TELEFONICA MOBILE INC
Form 20-F
June 27, 2003

As filed with the Securities and Exchange Commission on June 27, 2003.

SECURITIES AND EXCHANGE COMMISSION

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2002

Commission file number: 1-15158

Telefónica Móviles, S.A.

(Exact name of Registrant as specified in its charter)

TELEFONICA MOBILES

(Translation of Registrant s name into English)

Kingdom of Spain

(Jurisdiction of Incorporation or Organization)

Goya, 24

28001 Madrid, Spain

(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
Ordinary Shares, nominal value 0.50 per share*	**New York Stock Exchange**
American Depositary Shares, each representing 1 Ordinary Share	**New York Stock Exchange**

* Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the New York Stock Exchange.

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

The number of outstanding shares of each class of stock of Telefónica Móviles, S.A. as of the close of the period covered by this annual report was:

Ordinary Shares, nominal value 0.50 per share: 4,330,550,896

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

Table of Contents

TABLE OF CONTENTS

PART I

Table of Contents

Table of Contents

PRESENTATION OF FINANCIAL INFORMATION

In this annual report, references to dollars, US$, or $ are to United States dollars. References herein to euro or are to the single currency of participating member states in the Third Stage of the European and Economic Monetary Union, including Spain, pursuant to the treaty establishing the European Community, as amended from time to time. The combined financial statements and notes to the combined financial statements are presented in euro. The Telefónica Móviles Group previously reported some of this information in Spanish pesetas. The exchange rate at which the Spanish peseta has been irrevocably fixed against the euro is Ptas 166.386 = 1.00. Financial data for periods prior to January 1, 1999 were restated from Spanish pesetas into euro using the irrevocably fixed rate of exchange. Comparative financial data for periods prior to January 1, 1999 reported in euro depict the same trends that would have been presented had we continued to present financial statements in Spanish pesetas. However, financial data for periods prior to January 1, 1999 is not comparable with that of other companies reporting in euro that restated these amounts from a currency other than the Spanish peseta. Certain amounts included herein have been rounded. As a result, some amounts may not sum to the indicated totals.

FORWARD-LOOKING STATEMENTS

This annual report contains statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the Safe Harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this annual report and include statements regarding our intent, belief or current expectations with respect to, among other things, trends affecting our business, financial condition and results of operations.

Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those in the forward-looking statements as a result of various factors. The accompanying information contained in this annual report, including, without limitation, the information under

Item 3.D Risk Factors ;

Item 4. Information on the Company ;

Item 5. Operating and Financial Review and Prospects ; and

Item 11. Quantitative and Qualitative Disclosures About Market Risk,

identifies important factors that could cause such differences. Readers are cautioned not to place undue reliance on those forward-looking statements, which speak only as of the date hereof. We undertake no obligation to release publicly the result of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date hereof, including, without limitation, changes in our business or acquisition strategy or planned capital expenditures, or to reflect the occurrence of unanticipated events.

CERTAIN TERMS AND CONVENTIONS

When we use first person, personal pronouns in this report, such as we, us, or our, or the term Group, we mean Telefónica Móviles, S.A. and its consolidated operating companies, unless otherwise indicated or the context otherwise requires.

PART I

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

Table of Contents

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

Item 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

The following summary selected financial data should be read together with the Item 5. Operating and Financial Review and Prospects and our combined financial statements included in this annual report. Our combined financial statements have been prepared in accordance with Spanish GAAP, which differs in certain significant respects from U.S. GAAP. See note 20 to our combined financial statements. The principles of consolidation are described in note 2(c) to our combined financial statements.

Summary Selected Financial Data

	Year ended December 31,				
	1998	1999	2000	2001	2002
	(euro in thousands)				
Statement of Operations Data					
Spanish GAAP					
Net revenues from operations	3,092,130	5,015,729	6,377,249	8,411,064	9,139,835
Other revenues	73,685	97,430	110,622	147,747	91,070
Services and goods purchased	(752,810)	(1,337,895)	(1,559,181)	(1,862,117)	(2,406,039)
External services and local taxes	(956,024)	(1,834,992)	(2,277,186)	(2,603,758)	(2,412,370)
Personnel expenses	(100,026)	(168,235)	(270,696)	(533,831)	(546,381)
Depreciation and amortization	(430,307)	(621,777)	(871,137)	(1,258,159)	(1,316,406)
Change in operating provisions	(75,559)	(101,974)	(129,284)	(225,416)	(130,245)
Total operating expenses	(2,314,726)	(4,064,873)	(5,107,484)	(6,483,281)	(6,811,441)
Operating income	851,089	1,048,286	1,380,387	2,075,530	2,419,464
Amortization of goodwill	(8,907)	(18,415)	(26,420)	(53,802)	(87,096)
Income (losses) of associated companies	10,109	(3,588)	(94,701)	(119,193)	(159,477)
Financial expense	(148,624)	(346,784)	(304,471)	(714,869)	(921,983)
Financial income	60,967	234,143	109,607	386,810	605,787
Income from ordinary activities	764,634	913,642	1,064,402	1,574,476	1,856,695
Extraordinary income (expense)	6,503	(194,992)	(51,241)	(100,705)	12,075,092
Corporate income tax	(224,948)	(210,372)	(347,872)	(628,768)	2,130,821
Minority interests	(57,135)	31,956	(20,518)	48,352	4,363,987
Net income	489,054	540,234	644,771	893,355	(3,724,399)

Earnings per share			0.18	0.22	(0.87)
Average outstanding common shares			3,560,966,298	4,141,432,815	4,290,372,979
U.S. GAAP					
Net income(1)	494,535	534,093	727,483	320,447	(3,647,254)
Earnings per share			0.20	0.08	(0.85)
Average outstanding common shares			3,560,966,298	4,141,432,815	4,290,372,979

(1) Includes in 2000 the accumulated effect of applying SAB 101 since 1995 in the amount of 132.3 million and the effect of applying SAB 101 for the year ended December 31, 2000 in the amount of 32.2 million. See note 20 to our combined financial statements.

Table of Contents

	At or for the year ended December 31,				
	1998	1999	2000	2001	2002
	(euro in thousands, except as indicated)				
Balance Sheet Data					
(at period end)					
Spanish GAAP					
Property, plant and equipment, net	2,492,896	3,340,551	3,820,869	5,244,414	4,661,729
Total assets	4,958,168	7,104,366	21,260,624	24,914,086	16,231,714
Short-term debt(1)	274,964	513,863	4,707,849	6,615,828	991,596
Long-term debt(2)	1,869,430	2,717,302	3,007,622	5,279,338	7,213,809
Total liabilities	3,936,640	5,913,815	15,941,284	17,425,434	12,984,131
Shareholders equity	1,021,528	1,190,551	5,319,340	7,488,652	3,247,583
U.S. GAAP					
Total assets(3)	4,991,494	7,894,329	19,227,998	26,935,747	15,694,410
Long-term debt	1,869,430	2,934,666	2,214,726	5,236,446	6,677,177
Shareholders equity(3)	1,228,222	1,391,042	7,940,875	9,496,119	4,005,739
Other Financial Data					
Spanish GAAP					
Cash flow from operating activities	1,128,387	1,449,451	5,594,426	1,332,485	2,156,756
Cash flow from investing activities	(1,773,564)	(2,337,761)	(12,057,634)	(4,038,059)	(1,756,219)
Cash flow from financing activities	648,661	764,829	6,455,915	2,408,281	(314,348)
Capital expenditures	554,545	1,403,063	13,620,172	2,121,999	1,046,596
Cash dividends	210,354	268,672	851,616		
Operating Data					
(in millions at period end)					
Population in licensed service territories	88	127	285	372	353(8)
Total customers(4)	6.5	12.6	19.2	28.0	39.4
Proportionate customers(5)	5.3	10.3	16.7	24.6	28.6
Pre-paid customers(6)	28%	55%	64%	69%	71%
Short messages(7)	134	539	2,276	6,300	8,400

(1) Consists of short-term debt payable to banks and other financial institutions, short-term marketable debt securities and short-term debt payable to Telefónica Group companies. Short-term debt excludes interest payable and trade payables.

(2) Consists of long-term debt payable to banks and other institutions, long-term debt payable to Telefónica Group companies and as of December 31, 2001 long-term debt incurred in connection with the acquisition of UMTS licenses included under Other liabilities on the combined balance sheet.

(3) Includes at December 31, 2000 the accumulated effect of applying SAB 101 since 1995 in the amount of 132.3 million and the effect of applying SAB 101 at such date in the amount of 32.2 million. See note 20 to our combined financial statements.

(4) Represents total number of customers of all companies in which we have an interest, including subsidiaries, companies carried by the equity method and other companies carried as an investment. As of December 2002 we also include Brasilcel s customers.

(5) Represents total number of customers of all companies in which we have an interest multiplied by our economic ownership interest in those companies.

(6) Represents total pre-paid customers as a percentage of total customers at period-end.

(7) Represents the total number of short messages, which are a form of wireless data transmission, carried through our network in Spain during the year or period.

(8) Excludes the populations of Germany, Italy, Austria and Switzerland.

Table of Contents

Exchange Rate Information

The following table sets forth certain information concerning the Noon Buying Rate for dollars expressed in pesetas per $1.00:

	Noon Buying Rate			
Year ended December 31,	**Period End**	**Average(1)**	**High**	**Low**
1998	142.15	149.42	157.41	136.80
1999 (through January 15, 1999)	143.55	142.84	144.26	140.86

Source: Federal Reserve Bank of New York.

(1) The average of the Noon Buying Rates on the last day of each full month during the relevant period.

Effective January 1, 1999, the following 11 European Union member states adopted the euro as a common currency: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, The Netherlands, Portugal and Spain. They also established fixed conversion rates between their respective sovereign currencies and the euro. On January 1, 2001, Greece joined the European Economic and Monetary Union. The exchange rate at which the Spanish peseta has been irrevocably fixed against the euro is 166.386 = 1.00. On January 1, 2002, the participating member states began issuing new euro-denominated bills and coins for use in cash transactions. As of March 1, 2002, the participating member states have withdrawn the bills and coins denominated in their respective currencies from circulation, and they are no longer legal tender for any transactions.

The Federal Reserve Bank of New York no longer quotes a Noon Buying Rate for the currencies of any of the participating member states, including Spain. The Noon Buying Rate for the euro on June 26, 2003 was $1.1429 = 1.00. The equivalent exchange rate in pesetas, translated at the irrevocably fixed exchange rate of Ptas 166.386 = 1.00, was approximately Ptas 190.16 = $1.00.

The following tables describe, for the periods and dates indicated, information concerning the Noon Buying Rate for the euro. Amounts are expressed in U.S. dollars per 1.00.

	Noon Buying Rate			
Year ended December 31,	**Period End**	**Average(1)**	**High**	**Low**
1999 (January 16, 1999 through December 31, 1999)	1.0070	1.0588	1.1812	1.0016
2000	0.9388	0.9207	1.0335	0.8270
2001	0.8901	0.8909	0.9535	0.8370
2002	1.0485	0.9495	1.0485	0.8594

Source: Federal Reserve Bank of New York.

(1) The average of the Noon Buying Rates for the euro on the last day of each month during the relevant period.

Month	Period End	High	Low
Month ended December 31, 2002	1.0485	1.0485	0.9927
Month ended January 31, 2003	1.0739	1.0861	1.0361
Month ended February 28, 2003	1.0779	1.0875	1.0708
Month ended March 31, 2003	1.0900	1.1062	1.0545
Month ended April 30, 2003	1.1180	1.1180	1.0621
Month ended May 31, 2003	1.1766	1.1853	1.1200
(June 1 through June 26, 2003)	1.1429	1.1870	1.1429

Monetary policy within the members of the euro zone is set by the European Central Bank. The European Central Bank has set itself the objective of containing inflation and will adjust interest rates in line with this policy without taking account of other economic variables such as the rate of unemployment. It has further declared that it will not set an exchange rate target for the euro.

Table of Contents

The Madrid stock exchange quotes share prices, including those of Telefónica Móviles, in euro. Currency fluctuations may affect the dollar equivalent of the euro price of our shares listed on the Spanish stock exchanges and, as a result, the market price of our ADSs, which are listed on the New York Stock Exchange. Currency fluctuations may also affect the dollar amounts received by holders of ADRs on conversion by the Depositary of cash dividends (if any) paid in euro on the underlying shares.

Our consolidated results are affected by fluctuations between the euro and the currencies in which the revenues and expenses of our consolidated subsidiaries are denominated, principally the Brazilian real and the Argentine peso. See Item 11. Quantitative and Qualitative Disclosures About Market Risk.

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

Risks Related to Telefónica Móviles Business

We face intense competition in most of our markets, which could result in decreases in current and potential customers, revenues and profitability.

We face significant competition in all of our markets, typically from at least two other wireless providers, and increasingly from multiple providers, including some of the leading global wireless operators. Governmental authorities in many countries also continue to auction or sell additional bands of spectrum for wireless use and to grant licenses and concessions to new entrants, which will create new competitors in some of our markets.

In addition to other wireless providers, we experience competition from fixed-line telephone companies and, to an increasing extent, from the cable, utility, paging, internet and satellite industries. We expect that competition will continue to intensify in all of our existing markets, both from existing competitors and new entrants. These competitors could:

offer lower prices, more attractive calling plans or better services and features;

provide increased handset subsidies;

bundle offerings of fixed-line telephone services with other services;

develop and deploy more rapidly new or improved wireless technologies, services and products; or

expand and enhance their networks faster.

The wireless communications industry has been experiencing significant consolidation, and we expect that this consolidation trend will continue. Acquisitions, mergers or joint ventures have created large, well-capitalized competitors with substantial financial, technical, marketing and other resources to compete with our service and product offerings.

We expect competition among wireless providers, including new entrants, to continue to drive prices for services and handsets lower. In addition, portability requirements, which enable customers to switch wireless providers without changing their wireless telephone numbers, have been introduced in some of the markets in which we operate and may be introduced in other markets in the future. All of these developments could lead to greater movement of customers among competitors, known as customer churn, which could increase our

Table of Contents

marketing, distribution and administrative costs, slow growth in customers and reduce revenues. Our market position will also depend on effective marketing initiatives and on our ability to anticipate and respond to various competitive factors affecting the industry, including new services, pricing strategies by competitors, changes in consumer preferences and economic, political and social conditions. Any material failure by us to compete effectively or any aggressive competitive behavior by our competitors in pricing their services or acquiring new customers would have a material adverse effect on our revenues and overall results of operations.

We may require substantial capital resources in order to meet existing obligations under our licenses and continue to develop and expand our business.

The operation, expansion and upgrade of our networks, as well as the marketing and distribution of our services and products, require substantial financing. Achieving the minimum coverage requirements under our licenses could require additional financing. These requirements have increased as a result of our decision to launch digital Global System for Mobile Communications, or GSM, operations in Mexico from 2003. If we do not meet the minimum coverage requirements by the date set in our licenses, the respective regulatory authorities could impose penalties or suspend, change or revoke the terms of the licenses. Moreover, our liquidity and capital resource requirements may further increase if we make acquisitions in other countries. Our company also has major capital resource requirements relating to, among other things, the following:

- acquisition or construction of networks and of additional network capacity for existing networks;
- development of distribution channels in new countries of operation; and
- development and implementation of new wireless technologies.

Historically, we have relied, in large measure, on the Telefónica Group to satisfy our liquidity and capital resource requirements through loans and from time to time capital contributions. We plan to continue to rely upon Telefónica, S.A. and other Telefónica Group companies to satisfy most of these requirements. We may, however, need to incur significant amounts of debt from sources other than Telefónica, S.A. to support the ongoing development and expansion of our business. In addition, as in 2000 when a portion of our liquidity and capital resource requirements were satisfied by issuing securities in our initial public offering in November 2000, we could, in the future, issue additional equity securities to satisfy our liquidity and capital resource requirements.

We cannot assure you that our company will be able to arrange any needed additional financing to fund its capital resource requirements on acceptable terms, or at all.

Increased levels of debt could have negative effects on our company, including:

- high debt-service costs that adversely affect our results of operations;
- allocation of increasing amounts of cash flow for debt service;

- increased difficulty in obtaining future financing;
- reduction of any credit ratings issued by rating agencies in respect of any debt we issue in the future;
- exposure to interest and exchange rate fluctuations;
- restrictions on our company s capital resources or operations imposed by lenders; and
- reduced flexibility to take advantage of, or pursue, other business opportunities.

Any failure to satisfy our substantial liquidity and capital resource requirements would impede our ability to take advantage of promising but capital-intensive opportunities in our industry. In addition, our results of operations may be negatively affected if we are unable to upgrade our networks or respond to competitive initiatives of competitors that may be less capital-constrained or as we incur increased financial expense due to higher levels of indebtedness.

Table of Contents

We have engaged in a strategic review of our asset portfolio which has led us to fully write down our investments in Germany, Austria and Switzerland. We may also in the future have to further adjust the value of our investments in Italy.

In 2002, we commissioned independent experts to assess the business plans of our UMTS operations in Germany, Austria, Switzerland and Italy. After taking into account the independent assessments, we updated the valuations of our business plans for these operators in order to reflect the additional delays expected by the sector regarding commercial availability of the UMTS technology and the consequent delay in revenue generation. In this context, we decided to fully write down the book value of our investments in Germany, Austria and Switzerland.

With respect to our investment in Italy, we also adjusted the value of our investment in IPSE 2000. Given the differences in the regulatory environment, both with regard to compliance with coverage requirements included in the license and flexibility shown by the regulators, we estimate the value of IPSE 2000 s assets at 300 million, 136 million of which represents our investment in IPSE 2000. This value estimated by us could be different in case other assumptions and estimates were made. We will perform a regular review of the value and assumptions of our investment in our UMTS operations in Italy. There can be no assurance that a change of strategy or changes in the telecommunications industry will not require us to further adjust, or fully write down, the value of our investment in Italy in the future, which could adversely affect our business, financial condition or results of operation.

Accordingly, at December 31 2002, a net loss of 5,049.8 million was recorded in our combined financial statements associated with the write-down of assets and the restructuring of operations in these four countries. For further information on the write-down of our assets in Germany, Austria, Switzerland and Italy please see Item 4.B Business Overview Rest of Europe.

We have recorded an impairment charge to goodwill and may be required to make additional write offs in the future.

Goodwill represents the purchase price of an acquisition in excess of the fair value of the assets acquired less liabilities assumed. We have generated substantial amounts of goodwill from some of our acquisitions.

In December 2002, we performed an analysis of projected discounted cash flows from Iobox Oy, an internet portal we acquired in July 2000, and other companies as a result of which we determined that such projected cash flows were not adequate to support the value of goodwill related to these companies both under Spanish and U.S. GAAP. Accordingly, the goodwill arising on the acquisition of Iobox Oy was written down by 154 million, due to the dissolution of Iobox Oy and the closure of its subsidiaries.

We cannot be certain that we will be able to recover all of the goodwill that we now carry as an asset or that we will not have to write off additional goodwill in the future under U.S. GAAP or Spanish GAAP. We could be forced to write off goodwill because of rapid technological change, intense competition, adverse regulatory measures, significant declines in sales, earnings or cash flows and other factors that in the future indicate that the fair value of our acquisitions is not worth their carrying value.

There may be insufficient demand for the new products and services we have invested in and developed.

As an element of our strategy, we have invested in and developed new wireless services, such as wireless internet and data services. In order for our customers to better access these services, we will need to upgrade our customer base with new handsets enabled with MMS, cameras, color screens and other capabilities. This can increase our cost base while demand for data services and products may not materialize. We cannot assure you that demand for these services will be as high as expected, or that these initiatives will be profitable. If they are not, our growth could be impaired and we could lose our capital investments in these new services. These initiatives could fail for a number of reasons, such as technological developments or competitive factors. Our

Table of Contents

ability to introduce new services also depends on whether and on what terms new services are permitted by applicable regulations.

Our ability to deploy and deliver some of the new services is dependent upon new technologies. These technologies may not be developed in a timely manner or, if developed, may not perform as expected or favorably in comparison to competing technologies, which could negatively affect customer demand. In addition, we may not be able to deliver these services on an economic basis, particularly in comparison to competing technologies.

Our growth prospects could be adversely affected if we are not able to develop our operations in Mexico successfully.

We have made substantial investments to establish a presence in Mexico and additional investments will be required over the next several years to build our nationwide GSM network, expand our customer base and gain market share in the country.

We consider Mexico a highly competitive market, where we face various operators at a national level. After several years in competition, new entrants in the telecommunication market have not been able to gain significant market share and Mexican incumbent operators, both in fixed and wireless telephony, maintain their leadership positions despite facing competition from well-known international players.

Any material failure by us to compete effectively, or any aggressive competitive behavior by our major competitor in Mexico, could adversely affect our future revenue growth, financial conditions or results of operations.

We could lose customers and revenues if we fail to upgrade our existing networks.

We must continue to upgrade our existing wireless networks on a timely and satisfactory basis in order to retain and expand our customer base, provide an adequate and updated portfolio of products and services in each of our markets, and satisfy regulatory requirements. Among other things, we must:

- upgrade the functionality of our networks to permit increased customization of services;
- fill in coverage gaps and increase capacity in some of our markets;
- expand and maintain customer care, network management and administrative systems; and
- upgrade systems as new technologies become available.

We cannot assure you that we will be able to execute successfully all of these tasks, many of which are not entirely under our control, on a timely basis or at all. If we fail to successfully execute these tasks, we also may be less attractive to new customers and lose existing customers to our competitors, which would adversely affect our revenues and overall results of operations. The provision of wireless internet-based content and wireless electronic commerce, which is commonly called m-commerce, may become subject to increased regulation, which could increase our costs or delay growth in demand for our wireless data and internet services.

Our strategy may call for the acquisition and integration of new operations, services and technologies, which may be costly, difficult and time consuming.

We may pursue acquisitions of new operations. We may face technological, administrative and other challenges involved in integrating acquired operations, new services and technologies into our existing networks and operations. Remedial actions could prove costly and time consuming. Any failure to expand and improve our service and product offerings through acquisitions may place us at a competitive disadvantage relative to other wireless communications providers. Customers may choose these competitors over our company, which could adversely affect our ability to increase our revenues and leverage our cost base.

Table of Contents

Our business could be adversely affected if major suppliers fail to provide us with needed equipment and services on a timely basis.

Although we have not been materially affected by supply problems in the past, handsets and network infrastructure suppliers may, among other things, extend delivery times, raise prices and limit supply due to their own shortages and business requirements. If these suppliers fail to deliver products and services on a timely basis, or fail to develop and deliver to us handsets that satisfy our customers demands, we could be negatively affected. Similarly, interruptions in the supply of telecommunications equipment for our networks could impede network development and expansion. Although these equipment supply risks are no longer significant in relation to our existing networks, they could be substantial in relation to the build-out of our GSM network in Mexico.

The development of our business could be hindered if we fail to maintain satisfactory working relationships with our partners, especially with respect to Portugal Telecom, our joint venture partner in Brasilcel.

Some of our operations, such as Brasilcel, our co-managed joint venture with Portugal Telecom in Brazil, are conducted through joint ventures in which we do not have absolute control over the operations of the venture. In our joint venture with Portugal Telecom, cooperation is necessary to implement and expand Brasilcel s business strategies and finance and manage its operations. Should there be disagreements with Portugal Telecom, we may not realize the benefits from the joint venture, including economies of scale and opportunities to realize potential synergies and cost savings.

In addition, in other cases where we own a majority of a venture, we may still be subject to provisions in shareholders agreements restricting our control over the venture. The particular corporate governance provisions affecting our company vary from venture to venture, and often depend upon the size of our investment relative to that of other investors, our experience as a wireless operator compared to that of other investors and the preferences or requirements of foreign governments that local owners hold an interest in licensed telecommunications operators.

The risk of disagreement or deadlock is inherent in jointly controlled entities and there is the risk that a decision against our interests will be made. Our joint venture partners may choose not to continue their partnerships. In addition, our arrangements with our joint venture partners may expose us to additional investment requirements, to capital expenditure and additional financing requirements or to obligations to buy or sell our interests.

In Italy we participate in a consortium with local shareholders. The success of this consortium will depend, in part, upon the cooperation of the partners and will be subject to risks comparable to those affecting our other joint ventures.

We face risks associated with litigation.

We are party to lawsuits and other legal proceedings in the ordinary course of our business. An adverse outcome in, or any settlement of, these or other lawsuits could result in significant costs to us. In addition, we may be required to devote substantial time to these lawsuits which they could otherwise devote to our business. For a more detailed description of these lawsuits, see Item 8.A Consolidated Statements and Other Financial Information Legal Proceedings.

Risks Related to Telefónica Móviles Organizational Structure

Our historical financial statements are carve-out financial statements, and our historical results of operations may have been different if we had been a stand-alone enterprise.

The combined financial statements included in this annual report have been prepared as if we had been in existence at all dates and during all the periods presented and and include the accounts of the operating companies and interests and investments in other wireless companies transferred to us by Telefónica, S.A. prior to December 31, 2002. Because some of these wireless operations were historically held through Telefónica, S.A. holding companies, the assets, liabilities, revenues, costs and cash flows relating solely to the wireless operations of these companies have been carved-out from the accounts of these companies. The combined financial statements reflect, in particular, historical accounts of our wireless operations in Spain, Brazil, El Salvador and Guatemala, carved-out and combined accounts of our holding companies for investments outside of Spain and carved-out and equity method reported accounts of our wireless operators in Morocco. The combined financial statements also include the accounts of Telefónica Móviles Mexico, including as of July 1, 2001, the accounts of our Northern Mexico operators acquired in 2001, and as of September 2002 the operations of Pegaso Telecomunicaciones, S.A. de C.V., or Pegaso. In addition, as of January 1, 2002, our combined financial statements include Tele Leste Celular Participações S.A., or Tele Leste Celular on a fully consolidated basis and our wireless operations in Argentina and Peru as of October 1, 2000 and January 1, 2001, respectively, the effective dates for accounting purposes of the transfer of these operations to us. For further information on the presentation of our combined accounts, please see Item 5.A Operating Results Presentation of Financial Information Basis of Presentation of Combined Financial Statements. The combined financial statements may not necessarily be indicative of our future results of operations, financial condition and cash flows or of what our results of operations, financial condition and cash flows would have been had we been operated at the dates and during the periods covered by these financial statements as a separate, stand-alone, integrated wireless group rather than as separate parts of integrated telecommunications companies within the Telefónica Group.

We have recently undertaken a series of major initiatives and actions which will materially affect comparability of historical and future financial performance and which may not be fully captured in our historical financial statements included in this annual report.

In order to achieve our overall strategy of enhancing our position as one of the leading global wireless operators and achieving superior growth and profitability, we took several major initiatives during 2000, 2001, 2002 and early 2003. These initiatives and actions include, among others, the following:

- the increase in our ownership interest in our Brazilian operations (2000 2002);
- the acquisition of our UMTS licenses in Western Europe in (2000 2001);
- the consummation of Brasilcel N.V., our joint venture with Portugal Telecom in Brazil (2002);
- the acquisition by Brasilcel of Tele Centro Oeste Participaçoes (2003);
- the acquisition by us of four wireless operators in Mexico (2001) and the acquisition by us of a 65% interest in the Mexican wireless operator Pegaso Telecomunicaciones, S.A. de C.V. and its integration with our Northern Mexican operations (2002);
- the acquisition by us of the Telefónica Group s wireless operations in Peru and Argentina (2001); and
- allocation of additional Telefónica Group assets and debts (2000).

None of these transactions are reflected in all of the periods covered by the combined financial statements, and transactions that had not been consummated by December 31, 2002 are not reflected in the combined financial statements at all. All of these items will affect the comparability of our historical and future results of operations and financial condition. For further information on the items described above please see Item 5A. Operating Results Presentation of Financial Information Events Affecting Comparability of Historical and Future Results of Operations and Financial Condition. We anticipate that future results of operations and financial condition will be different from our results of operations and financial condition reflected in our combined financial statements, after taking into account these developments and any other future material developments.

We are controlled by Telefónica, S.A., whose interests may conflict with those of our company.

Telefónica, S.A. currently owns, directly or indirectly, approximately 92.44% of our shares and controls our company. As a result, Telefónica, S.A. has the power to determine the composition of our board of directors and to influence major business and corporate decisions, including, for example, extraordinary corporate transactions, strategic initiatives and dividend policy. Telefónica, S.A. also is able to direct our day-to-day management and operations.

Table of Contents

The Telefónica Group could have conflicts of interest in business transactions with us, or take advantage of business opportunities otherwise available to us, which could reduce our revenues or increase our costs.

We regularly enter into business transactions and contractual arrangements with companies in the Telefónica Group and plan to continue to do so. Although we believe that prior and existing transactions and arrangements have been fair to us in all material respects and that their terms have reflected market conditions, it is possible that we could have obtained better terms from third parties. We could also face competition from other companies within the Telefónica Group that are not part of our company. Consequently, we could be impeded from pursuing some future business opportunities or obligated to pursue them in conjunction with other companies in the Telefónica Group. Because Telefónica, S.A. is a party to business transactions and contractual arrangements with our company and companies of the Telefónica Group are active in businesses that overlap with ours, there is potential for conflicts of interest between Telefónica, S.A. and its affiliates, on the one hand, and our company, on the other, in circumstances where our interests and those of Telefónica, S.A. are not aligned.

Other Telefónica Group companies could negatively affect the image of the Telefónica brand used by us.

We share the Telefónica brand name with other Telefónica Group companies. If any other Telefónica Group company were to take any action that harmed the quality or image associated with this brand, we could suffer a decrease in revenues due to a loss of customers, which would hurt our results of operations.

Our shareholders will not be able to realize the financial benefits of any proposed acquisition of our company or of our Spanish operating company without the consent of the Spanish government.

A third-party will not be able to acquire us, and our shareholders will not be able to receive the financial benefits of any proposed acquisition of us, without the consent of the Spanish government. In March 1995, in connection with the privatization of some public sector companies, the Spanish government adopted a requirement of prior government authorization for specified fundamental corporate transactions affecting these companies. This prior authorization requirement, which is known as the golden share, was imposed on Telefónica, S.A. in January 1997 and is applicable to our company and our Spanish operating company, Telefónica Móviles España, S.A. through Telefónica, S.A. s ownership of our shares. In the case of our company and our Spanish operating company, the transactions requiring Spanish government approval include, among others:

- a voluntary dissolution, spin-off or merger;
- any other transaction that would decrease Telefónica, S.A. s interest in us or our interest in our Spanish operating company to less than 50%;
- the sale, transfer or encumbrance of our material assets;
- the acquisition by a third-party of 10% or more of our or Telefónica Móviles España s share capital; and
- any amendment to our by-laws affecting the above provisions.

The Spanish government is currently empowered to exercise these prior authorization rights until 2007. In addition, if a third-party acquires 10% or more of our capital stock or that of our Spanish operating company without prior government approval, such third-party will not have voting rights in respect of the shares acquired until the Spanish government approves the acquisition. Although the circumstances in which this authorization concept is valid has been substantially limited by the European Court of Justice, we cannot assure you that the Spanish government will exercise its prior authorization rights in a manner favorable to the interests of other shareholders of our company or that the government will be compelled to relinquish these rights in the future.

Table of Contents

We will be obligated to adopt new accounting standards in 2005 that may have a considerable impact on our accounts.

In June 2002, the European Union (EU) adopted new regulations requiring all listed EU companies, including us, to apply International Financial Reporting Standards (IFRS) (previously known as International Accounting Standards or IAS) in their financial statements by no later than January 1, 2005.

Because IFRS emphasizes the measure of the fair value of a company s assets and liabilities, it may have a considerable impact on a number of important areas of accounts, including, among others, goodwill and intangibles and derivative instruments.

IFRS will therefore affect the valuation methods that analysts use to measure and evaluate our performance. In addition, the treatment of our business combinations and hybrid financial instruments may change. The wider implications of IFRS could have an effect on our debt covenants and other legal documentation.

Risks Related to Telefónica Móviles Industry

We operate in a highly regulated industry and could become subject to more burdensome regulation, which could adversely affect our businesses.

The licensing, construction, operation and interconnection arrangements of wireless communications systems are regulated to varying degrees by national, state, regional or local and supra-national authorities, such as the European Union. These authorities could adopt regulations or take other actions that could adversely affect us and our companies. Our operating companies require licenses or concessions from the governmental authorities of the countries in which they operate. These licenses and concessions specify the types of services permitted to be offered by our operating companies and the spectrum that may be utilized for these purposes. The continued existence and terms of our licenses and concessions are subject to review by regulatory authorities in each country and to interpretation, modification or termination by these authorities. The terms of our licenses and concessions generally range from 15 to 25 years. Although these licenses and concessions generally are renewable upon expiration, we cannot assure you that they will be renewed or that any renewal will be on acceptable terms.

The rules of some of the government regulatory authorities having jurisdiction over our operating companies require us to meet specified network build-out requirements and schedules. In addition, our wireless licenses and concessions typically also require satisfaction of various obligations, including minimum specified quality, service, coverage criteria and capital investment. Failure to comply with these obligations in a given license area could result in the imposition of fines or the revocation or forfeiture of the license for that area. In addition, the need to meet scheduled deadlines may cause our company to expend more resources than otherwise budgeted for a particular network build-out. We cannot assure you that our operating companies will be able to fully comply with the terms and conditions of these licenses and concessions.

Increased or significant changes in the regulation of the activities of our operating companies, including the regulation of rates that may be charged to customers for services or termination fees, could have a material adverse effect on our company. New regulations could also increase the costs of regulatory compliance.

Our operating companies also typically require governmental permits, including permits for the construction and operation of cell sites. We do not believe that compliance with these permit requirements should have a material adverse effect on our company. However, if we fail to comply with these permit requirements, we could become subject to claims or regulatory actions.

Our results in Brazil may be affected in the medium or long term as a result of the new SMP rules.

Our Brazilian operating subsidiaries all held concessions prior to the introduction of the SMP regime. Subsequent to its introduction, they have migrated to the new SMP regime.

Table of Contents

Under the SMP regime, we will no longer receive payment from our customers for outbound long distance traffic, but will receive payment for the use of our network, in accordance with the network usage remuneration plan. However, there is no assurance that the interconnection fees that we will receive from long distance operators will compensate us for the revenues that we would have received from our customers for outbound long distance traffic.

The SMP regime establishes free negotiation of the network usage fee among telecommunication service providers or a confirmation, until June 30, 2004, of the maximum fee by Anatel. After that date, negotiation of that fee will be the rule.

We cannot assure you that the new rules will not affect negatively our revenues and results of operations.

We are subject to evolving regulatory policies which favor increased competition and which could expose us to additional competition in our markets.

Regulatory policies of many of the countries in which we operate generally favor increasing competition in the wireless services industry, including by granting new licenses in existing licensed territories in order to permit the entry of new competitors. Since 2002, Spanish regulation allows for the introduction of mobile virtual network operators, according to an allow and not oblige principle. These and similar regulatory policies could have the effect, over time, of reducing our market shares in the service territories in which we currently operate.

Because we hold leading market shares in many of the countries in which we have operations, we could face regulatory actions by national or, in the case of Europe, EU antitrust or competition authorities if it is determined that we have prevented, restricted or distorted competition.

The provision of wireless internet-based content and m-commerce may become subject to increased regulation, which could increase our costs or delay growth in demand for our wireless data and internet services.

The provision of internet-based content and m-commerce has not to date been materially restricted by regulation in the markets in which we operate or intend to operate. The legal and regulatory environment relating to internet content and m-commerce is uncertain, however, and may change. New laws and regulations may be adopted for internet service offerings. Existing laws may be applied to the forms of m-commerce in which we expect to engage. Uncertainty and new regulations could increase our costs and could also slow the growth of m-commerce. New and existing laws could delay growth in demand for our wireless data and internet services and thereby limit the growth of our revenues.

Our company s technology could fail to be competitive with other technologies or compatible with the next generation technology.

Our operating companies offer both analog and digital cellular services in their markets. Our digital networks in different countries use different standards. Although there is some ability to roam on analog networks, the digital transmission standards are not fully compatible with one another. Our use of these multiple technologies may limit some of our anticipated economies of scale as we seek to further integrate the businesses of our multiple operating companies. Significant capital investments may not be recouped and revenues could decline as current and potential customers select alternative providers and technologies. In addition, alternative technologies may develop for the provision of wireless services to customers that may prove superior to those currently projected. We cannot assure you that unforeseen technological developments will not render our services unpopular with customers or obsolete.

The wireless industry may be harmed by reports suggesting that radio frequency emissions cause health problems and interfere with medical devices.

Media and other reports have suggested that radio frequency emissions from wireless handsets and base stations may cause health problems. If consumers harbor health-related concerns, they may be discouraged from using wireless handsets. These concerns could have an adverse effect on the wireless communications industry and, possibly, expose wireless providers, including us, to litigation. We cannot assure you that further medical research and studies will refute a link between the radio frequency emissions of wireless handsets and base stations and these health concerns. Government authorities could increase regulation of wireless handsets and base stations as a result of these health concerns or wireless companies, including us, could be held liable for costs or damages associated with these concerns, which could have an adverse effect on our business. In Spain, for example, we are required by law to test and certify the emissions of our base stations in or close to populated areas. For the year ended 2002, such tests have confirmed lower emission levels than those required by regulations. If in the future we fail to comply fully with these standards, we could be subject to claims or regulatory actions.

Risks Related to Latin America

Adverse Latin American economic, political and social conditions could affect our financial performance.

The portion of our revenues and profits deriving from Latin American operations will be increasing due mainly to the development of our operations in Brazil and Mexico. Our financial performance in the region is affected by economic, political and social conditions in Latin America. These conditions are volatile due to, among other factors, the following:

- significant governmental influence over local economies;
- substantial fluctuations in economic growth;
- historically high levels of inflation;
- devaluation or depreciation, or over-valuation of local currencies;
- exchange controls or restrictions on expatriation of earnings;
- high domestic interest rates;
- wage and price controls;
- changes in governmental economic or tax policies;
- imposition of trade barriers;
- unexpected changes in governmental regulation;

social unrest; and

overall political and economic instability, such as the recent situation in Peru.

Many or all of these factors have occurred at various times in the last two decades, in most Latin American markets, including Argentina, Brazil, Peru and Mexico. Adverse economic, political and social conditions in Latin America may inhibit wireless usage and create uncertainty regarding our operating environment and, more generally, may have a material adverse effect on our company and the market price for our ordinary shares or ADSs.

We face similar risks in Morocco.

Latin American currencies have been subject to fluctuations, including the devaluation of the Argentine peso, which could adversely affect revenues and expenses for our operations in this geographic region.

Although our reporting currency is the euro, most of our revenues and expenses relating to our Latin American operations are denominated in local currencies or the U.S. dollar. The currencies of many Latin American countries, including Argentina, Brazil and Peru, have experienced substantial devaluations and

Table of Contents

volatility in recent years, and our revenues from customers will decline in value if the local currencies depreciate relative to the euro.

For example, we have been affected by the economic situation in Argentina and the devaluation of the Argentine peso. As of December 31, 2002 and 2001, our exposure from our Argentine operations amounted to 122 million and 494 million, respectively, including the asset value assignable to those holdings and the internal financing provided. The impact of the devaluation of the Argentine peso resulted in an adverse impact on consolidated earnings of 37 million and 42 million in 2002 and 2001, respectively. As a result of the current macroeconomic conditions in Argentina, Telefónica Comunicaciones Personales pursuant to Argentinian law (Decree 214/2002), is currently in a negative net asset position. Notwithstanding the above, Argentine law allows companies to maintain this negative net asset position up to December 2003, without the need to establish a positive net asset position. It is uncertain whether the government of Argentina will extend this exception beyond December 2003. For further information on the devaluation of the Argentine peso please see Item 5.A Operating Results Presentation of Financial Information Argentina and note 2 to our combined financial statements.

Our business, financial condition and results of operations may be adversely affected by declines in the value of the currencies of the Latin American countries where we operate. Our hedging strategies may not prove effective to address the effects of foreign currency exchange movements on our financial condition or performance. In addition, our exposure to foreign currency exchange losses may be increased if we become subject to exchange control regulations that restrict our ability to convert local currencies into euro or U.S. dollars. Because our strategy involves increasing our revenues from our Latin American operations and because of the increasing importance of Brazil and Mexico to our operations, our exposure to foreign currency movements is likely to increase over time.

Risks Related to Telefónica Móviles Ordinary Shares

The market prices for our shares or ADSs may be subject to significant volatility.

The market price of our ordinary shares and ADSs may be significantly affected by, among others, the following factors:

- our actual or anticipated results of operations and financial condition;
- investor perceptions of investments relating to Latin America and other less developed geographic regions in which we now operate or may conduct operations;
- new services or products offered by our company or our competitors;
- changes in, or our failure to meet, securities analysts expectations;
- changes in investors preferences and expectations with respect to the technology, media and telecommunications industry;
- developments affecting the regulation of the wireless industry;

technological innovations relevant to the wireless communications industry; and

general market conditions and other factors beyond our control.

Securities markets have periodically experienced significant price and volume fluctuations that have especially affected the market prices of ordinary shares and ADSs of telecommunications and other technology-related companies. These changes have often been unrelated to the financial performance of particular companies. These broad market developments may also adversely affect the market price of our ordinary shares and ADSs.

17

Table of Contents

Forward-looking statements contained in this annual report may not be realized.

We have made forward-looking statements in this annual report that are subject to risks and uncertainties. These forward-looking statements relate to, among other things:

- management strategy;
- synergies;
- efficiencies;
- cost savings;
- general market and similar data relating to the wireless communications industry in Spain, Latin America and other geographic areas;
- strategic partnerships and relationships and joint ventures;
- capital expenditures;
- timing for the introduction or enhancement of our services and products; and
- possible bids for additional licenses or concessions.

Forward-looking statements also may be identified by words such as believes, expects, anticipates, projects, intends, should, seeks, e future or similar expressions. The sections of this annual report which contain forward looking statements include:

Item 3.D Risk Factors ;

Item 4. Information on the Company ;

Item 5. Operating and Financial Review and Prospects ; and

Item 11. Quantitative and Qualitative Disclosures About Market Risk.

These statements reflect our current expectations. They are subject to a number of risks and uncertainties, including, but not limited to, changes or delays in the development of technology and changes in regulation and the global wireless communications marketplace. In light of the many risks and uncertainties surrounding this marketplace, you should understand that we cannot assure you that the forward-looking statements contained in this annual report will be realized. You are cautioned not to put undue reliance on any forward-looking information.

Item 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

Background of Our Company

We are a limited liability company duly organized and existing under the laws of the Kingdom of Spain. We were incorporated in February 14, 2000. Our principal executive offices are located at Goya 24, 28001 Madrid, Spain and our telephone number is +(34) 91 423-4004.

We are a holding company that conducts its wireless operations through subsidiaries and investments in Spain, Morocco, and Latin America. The following is a brief summary of key steps in the development of our company:

Spain: The Telefónica Group began to offer wireless services in Spain in 1982. In 1995 Telefónica Group s wireless services were transferred to Telefónica Servicios Móviles, a wholly-owned subsidiary of Telefónica, S.A. that was subsequently renamed Telefónica Móviles España, S.A. As part of the reorganization of the Telefónica Group, Telefónica, S.A. transferred to our company all of the shares of Telefónica Móviles España in exchange for ordinary shares of our company. Telefónica Móviles España is a direct wholly-owned subsidiary of our company and constitutes our most significant subsidiary in terms of its contribution to our revenues and profitability. In December 2001, we merged Telefónica Móviles Intercontinental, S.A into Telefónica Móviles España, S.A. Telefónica Móviles Intercontinental, S.A held our interests in Germany, Switzerland, Austria, Italy and Morocco.

Brazil: The Telefónica Group has had operations in Brazil since 1996 when it acquired a 7.9% beneficial interest in Companhia Riograndense de Telecomunicações S.A., or Celular CRT, at that time an integrated telecommunications operator in the state of Rio Grande do Sul. In 1998, through its participation in the privatization of Telebrás, the former Brazilian government-controlled telecommunications monopoly, the Telefónica Group acquired several interests in the wireless sector, including a 15.9% interest in Tele Sudeste Celular Participações S.A., located in the region covering the states of Rio de Janeiro and Espírito Santo, and a 7.3% interest in Tele Leste Celular Participações S.A., located in the region covering the states of Bahia and Sergipe. The Telefónica Group subsequently increased its interest in Celular CRT, Tele Sudeste Celular and Tele Leste Celular in several transactions. In October 2000, each of Telefónica, S.A. and Telefónica Internacional, S.A. transferred to our company its interests in these companies in exchange for ordinary shares of our company.

In May 2002, we acquired from Telefónica, S.A. its interests in TBS Celular Participações, S.A. (which owns an interest in Celular CRT Participações), Tele Leste Celular Participações, S.A., Tele Sudeste Celular Participações, S.A. and Sudestecel Participações, S.A. (which owns an interest in Tele Sudeste Participações) as well as shares of the Brazilian company Iberoleste Participações, S.A., which owns interest in Tele Leste Celular Participações, S.A. On October 17, 2002, we also acquired from Telefónica, S.A. a 0.63% holding in Celular CRT Participações, S.A., bringing our direct and indirect investment in Celular CRT Participações, S.A. to 40.90%. Additionally, on October 21, 2002 we acquired from Portugal Telecom SGPS, S.A., or Portugal Telecom, for approximately 200 million a 14.68% holding in Telesp Celular Participações, S.A., a company that provides wireless services in the Brazilian states of São Paolo, Paraná and Santa Catarina.

On October 17, 2002, we, Portugal Telecom, and its subsidiary PT Moveis SGPS, S.A., or PT Moveis, entered into a Shareholders Agreement and Subscription Agreement that implemented a joint venture framework agreement signed in January 2001 among us, Telefónica, S.A., Portugal Telecom and PT Moveis. Following the agreements entered into with the Portugal Telecom Group on October 17, 2002 and after having obtained the necessary authorization from the Brazilian authorities on December 27, 2002, we and PT Moveis contributed to Brasilcel, N.V., a joint venture that is 50% owned by each company, all the shares directly or indirectly held by the two groups in their wireless communications companies in Brazil, as set out below:

Company	State	% Contributed		Ownership Interest of Brasilcel N.V. at December 31, 2002		Total customers at December 31, 2002
		Telefónica Móviles	PT Moveis	Total Equity	Voting equity	
						(millions)
Tele Sudeste Celular Participações S.A.	Rio de Janeiro and Espírito Santo	83.56%		83.56%	80.50%	3.5
Celular CRT Participações S.A.	Rio Grande do Sul	40.90%	7.58%	48.48%	86.94%	2.1
Tele Leste Celular Participações S.A.	Bahia and Sergipe	27.71%		27.71%	58.42%	1.0
Telesp Celular Participações S.A.	São Paulo Paraná and Santa Catarina	14.68%	50.44%	65.12%	93.66%	7.2

19

Table of Contents

The value of the contribution to Brasilcel of the wireless assets owned by us was 1,898 million. For further information see Item 4.B Business Overview Latin America Brazil Acquisition of Interests in Brazil Joint Venture with Portugal Telecom.

Our share ownership in Tele Sudeste and Celular CRT has been modified since December 31, 2002, due to a capital increase made during the first quarter of 2003. The ownerships interests indicated in the table above are equal to the percentages contributed to Brasilcel as of December 31, 2002. For information on our ownership interest in Brasilcel, and its operators, as of June 27, 2003 please refer to our organizational structure found in Item 5.A Operating Results Overview.

Peru: The Telefónica Group has had operations in Peru since 1994 when it acquired control of two integrated telecommunications companies. Wireless operations were commenced in Peru in 1991. In accordance with the resolution of the shareholders of Telefónica del Perú S.A.A. to divide the company along business lines, Telefónica del Perú S.A.A. spun off in June 2001 its wireless operations in the form of shares of Telefónica Móviles S.A.C. Following this spin-off and share exchanges and additional share purchases, we hold indirectly a 97.97% interest in Telefónica Móviles S.A.C. The former minority shareholders of Telefónica del Perú S.A.A. own the remaining minority interest in Telefónica Móviles S.A.C.

Argentina: The Telefónica Group has had operations in Argentina since 1990 and commenced wireless operations in that country in 1993. In accordance with a resolution of the shareholders of Telefónica de Argentina S.A. to divide the company along business lines, in November 2001 Telefónica de Argentina S.A. spun off its wireless operations in the form of shares of Telefónica Comunicaciones Personales S.A. and its data operations. Following the spin-off and share exchanges, we indirectly hold a 97.93% interest in Telefónica Comunicaciones Personales S.A. and do not hold an interest in the data operations or Telefónica de Argentina S.A. The former minority shareholders of Telefónica de Argentina S.A. own the remaining minority interest in Telefónica Comunicaciones Personales S.A.

Mexico: In July 2001 we acquired from Telefónica, S.A. its interest in four wireless operators in Mexico acquired by it from Motorola, Inc. in June 2001. The companies operate in four of the nine wireless regions of Mexico and began operations in 1990. The interests acquired include the following:

- Ø 100% of Baja Celular Mexicana, S.A. de C.V., or Bajacel, which has licenses to operate in the Mexican States of Baja California, Baja California Sur, and parts of Sonora;
- Ø 90% of Movitel del Noroeste, S.A. de C.V., or Movitel, which has licenses to operate in the Mexican States of Sinaloa and parts of Sonora;
- Ø 100% of Telefonía Celular del Norte, S.A. de C.V., or Norcel, which has licenses to operate in the Mexican States of Chihuahua, Durango, and parts of Coahuila; and
- Ø 100% of Celular de Telefonía, S.A. de C.V., or Cedetel, which has licenses to operate in the Mexican States of Nuevo Leon, Tampaulipas, and parts of Coahuila.

The purchase price paid by Telefónica, S.A. for these wireless operators was an aggregate of US$1,835.5 million in shares of Telefónica, S.A. and US$10.5 million in cash. Telefónica, S.A. transferred the wireless operators to us in exchange for our ordinary shares of equivalent value, based upon our initial public offering price. Accordingly, we transferred approximately 203 million ordinary shares to Telefónica, S.A.

On April 26, 2002, we signed agreements to purchase 65.23% of Pegaso from Sprint, Leap Wireless, Qualcomm and other financial investors. Pegaso owns licenses to operate on a nationwide basis. In connection with this agreement, we also agreed with the Burillo Group, who held a 34.77% interest in Pegaso at the time of our acquisition, to contribute our interests in Pegaso and our other Mexican operators with the Burillo Group s interest in Pegaso into a new company, Telefónica Móviles Mexico.

On September 10, 2002, having obtained authorization from the relevant Mexican authorities, we acquired a 65.23% holding in Pegaso for 92.9 million. In accordance with our agreement with the Burillo Group, on

Table of Contents

September 10, 2002 we contributed our interests in Pegaso and our other Mexican operators (Bajacel, Movitel, Norcel and Cedetel) to Telefónica Móviles Mexico. On the same date the Burillo Group contributed its wireless interests to Telefónica Móviles Mexico. We hold a 92% interest in Telefónica Móviles Mexico and the Burillo Group owns the remaining 8%.

Central America: The Telefónica Group commenced operations in El Salvador in December 1998 and in Guatemala in October 1999. Telefónica Internacional, S.A. transferred all of its shares in the two Central American holding companies, TES Holdings, S.A. and TCG Holdings S.A., to us in 2000 in exchange for ordinary shares of our company. TES Holdings, S.A. holds a 90.3% interest in Telefónica Móviles El Salvador, S.A. de C.V., or Telefónica Móviles El Salvador, and TCG Holding, S.A. holds a 100% interest in Telefónica Centroamérica Guatemala, S.A de C.V., or Telefónica Centroamérica Guatemala.

We owned 51% of TES Holdings, S.A. and TCG Holding, S.A., and Mesoamérica Telecom, a private fund of Central American investors, owned the remaining 49% interest in the companies through its subsidiary Mesotel de Costa Rica, S.A. In August 2001, we entered into an agreement with Mesotel de Costa Rica, S.A. to acquire its direct and indirect interests in Telefónica Móviles El Salvador, Telefónica Centroamérica Guatemala, Telca Gestión, S.A. and Telca Gestión Guatemala, S.A., and other companies in which we had shared holdings in exchange for approximately 21.9 million of our ordinary shares. In January 2002 we amended this agreement and acquired one-third of Mesotel de Costa Rica, S.A. s interests in exchange for 7.3 million of our ordinary shares. The remaining two-thirds were transferred by Group Mesotel in July 2002 for the remaining 14.6 million of our ordinary shares. We subsequently hold through TES Holdings, S.A. and TCG Holdings S.A. a 90.3% indirect interest in Telefónica Móviles El Salvador and a 100% indirect interest in Telefónica Centroamérica Guatemala. Telefónica Móviles El Salvador, S.A. de C.V. and Telefónica Centroamérica Guatemala, S.A. have principally wireless operations, but also fixed-line operations. We consider our ownership of fixed-line operations to be outside the scope of our overall business.

Morocco: The Telefónica Group commenced wireless operations in Morocco in March 2000 through Medi Telecom, S.A. The Group has a 31.34% equity interest in Medi Telecom and also shares management responsibility for that company through an agreement providing for joint corporate governance with Portugal Telecom, which holds a 31.34% equity interest. Telefónica, S.A. transferred to our company a 30.5% interest in Medi Telecom in exchange for ordinary shares of our company. The additional percentage was acquired through a capital increase of Medi Telecom in 2002 in which only we and Portugal Telecom participated.

Europe: In 2000 and 2001, we obtained third-generation wireless telephony (UMTS) licenses in Germany, Italy, Austria and Switzerland. The financial, technological, competitive and regulatory changes that have taken place in the market since then resulted in our reviewing our European strategy. Accordingly, in July 2002 we decided to halt our commercial activities in Germany as a GSM/GPRS mobile virtual operator network (MVNO) and updated the assumptions of the business plans of our subsidiaries in Austria, Germany, Italy and Switzerland. As a result, at December 31 2002, a net loss of 5,049.8 million was recorded in our combined financial statements associated with the write-down of assets and the restructuring of operations in these four countries. For further information see Business Overview Rest of Europe.

Puerto Rico: The Telefónica Group plans to transfer to us its investment in NewComm Wireless Services, Inc., a Puerto Rican wireless operator with approximately 169 thousand customers at December 31, 2002. This investment has been made through several convertible notes in an aggregate amount of US$54.0 million that are convertible into up to 49.9% of the capital stock of NewComm Wireless, subject to receipt of necessary U.S. regulatory authorizations. Any conversion of the convertible notes into NewComm Wireless capital stock that would result in a noteholder acquiring more than 25% of such stock requires the approval of the U.S. Federal Communication Commission, or FCC. Telefónica, S.A. s interest in NewComm Wireless is held indirectly, through Telefónica Larga Distancia.

Table of Contents

The transfer of the convertible notes from the Telefónica Group to us is expected to be completed in 2003 subject to the approval of the FCC. Once the convertible notes have been transferred, we plan to convert the notes into 49.9% of the capital stock of NewComm Wireless. In addition, the Telefónica Group, with a view to holding a controlling interest in NewComm Wireless Services, has entered into an agreement with ClearComm to purchase a further 0.2% interest in NewComm Wireless Services. It is also intended that this right to purchase an additional 0.2% interest will be transferred to us. We currently manage the day-to-day operations of NewComm Wireless on behalf of Telefónica, S.A. For further information see Business Overview Latin America Pending Acquisitions in Latin America Puerto Rico.

We have also undertaken the following strategic initiative that we believe is complementary to our core wireless communications activities.

Alliance with T-Mobile and TIM: In April 2003 we entered into an agreement with T-Mobile International and Telecom Italia Mobile, or TIM, to set up an strategic alliance to provide our customers with a unified and superior offering of products and services thereby strengthening the operators ability to compete in all the markets where they have a presence. The alliance will be open to the possible incorporation of other wireless operators interested in contributing to the enhancement of the different areas of collaboration. Recently, Orange has also announced its plan to join the alliance.

B. BUSINESS OVERVIEW

Overview

We are part of the Telefónica Group, whose parent company is Telefónica, S.A., estimated as one of the ten largest diversified telecommunications companies in the world based upon stock market capitalization.

We are a leading provider of wireless communications services in Spain and Latin America and, according to our estimates, we are the ninth largest global provider of wireless communication services based upon total customers at December 31, 2002. We offer a broad range of wireless services, including voice services, enhanced calling features, international roaming, wireless internet and data services, wireless intranets and other corporate services.

At December 31, 2002, we provided wireless services through our operating companies and joint ventures, including Brasilcel N.V., our joint venture with Portugal Telecom in Brazil, to approximately 39.4 million customers, compared with 28 million customers at year-end 2001. We have operations in Spain, Mexico, Peru, El Salvador, Guatemala, Argentina and Peru, and through our joint ventures with Portugal Telecom, we also provide wireless communication services in Brazil and Morocco. According to Pyramid Research, our operating companies and our joint ventures with Portugal Telecom in Brazil and Morocco cover service territories with a total population of approximately 353 million. In addition, we manage for Telefónica S.A., our parent, its wireless operations in Chile and Puerto Rico.

We also have licenses to provide UMTS services in Austria and Switzerland through our wholly-owned subsidiaries, in Germany through our 57.2% interest in the Group 3G UMTS Holding GmbH consortium, or Group 3G, and in Italy through our 45.59% interest in the IPSE 2000 consortium. We have, however, restructured our operations in these countries. For further information see Business Overview Rest of Europe.

Our strategy is to focus on increasing our profitability and cash flow in the medium term by optimizing our investments and operating efficiencies while reinforcing our market leadership position in Spain and Latin America by introducing new services to encourage increased customer usage and loyalty. We are also continuously analyzing the possibility of acquisitions and strategic agreements in order to effect our strategy. We

Table of Contents

anticipate that growth in our markets will be driven by increased penetration rates in our Latin American markets, as measured by customers in relation to total population, and increased customer usage for both voice and data services through the introduction of new wireless internet and data services.

The following table provides a summary overview of our operating companies and those companies in which we have non-controlling minority interests.

Country	Company	Service Territory	Year ended December 31, 2002 Ownership Interest at December 31, 2002	Population	Total customers at December 31, 2002	Net Revenue from Operations	EBITDA(4)
				(in millions)	(in millions)	(millions of euro)	
Spain	Telefónica Móviles España	Nationwide	100.00%	40	18.4	6,770	3,490
Brazil	Brasilcel, N.V.(1)(2)	Rio de Janeiro/ Espírito Santo/Rio Grande do Sul/ Bahia/Sergipe/Sao Paolo/ Santa Catarina/ Paraná	50.0%	97	13.7	1,160	426
Peru	Telefónica Móviles Peru	Nationwide	97.97%	27	1.2	283	95
Argentina	Telefónica Comunicaciones Personales	Nationwide	97.93%	38	1.6	195	48
Mexico	Telefónica Móviles México, S.A. de C.V.(3)	Nationwide	92%(3)	102	2.4	465	(15)
El Salvador	Telefónica Móviles El Salvador	Nationwide	90.3%	7	0.2	112	25
Guatemala	Telefónica Centroamérica Guatemala	Nationwide	100%	12	0.1	77	13
Morocco	Medi Telecom	Nationwide	31.34%	30	1.6	230	35

(1) Jointly controlled and managed with Portugal Telecom. As of December 31, 2002, Brasilcel, our joint venture established with Portugal Telecom, holds 83.56% of Tele Sudeste Celular, 48.48% of Cellular CRT, 27.71% of Tele Leste Celular and 65.12% of Telesp Celular Participações, S.A. Through our 50% interest in Brasilcel, as of December 31, 2002, we indirectly hold 41.79% of Tele Sudeste, 24.24% of Celular CRT, 13.85% of Tele Leste Celular and 32.56% of Telesp Celular Participações, S.A. Our share ownership in Tele Sudeste and Celular CRT has been modified since December 31, 2002, due to a capital increase made during the first quarter of 2003. The ownerships interests indicated in the table above are equal to the percentages contributed to Brasilcel as of December 31, 2002. For information on our ownership interest in Brasilcel, and its operators, as of June 27, 2003 please refer to our organizational structure found in Item 5.A Operating Results Overview.

(2) Joint venture with Portugal Telecom that includes 100% of the assets of the Brazilian mobile companies transferred by us (Tele Sudeste Celular, Celular CRT, Tele Leste Celular and Telesp Celular) and Portugal Telecom (Telesp Celular and Global Telecom). Tele Sudeste Celular and Celular CRT were fully consolidated as of December 31, 2000, and December 31, 2001, and Tele Leste Celular was included in the combined financial statements in these periods under the equity method. Brasilcel s balance sheet was proportionally consolidated in the combined financial statements as of December 31, 2002 and the results for the whole year of Tele Leste Celular, Tele Sudeste Celular and Celular CRT were fully consolidated in the combined statement of operations until this transfer was made on December 27, 2002.

(3) Telefónica Móviles México, S.A. de C.V., holds interests in 100% of Baja Celular Mexicano, 90% of Movitel del Noroeste, 100% of Telefónica Celular del Norte, 100% of Celular de Telefónia, S.A. de C.V. and 100% of Pegaso PCS. Through our 92% interest in Telefónica Móviles México, S.A. de C.V., as of December 31, 2002, we indirectly hold 92% of Baja Celular Mexicano, 82.80% of Movitel del Noroeste, 92% of Telefónica Celular del Norte, 92% of Celular de Telefónia, S.A. de C.V. and 92% of Pegaso PCS.

(4) See Item 5.A Operating Results Introduction to Results of Operations EBITDA for a definition of EBITDA and a discussion concerning our use of, and limitations relating to, that term.

Table of Contents

Competitive Strengths

We believe that the following strengths will allow us to compete successfully against other wireless service providers in our existing and future markets:

Market leadership in Spain and Latin America: According to our estimates, we have the leading market position in Spain, with an estimated 55% market share at December 31, 2002, the leading market share in the main regions of Brazil in which we operate and the leading market share in Peru. Market leadership provides us with strong brand recognition, negotiating leverage with suppliers and business customers, and economies of scale, while positioning us as a preferred partner for major global technology and content providers.

Management control over our operations: We manage or jointly manage all of the wireless companies in which we have an interest. We believe we benefit from operating synergies arising from operating most of our wireless businesses as a unified group, including from the use of a common framework of operations featuring common information systems, technology platforms and catalogues of services.

Proven track record of innovation: We believe that we are a leader in developing innovative wireless services. Our Spanish operating company, Telefónica Móviles España, was the first operator worldwide to offer international roaming services to pre-paid customers and among the first to bundle messaging and other data services into its basic package of services. Telefónica Móviles España was the first wireless operator in Spain to launch general packet radio services, or GPRS, on a nationwide basis and was the first operator outside of the Japanese market to introduce services based on Java 2me technology, which allows customers to easily download and execute applications on their mobile handsets. In Brazil, we also launched high speed data services, using CDMA 1xRTT technology, in the states of Rio de Janeiro, San Paulo and recently in Santa Catarina.

Strong distribution channels: We have established extensive distribution channels in our markets. We believe that our distribution channels are the most extensive of any wireless company in Spain and in our Brazilian markets. Our Spanish distribution channel has more than 11,000 points of sale, including new dedicated points of sale for pre-paid customers such as ATMs, gas stations and kiosks.

Extensive operational experience: The management teams in most of our key markets combine local managers with those who have had extensive operating, technical and financial background in other companies and countries comprising the Telefónica Móviles Group s operations. We believe that Telefónica Móviles España has been one of the most effective incumbent European operators in preserving market share upon the opening of the market to new competitors. Among the major European wireless operators, we estimate that Telefónica Móviles España has one of the largest market shares with approximately 55% of the wireless market, and one of the lowest churn rates, with an average monthly churn in 2002 of less than 1.1%.

Financial strength and flexibility: We believe that the cash flow generated by our operations and our solid balance sheet will allow us to compete more effectively in the rapidly evolving global wireless industry, including in the introduction of new wireless internet and data services. We paid our first dividend of 0.175 per share for all outstanding shares on June 18, 2003. See Item 8.A Consolidated Statements and other Financial Information Dividend Information.

Relationship with the Telefónica Group: As part of the Telefónica Group, we benefit from our ongoing relationship with other Telefónica Group companies in technological, operational and content related areas. We also have access to Telefónica Group personnel and other shared resources, including

Table of Contents

financing and administrative services, and, more generally, are able to draw upon the experience and resources of those Group companies engaged in complementary businesses.

Business Strategy

The key elements of our strategy consist of the following:

Maintain our market leadership position in Spain: As the Spanish market continues to mature with increased penetration rates, our focus has shifted in Spain to selective customer acquisition, customer retention and enhancing value from existing customers, setting the bases for future traffic growth and the roll-out of new services, where economies of scale are generated. We seek to maintain our market position in Spain through enhanced customer services, technological innovation, modernization of the handset base through loyalty programs and the development and marketing of value-added services, such as multimedia messaging services, or MMS, *e-moción*, i-mode, GPRS and a range of new corporate services.

Consolidate our leadership position in Latin America: We seek to consolidate our leadership position in the growing Latin American market through our:

Ø extensive presence in the region, including our Brasilcel joint venture with Portugal Telecom in Brazil, the recent acquisition by Brasilcel of Tele Centro Oeste Celular, or TCO, which would enable us to strengthen our leadership position in Brazil, and the roll-out of a national GSM network in Mexico;

Ø well-established brands and newly launched nationwide brands such as Vivo in Brazil; and

Ø extensive managerial and operational experience.

We believe that we will benefit from synergies which should arise from operating as a unified group across Latin America.

Introduce new services to increase the usage of wireless services: As voice and data communications continue to converge, we will continue to focus on the development of new data services for mobile phones. We aim to consolidate our position in the new market of data services by means of the continuous launching of new services and applications, such as MMS, location-based services, corporate services, as well as the development of *e-moción* in the markets where we operate.

Optimize capital expenditures and increase operating efficiency: Our economies of scale, as well as our capacity to adapt our capital expenditures to revenue generation, allows us to better optimize our capital expenditure. In addition, the promotion of our best practices among our operating companies will allow us to operate more efficiently, optimize investments and improve the time to market of our services.

Analyze new projects: We intend to evaluate the possibility of making selective acquisitions and forming selected strategic partnerships in order to improve our competitive position. For example, in April 2003 we entered into an agreement with T-Mobile International and TIM to set up an strategic alliance to provide our customers with a unified and superior offering of products and services thereby strengthening the operators ability to compete in all the markets where they have a presence. The alliance will be open to the possible incorporation of other wireless operators interested in contributing to the enhancement of the different areas of collaboration. Recently, Orange has also announced its plan to join the alliance. This alliance aims to obtain benefits for its members current and future clients, while also offering operators:

- Increased revenues from the joint development of offers for travelers (attractive offers in roaming and virtual home environment); and

Table of Contents

- Ø Cost reductions through the standardization of products and services, which will allow economies of scale savings that can be passed on to clients.

Services and Products

Our operating companies offer a wide variety of wireless and related services and products to consumer and business customers. We believe that we have historically been leaders in the introduction of new products in our principal markets, and we plan to continue expanding our offerings as new services and products become commercially feasible. Although the products available vary from country to country, the following are our principal services and products:

Wireless Voice Services. Our principal service in all of our markets is wireless voice telephony and most of our other services and products involve enhancements and additional features for our wireless customers. We offer convenient and affordable wireless service with a variety of payment plans and packages, including payment on a contract and pre-paid basis. Our networks are designed and managed to provide high quality wireless voice services throughout our markets.

Enhanced Calling Features. Customers in most of our markets now have access to a range of enhanced calling features including voice mail, call hold, call waiting, call forwarding and three-way calling. Customers may receive a number of these services bundled with basic voice service, while other customers may choose to order them as optional supplements to their basic voice service.

Wireless Data Transmission. Our networks and systems allow customers to use their handsets for data transmission, including for short messaging services, or SMS. In Spain, we also offer MMS, which allows customers to send messages with images, photographs and sounds. Customers may also receive selected information, such as news, sports scores and stock quotes. We also provide wireless connectivity for devices such as laptops and personal digital assistants. These offerings are at different stages of development in each of our markets.

Wireless Internet. As part of our strategy to become a leader in the wireless internet sector, we offer internet access using wireless application protocol technology in a growing number of our service areas, primarily under the *MoviStar e-moción* brand. *MoviStar e-moción* was the first wireless internet access service in Spanish and, in Brazil, the first wireless internet access service in Portuguese. Through wireless internet access, our customers are able to send and receive e-mail, browse web pages, purchase goods and services in m-commerce transactions and use our other data services. We launched GPRS services in Spain for customers in 2001, and in Brazil we launched CDMA 1XRTT services in the States of Rio de Janeiro, San Paulo and recently in Santa Catarina.

Corporate Services. We provide business solutions, including wireless infrastructure in offices, private networking and portals for corporate customers that provide flexible on-line billing. Telefónica Móviles España offers corporate services through *MoviStar Corporativo 2000*, and other advanced solutions for data, developed for specific sectors.

Trunking and Paging. In Spain, Argentina and Guatemala, we provide digital wireless services for closed-user groups of clients and paging services.

Roaming. We have roaming agreements that allow our customers to use their handsets when they are outside of their service territories, including on an international basis. In 2002, we extended international roaming services to pre-paid customers. We have also implemented intelligent network technology using the CAMEL standard for our customers in Spain. This allows our customers to use their mobiles in European countries where a roaming agreement has been reached as if they were in their home country, for example, by not having to dial customary roaming prefixes. In Brazil, Mexico and Argentina, our roaming agreements allow our customers to make and receive calls throughout the national territories of these countries.

M-payment. On May 30, 2001, we, Banco Bilbao Vizcaya Argentaria, Banco Santander Central Hispano and Vodafone agreed to integrate our respective mobile payment systems to form a single

Table of Contents

mobile payment standard. The new payment system is an open system, which other financial institutions, wireless operators (such as Amena) and payment processing companies in Spain have joined. This system is being developed in Spain through Mobipay España, S.A. and outside of Spain through Mobipay International, S.A. In addition, on February 26, 2003 we announced our participation in the new MPSA association (Mobile Payment Services Association). The association, which is composed of Vodafone, Orange, T-Mobile and us will operate under the brand name Simpay, and aims to provide a common trademark open solution for m-payments. For further information see Wireless Internet and Data Initiatives M-Payment.

Other Services. We also have the technology available to provide other value added wireless services such as location-based services and telematics. Location-based services permit the precise location of the handset to be determined by our networks, which will permit users to receive and access information specific to such location. We believe that this technology will be widely used in fleet management, logistics and security monitoring. Telematics applications permit the delivery of data to machines, such as automobiles and vending machines.

Our Operations

Our operations currently are conducted in three distinct geographic areas:

Spain

Morocco

Latin America

We have identified these geographic regions as being strategic to our company due to historical, cultural, economic and geographic considerations. We have operations in Spain, Mexico, Peru, El Salvador, Guatemala, Argentina and Peru, and through our joint ventures with Portugal Telecom, we also provide wireless communication services in Brazil and Morocco. In addition, we manage for Telefónica S.A., our parent, their wireless operations in Chile and Puerto Rico. As at December 31, 2002, we provided wireless services to approximately 39.4 million active customers and our licenses and concessions covered markets with over 353 million people. Of this total population, approximately 11% is in Spain, approximately 81% is in Latin America and approximately 8% is in Morocco. We also have licenses to provide UMTS services in Austria and Switzerland through our wholly-owned subsidiaries, in Germany through our 57.2% interest in Group 3G and in Italy through our 45.6% interest in the IPSE 2000 consortium. We have, however, restructured our operations in Austria, Switzerland, Germany and Italy. For further information see Business Overview Rest of Europe.

Spain

We offer wireless services in Spain through Telefónica Móviles España, the leading wireless operator in Spain with approximately 18.4 million active customers at December 31, 2002, representing an estimated 55% market share, based on publicly available information. Telefónica Móviles España is a wholly-owned subsidiary and is our most significant operating company, accounting for 74% of our combined net revenues from operations for 2002.

The following table presents, at the dates and for the periods indicated, selected statistical data relating to our operations in Spain:

	Year ended December 31,		
	2000	2001	2002
Net revenue from operations (euro in millions)	4,796	5,736	6,770
Total customers (in millions at period end)	13.7	16.8	18.4
Pre-paid customers (in millions at period end)	8.9	11.5	11.9
Population in service territory (in millions at period end)	40	40	40

Table of Contents

The Telefónica Group has offered wireless services in Spain since 1982 with the launch of analog wireless services under the brand MoviLine. Digital wireless services, using GSM 900 MHz technology, were launched in 1995 under the MoviStar brand name, which has since become one of the most widely recognized brands in Spain. In 1997 Telefónica Móviles España launched the first pre-paid wireless service in Spain under the MoviStar Activa brand name, and in January 1999 Telefónica Móviles España launched the GSM 1800 MHz service. In March 2000, having achieved the highest rating in the award process, Telefónica Móviles España was awarded a third generation wireless, or UMTS, license covering the Spanish national territory for 131 million.

Market. With a population of over 40 million people, Spain is the fifth largest wireless market in Western Europe with approximately 33.5 million wireless customers at December 31, 2002. This customer base represents a penetration rate of 80%. According to our estimates, this is lower than the penetration rates of other European markets, such as Italy, for example, which has Europe s highest penetration rate at 92%. The Spanish market grew 13% in 2002.

The Spanish wireless market has shown increasing growth as a result of a decline of wireless handset prices and per minute call rates, and the introduction of pre-paid tariffs. Accordingly, wireless service has increasingly become perceived as necessary and affordable by a broader segment of the population. At December 31, 2002, Telefónica Móviles España had approximately 18.4 million active customers, which includes approximately 1.6 million active customers added during 2002, a 10% increase of its total customer base compared to 2001. Of Telefónica Móviles España s total customer base, 35% are contract customers and 65% are pre-paid.

Network and Technology. Telefónica Móviles España s licenses and concessions in Spain permit it to operate both analog and digital networks. Telefónica Móviles España also holds one of four nationwide licenses for UMTS services in the country.

Telefónica Móviles España s digital network in Spain is based upon the GSM standard, which has been adopted by more than 130 countries worldwide, including all member countries of the European Union. The prevalence of the GSM standard, together with Telefónica Móviles España s international roaming agreements, enables its *MoviStar* customers to make and receive calls throughout Western Europe and in more than 170 countries worldwide. Telefónica Móviles España s GSM-based network provides its customers with access to many of the most advanced wireless handsets and a full panoply of services and products.

Telefónica Móviles España s licenses entitle it to 40 MHz of spectrum in the 900 MHz band and 2x24.8 MHz of spectrum in the DCS 1800 MHz band. Under the terms of its UMTS license, Telefónica Móviles España is authorized to operate using two paired, or two-way, 15 MHz channels plus one unpaired, or one-way, 5 MHz channel. Telefónica Móviles España believes that this spectrum is adequate for its requirements.

In 2000, 2001 and 2002, Telefónica Móviles España invested in the aggregate approximately 2,194 million in building out and enhancing its networks in Spain. At December 31, 2002, Telefónica Móviles España s digital network in Spain, which consisted of more than 115 switching centers and more than 14,200 base stations, provided coverage to approximately 99% of the population. The amounts invested in 2001 and 2002 have been used to enhance the quality of its coverage of high-density areas, to permit more intensive use of its wireless services within buildings in an urban environment, further enhancing the appeal of wireless communications and to introduce new technologies.

Telefónica Móviles España continually updates its technology by enhancing its platforms and incorporating features, such as wireless application protocol, which provide enhanced access to wireless internet and our wireless internet access service, *MoviStar e-moción*, which provides access to more content than any other service provider in Spain, with links to more than 210 content providers. In addition, the *MoviStar e-moción* brand is recognized to include a wide variety of services accessible through multiple channels, including voice, WAP and GPRS, appealing to a cross-section of our customer base. The Spanish wireless

market has also been receptive to new wireless services, such as SMS and wireless internet. In 2001, Telefónica Móviles España launched GPRS which increases the speed and efficiencies of existing GSM networks, allowing for the introduction of new services. In 2002, Telefónica Móviles España launched MMS which allows customers to send and receive messages combining color photographs and images with voice, sound, animations or text. The introduction of MMS in Spain will bring customers closer to the potential of third generation, or 3G services, while still utilizing existing technology such as GPRS. With the roll-out of MMS, Telefónica Móviles España continues to demonstrate its commitment to be a leader in the roll-out of innovative technology in Spain. Accordingly, Telefónica Móviles España has also rolled out its UMTS network in 21 cities in Spain, complying with its obligations under its UMTS license. See Regulation Spain Licenses and Concessions. In addition, as part of its continued emphasis on data services as an important part of its revenue growth, Telefónica Móviles España was the first operator outside the Japanese market to introduce services based on Java 2me technology, which allows customers to easily download and execute applications on their mobile handsets.

Telefónica Móviles España also offers analog service on the ETACS 900, or extended total access communications system, in Spain. Telefónica Móviles España s analog network has 20 switching centers and close to 3,000 base stations. We do not anticipate making capital expenditures on its analog network in the future.

In general, Telefónica Móviles España s strategy is to use a variety of suppliers based on the quality and rates of their services and products. In Spain, Ericsson, Motorola and Nokia supply the majority of Telefónica Móviles España s GSM and GPRS network and Nortel and Ericsson supplied the majority of the infrastructures for the first phase of the roll-out of its UMTS Network. Telefónica Móviles España cooperates with the research and development departments of various handset manufacturers to ensure the development and success of GPRS and UMTS-ready handsets with capacity to transmit data at high speeds. Telefónica Móviles España engages in its own research and development to ensure compatibility between its services and products and the latest handset models as well as to develop new services.

Sales and Marketing. Since Telefónica Móviles España began providing wireless services in Spain, its sales and marketing strategy has been to generate increased brand awareness, customer growth and increased revenues. As the Spanish market continues to mature, Telefónica Móviles España s focus has been shifting from customer acquisition to management of its customer relationships and continuation of profitable growth through customer loyalty and new products and services.

Telefónica Móviles España utilizes all types of marketing channels, including television, radio, exterior signage, telemarketing, direct mail and internet advertising. Telefónica Móviles España also sponsors a leading motorcycle grand prix racing team and cultural and sporting events in order to increase its brand recognition. Its advertising emphasizes its image as the market leader and characteristics such as quality, convenience and reliability, with specific campaigns based on price or new product offerings. For example, campaigns for its pre-paid service, *MoviStar Activa*, emphasize the simplicity and mobility of the pre-paid service with a focus on the younger segment of the market. For its contract customers, Telefónica Móviles España markets *MoviStar Plus*, which emphasizes exclusivity and value with specific offers of new services, and a loyalty program based on points earned.

The positive evolution of the customer base of Telefónica Móviles España reflects its success in containing churn rates, a specially relevant factor in a mature market with high penetration rates where maintaining and managing efficiently the customer base is key.

For purposes of sales and distribution, Telefónica Móviles España divides the Spanish market into the consumer market and business market. At December 31, 2002, Telefónica Móviles España had more than 11,000 points of sale for the consumer market, which includes stores that sell its products exclusively as well as stores that sell a variety of merchandise. In addition, Telefónica Móviles España uses approximately 100 points of sale that are owned by the Telefónica Group.

29

Table of Contents

Telefónica Móviles España provides e-business services designed for its large corporate customers including a portal with billing facilities that provides on-line billing customization to customers and distributors through the Hermes system, which provides up-to-date information on news, products and services catalogs, events and promotions.

In the wireless business sector, Telefónica Móviles España uses its distributors to market to small and medium sized enterprises and uses its own corporate sales force to target large business customers. Telefónica Móviles España offers a variety of plans, ranging from volume discounts to specifically tailored service contracts.

Telefónica Móviles España offers several different pricing options for wireless services.

Telefónica Móviles España launched its first pre-paid plan, *MoviStarActiva Clásica*, which consisted of a pre-paid card for digital customers, in February 1997. Subsequently, it added new *MoviStar* pre-paid card plans under the *MoviStar Activa Joven*, *MoviStar Activa 4*, *MoviStar Activa Próxima*, and *MoviStar Activa Plus* brands names. These plans offer a range of options capable of meeting the requirements of all types of customers. Currently, subscribers have the option to switch plans in the *MoviStar Activa* line by making a call on their wireless handset to its automated system that immediately changes the customer s payment rate option, making it easier for the customer to choose the card plan that is most convenient at any given time. Telefónica Móviles España also offers recharging of its pre-paid cards automatically at a predetermined time or when the amount remaining on the card reaches a predetermined level. Although pre-paid accounts can be anonymous, to better tailor its services to the needs and profile of its customers and improve customer loyalty, Telefónica Móviles España provides free airtime in exchange for personal information from users.

In an effort to further increase customer loyalty and usage, Telefónica Móviles España is encouraging customer migration from its pre-paid plans to its contract plans by amending the terms of its contract plans. As of March 2002, the contract plans of Telefónica Móviles España no longer contain a monthly fee, instead they require a minimum usage commitment. This change has been, in part, responsible for the increase of 3.6 percentage points in its contract customer mix in 2002 compared to 2001 and has also encouraged increased spending from its contract customers. In 2002, migrations from pre-paid to contract plans have increased by 70% relative to the previous year, to 711,433 customers.

The competitive contract tariffs of Telefónica Móviles España along with its efforts to encourage migration to its contract plans have led to improvement in the usage and spending pattern of its customers for the year ended 2002. Minutes of usage, or MOU, per contract customers in Spain increased by 5% in 2002 compared to 2001. Total traffic also increased to 31,800 million minutes, a 19% increase compared to 2001. In addition, data and content services are becoming an increasingly important method by which wireless customers in Spain communicate. In 2002, over 8,400 million SMS crossed over the network of Telefónica Móviles España, a 35% increase when compared to 2001, with an average of approximately 34 SMS per customer per month. Moreover, approximately 36% of SMS using the Telefónica Móviles España network involved the access of a content service.

Customer Care. One of Telefónica Móviles España s principal business objectives is to strengthen its relationship with its customers. As the Spanish market for wireless services continues to mature, Telefónica Móviles España believes that it must enhance customer loyalty in order to maintain its customer base and to increase revenues. For this reason, its focus has been shifting from customer acquisition to quality of service and customer care.

Accordingly, Telefónica Móviles España has implemented various loyalty programs for both its contract and pre-paid customers. The *MoviStar Plus* program, for example, offers contract customers the ability to exchange points earned based on monthly usage for new handsets. The *Estrena Plan* allows pre-paid customers to upgrade their handsets and benefit from special offers. In 2002, there were over 2.4 million transactions, including handset upgrades and traffic promotions, based on loyalty programs at Telefónica Móviles España.

Table of Contents

At December 31, 2002, Telefónica Móviles España maintained 11 customer relations centers with real time access to its information systems. These call centers handled approximately 75 million calls in 2002. To control costs, most of the personnel employed at its call centers at December 31, 2002 are outsourced employees, principally from Atento.

In addition, Telefónica Móviles España has launched client attention services. The monthly invoices for the corporate customers can be personalized according to their needs. Pre-pay customers can view a detailed breakdown of their calls on the Telefónica Móviles España website, and the balance remaining on their pre-pay cards.

Customer churn represents the number of customers who disconnect from Telefónica Móviles España s network. Telefónica Móviles España estimates that its average monthly customer churn rate was 1.1% for 2001 and 1.08% for 2002. Telefónica Móviles España believes that it applies conservative policies in calculating customers and the related customer churn rates. Telefónica Móviles España includes in involuntary churn any contract customer who has failed to pay his or her outstanding balance for two months and who, after having received notice of nonpayment, fails to pay the outstanding balance. Telefónica Móviles España also includes pre-paid customers in Spain who has not recharged their card after one month with no balance, even if they receive incoming calls. These policies may result in higher churn rates and lower market share figures than if Telefónica Móviles España had used criteria employed by some other operators in calculating their churn rates. For information concerning the methodology used by us in calculating customer churn rates, see Item 5.A Operating Results Customer Churn.

Competition. Telefónica Móviles España currently has two competitors in the Spanish market for wireless communications service: Vodafone España, a subsidiary of Vodafone PLC, and Retevisión Móvil S.A., which operates under the trade name *Amena*. Although Telefónica Móviles España anticipates that its market share will continue to decline as its competitors pursue new customers, Telefónica Móviles España believes that, to date, it has been successful in preserving and expanding its advantage in terms of absolute numbers of customers and quality of average customer in terms of minutes of usage. Telefónica Móviles España is the only operator in Spain whose estimated outgoing traffic market share is higher than its customer market share.

In early 2000, the Spanish government awarded four third generation wireless, or UMTS, licenses, which cover the entire country of Spain. We were awarded one of these licenses, while the others were awarded to Retevisión Móvil, Vodafone and the Xfera consortium.

Morocco

We provide wireless services in Morocco through Medi Telecom, S.A., in which we hold a 31.34% interest and share management responsibilities with Portugal Telecom, which holds a 31.34% interest in Medi Telecom as well. Medi Telecom is also owned by local minority shareholders. Medi Telecom S.A. is the second largest wireless operator in Morocco with approximately 1.6 million customers at December 31, 2002, representing approximately 41% of the market according to our estimates. Medi Telecom commenced offering wireless services in Morocco in March 2000, eight months after it was awarded a GSM license covering the Moroccan national territory.

We have entered into a shareholders agreement with other shareholders of Medi Telecom under which we have the right to appoint the chief executive officer of Medi Telecom. In addition, the shareholders were prohibited from transferring their shares until April 2003, and after that date the sale or transfer of shares in Medi Telecom triggers a right of first refusal with a priority for us and Portugal Telecom. The shareholders agreement also requires specified majority votes to approve most corporate actions.

The following table presents, at the dates and for the periods indicated, selected statistical data relating to Medi Telecom:

31

Table of Contents

	Year ended December 31,		
	2000	**2001**	**2002**
Net revenues from operations (euro in millions)	83.8	188	230
Total wireless customers (in millions at period end)	.51	1.1	1.6
Pre-paid customers (in millions at period end)	.49	1.0	1.5
Population in service territory (in millions at period end)	29	29	30

Market. With a population of approximately 30 million people, approximately 36% of which are under age 25, Morocco is an attractive wireless market with a high potential for growth. Morocco had 3.9 million wireless customers at December 31, 2002 representing a penetration rate of 13%. Medi Telecom estimates that the Moroccan market grew 33% in 2002 when compared to 2001.

Network and Technology. Medi Telecom s network in Morocco is based upon the GSM standard. Its licenses entitle it to 50 MHz spectrum in the 900 MHz band. In 2000, 2001 and 2002, Medi Telecom invested a total of approximately 530 million in building out and enhancing its digital network in Morocco. At December 31, 2002, Medi Telecom s digital network in Morocco consisted of nine switching centers and 1,428 base stations giving coverage to over 86% of the population. Medi Telecom plans to make new investments to increase the coverage of its network. Medi Telecom has been offering wireless internet since April 2001.

Sales and Marketing. Medi Telecom s sales and marketing strategy has been to generate rapid customer growth. At December 31, 2002, approximately 93% of Medi Telecom s customers used pre-paid plans with the remainder using contract service. Medi Telecom plans to target business customers and the more affluent segments of the consumer market in the short-term. Medi Telecom also intends to expand the range of services offered to its customers.

Customer Care. Medi Telecom believes that an emphasis on its customer service will enable it to distinguish itself from its competitor in Morocco. Medi Telecom maintains customer relations call centers with real time access to its information systems. The call centers in Morocco handled approximately 7.1 million calls in 2002. To control costs, most of the personnel employed at its call centers at December 31, 2002 are outsourced employees, principally from Atento.

We estimate that Medi Telecom s average monthly churn rate was 1.79% in 2002 and 2.8% in 2001. We believe that we apply conservative policies in calculating customers both in and outside Spain and the related customer churn rates. These policies may result in higher churn rates and lower market share figures than if we had used criteria employed by some other operators in calculating their churn rates. For information concerning the methodology used by us in calculating customer churn rates, see Item 5.A Operating Results Customer Churn.

Competition. Medi Telecom currently competes with Maroc Telecom, the former state monopoly provider of all telecommunications services in Morocco.

Latin America

Latin America is an attractive telecommunications market with a population of approximately 499 million people and a combined gross domestic product of approximately 1.8 trillion in 2002. Since the introduction of wireless services in Latin America in the late 1980s, they have experienced significant growth. The average penetration rate in Latin America as a whole was 19.5% at year-end 2002. The wireless services industry is focusing on increasing the use of voice service, wireless internet services and wireless data transmission services, through the introduction of 2.5G technologies such as GSM/GPRS and CDMA/CDMA 1xRTT.

The Latin American wireless communications market has been shaped by several underlying trends that are likely to cause growth in this market to continue, including the following:

Market liberalization. Deregulation of the Latin American telecommunications markets, which has allowed for the entry of new competitors and the granting of new licenses, has resulted in increased competition for substantially all telecommunications services and products. The six largest telecommunications markets in Latin America are parties to the World Trade Organization Agreement on Basic Telecommunications Services, which proposes the liberalization of telecommunications markets. Competition in these markets has increased the availability of advanced wireless services and reduced prices, which has resulted, in turn, in increased demand for these services.

Expanding penetration and usage. The number of wireless customers and wireless penetration levels have steadily increased in Latin America, but remain low compared with penetration rates in Western Europe. As the cost of wireless services and handsets has declined, these services have become more affordable for a significantly larger percentage of the Latin American population, and both overall minutes of use and revenues have increased. Greater penetration and wireless traffic means that wireless operators can apportion their fixed costs among a greater number of customers, resulting in lower costs per unit which, in turn, has resulted in a larger percentage of the population being able to afford wireless services, thereby increasing demand and revenues.

Calling party pays billing system. Following the European experience and as opposed to U.S. practice, regulators in most Latin American countries have introduced a mandatory calling party pays system, under which the person who initiates a call is billed for that call. In Latin America, this system has resulted in increased wireless usage.

Brazil

We, along with Portugal Telecom, are 50:50 shareholders in Brasilcel, N.V., a joint venture which combines our wireless businesses in Brazil with those of Portugal Telecom. This joint venture is the leading wireless operator in Brazil based on the total number of customers at December 31, 2002 with a total of 13.7 million customers, of which 3.7 million are contract customers. Brasilcel has an estimated average share in its markets of operations of approximately 61%. All of the operating companies participating in the joint venture have been operating under the brand name Vivo since April 2003. The licensed areas of Brasilcel include five of the six largest regions in Brazil in terms of gross domestic product with a population of approximately 97 million, and covering more than 70% of Brazil s gross domestic product.

Brazil is one of the largest countries in the world, with a surface area of 8.5 square million kilometers and a population of approximately 175 million people. At December 31, 2002, with 34.6 million wireless subscribers, Brazil ranked first in Latin America in terms of number of wireless customers. At December 31, 2002, Brazil had an estimated market penetration rate of 19.8% and experienced a 21.3% increase in the number of wireless customers in 2002.

Acquisition of Interests in Brazil.

Agreement with Iberdrola. On April 5, 2001, Telefónica, S.A. entered into an agreement with Iberdrola, S.A. and certain of its affiliates pursuant to which Telefónica, S.A. acquired in December 2001 and March 2002 in exchange for shares of Telefónica, S.A., the Iberdrola group s shares in the Brazilian wireless operators, or the holding companies that control such wireless operators, in which Telefónica, S.A. and Iberdrola each participate. In accordance with this agreement, Telefónica, S.A. acquired:

7% of TBS Celular Participações S.A., the holding company that controls Celular CRT;

7% of SudesteCel Participações S.A., the holding company that controls Tele Sudeste Celular Participações S.A., as well as an additional interest in Tele Sudeste Celular Participações S.A.;

62% of Iberoleste Participações S.A., the holding company that controls Tele Leste Celular Participações S.A., as well as an additional direct interest of 3.38% of Tele Leste Celular Participações S.A.; and

Table of Contents

0.63% of Celular CRT Participações S.A., the holding company that controls 100% of Celular CRT, S.A.

In May 2002, Telefónica, S.A. transferred all these shares to us, except those of Celular CRT Participações S.A, in exchange for a total of 26,801,494 new Telefónica Móviles ordinary shares. Subsequently, on October 17, 2002, Telefónica, S.A. transferred to us its 0.63% holding in Celular CRT Participações, S.A. for a cash consideration of 11.5 million, bringing our direct and indirect investment in Celular CRT Participações, S.A. to 40.90%.

Joint Venture with Portugal Telecom. On January 23, 2001, we, Telefónica, S.A., Portugal Telecom and its subsidiary PT Moveis agreed to create a joint venture to consolidate our wireless businesses in Brazil with those of Portugal Telecom. Under this joint venture framework agreement, each of the Telefónica Group and the Portugal Telecom Group agreed to contribute to a 50:50 joint venture their respective wireless businesses in Brazil, including interests in operating companies and holding companies that own cellular or wireless licenses in Brazil.

On October 17, 2002, we, Portugal Telecom and PT Moveis entered into a Shareholders Agreement and Subscription Agreement that implemented the joint venture framework agreement signed in January 2001. See Item 10.C Material Contracts Agreement with Portugal Telecom. Additionally, on October 21, 2002 we acquired from Portugal Telecom for approximately 200 million a 14.68% holding in Telesp Celular Participações, S.A., a company that provides wireless services in the Brazilian state of São Paolo through Telesp Celular S.A. and in the Brazilian states of Paraná and Santa Catarina through Global Telecom S.A.

Following the agreements entered into with the Portugal Telecom Group on October 17, 2002 and after having obtained the necessary authorization from the Brazilian authorities for the contribution, on December 27, 2002, we and PT Moveis contributed to Brasilcel, N.V. all the shares held directly or indirectly by the two groups in their wireless communications companies in Brazil, as set out below:

		% Contributed		Ownership Interest of Brasilcel N.V. at December 31, 2002		
Company	**State**	**Telefónica Móviles**	**PT Moveis**	**Total Equity**	**Voting equity**	**Total customers at December 31, 2002**
						(millions)
Tele Sudeste Celular Participações S.A	Rio de Janeiro and Espírito Santo	83.56%		83.56%	80.50%	3.5
Celular CRT Participações S.A	Rio Grande do Sul	40.90%	7.58%	48.48%	86.94%	2.1
Tele Leste Celular Participações S.A	Bahia and Sergipe	27.71%		27.71%	58.42%	1.0
Telesp Celular Participações S.A	São Paulo Paraná and Santa Catarina	14.68%	50.44%	65.12%	93.66%	7.2

Given the effective transfer date of the operations contributed to Brasilcel by us and Portugal Telecom, Brasilcel s impact on our consolidated income was not significant and thus it was not consolidated in our 2002 income statement. For further information on the presentation of financial information on the Brasilcel joint venture please see Item 5.A Operating Results Presentation of Financial Information, and note 2 to our combined financial statements.

Acquisition of TCO. On January 16, 2003 Telesp Celular Participaçoes, S.A., or TCP, a subsidiary of Brasilcel, N.V., entered into a Preliminary Stock Purchase Agreement with the Brazilian Company Fixcel to acquire up to 61.10% of the ordinary shares of Tele Centro Oeste Participaçoes, S.A., or TCO, which represents 20.37% of the total capital of TCO. On April 25, 2003, TCP finalized the acquisition. The purchase price was approximately *reais* 1.5 billion (approximately *reais* 19.49 per each lot of 1,000 shares acquired). As of the date of this annual report, TCP has paid *reais* 284.7 million of the total amount and the remaining will be paid in future installments. Please see Item 5.B Liquidity and Capital Resources Contractual Obligations and Commercial Commitments Off-balance commitments.

Table of Contents

On May 25, 2003, in compliance with Brazilian legislation, TCP made a request to launch a tender offer, which currently is being reviewed by the Comissão de Valores Mobiliários, or CVM, the Brazilian Securities and Exchange Commission, for the voting shares of the minority shareholders of TCO for a price equal to 80% of the price paid to the controlling shareholders. The minority shareholders that tender their shares will be compensated pro rata, in the same manner as the controlling shareholders. After the acquisition and the tender offer, TCP expects to incorporate TCO s shares and ADSs into TCP and de-list TCO s shares.

TCO operates in regions 7 and 8 of the SMC through the operators in Band A (TCO) and Band B (NBT) respectively. In total TCO operates in 12 Brazilian states, the most significant of which being the Distrito Federal of Brazilia (see Regulation Brazil). At March 31, 2003, TCO had approximately 3.066 million customers according to data published by TCO. With this acquisition, we estimate that Brasilcel will provide services to approximately 16.8 million customers, or more than 50% of the Brazilian market, and its network will cover 74% of the Brazilian population.

Operations provided by Telefónica Móviles prior to the Consummation of the Joint Venture

Before the consummation of the Brasilcel joint venture on December 27, 2002, we provided wireless services in the Brazilian states of:

- Rio de Janeiro and Espírito Santo through Tele Sudeste Celular;
- Bahia and Sergipe through Tele Leste Celular; and
- Rio Grande do Sul through Celular CRT.

Rio de Janeiro/Espírito Santo Tele Sudeste Celular Participações S.A.

Tele Sudeste, which has been operating under the brand name Vivo since April 2003, is, according to our estimates, the leading wireless operator in the Rio de Janeiro/Espírito Santo region of Brazil with approximately 3.5 million customers at December 31, 2002, representing 58% of the market. At December 31, 2002 Brasilcel had a 83.56% equity interest in Tele Sudeste Celular and 80.50% of the voting rights. Tele Sudeste Celular accounted for approximately 7% of our combined net revenues from operations.

The remaining ownership interest in Tele Sudeste Celular is held, indirectly, by Itochu Corporation and NTT DoCoMo, Inc., as well as other minority shareholders. Brasilcel holds its ownership interest in Tele Sudeste directly, as well as through Sudestecel, a consortium that it controls, and through Tagilo Participações, S.A., one of its wholly-owned subsidiaries. We are subject to a shareholders agreement with Itochu Corporation and NTT DoCoMo.

Tele Sudeste s operations in the region are conducted through its two operating subsidiaries, Telerj Celular S.A. and Telest Celular S.A. We manage Tele Sudeste Celular s two operating subsidiaries in exchange for an annual fee of 1% of their net revenues excluding handset sales.

The following table presents, at the dates and for the years and period indicated, selected statistical data relating to our operations in Rio de Janeiro/Espírito Santo:

	Year ended December 31,		
	2000	2001	2002
Net revenues from operations (euro in millions)	911	813	673
Total customers (in millions at period end)	2.5	3.0	3.5
Pre-paid customers (in millions at period end)	1.5	2.0	2.4
Population in service territory (in millions at period end)	17	18	18

Table of Contents

Market. With a population of approximately 18 million people, Rio de Janeiro/Espírito Santo is the second largest wireless market in Brazil in terms of customers with 6 million customers at December 31, 2002. This customer base represents a penetration rate of 32.7%. The wireless market in Rio de Janeiro/Espírito Santo grew 21% in 2002.

Network and Technology. Tele Sudeste s licenses in Rio de Janeiro/Espírito Santo permit it to operate both an analog network and a digital network, which is based upon the CDMA standard. Tele Sudeste s roaming agreements with other networks in Brazil and abroad enable its customers to make and receive calls throughout Brazil and in over 100 countries worldwide.

Tele Sudeste s licenses entitle it to 25 MHz of spectrum in the 800 MHz band. Tele Sudeste believes that this spectrum is adequate for its requirements.

Tele Sudeste invested a total of approximately 573 million in building out and enhancing its network in Rio de Janeiro/Espírito Santo in 2000, 2001 and 2002. At December 31, 2002, its network in Rio de Janeiro/Espírito Santo consisted of 12 digital switching centers, 1,245 digital radio base stations, two dual capacity switching centers, six analog switching centers and approximately 599 analog base stations, giving coverage to over 87% of the population. Tele Sudeste s network platforms were enhanced to enable it to offer wireless internet, under the *MoviStar e-moción* brand, starting in July 2000. As part of Brasilcel s marketing effort, all wireless internet services in Brazil have been rebranded Vivo Wap. In April 2002, Tele Sudeste began rolling out its 2.5G network, based on CDMA 1xRTT technology. Tele Sudeste does not anticipate making significant capital expenditures on its analog network in the future.

In general, Tele Sudeste s strategy is to use a variety of suppliers based on the quality and rates for their services and products. In 1998 and 1999, NEC do Brasil, S.A. and Lucent Technologies Network Systems do Brasil, Ltda. constructed the majority of Tele Sudeste s currently existing digital network. The 2.5G network, based on CDMA 1xRTT technology, is being constructed by Lucent and Nortel. Tele Sudeste s network is maintained by its employees and sub-contracted third parties. Tele Sudeste s principal handset suppliers in Brazil are Samsung, LG Motorola and Nokia.

Sales and Marketing. Tele Sudeste uses a broad range of marketing channels, including television, radio, exterior signage, telemarketing, direct mail and internet advertising. The introduction of joint initiatives undertaken by all Brasilcel companies, like the launching of a unified brand, Vivo, since April 2003, have helped Tele Sudeste consolidate its leadership position in the Rio de Janeiro/Espírito Santo region. In addition, a new marketing campaign was launched in 2002 across all Brasilcel companies, including Tele Sudeste, under the name A Coisa targeting the younger segment of the market and promoting the use of voice, SMS and WAP.

For purposes of sales and distribution, Tele Sudeste has divided the Rio de Janeiro/Espírito Santo market functionally between the consumer and business markets. For the consumer market, it uses 609 third-party points of sale and 43 proprietary points of sale. In addition, it has 11,520 pre-paid card points of sale in the Rio de Janeiro/Espírito Santo region. Pre-paid card points of sales almost doubled compared to 2001 due to the use of newspaper kiosks as new points of sales. In the business sector, it uses its distributors to market to small and medium-sized enterprises and has a corporate sales force to target large business customers.

Tele Sudeste offers a variety of plans, ranging from volume discounts for small businesses to specifically tailored pricing and services for large business customers. At December 31, 2002, 31.5% of its customers were contract customers, while 68.6% were pre-paid customers.

Customer Care. Tele Sudeste s call centers handled an average of approximately 65,000 calls per business day in 2002. To control costs, all of the personnel employed at its call centers at December 31, 2002 are outsourced employees, principally from Atento.

Table of Contents

We estimate that our average accumulated monthly churn rate for Tele Sudeste Celular was 1.5% for 2002 and 2001. We believe that we apply conservative policies in calculating customers both in and outside Spain and the related customer churn rates. These policies may result in higher churn rates and lower market share figures than if we had used criteria employed by some other operators in calculating their churn rates. For information concerning the methodology used by us in calculating customer churn rates, see Item 5.A Operating Results Customer Churn.

Competition. Competition has increased in the Rio de Janeiro/Espírito Santo region with the provision of new licenses. Tele Sudeste currently has three competitors in the Rio de Janeiro/Espírito Santo market for wireless communications services: Algar Telecom Leste S.A., or ATL, which is controlled by Telecom Americas Ltd; TNL PCS S.A., or Oi, which is controlled by Telemar; and Portale Rio Norte S.A., or TIM, which is controlled by TIM. ATL began operations in December 1998 using the TDMA D-AMPS digital standard. Oi began operations in June 2002 using GSM/GPRS technology. Tim began operations in September 2002 also using GSM/GPRS standards.

Rio Grande do Sul Celular CRT Participações S.A.

Celular CRT, which has been operating under the brand name Vivo since April 2003, is, according to our estimates, the leading wireless operator in the Rio Grande do Sul region of Brazil with approximately 2.1 million customers at December 31, 2002, representing approximately 65% of the market. At December 31, 2002 Brasilcel had a 48.48% equity interest in Celular CRT and 86.94% of the voting rights. The remaining ownership interest in Celular CRT is held, directly or indirectly, by Telefónica, S.A., as well as various minority shareholders. Celular CRT accounted for approximately 4% of our combined net revenues.

Celular CRT s operations are conducted through its operating subsidiary Celular CRT, S.A. We manage Celular CRT under a Services Agreement with TBS Celular Participações, S.A., which entitles us to an annual fee of 1% of Celular CRT s net revenues excluding handset sales.

The following table presents, at the dates and for the periods indicated, selected statistical data relating to Celular CRT s operations in Rio Grande do Sul:

	Year ended December 31,		
	2000	**2001**	**2002**
Net revenues from operations (euro in millions)	449	393	329
Total customers (in millions at period end)	1.4	1.8	2.1
Pre-paid customers (in millions at period end)	0.9	1.2	1.5
Population in service territory (in millions at period end)	10	10	10

Market. With a population of approximately 10 million people, Rio Grande do Sul is the fourth largest wireless region in Brazil in terms of customers with approximately 3.2 million customers at December 31, 2002. This customer base represents a penetration rate of 31.6%. The wireless market in Rio Grande do Sul grew by 22.3% during 2002.

Network and Technology. Celular CRT s licenses in Rio Grande do Sul permit it to operate both an analog network and digital network, which is based upon the Time Division Multiple Access Standard, known as TDMA. Celular CRT s roaming agreements with other networks in Brazil and abroad enable its customers to make and receive calls throughout Brazil and in over 100 countries worldwide. Celular CRT plans to roll out a CDMA overlay in Rio Grande do Sul in 2003.

Celular CRT s licenses entitle it to 25 MHz of spectrum in the 800 MHz band. Celular CRT believes that this spectrum is adequate for its requirements.

Celular CRT invested a total of approximately 227 million in building out and enhancing its network in Rio Grande do Sul in 2000, 2001 and 2002. At December 31, 2002, its network in Rio Grande do Sul consisted of 12 dual capacity switching centers, 832 digital base stations and 113 analog base stations giving coverage to over 85% of the total population. These funds have been used to expand and enhance its digital network, to increase coverage, systems capacity and roll-out data services, among other things. In July 2000, Celular CRT launched wireless application protocol services under the *MoviStare-moción* brand name. As part of Brasilcel s marketing effort, all wireless internet services in Brazil have been rebranded Vivo Wap. Celular CRT does not anticipate making significant capital expenditures on its analog network in the future.

In general, Celular CRT s strategy is to use a variety of suppliers based on the quality and rates for their services and products. Ericsson Telecomunicações S.A. constructed the majority of its currently existing digital network and Celular CRT has a preferential contract with Ericsson to maintain that network. Celular CRT s principal suppliers of handsets in the region are Nokia, Gradiente, Ericsson and Motorola.

Sales and Marketing. Celular CRT uses a broad range of marketing channels, including television, radio, exterior signage, telemarketing, direct mail and internet advertising. Generally, its advertising emphasizes Celular CRT s image as the market leader and qualities such as convenience and reliability, with specific campaigns based on price or new product offerings. The introduction of joint initiatives undertaken by all Brasilcel companies, like the launching of a unified brand, Vivo, since April 2003, have helped Celular CRT consolidate its leadership position in the Rio Grande do Sul region. In addition, a new marketing campaign was launched in the second half of 2002 across all Brasilcel companies, including Rio Grande do Sul, under the name A Coisa targeting the younger segment of the market and promoting the use of voice, SMS and WAP.

Celular CRT s pre-paid plans emphasize reliability at a low cost. For contract customers, Celular CRT markets Planes Top, which allows for various services to be bundled, provides handset promotions and a loyalty program (Clube de Vantagens).

Celular CRT offers a variety of pricing options for wireless service in Rio Grande do Sul. At December 31, 2002, approximately 29.4% of its customers had a service contract providing monthly billing based upon usage, while 70.6% used pre-paid calling cards.

For purposes of sales and distribution, Celular CRT divides the Rio Grande do Sul market functionally between the consumer and business markets. Celular CRT uses approximately 1,520 third-party points of sale and 15 proprietary points of sale. At December 31, 2002, Celular CRT had 14,000 sales outlets for pre-paid cards.

Customer Care. Celular CRT s call centers handled an average 25,310 calls per business day. To control costs, all of the personnel employed at its call centers are outsourced employees, principally from Atento.

We estimate that Celular CRT s average monthly churn rate was 1.4% for 2002 and 2001. We believe that we apply conservative policies in calculating customers both in and outside Spain and the related customer churn rates. These policies may result in higher churn rates and lower market share figures than if we had used criteria employed by some other operators in calculating their churn rates. For information concerning the methodology used by us in calculating customer churn rates, see Item 5.A Operating Results Customer Churn.

Competition. Celular CRT currently has two competitors operating in the Rio Grande do Sul market for wireless communications services: Telet S.A., which began operations in March 1999 and is owned by Telecom Americas, as well as other minority shareholders; and TIM, which is controlled by TIM, was awarded a license in 2001 and began operations in 2002. In addition, Brasil Telecom was awarded a PCS license at the end of 2002. It is expected that they will commence operations in the third quarter of 2003.

In February 2003, we acquired 1.12% of the shares of TBS Celular Participaçoes, S.A. This constitutes our only direct investment in an operating company in Brazil.

Bahia/Sergipe Tele Leste Celular Participações S.A.

Tele Leste Celular, which has been operating under the brand name Vivo since April 2003, is, according to our estimates, the leading wireless operator in the Bahia/Sergipe region of Brazil with approximately 973 thousand customers at December 31, 2002, representing 61% of the market. Brasilcel holds directly and indirectly 27.7% of the total equity of Tele Leste Celular and 58.4% of the voting rights.

Tele Leste Celular s operations are conducted through its two operating subsidiaries Telebahía Celular S.A. and Telergipe Celular S.A.I. We manage Tele Leste Celular s two operating subsidiaries under management agreements that entitle us to 1% of net revenues excluding handset sales.

The following table presents, at the dates and for the periods indicated, selected statistical data relating to Tele Leste Celular s operations in Bahia/Sergipe. We accounted for our interest in Tele Leste Celular under the equity method up to December 31, 2001, and have been accounting for our interest in Tele Leste Celular on a fully consolidated basis since January 2002.

	Year ended December 31,		
	2000	**2001**	**2002**
Net revenues from operations (euro in millions)	197	184	158
Total customers (in millions at period end)	0.7	0.8	1.0
Pre-paid customers (in millions at period end)	0.3	0.5	0.7
Population in service territory (in millions at period end)	15	15	15

Market. With a population of approximately 15 million people, Bahia/Sergipe is the tenth largest wireless market in Brazil with approximately 1.6 million customers at December 31, 2002. This customer base represents a penetration rate of approximately 10.6%. The wireless market in the Bahia/Sergipe grew at a rate of 24.3% in 2002.

Network and Technology. Tele Leste Celular operates both analog and digital networks. Tele Leste Celular s digital network is based upon the CDMA standard. Tele Leste Celular invested a total of approximately 217 million in building out and enhancing its network in Bahia/Sergipe in 2000, 2001 and 2002. At December 31, 2002, Tele Leste Celular s network consisted of four digital switching centers, 282 digital radio base stations, 4 analog switching centers, 252 analog base stations, and 3 commuting cellular stations, giving coverage to over 63% of the population. In July 2000, Tele Leste Celular, launched wireless application protocol services under the *MoviStar e-moción* brand name. As part of Brasilcel s marketing effort, all wireless internet services in Brazil have been rebranded Vivo Wap.

Sales and Marketing. Tele Leste Celular utilizes all types of marketing channels, including television, radio, exterior signage, telemarketing, direct mail and internet advertising. The introduction of joint initiatives undertaken by all Brasilcel companies, like the launching of a unified brand, Vivo, since April 2003 have helped Tele Leste Celular consolidate its leadership position in the Bahia/Sergipe region. For example, a new marketing campaign was launched in 2002 across all Brasilcel companies, including Rio Grande do Sul, under the name A Coisa targeting the younger segment of the market and promoting the use of voice, SMS and WAP. Tele Leste Celular utilizes approximately 329 third-party points of sale and 19 proprietary points of sale. At December 31, 2002, Tele Leste had more than 4,500 sales outlets for pre-paid cards. At December 31, 2002, approximately 31% of Tele Leste Celular s customers had a service contract, while 69% used pre-paid calling cards.

Customer Care. Tele Leste Celular maintains one customer relations call center. In December 2002, the call center received an average of 23,045 calls per business day. To control costs, all of the personnel employed at its call center at December 31, 2002 are outsourced employees, principally from Atento.

Table of Contents

We estimate that Tele Leste Celular s average accumulated monthly churn was 2.1% for 2002 and 1.93% for 2001, rising due to strong competition. We believe that we apply conservative policies in calculating customers both in and outside Spain and the related customer churn rates. These policies may result in higher churn rates and lower market share figures than if we had used criteria employed by some other operators in calculating their churn rates. For information concerning the methodology used by us in calculating customer churn rates, see Item 5.A Operating Results Customer Churn.

Competition. Tele Leste Celular competes with two operators in Bahia/Sergipe: Maxitel, which is controlled by Telecom Italia and launched its operations in April 1998; and Oi, which is controlled by Telemar and launched its operations in June 2002. In November 2002, Telecom Americas also acquired a license to provide wireless services in Bahia/Sergipe. We expect Telecom Américas to provide wireless services in Bahia/Sergipe in late 2003.

Peru

We provide wireless services in Peru through Telefónica Móviles, S.A.C., or Telefónica Móviles Peru. Telefónica Móviles Peru is the leading wireless operator in Peru with approximately 1.2 million customers at December 31, 2002. Telefónica Móviles Peru has approximately 55% of the market, according to our estimates.

In March 2001, as a preliminary step in the transfer of the Telefónica Group s wireless operations in Peru to us, Telefónica, S.A. transferred an approximately 16.5% interest in Telefónica del Perú S.A.A. to us in exchange for 65,939,564 ordinary shares of our company. In accordance with the resolution of the shareholders of Telefónica del Perú to divide the company along business lines, Telefónica del Perú spun off its wireless operations in June 2001 in the form of shares of Telefónica Móviles, S.A.C. and its data operations. We agreed with other members of the Telefónica Group who were shareholders of Telefónica del Perú to exchange, following such spin-offs, the shares of such data operations that we received in its spin-off, as well as the shares we held in Telefónica del Perú, for the shares in Telefónica Móviles, S.A.C. that they received in its spin-off. Following the spin-off and share exchanges, and additional share purchases, we hold indirectly a 97.97% interest in Telefónica Móviles, S.A.C. and do not hold any interest in such data operations or Telefónica del Perú.

The following table presents, at the dates and for the periods indicated, selected statistical data relating to Telefónica Móviles Peru. We began consolidating Telefónica Móviles Peru in our combined financial statements as of January 1, 2001.

	Year ended December 31,		
	2000(1)	**2001**	**2002**
Net revenues from operations (euro in millions)	247	277	283
Total customers (in millions at period end)	0.9	1.1	1.2
Pre-paid customers (in millions at period end)	0.7	0.9	1.0
Population in service territory (in millions at period end)	26	26	27

(1) Information for this period has been provided based on the 12 months ended December 31, 2000.

The predecessor entity of Telefónica Móviles Peru commenced offering wireless services in Peru in 1993 with the launch of analog wireless services. In April 1997, the Telefónica Group launched the first pre-paid wireless service in Peru. In September 1997, the Telefónica Group launched digital wireless service in Peru under the *MoviStar* brand name, which has since become one of the most widely recognized brands in Peru.

Market. With a population of approximately 27 million people, Peru is the seventh largest wireless market in Latin America with approximately 2.3 million customers at December 31, 2002, which represents a penetration rate of 8.5%. The Peruvian market grew at a rate of 28.4% in 2002.

40

Table of Contents

Network and Technology. Telefónica Móviles Peru operates both analog and digital networks. Its digital network is based upon the CDMA standard. It has roaming agreements enabling Telefónica Móviles Peru s contract customers to make and receive calls in over 140 countries, including most of the Americas.

Telefónica Móviles Peru s licenses entitle it to 25 MHz of spectrum in the 800 MHz band. We believe that this spectrum is adequate for Telefónica Móviles Peru s requirements.

Telefónica Móviles Peru invested approximately 126 million in building out and enhancing its network in 2000, 2001 and 2002. At December 31, 2002, its digital network consisted of six dual capacity switching centers and 318 base stations, providing coverage to over 50% of the population in its service territory. In October 2000 Telefónica Móviles Perú launched wireless application protocol services in Perú under the *MoviStar e-moción* brand name.

Telefónica Móviles Peru s analog network has six dual capacity switching centers and 302 base stations, some of which also have dual capacity. We do not anticipate significant capital expenditures in the future on the Peruvian analog network.

Telefónica Móviles Peru s strategy is to use a variety of suppliers based on the quality and rates for their services and products. Motorola, Amper and Euroinsta are among its main suppliers.

Sales and Marketing. Telefónica Móviles Peru is one of the largest advertisers in Peru. Telefónica Móviles Peru utilizes all types of marketing channels, including television, radio, print media, exterior signage, telemarketing, direct mail and internet advertising. During 2002, Telefónica Móviles Peru concentrated on strengthening its brand image by launching *Club MoviStar,* the pre-paid *MoviStar Activa* plan, which is targeted at the younger segment of the market, and promoting the use of wireless internet service and SMS. Telefónica Móviles Peru also received the *Premio Effie de Oro,* a marketing award given for its we are more, we pay less campaign.

For purposes of sales and distribution, Telefónica Móviles Peru divides the Peruvian market into the consumer market and business market. Telefónica Móviles Peru uses an aggregate of 997 points of sale in Peru and also 39 proprietary points of sale. Telefónica Móviles Peru engages in direct sales to corporate customers through MoviStar Empresas, a new business plan created specifically for corporate customers, emphasizing data and other business services. Telefónica Móviles Peru also offers the flexibility of other tariff plans tailored to the specific communication and service needs of a company.

Telefónica Móviles Peru offers several different pricing options for wireless service. At December 31, 2002, approximately 22% of its customers had a service contract, while 78% used pre-paid calling cards. The number of corporate customers increased by 40% in 2002.

Customer Care. Telefónica Móviles Peru maintains a customer relations call center with real time access to its information systems. This call center handled approximately 11.7 million calls in 2002. To control costs, all of the personnel employed at the call center at December 31, 2002 were outsourced employees, principally from Atento.

We estimate that Telefónica Móviles Peru s average accumulated monthly churn rate was 3% for 2002, and 2.4% for 2001 due to the high competitive environment in Peru. We estimate that we apply conservative policies in calculating customers both in and outside Spain and the related customer churn rates. These policies may result in higher churn rates and lower market share figures than if we had used criteria employed by some other operators in calculating their churn rates. For information concerning the methodology used by us in calculating customer churn rates, see Item 5.A Operating Results Customer Churn.

Competition. According to our estimates, Telefónica Móviles Peru is the leading operator in the Peruvian market. Telefónica Móviles Peru currently has three competitors in the Peruvian market for wireless

Table of Contents

communications service: BellSouth which began providing wireless services in 1993; Stet Mobile Holdings which obtained a GSM/PCS license in March 2000 and subsequently launched its services under the TIM brand; and Nextel Peru, which began providing wireless services exclusive to the corporate sector since April 1999 and has recently begun providing residential services.

Argentina

Telefónica Comunicaciones Personales S.A. is, according to our estimates, the second largest wireless operator in Argentina with approximately 1.6 million customers at December 31, 2002 representing approximately 25% of the market share.

In January 2001, as a preliminary step in the transfer to us of the Telefónica Group s wireless operations in Argentina, Telefónica, S.A. transferred 15.1% of the common stock of Telefónica de Argentina S.A. to us in exchange for 174,863,364 ordinary shares of our company. In accordance with the resolution of the shareholders of Telefónica de Argentina S.A. to divide the company along business lines, in November 2001 Telefónica de Argentina S.A. spun off its wireless operations in the form of shares of Telefónica Comunicaciones Personales S.A. and its data operations. We previously had agreed with other members of the Telefónica Group who are shareholders of Telefónica de Argentina S.A. to exchange, following such spin-offs, the shares of such data operations that we receive in its spin-off, as well as the shares we hold in Telefónica de Argentina S.A., for the shares of Telefónica Comunicaciones Personales that they receive in its spin-off. Following the spin-offs and share exchanges, we hold a 97.93% interest in Telefónica Comunicaciones Personales S.A. and do not hold any interest in such data operations of Telefónica de Argentina S.A.

The following table presents, at the dates and for the periods indicated, selected statistical data relating to Telefónica Comunicaciones Personales. We began consolidating Telefónica Comunicaciones Personales in our combined financial statements as of January 1, 2001.

	Year ended December 31,		
	2000(1)	**2001(2)**	**2002**
Net revenues from operations (euro in millions)	774	725	195
Total customers (in millions at period end)	1.7	1.8	1.6
Pre-paid customers (in millions at period end)	1.0	1.2	1.1
Population in service territory (in millions at period end)	37	37.5	38

(1) Information for prior periods has been provided based on the 12 months ended December 31, 2000.
(2) In the fourth quarter of 2001, the fiscal year end of Telefónica Comunicaciones Personales was changed from September 30 to December 31. As a result, our combined financial statements for the year ended December 31, 2001 incorporate the financial statements of Telefónica Comunicaciones Personales for the year 2001 and three months (October to December) of the year 2000. Previously, our combined financial statements incorporated the financial statements of Telefónica Comunicaciones Personales according to Telefónica Comunicaciones Personales fiscal year, which ran from October 1 to September 31. This change does not give rise to material differences.

Telefónica Comunicaciones Personales provides wireless services in each of Argentina s three service regions: Greater Buenos Aires; Southern Argentina; and Northern Argentina. In Greater Buenos Aires, the Telefónica Group commenced offering analog wireless services in 1993 under the *Miniphone* brand name through a company that it owned jointly with Telecom Argentina, an affiliate of France Telecom and Telecom Italia. In 1994, Miniphone launched digital wireless services in Greater Buenos Aires. In 1999 Telefónica Comunicaciones Personales and Telecom Personal divided *Miniphone s* assets, including customers, between them and entered into an agreement which allows Telefónica Comunicaciones Personales and Telecom Personal to continue to operate in Greater Buenos Aires separately.

Table of Contents

In Southern Argentina, the Telefónica Group launched wireless services through Telefónica Comunicaciones Personales in 1996 under the *Unifón* brand. In October 1997, the Telefónica Group launched pre-paid wireless services in Greater Buenos Aires and in May 1999 in Southern Argentina.

In Northern Argentina, Telefónica Comunicaciones Personales began offering wireless services in May 2000 following receipt of personal communication service, or PCS, licenses covering the three service regions. As a result, Telefónica Comunicaciones Personales is now a nationwide provider of wireless services.

Market. With a population of approximately 38 million people, Argentina is the third largest wireless market in Latin America with 6.5 million customers at December 31, 2002, which represents a penetration rate of 17% as compared to 19% with 2001. This decrease is largely a result of the economic situation in Argentina. Our customer base declined by approximately 10% in 2002 from 1.8 million customers at December 31, 2001 to 1.6 million at December 31, 2002.

Network and Technology. Telefónica Comunicaciones Personales operates both analog and digital networks. Its digital network is based upon the TDMA standard. It has roaming agreements enabling its customers to make and receive calls in over 100 countries worldwide.

Telefónica Comunicaciones Personales licenses entitle it to 12.5 MHz of spectrum in the 800 MHz band and 30 MHz of spectrum in the 1900 MHz band in Greater Buenos Aires, 25 MHz of spectrum in the 800 MHz band and 20 MHz of spectrum in the 1900 MHz band in Southern Argentina and 40 MHz of spectrum in the 1900 MHz band in Northern Argentina. We believe that Telefónica Comunicaciones Personales spectrum is adequate for its requirements.

Telefónica Comunicaciones Personales invested a total of approximately 551 million in building out and enhancing its digital network in Argentina in 2000, 2001 and 2002. In 2002, Telefónica Comunicaciones Personales adjusted its investments to market conditions, resulting in a total investment under 3 million. In December 2000, Telefónica Comunicaciones Personales launched wireless application protocol services in Argentina.

At December 31, 2002, its digital network in Argentina consisted of 32 switching centers and 1,314 base stations giving coverage over 90% of the population. Telefónica Comunicaciones Personales network has dual capacity so that the analog network has the same number of switching centers and base stations as the digital network. We do not anticipate significant capital expenditures on Telefónica Comunicaciones Personales analog network in the future.

Substantially all of Telefónica Comunicaciones Personales cellular network equipment is provided by Ericsson and it purchases handsets from Ericsson, Nokia and Motorola. Telefónica Comunicaciones Personales entered into a contract with Ericsson to provide it with a wireless digital TDMA standard PCS network, which is compatible with its existing networks in Greater Buenos Aires and Southern Argentina, permitting nationwide access to its services.

Sales and Marketing. Telefónica Comunicaciones Personales utilizes all types of marketing channels, including television, radio, exterior signage, telemarketing, direct mail, sponsorship and internet advertising. Generally, its advertising emphasizes qualities such as convenience and reliability, with specific campaigns based on price or new product offerings. For example, campaigns for its pre-paid service, *Unifón Activa*, emphasize the service s simplicity and mobility with a focus on the younger market. For its contract customers, its core campaign emphasizes exclusivity and value with special trial offers of new services under its *Unifón Top* brand.

For purposes of sales and distribution, Telefónica Comunicaciones Personales divides the Argentine wireless market into three geographic regions and into consumer and business customer segments. For the consumer market, it uses exclusive and non-exclusive distributors for a total of 2,800 points of sale. In addition, Telefónica Comunicaciones Personales has 17 proprietary points of sale.

In the business sector, Telefónica Comunicaciones Personales orients its marketing to small businesses through distributors and has a corporate sales force to target large business customers. Telefónica Comunicaciones Personales offers a variety of plans, ranging from volume discounts for small businesses to specifically tailored pricing and services for large business customers. At December 31, 2002, approximately 30% of its customers had a service contract and the remaining 70% used pre-paid calling cards.

Customer Care. Telefónica Comunicaciones Personales maintains 24 walk-in customer relations centers and two telephonic customer relations centers with real time access to our information systems. These call centers handled nearly 9.7 million calls in 2002. At December 31, 2002, 100% of Telefónica Comunicaciones Personales call centers were managed by Atento.

We estimate that Telefónica Comunicaciones Personales average accumulated monthly churn rate was 1.9% for 2002, and 1.5% for 2001. The increase in churn has been as a result of the effects of the adverse economic environment in Argentina. We believe that we apply conservative policies in calculating customers both in and outside Spain and the related customer churn rates. These policies may result in higher churn rates and lower market share figures than if we had used criteria employed by some other operators in calculating their churn rates. For information concerning the methodology used by us in calculating customer churn rates, see Item 5.A Operating Results Customer Churn.

Competition. Telefónica Comunicaciones Personales currently has three competitors in the Argentine market for wireless communications service, each of which provides services on a nationwide basis: Telecom Personal, which is controlled by France Telecom and Telecom Italia through Telecom Argentina, BellSouth s Movicom and CTI Móvil.

Mexico

We hold 92% of Telefónica Móviles México, which is Mexico s second largest wireless operator, with over 2.4 million customers. Telefónica Móviles Mexico owns licenses for the entire Mexican territory.

The companies making up Telefónica Móviles Mexico were acquired by us in two steps:

1) *Acquisitions of Northern operators*. We acquired the four Northern wireless operators (Bajacel, Movitel, Norcel, and Cedetel) from Telefónica, S.A. in July 2001. Telefónica, S.A. acquired such operators from Motorola, Inc. in exchange for an aggregate of $1,835.5 million in shares of Telefónica, S.A. and $10.5 million in cash, and transferred them to us in exchange for approximately 203 million of our ordinary shares.

2) *Acquisition of Pegaso Telecomunicaciones, S.A. de C.V. and Formation of Telefónica Móviles Mexico*. On April 26, 2002, we signed agreements to purchase 65.23% of Pegaso from Sprint, Leap Wireless, Qualcomm and other financial investors. Pegaso owns licenses to operate on a nationwide basis. In connection with this agreement, we also agreed with the Burillo Group, who held a 34.77% interest in Pegaso at the

time of our acquisition, to contribute our interests in Pegaso and our other Mexican operators and with Burillo Group s interest in Pegaso into a new holding company, Telefónica Móviles Mexico.

On September 10, 2002, having obtained authorization from the relevant Mexican authorities, we acquired a 65.23% holding in Pegaso for 92.9 million. In accordance with our agreement with the Burillo Group, on September 10, 2002 we contributed our interest in Pegaso and our other Mexican operators (Bajacel, Movitel, Norcel, and Cedetel) to Telefónica Móviles Mexico. On the same date the Burillo Group contributed its wireless interests to Telefónica Móviles Mexico. We hold a 92% interest in Telefónica Móviles Mexico and the Burillo

Table of Contents

Group owns the remaining 8%. For further information, see Item 5.A Operating Results Presentation of Financial Information, and note 2 to our combined financial statements.

The following table presents, at the dates and for the periods indicated, selected statistical data relating to our Mexican operators. We began consolidating our Mexican operators in our combined financial statements as of July 1, 2001.

	July 1 to December 31, 2001(1)	Year ended December 31, 2002(1)
Net revenues from operations (euro in millions)	279	465
Total customers (in millions at period end)	1.2	2.4
Pre-paid customers (in millions at period end)	1.0	2.1
Population in service territory (in millions at period end)	21.3	102

(1) The figures for fiscal year 2001 include only our four Northern Mexican operators. The figures for fiscal year 2002 include our four Northern Mexican operators and Pegaso as from September 10, 2002.

For further information on our acquisition of Pegaso see Item 5.A Operating Results Presentation of Financial Information Events Affecting Comparability of Historical and Future Results of Operations and Financial Condition.

Market. Mexico is Latin America s second largest country with a population of approximately 101 million. Mexico is an emerging wireless market with approximately 19 million wireless customers at December 31, 2002, representing a penetration of approximately 19%. The wireless market in Mexico grew at a rate of 28% for the year ended December 31, 2002.

The Mexican wireless telecommunications market is divided into nine service regions. The liberalization of the Mexican telecommunications market began in 1990 with the privatization of Telmex, the state owned telecommunications monopoly, and the creation of Radiomóvil Dipsa, S.A. de C.V., or Telcel, as a nationwide wireless company. With the goal of encouraging competition, the Mexican Ministry of Communications and Transportation later auctioned nine additional licenses.

Network and Technology. Telefónica Móviles Mexico offers both analog and digital networks. Its digital networks are based upon the CDMA standard. At December 31, 2002, Telefónica Móviles Mexico s digital network in Mexico consisted of 18 switching center and 1,630 base stations, including both digital and analog base stations, giving coverage to more than 40% of the population.

Telefónica Móviles Mexico has decided to adopt the GSM standard for its networks, and began the roll-out of a GSM network on a nationwide basis during 2003. Telefónica Móviles Mexico expects that by the end of 2003 its GSM network will cover Mexico s principal cities. The investment in networks by our four Northern Mexican operators from July 2001 until the year ended 2002 and by Pegaso from September 2002, the date of acquisition, to the year ended 2002 was approximately 177 million.

In each of the regions in which Telefónica Móviles Mexico operates, it holds licenses of 20 MHz of spectrum on the 800 MHz band, and 30 MHz and 10 MHz of spectrum on the 1900 MHz band. Telefónica Móviles Mexico believes this spectrum is adequate for its likely requirements in these regions.

Sales and Marketing. Telefónica Móviles Mexico uses a broad range of marketing channels, including television, radio, exterior signage, telemarketing, direct mail and internet advertising. Starting in 2003, Telefónica Móviles Mexico has been marketing all of its products under the *MoviStar* brand.

Table of Contents

The marketing strategy of Telefónica Móviles Mexico in 2002 has focused on increasing the coverage and quality of its distribution network. At December 31, 2002, Telefónica Móviles Mexico had a nationwide distribution network of 1,913 points of sale, including 143 proprietary points of sales, 214 specialized distributors, 82 corporate distribution channels, and 1,474 consumer points of sale.

In July 2002, Telefónica Móviles Mexico entered into an agreement with the Elektra Group, one of Latin America s leading specialty retailers and consumer finance companies, in order to market Telefónica Móviles Mexico products and services in Elektra Group stores. The agreement is nationwide in scope, in line with the strategy of Telefónica Móviles Mexico for its continued growth in the Mexican market.

Customer Care. The customer relations centers handled 18.5 million calls in 2002. In an effort to control costs and improve the services rendered to our customers our call centers have been outsourced, principally to Atento.

Telefónica Móviles Mexico estimates that its accumulated monthly churn rate was 4.5% in 2002 for Pegaso and its four Northern Mexican operators, and 5.5% in 2001 for its four Northern Mexican operators. The churn figures for Telefónica Móviles Mexico are not directly comparable year on year due to the consolidation of the Northern operators since July 2001 and Pegaso as of September 2002. For information concerning the methodology used by us in calculating customer churn rates, see Item 5.A Operating Results Customer Churn.

Competition. Telefónica Móviles Mexico competes with various operators at a national level, most of which are subsidiaries of larger international telecommunications companies. The principal competitor of Telefónica Móviles Mexico is Telcel, which is controlled by América Móvil. The other competitors of Telefónica Móviles Mexico are Iusacell, which is controlled by Verizon and the Vodafone group; and Unefon, which is controlled by TV Azteca, Moisés Saba Masri and Nextel (wholly-owned by Nextel International Inc.). Salinas Group, which owns Unefon through TV Azteca, has announced the signing of an agreement with the majority shareholders of Grupo Iusacell S.A. de C.V. to acquire 100% of its shares by means of a public exchange offer.

Central America

We provide wireless services in El Salvador and Guatemala through TES Holdings, S.A. and TCG Holding, S.A., respectively. These holding companies hold our interests in Telefónica Móviles El Salvador, S.A. de C.V., and Telefónica Centroamérica Guatemala, S.A. de C.V., our operators in these two countries.

We manage Telefónica Móviles El Salvador and Telefónica Centroamérica Guatemala in exchange for an annual fee of 9% of operating profits of each operating company. See Item 7.B Related Party Transactions Business Transactions and Contractual Arrangements with the Telefónica Group Management Contracts.

In August 2001, we entered into an agreement with Mesotel de Costa Rica, S.A., a subsidiary of Mesoamérica Telecom, to acquire its direct and indirect interests in Telefónica Móviles El Salvador, Telefónica Centroamérica Guatemala, Telca Gestión, S.A. and Telca Gestión Guatemala, S.A., and other companies in which we have shared holdings in exchange for approximately 21.9 million of our ordinary shares. In January 2002 we amended this agreement and acquired one-third of Mesotel de Costa Rica, S.A s interests in exchange for 7.3 million of our ordinary shares. The remaining two-thirds were transferred by Group Mesotel in July 2002 for the remaining 14.6 million of our ordinary shares. We subsequently hold through TES Holdings, S.A. And TCG Holdings S.A. a 90.3% indirect interest in Telefónica Móviles El Salvador and a 100% indirect interest in Telefónica Centroamérica Guatemala.

Table of Contents

El Salvador

We provide wireless services in El Salvador through Telefónica Móviles El Salvador, the second largest of the three wireless operators in El Salvador, with approximately 231 thousand customers at December 31, 2002, representing 35% of the market. We indirectly hold a 90.3% interest in Telefónica Móviles El Salvador.

The following table presents, at the dates and for the periods indicated, selected statistical data relating to our operations in El Salvador:

	Year ended December 31,		
	2000	2001	2002
Net revenues from operations (euro in millions)(1)	111	118	112
Total customers (at period end)	230,319	238,605	230,856
Pre-paid customers (at period end)	83,292	91,293	160,266
Population in service territory (in millions at period end)	6.2	6.3	6.8

(1) Includes both fixed-line and wireless operations.

Telefónica Móviles El Salvador commenced offering digital wireless services in El Salvador in December 1998 under the *MoviStar* brand name. In addition to wireless services, Telefónica Móviles El Salvador also provides fixed-line telephone services through Telefónica Multiservicios, a joint venture between Telefónica Móviles El Salvador and Amnet, an international communications provider in El Salvador. Telefónica Móviles El Salvador may enter in the future into an agreement with Telefónica, S.A. or its affiliates providing for the spin-off or transfer to it of all of the non-wireless assets that Telefónica Móviles El Salvador holds in El Salvador.

Market. As of December 31, 2002, El Salvador had approximately 653 thousand wireless customers and a market penetration rate of 9.6% compared to a market penetration rate of 13.6% at December 31, 2001. This decrease in market penetration is largely due to a slowdown in the economy of El Salvador. El Salvador had a fixed-line penetration rate of 10.2% at December 31, 2002.

Network and Technology. The digital network of Telefónica Móviles El Salvador is based upon the CDMA standard. The licenses of Telefónica Móviles El Salvador entitle it to 25 MHz of spectrum in the 800 MHz band. During 2000, 2001 and 2002, Telefónica Móviles El Salvador invested a total of approximately 127 million in building out and enhancing its networks in El Salvador, including 12.7 million in 2002. At December 31, 2002, the digital network of Telefónica Móviles El Salvador consisted of two switching centers shared by the fixed-line and mobile networks and 130 base stations giving coverage to over 77% of the population. Telefónica Móviles El Salvador will continue investing in order to continue the build out and roll-out of its network. In August 2000, Telefónica Móviles El Salvador launched wireless application protocol services in El Salvador under the *MoviStar e-moción* brand name.

Sales and Marketing. Telefónica Móviles El Salvador utilizes all types of marketing channels, including television, radio, exterior signage, telemarketing, direct mail and internet advertising. Telefónica Móviles El Salvador s products and services are marketed under the *MoviStar* brand names. Generally, Telefónica Móviles El Salvador s advertising emphasizes the reliability of its service, with specific campaigns based on price or new product offerings. Telefónica Móviles El Salvador has an extensive distribution network which includes a combination of third-party and proprietary points of sale. At December 31, 2002, approximately 31% of its customers were contracts customers, while 69% used pre-paid calling cards.

Customer Care. Telefónica Móviles El Salvador s call center handled over 1.3 million calls in 2002. To control costs, most of the people employed at its call center are outsourced employees from Atento.

Table of Contents

We estimate that Telefónica Móviles El Salvador s average monthly churn rate was 2.5% for 2002 and 1.1% for 2001, rising due to strong competition and our renewed focus on high value customers. We believe that we apply conservative policies in calculating customers both in and outside Spain and the related customer churn rates. These policies may result in higher churn rates and lower market share figures than if we had used criteria employed by some other operators in calculating their churn rates. For information concerning the methodology used by us in calculating customer churn rates, see Item 5.A Operating Results Customer Churn.

Competition. Telefónica Móviles El Salvador currently competes in El Salvador market for wireless communications service with Telemóvil, which is controlled by Millicom; and CTE Telecom which is controlled by France Telecom; and Digicel, controlled by Digicel Holding.

Guatemala

We provide wireless services in Guatemala indirectly through our wholly-owned subsidiary Telefónica Centroamérica Guatemala. Telefónica Centroamérica Guatemala had approximately 97 thousand active customers in Guatemala at December 31, 2002, representing approximately 13% of the market.

The following table presents, at the dates and for the periods indicated, selected statistical data relating to our operations in Guatemala:

	Year ended December 31,		
	2000	**2001**	**2002**
Net revenues from operations (euro in millions)(1)	83	81	77
Total customers (at period end)	141,915	156,178	97,089
Pre-paid customers (at period end)	22,597	31,309	48,865
Population in service territory (in millions at period end)	12	12.3	12.9

(1) Includes both fixed-line and wireless operations.

Telefónica Centroamérica Guatemala commenced offering digital wireless services in Guatemala in October 1999 under the *MoviStar* brand name. Telefónica Centroamérica Guatemala also provides fixed-line public telephone service, data and long distance services in Guatemala. Telefónica Centroamérica Guatemala may in the future enter into an agreement with Telefónica or its affiliates providing for the spin-off or transfer to it of all of the non-wireless assets that Telefónica Centroamérica Guatemala holds in Guatemala.

Market. As of December 31, 2002, Guatemala had a market penetration rate of 5.7% compared to a market penetration rate of 12.7% as of December 31, 2001. This decrease in market penetration is largely due to a slowdown in the Guatemalan economy. Guatemala had approximately 740 thousand wireless customers at December 31, 2002.

Network and Technology. In Guatemala, Telefónica Centroamérica Guatemala operates a digital network, which is based upon the CDMA standard. Telefónica Centroamérica Guatemala s licenses entitles it to 30 MHz of spectrum in the 1900 MHz band. In 2000, 2001 and 2002, Telefónica Centroamérica Guatemala invested a total of approximately 123 million in building out and enhancing its network in Guatemala. At

December 31, 2002, Telefónica Centroamérica Guatemala s digital wireless network consisted of two switching centers and 221 base stations giving coverage to over 81% of the population. In August 2000, Telefónica Centroamérica Guatemala launched wireless application protocol services in Guatemala under the *MoviStar e-moción* brand name.

Sales and Marketing. Telefónica Centroamérica Guatemala utilizes all types of marketing channels, including television, radio, exterior signage, telemarketing, direct mail and internet advertising. Telefónica

Table of Contents

Centroamérica Guatemala s products and services are marketed under the *MoviStar* and *Telefónica* brand names. Generally, its advertising emphasizes the reliability of its service, with specific campaigns based on price or new product offerings. Telefónica Centroamérica Guatemala has an extensive distribution network which includes a combination of third-party and proprietary points of sale.

At December 31, 2002, approximately 50% of its customers had contracts, while the remaining 50% used pre-paid calling cards.

Customer Care. Telefónica Centroamérica Guatemala s call center handled approximately 1 million calls in 2002. To control costs, most of the people employed at its call centers at December 31, 2002 were outsourced employees, principally from Atento.

We estimate that Telefónica Centroamérica Guatemala s average monthly churn rate was 6.6% for 2002 and 1.2% for 2001. This increase in churn was a result of a renewed focus on higher value customers. We believe that we apply conservative policies in calculating customers both in and outside Spain and the related customer churn rates. These policies may result in higher churn rates and lower market share figures than if we had used criteria employed by some other operators in calculating their churn rates. For information concerning the methodology used by us in calculating customer churn rates, see Item 5.A Operating Results Customer Churn.

Competition. We currently have three competitors in the Guatemala wireless market: Telgua, which is controlled by Telmex; Comcel, which is controlled by Millicom; and BellSouth, which commenced operations in the fourth quarter of 2000. Comcel began operations in Guatemala in 1989, and Telgua began operations in 1999.

Pending Acquisitions in Latin America Puerto Rico

The Telefónica Group plans to transfer to us its investment in NewComm Wireless Services, Inc., a Puerto Rican wireless operator with approximately 169 thousand customers at December 31, 2002. This investment has been made through several convertible notes in an aggregate amount of US$54.0 million that are convertible into up to 49.9% of the capital stock of NewComm Wireless, subject to receipt of necessary U.S. regulatory authorizations. Any conversion of the convertible notes into NewComm Wireless capital stock that would result in a noteholder acquiring more than 25% of such stock requires the approval of the FCC. Telefónica, S.A. s interest in NewComm Wireless is held indirectly, through Telefónica Larga Distancia.

The transfer of the convertible notes from the Telefónica Group to us is expected to be completed in 2003, subject to the approval of the FCC. Once the convertible notes have been transferred, we plan to convert the notes into 49.9% of the capital stock of NewComm Wireless. In addition, the Telefónica Group, with a view to holding a controlling interest in NewComm Wireless Services, has entered into an agreement with ClearComm to purchase a further 0.2% interest in NewComm Wireless Services. It is also intended that this right to purchase an additional 0.2% interest will be transferred to us. We currently manage the day-to-day operations of NewComm Wireless on behalf of Telefónica, S.A.

Puerto Rico has a population of approximately four million people, with income per capita levels similar to Spain, and a wireless market penetration rate of approximately 33.4% at December 31, 2002. NewComm Wireless commenced operations in late September 1999. NewComm Wireless operates a CDMA standard digital network, which consists of one switching center and approximately 152 base stations at December 31, 2002. In July 2000, NewComm Wireless launched wireless application protocol, or WAP, services under the *MoviStar e-moción* brand. NewComm Services currently has five competitors: Cellular One, which is controlled by SBC Communications; Celulares Telefónica, controlled by Verizon; Centennial, which belongs to Centennial Cellular Corp USA; Suncom, which belongs to AT&T Wireless; and Sprint

PCS.

Rest of Europe

We began our expansion in Europe by participating in the award processes of UMTS licenses in 2000. We, directly or through consortium with other international and local partners, were awarded UMTS licenses in

Table of Contents

Germany, Italy, Austria and Switzerland. The financial, technological, competitive and regulatory changes that have taken place in the market since then resulted in our reviewing our European strategy.

Accordingly, in July 2002, we decided to halt our commercial activities in Germany as a GSM/GPRS mobile virtual operator network (MVNO) and commission independent experts to assess the business plans of the UMTS operators in Germany, Italy, Austria and Switzerland.

Based on the assessments obtained, taking into account that in Germany, Austria and Switzerland the coverage requirements in the licenses might come into force earlier than in Italy and to ensure that the investments are correctly valued at all times, we decided to fully write down the book value of our investments in Germany, Austria and Switzerland. Regarding our investment in Italy, we estimated the value of the UMTS license of IPSE 2000, S.p.A. at 300 million, 136 million of which represents our investment in IPSE 2000. Accordingly, at December 31, 2002, a net loss of 5,049.8 million was recorded in our combined financial statements associated with the write-down of assets and the restructuring of operations in these four countries.

In Italy the license terms and conditions make it possible to implement business plans with lower investments than in the other countries, since assignment of the right to use the spectrum is envisaged. For these reasons, based on current business plans analyzed to date, we believe it should be possible to recover the remaining value assigned to the license. In addition, license awardees which were not operating formerly in Italy received 5 MHz of additional spectrum for 827 million and could avail themselves of a deferred payment arrangement. The 827 million cost of the additional spectrum was included in the value of the license prior to the write-down for accounting purposes. IPSE 2000, making use of its right to return, has returned this additional spectrum with a view to set-off the 827 million cost against the original license payment. The Italian Ministry of Communication, however, has notified us that they consider the return of such additional spectrum to be a unilateral modification of the conditions of the UMTS license, which would require IPSE 2000 s 827 million obligation with respect to the additional spectrum to remain in force. IPSE 2000 is challenging the decision of the Italian Ministry of Communication.

Germany

In August 2000, Group 3G, in which we hold a 57.2% interest, was awarded a UMTS license in Germany through its subsidiary Group 3G UMTS GmbH for a total purchase price of 8,471 million of which our pro-rata share is 4,845 million. For further information on the requirements of the license please see Regulation Germany Licenses and Concessions. Telia Sonera Oy holds the other 42.8% interest in Group 3G through Telia Sonera 3G Holding B.V. Group 3G was also awarded a class 3 license, which allows it to deploy a proprietary telecommunications infrastructure.

The financial, technological, competitive and regulatory changes that have taken place in the market since Group 3G was awarded a license resulted in us reviewing our strategy in Germany. Accordingly, in July 2002, we decided to halt our commercial activities in Germany as a GSM/GPRS mobile virtual operator network (MVNO) and commission independent experts to assess the business plan of our UMTS operator in Germany.

As a consequence of the restructuring of these operations, Group 3G disconnected all of its customers and transferred them to T-Mobil and ended all its commercial relationships, including its roaming agreement with E-Plus. Our operations in Germany now have a minimal structure and are awaiting changes in market conditions and improvements to the initial licensing terms and conditions. Other than the write-down of the investment, Group 3G is focusing its activities on maximizing value for its UMTS license.

Agreements. Under our shareholders agreement with Telia Sonera (as amended in November 2001), upon a change of control of either party that results in that party being controlled by a competitor of the other party, a call right is triggered under which the party which was not the subject of the change of control may, provided that it holds more than 50% of Group 3G, purchase the other party s interest. In addition, the shareholders agreement

Table of Contents

provides that, if the acquiring competitor holds a UMTS license in Germany and the German regulator issues an order stating that it will revoke Group 3G s license unless the party subject to the change of control divests from Groups 3G, this party may, provided that it holds less than 51% of Group 3G, compel the party not affected by the change of control to acquire its interest in Group 3G at fair market value, as determined by an independent expert.

Italy

In October 2000, the IPSE 2000 consortium, in which we hold a 45.6% interest, won an auction for a UMTS license in Italy for a payment of 3,269 million, of which our pro rata share is 1,491 million. Approximately 2 billion was paid upon award of the license in October 2000, and the balance is payable over a ten-year period. For further information on the requirements of the license please see Regulation Italy Licenses and Concessions. The Telefónica Group also has an additional indirect 4.1% interest in IPSE 2000 through its holding in Atlanet, an Italian company. Our partners in this consortium include the following: Telia Sonera, our partner in Group 3G in Germany, which has a 12.55% interest; Banca di Roma, which has 10%; Xera, a technology company, which has 5%; Syntek, a financial company with strategic investments in the technology field, which has 4.8%; Acea, an Italian multi-utility company, which has 3.96% through Atlanet; Fiat, which has 3.96% through Atlanet; Montedison, which has 5%; e-planet, which has 0.5%; and 29 other Italian partners, which have an aggregate of 4.55%.

In 2002, the IPSE 2000 board of directors resolved to restructure the company s activities in line with the decision adopted in the company s new business plan of launching services in the market only when UMTS technology is commercially available and both the market and regulatory conditions are favorable.

By the end of 2002, IPSE 2000 cut its workforce by 70% with respect to the beginning of the year and had cancelled most of its commercial agreements. IPSE 2000 remains committed to focusing into changes in the regulatory environment, with a view towards becoming more flexible in managing its spectrum.

Agreements. Under the terms of our consortium agreement in Italy (as amended on January 30, 2002), a change of control affecting Telia Sonera and a finding by the Italian regulator that such change of control would be prejudicial to the holding of our UMTS license and that, consequently, the person acquiring such control cannot hold an interest in the consortium, would trigger a right for us to purchase Telia Sonera s interest and a right for Telia Sonera to sell its interest to us, in both cases at terms agreed upon between us at such time.

Austria and Switzerland

In November 2000, we were awarded a UMTS license in Austria at a cost of 117 million. In December 2000, we won an auction for a UMTS license in Switzerland for a total payment of 32.5 million. We hold a 100% interest in these licenses. For further information on the requirements of the licenses please see Regulation Austria Licenses and Concessions and Regulation Switzerland Licenses and Concessions.

We began to implement restructuring plans for our Austrian and Swiss operations in the second half of 2002. These were finalized in both countries in 2002 and the various commercial agreements entered into up to then had been cancelled.

Our operations in Austria and Switzerland now have a minimal structure and are awaiting changes in market conditions and improvements to the initial licensing terms and conditions. Other than the write-down of these investments, the companies in Austria and Switzerland are focusing their activities on maximizing value for their UMTS licenses.

Wireless Internet and Data Initiatives

An important component of our strategy is broadening uses of wireless communications, currently dominated by voice services, to include more widespread use of wireless internet and data services. By diversifying our services, we are seeking to capture the value created by new services. We expect that the contribution of wireless internet and wireless data services to our revenues will increase significantly as technology and services improve and are made more accessible and user-friendly to mass-market consumer and business customers in each market in which we operate. The availability of compatible handsets at attractive prices will be key to achieving this development. We also plan to launch i-mode services in Spain during the second quarter of 2003.

Wireless Internet

We seek to participate in the development of this wireless internet services through *MoviStar e-moción*, our existing wireless internet service provider.

Wireless internet is in a preliminary stage of development, currently hampered by the slow speed of wireless data transfers and by technical limitations to accessing internet content through wireless handsets. We anticipate the demand for wireless internet services will grow as network transmission speeds increase through the roll-out of GPRS, and, eventually, UMTS services. We have launched GPRS services in Spain commercially with the same coverage as our GSM network.

In June 2000, we launched *MoviStar e-moción*, our wireless internet service provider in Spain. *MoviStar e-moción* offers our customers wireless access to the internet including the ability to browse any wireless application protocol site and access to a broad and fast growing menu of links to wireless content providers, which, in the case of Spain, numbered more than 210 at December 31, 2002. It also offers our customers the ability to access preconfigured links to wireless application protocol and universal resource locator sites with sub-levels that offer customization options. Most of our operating companies (Brazil, Argentina, Peru, El Salvador, Guatemala, Morocco and Puerto Rico) have launched *MoviStar e-moción* or similar services under different brands such as Vivo Wap in Brazil.

Due to our leading position in most of our markets, we believe we are well-positioned to be the first mover and develop the market for wireless internet service provider services by educating potential customers regarding wireless internet to create demand and act as a catalyst for the local development of wireless application protocol-ready content and services. We are currently focused on attracting the maximum available content for *MoviStar e-moción* by offering to providers links in our internet access service. Through *MoviStar e-moción*, we are seeking to act, not as a content provider, but as the visible platform to our customers for accessing the wireless internet. In addition, we acquired from Terra Networks their remaining interest in Terra Mobile increasing our interest in Terra Mobile to 100%. Terra Mobile will be incorporated into our operating structure to support the development of *MoviStar e-moción* by assisting content and service providers in extending their product offerings over wireless networks. For further information on our purchase of Terra Mobile see Item 7.B Related Party Transactions Business Transactions and Contractual Arrangements with the Telefónica Group Terra Mobile.

Currently *MoviStar e-moción* has several content groups in Spain, including mobile banking, media, news, portals, ticketing, m-commerce, travel, entertainment, health and yellow pages, among others. Customers can also access *MoviStar* proprietary services, such as e-mail and itemized call information. We have signed agreements with more than 210 content providers to provide links through *MoviStar e-moción* for products and services in Spain, among them: Terra Mobile, Yahoo!, Telefónica Páginas Interactivas, Reuters, LaNetro, Banco Bilbao Vizcaya Argentaria, La Caixa, Santander Central Hispano, Unicaja, Serviticket, AVIS, Globalia Group, Antena 3, CNN, ABC, La Vanguardia and Infojobs.

Our wireless internet access services in Spain are currently billed on the basis of connection time, at a discount to voice rates, for WAP CDS services, and on the basis of the volume of data sent, for WAP GPRS

52

services, and, in each case, depending on the content. We also offer premium services, under which access to premium content incurs an extra charge which we share with the content providers. We receive 100% of the revenues derived from wireless airtime induced by *MoviStar e-moción*. We also charge a percentage of the m-commerce revenues of our partners. As this market is in an early state of development, it is expected that our revenue model will continue to evolve.

Wireless Data Services

We have targeted wireless data services, together with wireless internet services, as a future growth initiative in the wireless sector. Technological advances, including the implementation of GPRS, are facilitating the development of these services by increasing network transmission speeds, facilitating the offer of higher quality services at lower costs and encouraging increased demand. We have launched GPRS services in Spain and offer these services since 2001. In this market, our wireless data services include SMS, MMS and internet access via personal computers and PDAs. We are focusing on consolidating our position in the corporate segment (where we have a strong position in terms of market share) with a view to marketing and introducing new wireless data services and applications. In other markets such as Brazil and Peru, we have already launched high speed data services based on technologies such as, CDMA 1XRTT.

In November 2001, Telefónica Móviles España, together with Ericsson, Hewlett Packard and the regional government of Cataluña created Tempos21, Innovación en Aplicaciones Móviles, S.A., with the objective of conducting research and development on wireless services and applications based on the GSM, GPRS and UMTS standards or other technologies that may be developed. Tempos21, which began operations in 2002, is developing, implementing and managing wireless internet related products and other wireless services and applications for enterprises (B2B and B2B2C). Tempos21 also provides consulting services and develops integrated solutions for the aforementioned sectors. Telefónica Móviles España holds a 38.5% interest in Tempos21.

M-Payment

We are jointly developing with other companies a new, simple, fast, low cost and secure mobile payment system that, under the *Mobipay* brand, offers merchants and customers the capability for onsite (in person) or remote automated transactions including vending machines, for personal money transfers, micropayments and for value added services like electronic invoicing. *Mobipay* also provides us some added advantages, such as strengthening our image as a leading technology company, increasing wireless e-commerce and augmenting traffic through the Group network.

We initially began developing this business in conjunction with Banco Bilbao Vizcaya Argentaria as a 50/50 joint venture. At the same time, Banco Santander Central Hispano, a major Spanish bank, and Vodafone were jointly developing a separate mobile payment system. On May 30, 2001, we, Banco Bilbao Vizcaya Argentaria, Banco Santander Central Hispano and Vodafone agreed to integrate our respective mobile payment systems to form a single mobile payment standard. The new payment system is an open system, which other financial institutions, wireless operators (such as Amena) and payment processing companies in Spain have joined. This system is being developed in Spain through Mobipay España, S.A. and outside of Spain through Mobipay International S.A.

In addition, on February 26, 2003, we, Orange, T-Mobile and Vodafone signed an agreement for the creation of the Mobile Payment Services Association which will operate under the brand name Simpay. The objective of the association is to promote an open solution under one common brand for payments through mobile phones, that would be compatible with the networks of the different operators. This system would be available in several countries, and would complement other systems that already exist in the telecommunications sector.

Table of Contents

Corporate Organization and Synergies

General

We have organized our company to take advantage of synergies and economies of scale made possible by the consolidation of the Telefónica Group s wireless operations. We also recognize that each market is distinct in nature and requires in-country managers to have decision-making autonomy to respond to local market conditions. Decisions about matters that directly affect customers in local markets, such as sales and marketing programs and customer service, generally are made on a local basis, while decisions in areas where our company can realize the benefits of the scale of its operations, such as purchasing, technology and product and brand development, are being centralized to the extent possible. Although our operating companies were previously part of the Telefónica Group, because several companies were managed as part of integrated telecommunications companies, potential synergies were not fully realized.

Upon commencing operations as an integrated wireless group in March 2000, we created a centralized corporate center integrating key functions, such as purchasing, technology, finance and other and shared services, to establish and take advantage of synergies. In addition, we created Telefónica m-Solutions, which acts as a consultant to our group companies in accordance with the guidelines provided by our corporate center.

In addition to permitting improved management of our business, these measures have already permitted us to achieve synergies from our operations in multiple markets. For example, based upon our experience in Spain, we have greatly increased our distribution networks in our Latin American markets, while implementing procedures designed to ensure a common corporate look, image and quality of service in all the markets where we operate. We have also sought to streamline our international roaming arrangements by managing roaming service in Latin America as a global business with group roaming agreements and unified customer care.

Best Practices Centers

The best practices centers are designed to promote the transfer of best practices among our different markets, to establish a forum for coordinating the launch of new initiatives and to contribute to the development of a common culture and practices for our operating companies. The centers include management from each of our operating companies organized across geographic lines by function. Each function is charged with identifying specific goals and objectives, establishing plans to achieve the goals and objectives and monitoring progress toward those goals and objectives.

In the short term, our best practices centers have identified the following initiatives:

Network:

- Ø design and implementation of the corporate strategy for the Network Technology area;
- Ø taking advantage of synergies in the design, configuration and maintenance of the network;

- Ø reducing network costs;
- Ø identifying, configuring and guaranteeing network development centers for the operators;
- Ø negotiating with providers on a global basis the supply of equipment for network development, thereby taking advantage of economies of scale; and
- Ø keeping abreast of technological developments in each market.

Information Technology:

- Ø design and implementation of the corporate strategy for the Information Technologies area;
- Ø taking advantage of synergies in the Information Systems area;

Table of Contents

- optimizing network costs;
- developing best practices centers related to Information Technologies;
- leading the negotiations with technology providers on a global basis to take advantage of economies of scale; and
- reducing costs in the Information Technologies area.

Commercial:

- optimizing pricing structures for contract and pre-paid customers, using Pricing Segments and Preferential rates;
- improving customer care and loyalty programs;
- developing common procedures to reduce uncollectible debt and fraud; and
- developing common marketing procedures and tools, such as data warehousing and customer valuation models.

Services and Products:

- developing a common catalogue of services and products for all of our operators;
- creating Centers of Excellence to roll-out new products and services across the group;
- optimizing development and implementation costs for new products and services; and
- launching bundled services designed for multinational business customers.

Brand Image:

- developing our image as global operator; and
- trademark management.

Capital Expenditures and Divestitures

For a description of our capital expenditures during the last three years, please see Item 5.B Liquidity and Capital Resources. We have not made any significant divestitures during the past three years.

Public Takeover Offers

Acquisition of TCO. On January 16, 2003 TCP entered into a Preliminary Stock Purchase Agreement with the Brazilian Company Fixcel to acquire up to 61.10% of the ordinary shares of TCO, which represents 20.37% of the total capital of TCO. On April 25, 2003, TCP finalized the acquisition. The purchase price was approximately *reais* 1.5 billion (approximately *reais* 19.49 per each lot of 1,000 shares acquired). As of the date of this annual report, TCP has paid *reais* 284.7 million of the total amount and the remaining will be paid in future installments. Please see Item 5.B Liquidity and Capital Resources Contractual Obligations and Commercial Commitments Off-balance commitments.

On May 25, 2003, in compliance with Brazilian legislation, TCP made a request to launch a tender offer, which is currently being reviewed by the CVM, for the voting shares of the minority shareholders of TCO for a price equal to 80% of the price paid to the controlling shareholders. The minority shareholders that tender their shares will be compensated pro rata, in the same manner as the controlling shareholders. After the acquisition and the tender offer, TCP expects to incorporate TCO s shares and ADSs into TCP and de-list TCO s shares.

Patents, Licenses and other Intellectual Property

We own trademarks registered in various jurisdictions which are assets of great value to our Spanish and international activities. We use these trademarks to convey an image of reliability and quality of service and to

Table of Contents

boost customer loyalty. Some of the most significant trademarks are *MoviStar e-moción*, Mensajería MoviStar, Movilfácil, Moviliberia, Moviline, Moviline Activa, Moviline Prepago, MoviStar, MoviStar Activa, MoviStar Activa Joven, Radiored, T MoviStar, T.M.E. and TSM. We also hold a non-exclusive license on a group of trademarks and trademark applications, including Telefónica *MoviStar e-moción*, Telefónica Mobile Solutions, Telefónica Móviles, Telefónica Móviles España and Telefónica MoviStar, awarded by Telefónica, S.A.

The Group also owns patents throughout the world and various domain names, such as movistar.com, TelefónicaMóviles.net, tsm.es or wap-movistar.org.

Regulation

The licensing, construction, operation and interconnection arrangements of wireless communications systems in Spain, Latin America and elsewhere are regulated to varying degrees by national, state or local and, to a lesser degree, supranational regulatory authorities.

We typically require licenses or concessions from the governments of the countries in which we operate. These licenses and concessions specify the types of services permitted to be offered by us and the conditions under which we may use the spectrum. The terms of our licenses and concessions are subject to review, and to interpretation, modification or revocation, by regulatory authorities in each country.

The construction, ownership and operation of our networks, the maintenance and renewal of our licenses and concessions and, in some cases, the pricing of our services and related matters are subject to regulation in each of our countries of operation. We also typically require governmental permits to engage in activities involving the construction and operation of network stations and cell sites.

The following is a summary of the material laws and regulations applicable to us and to the wireless industry generally in each of the countries in which we operate and of the material provisions of the licenses and concession that we hold.

Spain

The Spanish telecommunications market was liberalized and opened to competition in December 1998 after the enactment of the General Telecommunications Law, which went into effect in April of that year. The General Telecommunications Law and the regulations, royal decrees and ministerial orders enacted pursuant to its authority provide the regulatory framework for Spanish telecommunications.

The General Telecommunications Law superseded the prior Law on Telecommunications of 1987 with respect to the provision of telecommunications services and the installation and exploitation of telecommunication networks. However, legislation applicable prior to the enactment of the General Telecommunications Law continues to be in force in relation to concessions granted under that legislation to the extent that the provisions do not conflict with the General Telecommunications Law.

Under the prior regulatory regime, wireless telephone services were considered to be public services and, as such, were provided pursuant to a system of administrative concessions, which granted to operators the right to provide wireless telephone services and construct and operate the networks required to do so. One of our rights is still held in the form of an administrative concession that is governed by legislation applicable prior to the enactment of the General Telecommunications Law. We have made a request to the relevant authorities for the early termination of this concession, which was initially denied. We have appealed this decision. For further information see Item 8.A Consolidated Statements and Other Financial Information Legal Proceedings Challenge to denial of request for abandonment of TETRA license.

In this section and, to the extent relating to Spanish regulatory matters, in Risk Factors, references to wireless operators do not include wireless local loop operators.

56

Table of Contents

Spanish Regulatory Authorities

The following governmental regulatory authorities oversee the Spanish telecommunications industry:

- the Commission for the Telecommunications Market;
- the Government Commission for Economic Affairs;
- the Ministry of Science and Technology; and
- the Ministry of Economy.

Licenses and Concessions

Administrative Concessions granted prior to the General Telecommunications Law. At present, we hold an administrative concession to provide wireless services in the analog form on the 900 MHz band.

Our analog service concession expires on January 1, 2007. This concession was granted prior to the enactment of the General Telecommunications Law and was converted by the Ministry of Science and Technology into a license under the General Telecommunications Law.

Under this license, we are required to maintain quality standards, and respect the principles of neutrality and non-discrimination. We are subject to the following principal obligations under the concession:

- to pay the Commission for the Telecommunications Market an annual fee of 0.1% of the income before tax from the provision of services;
- to pay the Spanish Treasury an annual fee for use of spectrum;
- to draft a standard contract with customers, subject to approval by the Ministry of Science and Technology;
- to timely notify the Ministry of Science and Technology and associations of users and consumers of rates and amendments to rates applicable to customers;

- to pay a fee for numbering;
- to contribute to the universal service fund;
- to pay other telecommunications operators for the use of carrier services; and
- to keep separate accounts in order to avoid cross-subsidization between our services.

The Ministry of Science and Technology is empowered to amend our concession, for public interest reasons, subject to the Spanish Public Procurement Law and regulations thereunder. However, if an amendment is financially harmful to us, we may be entitled to compensation. This compensation would not, however, cover any harm resulting from the authorization of new competitors.

Following the enactment of the General Telecommunications Law, at the end of any concession term, or upon the revocation of a concession, the property associated with the concession is retained by the holder of such concession. A concession is subject to revocation or fines and lesser sanctions, upon the occurrence of certain events such as the bankruptcy of the company, transfer of the concession without administrative authorization, failure to abide by the terms of the concession, laws or regulations or reallocation of allotted frequencies on the radio-electric spectrum (in which latter case, we would be entitled to compensation).

Licenses granted after the enactment of the General Telecommunications Law. We hold 18 individual licenses under the General Telecommunications Law, covering the following:

- nationwide digital services (GSM and DCS-1800);

nationwide UMTS services;

trunking, or closed user group, services;

paging services (12 regional and 1 national service); and

fixed-line telephony.

Our digital licenses expire in 2010 and 2023, our UMTS license in 2020, our trunking licenses in 2014, 2016 and 2020, our paging license in 2012 and our fixed-line license in 2019. Our licenses can be extended according to the table below.

License Type	License Duration	Ending Date	Extension Period
B1 (fixed telephony)	20 years	July 8, 2019	10-year periods the total duration of the license including extensions may not exceed 50 years
B2 GSM	15 years	February 3, 2010	5 years
B2 DCS 1800	25 years	July 24, 2023	5 years
B2 UMTS	20 years	April 18, 2020	10 years
C2 trunking	20 years	March 21, 2020	10 years
C2 paging	20 years	April 24, 2020	10 years

In March 2002, we made a request to the relevant authority that our trunking licenses be terminated due to changes in technical, economic and market conditions since the licenses were granted.

On November 29, 2002, the Telecommunications office finished the allocation of the DCS-1800 band license. We received a 2 x 24.8 MHz spectrum.

Our rights and obligations under the individual licenses are similar to those under our administrative concessions, though they generally require more disclosure of rates and product information to the Spanish regulatory authorities and the public and also require us to keep separate accounts for each of our activities and services. Additional obligations under our licenses include the following:

to pay to the Commission for the Telecommunications Market an annual fee of up to 0.2% (currently, 0.15%) of income before tax from the provision of services;

to pay the Spanish Treasury the following annual fees for use of spectrum:

Technology	Year 2001 (MHz)	Year 2002 (MHz)	Year 2003 (MHz)
TACS	188,180.86	205,892	631,908.18
GSM	1,309,359.29	601,911.15	631,908.18
DCS-1800	1,267,027.72	601,984.13	505,643.32
UMTS	4,656,472.83	601,947.65	631,871.69
UMTS	4,656,472.83	601,947.65	631,871.69

to contribute, if requested by the Commission for the Telecommunications Market, to the financing of the costs of universal telephone service, including for handicapped persons and in geographically remote areas;

to refrain from engaging in anti-competitive conduct;

to share infrastructure with other operators when there is a public or environmental interest involved;

Table of Contents

to facilitate interconnection with analog or digital networks of other operators;

to offer effective access to our network and guarantee, when necessary, interoperability of services; and

to fulfill our commitments concerning, among other matters, network build-out and coverage, timely introduction of service, quality standards and new employment undertakings as set forth in our license applications.

In the case of our UMTS license, we paid to the Spanish Treasury a one-time fee of 131 million in connection with the issuance of that license in 2001. The Spanish government adopted legislation imposing additional fees totaling approximately 233.3 million for the year 2001 for use of spectrum both for new UMTS licenses as well as existing analog and digital concessions and other uses. In 2001, the Spanish government adopted new legislation reducing such fees by 75% for the year 2002 and setting a framework for the determination of the amount of such fees for the next five years.

We were also required to provide bank guarantees totaling 1,100 million to secure commitments assumed in our UMTS license application. Telefónica Móviles España commenced administrative proceedings to change the current system of guarantees. On April 7, 2003 a resolution was announced that modifies the UMTS guarantee system for all operators. New annual guarantees will replace the current guarantees which amount to 631 million. The amounts of the new annual guarantee for Telefónica Móviles España will be as follows:

Period 0 (until service launch): 167.5 million;

Year 1: 167.5 million;

Year 2: 149.5 million;

Year 3: 114.8 million; and

Year 4: 114.8 million.

The resolution does not modify nor reduce the commitments assumed by Telefónica Móviles España in its license application nor diminishes the individual guarantee for each commitment. If a commitment is not satisfied in a given period, the guarantee compromised for that year in the license will be forfeited and the operator will have to replenish the annual guarantee. Currently Telefónica Móviles España is negotiating both with financial institutions and The Ministry the definitive terms of the new guarantees that will be replace the current ones.

In June 2002 we fulfilled the Spanish government s requirements regarding initial roll-out of our UMTS network. In addition, the Spanish government has announced that it may, when UMTS technology is a reality, award additional licenses permitting the offer of wireless services, subject to spectrum availability.

Our licenses may be amended or revoked. Our licenses may be amended only for objective cause, including a change in law or for public interest reasons. We would not be entitled to any compensation in the event of an amendment to a license. Amendments to the applicable laws may also result in changes to the obligations of a license holder. Our licenses may be revoked if we fail to comply with any of the specified obligations or commitments in these licenses as well as for reasons similar to those applicable to our administrative concessions, as discussed above. In addition, any infringements defined in the General Telecommunications Law may result in the imposition of sanctions including fines.

Our individual licenses may be assigned or transferred subject to compliance with requirements similar to those applicable to our administrative concessions.

Our fixed-line license and our trunking and paging licenses impose additional obligations which we do not consider significant to our company and which we do not describe herein.

Table of Contents

Our two digital licenses also impose upon us, among other things, the following additional obligations:

- to comply with minimum coverage obligations established in the terms and conditions which governed the public bidding process for the concession;

- to guarantee the extension of the service beyond Spain by executing roaming agreements with other telecommunications operators; and

- to interconnect our network with the network of our competitors.

General Authorizations. General authorizations are required to be obtained from the Commission for the Telecommunications Market or the Ministry of Science and Technology to provide services and to establish or operate networks that do not require individual licenses or that have not yet been made subject to regulation. We have obtained general authorizations to provide data transmission services to the public in order to provide internet access and other related services through our network. We have also obtained general authorizations to construct and operate private telephone networks for closed-user groups. Our general authorizations impose obligations and have other terms that are broadly similar to, but generally less stringent than, those imposed by our individual licenses.

Foreign Ownership/Restrictions on Transfer of Ownership

Under the General Telecommunications Law, non-European Union individuals or entities cannot own, directly or indirectly, more than 25% of our assets or share capital, unless such ownership is permitted by authorization of the Spanish government in cases of reciprocal treatment between Spain and a non-European Union country, or by specific agreement between Spain and a non-European Union country. Spain has ratified the Telecoms Annex to the General Agreement on Trade in Services, or GATS, pursuant to which specific authorization will not be required so long as direct or indirect control of 25% or more of our assets or share capital is owned by persons or entities domiciled in countries party to the Telecoms Annex to GATS.

Until 2007, the Spanish government holds approval rights for specified fundamental corporate transactions affecting us and our Spanish operating company. These approval rights, which are known as the golden share, were imposed on Telefónica, S.A. in January 1997 in the context of its privatization, and are applicable to Telefónica Móviles España and us through Telefónica, S.A. s ownership of our shares. In our case, the transactions requiring Spanish government approval include, a voluntary dissolution, spin-off or merger, any transaction that would have the effect of decreasing Telefónica, S.A. s interest in us or our interest in Telefónica Móviles España to less than 50%, any acquisition that would result in the acquiring entity owning 10% or more of our capital stock or that of Telefónica Móviles España, any sale, transfer or encumbrance of our material assets or any amendment to our by-laws relating to these provisions. These approval rights, which were adopted by several European governments in the context of the privatization of major national enterprises, are currently subject to challenge by the European Commission before the European Court of Justice. For further information, please see Item 8.A Consolidated Statements and Other Financial Information Legal Proceedings European Court of Justice ruling on golden shares.

Furthermore, in an effort to discourage significant cross-holdings in the telecommunications sector, persons or entities holding, directly or indirectly, 3% or more of the total share capital or voting rights of more than one of the top five wireless operators in Spain are not allowed to exercise their voting rights in excess of 3% in more than one of the top five wireless operators unless they have previously obtained authorization from the Commission for the Telecommunications Market. Similarly, managing more than one of the top five wireless operators is not permitted without prior authorization.

Rates

Wireless operators are generally free to fix customer rates for the provision of services under the General Telecommunications Law, except with respect to analog wireless services for which the Government

Table of Contents

Commission for Economic Affairs has prescribed maximum rates. In accordance with the General Telecommunications Law, the Government Commission for Economic Affairs may prescribe temporary fixed, maximum and minimum rates, or criteria for establishing rates, based on actual costs of the services rendered and the degree of competition in the market. The Government Commission for Economic Affairs has imposed rate regulations for analog wireless services. The Government Commission has not regulated rates of digital wireless services to date. The Ministry of Science and Technology is reviewing methods of promoting increased competition in the Spanish telecommunications market. We cannot assure you that the Ministry of Science and Technology will not make recommendations affecting the pricing of wireless services in Spain or other aspects of our business.

Interconnection

The European Union s Interconnection Directive (97/93/EC) requires member states, including Spain, to remove restrictions that prevent the negotiation of interconnection agreements, to ensure that interconnection agreements are non-discriminatory, and to ensure adequate and efficient interconnection for public telecommunications networks and services. Currently, Spanish law requires public telecommunications networks to provide interconnection to other public telecommunications networks established in Spain, the terms of which must be specified in an interconnection agreement between the parties. Interconnection agreements are subject to Spanish government regulations, such as the Spanish Interconnection Decree of 1998, and to supervision and arbitration by the Commission for the Telecommunications Market. In March 2002 the European Union passed Directive 2002/19/EC (the Access and Interconnection Directive), which must be transposed by member states into their national laws by July 25, 2003. Spain is in the process of implementing this Directive.

The terms of Telefónica de España, S.A. s interconnections with other operators are regulated by the Commission for the Telecommunications Market through a reference interconnection offer, which contains price terms for interconnections with other operators, including our Spanish operating company. The relevant regulatory authority approved the initial reference interconnection offer in July 1999 and subsequent amendments, in each case at levels lower than those sought by Telefónica, S.A. s fixed line operator. Consequently, Telefónica, S.A. s fixed line operator has appealed the reference interconnection offer both as initially adopted and as amended, except for its most recent amendment. If these appeals are successful, the interconnection rates currently paid by our Spanish operating company and other operators to Telefónica, S.A. s fixed line operator would increase and we might be liable for the difference between the interconnection fees paid in 1999, 2000 and 2001 and the interconnection fees sought by Telefónica, S.A. s fixed line operator. Pending a decision regarding these appeals, the interconnection rates approved by the relevant regulatory authorities continue to apply.

The Service of the Competence Defence, dependant of the Department of Economy, has also opened an inquiry against us regarding an appeal made by Uni2 and WorldCom with respect to our interconnection fees. These operators claim that current fixed-mobile interconnection fees are discriminatory in comparison to on-net prices. If the appeal is successful, we could be obligated to reduce our interconnection fees.

Because we have been classified by the Commission for the Telecommunications Market as an operator with significant market power in the wireless communications and interconnection markets (a classification that is generally defined as the attainment of a market share of more than 25% measured by income tax generated by networks and services in the previous year), we are required, among other obligations, to facilitate cost-oriented interconnection rates on a non-discriminatory and transparent basis and report to the Ministry of Economy and the Ministry of Science and Technology regarding our compliance.

Other Provisions

The Spanish Interconnection Decree of 1998 requires all wireless operators in Spain to include number portability systems in their networks. Since October 2000, all wireless operators in Spain have offered number portability, which allows customers to keep their telephone numbers when changing providers.

Table of Contents

As of December 31, 2000, wireless operators must offer carrier selection for international calls. This permits customers to pre-select a carrier for international calls and to circumvent their pre-selected carrier by dialing the ID number of another carrier before dialing a desired international number (call-by-call connection).

The General Telecommunications Law and its implementing regulations provide that operators with significant market power (and, in limited cases, operators without it) may be required to provide specified universal services and that all operators may be required to provide compulsory services and to comply with other public service obligations.

On March 20, 2002, the Government published an order regulating Virtual Mobile Operators, or VMOs. Companies wanting to operate as a VMO need a special license, which would provide them:

- interconnection rights;
- independent telephone numbers under the National Cellular Numbering Plan; and
- an independent network code.

The order advocates that the benefit of these services should be based on the rule of Permission, not Obligation, with the safeguard that the agreements between the VMOs and other operators will have to respect the principle of no discrimination.

A VMO must inform the CMT of their contracts with other operators before offering services over their networks. A VMO does not have any coverage obligation nor the right to occupy public and private property or share infrastructure with other operators. The CMT has attributed several VMO licenses in 2002.

European Union

As a Member State of the European Union, Spain is required to comply with European Union legislative instruments and to enact national law giving effect to European Union legislation. The European Commission has become increasingly active in the regulation of the telecommunications industry in the European Union and its member states. The European Commission primarily regulates telecommunication operators through the issuance of directives and administrative proceedings.

Significant Market Power

The European Union s Interconnection Directive (97/33/EC) requires, that where an operator has a market share of 25% or more, or is capable of determining market conditions, the relevant Member State regulatory authority shall declare such operator to have significant market power in the relevant market where it operates. If an operator is found to have significant market power, under the Interconnection Directive, it must satisfy all reasonable requests by other operators for access to its network and must provide detailed information relating to the interconnection and special network access offered.

Network services are the services provided by one operator to allow another operator to have access to its networks. In Spain, the telecommunications regulatory authorities have not yet specified which network services in the wireless market are to be classified as special network access, so it is unclear which network services we may be required to offer and on what terms.

A wireless operator found to have significant market power is also obliged to provide interconnection at non-discriminatory terms (defined as those terms under which that operator provides similar services to itself, its other group companies and its partners). Operators with significant market power in the operation of fixed line networks or leased lines must also offer interconnection on transparent terms and at cost-oriented prices (i.e., prices which are derived from their costs, plus a reasonable margin) and must keep detailed and appropriately separated cost accounts for verification by regulatory authorities.

Table of Contents

The Interconnection Directive does not specify which services should be classified by national regulators as interconnection as opposed to special network access. Consequently, the terms on which an operator found to have significant market power may offer a particular service in a country depend on the way in which the relevant national regulatory authority classifies that service. There is considerable scope for different regulation of the provision of these services among the European Union member states.

Because we have been found to have significant market power in Spain for interconnection services, we could be obliged to provide call termination on a cost-oriented basis, i.e., with service prices reflecting the underlying costs incurred in providing it, and be subject to special rules reserved for dominant market operators requiring us to provide some of our services on terms which are not favorable to us, including low prices.

In March 2002, the Directive 2002/21/EC was passed. It replaces current market share criteria used to determine significant market power with antitrust law criteria. The new Directive includes a list of relevant markets and calls upon member state regulators to ascertain that a minimum level of competition exists within these relevant markets. If member state regulators determine that the degree of competition is insufficient in a relevant market, they must impose corrective measures to remove barriers to competition in such relevant market.

Regulation of Call Termination Charges

The charges that we impose on other operators for carrying calls handed over from their networks to our customers are known as call termination charges. In July 1998, the European Commission opened an investigation into the termination charges of European mobile telecommunications operators, including charges for the termination of calls on a wireless network.

In November 1999, MCI WorldCom made a complaint to the competition directorate of the European Commission, claiming that the call termination charges imposed by a number of European wireless operators could be classified as an abuse of those operators dominant positions in relevant markets. In 2002, the European Commission upheld MCI WorldCom s complaint and, as a result, we may be compelled to decrease our wireless interconnection fees.

Regulation of International Roaming Charges

In January 2000, the European Commission opened an investigation under its competition powers into the international roaming charges of European wireless communications operators. The European Commission has sent requests for information to all European wireless operators (including Telefónica, S.A.) seeking to establish whether the level of these charges amounts to a breach of European Union competition rules. The European Commission requested detailed information to be provided within two months, after which it began assessing the information provided before making any further decision on possible breaches. If the European Commission finds that we are in breach of European Union competition rules, we could be subject to enforcement action, including fines and penalties.

New Regulation of the Telecommunications Industry

On January 1, 2001, the Council of Ministers and the European Parliament approved legislation proposed by the European Commission aimed at consolidating the regulation of all communications networks and services. This legislation includes, among other provisions, harmonization directives relating to authorization, access, interconnection, universal service, user rights and data protection and a framework to ensure well-coordinated distribution of the radio spectrum. It also includes new regulations relating to access and interconnection that will result in increased regulation of our company s activity. In addition, the Commission has issued new competition guidelines that will apply when charges of abuse of dominant market position are brought in antitrust cases. The concept of significant market power has been amended as outlined in Significant Market Power above. These laws must be transposed to the national laws of each European Union member state by July 25, 2003.

Table of Contents

Germany

The legal framework for the regulation of the telecommunications sector in Germany is governed by the German Telecommunications Act, which was enacted on August 1, 1996 and implemented the liberalization of the German telecommunications market, as mandated by the directives of the European Commission.

The principal objectives of the Telecommunications Act are to promote competition in the telecommunications sector through regulatory measures, to guarantee appropriate and adequate telecommunications services throughout Germany and to provide for the regulation of frequencies. The Telecommunications Act aims to achieve these objectives principally by requiring licenses for the conduct of certain telecommunications activities, allocating frequencies, securing universal service and subjecting enterprises having dominant positions in particular telecommunications markets, market-dominant providers, to a special regulatory framework. The regulatory regime for wireless telecommunications is essentially the same as for other telecommunications businesses.

German Regulatory Authorities

Regulatory functions under the German Telecommunications Act are performed by the Regulatory Authority, which is supported by other government bodies. The Regulatory Authority has various powers under the German Telecommunications Act, including the authority to grant and revoke licenses, to control network access and interconnection, to impose universal service obligations and to approve or review the rates and related terms of market-dominant providers.

Licenses and Concessions

The German Telecommunications Act establishes a licensing requirement for, among other matters, the operation of transmission lines for mobile telecommunications services for the public (class 1 licenses). Hence, a class 1 license is needed for the operation of transmission lines for the provision of UMTS services. Any party providing telecommunications services has to notify the Regulatory Authority of its operations and any changes made to those operations.

Group 3G, in which our company holds a 57.2% interest, was awarded, through Group 3G UMTS GmbH, one out of six telecommunications licenses with the respective frequency blocks for the operation of transmission lines for the provision of UMTS services in the territory of the Federal Republic of Germany. This license expires on December 31, 2021. The license allocation rules neither explicitly permit nor exclude an extension period upon expiration.

Under the UMTS license, Group 3G was allocated frequency packages of two paired, or two-way, 5 MHz channels and one unpaired, or one-way, 5 MHz channel. Group 3G can use these frequencies within the license territory, unless there is a need to coordinate with other users of the same or bordering frequencies. Group 3G has also been awarded a class 3 license, which allows it to deploy proprietary telecommunications infrastructure.

Under our UMTS license, we are required to meet certain coverage targets. Specifically, we must reach 25% of the population by year-end 2003 and 50% of the population by year-end 2005. If we do not meet the minimum coverage requirements by the date set in our licenses, the respective regulatory authorities could suspend, change or revoke the terms of the licenses.

Foreign Ownership/Restrictions on Transfer and Change in Ownership

There are no restrictions on foreign ownership of telecommunications operators or other companies in Germany. Any transfer of the UMTS license must be in writing and requires the prior written approval of the Regulatory Authority. Group 3G must notify the Regulatory Authority of any change in its ownership. In 2001, we notified the Regulatory Authority of the merger of Telefónica Móviles Intercontinental, S.A., which held our interest in Group 3G, into Telefónica Móviles España, S.A.

Table of Contents

Group 3G will not be subject to rate regulation under the German Telecommunications Act unless it becomes a market-dominant operator. Like other licensees, it must submit its rates and other general terms and conditions to the Regulatory Authority in writing before they take effect. The Regulatory Authority may object to them within a period of four weeks. An objection would render the terms and conditions invalid. Group 3G must publish its terms and conditions and make them accessible to all interested parties.

Network Access and Interconnection

The German Telecommunications Act regulates general and special network access (including interconnection). In principle, each operator of a public telecommunications network is obligated, irrespective of its market position, to submit an offer for interconnection with its network to other operators at their request. Prices for interconnection between UMTS licensees to allow carrier selection are subject to negotiation. If public telecommunications carriers fail to reach an agreement on interconnection, the Regulatory Authority is called upon to order interconnection at the request of a party and may to a certain extent determine the terms and conditions of interconnection. Agreements on special network access are subject to certain regulations prescribed by the Network Access Ordinance, in particular the obligation to offer unbundled services and access. In addition, special provisions apply to market-dominant providers obligating them to offer network access on a non-discriminatory basis. In January 2002, a new system to calculate interconnection prices charged by Deutsche Telekom AG, as the German market-dominant provider, was enacted. Under this new system, interconnection prices will be based on the cost of the network elements necessary for the provision of the interconnection services.

Other Provisions

As the operator of a public telecommunications network, Group 3G must structure agreements with providers of telecommunications services for the general public so that these service providers are neither exclusively bound to Group 3G for an excessive period of time nor restricted in their own pricing and service conditions. Group 3G generally is obligated not to grant service providers less favorable conditions than those applied to itself or to its affiliated companies. Under the UMTS license, Group 3G, its affiliates and its competitors, are prohibited from becoming active as service providers for network operators active in the same relevant market in Germany.

Wireless network operators in Germany are generally obligated to provide number portability. UMTS licensees will be obligated to guarantee number portability from the start of their UMTS operations.

Italy

The legal framework for wireless telecommunications licenses in Italy is governed by Presidential Decree No. 318, issued on September 19, 1997, and Ministerial Decree of November 25, 1997. Regulatory functions under the Presidential Decree and the Ministerial Decree are performed by the Ministry of Telecommunications and the Authority for the Guaranty of Telecommunications.

Licenses and Concessions

The IPSE 2000 consortium, in which our company directly and indirectly holds 45.6%, has been awarded one out of five UMTS licenses in Italy.

Under this license, IPSE 2000 has been allocated frequency packages of two paired, or two-way, 15 MHz channels. In addition, license awardees which were not operating formerly in Italy received 5 MHz of additional spectrum which has been returned by IPSE 2000. This license expires on December 31, 2022 and may be extended, subject to the submission of a request six months prior to the expiration, for additional twenty year periods.

Under our UMTS license, we are required to meet certain coverage targets. Specifically, we must reach all regional capitals by July 1, 2004, all provincial capitals by year-end 2007, the region of Camarra by year-end 2005 and eighteen cities by year-end 2006. If we do not meet the minimum coverage requirements by the date set in our licenses, the respective regulatory authorities could suspend, change or revoke the terms of the licenses.

The Italian authorities are currently reviewing a draft Italian Law of Telecommunications that implements the European Directives and regulates spectrum trading.

Foreign Ownership/Restrictions on Transfer and Change in Ownership

There are no restrictions on foreign ownership of telecommunications operators or other companies in Italy for European Union members, members of the World Trade Organization or individuals or entities of a non-European Union country with which Italy has entered into a telecommunications agreement.

IPSE 2000 must notify the Authority for the Guaranty of Telecommunications of any change in its ownership. In 2001, we notified the Authority for the Guaranty of Telecommunication of the merger of Telefónica Móviles Intercontinental and Telefónica Móviles España.

Rates

IPSE 2000 will not be subject to rate regulation in Italy unless it becomes a market-dominant operator. Like other licensees, it must submit its rates and other general terms and conditions to the Authority for the Guaranty of Telecommunications before they take effect.

Interconnection

The Decree on the grant of individual licenses, issued on November 25, 1997, requires market-dominant operators to provide interconnection to other operators at cost-based prices. Each operator of a public telecommunications network, irrespective of its market position, is required to enter into negotiations regarding interconnection with its network at the request of any other operator. If public telecommunications carriers fail to reach an agreement on interconnection within six weeks, each operator may call upon the Authority for the Guaranty of Telecommunications to determine the terms and conditions of interconnection between the relevant operators.

Other Provisions

The UMTS license cannot be assigned for a period of four years from the date it is granted.

Specific rules concerning wireless carrier selection and other matters have not yet been provided by the appropriate government bodies. Since May 2002, most GSM operators in Italy have offered number portability.

Austria

The legal framework for the regulation of the telecommunications sector in Austria is governed by the Austrian Telecommunications Act of 1997 and various regulations and ordinances enacted pursuant to this Act.

The Ministry of Transport, Innovation and Technology is responsible for defining the legal framework for the telecommunications sector in Austria by means of ordinances and regulations and is supported in its functions by the advisory board on telecommunications issues. The Ministry of Transport, Innovation and Technology is responsible for releasing frequencies to the relevant regulatory body for allocation.

Table of Contents

Austrian Regulatory Authorities

The following regulatory authorities oversee the telecommunications industry in Austria:

- The Telekom Control Commission, which acts in a quasi-judicial capacity, has various powers under the Austrian Telecommunications Act of 1997, including the authority to grant and revoke licenses, to approve rates and related terms and conditions of market-dominant providers, to determine payment obligations to the universal service fund by licensees and the compensation paid to universal service providers from such fund, to settle disputes relating to interconnection, to allocate frequencies and to prevent cross-subsidizing; and

- The Regulatory Authority for Broadcasting and Telecommunications (RTR), which is responsible for promoting a competitive and liberalized market and, more specifically, administrating number portability, arbitrating disputes and providing support and advice to the Telekom-Control Commission.

Licenses and Concessions

We were awarded one out of six UMTS licenses in Austria. Under this license, we have been allocated frequency packages of two paired, or two-way, 5 MHz channels within the designated frequency spectrum. Operation pursuant to each frequency is subject to authorization from the relevant telecommunications authority. We can use these frequencies within the license territory. Restrictions on usage in border areas will be determined pursuant to the authorization to operate each frequency. This license expires on December 31, 2020. UMTS licenses in Austria can be renewed without limitation, either in duration or how often. Limitations on the duration of licenses may be imposed only when necessary due to scarce resources.

Under our UMTS license, we are required to meet certain coverage targets. Specifically, we must reach 25% of the population by year-end 2003 and 50% of the population by year-end 2005. If we do not meet the minimum coverage requirements by the date set in our licenses, the respective regulatory authorities could suspend, change or revoke the terms of the licenses. Additionally, if we fail to comply with these minimum coverage requirements, we will have to pay a penalty based on the nature of the requirement.

Foreign Ownership/Restrictions on Transfer and Change in Ownership

We must notify the Telekom Control Commission of any change in our ownership. Any change in our ownership which may have an adverse effect on competition is subject to the approval of the Telecommunications Control Commission. In 2001, we notified the authorities of the merger of Telefónica Móviles Intercontinental and Telefónica Móviles España.

Rates

We will not be subject to rate regulation under the Austrian Telecommunications Act of 1997 unless we become a market-dominant operator. Like other licensees, we must submit our rates and other general terms and conditions to the regulatory authority in writing before they take effect. We must publish our terms and conditions and make them accessible to all interested parties.

Interconnection

The Austrian Telecommunications Act of 1997 requires the market-dominant operator to provide interconnection to other operators. Each operator of a public telecommunications network, irrespective of its market position, is required to enter into negotiations regarding interconnection with its network at the request of any other operator. If public telecommunications carriers fail to reach an agreement on interconnection within six weeks, each operator may call upon the Telekom-Control Commission to determine the terms and conditions of interconnection between the relevant operators.

Table of Contents

Other Provisions

In accordance with the Austrian Telecommunications Act of 1997, network access providers must offer carrier selection. Wireless network operators in Austria are generally obligated to provide number portability.

Switzerland

The legal framework for the regulation of the telecommunications sector in Switzerland is governed by the Swiss Federal Telecommunications Act, which was enacted on April 30, 1997, and implemented the liberalization of the Swiss telecommunications market, as mandated by the directives of the European Commission.

The Swiss Federal Telecommunications Act seeks to guarantee the availability of a diverse range of cost-effective, high quality and competitive telecommunications services.

Swiss Regulatory Authorities

The following regulatory authorities oversee the telecommunications industry in Switzerland:

The Federal Communications Commission, an independent administrative body, has various powers under the Swiss Federal Telecommunications Act, including the authority to grant licenses, to control interconnection, to allocate frequencies, to approve national numbering plans, to regulate number portability and the freedom to choose service providers for national and international connections and to impose sanctions; and

The Federal Office for Communication, an administrative body under the direction of the Federal Communications Commission, is responsible for adjudicating certain licenses, submitting proposals to the Federal Communications Commission, executing the decisions of the Federal Communications Commission and mediating interconnection disputes among providers, among other responsibilities.

Licenses and Concession

We have been awarded a UMTS license in Switzerland. Under this license, we will be allocated frequency packages of two paired, or two-way, 15 MHz channels and one unpaired, or one-way, 5 MHz channel within the designated frequency spectrum. This license expires on December 31, 2016, and may be extended subject to the submission of a request to the Federal Communications Commission prior to December 31, 2014 for additional fifteen year periods.

Under our UMTS license, we are required to meet certain coverage targets. Specifically, we must reach 50% of the population by year-end 2004. If we do not meet the minimum coverage requirements by the date set in our license, the regulatory authority could suspend, change or revoke the terms of the license.

Foreign Ownership/Restrictions on Transfer and Change in Ownership

There are no restrictions on foreign ownership of telecommunications operators in Switzerland. Restrictions on foreign ownership may apply with respect to real property in Switzerland.

Any transfer of the UMTS license must be in writing and requires the prior written approval of the regulatory authorities. In 2001, we notified the authorities of the merger of Telefónica Móviles Intercontinental and Telefónica Móviles España, but since the merger did not change the beneficial ownership of 3G Mobile AG, no authorization was required. Any direct or indirect change of ownership of the license, including the acquisition by a third-party of 20% or more of our ordinary shares, shall be deemed a transfer of the license.

Table of Contents

Rates

We will not be subject to rate regulation under the Swiss Telecommunications Act, except with respect to any universal service obligations. Like other licensees, we must submit our rates to the Federal Office for Communication or publish them on our internet site every six months.

Network Access and Interconnection

The Swiss Telecommunications Act regulates interconnection. Each operator of a public telecommunications network is obligated to negotiate interconnection agreements with other network operators. If public telecommunications carriers fail to reach an agreement on interconnection within three months, the regulatory authority may determine the terms and conditions, including prices, of interconnection between the relevant operators. Market-dominant operators may be required to facilitate cost-oriented interconnection rates on a non-discriminatory and transparent basis.

Other Provisions

All UMTS licensees are obligated to use co-use antenna sites with other operators when building-out their network infrastructure. Restrictions regarding the construction of antenna sites are governed by federal and local regulation.

One of the other UMTS licensees, which also operates a GSM network, will be required to grant us national roaming on the terms and conditions set forth in the license. We may require such operator to offer us national roaming on the GSM network once we meet the 20% coverage target.

Under the Swiss Telecommunications Act, we are required to offer carrier selection and to provide number portability and certain compulsory services.

Brazil

The delivery of telecommunications services in Brazil is subject to regulation under the regulatory framework provided in the General Telecommunications Law enacted in July 1997. This law established an independent regulatory agency called the National Agency for Telecommunications, or ANATEL, which has begun to adopt a series of regulations to implement the provisions of the Telecommunications Law. Telecommunications services are also regulated by decrees issued by the President of Brazil and orders issued by the Ministry of Communication that are being replaced by new regulations issued by the National Agency for Telecommunications. Under this regulatory framework, telecommunications service providers may operate under concessions or authorizations that authorize them to provide specified services and which set forth certain obligations. Brazil is divided into ten geographical regions for the purposes of wireless communications operations. Companies seeking to offer wireless communications services in any one of those regions are required to apply for a license.

69

Table of Contents

The table below sets forth the ten wireless operating regions in Brazil and the wireless operators authorized to provide wireless communications services in such regions.

	Band				
Region	**Band A**	**Band B**	**Band C**	**Band D**	**Band E**
Region 1 São Paulo Metropolitan Area	Telesp Celular	Bell South	None assigned	Telecom Italia	Telecom Americas
Region 2 São Paulo State		Telecom Americas	None assigned		Vésper
Region 3 Rio de Janeiro State Espírito Santo State	Tele Sudeste Celular	ATL	None assigned	Telemar	Telecom Italia
Region 4 Minas Gerais State	Telemig Celular	Maxitel	None assigned		Vésper
Region 5 Paraná State Santa Catarina State	Tele Celular Sul	Global Telecom	None assigned	Brasil Telecom	Telecom Americas
Region 6 Rio Grande do Sul State	Celular CRT	Telet	None assigned		
Region 7 Distrito Federal Goiás State Tocantins State Mato Grosso State Mato Grosso do Sul State Rondônia State Acre State	Tele Centro Oeste Celular (TCO)	Americel	None assigned	Telecom Italia	Brasil Telecom
Region 8 Amazonas State Amapá State Pará State Maranhão State Roraima State	Tele Norte Celular	Norte Brasil Telecom (NBT)	None assigned		Telecom Italia

Region 9					
Bahia State Sergipe State	Tele Leste Celular	Maxitel	None assigned	Telemar	Telecom Americas
Region 10					
Piaui State Ceará State Rio Grande do Norte State Paraíba State Alagoas State	Tele Nordeste Celular	BSE	None assigned		Vésper

70

Table of Contents

Brazilian Regulatory Authorities

The National Agency for Telecommunications, ANATEL, is the principal regulatory authority for the Brazilian telecommunications sector pursuant to the Telecommunications Law and Decree No. 2338 dated October 7, 1997. ANATEL is an independent regulatory agency, but it is required to inform the Ministry of Communications of its regulatory activities on an ongoing basis.

On March 21, 2003, a Presidential Order was enacted (Order 4635/2003) to create two new regulatory offices linked to the Ministry of Communications: the Office of Communication Services and the Office of Telecommunications. The Office of Communication Services will be in charge of regulating broadcasting services and the Office of Telecommunications will supervise ANATEL activities. This Order will restructure the institutions, competences and functions of the Brazilian regulatory authorities.

Licenses and Concessions

On December 4, 2002, ANATEL authorized the contribution to Brasilcel, the joint venture between Telefónica Móviles and Portugal Telecom, of the wireless assets in Brazil of both Groups, and allowed the migration of Brasilcel s operators to a new licensing regime, Personal Mobile Service, or the SMP regime. Accordingly, Brasilcel s operators replaced all their old licensing titles with new SMP authorization titles. The old licensing titles were concessions, granted under the Cellular Mobile Service, or the SMC regime. The new SMP authorizations include the right of providing cellular services for an unlimited period of time but restrain the right of using the spectrum according to the schedules listed in the old licensing titles (Celular CRT until 2007, Telerj Celular until 2005, Telest Celular until 2008, Telebahía Celular and Telergipe Celular until 2008 and Telesp Celular until 2008). Spectrum rights can be renewed for a 15-year period only once.

The wireless companies who operate pursuant to authorizations are subject to general obligations set forth by the National Agency for Telecommunications and to obligations pursuant to each authorization agreement concerning quality of service and network expansion and modernization.

Mobile Personal Service (SMP) Regulation

In November 2000, The National Agency for Telecommunications published regulations for the issuance of new SMP licenses to provide wireless communication services, using the 1800 MHz frequency band. New operators under SMP licenses will compete with existing SMC cellular operators in each region. ANATEL held auctions for SMP licenses during the first quarter of 2001 and 2002 in which some SMP licenses were awarded.

Band A and Band B cellular service providers have the option of exchanging their existing SMC concessions for SMP authorizations.

The main objectives of the new SMP regime are to facilitate both the consolidation of wireless operators and the convergence regulation.

SMP regulation has substituted the older SMC regime, or Cellular Mobile Service. Wireless operators must comply with the new SMP regulations after replacing their concession, with the following exceptions:

- Operators will have until May 31, 2003 to adapt service plans;
- Operators will have until July 6, 2003 to introduce carrier selection codes and implement call-by-call long distance carrier selection;
- Operators will have until December 31, 2003 to introduce reverted charge pre-paid services;
- Operators will have 180 days after replacing their concession (SMC) to comply with SMP quality indicators; and
- Operators should use the bill and keep interconnection payment method after July 31, 2004.

Table of Contents

Foreign Ownership/Restrictions on Transfer of Ownership

Under Brazilian law, Brazilian entities or persons must own a majority of the voting shares of wireless service providers. In addition, if a company owns more than 20% of the shares of a wireless service provider, or otherwise participates in control of a wireless service provider, it may not hold 20% or more of the shares or participate in the control of another licensed wireless provider in the same area.

Rates

The rates that wireless service providers may charge their customers are also regulated by the SMP regime. The SMP regime allows operators to either freely negotiate their interconnection rates with other operators or apply a maximum rate fixed by ANATEL, and reviewed annually. In addition, under the SMP rules, the retail rates charged to customers for fixed to mobile calls cannot be less than the sum of the interconnection fees charged on the fixed and mobile call.

Other Provisions

Currently, there is no number portability requirement for wireless service providers in Brazil; however, we expect that this requirement may be included in future telecommunications regulations.

There are no limitations on the distribution of dividends in Brazil. However, dividends to be distributed outside of Brazil must be made through an exchange agreement entered into between the company distributing the dividends and a Brazilian bank authorized to operate in the exchange market, which will make the dividend payment to the entity abroad.

Peru

The provision of telecommunications services in Peru, including wireless services, is governed by the Telecommunications Law, which was enacted in 1993, and related regulations. Pursuant to this law, providers of wireless services seeking to operate in Peru must obtain a non-exclusive license from the Ministry of Transport, Communications, Housing and Construction. Licenses are granted by means of a license agreement entered into between the Ministry and the licensee and set forth the licensee s rights and obligations, including the regions where the licensee is authorized to operate. Licenses are granted either by application or through a bidding process.

Peruvian Regulatory Authorities

The following regulatory authorities oversee the telecommunications industry in Peru:

The Ministry of Transport, Communications, Housing and Construction is responsible for, among other things, formulating, supervising and carrying out telecommunications policies and regulations; and

The Organization for Supervision of Private Investment in Telecommunications, or OSPITEL, is responsible for promoting private investment in the telecommunications sector, ensuring the development of a free and fair telecommunications market, guaranteeing the quality and efficiency of service provided to customers and regulating rates.

Licenses and Concessions

In 1991 and 1992, Telefónica del Perú s government-owned predecessors, Compañía Peruana de Teléfonos S.A., was granted a license for the provision of wireless services in Lima and Callao, and Entel Perú S.A. was granted a license for the provision of wireless service nationwide. In 1995, Entel Peru was merged into Compañía Peruana de Teléfonos and the surviving entity changed its name to Telefónica del Perú. Each of these licenses is

Table of Contents

for a term of 20 years and expires on May 24, 2011 and February 1, 2012, respectively. Each license can be renewed for twenty year periods at its expiration by filing an application at least two years prior to the expiration date.

In October 1999, the Ministry authorized the transfer of Telefónica del Perú s wireless and paging licenses to its wholly-owned subsidiary, Telefónica Móviles S.A.C., effective on January 1, 2000. Under this transfer, Telefónica Móviles S.A.C. assumed all Telefónica del Perú s rights and obligations pursuant to the relevant license agreements.

Pursuant to Peruvian regulations, when a license involves use of spectrum, the service provider must obtain a specific authorization from the Ministry. Also, the licensee must satisfy target use levels with respect to the assigned frequencies.

Telefónica Móviles S.A.C. has the following authorizations to use spectrum:

Wireless service. Sub Band A of the 800 MHz band; and

Paging service. Frequency in the 450 MHz band.

Under its license to provide wireless services, Telefónica Móviles S.A.C. is obligated to meet certain quality service requirements with respect to call failure, radio-electric coverage and quality of communications. These requirements are established on a yearly basis and are gradually increased in order to improve the quality of the service provided. Telefónica Móviles S.A.C. is also obligated to inform its customers, before entering into a contract, of all terms and conditions of the services to be provided as well as all available plans. Telefónica Móviles S.A.C. must provide free information to subscribers regarding their consumption charges and the balance of their accounts.

In December 2001, we were awarded a license to provide long distance international and domestic carrier services.

Under the current license and telecommunication regulations, wireless service providers pay the following taxes:

Commercial operation rate. An annual rate equal to 0.5% of gross revenues from wireless services. Revenues derived from settlements of international traffic are included for the purpose of calculating this tariff;

Tax for use of spectrum. This annual tax is paid by licensees of base stations and is calculated as a percentage of Peruvian tax units. Telefónica Móviles S.A.C. pays 20% of a tax unit for each commuting cellular station and 0.5% for each wireless station depending on the capacity of the relevant commuting central;

Special contribution to Telecommunications Investment Fund. Telefónica Móviles S.A.C. is subject to this special annual contribution that equals 1% of Telefónica Móviles S.A.C. s annual gross revenues, after deducting the general sales tax and other similar taxes; and

Supervision Fee. A monthly supervision fee is paid to the Organization for Supervision of Private Investment in Telecommunications of 0.5% of Telefónica Móviles S.A.C. s gross revenues from services, after deducting the general sales tax and other similar taxes.

Rates

Rates charged by wireless providers to their customers have been subject to a free tariff regime supervised by the Organization for Supervision of Private Investment in Telecommunications. Operators freely establish their rates for telephone calls by fixed-line users to wireless service, and vice versa. Currently, the two tariffs in

Table of Contents

force are the wireless user pays and the calling party pays. In February 1999, however, the Organization for Supervision of Private Investment in Telecommunications issued a resolution stating that rates applicable to communications between the users of fixed-line services and the users of wireless services were then under review, and that until this review was complete, existing rates could not be increased. Thereafter, the Organization for Supervision of Private Investment in Telecommunications authorized a 6.21% and a 4% increase in the rates applicable to calls made from fixed and public telephones, respectively, to wireless users.

Interconnection

Wireless service providers are required, upon request, to interconnect with other license-holders. Telefónica del Perú and Telefónica Móviles S.A.C. have entered into an interconnection agreement. According to the principles of neutrality and non-discrimination contemplated in the Telecommunications Law, the conditions agreed upon between Telefónica del Perú and Telefónica Móviles S.A.C. will apply to third parties in the event that those conditions are more beneficial than terms and conditions agreed upon separately with Telefónica del Perú or with Telefónica Móviles S.A.C., as the case may be.

Interconnection rates can be negotiated among wireless operators in Peru. Nevertheless, there is a maximum rate fixed by OPSITEL for termination rates of local calls. This rate is calculated by OPSITEL based on market information and projections.

Foreign Ownership/Restrictions on the Transfer of Ownership

Currently, in Peru, there are no special restrictions relating to foreign investment in wireless service providers.

Our licenses are subject to the following terms and conditions relating to transfer of ownership:

- the license cannot be assigned without the Ministry s prior consent; and
- in case of transfer of shares representing more than 10% of the capital stock of the licensee, the parties shall have to inform such transfer to the Ministry within ten days of the date when the transfer took place.

Argentina

The state-owned telecommunications service provider, ENTEL, was privatized in 1990 with the passing of the State Reform Act. The telecommunications regulatory regime in Argentina is centered upon a system of region-specific and service-specific laws enacted under the National Telecommunications Act of 1972, which govern the issuance of licenses to provide wireless services and authorizations for use of spectrum.

For purposes of telecommunications regulation, Argentina is divided into three geographical regions: Greater Buenos Aires; Northern Argentina; and Southern Argentina. Argentine regulatory authorities also classify the specific telecommunications services that may legally be offered in each of these regions. In September 2000, the Argentine government adopted new regulations that provide for the issuance of nationwide licenses for the provision of all telecommunications services. Nevertheless, a wireless services provider seeking to operate in any one or more of the three regions must apply to the Secretariat of Communications for the allocation of frequencies in respect of each region.

Licenses to provide services are issued pursuant to an administrative process that is subject to terms and conditions set by regulatory authorities. In the case of wireless service, a separate authorization for use of spectrum is also required.

Table of Contents

Argentine Regulatory Authorities

The following regulatory authorities oversee the Argentine telecommunications industry:

- The National Communications Commission supervises compliance with licenses and regulations, and approves changes to mandatory goal and service requirements; and
- The Secretariat of Communications grants new licenses, regulates the bidding and selection processes for radio-spectrum authorizations, and approves the related bidding terms and conditions.

Licenses and Concessions

Telefónica Comunicaciones Personales S.A. s licenses for the provision of wireless services include the following:

- PCS licenses and corresponding authorizations for use of spectrum for each of Northern Argentina, Southern Argentina and Greater Buenos Aires;
- Licenses and corresponding authorizations for use of spectrum for wireless telephone services for Greater Buenos Aires and Southern Argentina, respectively; and
- Licenses for trunking, or closed user group, services for Greater Buenos Aires and other provinces.

Licenses do not expire, but may be canceled as the result of an operator s failure to comply with the terms of its license.

An authorization from the Secretariat of Communications allowing for use of spectrum is required before a telecommunications operator may provide wireless services. No wireless service provider may hold a bandwidth of more than 50 MHz in any one service region.

Telefónica Comunicaciones Personales operating licenses require it to comply with the coverage and service provision undertakings contained in those licenses, but they, in turn, allow Telefónica Comunicaciones Personales to freely set the rates to be charged to its customers, as long as the rates are applied on a non-discriminatory basis.

Rates

Rates charged to customers are not regulated in Argentina.

Interconnection

Interconnection agreements are freely negotiated between operators. If they fail to reach an agreement, each operator may call upon the Secretariat of Communications to determine the terms and conditions of interconnection between the relevant operators.

Operators with significant market power (defined as operators with more than 25% of total gross revenues generated by wireless operations) and market-dominant operators (operators with more than 75% of total gross revenues) must provide cost-oriented interconnection prices. Market-dominant operators must provide interconnections with other operators through a reference interconnection offer.

A calling party pays billing system is being gradually implemented, which will increase our interconnection revenue.

Other Provisions

Under Argentine law, wireless telephone service providers have the right to enter calls into the networks of other telephone service providers at any point, and are allowed to interconnect directly with the other wireless

Table of Contents

telephone service operators. The Secretariat of Communications regulates the rates charged for interconnection between fixed-line and wireless systems and also between wireless systems. Nevertheless, Argentine law provides that interconnection agreements are to be freely-negotiated between the relevant service providers, on a non-discriminatory basis, in order to ensure that interconnection for public telecommunications networks and services is not hindered, delayed or prevented.

Although there are no substantive government restrictions on the ability to transfer interests in wireless operators, governmental authorization is required for transfers or changes of control. There are no significant restrictions on foreign ownership of telecommunications companies or the repatriation of earnings from such ownership.

On January 6, 2002, Law No. 25,561 on Public Emergency and Exchange System Reform (the Economic Emergency Law) was passed, amending the currency board that pegged, by law, the Argentine peso at parity with the U.S. dollar (the Convertibility Law). It was established a dual exchange rate whereby export and certain import transactions would be governed by a fixed, official exchange rate of Ps.1.40 to US$1.00, while all other transactions would be governed by a floating rate to be set freely by the exchange market, with occasional intervention by the Central Bank of Argentina. The Argentine government has implemented a series of additional measures, among the most relevant of which are the following:

- The conversion into pesos of U.S. dollar deposits in Argentine banks at the rate of Ps.1.40 = US$1.00 and the conversion into pesos of all U.S. dollar-denominated debt obligations in Argentina as of January 6, 2002 at the rate of Ps.1.00 = US$1.00. Deposits and debts converted into pesos are to be adjusted through a benchmark stabilization coefficient to be published by the Central Bank of Argentina and to be applied as of the date of publication of Decree No. 214/2002, plus minimum and maximum interest rates for deposits and obligations within the banking system, respectively.

- The issuance of a bond by the Argentine government to compensate financial institutions for the shortfall resulting from the conversion of dollar deposits at a lower peso/U.S. dollar exchange rate than the exchange rate applied to U.S. dollar-denominated debt obligations.

- The conversion into pesos of all private U.S. dollar-denominated debt obligations as of January 6, 2002 at a Ps.1.00 = US$1.00 exchange rate and subsequent adjustment through the benchmark stabilization coefficient described above, plus an equitable readjustment in certain cases.

- The conversion into pesos of public service rates which were originally agreed upon in U.S. dollars at a Ps.1.00 = US$1.00 exchange rate and subsequent renegotiation of these public service rates on a case-by-case basis. Such renegotiation is to be conditioned by such factors as the impact of rate competitiveness on income distribution and economic growth, service quality and related investment plans, users interests, and the profitability of the companies affected.

- Since February 2002, the approval of the Central Bank of Argentina is required, for a 90 day period commencing on February 11, 2002, for transfers of funds outside Argentina by, among others, private companies, when such transfers relate to debt principal repayments, except for certain exceptions, cancellation of forwards or other financial derivatives, or to distributions of income or dividends.

- The suspension for two years, or until the executive branch determines that the financial emergency has ended, of the law guaranteeing free disposal of bank deposits by account holders.

Mexico

Introduction

The Mexican-owned telecommunications service provider, Teléfonos de Mexico, S.A. de C.V., or Telmex, was privatized in 1990. In connection with this privatization, the Mexican government modified Telmex s concession and allowed Telmex to participate in the bidding process to obtain a concession to provide mobile

76

Table of Contents

telephony services in any region as long as a second independent operator existed in that region. As a result of an auction held by the Mexican Ministry of Communications and Transportation, nine companies were granted concessions to provide mobile telephony services utilizing Band A (one per region), and Telcel, a subsidiary of Telmex, was granted licenses to provide services utilizing Band B (in all regions). The provision of all telecommunications services in Mexico is governed by the Federal Telecommunications Law, which was enacted in 1995, and various service-specific regulations.

The Mexican Federal Telecommunications Commission and the Ministry of Communications and Transportation are currently preparing a proposal to the Mexican Congress for amendments to the Federal Telecommunications Law. The proposed amendments relate to the unbundling of the local loop, the resale of telecommunications services, the procedures for awarding new licenses or frequencies and expanding the role of the Federal Telecommunications Commission.

Mexican Regulatory Authorities

The following governmental agencies oversee the telecommunications industry in Mexico:

- The Ministry of Communications and Transportation, or SCT; and
- The Federal Telecommunications Commission, or COFETEL.

Licenses and concessions

In Mexico, authorization to provide mobile telephony services is granted through a concession. Our Mexican wireless operating companies have been granted the following concessions to operate mobile telephony services on Band A:

- Baja Celular Mexicana, S.A. de C.V., or Bajacel, operates in Region 1, which consists of the states of Baja California, Baja California Sur and the municipality of San Luis Rio Colorado in the state of Sonora;
- Movitel del Noroeste, S.A. de C.V, or Movitel, operates in Region 2, which consists of the states of Sinaloa and Sonora, except for the municipality of San Luis Rio Colorado included in Region 1;
- Telefonía Celular del Norte, S.A. de C.V, or Norcel, operates in Region 3, which consists of the states of Chihuahua, Durango and the municipalities of Torreón, Francisco I. Madero, Matamoros, San Pedro and Viesca in the state of Coahuila; and
- Celular de Telefonía, S.A. de C.V, or Cedetel, operates in Region 4, which consists of the states of Nuevo León, Tamaulipas and Coahuila, excluding the municipalities of Torreón, Francisco I. Madero, Matamoros, San Pedro and Viesca.

Currently, only one Band A and one Band B service provider may provide mobile telephony services in each region. Each concession is granted for a period of twenty years, and may be renewed at the discretion of the SCT for additional twenty year periods. The concessions to provide mobile telephony services awarded to the above operating companies each expire in 2010.

Our Northern Mexico operators have 20 MHz of spectrum in the 800 MHz band.

In July 2001 we acquired, through Cedetel, a 49% interest in Grupo de Telecomunicaciones Mexicanas, S.A. de C.V., which holds a concession to provide radio link in the 7 GHz band. This concession expires in 2019, and may be renewed at the discretion of the SCT for additional twenty year periods.

On April 26, 2002, we signed definitive agreements to purchase 65% of Pegaso. Pegaso operates a digital based upon the CDMA standard and uses spectrum in the 1900 MHz band, the same technology we use in

Table of Contents

Mexico. In 1998, Pegaso was awarded licenses to provide personal communication services until 2018. This license may be extended for additional twenty year periods.

The concessionaires are subject to general obligations set forth by the Secretariat of Communications and Transportation and the Federal Telecommunications Commission, and to obligations pursuant to each concession concerning quality of service and network expansion and modernization. In addition, Mexican mobile telephony service providers that obtained their concessions prior to 1995 are generally required to pay a royalty to the Ministry of Communications and Transportation in semester installments in an amount equal to five to ten percent of revenues.

Mexican law restricts foreign investment in cellular telecommunications companies to a maximum of 49% of the voting stock unless the Mexican National Commission of Foreign Investment approves a higher percentage participation. We received the required approvals from the National Commission of Foreign Investment permitting our ownership of more than 49% of the outstanding voting stock of Nortel, Cedetel, Bajacel, Movitel and Pegaso in connection with our acquisition of these companies.

Rates

Rates charged to customers are not regulated. They are fixed by wireless operating companies and must be registered with the Federal Telecommunications Commission. Rates do not enter into force until confirmed by the Federal Telecommunications Commission.

Interconnection

Mexican telecommunications law obligates all telecommunications network concessionaires to execute interconnection agreements when requested by other concessionaires. As a result, interconnection agreements include the following:

- that the interconnection points of each network be identified;
- that access be provided in a non-discriminatory manner;
- that no volume discounts on interconnection fees are to be provided;
- that reciprocity with regard to interconnection fees and conditions be agreed upon between service providers of similar capacities or functions;
- that the providers accomplish interconnections at any switching points or other points which are technically feasible, with adequate capacity and quality; and

that if requested, a provider will measure and price the services rendered to its subscribers by other provider(s), as well as providing any information necessary to bill and collect the same.

Interconnection tariffs, in calling party pays mode, exclusively apply to calls originated and terminated in the same area (local service). Interconnection rates for local telephone are fixed by COFETEL.

Under the Federal Law of Economic Competence, COFETEL can establish specific obligations for the concessionaries of public telecommunication networks who hold significant market power regarding prices, quality of service and the provision of information.

Foreign Exchange/Dividend Limitations

A company may pay dividends if it meets specified corporate and legal reserve requirements. There are currently no exchange controls or other restrictions on the remittance of dividends outside of Mexico.

Table of Contents

Other Provisions

The Special Tax to Products and Services was amended in 2002 to introduce, effective January 1, 2002, a new 10% tax on telecommunication services, including wireless services. Pre-paid cards under 200 pesos are exempt from this tax. This tax can be passed through to customers. A revision of the law, published in the Official Federal Journal on December 30, 2002, has partly eliminated the exemption for pre-paid wireless services for 2003, excluding only from the tax payment pre-paid rates under 3.5 pesos per minute. This tax must be reported monthly. Telefónica Móviles Mexico is challenging this reform.

El Salvador

The Telecommunications Law was enacted in 1997 to regulate the telecommunications sector in El Salvador. The legal framework established by this law is a system of free competition and administrative concessions both for the delivery of telecommunications services and for use of spectrum. The General Superintendency of Electricity and Telecommunications is responsible for regulation of the telecommunications industry in El Salvador.

Licenses and Concessions

Concessions for the delivery of wireless communications services are granted for a thirty-year term. The concession can be renewed for thirty-year periods. Telefónica El Salvador holds a concession to deliver public telephone service, including wireless services throughout El Salvador until January 1, 2028.

A concession may be revoked only when a concession holder fails to comply with the terms of the concession. Concessions may be canceled upon the expiration of the concession; however, filing a new application with the General Superintendency of Electricity and Telecommunications may renew revoked or expired concessions.

Concessions for use of spectrum are granted for terms of 20 years. Telefónica El Salvador holds the following concessions for use of spectrum:

- Concession to use 25 MHz of spectrum in the 800 MHz B band; and

- Concession to use the following frequencies for multi-channel connections, including the delivery of wireless services: 5 GHz; 11 GHz; and 23 GHz.

We are required to pay a variable annual fee to the General Superintendency of Electricity and Telecommunications for administration and supervision in connection with our concession for the use of the spectrum. This fee is calculated by a fixed formula which incorporates, among other things, the bandwidth of our transmitter equipment and a fixed administration fee.

Telefónica Móviles El Salvador also has a multi-carrier code (carrier selection code) to provide intermediate services.

Rates

The General Superintendency of Electricity and Telecommunications determines and publishes maximum rates that may be charged to wireless customers. These maximum rates are generally based on the rates charged by service providers before the Telecommunications Law came into effect and are adjusted for inflation. Wireless service providers must publish on a quarterly basis the rates charged to customers.

Table of Contents

Other Provisions

Parties to interconnection agreements have the right to set the terms and conditions of interconnection agreements. The General Superintendency of Electricity and Telecommunications sets, however, maximum rates that may be charged under these agreements.

In El Salvador, there are no government restrictions on foreign ownership of, or on the transfer of ownership interests in, wireless providers. Similarly, El Salvador does not impose any restrictions on transfers of foreign currency from the country. There are no dividend restrictions applicable to Telefónica El Salvador.

Guatemala

The General Telecommunications Law of 1996 established the legal framework in Guatemala for the development of telecommunications activities and for the regulation of use of spectrum. The Telecommunications Registry of Superintendency of Telecommunications is responsible for the regulation of the telecommunications industry in Guatemala. Telecommunications operators seeking to provide services must register with the Telecommunications Registry of the Superintendency of Telecommunications.

Use of Spectrum

In Guatemala, a telecommunications services provider does not require a governmental concession to provide services, but does require an authorization to use the spectrum. These authorizations, called titles, are either granted directly to a wireless service provider or, when more than one wireless provider seeks to use a given band, they are awarded by public auction.

Telefónica Centroamérica Guatemala, S.A. holds titles, obtained in a public auction in March 1999, to use two 15 MHz channels in the 1900 MHz band for the provision of wireless services until 2014. Titles are granted for a term of fifteen years and can be renewed for subsequent fifteen-year terms at the request of the holder.

Under the Telecommunications Law, wireless service providers are required to provide access to their services when requested by other telecommunications companies in order to terminate or transfer calls placed through those companies. In turn, wireless service providers giving access to their services have the right to be compensated at a rate comparable to that of other service providers in similar situations.

Wireless service providers in Guatemala must pay an annual administrative fee of approximately US$0.13 to the Telecommunications Registry of Superintendency of Telecommunications for each telephone number assigned to a wireless provider.

Other Provisions

Guatemala does not regulate the rates that wireless providers may charge their customers. Similarly, interconnection rates are not regulated by the government. Operators may freely negotiate interconnection rates. If they fail to reach agreement on interconnection, each operator may call upon the Superintendency of Telecommunications to appoint an arbitrator to determine the terms and conditions of interconnection between the relevant operators.

In addition, there are no restrictions on foreign ownership of, or on the transfer of ownership interests in, wireless providers or foreign exchange limitations. Dividends may be paid only out of realized profits after legal reserve requirements are met.

Table of Contents

Puerto Rico

Regulatory Authorities

The wireless communications sector in Puerto Rico is regulated by two regulatory authorities:

- The U.S. Federal Communications Commission, or FCC, regulates interstate service in the United States (including Puerto Rico) as well as rates and entry regulations for service providers; and

- The Puerto Rican Telecommunications Regulatory Board regulates areas of the telecommunications sector in Puerto Rico not regulated by the FCC.

Wireless service providers in Puerto Rico must obtain licenses from the FCC and are required to register with the Telecommunications Regulatory Board.

Licenses and Concessions

NewComm Wireless Services, Inc., the company in which Telefónica, S.A. has an investment in the form of a convertible note, operates under two PCS licenses that were assigned to it by ClearComm, L.P. as part of a joint venture between ClearComm and Telefónica Larga Distancia de Puerto Rico, Inc., a Telefónica Group company. The PCS licenses consist of two C-block 15 MHz licenses in the San Juan and Mayaguez-Aguadilla-Ponce areas of Puerto Rico. PCS licenses do not expire, but may be canceled as the result of an operator s failure to comply with the terms of its license.

Among other things, PCS license holders must satisfy coverage requirements and make required contributions to U.S. federal programs and, until January 1, 2003, may not acquire or hold any type of wireless licenses with more than 55 MHz airwaves in the same area.

The FCC has initiated a rulemaking procedure to help facilitate the offering of calling party pays as an optional wireless service. Most wireless customers in the United States currently pay both to place calls and to receive them.

Interconnection

Wireless service providers are currently required to deliver calls from their networks to telephone numbers in the United States. U.S. federal legislation also requires all telecommunications carriers, including PCS license holders, to interconnect with other carriers, directly or indirectly, in accordance with principles of neutrality and non-discrimination.

Foreign Ownership/Restrictions on Transfer of Ownership

The FCC must approve any transfer of a controlling interest in a telecommunications company, defined as an acquisition of an interest in a company that raises the acquirer s interest in such company to more than 50%.

Under the Federal Communications Law, foreign companies may not hold more than 20% of the share capital of Direct Broadcast Satellite companies or more than 25% of a company that controls a Direct Broadcast Satellite company, or 25% of the share capital of Multichannel Multipoint Distribution (wireless cable) Providers.

Other Provisions

In December 2001, the Telecommunications Regulatory Board imposed payment obligations to the Puerto Rico Universal Service Fund by telecommunications services providers. Effective January 1, 2002, operators will be subject to a contribution to this fund equal to 0.44% of gross revenues generated by intrastate telecommunications services.

In 1996, the FCC required mobile operators to modify their 911 or emergency services in order to locate the person calling in an emergency situation. Those modifications must be in place by September 2003.

Morocco

Introduction

With the enactment of the Postal and Telecommunications Law in 1997, the National Postal and Telecommunications Office, the government entity that oversaw the state monopoly over postal and telecommunications services, was restructured to separate the state-owned telecommunications operator from the state-owned postal and financial services provider, and to create an independent agency.

The Postal and Telecommunications Law of 1997 specifies the basic principles of the telecommunications sector in Morocco, which was designed to encourage competition among telecommunications operators, and governs the granting of licenses for the provision of services and the use of spectrum. Specific laws and decrees concerning subjects such as interconnection requirements, the provision of leased circuits and the regulation of individual licenses provide the rest of the regulatory framework for telecommunications.

The privatization of the Morocco-owned telecommunications service provider, Itissalat Al Maghrib, began in December 2000. In December 2001, the provision of international communications services was liberalized.

Moroccan Regulatory Authorities

The National Agency for Telecommunications Regulation, or the NATR, is responsible for regulation of the telecommunications industry in Morocco.

Licenses and Concessions

In July 1999, Medi Telecom was awarded a GSM license in the 900 MHz band to provide wireless services, which included authorization to use the spectrum. The license is valid for a period of 15 years from August 2, 1999 and can be renewed for one five-year period.

This license allows Medi Telecom to provide wireless services and to use the spectrum and covers all Morocco. The license has requirements regarding the roll-out of services and population coverage. Specifically, we must reach 60% of the population by the third anniversary of the award of the license, 70% by the fourth anniversary and 75% by the fifth anniversary. Additionally, Medi Telecom is required to meet the build-out and service goals that were part of its bid for the license. Under the license, Medi Telecom is guaranteed a four-year period of exclusive operation, during which no other GSM license will be awarded to any other wireless service provider. This period will end in August 2003. The guarantee, however, does not preclude the granting of licenses for the provision of third generation wireless services to the two existing wireless service providers.

Wireless service providers are required to pay a total of 7% of their revenues to the NATR as a tax to be used for the development of universal service, research and development, and other national development projects. In addition, wireless service providers are assessed a tax for usage of the spectrum, the rate of which is determined yearly. In 2002, the NATR issued a fixed telephone license but no one applied for it.

82

Table of Contents

Rates

Morocco does not regulate the rates that wireless service providers may charge their customers. However, the rates that are set by providers must be communicated to the NATR thirty days before their effectiveness.

Interconnection

In February 1999, the Law on Telecommunications was enacted, granting every licensed wireless operator of a public telecommunications network the right and the obligation to interconnect their networks, and setting forth the technical, administrative and financial conditions that must be specified in interconnection agreements. In addition, operators with more than 20% of the wireless market must publish a standard interconnection agreement, or reference interconnection offer, that must be approved by the NATR. In 2002, the NATR presented a Reference Interconnection Offer (RIO) for Maroc Telecom. Medi Telecom rejected the project because it imposed abusive conditions on Medi Telecom in favor of Maroc Telecom. The NATR stopped the process and kept in use the 1998 RIO. The regulator proposed a new decision project in January 2003. The proposal left negotiation in operators hands and limited NATR s role to mediation.

The NATR has planned to define the significant markets and the criteria to analyze during 2003 which operators have significant market power.

The NATR has mandated that interconnection fees be calculated on a per second basis. Medi Telecom has appealed this decision.

Foreign Ownership/Restrictions on Transfer and Change in Ownership

There are no restrictions on foreign ownership of wireless providers in Morocco.

Medi Telecom s license requires prior written notice to the NATR of any change in the shareholder structure of Telefónica Móviles or Portugal Telecom International. In addition, any change of 5% or greater in shareholder participation in Medi Telecom during the first five years from the grant of the license must also be approved by the NATR.

Morocco does not impose any restrictions on foreign exchange or dividend payments, except that a company which seeks to remove funds from the country must submit a notification to and receive authorization to do so from the National Exchange Office.

C. ORGANIZATIONAL STRUCTURE

See Item 5.A Operating Results Overview.

D. PROPERTY, PLANTS AND EQUIPMENT

We and our operating companies own, or control through long-term leases or licenses, properties consisting of plant and equipment used to provide wireless communications services. In addition, we and our operating companies own, or control through leases, properties used as administrative office buildings and/or retail sales locations, customer relationship centers, and other facilities, such as research and development facilities. These properties include land, interior office space, and space on existing structures of various types used to support equipment used to provide wireless communications services. Most of the leased properties are owned by private entities and the balance is owned by municipal entities.

Plant and equipment used to provide wireless communications services consist of:

- switching, transmissions and receiving equipment;

connecting lines (cables, wires, poles and other support structures, conduits and similar items);

land and buildings;

easements; and

other miscellaneous properties (work equipment, furniture and plants under construction).

The majority of the lines connecting our services to other telecommunications services and power sources are on or under public roads, highways and streets. The remainder are on or under private property.

Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. OPERATING RESULTS

The following discussion should be read in conjunction with the combined financial statements included in this annual report. These financial statements have been prepared in accordance with Spanish GAAP, which differs in significant respects from U.S. GAAP. For a discussion of these differences and a reconciliation of net income and shareholders equity from Spanish GAAP to U.S. GAAP, see note 20 to the combined financial statements. The following discussion is based on the combined results of operations and financial condition of our company, unless otherwise specified or indicated.

Overview

We are a leading provider of wireless communications services in Spain and Latin America and, according to our estimates, we are the ninth largest global provider of wireless communication services based upon total active customers at December 31, 2002. We offer a broad range of wireless services, including voice services, enhanced calling features, international roaming, wireless internet and data services, wireless intranets and other corporate services.

At December 31, 2002, we provided wireless services through our operating companies and joint ventures, including Brasilcel N.V., our joint venture with Portugal Telecom in Brazil, to approximately 39.4 million customers compared with 28 million customers at year-end 2001. We have operations in Spain, Mexico, Peru, El Salvador, Guatemala, Argentina and Peru, and through our joint ventures with Portugal Telecom, we also provide wireless communication services in Brazil and Morocco. According to Pyramid Research, our operating companies and our joint ventures with Portugal Telecom in Brazil and Morocco cover service territories (excluding Germany, Italy, Austria and Switzerland) with a total population of approximately 353 million. In addition, we manage for Telefónica S.A., our parent, its wireless operations in Chile and Puerto Rico.

We also have licenses to provide UMTS services in Austria and Switzerland through our wholly-owned subsidiaries, in Germany through our 57.2% interest in Group 3G and in Italy through our 45.59% interest in the IPSE 2000 consortium. We have, however, restructured our operations in these countries. For further information see Item 4.B Business Overview Rest of Europe.

Our strategy is to focus on increasing our profitability and cash flow in the medium term by optimizing our investments and operating efficiencies while reinforcing our market leadership position in Spain and Latin America by introducing new services to encourage increased customer usage and loyalty. We are also continuously analyzing the possibility of acquisitions and strategic agreements in order to effect our strategy. We anticipate that growth in our markets will be driven by increased penetration rates in our Latin American markets, as measured by customers in relation to total population, and increased customer usage for both voice and data services through the introduction of new wireless internet and data services.

Table of Contents

The following chart presents our corporate organization, including our principal operating companies, the companies in which we have non-controlling minority interests and companies we have agreed to acquire, as well as our ownership interests in these companies as of June 27, 2003:

(1) Consortium which holds a UMTS license in Germany, but which has no existing wireless operations.
(2) Consortium which holds a UMTS license in Italy, but which has no existing wireless operations.
(3) Company which holds a UMTS license in Austria, but which has no existing wireless operations.
(4) Company which holds a UMTS license in Switzerland but which has no existing wireless operations.
(5) Jointly controlled and managed with Portugal Telecom.
(6) Telefónica Móviles México, S.A. de C.V., holds interests in 100% of Baja Celular Mexicano, 90% of Movitel del Noroeste, 100% of Telefónica Celular del Norte, 100% of Celular de Telefónia, S.A. de C.V. and 100% of Pegaso PCS. Through our 92% interest in Telefónica Móviles México, S.A. de C.V., as of December 31, 2002, we indirectly hold 92% of Baja Celular Mexicano, 82.80% of Movitel del Noroeste, 92% of Telefónica Celular del Norte, 92% of Celular de Telefónia, S.A. de C.V. and 92% of Pegaso PCS.
(7) Jointly managed with Portugal Telecom.
(8) Managed by us pursuant to a management agreement.
(9) TCP, a subsidiary of Brasilcel, N.V., owns 61.10% of TCO. TCP will make a tender offer for the remaining common shares and voting shares of TCO.

Table of Contents

The above chart does not include the Telefónica Group s investment in a convertible note issued by a wireless operator in Puerto Rico, which it plans to transfer to us, subject to receipt of regulatory approvals. See Item 4.B Business Overview Latin America Pending Acquisitions in Latin America Puerto Rico.

Presentation of Financial Information

Basis of Presentation of Combined Financial Statements

The combined financial statements have been prepared as if our company had been in existence at all dates and during all the periods presented and include the accounts of the operating companies and interests and investments in other wireless companies contributed to us by Telefónica, S.A. prior to December 31, 2002. Because some of these wireless operations were historically held through Telefónica, S.A. holding companies, such as Telefónica Internacional, S.A. or Telefónica Intercontinental, S.A., the assets, liabilities, revenues, costs and cash flows relating solely to the wireless operations of these companies have been carved-out from the accounts of these companies.

For our operations for which it was necessary to prepare carve-out financial statements, we have, whenever possible, specifically identified amounts applicable to the wireless operations. To the extent that specific identification was not possible, other allocation methods were employed and applied on a consistent basis as described in Note 2(b) to the combined financial statements.

The combined financial statements may not necessarily reflect our results of operations, financial condition and cash flows in the future or what our results of operations, financial condition and cash flows would have been had we been operated during all the periods covered by these combined financial statements as a separate, stand-alone, integrated wireless group rather than as separate companies or parts of integrated telecommunications companies within the Telefónica Group.

The combined financial statements reflect, in particular, historical accounts of our wireless operations in Spain, Brazil, El Salvador, Guatemala, carved-out and combined accounts of our holding companies for investments outside of Spain and carved-out and equity method reported accounts of our wireless operators in Morocco. The combined financial statements also include the accounts of Telefónica Móviles Mexico, including as of July 1, 2001, the accounts of our Northern Mexico operators acquired in 2001, and as of September 2002 Pegaso s operations. In addition, as of January 1, 2002, our combined financial statements include Tele Leste Celular on a fully consolidated basis and our wireless operations in Argentina and Peru as of October 1, 2000 and January 1, 2001, respectively, the effective dates for accounting purposes of the transfer of these operations to us.

The mobile operators managed by Telefónica Móviles in Chile and Puerto Rico are not included in our combined financial statements.

Table of Contents

The following table presents, for the periods indicated, the principal companies that are included in our combined financial statements and the methods of consolidation used in preparing these financial statements. Companies identified in any period as consolidated are those combined in our financial statements by the global integration method, which requires each line item of those companies results to be integrated into each line item of our statement of operations. Companies identified in any period as proportional means our share of the assets, liabilities, income and expenses in the joint venture are combined on a line-by-line basis with similar items in our financial statements, or reported as a separate line item in our financial statements. Companies identified in any period as equity means the results of these companies are only reflected in our combined statement of operations under Income (losses) of associated companies. Investments in companies identified in any period as cost method are generally not reflected in the combined statement of operations unless there is a financial loss.

	Year ended December 31,		
Company	**2000**	**2001**	**2002**
Telefónica Móviles España, S.A.	consolidated	consolidated	consolidated
Brasilcel(1)			proportional
Telefónica Móviles El Salvador, S.A. de C.V.	consolidated	consolidated	consolidated
Telefónica Centroamérica Guatemala, S.A.	consolidated	consolidated	consolidated
Group 3G UMTS Holding GmbH	consolidated	consolidated	consolidated
IPSE 2000, S.p.A.	consolidated	equity(2)	equity
3G Mobile Telecommunications GmbH	consolidated	consolidated	consolidated
3G Mobile AG		consolidated	consolidated
Telefónica Móviles S.A.C.		consolidated	consolidated
Telefónica Comunicaciones Personales, S.A.		consolidated	consolidated
Telefónica Móviles Mexico(3)			consolidated
Medi Telecom, S.A.	equity	equity	equity
Terra Mobile, S.A.	equity	consolidated(4)	consolidated

(1) Joint venture with Portugal Telecom that includes 100% of the assets of the Brazilian mobile companies transferred by us (Tele Sudeste Celular, Celular CRT, Tele Leste Celular and Telesp Celular) and Portugal Telecom (Telesp Celular and Global Telecom). Tele Sudeste Celular and Celular CRT were fully consolidated as of December 31, 2000, and December 31, 2001, and Tele Leste Celular was included in the combined financial statements in these periods under the equity method. Brasilcel s balance sheet was proportionally consolidated in the combined financial statements as of December 31, 2002 and the results for the whole year of Tele Leste Celular, Tele Sudeste Celular and Celular CRT were fully consolidated in the combined statement of operations until this transfer was made on December 27, 2002.
(2) Consolidated through September 30, 2001.
(3) Telefónica Móviles Mexico, after receiving the contribution of the Northern Mexico subsidiaries (Norcel, Bajacel, Movitel and Cedetel) and Pegaso PCS by Telefónica Móviles and the Burillo Group, consolidates as of September 2002 the Northern Mexico subsidiaries and Pegaso PCS. The Northern Mexico subsidiaries were already consolidated as of July 1, 2001.
(4) Consolidated as of October 2001.

Events Affecting Comparability of Historical and Future Results of Operations and Financial Condition

The global telecommunications industry is undergoing extensive and rapid change. The wireless communications sector, in particular, is in the process of transformation due to general deregulation, licensing of additional spectrum, development of a broad range of wireless services and products, technological advances in handsets and networks, and the consolidation of wireless operators on a cross-border basis. In order to enhance our position as one of the leading global wireless operators and to achieve superior growth and profitability in our industry, we have taken a series of strategic initiatives during 2000, 2001 and 2002 that affect the comparability of our results of operations and financial condition. As a result of these strategic initiatives, our

Table of Contents

financial condition and results of operations at and for the years ended December 31, 2001 and 2002 may not be comparable with our financial condition and results of operations at and for prior or future periods.

Acquisition of UMTS Licenses in Spain, Germany, Italy, Austria and Switzerland. In March 2000, we were awarded a license to provide UMTS-based services in Spain for 131 million. Telefónica Móviles España has rolled-out its UMTS network in 21 cities in Spain, complying with its obligations under its UMTS license. In August 2000, Group 3G, in which we have a controlling 57.2% interest share, was awarded a UMTS license in Germany at a cost of 8,471 million, of which our pro rata share is 4,845 million. In October 2000, the IPSE 2000 consortium, in which we hold a 45.6% interest, won an auction for a UMTS license in Italy for a payment of 3,269 million, of which our pro rata share is 1,491 million. In November, 2000 we were awarded a UMTS license in Austria at a cost of 117 million. In December 2000, we won an auction for a UMTS license in Switzerland for 32.5 million. Our interests in Germany, Switzerland and Austria are fully consolidated in our combined financial statements. Our interest in the IPSE 2000 consortium in Italy has, since October 1, 2001, been accounted for using the equity method.

The financial, technological, competitive and regulatory changes that have taken place in the market since these licenses were acquired resulted in our reviewing our European strategy. Accordingly, in July 2002, we decided to halt our commercial activities in Germany as a GSM/GPRS mobile virtual operator network (MVNO) and commission independent experts to assess the business plans of the UMTS operators in Germany, Italy, Austria and Switzerland.

Based on the assessments obtained, taking into account that in Germany, Austria and Switzerland the coverage requirements in the licenses might come into force earlier than in Italy and to ensure that the investments are correctly valued at all times, we decided to fully write down the book value of our investments in Germany, Austria and Switzerland. Regarding our investment in Italy, we estimated the value of the UMTS license of IPSE 2000, S.p.A. at 300 million, 136 million of which represents our investment in IPSE 2000. Accordingly, at December 31, 2002, a net loss of 5,049.8 million was recorded in our combined financial statements associated with the write-down of assets and the restructuring of operations in these four countries.

Acquisition of Wireless Operations in Peru and Argentina. In 2001, we acquired the Telefónica Group s wireless operations in Peru and Argentina. We issued an aggregate of 240,802,928 ordinary shares to Telefónica S.A. in exchange for interests in Telefónica del Perú S.A.A. and Telefónica de Argentina S.A. Telefónica del Perú S.A.A. spun off its wireless operations to us in June 2001 and Telefónica de Argentina S.A. spun off its wireless operations to us in November 2001. Following the spin-off by Telefónica del Perú S.A.A. and certain share exchanges with other members of the Telefónica Group and additional share purchases, we hold a 97.97% interest in Telefónica Móviles, S.A.C., our wireless operator in Peru. Telefónica Móviles, S.A.C. has been consolidated in our results of operations and balance sheet since January 1, 2001, the effective date for accounting purposes of its transfer to us.

Following the spin-off by Telefónica de Argentina S.A. and similar share exchanges with other members of the Telefónica Group, we hold a 97.93% interest in Telefónica Comunicaciones Personales S.A., our wireless operator in Argentina. Telefónica Comunicaciones Personales S.A. has been consolidated in our results of operations and balance sheet since January 1, 2001. Because the effective date of its transfer to us for accounting purposes was September 30, 2000, its earnings for the period from October 1, 2000 to December 31, 2000 were recorded under the Extraordinary income (expense) line item of our consolidated income statement. The amount of its net losses was not material to our results of operations.

Our wireless operations in Peru and Argentina together represented approximately 5% of our combined net revenues from operations for 2002. The acquisition of these operations has significantly broadened the scope of our Latin American coverage and operations and enhanced our ability to realize synergies in the region.

Acquisition of Mexican Wireless Operators from Motorola, Inc. In July 2001, we acquired from Telefónica, S.A. four wireless operators in Northern Mexico (Bajacel, Movitel, Norcel and Cedetel) that it had acquired from Motorola, Inc. in June 2001. Telefónica, S.A. acquired such operators in exchange for an aggregate of US$1,835.5 million in shares of Telefónica, S.A. and US$10.5 million in cash. Telefónica, S.A. transferred the wireless operators to us in exchange for our ordinary shares of equivalent value, based on our initial public offering price. Accordingly, we transferred approximately 203 million ordinary shares to Telefónica, S.A. These companies have been consolidated in our results of operations and balance sheets as of July 1, 2001.

Acquisition of Pegaso Telecomunicaciones S.A. de C.V. and formation of Telefónica Móviles Mexico. On April 26, 2002, we signed agreements to purchase 65.23% of Pegaso from Sprint, Leap Wireless, Qualcomm and other financial investors. Pegaso owns licenses to operate on a nationwide basis. In connection with this agreement, we also agreed with the Burillo Group, who held a 34.77% interest in Pegaso at the time of our acquisition, to contribute our interests in Pegaso and our other Mexican operators with the Burillo Group s interest in Pegaso into a new company, Telefónica Móviles Mexico.

On September 10, 2002, having obtained authorization from the relevant Mexican authorities, we acquired a 65.23% holding in Pegaso for 92.9 million. In accordance with our agreement with the Burillo Group, on September 10, 2002 we contributed our interests in Pegaso and our other Mexican operators (Bajacel, Movitel, Norcel and Cedetel) to Telefónica Móviles Mexico. On the same date the Burillo Group contributed its wireless interests to Telefónica Móviles Mexico. We hold a 92% interest in Telefónica Móviles Mexico and the Burillo Group owns the remaining 8%. For further information, see Note 2 to our combined financial statements.

As a result of the consolidation of the four Northern Mexico operators and Pegaso PCS into Telefónica Móviles Mexico in the final quarter of 2002, the financial statements of Telefónica Móviles Mexico were combined, showing consolidated results that incorporate the corresponding offsets for relationships between operators. Previously, the financial statements of our four Northern Mexican operators had included aggregate results, without reflecting adjustments made for existing operations between such companies, which primarily affected the operating revenue figures. To facilitate a consistent comparison with previous periods, the figures for fiscal year 2001 and 2002, from the first quarter of each year, have been presented by applying the same criteria, i.e., presenting the results for the Mexican operators net of intra-group offsets.

Increase in Ownership Interest in Tele Sudeste Celular and Tele Leste Celular. In late June and early July 2000, the Telefónica Group completed exchange offers that resulted in the acquisition of substantially all of the publicly held shares of integrated telecommunications companies that it had previously controlled in Argentina and Peru, a fixed-line operator in Brazil and parts of Tele Sudeste Celular Participações, our operating company in the Rio de Janeiro/Espírito Santo regions of Brazil. Because the Telefónica Group increased its interest in Tele Sudeste Celular as a result of the exchange offers, we acquired a greater interest in Tele Sudeste Celular when such interest was transferred to us by Telefónica, S.A. than the Telefónica Group held prior to such exchange offer. Because Tele Sudeste Celular was already consolidated in our combined financial statements, the principal effect of the exchange offer was a reduction of the minority interest.

Telefónica, S.A. acquired in December 2001 and March 2002, in exchange for shares of Telefónica, S.A., the Iberdrola group s shares in the Brazilian wireless operators, or the holding companies that control such wireless operators, in which Telefónica, S.A. and Iberdrola each participate. In accordance with this agreement, Telefónica, S.A. acquired 62% of Iberoleste Participações S.A., the holding company that controls Tele Leste Celular Participações S.A., as well as an additional direct interest of 3.38% of Tele Leste Celular Participações S.A. Since January 1, 2002 Tele Leste Celular has been fully consolidated in our combined financial statements.

Joint Venture with Portugal Telecom. On January 23, 2001, we, Telefónica, S.A., Portugal Telecom and its subsidiary PT Moveis agreed to create a joint venture to consolidate our wireless businesses in Brazil with those of Portugal Telecom. Under this joint venture framework agreement, each of the Telefónica Group and the Portugal Telecom Group agreed to contribute to a 50:50 joint venture their respective wireless businesses in

89

Table of Contents

Brazil, including interests in operating companies and holding companies that own cellular or wireless licenses in Brazil.

On October 17, 2002, we, Portugal Telecom and PT Moveis entered into a Shareholders Agreement and Subscription Agreement that implemented the joint venture framework agreement signed in January 2001. See Item 10.C Material Contracts Agreement with Portugal Telecom. Additionally, on October 21, 2002 we acquired from Portugal Telecom for approximately 200 million a 14.68% holding in Telesp Celular Participações, S.A., a company that provides wireless services in the Brazilian state of São Paolo through Telesp Celular S.A. and in the Brazilian states of Paraná and Santa Catarina through Global Telecom S.A.

Following the agreements entered into with the Portugal Telecom Group on October 17, 2002 and after having obtained the necessary authorization from the Brazilian authorities for the contribution, on December 27, 2002, we and PT Moveis contributed to Brasilcel, N.V. all the shares held directly or indirectly by the two groups in their wireless communications companies in Brazil. For further information, please see Item 4.B Business Overview Latin America Brazil.

Acquisition of TCO. On January 16, 2003 TCP entered into a Preliminary Stock Purchase Agreement with the Brazilian Company Fixcel to acquire up to 61.10% of the ordinary shares of Tele Centro Oeste Participaçoes, S.A., or TCO, which represents 20.37% of the total capital of TCO. On April 25, 2003, TCP finalized the acquisition. The purchase price was approximately *reais* 1.5 billion (approximately *reais* 19.49 per each lot of 1,000 shares acquired). As of the date of this annual report, TCP has paid *reais* 284.7 million of the total amount and the remaining will be paid in future installments.

On May 25, 2003, in compliance with Brazilian legislation, TCP made a request to launch a tender offer, which is currently being reviewed by the CVM, for the voting shares of the minority shareholders of TCO for a price equal to 80% of the price paid to the controlling shareholders. The minority shareholders that tender their shares will be compensated pro rata, in the same manner as the controlling shareholders. After the acquisition and the tender offer, TCP expects to incorporate TCO s shares and ADSs into TCP and de-list TCO s shares. Please see Item 4.B Business Overview Latin America Brazil for more information.

The value of the contribution to Brasilcel of the wireless assets owned by Telefónica Móviles, S.A. was 1,898 million. Brasilcel s balance sheet was proportionally consolidated in the combined financial statements and the results for the whole year of Tele Sudeste, Tele Leste Celular and Celular CRT were fully consolidated in the combined statement of operations until December 27, 2002, when this transfer was made. The fiscal 2003 income statement will reflect Brasilcel s inclusion in the Group s consolidation structure as of January 1.

Allocation of Additional Telefónica Group Assets and Debt to Our Company. Prior to our global initial public offering in November 2000, the Telefónica Group completed a series of adjustments to our capital structure as part of a broader reorganization of the Telefónica Group along global business lines and, in particular, with the objective of providing our company with a strong initial capital base. These adjustments included the payment of a 800 million dividend by Telefónica Móviles España, S.A. to Telefónica, S.A., which occurred prior to the transfer of this company to us, and a new loan of 800 million by Telefónica, S.A. to us. In addition, Telefónica, S.A. allocated an additional 875 million principal amount of outstanding Telefónica Group debt to us. At the same time, Telefónica, S.A. did not allocate to us approximately 1,497 million principal amount of debt. All of these transactions are reflected in the combined balance sheet at December 31, 2000, 2001 and 2002.

Argentina

Background. In 2002, Argentina s economy was in its fourth straight year of recession. In January 2002, the Argentine government removed the peg of the Argentine peso to the U.S. dollar, resulting in a significant devaluation of the peso against the dollar. As of December 31, 2002, the Argentine peso/U.S. dollar exchange rate was US$1.00 = 3.37 pesos and the Argentine peso/euro exchange rate was 1.00 = 3.53 pesos.

Table of Contents

Argentina s gross domestic product fell 11.5% in 2002, and the peso depreciated 239%, closing at 3.39 Argentine pesos per U.S. dollar. Consumer inflation rate increased 41%, while wholesale prices rose 118% in 2002 principally due to the higher pass-through coefficient. Unemployment increased to 21.5% in May, but decreased to 17.8% in October due to the implementation of the Plan Jefes y Jefas de Hogar by the government. For 2003, gross domestic product is expected to grow by 3%.

The Argentine government has also defaulted on the payment of its debt obligations. Whether companies doing business in Argentina will default on their obligations depends upon their own financial condition, and, in the case of U.S. dollar obligations, continued access to the foreign exchange markets. The default by the Argentine government and its decision to devaluate the currency have resulted in considerable uncertainty about the government s political stability, its management of the economy and the current exchange rate regime. Economic activity slowed sharply in the last weeks of 2001, and real gross domestic product declined 3.9% for the year. Argentina s real gross domestic product declined 11.5% in 2002.

During the first quarter of 2003, some parts of the Argentina economy began to stabilize. Gross domestic product growth during the first quarter of 2003 was estimated at 1.8% and according to market consensus is expected to grow by 4.1% for the entire year. Inflation has also stabilized as the peso has strengthened versus the U.S. dollar. As of March 31, 2003, the exchange rate was 2.98 Argentine pesos per U.S. dollar compared to 3.37 Argentine pesos per U.S. dollar as of December 31, 2002. Notwithstanding this recent stabilization, the Argentina economy has quickly deteriorated in the past, and may quickly deteriorate in the future, and until sustained growth is achieved we cannot assure you if, or when, the Argentina economy will begin a sustained recovery.

Beginning in December 2001, the Argentine government implemented a number of monetary and currency-exchange control measures that included restrictions on the free disposition of funds deposited with banks and tight restrictions on the transfer of funds abroad, with certain exceptions for transfers related to foreign trade and other authorized transactions, which were generally subject to prior approval by the Central Bank, most of which as of May 6, 2003 are no longer applicable in connection with repayments to foreign creditors.

On January 7, 2002, the Argentine Congress enacted the Public Emergency Law, which introduced dramatic changes to Argentina s economic model and amended the currency board that had pegged, statutorily, the peso at parity with the U.S. dollar since the enactment of the Convertibility Law in 1991. The Public Emergency Law empowered the Federal Executive Branch of Argentina to implement, among other things, additional monetary, financial and exchange measures to overcome the current economic crisis in the short term, such as determining the rate at which the peso was to be exchanged into foreign currencies. Since a new administration was appointed by the decrees, Central Bank regulation or legislation passed by the Argentine Congress, attempting to address the effects of amending the Convertibility Law, recovering access to financing, reducing government spending, restoring liquidity to the financial system, reducing unemployment, and generally stimulating the economy.

The Argentine economy has experienced a severe recession and political and economic crisis, and the abandonment of dollar-peso parity has led to significant devaluation of the peso against major international currencies. Argentine government actions concerning the economy, including with respect to inflation, interest rates, price controls, foreign exchange controls and taxes, have had and may continue to have a material adverse effect on private sector entities including our Argentine subsidiaries. Although some economic indicators of the Argentine economy stabilized in the first quarter of 2003, we cannot provide any assurance that future economic, social and political developments in Argentina, over which we have no control, will not further impair our business, financial condition, or results of operations or impair our ability to make payments of principal and/or interest on our outstanding indebtedness. The recession, the macroeconomic situation in Argentina and the actions taken by the Argentine government pursuant to the Public Emergency Law will continue to affect our Argentine subsidiaries.

Table of Contents

Impact on Telefónica Móviles. In view of our operations in Argentina, we have been affected by the economic situation in Argentina. As of December 31, 2002 and 2001, our exposure from our various Argentine companies amounted to 122 million and 494 million, respectively, including the asset value assignable to those holdings and the internal financing provided.

As of December 31, 2001, there was no explicit Argentine peso/euro exchange rate that could be taken as representative. Also, pursuant to an executive decision, in early 2002 the Argentine peso was devalued with respect to the euro, an event to which the market reacted subsequently. In accordance with Spanish accounting regulations relating to the devaluation in Argentina we used in the preparation of our combined financial statements peso/euro and peso/U.S. dollar exchange rates of 1.00 = 1.5149 pesos and US$1.00 = 1.7 pesos at year-end as the initial representative exchange rates prevailing in the market after December 31, 2001, following the aforementioned devaluation. For further information see note 2 to our combined financial statements.

At year-end 2002, with the normal currency exchange market re-established, the Argentine peso/U.S. dollar exchange rate was US$1.00 = 3.37 pesos and the Argentine peso/euro exchange rate was 1.00 = 3.53 pesos. These exchange rates were used to include in our combined financial statements the assets and liabilities of the Argentine subsidiaries and associated companies and to assess the status of their assets as regards their solvency, the value of their investments, their viability, the recoverability of goodwill, etc.

In accordance with the foregoing, our combined financial statements reflect an adverse impact on consolidated earnings of 37 million and 42 million in 2002 and 2001, respectively, and accumulated negative amounts under the caption Translation Differences in our combined financial statements of 394 million and 255 million in 2002 and 2001, respectively.

In January 2003, Telefónica Comunicaciones Personales, S.A., our subsidiary in Argentina, signed definitive debt refinancing agreements with its main creditors extending the maturities of its debt obligations and obtaining better terms for its financing.

Critical Accounting Policies under Spanish GAAP

Our discussion and analysis of our financial condition and results of operations are based upon our combined financial statements, which have been prepared in accordance with accounting principles generally accepted in Spain. Our reported financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie preparation of the financial statements. We base our estimates on historical experience and on various other assumptions, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our combined financial statements. We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our combined financial statements.

For further explanations, see note 4 to our combined financial statements.

Accounting for Long-lived Assets Except Goodwill

Property, plant and equipment and purchased intangible assets other than goodwill are recorded at acquisition cost. The acquisition cost of UMTS licenses includes the financial expenses incurred directly for their acquisition, from the granting of the license to the time when the technology required to operate UMTS services

Table of Contents

becomes available, provided such acquisition cost does not exceed the realizable value of such assets. These financial expenses are not included anymore due to the write-down of the investments in Germany, Austria and Switzerland. The financial expenses capitalized in 2002 amounted to 59.5 million for financing arranged by Telefónica Móviles, S.A. and to 68 million for the financing granted by other stockholders of the companies holding UMTS licenses. A total amount of 405.3 million was capitalized in this connection in 2001. If such assets are acquired in a business combination, the purchase price is allocated to the estimated fair value of the acquired property, plant and equipment and intangible assets. Property, plant and equipment are depreciated or amortized on a straight-line basis over their estimated useful lives, and licenses included in the intangible assets are depreciated or amortized using an amortization method based on their estimated capacity to generate revenues during the concession period. Computer software and other intangible assets are amortized on a straight-line basis over three to five years.

Accounting for long-lived assets and intangible assets involves the use of estimates for determining the fair value at the acquisition date, especially in the case of such assets acquired in a business combination, and the useful lives of the assets over which the costs of acquiring these assets are charged to the income statement.

When an impairment in the value of assets occurs, nonscheduled write-downs are made. We assess the impairment of identifiable intangibles and long-lived assets whenever there is reason to believe that the carrying value may exceed the fair value and where a permanent impairment in value is anticipated. The determination of impairments of long-lived and intangible assets involves the use of estimates that include but are not limited to the cause, the timing and the amount of the impairment. Impairment is based on a broad measure of factors. Among other things, we typically consider technological obsolescence, discontinuance of services and other changes in circumstances that indicate an impairment.

A significant change in the above mentioned facts and circumstances may trigger the requirement of recording an impairment and may have a material adverse impact on our operating results and financial condition

The estimates of the demand for 3G services have been revised downwards as result of the actual data services demand and the ongoing delay in the availability of a stable and competitive UMTS technology. The demand for data services has been hampered by the impossibility to coordinate the value chain and by the conflicts between suppliers and software and application developers, which have hindered the adoption of interoperable devices. On the other hand, the delay in the introduction of a commercially viable UMTS technology has allowed incumbent operators to make a much smoother migration to the new technology, thus hampering the successful introduction of new entrants. In addition, the delay has caused the major European markets to approach saturation, reducing the potential market for new entrants to capturing low value marginal clients or those clients that have not been retained by existing operators. At the same time, there has been an increased perception of the difficulty of success of new entrants, even using proven technologies such as GSM. The international footprint issue, so important a couple of years ago, is no longer a critical factor and it is more important to have sufficient scale in a particular market to obtain reasonable returns. Taking into account these circumstances, Telefónica Móviles, S.A. used a discounted cash flow approach, to estimate the fair value of the UMTS licenses, resulting in a write-down of these long-lived assets. The discount rate used in this discounted cash flow was calculated considering the interest rate in Europe and the risk of this business. A sensitivity analysis would not show significant differences, due to the fair value obtained in the cash flow approach.

Goodwill

Goodwill resulting from business combinations is amortized on a straight-line basis over its useful life. The amount paid for the acquisition of significant holdings in excess of the underlying book value of such holdings at the purchase date and not directly allocable to the companies assets is recorded as goodwill in consolidation and amortized on a straight-line basis during the period in which such goodwill contributes to the obtainment of revenues by the companies for which the goodwill was recorded. The maximum goodwill amortization period is 20 years.

93

Table of Contents

Nonscheduled write-downs are provided when an impairment in the value of goodwill occurs. We review, on a regular basis, the performance of our subsidiaries. When there is reason to believe that the goodwill arising from the acquisition of a subsidiary is impaired and that the impairment is of a permanent nature, we compare the carrying amount of that subsidiary to its fair value. The determination of the fair value of a subsidiary involves extensive use of estimates, depending on the method used. Significant management judgment is involved. Methods commonly used by us for valuations include discounted cash flow methods and quoted stock market prices, if available. Factors affecting estimated fair values typically include discount rates, future cash flows, market prices and control premiums. These estimates, including the methodologies used, are important in determining fair value and ultimately the amount of any goodwill write-down. A significant reduction in these estimates may have a material adverse impact on our operating results and financial condition.

Under Spanish GAAP, we utilized a fair-value approach to test goodwill for impairment. An impairment is recognized for the amount, if any, by which the carrying amount of goodwill exceeds a computed fair value. The fair value of the reporting units and the related implied fair value of its respective goodwill was established using a discounted cash flows approach. As appropriate, comparative market multiples were used to corroborate the results of the value derived from the discounted cash flows. The results of the transitional impairment test did not indicate an impairment as of January 1, 2002.

Equity Investments

We hold minority interests in companies having operations or technology in areas within our strategic focus, some of which are publicly traded and have highly volatile share prices. We record an investment impairment charge when we believe an investment has experienced a decline in value that is permanent. Determining whether an impairment is permanent involves a judgment and relies heavily on an assessment by management regarding the future development of the investee. In measuring impairments, we use quoted market prices, if available, or other valuation methods, based on information available from the investee.

Future adverse changes in market conditions or poor operating results of underlying investments could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment s current carrying value, thereby possibly requiring an impairment charge in the future.

Taking into account the circumstances explained in the caption Accounting for Long-lived Assets Except Goodwill, Telefónica Móviles, S.A. has recorded an impairment in the Equity Investment of IPSE 2000. The fair value of this investment after the impairment is 300 million (136 million of which represents our UMTS operations in IPSE 2000).

Net Investment Hedges

Exchange gains or losses arising from specific financing of foreign currency investments in investee companies to hedge the exchange rate risk in these investments have been recorded under the Translation differences caption in the combined balance sheet. These transactions are deemed to be hedging transactions, since the foreign currency in which the financing is denominated is either the same as or matches the functional currency of the investee s country.

Consequently, to ensure consistency in the treatment of the exchange differences on the subsidiaries assets and on the liabilities financing such transactions, and to enable the appropriate matching of revenues and expenses, the exchange differences on these loans were allocated, in accordance with international accounting standards, to the caption Translation differences in our combined financial statements.

Recognition of Revenues and Expenses

Revenues and expenses are recognized on an accrual basis, i.e., when the goods and services are actually provided, regardless of when the resulting monetary or financial flow occurs. However, in accordance with the

94

accounting principle of prudence, foreseeable contingencies and losses, even when probable, are recorded as soon as they become known.

During 2000, some of our subsidiaries commenced a commercial promotion in which our customers accumulate points based on the amount of airtime consumed. These points can be exchanged for discounts of future handset purchases, airtime or other kinds of services. The services for which users can exchange their points depends on the number of points earned by these users and the nature of the contract that the user has signed with the company. The combined balance sheet as of December 31, 2000, 2001 and 2002 includes the related accounting provision based on the estimated valuation of the accumulated points at those dates.

Critical Accounting Policies under U.S. GAAP

In order to prepare the reconciliation of our combined financial statements to U.S. GAAP, the following critical accounting policies require significant judgments and estimates different from those used for Spanish GAAP. For further explanations see note 20 to the combined financial statements.

Impairment of Intangible Assets and Property, Plant and Equipment and Related Goodwill

To assess impairment of intangible assets and property, plant and equipment and related goodwill under U.S. GAAP, we apply SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. If management has concluded that impairment indicators exist, we test for impairment by comparing the sum of the future undiscounted cash flows derived from an asset or a group of assets to their carrying value. If the carrying value of the asset or the group of assets exceeds the sum of the future undiscounted cash flows, impairment is considered to exist. If an impairment is considered to exist on the basis of undiscounted cash flows, the impairment charge is measured using an estimation of the assets fair value, typically using a discounted cash flow method. The identification of impairment indicators, the estimation of future cash flow and the determination of fair values for assets or groups of assets requires management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows and applicable discount rates. If actual results differ from these estimates, or if we adjust these estimates in future periods, operating results could be significantly affected.

The estimates of the demand for 3G services have been revised downwards as result of the actual data services demand and the ongoing delay in the availability of a stable and competitive UMTS technology. The demand for data services has been hampered by the impossibility to coordinate the value chain and by the conflicts between suppliers and software and application developers, which have hindered the adoption of interoperable devices. On the other hand, the delay in the introduction of a commercially viable UMTS technology has allowed incumbent operators to make a much smoother migration to the new technology, thus hampering the successful introduction of new entrants. In addition, the delay has caused the major European markets to approach saturation, reducing the potential market for new entrants to capturing low value marginal clients or those clients that have not been retained by existing operators. At the same time, there has been an increased perception of the difficulty of success of new entrants, even using proven technologies such as GSM. The international footprint issue, so important a couple of years ago, is no longer a critical factor and it is more important to have sufficient scale in a particular market to obtain reasonable returns. Taking into account these circumstances, Telefónica Móviles, S.A. compared the value obtained from undiscounted cash flow with the carrying value of the licenses and considering that this carrying value was higher, decided, using a discounted cash flow approach, to estimate the fair value of the UMTS licenses, resulting in a write-down of these long-lived assets. The discount rate used in this discounted cash flow was calculated considering the interest rate in Europe and the risk of this business. A sensitivity analysis would not show significant differences, due to the fair value obtained in the cash flow approach.

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires the use of

95

the purchase method of accounting for all business combinations initiated after June 30, 2001. SFAS No. 141 requires intangible assets to be recognized if they arise from contractual or legal rights or are separable, i.e., it is feasible that they may be sold, transferred, licensed, rented, exchanged or pledged. As a result, it is likely that more intangible assets will be recognized under SFAS No. 141 than its predecessor, Accounting Principles Board, or APB, Opinion No. 16, although in some instances previously recognized intangibles will be subsumed into goodwill.

Under SFAS No. 142, goodwill will no longer be amortized on a straight-line basis over its estimated useful life, but will be tested for impairment on an annual basis and whenever indicators of impairment arise. The goodwill impairment test, which is based on fair value, is to be performed on a reporting unit level. A reporting unit is defined as a SFAS No. 131 operating segment or one level lower. Goodwill will no longer be allocated to other long-lived assets for impairment testing under SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of. Additionally, goodwill on equity method investments will no longer be amortized; however, it will continue to be tested for impairment in accordance with APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock (see Critical Accounting Policies under Spanish GAAP Equity Investments regarding the impairment in Italy).

Under SFAS No. 142 intangible assets with indefinite lives will not be amortized. Instead they will be carried at the lower of cost or market value and tested for impairment at least annually. All other recognized intangible assets will continue to be amortized over their estimated useful lives.

SFAS No. 142 is effective for fiscal years beginning after December 15, 2001 although goodwill on business combinations consummated after July 1, 2001 will not be amortized. The Company has adopted SFAS No. 141 to account for the acquisition of the 65.23% holding in Pegaso.

As this business combination was made in the last quarter of 2002, there is an amount of 439 million of goodwill from the acquisition of Pegaso that is pending to be allocated to any potential intangibles that could exist. Considering that the intangibles that could result, if any, would have a long useful life, the effect of the amortization of those intangibles in year 2002 (three month period from acquisition) would not be significant. We have applied the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. Goodwill arising from the purchases of business that was being amortized over a period of twenty years has ceased to be amortized on January 1, 2002. We have determined that there is no effect of the impairment test of goodwill on our earnings and financial position.

Revenue and Expense Recognition

Under U.S. GAAP, we defer the recognition of customer activation revenues and related costs associated with obtaining new customers and amortize them over the expected duration of the customer relationship.

Where the costs incurred exceed the deferred revenues the excess costs are deferred and amortized over the minimum contract period. We have concluded that it is probable, based on historical experience, that the revenues less any direct costs, or net margin, from the total telecommunications services arrangement during the minimum contract term will exceed the costs deferred.

The minimum contract period is the period in which the customer must use the wireless communications services provided by us. This period is generally for a period lasting one year. If the customer decides to terminate its agreement during this minimum contractual period, the customer will be obligated to immediately remit any remaining amounts due under the contract to us. Moreover, any amounts paid by customers in advance for services to be provided would not be refunded to customers.

We have determined the expected life of the subscriber relationship based on our past statistical history as an operator providing wireless services, looking in particular to measurements such as churn rate. We have also considered factors such as the future projected churn rate of subscribers when determining our estimates of average subscriber life.

Other Accruals

Under U.S. GAAP, loss contingencies are recognized in accordance with SFAS 5, Accounting for Contingencies. Liabilities are accrued when a loss contingency is considered to exist and when a loss is considered probable and can be reasonably estimated. Management makes these estimates primarily with the support of internal specialists, if available, or with the support of outside consultants, such as actuaries or legal counsel. Revision of management s estimates of these loss contingencies may significantly affect future operating results.

New Accounting Standards

Accounting for Asset Retirement Obligations

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. An entity shall measure changes in the liability for an asset retirement obligation due to passage of time by applying an interest method of allocation to the amount of the liability at the beginning of the period. The interest rate used to measure that change shall be the credit-adjusted risk-free rate that existed when the liability was initially measured. That amount shall be recognized as an increase in the carrying amount of the liability and as an expense classified as an operating item in the statement of income. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. Management estimates that adoption of this pronouncement will not have a material impact on our earnings or financial position.

Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections

On April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections. This Statement rescinds SFAS No. 4, Reporting Gains and Losses from Extinguishment of Debt, and an amendment of that Statement, SFAS No. 64, Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements. This Statement also rescinds SFAS No. 44, Accounting for Intangible Assets of Motor Carriers. This Statement amends SFAS No. 13, Accounting for Leases, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The provisions of this Statement related to the rescission of SFAS No. 4 shall be applied in fiscal years beginning after May 15, 2002. The provisions of this Statement related to SFAS No. 13 shall be effective for transactions occurring after May 15, 2002, with early application encouraged. All other provisions of this Statement shall be effective for financial statements issued on or after May 15, 2002, with early application encouraged. Application of this Statement will result in the reclassification of this period and prior period gains and losses on the extinguishments of debt that have been classified as extraordinary into operating income. Management estimates that adoption of this pronouncement will not have a material impact on our earnings or financial position.

Accounting for Costs Associated with Exit or Disposal Activities

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, which addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). This Statement applies to costs associated with an exit activity that does not involve an entity newly acquired in a business combination or with a disposal activity covered by SFAS No. 144, Accounting for

97

the Impairment or Disposal of Long-Lived Assets, and requires that liabilities associated with an exit plan or disposal activity be recognized and measured initially at fair value in the period in which the liability is incurred. The provisions of this Statement will be effective for exit or disposal activities that are initiated after December 31, 2002, and are to be applied prospectively. We currently have no plans to exit or dispose of any activities, and thus do not anticipate that adoption of SFAS No. 146 will have a material impact on our results of operations or financial position.

Accounting for Stock-Based Compensation

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation- Transition and Disclosure. SFAS No. 148 amends SFAS No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition to the fair value method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure provisions of SFAS No. 123 to require disclosure of the effects of an entity s accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements in the summary of significant accounting policies. SFAS No. 148 does not amend SFAS No. 123 to require companies to account for their employee stock-based awards using the fair value method. However, the disclosure provisions are required for all companies with stock-based employee compensation, regardless of whether they utilize the fair value method of accounting described in SFAS No. 123 or the intrinsic value method described in APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS 148 is effective for fiscal years beginning after December 15, 2002 and early application is permitted. We currently account for stock-based compensation in accordance with APB No. 25 and do not anticipate that adoption of this Statement will have a material effect on our financial position or results of operations.

Guarantor s Accounting and Disclosure Requirements for Guarantees

In November 2002, the FASB issued Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45). This interpretation requires certain disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements for periods ending after December 15, 2002 and as such have been included in Note 11 to these financial statements. We are assessing the impact of FIN 45, but at this point do not believe that adoption of the recognition and initial measurement requirements of FIN 45 will have a material impact on our financial position or results of operations.

Consolidation of Variable Interest Entities

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities an interpretation of ARB No. 51 (FIN 46). FIN 46 clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 explains how to identify variable interest entities and how an enterprise assesses its interests in a variable interest entity to decide whether to consolidate that entity. It requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. It also requires certain disclosures by the primary beneficiary of a variable interest entity and by an enterprise that holds significant variable interests in a variable interest entity where the enterprise is not the primary beneficiary. FIN 46 is effective immediately with respect to variable interest entities created after January 31, 2003 and to variable interest entities in which an enterprise obtains an interest after that date, and effective for the first fiscal year or

interim period beginning after June 15, 2003 with respect to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. We do not currently have interests in any variable interest entities, and thus do not expect that application of this Statement will have any material effect on our financial position or results of operations.

Derivative Instruments and Hedging Activities

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. This Statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under Statement 133. In particular, this Statement clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative as discussed in Statement 133. In addition, it clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. Statement 149 amends certain other existing pronouncements. SFAS No. 149 will be effective for contracts entered into or modified after June 30, 2003, with certain exceptions, and for hedging relationships designated after June 30, 2003. The guidance should be applied prospectively. We have not assessed what impact, if any, application of this Standard will have on our financial position, results of operations, or cash flows.

Financial Instruments with Characteristics of Both Liabilities and Equity

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. Specifically, this Statement requires an issuer to classify the following instruments as liabilities (or assets in some circumstances): (1) a financial instrument issued in the form of shares that is mandatorily redeemable, (2) a financial instrument, other than an outstanding share, that, at inception, embodies an obligation to repurchase the issuer s equity shares, or is indexed to such an obligation, and that requires or may require the issuer to settle the obligation by transferring assets, (3) a financial instrument that embodies an unconditional obligation, or a financial instrument other than an outstanding share that embodies a conditional obligation, that the issuer must or may settle by issuing a variable number of its equity shares, if, at inception, the monetary value of the obligation is based solely or predominantly on certain specified criteria. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Statement is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before its issuance date and still existing at the beginning of the interim period of adoption. Restatement is not permitted. We have not yet assessed what effect, if any, adoption of this Standard will have on our financial position, results of operations or cash flows.

Economic Developments and Outlook

Spain

Our results of operations are dependent, to a large extent, on the level of demand for our services in Spain. Demand for our services in Spain is related to the performance of the Spanish economy. Spain s real gross domestic product growth slowed to 2.0% in 2002, and real gross domestic product is estimated to be around 2.2% in 2003, reflecting a relatively stronger domestic demand. Inflation is expected to decrease to 3.2% in 2003 from 3.6% in 2002. The current-account deficit was estimated at 2.1% of gross domestic product in 2002. It is difficult to predict how this may change in 2003 and beyond, but it could reach between 2.0 and 2.5%. The unemployment rate was 11.4% at December 31, 2002.

Table of Contents

Brazil

Brazil s gross domestic product grew substantially in the second half of 2002 due to an increase in exports. Real gross domestic product growth for the year was approximately 1.5%. Monetary policy has been kept tight by the Brazilian government due to an abrupt rise in inflation from 18% in September 2002 to 25% at December 2002. The Brazilian real depreciated approximately 52.3% relative to the U.S. dollar due to an adverse political environment and negative economic conditions. Economic growth of approximately 2.3% is expected in 2003.

Argentina

See Argentina above for a discussion of political and economic developments in Argentina and their impact on us.

Peru

Peru s real gross domestic product growth grew to 5.2% in 2002 from 0.2% growth in 2001. Peru experienced inflation in 2002, with prices increasing 1.5% as measured by the IPC, the Peruvian equivalent of the U.S. Consumer Price Index, and the Peruvian central bank raised interest rates in the second half of 2002 without a corresponding depreciation in the Peruvian nuevo sol. Unemployment averaged approximately 9.5% in 2002 and reached approximately 8.9% at year-end 2002. Real gross domestic product growth is expected to reach approximately 4.5% in 2003.

Mexico

Mexico s estimated real gross domestic product growth for the year 2002 was 0.9%. Monetary policy has been kept tight by the Mexican government in order to limit inflation and to bolster the currency, which depreciated by approximately 14% relative to the U.S. dollar during the course of 2002. Economic growth of approximately 2.3% is expected in 2003. The average consumer inflation rate for the year 2003 is estimated to reach 4.1% (5.7% in 2002) as a result of weakness in foreign demand, especially from the United States.

Customer Churn

We provide customer churn rates for each of our wireless operations under Item 4.B Business Overview. We believe that we apply conservative policies in calculating customer totals both in and outside Spain and the related customer churn rates. These policies may result in higher churn rates and lower market share figures than if we had used criteria employed by some other operators in calculating total customer churn rates.

We calculate churn rates by determining the number of customers whose wireless service is discontinued during a period, whether voluntarily or involuntarily (such as when a customer fails to pay his or her bill), divided by the average number of customers during the period.

In Spain, we include in involuntary churn any contract customer who has failed to pay his or her outstanding balance for two months and who, after having received notice of nonpayment, fails to pay the outstanding balance. We also include pre-paid customers in Spain who have not recharged their card after one month with no balance even if they receive incoming calls.

Outside Spain, and depending on the country, we included in involuntary churn any contract customer who has failed to pay his or her outstanding balance for three or four months and who, after having received notice of nonpayment, fails to pay the outstanding balance. As of December 31, 2002, we also included any pre-paid customer outside Spain who has not recharged his or her call credits for between three and six consecutive months following the date such credits had been reduced to zero. All of our Latin American operations, including our Brasilcel joint venture with Portugal Telecom, have recently adopted a standard criteria for pre-paid churn.

Table of Contents

As of January 1, 2003, pre-paid churn will include any pre-paid customer who in three months does not generate either incoming or outgoing traffic and does not have a sufficient balance to make a telephone call.

We may include as discontinued some customers in and outside Spain who have migrated, or changed, from pre-paid to contract service, or vice versa, and who have not informed the relevant operator of the change so that the operator assumes that it has lost the customer.

Introduction to Results of Operations

The following is a brief description of the revenues and expenses that are included in the line items of the combined financial statements.

Net Revenues from Operations

Net revenues from operations consist of the following:

Wireless communications services. These revenues are derived from use of our wireless network to provide communication services to customers, which is our principal business activity. Revenues generated by wireless communications services include:

Fees for voice services: These fees for voice services are generally based on a customer s actual airtime usage. Fees for voice services also include connection and monthly fees. Fees for voice services are received on a pre-paid basis and on a contract basis.

Value-added services fees: These fees include additional charges for value-added services, such as SMS, *MoviStar e-moción*, and MMS which are used by some customers in addition to standard voice services.

Interconnection fees: These fees are collected from other telecommunications operators for terminating their calls on our network. Spain and the other countries in which we currently operate, other than Guatemala, Argentina and Mexico (in respect of national calls only) have implemented a calling party pays system so that we receive substantial revenues in the form of payments from other telecommunications providers for calls made by their customers to customers on our network.

Roaming fees: These fees are collected from other wireless operators for calls by their customers that use our network.

Sales of handsets and accessories. These revenues relate principally to the sale of handsets and other equipment.

Other services. These revenues are derived principally from fixed wireless services in rural Spain and from fixed-line services in Central America.

Other Revenues

These non-operating revenues include the capitalized expenses of in-house work performed to construct property, plant and equipment, which themselves are to be capitalized, and increases in the value of inventories over the prior period.

Operating Expenses

Our principal operating expenses are:

Services and goods purchased. These expenses include interconnection fees paid by us to other telecommunications companies, including our affiliates in the Telefónica Group, and the cost of purchasing handsets and accessories.

External services and local taxes. These expenses include the costs of distribution and other commercial costs, advertising and marketing expenses, sales overhead, customer care, third-party network maintenance costs and long distance leased lines. Unlike under U.S. GAAP, which permits customer acquisition costs to be amortized over the expected life of the customer relationship, Spanish GAAP requires customer acquisition costs to be expensed in the period incurred.

Personnel expenses. These expenses include all personnel-related expenses, primarily wages and salaries and employee benefits.

Depreciation and amortization. These expenses include non-cash items such as depreciation of property, plant and equipment and amortization of licenses and concessions.

Changes in operating provisions. These expenses primarily reflect changes in the provision for bad debt.

EBITDA

We define EBITDA as operating profit (loss) before depreciation and amortization. We use EBITDA as an internal measure of business line performance. EBITDA is a segment measure under the US GAAP standard FASB Statement 131, which we discuss in note 20 to our combined financial statements.

Our EBITDA has increased to 3,736 million for 2002 from 3,334 million in 2001 and 2,252 million in 2000.

Non-Operating Expenses

Our principal non-operating income (expense) items are:

Amortization of goodwill. This non-cash item relates to amortization of accumulated goodwill. Under Spanish GAAP amortization of goodwill is reflected below the operating income line item. The criteria applied to the treatment of goodwill in our combined financial statements are that goodwill is amortized on a straight-line basis during the period in which it contributes to revenue generation in the corporations involved. The maximum amortization period for goodwill is 20 years, which is the period generally estimated for recovery, except in cases where the amount of goodwill is expected to be recovered in a shorter period.

Income (losses) of associated companies. This item reflects our company s participation in the income or losses of companies carried by the equity method.

Financial expense. Our financial expense principally consists of interest on our debt and foreign exchange losses.

Financial income. Our financial income principally consists of revenues from interest bearing accounts and investment securities and other instruments and foreign exchange gains.

Extraordinary income (expense). This item reflects extraordinary non-recurring gains and losses. Spanish GAAP is less restrictive than U.S. GAAP in permitting the classification of items as extraordinary.

Corporate Income Tax

The amounts provisioned for taxes are based upon income before taxes as calculated in accordance with applicable tax regulations in Spain and the other jurisdictions in which we operate. To date, we have been a member of the Telefónica, S.A. consolidated tax group and will continue to be so for as long as it owns at least a 75% interest in our company. The tax provision is calculated as an aggregate of the various tax provisions on earnings posted by each operator, with the corresponding adjustments.

102

Table of Contents

Minority Interests

These amounts reflect the minority interests held by third parties in our consolidated companies, which decreases our participation in the income or losses of those companies.

Results of Operations

The following table presents, for the periods indicated, each line item as a percentage of net revenues from operations:

	Year ended December 31,		
	2000	2001	2002
	(percentages of net revenues from operations)		
Net revenues from operations:			
Wireless communications services	91.1%	91.6%	86.9%
Sales of handsets and accessories	5.1	7.0	10.5
Other services	3.8	1.4	2.6
Total	100.0	100.0	100.0
Other revenues	1.7	1.8	1.0
Operating expenses:			
Services and goods purchased	(24.4)	(22.1)	(26.3)
External services and local taxes	(35.7)	(31.0)	(26.4)
Personnel expenses	(4.2)	(6.3)	(6.0)
Depreciation and amortization	(13.7)	(15.0)	(14.4)
Change in operating provisions	(2.0)	(2.7)	(1.4)
Total operating expenses	(80.0)	(77.1)	(60.1)
Operating income	21.7	24.7	26.5
Non-operating expenses:			
Amortization of goodwill	(0.4)	(0.6)	(1.0)
Income (loss) of associated companies	(1.5)	(1.4)	(1.7)
Financial expense	(4.8)	(8.5)	(10.1)
Financial income	1.7	4.6	6.6
Income from ordinary activities	16.7	18.7	20.3
Extraordinary income (expense)	(0.8)	(1.2)	(132.1)
Income before tax and minority interests	15.9	17.5	(111.8)
Corporate income tax	(5.4)	(7.5)	23.3

Minority interests	(0.3)	0.6	47.7
Net income	10.1%	10.6%	(40.7%)

The following discussion of our results of operations focuses primarily on the results of operations in Spain (including Telefónica Móviles España, M-Solutions and, since October 2001, Terra Mobile) and Latin America, our principal regions of operations. For purposes of this discussion, our intercompany eliminations and other have been excluded from the financial information regarding Spain and Latin America and from individual company results of operations. Some figures may not add up due to these exclusions or to rounding.

Table of Contents

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Net Revenues from Operations

The following table presents, for the periods indicated, the breakdown of net revenues from operations and the percentage variation from year to year:

	Year ended December 31,		
	2001	**2002**	**% Variation**
	(euro in millions)		
Wireless communications services	7,702	7,947	3.2%
Sales of handsets and accessories	588	960	63.2%
Other services	121	233	92.6%
Net revenues from operations	8,411	9,140	8.7%

Our net revenues from operations increased by 8.7% to 9,140 million for 2002 from 8,411 million for 2001. This increase resulted from the following factors:

Spanish operations. Our Spanish operations accounted for 75% of net revenues from operations in 2002. Net revenues from our Spanish operations increased 18% to 6,834 million for 2002 from 5,815 million for 2001 due to the following factors:

Wireless communications services: For 2002, wireless communications services represented 87% of net revenues from operations in Spain, reflecting an 11% increase to 5,940 million for 2002 from 5,340 million for 2001. This increase resulted primarily from a 9.6% growth in our active customer base to 18.4 million at year-end 2002 from 16.8 million at year-end 2001, as well as increased customer usage. Telefónica Móviles España s efforts to encourage customer migration to its contract plans have led to increased minutes of usage. Total traffic increased by 19% compared to 2001. MOU per contract customers also increased by 5% in 2002 compared to 2001. In the case of wireless data services, net revenues from data services increased to 729 in 2002 when compared to 573 in 2001. This increase was primarily due to the 35% increase in SMS sent in 2002 compared to 2001.

Sales of handsets and accessories: In 2002, handset and accessory sales represented 10% of net operating revenue in Spain, reflecting a 106% increase to 704 million for 2002 from 341 million for 2001. This increase resulted principally from the centralized handset procurement model introduced in December 2001 pursuant to which we act as an intermediary in the handset market in all activities involving customer attraction and retention. This model has yielded competitive advantages, both in terms of handset acquisition prices and in facilitating technological transition.

Other services: Net revenues from operations derived from other services in Spain increased 46% to 196 million for 2002 from 134 million for 2001.

Latin American operations. Our Latin American operations accounted for 25% of net revenues from operations for 2002. The smaller revenue contribution by our Latin American operators compared to 2001 is due primarily to the negative effect of exchange rate fluctuations. Net revenues from our operations in Latin American decreased in euros by 14.7% to 2,291 million for 2002 from 2,686 million for 2001. Exchange rate fluctuations had a negative impact of approximately 31.5% on Latin American revenues. The increase, excluding exchange rate impact, is primarily the result of fully consolidating twelve months of operations in Mexico in 2002, including Pegaso s operations since September 2002, compared to fully consolidating only six months of operations for our Northern Mexico operators in 2001, as well as fully consolidating the Tele Leste Group from January 2002.

Wireless communications services: For 2002, wireless communications services represented 81% of net revenues from operations in Latin America, reflecting a 21% decrease in euros to 1,865 million for 2002 from 2,361 million for 2001. This decrease is primarily a result of the negative effect of exchange rate fluctuations. Exchange rate fluctuations had a negative impact of approximately 38.3% on Latin American revenues. The increase, excluding exchange rate impact, is primarily the result of fully consolidating twelve months of operations in Mexico in 2002, including Pegaso s operations since September 2002, compared to fully consolidating only six months of operations for our Northern Mexico operators in 2001, as well as fully consolidating the Tele Leste Group from January 2002.

Sales of handsets and accessories: For 2002 sales of handsets and accessories represented 10% of net revenues from operations in Latin America, reflecting a 1% decrease in euros to 236 million for 2002 from 239 million for 2001. This decrease is primarily a result of the negative effect of exchange rate fluctuations. Exchange rate fluctuations had a negative impact of approximately 26.6% on Latin American revenues. The increase, excluding exchange rate impact, is primarily the result of fully consolidating twelve months of operations in Mexico in 2002, including Pegaso s operations since September 2002, compared to fully consolidating only six months of operations for our Northern Mexico operators in 2001, as well as fully consolidating the Tele Leste Group from January 2002.

Other services: Net revenues from operations derived from other services in Latin America were 200 million for 2002, representing 8.7% of net revenues from operations in the region and an increase of 133% from 86 million for 2001.

Other Revenues

Our other revenues decreased by 38% to 91 million for 2002 from 148 million for 2001, principally as a result of the lower levels of capital expenditures.

Operating Expenses

The following table presents, for the years indicated, the breakdown of operating expenses and the percentage variation from year to year:

	Year ended December 31, 2001	Year ended December 31, 2002	% Variation
	(euro in millions)		
Services and goods purchased	1,862	2,406	29.2%
External services and local taxes	2,604	2,412	(7.4)%
Personnel expenses	534	546	2.4%
Depreciation and amortization	1,258	1,316	4.6%
Changes in operating provisions	225	130	(42.2)%
Total operating expenses	6,483	6,811	5.1%

Services and Goods Purchased. Services and goods purchased increased by 29.2% to 2,406 million for 2002 from 1,862 million for 2001. As a percentage of net revenues from operations, services and goods purchased increased to 26.3% for 2002 from 22.1% for 2001. The increase in this expense item as a percentage of net revenues from operations resulted from the following factors:

Spanish operations: Our Spanish operations accounted for 68.6% of our services and goods purchased for 2002. These expenses increased 28% to 1,649 million for 2002 from 1,289 million for 2001. This increase was primarily attributable to the centralized model for handset purchases initiated in Spain in December 2001 and carried out throughout 2002, as well as the increase in outgoing traffic to other networks. The increased traffic resulted in higher interconnection costs despite a 17.01% reduction in interconnection tariffs imposed by Spanish regulators in July 2002. This reduction in interconnection

Table of Contents

tariffs was applied on August 1, 2002 to incoming traffic from the Amena network and fixed operators, with the exception of Telefónica de España. On October 31, 2002, Telefónica Móviles España applied the same reduction to incoming traffic from the Vodafone network and Telefónica de España. As a percentage of net revenues from operations generated by our Spanish operations, services and goods purchased increased to 24.1% for 2002 from 22.2% for 2001.

Latin American operations: Our Latin American operations accounted for 29.3% of our services and goods purchased for 2002. These expenses increased 21% to 705 million for 2002 from 581 million for 2001. This increase is primarily the result of fully consolidating twelve months of operations in Mexico in 2002, including Pegaso s operations since September 2002, compared to fully consolidating only six months of operations for our Northern Mexico operators in 2001, as well as fully consolidating the Tele Leste Group from January 2002. As a percentage of net revenues from operations generated by our Latin American operations, services and goods purchased increased to 30.6% for 2002 from 21.7% for 2001, as a result of increased marketing activity during the period, especially in Mexico, Brazil, Central America and Peru, as well as the consolidation of Pegaso.

European Operations: These expenses totaled 63 million in 2002, compared to 9 million in 2001, due to the commercial launch of GSM and GPRS in Germany, which began in November 2001 and was suspended in July 2002.

External Services and Local Taxes. Our expenses due to external services and local taxes decreased by 7.4% to 2,412 million for 2002 from 2,604 million for 2001. As a percentage of net revenues from operations, these external expenses decreased to 26.4% for 2002 from 31.0% for 2001. The relative decrease in this expense item as a percentage of net revenues from operations resulted from the following factors:

Spanish operations: Our Spanish operations accounted for 61.6% of our total external expenses in 2002, as these expenses decreased by 3.7% to 1,486 million for 2002 from 1,542 million for 2001. As a percentage of net revenues from Spanish operations, external expenses decreased to 22% for 2002 from 27.0% for 2001. This decrease was principally due to lower marketing costs.

Latin American operations: Our Latin American operations accounted for 32% of our total external expenses for 2002, as these expenses decreased 24% to 776 million from 1,023 million in 2001. As a percentage of the net revenues from Latin American operations, external expenses decreased to 33.7% for 2002 from 38% for 2001. External expenses for our Latin American operations decreased by 24% in 2002 compared to 2001, principally due to the containment of marketing costs in Argentina and the negative impact of exchange rates in Argentina and Brazil in fiscal year 2002, which more than offset consolidation of Tele Leste Group as of January 2002, and the full consolidation of twelve months of operations in Mexico in 2002, including Pegaso s operations since September 2002, compared to the full consolidation of only six months of operations for our Northern Mexico operators in 2001.

Personnel Expenses. Our personnel expenses increased by 2.4% to 546 million for 2002 from 534 million for 2001. As a percentage of net revenues from operations, personnel expenses decreased to 6.0% for 2002 from 6.3% for 2001. The decrease of this expense item as a percentage of net revenues from operations resulted from the following factors:

Spanish operations: Our Spanish operations accounted for 46.7% of our total personnel expenses for 2002. These expenses increased by 8.2% to 255 million for 2002 from 236 million for 2001. This growth is primarily explained by the 5.4% rise in the average headcount of Telefónica Móviles España in fiscal year 2002 compared to fiscal year 2001. As a percentage of net revenues from operations generated by our Spanish operations, personnel expenses decreased to 3.7% for 2002 from 4.1% for 2001, this decrease was primarily due to a 20.3% increase in employee productivity, as measured by customers to employees, to 4,212 customers per employee at year-end 2002 from 3,500 customers per employee at year-end 2001.

Table of Contents

Latin American operations: Our Latin American operations accounted for 35% of our total personnel expenses for 2002. These expenses decreased by 12.8% to 192 million for 2002 from 220 million for 2001. As a percentage of net revenues from operations generated by our Latin American operations, personnel expenses remained stable at 8.4% for 2002 from 8.2% for 2001 despite fully consolidating twelve months of operations in Mexico in 2002, including Pegaso s operations since September 2002, compared to fully consolidating only six months of operations for our Northern Mexico operators in 2001, as well as fully consolidating the Tele Leste Group from January 2002. This increase in personnel expenses resulting from the inclusion of Telefónica Móviles Mexico and the Tele Leste Group was largely offset by a containment of personnel costs, primarily in Argentina and among our Northern Mexico operators, as well as the fluctuation in exchange rates.

European operations: Our European operations represent 11% of personnel expenses. These increased by 10.4% over 2001, due to the launch of operations.

EBITDA

EBITDA increased by 12.1% to 3,736 million for 2002 from 3,334 million for 2001. As a percentage of net revenues from operations, EBITDA increased to 49.9% for 2002 from 39.6% for 2001. The increase in EBITDA was generally attributable to the following factors:

Spanish operations: Our Spanish operations accounted for 93% of EBITDA for 2002. The EBITDA of our operations in Spain increased 24% to 3,461 million for 2002 from 2,803 million for 2001. This increase was due principally to increased operational efficiency by Telefónica Móviles España. As a percentage of net revenues from operations, EBITDA increased to 50.6% for 2002 from 48.2% for 2001.

Latin American operations: Our Latin American operations accounted for 15.9% of EBITDA for 2002. EBITDA in our Latin American operations showed a decrease of 13.2% compared to fiscal year 2001, to 593 million for 2002 from 684 million for 2001. Exchange rate fluctuations had a negative impact of approximately 33.2% on Latin America EBITDA. As a percentage of net revenues from operations, EBITDA increased to 25.8% for 2002 from 25.5% for 2001, showing improved efficiency as a result of close monitoring of costs by the various companies.

Other European operations: We had negative EBITDA in our other European operations of 225 million in 2002 due primarily to the commercial launch of GSM and GPRS in Germany, which began in November 2001 and was suspended in July 2002.

Depreciation and Amortization. Depreciation and amortization increased by 4.6% to 1,316 million for 2002 from 1,258 million for 2001. As a percentage of net revenues from operations, depreciation and amortization decreased to 14.4% for 2002 from 15% for 2001. The increase in this expense item resulted from the following factors:

Spanish operations: Our Spanish operations accounted for 51.9% of our total depreciation and amortization for 2002. This expense increased 4.4% to 684 million for 2002 from 655 million for 2001. As a percentage of net revenues from operations generated by our Spanish operations, depreciation and amortization decreased to 10.0% in 2002 from 11.3% in 2001. This decrease was principally due to economies of scale derived from the volume of operations.

Latin American operations: Our Latin American operations accounted for 39.1% of our total depreciation and amortization for 2002. This expense decreased 4.1% to 515 million for 2002 from 537 million for 2001, due primarily to the depreciation of the Brazilian real and the Argentine peso, which more than offset the full consolidation of twelve months of operations in Mexico in 2002, including Pegaso s operations since September 2002, compared to the full consolidation of only six months of operations for our Northern Mexico operators in 2001, as well as the full consolidation of the

Table of Contents

Tele Leste Group from January 2002. As a percentage of the net revenues from operations generated by our Latin American operations, depreciation and amortization increased to 22.4% for 2002 from 20% for 2001.

Changes in Operating Provisions. Changes in operating provisions decreased by 42% to 130 million for 2002 from 225 million for 2001. These expenses, as a percentage of net revenues from operations, decreased in 2002 to 1.4% from 2.7% for 2001.

Operating Income

As a result of the above factors, operating income increased by 16.6% to 2,419 million for 2002 from 2,076 million for 2001. Operating income, as a percentage of net revenues from operations, increased to 26.5% for 2002 from 25% for 2001.

Non-Operating Expenses

Amortization of Goodwill. Amortization of goodwill increased 61.9% to 87 million for 2002 from 54 million for 2001. This increase resulted principally from the commencement of the amortization of goodwill relating to the acquisition of Pegaso, as well as the higher amortization accounted in 2002 of the goodwill relating to our Northern Mexico operations and Terra Mobile, which in 2001 were only amortized for six and three months respectively.

Income (Losses) of Associated Companies. Our share in income (losses) of companies carried by the equity method resulted in a loss of 159.5 million for 2002, as compared to a loss of 119.2 million for 2001. The losses correspond to the losses of IPSE 2000, which has been consolidated using the equity method since October 1, 2001, and Medi Telecom. The increased losses under the equity method, compared to fiscal year 2001, are primarily a result of the losses of IPSE 2000, which was fully consolidated until September 30, 2001.

Financial Expense. Our financial expense increased by 29% to 922 million for 2002 from 715 million for 2001, principally due to a 32% increase in interest on payables to Telefónica Group companies to 303 million in 2002 from 230 million in 2001 and a substantial increase in exchange losses to 502 million in 2002 from 346 million in 2001, which was offset in part by a 15% decline in other interest on payables and loans to 117 million in 2002 from 138 million in 2001. The increase in exchange losses was principally due to the devaluation of various Latin American currencies (principally the Argentine peso and the Brazilian real) and the exchange rate hedging transactions euro/U.S. dollar during the period.

Financial Income. Our financial income increased by 57% to 606 million for 2002 from 387 million for 2001. This increase was principally due to a substantial increase in exchange gains to 482 million in 2002 from 248 million in 2001 principally due to exchange rate hedging transactions entered into by us and the impact in the accounts payable of the devaluation of the U.S. dollar in respect to the euro and the Brazilian *real*, partially offset by a 10% decrease in revenues from securities and loans to 124 million in 2002 from 138 million in 2001. The net effect of the devaluation of the U.S. dollar in respect to the euro, including the hedging transactions is not significant.

Extraordinary Income (Expense)

Our extraordinary expense, net, was   12,076 million for 2002 compared to extraordinary expense, net, of   101 million for 2001. Extraordinary expenses of   12,162 million in 2002 consisted principally of the total write-off of assets in Germany, Austria and Switzerland, totaling   9.467 billion; the provision for losses attributable to Telia Sonera in Group 3G totaling   382 million after its communication that it would not inject additional funds in Group 3G; the extraordinary provisions attributable to the write-off of assets in Italy totaling   1.7 billion; and the expenses of restructuring European operations, totaling   380 million gross. Extraordinary income also

Table of Contents

includes the accelerated write-off of the goodwill of Terra Mobile, as a result of the process of restructuring this company s operations outside Spain, for a gross total of 154 million. Extraordinary income of 86 million in 2002 consisted principally of tax recovered totaling 46 million, and revenue from the sale of assets totaling 18 million.

All these figures are gross of taxes and minorities.

Corporate Income Tax

The provision for corporate income tax is based on pre-tax income calculated according to applicable tax law in Spain and in other jurisdictions in which we operate. We form part of the Telefónica S.A. tax consolidation group and will continue to do so for as long as Telefónica S.A., owns at least 75% of our capital stock. The tax provision is calculated as an aggregate, with the corresponding adjustments, from the various income tax provisions posted by each operator.

Our corporate income tax for 2002 includes the tax credit (2.7165 billion) resulting from the decline in value (provision for portfolio depreciation deductible for tax purposes) of our European subsidiaries in Germany, Austria, Switzerland and Italy who were awarded UMTS licenses.

Minority Interests

Minority interests for 2002 resulted in a gain of 4,363 million compared to a gain of 48 million in 2001. The figure posted in 2002 is a result of the allocation to minority shareholders of losses incurred by fully consolidated companies. In the fiscal year 2002, this amount corresponds primarily to the minority shareholders share of expenses from the write-downs and restructuring expenses in Germany, totaling 4.198 billion.

Net Income

As a result of the above factors, net income totaled (3,724) billion for 2002, compared to 893 million for 2001.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

The year ended December 31, 2001 was characterized by continued growth in revenues and total customers and by improvement in operating margins despite increasing competition in our markets and economic slowdown in our main countries of operation.

Net Revenues from Operations

The following table presents, for the periods indicated, the breakdown of net revenues from operations and the percentage variation from year to year:

	Year ended December 31,		
	2000	2001	% Variation
	(euro in millions)		
Wireless communications services	5,810	7,702	32.6%
Sales of handsets and accessories	326	588	80.3%
Other services	241	121	(49.8)%
Net revenues from operations	6,377	8,411	31.9%

Table of Contents

Our net revenues from operations increased by 31.9% to 8,411 million for 2001 from 6,377 million for 2000. This increase resulted from the following factors:

Spanish operations. Our Spanish operations accounted for 69% of net revenues from operations in 2001. Net revenues from our Spanish operations increased 20.4% to 5,815 million for 2001 from 4,828 million for 2000 due to the following factors:

Wireless communications services: For 2001, wireless communications services represented 92% of net revenues from operations in Spain, reflecting a 17.4% increase to 5,340 million for 2001 from 4,547 million for 2000. This increase resulted from a 22% growth in our customers to 16.8 million at year-end 2001 from 13.7 million at year-end 2000. The increased revenues derived from customer growth were partially a result of the success of our *MoviStar Plus* program, which contributed to a gain of more than 0.5 million contract-based clients. The increase translated into a 28.2% increase in total minutes of use compared to 2000. The increased revenues derived from customer growth were partially offset by lower revenue per user, which was principally due to rate reductions and a change in customer mix as pre-paid customers increased to 68% of our total customer base at year-end 2001 from 65% at year-end 2000. In the case of wireless data services, we experienced a 177% increase in our short messaging revenue for 2001 compared to 2000.

Sales of handsets and accessories: For 2001, sales of handsets and accessories represented 5.9% of net revenues from operations in Spain, reflecting a 174.4% increase to 341 million for 2001 from 124 million for 2000. This increase resulted principally from the centralized handset procurement model introduced in December 2001 pursuant to which we act as an intermediary in the handset market in all activities involving customer attraction and retention. This model has yielded competitive advantages, both in terms of handset acquisition prices and in facilitating technological transition.

Other services: Net revenues from operations derived from other services in Spain decreased 14% to 134 million for 2001 from 156 million for 2000.

Latin American operations. Our Latin American operations accounted for 32% of net revenues from operations for 2001. Net revenues from operations for our Latin American operations increased by 73% to 2,686 million for 2001 from 1,553 million for 2000 due to the following factors:

Wireless communications services: For 2001, wireless communications services represented 88% of net revenues from operations in Latin America, reflecting a 87% increase to 2,361 million for 2001 from 1,263 million for 2000. This increase was due principally to the 115% increase in our number of customers to 9.3 million at year-end 2001 from 4.3 million year-end 2000. Such increase was due, in large part, to the incorporation of wireless operations in Peru, Argentina and Mexico during 2001.

Sales of handsets and accessories: For 2001, sales of handsets and accessories represented 9% of net revenues from operations in Latin America, reflecting a 18% increase to 239 million for 2001 from 202 million for 2000. This increase resulted principally from the incorporation of wireless operations in Peru, Argentina and Mexico during 2001, which accounted for 45 percentage points of such increase and offset lower customer growth in the Brazilian market.

Other services: Net revenues from operations derived from other services in Latin America were 86 million for 2001, representing 3% of net revenues from operations in the region and a decrease of 3% from 88 million for 2000.

Other Revenues

Our other revenues increased by 34.0% to 148 million for 2001 from 111 million for 2000, principally as a result of higher levels of capitalized expenses relating to our start-up operations.

Table of Contents

Operating Expenses

The following table presents, for the years indicated, the breakdown of operating expenses and the percentage variation from year to year:

	Year ended December 31,		
	2000	2001	% Variation
	(euro in millions)		
Services and goods purchased	1,559	1,862	19.4
External services and local taxes	2,277	2,604	14.3
Personnel expenses	271	534	97.2
Depreciation and amortization	871	1,258	44.4
Changes in operating provisions	129	225	74.4
Total operating expenses	5,107	6,483	26.9

Services and Goods Purchased. Services and goods purchased increased by 19.4% to 1,862 million for 2001 from 1,559 million for 2000. As a percentage of net revenues from operations, services and goods purchased decreased to 22.1% for 2001 from 24.5% for 2000. The decrease in this expense item as a percentage of net revenues from operations resulted from the following factors:

Spanish operations: Our Spanish operations accounted for 69% of our services and goods purchased for 2001. These expenses increased 27.2% to 1,289 million for 2001 from 1,013 million for 2000. This increase was primarily attributable to increased traffic, which resulted in higher interconnection costs despite a decline in interconnection tariffs, and increased handset purchases as a result of our new centralized handset procurement model discussed above. As a percentage of net revenues from operations generated by our Spanish operations, services and goods purchased increased to 22.2% for 2001 from 21.0% for 2000.

Latin American operations: Our Latin American operations accounted for 31% of our services and goods purchased for 2001. These expenses increased 6.0% to 581 million for 2001 from 546 million for 2000 primarily as a result of the incorporation of our wireless operations in Peru, Argentina and Mexico during 2001, which accounted for 30 percentage points of such increase, which more than offset lower levels of commercial activity. In addition, the year-on-year comparison is affected by the sharp devaluation of the Brazilian real against the U.S. dollar in 2000, which resulted in higher services and goods purchased expense in that year as a result of the increased cost of handsets in local currency, as handset prices are denominated in U.S. dollars. As a percentage of net revenues from operations generated by our Latin American operations, services and goods purchased decreased to 21.6% for 2001 from 35.2% for 2000.

External Services and Local Taxes. Our expenses due to external services and local taxes increased by 14.3% to 2,604 million for 2001 from 2,277 million for 2000. As a percentage of net revenues from operations, these external expenses decreased to 31.0% for 2001 from 35.7% for 2000. The relative decrease in this expense item as a percentage of net revenues from operations resulted from the following factors:

Spanish operations: Our Spanish operations accounted for 59% of our total external expenses in 2001, as these expenses decreased by 18.0% to 1,542 million for 2001 from 1,873 million for 2000. As a percentage of net revenues from Spanish operations, external expenses decreased to 27.0% for 2001 from 38.8% for 2000. This decrease was principally due to the reduction in subscriber acquisition costs and the lower growth in new customers than in prior periods.

Latin American operations: Our Latin American operations accounted for 39% of our total external expenses for 2001, as these expenses increased 168% to 1,023 million from 382 million in 2000. As a percentage of the net revenues from Latin American operations, external expenses increased to 38% for

111

Table of Contents

2001 from 24.6% for 2000. External expenses for our Latin American operations increased by 168% in 2001 compared to 2000, principally due to the incorporation of wireless operations in Peru, Argentina and Mexico during 2001, which accounted for 169 percentage points of such increase.

Personnel Expenses. Our personnel expenses increased by 97.2% to 534 million for 2001 from 271 million for 2000. As a percentage of net revenues from operations, personnel expenses increased to 6.3% for 2001 from 4.2% for 2000. The increase of this expense item as a percentage of net revenues from operations resulted from the following factors:

Spanish operations: Our Spanish operations accounted for 44% of our total personnel expenses for 2001. These expenses increased by 39% to 236 million for 2001 from 169 million for 2000. As a percentage of net revenues from operations generated by our Spanish operations, personnel expenses increased to 4.1% for 2001 from 3.5% for 2000. This increase was due to the growth of our operations, which led to a personnel increase from 3,937 people at year-end 2000 to 4,372 people at year-end 2001. Nonetheless, employee productivity, as measured by customers per employee, increased by 17% to approximately 3,500 customers per employee at year-end 2001.

Latin American operations: Our Latin American operations accounted for 41% of our total personnel expenses for 2001. These expenses increased by 153% to 220 million for 2001 from 87 million for 2000. As a percentage of net revenues from operations generated by our Latin American operations, personnel expenses increased to 8.2% for 2001 from 5.6% for 2000. This increase in personnel expenses was principally attributable to the incorporation of wireless operations in Peru, Argentina and Mexico, which accounted for 144% of such increase. In addition to our personnel expenses in Spain and Latin America, we consolidated personnel expenses related to our start-up operations in European countries.

EBITDA

EBITDA increased by 48% to 3,334 million for 2001 from 2,252 million for 2000. As a percentage of net revenues from operations, EBITDA increased to 39.6% for 2001 from 35.3% for 2000. The increase in EBITDA was generally attributable to the following factors:

Spanish operations: Our Spanish operations accounted for 84% of EBITDA for 2001. The EBITDA of our operations in Spain increased 57% to 2,803 million for 2001 from 1,791 million for 2000. This increase was due principally to economies of scale and a reduction in customer churn, as well as to a 36% reduction in customer acquisition costs. As a percentage of net revenues from operations, EBITDA decreased to 48.2% for 2001 from 37.1 % for 2000.

Latin American operations: Our Latin American operations accounted for 20% of EBITDA for 2001. EBITDA in our Latin American operations increased 36.7% to 684 million for 2001 from 500 million for 2000, principally as a result of the incorporation of our wireless operations in Peru, Argentina and Mexico, which accounted for 41.7 percentage points of such increase. As a percentage of net revenues from operations, EBITDA decreased to 25.5% for 2001 from 32.2% for 2000.

Other European operations: Our other European operations accounted for (2.7)% of EBITDA for 2001. We had negative EBITDA in our other European operations of 90 million in 2001 due to the start-up nature of our operations in Europe.

Depreciation and Amortization. Depreciation and amortization increased by 44% to 1,258 million for 2001 from 871 million for 2000. As a percentage of net revenues from operations, depreciation and amortization increased to 15% for 2001 from 13.65% for 2000. The increase in this expense item resulted from the following factors:

Spanish operations: Our Spanish operations accounted for 52% of our total depreciation and amortization for 2001. This expense increased 13.3% to 655 million for 2001 from 578 million for 2000. As a percentage of net revenues from operations generated by our Spanish operations, depreciation and amortization decreased to 11.3% in 2001 from 12% in 2000. This decrease was principally due to economies of scale derived from the volume of operations.

> *Latin American operations*: Our Latin American operations accounted for 43% of our total depreciation and amortization for 2001. This expense increased 99% to 537 million for 2001 from 270 million for 2000. This increase was principally a result of the incorporation of wireless operations in Peru, Argentina and Mexico during 2001, which accounted for 93 percentage points of such increase, and higher expenses incurred to expand our networks in connection with the increased commercial activity in our Latin American operations. As a percentage of the net revenues from operations generated by our Latin American operations, depreciation and amortization increased to 20% for 2001 from 17.4% for 2000.

Changes in Operating Provisions. Changes in operating provisions increased by 74.4% to 225 million for 2001 from 129 million for 2000. These expenses, as a percentage of net revenues from operations, increased in 2001 by 2.7% from 2.0% for 2000.

Operating Income

As a result of the above factors, operating income increased by 50.6% to 2,076 million for 2001 from 1,380 million for 2000. Operating income, as a percentage of net revenues from operations, increased to 25% for 2001 from 21.7% for 2000.

Non-Operating Expenses

Amortization of Goodwill. Amortization of goodwill increased 103.6% to 54 million for 2001 from 26 million for 2000. This increase resulted principally from commencement of the amortization of goodwill relating to our Mexican operations and Argentina operations, as well as the commencement of amortization of goodwill relating to Terra Mobile following the change in the method pursuant to which we account for this entity from the equity method to consolidation as of October 1, 2001.

Income (Losses) of Associated Companies. Our share in income (losses) of companies carried by the equity method resulted in a loss of 119.2 million for 2001, as compared to a loss of 95 million for 2000. This change resulted principally from an increase in losses of Terra Mobile from 28 million in 2000 to 38 million in 2001 prior to such accounting change, losses at IPSE 2000 of 10 million, which were accounted for under the equity method as of October 1, 2001, and increased losses at Medi Telecom.

Financial Expense. Our financial expense increased by 134.8% to 715 million for 2001 from 304 million for 2000, principally due to a 134% increase in interest on payables to Telefónica Group companies to 230 million in 2001 from 98 million in 2000 and a substantial increase in exchange losses to 346 million in 2001 from 61 million in 2000, which was offset in part by a 5.4% decline in other interest on payables and loans to 138 million in 2001 from 146 million in 2000. The increase in exchange losses was principally due to the devaluation of various Latin American currencies (principally the Brazilian real and the Argentine peso) during the period.

Financial Income. Our financial income increased by 253% to 387 million for 2001 from 110 million for 2000. This increase was principally due to a substantial increase in exchange gains to 248 million in 2001 from 20 million in 2000 principally due to exchange rate hedging transactions entered into by us and a 55.1% increase in revenues from securities and loans to 138 million in 2001 from 89 million in 2000 principally due to interest on short-term financial investments made as a result of increased cash flow in our Spanish operations.

Extraordinary Income (Expense)

Our extraordinary expense, net, was 101 million for 2001 compared to extraordinary expense, net, of 52 million for 2000. Extraordinary expenses of 178 million in 2001 consisted principally of losses on fixed asset

Table of Contents

disposals, principally in Argentina, of 77 million, extraordinary expenses of 41.4 million relating to our Argentina wireless operations net loss for the three months ended December 31, 2000, which were included in the combined results of operations in this caption following its change in fiscal year end from September 30 to December 31, and other extraordinary expenses of 24 million. Extraordinary income of 77 million in 2001 consisted principally of reversals of provisions relating to pension plans and provisions relating to contingencies and other expenses totaling 39 million, recoveries of insurance claims of 11 million and other extraordinary revenue of 17 million.

Corporate Income Tax

Our corporate income tax expense increased by 81% to 629 million for 2001 from 348 million for 2000. This increase resulted principally from our improved results of operations, especially in Spain, and the reduced availability of tax credits.

Minority Interests

Minority interests for 2001 resulted in a gain of 48 million compared to a loss of 21 million in 2000. This change was a result of losses incurred in El Salvador, Guatemala, Argentina and Germany attributable to minority interests.

Net Income

As a result of the above factors, net income increased by 38.6% to 893 million for 2001 from 645 million for 2000. Net income, as a percentage of net revenues from operations, was 10.6% for 2001, up slightly from 10.1% for 2000.

B. LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Resources

We expect to have substantial liquidity and capital resource requirements in order to develop and expand our business, as we continue to implement our strategy.

Liquidity and Capital Resource Requirements

Our principal liquidity and capital resource requirements consist of the following:

capital expenditures for existing and new operations, including the roll-out of a GSM network in Mexico;

acquisitions of other wireless operators or companies engaged in complementary or related businesses, such as our acquisition of our Northern Mexico operators and Pegaso;

debt service requirements relating to our existing and future debt; and

costs and expenses relating to the operation of our business.

Table of Contents

Capital Expenditures. The following table presents our actual capital expenditures for 2000, 2001 and 2002 (excluding capital expenditures to acquire UMTS licenses):

	2000	2001	2002
	(millions of euro)		
Spain	897	780	519
Rest of Europe		295	76
Western Europe	897	1,075	595
Latin America(1)	541	597	310
Other(2)	18	18	14
Total	1,456	1,690	919

(1) Includes capital expenditures for years in which our Latin American operating companies are included in our combined financial statements. For 2001, includes with respect to our Argentina operations its capital expenditures during the 15 months ended December 31, 2001.

(2) Principally Telefónica Móviles, S.A. (parent company), Terra Mobile and M-Solutions.

The above table does not reflect capital expenditures to acquire UMTS licenses in Spain, Germany, Italy, Austria and Switzerland. See Capital Expenditures for UMTS Licenses.

Our total capital expenditures totaled approximately 919 for 2002, 1,690 million for 2001, and 1,456 million for 2000. Our total capital expenditure was 149.21 for the three months ended March 31, 2003. In each of these periods, the principal capital expenditures related to the build-out and development of our networks in Spain and the other countries in which we operate. In Spain, we have introduced new services such as GPRS and MMS. In addition, we substantially expanded the capacity of our digital network in Spain in order to accommodate the rapid growth in our customer base, and rolled out the first phase of UMTS in Spain. In that period, we also made significant capital expenditures to increase the geographic coverage and capacity of our network in Brazil.

Capital Expenditures for UMTS Licenses. In February 2000, we were awarded a UMTS license in Spain for a total payment of 131 million.

In August 2000, we acquired through Group 3G, in which we hold a 57.2% interest, a UMTS license in Germany for a total payment of 8,471 million. We financed our 4,845 million pro rata share of that payment with a bridge loan from Telefónica, S.A. which we partly repaid with the proceeds of our global initial public offering.

In October 2000, IPSE 2000 won an auction for one of five UMTS licenses in Italy for a total cost of 3,269 million, of which our pro rata share is 1,491 million. Approximately 2 billion was paid upon award of the license in October 2000, and the balance is payable over a ten-year period. We financed our pro rata share of the initial payment with debt financing.

In November 2000, we acquired a UMTS license in Austria for a total payment of 117 million. In January 2001, we acquired a UMTS license in Switzerland for a total payment of 32.5 million.

Table of Contents

Contractual Obligations and Commercial Commitments

Contractual Obligations

The following table discloses aggregate information about our principal contractual obligations by type of obligation at December 31, 2002, and the periods in which payments are due.

		Payments Due by Period			
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
	(euro in millions)				
Contractual Obligations					
Loans and credits	5,786	481	3,579	1,515	211
Loans and credits in foreign currency	2,438	510	777	615	536
Total contractual cash obligations	8,224	991	4,356	2,130	747

The following table presents, at December 31, 2002, our historical debt at both the holding company and operating company levels, as well as information regarding interest expense of the weighted average interest rates of such debt:

	Maturity				
	Short-Term	Long-Term	Total Debt	Interest Expense	Weighted Average Interest Rate(1)
	(millions of euro)				
Historical debt:					
Telefónica Móviles, S.A.(2)	447	5,617	6,064	256	4.49
European operations	79	351	430	45	5.47
Latin American operations	465	1,265	1,730	119	4.50
Total	991	7,233	8,224	420	4.69

(1) For illustrative purposes, includes as interest expense amounts which have been capitalized related to UMTS-related loans.
(2) Refers to parent company only.

Historical Debt. We had total debt in an aggregate principal amount of 8,224 million at December 31, 2002 (6,973 million net of cash and short-term financial investments) and 11,895 (9,013 net of cash and short-term financial investments) million at December 31, 2001. On June

28, 2002, Telia Sonera and Telefónica Móviles capitalized the shareholders loans related to the acquisitions of the UMTS license in Germany. The amounts capitalized by Telefónica Móviles and Telia Sonera are 4.077 billion and 3.051 billion, respectively. At December 31, 2002, total debt consisted of 991 million in short-term debt and 7,233 million in long-term debt. At December 31, 2001, total debt consisted of 6,616 million in short-term debt and 5,279 million in long-term debt.

At December 31, 2002, approximately 6,478 million principal amount, or 79%, of our total debt was payable to Telefónica, S.A. and Telefónica Finanzas, S.A., or Telfisa, and approximately 1,746 million principal amount, or 21%, of our total debt was payable to banks and other financial institutions. The majority of our debt to Telefónica, S.A. and Telfisa was incurred in connection with our acquisition of UMTS licenses in Germany, Italy, Austria and Switzerland. Historically, as a wholly-owned subsidiary of Telefónica, S.A., we believe that most of our debt was substantially at market terms when arranged or incurred. In connection with the allocation of assets and debt to us by the Telefónica Group prior to our initial global public offering, the terms, particularly the weighted average interest rate of our debt with the Telefónica Group, was brought into line with available market terms.

Our total debt includes both fixed-rate and variable-rate debt. At December 31, 2002, approximately 35% of our debt was fixed-rate and the remainder of our debt was variable-rate. In April 2002, in coordination with Telefónica, S.A., we started a plan to restructure the profile of our debt. A significant portion of our cash and marketable securities on hand have been used to prepay our debt. Furthermore, we have also modified the fixed-rate versus variable-rate interest profile of our long-term debt. Our total debt also consists of debt denominated in euro, U.S. dollars, Brazilian *reais* and, to a lesser degree, other currencies. At December 31, 2002, and after taking into account hedging transactions, approximately 80% of our debt was denominated in euro; 3% in U.S. dollars; 17% in Brazilian *reais* and in other currencies (not material). We have entered into swaps and other derivative-based transactions, in large measure, to hedge interest-rate and exchange-rate risks relating to our debt. See note 17 to the combined financial statements and the discussion under Item 11. Quantitative and Qualitative Disclosure About Market Risks for a discussion of our market risks relating to interest rates and foreign exchange rates at December 31, 2002.

The agreements and instruments governing the debt incurred by us do not, in our view, subject us to any material financial or negative covenants. By contrast, the agreements and instruments pertaining to the debt of our operating companies in Latin America impose various customary financial and negative covenants such as ratios of debt to EBITDA and EBITDA to financial expenses, limitations on asset sales, mergers, etc., and negative pledges. None of the debt of our operating companies contains cross-default or cross-acceleration provisions tied to the debt of Telefónica Móviles, S.A. (parent company). However, most of such debt contains customary cross default provisions to other debt of the same issuer and some of such debt contains cross default provisions relating to indebtedness of other companies in the group other than Telefónica Móviles, S.A. (parent company).

Debt Service Requirements. We have significant debt service requirements arising from debts payable to Telefónica, S.A. and Telfisa which conducts the treasury operations for the Telefónica Group, and debts payable to banks and other financial institutions. These debt service requirements consist of interest payments, which are reflected in our statements of operations under Financial expense, and principal payments. Financial expense also includes the effects of foreign currency movements on debt denominated in currencies other than the euro. Our interest expense, excluding effects of foreign currency movements, totaled approximately 420 million in 2002 as compared with 368 million in 2001.

Off-balance Commitments

In addition to the contractual obligations shown above under Contractual Obligations, we have commitments that could require us to make material payments in the future. These commitments are not included in our combined balance sheet at December 31, 2002. Our principal commitments as of the date of this Annual Report are described below.

IPSE 2000 entered into an agreement with Ferrovie dello Stato S.p.A., an Italian railway company, on October 25, 2000 pursuant to which IPSE 2000 has been granted certain access rights to and rights of use of a specified portfolio of such railway company s sites. Telefónica, S.A. has guaranteed amounts due under such agreement up to 48.2 million. We expect to enter into a back to back guarantee with Telefónica, S.A. or for such guarantee to be transferred to us.

In addition, IPSE 2000 agreed with a syndicate of banks on December 11, 2000 that such banks would issue a guarantee in an aggregate amount of 1,292 million in favor of the Italian Ministry of Treasury for the deferred portion of IPSE 2000 s required payment for its UMTS license in Italy. At present the guarantee amount is 1,006.4 million. Telefónica, S.A. has guaranteed amounts due under such guarantee up to a maximum amount of 587.2 million. In 2002, we have entered into a back-to-back guarantee with Telefónica, S.A. for a maximum amount 538.9 million which represents our participation in IPSE 2000.

Table of Contents

With respect to our UMTS license in Spain, we were also required to provide bank guarantees totaling 1,100 million to secure commitments assumed in our UMTS license application. These guarantees support several network build-out requirements, research and development requirements and job creation requirements, and are released from time to time as milestones are reached. Telefónica Móviles España commenced administrative proceedings to change the current system of guarantees. On April 7, 2003 a resolution was announced that modifies the UMTS guarantee system for all operators. New annual guarantees will replace the current guarantees which amount to 631 million. The amounts of the new annual guarantee for Telefónica Móviles España will be as follows:

Period 0 (until service launch): 167.5 million;

Year 1: 167.5 million;

Year 2: 149.5 million;

Year 3: 114.8 million; and

Year 4: 114.8 million.

The resolution does not modify nor reduce the commitments assumed by Telefónica Móviles España in its license application nor diminishes the individual guarantee for each commitment. If a commitment is not satisfied, the guarantee compromised in the license will be forfeited and the operator will have to replenish the annual guarantee. If the forfeited obligations is higher than the annual guarantee, the operator must add funds until completing the compromised guarantee. Currently Telefónica Móviles España is negotiating both with financial institutions and The Ministry the definitive terms of the new guarantees that will be replace the current ones.

Telefónica Móviles España, as shareholder of Medi Telecom, has signed a Shareholders Support Deed together with Portugal Telecom and Group BMCE. This deed obliges to a joint and several financial support commitment of up to an aggregate amount of 210 million, in the event that there is a breach of the financial covenants or in the event that Medi Telecom has a lack of funds to cover its debt service obligations. If Medi Telecom achieves certain EBITDA levels, this financial commitment is automatically cancelled.

Telefónica Móviles España will participate in a capital increase of Medi Telecom by contributing up to 250,000,000 dirhams (approximately 22.9 million), corresponding to its pro-rata share in the company, plus 50% of the capital increase not funded by the Moroccan Shareholders (the other 50% being covered by Portugal Telecom). In case CDG (Caisse de Depôts et Géstion), which holds a 7.66% share in the company, participates pro rata in the capital increase, the amount contributed by Telefónica Móviles España and Portugal Telecom will be reduced accordingly. The total amount of the capital increase, 500,000,000 dirham (approximately 45.8 million), will reduce the joint and several financial support commitments agreed between us, Portugal Telecom. and BMCE to an aggregate amount equivalent to 164.2 million.

Our agreement with the Burillo Group to create Telefónica Móviles Mexico includes put rights for the Burillo Group and call rights for us with respect to the Burillo Group s shares in Telefónica Móviles Mexico. The Burillo Group has a put right to require us to purchase its shares in Telefónica Móviles Mexico in 2007 or 2008, or if its interest in Telefónica Móviles Mexico decreases to less than 50% of its original ownership interest, after the occurrence of the event that results in such a dilution of its interest. If the Burillo Group does not exercise its put rights, we have a call right, after December 2008, to require the Burillo Group to sell to us its entire interest in Telefónica Móviles Mexico. In each such case, the purchase price will be determined based on a valuation of Telefónica Móviles Mexico performed pursuant to specified procedures at the time the related right is exercised, with a minimum purchase price in an amount based on the Burillo Group s original investment of

US$159.9 million in Telefónica Móviles Mexico, to which interest will be added, and from which any cash received by the Burillo Group will be deducted. If we are required to purchase the Burillo Group s shares in Telefónica Móviles Mexico under its put right, or if we purchase the Burillo Group s shares in Telefónica Móviles Mexico under our call right, we have agreed to pay a portion of the purchase price in cash equal to the aforementioned minimum purchase price. The remaining portion of the purchase price, if any, will be paid, at our choice, in cash, in our shares or a combination of the two.

We have issued a support letter in Mexico for our affiliate Grupo de Telecomunicaciones Mexicanos S.A de C.V., or GTM. This letter is to support GTM s request to the regulator COFETEL for a national long distance license. The maximum amount of the support is 124,154,700 Mexican pesos (approximately US$12.2 million).

On October 17, 2002, we, Portugal Telecom and PT Moveis entered into a Shareholder s Agreement and Subscription Agreement that implemented a joint venture framework agreement signed in January 2001. In accordance with the Shareholders Agreement and Subscription Agreement signed by Telefónica Móviles on the one hand and Portugal Telecom SGPS, S.A. and its subsidiary PT Moveis SGPS, S.A. on the other, we and the Portugal Telecom Group have the same voting rights in Brasilcel, N.V. This equality in voting rights will continue to exist even if either party s economic and voting interest is diluted below 50%, but not lower than 40%, as a consequence of a capital increase. The equality in voting rights will cease to exist if the percentage of ownership of one of the parties falls below 40% during an uninterrupted period of six months. In this event, if the group with the reduced interest were the Portugal Telecom Group, it would be entitled to sell to us, who would be obliged to buy (directly or through another company) all of Portugal Telecom s ownership interest in Brasilcel N.V. This right expires on December 31, 2007. The price for the acquisition of the Portugal Telecom Group s holding in Brasilcel, N.V. would be calculated on the basis of an independent appraisal (in the terms provided for in the Shareholders Agreement and Subscription Agreement) performed by investment banks, selected using the procedure established in these agreements. Subject to certain conditions, the payment could be made, at our choice, in (i) cash, (ii) our shares and/or Telefónica, S.A. shares, or (iii) a combination of the two. This put option would be exercisable in the 12 months subsequent to the end of the aforementioned six-month period, provided that the Portugal Telecom Group had not increased its ownership interest to 50% of the total capital stock of Brasilcel N.V.

Also, in accordance with the Shareholders Agreement and Subscription Agreement, the Portugal Telecom Group will be entitled to sell to us, who would be obliged to buy, all of Portugal Telecom Group s ownership interest in Brasilcel, N.V. should there be a change in control at Telefónica, S.A., Telefónica Móviles, S.A. or any other subsidiary of the latter that held a direct or indirect ownership interest in Brasilcel N.V. Similarly, we will be entitled to sell to the Portugal Telecom Group, which would be obliged to buy, our interest in Brasilcel, N.V. if there is a change of control at Portugal Telecom SGPS, S.A., PT Moveis SGPS, S.A or any other subsidiary of either company that held a direct or indirect ownership interest in Brasilcel N.V. The price will be determined on the basis of an independent appraisal (in the terms provided for in the Shareholders Agreement and Subscription Agreement) performed by investment banks, selected using the procedure established in these agreements.

On December 30, 2002, we arranged a guarantee from Telefónica S.A. for the obligation of NewComm Wireless Services, Inc. in Puerto Rico regarding a bridge loan of US$60 million granted by ABN Amro which matures on June 30, 2003. The Telefónica guarantee is at the same time counter guaranteed by us.

We have recently agreed to terminate our shareholders agreements and put/call arrangement with Terra Networks and acquire their remaining interest in Terra Mobile, increasing our interest in Terra Mobile to 100%. Terra Mobile will be incorporated into our operating structure to support the development of *MoviStar e-moción* by assisting content and service providers in extending their product offerings over wireless networks. The acquisition of this additional 20% is not significant for us since the acquisition was made at Terra Mobile s net book value.

On January 16, 2003 TCP entered into a Preliminary Stock Purchase Agreement with the Brazilian Company Fixcel to acquire up to 61.10% of the ordinary shares of TCO, which represents 20.37% of the total capital of TCO. On April 25, 2003, TCP finalized the acquisition. The purchase price was approximately *reais*

119

Table of Contents

1.5 billion (approximately *reais* 19.49 per each lot of 1,000 shares acquired). As of the date of this annual report, TCP has paid *reais* 284.7 million of the total amount and the remaining will be paid in future installments as set out below:

Item	Maturity Date	Amount in *reais* (million)	Interest Rate
Deferred payment	04/25/2004	80.2	CDI plus 2% p.a.
Retained payment(1)	04/25/2004	42.8	CDI plus 1% p.a.
Retained payment(1)	Up to 04/25/2008	10.7	CDI plus 2% p.a.
Debentures 1st Tranche	06/27/2003	561.2	CDI plus 2% p.a.
Debentures 2nd Tranche	08/08/2003	296.5	CDI plus 2% p.a.
U.S. dollar-denominated debt	April 03 Sept 04	45.7	Libor +1% p.a. to fixed 20.7% p.a.
reais-denominated debt	April 03 April 04	183.7	108% to 110% of CDI

(1) Payment has been retained as a guarantee for contingent liabilities

On May 25, 2003, in compliance with Brazilian legislation, TCP made a request to launch a tender offer, which is currently being reviewed by the CVM, for the voting shares of the minority shareholders of TCO for a price equal to 80% of the price paid to the controlling shareholders. The minority shareholders that tender their shares will be compensated pro rata, in the same manner as the controlling shareholders. After the acquisition and the tender offer, TCP expects to incorporate TCO s shares and ADSs into TCP and de-list TCO s shares.

The following table discloses aggregate information about the commercial commitments described above, except for the acquisition of TCO and the UMTS guarantees in Spain, that can be quantified as of the date of this Annual Report. Because some of the commitments described above cannot be quantified as of the date hereof, the following table may set forth aggregate commitment amounts that are lower than the actual amount we would be required to pay pursuant to our commitments.

	Amount of Commitment Expiration Per Period				
	Total Amounts Committed	Less than 1 year	1-3 years	4-5 years	Over 5 years
	(euro in millions)				
IPSE 2000:					
Ferrovie dello Stato	48.2	2.5	8.9	6.5	30.3
Bank guarantee(1)	538.9				
Spain:					
GSM guarantees	24.0				24.0
DCS 1800	12.0				12.0
Morocco: Medi Telecom(2)	22.9	22.9			

(1) This amount represents the total deposit made by us in 2003, which will be maintained until IPSE 2000 satisfies its remaining UMTS license payment obligations to the Italian Ministry of Treasury. This deposit will be reduced accordingly by the annual license payments made by IPSE 2000.

(2) Exchange rate used is 10.9080 dirham per euro as at June 13, 2003.

Historical Dividend Payments

Historically, Telefónica Móviles España, our Spanish operating company, made significant dividend payments to Telefónica, S.A., including 274 million in 1999 and 210 million in 1998. In 2002, Telefónica Móviles España has paid a 1,390 million dividend to us. This dividend payment has been used by us to repay part of the debt outstanding with Telefónica, S.A.

Table of Contents

Sources of Liquidity and Capital Resources

Our primary sources of liquidity and capital resources have traditionally consisted of the following:

Net Cash Provided by Operating Activities. Our principal source of liquidity has historically been cash provided by operating activities. Our cash provided by operating activities was 2,157 million in 2002 and 1,332 million in 2001.

Debt Financing Strategy. Although, in the future, we may seek to access local and international loan and debt capital markets, we intend to rely principally upon Telefónica, S.A. to make borrowings or issue debt securities on our behalf and then on-lend the net proceeds to us. We anticipate that the on-lendings will be based on arm s length terms and will reflect the prevailing market conditions for borrowers and issuers of debt securities of similar credit quality to our own. We do not expect to pay any fees or other amounts to Telefónica, S.A., other than, possibly, amounts which will be insignificant, for its role in financing our liquidity or capital resource requirements. Telefónica, S.A. is under no obligation, however, to provide us with sources of liquidity or capital resources. Our debt outstanding in credit lines with the Telefónica Group was 4,973 million and 3,037 million at December 31, 2002 and December 31, 2001 respectively.

Shareholders Equity

We had shareholders equity of 3,248 million at December 31, 2002 and 7,489 million at December 31, 2001. As reflected in the combined balanced sheets, net equity investment by Telefónica, S.A. consists of the accumulated undistributed net income of our company and our operating companies, capital contributions that had been made from time to time by Telefónica, S.A. and translation differences resulting from the effects of exchange rate fluctuations on the net assets of our companies domiciled outside of Spain. We intend to maintain a capital structure that will enable us to obtain and retain investment grade ratings from major rating agencies for any debt securities that we may issue in the future. We cannot be certain that our future financial requirements will not be greater than expected or that future conditions in the loan and debt and equity capital markets will not adversely affect our ability to meet these requirements, particularly if the cost of capital increases as we and other wireless operators seek increasingly large amounts of debt and equity financing to develop and expand our and their respective operations.

Committed Credit Lines

We maintain a committed line of credit with the Telefónica Group. This credit line totaled 3,195 million at December 31, 2002 and 5,367 million at December 31, 2001, of which 1,786 million and 546 million were unused at December 31, 2002 and December 31, 2001, respectively. This credit line contains customary default provisions that could impact the continued availability of credit or result in the acceleration of repayment. These events include bankruptcy, defaults in payment of other indebtedness, judgments against us that are not paid or insured or failure to meet or maintain certain covenants. We have no unused committed credit lines at December 31, 2002 with financial institutions. We do not maintain any uncommitted lines of credit.

We believe that cash provided by operating activities, our debt financing, and our committed credit lines will provide sufficient financial resources to meet our projected capital and other expenditure requirements and to settle or refinance our projected liabilities as they fall due. However, if we have underestimated our capital requirements or overestimated our future cash flows, we may be forced to issue equity or incur additional debt, including entering into finance lease arrangements. We cannot assure you that future conditions in financial markets will not adversely affect our financial condition or results of operations.

Reconciliation to U.S. GAAP

Our financial statements have been prepared in accordance with Spanish GAAP. Shareholders equity would have been 4,006 million under U.S. GAAP compared to 3,248 million under Spanish GAAP at

Table of Contents

December 31, 2002 and 9,496 million under U.S. GAAP compared to 7,489 million under Spanish GAAP at December 31, 2001.

Net income would have been (3,647) million under U.S. GAAP compared to (3,724) million under Spanish GAAP for 2002 and 320 million under U.S. GAAP compared to 893 million under Spanish GAAP for 2001. For 2000, net income would have been 727 million under U.S. GAAP compared to 645 million under Spanish GAAP.

The increase in net income under U.S. GAAP in 2002 as compared with net income under Spanish GAAP is principally related to the net amortization of goodwill, treatment of start-up expenses, capital increase expenses, derivatives and hedging activities and revenue recognition principles. See Notes 20.6, 20.1, 20.9 and 20.4 to the combined financial statements.

The decrease in net income under U.S. GAAP in 2001 as compared with net income under Spanish GAAP is principally related to goodwill impairments, treatment of start-up expenses and revenue recognition principles. In December 2001 we performed a goodwill impairment analysis on our recorded goodwill. As a result of this analysis, we determined that the goodwill related to Tele Sudeste was impaired and accordingly reduced the goodwill by approximately 362 million under U.S. GAAP. The decrease in net income under U.S. GAAP compared with net income under Spanish GAAP was also due to start-up expenses, which under Spanish GAAP may be capitalized but under U.S. GAAP must be expensed as incurred. Finally, such decrease in net income under U.S. GAAP was due to certain deferrals of revenues required under U.S. GAAP. See notes 20.6, 20.1.b and 20.4 of the combined financial statements.

The increase in net income under U.S. GAAP in 2000 compared with net income under Spanish GAAP is principally related to the change in accounting principles related to revenue and expense recognition, which was made to conform to the guidance provided by the Securities and Exchange Commission in Staff Accounting Bulletin No. 101. We have recorded the cumulative effect of the change in this accounting principle to the U.S. GAAP income as of January 1, 2000, as explained in note 20 of the combined financial statements.

Under this new policy, costs in excess of deferred revenues are deferred and amortized over the minimum contract period, which, in most cases, is 12 months. As of December 31, 2002 and 2001, the deferral of excess costs over revenues, net of taxes and minority interests, amounts to a loss of 58.4 and 71.2 million respectively. This amount will be amortized in most cases over 12 months and therefore will reduce net income before tax over those periods by an equal amount.

See note 20 to the combined financial statements for a description of the principal differences between Spanish GAAP and U.S. GAAP as they pertain to us and for a quantitative reconciliation of net income and shareholders equity from Spanish GAAP to U.S. GAAP.

Seasonality of Our Business

Our business is subject to a certain degree of seasonality, characterized by a higher number of new clients in summer and in the Christmas season. We believe that this seasonality is driven by Christmas marketing campaigns and higher mobile telephony usage during vacation periods. However, we believe there is no intrinsic business rationale for this trend to continue in the future.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.

We cooperate with the research and development departments of various handset manufacturers to ensure the development and success of GPRS and UMTS-ready handsets with capacity to transmit data at high speeds. We engage in our own research and development to ensure compatibility between our services and products and the latest handset models and to develop new services. At the end of 1999 we set up a Development and

Technologies Center dedicated to the development of wireless internet products and services. This Center develops projects in conjunction with universities and Spanish and international companies in the wireless sector, to increase public awareness of the possibilities offered by wireless communications. We spent approximately 275 million in 2002 and 136 million in 2001 on our research and development activities.

In November 2001, Telefónica Móviles España, together with Ericsson, Hewlett Packard and the regional government of Cataluña created Tempos21, Innovación en Aplicaciones Móviles, S.A., with the objective of conducting research and development on wireless services and applications based on the GSM, GPRS and UMTS standards or other technologies that may be developed. Tempos21, which began operations in 2002, is developing, implementing and managing wireless internet related products and other wireless services and applications for enterprises (B2B and B2B2C). Tempos21 also provides consulting services and develops integrated solutions for the aforementioned sectors. Telefónica Móviles España holds a 38.5% interest in Tempos21.

D. TREND INFORMATION

The penetration rate in the Spanish market for wireless services was 80% at December 31, 2002. While we believe the penetration rate in Spain will continue to increase, we do not expect that it will continue to grow at the same high rates that it has experienced in the recent past. In this context, we are focused on selective customer acquisition, customer retention and enhancing value from existing customers, setting the bases for future traffic growth and the roll-out of new services, where economies of scale are generated. As a result of our increasing focus on customer loyalty we expect to obtain lower share of net adds than in the past, while maintaining our leadership position.

In an effort to further increase customer loyalty and usage, Telefónica Móviles España is encouraging customer migration from its pre-paid plans to its contract plans by amending the terms of its contract plans. As of March 2002, the contract plans of Telefónica Móviles España no longer contain a monthly fee, instead they require a minimum usage commitment. This change has been, in part, responsible for the increase of 3.6 percentage points in its contract customer mix in 2002 compared to 2001 and has also encouraged increased spending from its contract customers. In 2002, migrations from pre-paid to contract plans have increased by 70% relative to the previous year, to 711,433 customers.

Our high-quality and highly competitive offerings, as well as the success of our policy to encourage migration, has had a decisive impact on improving minutes of usage trends. Minutes of usage by contract customers posted an annual increase of 5% for 2002 as a whole, as well as increases in blended minutes of usage for the first time in our recent history.

Our customers use of data and content services is also rapidly growing. In absolute terms, total SMS passed through the Telefónica Móviles España network in 2002 exceeded 8.4 billion messages, 35% more than the previous year, 36% of which are SMS related to content access services. The increased usage of voice services is accompanied by the consolidation of the data business as a key element in Telefónica Móviles España s revenue structure.

Our operations in Latin America, although in an expansion phase of development, are generally at an earlier point in achieving the market penetration growth that we have experienced with our operations in Spain. As a result, our customer acquisition costs in Latin America are generally higher on a per customer basis and our operating margins are generally lower than in Spain. In Latin America our customer base increased from 10.1 million at December 31, 2001 to 19.3 million at December 31, 2002, which includes all operators in which we hold an interest, including the subsidiaries of our joint venture with Portugal Telecom in Brazil. The substantial portion of our growth in Latin America has resulted from an emphasis on pre-paid wireless services. At December 31, 2002, pre-paid customers accounted for 74% of our customers in Latin America.

Table of Contents

Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

Management

Board of Directors

Under the Spanish Corporation Law, the board of directors is responsible for management, administration and representation of the company in all matters concerning our business, subject to the provisions of the by-laws (estatutos) and resolutions adopted at general shareholders meetings. The board of directors will seek to propose candidates for election to the board of directors comprised of a majority of candidates from outside of our company, including both independent directors and representatives of our controlling shareholder, Telefónica, S.A. Under the Código de Buen Gobierno (Code of Good Corporate Governance) of the Comisión Nacional del Mercado de Valores, or Spanish National Securities Commission, or CNMV, and the Rules and Regulations governing our board of directors, the following persons would not be considered independent directors: persons who have had a significant relationship with our company or have been officers of our company during the two years prior to the date of appointment or have family relationships with our company, with the members of the board of directors or with our senior managers, or persons who have made or received payments in amounts significant enough to compromise their independence, or persons who have had relationships with the company that the nominating and compensation committee deems may reduce their independence.

Under our by-laws, the board of directors consists of a minimum of three and a maximum of nineteen members elected by the holders of ordinary shares at a meeting of shareholders, with the actual number being determined by a resolution passed at the shareholders meeting. The number of directors is currently fixed at 14. Directors are elected by our shareholders to serve a five-year term and may be re-elected to serve for an unlimited number of terms. If a director does not serve out his or her entire term, the board of directors may fill the vacancy by appointing a shareholder as a replacement director to serve until the next general shareholders meeting, when the appointment may be ratified or a new director may be elected to fill the vacancy (cooptation procedure). A director may resign or be removed from office by the shareholders at the shareholders meeting. Our by-laws provide that a majority of the members of the board (represented in person or by proxy) constitute a quorum. Except as described below, resolutions of the board of directors are passed by an absolute majority of the directors present or represented at a board meeting.

Under the Spanish Corporation Law, the board of directors may delegate its powers to an executive committee or delegate committee or to one or more consejeros delegados (directors empowered by the board to act on its behalf). The Spanish Corporation Law provides that resolutions appointing an executive committee or any managing director or authorizing the permanent delegation of all, or part of, the board s power require a two-thirds majority of the members of the board of directors. Some powers specified in the Spanish Corporation Law and our by-laws, as well as those necessary for an adequate discharge of the board s oversight function, may not be delegated.

Committees of the Board

Our board of directors has established a delegate committee, an audit and control committee, and a nominating and compensation committee in accordance with the recommendations set forth in the Code of Good Corporate Governance and recent Aldama Report. Each of the audit and control committee and the nominating and compensation committee is required by board regulations to have a minimum of three and a maximum of five non-managing directors. This requirement is also provided for in the by-laws of the company with regard to the audit committee. The following is a brief description of the committees of our board of directors.

Table of Contents

Delegate Committee

The delegate committee functions as an executive committee of the board of directors to which are delegated all of the powers of the board of directors other than powers specified as non-delegable under the Spanish Corporation Law and our by-laws.

Audit and Control Committee

The audit and control committee is responsible for providing support to the board of directors supervising the correct application of generally accepted accounting principles, reviewing compliance with the internal control system, reviewing the registration statements and financial information we furnish to the market and our supervisory boards and maintaining the integrity of the preparation of individual and consolidated audits.

In addition, as provided for by new article 19 bis, approved by our last General Ordinary Shareholders Meeting held on April 1st, 2003, the Audit and Control Committee is responsible for:

(i) reporting through its Chairman to the General Shareholders Meetings on the matters raised there by the shareholders on subjects within the Committee s scope;

(ii) proposing to the Board of Directors, for submission to the General Shareholders Meeting, the appointment of the auditor referred to under Article 204 of the Joint Stock Companies Law, as well as the terms of the retainer thereof, the scope of the professional assignment and the renewal or revocation of the appointment, as pertinent;

(iii) overseeing the internal auditing departments;

(iv) being aware of the financial reporting process and the internal oversight systems; and

(v) maintaining the relationship with the auditor, to receive information on such matters as may jeopardize the latter s independence, and any other matters related to the process of conducting financial audits, as well as receiving information and maintaining the communication with the Auditor as provided for in the auditing legislation and in the technical rules for auditing.

Nominating and Compensation Committee

The nominating and compensation committee assists in the nomination of directors and is responsible for proposing the compensation and incentive plans for the board of directors and senior management of our company.

Table of Contents

Directors

The following are our current directors and their respective positions and ages at June 27, 2003:

Name	Age	Position	Date of appointment
Antonio Viana-Baptista*	45	Chairman and Chief Executive Officer	September 27, 2002
Luis Lada Díaz	53	Director	August 10, 2000
José María Alvarez-Pallete López	39	Director	February 14, 2000
Lars M. Berg	55	Director	October 20, 2000
Miguel Angel Canalejo Larrainzar	61	Director	October 20, 2000
Maximino Carpio García	58	Director	October 20, 2000
Fernando Xavier Ferreira	54	Director	October 20, 2000
Victor Goyenechea Fuentes	52	Director	October 20, 2000
Antonio Massanell Lavilla	48	Director	October 20, 2000
Alfonso Merry del Val Gracie	56	Director	October 20, 2000
Fernando de Almansa Moreno-Barreda	54	Director	April 1, 2003
Alejandro Burillo Azcarraga	51	Director	April 1, 2003
Javier Echenique Landiribar*	51	Director	May 31, 2002
José María Más Millet*	49	Director and Secretary	June 18, 2002

* Mr. Antonio Viana-Baptista, Mr. José María Más Millet and Mr. Javier Echenique Landiribar were appointed by the Board of Directors through a cooptation procedure and their appointments were ratified by the General Shareholders Meeting held on April 1st, 2003.

Directors serve a five-year term from the date of appointment, and may be re-elected for additional terms.

Mr. Lada Diáz, Mr. Álvarez-Pallete López, Mr. Carpio García, Mr. Goyenechea, Mr. Massanell, Mr. Ferreira and Mr. Moreno-Barreda were nominated by Telefónica, S.A. for appointment.

A significant majority of our directors (13) are non-managing directors. Furthermore, we have appointed four independent directors to satisfy requirements of the Code of Good Corporate Governance of the Spanish National Securities Commission for Spanish public companies and the rules of the New York Stock Exchange. Messrs. Berg, Canalejo, Merry del Val, Echenique and Más Millet are the independent directors on the board of directors. Likewise in accordance with the rules of the board of directors nine directors have been appointed by the majority shareholder.

Banco Bilbao Vizcaya Argentaria, S.A. has an approximate 5.519% ownership interest in Telefónica, S.A. and four representatives on Telefónica, S.A. s board of directors. Caja de Ahorros y Pensiones de Barcelona has an approximate 3.6% ownership interest in Telefónica, S.A. and two representatives on Telefónica, S.A. s board of directors. Neither Banco Bilbao Vizcaya Argentaria, S.A. nor Caja de Ahorros y Pensiones de Barcelona is a significant shareholder of our company and neither has any contractual right to representation on our board of directors. Telefónica, S.A. has elected to include on our board of directors Mr. Goyenechea, a former director of BBVA, and Mr. Massanell, an executive of Caja de Ahorros y Pensiones de Barcelona.

The delegate committee of the board of directors consists of Messrs. Viana-Baptista, Álvarez-Pallete, Canalejo, Merry del Val, de Almansa Moreno-Barreda, Echenique Landiribar, Lada Díaz, and Más Millet and is chaired by Mr. Viana-Baptista.

The audit committee of the board of directors consists of Messrs. Canalejo, Echenique and Álvarez-Pallete and is chaired by Mr. Canalejo.

The nominating and compensation committee of the board of directors consists of Messrs. Echenique, Carpio García and Merry del Val and is chaired by Mr. Echenique.

Table of Contents

Executive Officers

The executive officers are elected by, and serve at the pleasure of, the board of directors. Below is a list of our current executive officers and their respective positions with our company and ages at June, 27 2003. Effective August 1, 2003, we will be implementing a new management structure in order to achieve a greater operating efficiency.

Name	Age	Position
Antonia Viana-Baptista	45	Chairman and Chief Executive Officer
Ignacio Aller Mallo*	58	Chief Operating Officer
Félix Pablo Ivorra Cano	56	Executive Vice-President for Brazil and South America
Ernesto López Mozo	39	Chief Financial Officer
Fernando Herrera Santa María	41	Chief Strategic Officer and Executive Vice-President for Central Europe and the Mediterranean Basin
Antonio Vitaller Cortés	56	General Manager of Resources and Organization
Antonio Hornedo Muguiro	48	General Counsel and Vice Secretary (non-member) of the Board of Directors
Ignacio Camarero García*	52	Chief Technology Officer
Francisco Ruiz Vinuesa	53	Executive Vice-President for Mexico, Central America and the Caribbean
Javier Aguilera Arauzo*	50	Chief Executive Officer of Telefónica Móviles España , S.A.
Ramón Enciso Berge	57	General Manager for the Mediterranean Basin
Manuel Costa Marques	43	General Manager of Development of Latin American Business
Luis Miguel Gilpérez*	44	Chief Operating Officer of Telefónica Móviles España , S.A.
José Molés Valenzuela	47	General Manager of Telefónica Móviles Mexico

* Pursuant to our new management structure which will be effective August 1, 2003:

Mr. Ignacio Aller Mallo will retire from his position as Chief Operating Officer;

Mr. Javier Aguilera Arauzo s responsibilities as Chief Executive Officer of Telefónica Móviles España will now include heading our groupwide Centers of Excellence;

Mr. Luis Miguel Gilpérez will be the new post of Executive Director of the International Area, with the responsibility for coordinating our Overseas operations; and

Mr. Ignacio Camarero García will be the Chief Operating Officer of Telefónica Móviles España, with responsibility for the network, systems and products and services areas both in Spain and abroad.

The following is the biographical information for each of our directors:

Antonio Viana-Baptista serves as Chairman and Chief Executive Officer since August 2002. He is an economist who graduated from the Catholic University of Lisbon in 1980. He has a post graduate in European Economy (1981), and an MBA, obtained with a distinction mention, from INSEAD (Fontainebleu). He is member of the board of directors, the Delegate Committee and the Executive Committee of Telefónica S.A. He is also member of the board of directors of Terra Networks, S.A., Portugal Telecom SGPS, Brasilcel N.V. Until July 2002, he served as President of Telefónica Internacional and Executive President of Telefónica Latinoamerica. Before that he also served from 1991 until 1996, as Executive Director of BPI (Banco Portugues de Investimento). From 1985 until 1991 Mr. Viana-Baptista was Principal Partner of McKinsey & Co. in Madrid and Lisbon.

Table of Contents

Luis Lada Díaz serves as a director. He is currently board member and General Manager for Corporate Strategy and Regulatory Affairs of Telefónica, S.A. He holds a degree in telecommunications engineering and joined the Telefónica Group in 1973 in the Research and Development Department, rising through the ranks to hold various managerial and executive positions. In 1989, Mr. Lada was Deputy General Manager for Technology, Planning and International Services when he left the Telefónica Group to join Amper Group, a telecommunications systems and equipment manufacturer as General Manager for Planning and Control. Mr. Lada returned to the Telefónica Group in 1993 as Controller of the Subsidiaries and Participated Companies. In 1994, he was appointed as CEO of Telefónica Móviles España S.A, and was promoted to Chairman of Telefónica Móviles, S.A. in August 2000. He served as President until July 2002 after which he accepted his present position. He also serves on the board of directors of AMPER, S.A.

José María Álvarez-Pallete López serves as a director. He was appointed President and CEO of Telefónica Internacional on July 24, 2002. He has a degree in Economics from the Universidad Complutense of Madrid. He also studied Economics at the Université Libre in Belgium. José María Álvarez-Pallete joined Telefónica in February 1999 as General Manager for Finance of Telefónica Internacional. In September of the same year, he became General Manager of Corporate Finance of Telefónica, S.A. He is member of the following boards of directors: Telefónica de España (Jan 2000), Telefónica Móviles (Feb 2000), Telefónica Data (Apr 2000), Telefónica Internacional (Jan 2001), Inmobiliaria Telefónica (Apr 2001), TPI (Apr 2001), Telefónica Argentina (Sep 2002), Telefónica Perú (Nov 2002) and Cointel (Nov 2002). He began his professional career with the auditor firm Arthur Young in 1987, before joining Benito & Monjardín/Kidder, Peabody & Co. in 1988. After Kidder, Peabody & Co. (part of the General Electric group) acquired a 25% stake in Benito & Monjardín in 1991, Mr. Álvarez-Pallete took a company associate course in New York and was subsequently involved in several of GE s investment projects in Spain. In 1995 Mr. Álvarez-Pallete joined Cía. Valenciana de Cementos Portland (CEMEX) as head of the Investor Relations and Studies department. In 1996 he was promoted to Financial Manager for Spain, and in 1998 became General Manager for Administration and Finance responsible for the CEMEX group s interests in Indonesia.

Lars M. Berg serves as a director. Since August 2000, Mr. Berg has been an independent investor and consultant and non-executive board member of several companies in the telecommunications and financial industries, and currently serves as a director of Eniro, Ratos, Net Insight AB, Ledstiernan, Schibsted and Carnegie. In March 1999, he joined Mannesmann AG, Dusseldorf, as one of the members of the Executive Board, responsible for telecommunications, and from 1994 until 1999 he was President and Chief Executive Officer of Telia AB, the leading telecommunications operator in the Nordic/Baltic area. Between 1970 and 1994 he held various management positions in the Ericsson Group, including the position of President of Ericsson Venezuela, Ericsson Radio Systems Sweden AB, Ericsson Cables AB and Ericsson Business Networks AB, among others. He was a member of the Ericsson Corporate Management Committee for 10 years. Mr. Berg received a degree in business administration from the Gothenburg School of Economics in 1970.

Miguel Angel Canalejo Larrainzar serves as a director. He studied at the Escuela Técnica Superior de Ingenieros Industriales in Madrid and completed his professional training at IESE. Mr. Canalejo is a member of the board of directors of Telefónica Móviles and Chairman of its Audit Committee. In 1967 he began working for Unión Carbide Corporation. In 1977 he was appointed Chairman and Managing Director of Unión Carbide Navarra and Unión Carbide Ibérica. In July 1984, Mr. Canalejo joined Standard Eléctrica, S.A., as Managing Director. From December 1986 until December 2000 he was Chairman and Chief Executive Officer of Alcatel Spain. From January 1996 until September 2000 he served as President of Alcatel Latinamérica. At present he is a member of the board of directors of ALCATEL España, S.A., Meta 4, Asesor de Accenture, S.L., H.Neumann International Management Consultants, S.A. and Alacatel Telecom. Mr. Canalajo is Chairman of the board of directors of Nazca Capital, S.G.E.C.R. and FYCSA, a member of the Board of Directors of Sodena, S.A., Vice Chairman of Plan International España and Chairman of the Consultive Commission of Institución Futuro.

Maximino Carpio García serves as a director. Mr. Carpio is a member of the board of directors of Telefónica, S.A. as well as a professor of the faculty of Economics of the Universidad Autónoma de Madrid. He also serves as a member of the Economic and Social Council, a Spanish government advisory entity. From 1992 to 1995, Mr. Carpio was Dean of the Economics faculty and from 1984 to 1992, he was the head of the Department of Economics and Public Finance, in each case at the Universidad Autónoma de Madrid. Mr. Carpio also received his doctorate degree from the Universidad Autónoma de Madrid.

Fernando Xavier Ferreira serves as a director. Currently, Mr. Ferreira is the Chief Executive Officer of the Telefónica Group in Brazil and President of Telecomunicações de São Paulo S.A. TELESP. Mr. Ferreira is also a member of the boards of directors of Tele Sudeste Celular Participações, S.A., Tele Leste Celular Participações, S.A., Celular CRT Participações, S.A. and Brasilcel N.V. During 1998, Mr. Ferreira served as member of ANATEL. From 1995 to 1998, he was General Director of Telebrás and president of the board of directors of Embratel and Telesp S.A. Mr. Ferreira was President of Telecomunicações do Paraná S.A. Telepar from 1997 to 1999 and Vice President of that company from 1979 to 1987. He is currently a member of the Latin-America Committee of the New York Stock Exchange and the Global Infrastructure Commission. Mr. Ferreira received a degree in electric engineering from Rio de Janeiro s Catholic University in 1971.

Victor Goyenechea Fuentes serves as a director. He served in the past as Deputy Director General of Banco Bilbao Vizcaya Argentaria since 1986 and managed BBVA s Telecommunications, Media and Internet Unit. He is also a member of the boards of directors of Corporación IBV, S.A., Telesp, S.A., Hispasat, S.A., Landata Payma, S.A., Teltronic, S.A. and IP Sistemas, S.A. From 1974 to 1986, he worked at Telefónica de España, S.A. as Deputy General Manager (Subdirector General). Mr. Goyenechea received his undergraduate degree in business and economics from the Universidad Comercial de Deusto, and a masters degree in strategic planning from the same institution. Currently he is retired and works as an independent consultant.

Antonio Massanell Lavilla serves as a director. He is also Senior Executive Vice-President of Caja de Ahorros y Pensiones de Barcelona, la Caixa, and member of the board of directors of Telefónica, S.A., Telefónica Móviles, Inmobiliaria Colonial S.A., Autema S.A., Port Aventura, S.A. and Baqueira Beret. He is also Chairman of ServiHabitat, S.A., and e-la Caixa. As a representative of Caja de Ahorros y Pensiones de Barcelona, he has worked with the Telefónica group in the deployment of Caja de Ahorros y Pensiones de Barcelona s corporate telecommunications network. Mr. Massanell has a B.A. degree in Economics and Business Administration from the University of Barcelona.

Alfonso Merry del Val Gracie serves as a director. From 1976 until October 2000 Mr. Merry Del Val was Chief Executive Officer of Hipermercados Continente (España). He currently serves as a member of the board of directors of NH Hoteles, S.A., J. García Carrión, S.A., Corporación Uriach, Hays Logistics Iberia, S.A. and AEGON SEGUROS, S.A. He has also served as CEO of the merged Company Carrefour in Spain. Mr. Merry Del Val studied Business Administration at Bocconi University in Milan and holds a master degree in Business Administration from Pavia University.

Javier Echenique Landiribar serves as a director. From 1990 he has served as executive officer at various areas of BBVA. He currently serves as a member of the boards of directors of Telefónica Móviles México, S.A. de C.V., Willis Iberia, Edhart y Cía., URALITA, S.A., Parques Reunidos and Grupo Porres (Mexico). Over the last five years he has served as a member of the boards of directors of Telefónica de España, S.A., Sevillana de Electricidad, S.A., Autopistas Concesionaria de España, S.A., Finanzia Banco de Crédito, S.A., Metrovacesa and Grupo AXA Aurora. Mr. Echenique received a degree in economics in 1974.

José María Más Millet serves as a director and Secretary of the board of directors. Mr. Mas is a member of the boards of directors of NH Hoteles, S.A., SOS CUETARA, S.A., SOTOGRANDE, S.A. and Koipe, S.A. From 1997 to April 2001, Mr. Más served as General Counsel of Telefónica, S.A. and Secretary of its board of directors. From 1995 to January 2000 he served on the board of directors of Caja de Ahorro de Valencia, Castellón y Alicante. Prior to 1997, Mr. Más practiced law in Spain.

129

Table of Contents

José Fernando de Almansa Moreno-Barreda serves as a director. Mr. Almansa Moreno-Barreda began his professional career in 1976 as Secretary of the Spanish Embassy in Belgium. In August 1982 he was appointed as general manager of the Subdirección General de Europa Oriental and in 1983 he was appointed to the Spanish permanent representation to NATO in Brussels, where he acted as Political and Press advisor. In 1998 Mr. Almansa was appointed as Ministro Consejero to the Spanish embassy in the Soviet Union. In 1993 the King of Spain appointed him as general manager of the Spanish Royal House having Minister Status, until December 2002 when the King of Spain appointed him as his private advisor. Mr. Almansa was appointed as a Director of Telefónica, S.A. on February 2003. He is also a member of the Board of Directors of Telefónica del Perú, Telesp and Telefónica de Argentina, S.A. and BBVA Bancomer México, S.A Mr. Almansa holds a law degree from the University of Deusto of Bilbao.

Alejandro Burillo Azcárraga serves as a director since April 2003. He is a founding member of Televisa, and participates in different executive positions in various companies such as PanAmSat, Univisión and ECO among others. In 1996, Alejandro Burillo created Grupo Pegaso, to concentrate his different businesses. In 2000, he decided to transfer his participation in Televisa, being at the time the second major shareholder of the company. Currently, he is the President of the board of directors of Grupo Pegaso, a holding company which owns interests in several companies such as Pegaso PCS, Banco y Casa de Bolsa IXE, and PanAmSat de México. He also has interests in sports businesses, (being the owner of different soccer teams in Mexico and the adviser of the FIFA President) and in the cultural area, he is founder of Casa Lamm, which promotes different artists in Mexico, and participates in beneficial institutions in Mexico.

The following is the biographical information for our executive officers:

Ignacio Aller Mallo serves as Chief Operating Officer. Mr. Aller is a member of the board of directors of Terra Mobile, S.A., Mobipay España, S.A., Telefónica Móviles España, S.A., Telefónica Móviles México, S.A. de C.V., Mobipay Internacional, S.A., Brasilcel N.V. and Medi Telecom. Mr. Aller has held several positions at Telefónica de España since 1967, including Director of Operations and Information Services in 1986, General Director of Mensatel in 1995 and General Executive Director of Operations of Telefónica Servicios Móviles in 1999. Mr. Aller has also served as a member of the board of directors of Venturini España, S.A., Mensatel and is currently a board member of Telyco and PMT.

Felix Pablo Ivorra Cano serves as Executive Vice-President for Brazil and Latin America. Mr. Ivorra currently serves on the board of directors of Telesp S.A., Portelcom Participações S.A., Atento Brasil S.A., 4A Telemarketing, Brasilcel N.V., Tele Leste Celular Participaçoes, S.A., Celular CRT Participaçoes, S.A., Tele Sudeste Celular Participaçoes, S.A., Telefónica Móviles SAC Perú and Telefónica Móviles Perú Holding, S.A.A. He joined the Telefónica Group in July 1972 and served in the areas of Technical Specifications, Network Planning, Commercial Planning and as General Director of Advanced Communications. In 1993, he was appointed General Director of the team that founded Telefónica Servicios Móviles, where he held several positions including General Commercial Director and General Director of Business Development. During 1997 and part of 1998, he was chairman of the board of Telefónica Móviles group companies Mensatel, S.A. and Radiored, S.A. Mr. Ivorra received his degree in telecommunications engineering from ETSI in Madrid, and a business administration degree from ICADE.

Ernesto López Mozo serves as Chief Financial Officer. Mr. López is a member of the board of directors of Telefónica Móviles España, S.A., Terra Mobile, S.A., Telefónica Móviles México, S.A. de C.V., Brasilcel N.V., Tele Sudeste Celular Participações, S.A., CRT Participações, S.A., Tele Leste Celular Participaçoes S.A., Telesp Celular Participaçoes and TCO Celular Participaçoes. He was previously a senior manager in the financing department of Telefónica, S.A. where he was also responsible for relationships with credit rating agencies. Before joining Telefónica in March 1999, Mr. López worked for five years at J.P. Morgan where he was a Vice President in charge of the interest rate derivatives trading desk for Spain and Portugal for three years. At J.P. Morgan, he was also involved in sales to mutual and pension funds. Prior to joining J.P. Morgan, Mr. López worked as an engineer, managing the construction of highways and other infrastructure. He holds a degree in civil engineering from ETSICCP in Madrid and a Masters in Business Administration from the Wharton School.

130

Fernando Herrera Santa María serves as Chief Strategy Officer and Executive Vice-President for Central Europe and the Mediterranean Basin. He has a degree in economics from the Universidad Complutense de Madrid and a masters in business administration from IESE. Mr. Herrera has eight years of experience in the telecommunications industry holding various managerial positions within the Telefónica Group. Prior to this appointment he acted as general Manager of Resources and Management Control of Telefónica Móviles España. He also serves on the board of directors of Telefónica Móviles España S.A.

Antonio Vitaller Cortés serves as General Manager of Resources and Organization. Since joining the initial wireless operations project of Telefónica de España in 1993, Mr. Vitaller has been General Director for Resources and Management Control of Telefónica Móviles España. Prior to 1993, he held several other managerial positions in the telecommunications sector within the Telefónica Group and the Amper Group. Mr. Vitaller has a degree in industrial engineering from ETSII in Madrid and a business administration degree from ICADE.

Antonio Hornedo Muguiro serves as the General Counsel and Vice-Secretary (non-member) of the board of directors. He serves as director of Telefónica Móviles El Salvador, S.A. de C.V. and Telefónica Centroamérica Guatemala, S.A. Mr. Hornedo also serves as Secretary (non-member) of Seguros de Vida y Pensiones-ANTARES, S.A. He served as Secretary for Fonditel, EGFP from 1993 to 2000. Until March 1999, he worked as a legal counsel for Telefónica de España. Mr. Hornedo teaches graduate and undergraduate courses in law at Instituto de Estudios Superiores de la Fundación Universitaria San Pablo (CEU).

Ignacio Camarero García serves as Chief Technology Officer. Mr. Camarero currently also serves on the board of directors of Telefónica I+D, Telefónica Mobile Solutions, S.A., Medi Telecom, S.A., Telefónica Móviles México, S.A. de C.V., Telefónica Centroamérica Guatemala, S.A., Telefónica Móviles El Salvador, S.A. and Terra Mobile, S.A. From 1996 to 1998 he served as Vice President and General Manager of Southern Europe for Motorola Inc. and from 1998 to 2001 as Manager of Technology at Airtel España. Mr. Camarero received his degree in physics from the Universidad de Valladolid.

Francisco Ruiz Vinuesa serves as Executive Vice-President for Mexico, Central America and the Caribbean. Mr. Ruiz currently serves on the boards of directors of Telefónica I+D, Telefónica Móviles México, S.A. de C.V., Telefónica Móviles El Salvador, S.A. and Telefónica Centroamérica Guatemala, S.A. From 1996 to 2001 he acted as General Manager of Network at Telefónica Móviles España. From 2001 until his appointment to his current position, he served as General Manager of Network Infrastructure for the entire Telefónica Móviles Group. Mr. Ruiz holds a degree in telecommunications engineering, an MBA from INSEAD and an MBA from IESE.

Javier Aguilera Arauzo serves as Chief Executive Officer of Telefónica Móviles España since 2000. He is also a member of the board of directors of Telefónica Móviles España, S.A. From 1993 to 1998, Mr. Aguilera served as chairman of Telefónica Madrid (Cabitel) and from 1998 to 2000 he served as Chief Commercial Officer of Telefónica Wireline Spain. Mr. Aguilera holds a degree in engineering and an MBA from Insead-Euroforum.

Luis Miguel Gilpérez serves as Chief Operating Officer of Telefónica Móviles España, S.A. since May 2001. Mr. Gilpérez has a degree in Industrial Engineering and an MBA. He began his career at an insurance company, where he worked for six years, in various departments. He joined the Telefónica group in 1981, where he has worked since. He has particularly been involved with activities related to mobile telephony. He was in charge of the service s commercial activities from 1987 to 1993, when Telefónica Móviles was created. At Telefónica Móviles he has held management positions in virtually all its business areas.

Ramón Enciso Bergé serves as the General Manager for the Mediterranean Basin and as the Chief Executive Officer of Medi Telecom (Morocco). Mr. Enciso holds a degree in economics from the Complutense University of Madrid. Since 1976 he has held several posts at both

Telefónica de España, S.A. and other companies in the Telefónica Group, including: Head of Multinational Project Management in Argentina;

Table of Contents

Chairman of Telefónica Sistemas, S.A. in 1988; Chairman of Estrategias Telefónicas, S.A. (ESTRATEL) in 1990; Chairman of the RADIORED Group in 1994; General Resources Manager for Telefónica Servicios Móviles in 1996; CEO of Telefónica Cable, S.A. in 1997; General Manager of Telefónica Móviles España for MENSATEL (Paging) and RADIORED (PAMR) in 1998; and General Manager for Institutional Relations of Telefónica Móviles España in 1999. Mr. Enciso has also been a member of the boards of INDELC, S.A., Playa de Madrid, S.A., and Cabitel, T.D.S.-USA. He is currently a member of the board of directors CASIOPEA Re., Medi Telecom, S.A. and chairman of Fundación Telefónica Maroc.

Manuel Costa Marques serves as General Manager of Development of Latin American Business and is a member of the Executive Committee of Telefónica Móviles S.A. since January 2003. From 1984 until 1990 he served as Executive Board Member of various financial institutions including a brokerage firm, two leasing companies and CISF, a listed Bank, where he was one of the three members of CISF s Board Executive Committee. From 1990 until 1997 he was President, CEO and major shareholder of SISF, a holding company of various financial companies. SISF later became part of the Banco Portugues de Investimento Group. In 1997 he served as Managing Director of Banco Portugues de Investimento heading privatizations of companies, and as Executive Board member of Finangest, the holding company of all major Portuguese state industrial participations. Mr. Costa Marques also serves as Head of Strategic Planning, M&A and Corporate Finance, and member of the board of directors of Telefónica Internacional, S.A. Mr. Costa Marques served as a member of the board of directors of Emergia N.V. from June 1999, until December 2002.

José Molés Valenzuela is acting General Manager of Telefónica Móviles Mexico since approximately March 2003. Mr. Valenzuela began working for the Telefónica group in 1977, where he held various posts with responsibility for fixed-line telephony, engineering, data and mobile telephony in Spain and Argentina. Subsequently, from 1995 to 1996 he was the general manager for Unifón, the then mobile operator of the Telefónica group in Argentina. From 1997 to 2000, Mr. Valenzuela serves as general manager of Celular CRT, the mobile operator of the Telefónica group in Brazil. In February 2000 he became the general manager of Telefónica Móvil de Chile. Mr. Valenzuela holds an engineering degree from UNED, and a masters in business administration.

B. COMPENSATION

Compensation of Directors and Executive Officers

We were incorporated in February 2000. In 2002, the aggregate compensation of all of our directors paid or accrued by us was 2,591 thousand, as described in the following table:

	Year 2002
	(euro)
Salaries(1)	701,448
Variable compensation(1)	601,012
Fixed remuneration	1,081,821.72
Attendance fees(2)	54,090.6
Benefits in kind(3)	12,954
External services(4)	132,000
Pension plans(1)	8,258
Total	2,591,584.32

(1) Compensation for executive directors.
(2) Includes fees for attending meetings of the committees of the board of directors. Telefónica, S.A. receives attendance fees relating to directors it appoints to our Board, who also serve as executive officers for Telefónica, S.A.
(3) Includes health insurance and life insurance for executive directors.
(4) Includes compensation received by MELOG, BBVA and José María Más Millet for advisory and consulting services.

Table of Contents

Our executive officers (excluding the Chairman) received compensation of approximately 3.9 million in 2002, as described in the following table:

	Year 2002
	(euro in thousands)
Salaries	2,589.84
Variable compensation	1,159.78
Benefits in kind	63.63
Pension plans	65.98
Total	3,879.23

Other than their eligibility to participate in our share option plan, our directors and executive officers are entitled to the same general employee benefits as the other employees of our company.

Employee Share Option Plan

Our shareholders authorized our board of directors to implement an employee share option plan to help attract, retain and motivate employees. The board of directors defined the terms of the plan (the MOS Program) in a meeting held on September 21, 2001. This plan covers up to a total of 21,445,962 ordinary shares of our company.

The terms and conditions of the MOS Program described below apply to our executive directors and senior management and to employees of the Telefónica Móviles Group.

Under the MOS Program, each beneficiary who is an executive director or a manager (including general managers and similar posts) will be granted a predetermined number of options (based on their position) of each of the following three classes of options:

Class A Options, with an exercise price of 11 per option;

Class B Options, with an exercise price of 16.5 per option; and

Class C Options, with an exercise price of 7.235 per option;

Each option of each class entitles holders to one ordinary share of Telefónica Móviles, S.A. Beneficiaries receive the same number of Class A and B Options and twice as many Class C Options. Directors, executive officers and managers must provide collateral of one ordinary share for every 20 options granted to them.

The options may only be exercised in tranches of one third, one tranche in each of the three-month periods beginning January 3, 2004, January 3, 2005 and January 3, 2006. In each exercise period, options may only be exercised in full, except that options not exercised in any given exercise period are carried over to the next exercise period, with the limit of the last exercise period. The options may be settled in cash or in ordinary shares, at the election of the holder at the time of each exercise. The holder will bear the cost of any applicable withholdings, deductions and taxes, and any settlement costs arising out of the exercise of the options must be paid by the holder at the time of exercise. The capital increase required in connection with physically-settled options was approved by the Spanish National Securities Commission on September 28, 2001.

The first phase of the MOS Program commenced in December 2001. The options allocated in the first phase were granted on January 2, 2002. Subsequently, in June 2002, the second phase of the MOS Program commenced by including those companies of the Móviles Group that could not join the MOS Program when the first phase was launched, under the same terms and conditions.

In addition, from that date until December 31, 2003, to the extent options are available, those who began work for a company in the Móviles Group after June 2002 can join the MOS Program. The terms and conditions under which they can join are identical to the terms and conditions for those who joined before them, except for

Table of Contents

the number of options granted, which are reduced by a monthly factor to account for the shorter time at the Móviles Group. See Item 6.E Share Ownership for options granted to directors.

As of December 31, 2002, we have set aside a total of 169,155.31 for benefits and pension plans for our Directors.

We do not provide our directors or senior management with any benefits upon termination of their terms of employment.

C. BOARD PRACTICES

See Item 6A.

D. EMPLOYEES

Human Resources

We believe that our human resources constitute one of our key strengths as an integrated international wireless operator. As part of the Telefónica Group, we benefit from the human resources and recruiting strength of a leading international telecommunications group. The Telefónica Group has long endeavored to give promising managers experience in international markets. Consequently, we benefit from being able to draw managers from a significant pool of talented managers with experience in both Spain and Latin America. Approximately 20% of our senior managers are engineers by training, 20% hold degrees in business or economics, 10% have law degrees, 10% have studied computer science and 25% have other graduate and postgraduate degrees. We also believe that we benefit from the loyalty of our employees, as indicated by our relatively low level of employee turnover.

To provide incentives and make managers potential compensation more attractive, in addition to base salaries, our standard compensation packages for senior managers include a performance-based bonus that can total between 30% and 50% of a senior manager s annual salary. We have also implemented an employee stock option plan. See Item 6.B Compensation. We provide a comprehensive benefits package that we believe compares favorably in each of our markets.

Employees

At December 31, 2002, we employed approximately 12,859 individuals in our consolidated operations. The following table sets forth the number of employees by country:

Country	Number of Employees at December 31,		
	2000	2001	2002
	(in thousands)		
Spain (including headquarters in Madrid, Spain)	3.9	5.0	5.0
Brazil	2.6	2.7	3.0
Argentina	1.6	1.0	0.9
Peru	0.4	0.5	0.6
Mexico(1)	0.0	2.7	2.5
El Salvador	0.3	0.3	0.3
Guatemala	0.3	0.3	0.3
Germany(2)	0.0	0.7	0.0
Austria(2)	0.0	0.1	0.0
Switzerland(2)	0.0	0.1	0.0
Chile	0.0	0	0.1
Total	9.1	13.4	12.7

(1) The number of employees in Mexico for 2001 includes only our Northern Mexico operators. The number of employees for 2002 includes our Northern Mexico operators and Pegaso.

(2) Austria, Switzerland and Germany have a combined total of 57 employees.

Table of Contents

We are a party to collective bargaining agreements covering a total of 6,621 employees of Telefónica Móviles España in Spain and Tele Sudeste Celular, Tele Leste and Celular CRT in Brazil. These collective bargaining agreements expire on December 31, 2003. Our collective bargaining agreements typically govern salaries, overtime, length of workday, and benefits, as well as relations with the respective labor union of each company. Employees that are managers, directors or supervisors are ineligible to participate in these collective bargaining agreements. Items not covered by our collective bargaining agreements include organization of tasks and designation of employee responsibilities, recruiting and employee work schedules. All eligible employees in Spain and Brazil are party to such collective bargaining agreements. Neither we nor our operating companies have had any work stoppages or strikes.

We believe that our relations with our employees are good. We do not have any pending material labor-related claims.

E. SHARE OWNERSHIP

Share Ownership of Directors

As of June 27, 2003, the members of our board of directors owned an aggregate of 47,953 of our ordinary shares, representing less than 0.00011% of our capital stock, as shown in the table below.

Name	No. of shares beneficially owned
Antonio Viana-Baptista	10,000
Luis Lada Díaz	13,576