

NATIONAL TELEPHONE CO OF VENEZUELA  
Form 6-K  
August 21, 2002

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

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**FORM 6-K**

**Report of Foreign Issuer**

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

**For the month of August 2002**

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**NATIONAL TELEPHONE COMPANY OF VENEZUELA  
(CANTV)**

(Translation of Registrant's Name into English)

**Edificio Cantv  
Avenida Libertador  
Caracas, Venezuela  
(Address of Principal Executive Offices)**

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

Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Act of 1934. Yes  No

If  Yes is marked, indicated below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82

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This report consists of an English translation of the original Spanish language version of a Venezuelan filing of the revised unaudited financial statements of Compañía Anónima Nacional Teléfonos de Venezuela (CANTV) as of and for the period ended on June 30, 2002, prepared according to Venezuelan GAAP, which differ in certain important respects from US GAAP, as filed with the Venezuela National Commission on Securities on July 31, 2002.

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**ENGLISH TRANSLATION**

Caracas, July 31, 2002

Sirs  
Comisión Nacional de Valores  
Present.

Attention: Dra. Aida Lamus  
President

Dear Dra. Lamus,

In accordance with the requirements of the Periodic or Occasional Information Reporting Norms to Be Submitted by Individuals Regulated by the Venezuelan National Commission on Securities ( Normas Relativas a la Información Periódica u Ocasional que Deben Suministrar las Personas Sometidas al Control de la Comisión Nacional de Valores ), attached please find the revised unaudited Financial Statements as of and for the period ended June 30, 2002, which includes its respective notes, that are presented comparative to the previous year ago quarter.

I will make myself available should you need any clarification or additional information.

Sincerely yours,

/s/ MARIELA BELMONTE

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**Mariela Belmonte.**  
**Secretary**  
**Board of Directors**

**COMPAÑÍA ANÓNIMA NACIONAL TELÉFONOS DE VENEZUELA (CANTV) AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**as of June 30, 2002 and 2001 and for the six months ended June 30, 2002 and 2001**

(Translation of financial statements originally issued in Spanish)

**COMPañÍA ANÓNIMA NACIONAL TELÉFONOS DE VENEZUELA (CANTV) AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS AS OF JUNE 30, 2002 AND 2001  
(Adjusted for inflation and expressed in millions of constant bolivars as of June 30, 2002)**

	<u>2002</u>	<u>2001</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and temporary investments	411,480	943,093
Accounts receivable, net	416,989	448,308
Accounts receivable from Venezuelan Government entities	90,570	125,605
Inventories and supplies, net	38,800	38,045
Other current assets	27,585	16,900
	<u>985,424</u>	<u>1,571,951</u>
Total current assets	985,424	1,571,951
Property plant and equipment, net	3,281,876	3,742,182
Cellular concession, net	114,969	118,817
Other assets	298,134	274,034
	<u>4,680,403</u>	<u>5,706,984</u>
Total assets	4,680,403	5,706,984
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Short-term debt	112,155	148,410
Accounts payable	300,732	347,072
Employee severance benefits, net	14,889	15,428
Accrued employee benefits	89,949	130,894
Other current liabilities	255,402	334,914
	<u>773,127</u>	<u>976,718</u>
Total current liabilities	773,127	976,718
<b>LONG-TERM LIABILITIES:</b>		
Long-term debt	335,372	299,714
Pension and other post-retirement benefit obligations	482,025	445,624
	<u>1,590,524</u>	<u>1,722,056</u>
Total liabilities	1,590,524	1,722,056
<b>STOCKHOLDERS EQUITY</b>	<u>3,089,879</u>	<u>3,984,928</u>
Total liabilities and stockholders equity	4,680,403	5,706,984

The accompanying notes are an integral part of these consolidated statements.

(Translation of financial statements originally issued in Spanish)

## COMPAÑÍA ANÓNIMA NACIONAL TELÉFONOS DE VENEZUELA (CANTV) AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

For the Six Months Ended June 30, 2002 and 2001

(Adjusted for inflation and expressed in millions of constant bolivars as of June 30, 2002, except earning per share and per ADS amount)

	2002	2001
OPERATING REVENUES:		
Local and domestic long distance usage	250,775	308,164
Basic rent	188,612	192,522
Local and domestic long distance	439,387	500,686
International long distance	50,303	58,627
Net settlements	6,873	12,395
International long distance	57,176	71,022
Fixed to mobile outgoing calls	246,319	357,270
Interconnection incoming	15,602	32,338
Other wireline related services	95,369	88,696
Total wireline services	853,853	1,050,012
Wireless services	252,198	198,035
Other	46,808	33,637
Total operating revenues	1,152,859	1,281,684
OPERATING EXPENSES:		
Operations, maintenance, repairs and administrative	481,255	527,935
Interconnection costs	109,076	189,124
Depreciation and amortization	383,357	422,110
Concession and other taxes	78,806	72,834
Total operating expenses	1,052,494	1,212,003
Operating income	100,365	69,681
OTHER EXPENSES, NET:		
Financing cost, net	(18,203)	(9,802)
Other expenses, net	(15,607)	(947)
Total other expenses, net	(33,810)	(10,749)
Income before income tax	66,555	58,932
INCOME TAX	29,805	23,263
Net income	36,750	35,669
Earnings per share	44	39
Earnings per ADS (based on 7 shares per ADS)	307	270

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Average shares outstanding (in millions)	787	926
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The accompanying notes are an integral part of these consolidated statements.

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(Translation of financial statements originally issued in Spanish)

## COMPAÑÍA ANÓNIMA NACIONAL TELÉFONOS DE VENEZUELA (CANTV) AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

For the Six Months Ended June 30, 2002 and 2001

and the year ended December 31, 2001

(Adjusted for inflation and expressed in millions of constant bolivars as of June 30, 2002)

	Capital stock			Additional paid-in capital	Retained earnings	Legal reserve	Treasury stock	Cumulative translation adjustment
	Historical cost	Inflation adjustment	Total					
Balance as of December 31, 2000	34,173	1,675,848	1,710,021	22,959	2,061,017	184,624		42,243
Net income					35,669			
Dividends declared					(72,303)			
Change in cumulative translation adjustment								698
Balance as of June 30, 2001	34,173	1,675,848	1,710,021	22,959	2,024,383	184,624		42,941
Net income					53,579			
Dividends declared					(461,697)			
Repurchased shares					(252,853)		(254,822)	
Change in cumulative translation adjustment								1,299
Balance as of December 31, 2001	34,173	1,675,848	1,710,021	22,959	1,363,412	184,624	(254,822)	44,240
Net income					36,750			
Dividends declared					(34,504)			
Change in cumulative translation adjustment								17,199
Balance as of June 30, 2002	34,173	1,675,848	1,710,021	22,959	1,365,658	184,624	(254,822)	61,439

The accompanying notes are an integral part of these consolidated statements.

(Translation of financial statements originally issued in Spanish)

## COMPAÑÍA ANÓNIMA NACIONAL TELÉFONOS DE VENEZUELA (CANTV) AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2002 and 2001

(Adjusted for inflation and expressed in millions of constant bolivars as of June 30, 2002)

	2002	2001
	<u>          </u>	<u>          </u>
<b>CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:</b>		
Net income	36,750	35,669
Adjustments to reconcile net income to net cash provided by operating activities		
(Gain) loss from net monetary position	(16,971)	9,967
Exchange loss (gain), net	35,580	(3,569)
Depreciation and amortization	383,357	422,110
Provision for doubtful accounts	26,750	41,618
Changes in current assets and liabilities:		
Accounts receivable	(53,524)	(75,504)
Accounts receivable from Venezuelan Government entities	7,709	(2,807)
Inventories and supplies	(2,829)	3,870
Other current assets	(15,950)	393
Accounts payable	19,750	14,376
Accrued employee benefits	15,917	(49,957)
Other current liabilities	(30,593)	18,157
	<u>          </u>	<u>          </u>
	405,946	414,323
Changes in non current assets and liabilities:		
Other assets	(22,965)	4,641
Pension and other postretirement benefit obligations	36,489	7,558
	<u>          </u>	<u>          </u>
Net cash provided by operating activities	419,470	426,522
<b>CASH FLOWS USED IN INVESTING ACTIVITIES:</b>		
Acquisition of intangibles	(16,274)	(5,535)
Capital expenditures, net of disposals	(118,657)	(43,522)
	<u>          </u>	<u>          </u>
Net cash used in investing activities	(134,931)	(49,057)
<b>CASH FLOWS USED IN FINANCING ACTIVITIES:</b>		
Payments of debt	(117,602)	(33,983)
Dividend payments	(228,489)	(72,308)
	<u>          </u>	<u>          </u>
Net cash used in financing activities	(346,091)	(106,291)
	<u>          </u>	<u>          </u>
(Decrease) increase in cash and temporary investments before loss in purchasing power of cash and temporary investments	(61,552)	271,174
LOSS IN PURCHASING POWER OF CASH AND TEMPORARY INVESTMENTS	(23,559)	(70,285)
FOREIGN EXCHANGE GAIN OF CASH AND TEMPORARY INVESTMENTS	156,536	9,331
	<u>          </u>	<u>          </u>
Increase in cash and temporary investments	71,425	210,220
<b>CASH AND TEMPORARY INVESTMENTS:</b>		
Beginning of period	340,055	732,873
	<u>          </u>	<u>          </u>
End of period	411,480	943,093
	<u>          </u>	<u>          </u>



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SUPPLEMENTAL INFORMATION:

Cash paid during the period for

Interest	13,054	19,972
	<u>          </u>	<u>          </u>
Taxes	158,706	225,719
	<u>          </u>	<u>          </u>
RESULT FROM NET MONETARY POSITION:		
Operating activities	9,597	(18,075)
	<u>          </u>	<u>          </u>
Investing activities	(4,325)	51,450
	<u>          </u>	<u>          </u>
Financing activities	35,258	26,943
	<u>          </u>	<u>          </u>

The accompanying notes are an integral part of these consolidated statements.

(Translation of financial statements originally issued in Spanish)

**COMPAÑÍA ANÓNIMA NACIONAL TELÉFONOS DE VENEZUELA (CANTV)  
AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(Amounts are adjusted for inflation and expressed in millions of constant**  
**bolivars as of June 30, 2002, unless otherwise indicated)**

**1. EXPLANATION ADDED FOR TRANSLATION INTO ENGLISH:**

The consolidated financial statements were originally issued in Spanish and translated into English.

**2. COMPANY BACKGROUND AND CONCESSION AGREEMENT:**

Compañía Anónima Nacional Teléfonos de Venezuela (CANTV or the Company) is one of the primary providers of telecommunications services in Venezuela, and is the owner of a nationwide basic telecommunications network through which it provides not only national and international fixed switched telephone service but also private networks, data, public telephone, rural and telex services. In addition, through its subsidiaries, CANTV provides other telecommunications-related services including Internet access, wireless communications and telephone directories.

CANTV entered into a Concession Agreement (the Concession) with the Government of the Bolivarian Republic of Venezuela (the Government) in 1991 to provide national and international telecommunications services, for the purpose of guaranteeing high quality service, modernizing and expanding the local network, introducing progressive rate rebalancing and establishing a framework for the introduction of competition. November 2000 marked the opening of the telecommunications market with the entrance of new competitors (see Note 19 (d) and (e) Commitments and contingencies Concession mandates and Competition).

Significant terms of the Concession are as follows:

- a. The Concession established a special privilege regime of limited concurrence, through which the Government guaranteed CANTV, except in some circumstances, to be the exclusive provider of fixed switched telephone services, including local, national and international access until November 27, 2000. Beginning on that date, any party who obtains the corresponding administrative concession is able to provide basic telecommunication services in the country (see Note 4 Regulation).
- b. The Concession is for 35 years ending in 2026, and is extendible for an additional period of 20 years subject to the approval by the Ministry of Infrastructure, (the Ministry), and satisfactory performance by CANTV of its obligations under the Concession.
- c. Until December 31, 2000, CANTV paid annually a total of 5.5% of services billed. Beginning in January 2001, the Company is subject to pay up to 4.8% of gross revenues (see Note 4 (a) Regulation Organic Telecommunications Law). Such amount is included in the accompanying consolidated statements of operations as Concession and other taxes totaling for Bs. 29,321 and Bs. 39,216 for the six months ended June 30, 2002 and 2001, respectively.

d. The Concession requires the Company to expand, modernize and improve the quality of its telephone network, as well as, meet prescribed service quality targets. Those Concession mandates include national and regional expansion and modernization targets as well as, annual and accumulative targets (see Note 19 (d) and (e) Commitments and contingencies Concession mandates and Competition).

e. The Concession specifies various penalties, which may be, imposed on CANTV for negligent or intentional violation of Concession provisions, depending on the violation, a public reprimand, a fine of up to 1% of services billed and/or revocation and termination of the Concession. Penalties assessed against CANTV through June 30, 2002, have not been material.

#### **Eight-Year Review Agreement**

On February 21, 2000, CANTV and the Comisión Nacional de Telecomunicaciones (CONATEL) signed the Eight-Year Review Agreement (the Agreement), effective until December 31, 2000. The Agreement included the review of the concession regarding quality service, tariffs framework, commercialization of new services and the elimination of the service expansion mandate and the introduction of a new 80% average digitalization mandate (see Note 4 Regulation and Note 19 (d) Commitments and contingencies Concession mandates).

Starting 2001, the Company is regulated by the Concession and the Organic Telecommunication Law, enacted in 2000 (see Note 4 Regulation).

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES:**

#### *a. Basis of presentation*

The consolidated financial statements have been prepared in accordance with Venezuelan generally accepted accounting principles (Venezuelan GAAP).

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the amounts of revenues and expenses during the reporting period. Actual consolidated results may differ from those estimates.

#### *b. Adjustment for inflation*

The Company's consolidated financial statements are expressed on a constant bolivar basis as of June 30, 2002, in accordance with the Venezuelan Statement of Accounting Principles Number 10 Standards for the Preparation of Financial Statements Adjusted for Inflation (DPC 10) (revised and comprehensive), issued by the Venezuelan Federation of Public Accountants.

In December 2000, the Venezuelan Federation of Public Accountants issued the new DPC 10 (revised and comprehensive), which superseded the standard issued in 1991 and its three amendments as well as the technical publications number 14 and 19. The main changes outlined in this standard pertain to presentation and not methodology, and is effective for those periods beginning after December 31, 2000.

The amounts disclosed in the consolidated financial statements have been adjusted to reflect the bolivar's purchasing power at June 30, 2002 based on the Consumer Price Index (CPI) for the metropolitan area of Caracas as published by the Central Bank of Venezuela (BCV).

The most representative indexes used in the preparation of the inflation adjusted financial statements are as follows (1997 base):

	<u>June 30, 2002</u>	<u>June 30, 2001</u>
End of period	260.87225	218.17617
Average for period	247.97332	212.39323

Each caption in the accompanying consolidated financial statements has been presented on the basis of the CPI at June 30, 2002, as follows:

- i. Monetary assets and liabilities (cash and temporary investments, accounts receivable, other assets and most liabilities) as of June 30, 2002, have not been adjusted for the effect of inflation since they already represent their inflation-adjusted value at that date. The balances as of June 30, 2001, have been updated based upon the relative change in the CPI between that date and the CPI at June 30, 2002.
- ii. Non-monetary assets (principally inventories and supplies, net, property, plant and equipment, net, the cellular concession, net and certain other assets) and stockholders' equity have been updated based upon the relative change in the CPI between the time the assets and equity were acquired or contributed and the CPI at June 30, 2002.
- iii. The non-monetary liability for pension and other postretirement benefit obligations and its related expense, are recorded based on actuarial calculations (see Note 14 Retirement benefits).
- iv. Monetary revenues and expenses have been updated based upon the change in the CPI from the month in which the transaction was recorded and the CPI at June 30, 2002.
- v. Non-monetary expenses (primarily depreciation and amortization) are based upon the values of the corresponding assets (primarily property, plant and equipment) in the accompanying consolidated balance sheets (See (ii) above).
- vi. The monetary gain (loss) is attributable to the Company's net monetary asset or liability position in an inflationary period and has been set forth as loss from net monetary position as part of the Financing cost, net caption in the accompanying consolidated statements of operations (see Note 16 Financing cost, net).

*c. Consolidation*

The consolidated financial statements include CANTV and all of its majority-owned subsidiaries. All significant intercompany balances and transactions among the companies have been eliminated.

In April 2002, CANTV's Board of Directors approved the acquisition of 49% of the shares owned by Sky OnLine in Altair. Altair is a company who provides equipment, installation and maintenance of rural communication services, through satellite technology. After the acquisition,

Altair is 100% owned by CANTV, who also acquired legal obligations, related fixed assets, spare parts and future technical support. In May 2002, the Company paid Bs. 12,646 (US\$14 million), of which, Bs. 4,705 (US\$5,2 million) were paid as an indemnification for terminating the Joint Venture.

*d. Cash and temporary investments*

Cash and temporary investments include short-term, highly liquid investments, which have original maturities of three months or less. The loss in the purchasing power of cash and temporary investments due to inflation is reflected as a separate caption in the consolidated statements of cash flows.

*e. Inventories and supplies, net*

Inventories and supplies are presented at cost, net of reserves. Certain inventories and supplies whose original cost per unit does not exceed the equivalent in bolivars of U.S.\$500 are expensed when purchased.

*f. Depreciation and amortization*

Depreciation and amortization are calculated using the straight-line method based on the estimated useful lives of the fixed assets and based on the amortization period assigned to the intangible assets (see Note 5 Cellular concession and Note 10 Other assets). Amortization expense was Bs. 29,633 and Bs. 31,241 for the six months ended June 30, 2002 and 2001, respectively. Accumulated amortization was Bs. 378,032 and Bs. 318,433 at June 30, 2002 and 2001, respectively.

*g. Computer software*

The costs of certain purchased computer software and systems for internal use are capitalized and classified as intangible assets. The estimated useful lives of these intangible assets is between 3 and 7 years. Internal-use software is defined as software which is acquired, internally developed, or modified solely to meet the internal needs of the Company; and for which, during the software's development or modification, no substantive plan exists or is being developed by the Company to market the software externally. Regular maintenance and modifications to existing software are expensed when incurred.

*h. Impairment of long-lived assets*

The Company evaluates the impairment of long-lived assets, including intangible assets, based on the projection of undiscounted cash flows whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. In the event such cash flows are not expected to be sufficient to recover the recorded value of the assets, the assets are written down to their estimated fair values. Under current circumstances, no adjustment for impairment in the carrying value of long-lived assets has been recorded.

*i. Revenue recognition*

Revenues for wireline and wireless services are recognized in the period in which the services are provided. Unbilled revenues of Bs. 109,882 and Bs. 123,166 are included in accounts receivable as of June 30, 2002 and 2001, respectively. Revenues from settlement of traffic with international telecommunications carriers are recognized on a net basis and are based on estimates of traffic volume and rates. Advertising revenues and related telephone directory printing costs are recognized upon publication of the directories. The Company presents as deferred revenue, included in the Other current liabilities caption, those amounts of billed services, which have not been rendered yet, such as submarine cable usage, basic rent for telecommunications services and telephone directories (see Note 13 Other current liabilities).

During 2000, the Company reviewed its revenue recognition policies for prepaid services and subscriber right fees and changed the way it was accounting for these services. Subscriber right fees, which are upfront fees paid by consumers when the service is activated, are classified as liabilities on the Company's balance sheet. The Company believes that the opening of the telecommunications market where consumers have a choice of carrier changes the way in which subscriber right fees should be accounted for on the Company's books. In line with industry practices prepaid card sales are recognized as revenue when the customer utilizes the service. The changes in the way the above revenues are recognized did not materially impact the Company's results of operations.

During 2001, the Company changed the way it presents interconnection revenues and costs in the consolidated statements of operations. Revenues from Fixed to mobile outgoing calls include the amount paid to customers for fixed to mobile calls terminating in a wireless operator. The portion related to basic telephony charged to a wireless operator for mobile to fixed and fixed to fixed calls originated in other operators are included as Interconnection incoming revenue, while costs charged to CANTV and its consolidated subsidiary Movilnet from a wireless operator for the interconnection portion of fixed to mobile traffic, mobile to mobile or fixed to fixed are presented as Interconnection costs in the consolidated statements of operations. Previously, only the fixed portion of the fixed to mobile traffic was included as revenue, while the cost for the outgoing fixed to mobile or mobile to mobile traffic were presented net of such revenues. This change was applied to all the periods presented in the consolidated statements of operations for comparative purposes.

*j. Income tax*

Income taxes are calculated based upon taxable income which is different from income before tax in the statement of operations. Venezuelan tax legislation does not permit consolidation of results of subsidiaries for tax purposes. Investment tax credits for property, plant and equipment reduce the income tax during the year in which such assets are placed in service. Investment tax credits as well as fiscal losses except those from the tax inflation adjustment, are permitted to be carried forward for 3 years. Venezuelan tax regulations also provide for a corporate asset alternative minimum tax based on inflation adjusted net assets.

The Company recognizes through the deferral method, the impact of income taxes originated from temporary differences existing between the income tax expense calculated on the basis of net income, determined in accordance with generally accepted accounting principles, and this concept, calculated on the taxable income for the period, determined in accordance with current tax legislation. Such tax effect is assigned to future periods in which such temporary differences will be realized. The recording of the deferred income taxes is subject to its possible realization.

Based on current conditions, the Company has not recorded the asset resulting from deferring the tax effect of temporary reconciliation differences.

*k. Employee severance benefits and other benefits*

Employee severance benefits are calculated and recorded in accordance with the Venezuelan labor law and the Company's current collective bargaining agreement.

Under the current Labor Law, employees earn a severance indemnity equal to 5 days salary per month, up to a total of 60 days per year of service. Labor indemnities are earned once an employee has completed 3 months of continuous service. Beginning with the second year of service, the employees earn an additional 2 days salary for each year of service (or fraction of a year greater than six months), cumulative up to a maximum of 30 days salary. Severance benefits must be funded and deposited monthly in either an individual trust or a severance fund, or accrued in an employer's accounting records, as specified in writing by each employee.

In the case of unjustified or involuntary termination, employees have the right to an additional indemnification payment of one-month salary per year of service up to a maximum of 150 days' current salary. Furthermore, in the case of involuntary termination the Law established the payment of an additional severance benefit of up to a maximum of 90 days' current salary based on length of employment.

Additionally, the Venezuelan labor law requires a mandatory annual profit sharing distribution to all employees. CANTV makes distributions equal to 120 days' salary yearly.

*l. Pension plan and other postretirement benefits*

The noncontributory pension plan benefits are accrued based on actuarial estimates. The real discount rate and real rate of compensation increase used to develop the projected benefit obligation were 7% and 2%, respectively (see Note 14 Retirement benefits).

Postretirement benefits relating to health care expenses are recorded based on actuarial estimates (see Note 14 Retirement benefits).

*m. Foreign currency denominated transactions*

Foreign currency denominated transactions are recorded at the bolivar exchange rate as of the transaction date. The outstanding balances of foreign currency denominated assets and liabilities are translated into bolivars using the exchange rate at the balance sheet date, which were Bs. 1,352.75 and Bs. 717.00 per U.S. dollar as of June 30, 2002 and , 2001, respectively (see Note 6 Balances in foreign currency). Any exchange gain or loss from the translation of these balances and transactions is reflected as exchange gain (loss), net in the Financing cost, net caption in the accompanying consolidated statements of operations (see Note 16 Financing cost, net).

*n. Legal reserve*

The Company and each of its subsidiaries are required under the Venezuelan Commercial Code and their Corporate By-laws to transfer at least 5% of each year's net income to a legal reserve until such reserve equals at least 10% of capital stock.

*o. Earnings per share*

Earnings per share are based on 787,140,849 and 926,037,385, of average common shares outstanding during the period of six months ended June 30, 2002 and 2001, respectively.

**4. REGULATION:**

CANTV's services and tariffs are regulated by the rules established in the Concession agreement, the Organic Telecommunications Law enacted in 2000 and its Regulations, as well as the Agreement (see Note 2 Company background and concession agreement).

The Organic Telecommunications Law along with the Regulations, provide the general legal framework for the regulation of telecommunications services in Venezuela. Under the Organic Telecommunications Law, suppliers of public telecommunications services, such as the Company, must operate under concessions granted by the Government, which acts through the Ministry.

CONATEL is an independent regulatory body under the direction of the Ministry, created by presidential decree in September 1991, which has the authority to manage, regulate and control the use of limited resources in the telecommunications services in Venezuela, and recommend the granting of concessions, licenses and administrative authorizations as well as the approval of tariffs and collection taxes. Also, it shall promote and protect free competition, together with the Superintendent of Promotion and Protection of Free Competition (Pro-Competencia).

*a. Organic Telecommunications Law*

On June 12, 2000, the Venezuelan Government issued the Organic Telecommunications Law, which provides the guidelines for the opening of the telecommunications sector for existing and new operators after November 2000. This Law replaces the 1940 Organic Telecommunications Law and it is the result of several years of consultation between the private and public sector. Some of the most important aspects of the Telecommunications Law are as follows:

- i. Provides the legal framework to establish specific regulations related to interconnection, universal service, spectrum, administrative concessions, networks, taxes, as well as penalties, consumer and operator's rights and responsibilities.
- ii. Defines telecommunications as an activity of general interest rather than as a public service, as provided by the former law.
- iii. Operator's freedom to set rates is specified, establishing controls only in cases where dominant control is evidenced and in cases of insufficient competition.
- iv. Adopts a new tax regime applicable to all telecommunications service providers on the basis of gross revenues. The new taxes replace the former annual tax and concession fee of 5.5% for wireline and 10% for wireless services. The new tax rates are: 2.3% activity tax, 0.5% tax to cover CONATEL's activities, 0.5% tax for spectrum allocation, 1% tax to create the Universal Service Fund, 0.5% tax for the Telecommunications Training and Development Fund. In addition, cellular providers are subject to a supplemental tax starting at 4.5% of gross revenues in the year 2000 and decreasing by 1% per annum until 2005 after which time the supplemental tax will be eliminated.



*b. Telecommunications regulations*

On November 24, 2000, the Regulations for Basic Telephony Services, Interconnection and Administrative concessions were issued and represent the legal framework for the market opening of telecommunication services in Venezuela.

The most significant aspects of these Regulations include:

- i. Requirements, condition and limitations for the opening of basic telephony services in a free competition environment and equal opportunities between existing and new operators.
- ii. Regulation for mandatory interconnection with charges based on costs, changing the previous structure of interconnection charges based on tariffs. It also requires the submission of quarterly accounting information by separate accounts and before the fourth quarter of 2001, carriers must establish accounting systems indicating costs generated by interconnection and the allocation criteria. At June 30, 2002, CANTV has signed twelve interconnection agreements with different operators (see Note 19 (e) Commitments and contingencies Competition).
- iii. The rules for granting administrative concession for the network establishment and development and the rendering of telecommunication services and the spectrum concession usage and development. Additionally, spectrum concession will be granted through public offering procedures and in certain cases, direct adjudication will be granted. Value added services, except for Internet services, does not require authorization, only notification specifying the networks, links or systems to support the service.

*c. Tariffs*

On February 22, 2001, pursuant to the New Organic Telecommunications Law, CONATEL established the maximum tariffs that are applicable during 2001, effective March 10, 2001 and a new price-cap system that replaced the tariff adjustment mechanism provided under the Agreement. Under the new price-cap system applicable for 2001, the maximum tariffs may be adjusted based on a formula tied to the wholesale price index (WPI) and the rate of devaluation in the Bolivar. The price-cap system allows the increase or decrease of established tariffs based on deviations of 2.5% above or 2.5% below projected monthly estimates of those indexes. CANTV may apply for an upward adjustment to the established tariffs up to 2.5% above the accrued excess of the projected index. CONATEL may request a downward adjustment to the established tariffs up to 2.5% below the accrued excess of the projected index. If accrued excess of the projected index deviates more than 7.5% above, CONATEL must review the price-cap formula.

On May 30, 2002, CONATEL published revised tariffs for 2002 in the Official Gazette N 37,454 pursuant to the new price cap system, which tariffs became effective on June 15, 2002. This new scheme for residential plans reduces the plans from 7 to 5. In addition, the flat residential tariff and the prepaid services are still effective. The new plans established by the Company are: Limited , Classic and Talk more for less , which replace the 5 previous plans effective up to June 15, 2002. In the case of national and international long distance call services, CANTV was authorized to increase the tariffs to a maximum of 19.70% and 12.83%, respectively. These tariffs had not been changed since July, 2001. However, the Company will grant discounts over these services between 5.84% and 11.40%.

**5. CELLULAR CONCESSION:**

On May 19, 1992, the Company purchased one of two cellular concessions from the Government for Bs. 156,096 (Bs. 5,388 on an historical cost basis) and established Telecomunicaciones Movilnet, C.A. (Movilnet). The amount paid for the cellular concession is being amortized over 40 years.

Until December 2000, the annual payment of cellular concession fee based on services billed was 10%. Beginning in 2001, the tax regime applicable to cellular services providers is up to 9.3% of gross revenues which is decreasing by 1% per annum until 2005. (see Note 4 (a) Regulation Organic Telecommunications Law).

For the period of six months ended June 30, 2002 and 2001, the Concession tax expense included in the consolidated statements of operations were Bs. 23,755 and Bs. 20,513, respectively.

**6. BALANCES IN FOREIGN CURRENCY:**

The Company has assets and liabilities denominated in U.S. dollars and Japanese yens (see Note 20 Market risk), as of June 30, as follows (in millions of US dollars):

	<u>2002</u>	<u>2001</u>
	(Expressed in millions of U.S. dollars)	
Cash and temporary investments	261	681
Accounts receivable, net	38	37
Other assets and advances to suppliers	29	32
Accounts payable	(63)	(100)
Short and long-term debt	(306)	(472)
	<u>          </u>	<u>          </u>
Net asset (liabilities) position in foreign currency	(41)	178
	<u>          </u>	<u>          </u>

**7. ACCOUNTS RECEIVABLE, NET:**

The Company's accounts receivable, net balances, are as follows:

	<u>2002</u>	<u>2001</u>
Subscribers	347,192	412,337
Net settlements	26,303	28,253
Others	97,467	86,921
	<u>          </u>	<u>          </u>
	470,962	527,511
Less: Allowance for doubtful accounts	(53,973)	(79,203)
	<u>          </u>	<u>          </u>
	416,989	448,308
	<u>          </u>	<u>          </u>

As of June 30, 2002 and 2001, Others include Bs. 79,503 and Bs. 82,086 of accounts receivable related to telephone cards, resulting from the credit margin granted to exclusive territorial distributors of prepaid cards of CANTV and Movilnet.

**8. ACCOUNTS RECEIVABLE FROM VENEZUELAN GOVERNMENT ENTITIES:**

The Company's largest customer is the Venezuelan public sector, including the Government, its agencies and enterprises, and the Venezuelan states and municipalities (collectively, Government entities). Government entities generated approximately 5% and 7%, of the Company's revenues during the six-month periods ended June 30, 2002 and 2001, respectively.

The following table sets forth the aging of accounts receivable from Government entities as:

Years	2002	2001
2002	36,081	
2001	11,427	41,402
2000 and prior	43,062	84,203
	90,570	125,605

The changes in accounts receivable from Government entities are as follows:

	2002	2001
Balance at beginning of year	110,426	130,164
Billings	56,944	80,304
Collections	(67,434)	(77,586)
Monetary loss	(9,366)	(7,277)
	90,570	125,605

The amounts that Government entities can pay for telecommunications services are established in annual budgets, which is not based upon actual usage during such year. As a result of these budgeting processes and for other macroeconomic reasons, a number of Government entities have not paid the Company in full for telecommunications services received. In addition, as a result of inflation and devaluation, the value of these balances has decreased.

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 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 value of these receivables to the Company. Failure by Government entities to pay the amounts owed to the Company or the amounts to be billed in the future, has had, and will continue to have an adverse effect on the profitability of the Company.

In 2001, the National Assembly, previously the Congress, approved a decree authorizing the issuance of bonds for the payment of basic services. The amount set aside for payments of debt owed CANTV in the period 1996-2000 amounted Bs. 43,300. During 2001, the Company collected Bs. 6,633 from these bonds.

In February and March 2002, CANTV acquired National Treasury Bonds of Bs. 24,000. The Government paid overdue debts to CANTV with these funds Bs. 23,473. The current portion Bs. 16,403 and the non-current portion, Bs. 7,862 are recorded as Other assets (See Note 10 Other assets). These bonds include the amortization of the discounts for an amount of Bs. 460

and Bs. 332, respectively. The current portion and non-current portion of these discounts, represent 8.78% and 21.80% over the nominal value of the bonds and they are been amortizaded until January and October of 2003, respectively.

CANTV s management believes all amounts from Government entities will be collected either in cash and/or through Government bonds.

#### 9. PROPERTY, PLANT AND EQUIPMENT, NET:

Property, plant and equipment, net is comprised as follows:

	<u>2002</u>	<u>2001</u>
Plant	10,454,168	10,366,421
Buildings and facilities	1,376,477	1,302,931
Furniture and equipment	863,168	865,515
Vehicles	64,443	83,295
	<u>12,758,256</u>	<u>12,618,162</u>
Less: Accumulated depreciation	(9,652,933)	(8,984,320)
	<u>3,105,323</u>	<u>3,633,842</u>
Land	47,779	48,672
Construction work in progress	128,774	59,668
	<u>3,281,876</u>	<u>3,742,182</u>

The average useful lives for the different classes of property, plant and equipment are as follows:

	<u>Average useful lives (in years)</u>
Plant	3 to 32
Buildings and facilities	5 to 25
Furniture and equipment	3 to 7
Vehicles	3 to 5

Property, plant and equipment includes capitalized direct labor and allocated overhead costs, as well as materials used in connection with construction work in progress. Capitalized direct labor and allocated overhead costs totaled Bs. 7,876 and Bs. 10,327 for the six months ended June 30, 2002 and 2001, respectively. Maintenance and repair costs are expensed when incurred while major improvements and renovations are capitalized.

#### 10. OTHER ASSETS:

Other assets are comprised as follows:

	<u>2002</u>	<u>2001</u>
Software and other intangible assets, net	186,270	175,802
Prepaid taxes	13,142	16,088
Investment in INTELSAT	39,753	27,337
Employees benefit fund	49,813	45,387
Other assets	9,156	9,420
	<u>298,134</u>	<u>274,034</u>



Software and other intangible assets include the cost of computer software and systems for internal use, net of accumulated amortization (see Note 3 (g) Summary of significant accounting principles and policies Computer software) and the cost of usage rights of satellites which are amortized over periods ranging from 3 to 7 years based upon the terms of contracts granting usage rights.

Prepaid taxes include taxes assessed on the inflation-adjusted value of fixed assets. In 1991, the Venezuelan Income Tax Law was revised to incorporate new provisions. Under this new law, companies were required to pay an initial tax equal to 3% of the inflation-adjusted value of fixed assets. This initial tax was paid prior to 1996 and has been deferred and is being amortized over the estimated useful lives of the related assets.

As of June 30, 2002, the investment in INTELSAT represents the Company's participation of 1.12% in the International Satellite Telecommunications Organization. The Company accounts for this investment using the equity method. The functional currency of INTELSAT is the U.S. dollar.

In 1993, the Company contributed Bs. 49,704 to the Employees Benefit Fund. This amount was deposited in a Bank Trust on behalf of employees and was utilized to acquire 1% of CANTV's capital stock as of December 2, 1991, to be distributed to the employees as part of the Excellence Award program launched by CANTV. The Company amortizes this contribution as the employees earn stock awards. On October 24, 2001, an Extraordinary Shareholders Assembly approved the increase of the Excellence Award via the internal purchase of Class C shares of up to 2% of the capital stock as of December 2, 1991. The assembly also approved the creation of a new benefit plan named Value Fund to acquire Class C shares up to 5.5% of the previously mentioned capital stock at the same price offered during the share repurchase program. In March 2002, the Company paid Bs. 4,200 to acquire such shares as part of the Excellent Award. As of June 30, 2002 and 2001, the trust maintains 11,172,858 and 9,351,150 shares, respectively.

Other assets include Bs. 7,862 related to the non-current portion of National Treasury Bonds acquired (see Note 8 Accounts receivable from Venezuelan Government entities). These bonds have a maturity date of March 2003 and pay a quarterly variable interest at a rate of 93.46% of the TAM (Average lending rate of the main 6 banks of the country) effective 5 banking working days before the maturity of the previous quarter.

#### 11. LONG-TERM DEBT:

Long-term debt is comprised of the following:

	<u>2002</u>	<u>2001</u>
Notes in U.S. dollars at fixed interest rates of 9.25% and 8.87% maturing in 2002 and 2004, respectively.	135,275	171,366
Notes in U.S. dollars at interest rates of six-month LIBOR plus a margin between 1.35% and 1.75%, (averaging 3.75% and 6.56% at June 30, 2002 and 2001, respectively), maturing through 2003.	74,401	77,158

	<u>2002</u>	<u>2001</u>
Bank loans in Japanese yens at a fixed interest rate of 2.38% to 6.80%, and in U.S. dollars at interest rates of six-month LIBOR plus a margin between 0.25% and 0.75% (averaging 5.83% and 5.88% at June 30, 2002 and 2001, respectively), maturing through 2009.	88,479	66,335
IFC loans in U.S. dollars at variable interest rates:		
a. Six-month LIBOR plus a margin of 1.75%, (averaging 5.57% and 7.36% at June 30, 2002 and 2001, respectively), maturing through 2005.	47,346	38,579
b. Six-month LIBOR plus a margin of 2.00%, (averaging 5.82% and 2002 and 7.51% at June 30, 2002 and 2001, respectively), maturing through 2007.	32,551	24,380
c. Six-month LIBOR plus a margin between 3.00% and 6.00% (averaging 6.09% and 9.78% at June 30, 2002 and 2001, respectively), maturing through 2005.	33,742	21,433
Supplier loans in U.S. dollars at interest rates of six-month LIBOR plus a margin of 0.25% to 0.95% (averaging 2.45% and 6.22% at June 30, 2002 and 2001, respectively), maturing through 2002.	1,556	4,112
Notes payable to suppliers in U.S. dollars at fixed interest rates (averaging 6.70% and 6.76% at June 30, 2002 and 2001, respectively), maturing through 2002.	1,085	1,955
Banks loan in bolivars, bearing interest at the average lending rate of the four major banks in Venezuela (59.80% and 27.52% at June 30, 2002 and 2001, respectively), maturing through 2003.	2,014	3,166
Bank loans in bolivars at a fixed and variable interest rate of 50.93% and 22.59% at June 30, 2002 and 2001, respectively, maturing through 2010.	31,078	36,055
	<u>447,527</u>	<u>444,539</u>
Less: Current maturities	(112,155)	(144,825)
	<u>335,372</u>	<u>299,714</u>

On June 7, 1996, the Company entered into an agreement with the International Finance Corporation (IFC Facility). Pursuant to the IFC Facility, the Company obtained loan commitments aggregating up to U.S.\$261 million, of which U.S.\$175 million was disbursed. Of the amount disbursed, U.S.\$75 million was used in the Company's modernization and expansion program as mandated by the Concession and for certain other capital expenditures. The remaining U.S.\$100 million represents the conversion of certain debt outstanding under a Bank Refinancing Agreement into longer-term debt. In March 1998, the Company paid U.S.\$150 million of the debt outstanding under the IFC Facility with the proceeds from the sale

of variable interest rate notes issued by CANTV Finance Ltd., a wholly-owned subsidiary of the Company, which are unconditionally and irrevocably guaranteed as to payment of principal and interest by CANTV. The principal on the remaining loan is payable as a single payment of U.S.\$25 million in 2005. The interest rate on this loan is based on LIBOR plus a margin and an additional amount of up to 3% based on the Company's annual net income equivalent in U.S. dollars.

Pursuant to the IFC Facility, the Company may pay dividends only if it is current with respect to its semi-annual payments. In addition, the Company is required to meet certain financial ratios, including a long-term debt-to-equity ratio, a current ratio and a fixed charge coverage ratio, each as defined by the agreement. The Company has complied with these covenants as of June 30, 2002.

In 1997, Movilnet signed an agreement with the IFC Facility for two loans totaling U.S.\$95 million, which were disbursed during 1998. The proceeds of these loans were used for expansion and modernization of the cellular network.

In September 2000, the Company issued discount promissory notes of Bs. 28,000 denominated in bolivars with a maturity of 5 years. The promissory notes were placed at a 44% discount and an annual fixed interest rate of 23.5%. The discount is amortized using the effective rate method. At June 30, 2002, the balance of these notes, presented net of the unamortized discount, was Bs. 17,434. Additionally, two loan agreements were signed with local banks for Bs. 7,000 each, with maturities between 5 and 10 years.

Estimated payments of long-term debt are: Bs. 57,448 in 2002, Bs. 70,971 in 2003, Bs. 167,829 in 2004, Bs. 90,640 in 2005, Bs. 19,274 in 2006 and Bs. 41,365 thereafter, translated into bolivars at the exchange rate at June 30, 2002.

**12. SHORT-TERM DEBT:**

Short-term debt is as follows:

	<u>2002</u>	<u>2001</u>
Bank loans in bolivars at various interest rates (averaging 15.47% and % at June 30, 2002 and 2001)		3,585
Current maturities of long-term debt	112,155	144,825
	<u>112,155</u>	<u>148,410</u>



**13. OTHER CURRENT LIABILITIES:**

Other current liabilities are comprised of the following:

	<u>2002</u>	<u>2001</u>
Concession tax	34,142	35,509
Subscriber rights	60,144	58,773
Deferred revenue	55,499	108,013
Accrued liabilities	25,984	33,184
Income, value added and other taxes	31,810	37,227
Interest payable	11,441	13,895
Provision for potential legal contingencies	16,935	18,704
Technical and administrative services due to affiliates Stockholders	5,102	10,803
Other	14,345	18,806
	<u>255,402</u>	<u>334,914</u>

**14. RETIREMENT BENEFITS:**

**Pension plan**

The Company sponsors a noncontributory pension plan for its employees. The benefits to be paid under the plan are based on years of service rendered and the employee's final salary. At June 30, 2002, the Company has funded Bs. 182,492, in a trust for this purpose.

Assumptions used to develop the projected benefit obligation are as follows:

Discount rate	7%
Expected return on assets	9%
Rate of compensation increase	2%

These assumptions represent estimates of real interest rates and compensation increases rather than nominal rates. The unrecognized transition obligation is being amortized over 20 years.

**Postretirement benefits other than pensions**

Beginning 1999, the Company recorded medical claims related to accrued postretirement benefit obligations other than pensions, based on actuarial calculations. Such calculations are based on the average medical claims per retiree for 1998.

Assumptions used to develop the accumulated postretirement benefit obligation are as follows:

Discount rate	7%
Medical cost trend rate	2%

These assumptions represent estimates of real interest rates and medical cost trend rate increases rather than nominal rates. The unrecognized transition obligation is being amortized over 11 years.

### **Defined contribution plan**

The Company has a defined contribution plan (Special Economic Protection Plan for Eligible Retirees) to supplement the current pension benefits of retirees as of August 15, 1995. Contributions are allocated to retirees based upon their age, pension income and other existing benefits. At June 30, 2002, the Company has funded Bs. 8,762 for this plan. The Company is not required to increase the funding of this plan.

## **15. STOCKHOLDERS EQUITY:**

### **Dividends**

The Venezuelan Commercial Code, Capital Markets Law and the Standards issued by the Comision Nacional de Valores (CNV), regulate the ability of the Company to pay dividends. In addition, some of the Company's debt agreements provide for certain restrictions which limit the ability of the Company to pay cash dividends (see Note 11 Long-term debt). The Commercial Code establishes that dividends shall be paid solely out of liquid and collected earnings, and the Capital Markets Law mandates that the Company distribute every year among its shareholders not less than 50% of its net annual income, after income tax provision and having deducted the legal reserves. Likewise, the Capital Markets Law provides that at least 25% of such 50% shall be paid to the shareholders in cash dividends. However, should the Company have accumulated losses, any net income shall initially be applied to offset such deficit.

According to CNV Standards, the unconsolidated net income, excluding the equity participation of subsidiaries adjusted for inflation, is the basis for dividends distribution.

The Capital Markets Law provides that dividends must be declared in a Shareholders' Assembly during which the shareholders determine the amount, form and frequency of the dividend payment. Additionally, By-laws of companies under CNV regulations, must state their dividend policies. The CNV cannot exempt a company with publicly traded securities from paying the minimum dividends in the year when the income is obtained.

On March 27, 2001, an Ordinary Shareholders' Assembly declared a cash dividend of Bs. 63 per share and Bs. 441 per ADS to shareholders of record as of April 6, 2001. This dividend was paid on April 24, 2001.

On October 24, 2001, an Extraordinary Shareholders' Assembly declared an extraordinary cash dividend of Bs. 520 per share and Bs. 3,640 per ADS to be paid in two installments, one of Bs. 284 per share on December 10, 2001 to shareholders of record as of December 3, 2001 and the other one of Bs. 236 per share on March 18, 2002 to shareholders of record March 6, 2002.

On March 22, 2002, an Ordinary Shareholders' Assembly declared a cash dividend of Bs. 41.6 per share to shareholders of record as of May 24, 2002. This dividend was paid on June 6, 2002 by the Company.

**Guidelines for future dividends distribution**

On December 14, 2001, CANTV's Board of Directors approved some guidelines for the annual dividend distribution beginning in 2002. These guidelines include the distribution to the shareholders of 50% of the prior year free cash flow, defined as free cash flow taken from audited consolidated financial statements, net of debt and interest payments scheduled for the following year. Annual payment of dividends will be made in bolivars in quarterly installments previous to the Board of Directors recommendation and approval of the Annual Shareholders Assembly, according to current Venezuelan legislation.

**Capital stock**

Capital stock is represented by 926,037,385 shares at June 30, 2002, as follows:

<u>Stockholders</u>	<u>Class</u>	<u>Participation %</u>	<u>Number of shares (in thousands)</u>
Verizon Communications, Inc (Verizon)	A	24.95	196,401
Telefonica Venezuela Holding B.V.	A	6.91	54,407
Banco Mercantil	A	0.05	367
Inversiones TIDE, S.A.	A		3
Banco de Desarrollo Económico y Social de Venezuela (formerly Fondo de Inversiones de Venezuela)	B	6.59	51,900
Employee Trusts and Employees	C	11.98	94,261
Verizon Communications, Inc. (Verizon)	D	6.11	48,097
Public Shareholders	D	43.41	341,704
		<u>100.00</u>	<u>787,140</u>
Treasury Stock	D		138,897
			<u>926,037</u>

VenWorld was incorporated as a private consortium of companies led by Verizon (formerly GTE Corporation), and originally included T.I. Telefónica Internacional de España, S.A.; C.A. La Electricidad de Caracas, S.A.C.A.; Consorcio Inversionista Mercantil (CIMA), C.A. S.A.C.A. and AT&T International, Inc. (AT&T) (Participants in the Consortium to acquire 40% of CANTV shares in 1991).

Beginning on January 1, 2001, VenWorld shareholders have the right to have their shares redeemed and converted into CANTV Class A shares. Any Class A share transferred to a non-subsidiary entity, wholly owned by the Participants of the Consortium will be automatically converted into Class D shares.

During 2001, three of the Participants of the Consortium requested the redemption of their shares, leaving Verizon Communications and T.I. Telefónica Internacional de España, S.A. as shareholders and Participants of the Consortium, together with other minority shareholders representing 3.3% of VenWorld's capital stock.

On February 1, 2002, an extraordinary shareholders assembly of VenWorld approved the liquidation of the Consortium.

Class B shares may only be owned by the Bolivarian Republic of Venezuela. The transfer of Class B shares to any non-public sector individual or entity will cause the shares to be automatically converted to Class D shares, except if the shares are transferred to a CANTV employee or retiree, in which case the shares will be converted to Class C shares. Class B stockholders had the right to elect two members of the Board of Directors of the Company until January 1, 2001. Thereafter, they may elect only one member together with all other stockholders. A majority of holders of Class B shares is required to approve a number of corporate actions, including certain amendments to the By-laws.

Class C shares may be owned only by employees, retirees, former employees and heirs and spouses of employees or retirees of CANTV and its subsidiaries as well as employees companies and benefit plans. Any Class C shares transferred to any other individual or entity will be automatically converted to Class D shares. Holders of Class C shares have the right, voting as a separate class, to elect two members of the Board of Directors provided such Class C shares represent at least 8% of the capital stock of CANTV and the right to elect one member provided that such shares represent at least 3% of the capital stock of CANTV.

Class D shares are comprised of the conversion of Class A, B and C shares as described above or capital increases. There are no restrictions on the ownership or transfer of Class D shares. Holders of Class D shares will have the right to elect, in conjunction with the other stockholders, any members of the Board of Directors, at the time the Class B and C stockholders lose the right to designate them according to CANTV's By-laws.

In November 1996, the Government sold 348.1 million shares representing 34.8% of CANTV's capital stock in a global public offering. The Company's Class D shares are traded on the Caracas Stock Exchange. They are also traded on the New York Stock Exchange in the form of American Depository Shares (ADS), each representing 7 Class D shares.

#### **Repurchase programs**

On November 16, 1999, an Extraordinary Shareholders' Assembly authorized a share repurchase program for up to 50,000,000 shares. As required under Venezuelan Law, the program specified a maximum repurchase price of Bs. 3,696 per share or up to U.S.\$40 per ADS. As of December 31, 1999, CANTV had acquired 1,229,900 shares at an average price of Bs. 2,472 per share, equivalent U.S.\$23.50 per ADS.

On March 31, 2000, an Ordinary Shareholders' Assembly approved a new share repurchase program that authorized the Company to repurchase up to 50,000,000 shares. As required under Venezuelan Law, the program specified a maximum repurchase price of Bs. 4,871 per share or up to U.S.\$50 per ADS. During 2000, CANTV acquired 72,732,716 shares related to both repurchase programs at an average price of Bs. 2,940 per share, equivalent U.S.\$ 28.39 per ADS.

On October 24, 2001, an Extraordinary Shareholders' Assembly approved a third share repurchase program to acquire up to 138,905,608 shares or 15% of the capital stock at a price of U.S.\$30 per ADS or U.S.\$ 4.29 per share. The program began on October 25, 2001 and ended on November 23, 2001.

Upon completion of the repurchase program, the total repurchased shares were 138,896,536, which were converted into treasury shares. These shares may be offered for sale within two years following their acquisition date, or reduced from capital stock as approved by the Shareholders Assembly as established by the Capital Markets Law.

**16. FINANCING COST, NET:**

Financing cost, net as follows:

	<u>2002</u>	<u>2001</u>
Interest income	14,526	20,246
Interest expense	(14,120)	(23,650)
Exchange (loss) gain, net	(35,580)	3,569
Gain (loss) from net monetary position	16,971	(9,967)
	<u>(18,203)</u>	<u>(9,802)</u>

The net exchange gain (loss) reflects the loss resulting from adjusting the debt denominated in foreign currencies, principally U.S. dollars and Japanese yens into bolivars at the exchange rates as of June 30, 2002 and 2001 (see Note 6 Balances in foreign currency). The Central Bank of Venezuela has the explicit policy to intervene to maintain the exchange rate within 7.5% (above or below) of the reference rate, which has been set by the Central Bank of Venezuela and is adjusted to account for projected inflation on a monthly basis.

Effective February 12, 2002, the National Government decreed the free currency fluctuation, which stopped the band system that formerly ruled the exchange transactions from April 1996. Therefore, the exchange rate used for purchases and sales of currencies is fixed based on the free market fluctuation resulting from the supply and demand. As of February 18, 2002, the Central Bank of Venezuela purchases and sells currencies in the market through an auction system with the foreign exchange market operators. During the first business days of free foreign currency fluctuation there was strong bolivar devaluation.

The devaluation of the bolivar against the U.S. dollar was 78% and 2% for the six months period ended June 30, 2002 and 2001, respectively.

The loss or gain from net monetary position reflects the loss from holding net monetary assets or liabilities in a period of inflation, which was 12% and 6% for the six months ended June 30, 2002 and 2001, respectively.

**17. MONETARY POSITION:**

The loss from net monetary position as follows:

	<u>2002</u>	<u>2001</u>
Net monetary liability position at the beginning of the period	(355,794)	(49,517)
Revenue and expenses, other than depreciation and amortization and other expenses generated by non-monetary assets and liabilities	175,936	151,346
Additions to non-monetary assets and liabilities	168,819	301,445
Pension plan payments	(10,038)	(8,625)
Dividends declared	(34,504)	(72,303)
Exchange (loss) gain, net	(35,580)	3,569
	<u>(91,161)</u>	<u>325,915</u>
Net monetary (liability) asset position at the end of the period	(74,190)	315,948
	<u>16,971</u>	<u>(9,967)</u>
Gain (loss) from net monetary position	16,971	(9,967)

**18. TRANSACTIONS WITH RELATED PARTIES:**

Transactions with related parties are subject to conditions similar to transactions with independent third parties. In the normal course of business and as limited by applicable debt agreements, the Company enters into transactions with certain of its stockholders and their respective affiliates. In addition, the Government has significant influence over the Company's tariffs, regulation, labor contracts and other matters. The Government is also the major customer of the Company (see Note 8 - Accounts receivable from Venezuelan Government entities).

Inventories, supplies and plant and equipment of Bs. 5,579 and Bs. 9,466 for the six months ended June 30, 2002 and 2001, respectively, were purchased from affiliates of VenWorld. These same affiliates provided technical and administrative services to the Company at a total cost of Bs. 11,553 and Bs. 12,047 for the six months ended June 30, 2002 and 2001, respectively. Net revenues, with respect to the settlement of international telephone traffic with affiliates of Bs. 907 and Bs. 5,615 were recognized for the six months ended June 30, 2002 and 2001, respectively. At June 30, 2002, the Company has recorded payables to Verizon for Bs. 7,062 and as of June 30, 2001 to Verizon and AT&T for Bs. 21,006 and Bs. 1,235, respectively.

**19. COMMITMENTS AND CONTINGENCIES:**

The Company has the following commitments and contingencies:

*a. Capital expenditures*

CANTV's capital expenditures for 2002 are currently estimated at Bs. 541,100 (U.S.\$400 million). The funding for these capital expenditures is expected to be generated by internal cash flows.

*b. Operating leases*

The Company leases buildings under operating leases for periods of one year or less. Lease agreements generally include automatic extension clauses for equal terms, unless written termination notification is provided.

*c. Litigation*

The Company is involved in numerous administrative and judicial proceedings. Based on the opinion of its external legal counsel handling these proceedings, management considers that the majority of these actions will be resolved in the Company's favor. Nevertheless, management believes that the Company has recorded adequate reserves as of June 30, 2002 for all such matters. Some of the most significant proceedings are as follows:

i. In May 2000, the Supreme Court of Justice issued sentences against CANTV charging that the Company had changed the criteria on the presubscription term and the option for special retirement. The Company is presently exercising pertinent legal actions. As of June 30, 2002, there are approximately 355 agreements.

ii. On July 7, 2000, CANTV was notified of a Bs. 1.8 billion (U.S.\$2.4 million) fine imposed by Pro-Competencia. Pro-Competencia claims that CANTV has abused its dominant position in the market to favor its subsidiary CANTV.NET (formerly CANTV Servicios). In August 2000, CANTV filed an action of nullity in the First Court of Appeals in Administrative Matters.

*d. Concession mandates*

The Agreement (see Note 2 Company background and concession agreement) considers an accelerated modernization program to meet an annual average target of 80% plant digitalization nationwide by the end of 2000. The network expansion and modernization targets established in Appendix A of the Concession Agreement were effective until December 31, 1999. Quality service and digitalization mandates agreed in the Agreement were effective until December 31, 2000. The Agreement, substantially modified the high quality service and eliminates the mandatory requirement of expanding the plant, instead of it, included the obligation of 80% digitalization at December 31, 2000. After year 2000, the specific expansion requirements, modernization or digitalization are not mandatory.

Opening Regulations establish that Basic Service Telecommunication Operators are required to install and maintain public telephone equipment equivalent to 3% of its subscriber base.

The guidelines for the market opening in Venezuela (see Note 4 Regulation) include certain quality and service standards with minimum and maximum targets, which are the base for the preparation by CONATEL of the quality service regulations that will be effective for all basic services operators. As to date, these regulations have not been approved.

*e. Competition*

Pursuant to the Concession, prior to November 27, 2000, the Company was the sole provider of basic telephone services. During that period, the Ministry could grant concessions to operate in population centers with 5,000 or fewer inhabitants if CANTV was not providing basic telephone services in such areas and did not contemplate doing so within two years, according to the network expansion and modernization plans established in the Concession.

In December 1996, the Ministry exercised its authority under this provision to grant a rural multi-service concession to Infonet Redes de Informacion C.A. (Infonet) to provide basic telephone services, except national and international long distance services, on population centers with 5,000 or fewer inhabitants in eight western states of Venezuela. Additionally, multi-service concessions were granted in January 1998 to Corporacion Digitel, C.A. (Digitel) and Consorcio ELCA, C.A. (today Digicel) for the central and eastern regions of Venezuela, respectively. Currently Infonet, Digitel and Digicel are operating.

With the recently issued new Telecommunications Law, CONATEL established the basic regulatory framework. The new regulations issued on November 24, 2000, (see Note 4 (a) Regulation Organic Telecommunications Law) have the objective of creating an appropriate environment for new entrants and allow for effective competition. These regulations rule the sector's opening, interconnection, administrative and spectrum concessions.

In November 2000, CONATEL formally started the auction of frequencies for Wireless Local Loop (WLL) services. Thirteen qualified bidders have been announced by CONATEL. Five regions were defined and in each region were auctioned in different frequency bands. Telcel

BellSouth, C.A. (Telcel BellSouth) and Genesis Telecom, C.A. (Genesis) are two of the companies granted with a concession.

The Company, during the second quarter of 2001, completed the update of four interconnection agreements with Digicel, Digitel, Infonet and Telcel BellSouth, telecommunication s operators, and at June 30, 2002 has subscribed seven interconnection agreements with companies authorized by CONATEL. These agreements will permit the interconnection between CANTV and other carrier s networks. Current operators maintaining interconnection agreements with the Company are: Telcel BellSouth, Digicel, Infonet, Digitel, Convergence Communications de Venezuela, Veninfotel, Orbitel, Multiphone, Totalcom, Etelix y New Global Telecom.

## **20. MARKET RISK:**

The carrying amounts of cash and short-term investments, trade receivables and payables, and short-term and long-term debt approximate their fair values. The fair value was determined by quoted market prices.

The Company is exposed to market risk, including changes in interest rates and foreign currency exchange rates.

The Company does not use derivative financial instruments in its investment portfolio. The Company places its investments with the highest quality of The United States of America (U.S.) issuers and, by policy, limits the amount of credit exposure to any one issuer. The Company is averse to principal loss and ensures the safety and preservation of its invested funds by limiting default risk, market risk, and reinvestment by investing with U.S. and European issuers that are guaranteed by wholly-owned foreign companies with the safest and highest credit quality securities.

The Company mitigates default risk by investing in highly liquid U.S. dollars short-term investments, primarily certificates of deposit and investment grade commercial paper, which have maturities of three months or less. The Company does not expect any material loss with respect to its investment portfolio.

The majority of the Company s indebtedness is denominated in foreign currencies, primarily in U.S. dollars and Japanese yens, which exposes the Company to market risk associated with changes in exchange and interest rates. The Company s policy is to manage interest rate risk through the use of a combination of fixed and variable rate debt. Presently the Company does not hedge against foreign currency exposures, but keeps cash reserves in U.S. dollars to meet financing obligations.

## **21. SEGMENT REPORTING:**

The Company manages its operations in two main business segments: wireline and wireless services. The Company s reportable segments are strategic business units that offer different products and services in the telecommunications and related services industry. They are managed separately because each business requires different technology and marketing strategies. The wireline services segment provides domestic telephone services, international long distance services and other telecommunications-related services. The wireless services segment provides nationwide cellular mobile telephone services.



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Segment results for the period the six months ended June 30, 2002 and 2001, and assets as of June 30, 2002 and 2001, are as follows:

	<u>2002</u>	<u>2001</u>
Wireline services:		
Operating revenues		
Local and domestic long distance usage	252,762	314,606
Basic rent	188,614	192,553
	<u>          </u>	<u>          </u>
Local and domestic long distance	441,376	507,159
International long distance	51,127	58,294
Net settlements	6,873	12,396
	<u>          </u>	<u>          </u>
International long distance	58,000	70,690
Fixed to mobile outgoing calls	246,319	357,270
Interconnection incoming	17,051	40,215
Other wireline-related services	160,439	133,988
	<u>          </u>	<u>          </u>
Total operating revenues	923,185	1,109,322
	<u>          </u>	<u>          </u>
Intersegment revenues	(88,905)	(74,179)
	<u>          </u>	<u>          </u>
Operating income	27,186	42,887
	<u>          </u>	<u>          </u>
Depreciation and amortization	325,177	346,595
	<u>          </u>	<u>          </u>
Capital expenditures, net	(38,383)	(34,080)
	<u>          </u>	<u>          </u>
Assets	4,762,128	5,702,909
	<u>          </u>	<u>          </u>
Operating revenues		
Access	25,837	23,006
Interconnection	113,335	113,172
Usage	134,845	133,105
Equipment sales	60,008	32,669
Others	4,424	4,330
	<u>          </u>	<u>          </u>
Total operating revenues	338,449	306,282
	<u>          </u>	<u>          </u>
Intersegment revenues	(86,243)	(108,247)
	<u>          </u>	<u>          </u>
Operating income	60,592	23,616
	<u>          </u>	<u>          </u>
Depreciation and amortization	53,073	70,961
	<u>          </u>	<u>          </u>
Capital expenditures, net	(89,030)	(12,843)
	<u>          </u>	<u>          </u>
Assets	1,216,830	1,162,930
	<u>          </u>	<u>          </u>

The reconciliations of segment operating revenues, operating income and assets, to the consolidated financial statements are as follows:

	<u>2002</u>	<u>2001</u>
Reconciliation of operating revenues:		
Reportable segments	1,261,634	1,415,604
Other telecommunications-related services	66,373	48,506
Elimination of intersegment operating revenues	(175,148)	(182,426)
	<u>          </u>	<u>          </u>
Total operating revenues	1,152,859	1,281,684
	<u>          </u>	<u>          </u>
	<u>2002</u>	<u>2001</u>
Reconciliation of operating income:		
Reportable segments	87,778	66,503
Other telecommunications-related services	12,346	2,900
Elimination of intersegment operating income	241	278
	<u>          </u>	<u>          </u>
Total operating income	100,365	69,681
	<u>          </u>	<u>          </u>
	<u>2002</u>	<u>2001</u>
Reconciliation of assets:		
Reportable segments	5,978,958	6,865,839
Elimination of assets	(1,633,481)	(1,510,228)
Other telecommunications-related services	334,926	351,373
	<u>          </u>	<u>          </u>
Assets	4,680,403	5,706,984
	<u>          </u>	<u>          </u>

**22. CONSOLIDATED FINANCIAL STATEMENT RECLASSIFICATIONS:**

As of June 30, 2002 and 2001, certain amounts from the consolidated financial statements, have been reclassified for comparison purposes.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COMPañÍA ANÓNIMA NACIONAL  
TELÉFONOS DE VENEZUELA, (CANTV)

By: /s/ ARMANDO YAÑEZ

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**Armando Yañez**  
**Chief Financial Officer**

Date: August 21, 2002