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Telefonica SA

1. SYNOPSIS

Telefonica is the largest telecommunications operator in the Spanish and Portuguese-speaking world. It provides fixed and mobile telephony, business services, Internet content and services, audiovisual media content, directories and guides, Customer Relations Management services and e-commerce. Its major markets are Spain and Latin America, though it has expanded into other regions, including Europe and Morocco, mainly through mobile telephone licenses, Internet activities, media and content, and corporate services. Telefonica is present in 49 countries. Our company analysis was updated in December 2002.

2. COMPANY INFORMATION

Exhibit 1 – Telefonica SA at a glance

Shareholders	Public company
CEO	César Alierta Izuel
Year Established	1924
Revenue 2002	€28.4 billion
Geographical markets	Spain, Latin America, Europe, North Africa
Headquarters	Madrid
Subscribers 2002	89 million
Employees 2002	157,000

(Source: Paul Budde Communication based on company data.)

Telefonica is the largest telecommunications operator in the Spanish and Portuguese-speaking world. Its most important markets are Spain and Latin America, though it has expanded into other regions, including Europe and the Mediterranean Basin (Morocco), mainly through mobile telephone licenses and corporate services. Telefonica is also present in Asia, in South Africa and in Oceania (Australia and New Zealand), in almost all cases linked to Internet activities (Terra Lycos), CRM (Atento) or media and content (Telefonica Media). Telefonica is present in 49 countries.

As a global operator in the telecommunications, Internet and media sectors, Telefonica provides fixed telephony; mobile telephony; business services; the creation and distribution of Internet content and services; the creation and distribution of audiovisual media content; sale and marketing of directories and guides; Customer Relations Management (CRM) services and e-commerce. Telefonica also takes a very active part in research and development, and through its foundation, Fundacion Telefonica (Telefonica Foundation), the company plays an active social and cultural role in many countries.

Telefonica SA, a 100% public company, has over one million direct shareholders. Its shares trade on the Spanish Stock Exchanges (Madrid, Barcelona, Bilbao and Valencia) and on those in London, Paris, Frankfurt, Tokyo, New York, Lima, Buenos Aires, Sao Paulo and SEAQ International Exchange in London. Its subsidiaries - Telefonica Moviles, TPI-Yellow Pages and Terra Lycos - are separately listed.

Table 1 – Telefonica Group operating statistics – December 2002

Data	Unit (millions)	Annual change
Lines in service	44.9	n/c
• of which ADSL	1.4	+140%
• Spain	20.8	+1%
• International	24.1	-1%
Mobile subscribers	43.9	+36%
• Spain	18.4	+10%
• International	25.5	+65%

Pay TV subscribers	1.12	-3%
• Spain	0.78	-4%
• International	0.34	+1%

(Source: Paul Budde Communication based on company data)

2.1 YEAR 2002 RESULTS

Revenue dropped 8.5% to €28.4 billion for the year. The major reason for the reduction was exchange rate movements, without which the revenue would have increased by 6.1%.

The growth was a result of increased subscribers in most areas, accompanied by a reduction in operating costs. Hence the free cash flow (EBITDA less capital expenditure) increased 62.6% to €7.9 billion.

Significant effects on the result were:

- Strength in the cellular businesses, with 8.2% growth in revenues;
- Divestiture or curtailing of non-strategic businesses to help cash flow, including an agreement with Sogecable to merge the two groups' satellite pay TV platforms plus Via Digital's assets into a new platform. In the data business, the operators in Austria and Uruguay were sold. In the media business, Azul TV was sold.

The net loss was €5.58 billion (a profit of €2.11 billion in 2001), mainly affected by €16.2 billion of extraordinary charges. These included writ-downs of:

- €12.3 billion for the UMTS businesses in Germany, Austria, Italy, and Switzerland;
- €1.86 billion for goodwill relating to Terra Lycos, Admira Media, I.O.Box and Emergia;
- €530 million for impairment to Telefónica Data in Germany.

Debt was reduced by €6.4 billion during the year, bringing it to €22.5 billion.

Table 2 – Telefonica revenue – 1994 - 2002

Year ends Dec.	(€ billion)
1994	9.5
1995	10.5
1996	12.1
1997	14.2
1998	17.7
1999	23.0
2000	28.5
2001	31.1
2002	28.4

(Source: Paul Budde Communication based on company data)

Table 3 – Revenue by subsidiary – 2002

Subsidiary	Revenue		EBITDA	
	(€ billion)	Annual change	(€ billion)	Annual change
Telefonica de Espana	10.27	+0.5%	4.52	n/c
Telefonica Moviles	9.14	+9%	3.74	+12%
Telefonica Latinoamerica	6.95	-31%	3.35	-35%
Telefonica DataCorp	1.73	-6%	0.17	+620%
Terra Lycos	0.60	-13%	-0.14	-46%
TPI	0.55	-11%	0.15	+20%
Telefonica Media	1.08	-23%	0.11	-25%
Atento	0.57	-11%	0.05	+1%

(Source: Paul Budde Communication based on company data)

3. COMPANY ANALYSIS – UPDATED DECEMBER 2002

3.1 HOME MARKET DOMINANCE

Like other incumbents around the world, Telefonica is a vertically integrated telco that dominates its home market in all segments. Its Spanish market power is reflected in the local regulator, CMT, forbidding Telefonica from recovering customers that have switched to alternative operators within two months. This has been extended to four months from March 2003. Furthermore, in mid-2002, the Spanish Minister for Science & Technology called for consolidation among alternative operators to increase competition with Telefonica, noting that even after five years of competition, Telefonica still enjoyed a market share of 85-90%. Regulatory, government and industry calls for fixed-line tariff cuts of up to 15% by 2003 further reflect how Telefonica has effectively set the benchmark for prices in Spain.

3.2 OVER-EXPANSION

Such power saw Telefonica wanting to expand internationally, targeting Latin America, and embracing the untested – and in our opinion, over-hyped and of limited commercial potential – third generation (3G) mobile ventures. Under previous CEO Juan Villalonga, Telefonica embarked on aggressive acquisitions in Latin America in 2000, and also became an investor favourite by building up and spinning off mobile and Internet units. Also in 2000, it paid some €8.4 billion for the German 3G licence, and spent some €5 billion on the Dutch media group Endemol. It's saving grace was that it began its buying spree before many other European telco peers and managed to avoid some of the high costs of the tech boom, and accordingly escaped the massive debt burdens of its peers with the tech crash, though its €22.5 billion debt at the end of 2002 is not to be sneezed at. Nonetheless, Telefonica's exposure to expensive 3G investments and the economically volatile Latin America region have seen revisions ever since making those investments.

3.2.1 Europe

Telefonica's exploits in Europe have revolved around 3G investments, Internet and media interests. All of these suffered from their own problems: 3G investments suffered under the weight of massive licence and infrastructure costs and minimal demand for services or supply of handsets; Internet activities based on portals and advertising revenues suffered the inadequacies of these business models; and the advertising slump affected the traditional broadcasting media interests of the organisation, compounded by local problems with Endemol and Spanish pay TV. These are all considered further below as Telefonica spent much of 2002 reassessing where it was going wrong.

3.2.2 Latin America

Telefonica acquired fixed, mobile and Internet businesses in Brazil, Argentina, Chile, Peru, Puerto Rico and Venezuela in 2000. Initially the growth was positive and Latin America accounted for about 50% of group sales in 2001, or €31 billion, and about 40% of group EBITDA of €12.8 billion. But the economic woes of the region since then have left Telefonica dangerously exposed. The collapse in Argentina's peso wiped €16 million from profits and €145 million from reserves in the first quarter 2002 results alone, dragging the group to its first fall in annual profits in nearly a decade. Seemingly the only positive spin on the losses were the reductions in Argentinian debt - €3.15 billion less than 2001 - that resulted from currency devaluations.

Telefonica's own auditor, Arthur Andersen, warned in March 2002 that the telco was not fully protected from Argentina's economic crisis. This was despite the fact that Telefonica had made a provision for the Argentine crisis of €1.79 billion for 2001 - €1.42 billion under equity capital and €369 million under losses and earnings. Andersen warned that the group's operations in Argentina were tied to the success of economic measures taken, and particularly the renegotiation of the fixed-line tariff

structure. Reportedly, Andersen had not made any similar comments in its 2001 audits for other Spanish companies with large Argentine investments, such as major banks the Banco Bilbao Vizcaya Argentaria or Banco Santander Central Hispano. Rumours circulated that Telefonica was seeking shareholder approval to change auditors in light of Arthur Anderson's involvement in the Enron and Worldcom collapses.

3.3 MOBILE MADNESS

3.3.1 Commodity market

Throughout Europe, demand for mobile phones is maturing. The company admitted it largely relied on lowering prices to drive growth in early 2002, another sign of a declining market. And notwithstanding that Telefonica's dominance in Spain saw continued growth in subscriber numbers there, this growth was limited, and expensive forays in wireless data applications like Wireless Access Protocol (WAP), GPRS, 3G and i-mode, are not where mass-market growth lies. So far we have seen no exciting business models for WAP, GPRS, 3G, Multimedia Messaging Services (MMS), m-commerce, and we don't believe anything will happen this side of 2005. This means that the mobile market will not be replacement-driven. With no appealing new applications being offered, people will tend to hang onto their existing phone – so developments will be mainly price-driven. Another solution would be to generate more minutes on the mobile network, substituting these for fixed network calls, but again this means price competition and would reduce margins.

We estimate that the mobile market will decrease from around 20% of total telco market revenues in 2002 to around 7% by 2010. The main reason for this is that fixed broadband markets will grow much faster than wireless markets. As a separate infrastructure market, wireless broadband will develop as an alternative to the fixed local loop. However, this market will be limited to those areas where it doesn't make economic sense to deploy fixed networks. There will always be some interesting niche markets, but in most countries wireless broadband will be limited to 10%-15% of the overall telco market by 2010. Wireless broadband will be mainly driven by the fixed infrastructure provider as an extension of their normal access offerings.

3.3.2 Third generation mobile

Telefonica acquired 3G licences in Germany, Austria, Italy and Switzerland in 2000. The German licence was bought at the peak of the hype for some €8.4 billion. The acquisitions were all part of management's flawed strategic plan for European expansion.

The company kept a brave face for as long as it could, even saying in March 2002 that it would stand by its Group 3G investments in Germany with Sonera, while admitting less enthusiasm for Italy, Austria and Switzerland. The reality of low demand, handset problems, content problems, regulatory concerns, and the massive network construction costs eventually saw Telefonica halt all its 3G network projects outside Spain from July 2002 after announcing losses of €5.56 billion. Telefonica's woes in Latin America could not be ruled out as significant factors in its decision to cut its 3G activities.

3.3.3 i-mode

Paradoxically, at the same time that it revised its wireless data ventures with 3G, Telefonica turned to NTT DoCoMo and the equally hyped and problem-racked i-mode technology. The two companies announced an agreement in July 2002 for i-mode's launch in Spain over GPRS networks in 2003. The same issues with content, handsets, costs, and general limited demand apply to i-mode just as they do to 3G.

Separately from the i-mode licensing arrangement, NTT DoCoMo and Telefonica Moviles also formally agreed to form a business and technology alliance in overall mobile communications. The two companies will share GPRS/SIM card technologies and know-how, as well as opinions on handset

evolution towards 3G Wideband Code Division Multiple Access (WCDMA), mainly through personnel exchanges. They were also to jointly study the implementation of international roaming services.

3.4 TERRA LYCOS TROUBLES

Like most portals and ISPs, Telefonica's Terra Lycos has struggled to make money. Relying heavily on advertising revenues in a climate of depressed advertising in all sectors (broadcasting, print media, etc), the possibility of Telefonica having to prop up its ISP rose to the fore in mid 2002 when Bertelsmann, the German media giant and Terra Lycos' largest advertising customer, terminated its three-year, €675 million advertising contract. Bertelsmann first signed a €1 billion deal with the ISP in 2000, the first part of which expired in October 2002. The optional extension to October 2005, worth €675 million, was simply too much for the financially struggling German media company to spend. At the time of the initial deal, Telefonica promised to support its ISP if the contract was not renewed, but it was less forthcoming in mid-2002.

3.5 COST CUTTING TARGETS MEDIA

3.5.1 *Endemol*

With cost cutting becoming a priority in the wake of losses in the Latin America businesses – due to the devaluation of the Argentinian peso and Brazilian real – Telefonica was reassessing all its activities. First to go were the 3G ventures outside of Spain. Second on the chopping board came Dutch TV production company Endemol, which was bought in 2000 for some €5 billion. Endemol was not performing as well as expected after initial successes with the likes of Big Brother, and also due to an increase in foreign programmes being bought by Dutch broadcasters. Endemol made profits of €373 million in 2001, 17% less than in 2000. Meanwhile the Spanish government was investigating the takeover of Endemol, trying to determine whether Juan Villalonga, the then CEO of Telefonica, committed insider dealing, thus gaining millions from the merger.

3.5.2 *Admira*

With Endemol on the cards for sale, or at least a reduction in stake, Telefonica's entire media business, Admira, came under examination. German media giant Bertelsmann was reportedly interested in cherry picking Admira's assets. Audiovisual content and production is never a core business of a telco, and the re-assessment of Admira and Endemol in the post-dot com bust era is not surprising.

3.5.3 *Spanish pay TV*

In early 2002, Telefonica was lobbying the Spanish government to approve a merger between Via Digital and Canal Satelite Digital. Telefonica owns Via Digital, the digital TV (DTV) platform, while Vivendi Universal and Spanish media group Prisa control Canal Satelite Digital. Via Digital had some 800,000 subscribers compared with some 1.2 million served by Canal Satelite Digital. Via Digital recorded losses of €122 million for the first half of 2002 after €347 million in 2001. It had failed to knock Canal Satelite Digital from the top spot and was under increasing financial pressure to do better. The merger was aimed at curbing the financial losses.

The Spanish government didn't want the deal, and the intentions of the parties emerged at a time when Spain's Digital Terrestrial TV (DTT) broadcaster, Quiero TV, was being shut down under €400 million debt. Elsewhere in Europe, Britain's ITV Digital also self-destructed in early 2002, Germany's Premiere World had amassed €3.2 billion in losses that were seeing off the Kirch empire.

The merger needed approval from the EC as well as Spanish authorities. In August 2002, the EC approved the deal after considering whether the involvement of Vivendi, which owns European digital

channels Canal Plus and Telepiu, would give the deal a pan-European aspect, thus necessitating their involvement. Telepiu was sold to News Corp in late 2002.

This put the ball back in the Spanish government's court. The government approved the merger in November 2002 after imposing a long list of conditions on the deal. Under the conditions imposed by the government, the new company must agree not to market Telefonica's broadband Internet access along with its own TV operations, subscription fees will be frozen for four years and Via Digital must end its exclusive film rights contract with Metro Goldwyn Mayer.

The resulting company would control 2.5 million subscribers, or about 11-15% of the Spanish TV market. Importantly for Telefonica, it gives the Spanish incumbent the keys to the door of Spain's audiovisual content supply and distribution. With its existing dominance in Spain, Telefonica is in an ideal position to exploit its access to pay TV content for Internet distribution over broadband networks (Asymmetrical Digital Subscriber Line - ADSL). Of course one of the Spanish government's preconditions for the deal forbade Telefonica from marketing its broadband and pay TV services together, presumably including any bundling of services. Arguably it doesn't have to, as its vertically integrated structure gives it ample opportunity to market its products separately but in a way that maintains and increases its industry-wide dominance. Another precondition was giving third-parties access to content, with sports and movie rights the key targets, but no method for sharing the content had been agreed. Given its market power, Telefonica is likely to do everything it can to control its content and frustrate third party access.

For the company, the pay TV deal is a boon. However, for the rest of the Spanish telecom industry, it further stifles competition in Internet, broadband, and broadcasting markets.

3.6 SIGNS OF SENSE

When Telefonica anticipated 9-12% annual growth in core earnings to 2005 with its first quarter 2002 results, it claimed this growth would be achieved through organic growth rather than aggressive deal making. Only Mexico and Brazil remained targets for expansion. This was good news on the one hand, given that its previous expansion plans caused more trouble than their worth, yet also bad news as an indication that management had run out of ideas. Indeed, third quarter 2002 results showed a 22% profit increase to €538 million and improved ARPUs. At the same time, overall revenues had fallen 12% to €6.8 billion, with 40% falls in Latin America revenues due to the Argentinean and Brazilian recessions.

4. COMPANY STRUCTURE

Telefonica is organised by centrally coordinated global business lines. Telefonica SA is the parent and flagship company of Grupo Telefonica (Telefonica Group). It operates through ten subsidiary companies, which depend directly on it, but which also act in turn as the parent companies for other entities in the same business area:

- **Telefonica de Espana** – Spanish fixed telephony;
- **Telefonica Latinoamerica** – Latin America fixed telephony;
- **Telefonica Moviles** – Spanish and international mobile businesses;
- **Telefonica Publicidad e Informacion (TPI)** – directories and guides;
- **Terra Lycos** – Internet services;
- **Telefonica DataCorp** – data and corporate services;
- **Atento** – Customer Relations Management (CRM) services;
- **Telefonica Media** – audio-visual media content production and broadcasting;
- **Emergia** – broadband services in Latin America;
- **Telefonica B2B** – Business-to-business (B2B) e-commerce activities to Katalyx and Adquira.

4.1 SUBSIDIARIES

Exhibit 2 – Telefonica SA subsidiaries

Subsidiary	Holding
Telefonica de Espana	100%
Telefonica Moviles	92.43%
Telefonica DataCorp	100%
Telefonica Latinoamerica	100%
TPI	59.90%
Terra Lycos	38.58%
Telefonica de Contenidos	100%
Admira Media	100%
Emergia	93.99%
Atento	100%
Telefonica B2B	100%

(Source: Paul Budde Communication based on company data)

4.1.1 Telefonica de Espana

Telefonica de Espana is the Group's fixed-line business in Spain. It offers a full range of telecommunications services in the country.

Table 4 – Telefonica de Espana operating statistics – 2002

Service	2002	Annual change
PSTN lines (thousands)	15,470	-4%
ISDN basic access lines (thousands)	1,750	+8%
ISDN primary access lines (thousands)	415	-11%
ADSL connections (thousands)	960	+150%
ADSL coverage	83%	+1%
Traffic (billions of minutes)	144	+4%

(Source: Paul Budde Communication based on company data)

4.1.2 Telefonica Latinoamerica

[Telefónica Latinoamérica SA](#) (see separate report) is responsible for the fixed telephony business in Latin America (Brazil, Argentina, Chile, Peru, Puerto Rico and Venezuela), Advance (Argentina ISP), Cable Mágico (cable TV in Peru) and Sonda (IT services in Chile). It also includes the carrier CTI, acquired in November 2000, which manages all the international traffic of the Telefonica Group's Latin American operators to and from the USA.

Prior to segregation into business lines, Telefonica Internacional was in charge of managing all the Telefonica Group's Latin American activities. Operation Veronica involves the transfer of Telefonica Internacional's shareholdings to the new business lines and a change of name to Telefonica Latinoamericana. The new company manages all Telefonica's mobile activities in Latin American, although the businesses in Guatemala and El Salvador are included in Telefonica Moviles.

In addition to structuring the Group along business lines at the global level, Operation Veronica has made Telefonica the largest investor in the region and the undisputed leader in fixed telephony.

Table 5 – Telefonica Latinoamerica operating statistics – 2002

Service	2002	Annual change
TELESP		
PSTN lines (thousands)	11,170	-1%
ISDN lines (thousands)	38	-18%
ADSL connections (thousands)	333	+68%

Traffic (billions of minutes)	81	n/c
Argentina		
PSTN lines (thousands)	4,090	-3%
ISDN lines (thousands)	6	+63%
ADSL connections (thousands)	34	+35%
Traffic (billions of minutes)	33	-7%
Chile		
PSTN lines (thousands)	2,550	-2%
ISDN lines (thousands)	98	+9%
ADSL connections (thousands)	54	+265%
Traffic (billions of minutes)	26	-3%
Peru		
PSTN lines (thousands)	1,780	+5%
ISDN lines (thousands)	35	+4%
ADSL connections (thousands)	34	+375%
Traffic (billions of minutes)	9	-10%

(Source: Paul Budde Communication based on company data)

Exhibit 3 – Telefonica Latinoamerica subsidiaries and affiliates

Subsidiary	Holding	Subsidiary	Holding
Telesp	87.42%	Telefonica Argentina	98.04%
Telefoniva del Peru	97.07%	TLD	98%
CANTV	6.91%	Telefonica CTC Chile	43.64%

(Source: Paul Budde Communication based on company data)

4.1.3 Telefonica Moviles

Telefonica Moviles Espana, the Telefonica Moviles business in Spain, operates both analogue and digital networks nationwide. Telefonica's analogue network will be closed down formally in 2007, when its licence expires, though subscriber numbers are already declining by 15% annually. The company's TACS networks operate with Cellular Access Rural Telephony (TRAC) on 900MHz. The GSM service, MoviStar, was launched in 1995 and in 1996 Telefonica Moviles lobbied regulators to secure frequencies to operate a DCS 1800 network. The GSM 1800 service was launched in 1999. The network covers 90% of the Spanish territory and international roaming agreements are in place with 120 carriers in more than 60 countries. Telefonica has the highest market share of any European mobile operator in a home market.

During 2000, Telefonica Moviles restructured to integrate companies taken over from the former Telefonica Internacional, chiefly businesses in Brazil, Chile, Puerto Rico, Argentina, Peru, Guatemala, El Salvador, Morocco and under Telefonica Intercontinental and Terra Mobile.

In 2000, Telefonica picked up UMTS licenses in Germany, Italy, Spain, Austria and Switzerland. In February 2001, Telefonica Moviles completed its first UMTS tests. Equipment manufacturers Ericsson, Motorola and Nokia took part in the tests, which covered voice calls, video-conferencing systems and Internet access. Services are expected to be launched for commercial use in 2002.

In May 2002, Telefónica Móviles acquired 65% of Pegaso and incorporated it into Telefónica Móviles México.

In December 2002, approval was received to migrate the Brazilian mobile operations of Telefónica Móviles and Portugal Telecom from the current cellular telephony concessions to PCS authorisations (SMP), as well as the transfer of 100% of the groups' shareholdings in those companies into a 50:50 Joint Venture. The Joint Venture, Brasilcel, will be the largest cellular operator in all of South America, with more than 13 million clients and a market share of more than 60%.

In January 2003, Brasilcel reached agreement to acquire Tele Centro Oeste.

In April 2003, Telefónica Móviles, T-Mobile International and TIM formed an alliance to provide unified products and services in all countries where the three operators are present. Via roaming agreements, the partners will be able to develop new joint offers in voice, data and mobile Internet. They will also develop joint solutions, potentially bringing together the world's largest customer base with nearly 162 million clients in Western and Eastern Europe, Latin America, the United States and the Mediterranean Basin.

Table 6 – Telefonica Moviles customers – 2002

Company	(millions)	Annual growth
T Moviles Espana	18.4	+10%
Brasilcel	13.7	n/c
TCP Argentina	1.62	-10%
T Moviles Peru	1.24	+14%
TEM El Salvador	0.23	-3%
TEM Guatamala	0.97	-38%
NewCom Puerto Rico	0.17	-10%
Telefonica Moviles Mexico	2.42	n/c
Medi Telecom	1.60	+44%
Telefon Movil Chile	1.85	+18%

(Source: Paul Budde Communication based on company data)

Exhibit 4 – Telefonica Moviles subsidiaries

Subsidiary	Holding
Telefonica Moviles Espana	100%
Brasilcel	50%
TCP Argentina	97.93%
TEM Peru	97.97%
Telefonica Moviles Mexico	92%
TEM El Salvador	90.30%
TEM Guatemala	100%
Group 3G (Germany)	57.2%
IPSE 2000 (Italy)	45.59%
3G Mobile (Austria)	100.00%
3G Mobile AG (Switzerland)	100%
Medi Telecom	30.34%
Terra Mobile	80%
M-Solutions	100%
Mobipay Espana	13.33%
Mobipay Internacional	36%
TM Solutions and Applications (Chile)	100%

(Source: Paul Budde Communication based on company data)

4.1.4 Telefonica DataCorp

Telefonica DataCorp is the Group's data services provider to corporate markets.

In February 2002, Telefónica Data bought 100% of HighwayOne Germany, which is an alternative provider of broadband services for business customers in Germany based on xDSL technology.

Exhibit 5 – Telefonica DataCorp subsidiaries and affiliates

Subsidiary	Holding	Subsidiary	Holding
Telefonica Data Espana	100%	Telefonica Data Venezuela	100%
Telefonica Sistemas	100%	Telefonica Data Peru	97.07%
Telefonica Data Mexico	100%	Telefonica Data Argentina	97.92%
Telefonica Data Columbia	99.99%	Telefonica Data Canada	100%
Telefonica Empresas Brasil	100%	Telefonica Data USA	100%

Atlanet	34.00%	Telefonica Deutschland	100%
Factoria de Contenidos Digitales (Art media)	100%		

(Source: Paul Budde Communication based on company data)

4.1.5 Terra Lycos

Formerly Terra Networks, Terra Lycos was formed in October 2000 by the acquisition of US portal Lycos. Terra Lycos controls a network of more than 120 Web sites in 20 different languages in 40 countries. It is also the world's third-largest ISP and wireless service provider, reaching a total of about 25 million users. Terra also operates Internet portals and provides online advertising and marketing, e-commerce, and other Internet services.

In 2001, Terra Lycos restructured along business lines into Access, Media and Commerce. Two regional divisions were created also, the US division, and the Latin America and Spain division. These geographic divisions cover the 42 countries in which Terra Lycos operates. Over two thirds of revenues came from the Media division, with nearly a third from access services. The company does not offer free Internet access in any of its markets.

In May 2003, Telefónica launched a tender offer for all of Terra Lycos minorities.

Table 7 – Terra Lycos subscribers – 2002

Service	2002	Annual change
Access (million)	4.1	-5%
% pay	34%	+30%
% free	66%	-70%
ADSL (thousands)	387	+62%
Portal and community (million)	1.70	+325%

(Source: Paul Budde Communication based on company data)

Note: Subscribers do not include Lycos Europe.

Exhibit 6 – Terra Lycos subsidiaries and affiliates

Subsidiary	Holding	Subsidiary	Holding
Lycos Inc	100%	Terra Networks Nicaragua	99.99%
Terra Networks Peru	99.99%	Terra Networks Caribe	99.98%
Terra Networks Mexico	99.99%	Terra Networks Columbia	65%
Terra Networks USA	100%	Ifigenia Plus	100%
Terra Networks Guatemala	100%	Educaterra	100%
Terra Networks El Salvador	99.99%	Bumeran	84%
Terra Networks Venezuela	100%	Emplaza	80%
Terra Networks Brasil	100%	A Tu Hora	50%
Terra Networks Argentina	100%	Azeler Automocion	50%
Terra Networks Espana	100%	R.U.M.B.O.	50%
Terra Networks Chile	100%	One-E Bank	49%
Terra Networks Uruguay	100%	One Travel.com	39.6%
Terra Networks Marocs	100%	Deremate.com	29.5%
Terra Networks Honduras	99.99%	Terra Mobile	20%
Terra Networks Costa Rica	99.99%		

(Source: Paul Budde Communication based on company data)

4.1.6 TPI

Telefonica Publicidad e Informacion (TPI-Paginas Amarillas) publishes and distributes directories, information contents and advertising services in various different media (paper, Internet, telephone, CD ROM etc.). The TPI group, which originally only managed the Paginas Amarillas (yellow pages) directories and Telefonica de Espana's regional phone books, expanded to manage 150 yellow pages

directories and phone books worldwide, used by over 50 million people. TPI also offers a ‘talking’ yellow pages service, taking on average over 130,000 calls per month.

The TPI group began its international expansion in 1999 and has operations in Spain, Brazil, Argentina, Chile and Peru, with market shares of 90%, 93% and 82% in the latter three countries respectively in these countries for its directories. It has over 600,000 advertisers worldwide and a sales force of 1,800.

The TPI Group’s main portals are:

- PaginasAmarillas.es;
- Paginas Blancas Online.
- comprarhoy.com;
- restauranteshoy.com;
- viajarhoy.com;
- ciudadhoy.com;
- hobbieshey.com;
- bodashoy.com;
- musicahoy.net;
- elvino.com.

In February 2002, TPI Páginas Amarillas acquired from Telefónica del Perú 100% of Peruvian’s yellow pages business for US\$31.2 million;

Exhibit 7 – TPI Subsidiaries

Subsidiary	Holding	Subsidiary	Holding
Goodman Business Press	100%	TPI Brasil	51%
TPI Internacional	100%	TPI Peru	100%
Publiguias Holding	100%	Buildnet	97.59%

(Source: Paul Budde Communication based on company data)

4.1.7 *Admira Media*

Admira (formerly Telefonica Media) is the flagship company of the audiovisuals content and media business line. It groups together and manages Telefonica SA’s holdings in the European and Latin American audiovisual services market, and is among the leaders in the production, ownership and broadcasting of audiovisual content and services in the Spanish- and Portuguese-speaking world.

Admira is the Group’s content provider and key to the development of its Internet, mobile telephony and broadband strategy. It operates in 23 countries and has three business lines: free-to-air television and radio, content and pay television. In the Free-to-Air (FTA) television and radio business, Admira plans to copy Antena 3’s successful management model in those geographical areas in which it is beginning to operate. This model is already being used with excellent results in the TV channels run by Admira in Argentina. The content business unit, the main asset of audiovisual sector companies, bases its activity on the company Endemol, with the aim of making this the nerve centre of Admira’s content business. The third business unit includes pay TV assets, distribution systems and production of theme channels for TV.

In 2002, Telefoncia announced plans to sell shares in both Admira and Endemol Entertainment.

In November 2002, The Spanish Government gave conditional approval to the merger of Via Digital and Canal Satelite Digital.

Exhibit 8 – Admira Media subsidiaries and affiliates

Subsidiary	Holding	Subsidiary	Holding
Antena 3 TV	47.52%	Euroleague	70%
Telefe	100%	Audiovisual Sport	40%

Endemol	99.47%	Telefonica Sport	100%
Patagonik Film Group	30%	Via Digital	48.63%
Lola Films	70%	Pearson	4.85%
Torneos Y Competencias	20%	MediaPark	7.4%
St Hilo	100%	Tick-Tack Ticket	47.5%
Rodven	51%	Hispasat	13.23%
Telefonica Servicios Audiovisuales	100%		

(Source: Paul Budde Communication based on company data)

4.1.8 Telefonica B2B

Telefonica B2B (business-to-business) is the business line created by Telefonica to develop e-commerce between companies. The joint investment agreement signed with the BBVA Group created Katalyx, a company that creates, develops and manages integrated B2B e-commerce services in Latin America, Spain and Portugal. Katalyx is headquartered in Miami and employees more than 400 staff. Its initial phase saw the setting up of operations in Argentina, Brazil, Spain and Mexico. In a second phase, the company plans to expand into Chile, Colombia, Peru, Portugal and Venezuela and then the rest of Latin America.

In July 2001, Telefonica de Espana, TPI Paginas Amarillas, BBVA E-commerce, Repsol YPF and Iberia set up Adquira, which offers one-stop e-commerce services between companies for the indirect supply, purchase and sale of goods and services, including:

- IT;
- Communications;
- office equipment;
- fixtures and fittings;
- travel;
- financial and insurance products;
- maintenance and repairs;
- cleaning services.

The shareholdings are Telefonica Group 40% (Telefonica de Espana 20%, TPI Paginas Amarillas 20%), BBVA e-commerce 40%, Repsol YPF 10% and Iberia 10%. The partners agreed to make the greatest number of indirect goods and services purchases through Adquira Espana SA, leading to potential savings of 15% for purchasers, depending on the type of product. For the company's start up, the partners agreed to integrate Iniciativas de Mercados Interactivos (IMI), the B2B platform for Small-to-Medium Enterprises (SMEs) developed by TPI and BBVA, and Adquira, Telefonica B2B, BBVA, Repsol YPF and Iberia's initiative for medium-sized and large-scale companies.

The Adquira platform offers three alternative technologies for companies depending upon their size. Large companies can integrate their purchase processes through purchasing management tool (e-procurement) Adquira Comprador. Adquira also has an e-market (Adquira Marketplace) where companies of any size can make their purchases and request bids for various products. Finally, buyers and suppliers can auction goods and services through Adquira Subastas. Adquira's objective is to reach 20,000 purchasing companies in Spain, which will be able to enjoy the same cost-saving benefits as its own partners, in less than two years. The aim is to achieve this through partners' sales forces, which will include Adquira as a value-added service in their product portfolios.

4.1.9 Atento

Atento is the world's largest call centre and Customer Relationship Management (CRM) company. Atento began operations in March 1999 and is based in Miami, operating around 50 centres around the world, with installed capacity of more than 20,000 posts and with plans to grow to more than 30,000 posts in 2001.

In Spain, the company's call centre business was developed by Estratel prior to the launch of Atento Espana in June 2000. With 5,500 workstations spread throughout the country and covered by 13,000 telephone operators, Atento Espana is the Spanish market leader in integrated services and CRM with 17 operations centres located throughout Spain, managing over 220 million telephone calls per year.

Atento offers its services in all the countries in which Telefonica operates (Spain, Europe and Latin America) and plans to expand into the USA and Asia.

5. SERVICES

5.1 BASIC TELEPHONY

- Telephone service;
- Advanced services;
- Interconnection service;
- Local telephony;
- National telephony;
- International telephony.

5.2 INTERNATIONAL COMMUNICATIONS

- International transport;
- Transit;
- 1,360 million minutes (input and output).

5.3 MOBILE SERVICES

- Cellular Telephony (TAC, GSM, AMPS, DAMPS, PCS);
- Automatic national and international Roaming;
- Paging;
- Trunking;
- Data;
- SMS;
- WAP;
- GPRS.

5.4 MULTIMEDIA

- Cable;
- Open TV;
- Closed TV;
- PSI and Interactive Services;
- Signal Transport TV, CATV, DTH.

5.5 PRIVATE COMMUNICATIONS

- Private switchboards;
- Corporate networks of customers (VSAT).

5.6 COMMUNICATIONS SERVICES FOR COMPANIES

- Frame Relay;
- X25;
- Managed bandwidth;
- Point to point lines;
- IP Access.

For information relating to:

- worldwide activities in the telecommunications industry, see [Global Overviews](#).
- the global telecommunications industry, see [Technologies, Terminology and Glossary](#).
- telecommunication companies in Europe, see [Companies in Europe](#).
- activities in Europe, see [Europe](#);
- activities in Spain, see [Spain](#) country reports;
- activities in Latin America, see [Latin America](#) country reports.

6. CONTACT DETAILS

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