach a position of self-financing Group operations.

Operating results reflect losses of ₪6.7mn, versus losses of ₪15.2mn in the first quarter of 2000, a 55.7% improvement.

#### FREE-TO-AIR TELEVISION AND RADIO BUSINESS

##### ANTENA 3

Antena 3 remains just behind TVE 1 in audience figures and has consolidated its leadership position amongst the public with high commercial potential.

The television advertising market in Spain fell 1.1% vs. the first quarter of 2000, which has meant that the channel's advertising revenues have also dropped, down 2.2%, compared to the first quarter of 2000, to

₪132.9mn. However, the company has maintained the best advertising market share/ audience share relationship of Spanish television companies, with a ratio of 1.35 vs. 1.24 in the same period last year.

Finally, first quarter EBITDA increased to ₪31.6mn compared to ₪38.3mn in 2000.

##### ATCO

The combination of the traditional summer slowdown in the Argentine television advertising market and an uncertain macroeconomic environment in that country explains the slump in this market, due to a loss of consumer and business confidence.

In spite of this, Telefé's market share has risen 40.1%, an advance of 2.1pp on December.

Nonetheless, this reduced confidence has led to a drop in revenues compared to the same period last year, although this has been partly compensated for by a cut in operating costs, continuing the trend which began with the implementation of better management systems by the new management team after the Telefónica Media's take over. In this scenario, EBITDA has changed from ₪3.1 mn in 2000 to ₪5.6 mn in 2001

##### ONDA CERO RADIO

According to the data from the first results of the General Media Survey 2001, Onda Cero shows the highest growth in the sector, consolidating its position as the number two radio station with a market share of 23.1% vs. 21.6% in the previous period. According to this report, the total number of listeners was 2,775,000 an increase of 61.3% on the the first quarter of 2000.

In line with this higher audience, Onda Cero's revenues at the end of the first quarter showed growth of 37.7% vs. March 2000, which allows us to be optimistic with regard to the target of ending the year with positive EBITDA and net profit figures. These would be the first positive results obtained since its launching.



## FINANCIAL RESULTS BY BUSINESS LINES ANALYSIS

Results  
JANUARY-MARCH 2001

Telefonica

### MEDIA BUSINESS

#### TELEFÓNICA MEDIA GROUP

#### CONTENT BUSINESS

##### ENDEMOL

This first quarter Endemol has acquired the remaining 50% of the French company, ASP Endemol. This company is now known as Endemol Entertainment France and will be consolidated in Group financial statements by the global integration method.

Endemol's clear worldwide leadership position in entertainment content creation has seen its first quarter revenues reach ₧198.6mn, growth of 53.0% vs. first quarter 2000. This is very positive, especially if we consider the strong seasonal nature of the production business, with the second and fourth quarters being the busiest.

Accumulated first quarter EBITDA was ₧37.5mn, a 95.4% increase on the same period in 2000. The subsidiaries which have made the most positive contributions to EBITDA have been the producers in Italy, Germany and France.

#### PAY TELEVISION AND DISTRIBUTION BUSINESSES

##### VIA DIGITAL

Throughout the financial year, Vía Digital has continued its strategy of client capture within a highly competitive environment because of new entrants (Quiero TV), the increased activity of cable companies and Sogecable's aggressive marketing strategies. This situation is further aggravated by the proliferation of pirate cards.

The pay TV platform has fulfilled its client target for the first quarter of 2001, with its client base now standing at 673,987 subscribers, a yearly increase of 34.8%.

As regards content, the development of the company's own channel, Gran Vía, is remarkable, having such a great commercial and audience success, that it has even been bought by some of its competitors.

In financial terms, operating revenue was ₧63.9mn, 41.2% up on the first quarter of last year. On the other hand, costs have increased far less (6.7%) and this has allowed EBITDA to advance 13.5% over the same period in 2000 (₧-67.4mn vs. ₧-78.5mn).



# FINANCIAL RESULTS BY BUSINESS LINES ANALYSIS

Results  
JANUARY-MARCH 2001

Telefónica

## MEDIA BUSINESS

### TELEFÓNICA MEDIA GROUP

#### TELEFÓNICA MEDIA GROUP

##### CONSOLIDATED INCOME STATEMENT

Unaudited figures

Euros in millions

	January-March		%	December
	2001	2000	Chg	2000
Operating revenues	283.7	30.3	836.1	723.9
Internal expend capitalized in fixed assets (1)	0.0	0.0	60.0	0.3
Operating expenses	(273.4)	(36.9)	641.2	(709.0)
<b>OTHER OPERATING INCOME (EXPENSE) NET</b>	<b>0.2</b>	<b>(0.1)</b>	<b>c.s.</b>	<b>(1.5)</b>
<b>EBITDA</b>	<b>10.5</b>	<b>(6.6)</b>	<b>c.s.</b>	<b>13.6</b>
<b>DEPRECIATION AND AMORTIZATION</b>	<b>(17.2)</b>	<b>(8.6)</b>	<b>100.5</b>	<b>(48.8)</b>
<b>OPERATING PROFIT</b>	<b>(6.7)</b>	<b>(15.2)</b>	<b>(55.7)</b>	<b>(35.2)</b>
Profit from associated companies	(30.4)	(3.3)	816.7	(86.1)
Antena 3 TV	8.4	11.0	(23.3)	56.9
Via Digital	(33.2)	(35.3)	(5.9)	(123.4)
Others	(5.6)	21.0	c.s.	(19.6)
Financial income (expense) net	(21.2)	(0.1)	n.s.	(79.4)
Amortization of goodwill	(30.0)	(12.2)	146.1	(93.8)
Extraordinary income (expense) net	(2.6)	(6.3)	(58.7)	(606.5)
<b>INCOME BEFORE TAXES</b>	<b>(90.9)</b>	<b>(37.1)</b>	<b>145.2</b>	<b>(901.1)</b>
Income taxes	21.7	10.6	104.7	221.5
<b>NET INCOME BEFORE MINORITY INTERESTS</b>	<b>(69.3)</b>	<b>(26.5)</b>	<b>161.4</b>	<b>(679.6)</b>
Minority interests	6.0	(0.0)	c.s.	52.2
<b>NET INCOME</b>	<b>(63.2)</b>	<b>(26.5)</b>	<b>138.5</b>	<b>(627.4)</b>

(1) Including works in process



## FINANCIAL RESULTS BY BUSINESS LINES ANALYSIS

Results  
JANUARY-MARCH 2001

*Telefonica*

### INTERNET BUSINESS

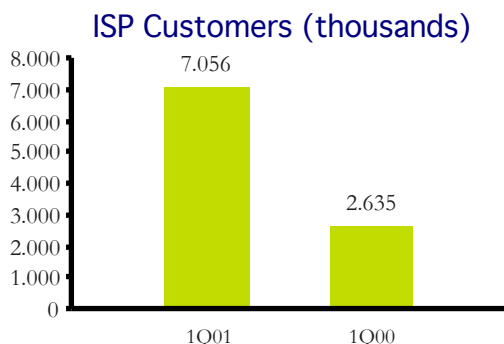
#### TERRA-LYCOS GROUP

Terra-Lycos was created in early November from the merger between Terra Networks, S.A. and US-based Lycos, Inc. It is one of the world's largest internet companies.

The first quarter of 2001 is the merged entity's first full quarter. The period was characterised by difficult macroeconomic conditions in the countries in which we operate, particularly the US, hitting one of our core businesses, the online advertising.

During the first quarter a new organisational structure was announced, focussed on business areas and on the profitability of the company. The reorganised group comprises three strategic business units - access, media and commerce, incorporating the company's key businesses - and two geographical units - the US, and Latin America & Spain - which together cover the 42 countries in which Terra-Lycos operates. These geographical and business units are supported by a number of global support functions. The company's new matrix-based organisational structure will help it to focus more effectively on the bottom line and on profitability in general.

On the operating side, Terra-Lycos accounts for more than 7 million access subscribers as of March 2001, including all the subsidiaries, with almost 1 million new subscribers added since December 2000, representing an increase of 15.4%, or 167.8% up since March 2000.

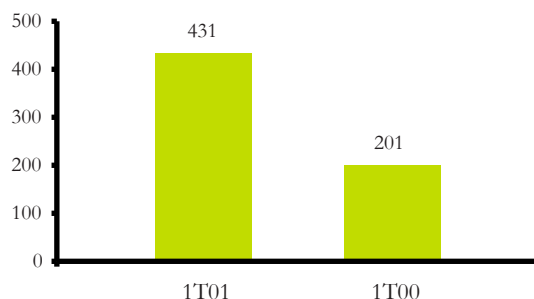


Subscribers from Spain and Latin America reached almost 4.5 million, that is 2.5 million more than the previous year.

Average daily page views were up 22.3%, from 350 million in December 2000 to 431 million in March 2001. Increases were seen in all countries of operation, but particularly in Spain and the US.

Lastly, unique users rose by 5.3% compared with the previous quarter, from 94 to 99 million. The year-on-year increase was 52.3% (up from 65 million).

**Average daily page views (millions)**



In terms of pro-forma first quarter 2001 financial results, revenues were ₧177.2mn a 60% annual advance. Revenues were fairly stable thanks to the geographical and functional diversification in spite of the first quarter seasonal nature, and the poor market conditions.

The 2001 first quarter revenue breakdown by business area is as follows:

- ₧55mn from the access business, representing 31.1% of total revenues.
- ₧123mn from the media business (advertising and e-commerce), 69.4% of total revenues.

Terra-Lycos's business model is evolving in line with the market but always with a clear focus on profitability. In fact, the company is not promoting the free internet access in any market where it operates, but is concentrating all its efforts on pay-services. The company's pricing policy is moving increasingly towards bundling and quality offers.

The company's progress towards profitability is evident



## FINANCIAL RESULTS BY BUSINESS LINES ANALYSIS

Results  
JANUARY-MARCH 2001

*Telefonica*

### INTERNET BUSINESS

#### TERRA-LYCOS GROUP

in the almost 30 percentage points advance in EBITDA since 3Q00.

In terms of expenses, Terra Lycos is benefiting from the synergies generated by the merger and from measures designed to control and cut costs without impacting growth. This is the first quarter in which revenues have exceeded operating expenses, which is reflected in the above mentioned improvement at EBITDA level. While the company's revenues remained virtually unchanged, EBITDA has risen by ₧26mn as compared to the previous quarter.

The quarter saw further acquisitions activity and new product and service launches. Acquisitions included:

- Acquisition in January of Raging Bull, a leading financial community on the web;
- Acquisition of leading digital mapping company Iberwap, also in January;
- Finalization of Lycos Asia's acquisition of My Rice, one of the leading portals in China; and
- Announcement (after the end of the quarter) of purchase of a 49% stake in Uno-e, the joint venture with BBVA.

New products and services included the following:

- Launch of Lycos Talk Radio, the first interactive radio network on the net;

- Launch of the first voice portal in Spain, providing access to the content and services of the country's leading portal;
- Launch (following the quarter close) of Lycos 411, a service that provides internet access via a telephone call;
- Launch of internet portal Terra Caribe in the Caribbean.

#### TERRA NETWORKS GROUP

##### OPERATING DATA

	March 2001	March 2000
ISP Customers, in thousands	7,056	2,635
Average daily page views (mill.)	431	201
Unique Visitors (mill.)	99	65



# FINANCIAL RESULTS BY BUSINESS LINES ANALYSIS

Results  
JANUARY-MARCH 2001

Telefonica

TERRA-LYCOS GROUP

## INTERNET BUSINESS

### TERRA-LYCOS GROUP

#### TERRA-LYCOS GROUP

##### CONSOLIDATED INCOME STATEMENT

Unaudited figures

Euros in millions

	January - March		% Var	December
	2001	2000		2000
Operating revenues	177.2	35.7	395.7	304.0
Internal expend capitalized in fixed assets (1)	0.1	1.0	c.s.	1.0
Operating expenses	(246.7)	(94.7)	160.7	(649.0)
Other operating income (expense) net	(7.4)	(3.0)	144.7	(15.2)
<b>EBITDA</b>	<b>(76.7)</b>	<b>(61.0)</b>	<b>26.0</b>	(359.2)
Depreciation and amortization	(38.5)	(11.6)	231.8	(83.5)
<b>OPERATING PROFIT</b>	<b>(115.2)</b>	<b>(72.6)</b>	<b>58.9</b>	(442.8)
Profit from associated companies	(112.5)	(0.1)	n.s.	(59.3)
Financial income (expense) net	30.0	3.6	737.8	35.8
Amortization of goodwill	(127.6)	(27.1)	370.2	(203.6)
Extraordinary income (expense) net	65.5	(0.3)	c.s.	(134.3)
<b>INCOME BEFORE TAXES</b>	<b>(259.8)</b>	<b>(96.6)</b>	<b>169.4</b>	(804.0)
Income taxes	85.5	25.2	240.0	248.1
<b>NET INCOME BEFORE MINORITY INTERESTS</b>	<b>(174.3)</b>	<b>(71.3)</b>	<b>144.5</b>	(555.9)
Minority interests	(0.2)	1.3	c.s.	0.7
<b>NET INCOME</b>	<b>(174.5)</b>	<b>(70.0)</b>	<b>149.1</b>	(555.2)

(1) Including works in process



## FINANCIAL RESULTS BY BUSINESS LINES ANALYSIS

Results  
JANUARY-MARCH 2001

*Telefónica*

### DIRECTORY BUSINESS

#### TELEFÓNICA DIRECTORY BUSINESS

Having finalised the takeover bids for operators in various Latin American countries, the Telefónica group is now in the process of segregating their directories businesses for integration into the TPI-Páginas Amarillas group.

The assets of CTC-Publiguías were integrated in March 2001, following full consolidation in the accounts of TPI from January. The Peruvian and Argentine directories businesses have not yet been formally consolidated in TPI's accounts, but their activities have been integrated in order to give a clear and true view of the business scenario in which the company will immediately be operating.

The results appearing under the title 'Telefónica's directories business' therefore include TPI-España, Publiguías, TPI-Brasil, Goodman, Páginas Doradas in Argentina and Guitel in Peru.

Remember that the seasonality of the business and the industry practice of recognizing revenues at the time of publication of each directory make for fluctuating and incomparable quarterly results.

1Q01 was a period in which TPI's Latin American presence was consolidated and the internet services business saw strong growth in Spain.

The Spanish directories subsidiary TPI-España's revenues increased by 15.3% on the same quarter 2000, in the absence of white pages advertising revenues following completion of the agreement with Telefónica. This was off-set however by additional revenue from producing three new editions of yellow pages. On a like-for-like basis, 1Q01 revenues from yellow pages were up 7.5% year-on-year.

Internet services revenues rose by around 120%, to  $\text{¥}2.8\text{mn}$ , and account for a growing proportion of total revenues (from 10% in March 2000 to around 19% in March 2001). This result can not be extrapolated to the rest of the year because of the higher concentration of directories publications in the second half of the year.

TPI-España's operating expenses increased significantly to  $\text{¥}24\text{mn}$ , due primarily to increases in the size of the work-force and higher distribution and marketing expenses from publishing more directories.

Publiguías' results were consolidated for the first time in the TPI Group, and accounted for 33.4% of total revenues. However, we do not feel able to extrapolate this performance over the full-year as the publication timetable for the most important directories is different. Revenues in local currency fell 1.8%, despite the publishing business growth of 0.9%, a reversal of 2000's negative trend, when the directories published in this quarter saw revenues drop by 1.9% compared to the previous edition.

The remaining companies in Brazil, Argentina and Peru together contributed around  $\text{¥}27\text{mn}$ , a performance that we do not expect to see repeated in the full-year figures due to the different evolution of each respective commercial campaigns.





# FINANCIAL RESULTS BY BUSINESS LINES ANALYSIS

Results  
JANUARY-MARCH 2001

Telefonica

## DIRECTORY BUSINESS

### TELEFÓNICA DIRECTORY BUSINESS

#### TPI - PÁGINAS AMARILLAS GROUP

##### SELECTED OPERATING DATA (SPAIN)

Unaudited figures

Euros in millions

	March 2001	2000	% Chg
<b>BOOKS (PUBLISHED)</b>			
Páginas Amarillas (Yellow pages)	6	3	100
<b>ADVERTISING REVENUES</b>			
Páginas Amarillas (Yellow pages)	10.3	2.3	356.4
Páginas Blancas (White pages)	0.0	8.5	n.s.
Revenues On-Line	2.8	1.3	119.4
Páginas Amarillas Habladas	0.8	0.5	48.1

#### TPI- PÁGINAS AMARILLAS

##### CONSOLIDATED INCOME STATEMENT

Unaudited figures

Euros in millions

	January - March 2001	2000	% Change
Operating revenues	24.4	12.7	93.1
Internal expend capitalized in fixed assets (1)	0.0	17.6	n.s.
Operating expenses	(32.1)	(27.6)	16.4
Other operating income (expense) net	(1.4)	(0.2)	800.0
<b>EBITDA</b>	<b>(9.0)</b>	<b>2.5</b>	<b>c.s.</b>
Depreciation and amortization	(3.8)	(2.2)	74.7
<b>OPERATING PROFIT</b>	<b>(12.9)</b>	<b>0.4</b>	<b>c.s.</b>
Profit from associated companies	(0.2)	0.0	c.s.
Financial income (expense) net	(4.5)	0.1	c.s.
Amortization of goodwill	(0.5)	0.0	n.s.
Extraordinary income (expense) net	0.1	0.1	88.9
<b>INCOME BEFORE TAXES</b>	<b>(17.9)</b>	<b>0.5</b>	<b>c.s.</b>
Income taxes	5.4	(0.2)	c.s.
<b>NET INCOME BEFORE MINORITY INTERESTS</b>	<b>(12.6)</b>	<b>0.2</b>	<b>c.s.</b>
Minority interests	2.3	0.1	n.s.
<b>NET INCOME</b>	<b>(10.3)</b>	<b>0.3</b>	<b>c.s.</b>

(1) Including works in process



# FINANCIAL RESULTS BY BUSINESS LINES ANALYSIS

Results  
JANUARY-MARCH 2001

Telefonica

## DIRECTORY BUSINESS

### TELEFÓNICA DIRECTORY BUSINESS

#### DIRECTORIES OF TELEFONICA GROUP

##### CONSOLIDATED INCOME STATEMENT

Unaudited figures

Euros in millions

	January - March		%	December
	2001	2000	Var	2000
Operating revenues	51.6	59.3	(13.0)	607.7
Internal expend capitalized in fixed assets (1)	(0.8)	17.6	c.s.	(1.9)
Operating expenses	(59.9)	(68.8)	(13.3)	(450.6)
Other operating income (expense) net	(4.8)	(3.2)	49.5	41.6
<b>EBITDA</b>	<b>(10.9)</b>	<b>4.9</b>	<b>c.s.</b>	<b>113.7</b>
Depreciation and amortization	(5.4)	(4.6)	16.3	(19.2)
<b>OPERATING PROFIT</b>	<b>(16.3)</b>	<b>0.3</b>	<b>c.s.</b>	<b>94.4</b>
Profit from associated companies	(0.2)	0.0	n.s.	(1.4)
Financial income (expense) net	(5.8)	(2.5)	131.7	(11.8)
Amortization of goodwill	(0.5)	0.0	n.s.	0.0
Extraordinary income (expense) net	0.0	(0.5)	c.s.	(3.6)
<b>INCOME BEFORE TAXES</b>	<b>(22.8)</b>	<b>(2.7)</b>	<b>737.2</b>	<b>77.6</b>
Income taxes	4.8	(1.4)	c.s.	(38.3)
<b>NET INCOME BEFORE MINORITY INTERESTS</b>	<b>(18.0)</b>	<b>(4.3)</b>	<b>321.6</b>	<b>39.4</b>
Minority interests	(2.7)	1.8	52.7	15.7
<b>NET INCOME</b>	<b>(15.3)</b>	<b>(2.5)</b>	<b>511.3</b>	<b>55.1</b>

Note: Including all Telefonica Group directories businesses as of 1 January 2000

(1) Including works in process



## FINANCIAL RESULTS BY BUSINESS LINES ANALYSIS

Results  
JANUARY-MARCH 2001

Telefonica

### CALL CENTER BUSINESS

#### ATENTO GROUP

Atento Group's strategy for 2001 is to become one of the world's leading providers of customer relations management services (CRM). It aims to achieve this through operational and commercial excellence, a global and strategic client focus and innovation in the development of value added services.

Commercial activity in the first quarter of 2001 focused on developing long-term relationships with strategic clients in the external market (ie, outside Telefónica group) and improving strategic links with other group companies.

A major success on this front was the agreement signed with BBVA, which is to outsource all its Spanish and international call centre operations to Atento. This deal is expected to generate revenue of around ₧86.4mn annually and add ₧15.1mn to group EBITDA. It should also boost economies of scale in some of Atento's markets and enhance its know-how in strategic, high value added segments such as financial services.

External market sales in 1Q01 were significant and will have a favourable effect on group results over the next few months. Atento signed deals with a number of companies and has established long-term relationships with, among others, BSCH, Ace Insurance, Citibank, AIG, Warrantech, American Express, Direct TV, Coca Cola, American Airlines and Varig.

Atento group posted 1Q01 sales of ₧153.5mn, a 68.7% year-on-year rise. The internal market generated ₧108.1 million of this, 70%. Sales are becoming even more diversified geographically. The proportion from Brazil, Spain and Chile, traditionally the largest contributors fell in the face of rising income from Puerto Rico, Morocco, Central America, Columbia, Argentina, Italy, Japan, Mexico and Venezuela.

EBITDA 1Q01 was ₧11.4mn, a 7.4% rise on 1Q00.

Operationally, Atento had 26,340 positions at end March 2001, against 24,121 at end-December 2000.

These positions were attended by 42,533 employees, a 9.4% rise over the quarter basically due to the integration of the Telinver call center activity into Atento Argentina and the expansion of centres in new markets such as Venezuela, Japan and Mexico.

Note finally that Atento has announced the expansion of its presence in Italy. It plans to invest ₧6.7mn in a new centre with over 500 positions.



# FINANCIAL RESULTS BY BUSINESS LINES ANALYSIS

Results  
JANUARY-MARCH 2001

Telefonica

## CALL CENTER BUSINESS

### ATENTO GROUP

#### ATENTO GROUP

##### CONSOLIDATED INCOME STATEMENT

Unaudited figures

Euros in millions

	January March		%	December
	2001	2000	Chg	2000
Operating revenues	153.5	91.0	68.7	526.9
Internal expend capitalized in fixed assets (1)	0.0	0.0	n.s.	0.0
Operating expenses	(142.1)	(78.4)	81.2	(495.7)
Other operating income (expense) net	(0.1)	(2.0)	(95.2)	(6.0)
<b>EBITDA</b>	<b>11.4</b>	<b>10.6</b>	<b>7.4</b>	<b>25.2</b>
Depreciation and amortization	(16.2)	(7.9)	104.4	(51.3)
<b>OPERATING PROFIT</b>	<b>(4.8)</b>	<b>2.7</b>	<b>c.s.</b>	<b>(26.0)</b>
Profit from associated companies	0.0	0.0	n.s.	0.0
Financial income (expense) net	(14.4)	(5.1)	180.1	(37.8)
Amortization of goodwill	(2.1)	0.0	n.s.	(7.1)
Extraordinary income (expense) net	(2.1)	0.1	c.s.	(78.4)
<b>INCOME BEFORE TAXES</b>	<b>(23.4)</b>	<b>(2.4)</b>	<b>n.s.</b>	<b>(149.3)</b>
Income taxes	3.8	(0.5)	c.s.	37.3
<b>NET INCOME BEFORE MINORITY INTERESTS</b>	<b>(19.6)</b>	<b>(2.8)</b>	<b>589.9</b>	<b>(112.0)</b>
Minority interests	0.4	(0.1)	c.s.	0.3
<b>NET INCOME</b>	<b>(19.2)</b>	<b>(3.0)</b>	<b>542.3</b>	<b>(111.8)</b>

(1) Including works in process



## **BROADBAND CAPACITY MANAGEMENT BUSINESS**

### **EMERGIA**

Emergia provides Telefónica group's international broadband infrastructure services and manages the group's wholesale market capacity.

Its clients are international carriers, ISPs and other companies which make intensive use of communications services requiring city-to-city, door-to-door connectivity inside Latin America and with the US.

The broadband market is expected to grow at an annual rate between 60% and 100% for the next four years. Emergia is in pole position as the first company to offer the service in the region. It also has the competitive advantage of being part of the leading telecoms group in the Spanish- and Portuguese-speaking world.

In March 2001, the company ended its infrastructure investment when it completed the 25,000 km terrestrial and undersea fibre-optic cable network. Having made an initial investment of around US\$1.3bn, Emergia starts with a capacity of 40 Gbps, expandable to 1.92 Tbps.

A series of sale and purchase agreements also gave Emergia extra capacity in the US and Europe.





## COMPANIES INCLUDED IN EACH FINANCIAL STATEMENT

- Telefónica, S.A. has direct interests in the share capital of Endemol Entertainment Holding, N.V. and Mediaways GmbH Internet Services, which are considered to belong to Telefónica Media, S.A. and Telefónica Data, S.A., respectively.
- Telefónica S.A. also participates directly in the share capital of CEI Citicorp Holdings. For this pro-forma income statement's report, it is assumed that CEI's 50% shareholding in Cointel (which in turns, owns 52,88% of Telefónica de Argentina) is consolidated as part of Telefónica Latinoamericana (Telefónica Internacional). Also, CEI's 26.82% shareholding in ATCO and 26.82% shareholding in AC Inversora S.A. are consolidated as part of Telefónica Media S.A.
- As regards Telefónica, S.A.'s acquisitions made in 2000 in the Latin American companies Telefónica de Argentina, Telecomunicações de São Paulo, S.A. (Telesp) and Telefónica del Perú, S.A., it is assumed that the contributions of these shareholdings to Telefónica Latinoamericana, S.A., Telefónica Móviles, S.A. and Telefónica Data, S.A. have been made since the beginning of the year in the proportion in which each of these, after the spin-off carried out, may consolidate the business which the Latin American companies carry out in fixed telephony, mobile telephony and data transmission, respectively.
- As regards Compañía de Telecomunicaciones de Chile, S.A. (CTC), part-owned by Telefónica Latinoamericana, although to date its spin-off has not begun, the company's data transmission activity has been allocated to Telefónica Data. Telefónica Latinoamericana does not include Startel's mobile telephony business, in accordance with a pro-forma results presentation which only includes the fixed telephony activity in Latin America.
- As regards the businesses remaining in TASA and Telefónica del Perú after the aforementioned spin-off, included in Telefónica Latinoamericana, we would highlight that these companies still include the directories activity which has been added for the presentation of these pro-forma income statements to the TPI Group, in accordance with a view of the Telefónica Group's directories business.

**RELEVANT SHAREHOLDINGS OF TELEFONICA GROUP AND ITS SUBSIDIARIES****TELEFONICA, S.A. GROUP SHAREHOLDINGS**

<b>TELEFONICA GROUP</b>	<b>% PART.</b>
TELEFONICA DE ESPAÑA	100.00%
TELEFONICA MOVILES	92.94%
TELEFONICA DATACORP	100.00%
TELEFONICA LATINOAMERICANA	100.00%
TPI	59.87%
TERRA LYCOS	37.58%
TELEFONICA MEDIA	100.00%
EMERGIA	93.68%
ATENTO	100.00%
TELEFONICA B2B	100.00%

<b>TELEFONICA MOVILES</b>	<b>% PART.</b>
TELEFONICA MOVILES ESPAÑA	100.00%
TELESUDESTE CELULAR	82.01%
CRT CELULAR	36.70%
TELELESTE CELULAR	10.75%
TCP ARGENTINA	97.90%
TEM PERU	93.20%
TEM EL SALVADOR	44.20%
TEM GUATEMALA	51.00%
GROUP 3G ALEMANIA	57.20%
IPSE 2000	45.60%
3G ALEMANIA AUSTRIA	100.00%
UMTS SUIZA	100.00%
MEDI TELECOM	30.50%
TERRA MOBILE	51.00%
M-SOLUTIONS	100.00%
MOBIPAY INTERNACIONAL	50.00%



**RELEVANT SHAREHOLDINGS OF TELEFONICA GROUP AND ITS SUBSIDIARIES**

<b>TELEFONICA DATA CORP</b>	<b>% PARTICIPACION</b>
TELEFONICA DATA ESPAÑA	100.00%
TELEFONICA DATA MEXICO	94.90%
ETI AUSTRIA	100.00%
TELEFONICA DATA COLOMBIA	50.01%
REY MORENO	50.00%
TELEFONICA DATA BRASIL	99.00%
TELEFONICA DATA VENEZUELA	99.99%
ATLANET	34.00%
TELEFONICA SISTEMAS	100.00%
TELEFONICA DATA URUGUAY	100.00%
MEDIAWAYS	100.00%

<b>TELEFONICA LATINOAMERICANA</b>	<b>% PARTICIPACION</b>
TELESP	86.60%
TELEFONICA DEL PERU	93.26%
TELEFONICA ARGENTINA	97.92%
TLD	98.00%
TELEFONICA CTC CHILE	43.64%
CANTV	6.91%

<b>TPI</b>	<b>% PARTICIPACION</b>
GOODMAN BUSINESS PRESS	90.67%
TPI ESPAÑA	100.00%
PUBLIGUÍAS CHILE	100.00%
TPI BRASIL	51.00%
BUILDNET	92.81%

**RELEVANT SHAREHOLDINGS OF TELEFONICA GROUP AND ITS SUBSIDIARIES**

<b>TELEFONICA MEDIA</b>	<b>% PARTICIPACION</b>
ANTENA 3 TV	47.42%
LOLA FILMS	70.00%
ST HILO	100.00%
TORNEOS Y COMPETENCIAS	20.00%
VIA DIGITAL	48.60%
TELEFONICA SERVICIOS AUDIOVISUALES	100.00%
TELEFONICA SPORT	100.00%
ONDA CERO	100.00%
RADIO VOZ	100.00%
PATAGONIK FILM GROUP	30.00%
ART MEDIA	100.00%
PEARSON	4.88%
AZUL TELEVISION	50.00%
TELEFE	100.00%
TVI	100.00%
SIENTA CONTINENTAL	100.00%
ENDEMOL	99.20%
MEDIAPARK	25.00%
RODVEN	51.00%
HISPASSAT	22.74%

<b>TERRA LYCOS</b>	<b>%PART.</b>
LYCOS VIRGINIA	100.00%
TERRA NETWORKS PERU	99.99%
TERRA NETWORKS MEXICO	100.00%
TERRA NETWORKS USA	100.00%
TERRA NETWORKS GUATEMALA	100.00%
TERRA NETWORKS EL SALVADOR	99.99%
TERRA NETWORKS VENEZUELA	100.00%
TERRA NETWORKS BRASIL	100.00%
TERRA NETWORKS ARGENTINA	100.00%
TERRA MOBILE	49.00%
TERRA NETWORKS ESPAÑA	100.00%
TERRA NETWORKS CHILE	100.00%



## **SIGNIFICANT EVENTS:**

- On 27 April 2001, Telefónica Publicidad e Información announced changes in its board of directors following the resignation of Messrs. Alberto Cortina de Alcocer, Abel Linares Palacios and José María Mas. Telefónica de España, S.A.U. appointed as its representative member to the board Mr. José María Álvarez-Pallete López and Mr. Javier López- Mingo Olmo as its secretary and non-board member.

- On 24 April 2001, Telefónica Data Perú spun off its data unit in Peru, initiating operations with an estimated investment of \$20mn.

- On 23 April 2001, Telefónica and BBVA announced the start-up of three initiatives as part of the strategic alliance signed on 11 February 2000, as follows:

- The integration of BBVA's call centre business in Atento, leaving the bank with a 9% shareholding in Atento.

- The acquisition of a stake by Terra Lycos (tentatively 49%) in Uno-e.

- The acquisition by Telefónica, through Telefónica Media, of a 47.5% stake in BBVA Ticket (leader in the management and sale of musical events), equivalent to BBVA's holding in the company.

- On 20 April 2001, Telefónica de España announced that it had more than 100,000 broadband digital lines installed in Spain. This number is in line with the total for all of 2000, fuelled by higher sales growth and a major reduction in installation time. The company's currently has 905 switches, compared with 603 at year-end 2000.

- On 9 April 2001, Telefónica and IBERDROLA reached an agreement whereby Telefónica will acquire IBERDROLA's stakes in the Brazilian telecoms operators in which they both have interests. The operation entails an exchange of Telefónica shares for IBERDROLA's shares in the Brazilian companies TeleSudeste Celular, TeleLeste Celular, Celular CRT and Telesp. IBERDROLA will receive 19,136,307 million shares, implying a total value for the transaction of approximately \$313mn. The IBERDROLA share packages are:

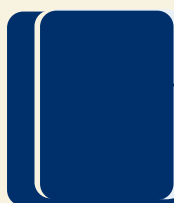
- 3.48% of SP TELECOMUNICAÇÕES HOLDING, S.A.

- 7.00% of TBS CELULAR PARTICIPAÇÕES S.A.

- 7.00% of SUDESTECEL PARTICIPAÇÕES S.A.

- 62.02% of IBEROLESTE PARTICIPAÇÕES S.A.

- 3.38% of TELELESTE CELULAR.



## SIGNIFICANT EVENTS:

The operation also includes the acquisition of IBERDROLA ENERGIA, S.A.'s stake in CELULAR CRT PARTICIPAÇÕES (0.66%), through the Telefónica Móviles tender offer.

Last, the deal is subject to approval by ANATEL.

- On 6 April 2001, Terra Lycos initiated its Caribbean operations with the presentation of its Dominican Republic portal, in line with its goal to become the leader of the region's internet market. With this, Terra Lycos expands its presence to 42 countries.

- On 30 March 2001, Emergia concluded its fibre-optic ring around Latin America with connection to the US, making it the company with the largest and most extensive high-capacity fibre-optic system in Latin America, in addition to be the first company in the region to finish a high-capacity underwater fibre-optic network, beating out its competitors by at least two months.

- On 29 March 2001, Terra Mobile expanded its international operations with the launch of services in Brazil, marking its first endeavours in Latin America. Two days before, Terra Mobile had announced that registered user numbers in March had surpassed four million, marking an increase of 33% from mid-January. The strong pace of growth has enabled the company to rapidly consolidate its position as Europe's leading portal. In Spain, the company boasts roughly 10 million monthly page views through its internet web and around four million through its WAP.

- On 29 March 2001, Telefónica's board of directors appointed Messrs. Carlos Colomer, Alfonso Ferrari and Antonio Alonso as new members. The first two will take the place of Alberto Cortina and Carles Vilarrubí, while the third will hold the post of general secretary and secretary to the board in place of José María Mas.

- On 7 March 2001, Telefónica Móviles held a rights issue to incorporate Telefónica del Perú's cellular assets in the Group, issuing 65,939,564 new shares with a nominal value of ₡0.5 each and a issue premium of approximately ₡3.3 per share.

- On the same day, Telefónica de España SAU's board of directors appointed Angel Vilá Boix, the managing director of Desarrollo Corporativo de Telefónica S.A., as its representative on BBVA's board of directors.

- On 2 March 2001, Telefónica Móviles reached an agreement with Motorola to manage its four cellular operators in northern Mexico (Bajacel, Movitel, Nortel and Cedetel). The deal was reached prior to obtaining the necessary regulatory permits, currently in course, to acquire the operators, scheduled for the second quarter of the year. To carry out the operation, approval will be submitted at Telefónica S.A.'s upcoming general shareholders' meeting for a rights issue, through which the companies will be acquired through an exchange of shares and subsequently transferred to Telefónica Móviles.



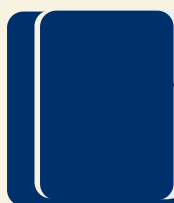
## SIGNIFICANT EVENTS:

- On 28 February 2001, Telefónica Móviles launched a public tender offer to acquire 54.32% of Celular CRT S.A (210,437,216 ordinary shares and 1,391,142,262 preferred shares). The transaction carries an implicit premium of approximately 40% to the average price of Celular CRT's preferred stock from 19 February to 23 February, inclusive. The offer, which will be carried out once the pertinent authorisation is obtained, is aimed at acquiring and subsequently de-listing Celular CRT, and involves two operations:

- Takeover bid via the exchange of BDRs representing new shares of Telefónica Móviles.

- Takeover bid via the exchange of ADRs or, as relevant, BDRs, representing new shares of Telefónica Móviles.

- On 26 February 2001, Terra Lycos announced the appointment of Stephen J. Killeen as chairman of the company's US operations. He was previously chairman and general manager of marketing at MSGi.



## **CHANGES TO THE SPHERE AND ACCOUNTING CRITERIA OF CONSOLIDATION**

### **TELEFÓNICA**

In January, Telefónica, S.A. acquired 4,406,606 shares in Terra Networks, S.A. at a cost of ₧52.16 mn. With this purchase, Grupo Telefónica's stake in the company reached 37.58%. The company continues to be FULLY consolidated on Telefónica Group's accounts.

In January, Telefónica, S.A. acquired 811,051 shares in Telefónica del Perú, S.A.A., at a cost of ₧860,000. With this purchase, Grupo Telefónica's stake in the company reached 93.26%. The company continues to be fully consolidated on Telefónica Group's accounts.

Also in January, Telefónica, S.A. acquired 100% of Mediaways, GmbH for ₧1,479mn. The company has started to be consolidated on Telefónica Group's accounts by the global integration method.

In the first two months of 2001, Telefónica, S.A. acquired a total of 6,551,543 shares in Telefónica Móviles, S.A., at a cost of ₧55.10million. Grupo Telefónica's stake in the company is now 92.94%. The company continues to be consolidated on Telefónica Group's accounts by the global integration method.

In February, Telefónica, S.A. created the 100% owned subsidiary Telefónica Gestión de Servicios Compartidos, S.A, with initial capital of ₧60,102. The company is not included in the sphere of consolidation, and has been included in Telefónica Group's consolidated financial statements.

### **TELEFÓNICA PUBLICIDAD E INFORMACIÓN**

Goodman Business Press, S.A., acquired in 2000, is included within Telefónica Group's sphere of consolidation in 2001, by the global integration method.

As a result, Cernet, a 100% owned subsidiary of Goodman (which designs web pages) is also included within the sphere of consolidation in 2001, by the global integration method. In 2001, Buildnet, S.A., in which Telefónica Publicidad e Información, S.A. owns 46.35%, and Goodman 51.24%, is now being consolidated by the global integration method rather than by the equity method as it was in 2000.

### **TERRA NETWORKS GROUP**

In the first quarter of the year, Terra Networks, S.A. helped set up the Spanish company Azeler Automoción, S.A. which was incorporated with initial capital of ₧8.41million, 50% of which was fully subscribed and paid by Terra Networks, S.A. The company has been recorded at its acquisition cost in Telefónica Group consolidated financial statements.

Also, in the first quarter of this year, Terra Networks, S.A. has formed the following 100% owned subsidiary companies: Terra Networks Financial Services USA Llc., Terra Networks Maroc. and Terra Networks Caribe, with share capital of 12.1, 12.0 and 264.4 million euros respectively. Of these, Terra Networks Financial Services USA Llc has been included in Telefónica Group financial statements, by the global integration method; the other two companies are carried at acquisition cost.



## CHANGES TO THE SPHERE AND ACCOUNTING CRITERIA OF CONSOLIDATION

### TELEFÓNICA LATINOAMERICANA GROUP (TELEFONICA INTERNACIONAL, S.A.)

The Telefónica Internacional parent company increased its stakes in Telefónica de Perú, Telefónica de Argentina and Telesp thanks to Telefónica, S.A. contribution of its holdings in those companies.

On January 30, 2001, Telefónica de Argentina approved the reorganisation of certain of its businesses, mainly those of the companies in which it has a controlling interest: TCP S.A., Advance, S.A. and TYSSA S.A. As of January 1, 2001, spin-offs and mergers took place in Telinver S.A., Advance S.A. and TCP S.A. As of February 1, 2001, undertakings were made between TASA, Advance and TMA, S.A. (Telefónica Móviles Argentina) to carry out company reorganisations. With regard to this restructuring, the fact that TASA's financial statements included are three-months ago should be borne in mind.

### TELEFÓNICA MEDIA GROUP

In January, Endemol Group acquired 50% of Endemol France for ₣159.3 million. The company is consolidated in Telefónica Group financial statements by the global integration method.

### TELEFÓNICA DATA GROUP

In the first quarter of 2001, the following changes have taken place in the sphere of consolidation of Data Group: On January 16, Telefónica Data México (previously Optel) increased its capital through the issue of 16,992,251 shares, which were fully subscribed by Telefónica Data Holding. On March 6, the company made a further capital increase by issuing 16,743,904 shares, with Telefónica Data Holding purchasing 5,228,385 and T. Datacorp 11,515,519 shares. After these increases, Telefónica Data México has capital of MXN 241,738,667.8, with the following stakes being held in the Company:

T. Data Holding Mexico: 52.0%

T. Data Holding: 20.4%

T. Datacorp: 18.4%

Minority interests: 9.2%

The Spanish company Telefónica Data Caribe, S.A., a 90% subsidiary of Telefónica DataCorp, S.A. has provided 50% of the capital in setting up Telefónica Data Cuba, at a cost of ₣108,182. The company has been recorded at acquisition cost in Telefónica Group consolidated financial statements.

### TELEFONICA MOVILES GROUP

The Spanish company. MovilPay International, S.A, 50% owned by Telefónica Móviles has been recorded at acquisition cost in 2000 but in 2001 it was consolidated in proportion to the stake in the company.





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