NATIONAL TELEPHONE CO OF VENEZUELA
Form 20-F
June 30, 2003
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SECURITIES AND EXCHANGE COMMISSION

FORM 20-F

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2002

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-14538

COMPAÑÍA ANÓNIMA NACIONAL TELÉFONOS DE VENEZUELA (CANTV)

(Exact name of Registrant as specified in its charter)

NATIONAL TELEPHONE COMPANY OF VENEZUELA (CANTV)

(Translation of Registrant s name into English)

BOLIVARIAN REPUBLIC OF VENEZUELA

(Jurisdiction of incorporation or organization)

AVENIDA LIBERTADOR, CENTRO NACIONAL DE TELECOMUNICACIONES,

NUEVO EDIFICIO ADMINISTRATIVO, PISO 1, APARTADO POSTAL 1226

CARACAS, VENEZUELA 1010

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class D Shares of common stock, par value Bs.36.90182224915 per share	New York Stock Exchange*
American Depository Shares (ADSs) each of which represents 7 Class D Shares of common stock	New York Stock Exchange

* Not for trading but only in connection with the registration of ADSs pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

Class A Shares	251,178,710	Class C Shares	91,937,776
Class B Shares	51,900,000	Class D Shares	392,124,363

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ¨ Item 18 x

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INTRODUCTION

As used in this Form 20-F, unless the content otherwise requires, the Company means Compañía Anónima Nacional Teléfonos de Venezuela (CANTV) and its consolidated subsidiaries, and CANTV means Compañía Anónima Nacional Teléfonos de Venezuela (CANTV). Unless otherwise specified, all references in this Form 20-F to U.S. dollars, dollars, U.S.$ or $ are to United States dollars and references to bolivars Bs. are to Venezuelan *bolivares,* the legal tender currency of the Bolivarian Republic of Venezuela (Venezuela). References to access lines in service are to lines billed. References to minutes of use are to billed minutes of use excluding free minutes offered under certain calling plans.

The Company prepares its financial statements in constant bolivars and in conformity with generally accepted accounting principles in Venezuela (Venezuelan GAAP). Venezuelan GAAP differs in certain important respects from generally accepted accounting principles in the United States (U.S. GAAP). See Note 25 to the Audited Consolidated Financial Statements of the Company as of December 31, 2001 and 2002 and for the years ended December 31, 2000, 2001 and 2002 (the Audited Financial Statements) also included in this Form 20-F for a description of the principal differences between Venezuelan GAAP and U.S. GAAP as they relate to the Company and a reconciliation to U.S. GAAP of net income reported under Venezuelan GAAP for the years ended December 31, 2000, 2001 and 2002 and total stockholders equity as of December 31, 2001 and 2002.

The Venezuelan GAAP financial information of the Company presented herein has been restated to reflect the adoption of International Accounting Standard No. 19 Employee Benefits (IAS-19) retroactively since 1999. The Venezuelan GAAP and U.S. GAAP financial information of the Company for the year 2001 presented herein has been restated to reflect an adjustment to revenues in respect of airtime credits granted to wireless customers in 2002. In addition, the Company has restated the Venezuelan GAAP financial information for all years presented herein to reflect the change in accounting treatment of shares held in trust for distribution in the form of awards to employees. See Item 5. Operating and Financial Review and Prospects Critical Accounting Policies Impact of Restatements.

Pursuant to Venezuelan GAAP, financial data regarding the Company have been adjusted to reflect the effects of inflation using the *Indice General de Precios al Consumidor del Area Metropolitana de Caracas* (Index of Consumer Prices of the Caracas Metropolitan Area) (the Consumer Price Index or CPI) published by the *Banco Central de Venezuela* (the Central Bank of Venezuela). See Note 4(b) to the Audited Financial Statements. Unless otherwise specified, financial data regarding the Company is presented in this Form 20-F in constant bolivars as of December 31, 2002. Although the restatement of nominal bolivar amounts into constant bolivar amounts lessens the distorting effect that an inflationary environment has on comparisons of financial statements over time, such restatement does not wholly eliminate those distortions, and evaluation of period-to-period trends may be difficult. References in this Form 20-F to amounts in nominal bolivars or historical bolivars are to bolivars that have not been adjusted for inflation. As indicated in this Form 20-F, the rates the Company charges for certain telephone services are subject to regulation including adjustments to reflect the effects of inflation using the *Indice de Precios al Mayor* (the Wholesale Price Index or WPI) published by the Central Bank of Venezuela.

For the convenience of the reader, this Form 20-F contains translations of certain constant bolivar amounts into U.S. dollars at the average daily exchange rate announced by the Central Bank of Venezuela (the Daily Exchange Rate) on December 31, 2002 (unless otherwise specified), which was Bs. 1,403.00 = $1.00. No representation is made that the bolivar or U.S. dollar amounts shown in this Form 20-F could have been or could be converted into U.S. dollars or bolivars, as the case may be, at such rates or at any other rates. The translation of amounts expressed in nominal or constant bolivars as of a specified date by the then prevailing exchange rate may result in presentation of dollar amounts that differ from the dollar amounts that would have been obtained by translating nominal or constant bolivars as of another specified date.

On January 21, 2003, the Venezuelan Government suspended the trading of foreign currency. On February 5, 2003, the Government approved the initial rules governing foreign currency trading. Pursuant to the new exchange controls regime, the official selling exchange rate has been fixed at Bs. 1,600 per U.S. dollar and may be subject to periodic revision and adjustment by the Central Bank of Venezuela. See Item 3. Key Information Risk Factors Exchange Controls and Currency Devaluation and Item 10. Additional Information Exchange Controls.

Operational data regarding the Company contained in this Form 20-F is presented as of December 31, 2002, unless otherwise stated.

Neither the Government of Venezuela (the Government) nor private independent sources publish definitive data regarding telecommunications markets in Venezuela. However, certain Government entities have published statistics on wireless service competitors, which the Company has used in computing the market share data relating to such competitors. Additional data, including population data, were obtained from third-party sources. To the extent estimates are contained in this Form 20-F, the management of the Company believes that such estimates, which are based on internal data, are reliable but they have not been confirmed by independent sources.

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

Selected Financial Data

The following table presents selected financial information for each of the years in the five-year period ended December 31, 2002 and should be read in conjunction with and is qualified in its entirety by reference to the Audited Financial Statements of the Company, including the Notes thereto, also included in this Form 20-F. The Company s Audited Financial Statements have been prepared in accordance with Venezuelan GAAP, which differ in certain important respects from U.S. GAAP, and have been presented in constant bolivars as of December 31, 2002. See Item 5. Operating and Financial Review and Prospects Introduction and Note 4(b) to the Audited Financial Statements for a discussion of the methodology used to prepare the constant bolivar financial statements. Note 25 to the Audited Financial Statements provides a description of the principal differences between Venezuelan GAAP and U.S. GAAP and a reconciliation to U.S. GAAP of net income for the years ended December 31, 2000, 2001 and 2002 and total stockholders equity at December 31, 2001 and 2002.

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	Year Ended December 31,					
	1998 (1)	1999 (1)	2000 (1)(2)	2001 (1)(4)(8)	2002 (1)	2002 (3)
	(in millions, except per share and per ADS data)					
Income Statement Data: (9)						
Venezuelan GAAP:	Restated	Restated	Restated	Restated		
Wireline services	Bs. 2,289,755	Bs. 2,725,772	Bs. 2,625,601	Bs. 2,385,522	Bs. 2,021,429	$ 1,441
Wireless services	511,528	483,484	440,500	517,811	570,780	407
Other telecommunications-related services	54,267	64,613	68,047	72,949	86,694	62
Total operating revenues	2,855,550	3,273,869	3,134,148	2,976,282	2,678,903	1,910
Operating expenses	(2,529,862)	(3,028,803)	(3,108,068)	(2,778,902)	(2,572,212)	(1,834)
Operating income	325,688	245,066	26,080	197,380	106,691	76
Other expenses, net	(42,799)	(61,089)	(52,066)	(31,815)	(15,699)	(11)
Income (loss) before income taxes and cumulative effect of accounting change	282,889	183,977	(25,986)	165,565	90,992	65
Income tax provision	1,955	22,820	52,196	56,454	23,481	17
Income (loss) before cumulative effect of accounting change	280,934	161,157	(78,182)	109,111	67,511	48
Cumulative effect of accounting change			(59,695)			
Minority Shareholders Interest (10)		(349)	189	(239)	(665)	
Net income (loss)	Bs. 280,934	Bs. 160,808	Bs. (137,688)	Bs. 108,872	Bs. 66,846	$ 48
Earnings (loss) per share before cumulative effect of accounting change	283.31	162.42	(82.92)	120.54	86.11	0.06
Earnings (loss) per ADS before cumulative effect of accounting change	1,983.17	1,136.94	(580.44)	843.78	608.86	0.43
Earnings (loss) per share	283.31	162.07	(146.03)	120.28	86.11	0.06
Earnings (loss) per ADS	1,983.17	1,134.49	(1,022.21)	841.96	602.77	0.43
Basic and diluted earnings (loss) per share (5)	283.31	162.07	(146.03)	120.28	86.11	0.06
Basic and diluted earnings (loss) per ADS (5)	1,983.17	1,134.49	(1,022.21)	841.96	602.77	0.43
Cash dividends declared per share (6)	292.11	104.29	97.32	90.84	190.99	0.14
Cash dividends declared per ADS (6)	2,044.77	730.03	681.24	635.88	1,336.93	0.98
Extraordinary cash dividends declared per share (6)		167.12		693.42	165.00	0.12
		1,169.83		4,853.94	1,155.00	0.82

Extraordinary cash dividends declared per ADS (6)						
Average shares outstanding (7)	991.63	992.23	942.90	905.15	776.20	776.20

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	1998 (1)	1999 (1)	2000 (1)(2)	2001 (1)(4)(8)	2002 (1)	2002 (3)
	(in millions, except per share and per ADS data)					
U.S. GAAP:						
Total operating revenues	Bs. 2,855,550	Bs.3,273,869	Bs.3,134,148	Bs.2,976,282	Bs. 2,678,903	$ 1,910
Operating income	306,078	233,496	30,833	172,402	107,555	77
Net income (loss)	313,796	291,565	(38,640)	48,963	103,720	74
Earnings (loss) per share	316.44	293.85	(40.97)	54.10	133.63	0.09
Earnings (loss) per ADS	2,215.11	2,056.94	(286.82)	378.71	935.38	0.67
Cash dividends declared per share (6)	292.11	104.29	97.32	90.84	190,99	0.14
Cash dividends declared per ADS (6)	2,044.74	730.03	681.24	635.88	1,336.93	0.98
Extraordinary cash dividends declared per share (6)		167.12		693.42	165.00	0.12
Extraordinary cash dividends declared per ADS (6)		1,169.83		4,853.92	1,155.00	0.82
Average shares outstanding (7)	991.63	992.23	942.90	905.15	776.20	

(1) Bolivar amounts are in constant bolivars as of December 31, 2002.

(2) Year 2000 data includes a workforce reduction charge of Bs. 162.6 billion or approximately $116 million related to a workforce reduction program. See Item 5. Operating and Financial Review and Prospects.

(3) Bolivar amounts have been translated into U.S. dollars, solely for the convenience of the reader, at the rate of Bs. 1,403.00 = $1.00, the Daily Exchange Rate on December 31, 2002. Such translations should not be construed as representations that the bolivar amounts actually represent such U.S. dollar amounts or could be converted at the rate indicated, or at all. See Exchange Rates.

(4) In 2001, the Company recorded a one-time charge of Bs. 47.4 billion or approximately $34 million, for special termination benefits, related to the pension and post-retirement plans offered under the employee reduction program implemented in January 2001. See Item 5. Operating and Financial Review and Prospects.

(5) During the periods presented, there were no common stock equivalents having a dilutive effect.

(6) In 1998, ordinary cash dividends declared per share and per ADS at the dividend declaration date were Bs. 124.10 and Bs. 868.70, respectively. The Company paid the dividends declared in 1998 in two equal payments. The first payment represented $0.12 per share and $0.81 per ADS and the second payment represented $0.11 per share and $0.75 per ADS. In 1999, the Company declared and paid an ordinary dividend and an extraordinary dividend. Ordinary cash dividends declared per share and per ADS at the dividend declaration date were Bs. 55.33 and Bs. 387.31, respectively, or $0.09 and $0.63, respectively. Extraordinary cash dividends declared per share and per ADS at the dividend declaration date were Bs. 100.00 and Bs. 700.00, respectively, or $0.15 and $1.05, respectively. In 2000, ordinary cash dividends declared per share and per ADS at the dividend declaration date were Bs. 60.00 and Bs. 420.00, respectively, or $0.09 and $0.63, respectively. On March 27, 2001, the Company declared an ordinary cash dividend of Bs. 63 per share and Bs. 441 per ADS, or $0.09 per share and $0.62 per ADS. This dividend was paid on April 6, 2001. On October 24, 2001, the Company declared an extraordinary cash dividend of Bs. 520 per share and Bs. 3,640 per ADS payable in two installments. The first payment of Bs. 284 per share and Bs. 1,988 per ADS equivalent to $0.38 per share and $2.66 per ADS, respectively, was made on December 10, 2001. The second payment of Bs. 236 per share and Bs. 1,652 per ADS equivalent to $0.26 per share and $1.82 per ADS, respectively, was made on March 18, 2002. On March 22, 2002, the Company declared an ordinary cash dividend of Bs. 41.60 per share and Bs. 291.2 per ADS, equivalent to $0.03 per share and $0.21 per ADS. This dividend was paid on June 6, 2002. On December 10, 2002, the Company declared an extraordinary dividend of Bs. 165 per share and Bs. 1,155 per ADS equivalent to $0.12 per share and $0.84 per ADS. The Company also declared the payment of a portion of the ordinary dividend for 2003 of Bs. 140 per share and Bs. 980 per ADS equivalent to $0.10 per share and $0.70 per ADS. These dividends were paid on January 15, 2003. Dividend information in U.S. dollars is expressed at the exchange rate as of the dividend payment date. See Risk Factors Exchange Controls and Currency Devaluation and Item 10. Additional Information Exchange Controls.

(7) The average shares outstanding does not include shares held by the Company for distribution to employees in the form of awards.

(8) As of December 31, 2001, consolidated financial statements have been restated in order to reflect an accounting change related to a promotion for cellular subscribers, which resulted in a net reduction to revenues, operating income and net income of approximately Bs. 19,402.

(9) Venezuelan GAAP financial information has been restated to reflect the adoption of IAS-19 retroactively since 1999. Venezuelan GAAP and U.S. GAAP financial information for 2001 has been restated to reflect the change in accounting treatment adopted for the promotion for cellular subscribers in 2002. These restatements resulted in changes to reported operating expenses; operating income; other expenses, net; and net income. The Venezuelan GAAP financial information for all years presented herein has also been restated to reflect a change in accounting for shares held in trust to be distributed in the form of awards to employees. These shares are treated as a reduction to

stockholders equity and the trust that holds such shares has been consolidated with the Company. See Item 5. Operating and Financial Review and Prospects Critical Accounting Policies Impact of Restatements for a comparison of restated amounts versus previously reported balances.

(10) Minority Shareholders Interest represents the equity loss (income) in subsidiaries that are not wholly owned. CANTV owns 80% of Caveguias, and owned 51% of Altair until May 2002, when CANTV acquired the remaining 49%.

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	At December 31,					
	1998 (1)	1999 (1)	2000 (1)	2001 (1)(4)	2002 (1)	2002 (2)
	(in millions, except per share and per ADS data)					
Balance Sheet Data:(4)						
Venezuelan GAAP:						
Working capital	Bs. 452,297	Bs. 605,794	Bs. 436,323	Bs. (190,151)	Bs. (33,314)	$ (24)
Property, plant and equipment, net	5,556,980	5,208,557	4,761,313	4,069,499	3,634,420	2,590
Total assets	7,378,393	7,192,995	6,786,723	5,583,298	5,180,197	3,692
Total indebtedness	740,310	660,316	584,698	473,959	404,807	289
Capital stock	2,147,647	2,145,050	1,989,248	1,692,816	1,692,816	1,207
Total stockholders equity (3)	5,547,175	4,995,778	4,449,744	3,356,385	3,150,772	2,245
U.S. GAAP:						
Property, plant and equipment, net	Bs. 5,643,757	Bs. 5,310,262	Bs. 4,878,156	Bs. 4,194,599	Bs. 3,772,447	$ 2,689
Capital stock	2,094,849	2,092,252	1,936,449	1,640,018	1,692,816	1,207
Total assets	7,430,318	7,260,548	6,944,623	5,755,020	5,385,470	3,839
Total stockholders equity (3)	5,456,526	5,279,093	4,832,104	3,678,839	3,499,298	2,494

(1) Bolivar amounts are in constant bolivars as of December 31, 2002.
(2) Bolivar amounts have been translated into U.S. dollars, solely for the convenience of the reader, at the rate of Bs. 1,403.00 = $1.00, the Daily Exchange Rate on December 31, 2002. Such translations should not be construed as representations that the bolivar amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated, or at all. See Exchange Rates.
(3) Stockholders equity and net assets are interchangeable, but generally stockholders equity applies to business enterprises and net assets to not-for-profit organizations. Reduction in 2001 primarily due to repurchased shares of Bs. 590,572 million.
(4) Venezuelan GAAP financial information has been restated to reflect the adoption of IAS-19 retroactively to 1999. Venezuelan GAAP and U.S. GAAP financial information for 2001 has been restated to reflect the change in accounting treatment adopted for the promotion for cellular subscribers in 2002. These restatements resulted in changes to reported operating expenses; operating income; other expenses, net; and net income. The Venezuelan GAAP financial information for all years presented herein has also been restated to reflect a change in accounting for shares held in trust to be distributed in the form of awards to employees. These shares are treated as a reduction to stockholders equity and the trust that holds such shares has been consolidated with the Company. See Item 5. Operating and Financial Review and Prospects Critical Accounting Policies Impact of Restatements for a comparison of restated amounts versus previously reported balances.

	Year Ended December 31,				
	1998	1999	2000	2001	2002
Inflation and Devaluation Data:					
Increase in Consumer Price Index	29.9%	20.0%	13.4%	12.3%	31.2%
Increase in Wholesale Price Index	23.3%	13.6%	15.8%	10.2%	44.4%
Rate of bolivar devaluation	11.9%	14.9%	7.8%	8.3%	85.1%

Average Shares Outstanding

Income per share is calculated based on the average number of shares outstanding in each relevant year. The average common shares outstanding at December 31, 1998, 1999, 2000, 2001 and 2002 under Venezuelan GAAP were 991,633,000; 992,229,000; 942,903,329; 905,150,957 and 776,201,812 shares, respectively. Shares held in trust for distribution to employees in the form of awards have been deducted from stockholders equity, and are not included in the calculation of average shares outstanding.

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Exchange Rates

The following table sets forth the average, high, low and period-end noon buying rates for the bolivar reported by the Federal Reserve Bank of New York (the Noon Buying Rate) expressed as bolivars per U.S. dollar concerning bolivar/U.S. dollar exchange rates for the years 1998, 1999, 2000, 2001 and 2002, each of the last three months of 2002 and each of the first five months of 2003:

Year Ended December 31,	High (1)	Low (1)	Average (2)	End of Year (3)
1998	582.50	511.15	550.72	565.00
1999	649.25	573.75	609.41	649.25
2000	700.50	655.75	682.41	700.50
2001	758.00	701.25	726.55	758.00
2002	1,473.00	766.20	1,200.00	1,390.50

Monthly	High (4)	Low (4)	Average (5)	End of Month (6)
Year 2002				
October	1,496.00	1,373.00	1,440.50	1,425.00
November	1,430.00	1,313.50	1,358.61	1,323.50
December	1,399.50	1,256.00	1,328.29	1,390.50
Year 2003				
January	1,923.50	1,393.50	1,714.45	1,923.50
February (7)	1,923.50	1,600.00	1,736.21	1,600.00
March	1,600.00	1,600.00	1,600.00	1,600.00
April	1,600.00	1,600.00	1,600.00	1,600.00
May	1,600.00	1,600.00	1,600.00	1,600.00

(1) The highest and lowest of the Noon Buying Rates for the bolivar per U.S. dollar reported by the Federal Reserve Bank of New York on the last business day of each month during the relevant year.
(2) The average of the Noon Buying Rates on the last date of each month during the relevant year.
(3) The Noon Buying Rates on the last day of each relevant year.
(4) The highest and lowest of the Noon Buying Rates of each day in the relevant month.
(5) The average of the Noon Buying Rates of each day in the relevant month.
(6) The Noon Buying Rates on the last day of each relevant month.
(7) Pursuant to the recently adopted Government controls on foreign exchange, the official selling exchange rate has been fixed at Bs. 1,600 per U.S. dollar and may be subject to periodic revision and adjustment by the Central Bank of Venezuela.

On May 31, 2003, the Noon Buying Rate was Bs. 1,600.00 = $1.00 (equivalent to Bs. 1.00 = $0.00063).

The Company s financial statements are based on the exchange rates announced by the Central Bank of Venezuela, which do not differ significantly from the Noon Buying Rates reported by the Federal Reserve Bank of New York.

There are currently controls on foreign exchange in effect under Venezuelan law. On January 21, 2003, the Government suspended the trading of foreign currency. On February 5, 2003, the Government approved the initial rules governing foreign currency trading. The new rules severely restrict the access of companies and individuals to foreign currency. As of May 31, 2003 foreign exchange activities have not been fully normalized and only limited foreign currency exchange requests have been approved. The official selling exchange rate has been fixed at Bs. 1,600 per U.S. dollar and may be subject to periodic revision and adjustment by the Central Bank of Venezuela.

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For a discussion of the effect, and potential effect, of fluctuations in bolivar/U.S. dollar exchange rates as well as exchange controls on the Company, its results of operations and financial condition and on the market price, liquidity of, and return on investment on the American Depositary Shares (the ADSs) and the Class D Shares, see Risk Factors Exchange Controls and Currency Devaluation, Item 5. Operating and Financial Review and Prospects and Item 10. Additional Information Exchange Controls.

Capitalization and Indebtedness

Not applicable.

Reasons for the Offer and Use of Proceeds

Not applicable.

Risk Factors

Factors Relating to Venezuela

Venezuelan Political Risk

Substantially all of the Company s businesses are conducted in Venezuela. The Company s results of operations and financial condition have been, and are expected to continue to be, affected generally by inflation, exchange rates, interest rates, changes in Government leadership and policy, taxation and other political, economic or other developments in or affecting Venezuela. Venezuela has had continuous democratically elected governments since 1958. However, overthrows of the Government were attempted in 1992 and again in April 2002, but were quickly suppressed by military and civil forces. In May 1993, the Venezuelan Senate voted to authorize impeachment proceedings against then-President Carlos Andres Perez. The current President, Hugo Chavez Frias, who led one of the 1992 coup attempts, was elected in December 1998 and took office in February 1999. In April 2002, after growing protests, President Chavez was himself subject to a governmental coup that lasted three days, and ended with his reinstatement as president on April 14, 2002. In the months following the reinstatement of President Chavez there was an escalation in public protests culminating in nationwide strikes.

Since taking office, the government of President Chavez has implemented significant political changes. The Chavez administration convened the National Constituent Assembly for the purpose of writing a new Venezuelan Constitution, which became effective on December 30, 1999 and provided for a new Citizen Power branch of the Government in addition to the President, National Assembly and Supreme Justice Court. On July 30, 2000 President Chavez was re-elected and his political party, the Fifth Republic Movement (*Movimiento Quinta Republica*), also won 77 of 165 seats in the Congress. President Chavez s government has relied heavily on his connection with the Venezuelan military and there has been increasing controversy over the use of armed forces personnel in traditionally non-military roles. For example, President Chavez appointed active and retired military officers to high government posts including the presidencies of the major state-owned corporations, Petroleos de Venezuela, S.A. (PDVSA), CITGO Petroleum Corporation and Corporacion Venezolana de Guayana. In August 2000, President Chavez announced plans for broad economic reform, designed to promote private investment and economic growth. In November 2000, the Venezuelan National Assembly passed the Ley Habilitante (the Enabling Law), which allowed President Chavez for a one-year period to enact laws by decree relating to infrastructure and the financial sector, which are believed to have negatively affected foreign investment.

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On November 13, 2001, President Chavez enacted forty-nine (49) laws under the Enabling Law, including the Hydrocarbons Law, Land and Agricultural Development Law, Fishing and Aquaculture Law, Coastal Zones Law, General Law of Marine and Related Activities, General Banking and other Financial Institutions Law, Cooperative Association Special Law, Partial Reform of Auction Law, Road Transit Law and the Statute of Public Function Law. The approval of these laws has created controversy and has been called into question by the business sector and other analysts because of their state-interventionist and undemocratic orientation. Together, these laws are believed to have affected private and foreign investment and could jeopardize property rights.

The laws enacted in November 2001 under the Enabling Laws have also been questioned by *La Federacion Venezolana de Camaras y Asociaciones de Comercio y Produccion* (Fedecamaras) (The Venezuelan Federation of Commerce and Production Chambers and Associations), the leading federation of trade and industry organizations. Fedecamaras has expressed the view that these laws were approved without proper debate and without satisfying the consultative requirements for approving laws pursuant to the Organic Law of Public Administration and the National Constitution of 1999.

The discontent produced by the laws enacted in November 2001 under the Enabling Law developed into massive public protests. On December 10, 2001, Fedecamaras organized a national strike that received the support of all the important businesses sectors of the country (banking, commerce and industry) and paralyzed essentially all commercial activity. Additionally, some sectors have petitioned the Supreme Justice Court for partial or total nullification of these laws. Specifically, *La Federacion Nacional de Ganaderos* (Fedenaga) (The National Federation of Cattle Producers) filed a request for a nullification order against the Land and Agricultural Development Law, while Fedecamaras filed a nullification order against all of the laws approved under the Enabling Law. The National Assembly established a forum to discuss all the proposed reforms to these laws; in particular, *Accion Democratica*, an opposition political party, asked for a *vacatio legis* (an extension of the time period between the enactment of a law and the date on which it becomes effective) for all the laws.

Discontent and dissidence against the current Government have been continually expressed and reflect not only dissatisfaction with the Enabling Law, but also with the management of economic policy and international relations and the increasing confrontational attitude of the President against diverse social sectors considered as key institutions, such as the Catholic Church, the media and the *Confederacion de Trabajadores de Venezuela* (CTV) (Confederation of Venezuelan Workers), the largest labor organization. As indicated by several opinion polls (Consultores 21, Datanalisis and Alfredo Keller y Asociados), President Chavez s popularity has declined from the 90% reported in 1999 to approximately 35% to 38% in the first quarter of 2003.

In early 2002, several active members of the armed forces and the National Assembly considered loyal to President Chavez publicly expressed their dissidence with the Government. Moreover, perceived uncertainty regarding laws enacted under the Enabling Law, particularly those relating to taxation and social security matters, and increasing tensions within the media, labor unions, management of PDVSA and industrial associations intensified and lead to regular demonstrations both in favor of and against the Government during early 2002. Managers of PDVSA, who did not support the appointment of President Chavez loyalists to the PDVSA s board of directors and increased government control of the company, participated in a work slowdown in late February 2002 and began a strike on April 4, 2002. On April 9, 2002, leaders of the CTV and Fedecamaras joined the PDVSA strike, calling for a general strike that lasted three days and culminated on April 11, 2002 with a massive opposition march in Caracas. Violence between protesters and supporters of President Chavez during that march resulted in approximately 17 deaths. This event prompted dissident officers of the armed forces to intervene and ask President Chavez to resign. During the early hours of April 12, 2002, President Chavez, was forced out of office.

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A transitional government led by Pedro Carmona Estanga, head of Fedecamaras, replaced President Chavez on April 12, 2002. Mr. Carmona s decisions upon taking office to dissolve Venezuela s elected National Assembly, fire members of the Supreme Justice Court and revoke the package of controversial laws enacted in November 2001 pursuant to the 2001 Enabling Law, was met with severe domestic and international criticism. Under pressure from military forces loyal to President Chavez and public demonstrations in support of President Chavez (who denied having resigned as president on April 12), and as a result of the lack of support for Mr. Carmona from moderate factions within the military and the general public, Mr. Carmona resigned and Hugo Chavez was reinstated as President on April 14, 2002. In a conciliatory move, President Chavez dissolved the then recently installed Board of Directors of PDVSA.

In response to the country s political crisis, the Government decided in July 2002 to invite the OAS, the Carter Center, and the United Nations Development Program (UNDP) to act as mediators and aid in the negotiations between the Government and the political opposition. To this end, the Negotiation and Agreement Round Table (the Round Table) was inaugurated on November 8, 2002 made up of six government representatives and six representatives of the Democratic Coordinating Council (*Coordinadora Democratica*), an anti-government alliance and with OAS General Secretary Cesar Gaviria acting as international mediator. The Round Table s main objectives were an electoral agreement to resolve the country s political crisis through elections and achieve consensus on strengthening the electoral system, disarming the civil population, and creating a Truth Commission to investigate the tragic events of April 11, 2002. A tripartite technical group was also formed, comprised of the OAS, the Carter Center, and the UNDP, whose task was to provide technical support to the mediators and supervise the fulfillment of any electoral agreement. In addition, the creation of a Group of Friends (Spain, Portugal, the United States, Chile, Mexico, and Brazil) was also intended to strengthen the active role of the international participants.

Among specific proposals discussed for solving the political crisis were (i) a Recall Referendum (the *Referendo Revocatorio*) to revoke the President s mandate, (ii) a constitutional amendment to shorten the presidential term and call for early elections and (iii) a Constitutional Assembly with powers to call for elections, dismiss the President and other branches of the Government and write a new constitution.

In the absence of an electoral agreement at the Round Table, former U.S. President Jimmy Carter proposed two options: a modified constitutional amendment to shorten the presidential term from six years to four with general elections to follow, or for the President to commit to holding a Recall Referendum no later than August 19, 2003 with general elections held prior to September 19, 2003. The Government expressed its support for the Recall Referendum option and the opposition supported the constitutional amendment but later agreed to the Recall Referendum. The Recall Referendum has four basic elements: (i) the Supreme Tribunal of Justice established the date of the Recall Referendum for August 19, 2003, (ii) the National Assembly is to elect the Electoral Council (CNE), (iii) the Recall Referendum is held on August 19, 2003 and (iv) in the event President Chavez loses the Recall Referendum, general presidential elections would be held 30 days later. President Chavez would be allowed to run for re-election in the general presidential elections if he determines.

On December 2, 2002, a general strike was called by Fedecamaras, the CTV, and most of the opposition political forces organized in the Democratic Coordinating Council. Its main goal was to force the President from office. A significant part of the oil industry s personnel joined the strike, resulting in a suspension of oil exports and shortages of gasoline and household gas in the domestic market and a substantial paralysis of the non-oil sector. The actions taken by the Government after the December general strike focused chiefly on the firing of approximately 18,000 oil industry workers who had participated in the work stoppage. The Government also appointed a new PDVSA Board.

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On February 2, 2003, the opposition collected enough signatures for initiating an alternative amendment, the Recall Referendum and a Constitutional Assembly as it became legally impossible to hold a referendum at that time.

During the months following the end of the general strike, the opposition weakened because of its failure to achieve any of its demands. Meetings of the Round Table participants became intermittent during the December 2002 general strike. Until April 2003, the Round Table produced no concrete results other than the February 18, 2003 signing by the Government and opposition representatives of a declaration against violence. On May 29, 2002, the members of the Round Table signed an agreement to resolve the political stalemate through an electoral process in accordance with the Venezuelan Constitution. The agreement includes a Recall Referendum for all elected government positions, including the Presidency which, pursuant to the Venezuelan Constitution, could be held no earlier than August 19, 2003, approximately the mid-point of President Chavez s term in office. The implementation of this Recall Referendum is subject to the collection of signatures in favor from at least 20% of the total voting population and the approval of the CNE. To date, the Government s strength lies in a fragmented opposition that is unable to generate disapproval with the Government that is shared by more than 60% of the population.

These events demonstrate the deepening divisions within the military as well as the discontent with President Chavez within the business and labor sectors. The issues and problems that drove many sectors of Venezuela society against President Chavez remain unsolved. These factors present an environment of increasing ungovernability, political polarization, and political and social instability. There can be no assurance that the economic and political uncertainty, which has negatively affected the growth of the Venezuelan economy in the past, will not persist.

The Government has historically exercised significant influence over the Venezuelan economy. In 1994 exchange controls were imposed, in 1996 constitutional rights were suspended, and most recently in 2003 exchange controls were again imposed. Although the Government has intermittently begun reform programs to lessen the public sector s role in the economy over the last few years, it continues to exercise a significant influence over the economy. Government actions concerning the economy are likely to continue to have an important effect on:

- the financial condition and results of operations of companies operating in Venezuela;
- the ability of Venezuelan companies to make capital expenditures; and
- the market prices, liquidity and return on securities carrying Venezuelan risk, such as the ADSs and the Class D Shares.

Economic Considerations

Demand for telephone services in Venezuela and the Company s results of operations and financial condition have been, and are expected to continue to be, affected by the state of Venezuela s economy. Venezuela s gross domestic product (GDP) decreased by 7.2% in 1999, increased by 3.2% in 2000 and by 2.7% in 2001 and decreased by 8.9% in 2002. Not accounting for petroleum-related activities, Venezuela s GDP decreased by 4.9% in 1999, increased by 2.7% in 2000 and 3.8% in 2001 and decreased by 6.5% in 2002. See Importance of Oil Sector. In 2003, yearly average oil production will be below that of 2002.

Non-oil activity, for its part, could be undercut by falling consumption and investment in both the public and private sectors. Moreover, private sector consumption will be depressed by the falling of purchasing power in response to the increase in inflation, while private sector investment will decrease as

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a result of the drop in demand, the foreign exchange controls regime, the lagging effects of the general strike, and the continuing political uncertainty.

Prices are expected to rise at a faster pace than last year. The government estimates a 35% inflation rate for 2003. The country s economic condition may worsen even more if oil prices decline substantially as a result of the rapid end to the conflict in Iraq and as a result of a possible weak recovery of the global economy.

The economic deterioration experienced last year may well continue in 2003. Only a political agreement to facilitate an institutional solution to the crisis can create the stability required for private investment and a full revival of the oil industry, which would make it possible to reverse the deteriorating economy trend during 2003. Such an agreement appears unlikely in the short-term.

There can be no assurance that economic conditions in Venezuela will improve or that they will not continue to have an adverse effect on demand for the Company s services or on the Company s results of operations and financial condition. See Item 5. Operating and Financial Review and Prospects.

Inflation, Tariff Regulation and Price Controls

Venezuela has experienced high levels of inflation during the past decade. The general rate of inflation as measured by the Consumer Price Index, or CPI, was 13.4%, 12.3% and 31.2% for 2000, 2001 and 2002, respectively, and as measured by the Wholesale Price Index, or WPI, was 15.8%, 10.2% and 44.4% for 2000, 2001 and 2002, respectively. Consumer and wholesale prices are expected to increase in 2003, fueled by currency devaluation. Consumer price inflation reached 31.2% in 2002 and 13.8% during the first five months of 2003. The Company estimates consumer and wholesale price inflation of 45% and 68%, respectively, for year end 2003 (in highly devaluationary periods, increases in wholesale prices tend to exceed increases in consumer prices, since the price increases in wholesale foreign components are higher than the price increases in domestic ones).

Prior to entering into an agreement in February 2000 with *Comision Nacional de Telecomunicaciones* (the National Commission of Telecommunications) (CONATEL) relating to, among other things, the rates CANTV charged for telephone services during 2000 (the Agreement), CANTV s rates were regulated under the Concession (as described herein). See Item 4. Information on the Company Regulatory Framework. The Concession had provided for a price-cap mechanism to set and adjust rates on a quarterly basis throughout each calendar year. The price-cap mechanism was designed to vary quarterly based on the WPI. Although in principle tariffs were to be adjusted to reflect inflation in the preceding quarter, they were in practice generally calculated based upon rates of inflation during the second quarter preceding the adjustment. The delay was due to the time period required to calculate the inflation rate during a specific quarter. Accordingly, in many instances tariffs were implemented based on inflation levels relating to periods ending as much as six months preceding their implementation date.

The increase in CANTV s tariffs did not, in all cases, fully offset the effects of inflation used in preparing the Company s financial statements since the rate of inflation used in preparing the Company s financial statements is based on the CPI which, at times, significantly exceeded the rate of inflation as measured by the WPI prior to 2000. Further, the price-cap mechanism was not always implemented as described in the Concession. CONATEL sometimes delayed the approval of rate increases or did not allow the full tariff increases allowed by the Concession s price-cap mechanism. In other cases, the Company decided not to implement the full increase authorized for competitive or other reasons or was unable to obtain approval to increase its tariffs as stipulated in the Concession until the Agreement.

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Under the Agreement, the first tariff increase became effective on March 23, 2000 and the second tariff increase became effective on June 16, 2000. See Item 4. Information on the Company Regulatory Framework Regulation and the Concession The Agreement. The tariffs under the Agreement were effective only until March 10, 2001 if CANTV and CONATEL were unable to reach an agreement on the tariffs to apply to CANTV after November 27, 2000. During 2000, CANTV and CONATEL failed to reach an agreement on tariffs to apply after November 27, 2000.

On February 19, 2001 pursuant to the *Ley Orgánica de Telecomunicaciones* (*Gaceta Oficial N° 36,970*, enacted on June 12, 2000) (the New Telecommunications Law), CONATEL established the maximum tariffs for 2001 that were applicable to the Company effective on March 11, 2001 and the new tariff-setting system that replaced the tariff adjustment mechanism provided under the Agreement. Under the new tariff-setting system, CONATEL is responsible for setting every six months the maximum tariffs applicable to CANTV as the established operator in the telecommunications services market in Venezuela taking into account as a basis the official indices for inflation and devaluation. As a practical matter, the tariff-setting mechanism involves a series of negotiations between CONATEL and CANTV to arrive at a consensus for the relevant basis for the proposed revised maximum tariffs. Under the new tariff-setting system, the maximum tariffs may be further re-adjusted upwards or downwards based on a formula tied to the Wholesale Price Index and the rate of devaluation in the bolivar. The new tariff-setting system provides for an extraordinary upward or downward re-adjustment to the established tariffs based on deviations of 2.5% above or 2.5% below projected monthly estimates of a comprehensive index based on the Wholesale Price Index and the rate of devaluation in the bolivar. See Item 4. Information on the Company Regulatory Framework Regulation and the Concession Regulation of Tariffs and Price Controls.

Following negotiations between the Company and CONATEL, revised tariffs were established by CONATEL under the New Telecommunications Law effective July 1, 2001 through June 14, 2002 and further revised tariffs were established effective June 15, 2002 through December 31, 2002. In connection with the revised tariffs, the Company simplified the existing tariff structure by replacing the five existing residential plans with three plans, Limited Plan (Plan Limitado), Classic Plan (Plan Clasico), and Talk More for Less Plan (Plan Habla Mas Por Menos). These three plans together with the flat rate plan and the prepaid plan constitute all of the tariff plans currently in effect. This revision enabled the migration of formerly subsidized residential customer s to higher rate plans resulting in further rate rebalancing. In addition the revised tariff structure also enabled the Company to better serve customers needs according to their usage patterns. Pursuant to the revised tariffs the rates for (i) residential basic rent increased 43%, (ii) residential local usage decreased 9%, (iii) non-residential basic rent and usage, domestic long distance (both residential and non-residential) and other miscellaneous services increased approximately 20%, (iv) international long distance increased approximately 13% and (v) public telephony increased approximately 23%.

In August 2002, the rates for fixed to mobile connections were subject to a further adjustment as a result of the impact of the accelerated devaluation of the bolivar. The average adjustment was approximately a 15% additional increase in the rates for local and approximately a 12% additional increase in domestic long distance calls from fixed to mobile. This increase was published in the Official Gazette No. 37,506 on August 15, 2002 and became effective on August 31, 2002.

In September 2002, the revised tariffs agreed to in May 2002 were subject to an extraordinary adjustment pursuant to the revised tariffs price-cap adjustment system. Tariffs for basic rent (residential and non-residential), local services (residential and non-residential), domestic long distance, public telephony and other miscellaneous services increased approximately 4%. In addition domestic long distance discounts were terminated and the tariffs and discounts for international long distance remained unchanged. This increase became effective on September 16, 2002.

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In December 2002, the Company and CONATEL finalized an agreement on tariffs to apply during 2003. However as a result of the tumultuous political events confronting Venezuela, none of the agreed upon tariff revisions became effective in January 2003 as expected. The Ministry of Production and Commerce and the Ministry of Infrastructure instituted price controls on the maximum residential tariffs that may be applied by telecommunications operators as a supplementary measure to the new exchange controls regime by resolution published in Official Gazette No. 37,631 on February 13, 2003. The adoption of the price controls also had the additional effect of delaying the approval of the new tariffs applicable to CANTV in 2003.

Revised maximum tariffs for 2003 have been allowed for certain non-residential services and are to be applied in three parts during April, July and October pursuant to resolution No. 255 dated March 18, 2003 published in the Official Gazette No. 37,669 on April 10, 2003 and effective on April 27, 2003. In connection with the revised tariffs, only the following services were subject to increases: (i) rates for non-residential basic services increased 28% for basic rent, 19% for local services and approximately 19% for domestic long distance and other miscellaneous services (installations, subscriptions etc.); (ii) rates for basic public telephony increased from 16% to 20% and (iii) basic rates for internet access increased approximately 65%. In July 2003, the second series of revisions to tariffs are expected to be implemented and an extra-ordinary adjustment of approximately 2% to these tariffs is also expected. Residential tariffs are not subject to revisions and remain unchanged pursuant to the new price controls regime.

The new price control framework for telecommunications services represents a reversal of policy and a troubling development that limits the ability of the Company to raise its prices in order to keep pace with future changes in currency exchange rates, inflation in Venezuela and other developments. If the Company is unable to change its prices in response to market conditions, its financial condition and results of operations could be adversely affected. As in the past, delays and variances in the price control system may cause the inflation rate used as a basis for adjustment of CANTV s other tariffs to differ from the rate of inflation prevailing during the period in which adjustment is made. Therefore, in periods of increasing inflation, CANTV s rates may not always fully offset the effects of inflation. Increases in inflation may also cause a reduction in the value of CANTV s account receivable balance. Also to the extent that CANTV s rates are adjusted on the basis of agreed-upon projected exchange rates, the devaluation of the Bolivar together with the inability of the Company to raise its residential tariffs to compensate for exchange losses and inflation while the current price control system remains in effect could result in an adverse effect on the Company s financial condition and results of operations.

Exchange Controls and Currency Devaluation

On June 27, 1994, the Government established certain foreign currency exchange controls and soon thereafter fixed the official bolivar/U.S. dollar exchange rate. The rate was originally fixed at Bs. 170.00 per U.S. dollar and was adjusted to Bs. 290.00 per U.S. dollar in December 1995. These controls, together with economic conditions in Venezuela, caused the Company to seek to restructure its debt obligations in 1995. Such controls also limited the ability of foreign investors to repatriate capital and of Venezuelan companies to remit dividends in shares of Venezuelan companies represented by American Depositary Shares (ADSs), American Depositary Receipts (ADRs), Global Depositary Shares or Global Depositary Receipts. These controls were removed on April 22, 1996.

The Central Bank of Venezuela, in order to avoid significant fluctuations in the exchange rate, intervened to maintain the exchange rate between 7.5% above and 7.5% below a reference rate set by it. Such reference rate was originally set at Bs. 470.00 per U.S. dollar and was adjusted from time to time to account for projected inflation. On January 14, 1998, the reference rate was reset to Bs. 508.50 per U.S. dollar. The Central Bank of Venezuela indicated that such reference rate was to be adjusted by 1.16% to 1.28% monthly. Under this policy, the reference rate for the Central Bank of Venezuela was Bs. 700.00,

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Bs. 758.00 at December 31, 2000, 2001, respectively. The sustained deterioration of Government revenue streams, as well as increasing political and legal instability, resulted in capital flight and the erosion of the foreign reserves in late 2001. On February 12, 2002, the government was forced to allow the bolivar to float freely. Under this new exchange rate policy, the reference rate for the Central Bank of Venezuela was Bs. 1,403 per U.S. dollar on December 31, 2002. The currency devalued approximately 85.1% during 2002.

Reacting to the rapid decline of the bolivar, the Government suspended the trading of foreign currency on January 21, 2003 for five business days and controls on foreign currency exchange were established on February 5, 2003. The Government created by decree N° 2,302 (published in the Official Gazette No. 37,625) the Commission for Administration of Foreign Exchange (*Comisión de Administración de Divisas*) (CADIVI) and approved the initial rules (published in the Official Gazette of Venezuela No. 37,625 on February 5, 2003) governing foreign currency trading. These regulations provide for an exchange control regime in Venezuela based on a single mandatory system. A series of Exchange Agreements between the Ministry of Finance and the Central Bank of Venezuela established the system for administration of foreign exchange and set the exchange rate at Bs. 1,596 per U.S. dollar purchased by the Central Bank of Venezuela, and Bs. 1,600 per U.S. dollar sold by the Central Bank of Venezuela.

The new rules severely restrict the access of companies and individuals to foreign exchange. As of May 31, 2003 foreign currency activities have not been fully normalized and only limited foreign currency exchange requests have been approved. The official selling exchange rate may be subject to periodic revision and adjustment by the Central Bank of Venezuela. Dividends payments and foreign transfers of income from capital and interest, individuals and corporations must be registered with the foreign investment superintendence (SIEX). For dividend payment purposes, ADR programs must be registered with the *Comisión Nacional de Valores* (the Venezuelan National Securities Commission) (CNV) and must apply to CADIVI for the authorization to purchase foreign currency. The currency has lost approximately 14.0% of its value from December 31, 2002 to May 31, 2003 and the Company estimates a total devaluation for 2003 of 32%. See Item 10. Additional Information Exchange Controls.

Substantially all of the Company s revenues are denominated in bolivars while a substantial majority of its capital expenditures and liabilities have been and are expected to continue to be denominated in U.S. dollars. The Company is currently making appropriate applications for foreign currency to CADIVI. The Company expects to be in a position to meet its U.S. dollar denominated obligations. However, if the system of exchange controls remains in effect, there is no assurance that the Company will be able to secure the required approvals from CADIVI to be able to have sufficient foreign currency for this purpose. The inability of the Company to obtain foreign currency could have an adverse effect on the results of operations and financial condition of the Company.

Although the Company continually reviews opportunities to minimize its exposure to devaluation, under current market conditions, the Company does not engage in hedging activities. Reductions in the value of the bolivar against the U.S. dollar and other foreign currencies have significantly affected the business and operations of the Company in the past and may do so again in the future. If the value of the bolivar relative to the U.S. dollar continues to decline substantially, the Company s consolidated net income and stockholders equity, in certain circumstances, would be greatly diminished when expressed in U.S. dollars, and the market price and liquidity of, or the return on, an investment in, the ADSs and the Class D Shares could also be adversely affected.

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Cash dividends and other cash distributions, if any, with respect to the Class D Shares underlying the ADSs will be paid by the Company in bolivars, whereas distributions made by The Bank of New York (the Depositary) in respect of such dividends and other distributions generally will be paid in U.S. dollars to holders of ADSs outside Venezuela. Consequently, the U.S. dollar amount of any cash distributions made by the Depositary pursuant to the Deposit Agreement, to holders of ADSs would be adversely affected by reductions in the value of the bolivar relative to the U.S. dollar between the dividend declaration date and the dividend payment date. The distribution of dividend payments in U.S. dollars by the Depositary to ADS holders currently requires the approval by CADIVI under the recently adopted exchange control regime. The currency has lost approximately 14% from December 31, 2002 to May 31, 2003 and the Company estimates the total devaluation for 2003 will be 32%.

Investment Restrictions

The Government has in the past imposed restrictions on foreign ownership of Venezuelan equity securities, and continues to limit foreign investment in certain sectors of the economy, including television and radio stations, Spanish language newspapers and professional services regulated by specific national laws such as accounting and medical services. Currently there are no restrictions on foreign ownership of the Company s equity securities. Although foreign investment restrictions were liberalized in January 1990, there can be no assurance that any such restrictions will not be reimposed. The reimposition of any such restrictions could have an adverse effect on the results of operations and financial condition of the Company and the market price and liquidity of the ADSs and the Class D Shares.

Importance of Oil Sector

The petroleum industry is central to and dominates the Venezuelan economy. Oil GDP increased by 2.0% in 1998, contracted by 7.4% in 1999, increased by 3.2% in 2000, contracted by 0.9% in 2001 and by 12.6% in 2002. In 2002, the oil industry accounted for an estimated:

- 25.4% of Venezuela s total GDP;
- approximately 48% of the Government s total current revenues; and
- 81% of the total value of Venezuela s exports.

Therefore, the rate of economic growth, the level of tax revenue, Government spending and Government borrowing and the supply of foreign exchange in Venezuela are materially affected by oil prices and general conditions in the international petroleum markets. A future downturn in the economic results of Venezuela s petroleum industry may have a material adverse effect on the Venezuelan economy, which could adversely affect the financial condition and results of operations of the Company.

Beginning in the fourth quarter of 1997 and continuing through the first quarter of 1999, the Venezuelan economy was adversely affected by the significant decline in international oil prices. During this period, Venezuela and other oil producing nations realized lower per barrel oil prices than at any other time in the past ten years. As a result of the decline in oil revenues, cuts in Government spending and a decline in foreign and domestic private investment, the Venezuelan economy contracted in 1998. Beginning in April 1999, international oil prices increased partially as a result of production cuts mandated by the Organization of Petroleum Exporting Countries (OPEC). The Government has announced a desire to strengthen OPEC and continue with OPEC s directed production cuts.

The average price of Venezuelan oil was $20.30 per barrel in 2001 and $22.20 per barrel in 2002. Despite the commitment by OPEC members to cut output, as a price stabilization mechanism, world oil prices have been falling since 2001. The continuation of OPEC-generated oil production constraints in the earlier part of 2002 have limited Government revenues. In February 2002, the Government, for budgetary purposes, restated its estimate for the average oil price for 2002 downward from $18.50 per barrel to $16 per barrel. To compensate for the expected shortfall in oil revenues, the Government announced spending cuts, a reform to the value added tax and the implementation of a financial transactions tax.

Under the power granted to President Chavez by the Enabling Law, the Hydrocarbons Law was enacted in November 2001. This law ratified the exclusive ownership rights of the state over PDVSA, the state oil company. Primary activities of exploration, extraction and storage are reserved for state enterprises or companies in which the state has a majority stake. The law reduced the maximum income tax rate for oil companies from 67% to 34% and increased royalties based on production and prices from 16.7% to 30%, one of the highest in any oil-producing country. The revenue impact of the royalty increase was in excess of the anticipated income tax reduction, making several PDVSA projects unprofitable. The Hydrocarbons Law limited the potential for foreign investments in the country s oil sector by reserving exploration, extraction and storage for state-owned enterprises or those companies in which the state is a majority shareholder requiring legislative approval for all joint ventures and strategic alliances pursuant to the Public Patrimony Safeguard Act and the Public Credit Act. Additionally, the National Assembly retains the right to modify the terms of any proposed joint venture or strategic alliance. These factors have limited investors willingness to participate in financing of Government-controlled projects. Under the law, privately owned companies are allowed to operate in the refining sector but the Government has the right to set prices of refined products sold in the domestic market.

On December 2, 2002 opposition groups called for a national general strike that included both the private sector and the oil industry, which accounts for approximately 81% of the country s exports. As a result, Venezuela s oil production was drastically reduced. The irreconcilable positions of the Government and the opposition and oil industry leaders resulted in a longer-than-expected strike during which almost all commercial and economic activity was suspended. The opposition partially called off the strike on February 2, 2003 and commercial activity has since partially recovered. Oil industry leaders have decided to remain on strike until fired employees are rehired.

Recognizing the lasting damaging effects of the December 2002 strike on the economy and the country s international reserves, the Government took action to reduce public expenditures, suspend the trading of foreign currency and, most recently, introduced an exchange control regime.

Different Corporate Disclosure and Governance

The securities laws of Venezuela, which govern publicly traded companies such as the Company, differ from those in the United States in certain important respects. Publicly available information about issuers of securities listed on the Venezuelan stock exchanges provides less detail in certain respects than information regularly published by or about listed companies in the United States or certain other countries. Although the Company is subject to the periodic reporting requirements of the U.S. Exchange Act of 1934 (the Exchange Act), the periodic disclosure required for foreign issuers under the Exchange Act is more limited than the periodic disclosure required for U.S. issuers. In addition, the Venezuelan securities market is not as highly regulated and supervised as the United States securities market. Minority stockholders of the Company may also have fewer and less well defined rights under Venezuelan law and CANTV s *Estatutos* (the By-laws) than they might have as minority stockholders of a corporation incorporated in the United States. See Item 10. Additional Information Memorandum and Articles of Association.

The liability of stockholders of a Venezuelan company, such as CANTV, including holders of Class D Shares, for the company s losses is generally limited to their shareholdings in the company. The Venezuelan Commercial Code provides, however, that in the event that a company s accumulated losses (calculated in accordance with Venezuelan GAAP on a constant bolivar basis), reduce stockholders equity to an amount equal to or less than two-thirds of the company s capital stock (*i.e.*, the aggregate of the par value of the company s outstanding capital stock on a nominal bolivar basis) a stockholders meeting must be convened. At such meeting the stockholders must consider whether to: (i) liquidate the company, (ii) reduce the company s capital stock to an amount equal to the company s remaining stockholders equity, (iii) require capital contributions from stockholders to the extent required so that stockholders equity is equal to more than two-thirds of the company s capital stock or (iv) take none of the foregoing actions. If accumulated losses reduce stockholders equity to an amount equal to or less than one-third of the company s capital stock, the company must be liquidated unless a stockholders meeting is convened at which the stockholders determine to: (i) reduce the company s capital stock to the company s remaining stockholders equity or (ii) require capital contributions from stockholders to the extent required so that stockholders equity is equal to more than two-thirds of the company s capital stock. If the stockholders decide to require capital contributions or to increase the capital stock as described above, each stockholder is required under penalty of forfeiture of such stockholders shares, to contribute additional capital to the company based upon the number of shares that it holds, provided that any stockholder that did not attend the meeting in person or by proxy or that voted against the increase of capital is entitled to withdraw from the company and to receive an amount equal to the book value per share for the number of shares that it holds, calculated based upon the company s most recent unconsolidated balance sheet that has been approved at a meeting of the company s stockholders.

The primary differences between U.S. GAAP and Venezuelan GAAP that apply to the Company are as follows:

Under Venezuelan GAAP, due to the economy of Venezuela having experienced periods of significant inflation in the recent past, the use of financial statements restated for general price level changes is allowed. In most circumstances U.S. GAAP does not allow for the restatement of financial statements for general price level changes;

Venezuelan GAAP requires that deferred taxes be provided at the tax rates prevailing at the time of the provision. In addition, the provision for deferred taxes is not adjusted to take into account subsequent changes to the statutory rates of taxation. U.S. GAAP requires that deferred tax assets and liabilities be established for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Under Statement of Financial Accounting Standards No. 109, the effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are provided for deferred tax assets when realization is not assured;

In accordance with Venezuelan GAAP, in its inflation adjusted financial statements, the Company does not capitalize interest costs incurred in connection with the construction of major capital projects. Under U.S. GAAP, the amount of interest incurred in connection with the construction of these projects is reflected in the financial statements;

In accordance with Venezuelan GAAP, the adoption of IAS-19 Employee Benefits provides for a different amortization of the transition obligation resulting from the present value of the obligation at the moment of adoption reduced by the fair value of existing pension plan assets on the same date and any eventual past service costs. IAS-19 provides for immediate recognition of the transition obligation or an amortization period of no more than 5 years whereas the U.S. GAAP standard SFAS 87 allows for an amortization period based on the average remaining service years of employees; and

In accordance with Venezuelan GAAP, the Company s investments classified as available for sale are measured at their estimated fair value based on the Company s intention and irrespective whether such investments are publicly traded or not. Under U.S. GAAP, the investments that are not publicly traded are carried at cost.

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Venezuelan Taxation of ADSs and Class D Shares

Under a new regime covering taxation of dividends introduced in the 1999 Venezuelan Income Tax Law, dividend income received from CANTV with respect to Class D Shares is not subject to Venezuelan income tax or withholding tax with respect to distributions arising out of earnings and profits for periods commencing on or prior to December 31, 2000. All dividends arising out of either accumulated or current earnings and profits for periods commencing on or after January 1, 2001 and which are paid in cash with respect to Class D Shares, are considered Venezuelan local-source income. As such, the dividend payment will be subject to a withholding tax at the rate of 34% at the time of payment, as well as filing obligations for the shareholder, regardless of its residence or domicile. In the case of non-Venezuelan persons (including corporations), the 34% withholding rate may be further reduced or even eliminated by applicable treaty. Unless an applicable treaty provides otherwise, stock dividends paid with respect to Class D Shares will be subject to an income tax withholding at the rate of 34% at the time that such stock is disposed by the shareholder.

For purposes of determining the taxable base in the distribution of dividends, and except as otherwise provided by an applicable treaty, the term taxable dividend for holders of Class D Shares represents any distribution of property made by a corporate entity to its shareholders or partners attributable to the amount by which total accumulated earnings and profits (from January 1, 2003 accumulated earnings and profits should be determined according to Venezuelan GAAP) exceeds the net taxable income of such corporate entity for economic periods commencing on or after January 1, 2001. Under various income tax treaties entered into by Venezuela and other contracting states, the term dividend usually means a distribution of property made by a corporation to its shareholders out of either accumulated or current earnings and profits.

The unrealized gain derived from either accumulated or current earnings and profits for periods closing after January 1, 2001 with respect to the ADSs (whether in cash or in stock) will be treated as a Venezuelan foreign source income on the ADSs, taxable only to resident individuals and domiciled entities that are taxed on worldwide income; whereas non-resident individuals and non-domiciled entities are not subject to taxation in Venezuela with respect to the ADSs.

Prospective investors of the ADSs should carefully read, and should also consult their tax advisors with respect to, the summary of Venezuelan and United States taxes set forth under Item 10. Additional Information Venezuelan Tax Considerations Taxation of Dividends and Item 10. Additional Information United States Federal Income Taxation.

Enforceability of Civil Liabilities

CANTV is a *compañía anónima* organized under the laws of Venezuela. A majority of CANTV s directors and officers and certain experts named herein reside outside the United States (principally in Venezuela). All or a substantial portion of the assets of such persons or CANTV are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or CANTV or to enforce against them in federal or state courts in the United States judgments predicated upon the civil liability provisions of the federal securities laws of the United States. CANTV has been advised by its Venezuelan counsel that there is uncertainty as to the enforceability, in original actions in Venezuelan courts, of liabilities predicated solely under the United States federal securities laws and as to the enforceability in Venezuelan courts of judgments of United States courts obtained in actions predicated upon the civil liability provisions of the United States federal securities laws.

Factors Relating to the Company

Concession and the New Telecommunications Law

The Company experienced certain difficulties in implementing certain aspects of the Concession, including both actions to be taken by the Government and by the Company under the Concession. There can be no assurance that any disputes that may arise between the Company and the Government in the future will be resolved expeditiously or in a manner favorable to the Company. See Item 4. Information on the Company Regulatory Framework and Note 2 to the Audited Financial Statements.

The Concession contemplated the implementation of a rate rebalancing program to allow CANTV to eliminate the subsidy provided by its long distance services to basic rent charges for residential customers, thereby permitting CANTV to offer competitive pricing for its international and domestic long distance services by the year 2000. The Concession also contemplated the implementation of certain specific rate rebalancing steps each quarter commencing in the first quarter of 1994. Due to the economic conditions in Venezuela existing since 1994 and other factors, such rebalancing did not take place as contemplated in the Concession. On September 9, 1996, CANTV entered into an agreement with the Ministry of Infrastructure (previously known as the Ministry of Transportation and Communications) (the Ministry) designed to achieve the level of rate rebalancing originally contemplated by the Concession. In 1997, CONATEL delayed the quarterly rate increases and rate rebalancing authorized under the Concession and this agreement for fourteen days. In February 2000, following the delays in tariff approvals in 1999 and the commencement of a preliminary proceeding in contemplation of a legal action by CANTV against the Government for breach of the Concession, CANTV and CONATEL entered into the Agreement with respect to the rate structures and previously regulated services under the Concession including rate rebalancing and service level mandates. Until December 2002, there were no economic or other factors requiring the application of tariff rate rebalancing.

The New Telecommunications Law enacted on June 12, 2000 provides the general legal framework for the provision and regulation of telecommunications services in Venezuela with the stated objectives of establishing the conditions for fair competition between operators and service providers, setting the rules on tariffs and interconnection, developing and modernizing the telecommunications systems, and establishing universal service contributions. See Item 4. Information on the Company Regulatory Framework. CANTV is subject to tariff regulation under the new regulatory framework until meaningful competition in the telecommunications services market in Venezuela is achieved. New market entrants are not subject to tariff regulation by CONATEL and are free to set rates. See Item 4. Information on the Company Regulatory Framework Regulation and the Concession Regulation of Tariffs and Price Controls.

As described above, the Government has implemented price controls that have delayed the implementation of increases in tariffs and limit the ability of the Company to raise the price of certain of its services and reduce the Company s operating margins. There is no assurance when the current system of price controls will end, or if terminated that it will not be reinstated. If the Company is unable to change the prices of certain of its services in the future to reflect inflation and exchange rates, the Company s financial condition and results of operation could be adversely affected. Please see Inflation, Tariff Regulation and Price Controls. Moreover, while the Concession, the Agreement and the New Telecommunications Law do not require CANTV to agree to any change in its rate mechanism, there can be no assurance that CONATEL will not delay rate changes or attempt to revise the tariff-setting system and rate rebalancing mechanisms in ways which would have a material adverse effect on the Company s financial condition and results of operations.

As the established operator, CANTV is also subject to more demanding interconnection requirements, and may be subject to greater universal service obligations and quality and service

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standards to be established under the new regulatory framework. There is no assurance that the disparity of treatment will be reduced or that it will not worsen and have a negative effect on the ability of CANTV to compete with new market entrants. Inasmuch as CANTV continues to have its rates subject to regulation while new market entrants are free to set rates, it may also experience decreases to its profit margin as a result of the opening of the telecommunications services market to competition. The extent of any decrease in profit margins will depend, in part, on the number of new market entrants that compete with CANTV for the more lucrative long distance services while CANTV retains the larger share of the less profitable local services market that continues to be subject to price regulation. In the event that CANTV is unable to raise the rates it charges for local services without offsetting increases in call volume to compensate for losses in long distance service revenues, CANTV may experience an adverse effect to its financial condition and results of operation.

Delays in Receiving Payments from Government Entities

The Company s largest customer is the Venezuelan public sector, including the Government, its agencies and enterprises, and Venezuelan states and municipalities (collectively, Government entities). In 2002, Government entities generated approximately 6% of the Company s wireline revenues.

The amounts that Government entities pay for telecommunications services is established pursuant to annual budgets rather than based upon actual usage during such year. As a result of these budgeting processes and other reasons, a number of Government entities have not paid the Company in full for telecommunications services rendered. The Company has not been able to make adjustments for inflation or charge interest on such overdue amounts. As a result, the loss in value related to amounts owed CANTV by Government entities is significantly greater than the amounts reflected as currently outstanding. On November 3, 1999, the Venezuelan Congress passed a law authorizing the issuance of bonds for the purpose of paying certain outstanding obligations including those related to telephone services. The amounts set aside for the payment of debt owed to CANTV in the five-year period 1996-2000 amounted to Bs. 56,816 ($40.5 million). In 2001, the Government approved a decree authorizing the issuance of additional bonds for the payment of basic services. During 2001, the Company collected Bs. 8,704 million from these bonds. As a result of negotiations with the Government, CANTV received, during 2002, payments from the Government though Venezuelan National Public Debt Bonds of Bs. 63,562 million ($45.3 million) from the Government related to accounts receivable from prior years representing 49.5% of the outstanding balance at December 31, 2001. At December 31, 2002, Government entities owed the Company approximately Bs. 83.759 million ($59.7 million), of which approximately Bs. 43,482 million ($31.0 million) were outstanding from prior years. See Note 9 to the Audited Financial Statements. As a result of the effects of inflation and devaluation, the value to the Company of these amounts has been reduced substantially.

Although the Company has in the case of certain Government entities reduced the number of lines available, there can be no assurance that Government entities will not continue to use telecommunications services in excess of the amounts that have been budgeted for and can be paid, that the Company will not continue to experience significant delays in collecting receivables from Government entities or that inflation and devaluation will not continue to decrease the real value of these receivables to the Company. Failure by Government entities to pay the amounts owed to the Company or amounts to be billed in the future has had and will continue to have an adverse effect on the profitability of the Company.

Collections

At December 31, 2002, the average number of days that receivables remained outstanding was approximately 46 days for all CANTV customers except Government entities, for which the average was

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approximately 266 days. The Company temporarily disconnected approximately 2.1 million wireline customers during 2002 due to non-payment with approximately 89% of such customers subsequently reconnected after payment of overdue amounts. The Company applies a reconnection fee, which varies depending on the type of customer. The Company also charges interest at a rate of 12% per annum on overdue amounts from non-Government customers. There can be no assurance that the Company will not continue to experience significant delays in collecting receivables, that significant number of customers will not be disconnected for failure to pay for services and that such factors will not continue to have an adverse impact on the Company.

Competition

Pursuant to the Concession, the Company was the sole provider of switched, fixed local, domestic and international long distance telephone services throughout Venezuela until November 27, 2000. Beginning on November 27, 2000, however, the Concession allowed for direct competition for these services. In addition, the Concession permitted the Ministry to grant concessions for basic telephone services to third parties prior to October 2000 in certain rural areas not served by CANTV.

On January 15, 1991 CONATEL granted the first cellular concession to Telcel BellSouth, C.A. (Telcel). On May 19, 1992, the Company purchased the other cellular concessions from the Government and established Telecomunicaciones Movilnet, C.A. (Movilnet).

In December 1996, Infonet Redes de Informacion, C.A. (Infonet) was granted a rural concession to provide multiple services, except national and international long distance services, to population centers with 5,000 or fewer inhabitants in eight western states of Venezuela. Infonet has also installed digital fixed and mobile wireless services in rural areas in western Venezuela using global service mobile (GSM) technology and has also expanded its services into large population areas. In January 1998, two additional companies were granted multiple service concessions. Corporacion Digitel C.A. (Digitel) (since late 2000 majority owned by Telecom Italia) was granted a concession to provide service in seven central states and Digicel (formerly Consorcio Elca, C.A.) (Digicel) was granted a concession to provide service in six eastern states. Infonet and Digitel are providing digital fixed wireless and cellular services and both have expanded their services into larger population areas where they compete directly with services provided by Movilnet and indirectly with services provided by CANTV.

With the opening of the telecommunications market to competition in Venezuela, CANTV is subject to competition in all areas of its business. Several companies have completed the process of applying for administrative licenses and concessions on various services. Beginning in November 2000, the Government started the auction of frequencies for Wireless Local Loop (WLL) services. Five regions were defined, three permits in each region were auctioned and six concessions were granted. CANTV was not allowed to participate in this auction. See Item 4. Information on the Company Regulatory Framework Competitive Framework. Competition in services provided by the Company may arise from a variety of existing competitors and new entrants, including telecommunications services providers from other countries. Such competitors are able to provide telecommunications services either through newly installed facilities and networks or through facilities and networks of existing providers.

As of May 31, 2003, after the opening of the telecommunications market to competition, the Venezuelan Telecommunications market is composed of two integrated service providers, CANTV and Telcel; wireless service providers, such as Movilnet, Telcel, Digitel and Infonet; fixed wireless service providers, such as Telcel, Genesis Telecom, C.A. (Genesis Telecom), Entel Chile, S.A. (Entel Chile), Millicom International Cellular, S.A. (Millicom), Digitel and Digicel; data transmission service providers, such as Telecomunicaciones ImpSat, S.A. (ImpSat), Compsat, Bantel, NetUno, Viptel, BellCanada International and Texcom Telecomunicaciones, C.A. (Texcom); Internet service providers

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(ISPs), such as CANTV.Net, C.A. (CANTV.Net) (formerly CANTV Servicios, C.A.), T-Net, Etheron, AOL, UOL and Eldish; paging operators, such as Telemensajes Metropolitanos, Radio Contacto and TeleKontacto; truncking service providers, such as Americatel, Radio Movil Digital and Comunicaciones Moviles EDC, C.A. (Conmovil); and Cable TV operators, such as SuperCable ALK Internacional, C.A. (SuperCable), Cable Corp. TV, C.A. (Cabletel) and Corporacion Telemic, C.A. (Intercable), including DirectTV satellite transmission. These telecommunications services providers and other market entrants may establish customer relationships, as well as other capabilities and resources to expand their current service offerings. The Company believes that its competitors will target large clients, top tier commercial customers and high-income residential customers. As of May 31, 2003, Telcel and NetUno are operating as local service providers. Digitel, Infonet and Digicel are operating as local service providers in some of the states where they were granted multiple service concession.

CONATEL intended to auction concessions for frequencies to provide Local Multipoint Distribution Services (LMDS) in each of five regions of Venezuela. LMDS is a fixed wireless service that offers a broad-band access and fast data transmission. On April 2, 2001, CONATEL temporarily suspended the auction process for LMDS. CONATEL has not yet announced the new date for the LMDS auction.

The scope of increased competition and any corresponding adverse effect on the Company s results will depend on a variety of factors. Among such factors are the business strategies and financial and technical capabilities of potential competitors, prevailing market conditions, as well as the effectiveness of the Company s efforts to compete successfully. Increased competition will further change the environment in which the Company operates. Competition will require the increased development of a competitive culture, including greater customer care, differentiated services, continuous introduction of innovative technologies, competitive cost positioning and operational efficiencies. There is no assurance that the Company will be able to operate effectively in a highly competitive environment.

Labor Relations

The Company s employees are members of 28 separate labor unions which deal with CANTV either directly or through the *Federacion de Trabajadores de Telecomunicaciones de Venezuela* (Federation of Telecommunications Workers of Venezuela) (FETRATEL). Approximately 33.5% of the Company s 10,178 employees and approximately 46.9% of CANTV s 7,271 employees at December 31, 2002 were members of a labor union. In the past, contract negotiations have generally not been concluded by the expiration date of the collective bargaining agreement, but employees have continued to work under the terms of the expired contracts during negotiations. However, the Company has experienced work stoppages from time to time. The most recent work stoppage (apart from the national strike affecting all of Venezuela in December 2002 and early 2003), which lasted 23 days, occurred in March 1997 during contract negotiations following the expiration of a collective bargaining agreement on December 31, 1996. On April 2, 1997 the Government suspended the strike and convened an arbitration panel to draft a new collective bargaining agreement. This agreement expired on June 18, 1999. On September 3, 1999, the Company signed a collective bargaining agreement with FETRATEL, which terminated on June 17, 2001. This agreement established a 20% base salary increase retroactive to June 18, 1999, Bs. 30,000 weekly salary increase to all union workers on June 18, 2000 and merit increases in June 2000 and 2001. On July 17, 2002 a new labor contract agreement was signed between CANTV and FETRATEL. The two-year agreement, which covers some 3,500 union employees in 28 unions, was retroactive to June 18, 2002. The new agreement provides for salary increases in each of the two years of the agreement (which are dependent on a union employee s current salary) and an immediate increase in the value of food stamps and transportation benefits. The agreement also provided for a productivity bonus of up to a maximum of 30% for qualifying union employees, based on individual performance. In addition, each union employee received

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a special one-time bonus paid to all union employees in two installments: a Bs. 1,500,000 payment in July 2002 and a Bs. 500,000 payment in January 2003 to compensate for the lack of wage increases since the expiration of the contract in June of last year.

The economic impact of the new labor agreement on the Company was within the range of management s expectations. The increase in the total value of compensation equates, in nominal terms, to weighted average increases of 21.9% and 26.4% for 2002 and 2003, respectively.

Future conflicts or disagreements with FETRATEL or with the Company s unionized employees or other employees could have a material adverse effect on the Company. See Item 6. Directors, Senior Management and Employees Employees.

Liquidity of Market for Class D Shares

The Venezuelan securities market is substantially smaller, less liquid and more volatile than the securities market in the United States and certain other countries. At May 31, 2003, the aggregate market capitalization of the seventeen largest Venezuelan companies listed on the Caracas Stock Exchange was Bs. 4,757,189 million ($2,973 million), of which the Company comprised approximately Bs. 1,577,290 million.

A disproportionately large percentage of the market capitalization and trading value of the Venezuelan securities market is represented by a small number of issuers, and a high proportion of the shares of many Venezuelan companies are held by a relatively limited number of persons. The Company is the largest company in Venezuela in terms of market capitalization and, at May 31, 2003, represented 33.2% of total market capitalization of the companies listed on the Caracas Stock Exchange.

The Caracas Stock Exchange has in the past experienced substantial fluctuations in the market prices of listed securities. These and other market characteristics have in the past affected, and may in the future affect, the market price and liquidity of shares of Venezuelan companies, including the Class D Shares, and may also affect the market prices and trading of the ADSs.

Forward-Looking Information is Subject to Risk and Uncertainty

Certain statements contained in this Form 20-F contain forward-looking information (as defined in the U.S. Private Securities Litigation Reform Act of 1995) that involves risks and uncertainties, including (i) the implications to the Company of the economic or political situation in Venezuela, (ii) the effects of the changes brought about by the new regulatory framework designed to open the telecommunications sector to competition, (iii) the effects of inflation and devaluation and the imposition of exchange and price controls, (iv) the Company s plans for expansion and modernization of its networks and the benefits to the Company that may result from the Company s implementation of such plans, (v) the Company s plans to expand its service offerings, (vi) information as to potential competitors and as to the results the Company may obtain from its implementation of its business strategy, and (vii) the Company s plans and ability to implement further tariff increases and rate rebalancing. Actual future results and trends may differ materially depending on a variety of factors discussed in this Risk Factors section and elsewhere in this Form 20-F, including, among others, the Company s success in implementing its business plans, the nature and extent of future competition, changes in the Venezuelan and global economy, regulatory conditions and Venezuelan political and legal developments.

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Item 4. Information on the Company

Introduction

CANTV is the primary provider of fixed telecommunications services in Venezuela. The Company provides substantially all of its services within Venezuela and substantially all of its operating income is derived from Venezuelan domiciled customers and from settlements with foreign carriers for calls completed in Venezuela. CANTV is the owner of the largest basic telecommunications network with nationwide coverage in Venezuela. Through this network, CANTV provides local, national and international telecommunications services. In addition, the Company provides private network, data, public telephone, rural telephone and telex services. Through its subsidiaries, the Company provides other telecommunications-related services including wireless communications, Internet access and telephone directories.

CANTV is a *compañía anónima* incorporated in Venezuela as *Compañía Anónima Nacional Teléfonos de Venezuela* (CANTV) on June 20, 1930. The Company s registered office is located at Avenida Libertador, Centro Nacional de Telecomunicaciones, Nuevo Edificio Administrativo, Piso 1, Apartado Postal 1226, Caracas, Venezuela 1010 (58-212-500-6800). CANTV s Internet website address is http://www.cantv.com.ve. The information on CANTV s website is not incorporated into this document.

The Company had operating revenues and net income of Bs. 2,678,903 million and Bs. 60,173 million, respectively, for the year ended December 31, 2002. At December 31, 2002, the Company had approximately 2.7 million access lines in service and approximately 2.6 million wireless subscribers.

History

In December 1991, VenWorld Telecom, C.A. (VenWorld), a company organized under the laws of Venezuela by a private consortium of companies and majority owned by an indirect wholly-owned subsidiary of Verizon Communications Inc. (Verizon) (formerly GTE Corporation), acquired operating control and initially 40% of the equity share capital of CANTV from the Government through *Banco de Desarrollo Economico y Social de Venezuela* (Bank of Economic and Social Development of Venezuela) (formerly *Fondo de Inversiones de Venezuela* the Venezuelan Investment Fund) for a purchase price of approximately $1,885 million. After VenWorld obtained operating control, the Company substantially increased the number of access lines in service, modernized its network, increased employee productivity, consolidated operations, strengthened management controls and improved network planning, design and construction. In late 1996, the Government sold 348,100,000 Class D Shares representing 34.8% of the equity share capital of CANTV in an international equity offering (the Initial Public Offering).

The consortium of companies that originally formed VenWorld, directly or through subsidiaries, in addition to Verizon included: T.I. Telefonica Internacional de España, S.A. (Telefonica Internacional); C.A. La Electricidad de Caracas, S.A.C.A. (Electricidad de Caracas), Venezuela s largest private sector power generating and distribution company, a subsidiary of The AES Corporation (AES); Consorcio Inversionista Mercantil (CIMA), C.A., S.A.C.A., individually and as trustee for 239 trusts established as a result of the liquidation of Inversiones Cimatel, C.A.; and AT&T International, Inc. (AT&T) (together with their successors, collectively referred to as the Participants in the Consortium). The Participants in the Consortium contributed broad operating experience and expertise to the operation of the Company and provided the Company with access to technology, research and product development and procurement. In addition, certain Participants in the Consortium entered into

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service agreements with the Company to provide technical, consulting and other assistance. See Item 7. Major Shareholders and Related Party Transactions. VenWorld, as the holder of the Company s Class A Shares, had the right until January 1, 2001 to elect the President of the Company and the four principal directors, which collectively comprise a majority of CANTV s nine member Board of Directors. After January 1, 2001, the President of the Company and four directors that had been elected by VenWorld as holder of the Company s Class A Shares, together with one of the two directors that had been elected by the Government as holder of the Company s Class B Shares, are now elected by all holders of CANTV s outstanding shares voting as a single class. See Item 6. Directors, Senior Management and Employees.

Beginning on December 4, 2000, VenWorld shareholders had the right to have their VenWorld shares redeemed by VenWorld. The redemption of VenWorld shares enabled a shareholder to receive its pro rata portion of CANTV Class A Shares held by VenWorld, provided that the remaining VenWorld shareholders would not exercise a right of first refusal set forth in VenWorld s by-laws. If the right of first refusal was exercised, the redeeming shareholder would receive cash for its CANTV Class A Shares. All Class A Shares transferred to an entity not affiliated with Verizon, Telefonica Internacional or Banco Mercantil, C.A. will be, pursuant to CANTV s by-laws, automatically converted into Class D Shares. During 2001, AT&T, Electricidad de Caracas and more than 150 of the CIMA trust beneficiaries requested the redemption of their VenWorld shares. As of December 31, 2001, only Verizon, Telefonica Internacional, Banco Mercantil, C.A., as successor to CIMA, individually and as trustee, remained as VenWorld shareholders. As a result of these redemptions, VenWorld s ownership in CANTV decreased from 43.19% at December 31, 2000 to 32.95% at December 31, 2001.

On February 1, 2002, the shareholders of VenWorld, holder of 32.95% of CANTV s shares, agreed to liquidate VenWorld. On February 25, 2002, the shareholders of VenWorld approved a plan of liquidation pursuant to which Class A shares were distributed to each of the VenWorld shareholders on March 4, 2002. As of May 31, 2003, Verizon held directly or through affiliates 28.51% of CANTV s shares and Telefonica Internacional de España, S.A. held through affiliates approximately 6.91% of CANTV s shares.

CANTV operates the nation-wide fixed-line network in Venezuela. CANTV s principal subsidiaries are Movilnet, CANTV.Net, Caveguias, C.A. (Caveguias) and Altair, C.A. (Altair). Movilnet was incorporated in Venezuela on March 24, 1992 and its business is to provide, manage and develop wireless telecommunications services. CANTV.Net was incorporated in Venezuela on January 26, 1994 and its business is to provide value-added services such as Internet access and data transmission. Caveguias was incorporated in Venezuela on November 12, 1975 and its business is to provide telephone directory information services. Altair, a provider of rural satellite telecommunications services, was incorporated in Venezuela on April 17, 1998 and became a wholly-owned subsidiary of CANTV on May 6, 2002.

The Company is subject to comprehensive regulation and supervision by the Ministry and CONATEL. See Regulatory Framework Regulation and the Concession.

Prior to privatization, the quality of services provided by the Company and its operating results were negatively affected by severe congestion in the domestic telephone network, which was largely attributable to outdated equipment, poor network design, poor equipment maintenance and inadequate management systems and controls. Pursuant to an expansion and modernization program, the Company has increased the percentage of digital access lines installed in the Company s network from 66.1% at December 31, 1998 to 80.8% at December 31, 2002. All of the Company s international and domestic long distance switches are digital. During 2002, the Company has also continued connecting several cities to newly built segments of a high capacity broad-band fiber optic network, which offers the latest technology in fixed telecommunications networks with additional capacity for expansion in the future. Wireless subscribers have increased from approximately 639,107 at December 31, 1998, to approximately 2.6 million at December 31, 2002. Access lines in service have not significantly increased from 1998 because the Company has focused its efforts on improving service quality and technology. Additionally, CANTV has implemented a stricter policy for the assignment of lines to customers.

Since privatization, the Company has implemented a number of programs designed to lead to greater productivity and improved customer service. As a result of productivity improvements, the Company has been able to reduce the number of its employees and at the same time grow its business. Access lines in service per CANTV employee have increased from 199 at December 31, 1998 to 372 at December 31, 2002. As part of its customer service enhancements, the Company has automated its customer service system, introduced detailed billing and a computerized payment system, increased the number of bilingual international and domestic operators, consolidated operator centers, modernized and increased the number of customer service centers, improved the quality of its trouble reporting system, increased the number of maintenance facilities and implemented an automated disconnect and reconnect system. In addition, the Company has redesigned its employee training programs, emphasizing quality and efficient service in order to promote a customer-oriented service culture. The Company continuously seeks to enhance customer service through the introduction of innovative, value-added services.

On August 29, 2001, AES Comunicaciones de Venezuela, C.A. (an affiliate of Electricidad de Caracas and AES) commenced a unsolicited cash tender offer in the United States to purchase an aggregate of 28,566,944 ADSs for Bs. 17,829 per ADS ($24 per ADS), and in Venezuela to purchase 199,968,608 shares of CANTV´s outstanding common stock for approximately Bs. 2,547 per share ($3.43 per share) in order to obtain 50.1% of outstanding shares of the Company and to acquire a controlling interest in CANTV. On October 1, 2001, the CANTV Board of Directors deemed this offer unsatisfactory and not in the best interest of its shareholders, its ADS holders, employees, customers or the people of Venezuela. On October 7, 2001, the CANTV Board of Directors called for an Extraordinary Shareholders Assembly to consider authorization of payment of an extraordinary dividend and authorization to initiate a third share repurchase program for 15% of the Company s outstanding shares (The Third Repurchase Program). On October 9, 2001, the CNV issued Resolution 217 ordering VenWorld, holder of 33.4% of the outstanding shares of the Company, to participate on a pro rata basis in the Third Repurchase Program to ensure that its proportional participation interest would not increase pursuant to the Company s proposed Third Repurchase Program. On November 5, 2001, GTE Venholdings B.V., an indirect subsidiary of Verizon, informed the Company of its intention to tender a number of shares to ensure that its direct percentage ownership interest immediately prior to and after the consummation of the Third Repurchase Program remained the same. On October 19, 2001, the CNV authorized the Company s Third Repurchase Program, subject to shareholders consent, and required AES to extend the date of its tender offer to expire simultaneously with the CANTV offer in The Third Repurchase Program.

On October 24, 2001, CANTV held an Extraordinary Shareholders Assembly to approve, in part, the proposed Third Repurchase Program submitted by CANTV s Board of Directors. Following the affirmative vote of CANTV shareholders approving the Third Repurchase Program, CANTV began a cash tender offer at $30 per ADS in the United States and $4.29 per Class D Share of the Company in Venezuela. The period of the Company s Third Repurchase Program began on October 25, 2001 and expired on November 23, 2001. In connection with the Third Repurchase Program, each of VenWorld and GTE Venholdings B.V., an indirect subsidiary of Verizon, tendered a number of shares of the Company such that its ownership in the Company would be equal to its percentage ownership in the Company immediately prior to the completion of the Third Repurchase Program.

On the same date, the Extraordinary Shareholders Assembly also approved an extraordinary cash dividend of Bs. 520 per share ($0.70 per share) and Bs. 3,640 per ADS ($4.90 per ADS) which was paid in two installments, one of Bs. 284 per share ($0.38 per share) on December 10, 2001 to shareholders of record as of December 3, 2001 and the other of Bs. 236 per share ($0.32 per share) on March 18, 2002 to shareholders of record as of March 6, 2002. At the same Extraordinary Shareholders Assembly, CANTV s shareholders also approved an increase of such number of share comprising up to 2% of the capital stock of the Company as of December 2, 1991 for grants of stock for eligible employees pursuant to the existing Excellence Award program and the creation of a new benefit plan called the Value Fund, which would include up to 5.5% of the capital stock of the Company. The increase to the Excellence Award program and the creation of the Value Fund would be effected through the purchase of Class C Shares outstanding enabling Class C shareholders to sell to the Company Class C Shares in the aggregate number of shares equal to the proportional amount accepted under, and at the same price as the price offered pursuant to, the Third Repurchase Program. As of December 31, 2002, the Company had not increased the Excellence Award program or created the new benefit plan Value Fund. In March 2002, the Company provided Bs. 4,200 million in funds to increase the number of Class C Shares of the Company held by the trust administering the Excellence Award program. As of May 31, 2003 the Value Fund has not yet been created.

On December 10, 2002, shareholders at an Extraordinary Assembly declared an extraordinary dividend of Bs. 165 per share. On the same date, the Board also approved the advanced payment of a portion of the ordinary dividend for 2003 of Bs. 140 per share. These dividends were paid on January 15, 2003 to shareholders of record as of January 2, 2003. The remaining portion of the 2003 ordinary dividend of Bs. 71 per share (Bs. 497 per ADS) was approved on March 28, 2003 and was paid on April 23, 2003, to shareholders of record as of April 9, 2003. As announced on April 17, 2003, the distribution of the dividend payment in dollars by the Depositary bank to ADS holders is currently subject to approval by the Government s commission for the acquisition of foreign exchange currency (CADIVI) under the recently adopted exchange control regime. Consequently, the U.S. dollar amount of any cash distributions made by the Depositary bank pursuant to the Deposit Agreement to holders of ADSs may be adversely affected by reductions in the value of the bolivar relative to the U.S. dollar between the dividend declaration date and the dividend payment date.

Company Strategy

The Company s mission is to maximize shareholders value through communications solutions that exceed customer expectations and meet evolving global technological standards in telecommunications. To achieve this end, the Company focuses its strategy towards obtaining profitable growth in its telecommunications business through increase market focus and by continuing to selectively expand its network, broaden service offerings, increase network utilization, increase market penetration, reduce costs and improve overall productivity. Key elements of the Company s strategy include:

Improve Profitability Through Effective Customer Focus and an Integrated Service Offering. The Company has made substantial progress on its expansion and modernization program and continues to focus on key customer groups. The Company uses improvements in customer service and technological infrastructure to market its services more effectively following the opening of the Venezuelan market to competition in November 2000. The Company is implementing an integrated marketing approach by capitalizing on the operational synergies between CANTV and its subsidiaries to identify and meet customer needs. The Company has been integrating its information technology systems to provide the information and tools necessary to better target customers and improve overall customer service and satisfaction. The Company has also created business units to focus on specifically targeted customer groups. These units and customer groups are described below:

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CANTV Public And Private Corporations. This unit is responsible for the relationships with large corporations operating in Venezuela and government entities. It offers integrated telecommunications solutions to these important customers and seeks new business opportunities to support the growth of data transmission services. This business unit is focused on providing high quality telecommunications services ranging from voice and data transmission to customer network management. Its main achievements to date include: (i) conversion of an airline ticket reservation system covering 80% of Venezuela s airline and traveler company market to an integrated system employing IP technology provisioned exclusively via CANTV s network, (ii) establishment of strategic alliances with public institutions such as the Ministry of Finance, Infrastructure and Production and Commerce, state governments, universities, the Venezuelan Social Security Institute (I.V.S.S), the Caracas Metropolitan Mayor s Office, and other institutions, and (iii) implementation of a digital Video Network platform to be widely used in various communications media with several executed service agreements with the country s main television channels.

CANTV Enterprises. This unit offers telecommunications solutions to small and medium enterprises in the public and private sectors. During 2002, CANTV Enterprises focused its efforts on acquiring and developing a better understanding of its customers needs. CANTV Enterprises carried out a project referred to as the UNICA data base, which sought to identify and target the appropriate data and other value-added services for its customers. Price strategies and discounts were applied with the goal of maximizing telephony income. One of these strategies was the relaunching of the Enterprise Telephone Plan, offering discounts of 10% in local calls, 10% in Long National Distance and 20% in Long and International distance. The ADSL portfolio increased by 185% as a result of the efforts made in improving the attributes of higher speed plans and reducing installation time. Additionally, the service of technical attendance 0-800-ABACANTV was created, providing customer support 24 hours day. Participation in mobile lines and circuits of data also increased. In the enterprise segment, Televigilancia (remote images leases in real time through the Internet), Videoconferencing (interchange of audio, video and data in real time on the Web) and Customs Connection (remote connection that allows the customs agents to make transactions with the Servicio Nacional Integrado de Administracion Tributaria, SENIAT (National Integrated Service of Tax Administration) in a fast, easy and safe form) were also launched. Additionally, a new channel of sales was created called Integrating , which is made up of 92 companies specialized in the area of telecommunications and computer science and which was created in order to satisfy the needs of approximately 3,500 customers. This unit has also focused on reducing claims resolution time.

CANTV Mass Markets. This unit serves residential customers by seeking to increase services while decreasing the costs of providing these services. Its objective is to offer products and services under new technical platforms that promote usage and customer loyalty through improvements in customer care. Its strategy is focused on satisfying its subscribers through: (a) improvements at Customer Services Offices and External Collection Booths, (b) minimizing time spent waiting to speak to call center operators, (c) creation of new international and national access plans, (d) implementation of a new structure for local tariff plans, and (e) expansion of sales channels through the employment of the External Collection Booths. With the incorporation of 111 External Collection Booths nationwide, the Company had a total of 294 External Collection Booths by the end of 2002. As a result, far fewer people now pay their bills at Customer Service Offices, resulting in a 60% reduction in the volume of transactions and 1.63% reduction in waiting time. By year end, the External Collection Booths accounted for 73% of the money collected by the Company. In 2002, CANTV Mass Markets launched the following new plans and products: (a) the Destinations Plan that allows customers to use free minutes and preferential rates for a chosen country of destination, (b) the expansion of the Nights and Weekends Plan which extends the hours under the successful Nights and Weekends Plan, (c) the Talk More for Less Plan (Plan Habla Mas Por Menos) that introduces the concept of matching tariffs to customer consumption,

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(d) the expansion of the Message Center service to the country s five major cities, and (e) the expansion of the Reverse Call Charge to all customers in the Grand Caracas area. In the public telecommunications area, public telephony services increased with the incorporation of 110 new Communications Centers, bringing the total nationwide to 420. The network of public telephones rose by 2.8%, reaching a total of 90,211.

CANTV Interconnection. This unit serves telecommunication operators, Internet service providers and other value-added service providers. This unit also negotiates and settles agreements with international operators for incoming and outgoing voice traffic. Its strategy is to (i) become the preferred carrier s carrier using the Company s current and future infrastructure; (ii) offer timely solutions to customer requirements at competitive prices and network quality; (iii) develop long-term strategic alliances; and (iv) maximize the efficiency of the Company s interconnection facilities while minimizing costs. In May 2001, the Company entered into five revised interconnection agreements with telecommunication operators and, since then, has signed interconnection agreements for basic telecommunication and/or long distance services. These agreements stipulate the terms for interconnection between CANTV s basic network system and the networks of these companies. Additionally the Company is continuously developing specific packages to encourage other telecommunications services providers to use the Company s network. This unit continues to introduce new services to increase domestic and international traffic to strengthen its position in both the national and international data transmission markets.

Continue Expanding Wireless Services. The Company, through its wholly-owned subsidiary Movilnet, continues to expand its wireless communications business. The Company seeks to increase the revenues and margins of its wireless business by (i) minimizing customer acquisition costs; (ii) continuing the introduction of attractive products to the Venezuelan market; (iii) continuing the development of the wireless data market; (iv) expanding its geographic coverage and concentration in key markets; (v) continuing improvement of Movilnet s market position through increased product segmentation; (vi) providing packages of services that maximize the utilization of Movilnet s technological, marketing and personnel infrastructure; and (vii) centralizing marketing efforts and client service functions to better focus on customer care, build loyalty and improve customer satisfaction. During 2001 Movilnet began a migration of its network technology from Time Division Multiple Access (TDMA) to a third generation code division multiple access (CDMA1X). Movilnet launched CDMA 1X technology platform in November 2002, which provides high speed wireless data transmission and wireless internet access. During 2002, the Company coordinated its marketing efforts with Movilnet to better serve its large corporate customers and make efficient use of marketing resources. The new CDMA1X technology affords CANTV the flexibility to combine both fixed and wireless services under the same platform and allows for a more efficient usage of its voice spectrum. The new network increases capacity by approximately 30% as compared to TDMA. Movilnet will take advantage of this efficiency to grow market share in those areas of the country where it has less spectrum available, thus effectively increasing the total capacity of the system. CDMA1X provides a clear roadmap to high speed data services, allowing the Company to broaden its services and products portfolio. Movilnet will operate the CDMA1X network alongside its existing TDMA network for up to 10 years. This time frame should allow for existing TDMA users to be smoothly transitioned to the new technology. The implementation of this technology represented an investment of approximately $100 million**.**

Grow Data Transmission and Value-Added Services. The Company provides various telecommunications services, including data transmission and an array of value-added services such as voice mail, call waiting, call forwarding, call blocking, speed dialing, toll free and 800 number services, Venezuela Direct service (which allows customers to reach a Venezuelan operator from outside Venezuela), direct long distance calling services to other countries, video conferencing, web page hosting, enhanced fax service, audio text, country-wide 900 service, Televoting, Telecontest and other intelligent network and data capabilities that increase network utilization. The Company plans to offer additional value-added services in the future and seeks to capture the largest share of this market by leveraging its existing infrastructure, its relationships with major shareholders such as Verizon and Telefonica Internacional and first-mover advantage, to be the first to offer new telecommunications services in Venezuela. Currently, the Company is providing mobile prepaid service which allows customers to make local, domestic and international long distance calls from any telephone, using a Dual Tone Multi-Frequency signal system. The payment system used for this mobile prepaid service is called Unica , currently used by Movilnet, CANTV and CANTV.Net for other prepaid services.

Consolidate Our Position as the Preferred Internet Service Provider in Venezuela. The Company seeks to remain the recognized market leader in the provision of Internet services. The Company s strategy to retain the largest share of this high-growth market includes the development of an advanced services platform and integrated services network. The Company actively targets the development of Internet services in the corporate market by emphasizing long-term partnerships and delivering reliable and secure services aimed at ensuring the promises of the e-economy. The Company also continues to deliver and market its Internet services to medium and small-sized companies and to the broader consumer market.

Achieve World Class Efficiency Standards. The Company has made substantial progress in reducing costs and increasing productivity, reducing CANTV s labor force by approximately 45.2% and increasing the number of access lines in service per CANTV employee by 87%, from 199 to 372, in each case, between December 31, 1998 and December 31, 2002. To facilitate the reduction in force, the Company has implemented special retirement programs to encourage workforce reductions. Other achievements include improvement of internal controls, consolidation of operator centers and centralization of the Company s ordering and procurement processes. The Company is seeking to enhance the quality of its workforce through training programs, improved hiring practices and analysis of employee capabilities in connection with workforce reductions. The Company believes that these measures, in combination with the ongoing improvement of its network infrastructure, should continue to make possible substantial additional improvements in efficiency and productivity, which could result in improvements to operating margins.

Lead the Implementation of a Fair and Balanced Regulatory Framework. The Company seeks to promote a regulatory framework that will maintain and ensure the competitive position of the Company s telecommunications businesses and thereby help support the continued and future development of Venezuela s telecommunications infrastructure. Additionally, the Company seeks to ensure that it is compensated for providing access to its network. The Company has reached interconnection agreements with a number of competitive service providers and seeks to become Venezuela s preferred carrier by leveraging its extensive country-wide fiber optic backbone.

Globalization. The Company continues to take advantage of its relationship with Verizon in order to benefit from its strengths in processes, systems and resources to strengthen the Company s own competitive position. In addition, in April 2001 Movilnet and CANTV.Net changed their logos to resemble CANTV s logo, as part of a brand name unification strategy. Using the same graphics and font, Movilnet adopted a new slogan *contigo siempre* (Always with you) and CANTV.Net changed its name from CANTV Servicios to CANTV.Net and adopted the new slogan *te acerca el futuro* (Taking you closer to the future).

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Business Overview

Capital Expenditures

The Company made capital expenditures of approximately $706 million, $546 million, $442 million, $364 million, and $368 million in 1998, 1999, 2000, 2001 and 2002, respectively. The Company presently plans capital expenditures of approximately $80 $100 million in 2003 revised from $320 million estimated in December 2002. Expenditures are directed towards sales (31%), operations support (18%), overhead (14%), network (14%), systems (18%) and maintenance (5%). Operations support consists of the infrastructure and administrative requirements. The Company s capital expenditures are expected to be funded through internally generated cash. Capital expenditures in the 2004 to 2008 planning period will depend on the economic environment and will continue to be directed towards network optimization, systems platforms and the launch of new services. The Company plans to continue to focus its capital investments on the wireless, broadband Internet service, data transmission and e-business areas.

Breakdown of revenues by category of activity

The breakdown of revenues by category of activity for each of the last three years is included in Item 5. Operating and Financial Review and Prospects Results of Operations for the Years Ended December 31, 2000, 2001 and 2002.

Domestic Telephone Services

Domestic telephone services include local and domestic long distance and public telephone services. These services accounted for 21.7% of the Company s total operating revenues during 2002.

Local and Domestic Long Distance Services

Pursuant to the Concession, CANTV, was the exclusive provider of switched, fixed, local and domestic long distance telephone services throughout Venezuela, except in limited circumstances until November 27, 2000. As of December 31, 2002, CANTV s domestic telephone network included approximately 3.1 million installed lines and 2.7 million access lines in service extending throughout Venezuela.

The following table provides information relating to the development and improvement of the Company s domestic telephone system over the most recent five years:

	At December 31,

	1998	1999	2000	2001	2002
Lines installed	3,550,706	3,546,538	3,074,506	3,093,110	3,128,453
Percentage of lines installed in digital exchanges	66.1%	68.5%	80.0%	80.5%	80.8%
Access lines in service: [1]					
Non-residential	681,761	634,969	627,785	621,369	597,734
Residential	1,859,073	1,870,859	1,892,801	1,970,161	1,970,548
Public telephones	75,097	80,033	85,016	87,748	90,211
ADSL [3]			4,473	17,884	46,870
Total	2,615,931	2,585,861	2,610,075	2,697,162	2,705,363

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Access lines in service per 100 inhabitants	11.2	10.8	10.7	10.9	10.7
Customer satisfaction (2)					
Public telephones	69.6%	72.3%	N/A	N/A	N/A
Residential	91.5%	88.2%	N/A	N/A	N/A
Non-residential	88.5%	83.2%	N/A	N/A	N/A

(1) References to access lines in service are to lines billed.

(2) Percentage of customers satisfied with CANTV s service as measured by customer opinion surveys conducted by third parties. The lower customer satisfaction results obtained from the 1999 customer survey compared to the 1998 survey are primarily attributable to differences in survey design and methodology. Customer satisfaction data from 2000 to 2002 is not available because the survey design and methodology has not yet been reviewed and approved by CONATEL as part of the Government s review of service quality mandates. CONATEL plans to issue a new regulation covering service quality mandates for all the operators; however, no expected approval date has been announced. See Regulatory Framework.

(3) ADSL means Asymmetrical Digital Subscriber Lines.

In 1998 and 1999, the number of access lines in service decreased 3.2% and 1.1%, respectively, reflecting the permanent disconnection of approximately 478,686 and 453,900 lines in 1998 and 1999, respectively. The number of access lines in service increased slightly during 2000 by 0.9%, reflecting the success of the prepaid platform combined with fewer permanent disconnections. During 2001 the number of access lines in service increased by 3.3% driven by an increase of approximately 132,000 prepaid residential lines and were partially offset by a decrease of approximately 61,600 postpaid lines. At December 31, 2002, the Company had approximately 205,763 prepaid lines. Additionally, penetration decreased from 11.2 lines per 100 inhabitants in 1998 to 10.7 lines per 100 inhabitants in 2002 as a result of the general growth of the population. Permanent disconnections have resulted principally from management s continued aggressive focus on collections. The Company reassigns disconnected lines to new customers following upfront, qualifying credit history checks. See Billing.

Following privatization, the Company began a modernization program to replace analog switches in high traffic areas with new digital switches and replaced obsolete switches in low traffic areas with more modern analog switches displaced by the digitalization program. This switch modernization program has increased the percentage of digital access lines installed in the network from 66.1% at December 31, 1998 to 80.8% at December 31, 2002. Digital systems improve the quality and efficiency of the network, accommodate higher traffic levels, require less maintenance and enable the Company to offer a broad range of voice and data applications simultaneously on the same network. See Regulatory Framework Regulation and the Concession.

During the year 2000, lines installed decreased by 472,032 (13.3%) from 3,546,538 lines at December 31, 1999 to 3,074,506 lines at December 31, 2000. The decrease was due primarily to the elimination of analog lines. During 2000, the Company transferred and eliminated approximately 502,808 analog lines and installed approximately 43,504 new digital lines, which included 12,688 relocated digital lines.

The number of lines installed during 2002 increased slightly by 35,343 (1.1%) from 3,093,110 lines at December 31, 2001 to 3,128,453 lines at December 31, 2002. This increase reflects the success of the prepaid platform combined with fewer permanent disconnections.

In order to expand its ability to provide advanced services generally and to meet the existing and future needs of certain of its large corporate customers, the Company has continued to upgrade the network s technological infrastructure. The Company implemented ATM Frame Relay platforms in the second half of 1997. Additionally, in 1997 the Company began to install an advanced Signaling System 7 (SS7) intelligent network platform. These technologies enhance the Company s ability to provide high speed data transmission services to its customers, as well as enhanced services including caller ID, automatic calling card validation, automatic redial and call forwarding. At December 31, 2001, the Company had installed the SS7 system through its local tandem, domestic and international long distance switches, and continued expanding SS7 capabilities during 2002. During 1999, the Company began installing Digital Loop Carriers (DLCs) and continued the implementation of DLCs in 2001. DLCs provide voice, data and video services and allow for the introduction of other potential future services, improving the present transmission resources (copper, fiber optics, radio, etc.), the switching exchange plant, and available structure. DLCs allow line concentration and voice transmission services to remote locations as well as data transmission services in high concentration areas such as commercial areas. DLC technology will provide the current network with significant intelligence functionality. The Company upgraded approximately 12,480, 14,520 and 11,470 lines to DLCs during 2000, 2001 and 2002, respectively, and expects to upgrade approximately 6,000 additional lines in 2003.

In the fourth quarter of 1998, CANTV launched Extended Local Area Service (EAS) in certain parts of Venezuela. EAS migrated certain domestic long distance traffic to local area service, permitting CANTV to effectively achieve additional rate rebalancing while providing the opportunity to shift revenues to the local service category, which is less vulnerable to competition and price elasticity. EAS gives customers a better tariff package for specific calling patterns. See Rates and Regulatory Framework Regulation and the Concession Rate Regime. In 2000, th Company began the National Numbering Plan which upgrades the Company national numbering system for both basic telephony and wireless to world class standards. The National Numbering Plan changed the area codes from 3 numbers to 4 numbers and was implemented systematically. This project migrated certain domestic long distance service areas to local area service and vice-versa in 2002.

In July 2002, the Company installed a new system called Netcom to optimize the centralized administration and inventory of the assigned and available network resources. Currently, the Company is developing plans to migrate its remaining platforms to the system during the second half of 2003. The Company has also introduced an automated system called Workforce Management to track the delivery and completion of all job orders. This system enhances both basic telephone and data services and is currently in the first stage of testing in some states in the eastern part of Venezuela. This stage includes the testing of basic functions of the system. The implementation of the second stage will depend on the results obtained in the first testing stage, as well as on the availability of foreign currency to satisfy commitments with suppliers.

In order to provide high-speed services, the Company has adopted fiber optics as the medium of transportation for the transmission of voice, data, and video. During 1999, the Company completed the installation of an inter-urban high capacity broadband fiber optic network to interconnect the northern part of Venezuela. This area encompasses the vast majority of Venezuela s population. In 2001, the Company had installed 33 kilometers of fiber optic transmission lines. The network, currently consisting of four rings, is being extended to cover other geographical areas. A fifth ring, which is already 97% complete, will cover the telecommunications needs of the southeastern part of Venezuela. Ring VI was 85% completed at December 31, 2002. The Company redsigned a total of six urban rings in two of the major cities of Venezuela five urban rings in Caracas and one in Maracaibo. Additionally, the Company installed interurban Dense Wave Division Multiplex (DWDM) transmission equipment and a fiber optic network in the Guatire Higuerote branch, to close the National Telecommunications Center (*Centro Nacional de Telecomunicaciones*) (CNT) Camuri ring. When completed, the fiber optic network will consist of strategically deployed rings connecting all major cities and most large corporate customers in Venezuela. In total, the Company plans to install approximately 30 kilometers of fiber optic transmission lines during 2003. This fiber optic network, when completed, will increase capacity and provide higher reliability to our Domestic and International Telecommunications systems. This system will also upgrade our current technology to international quality standards. The Company believes that

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the expansion of the fiber optic network will be in service by the end of 2004 and will connect approximately 90% of total users. The Company plans to use the fiber optic network as its backbone while maintaining its digital microwave network for redundancy.

The Company continuously seeks to enhance customer service and product offerings. As of December 31, 2002, the Company has successfully completed a project to install Asymmetrical Digital Subscriber Lines (ADSLs). A total of 66.192 ports, are currently in service and available for commercialization in 214 offices, including Caracas. CANTV.Net offers high-speed Internet access using the Company s ADSLs.

The Company s revenues from local and domestic long distance telephone services consist of installation and activation charges for new lines, monthly line rental charges, usage charges, public telephone usage and equipment sales. At December 31, 2002, non-residential customers represented 22.1% of access lines in service and accounted for 38% of local and domestic long distance revenues in 2002. Revenues from usage constitute 56.0% of the Company s local and domestic long distance revenues in 2002.

The Company s local and domestic long distance traffic for the years 1998 to 2002 is presented in the table below:

Domestic Service Usage

Year	Total Local and Domestic Long Distance Minutes of Use (millions)	Minutes of Use per Average Access Line
1998	15,674	5,894
1999	16,575	6,373
2000	16,711	6,432
2001	17,168	6,470
2002	17,493	6,476

Total minutes of use of the Company s domestic services increased during the period 1998 through 2002 mainly due to a net increase of lines in use. Minutes of use per average line in service increased during the period 1998 through 2002 due primarily to lower domestic long distance rates in real terms and the Free Nights and Weekends flat rate plan for domestic long distance.

During 2002, CANTV improved its Preferred Country and Nights and Weekends plans, by introducing a flat rate, a local collect service and virtual home service. In October 2002, the Company launched a new Domestic Long Distance Nights and Weekends Plan for postpaid residential customers providing for reduced fees and extended times during specified periods and holidays. Under the new Nights and Weekend Plan, subscribers are entitled to an additional hour at night from Monday through Thursday and two additional hours in the morning from 8:00 pm to 7:59 am, and on weekends from 8:00 pm Friday until 7:59 am Monday for a fee of Bs. 16,900. The previous Nights and Weekends plan is still effective for calls placed between 9:00 pm and 5:59 am during the week, and on weekends from Friday at 9:00 pm until Monday at 5:59 am for a fee of Bs. 13,250. On December 31, 2002 approximately 213,161 customers used the Nights and Weekends special flat rate national long distance plan, first introduced in November 2000. As of December 31, 2002, 139,854 customers subscribed to the Preferred Country plan. This plan provides customers with a choice of up to five countries and a discount of up to 20% for calls made to selected countries. In May 2001, the Company launched a new residential flat fee plan with unlimited local minutes. As of December 31, 2002, 112,205 customers subscribed to this flat rate plan.

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Public Telephones

As of December 31, 2002, the Company owned and operated 90,211 public telephones located throughout Venezuela. Approximately 83.5% of these public telephones operate with prepaid debit cards. As part of its strategy to improve customer service and operating results, the Company relocated approximately 1,311 less productive public telephones to high traffic areas during 2002, and plans to relocate approximately 8,000 public telephones during 2003. The Company plans to install approximately 2,175 additional public telephones during 2003. The Company has no current plans to develop a modernization program for public telephones during 2003.

CANTV sold 45.5 million CANTV prepaid cards during 2002, a 31% decrease as compared to 2001. This decline was primarily the result of lower usage and customer migration to the Company s Communications Centers.

Communications Centers

Communications centers offer various communication services and use the best technology and service culture to support the commercial and social activity of the zone where each is located thereby facilitating public access to such services.

Communications centers are operated by third parties, with support from the Company and are required by the Company to meet certain quality standards. These centers provide local, domestic long distance and international long distance telecommunications services, Internet access, sale of prepaid cards, electronic money transfers, bank draft payments, electronic sales points, mailing services and copying and faxing services. However, due to the recently enacted exchange control, electronic money transfers have been suspended. The Company has sold franchises for 420 communications centers in more than 70 cities and towns throughout the national territory. The Company plans to franchise 85 new communications centers during 2003.

Rural Service

On December 15, 1997, the Company executed an agreement with Direct-to-Phone International Incorporated, a subsidiary of STM Wireless Incorporated, to develop rural telephone services via satellite. The Company began these operations in early 1998. In September 1999, Direct-to-Phone International Incorporated was acquired by SkyOnline Incorporated.

Altair, a provider of rural telecommunications services via satellite, became a wholly-owned subsidiary of CANTV on May 6, 2002, when CANTV acquired the remaining 49% of Altair s capital stock. At December 31, 2002, the Company had 1,700 satellite-based lines serving rural areas with satellite technology.

The Company also provides rural services through wireless systems using Movilnet platform and by radio based stations. At December 31, 2002, the Company had 926 lines using wireless technology and 2,954 radio-based lines, of which 2,502 served residential customers and 452 were dedicated to public telephone services.

Interconnection Agreements

The New Telecommunications Law and corresponding regulations require CANTV to provide interconnection to other telecommunications operators for originated and completed calls. Under the

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Interconnection Regulations (as defined herein), companies are required to work together to develop interconnection agreements. The Government may only intervene in cases where a formal agreement is not reached. See Regulatory Framework Regulation and the Concession Amendments to the Regulatory Framework. The main objective of these regulations is to establish general conventions and technical, administrative and economic norms to regulate the interconnection of telecommunications networks. CANTV provides interconnection services through which wireless, wireline and rural operators establish points of interconnection between their networks and CANTV s networks. As part of its overall strategy, the Company entered into four revised interconnection agreements in May 2001 with competing telecommunication s operators and, since then, has signed nine new interconnection agreements on basic telecommunication and/or long distance services with companies authorized by CONATEL to provide such services. These CANTV agreements will permit the interconnection between CANTV and other carrier s networks. Interconnection charges recently negotiated with mobile and fixed operators exceeded the values provided by CONATEL in its benchmark, while interconnection charges for long distance operators equaled the values included in the benchmark. See Regulatory Framework Regulation and the Concession Amendments to the Regulatory Framework. Prior to the enactment of the Interconnection Regulations, interconnection charges were based on negotiations between the Company and other operators. Each new interconnection agreement must provide certain rights and duties agreed by each operator thereunder with interconnection charges based on suggested benchmark guidelines by CONATEL. The Interconnection Regulations provide for interconnection charges to reflect the recovery of costs incurred to allow access to other carriers plus a reasonable profit margin. Current operators maintaining interconnection agreements with the Company are: Telcel BellSouth, Digicel, Infonet, Digitel, Convergence Communications de Venezuela, Veninfotel, Orbitel, Multiphone, Totalcom, Etelix, Telecomunicaciones NGTV, S.A. and LD Telecom.

International Long Distance Services

The Company s international services include voice, video and data communication services representing 4.3% of the Company s operating revenues in 2002. The largest of these services are international voice service and international IP access service.

Pursuant to the Concession, CANTV was the exclusive provider of switched, fixed international telephone services in Venezuela until November 27, 2000. Subsequent to that date, some other operators have obtained licenses from CONATEL to develop International Long Distance Services.

The Company provides international services through submarine cables, satellite and microwave links. Satellite capacity is provided via the International Telecommunications Satellite Organization (INTELSAT), the global satellite consortium with 148 member countries, of which CANTV is a signatory with a 1.12% equity ownership interest. Traffic is primarily handled by two satellite antenna earth stations. The Company also operates four additional satellite antenna earth stations, which are used for international point-to-point data transmission, video conferencing, and Very Small Aperture Terminals (VSAT) service. The Company owns 16.2% of the Americas I and 4.41% of the Columbus II fiber optic submarine cable systems. The Americas I cable system connects South America to the United States. The Columbus II cable system connects the United States, Mexico and the Caribbean to Western Europe. As of December 31, 2002, the Company owned 4.19% of the Pan American system and 6.97% of the Americas II system. The Pan American cable system connects Venezuela to Chile through the western coast of South America and part of the Caribbean to United States. The Americas II cable system connects the eastern part of South America and the Caribbean to the United States.