

Reason for report: Initiating coverage

June 30, 2003

BUY

Grupo Telefónica S/A

The latin jewel

TEFM

Target price: EUR\$ 14.9
Current price: EUR\$ 10.1

TEF ADR

Target price: US\$ 51.9
Current price: US\$ 34.3

TEF BDR

Target price: R\$ 49.9
Current price: R\$ 33.3

TLPP4

Target price: R\$ 48.2
Current price: R\$ 33.0

Currency ratios

EUR\$/R\$	3.29
EUR\$/US\$	1.15
EUR\$/CLP\$	807.6
EUR\$/ARP\$	3.19
EUR\$/PEN\$	4.00
EUR\$/MXN\$	12.04

US\$/CLP\$	702.2
US\$/ARP\$	2.77
US\$/PEN\$	3.48
US\$/MXN\$	10.47

Index

2	Telefónica Group
5	Valuation - Investment case
7	Spain
8	Brazil
13	Mobile - Brazil
15	Argentina
16	Peru
17	Chile
18	Telefónica Móviles
20	Profile of the Brazilian Market
21	Annexes

Following the innovation of analyzing the main sectors of the economy through the Economic Value Added (EVA) method, Unibanco is now starting to provide its regional coverage.

We chose the Telefonica group for our debut because this is a group centered in the world of Spanish and Portuguese language speakers, in addition to having substantial exposure in Latin America.

With its 88.5 million customers worldwide, of which 43.1 million in wireline, 44.2 million in mobile and slightly more than one 1 million in paid-TV services, the Telefonica Group focuses on those countries whose language is Spanish and Portuguese, particularly in Europe and Latin America. The bulk of its operations consists of incumbent carriers.

The company focuses on the generation of a strong free cash-flow, so as to be in a position to make acquisitions. From 2002 to 2005, it plans to build up EUR\$ 33 billion in free cash-flow.

As for capital expenditure, the company has been showing that it focuses on discipline, having kept its investments at a relatively low percentage of its net invoicing. In 1Q03, capital expenditure accounted for 9.3% of the net invoicing, or EUR\$ 601 million.

At the beginning of the decade, Telefonica had one of the weakest credit ratings (S&P) among the European incumbent companies, its ranking standing ahead only of Vodafone. At present, however, Telefonica has the best credit rating among all the incumbent companies, all of which have weaker ratings than Telefonica's A.

The Telefonica Group's net consolidated debt at the end of 1Q03 stood at EUR\$ 21.5 billion, which provides an estimated net debt/Ebitda ratio for 2003 of 1.7x, one of the lowest among the European incumbents.

Although its customers are fairly concentrated in Latin America, this exposure, which the market priced negatively, produced results/dividends for the company of the order of EUR\$ 1.7 billion in 2002, because of the strong cash generation enjoyed by the companies in the region. The conclusion we come to, therefore, is that the worst of the exposure to Latin America has already passed; henceforth, the tendency will be for considerable improvement, among other reasons because these operations are yielding some of the highest margins in local currency.

As part of our investment hypothesis, we concluded that the upside potential for the company's stock is extremely attractive. **The three different analysis methods we used yielded substantial upsides:** discounted cash-flow (47%), EV/Ebitda (56%) and EV/Line (55%).

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1. Telefónica Group - Telefonica S/A

As we have already mentioned, the group has 88.5 million customers worldwide, of which 43.1 million in wireline telephones, 44.2 million in mobile telephones and slightly more than one million using paid-TV services. Telefonica's main operations are located in Europe and Latin America.

Telefónica Group Market Size			
March	2003	2002	%Change
Lines in service (1)	43,132.70	43,057.40	0.2
In Spain	18,789.80	18,690.60	0.5
In other countries	24,342.90	24,366.80	-0.1
Cellular customer (2)	44,248.80	33,271.50	33
In Spain	18,693.90	17,315.00	8
In other countries	25,554.80	15,956.50	60.2
Pay TV Services (3)	1,073.90	1,148.90	-6.5
In Spain	733.7	808.3	-9.2
In other countries	340.2	340.6	-0.1
Total	88,455.40	77,477.80	14.2

Source: Company

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

(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 y CanTV Celular.

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

The company, which is listed on the Madrid, New York, London, Paris, Frankfurt, São Paulo, Lima, Luxembourg, Tokyo and Buenos Aires stock exchanges, has millions of shareholders. Among its main shareholders we highlight BBVA, with a stake of some 5.28%, and La Caixa, with 3.6%. Management control of the company is in the hands of a committee of executives who are appointed by the Board of Directors. Free float is considered to be 100%. The company was privatized in 1997, at which time had 35 million customers. Today it is one of the largest companies in revenue terms in Spain. Despite having its Head Office in Spain, it is considered to be a global company.

In Europe, it is the incumbent company in the Spanish wireline line and mobile telephone sectors. It also has licenses to operate third generation mobile telephones in Germany, Switzerland, Austria, Italy and in Spain itself. Additionally, it holds a small share in Portugal Telecom, which is the incumbent company in the wireline and mobile telephone sectors in that country.

In Latin America, the company operates in Brazil, Chile, Peru, Argentina, Mexico, Guatemala, Venezuela, Uruguay, Puerto Rico and El Salvador, in both the wireline and the mobile telephone sectors.

TELEFÓNICA S.A.	
	Participation
Telefonica de España	100.00%
Telefonica moviles	92.44%
Telefonica data global	100.00%
Telefonica latino America	100.00%
Tpi	59.90%
Terralycos	38.58%
Grupo admiramedia	100.00%
Atento	100.00%

Source: Company

TELEFÓNICA DATA GLOBAL	
	Participation
Telefonica data España	100.00%
Telefonica sistemas	100.00%
Telefonica data Mexico	100.00%
Telefonica data Colombia	99.99%
Telefonica empresas Brasil	100.00%
Telefonica datos de Venezuela	100.00%
Telefonica data Peru	97.07%
Telefonica data Argentina	97.92%
Telefonica data Canada	100.00%
Telefonica data USA	100.00%
Katalyx	100.00%
Twis(1)	100.00%
Factoria de contenidos	
Digitales(artmedia)	100.00%
Telefonica Deutschland	100.00%
Atlanet	34.00%

(1) Includes the participation in Emergia and International Data Network business.

Source: Company

TELEFÓNICA LATINOAMÉRICA	
	Participation
Telesp	87.42%
Telefonica Del Peru	97.07%
Telefonica Argentina	98.04%
Tld	98.00%
Telefonica CTC Chile	43.64%
CAN Teléfonos Venezuela (CANTV)	6.92%

Source: Company

TELEFÓNICA MOVILES

Participation	
Telefonica Moviles España	100.00%
Brasilcel (1)	50.00%
Tcp Argentina	97.93%
Tem Peru	97.97%
T.moviles Mexico (2)	92.00%
Tem El Salvador	90.30%
Tem Guatemala	100.00%
Group 3g Alemania	57.20%
Ipse 2000 (Italia)	45.59%
3g Mobile (Austria)	100.00%
3g Mobile Ag (Suiza)	100.00%
Mediatecom (Marruecos)	31.34%
Terra Mobile	80.00%
Telefónica Mobile-solutions	100.00%
Mobipay España	13.33%
Mobipay Internacional	36.00%
T.mov.aplic.y Soluciones (Chile)	100.00%

Source: Company

(1) Joint Venture which consolidated by full integration the assets transferred by TEM (TeleSudeste, Celular CRT and TeleLeste Celular) and by Portugal Telecom (Telesp Celular Participações) and an additional stake in CRT Celular.

(2) Telefónica Móviles México consolidates the North Mexican operators (Nortel, Bajacel, Movitel and Cedetel) and Grupo Pegaso Telecomunicaciones.

In the past, almost half of the Group's cash-flow came from its Latin American operations. In 1Q03, a third of the company's Ebitda came from Latin America. The decrease in the area's importance is basically the result of the devaluation of local currencies, as well as of the appreciation of the Euro.

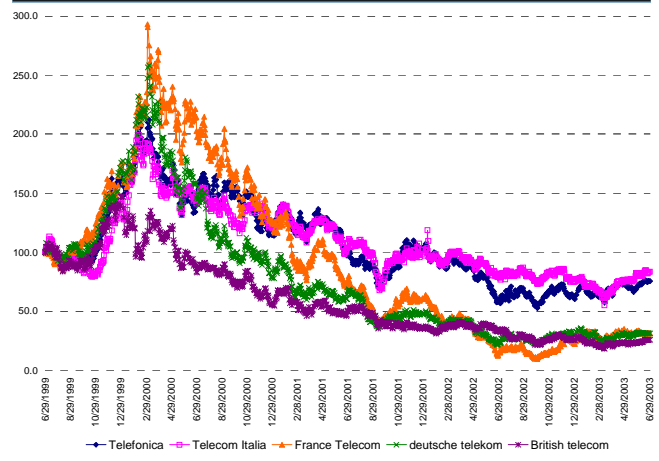
With regard to capital expenditure - Capex, the company has shown how disciplined its focus is by maintaining its investments at percentages that are distinctly modest when compared to its net revenue. In 1Q03, capital expenditure amounted to 9.3% of net revenue, or EUR\$ 601 million.

As for growth, the company maintains its policy of pulling out of areas that are not part of its core business. Since last year it has maintained a policy of generating large amounts of free cash-flow, so as to be prepared for acquisitions. In the 2002-2005 period, the company intends building up free cash-flow funding amounting to some EUR\$ 33 billion.

At the beginning of the decade, Telefonica had one of the weakest credit ratings (S&P) among the European incumbent companies, its ranking standing ahead only of Vodafone. At present, however, Telefonica has the best credit rating among all the incumbent companies, all of which have weaker ratings than Telefonica's A.

Over the last two years Telefonica's shares (together with those of Telecom Italia) have outperformed those of other European companies (British, France and Deutsche Telecom) and have decreased in value by 20% instead of 50%.

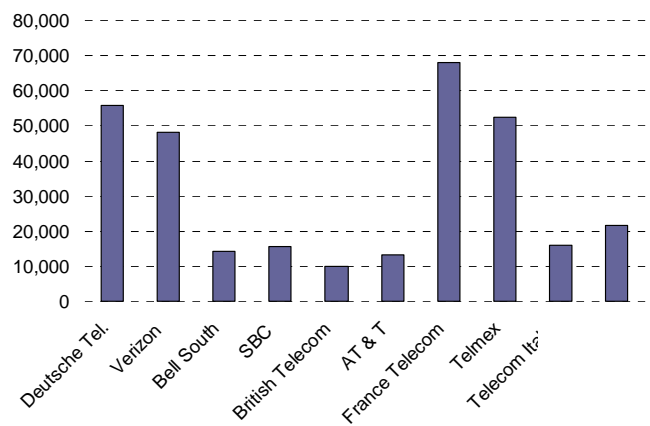
Performance of last 48 months



The company's improved performance vs. its international peers intensified after the Third Generation (G3) tenders in Europe, on which some US\$ 96 billion were spent just licenses alone, thereby reducing the value of companies such as British Telecom, France Telecom, Deutsche Telekom, Telecom Italia and others.

The Telefonica Group's net consolidated debt at the end of 1Q03 stood at EUR\$ 21.5 billion, which results in an estimated net debt/Ebitda ratio of 1.7x for 2003, one of the lowest among the European incumbents.

Net Debt Incumbents



Source: Unibanco

The Group had an Ebitda of EUR\$ 11.7 billion in 2002, with Telefonica Moviles contributing a third of this result, or EUR\$

3.8 billion. Ebitda coming from its Latin American operations totaled EUR\$ 3.8 billion, also representing a third of its consolidated Ebitda . Once again the Spanish operations provided the strongest contribution to corporate Ebitda - EUR\$ 4.5 billion, or 38%. By 1Q03 we were beginning to see a drop in the percentage contributed by Latin America to corporate Ebitda; the area only provided 24%, whereas the Telefonica Moviles percentage of contribution rose to 36%. Spain has maintained its position as the Group's chief icon by increasing its contribution to 39%.

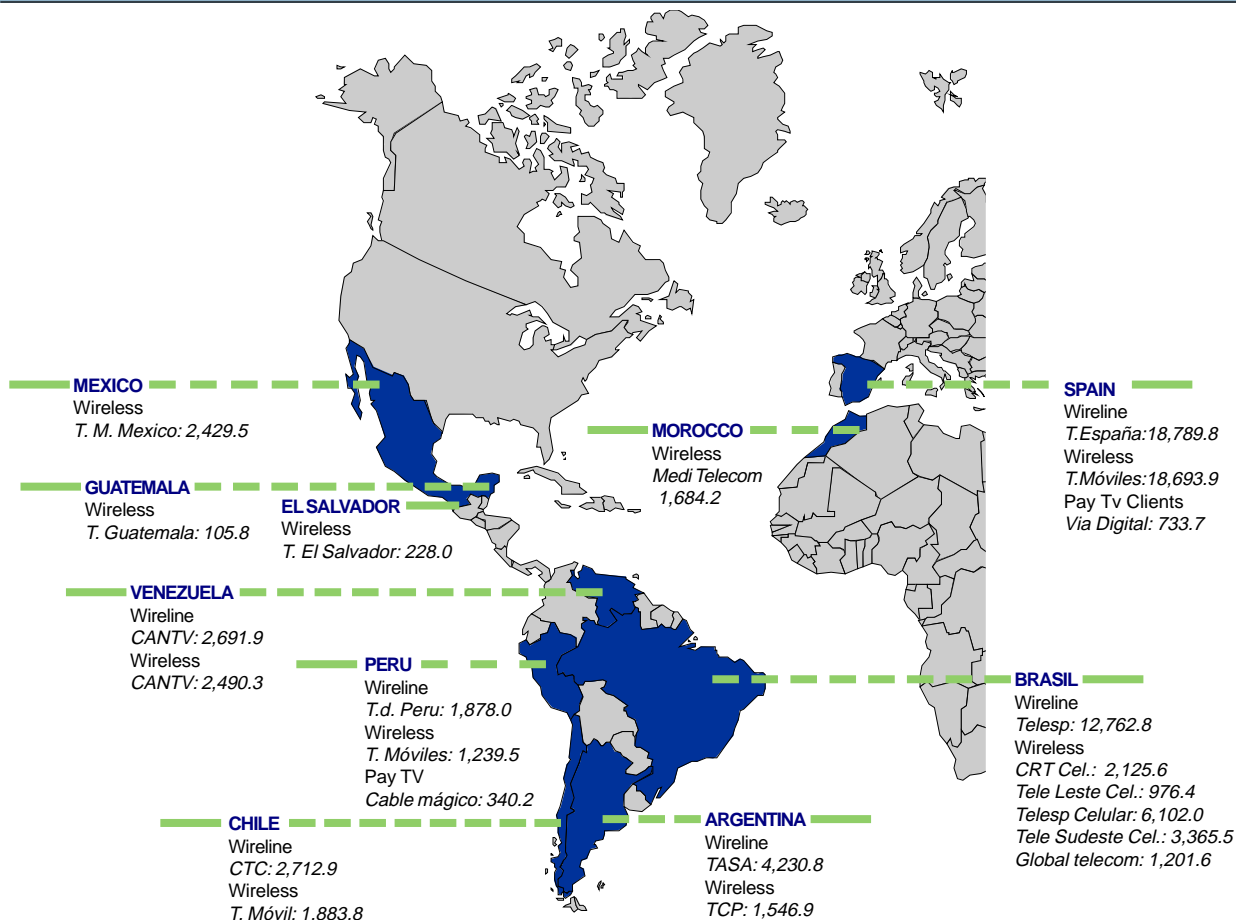
Although its customers are fairly concentrated in Latin America, this exposure, which the market has priced negatively, yielded results/dividends for the company of the order of EUR\$ 1.7 billion in 2002, because of strong cash generation by the companies in the region. **The conclusion we come to, therefore, is that the worst of the exposure to Latin America has already passed; henceforth, the trend should include considerable improvement. This should also happen because the results of the operations in local currency are highly positive.**

Telefónica Group results by companies

Euros M	Revenues			Ebitda			Operating Profit		
	January - March			January - March			January - March		
	2003	2002	% Change	2003	2002	% Change	2003	2002	% Change
Telefónica de España G.	2,486.50	2,518.70	-1.3	1,109.40	1,126.90	-1.6	449.7	448.1	0.4
Cellular Businesses	2,199.90	2,348.80	-6.3	1,016.50	940.8	8	640.5	580.2	10.4
Telefónica Latinoamérica G.	1,421.80	2,155.10	-34	678.9	1,050.00	-35.3	272.3	419	-35
Telefónica Data Global	409.6	465.4	-12	58.2	1.9	n.s.	-1.8	-78.5	-97.7
Terra-Lycos G.	114.5	159.5	-28.2	-19.6	-46.8	-58.2	-39	-87.2	-55.3
Directories Business	66.7	68	-1.9	10	6.9	45.3	3.6	-0.5	c.s.
Media and Content Business	372.3	217.8	70.9	36.7	6.8	441.8	22	-9	c.s.
Atento G.	122.5	156.4	-21.7	13.6	10.4	31	-0.2	-12.9	-98.2
Others affiliates	129	244.6	-47.2	-59.6	-37.7	58	-80.6	-51.6	56.1
Eliminations	-863.9	-915.7	-5.7	-25.1	-14.5	73.3	-8.3	0.6	c.s.
Group	6,458.90	7,418.60	-12.9	2,819.10	3,044.70	-7.4	1,258.10	1,208.00	4.1

Source: Company

Telefónica Group Market Size



Source: Company

2. Valuation - Investment Case

Discounted Cash-flow /Sum of Parts

We discounted cash-flows for 10 years by a weighted average cost of capital (WACC) for each of the company's major operations, wireline Spain and Latin America and Móviles, as shown below. For the operation in Spain, the main one in the Group's consolidated figures, we used a WACC of 10.3%, taking into account a beta of 1.10, with a 3.9% spread over treasury, in addition to 4% for free risk. For the perpetuity we used 3%, or 0.5% in real terms. Our valuation resulted in a fair equity value of EUR\$ 85.3 billion for the Group, or EUR\$ 14.9 per share, having already excluded minority shareholdings amounting to some EUR\$ 9.4 billion. The upside is 47%.

Valuation based on multiples

EV/Ebitda: as a standard we used comparisons with the incumbent companies in Europe and the United States. Today, the sector's average EV/Ebitda ratio is 6.3x. At the end of 2001, that ratio was 10.4x. However, when those companies lost market value because of the high prices paid for 3G

Permissions in Europe, the September 11th attacks and its consequences for the world economy and the confidence crisis regarding some of the world largest companies balance sheets', that ratio came to the current level. We then applied this to Telefonica and arrived at a fair ratio of 8.9x, or 15% lower than that of the end of 2001. Therefore, the fair value as calculated for the Group's equity would be EUR\$ 90.1 billion, or EUR\$ 15.9 per share. This offers an upside of 56.4%.

EV/Ebitda	
Fair EV/Ebitda Ratio	8.9
Fair EV DCF	106,861,250,176
Ebitda (03) E	12,570,331,193
Fair EV EUR\$ (EV/Ebitda)	111,875,947,614
Net Debt EUR\$	21,746,580,917
Fair Equity EUR\$ (EV/Ebitda)	90,129,366,696
Minorities Participation	9,914,230,337
Number of Shares	5,057,000
Target EUR\$	15.86
Current Price	10.14
Upside	56.4%

Source: Unibanco

Valuation - DCF

EUR\$ (Billion)	Fair EV	Net Debt	Fair Equity	Ebitda (03)E	Net Rev (03)E	Ebitda %
Wireline Spain	40,805	39%	8,367	41%	32,438	39%
Wireline Chile	3,744	4%	1,369	7%	2,375	3%
Wireline Peru	2,445	2%	601	3%	1,844	2%
Wireline Argent.	1,065	1%	2,149	11%	-1,084	-1%
Wireline Brazil	7,244	7%	782	4%	6,461	8%
T Latam	14,498	14%	4,901	24%	9,597	12%
Tef Móviles	48,395	47%	7,158	35%	41,237	50%
Tef Data	1,504	296	1,207	423	1,573	1.5%
Terra-Lycos	(1,348)	266	-1,614	(380)	551	-1.3%
Yellow Pages	1,452	286	1,166	409	524	1.4%
Admira	1,037	204	833	292	996	1.0%
Atento	518	102	416	146	524	0.5%
Grand Total	106,861	21,747	85,281	12,570	30,391	41.4%

Number of Shares 5,057,000

Target EUR\$	14.90	Target BDR	49.90	Target ADR	51.90
Current Price	10.14	Current Price	33.31	Current Price	34.29
Upside	47.0%	Upside	48.3%	Upside	51.5%

Net Debt/Ebitda 1.73
Mkt Cap EUR\$ (M) 51,277,980

Source: Company

Firm Value/Terminal: for this analysis we used the same companies as for the previous one and arrived at EUR\$ 1,300 as the reference point for the value of those companies per line. If we use this as the fair value for the Firm Value/Terminal ratio it would create an upside of 54.9% and a target price of EUR\$ 15.7 per share.
Graph. EV/Line model

Firm Value/Terminal	
Number of Lines	85,358,866
Value per line (Target) EUR\$	1,300
Fair EV EUR\$	110,966,525,631
Net Debt EUR\$	21,746,580,917
Fair Equity Value EUR\$	89,219,944,714
Minorities Participation	9,814,193,919
Number of Shares	5,057,000
Target EUR\$	15.70
Current Price	10.14
Upside	54.9%
Current Value per line	855.50

Source: Unibanco

3. Spain

Wireline - Spain

The company, established in 1924, was privatized in 1997, when it had 16.8 million customers. Currently, it is one of the largest companies in Spain in terms of revenues, with 18.8 million wireline telephone customers, 18.7 million wireless telephone customers and an 80% share in the local and long-distance markets. Nationwide teledensity (considering both wireline and wireless telephones) is nearly 130% and therefore the Spanish market is already mature and fully serviced.

In terms of competition, Telefonica in Spain competes in the wireline segment with Auna, Ono (Jazztel and Unidois - retailers); in long distance it competes with Jazztel, Retevision and Unidois.

In the future it is expected that the Spanish telephone market will grow slightly in terms of the number of lines, by something close to the GDP growth, or even in line with population growth. In terms of the volume of traffic however, wireline-wireless cannibalization is already being experienced, with a slight fall in the volume of calls. In this scenario we see Telefonica as the main player in the country.

From the regulation point of view, we believe that the country's political stability has a strong influence on the company's long-term decisions. On the call charges side, the adjustment model (price-cap) allows the company to transfer to its tariffs the inflation rate minus a productivity factor, within a context that is much clearer in a developed market.

By anchoring its receivables in a strong local currency (the Euro), this operation makes a significant contribution to the group's consolidated figures: 38.5% of the consolidated revenues and 39.4% of consolidated Ebitda; the fact that Telefonica Spain's Ebitda represents more in percentage terms than its revenues highlights the importance of this operation for the Group.

The company's main challenge is to continue to grow profitably, maintain its core of heavy users and improve the cost structure of its operations.

Mobile - Spain

Spain has a structure in place for 34.3 million wireless telephone lines, which corresponds to 84% of the teledensity in the mobile segment alone. Telefonica Moviles España, besides being the incumbent carrier, is the market leader, with a 55% share of the Spanish market, operating with GSM technology and servicing 18.7 million customers. The company's main competitor is Vodafone, with 9.1 million customers, a 26% market share and GSM technology. The other strong competitor is Amena, with 6.5 million customers, a 19% market share and GSM technology as well. The company's greatest challenge is to reconcile keeping market share while preserving the profitability of its mobile telephone platforms. The importance of the Telefonica Moviles España operation within its overall mobile business is: 68% of consolidated revenues and 83% of consolidated Ebitda



4. Brazil

Wireline Brazil – Telesp Fixa

The pillars of the wireline telephone sector in Latin America over the next few years should continue to be Telefonica, Telemar, Brasil Telecom and Telmex. **Telefonica is unlikely to be the target of a process of consolidation**, since its strategy is already well defined and it has to make a return on its business platforms outside Europe.

Even when we consider the deregulation of markets that has taken place since 2002, the context has not changed significantly, since local distribution continues to guarantee that more than 80% of the revenue of wireline telephone companies (“ILEC’s”) comes from the residential segment, small and medium sized companies, the leasing of means of transmission and public telephone services. It is worth keeping in mind that the cash-cow of these incumbent companies are unlikely to be jeopardized, since we believe that the entrance of a new competitor in the local telephone industry is not a viable option, because the only two ways of doing this would be either by building a network for local distribution (which has already proved to be unviable, since the amount of investment required for such a network would be enormous and would never provide a payback) or by opening up the networks of these incumbents to other competitors (unbundling), which we believe is the trend, although it is still in extremely early stages. Criteria for pricing the leasing of local networks and the technical terms have not yet been discussed, even, and therefore this situation has to be a long way off. It also worth mentioning that we do not expect the local incumbents to mount any aggressive attacks on each other’s market share. All the struggle will only take place in the corporate sector and not in the residential one. What may be lost in terms of financial income as a result of the loss of market share in the company’s own region should be offset by an increase in revenues coming

from a marginal market share gain in other regions. Still talking about the local segment, Vesper, the only company competing with Telesp since privatization, in addition to having reached a market share lower than 3% after almost four years as a player now finds itself in the possible situation of having to discontinue its operations for regulatory reasons (not being allowed to use the 1.9Ghz frequency as a back-up for the SMP operations for which it purchased the license).

National activity in the wireline, mobile and data transmission segments.

With a wireline teledensity of 38% in São Paulo, we believe that Telesp Fixa (Wireline), in return terms has already reached a level that should be maintained and expanded no further. In fact, the company has been directing its efforts at “ring-fencing” its core of heavy users by offering ADSL access, something that the other wireline incumbents, Telemar and Brasil Telecom, are also doing. The company has the scale to be able to keep and even increase its profitability, by attacking costs, laying its wireless network over its wireline one (optimization of the interconnection charged – since maintaining a link within the networks is the way that companies have of optimizing the costs of outgoing interconnection and maximizing income from incoming interconnection — considering the almost 31 million lines that the company has in service in the country) and adding margin with the transmission of data, always remembering the importance of its **Emergia** cable. Therefore, **the name of the game here is having local cable networks and scale**, thereby guaranteeing the cash-cow situation and synergy gains from the various networks in the country controlled by the Group.



Source: Teletime

Coming from the old Telebras system, Telesp Fixa (Wireline) is the second largest operator in the country, having closed 1Q03 with an installed capacity of 14.3 million lines and a gross revenues forecast for 2003 of nearly R\$ 16 billion, or EUR\$ 4.8 billion.

The company is doing very well in operating terms, having shown its capacity to produce results with consecutive Ebitda margins close to 50%. One of its advantages vis-à-vis its competitors lies in the financial quality of the population living in the region where it originally started operating, as well as its geographic concentration.

Its strong cash generation, which can cover its net debt 1.4 times, its low debt level of 18% and its very strong free cash generation capabilities (an estimated R\$3 billion) are also among the company's positive points.

Exchange of BDRs

In June 2002, it will be two years since Telesp Fixa tendered its offer of exchanging shares for Telefonica BDRs. The company is free to make the offer again for the remaining free float shares still in the market.

BDR

We should remember that the Telefonica BDR is the one equity on the São Paulo Stock Exchange - Bovespa that is free from internal market fluctuations; in fact, its risk is linked to the Madrid stock exchange. Therefore it is an exchange risk hedge for Brazilian investors, since its assets are pegged to the Euro.

Another interesting BDR characteristic is that large foundations are now able to hold them, because the tax benefit which they took advantage of in the past (and which reduced their appetite for this type of asset) is no longer available to them. Therefore, it is now up to the foundations themselves to decide whether or not to acquire a position in BDRs, as they no longer have to carry the financial burden imposed upon them in the past.

Regulatory Context

At the time of the privatization of the Telebras system, it was decided that the concession contracts would cover 27 years, the first seven going from 1998 to 2005 and the extension going from 2006 to 2025. The definition of the rules for the extension period are currently being discussed and there

has been some argument about topics such as the indexation criteria for adjusting tariffs, new targets for universalization, separation of companies by business segment and accounting by business segment, number portability and unbundling, in addition to other issues.

Concerning the adjustment of tariffs, the government has been strongly resisting maintaining the IGP-DI (General Price Index-Internal Availability) as the indexer because of its direct impact on inflation. Therefore it has been decided that the criterion for annual price adjustments as from 2006 will follow a long-term price calculation that will take into account, among other factors, the large historical investments made by the companies since privatization (price-cap). **In practice, what the criteria for defining price adjustments will be is not known.** While this lack of definition will not necessarily be negative for the companies, it is certainly not priced positively. This year the IGP-DI general price index enabled companies to adjust their tariffs by nearly 29%. Thanks to Anatel's resolution allowing them to apply the full tariff increase, the companies took advantage of their previously established right to pass on these price increases in full. However we know that a tariff increase of this magnitude will certainly have an impact in terms of reducing call volume and increasing "PDD" – the Provision for Doubtful Debts, a fact that entitles us to state that there should be some negotiation of tariffs in the future, especially in the commercial segment, for which the price increase reached 41.75%.

In terms of the new universalization targets, it is clear that the definition of criteria should reflect a degree of common sense and a conservative attitude, considering that the country jumped from 23 million lines in July 1998 (wireline plus wireless) to nearly 84 million at present (with a teledensity of nearly 50% and certainly with the profitability of the Average Revenue Per User already jeopardized...). It seems to us that to expand business in the country and create a critical mass of users that at least have the ability of paying their essential bills, in order to then think about a slightly larger percentage of average family income being spent on telecommunications, is more sensible than making competing companies invest large amounts of money that will never provide them with a payback.

The separation of the operators into different companies by business segment is a questionable objective. Avoiding a long discussion on this subject, we believe that at the very least the Government is depriving itself of a compensation alternative among the business platforms of the operators.

Number portability seems to us to be a legitimate issue, although when we benchmark it against countries where it has already been implemented we see that the price war ended up destroying value in the industry as a whole. Therefore we would defend the position that the customer has the right to be able to choose from more than just a few service providers and so be able to pay less for the service. However, from the point of view of corporate financial health, it is to be hoped that this does not degenerate into a price war, since cutthroat competition may deprive the customer of both alternatives and service in the long run!

Unbundling is the big issue. The Government has said that unbundling is compulsory, although it has not defined the pricing criteria for leasing local network capability, which is why we are led to believe that between the commitment of the Government and reality there exists a very substantial gap.

Valuation – Investment Case Telesp (Wireline)

Discounted cash-flows. We discounted cash-flows for ten years by an average WACC of 17.9% (in R\$, including an exchange rate devaluation of 3% per year), taking into account future nominal growth of 3% per year. At the end of the 1Q03, the company had a net debt of R\$ 2.6 billion, equal to 18% of its net stockholders equity. In this scenario, we should use a cost of capital equivalent to 82% of the cost of equity. The company, however, does not think this is an appropriate capital structure and over the long term it is expected to change the way in which it finances its activities, the objective being to have a debt/total capital ratio of 40%, a situation that it hopes to be able to reach over the next few years as basic interest rates fall.

Our evaluation results in a fair equity of R\$ 23.8 billion for Telesp Fixa (Wireline) or R\$48.2 per thousand shares. In calculating the ON common stock price we took into account a discount of 20% relative to preferred stock, because the latter offers greater liquidity, even if we take into account the effects of the approval of the Corporate Law and although we believe that tag-along rights will not be very significant, since future outlooks do not involve any change of control occurring through the acquisition of common stock. Therefore we arrive at a value of R\$38.6 per thousand common shares. We also analyzed the sensitivity of our discounted cash-flow model based on several different discount rates ranging from 16% to 20%, and for different future growth rates, ranging from 2% to 4%. For all of these scenarios the target price is always greater than the current price of the share as quoted

on the stock market. In the worst case scenario (practically unviable), in which the discount rate is the highest - 20% and future growth is the lowest - 2%, the target price is R\$40.5 per thousand preferred shares, which provides an upside of 22%. One should always keep in mind that inflation estimates stand at some 3% a year in the long term.

WACC	EV R\$ (M)	Net Debt	Equity value	Target
16.0%	31,008	2,575	28,433	57.5
17.0%	28,552	2,575	25,977	52.5
18.0%	26,422	2,575	23,846	48.2
19.0%	24,557	2,575	21,982	44.5
20.0%	22,913	2,575	20,338	41.1

Valuation based on multiples

EV/Ebitda: As a standard for comparison purposes, we used Latin American, European and American incumbent companies (coming out of the former state systems). Today, the average EV/Ebitda ratio of the sector is 6.3x and the projected fair ratio is 8.9x. Considering country risk of the operator – Brazil, for which we took 700 bp's - we arrive at a fair ratio of 5.61x. The fair value as calculated for Telesp Fixa (Wireline) equity would be R\$23.5 billion, or R\$47.6 per thousand preferred shares, providing an upside of 43%.

Valuation TLPP	
International EV/Ebitda 2001	8.90
IRR	11%
Risk Premium	7%
Target IRR	17.8%
Target EV/Ebitda	5.61
Fair Corporate Value	26,122
(-) Net Debt	2,575
Fair Equity Value	23,547
	PN
Equity value per th. shares - R\$	47.63
Stock price	33.4
Upside	43%

Firm Value/Terminal: for this analysis we used the same foreign companies companies and arrived at EUS\$1,300 per terminal. However we have to consider that in the case of Telesp Fixa, the cash generating capacity is 44% of that of the developed countries companies'. Therefore, the fair value for the Firm Value/Terminal ratio is EUR\$559, or a fair value of R\$24.3 billion for the equity, generating an upside of 47% and a target price per thousand preferred shares of R\$49.1.

TLPP

Fair Target FV/Terminal BR - EUR\$	559
Fair Target FV/Terminal BR - R\$	1,873
Corporate value - R\$	26,867
Fair Equity Value - R\$	24,292
FAIR Target Price/Lote de mil - R\$	49.13
Upside %	47%

Recommendations Telesp Wireline (TLPP)

We recommend buying Telesp Fixa (Wireline) shares (TLPP3, TLPP40) with a target price of R\$38.6 per thousand common shares and R\$48.2 per thousand preferred shares, which provide an upside of 62% and 45% respectively. As for the BDR, we have a target price of R\$49.9, with an upside of 47%. **We highlight our opinion that the potential downside is very much lower than the upside.**

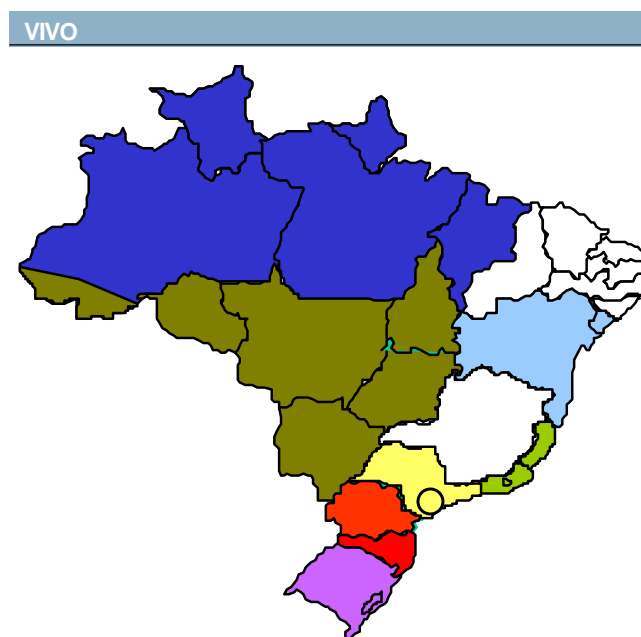
5. Mobile - Brazil

Joint Venture - VIVO

At the end of May, 2003 the Brazilian market had 37 million mobile telephones with a teledensity of 21%. Besides controlling Telesp Fixa, with 14.3 million lines in São Paulo, 12.5 million of which are in service, the Telefonica Group also controls half the companies in Brazil that make up the Iberian Joint Venture - VIVO, CRT Celular, Tele Leste Celular, Tele Sudeste Celular, Telesp Celular, Global Telecom and Tele Centro Oeste Celular (linked to Norte Brasil Telecom). Therefore, **of the Group's almost 89 million customers, 31 million are in Brazil.**

In terms of technology, Vivo chose the CDMA system with overlay in 1XRTT (2.5 G) in the main regions. TCO, which was recently acquired, and CRT Celular still operate in TDMA and will have to make CDMA overlay investments very shortly.

Vivo is the leader in the Brazilian market, with nearly 18.2 million subscribers, who account for almost 51% of the Brazilian mobile telephone market. The company covers nearly 86% of Brazil's territory, excluding only two areas (the state of Minas Gerais and the country's northeast, except for the states of Bahia and Sergipe).



Vivo in Figures (as of 2002)

In Brazil, the mobile telephone market is split into 4 competing companies in each region, although some of them have not yet started operating because they acquired their licenses in the auction of the remaining bands that took place in 4Q02. Vivo's main competitors include: Telecom Americas, owned by America Movil (Mexico) with 6.2 million customers and TDMA technology, in the process of migrating to GSM technology (with partial coverage, because it still lacks coverage in the north and the State of Minas Gerais); TIM, which has national coverage and operates with GSM and TDMA technology (the latter in the Northeast and the states of Paraná and Santa Catarina, where the company is already investing in GSM overlay, however) and 5.7 million customers; Oi, the mobile telephone services operator belonging to Telemar (a wireline telephone services operator), which began operating in June 2002 and already has more than two million subscribers, covering the same area as the

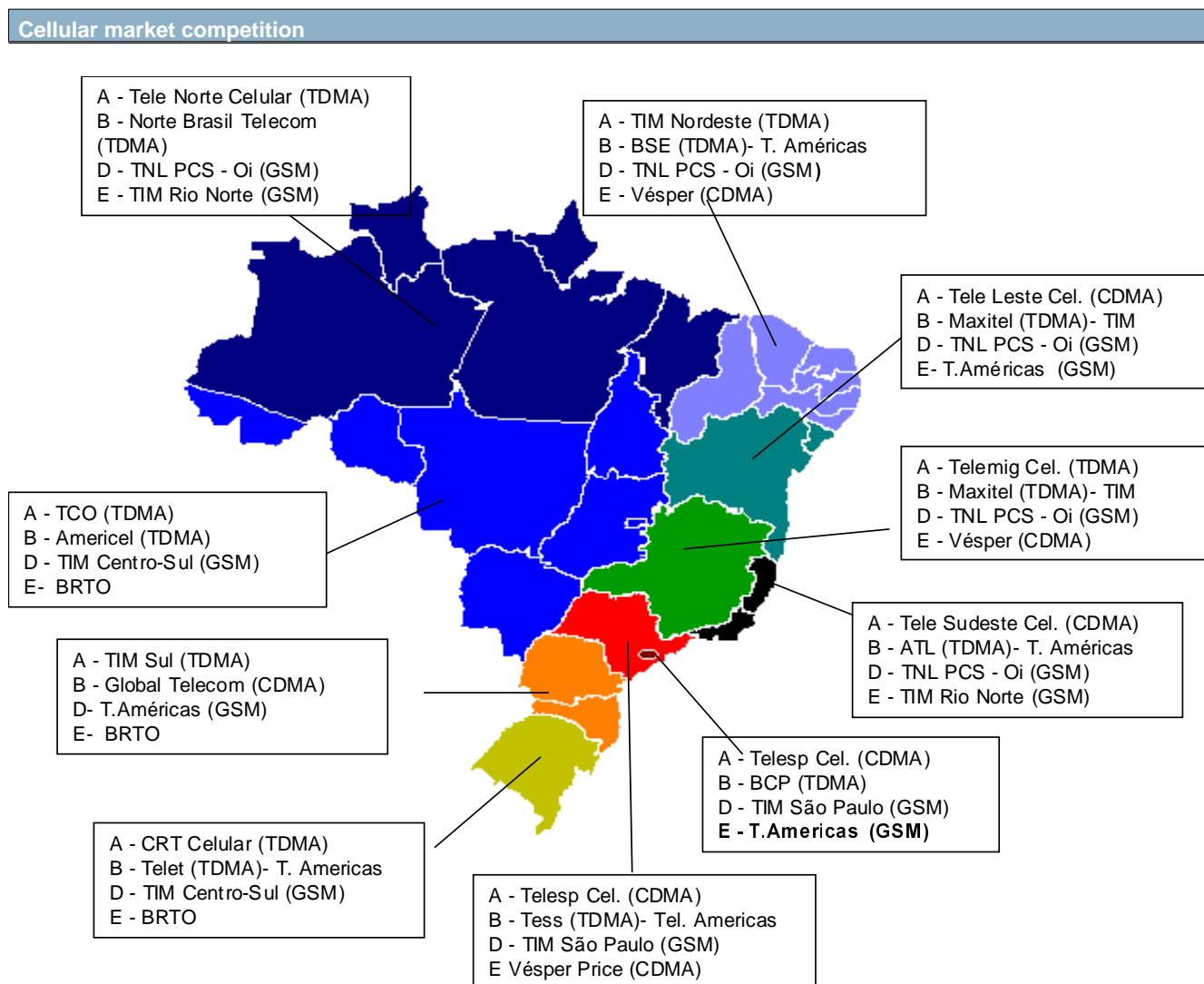
		Mkt share	LIS	POP	PIB	GDP per capita	Penetration	Growth rate 02x01	Concession Area
	CRT Celular	65.6%	2,078,000.0	10,179.8	49.5	4,860.1	30.5%	23.4%	6
	Global Telecom	40.6%	1,176,000.0	14,685.8	54.2	3,689.0	19.1%	17.6%	5
	Tele Centro Oeste Cel	74.8%	2,468,948.0	30,169.8	71.7	2,375.6	22.0%	26.4%	7
	Tele Leste Celular	54.4%	973,000.0	14,166.0	26.8	1,889.6	11.8%	23.3%	9
	NBT	35.5%	597,756.0	15,468.0	27.7	1,787.9	10.7%	27.2%	8
	Tele Sudeste Celula	58.4%	3,455,000.0	17,460.4	81.4	4,662.9	33.2%	19.6%	3
	Telesp Cel Part	66.9%	6,060,000.0	36,456.1	197.6	5,419.0	24.0%	14.4%	1 and 2

wireline company (16 states). Another competitor is BCP, Telesp's biggest rival, with 1.7 million customers, operating in region 1 (Greater São Paulo) with TDMA technology. Finally, in the Midwest and South of the country, there is Brazil Telecom (a regional wireline operator) that should start up its mobile telephone operation at the end of the year but that has not yet announced what technology it plans to use.

We calculate that Vivo's Ebitda will reach R\$ 3.7 billion in 2003, with revenues of R\$ 11.6 billion.

The chief challenge the group faces in this country is how to continue growing profitably while keeping its heavy-user base, reconciling retaining market share with maintaining the profitability of its mobile telephone platform business.

The importance of Vivo within the mobile telephone business is: 17% of consolidated revenues and 12% of consolidated Ebitda.



6. Argentina

Wireline - Argentina (TASA)

Telefonica de Argentina S/A (TASA), 98% of which is controlled by Telefonica S/A, is a company that is publicly traded on the Buenos Aires stock exchange, besides being listed in New York in ADRs. It was privatized in November 1990 and has 1.7 million customers. Currently, the company is one of the largest companies in Argentina in revenue terms, with 4.9 million customers and a 52.4% local market share, as well as accounting for 44% of domestic teledensity.

In Argentina, the local wireline telephone market has two strong players, Telefonica de Argentina (owned by Telefonica S/A) and Telecom Argentina (owned by Telecom Italia and France Telecom, with a 38.5% market share); in the international long-distance market, market shares are as follows: TASA - 43%, Telecom Argentina -- 40%, Mobicom -- 4.1% and AT&T -- 3.1%. In the domestic long distance segment TASA has 37%, Telecom Argentina 35.1%, mobile telephone companies 8.2% and cooperatives, 14.6%.

In the future it is expected that the Argentinean market will still have room for the profitable growth of its user base because, as a result of its expected economic recovery, the country should return to generating demand for telecommunication services. Therefore we see TASA as being one of the main players in the country in the future.

There is still a question mark as to the regulatory context in the country since the parameters for adjusting tariffs after the devaluation of the local currency a little over a year ago are yet to be defined. The freezing of tariffs is another question mark as far as the definition of the future strategies of the company are concerned.

Once the economic restructuring of the country has been completed, TASA, which operationally has quite positive indicators, should begin to contribute more significantly to Group figures. In the past, when the Argentinean peso was strong, the operation was already contributing significantly in both operating and financial terms. In the future it will be difficult for its contribution to return to its past levels, but it will certainly be greater than it is now; at present, 2.8% of consolidated revenues, 3.8% of consolidated Ebitda and 11% of consolidated debt come from TASA. The fact that TASA

Ebitda accounts for more than its revenue in percentage terms shows that potentially the Argentinean operation can still contribute a great deal to the Group.

The main challenge facing the company is to control its debt. Another very important challenge is to continue growing profitably, maintain its heavy user base and improve the cost structure of its operations in order to gradually increase its weighted contribution to the consolidated results of the Group.

Mobile - Argentina (Unifon)

In Argentina, Telefonica Moviles operates under the brand name Unifon and consolidates the results of this operation. Unifon operates with TDMA technology and has a 24% share of the Argentinean market, or 1.6 million customers. Unifon's competitors in the Argentinean mobile telephone market are Personal (owned by Telecom Argentina), which has a 28% market share, or 1.88 million customers. Another competitor is Mobicom, which also has a 28% market share and 1.88 million customers. Finally, CTI Moviles holds 20% of the Argentinean market, with 1.34 million customers. All the companies have nationwide licenses. The size of the Argentinean market is 6.7 million customers. The greatest challenge is to increase market share and make the mobile business profitable. The importance of Unifon within the mobile telephone business is: 2% of consolidated revenues and less than 1% of consolidated Ebitda.



7. Peru

Wireline - Peru (TdP)

Telefonica del Peru (TdP) is essentially held (97%) by Telefonica S/A and it is traded on the Lima stock exchange, with its ADRs listed in New York. The company was privatized in 1994, when it had 650,000 customers. At present, it is one of the largest companies in revenue terms in Peru, with 1.8 million customers and a 99.5% local market share, accounting for nearly 17% of domestic teledensity.

The Peruvian wireline telephone market is comprised of TdP (which is dominant, thanks to its 99.5% market share), AT&T, Bell South and Americatel. In the long distance segment, TdP's main competitors are the same as those mentioned above. Regarding domestic long distance calls, TdP has nearly 73% of market share, Americatel has 19.8% and AT&T 4.4%. In international long distance calls, the main players are TdP, with a market share of nearly 63.2%, Americatel with 23.7% and AT&T with 3.7%.

The Peruvian market is not expected to grow significantly in the future. The yardstick for the profitable growth of the customer base is linked to the growth of GDP or even population growth. In this scenario we see TdP as the main player in the country in the future.

The regulatory context is also not a major problem in Peru, and therefore the level of uncertainty regarding decision-making for the long term is not as great as in other countries in which the company operates, as is the case with Argentina, for example.

With its stable currency (the Peruvian sol), TdP, which operationally has some of the best indicators in the Group, is already making a significant weighted contribution to consolidated figures: 4.5% of consolidated revenues, 4.5% of consolidated Ebitda and 3.1% of consolidated debt. The fact that the percentage of TdP's Ebitda is equal to its revenue within the consolidated figures of the Group also indicates that its contribution could improve in the future in terms of importance.

The main challenge the company faces is to reduce its net debt, which currently stands at 1.3 times the forecasted cash generation for the year. The management is also focusing on maintaining the company's heavy user base and

improving the cost structure of its operations so as to gradually increase its weighted contribution to the consolidated results of the Group.

Mobile - Peru

The Peruvian mobile telephone market has 2.45 million lines, vs. 1.8 million wirelines. Telefonica Moviles consolidates the figures of Telefonica Moviles do Peru, which operates with CDMA technology and has a market share of 53% and 1.3 million customers, of which 23% are post-paid. Its main competitors in the Peruvian mobile telephone market are Bell South (with a 24% market share, relying on TDMA technology and with 574,000 customers, of which 81% pre-pay), TIM (with an 18% market share, using GSM technology and 436,000 customers, of which 89% pre-pay) and Nextel (a trunking operator with a 6% market share or 136,000 customers). All the companies have nationwide licenses, despite the fact that in practice this does not account for coverage. The greatest challenge is to consolidate the customer base and to further improve the pre/post paid ratio, which is already the best in the market. The importance of Telefonica Moviles do Peru within the overall mobile business is: 2.8% of consolidated revenues and 1% of consolidated Ebitda.



8. Chile

Wireline - Chile (CTC)

With Telefonica S/A holding a 56.4% stake in it, Companhia Telefonica do Chile (CTC), is traded on the Santiago stock exchange and also has its ADRs listed in New York. It was privatized in 1988 when it had 592,000 customers. Currently, the company is also one of the largest ones in revenue terms in Chile, with 2.7 million wireline telephone customers out of a total of 3.5 million in the country, a 76% share in the wireline telephone market. It accounts for national teledensity of 64%.

In Chile, CTC is the only strong player in the local wireline telephone market, with a market share of almost 76%. The second company is VTR Global Com, with a 7.6% market share, whereas the others add up to 16%. In the long distance segment, CTC (Telefonica Mundo) competes with Entel (these being the two main players), Chilesat, Bell South, Firstcom, Telefonica del Sur and a few others.

In the future it is expected that the Chilean market will still have some room to expand its customer base profitably, though modestly. In this scenario, we see CTC continuing to be the main player in the country.

The regulatory context is not as clear as in other countries in which the Group operates, and therefore taking decisions for the long term involves some regulatory risks and more complex negotiations. At present, discussions revolve around the definition of the tariff rules that will be in force from 2004 to 2009. This definition is by region, regardless of whether there is competition or not and will also indicate what the adjustment factors will be.

Economic stability and a strong local currency are points one should underscore in Chile. Within this environment, CTC has very positive margins and contributes favorably to consolidated results: 3.4% of revenues, 3.4% of Ebitda and 7% of debt. As is the case with Peru, the fact that the percentage of CTC's Ebitda is equal to that of its revenue within the consolidated figures of the Group also shows that the importance of its contribution could rise in the future in percentage terms.

The main challenge for the company is the definition of regulation for the next few years, maintaining its heavy-user base and improving the cost structure of its operation, so as to gradually expand its weighted contribution to the consolidated results of the Group, as well as to reduce the percentage of its debt within the overall consolidated debt figures.

Mobile - Chile (Telefónica Móvil)

Chile has a network of 9.9 million lines, of which 6.4 million are mobile and 3.65 million are wirelines. The Telefonica Group operates in the mobile telephone market under the brand name Telefonica Movil, a subsidiary of CTC (Companhia Telefonica de Chile - a company owned by the Telefonica S/A Group). Telefonica Movil operates with TDMA technology, although it has announced the overlay of its network with GPRS technology, thereby becoming the first operator with national coverage in 2.5G. The company has 1.9 million customers, i.e., 30% of the Chilean market. Its main competitors in the Chilean market are Entel (with 2.4 million customers, a 37% market share and GSM technology), Bell South (with 1.1 million customers, a 17% market share and TDMA and CDMA technologies) and Smartcom (with 1 million customers, a 16% market share and CDMA technology). It is worth mentioning that 77% of the Chilean market is pre-paid. All the companies have nationwide licenses, although this does not in actual fact translate into full coverage. The greatest challenge is to expand market share and make the mobile telephone business profitable.



9. Telefonica Móviles

Telefonica Moviles came about as a spin off of Telefonica S/A in 2000. The company is owned (92.44%) by the Spanish holding company and is listed on the Madrid and New York stock exchanges - ADRs in the latter case. Currently, the company has more than 44.2 million customers and is the incumbent in the majority of countries in which it operates. The company owns operations in Spain, Brazil, Argentina, Chile, Peru, Mexico, El Salvador, Guatemala, Morocco and Puerto Rico.

The main challenge for the company over the next few years is to adapt to the different regulatory limitations in the countries in which it operates, as well as to maintain its heavy-user base and improve the cost structure of its operations so as to gradually improve its weighted contribution to the consolidated results of the Group, as well as focusing on reducing the percentage of its debt within the overall consolidated debt figures. The importance of the Telefónica Móviles business within the overall mobile business is 34.1% of consolidated revenues and 36.1% of consolidated Ebitda.

Mobile - Mexico

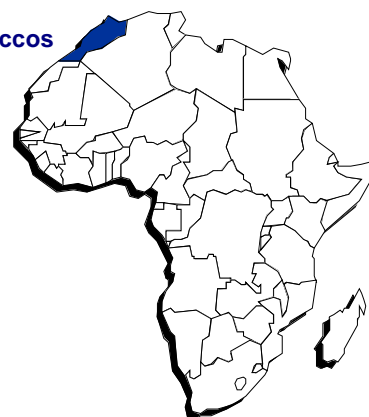
The mobile telephone market in Mexico has 20 million lines. Telefonica Moviles consolidates the results of Telefonica Moviles Mexico (Pegaso), which operates under the brand name Movistar. It has 2.4 million customers, a 12 % market share, a nationwide license and GSM technology (in the five most important cities in the country today, 80 cities by the end of 2003 and 80 cities by the end of 2004). America Movil has more than an 80% share of the Mexican mobile telephone market, with almost 17 million customers. The estimated investment for this year is nearly US\$ 600 million. The greatest challenge is to profitably increase its user base and its market share, while maintaining its focus on controlling investments and operating costs. The importance of Movistar within the mobile telephone business is 6% of consolidated revenues and Ebitda still negative, but with potential for contributing significantly in the future.



Mobile - Morocco

The Moroccan operation, which is consolidated into the results of Telefonica Moviles (whose partner is Portugal Telecom), has 1.7 million customers, which represents slightly more than a 41% market share. The company that is the segment leader in the country is Marrocos Telecom, belonging to France Telecom. In the near future, the objective is to reconcile keeping market share while maintaining profitability. The importance of the Moroccan operation within the mobile telephone business is less than 2% of consolidated revenues and 1% of consolidated Ebitda.

Moroccos



Mobile - Guatemala and El Salvador

The operations in these two countries, which are consolidated into the Telefonica Moviles results, account for 334,000 customers. In Guatemala there are 106,000 customers, equivalent to a 9.5% share of a market that has 1.1 million customers. In El Salvador there are 228,000 customers, or a 37% share of a market that has 622,000 customers. The company is the country's leader in the pre-paid segment, which shows that in the future one of the great challenges is going to be how to make the customer base profitable. The importance of these operations within the mobile telephone business is 1.5% of consolidated revenues and 1% of consolidated Ebitda.



10. Profile of the Brazilian market

In 1998, at the time of privatization, the country had 23 million lines. Today there are 84 million lines, of which 48 million are wireline and 36 million are wireless.

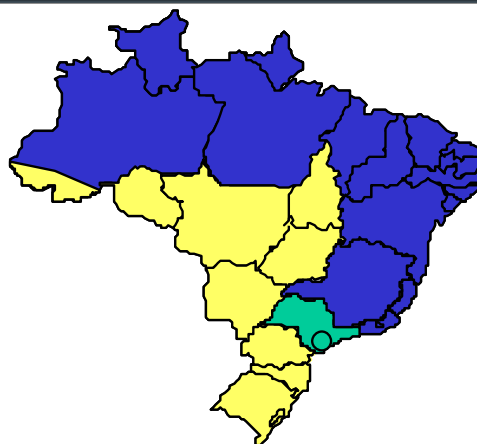
In the future we believe that the wireline telephone system will no longer be a growth "case". We therefore used vegetative growth estimates to assess the growth of the number of residential lines and of GDP in order to estimate the growth of commercial lines and traffic volume.

In the mobile telephone area the context is slightly different, even though it is still unclear which will be the strong groups emerging from the mergers that will certainly take place in the near future. We worked with two groups focused solely on the mobile segment (Telecom Italia and America Moviles) and three multi-service groups (Telefonica/JV Iberica, Telemar/OI and Brasil Telecom/PCS).

The incumbents in the wireline telephone sector, which came from the Brazilian Telebras system: Telesp Fixa, Brasil Telecom and Telemar, and also Telmex in Mexico, have been confirming their position as the pillars of the sector in Latin America. The "mirror" companies (GVT and Vesper) have to focus their strategy on high added-value segments, maintaining their margins of return instead of trying to fight for market share with the incumbents, which will cost a lot and stand in the way of their growing profitably and earning a payback on their investments. The predominance of the cash-cow approach that the incumbents have adopted over the last few years has guaranteed their ability to keep at the forefront in terms of share in those markets in which they operate, even following the 2002 deregulation of the markets. They also hold the leadership in market share. At present, the wireline incumbents account for more than 95% of share in local segments, not only in Brazil but also in the rest of the world. In Brazil, in the Telefonica and Telemar regions, the "mirror" company is Vesper, with nearly 350,000 lines in service and a network with an installed capacity able to carry more than 2 million lines. In Brasil Telecom's region, the "mirror" company, GVT-Global Village Telecom, started operating in October 2000 and has 450,000 subscribers for an installed network of more than 900,000 lines.

As mentioned above, throughout the world the penetration of CLECs (new entrants) in local segments does not exceed 5% and rarely does an incumbent have less than a 90% local share - the name of the game here is local distribution, which accounts for more than 80% of the revenues of the company and is an area that will never be attacked by any other player, since it would take a lot of time and not be cost effective, even for other incumbents.

Wireline Brazil



- Telemar
- Brasil Telecom
- Telesp

In mobile telephones, the name of the game is scale. By trying to gain national coverage to attain scale and therefore dilute fixed costs, the sector is undergoing a period of consolidation, which will result in the confirmation of the big players with national penetration. Merely as a reminder, Ibericos (a joint-venture between Telefonica and Portugal Telecom), Telemar, Brasil Telecom, Telecom Italia and Telecom Americas are all players in this game.

See map on page 14.

Consolidated Revenues Telefonica SA

(Euros Million)	2001	2002	1Q03	2Q03	3Q03	4Q03	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Local	11,922	10,978	2,773	2,799	2,897	2,903	11,373	12,043	12,261	12,421	12,569	12,721	12,867	13,008	13,152	13,298	13,438
Long-Distance	2,967	2,279	520	523	553	557	2,152	2,312	2,363	2,421	2,457	2,494	2,526	2,560	2,594	2,628	2,658
Interconnection	1,836	1,737	355	375	381	390	1,501	1,664	1,767	1,837	1,903	1,972	2,044	2,119	2,197	2,279	2,365
Lease of Means	301	334	89	89	103	105	387	439	472	496	518	535	554	573	593	613	634
Public Telephony	388	327	80	80	83	83	326	340	345	349	353	357	361	365	369	373	377
Data Transmission	216	248	64	65	70	71	269	299	306	310	314	318	321	325	329	333	337
Other	3,071	2,989	345	737	809	850	2,741	2,585	2,599	2,614	2,628	2,643	2,658	2,673	2,688	2,703	2,719
Cable TV (TdP)	268	73	19	19	19	19	76	78	79	80	81	82	82	83	84	85	86
Business Com. (TdP)	349	50	14	14	14	14	56	58	58	59	59	60	61	61	62	62	63
Special Serv. (TASA)	700	114	26	26	26	26	105	107	109	111	113	115	118	120	122	125	127
Mobile	9,230	9,449	2,200	2,970	3,062	3,156	10,209	11,189	11,400	11,875	12,374	12,920	13,401	14,019	14,669	15,250	15,854
Net revenues	31,053	28,411	6,483	7,697	8,017	8,176	30,373	31,113	31,760	32,573	33,369	34,216	34,993	35,906	36,859	37,750	38,658

Consolidated Expenses Telefonica SA

(Euros Million)	2001	2002	1Q03	2Q03	3Q03	4Q03	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Oper Exp	18,146	16,773	3,696	3,408	3,544	3,610	13,439	14,022	14,470	14,856	15,224	15,601	15,982	16,381	16,797	17,268	17,759
Personnel	5,390	4,794	1,166	790	806	815	3,146	3,228	3,275	3,319	3,363	3,409	3,455	3,503	3,553	3,609	3,666
G&A/Subcont. Serv.	4,946	4,565	985	1,072	1,127	1,152	4,195	4,350	4,498	4,637	4,770	4,916	5,062	5,215	5,376	5,560	5,753
Interconnection				193	203	210	782	961	1,069	1,134	1,191	1,233	1,277	1,322	1,369	1,417	1,467
Provisions & Losses	7,221	7,003	1,439	1,245	1,298	1,323	4,883	5,038	5,178	5,312	5,440	5,579	5,719	5,867	6,020	6,198	6,383
Other	589	412	105	108	110	111	433	445	450	455	459	464	469	474	479	485	490
Depreciation	7,374	6,692	1,561	1,465	1,469	1,474	5,870	6,011	6,089	6,179	6,285	6,336	6,396	6,484	6,585	6,690	6,809
Op. Expe. + Depreciation			5,256	4,873	5,013	5,084	19,308	20,033	20,559	21,036	21,509	21,938	22,378	22,865	23,382	23,958	24,569
Income Tax	(198)	3,229	264	279	275	285	1,375	1,462	1,473	1,510	1,550	1,628	1,691	1,747	1,805	1,854	1,898
Ebitda	12,804	11,724	2,819	3,009	3,063	3,099	12,548	12,917	13,314	13,723	14,105	14,502	14,907	15,317	15,741	16,140	16,542
Ebitda Margin %	41.2%	41.3%	43.5%	39.1%	38.2%	37.9%	41.3%	41.5%	41.9%	42.1%	42.3%	42.4%	42.6%	42.7%	42.7%	42.8%	42.8%
Oper Result	5,430	5,032	1,258	1,321	1,387	1,456	5,423	6,591	6,921	7,267	7,630	8,012	8,412	8,833	9,274	9,738	10,225
Net Income	2,107	(5,577)	543	704	710	703	3,406	3,550	3,742	3,909	4,043	4,216	4,384	4,537	4,685	4,811	4,928
EPS EUR\$	0.43	(1.1)	0.11	0.14	0.14	0.14	0.67	0.70	0.74	0.77	0.80	0.83	0.87	0.90	0.93	0.95	0.97

Consolidated Revenues Wireline Spain

(Euros Million)	2001	2002	1Q03	2Q03	3Q03	4Q03	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Local	6,379	7,063	1,899	1,908	1,918	1,928	7,653	7,768	7,807	7,846	7,885	7,925	7,964	8,004	8,044	8,084	8,125
Installation	295.5	260.1															
Basic Tariff	3341.3	3850.3	740	744	747	751	2,982	3,027	3,042	3,058	3,073	3,088	3,104	3,119	3,135	3,150	3,166
Pulse (Mrd Service)	1816.1	1573.5	854.9	859	863	868	3,445	3,497	3,515	3,532	3,550	3,568	3,586	3,604	3,622	3,640	3,658
Fixed to Mobile - VC1	1478.2	1476.9	304	306	307	309	1,225	1,244	1,250	1,256	1,262	1,269	1,275	1,281	1,288	1,294	1,301
Lease of means																	
Others	-552	-97.4															
Long-Distance	2,122.8	1,489.1	315.3	316.9	318.5	320.1	1,270.7	1,289.8	1,296.3	1,302.8	1,309.3	1,315.8	1,322.4	1,329.0	1,335.7	1,342.4	1,349.1
LD (Intra-Sector)	563.5	470.7	69.9	70	71	71	282	286	287	289	290	292	293	295	296	298	299
LD (Inter-Sector)	918	654.1	118.7	119	120	120	478	486	488	490	493	495	498	500	503	505	508
Fixed to Mobile (VC2 & VC3)																	
International	641.3	364.3	126.7	127	128	129	511	518	521	524	526	529	531	534	537	539	542
Interconnection	785.4	698.2	85.8	86.2	86.7	87.1	345.8	351.0	352.8	354.5	356.3	358.1	359.9	361.7	363.5	365.3	367.1
Fixed to fixed																	
Mobile to Fixed																	
Lease of Means																	
Public Telephony																	
Data Transmission																	
Terminals revenues	304.2	337.2															
Other	239.6	241.1	145.6	146.3	147.1	147.8	586.8	2,376.6	2,388.5	2,400.4	2,412.4	2,424.5	2,436.6	2,448.8	2,461.1	2,473.4	2,485.7
Outras eliminaciones	388.9	443.1															
Net Revenues	10,220	10,272	2,446	2,458	2,470	2,482	9,856	11,786	11,845	11,904	11,963	12,023	12,083	12,144	12,204	12,265	12,327

Consolidated Expenses Wireline Spain

(Euros Million)	2001	2002	1Q03	2Q03	3Q03	4Q03	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Operating Expenses	5,703	5,869	1,399	1,406	1,413	1,420	5,639	5,753	5,781	5,810	5,839	5,868	5,898	5,927	5,957	5,987	6,017
Personnel	2,092	2,157	558	560	563	566	2,248	2,293	2,304	2,316	2,327	2,339	2,351	2,363	2,374	2,386	2,398
Subcontrac. Servs.	881	886	226	227	228	229	911	929	934	938	943	948	953	957	962	967	972
Intercon. (fixed-mob.)	2,079	(1,685)															
Provisions & Losses	2,557	2,662	616	619	622	625	2,481	2,531	2,543	2,556	2,569	2,582	2,594	2,607	2,620	2,634	2,647
Other	11,233	164															
Income Tax	507	225	93	93	94	94	374	382	384	386	388	390	392	394	396	397	399
Depr. & Amortization	2,805	2,702	660	663	666	670	2,659	2,712	2,726	2,739	2,753	2,767	2,781	2,795	2,809	2,823	2,837
Operating income	4,517	4,404	1,046	1,052	1,057	1,062	4,217	6,033	6,063	6,094	6,124	6,155	6,185	6,216	6,247	6,279	6,310
EBITDA	4,508	4,517	1,109	1,126	1,143	1,160	4,538	5,220	5,299	5,378	5,459	5,541	5,624	5,708	5,794	5,881	5,969
EBITDA Margin	44.1%	44.0%	45.4%	45.8%	46.3%	46.7%	46.0%	44.3%	44.7%	45.2%	45.6%	46.1%	46.5%	47.0%	47.5%	47.9%	48.4%
Net Income	1,078	808	239	240	241	243	964	983	988	993	998	1,003	1,008	1,013	1,018	1,023	1,028

Cash Flow Statement Wireline Spain

(Euros Million)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Net Sales	9,594	10,220	10,272	9,856	11,786	11,845	11,904	11,963	12,023	12,083	12,144	12,204	12,265	12,327
Operating profit	3,709	4,517	4,404	4,217	6,033	6,063	6,094	6,124	6,155	6,185	6,216	6,247	6,279	6,310
(+) Depreciation, Amort.	2,901	2,805	2,702	2,659	2,712	2,726	2,739	2,753	2,767	2,781	2,795	2,809	2,823	2,837
Ebitda	4,448	4,508	4,517	4,538	5,220	5,299	5,378	5,459	5,541	5,624	5,708	5,794	5,881	5,969
(-) Corporate tax on Ebit	44	507	225	374	382	384	386	388	390	392	394	396	397	399
(-) Working capital investment	0	0	0	85	85	85	85	85	85	85	85	85	85	85
(-) Fixed capital investment	0	1,916	1,774	1,478	1,650	1,540	1,428	1,436	1,443	1,450	1,457	1,465	1,472	1,479
Cash flow from operations	4,405	2,086	2,519	2,601	3,103	3,290	3,479	3,551	3,623	3,697	3,772	3,849	3,926	4,005

Income Statement Telefónica Móviles

(Euros Million)	2001	2002	1Q03	2Q03	3Q03	4Q03	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Revenues	8,411	9,140	2,130	2,970	3,062	3,156	10,209	11,189	11,400	11,875	12,374	12,920	13,401	14,019	14,669	15,250	15,854
Oper. Exps.	(5,000)	(5,365)	(1,152)	(1,370)	(1,481)	(1,530)	(5,249)	(5,479)	(5,762)	(6,031)	(6,287)	(6,568)	(6,851)	(7,149)	(7,461)	(7,827)	(8,209)
Provisions	(1,862)	(2,406)	(485)	(614)	(664)	(686)	(2,354)	(2,457)	(2,584)	(2,705)	(2,820)	(2,946)	(3,072)	(3,206)	(3,346)	(3,510)	(3,681)
Personnel	(534)	(546)	(119)	(139)	(151)	(156)	(535)	(558)	(587)	(614)	(640)	(669)	(698)	(728)	(760)	(797)	(836)
External Sers	(2,604)	(2,412)	(548)	(616)	(666)	(688)	(2,360)	(2,464)	(2,591)	(2,712)	(2,827)	(2,953)	(3,081)	(3,215)	(3,355)	(3,519)	(3,691)
Other	(78)	(39)	15	(10)	(11)	(11)	(38)	(40)	(42)	(44)	(46)	(48)	(50)	(52)	(55)	(57)	(60)
EBITDA	3,334	3,736	993	910	837	828	4,148	4,294	4,487	4,710	4,927	5,142	5,371	5,606	5,851	6,068	6,294
Amortizaciones	(1,258)	(1,316)	(357)	(357)	(357)	(357)	(1,429)	(1,501)	(1,576)	(1,654)	(1,737)	(1,824)	(1,915)	(2,011)	(2,112)	(2,217)	(2,328)
Oper. Result	2,076	2,419	636	552	479	470	2,719	2,793	2,912	3,055	3,190	3,318	3,456	3,595	3,740	3,851	3,966
Financial Result	(328)	(316)	(79)	(111)	(111)	(112)	(340)	(468)	(468)	(468)	(468)	(468)	(468)	(468)	(468)	(468)	(468)
Tax	(629)	2,131	(171)	(131)	(107)	(104)	(728)	(710)	(749)	(797)	(842)	(884)	(929)	(976)	(1,023)	(1,060)	(1,098)
Net Income	893	(3,725)	359	275	224	218	1,511	1,474	1,555	1,654	1,747	1,834	1,929	2,025	2,124	2,200	2,279

Revenues Telefónica Móviles

(Euros Million)	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Telefónica Móviles España		6,770	6,595	6,975	7,256	7,548	7,853	8,169	8,498	8,841	9,197	9,568	9,953
Compañías brasileñas (1)		1,160	2,426	2,903	2,711	2,774	2,880	3,017	3,078	3,257	3,450	3,554	3,660
Telefónica Móviles México (2)		465	541	589	630	669	703	738	775	815	856	899	945
TCP Argentina (3)		195	206	231	267	311	336	363	385	409	434	460	488
Telefónica Móviles Perú		283	271	314	342	367	385	405	425	447	469	493	518
T Móviles Guatemala		189	110	120	131	141	148	155	163	171	180	189	198
T Móviles El Salvador			46	43	47	51	53	56	59	62	65	68	72
Others and interco.			14	15	15	16	16	16	17	17	18	19	19
Total		9,286	10,209	11,189	11,400	11,875	12,374	12,920	13,401	14,019	14,669	15,250	15,854

Cash Flow Statement Telefónica Móviles

EUR\$ MM	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Net Sales	10,209	11,189	11,400	11,875	12,374	12,920	13,401	14,019	14,669	15,250	15,854	16,483
Operating profit	2,719	2,793	2,912	3,055	3,190	3,318	3,456	3,595	3,740	3,851	3,966	4,085
(+) Depreciation, Amort.	1,429	1,501	1,576	1,654	1,737	1,824	1,915	2,011	2,112	2,217	2,328	2,444
Ebitda	4,148	4,294	4,487	4,710	4,927	5,142	5,371	5,606	5,851	6,068	6,294	6,529
(-) Corporate tax on Ebit	728	710	749	797	842	884	929	976	1,023	1,060	1,098	1,138
(-) Working capital investment	69	-146	161	-109	-59	-70	-35	-99	-79	-43	-66	-68
(-) Fixed capital investment	1,019	1,055	1,103	1,157	1,211	1,264	1,320	1,378	1,438	1,491	1,547	1,604
(-) Minority participation	251	314	287	292	301	316	334	352	371	371	371	371
Cash flow from operations - EUR\$ M	2,081	2,360	2,187	2,572	2,633	2,749	2,822	2,999	3,098	3,188	3,344	3,484

Revenues Wireline Brazil

(Euros Million)	2001	2002	1Q03	2Q03	3Q03	4Q03	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Local	1,860	2,086	560	573	660	654	2,448	2,975	3,139	3,245	3,338	3,434	3,525	3,610	3,697	3,787	3,869
Installation																	
Subscription																	
Pulses (Measured Service)																	
Other																	
Long-Distance	517	579	156	156	184	186	682	818	861	911	939	967	991	1,016	1,042	1,068	1,089
LD (Intra-Sector)																	
LD (Inter-Sector e Int'l)																	
Interconnection	829	929	249	269	275	283	1,077	1,233	1,333	1,401	1,464	1,531	1,600	1,673	1,749	1,829	1,912
Lease of Means	282	317	85	86	100	102	373	425	458	481	503	521	539	558	578	598	620
Public Telephony	51	58	16	16	18	18	67	74	76	78	79	80	82	83	84	85	87
Data Communication	126	141	38	39	44	45	166	194	200	204	207	210	214	217	220	223	227
Gross Revenues	3,669	4,114	1,104	1,140	1,281	1,288	4,813	5,720	6,070	6,322	6,532	6,745	6,953	7,159	7,372	7,592	7,805

Consolidated Expenses Wireline Brazil

(Euros Million)	2001	2002	1Q03	2Q03	3Q03	4Q03	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
TOTAL			471,291	488,297	502,044	509,773	1,971,406	2,171,555	2,282,264	2,354,652	2,431,317	2,434,138	2,442,633	2,476,578	2,520,645	2,565,831	2,622,620
Personnel			22,615	22,615	24,153	24,615	93,998	100,578	104,601	107,739	110,971	114,300	117,729	121,261	124,899	128,646	132,505
Material			4,134	4,185	4,322	4,405	17,046	18,239	18,968	19,538	20,124	20,727	21,349	21,990	22,649	23,329	24,029
Third Party Servs			54,137	54,793	56,592	57,674	223,197	238,820	248,373	255,824	263,499	271,404	279,546	287,933	296,571	305,468	314,632
Depreciation & Amort.			200,473	199,041	198,566	198,280	796,359	790,067	775,592	769,859	775,624	722,460	673,069	647,160	629,338	610,532	601,153
Interconnection			175,572	193,129	203,399	209,501	781,601	960,502	1,068,846	1,133,832	1,191,204	1,233,254	1,276,788	1,321,858	1,368,520	1,416,828	1,466,843
Other			14,360	14,534	15,012	15,299	59,205	63,349	65,883	67,860	69,896	71,992	74,152	76,377	78,668	81,028	83,459
Operating Profit	644	630	150	157	234	229	770	1,188	1,304	1,393	1,447	1,575	1,694	1,785	1,870	1,959	2,030
Ebitda	1,401	1,494	367	384	462	457	1,670	2,041	2,145	2,230	2,292	2,370	2,441	2,508	2,578	2,650	2,714
Ebitda Margin %	52%	50%	46%	46%	49%	49%	48%	49%	48%	48%	48%	48%	48%	48%	48%	48%	48%
Net Income	474	324	66	84	139	137	424	665	769	830	864	941	1,008	1,057	1,099	1,141	1,172

Cash Flow Statement Wireline Brazil

R\$ MM	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Net Sales	7,310	9,049	10,088	11,681	13,883	14,732	15,343	15,854	16,371	16,875	17,375	17,892	18,426	18,943
Operating profit	1,135	2,142	2,096	2,559	3,951	4,335	4,631	4,810	5,238	5,631	5,934	6,218	6,512	6,748
(+) Depreciation, Amort.		2,197	2,871	2,994	2,836	2,797	2,784	2,810	2,640	2,483	2,404	2,353	2,298	2,275
Ebitda	3,939	4,659	4,967	5,553	6,787	7,132	7,415	7,620	7,878	8,114	8,339	8,570	8,810	9,023
(-) Corporate tax on Ebit	330	269	248	461	883	850	868	875	993	1,048	1,078	1,111	1,152	1,173
(-) Working capital investment	1,265	-292	481	2,447	1,147	196	162	162	86	97	127	148	155	165
(-) Fixed capital investment	4,085	5,200	1,200	1,450	1,527	1,621	1,688	1,744	1,801	1,856	1,911	1,968	2,027	2,084
Cash flow from op. - R\$ M	-1,741	-519	3,038	3,195	3,831	4,466	4,698	4,839	4,999	5,113	5,222	5,343	5,475	5,601
Cash flow from op. - EUR\$ M	-529	-158	923	962	1,154	1,357	1,428	1,471	1,519	1,554	1,587	1,624	1,664	1,702

Consolidated Revenues Wireline Argentina

(Euros Million)	2001	2002	1Q03	2Q03	3Q03	4Q03	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Local	1032	550	108	108	109	109	433	440	449	458	467	476	485	495	505	515	525
Installation																	
Basic Tariff																	
Pulse (Measured Service)																	
Fixed to Mobile - VC1																	
Lease of means																	
Others																	
Long-Distance	94	29	7	7	7	7	28	28	28	29	29	29	29	30	30	30	31
Long-Distance (Intra-Sector)																	
Long-Distance (Inter-Sector)																	
Fixed to Mobile (VC2 & VC3)																	
International																	
Interconnection	192	80	12	12	13	13	50	51	51	52	52	53	53	54	54	55	55
Fixed to fixed																	
Mobile to Fixed																	
Lease of Means																	
Public Telephony	145	69	15	15	15	15	61	62	63	63	64	65	65	66	67	67	68
Special Services	200	114	26	26	26	26	105	107	109	111	113	115	118	120	122	125	127
Other	187	101	19	19	19	19	75	76	78	79	81	82	84	86	87	89	91
Net Revenues	1,849	942	187	188	188	189	752	763	777	791	806	820	835	850	866	881	897

Consolidated Expenses Wireline Argentina

(Euros Million)	2001	2002	1Q03	2Q03	3Q03	4Q03	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Operating Expenses	1,477	958	191	192	193	193	768	780	788	795	803	811	820	828	836	844	853
Personnel	229	133	26	26	26	26	105	107	108	109	110	111	112	113	114	115	116
Interconnection	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
G&A & S&M	467	210	47	48	48	48	191	194	196	198	200	202	204	206	208	210	212
Provisions & Losses	173	71	4	4	4	4	15	15	15	16	16	16	16	16	16	16	17
Other	180	117	13	13	13	14	54	55	55	56	56	57	57	58	58	59	60
Depreciation	428	427	100	101	101	102	403	410	414	418	422	426	430	435	439	443	448
Income Tax	(97)	-	-	(15)	(15)	(15)	(46)	(62)	(62)	(62)	(62)	(62)	(62)	(62)	(62)	(62)	(62)
Operating income	372	(16)	(4)	(4)	(4)	(4)	(16)	(16)	(10)	(4)	2	9	15	22	30	37	44
EBITDA	800	410	96	97	97	98	387	393	403	414	424	435	446	457	469	480	492
EBITDA Margin	43.2%	43.6%	51.5%	51.5%	51.5%	51.5%	51.5%	51.5%	51.9%	52.3%	52.6%	53.0%	53.4%	53.8%	54.1%	54.5%	54.9%
Net Income	108	(1,066)	174.81	87.40	87.84	88.28	438.33	357.56	359.34	361.14	362.95	364.76	366.58	368.42	370.26	372.11	373.97

Cash Flow Statement Wireline Argentina

ARP\$ MM	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Net Sales	6,029	5,966	3,039	2,436	2,463	2,508	2,553	2,599	2,646	2,694	2,743	2,793	2,843	2,895
Operating profit	1,619	1,200	-53	-43	-53	-33	-14	7	28	50	72	95	119	144
(+) Depreciation, Amort.	1,500	1,380	1,377	1,302	1,321	1,335	1,348	1,361	1,375	1,389	1,403	1,417	1,431	1,445
Ebitda	3,119	2,580	1,324	1,259	1,269	1,301	1,334	1,368	1,403	1,439	1,475	1,512	1,550	1,589
(-) Corporate tax on Ebit	(57)	(312)	-	(150)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)
(-) Working capital investment	0	181	-1,144	200	200	200	200	200	200	200	200	200	200	200
(-) Fixed capital investment	0	915	150	200	200	200	200	200	200	200	200	200	200	200
Cash flow from op. - ARP\$ M	3,176	1,796	2,318	1,009	1,069	1,101	1,134	1,168	1,203	1,239	1,275	1,312	1,350	1,389
Cash flow from op. - EUR\$ M	996	563	727	316	335	345	356	366	377	388	400	411	423	435

Consolidated Revenues Wireline Peru

(Euros Million)	2001	2002	1Q03	2Q03	3Q03	4Q03	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Local	400.1	396.8	99.0	100.0	101.0	102.0	402.1	414.3	418.4	422.6	426.8	431.1	435.4	439.8	444.2	448.6	453.1
Installation		-															
Basic Tariff		-															
Pulse (Mrd Service)	400.062	396.785	99.029	100.020	101.020	102.030	402.099	414.283	418.426	422.610	426.836	431.105	435.416	439.770	444.167	448.609	453.095
Fixed to Mobile - VC1		-															
Lease of means		-															
Others		-															
Long-Distance	150.3	106.2	24.5	24.7	25.0	25.2	99.3	102.3	103.4	104.4	105.4	106.5	107.6	108.6	109.7	110.8	111.9
LD (Intra-Sector)		-															
LD (Inter-Sector)		-															
Fixed to Mobile (VC2 & VC3)		-															
International		-															
Interconnection		-															
Fixed to fixed		-															
Mobile to Fixed		-															
Lease of Means		-															
Public Telephony	171.2	185.3	45.2	45.7	46.1	46.6	183.6	189.2	191.1	193.0	194.9	196.9	198.8	200.8	202.8	204.9	206.9
Data Transmission		-															
Cable TV	68.1	73.1	18.7	18.9	19.1	19.3	76.0	78.3	79.1	79.9	80.7	81.5	82.3	83.1	84.0	84.8	85.7
Business Com	49.3	49.6	13.8	13.9	14.1	14.2	56.0	57.7	58.3	58.9	59.5	60.1	60.7	61.3	61.9	62.5	63.1
Telephone Directs	22.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	44.7	47.6	19.3	19.5	19.7	19.9	78.5	80.8	81.6	82.5	83.3	84.1	85.0	85.8	86.7	87.5	88.4
Net Revenues	905.727	866.122	220.554	222.759	224.987	227.237	895.537	922.673	931.899	941.218	950.630	960.137	969.738	979.436	989.230	999.122	1,009.113

Consolidated Expenses Wireline Peru

(Euros Million)	2001	2002	1Q03	2Q03	3Q03	4Q03	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Operating Expenses	658.162	655.642	179.247	180.850	182.468	184.103	726.668	753.086	759.857	766.695	773.602	780.577	787.623	794.739	801.926	809.185	816.516
Personnel	118.673	98.145	24.675	24.922	25.171	25.423	100.191	104.259	105.302	106.355	107.419	108.493	109.578	110.674	111.780	112.898	114.027
G & A	237.077	227.126	62.774	63.402	64.036	64.677	254.889	265.239	267.891	270.570	273.276	276.009	278.769	281.556	284.372	287.216	290.088
Depreciation	241.033	242.109	63.620	64.256	64.898	65.547	258.322	268.810	271.498	274.213	276.956	279.725	282.522	285.348	288.201	291.083	293.994
Tech Trans. & Mngt Fee	41.991	57.030	19.008	19.008	19.008	19.008	76.032	76.032	76.032	76.032	76.032	76.032	76.032	76.032	76.032	76.032	76.032
Materials & Supplies	14.798	13.634	3.531	3.566	3.602	3.638	14.335	14.918	15.067	15.217	15.370	15.523	15.678	15.835	15.994	16.154	16.315
Provisions & Losses	35.668	29.234	8.261	8.344	8.427	8.512	33.545	34.907	35.256	35.608	35.964	36.324	36.687	37.054	37.425	37.799	38.177
Own Work Capital.	(31.079)	(11.636)	(2.622)	(2.648)	(2.675)	(2.702)	(10.647)	(11.079)	(11.190)	(11.302)	(11.415)	(11.529)	(11.644)	(11.761)	(11.878)	(11.997)	(12.117)
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interconnection																	
Income Tax	(47.523)	(46.239)	(12.840)	(6.891)	(8.380)	(20.478)	(48.590)	(23.119)	(11.560)	(5.780)	2.890	3.323	3.822	4.395	5.054	5.813	6.685
Operating Income	247.565	210.479	41.307	41.910	42.519	43.134	168.869	169.586	172.043	174.523	177.029	179.560	182.115	184.697	187.304	189.938	192.597
Ebitda	488.598	452.588	104.926	106.166	107.417	108.682	427.191	438.397	443.541	448.737	453.985	459.285	464.638	470.045	475.505	481.021	486.591
Ebitda Margin	53.9%	52.3%	47.6%	47.7%	47.7%	47.8%	47.7%	47.5%	47.6%	47.7%	47.8%	47.8%	47.9%	48.0%	48.1%	48.1%	48.2%
Net Income	(37.0)	7.7	7.9	7.978	8.057	8.138	32.072	33.374	33.708	34.045	34.385	34.729	35.076	35.427	35.781	36.139	36.500

Cash Flow Statement Wireline Peru

PEN\$ MM	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Net Sales	3,628	3,615	3,457	3,574	3,683	3,720	3,757	3,794	3,832	3,871	3,909	3,948	3,988	4,028
Operating profit	1,072	988	840	674	677	687	697	707	717	727	737	748	758	769
(+) Depreciation, Amort.	826	962	966	1,031	1,073	1,084	1,095	1,105	1,117	1,128	1,139	1,150	1,162	1,173
Ebitda	1,898	1,950	1,806	1,705	1,750	1,770	1,791	1,812	1,833	1,855	1,876	1,898	1,920	1,942
(-) Corporate tax on Ebit	(230)	(190)	(185)	(194)	(92)	(46)	(23)	12	13	15	18	20	23	27
(-) Working capital investment		(659)	(421)	(220)	(220)	(220)	(220)	(220)	(220)	(220)	(220)	(220)	(220)	(220)
(-) Fixed capital investment	678	634	588	608	626	632	639	645	651	658	665	671	678	685
Cash flow from op. - PEN\$ M	1,450	2,164	1,824	1,511	1,436	1,404	1,396	1,375	1,388	1,401	1,414	1,427	1,439	1,451
Cash flow from op. - EUR\$ M	363	541	456	378	359	351	349	344	347	350	354	357	360	363

Consolidated Revenues Chile

(Euros Million)	2001	2002	1Q03	2Q03	3Q03	4Q03	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Local	481.018	443.242	108.484	109.027	109.572	110.120	437.203	446.013	448.243	450.484	452.736	455.000	457.275	459.561	461.859	464.169	466.489
Installation																	
Basic Tariff																	
Pulse (Measured Service)																	
Fixed to Mobile - VC1																	
Lease of means																	
Others																	
Long-Distance	83.092	75.513	17.954	18.044	18.134	18.225	72.358	73.816	74.185	74.556	74.929	75.304	75.680	76.059	76.439	76.821	77.205
Long-Distance (Intra-Sector)																	
Long-Distance (Inter-Sector)																	
Fixed to Mobile (VC2 & VC3)																	
International																	
Interconnection	30.048	28.808	7.130	7.165	7.201	7.237	28.734	29.313	29.459	29.607	29.755	29.903	30.053	30.203	30.354	30.506	30.658
Fixed to fixed	13.221																
Mobile to Fixed																	
Lease of Means	18.320	17.022	3.458	3.476	3.493	3.511	13.938	14.219	14.290	14.361	14.433	14.505	14.578	14.650	14.724	14.797	14.871
Public Telephony	19.881	14.955	3.601	3.619	3.637	3.655	14.512	14.804	14.878	14.952	15.027	15.102	15.178	15.254	15.330	15.407	15.484
Data Transmission	89.568	106.743	25.588	25.716	25.845	25.974	103.123	105.201	105.727	106.255	106.787	107.321	107.857	108.397	108.939	109.483	110.031
Other	49.871	49.100	12.095	12.156	12.216	12.277	48.744	49.727	49.975	50.225	50.476	50.729	50.982	51.237	51.493	51.751	52.010
Net revenues	1,140	1,069	246	248	250	252	997	1,024	1,031	1,038	1,044	1,051	1,058	1,065	1,072	1,078	1,085
Mobile Com.	228.050	256.231	67.945	68.964	69.998	71.048	277.954	291.369	294.282	297.225	300.197	303.199	306.231	309.294	312.387	315.510	318.666

Consolidated Expenses Chile

(Euros Million)	2001	2002	1Q03	2Q03	3Q03	4Q03	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Operating Expenses	964	907	206	207	208	209	828	845	843	841	839	837	835	833	831	829	827
Personnel	125.246	98.522	16.028	16.108	16.188	16.269	64.593	65.895	66.224	66.556	66.888	67.223	67.559	67.897	68.236	68.577	68.920
Interconnection																	
G&A & S&M	162.660	161.485	39.198	39.394	39.591	39.789	157.970	161.153	161.959	162.769	163.583	164.401	165.223	166.049	166.879	167.714	168.552
Provisions & Losses																	
Other	359.758	323.966	69.960	70.310	70.662	71.015	281.947	287.629	287.629	287.629	287.629	287.629	287.629	287.629	287.629	287.629	287.629
Depreciation	316.374	323.223	80.364	80.766	81.170	81.576	323.875	330.401	327.097	323.826	320.588	317.382	314.208	311.066	307.956	304.876	301.827
Income Tax	(14.573)	(33.082)	(11.358)	(6.637)	(8.910)	(10.400)	(37.306)	(16.541)	(8.270)	4.135	4.756	5.469	6.289	7.233	8.317	9.565	11.000
Operating income	175.516	161.587	40.706	41.589	42.486	43.399	168.180	179.382	188.130	196.886	205.652	214.429	223.216	232.014	240.825	249.648	258.486
EBITDA	491.891	484.810	121.070	122.355	123.656	124.974	492.055	509.783	515.227	520.713	526.241	531.811	537.424	543.080	548.780	554.524	560.313
EBITDA Margin	43.2%	45.4%	49.2%	49.3%	49.4%	49.6%	49.4%	49.8%	50.0%	50.2%	50.4%	50.6%	50.8%	51.0%	51.2%	51.4%	51.6%
Net Income	5.243	(21.892)	8.988	9.033	9.078	9.124	36.224	36.954	37.139	37.324	37.511	37.699	37.887	38.076	38.267	38.458	38.650

Cash Flow Statement Chile

Ch\$ MM	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Net Sales	899	920	863	805	827	833	838	843	849	854	860	865	871	877
Operating profit	69	142	130	136	145	152	159	166	173	180	187	194	202	209
(+) Depreciation, Amort.	249	256	261	262	267	264	262	259	256	254	251	249	246	244
Ebitda	318	397	392	397	412	416	421	425	429	434	439	443	448	453
(-) Corporate tax on Ebit	(9)	(12)	(27)	(30)	(13)	(7)	3	4	4	5	6	7	8	9
(-) Working capital investment	-	(56)	(56)	(56)	(56)	(56)	(56)	(56)	(56)	(56)	(56)	(56)	(56)	
(-) Fixed capital investment	200	191	147	230	124	125	126	127	127	128	129	130	131	131
Cash flow from op. - Ch\$ M	128	218	327	253	356	353	347	350	353	356	359	362	365	368
Cash flow from op. - EUR\$ Th	158	270	405	313	441	437	429	433	437	441	445	448	452	455

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