

TELEFONICA S A
Form 6-K
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

For the month of February, 2003

Commission File Number: 001-09531

Telefónica, S.A.

(Translation of registrant's name into English)

Gran Vía, 28

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(Address of principal executive offices)

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Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F: Form 20-F Form 40-F

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If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A

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	(Thousands)					
	December			Weighted (*)		
	2002	2001	% Chg. 02/01	2002	2001	% Chg. 02/01
<i>Unaudited figures</i>						
Lines in service (1)	44.937,3	45.337,0	(0,9)	39.203,2	39.447,9	(0,7)
In Spain	20.803,9	21.022,8	(1,0)	20.803,9	21.022,8	(1,0)
In other countries	24.133,4	24.314,2	(0,7)	18.399,3	18.455,1	(0,3)
Cellular customer (2)	43.936,2	32.256,3	36,2	27.432,2	23.673,6	15,9
In Spain	18.412,1	16.793,5	9,6	17.018,3	15.567,5	9,3
In other countries	25.524,1	15.462,8	65,1	10.413,9	8.106,0	28,5
Pay TV Services (3)	1.115,0	1.148,1	(2,9)	710,2	727,1	(2,3)
In Spain	775,0	806,4	(3,9)	376,9	392,1	(3,9)
In other countries	340,0	341,7	(0,5)	333,3	334,9	(0,5)
Total	89.988,5	78.741,3	14,3	67.345,7	63.878,6	5,4

(*) Weighted by the equity interest of Telefónica in each of the companies.

(1) Lines in service: includes all in service for Telefónica de España, Telefónica CTC Chile, Telefónica de Argentina, Telefónica del Perú, Telesp and CanTV.

(2) Cellular customers: includes all cellular customers of Telefónica Servicios Móviles España, MediTelecom, Telefónica Móvil Chile, TCP Argentina, Telefónica Móviles Perú, Brasilcel, NewCom Wireless Puerto Rico, Telefónica Móviles Guatemala, Telefónica Móviles El Salvador, Telefónica Móviles México, Quam and CanTV Celular.

(3) Pay TV customers: includes all pay TV customers of Vía Digital in Spain and Cable Mágico in Peru.

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FINANCIAL HIGHLIGHTS

The most noteworthy aspects of Telefónica Group results for the full year 2002 are the following:

- n The write-off of the assets and the provision of restructuring costs of UMTS businesses in Europe, combined with the write-down of the investments in Terra Lycos and Mediaways, basically explain the net loss for the fiscal year (-5,576.8 million euros). If we exclude all the extraordinary results and the effect of the devaluation in Argentina, net of their corresponding tax effects and the losses attributable to minority interests, the net income would have been 1,916.2 million euros.
- n Sound organic growth in operations over the last year, with 5.3% and 5.4% growth in revenues and EBITDA respectively, excluding exchange rate and consolidation perimeter effects. The Group's EBITDA margin was 41.3%.
- n Growth of 62.6% in the generation of free cash flow (EBITDA-Capex) in 2002, up to 7,935.2 million euros, as a consequence of operating efficiency and strict controls on capex. Capex to revenues ratio came to 13.3% as of December 31, 2002, compared to 25.5% in 2001.
- n Significant reduction of net debt during the year (-6,408.5 million euros), for a total of 22,533.1 million euros. The net debt-to-EBITDA ratio came to 1.9x, compared to 2.3x in 2001.
- n Reinstatement of the dividend distribution policy and the proposal to cancel up to 2% of capital.
- n An improvement in the quality of the balance sheet, with a 22.5% ratio of intangible assets to total assets (31.9% in December 2001), after the write-down of assets carried out in 2002.
- n A recovery of Telefónica de España's EBITDA in the fourth quarter (+11.9%). It was therefore possible to end the fiscal year with 0.2% growth, fulfilling the announced forecast for the end of the year.
- n Strength in the cellular businesses, with 8.2% growth in revenues and a 12.0% increase in EBITDA, along with a 40.5% EBITDA margin.

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Execution of a strategy to strengthen the company's competitive position in its natural markets and core businesses. This strategy was put into action with the incorporation of cellular assets of Brasilcel's, the joint venture with Portugal Telecom in Brazil, and Pegaso in Mexico.

- n The Argentine devaluation had a 1,501.8 million euros financial impact, net of taxes, on the balance sheet (354.7 million euros directly in the P&L). The comparable figure for 2001 was 1,793.1 million euros, with 369.0 million directly in the P&L. The country's exposure as of December 31, 2002 was reduced to 968.1 million euros (6,000 million euros prior to the devaluation).

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TELEFÓNICA GROUP RESULTS

The management comments included in this report refer to the financial evolution of the Telefónica Group according to the organizational structure by business lines. This structure was created after the completion of the tender offers for the acquisition of the minority stakes in various Latin American operators, given their relative high level of capital contribution in the Group.

These pro-forma income accounts are based on the assumption that each business line has a stake in the companies owned by the Group in the corresponding businesses, regardless of whether this stake has already been transferred or not, although ultimately, Telefónica, S.A. intends to transfer it in the future.

Furthermore, in order to facilitate the comparison and analysis of the results obtained by the Telefónica Group, the companies included in each business line have been consolidated effective January 1, regardless of when certain consolidations were actually made throughout the period. The results corresponding to the same period of the previous fiscal year are also on a pro-forma basis, under the same assumptions.

It should be noted that the assumptions considered in the preparation of these pro-forma statements by business line do not alter in any way the overall results of the Telefónica Group, and that such results have been incorporated as of the date of the acquisition of each stake by the Group.

The telecommunication industry underwent a major correction during the 2002 fiscal year. Several factors were of major influence: the combined effects of uncertain prospects for the world's economies, loss of confidence following various accounting scandals, and a set of factors specific to the industry, including heavy indebtedness by some operators (which they have begun to address with restructuring plans designed to improve their financial situations), credit rating reductions for operators and manufactures, uncertainty regarding future trends in the fixed telephony business, and the absence of stimuli for growth in the mobile telephony business given the maturity of the European markets and the delay in development of third generation (3G) technology.

In addition to all these effects, Telefónica has had to cope with the economic, political, and social crises experienced to differing degrees by some Latin American countries. These crises have had a direct impact on the Group's financial performance, both on the profit and loss account and on the balance sheet.

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In this difficult context, Telefónica relied on its superior financial strength in the industry during fiscal year 2002 to make a set of decisions and reach strategic agreements that will pave the way for sustained growth in the cash flow, net earnings, and return on capital employed during the coming fiscal years, in addition to improving the quality of the balance sheet. Principal among these actions are:

- n A restructuring and write-down of European third-generation mobile telephony operations; this was a pioneering decision in the European telecommunication industry, which was subsequently emulated by other operators. It is also worth mentioning the write-downs carried out in the Internet and data businesses.

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- n Reinstatement of the shareholder remuneration policy through payment of dividends. The Board of Directors passed a resolution asking the next Annual General Shareholders Meeting to approve the dividend payment of 0.25 euro per share to be charged to distributable reserves.
- n Buy-back of up to 2% of the Group's own shares, and a Board of Directors proposal to the next General Shareholders Meeting for cancellation thereof.
- n Divestiture or slow-down of activity in non-strategic businesses, clearly aimed at cutting outflow of cash. In this regard, an agreement was signed with Sogecable to merge the two groups' satellite pay TV platforms. Vía Digital's assets will be incorporated into the new platform. In the data business, the operators in Austria and Uruguay were sold. In the media business, Azul TV was sold.
- n Incorporation of Brasilcel, joint venture between Telefónica Móviles and Portugal Telecom that hold 100% of the shareholdings of both groups in mobile phone companies in Brazil.
- n Acquisition of and integration with the existing operations of the Mexican operator Pegaso. This makes Telefónica Group the second largest cellular telephone company in Mexico.

In financial terms, Telefónica Group recorded a 5,576.8 million euros net loss for the 2002 fiscal year, compared with a 2,106.8 million euros net income the year before. This result can be attributed to the posting of 16,217.9 million euros in extraordinary results, due to the following factors:

- n Write-down of assets and the provision for restructuring costs of the UMTS businesses in Germany, Austria, Italy, and Switzerland, amounting to 12,341.3 million euros.

The recording of the current value of the Group's cellular telephony investments in Germany, Austria, Switzerland, and Italy, based on conservative valuation criteria, implies an additional net provision amounting to 120.7 million euros, compared to the 4,837.5 million euros allocated in the second quarter of the year, stemming mainly from the full write-off of assets in the first three countries.

- n Write-downs accomplished in the month of December totaling 1,858.1 million euros, distributed mainly as follows: i) 1,303.2 million euros for the Terra Lycos investment, determined according to conservative valuation criteria by the continuous review of goodwill recovery; ii) 305.5 million euros stemming from the end-of-fiscal-year analysis of goodwill recovery of the Admira Media investments, with special emphasis on that of Pearson (173.4 million euros); iii) 154.5 million euros attributable to write-off the goodwill of I.O.Box, a subsidiary of Terra Mobile, as a result of a restructuring of that company's operations outside of Spain; iv) 49.7 million euros of Emergia's goodwill following the execution of preexisting commitments with the

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Tyco Group.

- n Write-down of Mediaways for 530.0 million euros associated to the downward revision of the investment of Telefónica Data in Germany.

In addition to these extraordinary results, other factors worth mentioning were recorded in 2002:

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- n Provision made to adapt the treasury stock to market prices, amounting to 288.1 million euros. Spanish accounting principles require a provision for the gap between the average stock purchase price (11.65 euros) and the reference price, equivalent to the closing price at the end of the period year-end market quote or the average price in the last quarter, whichever is lower. As of December 31, the Group holds a 1.89% of treasury stock.
- n Capital losses for divestiture of equity investments totaling 108.6 million euros, compared with a 302.1 million euro capital gain the previous year, due mainly to the sale of Azul TV and ETI Austria in 2002.
- n Lower positive extraordinary results in the amount of 631.6 million euros posted in 2001, stemming from the reversion of the provisions awarded in prior years by Telefónica de España.
- n An increase of 355.9 million euros in negative extraordinary results from 2001, explained mainly by the personnel restructuring programs carried during the year at Telefónica Latinoamérica, Telefónica Móviles, Terra Lycos, and Admira Media.

The tax provision, totaling 3,228.7 million euros, includes the tax credit stemming from the diminution of value (which is tax-deductible) of Telefónica Móviles European subsidiaries with UMTS licenses (2,837.2 million euros) and the December 2002 write-downs (71.6 million euros).

Likewise, the minority interests reflect the write-off of UMTS assets (4,580.3 million euros) and December's write-downs (948.9 million euros). If both these effects were excluded, the figure for minority interests in the January-December 2002 period would come to 266.4 million euros, vs. 271.0 million euros for the same period of the previous year.

Excluding the impact of all the extraordinary results and the Argentina effect, all of them net of their respective fiscal effect and the losses attributable to minority interests, the Group's net profit would have risen to 1,916.2 million euros.

The write-downs carried out have strengthened Telefónica Group's balance sheet. Intangible assets as a percentage of total assets declined from 31.9% in December 2001 to 22.5% in December 2002. Shareholders equity contracted by 34.3% in the fiscal year, to 16,996.0 million euros.

In operating terms, the customer base managed by Telefónica Group totaled 84.7 million at the end of 2002, including all the subsidiaries of Brasilcel, the joint venture with Portugal Telecom in Brazil. This figure is 15.1% higher than in December 2001 and

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9.7% higher than in September 2002. Total customers stood at 90.0 million at the end of 2002, compared to 78.7 million at the same date in 2001 and 82.4 million in September 2002.

Brasilcel managed 13.7 million customers as of December 2002, 47.3% of them through the operators contributed by Telefónica Móviles. With this inclusion, cellular telephone customers totaled 41.4 million at the end of the fiscal year, representing nearly half of all customers managed by the Group. This has also turned Latin America into the region contributing the largest proportion of customers for the first time (50.9%), exceeding Spain (47.2%).

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Telefónica Group had 1.4 million ADSL connections at the end of 2002, reflecting a growth of over 800,000 customers from the previous year. These are the rewards of Telefónica's bet on broadband. Telefónica de España achieved a 154.7% annual growth rate, reaching 957,204 connections, while Telefónica Latinoamérica recorded an 85.5% growth at 456,136 connections.

Telefónica Group's annual financial results, discounting the exchange rate variation effect, reflect the significant efforts made to efficiently manage an economic environment characterized by weak demand. In a homogeneous comparison, excluding the exchange rate effect and changes of consolidation perimeter, revenues, EBITDA, and operating income grew by 5.3%, 5.4%, and 3.9%, respectively.

Operating efficiency, paired with strict control over investments in 2002 (-52.2% to 3,789.0 million euros), resulted in a 62.6% annual growth of free cash flow, calculated as EBITDA-CAPEX (7,935.2 million euros). Note that the cellular telephony business nearly doubled the previous year's free cash flow generation in 2001. At the same time, net indebtedness was substantially reduced during the fiscal year (by 6,408.5 million euros) to a total of 22,533.1 million euros as of December 31, 2002.

Nevertheless, the results have seen a major contraction in euros, because the Latin American currencies have depreciated drastically against the euro. That is especially the case with the Argentine peso (-70.0% for the average exchange rate) and the Brazilian real

(-23.6% for the average exchange rate), over the course of the year.

Operating revenues totaled 28,411.3 million euros for the year, down 8.5% from the previous year. This trend was determined by exchange rate fluctuations, which depressed the growth rate by 14.6 percentage points, 2.1 percentage points more impact than in the first nine months of the fiscal year. Excluding this effect, revenues would have grown by 6.1% for the fiscal year. The change of accounting consolidation perimeter produced 0.8 percentage points growth in revenues. When revenue growth is adjusted for these two factors, organic growth increased to 5.3%, compared to a 4.4% cumulative growth in the January-September 2002 period, due mainly to better performance by Telefónica de España and Telefónica Latinoamérica (in constant currency) during the fourth quarter.

The difficult economic conditions experienced by Latin America had a direct impact on the fixed telephony subsidiary in the region, Telefónica Latinoamérica. Its share of consolidated Group revenues declined to 24.5% from 32.7% in December 2001, after registering a contraction in euros by 31.4% in its revenues. In constant euros, Telefónica Latinoamérica's revenues rose by 0.6%, driven by Telesp's 11.4% improvement in local currency thanks to the positive evolution of the local telephony and the launching of new long distance services. This advance was aided by the growth of Telefónica Perú's revenues, up by 1.9% in local currency. These two increases offset the declines in local currency suffered by TASA (-12.3%) and CTC (-6.6%). The operators achieved

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remarkable improvements in the fourth quarter of the year, reversing Telefónica Latinoamérica's 0.7% cumulative decline in euros up to September.

As for the rest of the Group's businesses, Telefónica de España has maintain the growing trend (+0.5 y-o-y) shown during the first nine months of the year (+0.2%), in line with the announced forecast. This is a result of growth in the Internet and broadband business, offsetting the revenue decline in the traditional and wholesale businesses.

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Telefónica de España is the subsidiary that contributed the most to the Group's revenues in absolute terms (10,272.1 million euros), followed by the cellular business (9,449.3 million euros). However, the cellular business recorded the strongest growth in terms of contribution to consolidated revenues (+5.2 percentage points), contributing 33.3% of total revenues as of December 2002. Telefónica de España's contribution rose by 3.3 percentage points to 36.2% of total revenues.

The cellular business recorded 8.2% growth in operating revenues, to 9,449.3 million euros. This gain stemmed from the growth in the subscribers (+16.9% of globally consolidated operators) and greater traffic volume carried through the operators' networks.

By geographic area, it is worth mentioning the reduction in contribution to Group revenues from Argentina (3.7% vs. 12.6% at the end of 2001) and Spain's increase to 58.5% (50.6% a year before). Latin America's contribution dropped by 8.3 percentage points, to 35.2% as of the end of the fiscal year.

Operating and other expenses totaled 17,512.5 million euros for the 12 months of the year, 9.0% less than in the same period of the previous year. This figure reflected an intensification of the 2.0 percentage points drop recorded for the January-September 2002 period. However, when exchange rate variations and the inclusion of new companies in the consolidation perimeter are excluded, growth remained at the same level as the three previous months (+4.1%). All the business lines made efforts to cut costs, and reported significant annual cuts in a difficult economic environment (for example, -29.2% at Telefónica Latinoamérica and -23.3% at Admira Media). The exceptions were Telefónica de España, whose costs rose 0.9% due to higher interconnection and personnel expenses, and higher costs for the cellular business (+4.7%), reflecting the centralized handset purchasing model, higher expenses by the European operators, and the addition of the Northern Mexican operators, Teleleste and Pegaso.

Control over bad debts policy was successfully applied throughout the fiscal year, making it possible to end the year with a 2.3% ratio of bad debt provision over revenues, 1 percentage point better than in December 2001. The cellular business and Telefónica de España were the business lines that contributed most to the improvement (-1.2 percentage points vs. the previous year in both cases, to 1.5% and 1.4%, respectively). Note that Telefónica Latinoamérica reduced its bad debt provision over revenues ratio to 3.7% over fiscal 2002 (4.2% in 2001), despite the adverse macroeconomic conditions prevailing in the region. The changes at Telefónica de Argentina are noteworthy, where following a major increase during the first half of the year (a ratio exceeding 9% of revenues), its bad debt provision to revenues ratio recovered in the second half to end the year at 6.9% of revenues.

As a result of the performance described above in revenues and operating expenses, the cumulative EBITDA for the year totaled 11,724.2 million euros, 8.4% lower than in 2001. Exchange rate variations depressed growth by 14.6 percentage points, while the consolidation perimeter change raised it by 0.8 percentage points. Adjusting for both factors, EBITDA would have been 5.4% higher than in 2001, presenting a significant improvement (+4.0%) over the figure for the first nine months of the year. This favorable EBITDA was a result of strong performances at Telefónica de España (+11.9% 4Q02/4Q01) and Telefónica

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Latinoamérica in constant euros (3.4% at the end of the year vs. 4.1% in September 2002).

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The cumulative EBITDA margin as of December 2002 stood at 41.3%, vs. 41.2% for the 2001 fiscal year. Business margins improved in the following businesses: cellular business (40.5% vs. 39.2%), Telefónica Data (9.8% vs. 1.3%), Terra Lycos (-23.6% vs. -37.7%), directories business (27.4% vs. 20.4%), and Atento (9.5% vs. 8.4%). These favorable margins offset the 2.8 percentage points drop in Telefónica Latinoamérica's margin (48.1%), the 0.3 percentage points retreat for Admira Media (10.6%), and the 0.1 percentage points decline in that of Telefónica de España (44.0%).

Telefónica de España contributed the most to Group EBITDA in absolute terms (4,517.2 million euros, 0.2% more than the previous year). Telefónica de España thereby fulfilled its projection, announced in December 2001, to achieve an EBITDA in line with the previous year's in 2002.

In the ranking of business lines that contributed most to Group EBITDA, Telefónica Latinoamérica sank from first place in 2001 to third place in 2002, trailing behind Telefónica de España and the cellular business. Telefónica Latinoamérica's EBITDA in 2002 came to 3,346.7 million euros, 35.2% less than in the 2001 fiscal year. This behavior was due mainly to the depreciation of the region's currencies. Excluding that effect, the decline would have amounted to 3.4% vs. 2001. Telesp's performance in local currency continued to be significant (+8.0%), while the other operators slowed their declines in cumulative annual terms (-13.8% for TASA, -9.1% for CTC, -3.5% for TdP) compared to the January-September period (-18.7% for TASA, -9.4% for CTC, -7.3% for TdP).

The cellular business, which accounts for 32.7% of total consolidated EBITDA in 2002, generated 3,830.0 million euros, reflecting 12.0% annual growth. The company continued to make the largest individual contribution in relative terms to the Group's growth, driven by Telefónica Móviles España, that recorded a 23.9% increase in EBITDA for the year and a 51.6% margin over revenues, 2.5 percentage points higher than in 2001.

Telefónica Data's EBITDA rose to 169.9 million euros in fiscal 2002, compared to 23.6 million euros cumulative for the previous year. This growth stemmed from improvements in operating efficiency and cost containment, allowed to reach an EBITDA margin of 9.8% (vs. 1.3% the previous year).

Broken down by geographic area, Spain's contribution to EBITDA rose significantly in 2002, to 68.7% vs. 58.3% the previous year. On the other hand, Latin America's share of Group EBITDA fell to 33.6% (vs. 43.2% as of December 2001). As with revenues, the most important factor was again the reduction of Argentina's contribution (3.4% vs. 11.5% in 2001).

Operating profit (EBIT) totaled 5,031.8 million euros in the fiscal year 2002, 7.3% less than in 2001. The reason was a 9.2% contraction of depreciations from year to year, due mainly to the exchange rate effect. Excluding this effect and that of changes in consolidation perimeter, depreciations were down 5.3% and operating profit was up 3.9%.

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Total net financial expenses for fiscal 2002 came to 2,221.6 million euros. The impact of the Argentine peso's devaluation accounts for 528.8 million euros of that figure. When that effect is excluded, the financial result for fiscal 2002 amounted to 1,692.8 million euros, 9.1% below 2001 (1,862.3 million euros). This decline reflected a reduction in the average level of net debt and a lower average cost of debt.

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The average cost of net debt declined by 0.5%, due to falling interest rates for the dollar and the euro over the course of the year, despite the upward movement of interest rates for most Latin American currencies, particularly the Brazilian real.

The average level of net debt for 2002 was 12% lower than in 2001, as a result of cash flow generation and a stronger euro against both the dollar and Latin American currencies. This reduction occurred despite the addition of new companies to Group consolidation from investments made in 2002.

Telefónica Group's net debt totaled 22,533.1 million euros at the end of 2002, a decline of 6,408.5 million euros from the end of 2001 (28,941.6 million euros). This decline was motivated by the following factors: 4,546 million euros in operating cashflow generated by the Group, a 3,044 million euro reduction in the value of debt not denominated in euros as a result of the euro's appreciation against the dollar and the various currencies of Latin America, and an issue of preferred shares in December 2002, which produced a net cash inflow of 2,000 million euros. This debt reduction was offset by 1,564 million euros of financial investment over the period, as well as a 1,618 million euro increase of debt, as a result of variations in the consolidation perimeter and other factors.

Telefónica Group applied a strict investment control and rationalization policy in all its business lines during fiscal 2002 to adapt to the demand and regulatory environment. CAPEX totaled 3,789.0 million euros at the end of the year, 52.2% less than in the previous year. The ratio over investments came to 13.3% in 2002, vs. 25.5% in 2001. Telefónica Latinoamérica was the business that cut back investment spending the most (-77.5%), due to the completion of regulatory targets in Brazil during 2001, the Argentine crisis, and the exchange rate effect.

The Argentine peso's devaluation in fiscal 2002 produced a 354.7 million euro net impact on the Group's results and reduced reserves of translation differences in consolidation by 1,147.1 million euros due to the peso depreciation from 1.7 pesos per U.S. dollar (1.51 pesos per euro) to 3.37 pesos per U.S. dollar (3.53 pesos per euro). Note that the Argentine peso's appreciation in the second half of the year reduced the impact on results by 91.0 million euros. In December 2001 the Group's financial statements reflected the 369.0 million euro effect from application of an exchange rate of 1.7 pesos per U.S. dollar (1.51 pesos per euro).

As of December 31, Telefónica Group's exposure to the different Argentine companies had been reduced to 968.1 million euros, including the equity value, the goodwill and internal financing attributable to these investments (once incorporated the losses before any fiscal effect which totaled 669.0 million euros).

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Changes to the Argentine peso's exchange rate since the end of fiscal year 2002 have not had any additional material impact on Telefónica Group's consolidated and individual results.

Among the pending issues facing Telefónica Group is the need to renegotiate Telefónica de Argentina's future tariffs with the Argentine government and determine the future course of its financial policy.

It is also noteworthy that the measures the Argentine Government adopted have an effect on Telefónica Group's financial statements, which in turn could at some time cause in some of the managed companies in that country equity imbalances, such as, for example,

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negative equity, the inability to meet short-term foreign currency debt amortization obligations due to limitations on the convertibility of the peso, the need to cover accelerated payments of financing received, etc.

To the extent that the aforementioned circumstances have not occurred at the publication of these yearly results, and since their actual occurrence is at yet uncertain, it has not been possible to quantify their possible impact on the consolidated financial statement as of December 31, 2002.

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Table of Contents**TELEFÓNICA GROUP****TELEFÓNICA GROUP****SELECTED FINANCIAL DATA**

	(Euros in millions)		
	January - December		% Chg.
	2002	2001	02/01
<i>Unaudited figures</i>			
Operating revenues	28,411.3	31,052.6	(8.51)
EBITDA	11,724.2	12,804.3	(8.44)
Operating profit	5,031.8	5,430.3	(7.34)
Income before taxes	(14,601.1)	2,033.9	c.s.
Net income	(5,576.8)	2,106.8	c.s.
Net income per share	(1.12)	0.43	c.s.
Avg. No. of shares, millions (1)	4,957.9	4,893.1	1.3

- (1) Average number of shares in the period, considering the effect of free capital increases funded by reserves that did not produce any variation of equity structure since January 1 of each year. Including the shares corresponding to the capital increase funded by a charge on freely disposable reserves, recorded with the Mercantile Register on February 18, 2003. Accordingly, there were 4,957,874,511 shares outstanding at the end of the period.

SELECTED FINANCIAL DATA**TELEFÓNICA GROUP****RESULTS BY COMPANIES**

	(Euros in millions)		
	REVENUES	EBITDA	OPERATING PROFIT
<i>Unaudited figures</i>			

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	January December			January December			January December		
	2002	2001	% Chg.	2002	2001	% Chg.	2002	2001	% Chg.
Telefónica de España G.	10,272.1	10,220.4	0.5	4,517.2	4,508.2	0.2	1,815.4	1,703.7	6.6
Cellular Businesses	9,449.3	8,730.0	8.2	3,830.0	3,418.3	12.0	2,438.1	2,086.6	16.8
Telefónica Latinoamérica G.	6,954.1	10,137.4	(31.4)	3,346.7	5,163.0	(35.2)	1,347.3	2,537.3	(46.9)
Telefónica Data G.	1,731.4	1,849.7	(6.4)	169.9	23.6	620.1	(28.4)	(166.2)	(82.9)
Terra-Lycos G.	600.0	690.0	(13.0)	(141.7)	(260.0)	(45.5)	(284.4)	(417.5)	(31.9)
Directories Businesses	550.5	619.5	(11.2)	150.9	126.1	19.7	119.7	96.4	24.1
Admira Media G.	1,076.2	1,403.1	(23.3)	114.5	152.5	(24.9)	64.9	77.1	(15.8)
Atento G.	571.1	643.9	(11.3)	54.3	53.8	1.0	(21.1)	(35.6)	(40.7)
Others affiliates	515.7	844.2	(38.9)	(245.9)	(304.1)	(19.1)	(423.3)	(555.7)	(23.8)
Eliminations	(3,309.1)	(4,085.4)	(19.0)	(71.8)	(77.1)	(6.9)	3.5	104.2	(96.6)
Group	28,411.3	31,052.6	(8.5)	11,724.2	12,804.3	(8.4)	5,031.8	5,430.3	(7.3)

JANUARY - DECEMBER 2002 RESULTS

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Table of Contents**TELEFÓNICA GROUP****TELEFÓNICA S.A.****CONSOLIDATED INCOME STATEMENT**

	(Euros in millions)					
	January - December			October - December		
	2002	2001	% Chg.	2002	2001	% Chg.
<i>Unaudited figures</i>						
Operating revenues	28,411.3	31,052.6	(8.5)	6,944.4	7,969.2	(12.9)
Internal expend capitalized in fixed assets (1)	527.8	736.0	(28.3)	130.1	252.2	(48.4)
Operating expenses	(16,773.3)	(18,146.0)	(7.6)	(4,184.9)	(4,819.4)	(13.2)
Supplies	(7,002.8)	(7,221.4)	(3.0)	(1,796.1)	(2,105.0)	(14.7)
Personnel expenses	(4,793.8)	(5,390.3)	(11.1)	(1,152.2)	(1,421.3)	(18.9)
Subcontracts	(4,564.6)	(4,945.5)	(7.7)	(1,138.2)	(1,104.1)	3.1
Taxes	(412.1)	(588.8)	(30.0)	(98.3)	(189.0)	(48.0)
Other operating income (expense) net	(441.7)	(838.4)	(47.3)	(94.4)	(239.0)	(60.5)
EBITDA	11,724.2	12,804.3	(8.4)	2,795.2	3,163.1	(11.6)
Depreciation and amortization	(6,692.4)	(7,374.0)	(9.2)	(1,569.0)	(1,890.2)	(17.0)
Operating profit	5,031.8	5,430.3	(7.3)	1,226.3	1,272.9	(3.7)
Profit from associated companies	(527.9)	(376.5)	40.2	(112.4)	(98.4)	14.2
Financial income (expense) net	(2,221.6)	(2,391.1)	(7.1)	(210.8)	(1,044.3)	(79.8)
Amortization of goodwill	(665.4)	(841.6)	(20.9)	(162.4)	(196.0)	(17.1)
Extraordinary income (expense) net	(16,217.9)	212.8	c.s.	(9,861.6)	119.9	c.s.
Income before taxes	(14,601.1)	2,033.9	c.s.	(9,121.0)	54.1	c.s.
Income taxes	3,228.7	(198.1)	c.s.	3,022.4	456.9	n.s.
Net income before minority interests	(11,372.4)	1,835.8	c.s.	(6,098.6)	511.0	c.s.
Minority interests	5,795.6	271.0	n.s.	5,557.8	4.8	n.s.
Net income	(5,576.8)	2,106.8	c.s.	(540.7)	515.8	c.s.
Average shares (millions) (2)	4,957.9	4,893.1	1.3	4,957.9	4,957.9	0.0
Net income per share	(1.12)	0.43	c.s.	(0.11)	0.10	c.s.

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- (1) Including work in process.
- (2) Average number of shares in the period, considering the effect of free capital increases funded by reserves that did not produce any variation of equity structure since January 1 of each year. Including the shares corresponding to the capital increase funded by a charge on freely disposable reserves, recorded with the Mercantile Register on February 18, 2003. Accordingly, there were 4,957,874,511 shares outstanding at the end of the period.

JANUARY - DECEMBER 2002 RESULTS

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Table of Contents**TELEFÓNICA GROUP****TELEFONICA S.A.****CONSOLIDATED BALANCE SHEET**

<i>Unaudited figures</i>	(Euros in millions)		
	2002	December 2001	% Chg.
Subscribed shares not paid-in	292.5	370.1	(21.0)
Long-term assets	50,008.8	63,975.8	(21.8)
Start up expenses	496.5	730.5	(32.0)
Intangible net assets	7,629.6	16,959.1	(55.0)
Fixed net assets	27,099.7	36,606.1	(26.0)
Investment	14,783.1	9,680.1	52.7
Goodwill on consolidation	6,364.0	9,128.9	(30.3)
Deferred expenses	802.3	710.9	12.8
Current assets	10,573.7	12,236.8	(13.6)
Inventories	449.8	754.1	(40.3)
Accounts receivable	6,029.1	8,004.0	(24.7)
Short-term investments	3,031.7	2,308.8	31.3
Cash and banks	543.9	621.9	(12.5)
Others	519.1	548.1	(5.3)
Assets = Liabilities	68,041.3	86,422.6	(21.3)
Shareholder s equity	16,996.0	25,861.6	(34.3)
Minority interests	5,612.9	7,433.6	(24.5)
Badwill on consolidation	11.4	8.0	42.9
Deferred income	880.5	1,145.8	(23.2)
Provisions for risks and expenses	8,014.9	5,862.7	36.7
Long-term debt	20,096.7	26,151.3	(23.2)
Accrued taxes payable	1,629.5	1,541.1	5.7
Short-term debt including current maturities	6,409.3	8,707.9	(26.4)
Interest payable	409.5	448.7	(8.7)
Other creditors	7,980.6	9,262.0	(13.8)
Financial Data			
Consolidated net debt (1)	22,533.1	28,941.6	(22.1)
Consolidated debt ratio (2)	47.3%	42.6%	4.7p.p.

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- (1) Net debt: Long-term debt (excluding debt with minority partners) + Short-term debt including current maturities - Short-term and long-term investments - Cash and banks.
- (2) Debt ratio: Net debt / (Shareholders' equity + Minority interests + Deferred income + Accrued taxes payable + Net debt).

JANUARY - DECEMBER 2002 RESULTS

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FIXED LINE BUSINESS

TELEFÓNICA DE ESPAÑA GROUP

The trend in Spain's fixed telephone industry during 2002 reflected meager market growth, an intensification of competitive pressure, and an extremely demanding regulatory environment for the dominant operator. In this difficult context, Telefónica de España Group achieved modest revenue and EBITDA growth for the year as a whole, in line with the forecasts put forward a year before.

In this respect and as was anticipated, the fiscal year witnessed a steady improvement in this trend, both in revenue (-2.7% for the first quarter and -0.6% for the first half, but +0.2% for the January-September period and +0.5% for the year as a whole) and in EBITDA (-10.3% for the first three months, -6.3% for the first six months, and -3.3% for the January-September period, but ending the year with a 0.2% overall increase). The most important factors in this improving trend were tariff variations (the Price-Cap and 2001 Reference Interconnection Offering -OIR- 2001) and a loss of market share in the Company's traditional market. These were offset by strong growth of broadband subscriptions and a drastic reduction of provisions for bad debt reflecting the control initiatives carried out in the traffic resale business.

Application of the Price-Cap model resulted in an 8.1% reduction of nominal tariffs in 2002. This overall reduction includes a higher Basic Telephone Service monthly fee (+11.5%), higher fees for calls to the Telephone Information service (+18.6%), lower connection fees (-37.4%), and lower traffic service fees (-13.9%). Provincial traffic tariffs fell 20.5%, domestic long distance traffic tariffs declined 27.6%, international tariffs dropped 19.0%, and fixed-to-mobile went down by 13.0% in 2002. By the same token, by applying the Price-Cap model, prices fell 16.1% on average for analog circuits and 7.3% for digital circuits subject to this Price-Cap model. It is important to note, nevertheless, that Telefónica de España's adaptation to this tariff scheme allowed it to advance towards a rebalancing of tariffs and achieve a growth in the proportion of fixed revenue to 52.6% of total revenue in 2002, 6.0 percentage points higher than in 2001.

Intense competition resulted in a 7% loss of access market share at the end of 2002; cable operators have captured 78% of the total number of competitor lines. This decline in market share was reflected in a loss (difference in physical plant) of 492,793 analog lines and basic ISDN accesses over the course of the year. Preselected lines totaled 1,778,072; 1,447,097 of them were globally preselected (including metropolitan traffic), comprising 81.4% of the total. The growth of preassigned lines in the last quarter of 2002 amounted to 123,478 in line with the quarterly average for 2002.

The estimated total volume of minutes processed by Telefónica's network was 144,204 million, representing 3.8% growth for the year. This is a result of the 20.5% growth of incoming traffic, stemming mainly from the growth of fixed telephone operators interconnection traffic. Outgoing traffic totaled 97,171 million minutes, down 2.8% as a result of both declining voice traffic (outgoing

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minus Internet), which contracted 4.5% in the first quarter of 2002, 2.9% in the first half, 3.1% for the January-September period, and 3.8% for the 12 months of the year, and a lower volume of Internet traffic. The growth of Internet traffic weakened steadily over the first nine months of the year (+5.6% in the first quarter, +4.5% in the January-June period, +1.6% in the January-September period) and recorded a 1.0% contraction for the year as a whole (compared

JANUARY - DECEMBER 2002 RESULTS

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FIXED LINE BUSINESS

with the 12 months of 2001). This trend was basically the outcome of success in the marketing of broadband, especially in the last quarter. Outgoing traffic was characterized by a positive trend in provincial traffic (+15.9%) and fixed-to-mobile traffic (+4.7%); although the period saw declines in metropolitan traffic (-8.1%), interprovincial traffic (-5.0%), and international traffic (-22.4%).

Franchised plans totaled 4,017,895 at the end of the fiscal year, having undergone a net loss of 8,402 plans in the quarter. Subscribers for local traffic plans numbered 2,595,976 compared to 2,694,614 in September 2002. These reductions reflected Telefónica de España's inability to launch new discount plans following the Economy Ministry's rejection in the second half of the year of the plans submitted to it for approval by Telefónica. Note the Long-Distance Saving Plan launched at the beginning of 2002, which had attracted 238,767 subscribers by December.

With regards to Value-Added Services, the number of active voice mailboxes reached 11,064,941 in December (reflecting a 10.0% annual growth rate) and the Caller ID Service had 5,329,383 subscribers (+52.9% vs. a year earlier). A total of 444,136 text messages were transmitted through Telefónica de España's new service, which allows text messages to be sent from fixed telephones, since its introduction in August.

The success achieved in Telefónica de España's marketing of the ADSL retail service was reflected in the 606,417 subscribers recorded at the end of the fiscal year. There were 957,204 ADSL lines in service at the end of 2002, surpassing the Company's 900,000 connection target by 6.4%. The fourth quarter witnessed the largest quarterly net adds since the service was introduced, with 210,185 new subscribers coming on board. This figure confirms the recovery from the third-quarter vacation period and reflects the excellent results of the back-to-school (late September) and Christmas campaigns. Spain thus took its place at Europe's cutting edge as far as broadband penetration is concerned; this is an indispensable factor for the development of the Information Society. The average rate of maximum daily installations peaked in November with 4,316 lines per day. The customers' enthusiastic acceptance of the plug-and-play kit quickened the pace of installations per day. The level of plug-and-play uploads reached 62.3% of total basic mode retail uploads in 2002. Major efforts were also made to sell broadband services to SMEs on top of connectivity, reaching the number of 32,288 ADSL solutions and 15,816 Net Lan services fully operational.

Based on the above, Telefónica de España Group's revenues totaled 10,272.1 million euros and grew by 0.5% over the previous year. This advance stemmed from maintenance of Telefónica de España's revenues at its 2001 level, a 20.9% expansion of revenues from Telyco's operations due to higher terminal sales to wholesalers, and the Morocco subsidiary's commencement of operations.

The parent company's revenues, which accounted for 95.7% of the Group total, held steady at a level similar to the previous year's because the Company took advantage of the opportunities for growth in the Internet and broadband businesses (a 41.6% revenue gain). That growth offset the revenue losses in the traditional and wholesale businesses (-1.3% and -6.8%, respectively).

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The traditional business, generating 7,807.3 million euros, contracted by 1.3% in 2002, reflecting a loss of market share in direct and indirect access and the impact of the price cuts imposed under the Price-Cap regulatory scheme. Effective revenues derived from usage were 12.4% lower than in 2001, due to a 9.3% drop in average effective

JANUARY - DECEMBER 2002 RESULTS

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FIXED LINE BUSINESS

revenue per minute, which in turn reflected lower tariffs and a 3.8% reduction in the volume of minutes. Moreover, revenues from fees and sales (remaining revenues not associated with traffic) grew by 8.8%, mainly due to the higher monthly fee for Basic Telephone Service that went into effect in January 2002.

Revenues from the wholesale business in 2002 totaled 1,351.4 million euros, 6.8% below its 2001 level. The main reasons for the decline were lower interconnection prices and the application of a capacity-based interconnection model pursuant to the Reference Interconnection Offering -OIR- 2001. The contraction of revenues from the wholesale business intensified to 15.4% in the fourth quarter, compared to a 3.8% loss for the January-September 2002 period, due to the adoption of the capacity-based interconnection model and slower growth in incoming traffic than in the same quarter of 2001.

The Internet and broadband business generated 670.3 million euros in revenues in 2002 (41.6% higher than in 2001), mainly reflecting revenue growth from broadband services, which amounted to 264.3 million euros. This revenue growth was driven by the success in Telefónica de España's marketing of the ADSL retail service, which more than offset the 7.9% contraction in revenues of narrowband service. The decrease in narrowband stemmed mainly from the migration of switched Internet traffic to ADSL and the growing traffic at off-peak time that was encouraged by Internet flat-rate tariff plans.

Telefónica de España Group's operating expenses totaled 5,868.6 million euros and stood 2.9% higher than the previous year's, mainly as a result of increased supply costs linked to higher spending for Fixed-to-Fixed interconnection and personnel. These factors were partly offset by containment of commercial and outsourcing expenses.

Telefónica de España Group's spending on personnel amounted to 2,156.5 million euros, up 3.1% for the year. The personnel expenses of Telefónica de España (the parent company), which account for 97.6% of the total, rose 3.2%, reflecting the impact of the 4% increase in the CPI for 2002. Telefónica de España's workforce totaled 40,659 employees at the end of the fiscal year, having been trimmed by 0.5%. Productivity, in terms of lines per employee, stood at 511.7 at the end of the year, down 1% vs. September 2002. This followed a standardization of the calculation of equivalent lines, due to the substitution of 2,525 ISDN self-consumption primary accesses by interconnection circuits.

Telefónica de España Group's supply expenses totaled 2,662.1 million euros and grew 4.1% over their 2001 level. The quarterly trend for these expenses was influenced mainly by the behavior of Telefónica de España's interconnection expenses (63.6% of total supply expenses), and marked by a reduction of Fixed-to-Mobile interconnection expenses (-2.6% for the year and -10.9% for the fourth quarter versus the same period of 2001), following the lowering of termination prices of the mobile operators in November. Also outstanding were major increases in the Fixed-to-Fixed interconnection chapter over the course of the year as competition intensified, ending the year with 37.7% growth. In addition to the year's interconnection trend but to a lesser extent the impact of higher mobile handset sales by Telyco and the ADSL businesses pushed growth in these expenses over the previous year.

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Telefónica de España Group's other operating expenses overseas projects, supplies, and services totaled 886.3 million euros and stood 0.6% higher than the previous year.

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FIXED LINE BUSINESS

The gains posted the following positive trend over the course of 2002: +15.9% in the first quarter, +8.6% in the January-June period, and +2.7% for the January-September period. These figures reflect Telefónica de España's efforts to contain discretionary spending and its outlays for the rationalization of support activities, the overall renewal of operating and management systems and overall reduction of managing costs, while simultaneously meeting the needs posed by the development of the ADSL retail business.

Among other operating costs, provisions for bad debt were 44.3% lower at the end of 2002, reflecting an improvement in the third quarter trend achieved by a continuation of cost control initiatives and due to the extraordinary charge of the traffic resellers business, mainly in the third quarter of 2001 and, to a lesser extent, in the fourth quarter of 2001; as a one-time charge, these expenses did not recur in 2002.

EBITDA at Telefónica de España Group amounted to 4,517.2 million euros (+0.2% growth), mainly as a result of the slight increase in operating revenue and the reduction in the provision for bad debt.

The Group's EBITDA margin stood at 44.0% (0.1 percentage points lower than for 2001), while that of the parent company amounted to 45.7% (0.1 percentage points higher than for the same period of the previous year) after falling slightly at the outset of 2002 and holding steady in the last quarter (46.7%, 46.3%, and 45.7% cumulative figures as of March, June, and September 2002).

The operating profit (1,815.4 million euros) reflected 6.6% growth for the year, because amortizations of fixed assets declined by 3.7% during the fiscal year.

Tangible and intangible investments made by Telefónica de España Group totaled 1,744.0 million euros in 2002, down 7.3% from the previous year's figure.

The basic trend at the parent company was the intensification of investments in transforming the business. The most important of these were the ADSL deployment and new broadband-based services, which comprised 46.0% of total tangible and intangible investment; the remaining 54.0% of investment spending went into the traditional business (PSTN, ISDN, circuits, etc.).

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It is equally important to note the efforts made to rationalize and optimize investment. As a result, a ratio as important as that of investment to operating revenues amounted to 17.6% at the parent company, reflecting a 1.3 percentage points decline vs. 2001.

Free Cash Flow at the Telefónica de España parent company, defined as EBITDA minus tangible and intangible investment, minus net financial expenses and corporate tax payments, was 2,139.9 million euros in 2002, having grown by a vigorous 27.9% over the previous year's level, driven by the strong behavior of EBITDA and the progress made in tangible and intangible investment.

Once again, in 2003 the annual variations in revenues and EBITDA will have their worst comparative showings during the first quarter, as a result of the tariff reductions of March and November 2002 and the smaller loss of market share mainly for access which we anticipate in 2003. This trend in both revenues and EBITDA will be gradually corrected over the course of 2003.

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FIXED LINE BUSINESS

Note: Telefónica Group will introduce a change in the calculation of Equivalent Lines in Service beginning with the 2003 fiscal year. The following equivalences will become applicables:

PSTN	(x 1)
ISDN Basic	(x 2)
ISDN Primary	(x 30)
2/6 Accesses	(x 30)
ADSL Lines	(x 1)

This new criterion introduces a different treatment of ISDN Primary Accesses and 2/6 Accesses for PBX and Ibercom. These will be restated by accounting the number of channels per access (30), instead of the extensions making use of them, as was used before.

This change will bring about a better calculation of the number of equivalent lines, as it will serve a lever for understanding both the trends of revenue and minutes over time and the evolution of activity for maintenance of Lines in Service. This change does not imply any modification on financial or operating data of the Company.

The accompanying table includes this criterion in the calculation of Equivalent Lines in Service. These different calculations are a step toward the application of the criterion to be adopted in the first quarter of 2003.

TELEFÓNICA DE ESPAÑA GROUP

SELECTED OPERATING DATA NEW METHODOLOGY

Unaudited figures

December

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	2002	2001	% Chg.
Lines in service (thousands) (1)	18,705.6	18,669.6	0.2
PSTN lines (thousands)	15,470.2	16,094.7	(3.9)
ISDN equivalent basic access (thousands)	1,752.1	1,620.4	8.1
ISDN equivalent primary access (thousands)	413.9	466.1	(11.2)
2/6 Accesses for PBX and Ibercom (thousands)	112.3	112.6	(0.3)
ADSL connections (thousands)	957.2	375.8	154.7
Employees	40,659	40,856	(0.5)
Traffic (millions of minutes)	144,204	138,982	3.8

(1) Basic telephony lines (including public telephones), ISDN (primary and basic accesses), ADSL connections and 2/6 accesses.

Telefónica de España

Selected Operating Data Current Methodology

Unaudited figures

	December		% Chg.
	2002	2001	
Lines in service (thousands) (1)	20,803.9	21,022.8	(1.0)
PSTN lines (thousands)	15,470.2	16,094.7	(3.9)
ISDN basic access (thousands)	876.0	810.2	8.1
ISDN primary access (thousands)	13.8	15.8	(12.7)
ADSL connections (thousands)	957.2	375.8	154.7
Employees	40,659	40,856	(0.5)
Lines/employees (1)	511.7	514.6	(0.6)
Traffic (millions of minutes)	144,204	138,982	3.8
% ADSL coverage (2)	83.3%	81.8%	1.5p.p.

(1) Basic telephony lines (including public telephones, Ibercom, ISDN -basic access-, ADSL connections and connections lines with PBX).

(2) Degree of effective ADSL coverage for Basic Service.

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	(Euros in millions)					
	January - December			October - December		
	2002	2001	% Chg.	2002	2001	% Chg.
Revenue derived from usage	5,140.3	5,650.5	(9.0)	1,249.3	1,278.1	(2.3)
Local	1,573.5	1,816.1	(13.4)	387.6	455.8	(15.0)
Provincial	470.7	563.5	(16.5)	109.3	139.8	(21.8)
Domestic long distance	654.1	918.0	(28.7)	154.3	217.9	(29.2)
International long distance (outgoing) (1)	364.3	641.3	(43.2)	76.6	131.9	(41.9)
Fixed to mobile	1,476.9	1,478.2	(0.1)	354.7	360.7	(1.7)
Interconnection International (Incoming)	273.9	294.5	(7.0)	55.8	70.3	(20.6)
Interconnection National Operators (1)	424.3	490.9	(13.6)	101.9	116.2	(12.3)
Others (2)	(97.4)	(552.0)	(82.4)	9.0	(214.4)	(104.2)
Monthly fee	3,850.3	3,341.3	15.2	1,004.9	880.0	14.2
Connection fee	260.1	295.9	(12.1)	62.9	95.9	(34.4)
Customer equipments	337.2	304.2	10.9	100.4	103.5	(3.0)
Others	241.1	239.6	0.6	57.5	75.3	(23.6)
Total operating revenues	9,829.0	9,831.5	(0.0)	2,475.0	2,432.9	1.7

(1) Net of foreign participation.

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

Note: 2001 local revenues include Internet revenues billed at destination.

TELEFÓNICA DE ESPAÑA GROUP**CONSOLIDATED INCOME STATEMENT**

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Unaudited figures

(Euros in millions)

January - December			October - December		
2002	2001	% Chg.	2002	2001	% Chg.
