

TELEFONICA MOBILE INC
Form 20-F
July 09, 2004
Table of Contents

As filed with the Securities and Exchange Commission on July 9, 2004.

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, 2003

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* American Depositary Shares, each representing one Ordinary Share | New York Stock Exchange 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 No

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

Table of Contents

TABLE OF CONTENTS

| | |
|--|-----|
| <u>PRESENTATION OF FINANCIAL INFORMATION</u> | 1 |
| <u>FORWARD-LOOKING STATEMENTS</u> | 1 |
| <u>CERTAIN TERMS AND CONVENTIONS</u> | 1 |
| <u>PART I</u> | 1 |
| <u>Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u> | 1 |
| <u>Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE</u> | 1 |
| <u>Item 3. KEY INFORMATION</u> | 2 |
| <u>A. SELECTED FINANCIAL DATA</u> | 2 |
| <u>B. CAPITALIZATION AND INDEBTEDNESS</u> | 4 |
| <u>C. REASONS FOR THE OFFER AND USE OF PROCEEDS</u> | 5 |
| <u>D. RISK FACTORS</u> | 5 |
| <u>Item 4. INFORMATION ON THE COMPANY</u> | 15 |
| <u>A. HISTORY AND DEVELOPMENT OF THE COMPANY</u> | 15 |
| <u>B. BUSINESS OVERVIEW</u> | 20 |
| <u>C. ORGANIZATIONAL STRUCTURE</u> | 66 |
| <u>D. PROPERTY, PLANTS AND EQUIPMENT</u> | 66 |
| <u>Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u> | 67 |
| <u>A. OPERATING RESULTS</u> | 67 |
| <u>B. LIQUIDITY AND CAPITAL RESOURCES</u> | 97 |
| <u>C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.</u> | 102 |
| <u>D. TREND INFORMATION</u> | 103 |
| <u>E. OFF BALANCE SHEET COMMITMENTS</u> | 104 |
| <u>F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS</u> | 106 |
| <u>Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u> | 107 |
| <u>A. DIRECTORS AND SENIOR MANAGEMENT</u> | 107 |
| <u>B. COMPENSATION</u> | 115 |
| <u>C. BOARD PRACTICES</u> | 117 |
| <u>D. EMPLOYEES</u> | 117 |
| <u>E. SHARE OWNERSHIP</u> | 119 |
| <u>Item 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u> | 120 |
| <u>A. MAJOR SHAREHOLDERS</u> | 120 |
| <u>B. RELATED PARTY TRANSACTIONS</u> | 120 |
| <u>C. INTERESTS OF EXPERTS AND COUNSEL</u> | 125 |
| <u>Item 8. FINANCIAL INFORMATION</u> | 126 |
| <u>A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION</u> | 126 |
| <u>B. SIGNIFICANT CHANGES</u> | 129 |
| <u>Item 9. THE OFFER AND LISTING</u> | 129 |
| <u>A. OFFER AND LISTING DETAILS</u> | 129 |
| <u>B. PLAN OF DISTRIBUTION</u> | 133 |
| <u>C. MARKETS</u> | 133 |
| <u>D. SELLING SHAREHOLDERS</u> | 133 |
| <u>E. DILUTION</u> | 133 |
| <u>F. EXPENSES OF THE ISSUE</u> | 134 |
| <u>Item 10. ADDITIONAL INFORMATION</u> | 134 |

Table of Contents

| | |
|---|-----|
| <u>A. SHARE CAPITAL</u> | 134 |
| <u>B. MEMORANDUM AND ARTICLES OF ASSOCIATION</u> | 134 |
| <u>C. MATERIAL CONTRACTS</u> | 138 |
| <u>D. EXCHANGE CONTROLS</u> | 140 |
| <u>E. TAXATION</u> | 141 |
| <u>F. DIVIDENDS AND PAYING AGENTS</u> | 146 |
| <u>G. STATEMENTS BY EXPERTS</u> | 146 |
| <u>H. DOCUMENTS ON DISPLAY</u> | 147 |
| <u>I. SUBSIDIARY INFORMATION</u> | 147 |
| <u>Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u> | 147 |
| <u>Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u> | 152 |
| <u>PART II</u> | 152 |
| <u>Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u> | 152 |
| <u>Item 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u> | 152 |
| <u>Item 15. CONTROLS AND PROCEDURES</u> | 152 |
| <u>Item 16.</u> | 152 |
| <u>Item 16A AUDIT COMMITTEE FINANCIAL EXPERT</u> | 152 |
| <u>Item 16B CODE OF ETHICS</u> | 152 |
| <u>Item 16C ACCOUNTANTS FEES AND SERVICES</u> | 152 |
| <u>PART III</u> | 153 |
| <u>Item 17. FINANCIAL STATEMENTS</u> | 153 |
| <u>Item 18. FINANCIAL STATEMENTS</u> | 153 |
| <u>Item 19. EXHIBITS</u> | 154 |

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. Our consolidated and combined financial statements and the notes to our consolidated and combined financial statements are presented in euro. The Telefónica Móviles Group previously reported some of this information in Spanish pesetas.

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 discussed in:

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

identify 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.

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

Table of Contents**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 consolidated and combined financial statements included in this annual report. Our consolidated financial statements for the year ended and at December 31, 2003 and our combined financial statements for the years ended and at December 31, 2002 and 2001 have been prepared in accordance with Spanish GAAP, which differs in certain significant respects from U.S. GAAP. See note 20 to our consolidated and combined financial statements. The principles of consolidation are described in note 2(c) to our consolidated and combined financial statements.

Summary Selected Financial Data

| | Year ended December 31, | | | | |
|---|--|--------------------|--------------------|--------------------|--------------------|
| | 1999 | 2000 | 2001 | 2002 | 2003 |
| | (euro in thousands, except share and ADS data) | | | | |
| Statement of Operations Data | | | | | |
| <i>Spanish GAAP</i> | | | | | |
| Net revenues from operations | 5,015,729 | 6,377,249 | 8,411,064 | 9,139,835 | 10,070,284 |
| Other revenues | 97,430 | 110,622 | 147,747 | 91,070 | 152,403 |
| Services and goods purchased | (1,337,895) | (1,559,181) | (1,862,117) | (2,406,039) | (2,592,541) |
| External services and local taxes | (1,834,992) | (2,277,186) | (2,603,758) | (2,412,370) | (2,581,995) |
| Personnel expenses | (168,235) | (270,696) | (533,831) | (546,381) | (485,993) |
| Depreciation and amortization | (621,777) | (871,137) | (1,258,159) | (1,316,406) | (1,420,648) |
| Change in operating provisions | (101,974) | (129,284) | (225,416) | (130,245) | (99,274) |
| Total operating expenses | (4,064,873) | (5,107,484) | (6,483,281) | (6,811,441) | (7,180,451) |
| Operating income | 1,048,286 | 1,380,387 | 2,075,530 | 2,419,464 | 3,042,236 |
| Amortization of goodwill | (18,415) | (26,420) | (53,802) | (87,096) | (101,703) |
| Income (losses) of associated companies | (3,588) | (94,701) | (119,193) | (159,477) | (80,656) |
| Financial expense | (346,784) | (304,471) | (714,869) | (921,983) | (1,288,474) |
| Financial income | 234,143 | 109,607 | 386,810 | 605,787 | 910,337 |
| Income from ordinary activities | 913,642 | 1,064,402 | 1,574,476 | 1,856,695 | 2,481,740 |
| Extraordinary income (expense) | (194,992) | (51,241) | (100,705) | (12,075,902) | (4,536) |
| Corporate income tax | (210,372) | (347,872) | (628,768) | 2,130,821 | (890,493) |
| Minority interests | 31,956 | (20,518) | 48,352 | 4,363,987 | 21,127 |
| Net income | 540,234 | 644,771 | 893,355 | (3,724,399) | 1,607,838 |
| Earnings per share | | 0.18 | 0.22 | | 0.37 |
| Average outstanding common shares | | 3,560,966,298 | 4,141,432,815 | 4,290,372,979 | 4,309,104,934 |
| <i>U.S. GAAP</i> | | | | | |
| Net income(1) | 534,093 | 727,483 | 320,447 | (3,647,254) | 1,815,138 |
| Earnings per share | | 0.20 | 0.08 | (0.85) | 0.42 |
| Average outstanding common shares | | 3,560,966,298 | 4,141,432,815 | 4,290,372,979 | 4,309,104,934 |

Table of Contents

| | At December 31, | | | | |
|--|-----------------|--------------|-------------|-------------|-------------|
| | 1999 | 2000 | 2001 | 2002 | 2003 |
| (euro in thousands) | | | | | |
| Balance Sheet Data | | | | | |
| <i>Spanish GAAP</i> | | | | | |
| Property, plant and equipment, net | 3,340,551 | 3,820,869 | 5,244,414 | 4,661,729 | 4,384,354 |
| Total assets | 7,104,366 | 21,260,624 | 24,914,086 | 16,231,714 | 15,664,065 |
| Short-term debt(2) | 513,863 | 4,707,849 | 6,615,828 | 991,596 | 1,776,063 |
| Long-term debt(3) | 2,717,302 | 3,007,622 | 5,279,338 | 7,213,809 | 5,368,594 |
| Total liabilities | 5,913,815 | 15,941,284 | 17,425,434 | 12,984,131 | 11,623,630 |
| Shareholders' equity | 1,190,551 | 5,319,340 | 7,488,652 | 3,247,583 | 4,040,435 |
| <i>U.S. GAAP</i> | | | | | |
| Total assets(4) | 7,894,329 | 19,227,998 | 26,935,747 | 15,694,410 | 14,109,556 |
| Long-term debt | 2,934,666 | 2,214,726 | 5,236,446 | 6,677,177 | 4,831,713 |
| Shareholders' equity(4) | 1,391,042 | 7,940,875 | 9,496,119 | 4,005,739 | 4,599,007 |
| Other Financial Data | | | | | |
| <i>Spanish GAAP</i> | | | | | |
| Cash flow from operating activities | 1,449,451 | 5,594,426 | 1,332,485 | 2,156,756 | 3,681,481 |
| Cash flow from investing activities | (2,337,761) | (12,057,634) | (4,038,059) | (1,756,219) | (1,155,113) |
| Cash flow from financing activities | 764,829 | 6,455,915 | 281,834 | (2,645,328) | (2,612,128) |
| Capital expenditures | 1,403,063 | 13,620,172 | 2,141,210 | 1,046,596 | 834,879 |
| Cash dividends | 268,672 | 851,616 | | | 767,760 |
| Operating Data | | | | | |
| (in millions) | | | | | |
| Population in licensed service territories | 127 | 285 | 372 | 353 | 389 |
| Total customers(5) | 12.6 | 19.2 | 28.0 | 39.4 | 49.6 |
| Proportionate customers(6) | 10.3 | 16.7 | 24.6 | 28.6 | 32.9 |
| Pre-paid customers(7) | 55% | 64% | 69% | 71% | 72% |
| Short messages(8) | 539 | 2,276 | 6,300 | 8,400 | 11,018 |

- (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 consolidated and combined financial statements.
- (2) 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.
- (3) 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 our consolidated and combined balance sheet.
- (4) 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 consolidated and combined financial statements.
- (5) 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. As of December 2003, we also include TCO's customers.
- (6) Represents total number of customers of all companies in which we have an interest multiplied by our economic ownership interest in those companies.
- (7) Represents total pre-paid customers as a percentage of total customers at period-end.
- (8) 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.

Exchange Rate Information

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

Table of Contents

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 Noon Buying Rate for the euro on July 8, 2004 was \$1.2390 = 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.

| Year ended December 31, | Noon Buying Rate | | | |
|---|------------------|------------|--------|--------|
| | 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 |
| 2003 | 1.2597 | 1.411 | 1.2597 | 1.0361 |

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 ended | High | Low |
|----------------------------|--------|--------|
| December 31, 2003 | 1.2597 | 1.1956 |
| January 31, 2004 | 1.2853 | 1.2389 |
| February 29, 2004 | 1.2848 | 1.2426 |
| March 31, 2004 | 1.2431 | 1.2088 |
| April 30, 2004 | 1.2358 | 1.1802 |
| May 31, 2004 | 1.2274 | 1.1801 |
| June 30, 2004 | 1.2320 | 1.2006 |
| July 2004 (through July 8) | 1.2390 | 1.2158 |

Source: Federal Reserve Bank of New York.

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.

Our ordinary shares are quoted on the Spanish stock exchanges 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 ADSs on conversion by the Depositary of any cash dividends 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.

Table of Contents

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

Risks Related to Our 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.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

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 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.

Our expected acquisition of BellSouth's wireless operations in Latin America and Telefónica Móvil Chile, may require us to increase our capital resources and financing requirements.

On March 5, 2004 we entered into a stock purchase agreement with wireless operators owned by BellSouth Corporation, or BellSouth, to acquire 100% of BellSouth's interests in its wireless operations in Argentina, Chile, Peru, Venezuela, Colombia, Ecuador, Uruguay, Guatemala, Nicaragua and Panama. We expect to finance this acquisition by cash generated from our operating activities as well as debt primarily from Telefónica S.A., our controlling shareholder. In addition, on May 18, 2004, the board of directors of Telefónica CTC Chile, S.A. accepted our binding offer for the purchase of 100% of the shares of its subsidiary, Telefónica Móvil Chile, S.A. We may be required to further increase our debt or divert funds from our existing operations to invest in our new acquisitions, which could have a material adverse on our revenues and overall results of operations.

Table of Contents

Our strategy calls for the acquisition and integration of new operators, which may be costly, difficult and time consuming.

We may face technological, administrative and other challenges involved in integrating new operators that we acquire, including the operators we expect to acquire as part of our acquisition of BellSouth's wireless operations in Latin America and Telefónica Móvil Chile. In addition, we may face similar challenges in integrating new services and technologies into our existing networks and operations from operators we acquire. Any failure to expand and improve our service and product offerings in these operators may place us at a competitive disadvantage relative to other wireless communications providers. Customers may choose these competitors over us, which could adversely affect our ability to increase our revenues and leverage our cost base.

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 increased as a result of our plans to deploy a GSM network in Argentina in 2004 and our current deployment of a UMTS network in Spain. GSM, or global standard for mobile, is one of the most widely used standard systems for wireless communication. UMTS, or universal mobile telephone system, is one of the most commonly accepted 3G (third generation) standard in the world. It allows wireless multimedia voice and data transmission speeds of up to 384 kbits/s.

Our company also has major capital resource requirements relating to, among other things, the following:

the expected acquisitions of BellSouth's wireless operations in Latin America and of Telefónica Móvil Chile;

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.

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.

We depend in large measure on the Telefónica Group for our liquidity and capital resource requirements.

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. As of December 31, 2003, our total debt was 7,145 million, of which 6,058 million was owed to

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

other members of the Telefónica Group. In the future, we may be required to incur additional indebtedness to support the ongoing development and expansion of our business. We plan to continue to rely upon Telefónica, S.A. and other Telefónica Group companies to satisfy most of these requirements. If Telefónica, S.A. or other members of the Telefónica Group are unable to provide us with funding, we may need to raise debt from other sources to support the ongoing development and expansion of our business.

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

higher 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 may issue in the future;

Table of Contents

restrictions on our company's capital resources or operations imposed by lenders; and

reduced flexibility to take advantage of, or pursue, other business opportunities.

We recorded an impairment charge to goodwill and other tangible and intangible assets in 2002 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. In past years we have generated substantial amounts of goodwill from some of our acquisitions. Goodwill under Spanish GAAP amounted to 1,146.5 million as of December 31, 2003.

Although we do not believe based on all available information and facts that this amount would not be recovered, we cannot be certain that we will be able to recover all of the goodwill that we carried as an asset or that we will not have to write off additional goodwill in the future under U.S. GAAP or Spanish GAAP. For example, in 2002, we recorded an impairment charge to goodwill of 154 million, relating to the goodwill of Iobox, an internet portal acquired in July 2000. 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. Yearly impairment tests were performed for all the reporting units as required under SFAS No. 142. Although future write-offs of goodwill would not lead to a cash out flow, any future write-offs of goodwill could have a negative impact on our results, as impairment charges to goodwill would reduce our net income.

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 compatible for UMTS services in some countries and enabled with MMS, cameras, color screens, and other capabilities. MMS, or Multi-media Message Service, allows customers to send and receive messages with their handsets combining color photographs and images with voice, sound, animations or text. The handsets needed to support these services may increase our cost base while demand for these 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 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.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

We have made substantial investments to establish a presence in Mexico and additional investments will be required over the next several years to continue 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 competition from 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.

Table of Contents

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 and to provide an adequate and updated portfolio of products and services in each of our markets. 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.

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 and Argentina.

The development of our business could be hindered if we fail to maintain satisfactory working relationships with our partners, especially 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.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Neither Portugal Telecom nor we exercise full control over the Board of Directors or executive team. Each of the shareholders has equal ownership and jointly controls the joint venture, each appointing twelve of the twenty-four members of the Brasilcel Board of Directors. Significant financial and operating decisions require Board approval, and all strategic decisions need to be approved by the Board of Directors. Furthermore, Portugal Telecom is entitled to appoint the Vice-Chairman of the Board and nominate the Chief Executive Officer of the joint venture while we are entitled to appoint the Chairman of the Board and nominate the Chief Financial Officer.

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.

Table of Contents

For example, in Italy, we directly and indirectly hold 45.6% of the Italian company IPSE 2000 S.p.A. IPSE 2000 was awarded a UMTS license in October 2000. Since October 1, 2001, IPSE 2000 has been carried by the equity method. This accounting method was considered the most appropriate pursuant to Spanish law as a consequence of the difficulties that arose in relation to the development of UMTS services throughout Europe and the then resulting market and regulatory environment and conditions, which substantially affected the management of IPSE. Our principal partners in this company include Telia Sonera, Banca di Roma, Xera, Edison and Acea, together with other minority interests. IPSE 2000 is currently considering the possibility of transferring its UMTS frequencies, known as spectrum trading, as part of the UMTS license process. Cooperation among our partners is and will continue to be necessary to determine the ultimate strategy with respect to IPSE 2000.

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, time which we 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 Our Organizational Structure

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, 2003 and early 2004. These initiatives and actions include, among others, the following:

binding offer to acquire Telefónica Móvil Chile (2004);

agreement to acquire BellSouth's wireless operations in Latin America (2004);

the acquisition by Brasilcel of a controlling interest in Tele Centro Oeste Participações (2003);

the consummation of Brasilcel N.V., our joint venture with Portugal Telecom in Brazil (2002);

the increase in our ownership interest in our Central American operations (2002);

the increase in our ownership interest in our Brazilian operations (2000-2002);

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

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).

The transactions that had not been consummated by December 31, 2003 are not reflected in our consolidated and 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 Basis of Presentation 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 consolidated and combined financial statements, after taking into account these developments and any other future material developments.

Table of Contents

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 92.5% 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.

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 in some instances 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. Since December 2003 the prior government authorization for specified fundamental corporate transactions affecting privatized companies imposed on the Telefónica Group since March 1995, known as the golden share, turned into a prior notification requirement with a veto faculty vested with the Spanish Government, applicable to, among other Telefónica Group companies, Telefónica Móviles, S.A. and Telefónica Móviles España, S.A. The transactions requiring prior notification include, among others:

any 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 the material assets of Telefónica Móviles España;

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

the acquisition by a third-party of 10% or more of our share capital except when the acquisition has a financial objective and does not have as a purpose to acquire our control or manage us; and

the substitution of Telefónica Móviles España corporate purpose that implies the suppression of the required activities to carry out telecommunications services.

This prior notification requirement is applicable until 2007. In addition, if a third-party acquires 10% or more of our capital stock without prior notification, such third-party will not have voting rights in respect of the shares acquired until the period in which the Government could veto this transactions has elapsed.

Table of Contents

We will be obligated to adopt new accounting standards in 2005 that will impact our financial statements.

We currently prepare our financial statements in accordance with Spanish GAAP, and prepare a reconciliation of certain items to U.S. GAAP as required by SEC regulation. According to the European Union legislation in force, company groups listed in European Union stock markets must apply from January 1, 2005 the International Financial Reporting Standards (IFRS) adopted by the European Union, in preparing their consolidated financial statements.

Applying these standards to our financial statements may imply a change in the presentation of our financial information, since the Financial Statements will include more components and additional disclosure will be required. Additionally, there will be a change in the valuation of certain items. Regarding the former, the Telefónica Group is currently making a qualitative and quantitative analysis of the main differences, although at this moment it is not possible to determine the exact impact that this new regulation will entail compared to Spanish GAAP. Furthermore, not all IFRS are legally binding at present and therefore the final impact may be different depending on which IFRS are finally adopted by the European Union.

Risks Related to Our 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.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

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

In September 2002, Anatel, the Brazilian telecommunications regulator, introduced a new mobile services licensing regime, or SMP, encouraging companies operating under the personal cellular services, or SMC

Table of Contents

system, to migrate to the SMP system. Under the SMP regime, Brazil was divided into three main regions covering the same geographic areas as the concessions for the fixed-line telecommunication services. Anatel organized auctions for three new licenses for each of those regions. These new licenses were auctioned by Anatel and awarded during the first quarter of 2001 and at the end of 2002. Under these new licenses:

services are to be provided using the 1,800 MHz frequency;

each operator may provide domestic and international long distance services in its licensed area;

existing mobile service providers, as long as they do not have partnerships with fixed-line operators, as well as new entrants into the Brazilian telecommunications market can bid for C Band, D Band and E Band SMP licenses. However, fixed-line operators, their controlling shareholders and affiliated mobile providers can only bid for D Band and E Band SMP licenses;

a mobile or SMP operator, or its respective controlling shareholders, may not have geographical overlap between licenses; and

current A Band and B Band mobile service providers can apply for an extra frequency range.

Pursuant to the SMP services regulation, each of the three main regions is divided into registration areas, or tariff areas. Under the SMP regime, Brasilcel's subsidiaries will no longer receive payment from its customers for outbound long distance traffic, but will receive payment for the use of its network, in accordance with the network usage remuneration plan. In 2003, this change had little impact on Brasilcel's subsidiaries, but they cannot assure that in the next years the interconnection fees that we will receive from long distance operators will compensate it for the revenues that it would have received from its customers for outbound long distance traffic.

Until June 30, 2004, SMP service providers may opt to establish a price cap or freely negotiate their interconnection charges. After that date, free negotiation will be the rule, subject to Anatel regulations to be issued in regarding to the traffic capacity and interconnection infrastructure that must be made available to requesting parties.

In addition, under the SMP regime, an SMP mobile operator will pay for the use of another SMP mobile operator's network in the same registration area only if the traffic carried from the first operator to the second exceeds 55% of the total traffic exchanged between them. In that case, only those calls that have surpassed the 55% level will be subject to payment for network usage. This rule is valid until June 30, 2005, after which no payments will be due for network usage between SMP networks, regardless of the amount of traffic. As a result, if the traffic Brasilcel's subsidiaries terminate for other SMP mobile operators exceeds the traffic they terminate for Brasilcel's subsidiaries, Brasilcel's revenues and results of operations may be adversely affected. Accordingly, the new rules may negatively affect 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. For example, since 2002, Spanish regulation allows for the introduction of virtual mobile operators, or VMOs. A VMO is a mobile operator that does not own a network and instead buys mobile minutes wholesale from those network operators with physical networks and sells them to its clients. A VMO in Spain

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

requires a special license that provides it with interconnection rights based on the principle of permission, not obligation. Under this principle, a network operator with a physical network is permitted, but not obligated, to provide access to VMOs to its networks. The interconnection agreement with the VMO would have to be on the same terms as is available to all other operators. Regulatory policies such as these that intend to increase competition could have the effect, over time, of reducing our market shares in the service territories in which we currently operate.

In addition, 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.

Table of Contents

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 2003, 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;

Table of Contents

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.

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.

For example, our operations in Argentina were affected by the devaluation of the Argentine peso, the adverse macroeconomic conditions in Argentina and the related legislative measures adopted by the Argentine Government in past years. During 2003 the Argentine economy began to recover. However, the effects from the economic crisis continue to affect the results of operations and financial condition of Telefónica Comunicaciones Personales. In addition, the Argentine economic and social situation has quickly deteriorated in the past and may quickly deteriorate in the future, and we cannot assure you if, or when, the Argentine economy will begin to experience sustained growth.

Additionally, Telefónica Comunicaciones Personales is currently in a negative net worth position. Although current Argentine law (Decree 214/2002) allows companies to maintain this negative net worth position until December 2004 without the need to establish a positive net worth position, it is uncertain whether the government of Argentina will once again extend this exception beyond December 2004. Should this exception fail to be extended and if Telefónica Comunicaciones Personales is not capitalized by Telefónica Móviles, through increased capital or partial capitalization of intercompany loans, Telefónica Comunicaciones Personales could be subject to a dissolution proceeding by the Argentine authorities and could lose its license.

Latin American currencies have been subject to fluctuations, 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 volatility in recent years, and our revenues from customers will decline in value if the local currencies depreciate relative to the euro.

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.

Table of Contents

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 on 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. We manage all of the wireless assets of the Telefónica Group, a diversified telecommunications group that provides a comprehensive range of services in Spain and Latin America. Telefónica, S.A., the parent company of the Telefónica Group, holds 92.5% of our shares.

The following is a brief summary of key steps in the development of our company:

Spain: The Telefónica Group commenced wireless operations in Spain in 1982. In 2000, Telefónica, S.A. transferred to our company all of the shares of its wireless subsidiary in Spain, Telefónica Móviles España, in exchange for 84,445,927 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.

Brazil: The Telefónica Group commenced wireless operations in Brazil in 1996. In 2002, we and Portugal Telecom created Brasilcel, N.V., or Brasilcel, a joint venture which combined our respective wireless operations in Brazil. Our holdings and those of Portugal Telecom in the following operations were combined in the Brasilcel joint venture:

Tele Sudeste Celular Participações S.A.;

Celular CRT Participações S.A.;

Tele Leste Celular Participações S.A.; and

Telesp Celular Participações S.A.

The value of our contribution to Brasilcel of the wireless assets owned by us was 1,898 million. Subsequently in 2003, Telesp Celular Participações S.A. acquired 86.6% of the voting capital stock of Tele Centro Oeste Participações S.A., a wireless operator that provides wireless

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

services in Brazil's Federal District and 11 Brazilian states.

Peru: The Telefónica Group commenced wireless operations in Peru in 1991. Its subsidiary, 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 later share exchanges and additional share purchases, we indirectly hold a 97.97% interest in Telefónica Móviles S.A.C.

Argentina: The Telefónica Group commenced wireless operations in Argentina in 1993. Its subsidiary, 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 in 2001. Following the spin-off and share exchanges, we indirectly hold a 97.93% interest in Telefónica Comunicaciones Personales S.A. We do not hold an interest in the data operations or Telefónica de Argentina S.A.

Mexico: We hold 92.0% of Telefónica Móviles Mexico and the Burillo Group owns the remaining 8%. The companies making up Telefónica Móviles Mexico were acquired by us in two steps:

- 1) *Acquisitions of Northern operators.* We acquired four Northern wireless operators (Bajacel, Movitel, Norcel, and Cedetel) from Telefónica, S.A. in July 2001.

Table of Contents

- 2) *Acquisition of Pegaso and formation of Telefónica Móviles Mexico.* On April 26, 2002, we signed agreements to purchase 65.23% of Pegaso Telecomunicaciones, S.A. de C.V. We also agreed 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.

Central America: The Telefónica Group commenced wireless operations in El Salvador on 1998 and in Guatemala on 1999. In 2000, The Telefónica Group transferred to us its shares in TES Holdings, S.A. and TCG Holding, S.A., its holding companies in El Salvador and Guatemala, in exchange for 5,542,534 ordinary shares of our company. We acquired the remaining interests in TES Holdings, S.A. and TCG Holding, S.A. in 2002 for 14.5 million of our ordinary shares.

Morocco: The Telefónica Group commenced wireless operations in Morocco in 2000. We hold a 32.18% equity interest in Medi Telecom. Telefónica, S.A. transferred to our company a 30.5% interest in Medi Telecom. We increased our holding through capital increases of Medi Telecom in 2002 and 2003.

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 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. In December 2003, we sold our Austrian subsidiary to Mobilkom Austria for a total sale price of 13.6 million.

Puerto Rico: We currently manage the day-to-day operations of NewComm Wireless, a Puerto Rican wireless operator, and hold notes that are convertible into 49.9% of its capital stock. In September 2003, the Telefónica Group transferred these convertible notes to us for an aggregate amount of \$60.9 million. The Telefónica Group has also transferred to us a right to purchase an additional 0.2% interest in NewComm Wireless, which would allow us control over the company once exercised.

Other strategic initiatives: We have also undertaken the following strategic initiatives and acquisition that we believe are complementary to our core wireless communications activities.

Alliance with Orange, T-Mobile and TIM: In 2003, we entered into an alliance with three other European mobile operators, T-Mobile International, Telecom Italia Mobile, or TIM, and Orange S.A. This alliance adopted the brand name FreeMove in March 2004 to represent its joint offering. This alliance is using its collective scale, strength and expertise to deliver an enhanced, seamless service for customers of the four partners when traveling abroad through its Virtual Home Environment and new service propositions to international customers. This alliance has also resulted in economic benefits for the operators from joint handset procurement as well as preferred supplier agreements with Siemens and Motorola.

Members of the Alliance have already agreed to jointly purchase six million handsets for 2004, resulting in an average savings cost of ten percent. The development of further joint technical projects and procurement initiatives are expected to deliver similar economic benefits of up to ten percent annually, while the volume of devices jointly acquired is targeted to increase over time to 25 percent of our total purchases. Collective synergies will also help members to be the first to market new models and to potentially secure exclusivity periods on those models with manufacturers.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

The above estimates are forward looking statements that are based upon certain assumptions. Such forward-looking statements are not guarantees of future performance and involve numerous risks and uncertainties, and actual results may differ materially from those anticipated. For a discussion of important factors that could cause such differences please see the discussion in this section as well as Item 3 Risk Factors , Item 5 Operating and Financial Review and Prospects and Item 11 Quantitative and Qualitative Disclosures about Market Risk .

Table of Contents

Acquisition of BellSouth's Latin America wireless operations: On March 5, 2004, we entered into a stock purchase agreement with BellSouth to acquire 100% of BellSouth's interests in its wireless operations in Argentina, Chile, Peru, Venezuela, Colombia, Ecuador, Uruguay, Guatemala, Nicaragua and Panama. The firm value of the wireless operators that we have agreed to acquire from BellSouth, including the interests of minority shareholders and the net debt of these wireless operators, was valued at US\$5,850 million.

The total amount we will pay for these wireless operators will depend upon the economic interest finally bought in each company and the final net debt of the acquired companies at the time of closing. The transaction is subject to, among other closing conditions, regulatory approvals in each country. It is expected to close in stages, with the final closing expected to occur by year-end 2004.

Binding offer to acquire 100% of Telefónica Móvil Chile in 2004: On May 18, 2004, the board of directors of Telefónica CTC Chile, S.A., or CTC, accepted our binding offer for the purchase of 100% of the shares of its subsidiary, Telefónica Móvil Chile, S.A. Telefónica S.A. owns 43.6% of CTC Chile. We have been managing Telefónica Móvil Chile since 2000. The purchase price has been agreed as \$1,007 million. In addition, when the purchase of the shares occurs, we will have to repay debt we owe to CTC, which, as of March 31, 2004, was \$243 million. The purchase of the shares of Telefónica Móvil Chile, S.A. is expected to take place upon approval by the shareholders of CTC within sixty days of the signing of the binding offer by CTC.

The following tables provide information for our acquisitions completed in 2001, 2002 and 2003.

Acquisitions in 2001

| Month | Company name | Initial % | Acquired % | Final % | Acquisition Price (thousands of euro) |
|-------|---|-----------|------------|---------|---------------------------------------|
| Jan. | Telefónica Móviles Argentina, S.A. (1) (Argentina) | | 97.93 | 97.93 | 495,783 |
| Mar. | Telefónica Móviles Perú Holding, S.A.A. (1) (Peru) | | 97.055 | 97.055 | 253,861 |
| Apr. | TBS Participações, S.A. (Brazil) | 59.27 | 7.00 | 66.27 | 39,919 |
| Jul. | Grupo Corporativo del Norte, S.A. de C.V. (1) (Mexico) | | 100.00 | 100.00 | 79,789 |
| Jul. | Celular de Telefonía, S.A. de C.V. (1) (Mexico) | | 73.82 | 100.00 | 224,944 |
| Jul. | Corporativo Integral de Comunicación, S.A. de C.V. (1) (Mexico) | | 100.00 | 100.00 | 31,289 |
| Jul. | Telefonía Celular del Norte, S.A. de C.V. (1) (2) (Mexico) | | 79.00 | 100.00 | 117,760 |
| Jul. | Baja Celular Mexicana, S.A. de C.V. (1) (Mexico) | | 100.00 | 100.00 | 206,977 |
| Jul. | Movitel del Noroeste, S.A. de C.V. (1) (2) (Mexico) | | 22.00 | 90.00 | 25,642 |

(1) These acquisitions were performed through capital increases.

(2) Represents the direct ownership acquired in these companies. The difference between the interests presented in the Final % column and the Acquired % column is due to indirect acquisitions by the holding companies Grupo Corporativo del Norte, S.A. de C.V., Corporativo Integral de Comunicación, S.A. de C.V. and Baja Celular Mexicana, S.A. de C.V., respectively.

Table of Contents**Acquisitions in 2002**

| Month | Company name | Initial % | Acquired % | Final % | Acquisition Price (thousands of euro) |
|--------------|--|----------------------|-----------------------|--------------------|--|
| Jan. | TES Holding, S.A. de C.V. (El Salvador) | 51.00 | 16.30 | 67.30 | 32,106 |
| Jan. | TCG Holdings, S.A. (Guatemala) | 51.00 | 16.30 | 67.30 | 25,226 |
| May | Iberoleste Participações, S.A. (1) (Brazil) | 37.98 | 62.02 | 100.00 | 113,196 |
| May | TBS Participações, S.A. (1) (Brazil) | 66.27 | 7.00 | 73.27 | 25,910 |
| May | Tele Leste Celular Participações, S.A. (1) (Brazil) | | 3.38 | 3.38 | 13,593 |
| May | Sudestecel Participações, S.A. (1) (Brazil) | 82.50 | 7.00 | 89.50 | 64,062 |
| May | TES Holding, S.A. de C.V. (1) (El Salvador) | 67.37 | 32.70 | 100.00 | 14,934 |
| May | TCG Holdings, S.A. (1) (Guatemala) | 67.37 | 32.70 | 100.00 | 11,734 |
| May | Telefónica de Centroamérica, S.L. (1) (Spain) | 67.37 | 32.70 | 100.00 | 982 |
| Sep. | Pegaso Telecomunicaciones, S.A. de C.V. (Mexico) | | 65.23 | 65.23 | 92,870 |
| Sep. | Pegaso Telecomunicaciones, S.A. de C.V. (Mexico) | 65.23 | 65.23 | 65.23 | 211,454 |
| Oct. | CRT Celular Participações, S.A. (Brazil) | 22.75 | 0.66 | 23.41 | 11,544 |
| Oct. | Telesp Celular Participações, S.A. (Brazil) | | 14.68 | 14.68 | 200,306 |
| Dec. | Medi Telecom. (Morocco) | 30.5 | 0.84 | 31.34 | 17,390 |
| Dec. | Telefónica Móviles Soluciones y Aplicaciones, S.A. (Chile) | 100.00 | | 100.00 | 9,215 |

(1) These acquisitions were performed through capital increases.

Acquisitions in 2003

| Date | Company name | Initial % | Acquired % | Final % | Acquisition Price (thousands of euro) |
|-------------|--|----------------------|-----------------------|--------------------|--|
| Feb. | Telefónica Mobile Solutions, S.A. (Spain) | 100.00 | | 100.00 | 7,000 |
| Apr. | Tele Centro Oeste Celular Participações, S.A. (Brazil) | | 20.37 | 20.37 | 206,285 |
| Jul. | Medi Telecom. (Morocco) | 31.34 | 0.84 | 32.18 | 21,234 |
| Oct. | Tele Centro Oeste Celular Participações, S.A. (Brazil) | 20.37 | 8.50 | 2.87 | 73,827 |
| Dec. | TCG Holdings, S.A. (Guatemala) | 100.00 | | 100.00 | 3,746 |

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 July 8, 2004:

-
- (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 Switzerland but which has no existing wireless operations.
 - (4) Jointly controlled and managed with Portugal Telecom.
 - (5) 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 Telefonia, 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 Telefonia, S.A. de C.V. and 92% of Pegaso PCS.
 - (6) Jointly managed with Portugal Telecom.
 - (7) Managed by us pursuant to a management agreement.
 - (8) TCP, a subsidiary of Brasilcel, N.V., owns 86.6% of the common shares of TCO (representing a total interest of 29.25%).
 - (9) In June 2004, Brasilcel, the joint venture between Telefónica Móviles and the PT Group, completed its acquisition of the interests of NTT DoCoMo, Inc. and Itochu Corporation in Sudestecel Participações, the holding company of Tele Sudeste Celular Participações. This chart does not reflect this recent acquisition. After this acquisition, Brasilcel controls (directly and indirectly) 86.68% of TeleSudeste.

The above chart does not include the Telefónica Group's investment in convertible notes issued by NewComm Wireless Services, Inc. in Puerto Rico, which conversion into shares is subject to receipt of regulatory approvals. See Item 4.B Business Overview Central America Puerto Rico.

Table of Contents

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 in terms of managed customers. We estimate, based on annual reports and press releases made public by our competitors and information from regulatory authorities, that we are the fifth largest global provider of wireless communication services based upon managed customers at December 31, 2003. Managed customers include all our customers from all operators in which we hold an economic participation (including TCO for 2003) and the customers from our managed operations in Chile and Puerto Rico. After our acquisition of BellSouth's Latin America wireless operations, we estimate, based on annual reports and press releases made public by our competitors and information from regulatory authorities, that we will become the fourth largest global provider of wireless communication services in terms of total managed customers. 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, 2003, we provided wireless services through our operating companies and joint ventures to approximately 52 million managed customers in territories with a population of approximately 408 million. We have operations in Spain, Mexico, Peru, El Salvador, Guatemala and Argentina, and through our joint ventures with Portugal Telecom, we also provide wireless communication services in Brazil and Morocco. In addition, we manage operations in Puerto Rico and on behalf of Telefónica S.A., our controlling shareholder, its wireless operation in Chile.

Our strategy is to focus on increasing our profitability and cash flow in the medium term by reinforcing our market leadership position in Spain and Latin America, introducing new services to promote usage, and optimizing our investments and operating efficiencies while assessing the potential for growth in new markets. We will continue to analyze the possibility of selective acquisitions and strategic agreements that complement our business. For example, such agreements that we have entered into include the acquisition of TCO in 2003, the acquisition of BellSouth's Latin American wireless operations in 2004 and our binding offer to acquire 100% of Telefónica Móvil Chile in 2004. We believe that growth in our markets will be driven by (i) increased customer usage of our wireless services, including both voice and data services, (ii) the introduction of new wireless data and internet services, and (iii) increased penetration rates in our Latin American markets.

We also have licenses to provide UMTS services in 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 Regulation Legal Framework of European Operations.

Table of Contents

The following table provides a summary overview of our operating companies, those companies in which we have non-controlling minority interests, our managed operations in Chile and Puerto Rico and our other European operations.

| Year ended December 31, 2003 | | | | | | | |
|------------------------------|--|-------------------|---|--------------------------|--|--|---|
| Country | Company (1) | Service Territory | Ownership Interest at December 31, 2003 | Population (in millions) | Total customers at December 31, 2003 (in millions) | Net Revenue from Operations (millions of euro) | Operating profit before depreciation and amortization (6) |
| Spain | Telefónica Móviles España | Nationwide | 100.0% | 43 | 19.7 | 7,496 | 3,941 |
| Brazil | Brasilcel, N.V.(2)(3) | Nationwide(4) | 50.0% | 130 | 20.7 | 1,378 | 507 |
| Peru | Telefónica Móviles Peru | Nationwide | 97.97% | 27 | 1.5 | 247 | 87 |
| Argentina | Telefónica Comunicaciones Personales | Nationwide | 97.93% | 38 | 1.8 | 240 | 64 |
| Mexico | Telefónica Móviles México, S.A. de C.V.(5) | Nationwide | 92.0% | 103 | 3.5 | 540 | (109) |
| El Salvador | Telefónica Móviles El Salvador | Nationwide | 90.3% | 7 | 0.2 | 96 | 19 |
| Guatemala | Telefónica Centroamérica Guatemala | Nationwide | 100.0% | 12 | 0.1 | 69 | 10 |
| Morocco | Medi Telecom | Nationwide | 32.18% | 30 | 2.1 | 269 | 94 |
| Chile | Telefónica Móvil Chile(7) | Nationwide | | 16 | 2.3 | | |
| Puerto Rico | NewComm Wireless Services(8) | Nationwide | | 4 | .2 | | |
| Germany | Group 3G(9) | Nationwide | 57.2% | 82 | | | |
| Italy | Ipse 2000(10) | Nationwide | 45.59% | 58 | | | |
| Switzerland | 3G Mobile(11) | Nationwide | 100.0% | 7 | | | |

- (1) This table does not include our former subsidiary in Austria, which we sold in December 2003 to Mobilkom Austria for a total sale price of 13.6 million.
- (2) Jointly controlled and managed with Portugal Telecom. Through our 50% interest in Brasilcel, as of December 31, 2003, we indirectly hold 41.94% of Tele Sudeste, 25.08% of Celular CRT, 13.85% of Tele Leste Celular, 32.56% of Telesp Celular Participações, S.A. and 9.40% of Tele Centro Oeste Celular Participações, S.A. For information on our ownership interest in Brasilcel, and its operators, please refer to our organizational structure found in Item 5.A. Operating Results Overview.
- (3) Joint venture with Portugal Telecom that includes 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, respectively, 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.

Table of Contents

- (4) The service territory in Brazil is nationwide with the exception of region 4 (the state of Minas Gerais).
- (5) 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 Telefonia, 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, 2003, we indirectly hold 92% of Baja Celular Mexicano, 82.80% of Movitel del Noroeste, 92% of Telefónica Celular del Norte, 92% of Celular de Telefonia, S.A. de C.V. and 92% of Pegaso PCS.
- (6) See Item 5.A. Operating Results Introduction to Results of Operations Non-GAAP Financial Information for a definition of operating profit before depreciation and amortization and a discussion concerning our use of, and limitations relating to, that measure.
- (7) We currently manage the day-to day operations of Telefónica Móvil Chile. We do not hold an economic stake in Telefónica Móvil Chile therefore it is not consolidated in our financial statements. In May 2004, we made a binding offer for the purchase of 100% of the shares of Telefónica Móvil Chile, S.A.
- (8) We currently manage the day-to-day operations of NewComm Wireless, a Puerto Rican wireless operator, and hold notes that are convertible into 49.9% of its capital stock. We do not hold an economic stake in NewComm Wireless therefore it is not consolidated in our financial statements.
- (9) Consortium which holds a UMTS license in Germany, but which has no existing wireless operations.
- (10) Consortium which holds a UMTS license in Italy, but which has no existing wireless operations.
- (11) Company which holds a UMTS license in Switzerland, but which has no existing wireless operations.

Business Strategy

The key elements of our strategy consist of the following:

Maintain our market leadership position in Spain: 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 basis for future traffic growth and the roll-out of new services, where economies of scale are generated. In addition, as part of our strategy to maintain and reinforce our leadership position in Spain, we offer the opportunity for handset upgrades through loyalty programs as well as continually improving services, such as multimedia messaging services, or MMS, e-moción, i-mode, GPRS, UMTS and a range of new corporate services. GPRS, or general packet radio service, is the natural evolution of GSM towards 2.5G allowing wireless voice and higher speed data transmission.

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

extensive presence in the region;

well established brands; and

extensive managerial and operational experience.

The acquisition by Brasilcel of TCO has strengthened our leadership position in Brazil. Moreover, we believe the launch by Telefónica Móviles Mexico of a national GSM network with over 6,000 points of sale covering 96 cities as of the year end 2003 makes it possible for Telefónica Móviles Mexico to capture a significant share of the market's potential growth and to position itself as a true alternative to the incumbent operator. Our agreement with BellSouth to acquire 100% of BellSouth's interests in its wireless operators in Latin America and our binding offer to acquire 100% of Telefónica Móvil Chile will allow us to further consolidate our leadership position and strengthen our growth profile in Latin America. After these transactions are consummated, we estimate we will have over 40.8 million managed customers in 14 Latin American countries, with an estimated market share of 35% in the region.

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,

Table of Contents

corporate services, such as the launch of *Oficin@ Movistar UMTS*, 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, such as our acquisition of TCO in 2003, our agreement signed with BellSouth in March 2004, our binding offer to acquire 100% of Telefónica Móvil Chile as well as our alliance with T-Mobile International, TIM (Telecom Italia Mobile) and Orange in Europe. 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. For further information see *Wireless Internet and Data Initiatives M-Payment*.

We believe that the following strengths will allow us to compete successfully against other wireless services providers in our existing and future markets: (i) market leadership in Spain and Latin America; (ii) management control over our operations; (iii) proven track record of innovation; (iv) strong distribution channels; (v) extensive operational experience; (vi) financial strength and flexibility; and (vi) relationship with the Telefónica Group.

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, which has gained increased usage as a result of our increased customer base and increased market penetration rates. Accordingly, we are also able to offer new services such as those detailed below.

Value Added Services. Customers in most of our markets have access to a range of enhanced calling features including voice mail, call hold, call waiting, call forwarding and three-way calling.

Wireless data and internet Services. Current data services offered include Short Messaging Services, or SMS, and Multimedia Messaging Services, or 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. We offer internet access in an increasing number of areas, allowing our clients to access a wide range of mobile internet services through voice, WAP (wireless application protocol, a standard protocol allowing for wireless Internet access) or GPRS. Through wireless internet access, our customers are able to send and receive e-mail, browse web pages, download games, purchase goods and services in m-commerce transactions and use our other data services. Technological advances, which include the development of GPRS, CDMA 1XRTT (code division multiple access, a broadband transmission system for wireless networks allowing for speeds of up to 144 Kbits/s) and UMTS, facilitate the development of these services by increasing the speed at which data is transmitted, and making it possible to expand the offer of services and reduce their cost.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

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

Table of Contents

data, developed for specific sectors. In addition, as of February 13, 2004, Telefónica Móviles España has offered its corporate customers *Oficin@Movistar UMTS*, the first third generation service offered in Spain by a mobile operator offering high-speed data transmission of up to 384 kbits/s.

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.

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

M-payment. Through our subsidiary Telefónica Móviles España and together with Vodafone España, Amena and many other financial institutions and processing companies, we have an interest of 13.33% in MobiPay España, a company incorporated to develop micro-payments. We also have a 50% interest in MobiPay International as of July 2004, aimed at expediting payments through mobile phones in an international setting. 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. 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 operations in Spain, Mexico, Peru, El Salvador, Guatemala and Argentina, and through our joint ventures with Portugal Telecom, we also provide wireless communication services in Brazil and Morocco. In addition, we manage operations in Puerto Rico and, on behalf of Telefónica S.A., our controlling shareholder, its wireless operations in Chile. At December 31, 2003, we provided wireless services through our operating companies and joint ventures to approximately 52 million managed customers and our licenses and concessions covered markets with over 408 million people.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

The following section provides a description of the markets in which we operate and includes information on our total revenues, customer churn and market share by geographic location.

We provide information on total revenues for our fully consolidated operations and equity investments such as Medi Telecom. In Brazil, we provide information on total net revenues for the fiscal years ended 2001 (which reflect the total revenues of Tele Sudeste and Celular CRT) and 2002 (which reflect the total revenues of Tele

Table of Contents

Sudeste, Celular CRT and Tele Leste Celular), These companies were fully consolidated in our statement of operations until their transfer to Brasilcel on December 27, 2002. After their transfer, we no longer report revenues by the individual operating companies in the Brasilcel joint venture, instead we report revenues at the Brasilcel joint venture level. As a result, the revenue figures for Brasilcel for the fiscal year 2003 are presented on a proportional basis to reflect the proportional consolidation of the joint venture in 2003.

We provide customer churn rates for each of our wireless operations described below. 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. We calculate churn differently for our customers in Spain, Latin America and Morocco.

Spain. In Spain, we included in involuntary churn any contract customer who has failed to pay his or her outstanding balance for one month 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 30 days with no balance even if they receive incoming calls.

Latin America. In our Latin American operations, 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. Since January 1, 2003, pre-paid churn for all our Latin American operations includes any pre-paid customer who in 90 days does not generate either incoming or outgoing traffic and does not have a sufficient balance to make a telephone call.

Morocco. In Morocco, 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. Pre-paid churn for Morocco includes any pre-paid customer who in 90 days does not have a sufficient balance to make a telephone call.

Customer information on the wireless markets in which we operate, including our market share, are estimates that we have based on annual reports and press releases made public by our competitors or information from local regulators in the respective markets. With respect to our operations in Morocco, this information is also based on data collected from interconnection fees charged and paid in this market.

Spain

We offer wireless services in Spain through Telefónica Móviles España, the leading wireless operator in Spain in terms of total number of customers at December 31, 2003. Telefónica Móviles España had approximately 19.7 million customers at December 31, 2003, representing an estimated 52.8% market share (compared to 55% at December 31, 2002). Telefónica Móviles España is a wholly owned subsidiary and is our most significant operating company, accounting for 74% of our consolidated net revenues from operations for 2003.

The following table presents, at the dates and for the periods indicated, total net revenues and other statistical data relating to the operations of Telefónica Móviles España:

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | Year ended December 31, | | |
|---|--------------------------------|-------------|-------------|
| | 2001 | 2002 | 2003 |
| Total net revenues from operations (euro in millions) | 5,736 | 6,770 | 7,496 |
| Total customers (in millions at period end) | 16.8 | 18.4 | 19.7 |
| Pre-paid customers (in millions at period end) | 11.5 | 11.9 | 11.7 |
| Population in service territory (in millions at period end) | 42 | 42 | 43 |

Source: Telefónica Móviles

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

Table of Contents

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 an estimated population of approximately 43 million people, Spain is the fifth largest wireless market in Western Europe with approximately 37.5 million wireless customers at December 31, 2003. This customer base represents a penetration rate of 88%. The Spanish market grew 12% in 2003.

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. At December 31, 2003, Telefónica Móviles España had approximately 19.7 million customers, which includes approximately 1.2 million customers added during 2003, a 7% increase of its total customer base compared to 2002.

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 estimates that its traffic market share is higher than its customer market share.

Network and Technology

Telefónica Móviles España's licenses and concessions in Spain permit it to operate digital networks and analog networks. Since December 31, 2003, however, Telefónica Móviles España has not operated an analog network. 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. 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 almost 200 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.

In 2001, 2002 and 2003, Telefónica Móviles España invested in the aggregate approximately 1,821 million in building out and enhancing its networks in Spain, developing its technological platforms and information systems. At December 31, 2003, Telefónica Móviles España's digital network in Spain, which consisted of more than 115 switching centers and more than 15,000 base stations, provided coverage to approximately

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

99% of the population. The amounts invested in 2001, 2002 and 2003 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. Also, in 2003, Telefónica Móviles España continued to roll-out its UMTS network, complying with its obligations under its UMTS license. In October 2003, it was the first mobile operator in Spain to launch a pre-commercial service based on UMTS technology. See Regulation Spain Licenses and Concessions.

On February 13, 2004, Telefónica Móviles España began offering to its corporate customers Oficin@ Movistar UMTS, the first third generation service offered in Spain by a mobile operator offering high-speed data transmission up to 384 kbits/s. This service was extended to all Telefónica Móviles España customers in

Table of Contents

Madrid and Barcelona on May 24, 2004, and gradually extended to the rest of Spain. In addition, on May 24, 2004, Telefónica Móviles España launched the first UMTS video services in the Spanish market.

The Spanish wireless market has 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 multi-media messaging service, or MMS, which allows customers to send and receive messages combining color photographs and images with voice, sound, animations or text. Photographs can be taken with handsets that have MMS capacity and integrated cameras and then attached to music or a voice messages and sent to others. The introduction of MMS in Spain has brought customers closer to the potential of third generation, or 3G services, while still utilizing existing technology such as GPRS. In line with its commitment with technological innovation and with making the most innovative services available to its clients, in 2003, Telefónica Móviles España developed the following various new services and data applications:

In June 2003, Telefónica Móviles España, under a general collaboration agreement with NTT DoCoMo, became the first operator in the Spanish market to provide i-mode navigation service as part of its e-moción brand. i-mode™ is a proprietary, pocket-based information service which allows access to internet services for mobile phones. i-mode™ is one of the most successful mobile services and technologies worldwide, and is characterized by ease in navigation and by the wide diversity of its contents. Telefónica Móviles España estimates that 170,000 of our customers became users of this service in six months.

The GPRS technology developed significantly in 2003. The number of users (customers who have used GPRS services at least once within the past 30 days) has reached 1.4 million in December 2003. Telefónica Móviles España estimates that GPRS related revenues have increased six-fold since 2002 and it has become one of the most widely accepted services with our customers.

In 2003, MMS became more widely accepted. Almost one half of the handsets sold by Telefónica Móviles España in 2003 were equipped with MMS technology. Furthermore, at December 31, 2003 over 500,000 of our customers were users of this service.

With regard to the corporate and professional segment, Telefónica Móviles España is continually developing applications that will improve corporate management. For example, Telefónica Móviles España recently introduced *Oficin@ Movistar UMTS*, which offers third generation services to corporate customers.

The introduction of data and non-voice services to our customers was facilitated by the strategy of launching *TSM* handsets (self-branded handsets which Telefónica Móviles España has marketed in Spain since April 2003). These *TSM* handsets provide advanced options and capabilities to our customers at a reasonable price.

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 have supplied the majority of Telefónica Móviles España's GSM and GPRS network. Ericsson supplied the majority of the infrastructures for the first phase of the rollout of its UMTS Network, and Ericsson and Siemens are supplying the infrastructure for the second phase of the rollout.

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

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

been shifting from customer acquisition to management of its customer relationships and continuation of profitable growth through customer loyalty and new products and services.

Table of Contents

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. Telefónica Móviles España's 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.

For purposes of sales and distribution, Telefónica Móviles España divides the Spanish market into the consumer market and business market. At December 31, 2003, Telefónica Móviles España had approximately 10,000 points of sale for the consumer market. In addition, Telefónica Móviles España uses approximately 100 points of sale that are owned by the Telefónica Group.

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. At December 31, 2003, more than 40% of Telefónica Móviles España's total customer base are contract customers, and 60% are pre-paid (*MoviStar Activa*).

In 2003, in order to stimulate demand from its customers, Telefónica Móviles España continued encouraging customer migration from its pre-paid plans to its contract plans, in line with the process that started in March 2002, when the contract plans of Telefónica Móviles España no longer contained a monthly fee, instead they required a minimum usage commitment. In 2003, more than 1.1 million pre-paid customers migrated to contract plans, which had a significant impact in the increase of 5.2 percentage points in its contract customer mix in 2003, as compared to 2002.

The competitive tariffs and quality of services provided by Telefónica Móviles España, along with its success in encouraging migration to its contract plans, have led to improvement in the usage and spending pattern of its customers. Minutes of usage, or MOU, per customer in Spain increased by 10% in 2003 compared to 2002. Total traffic also increased to 37,700 million minutes, a 18.2% increase compared to 2002. In addition, data and content services are becoming an increasingly important method by which wireless customers in Spain communicate. In 2003, over 9,300 million SMS crossed over the network of Telefónica Móviles España, an 11% increase when compared to 2002. Moreover, approximately 33% 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.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

The loyalty programs implemented by Telefónica Móviles España for both its contract and pre-paid customers have been very successful. 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 (attractive prices of handsets and free traffic). In 2003, there were over 4 million handset upgrades based on loyalty programs of Telefónica Móviles España.

Table of Contents

At December 31, 2003, Telefónica Móviles España maintained 15 customer relations centers with real time access to its information systems. These call centers handled approximately 60 million calls in 2003.

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.

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. Telefónica Móviles España estimates that its average monthly customer churn rate was 0.9% for 2003 and 1.08% for 2002.

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*.

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 32.18% interest and share management responsibilities with Portugal Telecom, which holds a 32.18% 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 2.06 million customers at December 31, 2003, representing approximately 43% 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, as of April 2003, 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, total net revenues and other statistical data relating to our investment in Medi Telecom:

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | <u>Year ended December 31,</u> | | |
|---|--------------------------------|-------------|-------------|
| | <u>2001</u> | <u>2002</u> | <u>2003</u> |
| Total net revenues from operations (euro in millions)(1) | 188 | 230 | 269 |
| Total wireless customers (in millions at period end) | 1.1 | 1.6 | 2.06 |
| Pre-paid customers (in millions at period end) | 1.0 | 1.5 | 1.93 |
| Population in service territory (in millions at period end) | 29 | 30 | 30 |

Source: Telefónica Móviles, except population

Population: Pyramid Research

(1) Medi Telecom has been consolidated pursuant to the equity method for each of the years ended December 31, 2001, 2002 and 2003. We held 30.5%, 30.5% and 32.18 % of Medi Telecom at year end December 31, 2001, 2002 and 2003, respectively.

Table of Contents

Market

With a population of approximately 30 million people, Morocco is an attractive wireless market with a high potential for growth. Morocco had 4.78 million wireless customers at December 31, 2003 representing a penetration rate of 16%. Medi Telecom estimates that the Moroccan market grew 23% in 2003 when compared to 2002.

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 2001, 2002 and 2003, Medi Telecom invested a total of approximately 359 million in building out and enhancing its digital network in Morocco. At December 31, 2003, Medi Telecom's digital network in Morocco consisted of 12 switching centers and 1,616 base stations giving coverage to over 89% 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, 2003, approximately 94% 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 8.9 million calls in 2003. We estimate that Medi Telecom's average monthly churn rate was 1.3% in 2003 and 1.8% in 2002.

Competition

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

Latin America

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Latin America is an attractive telecommunications market with a population of approximately 504 million people and a combined gross domestic product of approximately \$1.7 trillion in 2003. 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 22.9% at year-end 2003. 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. 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.

Calling party pays billing system. Following the European experience, and in contrast to U.S. practice, regulators in most Latin American countries introduced in the late 1990s 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.

Table of Contents

Expanding penetration and usage, above fixed-line penetration rate. The number of wireless customers and wireless penetration levels have steadily increased in Latin America in the last years, to the extent that, in most of the countries in the region, the wireless penetration has become higher than the fixed-line penetration, although wireless penetration in Latin America remains 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.

Introduction of 2.5G technologies. Voice services as well as mobile Internet and data transmission services have increased through the installation of new 2.5 technologies (GSM/GPRS, EDGE and CDMA/CDMA 1XRTT). The progress in introducing GSM/GPRS technology in the region over the last two years has been particularly significant, above all in the principal markets such as Brazil, Mexico, Chile and Argentina, where various operators have started migrating their 1G and 2G networks to the standard GSM/GPRS networks. The increase in CDMA 1XRTT data networks has also been significant, especially in some countries such as Brazil, making it possible to increase the data revenues of wireless operators.

Regional consolidation. In recent years, a number of wireless operators in the region have consolidated in order to exploit economies of scale and synergies that will improve profitability through increased cost-efficiencies. We have participated actively in this process through the establishment of the Brasilcel joint venture and the acquisition of Tele Centro Oeste Participações S.A. in Brazil in 2003, as well as with our agreement with BellSouth to acquire 100% of BellSouth's interests in wireless operators in Latin America, announced in March 2004. The Mexican cellular group, América Móvil, has also played an important role in this process.

Brazil

We, along with Portugal Telecom, are 50:50 shareholders in Brasilcel, N.V., or Brasilcel, 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 in terms of total number of customers at December 31, 2003. At December 31, 2003, Brasilcel had a total of 20.7 million customers, of which 4.9 million were contract customers. Brasilcel had an estimated average share in its markets of operations of approximately 56% at December 31, 2003 (compared to 60.9% at December 31, 2002). 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 19 states in Brazil and its federal capital, with a population of approximately 130 million, and covering more than 83% of Brazil's gross domestic product.

The following table shows the different States where service is provided by Brasilcel's operators in 2003:

| Company | State |
|-------------------|---|
| Telesp Celular | São Paulo (SP) |
| Tele Sudeste | Rio de Janeiro (RJ) and Espiritu Santo (ES) |
| Global Telecom | Paraná (PA) and Santa Catarina (SC) |
| CRT Celular | Rio Grande do Soul (RS) |
| Tele Centro Oeste | Acre (AC), Goiás (GO), Mato Grosso (MT), Mato Grosso do Soul (MS), Rondônia (RO), Tocantins (TO), Distrito Federal (DF), Amazonas (AM), Pará (PA), Amapá (AP), Roraima (RR) and Maranhão (MA) |
| Tele Leste | Bahia (BA) and Sergipe (SE) |

Table of Contents

The following table presents, at the dates and for the periods indicated, net revenues and other statistical data relating to our operations in Brazil:

| | <u>Year ended December 31,</u> | | |
|---|--------------------------------|-------------|-------------|
| | <u>2001</u> | <u>2002</u> | <u>2003</u> |
| Net revenues from operations (euro in millions)(1) | 1,206 | 1,160 | 1,378 |
| Population in service territory (in millions at period end) | 43 | 97 | 130 |
| Total customers (in millions at period end)(2) | 5.6 | 13.7 | 20.7 |
| Pre-paid customers (in millions at period end) (2) | 3.7 | 10.1 | 15.8 |

- (1) Net revenues for the fiscal year 2003 reflect the proportional consolidation of our 50% interest in Brasilcel, including TCO from May 2003. Net revenues for the fiscal year ended ended 2002 reflect the total revenues of Tele Sudeste, Celular CRT and Tele Leste Celular. Net revenues for the fiscal year ended 2001 reflect the total revenues of Tele Sudeste and Celular CRT. Tele Leste Celular, Tele Sudeste Celular, and Celular CRT were fully consolidated in our combined statement of operations for the fiscal years 2002 and 2001 until their transfer to Brasilcel on December 27, 2002.
- (2) Total customers and pre-paid customers in 2003 are not provided on a proportional basis and reflect the customers of Brasilcel, including TCO from May 2003. Total customers and pre-paid customers for 2002 and 2001 reflect the customers of Tele Leste Celular, Tele Sudeste Celular, Telesp Celular and Celular CRT.

Market

Brazil is one of the largest countries in the world, with a surface area of 8.5 squares million kilometers and a population of approximately 177 million people. At December 31, 2003, with 45.7 million wireless subscribers, Brazil ranked first in Latin America in terms of number of wireless customers. At December 31, 2003, Brazil had an estimated market penetration rate of 26% and of 28% in the areas where Vivo operates. The Brazilian market has experienced a 30% increase in the number of wireless customers in 2003 as compared to 2002 and of 33% in the areas where Vivo operates. The States of São Paulo, Rio de Janeiro, Rio Grande do Sul and the region of Centro Oeste represents the greatest increase.

In 2003, Vivo has consolidated its leadership position, with a client base of approximately 20.7 million clients at year-end December 31, with an estimated market share of 56% in its areas of operations and of 45% in Brazil.

Network and Technology

The licenses granted to the companies integrated in Brasilcel allow operations in CDMA and TDMA networks. TDMA, or time division multiple access, is a digital mobile phone technology that allows several calls to share a single channel without interfering with one another. Vivo offers both analog and digital services in the band of 800 MHz. We believe Vivo has differentiated itself in Brazil by offering more innovative an advanced products and services, in part because of their new networks with the high technological capacity of CDMA 1XRTT. This technology facilitates data transmission at speeds of 144 Kbytes per second and provides a significant competitive advantage for Vivo. The companies of Vivo that offered services in CDMA Networks (Telesp Celular TeleSudeste Celular, Global Telecom and TeleLeste Celular) have upgraded their networks with CDMA 1XRTT, and the companies which offered services based on TDMA Networks (Celular CRT and TCO) are selectively overlaying CDMA 1XRTT. In 2003 there has been a significant increase of CDMA 1XRTT coverage, reaching 101 cities at year-end.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

In 2003, the growth trend in the usage of data services was assisted by the increase in SMS and WAP enabled handsets. Vivo continued to lead the development and innovation of data services in Brazil, exploiting the competitive advantage of its CDMA 1XRTT network in respect to its competitors.

Table of Contents

We believe the Vivo brand is perceived as that of a pioneering and innovative company. In 2003, Vivo launched services such as Vivo ao Vivo, which facilitates access to telephone and Internet services by means of a menu of icons on the handset's screen. The Vivo ao Vivo brand has allowed Brasicel to unite its customer base in Brazil and has allowed for the image of the company to be associated with services based on CDMA 1XRTT network.

During 2001, 2002, and 2003, our companies in Brazil invested approximately 601 million in the development of the networks of its companies in Brazil, fundamentally the layout of the CDMA 1XRTT network.

Sales and Marketing

In 2003 the launching of Vivo as the single brand of operations for Brasicel in Brazil was announced. The consolidation of a unified commercial model for the whole country centered on the Vivo brand substituting the different brands under which the different companies offered their services in their respective states. The commercial strategy of Vivo is to increase their customer base as well as revenues, by retaining customers as well as maintaining their distribution channels. Loyalty programs have been established for both contract and prepaid customers. Under the programs, contract customers accrue the right to a handset upgrade based on the revenues generated by such customers. Additionally, prepaid clients have access to modern handsets at a competitive price. The launching of the Vivo brand was accompanied by other measures designed to contribute to the success of the commercial strategy. For example, Vivo improved the management of its distribution channels, which consisted of 7,500 points of sale at the national level in 2003. Additionally, Vivo prepaid customers were provided access to a wide range of points of recharge. The recharges can also be made by electronic transfers through the commercial banking network.

As of December 31 2003, approximately 23% of Vivo's customers were contract clients and the remaining 77% were prepaid customers.

Customer Service

The call centers of Vivo attended 603,446 calls a day during 2003. Vivo has adopted integrated solutions to foster loyalty of clients. Brasicel estimates that its customer churn rate during 2003 was 2.1%.

Competition

The growth of the Brazilian market has been considerable during the past years while being accompanied by an increase in competition due to the introduction of two new competitors (TIM and Oi) and the expansion of Claro. TIM, Oi and Claro together with Vivo represent the principal operators in Brazil.

Mexico

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

We hold 92% of Telefónica Móviles México, which is Mexico's second largest wireless operator, with over 3.5 million customers at December 31, 2003. 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.

Table of Contents

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

The following table presents, at the dates and for the periods indicated, total net revenues and other statistical data relating to the operations of Telefónica Móviles Mexico. We acquired our four Northern Mexican operators in July 2001 and began consolidating our Mexican operators in our combined financial statements as of July 1, 2001. Accordingly, we provide total revenues for our Mexican operations for the fiscal year 2001 as of July 1, as prior to then we did not have an ownership interest in these companies.

| | July 1 to December 31, 2001(1) | Year ended December 31, 2002(1) | Year ended December 31, 2003 |
|---|---|--|---|
| Total net revenues from operations (euro in millions) | 239 | 465 | 540 |
| Total customers (in millions at period end) | 1.2 | 2.4 | 3,454 |
| Pre-paid customers (in millions at period end) | 1.0 | 2.1 | 3,214 |
| Population in service territory (in millions at period end) | 21.3 | 102 | 103.3 |

(1) Telefónica Móviles Mexico has been fully consolidated for each of the years ended December 31, 2002 and 2003. We held 92% of Telefónica Móviles Mexico at year end December 31, 2002 and 2003, respectively. Total net revenues and customer information for fiscal year 2002 include our four Northern Mexican operators and Pegaso as from September 10, 2002. Total net revenues and customer information for fiscal year 2001 include only our four Northern Mexican operators as of July 1, 2001, which is the date that we began consolidating our Mexican operators in our combined financial statements.

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 103.3 million. Mexico is an emerging wireless market with approximately 31 million wireless customers at December 31, 2003, representing a penetration of approximately 30%. The wireless market in Mexico grew at a rate of 17% for the year ended December 31, 2003.

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.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Network and Technology. Telefónica Móviles Mexico offers both analog and digital networks. Its digital networks are based upon the CDMA and GSM standard. At December 31, 2003, Telefónica Móviles Mexico s

Table of Contents

digital network in Mexico consisted of 22 switching center and 3,275 base stations, including both digital and analog base stations, giving coverage to more than 39% of the population.

In each of the regions in which Telefónica Móviles Mexico operates, it holds licenses of 20 MHz of spectrum on the 850 MHz band, and 30 MHz and 10 MHz of spectrum on the 1900 MHz band.

The roll-out of Telefónica Móviles Mexico GSM network on a nationwide basis took place during 2003, covering by the end of the year 96 of Mexico's principal cities, exceeding the initial 46 cities expected.

Telefónica Móviles Mexico has invested during 2001, 2002 and 2003 a total of \$660 million, most of all during 2003 on the GSM network.

The suppliers of the GSM network have been Nokia and Ericsson.

Sales and Marketing. During 2003, Telefónica Móviles México's marketing priority was to redefine and unify its main processes and procedures in order to respond to the new commercial activity resulting from the launch of its GSM services nationwide. Telefónica Móviles México unified all its operations in April under the Telefónica Movistar brand as a preliminary step to launching a new innovative offer of products and services. This involved replacing the image of all Pegaso shops in the national territory under a new Telefónica Movistar customer care model which, along with new promotional and advertising campaigns, increased the number of new customers added in the second half of the year compared to previous periods.

At the same time, progress was made in extending the reach of Telefónica Móviles Mexico distribution network, and the number of points of sale almost tripled throughout the country, exceeding 6,200 at the end of the fiscal year.

During the fourth quarter of 2003, Telefónica Móviles México's used a broad range of marketing channels, including television, radio, exterior signage, telemarketing, direct mail and internet advertising and reinforced its competitive position by changing its commercial offer and improving its logistics processes, facts that allowed an increase of its commercial activity.

At December 31, 2003, 7% of Telefónica Móviles Mexico's customers were contract customers, while 93% were pre-paid customers.

Customer Care. The customer relations centers handled 27.8 million calls in 2003. Telefónica Móviles Mexico estimates that its accumulated monthly churn rate was 3.9% in 2003, and 4.5% in 2002 for its four Northern Mexican operators. For information concerning the methodology used by us in calculating customer churn rates, see Our Operations Customer Churn.

Competition. Telefónica Móviles México's 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. The other competitors of

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Telefónica Móviles Mexico are Iusacell, Unefon and Nextel.

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 1.5 million customers at December 31, 2003. Telefónica Móviles Peru has approximately 52% 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

Table of Contents

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, total net revenues and other statistical data relating to the operations of Telefónica Móviles Peru. We began consolidating Telefónica Móviles Peru in our combined financial statements as of January 1, 2001.

| | Year ended December 31, | | |
|---|----------------------------|------|------|
| | 2001 | 2002 | 2003 |
| Total net revenues from operations (euro in millions) | 277 | 283 | 247 |
| Total customers (in millions at period end) | 1.1 | 1.2 | 1.5 |
| Pre-paid customers (in millions at period end) | 0.9 | 1.0 | 1.2 |
| Population in service territory (in millions at period end) | 26 | 26 | 27 |

Source: Telefónica Móviles, except population

Population: Pyramid Research

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 2.9 million customers at December 31, 2003, which represents a penetration rate of 10.7%. The Peruvian market grew at a rate of 26.1% in 2003.

Network and Technology. Telefónica Móviles Peru operates both analog and digital networks. Its digital network is based upon the CDMA/CDMA 1XRTT standard. It has roaming agreements enabling Telefónica Móviles Peru's contract customers to make and receive calls in over 155 countries, including most of the Americas.

Telefónica Móviles Peru's licenses entitle it to 25 MHz of spectrum in the 800 MHz band.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Telefónica Móviles Peru invested approximately 122 million in building out and enhancing its network in 2001, 2002 and 2003. In 2003, the amounts invested have been used to increase the switching capacity of the network, and to roll out the new CDMA 1XRTT network.

At December 31, 2003, Telefónica Móviles Peru's network consisted of the CDMA 1XRTT network and the Motorola Analog-Digital Network. The CDMA 1XRTT network consisted of 3 switching centers and 230 base stations. The Motorola Analog-Digital Network consisted of 6 dual capacity switching centers, 295 analog base stations and 332 digital base stations.

Telefónica Móviles Peru has been the first wireless operator in Peru in launching CDMA 1XRTT technology, that offers its clients a better quality in voice transmission and a higher speed in data transmission. Moreover, this technology permitted the launch of Movistar Multimedia, the platform of access to a wide range of services like video downloads, single- and multi-user games, MMS, chat, ringtones and location services, among others.

Table of Contents

Sales and Marketing. Telefónica Móviles Peru utilizes all types of marketing channels, including television, radio, print media, exterior signage, telemarketing, direct mail and internet advertising. During 2003, Telefónica Móviles Peru maintained its leading position as a result of an active commercial strategy, and as a result of its customer retention policies. Telefónica Móviles Peru's pre-paid customer base increased by 25.1% in 2003 compared to 2002, and its contract customer base (which are 20% of total customer base), increased by 9.2% in the same period.

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 488 points of sale in Peru, of which 47 are proprietary points of sale. For the consumer market, an emphasis was placed on incentive program for pre-paid card activations by developing different activities and highlighting various promotions.

Telefónica Móviles Peru sells directly to corporate clients through its Movistar Empresas business line. In 2003, it successfully continued strengthening the RPM (MoviStar Private Network) business network, and customized vertical applications were continued for each company.

Customer Care. Telefónica Móviles Peru maintains a customer relations call center with real time access to its information systems. This call center handled approximately 14 million calls in 2003.

We estimate that Telefónica Móviles Peru's average accumulated monthly churn rate was 2.8% for 2003, and 3% for 2002 due to the high competitive environment in Peru. For information concerning the methodology used by us in calculating customer churn rates, see Our Operations 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 communications service: BellSouth Peru; Stet Mobile Holdings which obtained a GSM/PCS license in March 2000 and subsequently launched its services under the TIM brand; and Nextel Peru. On March 5, 2004 we entered into a stock purchase agreement with wireless operators owned by BellSouth Corporation, or BellSouth, to acquire 100% of BellSouth's interests in its wireless operations in Latinamerica.

Argentina

Telefónica Comunicaciones Personales S.A. is, according to our estimates, the second largest wireless operator in Argentina with approximately 1.8 million customers at December 31, 2003 representing approximately 24% 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.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

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

Table of Contents

| | Year ended December 31, | | |
|---|----------------------------|------|------|
| | 2001(1) | 2002 | 2003 |
| Total net revenues from operations (euro in millions) | 725 | 195 | 240 |
| Total customers (in millions at period end) | 1.8 | 1.6 | 1.8 |
| Pre-paid customers (in millions at period end) | 1.2 | 1.1 | 1.2 |
| Population in service territory (in millions at period end) | 37.5 | 38 | 38.2 |

Source: *Telefónica Móviles, except population*

Population: *Pyramid Research*

- (1) 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.

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 38.2 million people, Argentina is the third largest wireless market in Latin America with 7.6 million customers at December 31, 2003, which represents a penetration rate of 20.6% as compared to 17% with 2002. Our customer base increased by approximately 12.5% in 2003 from 1.6 million customers at December 31, 2002 to 1.8 million at December 31, 2003.

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.

Telefónica Comunicaciones Personales invested a total of approximately 121 million in building out and enhancing its digital network in Argentina in 2001, 2002 and 2003, and anticipates new investments in the future aimed at expanding, on a national scale, the GSM network that it currently owns in the city of Buenos Aires. This GSM network has 122 base stations, and provides roaming-in service for international travelers.

Table of Contents

At December 31, 2003, its digital network in Argentina consisted of 38 switching centers and 1,369 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.

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 15 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, 2003, approximately 32% of its customers had a service contract and the remaining 68% used pre-paid calling cards.

Customer Care. Telefónica Comunicaciones Personales maintains 24 walk-in customer relations centers and three telephonic customer relations centers with real time access to our information systems. These call centers handled nearly 8.1 million calls in 2003.

We estimate that Telefónica Comunicaciones Personales average accumulated monthly churn rate was 1.6% for 2003, and 1.9% for 2002. For information concerning the methodology used by us in calculating customer churn rates, see Our Operations Customer Churn.

Competition. Telefónica Comunicaciones Personales currently has four competitors in the Argentine market for wireless communications service, each of which provides services on a nationwide basis: Movicom, which is controlled by BellSouth; Telecom Personal, which is controlled by Telecom Italia through Telecom Argentina, CTI Móvil which is controlled by América Móvil y Nextel, owned by NII Holdings Inc. On March 5, 2004 we entered into a stock purchase agreement with wireless operators owned by BellSouth Corporation, or BellSouth, to acquire 100% of BellSouth's interests in its wireless operations in Latinamerica.

Central America

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

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.

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

Table of Contents

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.

El Salvador

We provide wireless services in El Salvador through Telefónica Móviles El Salvador, the second largest of the four wireless operators in El Salvador, with approximately 248 thousand customers at December 31, 2003, representing 24% 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, total net revenues and other statistical data relating to the operations of Telefónica Móviles El Salvador:

| | Year ended December 31, | | |
|---|-------------------------|---------|---------|
| | 2001 | 2002 | 2003 |
| Total net revenues from operations (euro in millions)(1) | 118 | 112 | 96 |
| Total customers (at period end) | 238,605 | 230,856 | 247,520 |
| Pre-paid customers (at period end) | 91,293 | 160,266 | 186,309 |
| Population in service territory (in millions at period end) | 6.3 | 6.5 | 6.6 |

Source: Telefónica Móviles, except population

Population: Pyramid Research

(1) Includes both fixed-line and wireless operations. Our operations in El Salvador have been fully consolidated for each of the years ended December 31, 2001, 2002 and 2003. We held 46.05%, 90.3% and 90.3% of our operations in El Salvador at year end December 31, 2001, 2002 and 2003, respectively.

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 internet, cable TV and 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, 2003, El Salvador had approximately 1,030 thousand wireless customers and a market penetration rate of 15.4% compared to a fixed-line penetration rate of 9.9%.

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 2001, 2002 and 2003, Telefónica Móviles El

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Salvador invested a total of approximately 47 million in building out and enhancing its networks in El Salvador. At December 31, 2003, 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.

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. Telefónica Móviles El Salvador has an extensive distribution network which includes a combination of third-party and proprietary points of sale. At December 31, 2003, approximately 25% of its customers were contracts customers, while 75% used pre-paid calling cards.

Table of Contents

Customer Care. Telefónica Móviles El Salvador's call center handled over 1.3 million calls in 2003. We estimate that Telefónica Móviles El Salvador's average monthly churn rate was 2.5% for 2003 and 2002. For information concerning the methodology used by us in calculating customer churn rates, see Our Operations Customer Churn.

Competition. Telefónica Móviles El Salvador currently competes in El Salvador market for wireless communications service with Telemóvil, CTE Telecom and Digicel.

Guatemala

We provide wireless services in Guatemala indirectly through our wholly-owned subsidiary Telefónica Centroamérica Guatemala. Telefónica Centroamérica Guatemala had approximately 157 thousand active customers in Guatemala at December 31, 2003, representing approximately 8.4% of the market.

The following table presents, at the dates and for the periods indicated, total net revenues and other statistical data relating to the operations of Telefónica Centroamérica Guatemala:

| | Year ended December 31, | | |
|---|-------------------------|--------|---------|
| | 2001 | 2002 | 2003 |
| Total net revenues from operations (euro in millions)(1) | 81 | 77 | 69 |
| Total customers (at period end) | 156,178 | 97,089 | 156,868 |
| Pre-paid customers (at period end) | 31,309 | 48,865 | 113,551 |
| Population in service territory (in millions at period end) | 12.3 | 12.9 | 12.0 |

Source: Telefónica Móviles, except population

Population: Pyramid Research

(1) Includes both fixed-line and wireless operations. Our operations in Guatemala have been fully consolidated for each of the years ended December 31, 2001, 2002 and 2003. We held 51%, 100% and 100% of our operations in Guatemala at year end December 31, 2001, 2002 and 2003, respectively.

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 and paging services through its subsidiary Tele Escucha with 13 thousand customers as of December 31, 2003. 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, 2003, Guatemala had a market penetration rate of 13.3%, representing approximately 1,870 thousand wireless customers at December 31, 2003.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Network and Technology. In Guatemala, Telefónica Centroamérica Guatemala operates a digital network, which is based upon the CDMA standard. Telefónica Centroamérica Guatemala's license entitles it to 30 MHz of spectrum in the 1900 MHz band. In 2001, 2002 and 2003, Telefónica Centroamérica Guatemala invested a total of approximately 47.2 million in building out and enhancing its network in Guatemala. At December 31, 2003, Telefónica Centroamérica Guatemala's digital wireless network consisted of two switching centers and 221 base stations giving coverage to over 81% of the population.

Sales and Marketing. Telefónica Centroamérica Guatemala utilizes all types of marketing channels, including television, radio, exterior signage, telemarketing, direct mail and internet advertising. Telefónica Centroamérica Guatemala's products and services are marketed under the Movistar and Telefónica brand names. Telefónica Centroamérica Guatemala has an extensive distribution network which includes a combination of third-party and proprietary points of sale.

Table of Contents

At December 31, 2003, approximately 72% of its customers used pre-paid calling cards, while the remaining 28% had contracts.

Customer Care. Telefónica Centroamérica Guatemala's call center handled over 1 million calls in 2003. We estimate that Telefónica Centroamérica Guatemala's average monthly churn rate was 1.5% for 2003 and 6.6% for 2002. For information concerning the methodology used by us in calculating customer churn rates, see Our Operations Customer Churn.

Competition. We currently have three competitors in the Guatemala wireless market: Telgua, Comcel and BellSouth. On March 5, 2004 we entered into a stock purchase agreement with wireless operators owned by BellSouth Corporation, or BellSouth, to acquire 100% of BellSouth's interests in its wireless operations in Latinamerica.

Puerto Rico

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 34.2% at December 31, 2003. NewComm Wireless commenced operations in late September 1999. NewComm Wireless operates a CDMA standard digital network, which consists of one switching center and approximately 156 base stations at December 31, 2003. In July 2000, NewComm Wireless launched wireless application protocol, or WAP, services under the MoviStar e-moción brand.

The Puerto Rican market is highly competitive with six operators, most of which are part owned by the operators present in the United States, which offer integrated mobile telephony, international long distance and flat-rate products with unlimited usage. Movistar Puerto Rico, which we manage, had approximately 174,600 customers at December 31, 2003.

In September 2003, once authorizations were obtained from the tax authorities of Puerto Rico, convertible promissory notes were transferred to TEM Puerto Rico, Inc. (our wholly-owned subsidiary) which represented the Telefónica Group's investment, through its wholly-owned subsidiary, Telefónica Internacional, S.A., in the Puerto Rican operator NewComm Wireless Services, Inc.

These convertible promissory notes, which totaled \$60,945 thousand, will give us the right, once the relevant authorizations have been received from the FCC, to obtain, through their conversion, 49.9% of NewComm's capital stock. Furthermore, we have the right to buy an additional 0.2% of the capital stock, a percentage that will give us control of the Puerto Rican operator.

Conversion of the promissory notes to NewComm Wireless Service, Inc. shares requires the approval of the FCC because upon such conversion TEM Puerto Rico, Inc. which is considered a foreign company by the FCC, would hold over 25% of the capital stock of NewComm Wireless Service. Thus a request was made to the FCC seeking authorization for TEM Puerto Rico, Inc. to acquire over 25% of NewComm's capital stock, and indirectly control this company through the aforementioned right to acquire 0.2% of the capital stock.

Currently NewComm Wireless Service, Inc. has five competitors in the Puerto Rican mobile communications market: Cingular Wireless (controlled by SBC Communications), Versión Wireless (controlled by Verizon); Centennial (owned by Centennial Cellular Corp USA); AT&T

(owned by AT&T Wireless) and Sprint PCS (Sprint PCS).

Wireless Internet and Data Initiatives

Wireless Internet and Data

We believe that the convergence of data communications and voice communications represents a new and important opportunity to create value in the mobile communications sector in the near future. An important

Table of Contents

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. Revenues from data services in Telefónica Móviles España has increased to 855 million in 2003. This increase is primarily due to the increased use of other data services in addition to traditional SMS usage. Revenues from other data services, excluding traditional SMS, have increased by 5 percentage points in 2003 to 24% of total data revenues.

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 offer our clients a wide range of data services that we seek to continuously improve. Current data services offered include short messaging services, or SMS, and Multimedia Messaging Services, or 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.

In June 2000, we launched *MoviStar e-moción*, our wireless internet service provider in Spain. 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 ao Vivo* in Brazil.

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. We have signed agreements with more than 250 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.

In June 2003, we launched i-mode services in Spain, integrated with our MoviStar e-moción mobile portal, which can be accessed through a diverse range of terminals. i-mode is a proprietary, packet-based information service, which allows access to internet services for mobile phones. The i-mode content we offer includes games, ringtones and logos, chat and messaging, leisure and portals, news, utilities and search functions.

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. Although internet access services are still in an early phase of development, is anticipated that demand in the corporate segment will increase as the download speeds increase, through further development of our UMTS network.

We have been offering GPRS services in Spain since 2001 with the same coverage as our GSM network. On February 13, 2004, Telefónica Móviles España began offering its corporate customers *Oficin@ Movistar UMTS*, the first third generation service offered in Spain by a mobile operator offering high-speed data transmission up to 384 kbits/s. Services offered as part of *Oficin@ Movistar UMTS* include MoviStar Internet UMTS, MoviStar Intranet UMTS and Correo Móvil (mobile e-mail access). In other markets such as Brazil and Peru, we have already launched high speed data services based on technologies such as, CDMA 1XRTT. During 2003, we continued expanding the coverage of our CDMA 1XRTT network in Brazil, reaching 101 cities. In addition, a national GSM/GPRS cellular network was introduced in Mexico, with 96 cities covered as of December 2003.

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

Table of Contents

services, i-mode™ services and GPRS/UMTS access, 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.

In May 2004, Telefónica Móviles España announced the first UMTS videophone services in Spain and the extension to all customers of the mobile connectivity service *Oficin@ MoviStar UMTS/GPRS*.

In addition to videocalls (seeing and speaking via mobile phone), the first customers will also be able to download high quality videos to their telephone screens. Telefónica Móviles has already signed exclusive agreements with various content providers to include on *MoviStar e-moción* (which groups together all the operator's content access services) a 24-hour news channel, information about the World Motorbike Championships and the 2004 Olympic Games in Athens, Canal Real Madrid and Canal FC Barcelona, 3D video games and musical videos.

Oficin@ MoviStar UMTS/GPRS, the high-speed connectivity service we began selling to business customers in February 2004, will be available from now to all customers at Telefónica points of sale in Madrid and Barcelona, and gradually in the rest of Spain.

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.

M-Payment

Through our subsidiary Telefónica Móviles España, we, together with Vodafone España, Amena and various financial institutions and payment processing companies, are part of Mobipay España, S.A. Mobipay España was created to facilitate payments through mobile phones. Similarly, we are part of Mobipay Internacional, S.A., created for the development of international mobile payment standards.

The MobiPay initiative became more widely accepted in 2003. At December 31, 2003 there were approximately 3,000 on-line stores, including FNAC, Halcón Viajes, MundoHogar, Seguros Winterthur or Air Europa, which had included MobiPay as a method of payment. Furthermore, since December 2003, 1,400 Madrid taxis from Radio Teléfono Taxi y Radio Mercedes Madrid allow MobiPay to be used as a means of payment. Finally, in February 2004, an agreement was reached with Kilowatt to implement the mobile payment standard in the services developed by this firm, directed at vending machines.

We, Orange, T-Mobile and Vodafone have signed an agreement for the creation of the Mobile Payment Services Association which has been operating under the brand name Simpay since June 2003. The objective of the association is to encourage adoption of m-commerce by consumers, content providers, merchants and the banks by promoting an open solution under one common brand for payments through mobile phones.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

In February 2004, Simpay presented its first product based on small payments of amounts less than 10. The product will technically be launched prior to the end of 2004, and shall be commercially available in 2005. Now that the design of the product and of the infrastructure has been completed, Simpay and the founding companies will formally invite other mobile operators to join the partnership. European mobile telephony operators such as Hutchinson Debitel, KPN Mobile, Elisa (previously Radiolinja), Mobilkom, Optimus, O2, SFR, TeliaSonera and TMN expressed their interest in joining Simpay.

Table of Contents

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

Telesp Celular Participações S.A., or TCP, and Tele Centro Oeste Celular Participações S.A., or TCO, are two companies included in our Brasilcel joint venture with Portugal Telecom. We contributed our 14.68% interest in TCP and our 14.43% interest in TCO to the Brasilcel joint venture pursuant to our agreement with Portugal Telecom. See Item 10. Additional Information Material Contracts Agreement with Portugal Telecom. TCP provides wireless services in the Brazilian states of São Paulo, Paraná and Santa Catarina, while TCO provides wireless services in Brazil's Federal District and in 11 Brazilian states including Acre, Amazonas, Amapá, Goiás, Maranhão, Mato Grosso, Mato Grosso do Sul, Pará, Rondônia, Roraima, and Tocantins.

On April 25, 2003, TCP acquired 61.10% of the voting capital stock of Tele Centro Oeste Participações, S.A., or TCO from Fixcel S.A.

On May 25, 2003, in compliance with Brazilian legislation, TCP launched a tender offer for the common shares of TCO not owned by it. The acceptance period finished on November 18, 2003. As a result of the shares tendered, we acquired 72.2% of the outstanding available common shares at the price of R\$ 16.73 per 1,000 common shares. The total purchase price for the new shares amounted to R\$538.8 million. At December 31, 2003 TCP held 86.6% of TCO's ordinary shares, representing a 28.29% interest in TCO. TCP also announced the intention to launch an exchange offer for the remaining shares of TCO through which TCP would have become TCO's sole shareholder. This would have been followed by a merger of TCO into TCP. After the launch of the exchange offer, the CVM raised questions as to its compliance with Brazilian law. Although TCP and TCO believed, and believe, that the exchange offer complied with applicable law, TCP and TCO decided to terminate the exchange offer in January 2004.

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 boost customer loyalty. Some of the most significant trademarks are Movistar and e-moción. 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, telefonicamoviles.net and e-mocion.com.

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.

Table of Contents

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 (Law 11/1998 of the 24th of April of 1998) 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.

The new General Telecommunications Law (Law 32/2003 of the 3rd of November of 2003) superseded the General Telecommunications Law of 1998. This new Law transposes the new European regulatory framework for the Electronic Communications to the Spanish Law.

In accordance with the first Transitory Disposition of the General Telecommunications Law of November 2003, the rights and obligations applicable to the individual licenses and general authorizations held by Telefónica Móviles España (TME) will remain valid. Consequently, TME must comply with the obligations established before new Law (Law 32/2003) came into force.

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.

On December 19, 2003, the Telecommunications and Information Society State Secretary issued a Resolution determining the conditions for finalizing the provision of analog mobile services in the 900 MHz band (MoviLine). Such Resolution established December 31, 2003 as the deadline for the extinction of such services. TME stopped providing that service in that date.

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 Industry, Tourism and Commerce (formerly the Ministry of Science and Technology);

Table of Contents

the Ministry of Economy; and

The Radiocommunications Agency.

Licenses and Concessions

Telefónica Móviles España holds 18 individual licenses under the General Telecommunications Law, covering the following:

nationwide digital services (GSM and DCS-1800);

nationwide UMTS 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 paging license in 2012 and our fixed-line license in 2019. Our licenses can be extended according to the table below.

| <u>License Type</u> | <u>License Duration</u> | <u>Ending Date</u> | <u>Extension Period</u> |
|----------------------|-------------------------|--------------------|--|
| 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 paging | 20 years | April 24, 2020 | 10 years |

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:

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

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:

| <u>Technology</u> | <u>Year 2001</u> (/MHz) | <u>Year 2002</u> (/MHz) | <u>Year 2003</u> (/MHz) | <u>Year 2004</u> (/MHz) |
|-------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| TACS | 188,180.86 | 205,892 | 631,908.18 | 296,685.89(1) |
| GSM | 1,309,359.29 | 601,911.15 | 631,908.18 | 663,437.84 |
| DCS-1800 | 1,267,027.72 | 601,984.13 | 505,643.32 | 530,750.31 |
| UMTS | 4,656,472.83 | 601,947.65 | 631,871.69 | 663,437.90 |

(1) Value due after closing the analog service (MoviLine).

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 system of guarantees. This process was concluded through a statement issued by the Secretary of State for Telecommunications and for the Information Society on July 28, 2003, which released to Telefónica Móviles España, S.A. the guarantees in force at that date securing the commitments assumed under the UMTS license, after Telefónica Móviles España, S.A. had arranged, in the same month, a guarantee of 167.5 million with the Government Depositary, to secure compliance with the UMTS service commitments prior to launch of the UMTS and the commitments of the first year from the date of commercial launch, in accordance with the new system of guarantees.

In June 2002, we fulfilled the Spanish government's requirements regarding initial roll-out of our UMTS network. We launched commercial services in February 2004.

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.

The Spanish Government has agreed to our request and revoked our TETRA license in January 2004. We will be subject to penalties with the execution of the bank guarantees corresponding to the first two years of the business plan presented at the allocation process. Moreover, we will have to pay spectrum use fees corresponding to TETRA frequencies for the whole 2004 year. We have appealed such fees.

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.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

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

Table of Contents

to interconnect our network with the network of our competitors.

TME warranted the fulfillment of the obligations contained in its B2-GSM and B2 DCS1800 licenses with two deposits (24 million of euros and 12 millions of euros respectively). Due to the transformation of such licenses, TME was authorized to revoke those guarantees.

Furthermore, TME paid 160 million of euros for the concession of a B2 (DCS 1800) license. TME also paid 13 million of euros to cover the costs derived from the spectrum clearing required for the implementation and development of the system.

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.

Since December 2003 the prior government authorization for specified fundamental corporate transactions affecting privatized companies imposed on the Telefónica Group since March 1995, known as the golden share, turned into a prior notification requirement with a veto faculty vested on the Spanish Government, applicable, among other Telefónica Group companies, upon Telefónica Móviles, S.A. and Telefónica Móviles España, S.A. The transactions requiring prior notification include, among others:

any 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 the material assets of Telefónica Móviles España;

the acquisition by a third party of 10% or more of our share capital except when the acquisition has a financial objective and does not have as a purpose to acquire our control or manage us; and

the substitution of Telefónica Móviles España corporate purpose that implies the suppression of the required activities to carry out telecommunications services.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

This prior notification requirement is applicable until 2007. In addition, if a third party acquires 10% or more of our capital stock without prior notification, such third party will not have voting rights in respect of the shares acquired until the period in which the Government could veto this transactions has elapsed.

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.

Table of Contents

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 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 was reviewing methods of promoting increased competition in the Spanish telecommunications market. The Ministry of Industry, Tourism and Commerce (which replaced the Ministry of Science and Technology in April 2004) may continue such review or make recommendations affecting the pricing of wireless services in Spain or other aspects of our business.

Interconnection

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. The Spanish government published the new General Telecommunications Law in November 2003, which comprises the principles of such 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.

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.

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).

Table of Contents

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 two VMO licenses starting 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.

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. These laws must have been transposed to the national laws of each European Union member state by July 25, 2003.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Spain did not finalize the transposition until October 16, 2003, when Congress approved the new Telecommunications Law. The German Parliament has not yet agreed on a final version of the German Telecommunication Law while the Austrian Telecommunication Law was approved on August 20, 2003. In Italy, the Italian implementation of these guidelines was only published in the national bulletin in October 2003.

Although Switzerland does not belong to the European Union, it has decided to follow the European Commission guidelines. A new Telecommunications Law is being discussed but has not yet been approved. No date has been advanced for the final approval.

Legal Framework of European Operations

We hold UMTS licenses in some European countries. Most regulatory activities of our company in these countries are focused on achieving greater flexibility in the licenses obligations and in the spectrum rights management.

Table of Contents

We hold the following licenses in Europe:

Telefónica Móviles licenses in Germany (Quam)

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. This license requires that we provide UMTS services to 25% of the population in Germany by December 31, 2003 and 50% of the population by December 31, 2005. If these obligations are not met, the license may be suspended, changed or revoked by German authorities.

Group 3G has also been awarded a class 3 license, which allows it to deploy proprietary telecommunications infrastructure.

Telefónica Móviles licenses in Italy (IPSE 2000)

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 for a payment of 3,269 million, of which our pro-rata share is 1,491 million. In accordance with the license terms and conditions, our pro-rata share will be paid by us in 10 annual installments through 2010.

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 has certain minimum coverage requirements with respect to regional and provincial capitals which require performance by 2004 and 2007, respectively. If these obligations are not met, the license may be suspended, changed or revoked by the Italian Authority. 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. As of December 31, 2003, the installments payable for the UMTS license amounted to 16,010 thousand and 826,331 thousand were payable for the additional 5 MHz of spectrum which was awarded to Ipse 2000, S.p.A. by the Italian Government and returned to the Italian Government. The return of the spectrum, however, is still being disputed between Ipse 2000, S.p.A. and the Italian Government.

Telefónica Móviles licenses in Switzerland (3G Mobile)

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. By December 31, 2004 all UMTS operators in Switzerland have to cover 50% of the population. Until that time, we will be required to provide quarterly network reports to Swiss

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

regulatory authorities. 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.

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

Table of Contents

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.

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

| Region | Band A | Band B | Band C | Band D | Band E |
|---|---------------------|---------------|------------------|-------------------|------------------------------|
| Region 1 Sao Paulo Metropolitan Area | Vivo | América Móvil | None Assigned | TIM | License returned |
| Region 2 Sao Paulo State | | | None Assigned | | License returned |
| Region 3 <i>Rio de Janeiro State</i> | Vivo | América Móvil | None Assigned | Oi | TIM |
| <i>Espírito Santo State</i> | | | | | |
| Region 4 Minas Gerais State | Telemig Celular | TIM | None Assigned | Oi | License returned |
| Region 5 <i>Paraná State</i> <i>Santa Catarina State</i> | TIM | Vivo | None Assigned | Brasil Telecom | América Móvil |
| Region 6 Rio Grande do Sul State | Vivo | América Móvil | None Assigned | TIM | Brasil Telecom Celular |
| Region 7 <i>Distrito Federal</i> <i>Goiás State</i> <i>Tocantins State</i> <i>Mato Grosso do Sul State</i> <i>Rondônia State</i> <i>Acre State</i> | Vivo | América Móvil | None Assigned | TIM | Brasil Telecom Celular |
| Region 8 <i>Amazonas State</i> <i>Amapá State</i> <i>Pará State</i> <i>Maranhao State</i> <i>Roraima State</i> | Amazonia Celular | Vivo | None Assigned | Oi | TIM |

Table of Contents

| | | | | | |
|----------------------------------|------|---------|----------|----|----------|
| Region 9 | Vivo | TIM | None | Oi | América |
| <i>Bahia State</i> | | | Assigned | | Móvil |
| <i>Sergipe State</i> | | | | | |
| Region 10 | TIM | América | None | Oi | License |
| <i>Piauí State</i> | | Móvil | Assigned | | returned |
| <i>Ceará State</i> | | | | | |
| <i>Rio Grande do Norte State</i> | | | | | |
| <i>Paraíba State</i> | | | | | |
| <i>Alagoas State</i> | | | | | |

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, competencies and functions of the Brazilian regulatory authorities.

Licenses and Concessions

On December 4, 2002, ANATEL authorized the contribution to Brasilcel, of the wireless assets in Brazil of both Portugal Telecom and Telefónica Móviles 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, Telex Celular until 2005, Teles Celular until 2008, Telebahia Celular and Telergipe Celular until 2008 and Telesp Celular until 2008). Spectrum rights may be renewed only once for a 15- year period.

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. Indeed, all SMC s operators changed their old licensing titles with new SMP authorization titles.

Table of Contents

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 implemented during 2003.

Adjustment of the Services Plans,

Implementation of the Operator Selection Code. The end users must be able to select their preferred long distance operator for national calls (both inter and intrastate), even when they are on roaming, and

Use of prepaid cards for long distance calls through long distance operators.

In 2004: implementation of reverse billing service for pre-paid customers, both for local and long distance calls.

Furthermore, SMP will allow for a Bill and Keep interconnection scheme from June 30, 2005 onwards. Until that date, Bill and Keep schemes will be allowed only if the traffic in one direction is not greater than 55% of the total traffic.

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.

Table of Contents

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, Telefónica del Perú's government-owned predecessor, Compañía Peruana de Teléfonos S.A., was granted a license for the provision of wireless services in Lima and Callao. Entel Perú S.A. was granted a license in 1992 for the provision of wireless service nationwide. In 1995, Entel Perú was merged into Compañía Peruana de Teléfonos and the surviving entity changed its name to Telefónica del Perú. Each license is valid for a term of twenty years. They expire on May 24, 2011 and February 1, 2012, respectively. Each license may be renewed for additional twenty-year periods by filing an application at least two years prior to the expiration date. The renewal process is based on the fulfillment by Telefonica de Peru of certain terms and conditions.

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:

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

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.

Table of Contents

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 force are the wireless user pays and the calling party pays.

The regulator has proposed a reduction of fixed to mobile tariffs over the course of 18 months starting in June 2004 as per the following chart. The regulatory authority has promised not to regulate such retail tariffs if the reduction takes place. The final ceiling from December 2005 will be 4.9 cents per second.

Schedule for fixed to mobile tariff reduction

$$\text{Total reduction} = (\text{Current tariff}) - (\text{Final maximum tariff}) = R$$

| Period | Final maximum tariff (\$/second) | % of reduction |
|---------------------------|---|-----------------------|
| July 2004 - December 2004 | 0.0067 | 10% R |
| January 2005 - June 2005 | 0.0061 | 30% R |
| July 2005 - December 2005 | 0.0049 | 60% R |

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 OSPITEL for termination rates of local calls. This rate is calculated by OSPITEL 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.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

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.

Argentina

During 2003, under the supervision of the Telecommunications National Congress, different interested parties (companies, labor unions, consumer rights advocates, etc.) were discussing a new Telecommunications bill. Currently, a Redaction Commission is working in the final bill to be delivered to the Parliament.

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 the greater Buenos Aires area and other provinces.

Licenses do not expire, but may be cancelled 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.

Rates

Rates charged to customers are not regulated in Argentina.

Interconnection

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

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 revenues.

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 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.

Table of Contents

On February 4, 2003, the government passed the Resolution 75/2003. In accordance with that Resolution, the fixed and mobile operators are enforced to implement dial operator selection within the 120 days following the enactment of the Resolution.

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 \$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 = \$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 = \$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 = \$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 = \$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.

On December 12, 2003, the Parliament delayed until December 31, 2004 the Public Emergency in social, economic, administrative, financial and exchanging affairs.

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

Table of Contents

concession and allowed Telmex to participate in the bidding process to obtain a concession to provide mobile 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, the authorization to provide mobile telephony services is granted through a concession. Telefonica Moviles' s 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.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

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 for additional twenty-year periods, subject to the fulfillment by the operator of certain terms and conditions. The concessions to provide mobile telephony services awarded to the above operating companies each expire in 2010.

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 for additional twenty-year periods.

On April 26, 2002, we signed definitive agreements to purchase 65% of Pegaso. In 1998, Pegaso was awarded licenses to provide personal communication services until 2018. This license may be extended for additional twenty-year periods, subject to the fulfillment by the operator of certain terms and conditions.

Table of Contents

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.

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.

Other Provisions

On December 31, 2003, an edict removed the especial tax on Telecommunications services. Therefore, since that date, mobile services, among others, are not burdened by that tax any more.

Table of Contents

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 provision of telecommunications services are granted for a thirty-year period. The concession may be renewed for successive thirty-year periods. Telefónica El Salvador holds a concession to provide public telephone service, including wireless services throughout El Salvador until January 1, 2028.

Concessions for use of spectrum are granted for terms of twenty years and may be renewed for additional twenty-year periods. Telefónica Móviles el Salvador holds the following concession 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.

A concession may be revoked only when a concession holder: a) Does not supply telecommunications services within tow years after the concession has been granted; b) if commits three serious infractions, as described in the Law, within a lapse of three years. . Concessions may be canceled upon the expiration of the concession term, however, filing a new application with the General Superintendency of Electricity and Telecommunications may result in the renewal, revocation or expiration of the concessions, depending on the fulfillment of certain terms and conditions.

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

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

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.

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.

Table of Contents

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 such services, but does require an authorization to use the spectrum. These authorizations are called titles. 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 fifteen-year term and may be renewed for subsequent fifteen-year terms at the request of the holder. The renewal process is based on the fulfillment by the operator of certain terms and conditions.

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 \$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.

Chile

Telefónica Móvil holds the following licenses:

Concession for the provision of wireless telecommunications services in the 800 MHz band:

For Metropolitan Region and Region V, the concession is granted for a thirty-year period from November 11, 1998, and may be renewed for successive thirty-year periods at the request of the holder.

For Regions I to IV and for Regions VI to XII, the concession is granted for a thirty-year period from August 3, 1989, and may be renewed for successive thirty-year periods at the request of the holder.

Table of Contents

Concession for the provision of wireless telecommunications services in the 1900 MHz band:

For the provision of wireless service nationwide in 1885-1890 MHz and 1965-1970 MHz band; and in 1865-1870 MHz and 1945-1950 MHz band. The concession is granted for a thirty-year period from November 16, 2002, and may be renewed for successive thirty-year periods at the request of the holder.

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 operates under two PCS licenses. The PCS licenses consist of two C-block 15 MHz license 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.

The FCC established that the CPP is not mandatory and that the service providers are entitled to decide which kind of billing system to offer to their customers.

Interconnection

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

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.

Table of Contents

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.

In December 2003, the government initiated the review of the Telecommunications Law, enacting another Law (Law 55/01) currently under Ministerial scrutiny. The new law established the reduction of the contribution to the Universal Service (from 6% of gross revenues to 2% of revenues after interconnection payments). The current penalty regime is also modified, enabling the imposition of fines.

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 ANRT, 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. This license allows Medi Telecom to provide wireless services and to use the spectrum and covers all Morocco. The license is valid for a period of 15 years from August 2, 1999 and may be renewed for one five-year period, subject to the fulfillment by the operator of certain terms and conditions.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Wireless service providers are required to pay a total of 7% of their revenues to the ANRT 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 ANRT issued a fixed telephone license but no one applied for it.

Medi Telecom adopted the technical measures required to manage the 100% of its customers' international traffic since August 1, 2003. This decision has been impugned by Itissalat Al-Maghrib.

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 ANRT thirty days before their effectiveness.

Table of Contents

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 ANRT. In 2002, the ANRT 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 ANRT stopped the process and kept in use the 1998 RIO. The regulator proposed a new decision project in January 2003. In February 2004, the regulator established new interconnection tariffs for the fixed operator.

The ANRT has planned to define the significant markets and the criteria to analyze during 2003 which operators have significant market power. During 2003 the discussions between the regulator and the operators have been mainly focused on the definition of the interconnection cost model. This model will determine the accounting to be implemented by the operators.

The ANRT 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 ANRT 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 ANRT.

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 History and Development of the Company Background of Our Company Overview.

D. PROPERTY, PLANTS AND EQUIPMENT

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

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;

Table of Contents

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 consolidated and 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 consolidated and combined financial statements. The following discussion is based on the consolidated and 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 fifth largest global provider of wireless communication services based upon managed customers at December 31, 2003. Managed customers include all our customers from all operators in which we hold an economic participation (including TCO for 2003) and the customers from our managed operations in Chile and Puerto Rico. 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, 2003, 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 52 million managed customers in territories with a population of approximately 408 million. We have operations in Spain, Mexico, Peru, El Salvador, Guatemala and Argentina, and through our joint ventures with Portugal Telecom, we also provide wireless communication services in Brazil and Morocco. In addition, we manage operations in Puerto Rico and, on behalf of Telefónica S.A., our controlling shareholder, its wireless operation in Chile.

Non-GAAP Financial Information

Operating income before depreciation and amortization is calculated by excluding depreciation and amortization expenses from our operating income in order to eliminate the impact of general long-term capital investments that cannot be significantly influenced by our management on a short-term basis. Our management believes that operating income before depreciation and amortization is meaningful for investors because it provides an analysis of our operating results and our segment profitability using the same measure used by our chief operating decision makers.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

To facilitate the analysis of our operations, this indicator excludes depreciation and amortization expenses from operating profit in order to eliminate the impact of general long term capital investment. Operating income before depreciation and amortization also allows us to compare our results with other companies in the telecommunications sector without considering their asset structure. We use operating income before depreciation and amortization to track our business evolution and establish operational and strategic targets. Operating income before depreciation and amortization is also a measure commonly reported and widely used by analysts, investors and other interested parties in the telecommunications industry.

Although we are presenting this measure to enhance the understanding of our historical operating performance, operating income before depreciation and amortization should not be considered an alternative to operating income as an indicator of our operating performance, or an alternative to cash flows from operating activities as a measure of our liquidity. Operating income before depreciation and amortization is not a measure of financial performance under Spanish GAAP or U.S. GAAP and may not be comparable to other similarly titled measures for other companies.

Table of Contents

For illustrative purposes, the following table provides a reconciliation of operating income before depreciation and amortization to operating income for the Telefónica Móviles for the periods indicated.

| | Year ended December 31, | | |
|---|-------------------------|------------------|------------------|
| | 2001 | 2002 | 2003 |
| | (in millions of euro) | | |
| Operating income before depreciation and amortization | 3,333,689 | 3,735,870 | 4,462,884 |
| Depreciation and amortization expense | (1,258,159) | (1,316,406) | (1,420,648) |
| Consolidated Operating Income | 2,075,530 | 2,419,464 | 3,042,236 |

Year ended December 31, 2003

| | Spain | Latin America | Others | TOTAL |
|---|--------------|---------------|-------------|--------------|
| Operating income before depreciation and amortization | 3,939 | 582 | (58) | 4,463 |
| Depreciation and amortization expense | 707 | 676 | 37 | 1,421 |
| Consolidated Operating Income | 3,232 | (94) | (96) | 3,042 |

Year ended December 31, 2002

| | Spain | Latin America | Others | TOTAL |
|---|--------------|---------------|--------------|--------------|
| Operating Income before depreciation and amortization | 3,461 | 593 | (318) | 3,736 |
| Depreciation and amortization expenses | 684 | 515 | 118 | 1,316 |
| Operating income | 2,777 | 78 | (435) | 2,419 |

Year ended December 31, 2001

| | Spain | Latin America | Others | TOTAL |
|---|-------|---------------|--------|-------|
| Operating Income before depreciation and amortization | 2,803 | 684 | (153) | 3,334 |
| Depreciation and amortization expenses | 655 | 537 | 66 | 1,258 |

| | | | | |
|-------------------------|--------------|------------|--------------|--------------|
| Operating income | 2,148 | 147 | (219) | 2,076 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

Basis of Presentation

Our financial statements included in this annual report are consolidated for the year ended and at December 31, 2003 and combined for the years ended and at December 31, 2002 and 2001. 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 consolidated and combined financial statements.

The consolidated and 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.

Table of Contents

The consolidated and 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 consolidated and combined financial statements.

The following table presents, for the periods indicated, the principal companies that are included in our consolidated and combined financial statements and the methods of consolidation used in preparing these financial statements. Companies identified in any period as consolidated are those included 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 consolidated and 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 our consolidated and combined statement of operations unless there is a financial loss.

| Company | Year ended December 31, | | |
|--|-------------------------|--------------|--------------|
| | 2001 | 2002 | 2003 |
| Telefónica Móviles España, S.A. | consolidated | consolidated | consolidated |
| Brasilcel(1) | | proportional | 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 (Germany) | consolidated | consolidated | consolidated |
| IPSE 2000, S.p.A. (Italy) | equity(2) | equity | equity |
| 3G Mobile Telecommunications GmbH (Austria)(3) | consolidated | consolidated | |
| 3G Mobile AG (Switzerland) | consolidated | consolidated | consolidated |
| Telefónica Móviles S.A.C. (Peru) | consolidated | consolidated | consolidated |
| Telefónica Comunicaciones Personales, S.A. (Argentina) | consolidated | consolidated | consolidated |
| Telefónica Móviles Mexico(4) | | consolidated | consolidated |
| Medi Telecom, S.A. (Morocco) | equity | equity | equity |
| TM Interacciona | consolidated(5) | consolidated | 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, respectively, 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 our consolidated financial statements as of December 31, 2003 and combined financial statements as of December 31, 2002 and the results for the whole year of Tele Leste Celular, Tele Sudeste Celular, Telesp Celular and Celular CRT were fully consolidated in the combined statement of operations in these periods until this transfer was made to Brasilcel on December 27, 2002.

(2) Consolidated through September 30, 2001.

(3) After the disposal of 3G Mobile Telecommunications GmbH to Mobilkom Austria with effect from December 2003, this company is not included within our scope of consolidation.

Table of Contents

- (4) 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.
- (5) 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 2001, 2002 and 2003 that affect the comparability of our results of operations and financial condition. As a result of these strategic initiatives, our financial condition and results of operations at and for the years ended December 31, 2002 and 2003 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 2000 we, directly or through consortiums with other international and local partners, were awarded with UMTS licenses in Spain, Germany, Italy, Austria and Switzerland. Most of these licenses were awarded in the second half of the year 2000. At the end of 2001 and in the beginning of 2002, although UMTS technology was not commercially available, the prevailing conditions in these markets and the specific business plans for the development of these businesses allowed us to anticipate the recoverability of our investments already made and those we planned for the future. Therefore during the preparation of the year ended 2001 financial statements, we compared the book value of the licenses to the financial projections included in the business plan and considered that we could recover the investments that we had made up to that time.

Nevertheless, as our plans were based on assumptions and variances that could arise in the future and we periodically updated them to make any appropriate value adjustments, changes occurred in 2002 that caused us to review our European strategy and to commission independent experts to assess our business plans for our UMTS operations in Germany, Italy, Austria and Switzerland.

Under US GAAP, according to SFAS 144, a long-lived asset (asset group) shall be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. In the case of our investments in Germany, Austria and Switzerland, which are fully consolidated under Spanish and US GAAP, an impairment loss was recognized in 2002 based on the comparison between the carrying amount of each of the licenses and their respective fair values. Under US GAAP, these licenses were also considered not recoverable because according to SFAS 144, their carrying value exceeded the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the licenses. These assessments were based on the carrying amount of the licenses at the date that they were tested for recoverability. The impairment loss was measured as the amount by which the carrying amount of each of the licenses exceeded its respective fair values.

With respect to Italy, we account for this investment under the equity method under Spanish GAAP and US GAAP.

Table of Contents

General UMTS market conditions

During the first half of 2002, there were significant changes in the marketplace from a competitive, technological, financial and regulatory perspective. These changes caused us to review our European strategy and to commission independent experts to assess our business plans for our UMTS operations in Germany, Italy, Austria and Switzerland. The following is a summary of these changes:

From a publication in June 2002 from the European Commission on 3G technology, it became apparent that it was highly unlikely that there would be any significant changes relaxing the conditions regarding UMTS licenses from regulators across Europe in light of the evolving market conditions.

There was a steady delay in commercially viable UMTS technology which did not foster a rapid and large-scale build out of 3G networks by mobile operators. This was due in part to the delay in the technological development of UMTS from suppliers, as well as the uncertain competitive capabilities of UMTS vis-à-vis existing technologies, especially in its early phases. As a result, operators would focus the build out of their networks on the main metropolitan areas of each country. This resulted in network sharing agreements losing efficiency as operators built their 3G networks in the same areas to comply with the license requirements and to fulfill their commercial needs. The significant cost savings derived from network sharing agreements were eliminated and increased the financial resources required by all operators to deploy their networks.

The delay in commercial viability was also due to a delay in the availability of UMTS handsets. The availability of UMTS handsets was limited to a small number of prototype models with technical problems that made commercial distribution difficult. Problems with network equipment hardware and software also limited the viability of network coverage.

The demand for 3G services was revised downwards as a result of lower demand for data services and the ongoing delay in the availability of a stable and competitive UMTS technology. The demand for data services was hampered in part by the conflicts between suppliers and software and application developers, which slowed the adoption of devices that could be operated across platforms.

The general delay in the introduction of a commercially viable UMTS technology allowed incumbent operators to make a much smoother migration to the UMTS technology, which made it more difficult for new operators to enter established markets. This delay also caused the major European markets to approach saturation. This reduced the potential for new entrants to capture lower value clients or those clients that had not already been retained by existing operators, even for those using proven GSM technologies.

Notwithstanding this delay, we believe that UMTS technology is still valid, but in an environment of reduced number of operators per country. The difficulty faced by new operators entering mature markets emphasizes the importance of a minimum market share in order to absorb cost pressures and achieve the required returns in an environment of lower revenues per user than previously estimated.

Our UMTS operations

We developed and implemented various initiatives directed at improving our business plans in the countries in which we were awarded UMTS licenses. These included, for example, roaming and network sharing agreements, non-recourse vendor financing and various commercial

agreements. We also analyzed other strategic alternatives such as consolidation with other operators. Ultimately, we decided none of these alternatives were viable. As a result, we adopted the most appropriate decisions for each country as a function of the prevailing conditions in each market.

Germany. On the basis of the roaming and infrastructure sharing agreements with another German operator, Group 3G started operations as a GSM/GPRS virtual mobile operator, or VMO, at the end of 2001. GPRS, or general packet radio service, is the natural evolution of GSM towards 3G, allowing wireless voice and higher-speed data transmission. A VMO, or a virtual mobile operator, is a mobile operator that does not own a

Table of Contents

network and instead buys mobile minutes wholesale from those network operators with physical networks and sells them to its clients. Subsequently, and once the actual operational and financial results for two quarters of commercial operations as a 2/2.5G VMO in Germany became available, we realized that the results of Group 3G since the launch of commercial activity up to July 2002 showed significant divergences with regards to its original targets. Such deviations materially impacted the expected profitability of the business in the context of a significant slowdown in the growth of the wireless market in Germany. The number of subscribers was forecasted to grow at less than one percent in the first half of 2002. As a consequence, and after an in depth assessment of the expected evolution of these parameters with an independent third party report, it was concluded that continuing our operations in Germany would not generate value for Group 3G's shareholders. Therefore, we and Sonera, a 42.8% shareholder in Group 3G, decided to halt all commercial operations in Germany.

Italy. After taking into consideration market conditions and given the differences in the regulatory environment in Italy, both with regard to compliance with coverage requirements included in the license and flexibility shown by the regulators, and the shareholder structure of IPSE 2000, in 2002 the shareholders of IPSE 2000 decided to postpone the launch of commercial operations and restructure the company.

Austria and Switzerland. In Austria and Switzerland, no relevant commercial agreements had been signed as of June 2002, including 2G roaming agreements, network sharing agreements and vendor financing; consequently the activities of our operations were substantially reduced. These circumstances together with our experience in Germany caused us to update the business plans for both these countries.

Based on the assessments obtained from independent experts, and 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 its investments were correctly valued at all times, we decided to fully write down the book value of our investments in Germany, Austria and Switzerland.

The impact on the fixed assets as a result of the above-mentioned write-downs are as follows:

| Balance Sheet | Total | Attributed to: | | |
|---------------------------------------|--------------|-----------------------|----------------|--------------------|
| | | Germany | Austria | Switzerland |
| | | | | |
| | | (thousands of euros) | | |
| <i>Book value before write-downs:</i> | | | | |
| Intangible assets (mainly licenses) | 9,285,756 | 9,118,935 | 128,963 | 37,858 |
| Property, plant and equipment | 87,559 | 60,943 | 6,428 | 20,188 |
| <i>Impairments:</i> | | | | |
| Intangible assets (mainly licenses) | (9,285,756) | (9,118,935) | (128,963) | (37,858) |
| Property, plant and equipment | (84,296) | (57,843) | (6,364) | (20,089) |
| <i>Book value after write-downs:</i> | | | | |
| Intangible assets (mainly licenses) | 0 | 0 | 0 | 0 |
| Property, plant and equipment | 3,263 | 3,100 | 64 | 99 |

With respect to our investment in Italy, our license terms and conditions made it possible to implement business plans with lower investments than in the other countries and the assignment of the right to use the spectrum was envisaged. Accordingly, 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.

Telefónica Móviles España. Currently, Telefónica Moviles only provides UMTS services in Spain through Telefónica Móviles España. On February 13, 2004, Telefónica Móviles España began offering to its corporate

Table of Contents

customers Oficin@ Movistar UMTS . This service was extended to all Telefónica Móviles España customers in Madrid and Barcelona on May 24, 2004, and gradually extended to the rest of Spain. In addition, on May 24, 2004, Telefónica Móviles España launched the first UMTS video services in the Spanish market. We believe that any large-scale launch of UMTS technology, will ultimately be determined by the availability of UMTS compatible handsets that are small, reasonably priced, and have adequate battery life.

In the case of Telefónica Móviles España, the value of the UMTS assets on its balance sheet is not significant. It was awarded a license to provide UMTS services for 131 million and, as of December 31, 2003, had a customer base of approximately 19.7 million customers. The time required for us to recover the value of our investments is significantly shorter and the impact of the delay in the introduction of a commercially viable UMTS technology in its revenue generation is much lower and differs substantially from those of start-up operations in other European countries.

Other markets. Considering the low level of maturity of the wireless industry in Latin America and Morocco and the adequacy of current technologies for servicing the communication needs of customers in the countries of these regions, we do not have UMTS technology neither expect to introduce UMTS services in these other markets in the short term.

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 combined 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 and 2003. 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

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 \$1,835.5 million in shares of Telefónica, S.A. and \$10.5 million in cash. Telefónica, S.A. transferred the wireless operators to us in exchange for our ordinary shares of

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

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.

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

Table of Contents

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

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

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 Paulo through Telesp Celular S.A. and in the Brazilian states of Paraná and Santa Catarina through Global Telecom S.A.

Table of Contents

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

For information on the terms of the acquisition of TCO, please see Item 4.B Business Overview Public Takeover Offers.

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 reflects 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, 2001, 2002 and 2003.

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 U.S. dollar. As of December 31, 2002, the Argentine peso/U.S. dollar exchange rate was \$1.00 = 3.37 pesos and the Argentine peso/euro exchange rate was 1.00 = 3.53 pesos.

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 devalue 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

Table of Contents

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.

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, 2003 and 2002, our exposure from our various Argentine companies amounted to 116 million and 122 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 \$1.00 = 1.70 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 consolidated and combined financial statements.

At year-end 2002, with the normal currency exchange market re-established, the Argentine peso/U.S. dollar exchange rate was \$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.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

In accordance with the foregoing, our consolidated and combined financial statements reflect a positive impact on consolidated earnings of \$6 million in 2003 and an adverse impact of \$37 million in 2002, and accumulated negative amounts under the caption "Translation Differences" in our consolidated and combined financial statements of \$307 million and \$394 million in 2003 and 2002, respectively.

Table of Contents

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 consolidated and 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 consolidated and combined financial statements. We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our consolidated and combined financial statements.

For further explanations, see note 4 to our consolidated and 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 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. 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.

Table of Contents

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.

In the business combination made in Mexico in the last quarter of 2002 there was an amount of goodwill from the acquisition of Pegaso that was pending to be allocated to any potential intangibles that could exist. During 2003, this goodwill has been allocated to the licenses to operate nationwide wireless communications services in Mexico. This amount was reclassified from the Consolidation Goodwill caption on completion of the respective valuations. As of December 31, 2003, the net balance of these licenses was 504,651 thousand. These licenses are being amortized over the concession period based on the estimated capacity to generate revenues in each period.

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.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Taking into account the circumstances explained in the caption Accounting for Long-lived Assets Except Goodwill, Telefónica Móviles, S.A. recorded as of December 31, 2002, 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).

Table of Contents

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 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 consolidated and combined balance sheet as of December 31, 2001, 2002 and 2003 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 consolidated and 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 consolidated and 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.

In 2002, the estimates of the demand for 3G services were 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 was hampered by the impossibility to coordinate the value chain and by the conflicts between suppliers and software and application developers, which had hindered the adoption of interoperable devices. On the other hand, the delay in the introduction of a commercially viable UMTS technology 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 had not been retained by existing operators. At the same time, there was 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, was 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.

Table of Contents

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 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 was an amount of goodwill from the acquisition of Pegaso that was 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) was not considered to be significant. The amount of goodwill at the time of acquisition was the same under Spanish and U.S. GAAP.

In order to account for the acquisition of Pegaso Telecomunicaciones, S.A. de C.V. and the integration of the holding in the northern Mexican companies in Telefónica Móviles México, EITF 90.13 literature was considered. In 2003, after the allocation process required by SFAS No. 141, 504.6 million, were allocated as a net additional value of the licenses obtained to operate nationwide wireless communications services in Mexico; this allocation has also been considered for Spanish GAAP purposes. This amount was reclassified, once the respective valuations were completed, to the Intangible Assets Concessions, Patents, Licenses and Other caption. These licenses are being amortized over the concession period based on the estimated capacity to generate revenues in each period.

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.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

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.

Table of Contents

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

SFAS No. 132 (Revised 2003) Employers' Disclosures about Pensions and Other Postretirement Benefits

Statement of Financial Accounting Standards No. 132 (Revised 2003) (SFAS 132R), requires an entity to make additional disclosures about pensions and other postretirement benefits. These disclosures include information describing the types of plan assets, investment strategy, measurement date(s), plan obligations, cash flows and components of net periodic benefit cost. The Group does not have any pension plan that could be impacted by this accounting pronouncement.

SFAS No. 146 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. SFAS No. 146 supersedes guidance established in the FASB's Emerging Issues Task Force (EITF) Issue No. 94-3 regarding certain exit and disposal costs. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of this Statement had no impact in the financial statements.

SFAS No. 148 Accounting for Stock-Based Compensation Transition and Disclosure

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. This Statement amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure requirements relating to stock options under SFAS No. 123 and APB Opinion No. 28, Interim Financial Reporting. The Group currently accounts for stock based compensation in accordance with APB No. 25 (Note 20.12 Shares in Deposit at Finance Entities acting as Agents in Stock Option Plans of the Reconciliation), therefore the adoption of this Statement had no impact in the financial position or in the results of operations.

SFAS No. 149 Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities. This Statement amended and refined certain characteristics of derivative instruments and hedges. The adoption of this Statement had no impact in the financial position or in the results of operations.

Table of Contents

SFAS No. 150 Accounting for Certain 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 requires, among other things, the classification of certain financial instruments, previously classified within the equity section of the balance sheet, to be included in liabilities. This Statement is effective for financial instruments entered into or modified after May 31, 2003 and June 15, 2003 for all other instruments. The adoption of this Statement had no impact on the financial position or in the results of operations.

FIN No. 45 Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others

In November 2002, the FASB issued Interpretation No. 45 (FIN 45), *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. FIN 45 elaborates on the disclosures to be made by a guarantor about its obligations under certain guarantees. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. As required by FIN 45, on January 1, 2003, we adopted the initial recognition and measurement provisions on a prospective basis for guarantees issued or modified after December 31, 2002. The adoption of the recognition/measurement provisions did not have material effect in the financial statements.

FIN No. 46 Consolidation of Variable Interest Entities an interpretation of ARB No. 51

In January 2003, the Financial Accounting Standards Board (FASB) released Interpretation No. 46 Consolidation of Variable Interest Entities (FIN 46) which requires that all primary beneficiaries of Variable Interest Entities (VIE) consolidate that entity. FIN 46 is effective immediately for VIEs created after January 31, 2003 and to VIEs in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003 to VIEs in which an enterprise holds a variable interest it acquired before February 1, 2003. In December 2003, the FASB published a revision to FIN 46 (FIN 46R) to clarify some of the provisions of the interpretation and to defer the effective date of implementation for certain entities. Under the guidance of FIN 46R, entities that do not have interests in structures that are commonly referred to as special purpose entities are required to apply the provisions of the interpretation in financials statements for periods ending after March 14, 2004. The Group is assessing at this moment the impact, if any, that the adoption of FIN 46R will have on its financial position, cash flows and results of operations.

SAB No. 104 Revenue Recognition

In December 2003, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition*. SAB 104 updates portions of the interpretive guidance included in Topic 13 of the codification of Staff Accounting Bulletins in order to make this interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. The company believes it is currently following the guidance of SAB 104.

EITF 00-21 Accounting for Revenue Arrangements with Multiple Element Deliverables

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

In November 2002, the Emerging Issues Task Force (EITF), of the FASB reached a consensus on EITF 00-21. EITF 00-21 provides guidance on how to account for arrangements that may involve multiple revenue-generating activities, for example, the delivery of products or performance of services, and/or rights to use other assets. The requirements of EITF 00-21 will be applicable to agreements entered into for periods beginning after June 15, 2003. The Group is assessing at this moment the impact, if any, that the adoption of EITF will have on its financial position or results of operations.

Table of Contents

EITF Issue No. 01-08 Determining Whether an Arrangement Contains a Lease

In May 2003, the EITF reached consensus in EITF Issue No. 01-08 to clarify the requirements of identifying whether an arrangement should be accounted for as a lease at its inception. The guidance in the consensus is designed to mandate reporting revenue as rental or leasing income that otherwise would be reported as part of product sales or service revenue. EITF Issue No. 01-08 requires both parties to an arrangement to determine whether a service contract or similar arrangement is, or includes, a lease within the scope of SFAS No. 13, Accounting for Leases. The Company does not anticipate that the adoption of EITF Issue No. 01-08 will have a material effect on its consolidated results of operations, cash flows or financial position.

EITF Issue No. 03-11 Reporting Realized Gains and Losses on Derivative Instruments That Are Subject to FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, and Not Held for Trading Purposes

In July 2003, the EITF reached consensus in EITF Issue No. 03-11 that determining whether realized gains and losses on derivative contracts not held for trading purposes should be reported on a net or gross basis is a matter of judgment that depends on the relevant facts and circumstances and the economic substance of the transaction. In analyzing the facts and circumstances, EITF Issue No. 99-19, and Opinion No. 29, Accounting for Nonmonetary Transactions, should be considered. EITF Issue No. 03-11 is effective for transactions or arrangements entered into after September 30, 2003. The Company does not anticipate that the adoption of EITF Issue No. 03-11 will have a material effect on its consolidated results of operations, cash flows or financial position.

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 expanded by approximately 2.4% in 2003, and real gross domestic product is estimated to be approximately 2.8% in 2004, reflecting a relatively stronger domestic demand. Inflation is expected to be significantly below 3% in 2004, around the same level as 2003 (2.6%). The current-account deficit was estimated at 3.2% of gross domestic product in 2003. It is difficult to predict how this may change in 2004 and beyond, but it could reach between 2.0 and 2.5%. The unemployment rate was 11.2% at December 31, 2003, not expecting abrupt changes onward from the current rate.

Brazil

In 2003, Brazilian GDP decreased by 0.2%, reflecting a reduction in domestic demand, while the external sector showed a much better performance. Exports went up by 21%, increasing the trade surplus to \$24.8 billion, and turning the current account balance into a \$4.0 billion surplus (about 0.8% of GDP). Monetary policy was strict, leading to average interest rates of 23%. Consumer inflation amounted to 9.3%. The real strengthened by 18.2% against the U.S. dollar and closed at a real/U.S. dollar exchange rate of \$1.00 = 2.89 reals. For 2004, GDP growth is expected to be around 3% without financial stress.

Argentina

See *Argentina* above for a discussion of political and economic developments in Argentina and their impact on us.

Peru

After growing at significant rates during 2002, economic growth has stagnated at approximately 4% in 2003 and is set to continue at similar growth rates during 2004. For 2004 GDP is expected to grow at a rate of approximately 4.0% based on a modest increase in consumption and private investment (mainly related to

Table of Contents

specific projects such as the Camisea natural gas project and the Mivivienda government housing program), a higher-than-expected increase in exports, and the effect of the continuing tax reform. Peru's Central Bank adopted an explicit medium-term annual inflation target in 2002. The target is inflation of 2.5% within a range that could vary +/-1% (1.5% - 3.5%). Inflation for year-end 2003 was approximately 2.48%. The Central Bank is expected to continue with its accurate monetary policy and comply with its medium-term inflation target (2.5%) for the years to come.

Mexico

Mexico's estimated real GDP growth in 2003 was 1.2%, slightly better than in 2002. Monetary policy has been kept tight by the Mexican government in order to limit inflation and to bolster the currency, which depreciated by approximately 7% relative to the U.S. dollar during the course of 2003. In 2004, economic growth is expected to reach 3.2%. The average consumer inflation rate for the year 2004 is estimated to decline to 4.0%, compared to 4.6% in 2003, as a result of the higher interest rates imposed by the Central Bank.

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 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.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

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.

Table of Contents

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.

Operating income before depreciation and amortization

Operating income before depreciation and amortization is calculated by excluding depreciation and amortization expenses from our operating income in order to eliminate the impact of general long-term capital investments that cannot be significantly influence by our management on a short-term basis. For more information on why we present operating income before depreciation and amortization please see Operating Results Non-GAAP Financial Information.

Our operating income before depreciation and amortization has increased to 4,463 million for 2003 from 3,736 million in 2002 and 3,334 million in 2001.

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

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

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.

Table of Contents*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.

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, | | |
|-----------------------------------|---|---------------|---------------|
| | 2001 | 2002 | 2003 |
| | (percentages of net revenues from operations) | | |
| Net revenues from operations: | | | |
| Wireless communications services | 91.6 | 86.9 | 85.2 |
| Sales of handsets and accessories | 7.0 | 10.5 | 11.9 |
| Other services | 1.4 | 2.6 | 2.9 |
| Total | 100.0 | 100.0 | 100.0 |
| Other revenues | 1.8 | 1.0 | 1.5 |
| Operating expenses: | | | |
| Services and goods purchased | (22.1) | (26.3) | (25.7) |
| External services and local taxes | (31.0) | (26.4) | (25.6) |
| Personnel expenses | (6.3) | (6.0) | (4.8) |
| Depreciation and amortization | (15.0) | (14.4) | (14.1) |
| Change in operating provisions | (2.7) | (1.4) | (1.0) |
| Total operating expenses | (77.1) | (74.5) | (71.3) |
| Operating income | 24.7 | 26.5 | 30.2 |
| Non-operating expenses: | | | |
| Amortization of goodwill | (0.6) | (1.0) | (1.0) |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | | |
|--|-------------------|-------------------|-------------------|
| Income (loss) of associated companies | (1.4) | (1.7) | (0.8) |
| Financial expense | (8.5) | (10.1) | (12.8) |
| Financial income | 4.6 | 6.6 | 9.0 |
| | <u> </u> | <u> </u> | <u> </u> |
| Income from ordinary activities | 18.7 | 20.3 | 24.6 |
| | <u> </u> | <u> </u> | <u> </u> |
| Extraordinary income (expense) | (1.2) | (132.1) | (0.0) |
| Income before tax and minority interests | 17.5 | (111.8) | 24.6 |
| | <u> </u> | <u> </u> | <u> </u> |
| Corporate income tax | (7.5) | 23.3 | (8.8) |
| Minority interests | 0.6 | 47.7 | 0.2 |
| | <u> </u> | <u> </u> | <u> </u> |
| Net income | 10.6 | (40.7) | 16.0 |
| | <u> </u> | <u> </u> | <u> </u> |

Table of Contents

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.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

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, | | % |
|-------------------------------------|----------------------------|---------------|-------------|
| | 2002 | 2003 | |
| | (euro in millions) | | |
| Wireless communications services | 7,947 | 8,580 | 8.0 |
| Sales of handsets and accessories | 960 | 1,199 | 24.8 |
| Other services | 233 | 292 | 25.3 |
| Net revenues from operations | 9,140 | 10,070 | 10.2 |

Our net revenues from operations increased by 10.2% to 10,070 million for 2003 from 9,140 million for 2002. This increase resulted from the following factors:

Spanish operations. Our Spanish operations accounted for 74.6% of net revenues from operations in 2003. Net revenues from our Spanish operations increased 9.9% to 7,513 million for 2003 from 6,834 million for 2002 due to the following factors:

Wireless communications services: For 2003, wireless communications services represented 86.9% of net revenues from operations in Spain, reflecting a 10.1% increase to 6,532 million for 2003 from 5,934 million for 2002. This increase resulted from a 6.8% growth in our customer base to 19.7 million at year-end 2003 from 18.4 million at year-end 2002. This increase was also a result of increased customer usage. Total traffic increased by 18.2% in 2003 compared to 2002. Minutes of usage of per contract customer also increased by 10% in 2003 compared to 2002. The use of wireless data services also increased in 2003. Net revenues from data services increased to 844 million in 2003 compared to 729 million in 2002. Of the 844 million in net revenues from data services in 2003, 76.3% were from SMS, or short message services, 14.9% from messages utilizing content services, .5% from MMS, or multi-media messaging services, and 8.3% from other data services.

Sales of handsets and accessories: For 2003, sales of handsets and accessories represented 11.0% of net revenues from operations in Spain, reflecting a 17.3% increase to 826 million for 2003 from 704 million for 2002. This increase was a result of

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

the 18.8% increase in commercial activity in Spain in 2003 compared to 2002. This was primarily due to a 71% increase in handset upgrades from 4.05 million in 2003 to 2.36 million in 2002 largely due to the loyalty programs of Telefónica Móviles España.

Other services: Net revenues from operations derived from other services in Spain decreased by 20.8% to 155 million for 2003 from 196 million for 2002. This decrease was primarily due to M-Solutions no longer being consolidated in our financial statements as of March 31, 2003.

Latin American operations. Our Latin American operations accounted for 25.7% of net revenues from operations for 2003. Net revenues from operations for our Latin American operations increased in euro by 12.9% to 2,588 million for 2003 from 2,291 million for 2002. Exchange rate fluctuations had a negative impact of approximately 27 percentage points on revenues from Latin America. Excluding the

Table of Contents

impact of exchange rate fluctuations, the year on year growth rate was 39.5%. The increase in net revenues from our Latin American operations was due to the following factors:

Wireless communications services: For 2003, wireless communications services represented 79.1% of net revenues from operations in Latin America, reflecting a 9.8% increase to 2,048 million for 2003 from 1,865 million for 2002. Assuming constant exchange rates, the year-on-year growth rate would have reached 36.3%. This increase was principally due to fully consolidating twelve months of operations in Pegaso in 2003 compared to three months of operations in 2002 as well as consolidating the Brasilcel joint venture in 2003 compared to our participation in TeleSudeste, TeleLeste and CRT in 2002. This increase was also due to the 50.3% increase in total customers in Brazil to 20.7 million in 2003 from 13.7 million in 2002, the 42.8% increase in total customers in Mexico to 3.5 million in 2003 from 2.4 million in 2002 and the 12.8% increase in total customers in Argentina to 1.8 million in 2003 from 1.6 million in 2002.

Sales of handsets and accessories: For 2003, sales of handsets and accessories represented 14.4% of net revenues from operations in Latin America, reflecting a 57.5% increase to 373 million for 2003 from 236 million for 2002. Excluding exchange rate impact, the year on year growth rate was 98.5%. This increase was primarily due to the changes mentioned above in the consolidation of Brasilcel and Pegaso in 2003. This increase was also due to the 43.9% increase in the customer base of our Latin American operations to 27.8 million in 2003 from 19.3 million in 2002 (principally in Brazil, Mexico and Argentina).

Other services: Net revenues from operations derived from other services in Latin America were 168 million for 2003, representing 6.5% of net revenues from operations in the region and a decrease of 16.1% from 200 million for 2002.

Other Revenues

Our other revenues increased by 67.3% to 152 million for 2003 from 91 million in 2002. The low level of other revenues in 2002 was primarily due decreases in the value of inventories in 2002 as a result of high inventory levels at the end of 2001.

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, | | |
| | 2002 | 2003 | Variation |
| | (euro in millions) | | |
| Services and goods purchased | 2,406 | 2,593 | 7.8 |
| External services and local taxes | 2,412 | 2,582 | 7.0 |
| Personnel expenses | 546 | 486 | (11.1) |
| Depreciation and amortization | 1,316 | 1,421 | 7.9 |
| Changes in operating provisions | 130 | 99 | (23.8) |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | | |
|--------------------------|-------|-------|-----|
| Total operating expenses | 6,811 | 7,180 | 5.4 |
|--------------------------|-------|-------|-----|

Services and Goods Purchased. Services and goods purchased increased by 7.8% to 2,593 million for 2003 from 2,406 million for 2002. As a percentage of net revenues from operations, services and goods purchased decreased to 25.7% for 2003 from 26.3% for 2002. This was a result of the following factors:

Spanish operations: Our Spanish operations accounted for 69.7% of our services and goods purchased for 2003. These expenses increased 9.5% to 1,807 million for 2003 from 1,649 million for 2002. This

Table of Contents

increase was primarily attributable to the 18.8% increase in commercial activity described above as well as the 33.2% increase in outgoing traffic to other operators that resulted in increased interconnection costs. As a percentage of net revenues from operations generated by our Spanish operations, services and goods purchased decreased to 24.0% for 2003 from 24.1% for 2002.

Latin American operations: Our Latin American operations accounted for 30.4% of our services and goods purchased for 2003. These expenses increased 11.7% to 788 million for 2003 from 705 million for 2002 primarily as a result of the increase in commercial costs primarily as a result of the 8.5 million new customers added in 2003 compared to 2002 in our Latin America operations (principally in Brazil, Mexico and Argentina) and the changes mentioned above in the consolidation of Brasilcel and Pegaso in 2003. As a percentage of net revenues from operations generated by our Latin American operations, services and goods purchased decreased to 30.4% for 2003 from 30.6% for 2002.

External Services and Local Taxes. Our expenses due to external services and local taxes increased by 7.0% to 2,582 million for 2003 from 2,412 million for 2002. As a percentage of net revenues from operations, these external expenses decreased to 25.6% for 2003 from 26.4% for 2002. This was a result of the following factors:

Spanish operations: Our Spanish operations accounted for 60.4% of our total external expenses in 2003, as these expenses increased by 5.0% to 1,560 million for 2003 from 1,486 million for 2002. This increase was principally due to the 18.8% increase in commercial activity described above. As a percentage of net revenues from Spanish operations, external expenses decreased to 20.8% for 2003 from 22% for 2002.

Latin American operations: Our Latin American operations accounted for 39.2% of our total external expenses for 2003. External expenses for our Latin American operations increased by 30.5% to 1,013 million in 2003 from 776 million in 2002 principally due to the 8.5 million new customers added in 2003 compared to 2002 in our Latin America operations (principally in Brazil, Mexico and Argentina), and the changes mentioned above in the consolidation of Brasilcel and Pegaso in 2003. As a percentage of the net revenues from Latin American operations, external expenses increased to 39.1% for 2003 from 33.7% for 2002.

Personnel Expenses. Our personnel expenses decreased by 11.1% to 486 million for 2003 from 546 million for 2002. As a percentage of net revenues from operations, personnel expenses decreased to 4.8% for 2003 from 6.0% for 2002. This was a result of the following factors:

Spanish operations: Our Spanish operations accounted for 50.8% of our total personnel expenses for 2003. These expenses decreased by 3.1% to 247 million for 2003 from 255 million for 2002. This decrease is primarily due to the sale of Telefonica Mobile Solutions to Telefónica Sistemas, S.A. in June 2003, and the 49% reduction in personnel cost of Terra Mobile (Telefónica Móviles Interaccion) due to a reduction of headcount. As a percentage of net revenues from operations generated by our Spanish operations, personnel expenses decreased to 3.3% for 2003 from 3.7% for 2002.

Latin American operations: Our Latin American operations accounted for 40.1% of our total personnel expenses for 2003. These expenses increased by 1.5% to 195 million for 2003 from 192 million for 2002. This increase was primarily due to the changes mentioned above in the consolidation of Brasilcel and Pegaso in 2003, offset by the depreciation in Latin American currencies, namely the 11.5% depreciation in the Argentine Peso and the 25.5% depreciation in the Brazilian reais over the year. As a percentage of net revenues from operations generated by our Latin American operations, personnel expenses decreased to 7.5% for 2003 from 8.4% for 2002. The reduction of the headcount in Mexico during 2003 has contributed to the evolution of this cost.

Table of Contents*Operating Income Before Depreciation and Amortization*

Operating income before depreciation and amortization increased by 19.5% to 4,463 million for 2003 from 3,736 million for 2002. As a percentage of net revenues from operations, operating income before depreciation and amortization increased to 44.3% for 2003 from 40.9% for 2002. This was a result of the following factors:

Spanish operations: Our Spanish operations accounted for 88.3% of operating income before depreciation and amortization for 2003. Operating income before depreciation and amortization of our operations in Spain increased 13.8% to 3,939 million for 2003 from 3,461 million for 2002. This increase was principally due to the increases in average revenue per user, number of customers, and cost control measures principally related to customer acquisition and retention costs. As a percentage of net revenues from operations, operating income before depreciation and amortization increased to 52.4% for 2003 from 50.6 % for 2002.

Latin American operations: Our Latin American operations accounted for 13.0% of operating income before depreciation and amortization for 2003. Operating income before depreciation and amortization in our Latin American operations decreased 1.9% to 582 million for 2003 from 593 million for 2002, principally as a result of the negative contribution of operating income before depreciation and amortization from our Mexican operations, due to the increased operational costs resulting from an 42.8% increase in new customers added in 2003 compared to 2002. As a percentage of net revenues from operations, operating income before depreciation and amortization decreased to 22.5% for 2003 from 25.8% for 2002. Excluding the impact of exchange rates, year on year the growth rate was 19.2%.

Depreciation and Amortization. Depreciation and amortization increased by 7.9% to 1,421 million for 2003 from 1,316 million for 2002. As a percentage of net revenues from operations, depreciation and amortization decreased to 14.1% for 2003 from 14.4% for 2002. This was a result of the following factors:

Spanish operations: Our Spanish operations accounted for 49.8% of our total depreciation and amortization for 2003. This expense increased 3.4% to 707 million for 2003 from 684 million for 2002. This increase was due to increased investments, which offset lower amortization costs for our analog plant in 2003 compared to 2002. As a percentage of net revenues from operations generated by our Spanish operations, depreciation and amortization decreased to 9.4% in 2003 from 10.0% in 2002. This decrease was principally due to the economies of scale gained from the increased volume of our operations, which has allowed us to reduce our fixed network costs per minute of customer use.

Latin American operations: Our Latin American operations accounted for 47.6% of our total depreciation and amortization for 2003. This expense increased 31.3% to 676 million for 2003 from 515 million for 2002. This increase was principally a result of the 112% increase in amortization expenses in Mexico, as a consequence of the changes mentioned above in the consolidation of Pegaso in 2003. As a percentage of the net revenues from operations generated by our Latin American operations, depreciation and amortization increased to 26.1% for 2003 from 22.4% for 2002.

Changes in Operating Provisions. Changes in operating provisions decreased by 23.8% to 99 million for 2003 from 130 million for 2002. These expenses, as a percentage of net revenues from operations, decreased in 2003 to 1.0% from 1.4% for 2002.

Operating Income

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

As a result of the above factors, operating income increased by 25.7% to 3,042 million for 2003 from 2,419 million for 2002. Operating income, as a percentage of net revenues from operations, increased to 30.2% for 2003 from 26.5% for 2002.

Table of Contents

Non-Operating Expenses

Amortization of Goodwill. Amortization of goodwill increased 16.8% to 102 million for 2003 from 87 million for 2002. This increase resulted principally from the amortization of the goodwill related to Brasilcel and our operations in Mexico. Amortization of goodwill for Brasilcel in 2003 amounted to 44 million compared to 27 million in 2002. Amortization of goodwill for our operations in Mexico was 38 million compared to 24 million in 2002.

Income (Losses) of Associated Companies. Our share in income (losses) of companies carried by the equity method resulted in a loss of 81 million for 2003, as compared to a loss of 159.5 million for 2002. This change resulted principally from the reduction in the losses of Medi Telecom and IPSE 2000 in 2003 compared to 2002.

Financial Expense. Our financial expense increased by 39.8% to 1,288 million for 2003 from 922 million for 2002, principally due to a 6.9% increase in interest on payables to Telefónica Group companies to 324 million in 2003 from 303 million in 2002 as well as an increase in exchange losses to 646 million in 2003 from 502 million in 2002. The increase in financial expense is principally due to the changes mentioned above in the consolidation of Brasilcel and Pegaso in 2003. Our financial expenses for 2002 do not include the financial expenses originated by the acquisition of the UMTS license in Germany in the first half of 2002. These expenses were capitalized. See note 20 to the consolidated and combined financial statements and the discussion under Item 11. Quantitative and Qualitative Disclosure About Market Risks regarding hedging of foreign currency net investments by currency borrowings and other hedging instruments at December 31, 2003.

Financial Income. Our financial income increased by 50.3% to 910 million for 2003 from 606 million for 2002. This increase was principally due to a substantial increase in exchange gains to 746 million in 2003 from 482 million in 2002 principally due the revalorization 13% appreciation of the Argentine peso against the U.S. dollar in 2003.

Extraordinary Income (Expense)

Our extraordinary expense, net, was 5 million for 2003 compared to extraordinary expense, net, of 12,076 million for 2002. In 2002, extraordinary expenses consisted principally of the total write-off of assets in Germany, Austria and Switzerland.

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.'s 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 expense increased to 890 million for 2003 from tax credits of 2,131 million for 2002. In 2002 the corporate tax credit registered was due to the provision for portfolio depreciation deductible for tax purposes of our European subsidiaries.

Minority Interests

Minority interests for 2003 resulted in a gain of 21 million compared to a gain of 4,364 million in 2002. 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.

Net Income

As a result of the above factors, net income increased to 1,608 million for 2003 from (3,724) million for 2002. Net income, as a percentage of net revenues from operations, was 16.0% for 2003.

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 | |
| | (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. Minutes of usage 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. In 2002, we were involved in 95% of the sales and procurement of handsets compared to 35% in 2001. 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.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

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 euro by 13.4% to 2,291 million for 2002 from 2,646 million for 2001. Exchange rate fluctuations had a negative impact of approximately 31.9% on revenues from our operations in Latin America. The increase, excluding exchange rate impact, was 16.8% and was 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. This change in consolidation scope accounted for approximately 14.6 percentage points of the 16.8% increase from 2001.

Table of Contents

Wireless communications services: For 2002, wireless communications services represented 81% of net revenues from operations in Latin America, reflecting a 21% decrease in euro 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 from wireless communications services. 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 euro 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 from sales of handsets and accessories. 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 | 2002 | |
| | (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% |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

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. This was a result of 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 an increase of 13.49% in interconnection costs despite a

Table of Contents

17.01% reduction in interconnection tariffs imposed by Spanish regulators in July 2002. This reduction in interconnection 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 commercial 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. This was a result of 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 a decrease our in customer acquisition and retention costs. As a percentage of our net revenues from operations, customer acquisition and retention costs decrease by approximately 5 percentage points to 7.9% in 2002.

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 commercial costs in Argentina and the 233% and 31% depreciation in the Argentine peso and Brazilian reais in fiscal year 2002, which more than offset the 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. This was a result of 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 decrease in personnel expenses resulting from the inclusion of Telefónica Móviles Mexico and the Tele Leste Group was largely offset by a 37% reduction in personnel cost in Argentina (calculated in local currency) and the 233% and 31% depreciation in the Argentine peso and Brazilian reais, respectively.

European operations: Our European operations represent 11% of personnel expenses. These increased by 10.4% over 2001, due to the launch of operations.

Operating Income Before Depreciation and Amortization

Operating income before depreciation and amortization increased by 12.1% to 3,736 million for 2002 from 3,334 million for 2001. As a percentage of net revenues from operations, operating income before depreciation and amortization increased to 40.9% for 2002 from 39.6% for 2001. The increase in operating income before depreciation and amortization was generally attributable to the following factors:

Spanish operations: Our Spanish operations accounted for 93% of operating income before depreciation and amortization for 2002. The operating income before depreciation and amortization 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 control measures principally related to cost control measures, principally related to customer acquisition and retention costs, realized by Telefónica Móviles España. As a percentage of net revenues from operations, operating income before depreciation and amortization increased to 50.6% for 2002 from 48.2% for 2001.

Latin American operations: Our Latin American operations accounted for 15.9% of operating income before depreciation and amortization for 2002. Operating income before depreciation and amortization 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. This decrease was principally due to the depreciation in Latin American currencies, namely 233% and 31% depreciation in the Argentine peso and Brazilian reais, respectively. Because of these exchange rate variations, operating income before depreciation and amortization of our Latin American operations denominated in local currencies decreased once converted to euro. These exchange rate fluctuations had a negative impact of approximately 33.2%. As a percentage of net revenues from operations, Operating income before depreciation and amortization 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.

European operations: We had negative operating income before depreciation and amortization 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. This was a result of 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 gained from the volume of operations, which has allowed us to reduce our fixed network costs per minute of

customer use.

Table of Contents

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 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 depreciation in the Argentine peso, which had a negative impact of 34.7 million and the exchange rate hedging transactions euro/U.S. dollar during the period. Exchange losses are calculated using the exchange rate at fiscal year end. At fiscal year end 2002, the exchange rate for the Argentine peso was \$1.00=3.37 pesos and 1.00=3.53 pesos. At fiscal year end 2001, the exchange rate for the Argentine peso was \$1.00=1.7 pesos and 1.00=1.51 pesos.

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.

Table of Contents

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 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

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.

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 GSM networks in Mexico and Argentina;

acquisitions of new licenses, or other wireless operators or companies engaged in complementary or related businesses, such as our acquisition of BellSouth's wireless operations in Latin America, and Telefónica Móviles Chile;

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 2001, 2002 and 2003 (excluding capital expenditures to acquire UMTS licenses):

| | 2001 | 2002 | 2003 |
|------------------|--------------------|------|-------|
| | (millions of euro) | | |
| Spain | 780 | 519 | 522 |
| Rest of Europe | 295 | 76 | |
| Western Europe | 1,075 | 595 | 522 |
| Latin America(1) | 597 | 310 | 691 |
| Other(2) | 18 | 14 | 1 |
| Total | 1,690 | 919 | 1,214 |

(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 (now Telefónica Interacciona) and M-Solutions (transferred to T Data at 2003).

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 1,214 million for 2003, 919 million for 2002, and 1,690 million for 2001. Our total capital expenditure was 213.12 million for the three months ended March 31, 2004. 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 and to build up a GSM Network in México.

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, which was obtained from Telefónica S.A.

In November 2000, we acquired a UMTS license in Austria for a total payment of 117 million. We sold our Austrian subsidiary to Mobilkom Austria for a total sale price of 13.6 million, in December 2003. In January 2001, we acquired a UMTS license in Switzerland for a total

payment of 32.5 million.

Table of Contents*Debt Profile*

The following table presents, at December 31, 2003, 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:

| | <u>Maturity</u> | | <u>Total Debt</u> | <u>Interest Expense</u> | <u>Weighted Average Interest Rate</u> |
|-----------------------------|--------------------|------------------|-----------------------|-----------------------------|---|
| | <u>Short-Term</u> | <u>Long-Term</u> | | | |
| | (millions of euro) | | | | |
| Historical debt: | | | | | |
| Telefónica Móviles, S.A.(1) | 1,141 | 4,526 | 5,667 | 308 | 4.34% |
| European operations | 33 | 338 | 371 | 30 | 1.83% |
| Latin American operations | 602 | 505 | 1,107 | 304 | 6.72% |
| Total | 1,776 | 5,369 | 7,145 | 642 | 4.71% |

(1) Refers to parent company only.

Historical Debt. We had total debt in an aggregate principal amount of 7,145 million at December 31, 2003 (5,087 million of net debt) and 8,224 million at December 31, 2002 (6,973 million of net debt). On June 28, 2002, Telia Sonera (formerly 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, 2003, total debt consisted of 1,776 million in short-term debt and 5,369 million in long-term debt. 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, 2003, approximately 6,058 million, or 85%, of our total debt was payable to the Telefónica Group, and approximately 1,087 million, or 15%, of our total debt was payable to banks and other financial institutions. The majority of our debt to Telefónica, S.A. 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 lent 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, 2003, approximately 43.5% 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, 2003, and after taking into account hedging transactions, approximately 78% of our debt was denominated in euro; 3.4% in U.S. dollars; 18.6% in Brazilian reais, and a small amount in other currencies. 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 consolidated and 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, 2003.

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

Table of Contents

negative pledges. These debt instruments define EBITDA as the sum of net income, (income/loss) attributable to minority interests, taxes, financial interests, amortization, depreciation and legal provision that do not require a cash disbursement, minus (gain/loss) of companies accounted for by the equity method. 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 the Telefónica Group, 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 642 million in 2003 as compared with 415 million in 2002. This increase was mainly due to the consolidation of Brasilcel.

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.

On April 1, 2003, the Shareholders Meeting of Telefónica Móviles resolved to pay a gross dividend of 0.175 on each of the Company's shares in circulation, with a charge to the Additional Paid-in Capital caption. This dividend was paid on June 18, 2003.

On April 16, 2004, the Shareholders Meeting of Telefónica Móviles resolved the payment of a cash dividend, with a charge to profits for the Fiscal year 2003, for an amount of 0.1838 gross, to each of the Company's current issued and outstanding shares, with a right to collect said dividend.

Payment was made on June 16, 2004, through the entities participating in the securities and clearing institution Iberclear and the retentions requested by applicable legislation will be applied.

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 3,681 million in 2003 and 2,157 million in 2002.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

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 1,956 million and 1,409 million at December 31, 2003 and December 31, 2002, respectively.

Shareholders' Equity

We had shareholders' equity of 4,040 million at December 31, 2003 and 3,248 million at December 31, 2002. As reflected in the consolidated and 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

Table of Contents

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 2,195 million at December 31, 2003 and 3,195 million at December 31, 2002, of which 239 million and 1,786 million were unused at December 31, 2003 and December 31, 2002, 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, 2003 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 lease arrangements. We cannot assure you that future conditions in financial markets will not adversely affect our financial condition or results of operations.

Related Party Debt

| | <u>Telefónica Móviles</u> | <u>Telefónica Móviles España</u> | <u>Móviles Interacciona</u> | <u>Móviles México</u> | <u>Móviles Perú</u> | <u>Short Term</u> | <u>Long Term</u> | <u>Weighed average type</u> | <u>Use of Proceeds</u> |
|--------------------|-------------------------------|--|---------------------------------|---------------------------|-------------------------|-----------------------|----------------------|-------------------------------------|---------------------------------|
| (euro in millions) | | | | | | | | | Investments in UMTS |
| | | | | | | | | | Capital participations |
| | | | | | | | | | Financing needs of subsidiaries |
| Telefónica, S.A. | 5,667 | | | | | 1,141 | 4,526 | 4.34% | Capital expenditures |
| | | | | | | | | | Operating expenditures |
| | | | | | | | | | Amortization of debt |
| | | | | | | | | | Financing costs |
| TELFISA-BEI | | 313 | 7 | | | 33 | 287 | 1.86% | Capital expenditures |
| Telfisa México | | | | 19 | | 19 | | 1.72% | Working capital |
| | | | | | 51 | | 51 | 4.28% | Working capital |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Telefónica del Perú
S.A.A.

Capital expenditures

| | | | | | | | | |
|--------------|--------------|------------|----------|-----------|-----------|--------------|--------------|--------------|
| Total | 5,667 | 313 | 7 | 19 | 51 | 1,193 | 4,864 | 4.20% |
|--------------|--------------|------------|----------|-----------|-----------|--------------|--------------|--------------|

Reconciliation to U.S. GAAP

Our financial statements have been prepared in accordance with Spanish GAAP. Shareholders' equity would have been 4,599 million under U.S. GAAP compared to 4,040 million under Spanish GAAP at December 31, 2003 and 4,006 million under U.S. GAAP compared to 3,248 million under Spanish GAAP at December 31, 2002.

Net income would have been 1,815 million under U.S. GAAP compared to 1,608 million under Spanish GAAP for 2003 and (3,647) million under U.S. GAAP compared to (3,724) million under Spanish GAAP for 2002. For 2001, net income would have been 320 million under U.S. GAAP compared to 893 million under Spanish GAAP.

Table of Contents

The increase in net income under U.S. GAAP in 2003 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, recognition of tax credits in period initially awarded derivatives and hedging activities and revenue recognition principles. See Notes 20.6, 20.1, 20.3, 20.9, 20.11 and 20.4 to the consolidated financial statements.

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 consolidated and 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 consolidated and combined financial statements.

See note 20 to the consolidated and 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.

Hedging Policy

Exchange rate fluctuation (specially for Latin American currencies) has negatively impacted our results of operations. Specifically, consolidated operating income before depreciation and amortization for fiscal year 2003 was 4,463 million. Excluding the impact of currency fluctuation, consolidated operating income before depreciation and amortization would have been 3.4% higher for 2003 and 7% higher for 2002. In order to hedge the possible adverse impact of the exchange rate fluctuations on our operating results, we primarily seek to mitigate the impact on the value of our assets by financing the purchase of such assets, as well as our local operations by incurring debt denominated in local currencies when available and under attractive market conditions. Occasionally, we hedge this risk by entering into other financial instruments including exchange rate swaps. In accordance with our risk management policy in most cases we enter into hedging transactions to cover debt payments or payments denominated in foreign currencies. For further information on the risks we face, please see Item 11 Quantitative and Qualitative Disclosure About Market Risk.

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, as a result of increased handset sales, in the Christmas season. We believe that this seasonality is driven by Christmas marketing campaigns and higher mobile telephony usage during vacation periods, although we believe there is no intrinsic business rationale for this trend to continue in the future. In addition, roaming revenue derived from visitors who use Telefónica Móviles España's network normally represents 3% to 4% of Telefónica Móviles España's quarterly operating revenue. In the third quarter, such revenue normally increases to 5 to 6%, in line with increased visitors to Spain in the summer months.

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,

Table of Contents

to increase public awareness of the possibilities offered by wireless communications. We spent approximately 190 in 2003 and 275 million in 2002 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. We carry Tempos21 by the cost method in our consolidated and combined financial statements as of December 31, 2001, 2002 and 2003. The gross and net book value Tempos21 in our consolidated financial statements as of December 31, 2003 amounts to 5,091 thousand and 3,489 thousand, respectively.

D. TREND INFORMATION

The penetration rate in the Spanish market for wireless services was 88% at December 31, 2003. 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.

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 5.2 percentage points in its contract customer mix in 2003 compared to 2002 and has also encouraged increased spending from its contract customers. In 2003, migrations from pre-paid to contract plans have increased by 63% relative to the previous year, to more than 1.1 million customers.

One of the key strategies to consolidate the wide base of customers in all the segments and to encourage the use of new services is the opportunity for handset upgrades through loyalty programs. We have devoted significant efforts to the loyalty programs and handset upgrades. The total volume of handsets exchanged in 2003 rose to 4 million units, an increase of 71% compared to 2002.

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 posted an annual increase of 10.2% for 2003 as a whole.

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 2003 exceeded 9.3 billion messages, 11% more than the previous year. 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 managed customer

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

base increased from 21.4 million at December 31, 2002 to 30.3 million at December 31, 2003. The substantial portion of our growth in Latin America has resulted from an emphasis on pre-paid wireless services. At December 31, 2003, pre-paid customers accounted for 78% of our managed customers in Latin America.

This section contains forward looking statements that are based upon certain assumptions. Such forward-looking statements are not guarantees of future performance and involve numerous risks and uncertainties, and actual results may differ materially from those anticipated. For a discussion of important factors that could cause such differences please see the discussion in this section as well as Item 3 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 .

Table of Contents**E. OFF- BALANCE SHEET COMMITMENTS**

We have commitments that could require us to make material payments in the future. These commitments are not included in our consolidated balance sheet at December 31, 2003. A summary of our principal off-balance sheet commitments as of the date of this annual report is provided below. These commitments are primarily contingent obligations in the form of guarantees for our subsidiaries and put and call rights with respect to some of our joint ventures. These arrangements allow us to provide the necessary credit support for some of our subsidiaries to develop their operations and allow us to enter into joint ventures on market terms. As of the date of this annual report, we are not aware of any events that would result in the material reduction to us of any of these off-balance sheet arrangements. For a more detailed discussion of our off-balance sheet commitments please refer to notes 15 and 18 of our consolidated and combined financial statements.

IPSE 2000 (Italy)***Ferrovie Agreement***

On October 25, 2000, IPSE 2000 entered into an agreement with Rete Ferroviaria Italiana S.p.A. (formerly known as Ferrovie dello Stato S.p.A.), an Italian railway company owned by the Italian government. Pursuant to this agreement, 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., our parent company, has guaranteed amounts due under this agreement for an amount of up to 48.2 million. We expect to enter into a back-to-back guarantee with Telefónica, S.A. to cover an amount equal to our interest in IPSE 2000 or, alternatively, we expect the guarantee issued by Telefónica S.A. to be transferred to us for an amount equal to our interest in IPSE 2000.

UMTS Guarantee

On December 11, 2000, a syndicate of banks agreed to issue a guarantee in an aggregate amount of 1,292 million on behalf of IPSE 2000 to the Italian Ministry of Treasury. This guarantee covered the deferred portion of IPSE 2000's required payment for its UMTS license in Italy. As of December 31, 2003, the guarantee amount was 873.4 million. Telefónica, S.A. has agreed to guarantee to the syndicate of banks up to a maximum amount of 509.5 million. We in turn agreed to guarantee Telefónica, S.A. for a maximum amount of 467.7 million, which represents our participation in IPSE 2000.

As of December 31, 2003, the amount payable for the UMTS license was 842.3 million, including 16 million for the main frequency and 826.3 million for the additional 5 MHz of spectrum which was awarded to IPSE 2000, S.p.A. by the Italian Government. IPSE 2000, S.p.A. has subsequently returned to the Italian Government the additional 5MHz of spectrum, although this return is still under dispute between IPSE 2000, S.p.A. and the Italian Government.

Telefónica Móviles España (Spain)***UMTS Bank Guarantees***

With respect to our UMTS license in Spain, we were required to provide bank guarantees totaling 1,100 million to secure the 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. On July 28, 2003, we were released from these guarantees by the Secretary of State for Telecommunications and for the Information Society. A new system of guarantees was subsequently put in place. Although this new system does not modify nor reduce our commitments, the guarantees are allocated over a four-year period, 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.

Table of Contents

Medi Telecom (Morocco)

Telefónica Móviles España, as a stockholder of Medi Telecom, signed in October 2000 a Stockholders Support Agreement together with Portugal Telecom and the BMCE Group. This commitment requires the signatories to jointly and severally provide up to 210 million of financial assistance to Medi Telecom in the event of noncompliance with financial clauses. The financial commitment of Telefónica Móviles España is automatically cancelled if Medi Telecom reaches a specific level of total debt to operating income before depreciation and amortization within a specific period of time and if it fulfills all its obligations under the loan agreement. As a result of the loans and the capital increases subscribed in 2003, among others, by Telefónica Móviles España, S.A., and the aforementioned agreement between Telefónica Móviles España, Portugal Telecom and the BMCE Group, the total amount was reduced to 118.3 million as of December 31, 2003.

NewComm Wireless (Puerto Rico)

On September 29, 2003, we agreed to counter guarantee Telefónica Internacional, S.A. for its guarantee of the Telefónica Móviles Puerto Rico's (one of our subsidiaries) obligations under an 11 million loan granted by Banco Santander de Puerto Rico (as of June 2004 the outstanding amount is 8.97 million). This loan matures on December 31, 2004.

On December 23, 2003, we agreed to counter guarantee Telefónica, S.A. for its guarantee of the NewComm Wireless Services, Inc. de Puerto Rico's obligations under a US\$61 million bridge loan granted by ABN AMRO. This loan matures on December 31, 2004.

Furthermore, we have also arranged a counter guarantee with Telefónica SA for the obligation of Newcomm Wireless Services, Inc de Puerto Rico relating to the repayment of US\$51.3 million of debt owed to the U.S. Federal Communications Commission (FCC). The guarantee is subject to Telefónica Móviles obtaining FCC approval to purchase an additional 0.2% interest in Newcomm. Once the guarantee is issued, our partner in Newcomm, Clearcomm L.P. will counter guarantee us for their pro rata share of then outstanding debt.

3G Mobile Telecommunications (Austria)

In December 2003, the purchase and sale agreement of the Austrian company 3G Mobile Telecommunications GmbH signed between Telefónica Móviles España, S.A. and Mobilkom Austria Aktiengesellschaft & Co KG (Mobilkom) was executed. As required under the agreement, Telefónica Móviles España arranged a first-call bank guarantee for Mobilkom concurrently with the sale, to secure the payment of any possible tax contingencies. This guarantee was issued by Société Générale for 1.65 million for a maximum period of two years. Concurrently, we agreed to counter guarantee Société Générale for the same amount over the same period.

Telefónica Móviles Mexico (Mexico)

Burillo Group

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

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. This put right is exercisable if the Burillo Group's 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. This call right will require the Burillo Group to sell to us its entire interest in Telefónica Móviles Mexico.

In each case, the purchase price will be determined based on a valuation of Telefónica Móviles Mexico performed pursuant to the procedures in our agreement with the Burillo Group. The minimum purchase price is an amount based on the Burillo Group's original investment of US\$159.9 million in Telefónica Móviles Mexico, plus interest and less any cash received by the Burillo Group. If the Burillo Group exercises its put right or we exercise our call right, we have agreed to pay a portion of the purchase price in cash equal to the 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.

Table of Contents

GTM

We have issued a support letter in Mexico for our affiliate Grupo de Telecomunicaciones Mexicanos S.A de C.V., or GTM. This is a letter of support for GTM's request to the Mexican regulator, COFETEL, for a national long distance license. The maximum amount of the support commitment is 124,154,700 Mexican pesos (approximately 9.1 million considering an exchange rate of 13.7036 Mexican pesos per euro).

Portugal Telecom (Brazil)

On October 17, 2002, we, Portugal Telecom and PT Moveis entered into a Shareholders' Agreement and Subscription Agreement that implemented a joint venture framework agreement signed in January 2001. Pursuant to this agreement, that establishes equality in voting rights in Brasilcel between Telefónica Móviles and the Portugal Telecom Group, if the percentage of ownership of Portugal Telecom falls below 40% during an uninterrupted six-month period prior to December 31, 2007, Portugal Telecom would be entitled to sell to us all of its ownership interest in Brasilcel N.V. This put option would be exercisable for the 12 month period beginning once the six month uninterrupted period mentioned above is completed. This put option may not, however, be exercised if Portugal Telecom Group increased its ownership interest to 50% of the total capital stock of Brasilcel N.V. The price we would pay if this put option were exercised would be calculated on the basis of an independent appraisal pursuant to the terms provided for in the Shareholders' Agreement and Subscription Agreement. Subject to various 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.

Also, in accordance with the Shareholders' Agreement and Subscription Agreement, the Portugal Telecom Group is entitled to sell to us all of its ownership interest in Brasilcel, N.V. if:

we underwent a change of control;

one of our subsidiaries that held a direct or indirect ownership interest in Brasilcel N.V. underwent a change of control; or

Telefónica S.A. underwent a change of control.

Similarly, we will be entitled to sell our interest in Brasilcel, N.V. to the Portugal Telecom Group 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. In either case, the price would be determined on the basis of an independent appraisal pursuant to terms in the Shareholders' Agreement and Subscription Agreement.

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table sets forth aggregate information about our principal contractual obligations by type of obligation at December 31, 2003, and the periods in which payments are due.

| | Payments Due by Period | | | | |
|------------------------------------|------------------------|---------------------|--------------|--------------|------------------|
| | Total | Less than 1 year | 1-3 years | 3-5 years | After 5 years |
| | (million of euros) (1) | | | | |
| Debentures and Bonds | 69 | | 69 | | |
| Other Instruments Negotiable | 21 | 21 | | | |
| Notes Payable | 117 | 17 | | 6 | 94 |
| Loans and credits | 5,331 | 1,175 | 1,612 | 2,058 | 486 |
| Loans and credits Foreign Currency | 1,607 | 563 | 849 | 172 | 23 |
| Financial Guarantee (2) | 468 | 468 | | | |
| Dividends (3) | 796 | 796 | | | |
| | 8,409 | 3,040 | 2,530 | 2,236 | 603 |

(1) Contractual commitments denominated in dollars have been translated into euro at U.S.\$1.263 = 1.00, the noon buying rate for euro on December 31, 2003. Actual amounts paid in dollars may differ at the payment date.

Table of Contents

- (2) It guarantees Ipse's debt with Italian State for the deferred payment of the UMTS license awarded in that country, in the percentage corresponding to the Company. This guarantee initially accounted for 1,292 million, having been reduced to the total actual guaranteed amount of 873.4 million.
- (3) Our Board of Directors, at its meeting of February 17, 2003, has decided to strengthen its commitment to the shareholder remuneration policy initiated at its meeting of February 18, 2002, by resolving to propose to the Annual General Meeting of Shareholders corresponding to the fiscal year 2003, the payment of a dividend of 0.1838 Euros per share.

Additionally, the Telefónica Móviles Group has contractual obligations that by their nature are not included in the financial statements at December 2003. These contractual obligations are shown by type of obligations and payment in the following table:

| | Payments Due by Period | | | | |
|------------------------------------|------------------------|---------------------|------------|------------|------------------|
| | Total | Less than 1 year | 1-3 years | 3-5 years | After 5 years |
| | (million of euros) (1) | | | | |
| Capital leases obligations | 2 | 2 | | | |
| Operating leases | 1,008 | 121 | 348 | 193 | 346 |
| Unconditional purchase obligations | 431 | 333 | 84 | 9 | 4 |
| Other long term obligations (OPEX) | 2 | | 2 | | |
| | 1,443 | 456 | 434 | 202 | 350 |

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 the 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 Good Corporate Governance standards of the Spanish National Securities Commission, (*Comisión Nacional del Mercado de Valores*), or CNMV, and the Rules and Regulations governing our board of directors, specify that independent directors must be individuals who meet conditions that ensure their impartiality and objectivity, including that:

- (i) they do not have or have not had recently any material direct or indirect employment, commercial or contractual relationship with us, our executives, our directors who were nominated for appointment by our controlling shareholder, credit institutions occupying a prominent

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

position in our financing, or organizations that receive significant subsidies from us;

- (ii) they are not directors of another listed company whose board of directors includes any directors that serve on our board of directors; and
- (iii) they do not have close family ties with any of our executives or any directors that represent the interest of our parent company, Telefónica S.A.

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

Table of Contents

unlimited number of terms. Pursuant to Article 138 of the Company Law of Spain (Ley de Sociedades Anónimas), if during the term of appointment of a Director a vacancy occurs (for whatever reason) or 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. At the general shareholders' meeting, the appointment may be ratified or a new director may be elected to fill the vacancy, which is referred to as a cooptation. 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 Good Corporate Governance standards. 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. Non-managing directors are directors that do not hold a managing position within the Telefónica Móviles Group. Non-managing directors includes both (i) independent directors that meet the criteria for independence as set by Spain's Good Corporate Governance Standards and the rules of the New York Stock Exchange and (ii) directors affiliated with Telefónica S.A., our controlling shareholder (Dominicales). A significant majority of our directors (13) are non-managing directors. Of these directors, five are independent. 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.

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. On April 29, 2003, the Board of Directors, resolved, without prejudice to the powers already delegated to the Committee and in line with the recommendations on Good Governance, to entrust to the Committee the functions that are normally assigned to strategy committees. The role of the Executive Committee has thus been revitalized.

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.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

In addition, as provided for by new article 19 bis, approved by our last General Ordinary Shareholders Meeting held on April 1, 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;

Table of Contents

- (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.

Directors

The following are our current directors and their respective positions and ages at July 8, 2004:

| <u>Name</u> | <u>Age</u> | <u>Position</u> | <u>Date of appointment</u> |
|------------------------------------|------------|--------------------------------------|----------------------------|
| Antonio Viana-Baptista* | 46 | Chairman and Chief Executive Officer | August 29, 2002 |
| Luis Lada Díaz | 54 | Director | August 10, 2000 |
| José María Alvarez-Pallete López | 40 | Director | February 14, 2000 |
| Lars M. Berg | 56 | Director | October 20, 2000 |
| Miguel Angel Canalejo Larrainzar | 62 | Director | October 20, 2000 |
| Maximino Carpio García | 59 | Director | October 20, 2000 |
| Fernando Xavier Ferreira | 55 | Director | October 20, 2000 |
| Victor Goyenechea Fuentes | 53 | Director | October 20, 2000 |
| Antonio Massanell Lavilla | 49 | Director | October 20, 2000 |
| Alfonso Merry del Val Gracie | 57 | Director | October 20, 2000 |
| Fernando de Almansa Moreno-Barreda | 55 | Director | April 1, 2003 |
| Alejandro Burillo Azcarraga | 52 | Director | April 1, 2003 |
| Javier Echenique Landiribar* | 52 | Director | May 31, 2002 |
| José María Más Millet* | 50 | 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 1, 2003. See Management Board of Directors for a description of the cooptation procedure.

Directors serve a five-year term from the date of appointment, and may be re-elected for additional terms.

A significant majority of our directors (13) are non-managing directors. Furthermore, we have appointed five independent directors to satisfy requirements of the Good Corporate Governance Standards and the rules of the New York Stock Exchange. Messrs. Berg, Canalejo Larrainzar, 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 eight directors have been proposed for appointment by the majority shareholder. Mr. Lada Díaz, Mr. Álvarez-Pallete López, Mr. Carpio García, Mr. Goyenechea Fuentes, Mr. Massanell Lavilla, Mr. Ferreira, Mr. Burillo and Mr. de Almansa Moreno-Barreda have been proposed for appointment by our majority shareholder Telefónica, S.A.

Table of Contents

The delegate committee of the board of directors consists of Messrs. Viana-Baptista, Álvarez-Pallete, Merry del Val, de Almansa Moreno-Barreda, Canalejo Larrainzar, 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, Merry del Val, Berg, Más Millet and is chaired by Mr. Echenique.

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 July 8, 2004.

| <u>Name</u> | <u>Age</u> | <u>Position</u> |
|------------------------------|------------|---|
| Antonio Viana-Baptista | 46 | Chairman and Chief Executive Officer |
| Félix Pablo Ivorra Cano | 57 | Executive Vice-President for Brazil and South America |
| Ernesto López Mozo | 40 | Chief Financial Officer |
| Fernando Herrera Santa María | 42 | Chief Commercial Officer of Telefónica Móviles España, S.A. |
| Antonio Hornedo Muguero | 49 | General Counsel and Vice Secretary (non-member) of the Board of Directors |
| Ignacio Camarero García* | 53 | Chief Operating Officer of Telefónica Móviles España, S.A. |
| Francisco Ruiz Vinuesa | 54 | Executive Vice-President for Mexico, Central America and the Caribbean |
| Javier Aguilera Arauzo* | 51 | Chief Executive Officer of Telefónica Móviles España, S.A. |
| Manuel Costa Marques | 44 | General Manager of Development of Latin American Business |
| Luis Miguel Gilpérez* | 45 | Executive Director of the International Area of Telefónica Móviles |
| José Molés Valenzuela | 48 | General Manager of Telefónica Móviles Mexico |

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 Chairman of Telefónica Móviles España, S.A. and member of the board of directors of Telefónica Internacional, S.A., Portugal Telecom SGPS, Brasilcel N.V., CTC Chile, Telefónica de Argentina, S.A. and Telecomunicações de São Paulo S.A. Until July 2002, he served as President of Telefónica Internacional and Executive President of Telefónica Latinoamérica. 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.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

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

Table of Contents

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 Telefónica Internacional, S.A. and Sogecable, S.A.

José María Álvarez-Pallete López serves as a director. He was appointed Chairman and Chief Executive Officer of Telefónica Internacional on July 24, 2002. He began his career at Arthur Young Auditors in 1987. In 1988, he joined Benito & Monjardin/Kidder, Peabody & Co., where he held various positions in the research and corporate finance departments. In 1995, he joined Valenciana de Cementos Portland (Cemex) as head of the Investor Relations and Studies department. In 1996, he was promoted to Financial Manager for the company in Spain, and in 1998 to General Manager for Administration and Financial Affairs for Cemex Group's interests in Indonesia, headquartered in Jakarta. José María Álvarez-Pallete joined Telefónica in February 1999 as CFO of Telefónica Internacional. In September of the same year, he became CFO of Telefónica, S.A. He is a member of the following Boards of Directors: Telefónica de España, Telefónica Móviles, Telefónica Móviles España, Telefónica Data, Telefónica Internacional, TPI, Telefónica de Argentina, Telesp, Telefónica CTC Chile, Telefónica de Perú, Cointel, Compañía de Teléfonos de Chile Transmisiones Regionales and Telefónica Larga Distancia de Puerto Rico. Mr. Álvarez-Pallete holds a graduate degree in Economics from the Complutense University of Madrid. He also studied Economics at the Université Libre de Belgique.

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, among others, Eniro AB, Ratos AB, Net Insight AB, Anoto and Viamare. 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, a 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 the Chairman of our Audit and Control Committee. In 1967 he began working for Union 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 Latinoamérica. At present he is, among others, a member of the board of directors of ALCATEL España, S.A. Mr. Canalejo 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. He also serves as a member of the Economic and Social Council, a Spanish government advisory entity and member of the Advisory Committee of Abengoa, S.A. 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 member among others of the Board of Directors of Brasilcel, N.V. Tele Sudeste Celular Participações, S.A., Tele Leste Celular Participações, S.A., Celular CRT Participações, S.A., Tele Centro Oeste Participações, S.A. and Telesp Celular, S.A. 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

Table of Contents

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 is also a member of the boards of directors of among others, Telecomunicações de São Paulo S.A., Corporación IBV, S.A., Hispasat, S.A., Landata Ingeniería S.A., Teltronic, S.A. and IP Sistemas, S.A. 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. 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., and among others, 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 among others, NH Hoteles, S.A., J. García Carrión, S.A., Corporación Uriach and AEGON Unión Aseguradora, 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. He currently serves as a member of the boards of directors of Telefónica Móviles México, S.A. de C.V. and, among others, ACS Actividades de Construcción y Servicios, S.A., URALITA, S.A. Willis Iberia, Edhart y Cía. 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 served from 1990 as executive officer at various areas of BBVA. He 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, among others, NH Hoteles, S.A., SOS CUETARA, S.A., SOTOGRADE, S.A. and Aumar, S.A. From 1997 to April 2001, Mr. Mas 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.

José Fernando de Almansa Moreno-Barreda has been a Member of our Board of Directors since 2003 and is a Spanish citizen. He holds a degree in Law from the University of Deusto (Bilbao, Spain). He joined the Spanish Diplomatic Corps, and served from 1976 to 1992, as Secretary of the Spanish Embassy in Brussels, Cultural Counsellor of the Spanish Representation to Mexico, Chief Director for Eastern European Affairs and Atlantic Affairs Director in the Spanish Foreign Affairs Ministry, Counsellor to the Spanish Permanent Representation to NATO, in Brussels, Minister-Counsellor of the Spanish Embassy in the Soviet Union, General Director of the National Commission for the 5th Centennial of the Discovery of the Americas, and Deputy General Director for Eastern Europe Affairs in the Spanish Foreign Affairs Ministry. From 1993 to 2002, Fernando de Almansa was appointed Chief of the Royal Household by His Majesty King Juan Carlos I, and is currently Personal Adviser to His Majesty the King. He is Member of the Board and President of the International Affairs Commission of this Board at Telefónica, S.A., and Member of the Board at Telefónica Perú SA, Telefónica de Argentina SA, Telecomunicações de Sao Paulo SA, and BBVA Bancomer Mexico.

Table of Contents

Alejandro Burillo Azcárraga serves as a director. 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:

Felix Pablo Ivorra Cano serves as Executive Vice-President for Brazil and Latin America. Mr. Ivorra currently serves on the board of directors of Telecomunicações de São Paulo S.A., Brasilcel N.V., Tele Leste Celular Participações, S.A., Celular CRT Participações, S.A., Tele Sudeste Celular Participações, S.A., Telesp Celular Participações, S.A., Tele Centro Oeste Celular Participações, S.A., Telefónica Móviles SAC Perú, Telefónica Móviles Perú Holding, S.A.A and MobiPay International, S.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., Telefónica Móviles México, S.A. de C.V., Brasilcel N.V., and MobiPay International, S.A. 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.

Fernando Herrera Santa María serves as Chief Commercial Officer of Telefónica Móviles España, S.A. Mr. Herrera is a member of the board of directors of Telefónica Móviles España, S.A., Telefónica Móviles México, S.A. de C.V. and Chairman of Group 3G UMTS Holding and 3G Mobile AG. 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 Hornedo Muguero 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.

Ignacio Camarero García serves as Chief Technology Officer. Mr. Camarero currently also serves on the board of directors of Telefónica Móviles España, S.A. Telefónica I+D, S.A., MobiPay España, S.A., and Telefónica Aplicaciones y Soluciones. From 1996 to 1998 he served as Vice President and General Manager of

Table of Contents

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. He is also a member of the board of directors of Telefónica Móviles España, S.A., MobiPay España, S.A., Telyco, S.A., Telefónica I+D, S.A., Telefónica Data, S.A. y Telefónica Soluciones, 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 Executive Director of the International Area of Telefónica Móviles. Mr. Gilpérez also serves on the board of directors of Medi Telecom, S.A., Telefónica Móviles México, S.A. de C.V., Tele Leste Celular Participações, S.A.A, Tele Sudeste Celular Participações, S.A., Celular CRT Participações, S.A., Telesp Celular Participações, S.A. Tele Centro Oeste Celular Participações, S.A. He is also de Executive Chairman of MobiPay International, S.A. 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 España was created. At Telefónica Móviles España he has held management positions in virtually all its business areas.

Manuel Costa Marques serves as General Manager of Development of Latin American Business. 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 also 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. Mr. Molés also serves on the Board of Directors of Telefónica Móviles México, S.A. de C.V., Telefónica Centroamérica Guatemala, S.A., Telefónica Móviles El Salvador, S.A. de C.V., Telefónica Móviles Perú, S.A.C. and Telefónica Móvil Chile, S.A. 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.

Table of Contents

B. COMPENSATION

Compensation of Directors and Executive Officers

The compensation paid to our directors consists of a fixed and defined allocation, payable monthly, and fees for attendance at meetings of our board committees. The executive directors also receive the respective payments for discharging their duties.

In 2003, the aggregate compensation of all of our directors paid or accrued by us was 2,443,190.79, as described in the following table:

| | Year 2003 |
|--------------------------|---------------------|
| | (euro) |
| Salaries(1) | 634,301.70 |
| Variable compensation(1) | 240,404.84 |
| Fixed remuneration (2) | 1,293,816.35 |
| Attendance fees(3) | 76,178.22 |
| Benefits in kind(4) | 63,302.24 |
| External services(5) | 127,187.44 |
| Pension plans(1) | 8,000.00 |
| Total | 2,443,190.79 |

(1) Compensation for executive directors.

(2) Includes compensation directors received for belonging to the Boards of Directors of other Companies in the Telefónica Móviles Group.

(3) Includes fees for attending meetings of the committees of the board of directors. Also includes the fees for the last meeting of the Audit and Control Committee held in 2002 which was paid in 2003. Telefónica, S.A. receives attendance fees relating to directors it appoints to our Board, who also serve as executive officers for Telefónica, S.A.

(4) Includes health insurance, housing and life insurance for executive directors.

(5) Includes compensation received by MELOG, BBVA and José María Más Millet for advisory and consulting services. See Item 7.B Related Party Transactions Agreement with Mr. Lars Berg and Item 7.B Related Party Transactions Agreement with José María Más Millet.

The following tables set forth the compensations received by our Directors in 2003:

Board of Directors. Annual amount of the fixed allowance received by each Director:

| | Year 2003 |
|----------------|------------------|
| Officer | (euro) |
| Chairman | 90,151.81 |
| Members | 90,151.81 |
| Secretary | 90,151.81 |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Directors do not receive any kind of per diem for attending the meetings of the Board of Directors.

Other Board Committees. Annual amounts of the per diems for attending Committee meetings received by the Directors as a whole:

| | <u>Number of meetings</u> | <u>Per diem per meeting (2003)</u> | <u>Total (2003)</u> |
|---------------------------------------|-------------------------------|--|-------------------------|
| | | | (euro) |
| Audit and Control Committee | 9 | 1,352.28 | 28,397.88 |
| Delegate Committee | 3 | 901.51 | 19,833.22 |
| Nominating and Compensation Committee | 9 | 901.51 | 27,947.12 |

Table of Contents

Our executive officers (excluding the Chairman) received compensation of approximately 6,099.68 thousand in 2003, as described in the following table:

| | Year 2003 |
|-----------------------|----------------------------|
| | (euro in thousands) |
| Salaries | 4,021.96 |
| Variable compensation | 1,808.29 |
| Benefits in kind | 178.9 |
| Pension plans | 90.53 |
| Total | 6,099.68 |

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 was an executive director or a manager (including general managers and similar posts) and meets the requirements was 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, which was the price of our shares in our initial public offering in November 2000.

Class B Options, with an exercise price of 16.5 per option. This exercise price was 150% of the price fixed for our shares in our initial public offering in November 2000.

Class C Options, with an exercise price of 7.235 per option. This exercise price was calculated by applying the average closing price of the shares of Telefónica Móviles in the Interconnection Exchange System (Sistema de Interconexión Bursátil) in the ten business days prior March 1, 2002, as they were published in the Official Bulletin of the Madrid Stock Exchange.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Each option of each class entitles holders to one ordinary share of Telefónica Móviles, S.A. Beneficiaries received the same number of Class A and B Options and twice as many Class C Options. Directors, executive officers and managers provided 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

Table of Contents

commenced and covered the companies and new employees who fulfilled the requirements envisaged in the plan. The second phase ended on December 31, 2003. The terms and conditions under which they can join are identical to the terms and conditions for those who joined before them, except for 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.

The total number of beneficiaries under the MOS Program as of December 31, 2003, was 8,434, which held 12,819,072 options. The first exercise period began on January 1, 2004 and ended April 3, 2004. During this period, a total of 160,129 options were exercised, of which 40,032 were Class A options, 40,032 were Class B options and 80,065 were Class C options. In accordance with the terms of the MOS Program, to prevent the liquidation of the options exercised either in cash or by means of the delivery of options, only 981 shares of Telefónica Móviles, S.A. will be given to the beneficiaries who exercised their options during the first exercise period. After this first exercise period, as well as after the losses produced during the first quarter, the number of beneficiaries increased to 8,211, which held of a total of 12,109,901 options, of which 3,027,475 are Class A options, 3,027,475 are Class B options and 6,054,951 are Class C options.

As of December 31, 2003, we have set aside a total of 8,000 for benefits and pension plans for our Directors (compensation received by Directors with executive functions (CEO).

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.

Table of Contents**Employees**

At December 31, 2003, we employed approximately 12,250 individuals in our consolidated operations. The following table sets forth the number of employees by country:

| <u>Country</u> | <u>Number of Employees at December 31,</u> | | |
|---|--|-------------|-------------|
| | <u>2001</u> | <u>2002</u> | <u>2003</u> |
| | (in thousands) | | |
| Spain (including headquarters in Madrid, Spain) | 5.0 | 5.0 | 4.7 |
| Brazil(1) | 2.7 | 3.0 | 3.3 |
| Argentina | 1.0 | 0.9 | 0.8 |
| Peru | 0.5 | 0.6 | 0.7 |
| Mexico(2) | 2.7 | 2.5 | 2.0 |
| El Salvador | 0.3 | 0.3 | 0.3 |
| Guatemala | 0.3 | 0.3 | 0.3 |
| Germany(3) | 0.7 | 0.0 | 0.0 |
| Austria(3) | 0.1 | 0.0 | 0.0 |
| Chile | 0.0 | 0.1 | 0.1 |
| Total | 13.4 | 12.7 | 12.2 |

(1) The number of employees in Brazil represents 50% of total employees.

(2) 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.

(3) Austria, Switzerland and Germany have a combined total of 57 employees.

We are a party to collective bargaining agreements covering a total of 6,621 employees of Telefónica Móviles España in Spain and Vivo. 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.

Table of Contents**E. SHARE OWNERSHIP**

As of July 8, 2004, the members of our board of directors owned an aggregate of 56,257 of our ordinary shares, representing less than 0.001% of our capital stock, as shown in the table below.

| <u>Name</u> | <u>No. of shares</u> |
|------------------------------------|----------------------|
| Antonio Viana-Baptista | 10,000 |
| Luis Lada Díaz | 13,576 |
| José María Más Millet | 10 |
| José María Álvarez-Pallete López | 1,512 |
| Lars M. Berg | 0 |
| Miguel Canalejo Larrainzar | 0 |
| Maximino Carpio García | 3,341 |
| Fernando Xavier Ferreira | 0 |
| Victor Goyenechea Fuentes | 2,202 |
| Antonio Massanell Lavilla | 105 |
| Alfonso Merry del Val Gracie | 529 |
| Javier Echenique Landiribar | 25,000 |
| Alejandro Burillo Azcarraga | 0 |
| Fernando de Almansa Moreno-Barreda | 0 |
| Total | 56,275 |

As of July 8, 2004, our executive officers (excluding members of the board of directors as noted above) owned an aggregate of 71,966 of our ordinary shares, representing less than 0.0016% of our capital stock.

Pursuant to the MOS Program described in Item 6.B Compensation Employee Share Option Plan above, executive directors and senior management have been granted options on our ordinary shares as follows:

| | <u>Class A Options</u> | <u>Class B Options</u> | <u>Class C Options</u> | <u>Total</u> |
|-----------------------------|------------------------|------------------------|------------------------|--------------|
| Antonio Viana-Baptista | 45,434 | 45,434 | 90,868 | 181,736 |
| Félix P. Ivorra Cano | 42,729 | 42,729 | 85,458 | 170,916 |
| Ignacio Camarero García | 38,985 | 38,985 | 77,970 | 155,940 |
| Francisco Ruiz Vinuesa | 26,379 | 26,379 | 52,758 | 105,516 |
| Ernesto López Mozo | 18,019 | 18,019 | 36,038 | 72,076 |
| Fernando Herrera Santamaría | 18,019 | 18,019 | 36,038 | 72,076 |
| Antonio Hornedo Muguero | 17,319 | 17,319 | 34,638 | 69,276 |
| Javier Aguilera Arauzo | 43,947 | 43,947 | 87,895 | 175,789 |
| Manuel Costa Marques | 20,078 | 20,078 | 40,156 | 80,312 |
| Luis Miguel Gilpérez | 24,940 | 24,940 | 49,880 | 99,760 |
| José Molés Valenzuela | 24,940 | 24,940 | 49,881 | 99,761 |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

See Item 6.B Compensation Employee Share Option Plan for further discussion of how the options may be exercised.

Table of Contents**Item 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****A. MAJOR SHAREHOLDERS**

As of July 8, 2004, according to information known to us or available in the public registers of the Spanish National Securities Commission, beneficial owners of 5% or more of our voting stock were as follows:

| Title of Class | Identity of Person or Group | Number of Shares | Percent |
|----------------|--------------------------------|---------------------|---------|
| Ordinary(1) | Telefónica, S.A | 3,078,028,440 | 71.07 |
| Ordinary | Telefónica Internacional, S.A. | 927,917,620 | 21.43 |

(1) Number of shares held directly by Telefónica S.A. As of December 31, 2003, Telefónica S.A. owned, either directly or indirectly, through its subsidiary Telefónica Internacional, S.A. (TISA), 92.5% of our capital stock.

The Telefónica Group had a 100.0% interest in us immediately prior to our initial public offering in November 2000. Following our initial public offering, the Telefónica Group's interest in us was 92.15%. The Telefónica Group's interest in us subsequently increased to 92.78% at March 31, 2001, mainly as a result of the transfer to Telefónica, S.A. of our ordinary shares in connection with the transfer to us of Telefónica, S.A.'s wireless operations in Argentina and Peru and the wireless operations in Mexico acquired from Motorola, Inc. In October 2001, the Telefónica Group's interest in us decreased as a result of the capital increase we effected to satisfy our commitments under the share options plan. At May 2002, the Telefónica Group's interest in us had increased to 92.77% as a result of Telefónica S.A.'s contribution to us, in exchange for new Telefónica Móviles ordinary shares, of the wireless assets it acquired from Iberdrola in May 2002. In July 2002, Telefónica Group's decrease as a result of the capital increase effected to increase or interests in our Central American subsidiaries.

Our major shareholders have the same voting rights as all of our other holders of ordinary shares.

As of March 18, 2004, holders with registered addresses in the United States owned an aggregate of approximately 1,625,209 of our ordinary shares, representing less than 0.03% of our ordinary shares issued and outstanding.

Limitations on Certain Transactions

In January 1997, in connection with the final phase of the privatization of Telefónica, S.A., the Spanish government adopted a requirement of prior government approval with respect to a limited number of fundamental corporate and control transactions affecting Telefónica, S.A., including the acquisition of 10% or more of its capital stock and the sale of assets material to the provision of fixed telephone services. The approval requirement was until December 2003 applicable to us and our subsidiary Telefónica Móviles España, S.A.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Following the amendment of Law 5/1995 by Law 62/2003, of December 30, 2003 (the Law accompanying the State Budget for 2004), arrangements are now in force until February 18, 2007, requiring the government to be notified of and giving it the power to veto any disposals of shares in Telefónica Móviles representing at least 10% of its capital stock. However, the notification requirement does not apply to acquisitions of shares representing 10% or more of the capital stock of Telefónica Móviles, S.A. that are merely for financial reasons and are not for the purpose of taking over the control and/or management of the Company.

B. RELATED PARTY TRANSACTIONS

Relationship Between Our Company and the Telefónica Group

We were established as part of a broader reorganization of the Telefónica Group along global business lines to be the holding company for the Group's wireless communications operations. We are the company through

Table of Contents

which the Telefónica Group will conduct most of its wireless operations, other than, because of regulatory reasons and for other business considerations, the Telefónica Group's wireless operations in Chile.

Telefónica, S.A.'s board of directors formally resolved in August 2000 that our company would be the vehicle through which the Telefónica Group generally would develop and conduct the wireless activities then being undertaken by the Telefónica Group and also pursue future business opportunities in the global wireless industry, including acquisitions, joint ventures, and new licenses and concessions. Consistent with this policy, any business opportunities in, or relating to, the global wireless industry that are made available to Telefónica, S.A. or other companies within the Telefónica Group would be made available to, or referred over to, our company.

In the future, the scope of wireless business may expand to include activities that we do not currently foresee. In addition, other companies within the Telefónica Group may engage in business activities which overlap or compete with our activities. As a result, Telefónica, S.A. may be called upon to address competitive conflicts between Telefónica Móviles and other companies in the Telefónica Group. These conflicts would be addressed by the executive committee of the board of directors of Telefónica, S.A.

Business Transactions and Contractual Arrangements with Directors and Senior Management

During 2001 and 2002, and currently in force we entered into the two agreements described below with members of our board of directors or parties controlled by them. Both agreements were negotiated on an arm's length basis.

Agreement with Mr. Lars Berg

In 2001, we entered into a consulting agreement with MELOG, BBVA, a company controlled by one of our directors, Lars M. Berg. MELOG, BBVA provides telecom technology consulting services to the companies of the Telefónica Móviles Group. The term of the agreement is one year, renewing automatically for subsequent periods of one year. Compensation is negotiated on an arm's-length basis and is calculated on a yearly basis. In 2003, we paid \$72,121 to MELOG, BBVA under the consulting agreement.

Agreement with José María Más Millet

In 2001, we entered into an agreement with José María Más Millet, Secretary of the board of directors, to provide legal advisory services to Telefónica Móviles, S.A. This agreement will continue in force for as long as Mr. Más Millet is Secretary of the board of directors. Compensation is negotiated on an arm's-length basis and is calculated on a yearly basis. In 2003, we paid \$55,070 to Mr. Más Millet under the agreement.

Agreement with the Burillo Group

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Mr. Alejandro Burillo Azcarraga was appointed to our board of directors on April 1, 2003. Mr. Burillo is also the controlling shareholder of the Burillo Group, which in turn is an 8% shareholder in Telefónica Móviles Mexico, our holding company for our Mexican operations.

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,

Table of Contents

with a minimum purchase price in an amount based on the Burillo Group's original investment of \$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.

In connection with the formation of Telefónica Móviles Mexico, we and the Burillo Group entered into a shareholders' agreement that, in some circumstances, will grant the Burillo Group customary veto rights in Telefónica Móviles Mexico for resolutions regarding conversion of class shares, declaration of bankruptcy, dissolution or liquidation of Telefónica Móviles Mexico, amendments of its by-laws giving effect to a diminution of the rights vested to the Burillo Group, and mergers or corporate reorganizations if the Burillo Group is not granted the right to maintain its percentage ownership in Telefónica Móviles Mexico. In addition, the Burillo Group will have the right to nominate the first non-executive Chairman of the board of directors of Telefónica Móviles Mexico and to appoint one or two out of the eleven members of the board of directors of Telefónica Móviles Mexico, depending on the Burillo Group's percentage ownership of Telefónica Móviles Mexico.

Business Transactions and Contractual Arrangements with the Telefónica Group

We have entered into, or expect to enter into, business transactions and contractual arrangements with Telefónica, S.A. and other companies within the Telefónica Group covering a broad range of matters, including, among others, transfers of wireless operations to us, financing arrangements, interconnection and other telecommunications services, provision of corporate, administrative and other services, leases of real estate in certain countries, management contracts for operations that have not been transferred to us, use of brand names and intellectual property, and tax-sharing arrangements. It is our policy to ensure that the terms of these transactions and arrangements are at least as favorable to us as we could obtain in an arm's length transaction between non-affiliated parties, and, whenever possible in light of legal or regulatory constraints, that we obtain services on a preferential or most-favored-customer basis.

The following is a discussion of our principal business transactions and contractual arrangements with Telefónica Group companies:

Telefónica, S.A.'s Agreement with Iberdrola, S.A.

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 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 we and Iberdrola each participate. The Brazilian telecommunications regulator approved this acquisition in August 2001. In May 2002, Telefónica, S.A. transferred the shares in the Brazilian wireless operators that it acquired from Iberdrola, S.A. to us in exchange for 26,801,494 of our ordinary shares. Additionally in October 2002, we acquired from Telefónica, S.A. for approximately 11.5 million the Celular CRT shares acquired from Group Iberdrola. In December 2002, we contributed these interests to our joint venture with Portugal Telecom. See Item 4.B Business Overview Latin America Brazil Acquisition of Interests in Brazil Agreement with Iberdrola.

Agreements and Arrangements Providing for the Transfer of the Interest in NewComm Wireless Services, Inc. to Our Company

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

In September 2003, the convertible promissory notes representing the investment of Telefónica Internacional, S.A. in the Puerto Rican operator NewComm Wireless Services, Inc. were transferred to the Móviles Group. These convertible promissory notes, which amount to \$60,945 thousand, will entitle the Móviles

Table of Contents

Group, once it receives the respective authorizations from the regulatory bodies, to acquire 49.9% of the capital stock. Also, the Móviles Group is entitled to purchase an additional 0.2% of the capital stock, with which it will acquire control over the Puerto Rican operator.

For further information, see Item 4.B Business Overview Central America Puerto Rico.

Agreements with Terra Networks, S.A.

On June 12, 2003, Telefónica Móviles acquired 20% of Terra Mobile, S.A., thus obtaining ownership of all its shares of capital stock. The price agreed on was \$1.

On June 24, 2003, Telefónica Móviles, sole stockholder of Terra Mobile, S.A., resolved to merge Termespa, S.A. into Terra Mobile, S.A., with the dissolution without liquidation of Termespa, S.A. and the universal transfer en bloc of the assets of the absorbed company to the absorbing company, which acquired by way of universal succession the former's rights and obligations. Also, the business name of Terra Mobile, S.A. was changed to Telefónica Móviles Interacciona, S.A.

Agreement with Telefónica Sistemas, S.A.

On June 27, 2003, Telefónica Móviles sold its holding in Telefónica Mobile Solutions S.A. to Telefónica Sistemas, S.A. for \$1,129 thousand, the company's book value at the sale date.

Intra-Group Loan and Financing Arrangements

The Telefónica Group has historically extended loans to our company or our subsidiaries to help satisfy our liquidity and capital resource requirements. At December 31, 2002, we had an aggregate of \$6,550 million of loans and credit due to Telefónica, S.A. and other Telefónica Group companies. We expect that Telefónica, S.A. will continue to provide financing to us by obtaining funds at prevailing market rates and then on-lending these funds to our company. These on-lendings are expected to reflect the rates and terms our company would be able to obtain from third parties.

Interconnection and Related Telecommunications Services

As wireless service providers, our operating companies and the companies in which we hold an interest interconnect their networks with those of fixed-line service providers as well as those of other wireless service providers. We also require network and maintenance services. When possible, we utilize the interconnection and network maintenance services of other companies in the Telefónica Group, including, in Spain, Telefónica de España, S.A. In addition, as a result of the transfer of the Telefónica Group's Peruvian and Argentine wireless operations we inherited established relationships between those wireless operators and Telefónica del Perú and Telefónica de Argentina, respectively. In Spain,

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

as in each of the countries in which we operate, the terms of interconnection agreements are generally regulated by the respective governments to ensure that the same terms are available to all operators and that there is no discrimination based upon inter-company relationships. In 2002 and 2001, the purchase and outside services account accrued by the Telefónica Group amounted to 753 million and 829 million, respectively, which mainly include interconnection fees, use of network and maintenance.

Corporate, Administrative and Other Services

Although we intend to rely primarily on our own employees and resources for the provision of internal corporate and administrative services, including management of our finance, auditing, insurance, payroll, personnel, information technology and data processing needs, we also rely on the Telefónica Group for some of these services. The provision of services by the Telefónica Group would be made pursuant to arm's length

Table of Contents

agreements at fair market prices. In addition, with the Telefónica Group, we are contemplating establishing shared cost centers through which our operating companies may outsource specified corporate and administrative services to other shared cost centers in the Telefónica Group, paying for them on a cost basis.

Management Contracts

Chile

We currently manage the Telefónica Group's wireless operations in Chile under a letter of intent with Telefónica Móvil de Chile S.A., which will serve as the basis for negotiations of a definitive management agreement.

Puerto Rico

Since February 2000, Telefónica Móviles S.A. has been providing technical capacity transfer services to NewComm Wireless Services, Inc. in Puerto Rico, by virtue of the subrogation of Telefónica Móviles, S.A. to Telefónica Internacional, S.A.'s technical capacity transfer contract. Under this contract the Company receives an annual fee, payable in quarterly installments, of 1% of the revenues received for services billed in the previous year for NewComm's transactions. Lastly, since January 1, 2002, Telefónica Móviles, S.A. has been managing the operations of NewComm Wireless Services, Inc., since it was subrogated to the management contract entered into between Telefónica Larga Distancia de Puerto Rico, Inc and NewComm. The Company is entitled to an annual fee payable in quarterly installments, equal to the higher of (i) 9% of the operating income obtained by NewComm in the previous year, or (ii) \$750,000.

Brazil

On October 5, 2000, we entered into an agreement with Telefónica Internacional pursuant to which Telefónica Internacional transferred to us all of its rights and obligations under a Consulting Services Agreement with Telerj Celular, Telest Celular, Telebahia Celular and Telergipe Celular, and under a Services Agreement with TBS Celular Participações, S.A. Pursuant to these agreements, we are entitled to an annual fee, in exchange for our services, varying from 1% to 2% of net revenues of these companies obtained by a formula with different variables. As of December 31, 2003 and 2002, the revenues earned in this connection relating to Telerj Celular, S.A. and Telest Celular, S.A. amounted to 1,920 thousand and 5,589 thousand, respectively, and those relating to Telebahia Celular, S.A. and Telergipe Celular, S.A. amounted to 475 thousand and 1,174 thousand, respectively.

Pursuant to the consulting service agreement with Celular CRT, S.A., we are entitled, in exchange for our services, to an annual fee equal to 1% of the net revenues of the Celular CRT, S.A., based on the fulfillment of certain contractually established network service quality requirements. The revenues earned in this connection amounted to 3,257 thousand and 2,196 thousand as of December 31, 2003 and 2002, respectively.

Peru

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Under the Transfer of Technical Capabilities and Management agreement with Telefónica Móviles, S.A.C entered into on December 2002, we are entitled, in exchange for our management services, to an annual fee, payable quarterly, equal to 1% of the revenues received from services billed in transactions of Telefónica Móviles, S.A.C. under the technical capacity transfer contract, and 9% of the operating income of Telefónica Móviles, S.A.C. under the management contract. The revenues earned in this connection amounted to 17,830 thousand and 24,549 thousand as of December 31, 2003 and 2002.

El Salvador

Telefónica Móviles S.A. has entered into technical capacity transfer and management contracts with Telefónica Móviles El Salvador, S.A. de C.V. (TELESAL). Pursuant to this agreement, we are entitled, in

Table of Contents

exchange for our services, to an annual fee, payable quarterly, equal to 1% of the revenues received from services billed in transactions of Telefónica Móviles El Salvador, S.A. de C.V. under the technical capacity transfer contract, and 9% of the operating income reported by TELESAL under the management contract. The revenues earned from these contracts amounted to 1,677 thousand and 5,352 thousand as of December 31, 2003 and 2002, respectively.

Guatemala

Telefónica Móviles S.A. has entered into technical capacity transfer and management contracts with Telefonica Centroamerica Guatemala, S.A. (TCG). Pursuant to this agreement, we are entitled, in exchange for our services to an annual fee, payable quarterly, equal to 1% of the revenues received from services billed in transactions of TCG under the technical capacity transfer contract, and 9% of the operating income obtained by TCG under the management contract. The revenues earned from these two contracts amounted to 793 thousand and 1,037 thousand as of December 31, 2003 and 2002, respectively.

Morocco

We currently manage, jointly with Portugal Telecom International, SGPS, S.A. our wireless operations in Morocco under a management agreement executed with Medi Telecom, S.A. on August 5, 1999. See Item 4.B Business Overview Morocco. We are in the process of complying with the necessary formalities to legally transfer to us to the rights and obligations of the agreement.

Use of Brand Names and Other Intellectual Property

Telefónica, S.A. has transferred to us, in connection with its transfer to us of our operating companies, all the brand names and trademarks held by Telefónica, S.A. and principally related to our company's business, including the *MoviStar* brand. In addition, we have been granted a license to utilize the *Telefónica Móviles* brand in our name for as long as our company is controlled by Telefónica, S.A. The terms of the contributions require payment of annual royalties of less than approximately 32,000.

Tax-Sharing Arrangements

We will continue to be part of the Telefónica, S.A. tax consolidation group as long as Telefónica, S.A. beneficially holds at least 75% of our company. So long as this is the case, we will continue to make payments to Telefónica, S.A. equivalent to what our taxes would have been if we were not part of this tax consolidation group. If at some point we fail to qualify as part of the tax consolidation group, we will be responsible for the payment of taxes in Spain and elsewhere on a stand-alone basis. However, we will continue to cooperate with the Telefónica Group on tax-planning matters.

The reorganization of the Telefónica Group along global business lines, including the transfers of its wireless operations to us, is being carried out, whenever possible, to eliminate or minimize tax liabilities, both in Spain and in our other countries of operation. In order to achieve and preserve the favorable tax treatment for the reorganization, some limitations and restrictions may apply to future transfers of our interests in

some of our operating companies for a period of time. We are controlled by the Telefónica Group and expect to comply with directives from Telefónica, S.A. designed to ensure that our actions do not result in the imposition on the Telefónica Group or our company of avoidable tax liabilities related to the reorganization.

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

Table of Contents

Item 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

See Item 18.

Legal Proceedings

We and our operating companies are involved in various legal proceedings arising in the ordinary course of business. While it is not possible to determine the ultimate disposition of each of these proceedings, we believe the outcome of such proceedings, individually and in the aggregate, will not have a material adverse effect on our company's consolidated results of operations or financial condition taken as a whole except as set forth below.

Antitrust violations for entering into exclusivity agreements

In 1999, the Spanish Antitrust Court fined us 3.66 million for abuse of dominant market position for restricting Airtel S.A.'s entry into the market by entering into exclusivity agreements during 1995 and 1996 and enjoined us to cease such practice. We appealed the decision before the National Court.

On February 3, 2003, the National Court dismissed the appeal filed by us and the two other operators. On September 11, 2003, we submitted our appeal to the Central Court (Audiencia Nacional) requesting reversal of the lower court decision. We are currently awaiting a decision from the National Court as to this appeal. We cannot assure you that the antitrust authorities will not find that we have abused our dominant position in the Spanish wireless market by being a party to exclusivity agreements after 1997 and, as a result, may impose further fines on us or rescind our current exclusivity agreements with those providers.

Challenge to the Spanish Government's increase of Spectrum Fees

The Spanish government adopted legislation imposing additional fees on us totaling approximately 233 million with respect to our use of spectrum both for new UMTS licenses as well as existing analog and digital concessions and other uses for year 2001. We filed claims with the Central Administrative Economic Tribunal (Tribunal Económico Administrativo Central) challenging the increase in fees for that year, which were dismissed in September 2001. We have paid all relevant fees to the State Secretariat of Telecommunications and have appealed before the National Court.

Currently, with regard to the appeals against the assessment of the UMTS and DCS-1800 services fee, on December 2003 the Central Court us notified us that it has resolved to rise to the Constitutional Court a Constitutional Question requested by us regarding the modifications

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

challenged. In regard to the appeal concerning the assessment of the GSM service fee, we have submitted briefs supporting its request to raise a constitutional question before the Constitutional Court.

Complaint by Diarphone

Diarphone, a former distributor, has sued us for breach of oral agreements that it alleges it had entered into with us and claims damages in the amount of approximately 18.2 million. We have served an answer to the complaint and the probatory process is under course.

Challenge to the Comisión del Mercado de las Telecomunicaciones's decision to reduce termination fees

We have filed a contentious administrative appeal with the National Court against the Comisión del Mercado de las Telecomunicaciones's (CMT) decision to reduce the termination fees of Telefónica Móviles España and other wireless operators in Spain, requesting a precautionary pre-emptive suspension of such a price decrease. The State Attorney has served an answer to the appeal which has been furnished to us as well as the other relevant operators for their answer.

Table of Contents

Challenge to denial of request for abandonment of TETRA license

On March 21, 2000, we obtained a C2-type digital trunking service license, or TETRA, for closed-user groups of clients and paging services in Spain. Due to financial, technological and competitive changes that took place since obtaining our license, we filed a request with the Secretariat of State for Telecommunications to abandon the license. In September 2002, the Secretariat of State for Telecommunications denied our request for mutual abandonment of the TETRA license. An administrative appeal was filed with the National Court against this decision.

For each year that we fail to comply with the requirements of the license, the Secretariat may execute against our guarantee posted for that year. The Secretariat has decided to execute against the guarantee we provided for our failure to comply with the C2 license requirements during the first year of use in the amount of 952,643.

The Secretariat also authorized the partial execution of the guarantee of the TETRA license for failing to comply with the C2 license requirements in the second year of use. We filed an appeal with the National Court. The National Court enjoined the execution of the guarantee for the amount of 764,307 pending the outcome of our appeal.

Claim for anti-competitive practices

MCI WorldCom (Spain) filed claims against Telefónica Móviles España, S.A., as well as against the remaining mobile operators in Spain alleging an abuse of dominant position due to anti-competitive practices in their termination call wholesale prices on mobile networks. The Competition Court (TDC) has ruled that this claim is admissible based on a report proposing that it be declared that there was an abuse of dominant position by Telefónica Móviles España in 2001 through August 2002. On February 17, Telefónica Móviles España filed a brief of evidence offered in support of its position.

Claim by Ostheimer GmbH against Quam GmbH

On June 10, 2003, Ostheimer GmbH filed a complaint against Quam GmbH (in which we hold an interest of 57.20%) in Germany, for the sum of 100 million. Ostheimer GmbH alleges to have suffered damages resulting from a distribution contract it had with Quam, in the period between August of 2002 and March of 2003. On May 7, 2003, Quam presented additional allegations. After review of these new allegations, the Court may fix a new hearing or fix a new term for the resolution of this claim. The Court has fixed a new hearing on September 27, 2004.

Medi Telecom s challenge to Moroccan regulator s decision

In March 2002, Medi Telecom filed claims against the Moroccan wireless regulator s decision that interconnection fees be calculated by the second. Currently after several briefs of both Medi Telecom and the Moroccan wireless regulator, the Court is still deciding whether to allow the Moroccan wireless regulator to file an additional answer.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

The Moroccan wireless regulator has filed a claim against Medi Telecom in view of the assumption by Medi Telecom of the technical measures needed to manage 100% of its incoming international traffic as of August 1, 2003. At the same time, Maroc Telecom formally requested for arbitration by the Moroccan wireless regulator with respect to the same subject. The Moroccan wireless regulator has declared itself competent to hear the claim, and Medi Telecom presented its allegations, which were answered by Maroc Telecom. On April 7, 2004, Medi Telecom has interposed a brief before the Administrative Court of Casablanca against the decision of the Moroccan wireless regulator to hear the claim of Maroc Telecom.

Table of Contents

Challenge to the Mexican Government's Change to Application of Special Taxes

Our Mexican operators have challenged in Mexican federal courts the application of the Special Tax on Production and Services, as amended by the Mexican Congress on December 31, 2001 and applicable to years 2002 and 2003. We await final decisions. It must be pointed out that on January 2004, the articles challenged ruling the application of those articles has been revoked.

In addition, our Mexican operators have challenged a decision by the Comisión Federal de Telecomunicaciones (COFETEL), whereby the Mexican federal government was ordered to transfer to the cellular licensees the Value Added Tax for the share paid to the Mexican federal government for the operation of the concession services. In December 2003, our cellular operators received a request from the Secretaría de Hacienda y Crédito Público, requesting evidence of payment of the Value Added Tax or otherwise to proceed with its payment. Our cellular operators answered the requested denying their validity.

Challenge to Mexican federal government fee for public concessions

Licensee companies in Mexico pay the Mexican federal government a fee to operate the public service concessions. This fee is equal to a share of revenue obtained from interconnection traffic received from other communications companies under the "caller pays" method. Our Mexican operators have also appeared in a consultation proceeding before the Secretariat of Revenue and Public Credit, requesting confirmation that the mentioned traffic should not be included in the calculation of the fee to be paid to the Mexican federal government. We await a decision.

Claims related to our Brazilian operators

Some of our Brazilian operators are also involved in different disputes with the Brazilian government. These include (i) disputes over the manner in which the Brazilian government calculates the social contributions due from each operator, (ii) disputes against several Brazilian states and municipalities for the manner in which they calculate and impose local taxes (including the policy of the Brazilian operators of passing social contribution costs to the customer), and (iii) disputes over whether taxes apply to services offered by operators and how these taxes are calculated. In addition, some of our Brazilian operators have also been sued for patent infringement with respect to the equipment used to identify callers.

Dividend Information

We were incorporated in February 2000 and paid our first dividend of \$0.175 per share for all outstanding shares on June 18, 2003 with a charge to the "Issuance Premium" item under Shareholders' Equity, on the audited balance sheet. The payment of this dividend involved a change with the established shareholder's remuneration policy previously announced by us. For the Spanish and U.S. tax treatment of this dividend, see Item 10.E Taxation.

On April 16, 2004, the Shareholders' Meeting of Telefónica Móviles resolved the payment of a cash dividend, with a charge to profits for the Fiscal year 2003, for an amount of \$0.1838 gross, to each of the Company's current issued and outstanding shares, with a right to collect said

dividend.

Payment has been made on June 16, 2004, through the entities participating in the securities and clearing institution Iberclear.

Over the gross amounts to be paid, the retentions requested by application legislation will be applied.

Any future declaration and payment of dividends will be made at the discretion of our board of directors, subject to shareholder approval, and in compliance with applicable Spanish law, and will depend on our results of operations, financial condition and liquidity and capital resource requirements, any contractual limitations, our

Table of Contents

future prospects and other factors deemed relevant by our board of directors. Notwithstanding the above, the company intends to analyze other possible options to remunerate its shareholders.

Our Spanish operating company historically paid significant dividends to Telefónica, S.A. In addition, in connection with the reallocation of debt prior to the transfer by Telefónica, S.A. of our Spanish operating company to us, our Spanish operating company paid a 800 million dividend to Telefónica, S.A. in August 2000. This dividend was an extraordinary dividend in the context of the organization of our company and is not indicative of our future dividend policy.

B. SIGNIFICANT CHANGES

Restructuring of the Argentine debt

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.

Acquisition of TCO

On April 25, 2003, TCP acquired 61.10% of the voting capital stock of Tele Centro Oeste Participações, S.A., or TCO, for approximately R\$1,505 million, corresponding to R\$19.48719845 per each lot of 1,000 shares acquired. At the date hereof, TCP has paid R\$284.7 million of the total amount and the remaining will be paid in installments. The agreement also included the acquisition of TCO's B Band subsidiary NBT.

On May 25, 2003, after acquiring 61.1% of TCO's voting capital, TCP launched a tender offer for TCO's remaining common shares as required by Brazilian legislations. The acceptance period finished on November 18, 2003, and TCP acquired 72.2% of the possible 100% at the price of R\$16.73 per 1,000 common shares in a total amount of R\$538.8 million. At December 31, 2003 TCP held 86.6% of TCO's common shares, representing a 28.9% interest in TCO. The total purchase price for the new shares amounted to R\$538.8 million. TCP also announced the intention to launch an exchange offer (or incorporation) for the remaining shares of TCO through which TCP would become TCO's sole shareholder. Although both TCP and TCO still understand that the merger of TCO into TCP, as well as its conditions, comply with the applicable legislation and that it would represent the best option for the Companies and their shareholders, TCP and TCO concluded on January 12, 2004 that, as a result of the statements made by CVM (*Comissão de Valores Mobiliários*), to cancel the merger.

Sale of 3G Mobile Austria

In December 2003, after receiving the approval of RTR GmbH (the Austrian regulator), Telefónica Móviles and mobilkom austria reached an agreement by which mobilkom austria acquired 3G Mobile Telecommunications GmbH, the Austrian affiliate of Telefónica Móviles and owner of a UMTS mobile telephony license.

Item 9. THE OFFER AND LISTING

A. OFFER AND LISTING DETAILS

Our ordinary shares are currently listed on the Spanish stock exchanges in Madrid, Barcelona, Bilbao and Valencia and are traded on the Automated Quotation System of the Spanish stock exchanges. The shares are eligible for deposit in the Euroclear system. ADSs representing ordinary shares of Telefónica Móviles are listed on the NYSE under the ticker symbol TEM. Each Telefónica Móviles ADS represents one ordinary share of Telefónica Móviles. Citibank, N.A. is our depository issuing the ADRs evidencing the Telefónica Móviles ADSs. Telefónica Móviles ADSs commenced trading on the NYSE on November 22, 2000.

Table of Contents

The following table shows, for the periods indicated, the highs and lows of the last reported closing prices per Telefónica Móviles ordinary share and ADS. Share prices are as reported on the Automated Quotation System, and ADS prices are as reported on the NYSE.

| | Telefónica Móviles | | | |
|---|---------------------------|------------|-----------------------|------------|
| | Shares(1) | | ADSs(2) | |
| | High | Low | High | Low |
| | (euro) | | (U.S. dollars) | |
| Annual Information for the past five years | | | | |
| 1999 | | | | |
| 2000 | 11.47 | 9.82 | 10.00 | 8.75 |
| 2001 | 11.25 | 4.35 | 10.62 | 5.00 |
| 2002 | 8.83 | 5.26 | 7.80 | 5.40 |
| 2003 | 8.49 | 5.25 | 10.72 | 5.90 |
| Quarterly information for the past two years | | | | |
| 2002 | | | | |
| First Quarter | 8.83 | 6.88 | 7.80 | 5.96 |
| Second Quarter | 7.42 | 5.26 | 6.60 | 5.40 |
| Third Quarter | 7.24 | 5.76 | 7.10 | 5.78 |
| Fourth Quarter | 7.55 | 5.80 | 7.40 | 5.90 |
| 2003 | | | | |
| First Quarter | 7.04 | 5.25 | 7.40 | 5.90 |
| Second Quarter | 7.39 | 6.01 | 8.55 | 6.56 |
| Third Quarter | 7.53 | 6.75 | 8.50 | 7.70 |
| Fourth Quarter | 8.49 | 6.83 | 10.72 | 8.05 |
| Most recent six months | | | | |
| December | 8.49 | 7.78 | 10.72 | 9.43 |
| January | 9.66 | 8.27 | 12.20 | 10.55 |
| February | 9.50 | 8.88 | 12.25 | 11.00 |
| March | 9.25 | 8.28 | 11.59 | 10.10 |
| April | 9.21 | 8.57 | 11.35 | 10.39 |
| May | 9.10 | 8.22 | 11.15 | 9.88 |
| June | 8.82 | 8.29 | 11.00 | 10.14 |

(1) Source: Madrid stock exchange.

(2) Source: Factiva, a Dow Jones & Reuters Company

Securities Trading in Spain

The Spanish securities market for equity securities consists of four stock exchanges located in Madrid, Bilbao, Barcelona and Valencia and the Automated Quotation System, or Mercado Continuo. During 2001, the Automated Quotation System accounted for the majority of the total trading volume of equity securities on the Spanish stock exchanges.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Automated Quotation System. The Automated Quotation System links the four Spanish stock exchanges, providing those securities listed on it with a uniform continuous market that eliminates certain of the differences among the local exchanges. The principal feature of the system is the computerized matching of buy and sell orders at the time of entry of the order. Each order is executed as soon as a matching order is entered, but can be modified or canceled until executed. The activity of the market can be continuously monitored by investors and brokers. The Automated Quotation System is operated and regulated by Sociedad de Bolsas, S.A., a corporation owned by the four companies that manage each the stock exchanges. All trades on the Automated Quotation

Table of Contents

System must be placed through a brokerage firm, an official stock broker or a dealer firm that is a member of a Spanish stock exchange. Beginning January 1, 2000, Spanish banks were able to become members of a Spanish stock exchange and are therefore able to place trades on the Automated Quotation System.

In a pre-opening session held from 8:30 a.m. to 9:00 a.m. each trading day, an opening price is established for each security traded on the Automated Quotation System based on a real-time auction in which orders can be entered, modified or cancelled but are not executed. During this pre-opening session, the system continuously displays the price at which orders would be executed if trading were to begin. Market participants only receive information relating to the auction price (if applicable) and trading volume permitted at the current bid and offer price. If an auction price does not exist, the best bid and offer price and associated volumes are shown. The auction terminates with a random period of 30 seconds in which share allocation takes place. Until the allocation process has finished, orders cannot be entered, modified or cancelled. In exceptional circumstances (including the inclusion of new securities on the Automated Quotation System) and after giving notice to the CNMV, Sociedad de Bolsas, S.A. may establish an opening price without regard to the reference price (the previous trading day's closing price), alter the price range for permitted orders with respect to the reference price and modify the reference price.

The computerized trading hours are from 9:00 a.m. to 5:30 p.m. During the trading session, the trading price of a security is permitted to vary up to a maximum so-called "static" range of the reference price, provided that the trading price for each trade of such security is not permitted to vary in excess of a maximum so-called "dynamic" range with respect to the trading price of the immediately preceding trade of the same security. If, during the trading session, there exist matching bid and ask orders over a security within the computerized system which exceed any of the above "static" and "dynamic" ranges, trading on the security is automatically suspended and a new auction is held where a new reference price is set, and the "static" and "dynamic" ranges will apply over such reference price. The "static" and "dynamic" ranges applicable to each particular security are set up and reviewed periodically by Sociedad de Bolsas.

Between 5:30 p.m. and 8:00 p.m., trades may occur outside the computerized matching system without prior authorization of Sociedad de Bolsas, at a price within the range of 5% above the higher of the average price and closing price for the day and 5% below the lower of the average price and closing price for the day, if there are no outstanding binding bids or offers, respectively, on the system matching or bettering the terms of the proposed off-system transaction and, if, among other things, the trade involves more than 300,000 and more than 20% of the average daily trading volume of the stock during the preceding three months. These trades must also relate to individual orders from the same person or entity and be reported to Sociedad de Bolsas before 8:00 p.m. At any time trades may take place (with the prior authorization of the Sociedad de Bolsas) at any price if:

the trade involves more than 1.5 million and more than 40% of the average daily volume of the stock during the preceding three months;

the transaction derives from a merger or spin-off process, or from the reorganization of a group of companies;

the transaction is executed for the purposes of settling a litigation or completing a complex group of contracts; or

Sociedad de Bolsas finds other justifiable cause.

Information with respect to the computerized trades between 9:00 a.m. and 5:30 p.m. is made public immediately, and information with respect to trades outside the computerized matching system is reported to Sociedad de Bolsas by the end of the trading day and published in the Boletín de Cotización and in the computer system by the beginning of the next trading day.

Clearance and Settlement System. Transactions carried out on the Spanish stock exchanges are cleared and settled through Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. (Sociedad de Sistemas or Iberclear). Only members of the system are entitled to use it, and

Table of Contents

membership is restricted to authorized broker members of the Spanish stock exchanges, the Bank of Spain (when an agreement, approved by the Spanish Ministry of Economy and Finance, is reached with Sociedad de Sistemas) and, with the approval of the CNMV, other brokers not members of the Spanish stock exchanges, banks, savings banks and foreign settlement and clearing systems. Sociedad de Sistemas is owned by its members (excluding, if applicable, the Bank of Spain) and by the companies which manage the local stock exchanges. The clearance and settlement system and its members are responsible for maintaining records of purchases and sales under the book entry system. Shares of listed Spanish companies are held in book entry form. Sociedad de Sistemas, which manages the clearance and settlement system, maintains a registry reflecting the number of shares held by each of its member entities (each an *entidad adherida*) as well as the amount of such shares held on behalf of beneficial owners. Each member entity, in turn, maintains a registry of the owners of such shares. Spanish law considers the legal owner of the shares to be:

the *member* entity appearing in the records of Sociedad de Sistemas as holding the relevant shares in its own name, or

the investor appearing in the records of the member entity as holding the shares.

Sociedad de Sistemas has approved certain regulations introducing the so-called T+3 Settlement System by which the settlement of any transaction must be made three business days following the date on which the transaction was carried out.

Obtaining legal title to shares of a company listed on a Spanish stock exchange requires the participation of a Spanish official stockbroker, broker-dealer or other entity authorized under Spanish law to record the transfer of shares. To evidence title to shares, at the owner's request the relevant member entity must issue a certificate of ownership. In the event the owner is a member entity, Sociedad de Sistemas is in charge of the issuance of the certificate with respect to the shares held in the member entity's name.

Brokerage commissions are not regulated. Brokers' fees, to the extent charged, will apply upon transfer of title of shares from the Depositary to a holder of ADRs in exchange for such ADSs, and upon any later sale of such shares by such holder. Transfers of ADSs do not require the participation of an official stockbroker. The Deposit Agreement provides that holders depositing shares with the Depositary in exchange for ADSs or withdrawing shares in exchange for ADSs will pay the fees of the official stockbroker or other person or entity authorized under Spanish law applicable both to such holder and to the Depositary.

Securities Market Legislation

The Spanish Securities Act (Ley 24/1988), which became effective in 1989, restructured the organization and supervision of the Spanish securities markets. This legislation and the regulations implementing it:

established an independent regulatory authority, the CNMV, to supervise the securities markets;

established a framework to regulate trading practices, public offerings, tender offers and insider trading;

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

required stock exchange members to be corporate entities;

required companies listed on a Spanish stock exchange to file annual audited financial statements and to make public quarterly financial information;

established the legal framework for the Automated Quotation System;

exempted the sale of securities from transfer and value-added taxes;

deregulated brokerage commissions; and

provided for transfer of shares by book-entry or by delivery of evidence of title.

Table of Contents

Effective in November 1998, Law 24/1988 was amended by Law 37/1998, of November 16, 1998. The amendment introduced the following changes:

The concept of the investment services company was created. Brokers, dealers and portfolio managing companies are considered to be investment services companies. These companies are entitled to render investment services and complementary activities. Banks are not considered to be investment services companies, although they may render investment services upon becoming members of the Spanish stock exchanges.

An investment services company must be authorized by the Ministry of Treasury in order to render investment services and complementary activities. Once authorization is obtained, the founders of the investment services company must incorporate the company as a sociedad anónima or a sociedad de responsabilidad limitada, both limited liability corporations and, once incorporated, the company must be registered with the Commercial Registry (Registro Mercantil) and the CNMV. This registration must be published in the State Official Gazette.

The European principle of single passport or single license was introduced within the Spanish legal system. Under this principle, an investment services company may render investment services and complementary activities within European Union member countries, either through a branch or directly. Any necessary authorizations and licenses must be obtained from the authorities of the country of domicile (the home country principle), but the applicable market conduct rules are those set forth in the legislation of the country in which the investment services company renders its services (the host country principle).

Spanish investment services companies wishing to render their services overseas must be so authorized. However, in the event that they wish to provide services within the European Union, they need only give prior notice to the CNMV.

An investment guarantee fund was created to protect investors from the insolvency of any investment services company. This fund has the same purpose as the deposit guarantee fund, which is currently in charge of refunding deposits made in insolvent Spanish financial entities. Spanish investment services companies are obligated to maintain a stake in the investment guarantee fund through participation in the share capital of the managing company of the fund.

Finally, a number of amendments to the Spanish Corporations Law were included. Rights to issue preferred and non-voting stock were extended broadly. In addition, the amendments provided for a new redeemable class of stock to be issued by listed companies.

B. PLAN OF DISTRIBUTION

Not applicable.

C. MARKETS

See Item 9A.

D. SELLING SHAREHOLDERS

Not applicable.

E. DILUTION

Not applicable.

Table of Contents

F. EXPENSES OF THE ISSUE

Not applicable.

Item 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not applicable.

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

The following summary describes certain material considerations concerning our capital stock and briefly describes certain provisions of our by-laws (estatutos) and Spanish law. Copies of our by-laws are included as an exhibit to this annual report.

Corporate Objects

Article 2 of our by-laws sets forth our corporate purpose, which is to perform all types of activities in the field of telecommunications and value-added services, in the broadest sense of these terms and in accordance with current law. Our activities may include the manufacture, sale, promotion, distribution, marketing, installation and maintenance of, as well as technical assistance for, all types of networks, services and telecommunications equipment involving any type of technology, including computer hardware and software equipment related directly or indirectly to telecommunications. We may perform any activities that are necessary or appropriate in order to offer third parties a full, harmonious range of these types of services, from systems engineering and research and development to training, as well as services which may be rendered with support or through telecommunications or computers, such as the billing, collections management, use and marketing for payment methods, electronic commerce and intermediation. Such activities may be carried out directly by the company or by holding an interest or taking part in other companies with an analogous business purpose. Also included within our corporate purpose are the acquisition, holding, enjoyment and sale of securities, as well as any type of holdings in any corporation or company, using any of the means permitted by law, including the launching of a takeover bid or purchase and sale of shares.

Significant Differences between Spanish and U.S. Corporate Governance Standards

Corporate Governance Guidelines. In Spain, companies with securities listed on a Spanish Stock Exchange are expected to follow the Olivencia Code of Good Governance and the Aldama Report, which include recommendations for corporate governance guidelines and shareholder disclosure. Additionally, listed companies are required by law to publish an Annual Report on Corporate Governance and also to publish corporate governance information on their websites. We base our corporate governance procedures on the recommendations of the

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Olivencia Code of Good Governance and the Aldama Report and also follow the recommendations of the Aldama Report. As part of our corporate governance procedures, we have adopted regulations for our Board of Directors that govern, among other things, director qualification standards, responsibilities, compensation, access to management information, the Board of Directors purpose and each of the Board Sub-committees purpose and responsibilities. Moreover we have a Regulation of the General Shareholders Meeting that aims to reinforce transparency providing shareholders with a framework guaranteeing and facilitating exercise of their rights. The annual report on corporate governance we publish provides a detailed explanation of our corporate governance procedures and explains the role and duties of our Board of Directors and Board Sub-committees. Our annual report on corporate governance is available at our registered office and on our website at www.telefonicomoviles.com. None of the information contained in our website is incorporated in this Annual Report.

Table of Contents

Committees. We have an Audit and Control Committee since 2000, composed of one non-executive directors, and two directors deemed independent by our Board of Directors. These committees' functions and duties are similar to those required by the NYSE.

We have a Nominating, Compensation Committee, which is composed of one non-executive director and four directors deemed independent by our Board of Directors. The functions, composition and competencies are regulated by us and are very similar to those required by the NYSE.

US companies listed on the New York Stock Exchange must also have an audit committee meeting certain specified requirements. Listed foreign private issuers, such as Telefónica Móviles, S.A., must comply with this NYSE rule by July 31, 2005. As of the date of this report, Telefónica Móviles, S.A.'s Audit and Control Committee was composed of one non-management directors and two directors deemed independent by our Board of Directors. This committee's functions and duties are similar to those required by the NYSE.

Independence of the Board. As of the date of this Annual Report, we had 14 directors, out of which five have been deemed independent by our Board of Directors. A significant majority of our current directors (13) are non-executive directors. The NYSE rules include detailed criteria for determining director independence. We, in accordance with Spanish recommendations, assess the independence of our directors by evaluating, among other things, (i) the contractual, employment and commercial relations between directors and us, (ii) other board of directors positions held by directors, and (iii) the familial directors relationships. The Nominating and Compensation Committee evaluates these criteria and notifies the Board of Directors of its decision. Our Board of Directors in turn is responsible for assessing whether a director is deemed independent.

Internal audit function. We have a General Internal Audit Department responsible for internal audit matters and for ensuring the efficiency of the internal audit control process of our different units. This General Internal Audit Department reports directly to the Audit and Control Committee, thus guaranteeing the adequate performance of all its functions.

Non-executive director meetings. Pursuant to the NYSE listing standards, non-executive directors of US listed companies must meet on a regular basis without management present and the company must disclose a method for any interested parties to communicate directly with the non-management directors. As a group, our non-executive directors do not meet formally without management present. Our Audit and Control Committee, which is composed of two independent and one non-executive directors, has unanimously approved procedures that allow any employee to anonymously and confidentially report instances of fraud, alterations of financial information or specific risks to the company and its subsidiaries. We expect these procedures to be in place within the coming months.

Code of ethics. The NYSE listing standards require US companies to adopt a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. Telefónica Móviles, S.A. has adopted, as required by the Sarbanes Oxley Act, a code of ethics that applies to its principal executive officer, principal financial officer and to its senior financial officers. We also have an Internal Code of Conduct for securities markets issues to prevent insider trading misconducts and to control possible conflicts of interest. In addition, the Regulations of the Board of Directors set out in detail our directors main obligations relating to conflict of interest concerning business opportunities, misappropriation of our assets confidentiality and non competition.

Director Qualification

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

The appointment as Board Member does not require to be a shareholder, except in the event of a provisional appointment by the Board itself, in compliance with the provisions of Article 138 of the Public Corporation Law.

Table of Contents

Interested Transactions

The Directors must inform the Board of Directors of any situation of direct or indirect conflict with the interests of the company. In the event of conflict, the Director affected shall abstain from intervening in the operation to which the conflict refers. The Directors must abstain from intervening in voting that affects matters in which they or persons related to them have a direct or indirect interest.

We do not provide any loans or salary advances to our directors.

A director must retire upon reaching the age of 70. Such retirement shall take effect at the first board meeting following the general shareholders meeting that approves the financial statements for the year in which such director turned 70.

Description of Telefónica Móviles Capital Stock

The following summary describes material considerations concerning our capital stock and briefly describes material provisions of our by-laws and Spanish law.

General

At June 30, 2004 our issued share capital was 2,165,275,448 represented by 4,330,550,896 ordinary shares, with a nominal value per share of 0.50. Non-residents of Spain may hold and vote ordinary shares subject to the restrictions set forth below.

Attendance and Voting at Shareholders Meetings

Each ordinary share entitles the shareholder to one vote. Any share may be voted by written proxy, and proxies may be given to any individual. Proxies are valid only for a single meeting.

Under our by-laws, Regulation of the General Shareholders Meeting and the Spanish Corporation Law, general meetings of shareholders may be either ordinary or extraordinary. Ordinary general meetings must be convened within the first six months of each fiscal year on a date fixed by the board of directors. As a general rule, extraordinary general meetings may be called from time to time by our board of directors at its discretion or at the request of shareholders representing at least 5% of our share capital. Notices of all shareholders meetings must be published in the Commercial Registry Official Gazette (Boletín Oficial del Registro Mercantil) and in a major local newspaper within the province of Madrid at least 15 days prior to the date fixed for the meeting.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

At ordinary general meetings, shareholders are asked to approve our management, the financial statements for our previous fiscal year and the application of our net income or loss. All other matters may be addressed at extraordinary general meetings called for such purpose. Shareholders can vote on these matters at an ordinary general meeting if they are included on the meeting's agenda.

Only holders of more than 25 ordinary shares duly registered in the book-entry record of the company at least five days prior to the day on which a meeting is scheduled to be held are entitled to attend shareholders' meetings.

Our by-laws provide that, on the first call of a general shareholders' meeting, a duly constituted general meeting of shareholders requires a quorum of at least one-quarter of our issued and voting share capital. On the second call, there is no quorum requirement. Consideration of extraordinary matters such as modification of our by-laws, changes in our share capital structure, changes in the corporate form, mergers, spin-offs, issues of bonds, dissolution and liquidation require on first call a quorum of at least one-half of our issued and voting share capital, and on second call the presence of shareholders representing at least one-quarter of our issued and voting

Table of Contents

share capital. If, after the second call, the shareholders present or represented constitute less than one-half of our issued and voting share capital, resolutions relating to extraordinary matters may be adopted only with the approval of two-thirds of the share capital present or represented at such meeting. A shareholders' meeting at which 100% of the capital stock is present or represented is validly constituted even if no notice of the meeting was given, and, upon unanimous agreement, shareholders may consider any matter at the meeting.

A resolution passed in a general meeting of shareholders is binding on all shareholders, subject to Spanish law. In some circumstances, such as change of corporate purpose or corporate form, Spanish law gives dissenting or absent shareholders the right to have their shares redeemed by our company at a price determined in accordance with established formulas. In the case of any resolution contrary to law, the right to contest that resolution is extended to all shareholders.

Under the Spanish Corporation Law, shareholders who voluntarily aggregate their shares so that the share capital represented by the aggregated shares is equal to or greater than the result of dividing the total capital stock by the number of directors have the right to appoint a corresponding proportion of the members of the board of directors. Shareholders who exercise this right may not vote on the appointment of other directors.

Preemptive Rights

Under the Spanish Corporation Law, shareholders and holders of any convertible bonds have preemptive rights to subscribe for any new shares issued by us, including the ordinary shares and securities which are convertible into ordinary shares, in an amount proportional to shares held in our company prior to the new issuance. These preemptive rights may be abolished in some circumstances if our shareholders pass a resolution at a shareholders' meeting in accordance with Article 159 of the Spanish Corporation Law. In addition, preemptive rights will not be available in the event of an increase in share capital upon the conversion of convertible bonds or a merger in which shares are issued as consideration.

Form and Transfer

The ordinary shares are in book-entry form and are indivisible. Joint holders must nominate one person to exercise their shareholders' rights, although the joint holders are jointly and severally liable for all obligations arising from their status as shareholders. Iberclear, which manages the clearance and settlement system of the Spanish stock exchanges, maintains the central registry of shares reflecting the number of shares held by each of its member entities (entidades adheridas) on its own behalf as well as the number of shares held by it on behalf of third parties. Each member entity in turn maintains a register of the owners of such shares.

Transfers of ordinary shares quoted on a Spanish stock exchange must be made through or with the participation of a member of a Spanish stock exchange that is an authorized broker or dealer by book-entry registry. The transfer of shares may be subject to certain fees and expenses.

Our bylaws do not provide for redemption provisions or sinking fund provisions for our ordinary shares.

Reporting Requirements

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Because our ordinary shares are listed on the Spanish stock exchanges, agreements with respect to the acquisition or disposition of our ordinary shares must be reported within seven business days of the acquisition or disposal to us, the Spanish National Securities Commission, the management entities of the Spanish stock exchanges where the shares are listed and, where the person or group effecting the transaction is a non-Spanish resident, the Spanish Registry of Foreign Investment, if:

in the case of an acquisition, the acquisition results in that person or group holding 5% (or successive multiples thereof) of our share capital; or

Table of Contents

in the case of a disposition, the disposition takes any existing holding of that person or group below a threshold of 5% (or successive multiples thereof) of our share capital.

The above percentages are reduced to 1% (or successive multiples thereof) if the acquirer or disposer is a resident in a tax haven or in a country which does not have a stock exchange supervisory body or which has a stock exchange supervisory body that does not exchange information with the Spanish National Securities Commission.

Any member of our board of directors must similarly report any acquisition or disposal, regardless of size, of our ordinary shares or options or any securities giving their owners the right to acquire ordinary shares. Additional disclosure obligations apply to purchasers in jurisdictions designated as tax havens or lacking adequate supervision and also to voting agreements.

For further information on Spanish laws and our by-laws applicable to our board of directors and the committees of the board, see Item 6.A Directors and Senior Management.

For further information on dividends and foreign ownership of shares, see Exchange Controls.

C. MATERIAL CONTRACTS

Agreement 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. 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 Paulo 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.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

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

Table of Contents

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. The Portugal Telecom Group and us have agreed to retain the services of a related third party of Telefónica Móviles to provide Brasilcel with financial services.

Agreement with the Burillo Group

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 \$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.

In connection with the formation of Telefónica Móviles Mexico, we and the Burillo Group entered into a shareholders' agreement that, in some circumstances, will grant the Burillo Group customary veto rights in Telefónica Móviles Mexico for resolutions regarding conversion of class shares, declaration of bankruptcy, dissolution or liquidation of Telefónica Móviles Mexico, amendments of its by-laws giving effect to a diminution of the rights vested to the Burillo Group, and mergers or corporate reorganizations if the Burillo Group is not granted the right to maintain its percentage ownership in Telefónica Móviles Mexico. In addition, the Burillo Group will have the right to nominate the first non-executive Chairman of the Board of Directors of Telefónica Móviles Mexico and to appoint one or two out of the eleven members of the Board of Directors of Telefónica Móviles Mexico, depending on the Burillo Group's percentage ownership of Telefónica Móviles Mexico.

Acquisition of BellSouth

On March 5, 2004, we entered into a stock purchase agreement with BellSouth to acquire 100% of BellSouth's interests in its wireless operations in Argentina, Chile, Peru, Venezuela, Colombia, Ecuador, Uruguay, Guatemala, Nicaragua and Panama. The firm value of the wireless operators that we have agreed to acquire from BellSouth, including the interests of minority shareholders and the net debt of these wireless operators, was valued at US\$5,850 million.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

The total amount we will pay for these wireless operators will depend upon the economic interest finally bought in each company and the final net debt of the acquired companies at the time of closing. The transaction

Table of Contents

is subject to, among other closing conditions, regulatory approvals in each country. It is expected to close in stages, with the final closing expected to occur by year-end 2004.

D. EXCHANGE CONTROLS

Exchange Controls and Other Limitations Affecting Security Holders

Preliminary administrative authorization of certain transactions (Golden Share)

On May 13, 2003, the European Court of Justice (ECJ) ruled (in the case C-463/00, European Communities Commission vs. The Kingdom of Spain), that the preliminary authorization rules (golden share) set forth in Law 5/1995, requiring prior governmental approval with respect to a limited number of fundamental corporate and control transactions affecting us and Telefónica, S.A., were no longer valid. In order to adapt Law 5/1995 to the ECJ s May 13, 2003 ruling, Law 5/1995 was modified by virtue of the twenty-fifth additional provision of Law 62/2003, dated December 31, 2003, governing certain tax, administrative and social matters. This regulation establishes a new post-closing notification model, which, for the purposes of the Telefónica Group, is applicable until February 2007.

The post-closing notification requirements described in Law 5/1995 apply to us, Telefónica, S.A., Telefónica de España S.A.U., and Telefónica Móviles España S.A.U., and must be observed in the following transactions:

transfer or encumbrance of strategic assets located in Spain by Telefónica de España and Telefónica Móviles España. Transactions affecting these assets carried out between Telefónica Group companies are exempt and need only be reported through a written communication to the competent regulatory body;

transfer or encumbrance of shares or any other securities of Telefónica de España by Telefónica S.A., Telefónica Móviles S.A. by Telefónica S.A. and Telefónica Móviles España by Telefónica Móviles S.A., when such transactions result in a change of control, or the sale of holdings representing 50% or more;

substitution of Telefónica Móviles España S.A.U. s business purpose;

direct or indirect acquisition of our or Telefónica, S.A. s shares representing 10% or more of each company s share capital. Financial transactions which do not result in a change of control or in a change of management are exempt from the requirements of Law 5/1995; and

voluntary winding-up, spin-off or merger need only be reported through a simple written communication, except where these operations affect strategic assets specified in Law 5/1995, which will require the post-closing notification. The above-mentioned transaction between members of the Telefónica Group affecting strategic assets are exempt from the post-closing notification.

Ownership Limitations

The new General Telecommunications Law (GTL) enacted on November 3, 2003 eliminated existing ownership limitations, which prohibited non-European nationals from owning directly or indirectly more than 25% of our assets or share capital, except under certain circumstances. Article 6 of the new GTL provides for the application of the reciprocity principle under existing international treaties or agreements signed and ratified by Spain. The Spanish government, upon request, may authorize exceptions to the reciprocity principle contained in the new GTL.

Dividend and Liquidation Rights

Payment of a final dividend is proposed by our board of directors but must be authorized by our shareholders at the general meeting of shareholders. According to Spanish law and our by-laws, dividends may only be paid out of profits or distributable reserves if the value of our net worth is not, and as a result of such

Table of Contents

distribution would not be, less than our capital stock. Pursuant to Spanish law, we are required to reserve 10% of our fiscal year net income until the amount in our legal reserve reaches 20% of our capital.

Dividends payable by us to non-residents of Spain are ordinarily subject to a Spanish withholding tax. See Item 10.E Taxation.

Upon a liquidation of us, our shareholders would be entitled to receive pro rata any assets remaining after the payment of our debts and taxes and expenses of the liquidation. Any change in the rights of shareholders to receive dividends and payment upon liquidation would require an amendment to our by-laws by resolution adopted by a general meeting of shareholders. If there were more than one class of shares, such amendment would also require the approval by majority vote of each class of shareholders affected by the amendment.

Trading in our own Shares

At December 31, 2003, we did not hold any shares of treasury stock. We may from time to time purchase shares in the secondary market subject to the restrictions described below.

The Spanish Corporations Law prohibits the purchase by us and our subsidiaries of shares in the secondary market except in the following limited circumstances:

such a purchase of shares must be authorized by a general meeting of shareholders and, in the case of a purchase of shares by a subsidiary, also by a general meeting of shareholders of the subsidiary;

the shares so purchased have no economic or voting rights while held by us, except for the right to obtain fully paid-up shares issued by our company, and have no voting rights while held by its subsidiaries;

the purchaser must create reserves equal to the purchase price of any shares that are purchased and, if a subsidiary is the acquirer, the reserve must also be recorded by the parent company; and

the total number of treasury shares held by us and our subsidiaries may not exceed 5% of our total capital.

Any acquisition of our own shares exceeding, or that causes us and our subsidiaries' holdings to exceed, 1% of our share capital must be reported to the CNMV. At our general shareholders' meeting on April 1, 2003, our shareholders authorized our board of directors to acquire up to 5% of our share capital. This authorization is valid for 18 months from the date of such authorization.

E. TAXATION

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

The following is a general summary of certain material Spanish and United States federal income tax consequences to U.S. Holders (as defined below) of the ownership and disposition of our shares or ADSs. This summary is based upon United States tax laws, including the United States Internal Revenue Code of 1986, as amended (the Code), final, temporary and proposed Treasury Regulations, rulings, judicial decisions, administrative pronouncements, Spanish tax law, and the Convention Between the United States of America and the Kingdom of Spain for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion With Respect to Taxes on Income, signed February 22, 1990, together with a related Protocol (the Treaty), all as currently in effect, and all of which are subject to change or changes in interpretation, possibly with retroactive effect. In addition, the summary is based in part on representations of the Depositary and assumes that each obligation provided for in or otherwise contemplated by the Deposit Agreement or any other related document pursuant to which the ADSs have been issued will be performed in accordance with its terms.

As used herein, the term U.S. Holder means a beneficial owner of one or more of our shares or ADSs:

- (a) who is one of the following:
 - (i) a citizen or individual resident of the United States for U.S. federal income tax purposes,

Table of Contents

- (ii) a corporation (or an entity taxable as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or any state thereof (including the District of Columbia),
 - (iii) an estate, the income of which is subject to U.S. federal income taxation regardless of its source, or
 - (iv) a trust if a U.S. court can exercise primary supervision over the administration of the trust and one or more U.S. persons are authorized to control all substantial decisions of the trust;
- (b) who is entitled to the benefits of the Treaty under the Limitation on Benefits provisions contained in the Treaty;
- (c) who is not also a resident of Spain;
- (d) who holds the shares or ADSs as capital assets;
- (e) who owns, directly, indirectly or by attribution, less than 10% of our share capital or voting stock; and
- (f) whose holding is not effectively connected with (1) a permanent establishment in Spain through which such U.S. Holder carries on or has carried on a business, or (2) a fixed base in Spain from which such U.S. Holder performs or has performed independent personal services.

This summary does not address the tax considerations that may apply to holders that are subject to special tax rules, including U.S. expatriates, insurance companies, tax-exempt organizations, financial institutions, persons subject to the alternative minimum tax, securities broker-dealers, investors holding the shares or ADSs as part of a straddle, hedging or conversion transaction, persons who acquired their shares or ADSs pursuant to the exercise of employee stock options or otherwise as compensation, or persons whose functional currency is not the U.S. dollar. Such holders may be subject to U.S. federal income tax consequences different from those set forth below.

If a partnership holds shares or ADSs, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. A partner in a partnership that holds shares or ADSs is urged to consult its own tax advisor regarding the specific tax consequences of owning and disposing of the shares or ADSs.

For purposes of the Treaty and U.S. federal income tax, U.S. Holders of American Depositary Receipts (ADRs) will be treated as owners of the ADSs evidenced thereby and the shares represented by such ADSs.

Holders of shares or ADSs should consult their own tax advisors concerning the specific Spanish and U.S. federal, state and local tax consequences of the ownership and disposition of shares or ADSs in light of their particular situations as well as any consequences arising under the laws of any other taxing jurisdiction. In particular, U.S. Holders are urged to consult their own tax advisors concerning whether they are eligible for benefits under the Treaty.

Spanish Tax Considerations

Taxation of Dividends

Under Spanish law, dividends paid by a Spanish resident company to a U.S. Holder of shares or ADSs are subject to an income tax withheld at source on the gross amount of dividends, currently at a 15% tax rate. In 2001, and 2002, the applicable withholding rate was 18%.

On June 18, 2003 we made a special distribution of \$0.175 per share consisting of a distribution of paid-in surplus. Under Spanish law, this type of distribution is subject to special tax treatment. In general, the amount of the distribution received in cash or in kind is not taxable under Spanish income tax law but instead reduces the acquisition cost of the shares or ADSs for Spanish tax purposes (i.e., in the event of a subsequent sale or disposition of the shares or ADSs, the amount of gain realized will be higher). However, if the amount of the distribution received in cash or in kind is greater than the holder's adjusted acquisition cost for the shares or ADSs, then the amount by which the distribution exceeds the holder's adjusted acquisition cost generally will be

Table of Contents

subject to tax in Spain (i) at the tax rate applicable to dividends for holders of shares or ADSs resident in Spain for tax purposes or operating through a permanent establishment in Spain, and (ii) at a 15% tax rate for holders of shares or ADSs not resident in Spain for tax purposes and not operating through a permanent establishment in Spain. If the amount of the distribution exceeds the adjusted acquisition cost of a U.S. Holder for the shares or ADSs, that U.S. Holder (not operating through a permanent establishment) may be subject to tax on the excess at 15% and be required to file a Spanish Form 210 within one month of this distribution. No amount will be withheld by us in respect of Spanish taxes on this distribution.

Taxation of Capital Gains

Under Spanish law, any capital gains derived from securities issued by residents of Spain for tax purposes are considered to be Spanish source income and, therefore, are taxable in Spain. Spanish income tax is generally levied at a 35% tax rate on capital gains of nonresidents of Spain who are not entitled to the benefit of any applicable treaty for the avoidance of double taxation and who do not operate through a fixed base or a permanent establishment in Spain. Spanish income tax will be levied at a 15% tax rate on capital gains if such gains are derived from the transfer or refund of shares and investments in collective investment schemes such as investment companies or investment funds.

Under the Treaty, capital gains realized by U.S. Holders arising from the disposition of shares or ADSs will not be taxed in Spain provided that the seller has not maintained a direct or indirect holding of 25% or more in our capital during the twelve months preceding the disposition of the stock. U.S. Holders will be required to establish that they are entitled to the exemption from tax under the Treaty by providing to the relevant Spanish tax authorities Spanish Form 210 and a certificate of residence on IRS Form 6166 from the IRS stating that to the best knowledge of the IRS such Holder is a United States resident within the meaning of the Treaty. Spanish law requires that both of these forms be filed within one month from the date in which the capital gain is realized. Beginning July 5, 2004, U.S. Holders must request the Form 6166 certificate of residence by filing Form 8802 with the IRS. The applicant must attach to Form 8802 a statement by the Holder declaring that the applicant was or will be a resident of the United States for the period for which the treaty benefit is claimed.

Spanish Wealth Tax

Individuals who hold shares or ADSs located in Spain are subject to the Spanish Wealth Tax (*Impuesto sobre el Patrimonio*) (Spanish Law 19/1991), which imposes tax on property located in Spain on the last day of any year. Shares or ADSs located outside of Spain are not subject to the Spanish Wealth Tax. However, the Spanish tax authorities may argue that all shares of Spanish corporations and all ADSs representing such shares are located in Spain for Spanish tax purposes. If such a view were to prevail, nonresidents of Spain who held such shares or ADSs on the last day of any year would be subject to the Spanish Wealth Tax for such year at marginal rates varying between 0.2% and 2.5% of the average market value of such shares or ADSs during the last quarter of such year, as published by the Spanish Ministry of Economic Affairs. Nonresidents of Spain should consult their tax advisors with respect to the Spanish Wealth Tax.

Spanish Inheritance and Gift Taxes

Transfers of shares or ADSs on death and by gift are subject to Spanish inheritance and gift taxes (*Impuesto sobre Sucesiones y Donaciones*), respectively, if the transferee is a resident of Spain for tax purposes, or if the shares or ADSs are located in Spain at the time of death, regardless of the residence of the beneficiary. However, the Spanish tax authorities may seek to tax inheritances or gifts of shares or ADSs independently of the place of residence of the beneficiary. The applicable tax rate, after applying all relevant factors, ranges from between 0% and 81.6% for individuals. Gifts of shares granted to corporations are subject to corporate tax which is generally levied at the rate of 35%.

Expenses of Transfer

Transfers of shares or ADSs will be exempt from any transfer tax (*Impuesto sobre Transmisiones Patrimoniales*) or value-added tax. Additionally, no stamp tax will be levied on such transfers.

Table of Contents**United States Federal Income Tax Considerations***Taxation of Dividends*

The gross amount of any distributions (including the amount of any Spanish taxes withheld) paid to a U.S. Holder will be taxable as dividend income to the U.S. Holder for U.S. federal income tax purposes to the extent paid out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Distributions in excess of our current and accumulated earnings and profits will be treated first as a tax-free return of capital to the extent of the U.S. Holder's tax basis in the shares or ADSs (thereby increasing the amount of any gain or decreasing the amount of any loss realized on the subsequent sale of such shares or ADSs), and to the extent in excess of such tax basis, will be treated as a gain from a sale or exchange of such shares or ADSs. Dividends paid by us will not be eligible for the dividends received deduction.

The amount of any distribution paid in euro, including the amount of any Spanish taxes withheld therefrom, will be included in the gross income of a U.S. Holder of shares in an amount equal to the U.S. dollar value of the euro calculated by reference to the spot rate in effect on the date of receipt (by a U.S. Holder, in the case of shares, or by the ADS Depositary, in the case of ADSs), regardless of whether the euros are converted into U.S. dollars. If the euros are converted into U.S. dollars on the date of receipt, a U.S. Holder of shares generally will not be required to recognize foreign currency gain or loss in respect of the distribution. If the euros received in the distribution are not converted into U.S. dollars on the date of receipt, a U.S. Holder of shares will have a basis in the euro equal to its U.S. dollar value on the date of receipt. Any gain or loss recognized upon a subsequent conversion or other disposition of the euros will be treated as U.S. source ordinary income or loss. In the case of a U.S. Holder of ADSs, the amount of any distribution paid in euro generally will be converted into U.S. dollars by the ADS Depositary upon its receipt. Accordingly, a U.S. Holder of ADSs generally will not be required to recognize any foreign currency gain or loss in respect of the distribution.

On June 18, 2003 we paid a special distribution of 0.175 per share on all outstanding shares and ADSs. U.S. Holders generally will not be subject to Spanish tax or withholding on the distribution. However, if the amount of the distribution exceeds the U.S. Holder's acquisition cost of the shares or ADSs, the U.S. Holder may be subject to Spanish tax on this excess. See Spanish Tax Considerations Taxation of Dividends. For U.S. federal income tax this distribution will be treated as a dividend and will be subject to the tax treatment described above (despite the fact that it may not be treated as a dividend for Spanish tax purposes).

Effect of Spanish Withholding Taxes

As discussed above under Spanish Tax Considerations, under current law, payments of dividends (other than the special distribution paid on June 18, 2003) on the shares or ADSs to non-Spanish investors (including U.S. Holders) generally are subject to Spanish withholding taxes. For U.S. federal income tax purposes, U.S. Holders will be treated as having received the gross amount of any dividend paid, including any Spanish taxes withheld therefrom, and then as having paid over the withheld taxes to the Spanish taxing authorities. As a result of this rule, the amount of dividend income included in gross income for U.S. federal income tax purposes by a U.S. Holder may be greater than the amount of cash the U.S. Holder actually received.

Subject to limitations and restrictions, a U.S. Holder generally will be entitled to a credit against its U.S. federal income tax liability, or a deduction in computing its U.S. federal taxable income, for Spanish income taxes withheld. Dividends paid with respect to shares or ADSs will generally constitute foreign source passive income or, in the case of certain holders, financial services income for foreign tax credit purposes. The rules governing the foreign tax credit are complex. U.S. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit in their particular circumstances. In lieu of a credit, a U.S. Holder may claim a deduction for any Spanish taxes withheld that

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

are not refundable to it by the Spanish tax authorities. The deduction for foreign taxes paid is only available for taxable years in which the U.S. Holder does not choose to benefit from the foreign tax credit with respect to any foreign taxes.

Table of Contents

The United States Treasury has expressed concern that parties to whom ADSs are released may be taking actions that are inconsistent with the claiming of foreign tax credits for U.S. Holders of ADSs. Accordingly, the analysis of the creditability of Spanish withholding taxes could be affected by future actions that may be taken by the United States Treasury.

Taxation of Capital Gains

In general, upon a sale, exchange or other disposition of shares or ADSs, a U.S. Holder generally will recognize capital gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized on the sale or other disposition, and the U.S. Holder's adjusted tax basis in the shares or ADSs. Such gain or loss will be U.S. source gain or loss, and will be treated as long-term capital gain or loss if the U.S. Holder's holding period of the shares or ADSs exceeds one year. If the U.S. Holder is an individual, any capital gain generally will be subject to U.S. federal income tax at preferential rates if specified minimum holding periods are met. The deductibility of capital losses is subject to significant limitations.

The deposit or withdrawal of shares in exchange for ADSs by a U.S. Holder under the Deposit Agreement will not be subject to U.S. federal income tax.

Under the Treaty, gains on the sale or other disposition of the shares or ADSs by a U.S. Holder will not be subject to Spanish tax as long as the gain is not attributable to a permanent establishment in Spain, the Holder has not, at any time during the 12-month period before the disposition, held, directly or indirectly, 25% or more of the of the capital of the Company and if the Holder provides the relevant Spanish tax authorities with both an IRS certificate of U.S. tax residence on IRS Form 6166 and Spanish Form 210, as described above. Spanish law requires that both of these forms be filed within one month from the date on which the capital gain is realized. Special rules apply to individuals who are residents of more than one country.

Applicants are advised to submit Form 8802 and the accompanying declaration to the IRS well in advance of the date on which the Form 6166 that will be issued by the IRS may be required by the Spanish tax authorities as there may be delays in obtaining the necessary forms. U.S. Holders should consult their own tax advisors regarding the potential Spanish tax consequences of a sale of shares or ADSs and the procedures available for an exemption from such tax.

Recent U.S. Tax Law Changes Applicable to Individuals

Recent U.S. tax legislation generally has reduced the rates of tax payable by individuals (as well as certain trusts and estates) on many items of income. Under the Jobs and Growth Tax Relief Reconciliation Act of 2003 (the 2003 Act), the marginal tax rates applicable to ordinary income generally have been lowered effective January 1, 2003. Furthermore, qualified dividend income received by individuals in taxable years beginning after December 31, 2002 and beginning before January 1, 2009, generally will be taxed at a maximum U.S. federal rate of 15% (rather than the higher rates of tax generally applicable to items of ordinary income). For this purpose, qualified dividend income generally includes dividends paid on shares in U.S. corporations as well as dividends paid on shares in certain non-U.S. corporations if, among other things, certain minimum holding periods are met and if either (i) the shares (or ADSs) with respect to which the dividend is paid are readily tradable on an established securities market in the United States, or (ii) the non-U.S. corporation is eligible for the benefits of a comprehensive income tax treaty with the United States which contains an exchange of information program such as the U.S.-Spain Treaty. We currently anticipate that dividends paid by us with respect to our shares and ADSs should constitute qualified dividend income for U.S. federal income tax purposes and that U.S. holders who are individuals who meet certain requirements should be entitled to the reduced rates of tax, as applicable. However, some of the eligibility requirements for non-U.S. corporations are not entirely clear and further guidance from the Internal Revenue Service is

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

anticipated. In addition, the Internal Revenue Service is expected to issue certification procedures for 2004 whereby a non-U.S. corporation will be required to certify as to the eligibility of its dividends for the reduced U.S. federal income tax rates.

Table of Contents

Passive Foreign Investment Company Rules

We believe that we have not been, are not, and are not likely to become a passive foreign investment company (PFIC) for United States federal income tax purposes. However, since PFIC status depends upon the composition of a company's income and assets and the market value of its assets and shares from time to time, there is no assurance that we will not be considered a PFIC for any taxable year. If we were treated as a PFIC for any taxable year during which a U.S. Holder held shares or ADSs, certain adverse consequences could apply to the U.S. Holder.

If we are treated as a PFIC for any taxable year, gains recognized by such U.S. Holder on a sale or other disposition of the shares or ADSs would be allocated ratably over the U.S. Holder's holding period for the shares or ADSs. The amount allocated to the taxable year of the sale or other exchange and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, and an interest charge would be imposed on the amount allocated to such taxable year. In addition, any distribution in respect of shares or ADSs in excess of 125% of the average of the annual distributions on shares or ADSs received by the U.S. Holder during the preceding three years or the U.S. Holder's holding period, whichever is shorter, would be subject to taxation as described above. Certain elections may be available to U.S. Holders that may mitigate some of the adverse consequences resulting from PFIC status. However, regardless of whether such elections are made, dividends paid by a PFIC would not be qualified dividend income for purposes of the 2003 Act and would be taxed at the higher rate applicable to other items of ordinary income.

U.S. Holders should consult their own tax advisors regarding the potential application of the PFIC rules to their ownership of shares or ADSs in the Company.

U.S. Information Reporting and Backup Withholding

Dividend payments with respect to shares or ADSs and proceeds from the sale, exchange or redemption of shares or ADSs may be subject to information reporting to the Internal Revenue Service and possible U.S. backup withholding at a current rate of 28%. Backup withholding will not apply to a Holder who furnishes a correct taxpayer identification number or certificate of foreign status and makes any other required certification or who is otherwise exempt from backup withholding. U.S. persons who are required to establish their exempt status generally must provide such certification on a duly completed Internal Revenue Service Form W-9 (Request for Taxpayer Identification Number and Certification). Non-U.S. holders generally will not be subject to U.S. information reporting or backup withholding. However, such holders may be required to provide certification of non-U.S. status (generally on Internal Revenue Service Form W-8BEN) in connection with payments received in the United States or through certain U.S.-related financial intermediaries.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a holder's U.S. federal income tax liability, and a holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the Internal Revenue Service and furnishing any required information.

F. DIVIDENDS AND PAYING AGENTS

Not applicable.

G. STATEMENTS BY EXPERTS

Not applicable.

Table of Contents

H. DOCUMENTS ON DISPLAY

Where You Can Find More Information

We file annual reports on Form 20-F and furnish periodic reports on Form 6-K to the SEC. You may read and copy any of these reports at the SEC's public reference rooms in Washington, D.C. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms.

Our SEC filings are also available to the public from commercial document retrieval services. Some of our SEC filings are also available at the website maintained by the SEC at <http://www.sec.gov>.

Our ADSs are listed on the NYSE under the symbol TEM. Our ordinary shares are listed on the Madrid, Barcelona, Bilbao and Valencia stock exchanges, and the Automated Quotation System of the Spanish stock exchanges under the symbol TEM. You may inspect any periodic reports and other information filed with the SEC by us at the offices of the NYSE, 20 Broad Street, New York, New York 10005.

As a foreign private issuer, we are exempt from the rules under the Exchange Act which prescribe the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

We are subject to the informational requirements of the Spanish National Securities Commission and the Spanish stock exchanges and file reports and other information relating to our business, financial condition and other matters with the Spanish National Securities Commission and the Spanish stock exchanges. You may read such reports, statements and other information (including the annual and biannual financial statements) at the public reference facilities maintained in Madrid, as well as through our website at <http://www.telefonicomoviles.com>. Some of our filings with the Spanish National Securities Commission are also available at the website maintained by the Spanish securities commission at <http://www.cnmv.es>.

I. SUBSIDIARY INFORMATION

Not applicable.

Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various types of market risk in the normal course of our business, including the impact of changes in interest rates, and foreign currency exchange rates. We actively manage interest rate risk and foreign currency exchange rate risk, in part with financial derivatives. All of our financial derivative transactions are entered into for hedging purposes. However, we are required to classify some of our these derivative contracts as held for trading purposes. Instruments that are classified for accounting purposes as trading are carried on the books at

market prices, and gains or losses arising therefrom are recorded immediately in the income statement as financial revenue or expense, as appropriate.

Most of the other financial derivatives we held at December 31, 2003, were classified as hedges under Spanish GAAP. Gains or losses on these instruments are recorded as adjustments to the underlying transactions. Our counterparties in our financial derivatives transactions are Telefónica S.A. and financial institutions.

Interest rate risk

We use several derivative strategies, including swaps to manage our exposure to interest rate fluctuations. Giving effect to these derivative transactions, at December 31, 2003 approximately 56.5% of our long-term debt portfolio bore interest at a variable rate. Our floating rate debt portfolio is principally subject to fluctuations in the London Interbank Offered Rate (particularly for the U.S. dollar LIBOR), the European Interbank Offered Rate (EURIBOR) and the Brazilian Selic, Brazil's prime rate. We estimate that each increase of 100 basis points, or 1.0%, in the weighted average interest rate per year for our floating-rate debt portfolio at December 31, 2003

Table of Contents

and for that portion of our fixed-rate debt portfolio at that date maturing in the succeeding twelve months (i.e., through December 31, 2004) would have resulted in a decrease in net income for 2003 of approximately 68.5 million.

Exchange rate risk

The exchange rate risk to which we are exposed derives principally from (1) our long-term debt portfolio that is denominated in (or swapped into) currencies other than the euro and (2) the fact that we conduct a substantial amount of business in, and have substantial investments in, countries outside of Spain, principally Latin American countries. We hedge our debt-related exchange rate exposure to the extent that we consider necessary and hedges are commercially available. From time to time we hedge our exchange rate exposure arising from attributed net income from our non-Spanish subsidiaries (not material in 2003). We use swaps, options and exchange rate forward contracts to manage our exposure to exchange rate fluctuations. Giving effect to these derivative transactions, we were exposed to foreign currency fluctuations on approximately 22% of our long-term debt at December 31. The potential immediate loss we would have incurred from a hypothetical 10% adverse change in foreign currency exchange rates would have been approximately 76 million at December 31, 2003. In the event of this hypothetical change in exchange rates, our cost of financing would increase in proportion to the change. This assumes an unfavorable 10% fluctuation in all of the exchange rates affecting all the foreign currencies in which our indebtedness is denominated. Because consistently and simultaneously unfavorable movements in all relevant exchange rates are unlikely, this assumption may overstate the effect of exchange rate fluctuations on our results of operations.

Tabular description of market rate sensitive instruments

The tables below describe the financial instruments bearing interest or exchange rate risk for the companies consolidated in the Telefónica Móviles Group.

The tables below have been prepared as follows:

The debt obligations are ordered according to their final characteristics and taking into account the effect of the associated derivative instruments. They are classified according to the currency in which they are denominated, within the following categories:

Euro (EUR)

U.S. dollar (USD)

Latin American currencies (ARS Argentinean Pesos; BRL Brazilian reais, PEN Peruvian Pesos; MXN: Mexican Pesos)

Japanese Yen (JPY)

Moroccan dirham (MAD)

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Each such group is further divided into:

Floating rate interest

Fixed rate interest

Each column shows the notional amount of each debt obligation maturing in the year indicated at the top of the column through a five-year period. The notional amount outstanding after such five-year period is shown in the next column. The column "Total" is the sum of the notional amounts.

Notional amounts do not include accrued interest.

The fair value columns show the value for (1) the underlying debt (net present value), (2) the derivatives linked to the underlying debt (Black & Scholes Model for the options and net present value for the others) and (3) the total (the sum of the two previous values).

Table of Contents**MARKET RISK SENSITIVE INSTRUMENTS****TELEFÓNICA MÓVILES GROUP**

| | MATURITY DATES | | | | | | FAIR VALUE (EUR Mo) | | | | |
|---------------------------|----------------|--------------|--------------|--------------|------------|------------|---------------------|-----------------|------------------------|--------------|--------------|
| | 2004 | 2005 | 2006 | 2007 | 2008 | Thereafter | TOTAL | Underlying Debt | Associated Derivatives | TOTAL | Book Value |
| EURO | (73) | 1,540 | 555 | 1,416 | 450 | 186 | 4,075 | 4,437 | 471 | 4,908 | 4,650 |
| Floating Rate | (610) | 405 | 314 | 1,231 | 425 | | 2,340 | 2,123 | 320 | 2,443 | 2,340 |
| Spread Ref | | | | | | | | | | | |
| Euribor | (1.74)% | 2.76% | (1.17)% | 1.10% | (0.24)% | | 1.31% | | | | |
| Fixed Rate | 537 | 1,135 | 241 | 186 | 26 | 186 | 2,310 | 2,314 | 152 | 2,466 | 2,310 |
| Interest Rate | 5.79% | 5.65% | 5.60% | 6.23% | 4.98 | 6.45% | 5.78% | | | | |
| AMERICA | 398 | 302 | (44) | 173 | 30 | 121 | 979 | 1,537 | (470) | 1,068 | 979 |
| Instruments in USD | (95) | (9) | (199) | 89 | 14 | 113 | (88) | 1,627 | (1,688) | (61) | (88) |
| Floating Rate | (42) | (65) | (198) | 17 | 21 | 12 | (256) | 812 | (1,019) | (207) | (256) |
| Spread | (7.44)% | (3.23)% | (0.94)% | 2.66% | 1.65% | 0.74% | (3.13)% | | | | |
| Fixed Rate | (53) | 57 | (1) | 72 | (7) | 100 | 168 | 815 | (669) | 147 | 168 |
| Interest Rate | 5.86% | (1.97) | 15.09% | 8.67% | 19.84% | 7.12% | 4.54% | | | | |
| Instruments in ARS | (16) | | | | | | (16) | (16) | | (16) | (16) |
| Floating Rate | | | | | | | | | | | |
| Spread | | | | | | | | | | | |
| Fixed Rate | (16) | | | | | | (16) | (16) | | (16) | (16) |
| Interest Rate | 1.35% | | | | | | 1.35% | | | | |
| Instruments in BRL | 431 | 171 | 56 | 13 | 10 | | 681 | (115) | 845 | 731 | 681 |
| Floating Rate | 303 | 171 | 8 | 13 | 10 | | 506 | (115) | 688 | 573 | 506 |
| Spread | (0.01)% | 0.46% | 3.20% | 1.37% | | | 0.24% | | | | |
| Fixed Rate | 128 | | 47 | | | | 175 | | 158 | 158 | 175 |
| Interest Rate | 11.02% | | | | | | 8.05% | | | | |
| Instruments in PEN | 58 | 4 | | | | | 62 | 27 | 37 | 64 | 62 |
| Floating Rate | | | | | | | | | | | |
| Spread | | | | | | | | | | | |
| Fixed Rate | 58 | 4 | | | | | 62 | 27 | 37 | 64 | 62 |
| Interest Rate | 5.14% | 5.15% | | | | | 5.14% | | | | |
| Instruments in MXN | 20 | 135 | 100 | 71 | 6 | 9 | 341 | 15 | 336 | 350 | 341 |
| Floating Rate | 3 | 72 | 3 | 11 | 3 | 4 | 97 | | 96 | 96 | 97 |
| Spread | (0.52)% | (0.49)% | (0.52)% | (0.66)% | (0.52)% | (0.52)% | (0.52)% | | | | |
| Fixed Rate | 17 | 63 | 97 | 60 | 3 | 4 | 244 | 15 | 240 | 254 | 244 |
| Interest Rate | 6.82% | 9.46% | 7.75% | 7.93% | 8.83% | 8.83% | 8.20% | | | | |
| ASIA | 0 | 0 | 0 | 0 | | | 1 | 44 | (43) | 1 | 1 |
| Instruments in JPY | 0 | 0 | 0 | 0 | | | 1 | 44 | (43) | 1 | 1 |
| Floating Rate | 0 | 0 | 0 | 0 | | | 1 | 1 | | 1 | 1 |
| Spread | 3.79% | 3.79% | 3.79% | 3.79% | | | 3.79% | | | | |
| Fixed Rate | | | | | | | | 43 | (43) | 0 | |
| Interest Rate | | | | | | | | | | | |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | | | | | | | | | | |
|------------------------------|------------|--------------|------------|--------------|------------|------------|--------------|--------------|------------|--------------|--------------|
| AFRICA | 31 | | | | | | 31 | | 32 | 32 | 31 |
| Instruments in MAD | 31 | | | | | | 31 | | 32 | 32 | 31 |
| Floating Rate Spread | | | | | | | | | | | |
| Fixed Rate Interest Rate | 31 | | | | | | 31 | | 32 | 32 | 31 |
| | 8.90% | | | | | | 8.90% | | | | |
| TOTAL | 356 | 1,842 | 511 | 1,590 | 480 | 307 | 5,087 | 6,019 | (9) | 6,009 | 5,662 |
| EXCHANGE RATE OPTIONS | 362 | | | | | | 362 | | | 43 | 43 |

All amounts expressed in millions of euro, except for interest rates

Table of Contents**Instruments Outstanding at December 31, 2002**

| | MATURITY DATES | | | | | | FAIR VALUE (EUR Mo) | | | |
|---------------------------|----------------|--------------|--------------|--------------|--------------|------------|---------------------|-----------------|------------------------|--------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | Thereafter | TOTAL | Underlying Debt | Associated Derivatives | TOTAL |
| EURO | (354) | 1,367 | 1,970 | 715 | 1,108 | 397 | 5,203 | 4,992 | 537 | 5,529 |
| Floating Rate | (563) | 1,342 | 292 | 472 | 922 | 185 | 2,650 | 2,520 | 401 | 2,922 |
| Spread Ref | | | | | | | | | | |
| Euribor | (0.55)% | 0.88% | 0.17% | 0.20% | 1.47% | (1.19)% | 1.05% | | | |
| Fixed Rate | 209 | 26 | 1,678 | 243 | 186 | 211 | 2,553 | 2,472 | 136 | 2,608 |
| Interest Rate | 2.94% | 4.98% | 5.63% | 5.67% | 6.23% | 6.27% | 5.50% | | | |
| AMERICA | 370 | 354 | 316 | 39 | 322 | 339 | 1,739 | 2,598 | (732) | 1,866 |
| Instruments in USD | (65) | (27) | 114 | (109) | 226 | 326 | 464 | 2,458 | (1,838) | 620 |
| Floating Rate | 36 | 165 | (160) | (43) | 147 | 217 | 362 | 1,672 | (1,269) | 403 |
| Spread | 9.35% | 2.96% | (1.49)% | (5.02)% | 0.40% | 0.19% | 3.79% | | | |
| Fixed Rate | (101) | (192) | 273 | (67) | 80 | 109 | 102 | 786 | (569) | 217 |
| Interest Rate | (2.53)% | 3.25% | 4.77% | 0.60% | 8.28% | 5.95% | | | | |
| Instruments in ARS | (8) | | | | | | (8) | (8) | | (8) |
| Floating Rate | (9) | | | | | | (9) | (9) | | (9) |
| Spread | | | | | | | | | | |
| Fixed Rate | 1 | | | | | | 1 | 1 | | 1 |
| Interest Rate | 8.23% | | | | | | 8.23% | | | |
| Instruments in BRL | 316 | 371 | 33 | 25 | 16 | 13 | 774 | 1 | 620 | 750 |
| Floating Rate | 209 | 371 | 33 | 25 | 16 | 13 | 667 | 131 | 502 | 633 |
| Spread | | | | | | | | | | |
| Fixed Rate | 107 | | | | | | 107 | | 118 | 118 |
| Interest Rate | 21.70% | | | | | | 21.70% | | | |
| Instruments in PEN | 112 | | | | | | 112 | | 112 | 112 |
| Floating Rate | | | | | | | | | | |
| Spread | | | | | | | | | | |
| Fixed Rate | 112 | | | | | | 112 | | 112 | 112 |
| Interest Rate | 2.06% | | | | | | 2.06% | | | |
| Instruments in MXN | 16 | | 169 | 123 | 79 | | 387 | 9 | 374 | 384 |
| Floating Rate | 13 | | 155 | 123 | 79 | | 371 | | 337 | 337 |
| Spread | | | (0.31)% | (0.64)% | (0.82)% | | (0.51)% | | | |
| Fixed Rate | 3 | | 14 | | | | 16 | 9 | 37 | 46 |
| Interest Rate | 12.02% | | 9.79% | | | | 10.14% | | | |
| Instruments in GTQ | | 10 | | | | | 10 | 8 | | 8 |
| Floating Rate | | | | | | | | | | |
| Spread | | | | | | | | | | |
| Fixed Rate | | 10 | | | | | 10 | 8 | | 8 |
| Interest Rate | | 11.25% | | | | | 11.25% | | | |
| AFRICA | 33 | | | | | | 33 | | 35 | 35 |
| Instruments in MAD | 33 | | | | | | 33 | | 35 | 35 |
| Floating Rate | | | | | | | | | | |
| Spread | | | | | | | | | | |
| Fixed Rate | 33 | | | | | | 33 | | 35 | 35 |
| Interest Rate | 13.90% | | | | | | 13.90% | | | |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | | | | | | | | | |
|----------------------------------|-----------|--------------|--------------|------------|--------------|------------|--------------|--------------|--------------|--------------|
| TOTAL | 49 | 1,721 | 2,285 | 753 | 1,430 | 736 | 6,974 | 7,590 | (160) | 7,430 |
| EXCHANGE RATE OPTIONS | | | | | | | | | 39 | 39 |

All amounts expressed in millions of euro, except for interest rates.

Table of Contents**Sensitivity to interest rates at December 31, 2003****Detail for Interest Rate Swaps**

(Million of)

| | MATURITY DATE | | | | | | Total |
|--------------------------|---------------|--------|--------|--------|--------|------------|--------|
| | 2,004 | 2,005 | 2,006 | 2,007 | 2,008 | Subsequent | |
| EURO | | | | | | | |
| Fixed to Floating | | | | | | | |
| Receiving leg | | | | | (185) | | (185) |
| Average Interest Rate | | | | | 5.01% | | 5.01% |
| Paying leg | | | | | 185 | | 185 |
| Average Spread (+EURIB) | | | | | -1.23% | | -1.23% |
| Floating to fixed | | | | | | | |
| Receiving leg | (26) | (26) | (26) | (26) | (210) | (26) | (340) |
| Average Spread | | | | | -0.05% | | -0.03% |
| Paying leg | 26 | 26 | 26 | 26 | 210 | 26 | 340 |
| Average Interest Rate | 4.98% | 4.98% | 4.98% | 4.98% | 5.00% | 4.98% | 4.99% |
| MXN | | | | | | | |
| Floating to fixed | | | | | | | |
| Receiving leg | (1) | (51) | (95) | (53) | (2) | (2) | (204) |
| Average Spread (+TIIE) | -0.54% | -0.06% | -0.63% | -0.83% | -0.54% | -0.54% | -0.54% |
| Paying leg | 1 | 51 | 95 | 53 | 2 | 2 | 204 |
| Average Interest Rate | 8.43% | 9.43% | 7.73% | 7.94% | 8.43% | 8.43% | 8.23% |

Sensitivity to interest rates at December 31, 2002**Detail for Interest Rate Swaps**

(Million of)

| | MATURITY DATE | | | | | | Total |
|--------------------------|---------------|-------|-------|-------|-------|------------|--------|
| | 2,003 | 2,004 | 2,005 | 2,006 | 2,007 | Subsequent | |
| EURO | | | | | | | |
| Fixed to Floating | | | | | | | |
| Receiving leg | | | | | | (185) | (185) |
| Average Interest Rate | | | | | | 5.01% | 5.01% |
| Paying leg | | | | | | 185 | 185 |
| Average Spread (+EURIB) | | | | | | -1.23% | -1.23% |
| Floating to fixed | | | | | | | |
| Receiving leg | (52) | (26) | (26) | (26) | (26) | (235) | (391) |
| Average Spread | | | | | | -0.05% | -0.03% |
| Paying leg | 52 | 26 | 26 | 26 | 26 | 235 | 391 |
| Average Interest Rate | 4.98% | 4.98% | 4.98% | 4.98% | 4.98% | 5.00% | 4.99% |
| MXN | | | | | | | |
| Floating to fixed | | | | | | | |
| Receiving leg | (7) | | (27) | | | | (34) |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | | |
|-----------------------|-------|-------|-------|
| Average Spread (+TIE) | | | |
| Paying leg | 7 | 27 | 34 |
| Average Interest Rate | 9.91% | 9.65% | 9.70% |

Table of Contents

Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

Item 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

Item 15. CONTROLS AND PROCEDURES

(a) *Disclosure Controls and Procedures.* Our Chairman and Chief Executive Officer and our Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures as defined in U.S. Exchange Act Rule 13a-15(e) as of the end of the period covered by this Form 20-F, have concluded that, as of such date, our disclosure controls and procedures were effective.

(b) *Internal Control Over Financial Reporting.* There was no changes in our internal control over financial reporting that occurred during the year ended December 31, 2003 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 16.

Item 16A AUDIT COMMITTEE FINANCIAL EXPERT

The Board of Directors has determined that Mr. Miguel Canalejo Larrainzar and Mr. Javier Echenique Landiribar are audit committee financial experts as defined in Item 16A of Form 20-F.

Item 16B CODE OF ETHICS

We have adopted a code of ethics that applies, among others, to our Chairman and Chief Executive Officer, our Chief Financial Officer, our Principal Accounting Officer and controller, and persons performing similar functions in Telefónica Móviles, S.A. and subsidiaries consolidated within the Telefónica Móviles group. The code of ethics is filed as exhibit 11.1 to this annual report.

Item 16C ACCOUNTANTS FEES AND SERVICES

The fees accrued for the fiscal years 2003 and 2002 from the various member firms of the Deloitte Touche Tohmatsu international organization, to which Deloitte & Touche España S.L., the auditors of the Telefónica Móviles Group, belongs, amounted to 3,650 and 4,011 thousand, respectively.

Table of Contents

These fees included the following:

| | <u>2003</u> | <u>2002</u> |
|--------------------|----------------------|--------------|
| | (thousands of euros) | |
| Audit Fees | 2,778 | 1,818 |
| Audit-Related Fees | 533 | 304 |
| Tax Fees | 61 | 325 |
| All Other Fees | 278 | 1,564 |
| Total Fees | <u>3,650</u> | <u>4,011</u> |

These fees include all amounts relating to the Spanish and foreign companies in which the Telefónica Móviles Group has effective control or joint control with third parties.

The main services included in each of the categories are as follows:

Audit-Related Fees. Services in this category include, among others, due diligence services related to business combinations, advise on International Financial Reporting Standards (IFRS) applicable to the Group and review of the annual and quarterly information required by the Regulator relating to costs and quality parameters.

Tax Fees. Services in this category include, among others, consultancy and fiscal advising.

All Other Fees. Services in this category include, among others, Revenue Assurance project, legal advisors, consultancy in projects of Internet programs, etc.

Audit Committee Pre-approval Policies and Procedures

Our audit committee policies and procedures, Regulations on Relations with External Auditing of Telefónica Móviles, S.A., is filed as Exhibit 14.1.

PART III

Item 17. FINANCIAL STATEMENTS

We have responded to Item 18 in lieu of responding to this Item.

Item 18. FINANCIAL STATEMENTS

The following financial statements are filed as part of this Form 20-F:

| | Page |
|--|-------------|
| Independent Auditors Report | F-2 |
| Combined Balance Sheets as of December 31, 2001 and 2002 | F-5 |
| Combined Statements of Operations for the Years Ended December 31, 2000, 2001 and 2002 | F-7 |
| Notes to the consolidated and combined financial statements as of December 31, 2000 and 2001, and for the Years Ended December 31, 2000, 2001 and 2002 | F-8 |

Table of Contents

Item 19. EXHIBITS

**Exhibit
Number**

| | |
|------|---|
| 1.1 | Amended and Restated Articles of Association (English translation).** |
| 4.1 | Contribution Agreement dated as of April 26, 2002 among Telefónica Móviles, S.A., Don Alejandro Burillo Azcáraga, Doña Carmela Azcáraga Milmo, Scotiabank Inverlat S.A. Institución de Banca Múltiple Grupo Financiero Scotiabank Inverlat.* |
| 4.2 | Stock Purchase Agreement dated as of April 26, 2002 among Telefónica Móviles, S.A., Pegaso Telecomunicaciones, S.A. de C.V., Pegaso Comunicaciones y Sistemas, S.A. de C.V., Pegaso PCS, S.A. de C.V., Pegaso Finanzas, S.A. de C.V., Pegaso Finco I, S.A. de C.V., Pegaso Recursos Humanos, S.A. de C.V., Don Alejandro Burillo Azcáraga, Doña Carmela Azcáraga Milmo, Scotiabank Inverlat S.A. Institución de Banca Múltiple Grupo Financiero Scotiabank Inverlat, Leap PCS Mexico, Inc., Leap Wireless International, Inc., International Equity Investments, Inc., NI Media Equity, LLC, Laif X SPRL, Qualcomm Incorporated, Sprint Mexico, Inc., Sprint Corporation, Alcatel, and Telefonaktiebolaget LM Ericsson (PUBL).* |
| 4.3 | Shareholders Agreement dated as of October 17, 2002 among Telefónica Móviles, S.A., Portugal Telecom, SPGS, S.A., PT Móveis, SGPS, S.A., and Brasilcel B.V.** |
| 4.4 | Subscription Agreement dated as of October 17, 2002 among Telefónica Móviles, S.A., Portugal Telecom, SPGS, S.A., PT Móveis, SGPS, S.A., and Brasilcel B.V.** |
| 4.5 | Stock purchase agreement dated as of March 5, 2004 by and among Telefónica Móviles, S.A., each of the entities listed on Schedule 1 thereto, and Bell South Corporation |
| 8.1 | For a list of subsidiaries, see note 1 to our consolidated and combined financial statements. |
| 11.1 | Code of Ethics |
| 12.1 | Certification of the Chairman and Chief Executive Officer of Telefónica Móviles, S.A., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 12.2 | Certification of the Chief Financial Officer of Telefónica Móviles, S.A., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 13.1 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 14.1 | Regulations on Relations with External Auditing of Telefónica Móviles, S.A. |

* Incorporated by reference to Telefónica Móviles S.A.'s annual report on Form 20-F for 2001.

** Incorporated by reference to Telefónica Móviles S.A.'s annual report on Form 20-F for 2002.

Confidential material appearing in this document has been omitted and filed separately with the Securities and Exchange Commission in accordance with the Securities Exchange Act of 1934, as amended, and Rule 24b-2 promulgated thereunder. Omitted information has been marked through.

Table of Contents

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and has duly caused and authorized the undersigned to sign this annual report on its behalf.

TELEFÓNICA MÓVILES, S.A.

By: /s/ ANTONIO VIANA-BAPTISTA

Name: Antonio Viana-Baptista

Title: Chairman and Chief Executive Officer

Date: July 9, 2004

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Index to Financial Statements

| | Page |
|---|-------------|
| <u>Independent Auditors Report</u> | F-2 |
| <u>Consolidated and Combined Balance Sheets as of December 31, 2002 and 2003</u> | F-4 |
| <u>Consolidated and Combined Statements of Operations for the Years Ended December 31, 2001, 2002 and 2003</u> | F-6 |
| <u>Notes to the consolidated and combined financial statements as of December 31, 2002 and 2003, and for the Years Ended December 31, 2001, 2002 and 2003</u> | F-7 |

Table of Contents

INDEPENDENT AUDITORS REPORT

To the Shareholders of Telefónica Móviles, S.A.:

We have audited the accompanying consolidated balance sheets of Telefónica Móviles, S.A. and of the companies comprising the Telefónica Móviles Group (see Note 1) as of December 31, 2003 and 2002, and the related consolidated statements of operations for each of the three years in the period ended December 31, 2003. These consolidated financial statements are the responsibility of the controlling Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material aspects, the financial position of Telefónica Móviles, S.A. and of the companies comprising the Telefónica Móviles Group as of December 31, 2003 and 2002, and the results of their operations for each of the three years ended December 31, 2003, in conformity with accounting principles generally accepted in Spain.

Accounting principles generally accepted in Spain vary in certain significant respects from accounting principles generally accepted in the United States of America. The application of the latter would have affected the determination of the consolidated net income (loss) for each of the three years in the period ended December 31, 2003, and the determination of the consolidated stockholders' equity and financial position as of December 31, 2003 and 2002, to the extent summarized in Note 20.

Deloitte & Touche España, S.L.

Madrid Spain

February 18, 2004, except for notes 19 and 20 as to which the date is June 29, 2004

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Consolidated Balance Sheets as of December 31, 2002 and 2003 and the Related Consolidated Statements of Operations, Cash Flows and Changes in Shareholders' Equity for the Years Ended December 31, 2001, 2002 and 2003

F-3

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising the
Telefónica Móviles Group

Consolidated Balance Sheets as of December 31, 2002 and 2003

| | Thousands of Euros | |
|--|--------------------|-------------------|
| | 12/31/02 | 12/31/03 |
| ASSETS | | |
| Start-up expenses (Note 5.a) | 371,840 | 360,506 |
| Intangible assets (net) (Note 5.b) | 2,295,227 | 2,692,699 |
| Property, plant and equipment (net) (Note 6) | 4,661,729 | 4,384,354 |
| Long-term financial investments: | | |
| Investments in associated companies (Note 7.a) | 1,082,845 | 121,651 |
| Other investments (Note 7.b) | 6,986 | 9,115 |
| Other financial investments | 307,887 | 551,869 |
| Loans to Telefónica Group companies (Note 11) | 1,673,313 | 1,203,205 |
| Prepaid taxes (Note 13.a) | 1,136,488 | 1,052,266 |
| Provisions | (1,354) | (3,357) |
| | 4,206,165 | 2,934,749 |
| Goodwill (Note 8) | 1,564,874 | 1,146,468 |
| Deferred charges | 24,816 | 21,113 |
| Current assets: | | |
| Inventories | 142,015 | 154,540 |
| Accounts receivable: | | |
| Customer receivables | 1,458,473 | 1,663,644 |
| Receivable from Telefónica Group companies (Note 11) | 270,561 | 409,808 |
| Tax receivables (Note 13.b) | 208,186 | 315,078 |
| Other accounts receivable | 43,693 | 83,250 |
| Allowance for bad debts | (325,891) | (308,606) |
| | 1,655,022 | 2,163,174 |
| Short-term financial investments: | | |
| Loans to Telefónica Group companies (Note 11) | 1,070,902 | 1,334,286 |
| Other short-term investments | 80,406 | 335,788 |
| | 1,151,308 | 1,670,074 |
| Cash | 120,546 | 61,920 |
| Prepaid expenses and other current assets | 38,172 | 74,468 |
| | 3,107,063 | 4,124,176 |
| Total assets | 16,231,714 | 15,664,065 |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

The accompanying Notes 1 to 20 are an integral part of these Consolidated balance sheets.

F-4

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising the
Telefónica Móviles Group**

Consolidated Balance Sheets as of December 31, 2002 and 2003

| | Thousands of Euros | |
|---|--------------------|-------------------|
| | 12/31/02 | 12/31/03 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Shareholders' equity (Note 9) | 3,247,583 | 4,040,435 |
| Minority interests (Note 10) | (14,417) | 74,671 |
| Deferred revenues: | | |
| Capital subsidies | 378 | 29 |
| Accrual of investment tax credits (Note 13.d) | 20,175 | 21,657 |
| Other deferred revenues | 1,219 | 19,433 |
| | 21,772 | 41,119 |
| Provisions for contingencies and expenses (Note 4.k) | 2,116,268 | 1,149,591 |
| Long-term liabilities: | | |
| Security issues | 699,469 | 69,435 |
| Payable to banks and other financial institutions (Note 12) | 488,470 | 310,033 |
| Payable to Telefónica Group companies (Note 11) | 6,025,877 | 4,864,423 |
| Other liabilities | 19,407 | 130,641 |
| Deferred taxes (Note 13.a) | 58,505 | 35,811 |
| | 7,291,728 | 5,410,343 |
| Current liabilities: | | |
| Security issues: | | |
| Short-term marketable debt securities | 1,415 | 20,594 |
| Payable to banks and other financial institutions: | | |
| Loans and other accounts payable (Note 12) | 466,306 | 545,145 |
| Interest payable | 11,762 | 8,101 |
| | 478,068 | 553,246 |
| Payable to Telefónica Group companies (Note 11) | 777,007 | 1,473,285 |
| Accounts payable to trade creditors | 1,654,191 | 2,190,514 |
| Accrued taxes payable (Note 13.b) | 362,944 | 394,386 |
| Other non-trade payables | 194,468 | 201,583 |
| Accrued expenses and other liabilities (Note 4.o) | 100,687 | 114,298 |
| | 3,568,780 | 4,947,906 |
| Total liabilities and shareholders' equity | 16,231,714 | 15,664,065 |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

The accompanying Notes 1 to 20 are an integral part of these Consolidated balance sheets.

F-5

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising the
Telefónica Móviles Group

Consolidated Statements of Operations for the Years Ended

December 31, 2001, 2002 and 2003

| | Thousands of Euros | | |
|---|--------------------|---------------------|-------------------|
| | 12/31/01 | 12/31/02 | 12/31/03 |
| Wireless communication services | 7,701,725 | 7,946,714 | 8,579,746 |
| Sales of handsets and accessories | 588,343 | 960,052 | 1,198,587 |
| Other services | 120,996 | 233,069 | 291,951 |
| | 8,411,064 | 9,139,835 | 10,070,284 |
| Net revenues from operations | | | |
| Other revenues | 147,747 | 91,070 | 152,403 |
| Services and goods purchased | (1,862,117) | (2,406,039) | (2,592,541) |
| External services and local taxes | (2,603,758) | (2,412,370) | (2,581,995) |
| Personnel expenses (Note 14.a) | (533,831) | (546,381) | (485,993) |
| Depreciation and amortization (Notes 5 and 6) | (1,258,159) | (1,316,406) | (1,420,648) |
| Change in operating provisions | (225,416) | (130,245) | (99,274) |
| | (6,483,281) | (6,811,441) | (7,180,451) |
| Total operating expenses | | | |
| | 2,075,530 | 2,419,464 | 3,042,236 |
| Operating income | | | |
| Amortization of goodwill (Note 8) | (53,802) | (87,096) | (101,703) |
| Losses of associated companies (Note 14.c) | (119,193) | (159,477) | (80,656) |
| Financial expense (Notes 11, 12, 14.b and 17) | (714,869) | (921,983) | (1,288,474) |
| Financial income (Notes 11, 12, 14.b and 17) | 386,810 | 605,787 | 910,337 |
| | 1,574,476 | 1,856,695 | 2,481,740 |
| Income from ordinary activities | | | |
| Extraordinary income (expense) (Note 14.d) | (100,705) | (12,075,902) | (4,536) |
| | 1,473,771 | (10,219,207) | 2,477,204 |
| Income before tax and minority interests | | | |
| Corporate income tax (Note 13.c) | (628,768) | 2,130,821 | (890,493) |
| Minority interests (Note 10) | 48,352 | 4,363,987 | 21,127 |
| | 893,355 | (3,724,399) | 1,607,838 |
| Net income | | | |

The accompanying Notes 1 to 20 are an integral part of these Consolidated statements of operations.

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements for the Years Ended December 31, 2001, 2002 and 2003

1. Introduction and general information

In the Shareholders Meeting of January 12, 2000, Telefónica, S.A. approved the set up of a company to group together all the Telefónica Group's wireless communications businesses worldwide, with presence in Europe, Latin America and Mediterranean Basin. Pursuant to this resolution, Telefónica Móviles, S.A. was formed on February 14, 2000, with registered office at Madrid (Spain), Goya, 24.

Telefónica Móviles, S.A. (the Company or Telefónica Móviles) and its subsidiaries make up an integrated group of companies (the Telefónica Móviles Group or the Group) operating mainly in the telecommunications industry.

According to the Article 2 of its bylaws, Telefónica Móviles' corporate purpose is the performance of all kind of activities in the area of telecommunications and value-added services. All the activities that constitute the corporate purpose can be performed directly by the Company, either through the ownership of shares or through interests in companies with an identical or similar corporate purpose.

On August 30, 2000 the Board of Directors of Telefónica, S.A. approved the contribution of Telefónica Móviles España, S.A. (formerly named Telefónica Servicios Móviles, S.A.), Telefónica Móviles Intercontinental, S.A. (formerly named Telefónica Intercontinental, S.A.) and certain wireless communications businesses owned by Telefónica Internacional, S.A. to Telefónica Móviles, S.A. These companies were legally contributed to Telefónica Móviles, S.A. on October 2, 2000 and on October 11, 2000 (Note 2.d).

Prior to this date, these businesses were operated as direct or indirect subsidiaries of Telefónica, S.A. For purposes of the combined financial statements until October 2000, the Telefónica Móviles Group has recorded the contribution of these investments to it as a reorganization of entities under common control.

Under this treatment, the Telefónica Móviles Group recorded these investments using the historical cost bases and reflected such investments in the combined financial statements from the dates that each investments were acquired or formed by Telefónica, S.A. (Note 2.b for a description of the basis of preparation of these accounts).

On October 26, 2000, the Shareholders Meeting of Telefónica Móviles resolved to launch a public offering for subscription of 300,000,000 shares for \$11 each through a capital increase. In November 2000, Telefónica Móviles, S.A. applied for the admission of its shares to listing in the New York Stock Exchange (NYSE), in the form of American Depositary Shares (ADS), and on the Madrid, Valencia, Barcelona and Bilbao

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Stock Exchanges, as well as its inclusion on the Automatic Quotation System of the Spanish Stock Exchanges. All the shares were subscribed in the public offering.

The Group's main asset consists of holdings in various telecommunication operators in different countries. The principal companies composing the Telefónica Móviles Group as of December 31, 2001, 2002 and 2003, are as follows:

Telefónica Móviles España, S.A. (sole-stockholder company): incorporated by Telefónica, S.A. on October 11, 1988 and responsible for the management and operation of wireless communications in Spain.

Telefónica Móviles El Salvador, S.A. de C.V.: acquired by the Telefónica Group in July 1998. This company provides wireless and international long-distance communication services in El Salvador.

F-7

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

Telefónica Centroamérica Guatemala, S.A.: acquired by the Telefónica Group in July 1999. This company provides fixed-line and wireless communication services as well as paging services in Guatemala.

Telefónica Móviles U.S.A., Inc.: formed on March 23, 2000 to provide telecommunications consultancy services.

Telefónica Móviles Interacciona, S.A.: formed on June 21, 2000 (under the name of Terra Mobile, S.A.) to develop content and services through wireless networks using WAP technology or any other technology that may be developed in the future.

Telefónica Comunicaciones Personales, S.A.: a company which provides wireless communication services in Argentina. The holding in this company was acquired through the nonmonetary contribution made by Telefónica, S.A. on January 25, 2001, with effects since September 30, 2000, prior year effective fiscal year end (Note 2.d)

Telefónica Móviles, S.A.C.: a company which provides wireless communication services in Perú. The holding in this company was acquired through the nonmonetary contribution made by Telefónica, S.A. on March 7, 2001, with effects since January 1, 2001.

Telefónica Móviles Soluciones y Aplicaciones, S.A.: a Chilean company incorporated on July 1, 2002, which engages mainly in the development of commercial software and the provision of counseling services for the Telefónica Móviles Group communications and Internet companies.

Brasilcel, N.V.: a company to which the holdings owned by Telefónica Móviles, S.A. and the Portugal Telecom Group in wireless telephony companies in Brazil (see Note 2.d) were contributed on December 27, 2002, thereby making it Brazil's largest wireless operator. This joint venture, which is 50% owned and managed by each of the two groups, comprises the following wireless communications operators:

Tele Sudeste Celular Participações, S.A.: a Brazilian company, acquired by the Telefónica Group on July 30, 1998 in the public auction which privatized the Brazilian telecommunication system (Telebrás). This company provides wireless communication services in the states of Rio de Janeiro and Espírito Santo through its operators Telerj Celular, S.A. and Telest Celular, S.A., respectively.

Tele Leste Celular Participações, S.A.: a Brazilian company acquired by the Telefónica Group on July 30, 1998 in the public auction which privatized the Brazilian telecommunication system (Telebrás). This company provides wireless communication services in the states of Bahia and Sergipe through its operators Telebahia Celular, S.A. and Telergipe Celular, S.A., respectively.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Celular CRT Participações, S.A.: a Brazilian company resulting from the spin off of Companhia Riograndense de Telecomunicações, S.A. and acquired by the Telefónica Group in December, 1996 in the public auction held by the Government of Rio Grande do Sul. This company provides wireless communication services in the state of Rio Grande do Sul through its operator Celular CRT, S.A.

Telesp Celular Participações, S.A.: a Brazilian company which provides wireless communications services in the states of São Paulo (through its operator Telesp Celular, S.A.) and Paraná and Santa Catarina (through its operator Global Telecom, S.A.).

Tele Centro Oeste Celular Participações, S.A.: A Brazilian company, subsidiary of Telesp Celular Participações, S.A., acquired on April 25, 2003 (Note 2.d), which provides wireless

F-8

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

communications services in the Central-Western region (formed by the States of Brasilia, Goias, Etocantins, Mato Grosso, Mato Grosso do Sul, Rondônia and Acre) and in the Amazonas region (in the states of Amapá, Amazonas, Maranhao, Pará and Roraima).

Telefónica Móviles México, S.A. de C.V.: a Mexican company to which all the shares of the Telefónica Móviles Group and the Pegaso Group in Mexican wireless operators (Note 2.d) were contributed on September 10, 2002. This company, which is 92% owned by Telefónica Móviles, manages the following wireless communications operators:

Grupo Corporativo del Norte, S.A. de C.V.: a Mexican holding company which provides cellular telephony services through the operator Celular de Telefonía, S.A. de C.V. (Cedotel) in the states of Nuevo León, Tamaulipas and part of the state of Coahuila. This company was acquired on July 5, 2001, through a nonmonetary contribution made by Telefónica, S.A.

Corporación Integral de Comunicación, S.A. de C.V.: a Mexican holding company which provides cellular telephony services through the operator Telefonía Celular del Norte, S.A. de C.V. (Norcel) in the states of Chihuahua, Durango and part of the state of Coahuila. This company was acquired on July 5, 2001, through a nonmonetary contribution made by Telefónica, S.A.

Baja Celular Mexicana, S.A. de C.V.: a Mexican holding company which provides cellular telephony services in the states of Baja California Norte, Baja California Sur and in the municipality of San Luis del Río Colorado in Sonora and, through the operator Movitel del Noroeste, S.A. de C.V. (Movitel) in the states of Sinaloa and Sonora, with the exception of the municipality of San Luis del Río Colorado. This company was acquired on July 5, 2001, through a nonmonetary contribution made by Telefónica, S.A.

Pegaso Telecomunicaciones, S.A. de C.V.: a Mexican holding company which provides telecommunications services through the operator Pegaso Comunicaciones y Sistemas, S.A. de C.V. in 14 cities throughout Mexico (Tijuana, Guadalajara, México D.F., Monterrey, Ensenada, Nuevo Laredo, Reynosa, Toluca, Chapala, Mexicali, Saltillo, Cuernavaca, Puebla and León). This company, which has a license to operate in all the regions, was acquired on September 10, 2002.

Movitel del Noroeste, S.A. de C.V.: a Mexican company, subsidiary of Baja Celular Mexicana, S.A. de C.V., which provides cellular telephony services in the States of Sinaloa and Sonora, excluding the San Luis del Río Colorado municipality.

Médi Telecom, S.A.: formed by the Telefónica Group and other investors in 1999. It provides wireless communication services in Morocco. This company began its operations in March 2000.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Mobipay International, S.A.: incorporated on December 21, 2000, with the corporate purpose of the provision of mobile payment services worldwide, excluding Spain.

Mobipay España, S.A.: a company incorporated on July 10, 2001, whose corporate purpose is the provision of mobile payment services in Spain.

After the incorporation of Telefónica Móviles, S.A. in February 2000, and the contribution of the investments held by Telefónica, S.A. and Telefónica Internacional, S.A. to Telefónica Móviles, S.A., the direct, indirect and total percentages of ownership of the Telefónica Móviles Group in each of the companies as of December 31, 2001, 2002 and 2003 are as follows:

F-9

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

| <u>Companies</u> | <u>Economic Ownership</u> | | |
|--|---------------------------|-----------------|---|
| | <u>December 31, 2001</u> | | |
| | <u>Direct</u> | <u>Indirect</u> | <u>Telefónica Móviles Group</u> |
| Tagilo Participações, Ltda. | 100.00% | | 100.00% |
| SudesteCel Participações, S.A. | 82.50% | | 82.50% |
| Tele Sudeste Celular Participações, S.A. | 58.47% | 26.39% | 82.02% |
| Telery Celular, S.A. | | 100.00% | 82.02% |
| Telest Celular, S.A. | | 100.00% | 82.02% |
| TBS Celular Participações, S.A. | 66.27% | | 66.27% |
| Celular CRT Participações, S.A. | 23.49% | 22.20% | 38.20% |
| Celular CRT, S.A. | | 100.00% | 38.20% |
| TES Holding, S.A. de C.V. | 51.00% | | 51.00% |
| Telefónica El Salvador, S.A. de C.V. | | 90.3% | (*)46.05% |
| TCG Holdings, S.A. | 51.00% | | 51.00% |
| Telefónica Centroamérica Guatemala, S.A. | | 100.00% | 51.00% |
| Telescucha, S.A. | | 100.00% | 51.00% |
| Iberoleste Participações, S.A. | 38.00% | | 38.00% |
| Tele Leste Celular Participações, S.A. | 2.42% | 21.91% | 10.75% |
| Telebahia Celular, S.A. | | 100.00% | 10.75% |
| Telergipe Celular, S.A. | | 100.00% | 10.75% |
| Telefónica Móviles España, S.A. (sole-stockholder company) | 100.00% | | 100.00% |
| Setaber Investments, B.V. | | 100.00% | 100.00% |
| Senda Investments, B.V. | | 50.00% | 50.00% |
| Grupo 3G, S.R.L. | | 100.00% | 100.00% |
| Stella Investments, B.V. | | 100.00% | 100.00% |
| Nuevo Cosmos | | 100.00% | 100.00% |
| Spiral Investments, B.V. | | 100.00% | 100.00% |
| 3G Mobile AG | | 100.00% | 100.00% |
| Serea Investments, B.V. | | 100.00% | 100.00% |
| ST 3G, S.A. | | 40.00% | 40.00% |
| Mobipay España, S.A. | | 13.33% | 13.33% |
| Tempos 21 Innovación en Aplicaciones Móviles, S.A. | | 38.50% | 38.50% |
| Main Ito. Superior Tecnología y Empresa, S.L. | | 20.00% | 20.00% |
| Telefónica UK | | 100.00% | 100.00% |
| 3G Mobile Telecommunications GmbH | | 100.00% | 100.00% |
| Solivella Investments, B.V. | | 100.00% | 100.00% |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | |
|---|---------|---------|
| IPSE 2000, S.p.A. | 45.59% | 45.59% |
| Group 3G UMTS Holding GmbH | 57.20% | 57.20% |
| Group 3G UMTS GmbH | 100.00% | 57.20% |
| Opco Mobile Services GmbH | 100.00% | 57.20% |
| Médi Telecom, S.A. | 30.50% | 30.50% |
| Telefónica Mobile Solutions, S.A. | 100.00% | 100.00% |
| Telefónica Mobile Solutions Chile, S.A.C. | 99.90% | 99.90% |

F-10

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

| <u>Companies</u> | <u>Economic Ownership</u> | | |
|---|---------------------------|-----------------|---|
| | <u>December 31, 2001</u> | | |
| | <u>Direct</u> | <u>Indirect</u> | <u>Telefónica Móviles Group</u> |
| Telefónica Mobile Solutions Perú, S.A.C. | | 99.90% | 99.90% |
| Telefónica Mobile Solutions Brasil, L.T.D.A. | | 99.90% | 99.90% |
| Telefónica Mobile Solutions Argentina, S.A. | | 99.90% | 99.90% |
| Terra Mobile, S.A. | 80.00% | | 80.00% |
| Telefónica Móviles U.S.A., Inc. | 100.00% | | 100.00% |
| TELCA Gestión Guatemala, S.A. | 51.00% | | 51.00% |
| TELCA Gestión, S.A. de C.V. | 51.00% | | 51.00% |
| Mobipay International, S.A. | 38.00% | | 38.00% |
| Telefónica Móviles Perú Holding, S.A.A. | 97.97% | | 97.97% |
| Telefónica Móviles, S.A.C. | | 100.00% | 97.97% |
| Telefónica Móviles Argentina, S.A. | 97.93% | | 97.93% |
| Telefónica Comunicaciones Personales, S.A. | | 100.00% | 97.93% |
| Radio Servicios, S.A. | | 99.99% | 97.92% |
| Radio Móvil Digital Argentina, S.A. | | 99.99% | 97.92% |
| Telefónica de Centroamérica, S.L. | 51.00% | | 51.00% |
| Telefónica Móviles Holding Uruguay, S.A. | 100.00% | | 100.00% |
| Paging de Centroamérica, S.A. | 51.00% | | 51.00% |
| Telefónica Soporte y Tecnología, S.A. | 99.99% | | 99.99% |
| Baja Celular Mexicana, S.A. de C.V. | 100.00% | | 100.00% |
| Baja Celular Servicios Corporativos, S.A. de C.V. | 0.10% | 99.90% | 100.00% |
| Tamcel, S.A. de C.V. | | 99.99% | 99.99% |
| Movitel de Noroeste, S.A. de C.V. | 22.00% | 68.00% | 90.00% |
| Movicelular, S.A. de C.V. | 22.00% | 68.00% | 90.00% |
| Moviservicios, S.A. de C.V. | 22.00% | 68.00% | 90.00% |
| Corporativo Integral Comunicación, S.A. de C.V. | 100.00% | | 100.00% |
| Telefonía Celular del Norte, S.A. de C.V. | 79.10% | 20.90% | 100.00% |
| Todo para Celulares, S.A. de C.V. | | 100.00% | 100.00% |
| Grupo Corporativo del Norte, S.A. de C.V. | 100.00% | | 100.00% |
| Celular de Telefonía, S.A. de C.V. | 73.82% | 26.18% | 100.00% |
| Soluciones Celulares, S.A. de C.V. | | 100.00% | 100.00% |
| Enlaces del Norte, S.A. de C.V. | | 49.00% | 49.00% |
| Grupo de Telecomunicaciones Celulares, S.A. de C.V. | | 100.00% | 73.99% |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

- (*) For clarifying purposes, the following example is provided: The Telefónica Móviles Group's economic ownership in Telefónica de El Salvador, S.A. de C.V. as of December 31, 2001 = 51.00% of Telefónica Móviles Group's direct economic ownership in TES Holding, S.A. de C.V. multiplied by 90.3% of Telefónica Móviles Group subsidiary TES Holding, S.A. de C.V.'s direct economic ownership in Telefónica de El Salvador, S.A. de C.V. = 46.05%.

F-11

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

| <u>Companies</u> | <u>Economic Ownership</u> | | |
|--|---------------------------|-----------------|---|
| | <u>December 31, 2002</u> | | |
| | <u>Direct</u> | <u>Indirect</u> | <u>Telefónica Móviles Group</u> |
| Brasilcel, N.V. | 50.00% | | 50.00% |
| Tagilo Participações, Ltda. | | 100.00% | 50.00% |
| SudesteCel Participações, S.A. | | 89.50% | 44.75% |
| Tele Sudeste Celular Participações, S.A. | | 85.59% | 41.79% |
| Telerj Celular, S.A. | | 100.00% | 41.79% |
| Telest Celular, S.A. | | 100.00% | 41.79% |
| Portelcom Fixa, S.A. | | 100.00% | 50.00% |
| TBS Celular Participações, S.A. | | 96.26% | 48.13% |
| Celular CRT Participações, S.A. | | 49.38% | 24.24% |
| Celular CRT, S.A. | | 100.00% | 24.24% |
| Iberoleste Participações, S.A. | | 100.00% | 50.00% |
| Tele Leste Celular Participações, S.A. | | 27.70% | 13.85% |
| Telebahia Celular, S.A. | | 100.00% | 13.85% |
| Telergipe Celular, S.A. | | 100.00% | 13.85% |
| Intertelecom Ltda. | | 99.99% | 49.99% |
| Ptelecom Brasil, S.A. | | 99.99% | 49.99% |
| Portelcom Participações, S.A. | | 100.00% | 49.99% |
| Telesp Celular Participações, S.A. | | 65.12% | 32.56% |
| Telesp Celular, S.A. | | 100.00% | 32.56% |
| Daini do Brasil, S.A. | | 100.00% | 32.56% |
| Global Telcom Telecom, S.A. | | 100.00% | 32.56% |
| Inepar S.A. Part. Invest. de Telecom. | | 100.00% | 32.56% |
| Global Telecom, S.A. | | 100.00% | 32.56% |
| TES Holding, S.A. de C.V. | 100.00% | | 100.00% |
| Telefónica El Salvador, S.A. de C.V. | | 90.30% | 90.30% |
| TCG Holdings, S.A. | 100.00% | | 100.00% |
| Telefónica Centroamérica Guatemala, S.A. | | 100.00% | 100.00% |
| Telescucha, S.A. | | 100.00% | 100.00% |
| Telefónica Móviles España, S.A. (sole-stockholder company) | 100.00% | | 100.00% |
| Setaber Investments, B.V. | | 100.00% | 100.00% |
| Senda Investments, B.V. | | 50.00% | 50.00% |
| Grupo 3G, S.R.L. | | 100.00% | 100.00% |
| Nuevo Cosmos | | 100.00% | 100.00% |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | |
|--|---------|---------|
| Spiral Investments, B.V. | 100.00% | 100.00% |
| 3G Mobile AG | 100.00% | 100.00% |
| Serea Investments, B.V. | 100.00% | 100.00% |
| ST 3G, S.A. | 40.00% | 40.00% |
| Mobipay España, S.A. | 13.33% | 13.33% |
| Tempos 21 Innovación en Aplicaciones Móviles, S.A. | 38.50% | 38.50% |
| Main Ito. Superior Tecnología y Empresa, S.L. | 20.00% | 20.00% |
| Telefónica UK | 100.00% | 100.00% |

F-12

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

| <u>Companies</u> | <u>Economic Ownership</u> | | |
|--|---------------------------|-----------------|---|
| | <u>December 31, 2002</u> | | |
| | <u>Direct</u> | <u>Indirect</u> | <u>Telefónica Móviles Group</u> |
| 3G Mobile Telecommunications GmbH | | 100.00% | 100.00% |
| Solivella Investments, B.V. | | 100.00% | 100.00% |
| IPSE 2000, S.p.A. | | 45.59% | 45.59% |
| Group 3G UMTS Holding GmbH | | 57.20% | 57.20% |
| Group 3G UMTS GmbH | | 100.00% | 57.20% |
| Opco Mobile Services GmbH | | 100.00% | 57.20% |
| Médi Telecom, S.A. | | 31.34% | 31.34% |
| Telefónica Mobile Solutions, S.A. | 100.00% | | 100.00% |
| Telefónica Mobile Solutions Chile, S.A.C. | | 99.90% | 99.90% |
| Telefónica Mobile Solutions Perú, S.A.C. | | 99.90% | 99.90% |
| Telefónica Mobile Solutions Brasil, L.T.D.A. | | 99.90% | 99.90% |
| Telefónica Mobile Solutions Argentina, S.A. | | 99.90% | 99.90% |
| Terra Mobile, S.A. | 80.00% | | 80.00% |
| Terra Mobile Brasil, Ltd. | | 100.00% | 80.00% |
| Termespa, S.A.U. | | 100.00% | 80.00% |
| Terra Mobile (Finland) Oy. | | 100.00% | 80.00% |
| Terra Mobile UK, Ltd. | | 100.00% | 80.00% |
| I.O. Box Deutschland, GmbH | | 100.00% | 80.00% |
| Telefónica Móviles U.S.A., Inc. | 100.00% | | 100.00% |
| TELCA Gestión Guatemala, S.A. | 100.00% | | 100.00% |
| TELCA Gestión, S.A. de C.V. | 100.00% | | 100.00% |
| Mobipay International, S.A. | 36.00% | | 36.00% |
| Telefónica Móviles Perú Holding, S.A.A. | 97.97% | | 97.97% |
| Telefónica Móviles, S.A.C. | | 100.00% | 97.97% |
| Telefónica Móviles Argentina, S.A. | 97.93% | | 97.93% |
| Telefónica Comunicaciones Personales, S.A. | | 100.00% | 97.93% |
| Radio Servicios, S.A. | | 99.99% | 97.92% |
| Radio Móvil Digital Argentina, S.A. | | 99.99% | 97.92% |
| Telefónica de Centroamérica, S.L. | 100.00% | | 100.00% |
| Telefónica Móviles Holding Uruguay, S.A. | 100.00% | | 100.00% |
| Telefónica Móviles Uruguay, S.A. | | 100.00% | 100.00% |
| Paging de Centroamérica, S.A. | 100.00% | | 100.00% |
| Telefónica Soporte y Tecnología, S.A. | 99.99% | | 99.99% |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | | |
|---|--------|---------|--------|
| Telefónica Móviles México, S.A. de C.V. | 92.00% | | 92.00% |
| Telefónica Finanzas México, S.A. de C.V. | | 100.00% | 92.00% |
| Baja Celular Mexicana, S.A. de C.V. | | 100.00% | 92.00% |
| Baja Celular Servicios Corporativos, S.A. de C.V. | | 100.00% | 92.00% |
| Tamcel, S.A. de C.V. | | 99.99% | 92.00% |
| Movitel de Noroeste, S.A. de C.V. | | 90.00% | 82.80% |
| Movicelular, S.A. de C.V. | | 90.00% | 82.80% |
| Moviservicios, S.A. de C.V. | | 90.00% | 82.80% |

F-13

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

| <u>Companies</u> | <u>Economic Ownership</u> | | |
|---|---------------------------|-----------------|---|
| | <u>December 31, 2002</u> | | |
| | <u>Direct</u> | <u>Indirect</u> | <u>Telefónica Móviles Group</u> |
| Corporativo Integral Comunicación, S.A. de C.V. | | 100.00% | 92.00% |
| Telefonía Celular del Norte, S.A. de C.V. | | 100.00% | 92.00% |
| Todo para Celulares, S.A. de C.V. | | 100.00% | 92.00% |
| Grupo Corporativo del Norte, S.A. de C.V. | | 100.00% | 92.00% |
| Celular de Telefonía, S.A. de C.V. | | 100.00% | 92.00% |
| Soluciones Celulares, S.A. de C.V. | | 100.00% | 92.00% |
| Enlaces del Norte, S.A. de C.V. | | 94.90% | 87.31% |
| Grupo de Telecomunicaciones Mexicanas, S.A. de C.V. | | 100.00% | 92.00% |
| Pegaso Telecomunicaciones, S.A. de C.V. | | 100.00% | 92.00% |
| Pegaso Comunicaciones y Sistemas, S.A. de C.V. | | 100.00% | 92.00% |
| Pegaso PCS, S.A. de C.V. | | 100.00% | 92.00% |
| Pegaso Recursos Humanos, S.A. de C.V. | | 100.00% | 92.00% |
| Pegaso Finanzas, S.A. de C.V. | | 100.00% | 92.00% |
| Pegaso Finco I, S.A. de C.V. | | 100.00% | 92.00% |
| Telefónica Móviles Aplicaciones y Soluciones, S.A. | 100.00% | | 100.00% |
| Brasilcel, N.V. | 50.00% | | 50.00% |
| Tagilo Participações, Ltda. | | 100.00% | 50.00% |
| SudesteCel Participações, S.A. | | 89.50% | 44.75% |
| Tele Sudeste Celular Participações, S.A. | | 86.19% | 41.94% |
| Telerj Celular, S.A. | | 100.00% | 41.94% |
| Telest Celular, S.A. | | 100.00% | 41.94% |
| Portelcom Fixa, S.A. | | 100.00% | 50.00% |
| TBS Celular Participações, S.A. | 1.12% | 96.26% | 49.25% |
| Celular CRT Participações, S.A. | | 50.55% | 25.08% |
| Celular CRT, S.A. | | 100.00% | 25.08% |
| Iberoleste Participações, S.A. | | 100.00% | 50.00% |
| Tele Leste Celular Participações, S.A. | | 27.70% | 13.85% |
| Telebahia Celular, S.A. | | 100.00% | 13.85% |
| Telergipe Celular, S.A. | | 100.00% | 13.85% |
| Intertelecom Ltda. | | 99.99% | 49.99% |
| Ptelecom Brasil, S.A. | | 99.99% | 49.99% |
| Portelcom Participações, S.A. | | 100.00% | 49.99% |
| Telesp Celular Participações, S.A. | | 65.12% | 32.56% |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | |
|---|---------|--------|
| Telesp Celular, S.A. | 100.00% | 32.56% |
| Global Telecom Telecom, S.A. | 100.00% | 32.56% |
| Tele Centro Oeste Celular Participações, S.A. | 28.87% | 9.40% |
| Telegoiás Celular, S.A. | 97.14% | 9.13% |
| Telemat Celular, S.A. | 97.83% | 9.20% |
| Telems Celular, S.A. | 98.54% | 9.26% |
| Teleron Celular, S.A. | 97.23% | 9.14% |
| Teacre Celular, S.A. | 98.35% | 9.24% |

F-14

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

| <u>Companies</u> | <u>Economic Ownership</u> | | |
|--|---------------------------|-----------------|---|
| | <u>December 31, 2002</u> | | |
| | <u>Direct</u> | <u>Indirect</u> | <u>Telefónica Móviles Group</u> |
| Norte Brasil Telecom, S.A. | | 100.00% | 9.40% |
| Tele Centro Oeste IP, S.A. | | 99.99% | 9.40% |
| Telefónica Móviles El Salvador Holding, S.A. de C.V. (*) | 100.00% | | 100.00% |
| Telefónica Móviles El Salvador, S.A. de C.V. (**) | | 90.30% | 90.30% |
| TCG Holdings, S.A. | 100.00% | | 100.00% |
| Telefónica Centroamérica Guatemala, S.A. | | 100.00% | 100.00% |
| Telescucha, S.A. | | 100.00% | 100.00% |
| Infraestructura Internacional, S.A. | | 70.00% | 70.00% |
| Telefónica Móviles España, S.A. (sole-stockholder company) | 100.00% | | 100.00% |
| Grupo 3G, S.R.L. | | 100.00% | 100.00% |
| Spiral Investments, B.V. | | 100.00% | 100.00% |
| 3G Mobile AG | | 100.00% | 100.00% |
| Mobipay España, S.A. | | 13.33% | 13.33% |
| Tempos 21 Innovación en Aplicaciones Móviles, S.A. | | 38.50% | 38.50% |
| Main Ito. Superior Tecnología y Empresa, S.L. | | 20.00% | 20.00% |
| Mediaways UK (***) | | 100.00% | 100.00% |
| Solivella Investments, B.V. | | 100.00% | 100.00% |
| IPSE 2000, S.p.A. | | 45.59% | 45.59% |
| Group 3G UMTS Holding GmbH | | 57.20% | 57.20% |
| Quam GmbH (****) | | 100.00% | 57.20% |
| Opco Mobile Services GmbH | | 100.00% | 57.20% |
| Médi Telecom, S.A. | | 32.18% | 32.18% |
| Telefónica Móviles Interacciona, S.A. (*****) | | 100.00% | 100.00% |
| Terra Mobile Brasil, Ltd. | | 100.00% | 100.00% |
| I.O. Box Deutschland, GmbH | | 100.00% | 100.00% |
| Simpay | 25.00% | | 25.00% |
| Omicron Ceti, S.L. | 100.00% | | 100.00% |
| Telefónica Móviles Puerto Rico, Inc. | 100.00% | | 100.00% |
| Telefónica Móviles U.S.A., Inc. | 100.00% | | 100.00% |
| TELCA Gestión, S.A. de C.V. | 100.00% | | 100.00% |
| Mobipay International, S.A. | 36.05% | | 36.05% |
| Telefónica Móviles Perú Holding, S.A.A. | 97.97% | | 97.97% |
| Telefónica Móviles, S.A.C. | | 100.00% | 97.97% |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | | |
|--|---------|---------|---------|
| Telefónica Móviles Argentina, S.A. | 97.93% | | 97.93% |
| Telefónica Comunicaciones Personales, S.A. | | 100.00% | 97.93% |
| Radio Servicios, S.A. | | 99.99% | 97.92% |
| Radio Móvil Digital Argentina, S.A. | | 99.99% | 97.92% |
| Telefónica de Centroamérica, S.L. | 100.00% | | 100.00% |
| Telefónica Móviles Holding Uruguay, S.A. | 100.00% | | 100.00% |
| Telefónica Móviles Uruguay. S.A. | | 100.00% | 100.00% |
| Paging de Centroamérica, S.A. | 100.00% | | 100.00% |

F-15

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

| <u>Companies</u> | <u>Economic Ownership</u> | | |
|---|---------------------------|-----------------|---|
| | <u>December 31, 2002</u> | | |
| | <u>Direct</u> | <u>Indirect</u> | <u>Telefónica Móviles Group</u> |
| Telefónica Soporte y Tecnología, S.A. | 99.99% | | 99.99% |
| Telefónica Móviles México, S.A. de C.V. | 92.00% | | 92.00% |
| Telefónica Finanzas México, S.A. de C.V. | | 100.00% | 92.00% |
| Baja Celular Mexicana, S.A. de C.V. | | 100.00% | 92.00% |
| Baja Celular Servicios Corporativos, S.A. de C.V. | | 100.00% | 92.00% |
| Tamcel, S.A. de C.V. | | 99.99% | 92.00% |
| Movitel de Noroeste, S.A. de C.V. | | 90.00% | 82.80% |
| Movicelular, S.A. de C.V. | | 90.00% | 82.80% |
| Moviservicios, S.A. de C.V. | | 90.00% | 82.80% |
| Corporativo Integral Comunicación, S.A. de C.V. | | 100.00% | 92.00% |
| Telefonía Celular del Norte, S.A. de C.V. | | 100.00% | 92.00% |
| Todo para Celulares, S.A. de C.V. | | 100.00% | 92.00% |
| Grupo Corporativo del Norte, S.A. de C.V. | | 100.00% | 92.00% |
| Celular de Telefonía, S.A. de C.V. | | 100.00% | 92.00% |
| Soluciones Celulares, S.A. de C.V. | | 100.00% | 92.00% |
| Enlaces del Norte, S.A. de C.V. | | 94.90% | 87.31% |
| Grupo de Telecomunicaciones Mexicanas, S.A. de C.V. | | 100.00% | 89.61% |
| Pegaso Telecomunicaciones, S.A. de C.V. | | 100.00% | 92.00% |
| Pegaso Comunicaciones y Sistemas, S.A. de C.V. | | 100.00% | 92.00% |
| Pegaso PCS, S.A. de C.V. | | 100.00% | 92.00% |
| Pegaso Recursos Humanos, S.A. de C.V. | | 100.00% | 92.00% |
| Pegaso Finanzas, S.A. de C.V. | | 100.00% | 92.00% |
| Pegaso Finco I, S.A. de C.V. | | 100.00% | 92.00% |
| Activos para Telecomunicación, S.A. de C.V. | | 100.00% | 92.00% |
| Telecomunicaciones Punto a Punto México, S.A. de C.V. | | 100.00% | 92.00% |
| Telefónica Móviles Aplicaciones y Soluciones, S.A. | 100.00% | | 100.00% |

(*) Formerly TES El Salvador, S.A. de C.V.

(**) Formerly Telefónica El Salvador, S.A. de C.V.

(***) Formerly Telefónica UK

(****) Formerly Group 3G UMTS

(*****) Formerly Terra Mobile, S.A.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Note 2.c lists the voting interest and consolidation method for the group companies in which Telefónica Móviles, S.A. has direct or indirect holdings and the changes in these holdings during 2001, 2002 and 2003.

Companies providing telecommunications services are subject to regulatory frameworks which set the rates of certain services. Also, some of these companies have commitments to the regulatory entities whereby they are obliged, for a certain time period, to comply with certain installation rates and service quality standards. As of December 31, 2003 all the companies had complied with these commitments.

F-16

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

In 2000 and 2001 certain Telefónica Móviles Group companies obtained third-generation wireless telephony (UMTS) licenses in Spain, Germany, Italy, Austria and Switzerland. Since the acquisition of these licenses, Telefónica Móviles has launched various initiatives aimed at enhancing its business plans, as a result of which the German operator Group 3G entered into roaming and infrastructure sharing agreements with another operator in Germany, thereby commencing operations as a GSM virtual wireless network operator at the end of 2001.

In 2002, in view of the continuing delay in the commercial availability of UMTS technology, the significant downward revisions of the estimated demand for 3G services and the increased penetration of European markets by already-established operators, Telefónica Móviles reviewed the assumptions underlying the business plans of its investees in Germany, Italy, Austria and Switzerland, reconsidering its short- and medium-term strategies in these countries, and decided (i) to put on hold its second generation commercial activities in Germany and (ii) requested independent experts to assess the business plans of the aforementioned UMTS operators.

Based on the assessments obtained, and to ensure that the investments are correctly valued at all times, Telefónica Móviles decided in 2002 to eliminate the risk exposure in its books relating to the investments in Germany, Austria and Switzerland. Regarding the investment in Italy, Telefónica Móviles estimated the value of the UMTS license of Ipse 2000, S.p.A. at 300 million (risk exposure of 136 million for the Móviles Group), since 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. It should be noted that 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. Ipse 2000, S.p.A. has requested the return of this additional spectrum and the modification of the related payment. The latter amount was included in the value of the license prior to the write-down for accounting purposes. As of December 31, 2003, there was no change in the situation described before with respect to Germany, Switzerland and Italy.

The detail, by caption and country, of the effect of the write-downs and restructuring expenses arising from the Group's decisions on the 2002 consolidated statement of operations and consolidated balance sheet of Telefónica Móviles is as follows:

| (Thousands of Euros) | | | | | |
|--------------------------------|---------------------------|---------|-------|---------|-------------|
| Allocated to: | | | | | |
| | Total Móviles Group | Germany | Italy | Austria | Switzerland |
| Statement of Operations | | | | | |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | | | | |
|---|---------------------|---------------------|--------------------|------------------|-----------------|
| Share in losses of companies accounted for by the equity method (1) | (34,386) | | (34,386) | | |
| Losses on intangible assets (2) | (9,285,381) | (9,118,935) | | (129,220) | (37,226) |
| Losses on property, plant and equipment (3) | (81,179) | (57,843) | | (5,075) | (18,261) |
| Extraordinary expenses (net) due to halting of UMTS operations (4) | (2,563,469) | (829,427) | (1,699,931) | (9,979) | (24,132) |
| Loss before taxes | (11,964,415) | (10,006,205) | (1,734,317) | (144,274) | (79,619) |
| Corporate income tax (5) | 2,716,511 | | | | |
| Loss attributed to minority interests (6) | 4,198,050 | | | | |
| Loss for the year | (5,049,854) | | | | |

F-17

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

- (1) Relating mainly to the labor force restructuring and contract termination expenses recognized by Ipse 2000, S.p.A. (a company accounted for by the equity method) in its financial statements as of December 31, 2002.
- (2) Relating mainly to the write-down of third-generation licenses at the fully consolidated companies.
- (3) Relating to the property, plant and equipment retirements at the fully consolidated companies and including most notably the losses recognized by the German subsidiary Group 3G UMTS Holding GmbH arising from the halting of its GSM / GPRS commercial activity.
- (4) Relating mainly to expenses arising from labor force restructuring (37.1 million); termination of contracts (206.3 million); write-down of preopening expenses (100.9 million), and long-term investments (112.4 million); and the absorption of losses of minority interests (382.4 million see Note 10). In the case of the Italian investee Ipse 2000, S.p.A., this caption includes the provision for the value adjustment made to the investment in this company. As indicated in Note 4.k, the Company transferred 968,808 thousand of provisions for contingencies and expenses to reflect the lower value of companies accounted for by the equity method, since Ipse 2000, S.p.A. had partially included in its statutory accounts the adjusted values of its assets. The application of this provision had no impact on the 2003 statement of operations
- (5) Relating to the tax assets arising from the decline in value (tax-deductible investment valuation provision) of the European subsidiaries awarded the third-generation wireless telephony licenses.
- (6) Relating to the losses attributable to minority interests in the German company Group 3G UMTS Holding GmbH.

The assets retired as a result of the aforementioned write-downs amounted to 9,586 million.

It should be noted that, although Telefónica Móviles, S.A. reported losses in 2002, these losses did not give rise to an additional cash disbursement (except for the expenses relating to termination of contracts and labor force restructuring) and reduce the financial risk exposure in these markets while maximizing the generation of cash flows for the Group at short term arising from the reduction of the investments.

On December 23, 2003, Telefónica Móviles España, S.A. sold its investment in 3G Mobile Telecommunications GmbH (holder of the UMTS license in Austria) for 13,650 thousand (Note 2.d). Telefónica Móviles continues to do its utmost to obtain value from the aforementioned UMTS investments.

2. Basis of presentation of the consolidated financial statements

a) True and fair view

The consolidated financial statements as of December 31, 2003 and the combined financial statements as of December 31, 2002 and 2001 have been prepared by the management of the Telefónica Móviles Group from the accounts of Telefónica Móviles, S.A., the accounts of the

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

companies acquired or formed by Telefónica Móviles, S.A., and the accounts of the companies that were historically owned or acquired by the Telefónica Group and that were legally transferred to the Telefónica Móviles Group in October 2000, except for Telefónica Móviles Argentina, S.A. and Telefónica Móviles Perú Holding, S.A.A. which were contributed to Telefónica Móviles, S.A. by Telefónica, S.A. during 2001, and are not reflected in the combined financial statements as of December 31, 2000 under Spanish GAAP (Note 2.d).

The accounts of the companies comprising the Telefónica Móviles Group were prepared in accordance with the accounting principles and standards regulated in Spain and give a true and fair view of the net worth and

F-18

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

financial position of the Group as of December 31, 2002 and 2003 and of the results of operations and funds obtained and applied for each of the years ended December 31, 2001, 2002 and 2003.

Accounting principles used in preparing the consolidated financial statements conform with generally accepted accounting principles in Spain (Spanish GAAP), but do not conform with generally accepted accounting principles in the United States (U.S. GAAP). A description of these differences and a complete reconciliation of consolidated net income and shareholders' equity to U.S. GAAP are set forth in Note 20. Occasionally, additional information has been included in some notes to the financial statements with the only purpose to clarify the comprehension of the reader.

b) Basis of preparation

The combined financial statements have been prepared as if the Group had been formed on October 11, 1988, the date on which the first business of Telefónica Móviles, S.A., Telefónica Móviles España, S.A., was formed. The combined financial statements include the accounts of Telefónica Móviles, S.A., Telefónica Móviles España, S.A., RadioRed 1, S.A. (merged with Telefónica Móviles España, S.A. in July 2000), C.G.S. MensaTel, S.A (merged with Telefónica Móviles España, S.A in July 2000), Tele Sudeste Celular Participações, S.A., TCG Holdings, S.A., TES Holding, S.A. de C.V., Tele Leste Celular Participações, S.A., Médi Telecom, S.A., Terra Mobile, S.A., Telefónica Mobile Solutions, S.A., Telefónica Móviles U.S.A., Inc., Group 3G UMTS Holding GmbH, IPSE 2000, S.p.A., 3G Mobile Telecommunications GmbH, Mobipay International, S.A., Mobipay España, S.A., 3G Mobile AG and the wireless telephony operators in the North of Mexico from the dates these entities were acquired or formed by the Telefónica Group.

Additionally, the combined financial statements as of December 31, 2001 include the accounts of Telefónica Móviles Perú Holding, S.A.A. (holding company of Telefónica Móviles, S.A.C.) and Telefónica Móviles Argentina, S.A. (holding company of Telefónica Comunicaciones Personales, S.A.) from January 1, 2001 and September 30, 2000 respectively, which are the effective dates these entities were transferred by Telefónica Group to Telefónica Móviles Group for purposes of the combined financial statements.

The combined financial statements also include the wireless-related accounts until October, 2000 (date of the contribution of the companies) of Telefónica Internacional, S.A., Telefónica Móviles Intercontinental, S.A. and Celular CRT Participações, S.A. (until 1999, the part of the historical wireless telephone activities of Companhia Riograndense de Telecomunicações, S.A.). Since some of these companies, including Telefónica Internacional, S.A., Telefónica Móviles Intercontinental, S.A., and Companhia Riograndense de Telecomunicações, S.A. historically consisted of both fixed-line and wireless telephone operations, the assets, liabilities, revenues, costs and cash flows related solely to wireless operations have been carved-out from these historical results and included in the combined financial statements.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

The criteria used to allocate the results of operations and the financial position of the above-mentioned companies were based, when possible, on the specific identification of amounts applicable to the wireless businesses. To the extent that the specific identification of balances was not possible, other allocation methods were employed based on all available information. These allocation methods were consistently applied to these businesses that, after their legal contribution in October 2000, formed part of the Telefónica Móviles Group (Note 2.d).

F-19

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

The following is a description of the specific criteria and allocation methods employed for determining the significant account balances of the wireless businesses of Telefónica Internacional, S.A., Telefónica Móviles Intercontinental, S.A. and Companhia Riograndense de Telecomunicações, S.A. used in the preparation of the combined financial statements. Management of the Group believes that the following allocations are reasonable based on the nature of the Group's operations during the relevant periods. However, as these companies had been operating as separated businesses of the Telefónica Group until October 2000, there can be no assurance that the combined financial statements represent what the historical results of operations and financial position of these companies, as well as those of the combined Group, would have been had Telefónica Móviles, S.A. and its group companies operated as a separate, stand-alone entity during the periods presented, or that such combined financial statements are indicative of future results of operations or financial position.

Carve-out accounting for Telefónica Internacional, S.A., Telefónica Móviles Intercontinental, S.A. and Companhia Riograndense de Telecomunicações, S.A.

Assets and liabilities

Except as described below, until October 2000, all assets and liabilities of Telefónica Internacional, S.A., Telefónica Móviles Intercontinental, S.A. and Companhia Riograndense de Telecomunicações, S.A. have been recorded in the combined financial statements for all periods based on the specific identification of rights and obligations associated with the wireless business operations of these entities.

Companhia Riograndense de Telecomunicações, S.A.'s tangible fixed assets were recorded based on specific identification of the equipment and other property that were transferred to and owned by the Telefónica Group. Furthermore, accounts receivable and related allowances for bad debts were historically tracked separately by line of business.

The allocation of historical debts of Telefónica Internacional, S.A. and Telefónica Móviles Intercontinental, S.A. has been made reflecting the amounts specifically identified as corporate borrowings to finance the wireless operations until October 2000. After this date, the debts that were finally allocated to Telefónica Móviles, S.A. have been included in the combined financial statements.

Other long-term debt has been allocated considering the relative investment made in tangible and intangible assets related to the wireless operations, versus total investments made in all tangible and intangible assets. For the periods in which no indebtedness existed, it has been assumed that all investments were made through capital increases until the date of the contribution of the companies.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Cash has been allocated to the Telefónica Móviles Group based on specific identification of cash balances maintained by the wireless businesses. Celular CRT, S.A. (during 1998) operated under a cash management scheme whereby all receipts were immediately forwarded to a central account and any funding required to cover disbursements was transferred to the wireless business from the central account at the time the check was presented for payment. Accordingly, no cash maintained in the central account at each reporting period has been allocated to the Telefónica Móviles Group companies, as there is no reasonable basis for making this allocation.

Revenues and costs

Net revenues from operations have been recorded based upon specific identification of the revenues arising from wireless communication services, such as subscription fees, network operating fees and other additional services.

F-20

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

Services and goods purchased, including services charged by fixed-line telephone operators for the use of their networks, have been allocated based on measures relating to the percentage of system resources used by wireless operations, including ratios of the number of wireless customers at the end of each period, to total wireless and fixed-line system resources.

External services and local taxes include primarily marketing and administrative expenses, and have been allocated based upon specific identification of these cost to the wireless operations. In substantially all cases, marketing and administrative costs related to specific promotion campaigns, or readily identifiable assets of the wireless business.

Personnel expenses have been recorded based on specific identification of wireless personnel to the extent possible, using the historical payroll costs of personnel currently employed by the group. When specific identification of personnel costs was not possible, shared costs were allocated based on the percentage of identifiable wireless employees versus total employees.

Depreciation and amortization has been allocated based on the ratio of identified tangible and intangible assets relating to the wireless businesses versus total assets.

Financial expenses and financial income have been recorded in the combined financial statements based primarily on the level of allocated debt and cash, respectively, used to finance the wireless business units until October, 2000. After this date, financial expenses and financial income related to the debts that were finally allocated to Telefónica Móviles, S.A. have been included in the combined financial statements.

Corporate income taxes have been calculated assuming that the Group had been operated as a separate legal entity for all periods presented.

c) Consolidation principles

The items in the financial statements were valued in accordance with the generally accepted accounting principles in effect. In the case of Group companies whose accounting and valuation methods differed from those of Telefónica Móviles, S.A., adjustments were made in consolidation so as to present the consolidated financial statements on a uniform basis.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Consolidation was performed by applying the consolidation methods and procedures contained in the accounting regulations in effect:

The companies over which effective control is exercised were consolidated by the global integration method.

The companies which are managed jointly with third parties were proportionally consolidated.

The companies in which there is significant management influence but not ownership of a majority of the voting rights or joint management with third parties were carried by the equity method.

The investees which are either not included in the foregoing points or which, although included, do not have a material impact on consolidation, are carried at cost net of the necessary provisions to reflect their market value if this is lower than cost.

F-21

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

Telefónica Móviles, S.A. owns the following voting interest in its investments:

| <u>Companies</u> | <u>Voting Interest</u> | | |
|---|------------------------|-------------|-------------|
| | <u>At December, 31</u> | | |
| | <u>2001</u> | <u>2002</u> | <u>2003</u> |
| Brasilcel, N.V. | | 50.00% | 50.00% |
| Tagilo Participações, Ltda. | 100.00% | 50.00% | 50.00% |
| SudesteCel Participações, S.A. | 82.50% | 44.75% | 44.75% |
| Tele Sudeste Celular Participações, S.A. | 75.73% | 40.25% | 40.81% |
| Telerj Celular, S.A. | 75.73% | 40.25% | 40.81% |
| Telest Celular, S.A. | 75.73% | 40.25% | 40.81% |
| Portelcom Fixa, S.A. | | 50.00% | 50.00% |
| TBS Celular Participações, S.A. | 66.27% | 48.13% | 49.25% |
| Celular CRT Participações, S.A. | 60.01% | 42.32% | 42.65% |
| Celular CRT, S.A. | 60.01% | 42.32% | 42.65% |
| Iberoleste Participações, S.A. | 38.00% | 50.00% | 50.00% |
| Tele Leste Celular Participações, S.A. | 21.89% | 29.21% | 29.21% |
| Telebahia Celular, S.A. | 21.89% | 29.21% | 29.21% |
| Telergipe Celular, S.A. | 21.89% | 29.21% | 29.21% |
| Intertelecom Ltda. | | 44.75% | 49.99% |
| Ptelecom Brasil, S.A. | | 75.73% | 49.99% |
| Portelcom Participações, S.A. | | 75.73% | 49.99% |
| Telesp Celular Participações, S.A. | | 46.83% | 48.33% |
| Telesp Celular, S.A. | | 46.83% | 48.33% |
| Daini do Brasil, S.A. | | 46.83% | |
| Global Telecom Telecom, S.A. | | 46.83% | 48.33% |
| Inepar S.A. Part. Invest. de Telecom. | | 46.83% | |
| Global Telecom, S.A. | | 46.83% | |
| Tele Centro Oeste Celular Participações, S.A. | | | 41.84% |
| Telegoiás Celular, S.A. | | | 41.26% |
| Telemat Celular, S.A. | | | 41.64% |
| Telems Celular, S.A. | | | 41.69% |
| Teleron Celular, S.A. | | | 41.12% |
| Teacre Celular, S.A. | | | 41.83% |
| Norte Brasil Telecom, S.A. | | | 41.84% |
| Tele Centro Oeste IP, S.A. | | | 41.84% |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | | |
|--|---------|---------|---------|
| Telefónica Móviles El Salvador Holding, S.A. de C.V. | 51.00% | 100.00% | 100.00% |
| Telefónica Móviles El Salvador, S.A. de C.V. | 46.05% | 90.30% | 90.30% |
| TCG Holdings, S.A. | 51.00% | 100.00% | 100.00% |
| Telefónica Centroamérica Guatemala, S.A. | 51.00% | 100.00% | 100.00% |
| Telescucha, S.A. | 51.00% | 100.00% | 100.00% |
| Infraestructura Internacional, S.A. | | | 70.00% |
| Telefónica Móviles España, S.A. (sole-stockholder company) | 100.00% | 100.00% | 100.00% |
| Mobipay España, S.A. | 13.33% | 13.33% | 13.33% |
| Main Ito. Sup. Tecnología y Empresa, S.L. | 20.00% | 20.00% | 20.00% |
| Tempos 21 Innovación en Aplicaciones Móviles, S.A. | 38.50% | 38.50% | 38.50% |

F-22

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

| <u>Companies</u> | <u>Voting Interest</u> | | |
|--|------------------------|-------------|-------------|
| | <u>At December, 31</u> | | |
| | <u>2001</u> | <u>2002</u> | <u>2003</u> |
| Grupo 3G, S.R.L. | 100.00% | 100.00% | 100.00% |
| Nuevo Cosmos | 100.00% | 100.00% | |
| Spiral Investments B.V. | 100.00% | 100.00% | 100.00% |
| 3G Mobile A.G. | 100.00% | 100.00% | 100.00% |
| Serea Investments B.V. | 100.00% | 100.00% | |
| ST 3G, S.A. | 40.00% | 40.00% | |
| Setaber Investments B.V. | 100.00% | 100.00% | |
| Senda Investments B.V. | 50.00% | 50.00% | |
| Mediaways UK | 100.00% | 100.00% | 100.00% |
| 3G Mobile Telecommunications GmbH | 100.00% | 100.00% | |
| Solivella Investments B.V. | 100.00% | 100.00% | 100.00% |
| IPSE 2000, S.p.A. | 45.59% | 45.59% | 45.59% |
| Group 3G UMTS Holding GmbH | 57.20% | 57.20% | 57.20% |
| Quam GmbH | 57.20% | 57.20% | 57.20% |
| Opco Mobile Services GmbH | 57.20% | 57.20% | 57.20% |
| Médi Telecom, S.A. | 30.50% | 31.34% | 32.18% |
| Telefónica Mobile Solutions, S.A. | 100.00% | 100.00% | |
| Telefónica Mobile Solutions Chile, S.A.C. | 99.90% | 99.90% | |
| Telefónica Mobile Solutions Perú, S.A.C. | 99.90% | 99.90% | |
| Telefónica Mobile Solutions Brasil, L.T.D.A. | 99.90% | 99.90% | |
| Telefónica Mobile Solutions Argentina, S.A. | 99.90% | 99.90% | |
| Telefónica Móviles Interacciona, S.A. | 80.00% | 80.00% | 100.00% |
| Terra Mobile Brasil, Ltd. | | 80.00% | 100.00% |
| Termespa, S.A.U. | | 80.00% | (*) |
| Terra Mobile (Findland) Oy. | | 80.00% | (**) |
| Terra Mobile UK, Ltd. | | 80.00% | (**) |
| I.O. Box Deutschland GMBH | | 80.00% | 100.00% |
| Simpay | | | 25.00% |
| Omicron Ceti, S.L. | | | 100.00% |
| Telefónica Móviles Puerto Rico, Inc. | | | 100.00% |
| Telefónica Móviles U.S.A., Inc. | 100.00% | 100.00% | 100.00% |
| TELCA Gestión Guatemala, S.A. | 51.00% | 100.00% | |
| TELCA Gestión S.A. de C.V. | 51.00% | 100.00% | 100.00% |
| Mobipay International, S.A. | 38.00% | 36.00% | 36.05% |
| Telefónica Móviles Perú Holding, S.A.A. | 97.97% | 97.97% | 97.97% |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | | |
|--|--------|---------|---------|
| Telefónica Móviles, S.A.C. | 97.97% | 97.97% | 97.97% |
| Telefónica Móviles Argentina, S.A. | 97.93% | 97.93% | 97.93% |
| Telefónica Comunicaciones Personales, S.A. | 97.93% | 97.93% | 97.93% |
| Radio Servicios, S.A. | 97.92% | 97.92% | 97.92% |
| Radio Móvil Digital Argentina, S.A. | 97.92% | 97.92% | 97.92% |
| Telefónica de Centroamérica, S.L. | 51.00% | 100.00% | 100.00% |

F-23

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

| <u>Companies</u> | <u>Voting Interest</u> | | |
|---|------------------------|-------------|-------------|
| | <u>At December, 31</u> | | |
| | <u>2001</u> | <u>2002</u> | <u>2003</u> |
| Telefónica Móviles Holding Uruguay, S.A. | 100.00% | 100.00% | 100.00% |
| Telefónica Móviles Uruguay, S.A. | | 100.00% | 100.00% |
| Paging de Centroamérica, S.A. | 51.00% | 100.00% | 100.00% |
| Telefónica Soporte y Tecnología, S.A. | 99.99% | 99.99% | 99.99% |
| Telefónica Móviles México, S.A. de C.V. | | 92.00% | 92.00% |
| Telefónica Finanzas México, S.A. de C.V. | | 92.00% | 92.00% |
| Baja Celular Mexicana, S.A. de C.V. | 100.00% | 92.00% | 92.00% |
| Baja Celular Servicios Corporativos, S.A. de C.V. | 100.00% | 92.00% | 92.00% |
| Tamcel, S.A. de C.V. | 100.00% | 92.00% | 92.00% |
| Movitel de Noroeste, S.A. de C.V. | 90.00% | 82.80% | 82.80% |
| Movicelular, S.A. de C.V. | 90.00% | 82.80% | 82.80% |
| Moviservicios, S.A. de C.V. | 90.00% | 82.80% | 82.80% |
| Corporativo Integral Comunicación, S.A. de C.V. | 100.00% | 92.00% | 92.00% |
| Telefonía Celular del Norte, S.A. de C.V. | 100.00% | 92.00% | 92.00% |
| Todo para Celulares, S.A. de C.V. | 100.00% | 92.00% | 92.00% |
| Grupo Corporativo del Norte, S.A. de C.V. | 100.00% | 92.00% | 92.00% |
| Celular de Telefonía, S.A. de C.V. | 100.00% | 92.00% | 92.00% |
| Soluciones Celulares, S.A. de C.V. | 100.00% | 92.00% | 92.00% |
| Enlaces del Norte, S.A. de C.V. (***) | 100.00% | 87.31% | 87.31% |
| Grupo de Telecomunicaciones Mexicanas, S.A. de C.V. | 100.00% | 92.00% | 89.60% |
| Pegaso Telecomunicaciones, S.A. de C.V. | | 92.00% | 92.00% |
| Pegaso Comunicaciones y Sistemas, S.A. de C.V. | | 92.00% | 92.00% |
| Pegaso PCS, S.A. de C.V. | | 92.00% | 92.00% |
| Pegaso Recursos Humanos, S.A. de C.V. | | 92.00% | 92.00% |
| Pegaso Finanzas, S.A. de C.V. | | 92.00% | 92.00% |
| Pegaso Finco I, S.A. de C.V. | | 92.00% | 92.00% |
| Activos para Telecomunicación, S.A. de C.V. | | | 92.00% |
| Telecomunicaciones Punto a Punto México, S.A. de C.V. | | | 92.00% |
| Telefónica Móviles Aplicaciones y Soluciones, S.A. | | 100.00% | 100.00% |

(*) This Company was merged with Telefónica Móviles Interacciona, S.A. (formerly Terra Mobile, S.A.) during 2003.

(**) These Companies were liquidated during 2003.

(***) Although Celular de Telefonía, S.A. de C.V. has a 49.00% economic interest in this entity, Celular de Telefonía, S.A. de C.V. can appoint all the directors and, therefore, can control the day to day operation of this company.

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

The accounting for each of the companies and businesses were as follows:

| <u>Companies</u> | <u>Consolidation Method</u> | | |
|---|--------------------------------|-------------|-------------|
| | <u>Year Ended December, 31</u> | | |
| | <u>2001</u> | <u>2002</u> | <u>2003</u> |
| Brasilcel, N.V. | | PI | PI |
| Tagilo Participações, Ltda. | GI | PI | PI |
| SudesteCel Participações, S.A. | GI | PI | PI |
| Tele Sudeste Celular Participações, S.A. | GI | PI | PI |
| Telerj Celular, S.A. | GI | PI | PI |
| Telest Celular, S.A. | GI | PI | PI |
| Portelcom Fixa, S.A. | | PI | PI |
| TBS Celular Participações, S.A. | GI | PI | PI |
| Celular CRT Participações, S.A. | GI | PI | PI |
| Celular CRT, S.A. | GI | PI | PI |
| Iberoleste Participações, S.A. | EM | PI | PI |
| Tele Leste Celular Participações, S.A. | EM | PI | PI |
| Telebahia Celular, S.A. | EM | PI | PI |
| Telergipe Celular, S.A. | EM | PI | PI |
| Intertelecom Ltda. | | PI | PI |
| Ptelecom Brasil, S.A. | | PI | PI |
| Portelcom Participações, S.A. | | PI | PI |
| Telesp Celular Participações, S.A. | | PI | PI |
| Telesp Celular, S.A. | | PI | PI |
| Daini do Brasil, S.A. | | PI | |
| Global Telecom Telecom, S.A. | | PI | PI |
| Inepar S.A. Part. Invest. de Telecom. | | PI | |
| Global Telecom., S.A. | | PI | |
| Tele Centro Oeste Celular Participações, S.A. | | PI | PI |
| Telegoiás Celular, S.A. | | PI | PI |
| Telemat Celular, S.A. | | PI | PI |
| Telems Celular, S.A. | | PI | PI |
| Teleron Celular, S.A. | | PI | PI |
| Teacre Celular, S.A. | | PI | PI |
| Norte Brasil Telecom, S.A. | | PI | PI |
| Tele Centro Oeste IP, S.A. | | PI | PI |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | | |
|--|----|----|----|
| Telefónica Móviles El Salvador Holding, S.A. de C.V. | GI | GI | GI |
| Telefónica Móviles El Salvador, S.A. de C.V. | GI | GI | GI |
| TCG Holdings, S.A. | GI | GI | GI |
| Telefónica Centroamérica Guatemala, S.A. | GI | GI | GI |
| Telescucha, S.A. | GI | GI | GI |
| Infraestructura Internacional, S.A. | | | GI |
| Telefónica Móviles España, S.A. (sole-stockholder company) | GI | GI | GI |
| Mobipay España, S.A. | EM | EM | EM |
| Main Ito. Superior Tecnología y Empresa, S.L. | C | C | C |

F-25

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

| <u>Companies</u> | <u>Consolidation Method</u> | | |
|--|--------------------------------|-------------|-------------|
| | <u>Year Ended December, 31</u> | | |
| | <u>2001</u> | <u>2002</u> | <u>2003</u> |
| Tempos 21 Innovación en Aplicaciones Móviles, S.A. | C | C | C |
| Grupo 3G, S.R.L. | C | C | C |
| Nuevo Cosmos | C | C | |
| Spiral Investments B.V. | GI | GI | GI |
| 3G Mobile A.G. | GI | GI | GI |
| Serea Investments B.V. | C | GI | |
| ST 3G, S.A. | C | C | |
| Setaber Investments B.V. | C | C | |
| Senda Investments B.V. | C | C | |
| Mediaways UK | C | C | C |
| 3G Mobile Telecommunications GmbH | GI | GI | |
| Solivella Investments | GI | GI | GI |
| IPSE 2000, S.p.A. | EM | EM | EM |
| Group 3G UMTS Holding GmbH | GI | GI | GI |
| Quam GmbH | GI | GI | GI |
| Opco Mobile Services GmbH | GI | GI | GI |
| Médi Telecom, S.A. | EM | EM | EM |
| Telefónica Mobile Solutions, S.A. | GI | GI | |
| Telefónica Mobile Solutions Chile, S.A.C. | GI | GI | |
| Telefónica Mobile Solutions Perú, S.A.C. | GI | GI | |
| Telefónica Mobile Solutions Brasil, L.T.D.A. | GI | GI | |
| Telefónica Mobile Solutions Argentina, S.A. | GI | GI | |
| Telefónica Móviles Interacciona, S.A. | GI | GI | GI |
| Terra Mobile Brasil, Ltd. | | GI | GI |
| Termespa, S.A.U. (*) | | GI | |
| Terra Mobile (Finland) Oy. (**) | | GI | |
| Terra Mobile UK, Ltd. (**) | | GI | |
| I.O. Box Deutschland GmbH | | GI | GI |
| Simpay | | | C |
| Omicron Ceti, S.L. | | | C |
| Telefónica Móviles Puerto Rico, Inc. | | | GI |
| Telefónica Móviles U.S.A., Inc. | GI | GI | GI |
| TELCA Gestión Guatemala, S.A. | GI | GI | |
| TELCA Gestión, S.A. de C.V. | GI | GI | GI |
| Mobipay International, S.A. | EM | EM | EM |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | | |
|--|----|----|----|
| Telefónica Móviles Perú Holding, S.A.A. | GI | GI | GI |
| Telefónica Móviles, S.A.C. | GI | GI | GI |
| Telefónica Móviles Argentina, S.A. | GI | GI | GI |
| Telefónica Comunicaciones Personales, S.A. | GI | GI | GI |
| Radio Servicios, S.A. | GI | EM | EM |
| Radio Móvil Digital Argentina, S.A. | GI | EM | EM |
| Telefónica de Centroamérica, S.L. | C | C | C |

F-26

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

| <u>Companies</u> | <u>Consolidation Method</u> | | |
|---|--------------------------------|-------------|-------------|
| | <u>Year Ended December, 31</u> | | |
| | <u>2001</u> | <u>2002</u> | <u>2003</u> |
| Telefónica Móviles Holding Uruguay, S.A. | C | C | C |
| Telefónica Móviles Uruguay, S.A. | | C | C |
| Paging de Centroamérica, S.A. | C | C | C |
| Telefónica Soporte y Tecnología, S.A. | C | C | C |
| Telefónica Móviles México, S.A. de C.V. | | GI | GI |
| Telefónica Finanzas México, S.A. de C.V. | | GI | GI |
| Baja Celular Mexicana, S.A. de C.V. | GI | GI | GI |
| Baja Celular Servicios Corporativos, S.A. de C.V. | GI | GI | GI |
| Tamcel, S.A. de C.V. | GI | GI | GI |
| Movitel de Noroeste, S.A. de C.V. | GI | GI | GI |
| Movicelular, S.A. de C.V. | GI | GI | GI |
| Moviservicios, S.A. de C.V. | GI | GI | GI |
| Corporativo Integral Comunicación, S.A. de C.V. | GI | GI | GI |
| Telefonía Celular del Norte, S.A. de C.V. | GI | GI | GI |
| Todo para Celulares, S.A. de C.V. | GI | GI | GI |
| Grupo Corporativo del Norte, S.A. de C.V. | GI | GI | GI |
| Celular de Telefonía, S.A. de C.V. | GI | GI | GI |
| Soluciones Celulares, S.A. de C.V. | GI | GI | GI |
| Enlaces del Norte, S.A. de C.V. (***) | GI | GI | GI |
| Grupo de Telecomunicaciones Mexicanas, S.A. de C.V. | GI | GI | GI |
| Pegaso Telecomunicaciones, S.A. de C.V. | | GI | GI |
| Pegaso Comunicaciones y Sistemas, S.A. de C.V. | | GI | GI |
| Pegaso PCS, S.A. de C.V. | | GI | GI |
| Pegaso Recursos Humanos, S.A. de C.V. | | GI | GI |
| Pegaso Finanzas, S.A. de C.V. | | GI | GI |
| Pegaso Finco I, S.A. de C.V. | | GI | GI |
| Activos para Telecomunicación, S.A. de C.V. | | | GI |
| Telecomunicaciones Punto a Punto Mexico, S.A. de C.V. | | | GI |
| Telefónica Móviles Aplicaciones y Soluciones, S.A. | | GI | GI |

GI: Companies consolidated by the global integration method which is equivalent to consolidation.

PI: Companies consolidated by the proportional integration method which is equivalent to consolidation.

EM: Companies carried by the equity method.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

C: Investments carried by the cost method.

(*) This Company was merged with Telefónica Móviles Interacciona, S.A. (formerly Terra Mobile, S.A.) during 2003.

(**) These Companies were liquidated during 2003.

(***) Although Celular de Telefonía, S.A. de C.V has a 49.00% economic interest in this entity, Celular de Telefonía, S.A. de C.V. can appoint all the directors and, therefore, can control the day to day operation of this company.

F-27

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

The consolidated statements for the year ended December 31, 2003, and the combined statements for the years ended December 31, 2002 and 2001 of operations include the revenues and expenses of companies that are no longer in the Group up to the date on which the related holding was sold or the company was liquidated, and those of the new companies included in the Group from the date on which the holding is acquired by Telefónica Group or the company is formed through year-end, except for Telefónica Móviles Argentina, S.A. and Telefónica Móviles Perú Holding, S.A.A., which were contributed to Telefónica Móviles, S.A. by Telefónica, S.A. during 2001, and are not combined in the combined financial statements as of December 31, 2000 under Spanish GAAP.

All the accounts receivable and payable, purchases, sales and gains or losses on transactions between companies consolidated by the global integration method were eliminated in consolidation.

The accounts payable and receivable, purchases and sales and the gains or losses on transactions between proportionally integrated companies were eliminated in consolidation in proportion to the Group companies' share in the capital of the companies managed jointly.

In accordance with standard practice in Spain, the consolidated financial statements do not include the tax effect, if any, of transferring the reserves of the consolidated companies and holdings carried by the equity method to the parent company's accounts, since it is considered that such reserves will be used to finance the operations of the such companies and that those reserves actually distributed will not give rise to a material additional tax cost.

The equity interests of the minority shareholders in the net worth and results of operations are recorded under the "Minority interests" captions of the consolidated financial statements (Note 10).

The consolidated statements of operations include the revenues and expenses of the companies that are no longer in the Group up to the date on which the related holding was sold or the company in question was liquidated, and those of the new companies included in the Group from the date on which the holding was acquired or the company in question was formed through year-end.

d) Changes in the consolidated Group

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

The main changes in the consolidated Group in 2001, 2002 and 2003 were as follows:

2001

Mobipay International, S.A. (incorporated on December 21, 2000) was carried in 2001 by the equity method. In 2001, 12% of the holding in this company was sold and, accordingly, Telefónica Móviles, S.A. now owns 38% of the capital stock of Mobipay International, S.A.

In 2001, pursuant to the resolutions adopted by the Stockholders Meeting of Telefónica Móviles, S.A., in January, March and July 2001, the holdings detailed below were transferred through capital increases paid for with related nonmonetary contributions carried out by Telefónica, S.A. under the special regime provided for in Chapter VIII of Title VIII of Corporate Income Tax Law 43/1995. These nonmonetary contributions were made as a continuation of the acquisition made by Telefónica, S.A., in 2000 and 2001, and, consequently, the value of these holdings at Telefónica Móviles, S.A., is the same as the value they had at Telefónica, S.A., as detailed below:

F-28

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

On January 25, 2001, Telefónica Móviles, S.A. carried out one of the capital increases authorized by the Stockholders Meeting on October 26, 2000, for a total amount (including par value plus additional paid-in capital) of 495,783,000 (Note 9.a). Telefónica, S.A. paid the new shares in full through the contribution of shares of the Argentine company Telefónica de Argentina, S.A. (TASA) representing 15.09% of its capital stock. On November 16, 2001, effective for accounting purposes from September 30, 2000, the non-proportional spin-off of Telefónica de Argentina, S.A. was completed, through which Telefónica Móviles, S.A. acquired 97.93% of the capital stock of the beneficiary company of the spin-off, Telefónica Móviles Argentina, S.A., which in turn owns all the shares of Telefónica Comunicaciones Personales, S.A. The value of the new holding used in the transaction was approximately 1,270,680,000. This company is consolidated by the global integration method.

Despite the fact that in 2000 the financial information of Telefónica Comunicaciones Personales, S.A. was included in the Telefónica Group's combined financial statements with a difference of three months, i.e. through September 30, 2000, as permitted by the legislation in force, in 2001 the fiscal year-end of this company has been changed for legal purposes and brought into line with that of all the Telefónica Móviles Group companies.

Therefore the combined financial statements as of December 31, 2001 include this company's balance sheets at that date and its statements of income for the 12-month period then ended, and its earnings for the period from October 1 to December 31, 2000 are recorded under the Extraordinary Income (expense) caption, since the amount there is not material.

On March 7, 2001, Telefónica Móviles, S.A. carried out one of the capital increases authorized by the Stockholders Meeting on October 26, 2000, for a total amount (including par value plus additional paid-in capital) of 253,863,000 (Note 9.a). Telefónica, S.A. paid the new shares in full through the contribution of shares of the Peruvian company Telefónica del Perú, S.A.A. representing 16.45% of its capital stock. On June 15, 2001, effective for accounting purposes from January 1, 2001, the non-proportional spin-off of Telefónica del Perú, S.A.A. was completed through which Telefónica Móviles, S.A. acquired 97.05% of the capital stock of the beneficiary company of the spin-off, Telefónica Móviles Perú Holding, S.A.A., which in turn owns all the shares of Telefónica Móviles, S.A.C. The value of the new holding used in the transaction was approximately 591,810,000. Also, an additional 0.92% of Telefónica Móviles Perú Holding, S.A.A. was acquired on the Peruvian market for 595,000 and, accordingly Telefónica Móviles owns 97.97% of this company's capital stock. This company is consolidated by the global integration method.

On July 5, 2001, Telefónica Móviles, S.A. carried out one of the capital increases authorized by the Stockholders Meeting on October 30, 2000, for a total amount (including par value plus additional paid-in capital) of 686,409,000 (Note 9.a). Telefónica, S.A. paid the new shares in full through the contribution of shares which enabled the direct and/or indirect acquisition of the following percentages of ownership of wireless telephony operators in the north of Mexico: all the shares of Telefonía Celular del Norte, S.A. de C.V., Celular de Telefonía, S.A. de C.V., Baja Celular Mexicana, S.A. de C.V. and a 90% holding in Movitel del Noroeste, S.A. de C.V. The value of the new holding used in the transaction was approximately 2,173,740,000. These companies are consolidated by the global integration method.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

On February 6, 2001, the Telefónica Móviles Group received official notification of the granting of the UMTS license in Switzerland for a period of 15 years at a cost of 32,508,000. The company which owns the license, 3G Mobile AG, was consolidated by the global integration method.

F-29

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

In April 2001, having obtained authorization from the Brazilian regulator (ANATEL), Banco Bilbao Vizcaya Argentaria, S.A. exercised its sale option vis-à-vis Telefónica Móviles on 131,265,812 shares, accounting for 6.99% of TBS Celular Participações, S.A. Telefónica Móviles paid 39,919,000.

On July 10, 2001, Mobipay España, S.A. which was 20% owned by the Telefónica Móviles Group was incorporated with a capital stock of 60,000. Part of the holding was subsequently sold and, accordingly, the Móviles Group currently holds 13.33% of the capital stock of Mobipay España, S.A. This company is carried in the combined financial statements by the equity method, since it is managed jointly with the other stockholders.

Since October 1, 2001, based on resolutions pursuant to which Telefónica Móviles, S.A. increased its holding in the capital stock of Terra Mobile, S.A. to 80%, the latter company has been consolidated by the global integration method.

Since October 1, 2001, Ipse 2000, S.p.A. has been carried by the equity method. This method is the most appropriate pursuant to the provisions of Article 11.2.b of Royal Decree 1815/1991 enacting the rules for the preparation of financial statements, because since October 1, 2001 certain difficulties have been gradually disclosed which, in practice, have substantially affected management of Ipse 2000, S.p.A by the Telefónica Móviles Group.

On June 30, 2001, Telefónica Móviles, S.A. the sole stockholder of Telefónica Móviles España, S.A., a sole-stockholder company (the absorbing company) and of Telefónica Móviles Intercontinental, S.A. a sole stockholder company (the absorbed company), resolved to merge these companies through the dissolution without liquidation and the transfer en bloc by way of universal succession of all the assets and liabilities of the absorbed company to the absorbing company. Once all the legal requirements had been fulfilled, this resolution was executed in a public deed on November 29, 2001, effective for accounting purposes from January 1, 2001, with respect to the audited balance sheet as of December 31, 2000. This transaction did not have any effect on these combined financial statements, since Telefónica Móviles is the sole stockholder of both companies.

2002

On January 10, 2002, Telefónica Móviles acquired one-third of the shares of each of the following companies owned by Mesotel de Costa Rica, S.A. (Mesotel): TES Holding, S.A. de C.V., Telca Gestión, S.A. de C.V., TCG Holdings, S.A., Telca Gestión Guatemala, S.A., Paging de

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Centroamérica, S.A. and Telefónica de Centroamérica, S.L. (except for the holdings in Telefónica de Centroamérica Guatemala, S.A. one share and Tele-Escucha, S.A. two shares, which it acquired in full). The cost of the acquisition was 57,337 thousand.

Also, on July 22, 2002, Telefónica Móviles carried out the capital increase agreed upon by the Stockholders Meeting on April 4, 2002, for a total amount (par value plus additional paid-in capital) of 27,658 thousand (Note 9.a). Mesotel subscribed and paid these new shares in full through the contribution of the shares of the following companies still held by it: TES Holding, S.A. de C.V., Telca Gestión, S.A. de C.V., TCG Holdings, S.A., Telca Gestión Guatemala, S.A., Paging de Centroamérica, S.A. and Telefónica de Centroamérica, S.L. Following this capital increase, Telefónica Móviles, S.A. owned all the shares of each of these companies.

On March 5, 2002, Telefónica Móviles sold 2% of its holding in Mobipay International, S.A., thereby reducing its investment in this company to 36%.

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

On May 24, 2002, Telefónica Móviles, S.A. carried out one of the capital increases agreed upon by the Stockholders Meeting on June 1, 2001, for a total (par value plus additional paid-in capital) of 113,196 thousand (Note 9.a). Telefónica, S.A. subscribed and paid these new shares in full through the contribution of shares of the Brazilian company Iberoleste Participações, S.A., which owns a holding in Tele Leste Celular Participações, S.A. Following this capital increase, Tele Leste Celular Participações, S.A. was fully consolidated in the consolidated financial statements.

On May 29, 2002, Telefónica Móviles carried out another of the capital increases resolved agreed upon by the Stockholders Meeting on June 1, 2001, for a nominal total amount (par value plus additional paid-in capital) of 103,565 thousand (Note 9.a). Telefónica, S.A. paid these new shares in full through the contribution of shares of the Brazilian companies TBS Celular Participações, S.A., Tele Leste Celular Participações, S.A., Tele Sudeste Celular Participações, S.A. and Sudestecel Participações, S.A.

The value for tax purposes used in these two capital increases, which were performed on May 24 and 29, 2002, was approximately 227,955 thousand. Following the aforementioned capital increases, Telefónica Móviles, S.A.'s direct and indirect investments in these companies were as follows: 73.27% in TBS Celular Participações, S.A., 27.71% in Tele Leste Celular Participações, S.A., 83.56% in Tele Sudeste Celular Participações, S.A., 89.50% in Sudestecel Participações, S.A. and 100% in Iberoleste Participações, S.A.

On September 10, 2002, having obtained authorization from the related Mexican authorities, Telefónica Móviles acquired a 65.23% holding in Pegaso Telecomunicaciones, S.A. de C.V. (Mexico) for 92,870 thousand. Subsequently, in order to strengthen its net worth position, Pegaso Telecomunicaciones, S.A. de C.V. carried out a capital increase in which Telefónica Móviles, S.A. paid 211,454 thousand corresponding to its 65.23% holding. The agreements entered into with the Pegaso Group envisaged the integration of the holdings in the northern Mexican companies and in Pegaso Telecomunicaciones, S.A. de C.V. into a single company of which the two groups would be stockholders. This transaction was implemented through the sale of the holdings to Telefónica Móviles Mexico, followed by the conversion of the debt into equity by the creditors, giving Telefónica Móviles a nationwide presence in Mexico. Telefónica Móviles has a holding of 92% in this new Mexican company with a book value of 995.6 million.

On October 17, 2002, pursuant to the resolutions adopted in April 2001, Telefónica Móviles, S.A. acquired from Telefónica, S.A. a 0.63% holding in Celular CRT Participações, S.A. for a total of 11,544 thousand, bringing its direct and indirect investment in this company to 40.90%.

On October 17, 2002, Telefónica Móviles, S.A. acquired a 14.68% holding in Telesp Celular Participações, S.A. from Portugal Telecom SGPS, S.A. for 200,306 thousand.

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

On December 27, 2002, once Brazilian legislation had been complied with, Telefónica Móviles, S.A. and PT Móveis Serviços de Telecomunicações, SGPS, S.A. (PT Móveis) formed the joint venture Brasilcel, N.V. (Note 18), 50% owned by each company, through the contribution of all the shares directly or indirectly held by the two groups in the wireless communications companies in Brazil:

| <u>Companies Contributed</u> | <u>% Contributed</u> | | |
|--|-------------------------------|------------------|--------------|
| | <u>Telefónica Móviles</u> | <u>PT Móveis</u> | <u>TOTAL</u> |
| Celular CRT Participações, S.A. | 40.90% | 7.58% | 48.48% |
| Tele Leste Celular Participações, S.A. | 27.70% | | 27.70% |
| Tele Sudeste Celular Participações, S.A. | 83.56% | | 83.56% |
| Telesp Celular Participações, S.A. | 14.68% | 50.44% | 65.12% |

The value of the contribution to Brasilcel, N.V. of the wireless assets owned by Telefónica Móviles, S.A. was 1,898 million. Its balance sheet was proportionally consolidated in the consolidated financial statements and the results for the whole year of the Brazilian companies contributed by Telefónica Móviles were recorded in the consolidated statement of operations when this transfer was made (on December 27, 2002).

2003

On April 25, 2003, Telesp Celular Participações, S.A. (TCP), 65.12% owned by Brasilcel, N.V., acquired from the Brazilian company Fixcel (controlled by the Splice Group) 61.10% of the ordinary shares bearing voting rights of the Brazilian company Tele Centro Oeste Celular Participações, S.A. (TCO), representing 20.37% of its total capital stock, for 1,505.5 million Brazilian reais.

In October 2003 TCP, availing itself of Brazilian legislation, presented a tender offer for the purchase of TCO's remaining ordinary shares bearing voting rights, which were held by minority shareholders. As a result of this offer, the acceptance period for which ended on November 18, 2003, TCP acquired 74.23% of the shares targeted by the offer which, together with the shares it already owned, gave it ownership of a total of 86.58% of TCO's ordinary shares (90.73% if the TCO-owned shares of treasury stock are excluded), representing 28.87% of the total capital stock (29.31% excluding the shares of treasury stock). The amount paid for this additional holding was 538.8 million Brazilian reais.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Although TCP had declared its intention of exchanging (or including) TCO shares and thus becoming its sole shareholder, this exchange was cancelled on January 12, 2004, following the decision issued by the Brazilian Securities Market Commission (CVM) which, in the opinion of the Boards of Directors of TCP and TCO, advised against carrying out the aforementioned proposal.

On June 12, 2003, Telefónica Móviles acquired 20% of Terra Mobile, S.A., thus obtaining ownership of all its shares of capital stock. The price agreed on was 1.

On June 24, 2003, Telefónica Móviles, sole shareholder of Terra Mobile, S.A., resolved to merge Termespa, S.A. into Terra Mobile, S.A., with the dissolution without liquidation of Termespa, S.A. and the universal transfer en bloc of the assets of the absorbed company to the absorbing company, which would acquire by way of universal succession the former's rights and obligations. The business name of Terra Mobile, S.A. was also changed to Telefónica Móviles Interacciona, S.A.

F-32

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

On June 27, 2003, Telefónica Móviles sold its holding in Telefónica Mobile Solutions S.A. to Telefónica Sistemas, S.A. for 1,129 thousand, the company's book value at the sale date.

On July 29, 2003, Medi Telecom, S.A. carried out a capital increase in which Telefónica Móviles España paid in 21,234 thousand and, since all the shareholders did not contribute to the capital increase, it increased its holding to 32.18%.

In September 2003, the convertible promissory notes representing the investment of Telefónica Internacional, S.A. in the Puerto Rican operator Newcomm Wireless Services, Inc. were transferred to the Móviles Group. These convertible promissory notes amounting to US\$ 60,945 thousand and recorded under the Other Long-Term Investments caption, will entitle the Móviles Group, once it receives the respective authorizations from the regulatory bodies, to acquire 49.9% of the capital stock. Also, the Móviles Group is entitled to purchase an additional 0.2% of the capital stock, with which it will acquire control over the Puerto Rican operator.

On December 15, 2003, Telefónica Móviles sold all the shares of its wholly-owned investee Telefónica Móviles Interacciona to Telefónica Móviles España for 1; also on this date, all the loans granted to Telefónica Móviles Interacciona (and accrued interest receivable) were transferred to Telefónica Móviles España. This transaction had no impact for accounting purposes on the consolidated financial statements.

On December 23, 2003, Telefónica Móviles España and Mobilkom Austria Aktiengesellschaft & Co KG (Mobilkom) reached an agreement whereby the latter would acquire all the shares in 3G Mobile Telecommunications GmbH, the Austrian subsidiary of Telefónica Móviles España and holder of a third-generation wireless telephony license (UMTS). This company was sold for 13,650 thousand (Note 1), giving rise to a gain of 13,572 thousand.

e) Devaluation in Argentina

In view of its international presence, the Telefónica Móviles Group, like other corporations, has been affected by the economic situation in Argentina. As of December 31, 2003 and 2002, the Telefónica Móviles Group's exposure at the various Argentine companies amounted to 116,048 thousand and 121,731 thousand, respectively, including the asset value assignable to those holdings and the internal financing provided.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

At 2003 and 2002 year-end, with a stabilized foreign exchange market, the exchange rates applied were 1 at 3.7006 and 3.5341 pesos, respectively (US\$ 1 at 2.93 and 3.37 pesos, respectively). These exchange rates were applied to include the Argentine subsidiaries' assets in the consolidated financial statements and to evaluate the status of these assets regarding creditworthiness, investment valuation, viability evaluation, etc.

In accordance with the foregoing, these consolidated financial statements reflect a positive impact on consolidated earnings of 5,699 thousand in 2003 and an adverse impact of 36,751 thousand in 2002, respectively, and a positive impact under the Translation Differences in Consolidation caption of 86,632 thousand and an adverse impact of 138,853 thousand in 2003 and 2002, respectively.

The business plans prepared by the Company envisage the obtainment of sufficient income by the investee to guarantee the recovery of the Telefónica Móviles Group's net investment in Argentina.

F-33

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

3. Proposed allocation of income of the Controlling Company

The Board of Directors will propose for approval by the Stockholders Meeting the following distribution of income:

| | Thousands of Euros |
|----------------------------|-------------------------------|
| Income for the year | 1,266,686 |
| Distribution to: | |
| Dividends | 795,955 |
| Voluntary reserve | 470,731 |

4. Accounting principles

The main accounting principles applied in preparing these consolidated financial statements were as follows:

a) Goodwill

The amount paid for the acquisition of significant investments in excess of the underlying book value of such investments at the acquisition date and not directly allocable to the companies' assets is recorded as consolidation goodwill. The amounts allocable to the acquired company's assets will be assigned to the related assets and liabilities after the respective valuation, up to the limit of their market value.

Goodwill is amortized during the period in which it contributes to the obtainment of revenues by the companies for which the goodwill was recorded. The maximum goodwill amortization period is 20 years.

b) Translation methods (period-end exchange rate method)

The accounts of the companies domiciled outside the euro zone were translated to euro as follows: assets and liabilities at the year-end exchange rate; capital stock and reserves and first-time consolidation differences, at historical exchange rates; and revenues and expenses, at the average exchange rate for the period. The difference arising between translation by the foregoing methods and translation at year-end exchange rates is reflected under the Shareholders Equity caption (Translation Differences) in the consolidated balance sheets (Note 9.c).

The companies which use accounting methods with adjustments for inflation use the accounting standards in force in the respective countries, which involve valuing the monetary assets and liabilities at their nominal value and adjusting the historical cost of the nonmonetary assets and liabilities by the inflation rate between the date of inclusion of the asset at the company and the date of the year-end closing. This means that the effect of the inflation occurring in the year on the monetary assets and liabilities is included in the statement of operations for the year under the Financial expenses or Financial income captions. The figures thus adjusted are translated to US\$ at the year-end exchange rate and the subsequent translation to euros is made using the translation method described in the previous paragraph.

c) Start-up expenses

Start-up expenses, which comprise incorporation, capital increase and preopening expenses, are recorded at cost and are amortized on a straight-line basis over five years from the commencement of the related activities.

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

d) Intangible assets

Concessions, patents, licenses, trademarks, etc.

This caption includes the following items:

The amount allocable to the licenses to operate the wireless communications services of the companies awarded to the Telefónica Group in the privatization of Telebrás in Brazil. This amount was recorded at the time of acquisition of these companies, since the market value of these assets exceeded the value recorded in the acquired companies' balance sheets. As of December 31, 2003, the net balance of these licenses was 989,021 thousand. The licenses are being amortized over the concession period based on the estimated capacity to generate revenues in each period.

The amount allocable to the licenses to operate nationwide wireless communications services in Mexico. This amount was reclassified from the Consolidation Goodwill caption on completion of the respective valuations. As of December 31, 2003, the net balance of these licenses was 504,651 thousand. These licenses are being amortized over the concession period based on the estimated capacity to generate revenues in each period.

The DCS 1800 MHz license is recorded for the amounts paid to the Spanish public authorities plus the amounts paid for the cost of the clean-up of the radio spectrum that is necessary for the implementation and development of these licenses. The DCS 1800 MHz license is being amortized over 25 years (the concession period) based on the estimated capacity to generate revenues in each period.

Licenses for the provision of Personal Communications Services (PCS) in Argentina. These licenses are being amortized over 20 years, based on the estimated capacity to generate revenues in each period.

UMTS licenses obtained in Spain, Germany and Switzerland. In the case of Spain, due to the unavailability of technology and to the revenue and expense matching principle, commencement of the amortization of these licenses will coincide with the commencement of commercial operation and the amortization will be taken over the term thereof. The amortization method used will be based on the estimated capacity to generate revenues in each period. As mentioned in Note 1, the initial acquisition cost of the investments in the other countries was written down for accounting purposes in 2002, to reflect the current estimate of the realizable value of these businesses.

Computer software and other intangible assets are amortized on a straight-line basis over three to five years.

e) Property, plant and equipment

Property, plant and equipment are carried at the lower of cost or appraisal value and net realizable value.

Cost includes external costs plus internal costs comprising warehouse materials used, direct labour used in installation work and the allocable portion of the indirect cost required for the related investments. The latter two items are recorded as revenue under the "Other revenues" caption.

The costs of expansion, modernization and improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalized.

Upkeep and maintenance expenses are expensed currently.

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

During all periods presented, the Telefónica Móviles Group has not increased the value of its property, plant and equipment to a higher appraised value. Property, plant and equipment is depreciated using the straight-line method over the estimated useful life of the assets, as follows:

| Assets | Years of Estimated Useful Life |
|-------------------------------------|--------------------------------------|
| Structures | 5 15 |
| Wireless network installations | 5 10 |
| Computer hardware | 3 5 |
| Furniture, installations and others | 2 10 |

f) Long-term and short-term financial investments

Long-term and short-term financial investments which were not fully or proportionally consolidated or carried by the equity method were recorded in the consolidated balance sheets at the lower of cost and market value.

The market value was determined as follows:

Listed securities-

The market value was taken to be the lower of average market price in the last quarter or market price at year-end.

As of December 31, 2002 and 2003, the Group had no investments in listed securities.

Unlisted securities-

At cost, net, if appropriate, of the required provisions for decrease in value.

Short-term financial investments were recorded at their face value plus, if appropriate, the accrued interest receivable.

g) Inventories

Inventories are valued at the lower of weighted average cost and market value.

Provisions have been recorded to reduce obsolete, defective or slow-moving inventories to net realizable value. The allowance for depreciation of inventories, which amounted to 40.86 million and 28.14 million as of December 31, 2002 and 2003, is recorded on the basis of age and turnover.

h) Corporate income tax

The accrued corporate income tax expense of the Group companies is calculated on the basis of book income before taxes, increased or decreased, as appropriate, by the permanent differences from taxable income, defined as those arising between taxable income and book income before taxes that do not reverse in subsequent periods.

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

Tax assets relating to tax loss carryforwards not yet offset and deferred tax assets are recorded when their future recovery is reasonably assured. Deferred tax assets which will foreseeably be reversed over a period exceeding 10 years are not recognized, except if there are deferred tax liabilities for the same or higher amount and their reversal period is the same as that of the deferred tax assets.

Deferrable investment tax credits are recorded under the *Deferred Revenues* caption.

The Spanish companies in which Telefónica, S.A. had a direct or indirect holding of at least 75% in 2003 and 2002 are taxed under Spanish corporate income tax under the consolidation tax regime. Telefónica Móviles, S.A. and the Spanish subsidiaries which meet this requirement file consolidated tax returns as part of the Telefónica, S.A. consolidated tax group.

i) Foreign currency transactions

Fixed-income securities and receivables and payables denominated in foreign currencies are translated into euro from the foreign currencies at the exchange rate prevailing at the transaction date, and are adjusted at period-end to the exchange rates then prevailing.

Exchange differences arising on adjustment of foreign currency accounts payable and receivable to period-end exchange rates are classified by currency and due date, and for this purpose currencies which, although different, are officially convertible are grouped together.

The positive net differences are recorded under *Deferred Revenues - Other deferred revenues* caption on the liability side of the consolidated balance sheet, unless exchange losses have been charged to income in prior periods, in which case, the net positive differences are credited to period income up to the limit of the negative net differences charged to income in prior years, or in the current year. Negative differences are immediately charged to income.

The positive differences deferred in prior periods are credited to income in the period in which the related accounts receivable and payable fall due or are repaid early, or as negative exchange differences for the same or a higher amount are recognized in each homogeneous group.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

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 Shareholders' Equity caption (Translation Differences) in the consolidated balance sheet.

The exchange differences arising from foreign currency transactions to specifically finance investments in investees which hedge the exchange rate risk on these investments are included under the Translation Differences caption in the accompanying consolidated balance sheets.

These transactions are deemed to be hedging transactions when the foreign currency in which the financing is denominated is either the same as or is correlated with the functional currency of the investee's country and of the cash flows generated by the investment, and the expected flows of dividends and management fees are sufficient to ensure full repayment of the loans concerned throughout their term. Consequently, to ensure consistency in the treatment of the exchange differences on the subsidiaries' assets and on the liabilities financing

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

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 Translation Differences caption (Note 9.c).

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

Various companies of the Móviles Group carry out sales promotions based on the obtainment of points by subscribers for telephone usage. These points can be exchanged for discounts on purchases of handsets, for usage or other services, based on the number of points obtained and the type of contract entered into with the companies. The consolidated balance sheets include the related accounting provision based on the estimated value on of the accumulated points at those dates.

k) Provision for contingencies and expenses

This caption includes the estimated amount required for probable or certain third-party liability arising from litigation in progress or from outstanding indemnity payments or obligations of undetermined amount to be borne by the Company. These provisions thus constitute a fund enabling the Company to meet expenses, losses or debts when it becomes liable for them. As of December 31, 2002, 2,116,628 thousand had been recorded in this connection. As described in Note 1, 1,699,931 thousand relate to the provision recorded for the value of the investment in Ipse 2000, S.p.A. and the provision for the absorption of losses of minority stockholders of Group 3G UMTS Holding GmbH (Note 10). In 2003, Telefónica Móviles transferred 968,808 thousand of the provisions for contingencies and expenses to reflect a lower balance accounted for by the equity method, since Ipse 2000 had recorded in its statutory accounts the partially readjusted value of its assets (Note 7).

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Also, this caption includes the provisions recorded by the companies for severance pay based on employees' years of service, in accordance with the legislation applicable in each country or with the contractual agreements entered into, and the provisions recorded for probable third-party liability or expenses of undetermined amount.

l) Accounts receivable and payable

Long- and short-term receivables and payables are recorded in the consolidated balance sheet at face value. The interest included in the face value of receivables and payables maturing at over 12 months is recorded under the "Deferred Revenues" or "Deferred Charges" captions in the consolidated balance sheet, respectively, and credited or charged, as appropriate, to period income by the interest method.

The related allowance for bad debts is recorded based on the age of the debt and the debtor's creditworthiness.

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

m) Derivatives

Transactions aimed at eliminating or significantly reducing currency, interest rate or market risks on asset and liability positions or on other transactions are treated as hedging transactions. The gains or losses arising over the life of these derivatives are reflected in the statement of operations, using the same recognition method as that used for gains or losses on the related asset or liability being hedged (Note 17).

Transactions which, exceptionally, were not assigned to hedge risks, are not treated as hedging transactions. In transactions of this kind, the related provision is recorded with a charge to the consolidated statement of operations as soon as losses are anticipated; gains are recorded when finally settled.

n) Pension plan

Telefónica Móviles, S.A. and its Spanish dependent companies arranged a pension plan pursuant to Pension Plans and Funds Law 8/1987, with the following features:

Contribution between 4.51% and 6.87% of the participants' regulatory salary.

Obligatory contribution for participants of a minimum of 2.22% of their salary.

Financial and individual interest-method capitalization system.

The plan is assigned to FONDITEL B, FONDO DE PENSIONES, managed by the Telefónica Group company Fonditel Entidad Gestora de Fondos de Pensiones, S.A. (Fonditel). The amount of the contributions made by the Group in 2003 and 2002 totaled 6,630 thousand and 6,596 thousand, respectively, and these amounts are included under the Personnel Expenses caption in the accompanying consolidated statements of operations.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

The Brazilian companies have arranged a defined-contribution Pension Plan which includes most of these companies' serving employees. The companies contribute the same amount as that contributed by the participants which varies, depending on the company and the percentage selected by the participant, but does not exceed 9% of the participant's salary.

o) Accrued expenses and other liabilities

Under this caption the Group companies record mainly the amount of purchases by subscribers of prepaid service for recharging or acquisition of cards which, at year-end, has not yet accrued or been recorded as a revenue because the customers of this service have not used all the credits relating to their cards.

5. Intangible assets

a) Start-up expenses

Start-up expenses comprise incorporation, capital increase and preopening expenses. Preopening expenses relate mainly to direct costs incurred in the launch of various GSM digital telephony services, and expenses relating to third-generation wireless telephony (UMTS) services yet to be marketed in Spain. The expenses are recorded at cost and amortized on a straight-line basis over five years from the date of commencement of the related activities.

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

The detail of the balances of the start-up expenses and of the variations therein in 2002 and 2003 is as follows:

| Thousands of Euros | | | | | | | |
|---------------------------------------|----------------|---------------|-----------------|------------------|--------------|-------------|----------------|
| | Balance at | Inclusion of | | | | Translation | Balance at |
| | 12/31/01 | Companies | Additions | Amortization | Transfers | Difference | 12/31/02 |
| Incorporation and preopening Expenses | 316,175 | 33,207 | (10,815) | (69,209) | 3,333 | 458 | 273,149 |
| Capital increase expenses | 136,814 | | 226 | (38,349) | | | 98,691 |
| Total | 452,989 | 33,207 | (10,589) | (107,558) | 3,333 | 458 | 371,840 |

| Thousands of Euros | | | | | | | |
|---------------------------------------|----------------|--------------|---------------|-----------------|--------------|-------------|----------------|
| | Balance at | Inclusion of | | | | Translation | Balance at |
| | 12/31/02 | Companies | Additions | Amortization | Transfers | Difference | 12/31/03 |
| Incorporation and preopening Expenses | 273,149 | 4,112 | 47,163 | (32,563) | 1,717 | 484 | 294,062 |
| Capital increase expenses | 98,691 | | 478 | (32,725) | | | 66,444 |
| Total | 371,840 | 4,112 | 47,641 | (65,288) | 1,717 | 484 | 360,506 |

b) Intangible assets

The detail of the balances of the intangible asset accounts and of the variations therein in 2002 and 2003 were as follows:

a) Cost

Thousands of Euros

| | <u>Balance at 12/31/01</u> | <u>Additions</u> | <u>Inclusion / exclusion of Companies</u> | <u>Retirements</u> | <u>Transfers</u> | <u>Translation Differences</u> | <u>Balance at 12/31/02</u> |
|---------------------------------|--------------------------------|------------------|---|--------------------|------------------|------------------------------------|--------------------------------|
| Research and development costs | 3,318 | | | | 5,005 | 71 | 8,394 |
| Concessions, licenses and other | 10,599,401 | 128,698 | 610,211 | (9,254,380) | 102,110 | (204,705) | 1,981,335 |
| Other intangible assets | 539,727 | 233,578 | 78,478 | (67,823) | 164,299 | (38,015) | 910,244 |
| Total | 11,142,446 | 362,276 | 688,689 | (9,322,203) | 271,414 | (242,649) | 2,899,973 |

Thousands of Euros

| | <u>Balance at 12/31/02</u> | <u>Additions</u> | <u>Inclusion / exclusion of Companies</u> | <u>Retirements</u> | <u>Transfers</u> | <u>Translation Differences</u> | <u>Balance at 12/31/03</u> |
|---------------------------------|--------------------------------|------------------|---|--------------------|------------------|------------------------------------|--------------------------------|
| Research and development costs | 8,394 | | | | (2,070) | | 6,324 |
| Concessions, licenses and other | 1,981,335 | 3 | 8,297 | (12,292) | 507,834 | (86,265) | 2,398,912 |
| Other intangible assets | 910,244 | 216,820 | 14,280 | (26,255) | 42,080 | (10,507) | 1,146,662 |
| Total | 2,899,973 | 216,823 | 22,577 | (38,547) | 547,844 | (96,772) | 3,551,898 |

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

b) Amortization of intangible assets

Thousands of Euros

| | Balance at 12/31/01 | Inclusion / exclusion of Companies | Provisions | Retirements | Transfers | Translation Differences | Balance at 12/31/02 |
|---------------------------------|------------------------|--|----------------|-----------------|--------------|----------------------------|------------------------|
| Research and development | 456 | | 900 | | 4 | (8) | 1,352 |
| Concessions, licenses and other | 120,803 | 66,650 | 65,940 | (170) | (14,559) | (23,717) | 214,947 |
| Other intangible assets | 183,322 | 37,657 | 179,713 | (18,119) | 19,780 | (18,707) | 383,646 |
| Total | 304,581 | 104,307 | 246,553 | (18,289) | 5,225 | (42,432) | 599,945 |
| Provisions for amortizations | 10,283 | 2,680 | 525 | (4,406) | 1,523 | (5,804) | 4,801 |

Thousands of Euros

| | Balance at 12/31/02 | Inclusion / exclusion of Companies | Provisions | Retirements | Transfers | Translation Differences | Balance at 12/31/03 |
|---------------------------------|------------------------|--|----------------|-----------------|----------------|----------------------------|------------------------|
| Research and development | 1,352 | | 1,277 | | | | 2,629 |
| Concessions, licenses and other | 214,947 | 1,620 | 79,615 | (2,578) | (1) | (21,998) | 271,605 |
| Other intangible assets | 383,646 | 4,888 | 227,069 | (17,241) | (3,977) | (11,554) | 582,832 |
| Total | 599,945 | 6,508 | 307,961 | (19,819) | (3,978) | (33,552) | 857,066 |
| Provisions for amortizations | 4,801 | | | (21) | (2,636) | (10) | 2,133 |

The Inclusion of Companies column in the 2002 Cost and Accumulated Amortization tables above includes the proportional consolidation of the assets contributed by PT Móveis SGPS, S.A. to Brasilcel, N.V. and the full consolidation of the Pegaso Telecomunicaciones Group. This column in 2003 includes the balances relating to the newly-consolidated Tele Centro Oeste Celular Participações (Note 2.d). The Exclusion of

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Companies column relating to 2002 includes the effect of the assets of the Brazilian operators contributed by Telefónica Móviles to Brasilcel, N.V., while the column for 2003 reflects the exclusion from consolidation of Telefónica Mobile Solutions, S.A. and of 3G Mobile Telecommunications GmbH, as mentioned in Note 2.d.

The Additions column for 2003 includes mainly the investments made in computer and billing systems, and the development of new services such as the i-mode services.

The Retirements column for 2002 includes mainly the effect of the value adjustment of the licenses and other intangible assets for operation of the UMTS system in Germany, Austria and Switzerland (Note 1).

In 2003, 504,651 thousand were recorded as a net additional value of the licenses obtained to operate nationwide wireless communications services in Mexico. This amount was reclassified from the Consolidation Goodwill caption on completion of the respective valuations (Notes 4.d and 8).

The Transfers column for 2002 reflects the change in the method used to consolidate Tele Leste Celular Participações, S.A., prior to its contribution to Brasilcel, N.V. (Note 2.d).

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

The Translation Differences column shows the effect of the exchange rate fluctuations on the beginning balances of the foreign companies and the monetary correction which certain companies apply to their balances to the effect of inflation, in accordance with accounting practices in their respective countries. The effect of the exchange rate on the period variations of the year is included in the column relating to each variation.

6. Property, plant and equipment

The detail of the balances of property, plant and equipment, variations and the related accumulated amortization therein in December 31, 2002 is as follows:

| Thousands of Euros | | | | | | | |
|---|------------------|----------------|--|----------------------------|--------------------|------------------------|------------------|
| Balance at 12/31/01 | Additions | Retirements | Inclusion / exclusion of Companies | Translation Differences | Transfers | Balance at 12/31/02 | |
| Cost: | | | | | | | |
| Land and structures | 744,780 | 1,110 | (8,801) | 23,827 | (47,531) | 91,091 | 804,476 |
| Wireless network installations | 7,088,289 | 54,812 | (65,496) | 846,486 | (1,328,301) | 727,707 | 7,323,497 |
| Furniture, installations and other | 343,834 | 40,204 | (64,883) | 32,508 | (62,351) | 25,889 | 315,201 |
| Computer hardware | 430,505 | 42,647 | (12,696) | 33,167 | (52,116) | 38,445 | 479,952 |
| Other property and equipment | 132,925 | 3,646 | (3,381) | 50,898 | (45,118) | 19,755 | 158,725 |
| Construction in process | 690,431 | 541,901 | (40,134) | 11,112 | (210,363) | (643,515) | 349,432 |
| Total property, plant, and equipment | 9,430,764 | 684,320 | (195,391) | 997,998 | (1,745,780) | 259,372 | 9,431,283 |

Thousands of Euros

| Balance at 12/31/01 | Provisions | Retirements | Inclusion / exclusion of Companies | Translation Differences | Transfers | Balance at 12/31/02 | |
|------------------------|------------|-------------|--|----------------------------|-----------|------------------------|--|
|------------------------|------------|-------------|--|----------------------------|-----------|------------------------|--|

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| Depreciation: | | | | | | | |
|---|------------------|------------------|------------------|----------------|--------------------|----------------|------------------|
| Land and structures | 187,372 | 54,667 | (1,857) | 5,875 | (10,502) | 1,984 | 237,539 |
| Wireless network installations | 3,571,917 | 767,572 | (34,188) | 180,099 | (597,693) | 118,013 | 4,005,720 |
| Furniture, installations and other | 101,024 | 58,600 | (19,698) | 325 | (25,663) | 10,035 | 124,623 |
| Computer hardware | 221,557 | 91,124 | (2,282) | 22,508 | (30,538) | 3,777 | 306,146 |
| Other property and equipment | 58,172 | 23,239 | (2,305) | 11,112 | (20,667) | (273) | 69,278 |
| Total depreciation | 4,140,042 | 995,202 | (60,330) | 219,919 | (685,063) | 133,536 | 4,743,306 |
| Provision for depreciation | 46,308 | (390) | (11,693) | 528 | (7,501) | (1,004) | 26,248 |
| Property, plant and equipment, net | 5,244,414 | (310,492) | (123,368) | 777,551 | (1,053,216) | 126,840 | 4,661,729 |

F-42

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

The detail of the balances of property, plant and equipment, variations and the related accumulated amortization therein in December 31, 2003 is as follows:

Thousands of Euros

| | Balance at 12/31/02 | Additions | Retirements | Inclusion / exclusion of Companies | Translation Differences | Transfers | Balance at 12/31/03 |
|---|------------------------|----------------|-----------------|--|----------------------------|-----------------|------------------------|
| Cost: | | | | | | | |
| Land and structures | 804,476 | 7,744 | (883) | 6,738 | (16,146) | 141,051 | 942,980 |
| Wireless network installations | 7,323,497 | 107,217 | (6,958) | 156,796 | (365,730) | 348,675 | 7,563,497 |
| Furniture, installations and other | 315,201 | 26,072 | (9,754) | 11,411 | (17,377) | (6,502) | 319,050 |
| Computer hardware | 479,952 | 25,069 | (2,344) | 2,771 | (16,979) | 15,699 | 504,168 |
| Other property and equipment | 158,725 | 7,237 | (795) | 628 | (6,631) | (19,350) | 139,851 |
| Construction in process | 349,432 | 822,188 | (10,263) | 7,032 | (21,507) | (541,458) | 605,424 |
| Total property, plant, and equipment | 9,431,283 | 996,842 | (32,096) | 185,623 | (444,209) | (46,382) | 10,091,061 |

Thousands of Euros

| | Balance at 12/31/02 | Provisions | Retirements | Inclusion / exclusion of Companies | Translation Differences | Transfers | Balance at 12/31/03 |
|------------------------------------|------------------------|------------------|-----------------|--|----------------------------|------------|------------------------|
| Depreciation: | | | | | | | |
| Land and structures | 237,539 | 70,389 | (211) | 1,892 | (5,310) | 9,300 | 313,599 |
| Wireless network installations | 4,005,720 | 839,686 | (4,840) | 72,836 | (174,013) | (12,472) | 4,726,917 |
| Furniture, installations and other | 124,623 | 36,862 | (4,045) | 8,002 | (7,124) | (3,408) | 154,910 |
| Computer hardware | 306,146 | 95,529 | (1,583) | 648 | (14,710) | 2,744 | 388,774 |
| Other property and equipment | 69,278 | 17,865 | (1,147) | 190 | (3,610) | 4,484 | 87,060 |
| Total depreciation | 4,743,306 | 1,060,331 | (11,826) | 83,568 | (204,767) | 648 | 5,671,260 |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | | | | | | |
|---|------------------|-----------------|-----------------|------------------|------------------|-----------------|------------------|
| Provision for depreciation | 26,248 | 13,282 | (5,215) | | (1,655) | 2,787 | 35,447 |
| Property, plant and equipment, net | 4,661,729 | (76,771) | (15,055) | (102,055) | (237,787) | (49,817) | 4,384,354 |

The Inclusion of Companies column in the 2002 Cost and Accumulated Depreciation tables above includes the proportional consolidation of the assets contributed by PT Móveis SGPS, S.A. to Brasilcel, N.V. and the full consolidation of the Pegaso Telecomunicaciones Group. This column for 2003 reflects the inclusion of TCO in the Telefónica Móviles consolidated Group, as mentioned in Note 2.d. The Exclusion of Companies column relating to 2002 includes the effect of the assets of the Brazilian operators contributed by Telefónica Móviles to Brasilcel, N.V., as mentioned in Note 2.d. This column for 2003 reflects the exclusion

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

from the consolidated group of Telefónica Mobile Solutions, S.A. and 3G Mobile Telecommunications GmbH (Note 2.d).

The Additions column for 2003 includes mainly the effect of the increase and expansion of capacity of the GSM and GPRS networks and the expansion of the UMTS network.

The Retirements column for 2002 includes mainly the effect of the write-down of the assets due to the halting of operations in Germany, Austria and Switzerland (Note 1).

The Transfers column for 2002 shows the effect of the change in the method used to consolidate Tele Leste Celular Participações, S.A., prior to its contribution to Brasilcel, N.V. (Note 2.d).

The Translation Differences column shows the effect of the exchange rate fluctuations on the beginning balances of the foreign companies and the monetary correction which apply to their to the effect of inflation, in accordance with accounting practices in their respective countries. The effect of the exchange rate on the period variations of the year is included in the column relating to each variation.

The detail of the property and equipment owned by Group companies consolidated by the global integration method outside Spain is as follows:

| | Thousands of Euros | |
|---|---------------------------|------------------|
| | 12/31/02 | 12/31/03 |
| Cost | 4,174,872 | 4,529,395 |
| Accumulated depreciation | (1,609,274) | (2,057,968) |
| Total property, plant and equipment located abroad | 2,565,598 | 2,471,427 |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

As of December 31, 2002 and 2003 the following items had been fully depreciated:

| | Thousands of Euros | |
|--|--------------------|------------------|
| | 12/31/02 | 12/31/03 |
| Land and structures | 16,938 | 23,709 |
| Wireless network installations | 1,608,102 | 2,116,558 |
| Furniture, installations and other | 64,396 | 101,122 |
| Computer hardware | 154,072 | 231,186 |
| Total depreciated plant and equipment | 1,843,508 | 2,472,575 |

The Telefónica Móviles Group companies have taken out insurance policies to cover the possible risks to which their property, plant and equipment are subject.

7. Long-term financial investments

The main variations in long-term financial investments in 2002 and 2003 were as follows:

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

a) Investments in associated companies

Thousands of Euros

| | Balance at 12/31/01 | Additions | Translation Differences | Retirements | Transfers | Balance at 12/31/02 |
|--|--------------------------------|------------------|------------------------------------|--------------------|------------------|--------------------------------|
| IPSE 2000, S.p.A. | 1,038,573 | (18,871) | | | (6,011) | 1,013,691 |
| Médi Telecom, S.A. | 64,765 | (43,237) | (1,565) | | 42,923 | 62,886 |
| Tele Leste Celular Participações, S.A. | 18,825 | (3) | (2,113) | | (16,709) | |
| Mobipay Internacional, S.A. | 10,409 | (4,154) | | (522) | | 5,733 |
| Mobipay España, S.A. | 2,597 | (588) | (3) | | | 2,006 |
| Other companies carried by the equity method | (2,201) | (1,558) | 2,288 | | | (1,471) |
| Total | 1,132,968 | (68,411) | (1,393) | (522) | 20,203 | 1,082,845 |

Thousands of Euros

| | Balance at 12/31/02 | Additions | Translation Differences | Retirements | Transfers | Balance at 12/31/03 |
|--|--------------------------------|------------------|------------------------------------|--------------------|------------------|--------------------------------|
| IPSE 2000, S.p.A. | 1,013,691 | 34,338 | | | (968,808) | 79,221 |
| Médi Telecom, S.A. | 62,886 | (22,531) | (1,731) | | | 38,624 |
| Mobipay Internacional, S.A. | 5,733 | (1,503) | | | | 4,230 |
| Mobipay España, S.A. | 2,006 | (766) | | | | 1,240 |
| Other companies carried by the equity method | (1,471) | (288) | 95 | | | (1,664) |
| Total | 1,082,845 | 9,250 | (1,636) | | (968,808) | 121,651 |

The Additions column includes the share in the income or losses of companies accounted for by the equity method, the underlying book value of the investments at the time of acquisition and the share in the capital increases carried out during the year, except in the case of conversions of loans granted in prior years into capital.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

The Transfers column for 2003 reflects the transfer of 968,808 thousand of the provision for contingencies and expenses for Ipse 2000 recorded in 2002, since this company partially wrote down the third-generation wireless telephony license in its accounts (Note 4.k).

b) Other investments

| Thousands of Euros | | | | | | |
|-----------------------------------|------------------------|--------------|----------------------------|-------------|----------------|------------------------|
| | Balance at 12/31/01 | Additions | Translation Differences | Retirements | Transfers | Balance at 12/31/02 |
| Tempos 21, S.A. | 5,091 | | | | | 5,091 |
| Telefónica de Centroamérica, S.L. | 258 | 1,068 | | | | 1,326 |
| Other Holdings | 2,771 | 36 | (291) | (44) | (1,903) | 569 |
| Total | 8,120 | 1,104 | (291) | (44) | (1,903) | 6,986 |

F-45

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

| | Thousands of Euros | | | | | |
|-----------------------------------|------------------------|------------|----------------------------|--------------|--------------|------------------------|
| | Balance at 12/31/02 | Additions | Translation Differences | Retirements | Transfers | Balance at 12/31/03 |
| Tempos 21, S.A. | 5,091 | | | | | 5,091 |
| Telefónica de Centroamérica, S.L. | 1,326 | | | | | 1,326 |
| Other Holdings | 569 | 567 | (1) | (237) | 1,800 | 2,698 |
| Total | 6,986 | 567 | (1) | (237) | 1,800 | 9,115 |

8. Goodwill

The variations in Goodwill and in the related accumulated amortization in 2002 and 2003 were as follows:

| | Thousands of Euro |
|-------------------------------------|----------------------|
| Balance at 12/31/01 | 1,111,812 |
| Inclusion or exclusion of companies | 428,093 |
| Period additions | 695,272 |
| Amortization | (87,096) |
| Net transfers | (145,452) |
| Write-off | (399,149) |
| Translation differences | (38,606) |
| Balance at 12/31/02 | 1,564,874 |
| Inclusion or exclusion of companies | 745 |
| Period additions | 251,217 |
| Amortization | (101,703) |
| Net transfers | (504,255) |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | |
|----------------------------|------------------|
| Write-off | (18,984) |
| Translation differences | (45,426) |
| | <hr/> |
| Balance at 12/31/03 | 1,146,468 |
| | <hr/> |

Based on management's estimates and projections, the estimated revenues attributable to the Group due to the investments which generated goodwill are at least equal to the unamortized amounts of the respective goodwill items in the related periods.

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

a) Gross goodwill

| Thousands of Euros | | | | | | | |
|--|------------------------|------------------------------|----------------|----------------------------|------------------|------------------|------------------------|
| | Balance at 12/31/01 | Inclusion of Companies | Additions | Translation Differences | Retirements | Transfers | Balance at 12/31/02 |
| Goodwill on consolidated companies: | | | | | | | |
| Celular CRT, S.A. | 321,951 | | 31,673 | | (176,812) | (176,812) | |
| Telefónica Móviles España, S.A. (sole-stockholder) | 14,569 | | | | | | 14,569 |
| Brasilcel, N.V. | | 268,688 | | | | 243,651 | 512,339 |
| Tele Sudeste Celular Participações, S.A. | 117,053 | | 57,150 | | (60,428) | (113,775) | |
| Tele Leste Celular Participações, S.A. | | | 100,364 | | (6,412) | (93,952) | |
| TES Holding, S.A. de C.V. | 4,333 | | 19,823 | | | | 24,156 |
| Dependent companies of TES Holding, S.A. de C.V. | 60,390 | | | (9,079) | | | 51,311 |
| Telefónica Móviles Perú Holding, S.A.A. | 3,438 | | | | | | 3,438 |
| Telefónica Móviles México, S.A. de C.V. | | | 439,040 | | | 342,216 | 781,256 |
| Corporativo Integral de Comunicación | 137,860 | | 18 | | (11,030) | (126,848) | |
| Grupo Corporativo del Norte | 230,506 | | 705 | | (18,497) | (212,714) | |
| Grupo Baja Celular | 2,885 | | | | (231) | (2,654) | |
| Dependent companies of Mexican companies | 140,365 | 159,405 | | (43,868) | | | 255,902 |
| Iobox Oy | 230,206 | | | | (230,206) | | |
| Group 3G UMTS Holding, GmbH | 2,314 | | | | (2,314) | | |
| TCG Holdings, S.A. | 6,154 | | 41,402 | | | | 47,556 |
| Dependent companies of TCG Holdings, S.A. | 3,870 | | | (532) | | | 3,338 |
| Total gross goodwill on companies consolidated | 1,275,894 | 428,093 | 690,175 | (53,479) | (505,930) | (140,888) | 1,693,865 |
| Goodwill from companies carried by the equity method: | | | | | | | |
| Médi Telecom, S.A. | | | 5,097 | | | | 5,097 |
| Tele Leste Celular Participações, S.A. | 4,564 | | | | | (4,564) | |
| Dependent companies of Telefónica Móviles Argentina, S.A. | 3,108 | | | (1,805) | (1,303) | | |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | | | | | |
|---|------------------|----------------|----------------|-----------------|------------------|------------------|
| Total gross goodwill from companies carried by the equity method | <u>7,672</u> | <u>5,097</u> | <u>(1,805)</u> | <u>(1,303)</u> | <u>(4,564)</u> | <u>5,097</u> |
| Total gross goodwill in consolidation | <u>1,283,566</u> | <u>428,093</u> | <u>695,272</u> | <u>(55,284)</u> | <u>(507,233)</u> | <u>1,698,962</u> |

F-47

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

| Thousands of Euros | | | | | | | |
|---|------------------------|------------------------------|----------------|----------------------------|-----------------|------------------|------------------------|
| | Balance at 12/31/02 | Inclusion of Companies | Additions | Translation Differences | Retirements | Transfers | Balance at 12/31/03 |
| Goodwill on consolidated companies: | | | | | | | |
| Telefónica Móviles España, S.A. (sole-stockholder) | 14,569 | | | | | | 14,569 |
| Brasilcel, N.V. | 512,339 | 745 | 245,758 | 1,886 | | | 760,728 |
| TES Holding, S.A. de C.V. | 24,156 | | | | | | 24,156 |
| Dependent companies of TES Holding, S.A. de C.V. | 51,311 | | | (8,705) | | | 42,606 |
| Telefónica Móviles Perú Holding, S.A.A. | 3,438 | | | | | | 3,438 |
| Telefónica Móviles México, S.A. de C.V. | 781,256 | | | | (17,819) | (523,773) | 239,664 |
| Dependent companies of Mexican companies | 255,902 | | | (53,402) | (1,165) | (28,766) | 172,569 |
| TCG Holdings, S.A. | 47,556 | | | | | | 47,556 |
| Dependent companies of TCG Holdings, S.A. | 3,338 | | | (662) | | | 2,676 |
| Total gross goodwill on companies consolidated | 1,693,865 | 745 | 245,758 | (60,883) | (18,984) | (552,539) | 1,307,962 |
| Goodwill from companies carried by the equity method: | | | | | | | |
| Médi Telecom, S.A. | 5,097 | | 5,459 | | | | 10,556 |
| Dependent companies of Telefónica Móviles Argentina, S.A. | | | | | | 791 | 791 |
| Total gross goodwill from companies carried by the equity method | 5,097 | | 5,459 | | | 791 | 11,347 |
| Total gross goodwill in consolidation | 1,698,962 | 745 | 251,217 | (60,883) | (18,984) | (551,748) | 1,319,309 |

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

b) Amortization of goodwill

| | Thousands of Euros | | | | | | |
|--|------------------------|---------------------------|---------------|----------------------------|------------------|------------|------------------------|
| | Balance at 12/31/01 | Inclusion of Companies | Provision | Translation Differences | Retirements | Transfers | Balance at 12/31/02 |
| Amortization on consolidated companies: | | | | | | | |
| Celular CRT, S.A. | 22,315 | | 20,283 | | (21,299) | (21,299) | |
| Telefónica Móviles España, S.A. (sole-stockholder) | 907 | | 728 | | | | 1,635 |
| Brasilcel, N.V. | | | | | | 28,953 | 28,953 |
| Tele Sudeste Celular Participações, S.A. | 7,922 | | 6,522 | | (7,222) | (7,222) | |
| Tele Leste Celular Participações, S.A. | | | 563 | | (432) | (131) | |
| TES Holding, S.A. | 294 | | 1,176 | | | | 1,470 |
| Dependent companies of TES Holding, S.A. de C.V. | 7,669 | | 2,857 | (1,446) | | | 9,080 |
| Telefónica Móviles Perú Holding, S.A.A. | 270 | | 172 | | | | 442 |
| Telefónica Móviles México, S.A. de C.V. | | | 9,954 | | | 21,369 | 31,323 |
| Corporativo Integral de Comunicación | 3,444 | | 5,171 | | (690) | (7,925) | |
| Grupo Corporativo del Norte | 5,764 | | 8,671 | | (1,155) | (13,280) | |
| Grupo Baja Celular | 72 | | 107 | | (15) | (164) | |
| Dependent companies of Mexican companies | 61,291 | | 9,597 | (13,271) | | | 57,617 |
| Iobox Oy | 57,066 | | 18,672 | | (75,738) | | |
| Group 3G UMTS Holding, GmbH | 114 | | 116 | | (230) | | |
| TCG Holdings, S.A. | 415 | | 2,035 | | | | 2,450 |
| Dependent companies of TCG Holdings, S.A. | 801 | | 472 | (155) | | | 1,118 |
| Total amortization on companies consolidated | 168,344 | | 87,096 | (14,872) | (106,781) | 301 | 134,088 |
| Amortization on companies carried by the equity method: | | | | | | | |
| Tele Leste Celular Participações, S.A. | 301 | | | | | (301) | |
| Dependent companies of Telefónica Móviles Argentina, S.A. | 3,109 | | | (1,806) | (1,303) | | |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | | | | | |
|---|----------------|---------------|-----------------|------------------|--------------|----------------|
| Total amortization on companies carried by the equity method | 3,410 | | (1,806) | (1,303) | (301) | |
| Total amortization | 171,754 | 87,096 | (16,678) | (108,084) | | 134,088 |

F-49

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

| | Thousands of Euros | | | | | | |
|---|------------------------|---------------------------|----------------|----------------------------|-------------|-----------------|------------------------|
| | Balance at 12/31/02 | Inclusion of Companies | Provision | Translation Differences | Retirements | Transfers | Balance at 12/31/03 |
| Amortization on consolidated companies: | | | | | | | |
| Telefónica Móviles España, S.A. (sole-stockholder) | 1,635 | | 726 | | | | 2,361 |
| Brasilcel, N.V. | 28,953 | | 43,620 | (324) | | | 72,249 |
| TES Holding, S.A. | 1,470 | | 1,230 | | | | 2,700 |
| Dependent companies of TES Holding, S.A. de C.V. | 9,080 | | 2,384 | (1,795) | | | 9,669 |
| Telefónica Móviles Perú Holding, S.A.A. | 442 | | 174 | | | | 616 |
| Telefónica Móviles México, S.A. de C.V. | 31,323 | | 38,040 | | | (47,493) | 21,870 |
| Dependent companies of Mexican companies | 57,617 | | 12,347 | (13,068) | | | 56,896 |
| TCG Holdings, S.A. | 2,450 | | 2,391 | | | | 4,841 |
| Dependent companies of TCG Holdings, S.A. | 1,118 | | 424 | (270) | | | 1,272 |
| Total amortization on companies consolidated | 134,088 | | 101,336 | (15,457) | | (47,493) | 172,474 |
| Amortization on companies carried by the equity method: | | | | | | | |
| Medi Telecom, S.A. | | | 367 | | | | 367 |
| Total amortization on companies carried by the equity method | | | 367 | | | | 367 |
| Total amortization | 134,088 | | 101,703 | (15,457) | | (47,493) | 172,841 |

In both the tables for Gross Consolidation Goodwill table and the Amortization of Consolidation Goodwill tables, the Retirements and Transfers columns include, in 2002, the effect of the corporate transactions described in Note 2.d relating to Telefónica Móviles México, S.A. de C.V. and Brasilcel, N.V.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

In 2002 the goodwill arising on the acquisition of Iobox Oy was written down (Note 14.d) by 154,466 thousand due to the dissolution of Iobox Oy and the closure of its subsidiaries.

In 2003, 504,651 thousand were recorded as a net additional value of the licenses obtained to operate nationwide wireless communications services in Mexico. This amount was reclassified, once the respective valuations were completed, to the Intangible Assets Concessions, Patents, Licenses and Other caption (Notes 4.d and 5.b).

The Transfers column for 2002 shows the effect of the change in the method used to consolidate Tele Leste Celular Participações, S.A., prior to its contribution to Brasilcel, N.V. (Note 2.d).

The 2003 additions in the Gross Consolidation Goodwill table relate mainly to the goodwill arising in the acquisition of Tele Centro Oeste Celular Participações (Note 2.d).

F-50

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

9. Shareholders' equity

The details of the balances and variations in equity accounts in 2002 and 2003 are as follows:

| | Thousands of Euros |
|-------------------------------------|-------------------------------|
| | Total Equity |
| Balance 12/31/01 | 7,488,652 |
| Capital increase (Note 9.a) | 244,419 |
| Income for the period | (3,724,399) |
| Reserves not contributed (Note 9.b) | (6,322) |
| Translation differences (Note 9.c) | (754,767) |
| Balance 12/31/02 | 3,247,583 |
| Capital increase (Note 9.a) | |
| Income for the period | 1,607,838 |
| Dividends | (757,851) |
| Translation differences (Note 9.c) | (57,135) |
| Balance 12/31/03 | 4,040,435 |

a) Capital stock

2002

The capital stock of Telefónica Móviles, S.A. as of December 31, 2002, consisted of 4,330,550,896 fully subscribed and paid common shares, of the same series, with a par value of 0.5 each, recorded by the book-entry system, which are listed on the Spanish Continuous Market and on the

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

four Spanish stock exchanges (Madrid, Barcelona, Valencia and Bilbao), and on the New York Stock Exchange.

In 2002 the following capital increases were carried out:

- (1) On May 24, 2002, Telefónica Móviles, S.A. carried out one of the capital increases agreed upon the Stockholders Meeting on June 1, 2001, increasing the par value of the capital by 6,998 thousand through the issuance of 13,996,173 new common shares of 0.50 par value each, which were subscribed in full by Telefónica, S.A., with additional paid-in capital of 106,198 thousand. Telefónica, S.A. fully paid the new shares in full through the contribution of shares of the Brazilian company Iberoleste Participações, S.A., which owns a holding in Tele Leste Celular Participações, S.A.
- (2) On May 29, 2002, Telefónica Móviles, S.A. carried out another of the capital increases agreed on by the Stockholders Meeting on June 1, 2001, increasing the par value of the capital by 6,403 thousand through the issuance of 12,805,321 new common shares of 0.50 par value each, which were subscribed in full by Telefónica, S.A., with additional paid-in capital of 97,162 thousand. Telefónica, S.A. fully paid the new shares in full through the contribution of shares of the Brazilian companies TBS Celular Participações, S.A., Tele Leste Celular Participações, S.A., Tele Sudeste Celular Participações, S.A. and Sudestecel Participações, S.A.

The value for tax purposes used in these two transactions, which were performed on May 24 and 29, 2002, was approximately 227,955 thousand.

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

- (3) On July 22, 2002, Telefónica Móviles carried out the capital increase agreed upon by the Stockholders Meeting on April 4, 2002, increasing the par value of the capital by 7.278 thousand through the issuance of 14,557,046 new common shares of 0.50 par value each, which were subscribed by the Mesotel Group, with additional paid-in capital of 20,380 thousand. Mesotel paid the new shares in full through the contribution of the shares of the following companies owned by it: TES Holding, S.A. de C.V., Telca Gestión, S.A. de C.V., TCG Holdings, S.A., Telca Gestión Guatemala, S.A., Paging de Centroamérica, S.A., and Telefónica de Centroamérica, S.L.

The stockholder structure of Telefónica Móviles, S.A. as of December 31, 2002, was as follows:

| <u>Stockholder</u> | <u>Number of Shares</u> | <u>% of Ownership</u> |
|--------------------------------|-------------------------|-----------------------|
| Telefónica, S.A. | 3,074,802,440 | 71.00% |
| Telefónica Internacional, S.A. | 927,917,620 | 21.43% |
| Other stockholders | 327,830,836 | 7.57% |
| Total at 12/31/02 | 4,330,550,896 | 100% |

On April 4, 2002, the Stockholders Meeting adopted, inter alia, the following resolutions:

To authorize the Board of Directors, pursuant to Article 153.1.b) of the Spanish Corporations Law, to increase the capital stock, at once or several times within the limits, and under the terms and conditions established by the Stockholders Meeting (authorized capital). As of the date of preparation of these consolidated financial statements, the Board of Directors had not made use of this authorization, which remains in force.

To delegate to the Board of Directors, pursuant to Article 319 of the Mercantile Registry Regulations, the power to issue nonconvertible and/or convertible debentures, within the limits and under the terms and conditions established by the Stockholders Meeting.

To authorize the Board of Directors for the derivative acquisition of shares of the Company, within the limits and under the terms and conditions established by the Stockholders Meeting within a maximum period of 18 months from April 4, 2002, provided that the par value of the shares acquired, in addition to those already owned by the Company or its subsidiaries, does not exceed 5% of capital stock.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

To opt for application for an indefinite period to Telefónica Móviles, S.A., and to its investees belonging to the Telefónica, S.A. tax group, of the consolidated tax regime during the tax periods following 2004.

To increase capital through the exchange of shares by increasing the par value by 7.278 thousand through the issuance of 14,557,046 new common shares of 0.50 par value each. As described earlier, this capital increase was carried out on July 22, 2002, being subscribed by the Mesotel Group.

2003

The capital stock as of December 31, 2003, consisted of 4,330,550,896 fully subscribed and paid ordinary common shares, of the same series, of de of 0.5 par value each, recorded by the book-entry system, which are listed on the Spanish Continuous Market and on the four Spanish Stock Exchanges (Madrid, Barcelona, Valencia and Bilbao) and on the New York Stock Exchange.

F-52

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

On April 1, 2003, the Stockholders Meeting of Telefónica Móviles resolved to record the Company's legal reserve 433,055 thousand in full with a charge to the Additional Paid-in Capital caption, so that the legal reserve would reach 20% of capital stock. This Meeting also resolved to pay a gross dividend of 0.175 on each of the Company's shares in circulation, with a charge to the Additional Paid-in Capital caption. This dividend was paid on June 18, 2003. The same Meeting also resolved to offset prior years' accumulated losses and the 2002 loss with a charge to the Additional Paid-in Capital caption.

On April 1, 2003, the Stockholders Meeting adopted, inter alia, the following resolutions:

To delegate to the Board of Directors, the power to issue nonconvertible, exchangeable and/or convertible debentures, bonds, promissory notes and other fixed-income securities, and to authorize them, in the case of these securities, to exclude the preferential subscription rights of the stockholders and holders of convertible securities, and to guarantee the issues of the subsidiaries. As of the date of preparation of these consolidated financial statements, the Board of Directors had not made use of this authorization, which remains in force.

To authorize the Board of Directors for the derivative acquisition of shares of the Company, within the limits and under the terms and conditions established by the Stockholders Meeting, within a maximum period of 18 months from April 1, 2003, provided that the par value of the shares acquired, in addition to those already owned by the Company or its subsidiaries, does not exceed 5% of capital stock. As of the date of preparation of these consolidated financial statements, the Board of Directors had not made use of this authorization.

The stockholder structure of Telefónica Móviles, S.A. as of December 31, 2003, was as follows:

| <u>Stockholder</u> | <u>Number of Shares</u> | <u>% of Ownership</u> |
|--------------------------------|-------------------------|-----------------------|
| Telefónica, S.A. | 3,075,178,440 | 71.01% |
| Telefónica Internacional, S.A. | 927,917,620 | 21.43% |
| Other stockholders | 327,454,836 | 7.56% |
| Total at 12/31/03 | 4,330,550,896 | 100% |

b) *Reserves not contributed*

Under this caption is included the difference between the value of the companies transferred to Telefónica Móviles, S.A. during 2002 , and their value at the date of their effective transfer.

c) Translation Differences

The Translation Differences caption relates mainly to the effect of exchange rate fluctuations on the net assets of the companies located abroad and the effect of the adjustment for inflation to the results assets contributed by companies which use this accounting method (Note 4.b). In this connection, negative differences of 789,296 thousand and 42,675 thousand arose in 2002 and 2003, respectively, of which 138,853 thousand and 86,632 thousand, respectively, relate to the effect of the devaluation in Argentina (Note 2.e).

This caption also includes the exchange gains or losses arising from foreign currency-denominated transactions for the specific financing of investments in investee companies performed by the Parent Company to

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

hedge the exchange rate risk on these investments (Note 4.i). In this connection exchange gains of 34,529 thousand were generated in 2002 and exchange losses of 14,460 thousand were generated in 2003.

d) Legal Reserve

Under the revised Corporations Law, 10% of income for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of capital stock. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased capital stock amount. Otherwise, until the legal reserve exceeds 20% of capital stock, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

On April 1, 2003, the Stockholders Meeting of Telefónica Móviles resolved to record the Company's legal reserve in full of 433,055 thousand with a charge to the Additional Paid-in Capital caption, bringing the legal reserve to 20% of capital stock.

e) Legislation regulating the sale of holdings

Pursuant to the provisions of Law 5/1995 which regulates the sale of public holdings in certain companies, Telefónica, S.A. and Telefónica Móviles, S.A. are required to maintain a holding representing over 50% of the capital stock of Telefónica Móviles, S.A. and Telefónica Móviles España, S.A., respectively, and to request prior administrative authorization for the sale of any percentage of capital stock which would reduce the holding to under 50%. This authorization is also required for the acquisition or disposal of over 10% of the capital stock of Telefónica Móviles, S.A.

Law 62/2003 on Tax, Administrative and Social Measures, which was published in the Spanish Official State Gazette of December 31, amended Law 5/1995 and established that, instead of obtaining prior administrative authorization, subsequent notice of the sale be given, and that it was no longer necessary to report the acquisition by a third party of 10% or over in the capital stock of Telefónica Móviles, S.A. if this acquisition was merely financial in nature and not intended to gain control and/or management of this company.

10. Minority interests

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

The balance of (14,417) thousand and 74,671 thousand of minority interests as of December 31, 2002 and 2003, respectively, relates to the following direct and indirect economic interests of non-Group stockholders in the equity of the companies detailed below:

| <u>Company</u> | <u>12/31/02</u> | <u>12/31/03</u> |
|---|-----------------|-----------------|
| Telefónica Móviles Interacciona, S.A. | 20.00% | |
| Group 3G UMTS Holding GmbH | 42.8% | 42.8% |
| Telefónica Móviles Perú Holding, S.A.A. | 2.03% | 2.03% |
| Telefónica Móviles Argentina, S.A. | 2.07% | 2.07% |
| Telefónica Móviles México, S.A. de C.V. | 8.00% | 8.00% |
| Sociedades dependientes de Brasilcel, N.V. | | |
| Tele Sudeste Celular Participações, S.A. | 8.22% | 8.06% |
| Tele Leste Celular Participações, S.A. | 36.15% | 36.15% |
| Celular CRT Participações, S.A. | 25.76% | 25.22% |
| Telesp Celular Participações, S.A. | 17.44% | 17.44% |
| Tele Centro Oeste Celular Participações, S.A. | | 40.60% |

F-54

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

The breakdown of this balance as of December 31, 2002 and 2003, by company, is as follows:

| <u>Company</u> | Thousands of Euros | | | |
|---|--------------------------|---|--------------------------|---------------------------|
| | <u>Capital Stock</u> | <u>Reserves and Translation Differences</u> | <u>Income (Loss)</u> | <u>Total 12/31/02</u> |
| Tele Sudeste Celular Participações, S.A. | 30,429 | (5,250) | 5,646 | |
| TES Holding, S.A. de C.V. | 49,010 | (29,285) | (3,206) | |
| TCG Holdings, S.A. | 75,310 | (75,818) | (3,431) | |
| Terra Mobile, S.A. | 60,049 | (32,325) | (46,250) | (18,526) |
| Brasilcel, N.V. | | 133,595 | | 252,054 |
| Tele Leste Celular Participações, S.A. | 59,586 | (27,217) | (1,650) | |
| Telefónica Móviles Perú Holding, S.A.A. | 4,493 | 408 | (79) | 4,822 |
| Telefónica Móviles Argentina, S.A. | 3,134 | (7,917) | (6,925) | (11,708) |
| Telefónica Móviles México, S.A. de C.V. | 149,951 | (3,048) | (13,637) | 133,266 |
| Movitel del Noroeste, S.A. de C.V. | | 5,541 | (854) | |
| Celular CRT Participações, S.A. | 27,633 | (2,773) | 32,055 | |
| Group 3G UMTS Holding GmbH | 4,057,896 | (116,221) | (4,324,117) | (382,442) |
| Subsidiaries of Telefónica Móviles México, S.A. de C.V. | | (92) | (939) | 3,753 |
| Other companies | | 5,061 | (600) | 4,364 |
| Total | 4,517,491 | (155,341) | (4,363,987) | (14,417) |

| <u>Company</u> | Thousands of Euros | | | | |
|---|--------------------------|---|--------------------------|-----------------------|---------------------------|
| | <u>Capital Stock</u> | <u>Reserves and Translation Differences</u> | <u>Income (Loss)</u> | <u>Variation in %</u> | <u>Total 12/31/03</u> |
| Subsidiaries of Brasilcel, N.V. | 50 | 386,386 | 21,876 | (20,335) | 387,977 |
| Telefónica Móviles Interacciona, S.A. | | (10,534) | | 10,534 | |
| Telefónica Móviles Perú Holding, S.A.A. | 3,809 | 303 | 298 | | 4,410 |
| Telefónica Móviles Argentina, S.A. | 2,865 | (14,228) | 1,645 | | (9,718) |
| Telefónica Móviles México, S.A. de C.V. | 114,274 | (1,594) | (42,404) | | 70,276 |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | | | | |
|-------------------------------------|----------------|------------------|-----------------|----------------|---------------|
| Group 3G UMTS Holding GmbH (Note 1) | 107,011 | (489,453) | | | (382,442) |
| Other companies, net | | 6,710 | (2,542) | | 4,168 |
| Total | 228,009 | (122,410) | (21,127) | (9,801) | 74,671 |

F-55

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

The variations in minority interests in 2002 and 2003 were as follows:

| Thousands of Euros | | | | | | | | | |
|---|------------------------|---------------------------|----------------|------------------|--------------------|----------------------------|---------------------|-------------------|------------------------|
| Company | Balance at 12/31/01 | Inclusion of Companies | Transfers | Additions | Income (Loss) | | | | Balance at 12/31/02 |
| | | | | | for the Year | Translation Differences | Other Variations | Dividends Paid | |
| Tele Sudeste Celular Participações, S.A. | 108,975 | | (30,825) | 8,019 | 5,646 | (48,631) | (40,256) | (2,928) | |
| Tele Leste Celular Participações, S.A. | | | 107,885 | | (1,650) | (49,079) | (57,156) | | |
| Subsidiaries of Brasilcel, N.V. | | 82,923 | 118,459 | | | | 50,672 | | 252,054 |
| TES Holding, S.A. de C.V. | 32,107 | | | | (3,206) | (1,667) | (27,234) | | |
| TCG Holdings, S.A. | (2,290) | | | | (3,431) | 1,014 | 4,707 | | |
| Celular CRT Participações, S.A. | 161,277 | | (56,915) | 11,803 | 32,055 | (82,664) | (63,715) | (1,841) | |
| Group 3G UMTS Holding GmbH | 890,321 | | | 3,051,354 | (4,324,117) | | | | (382,442) |
| Telefónica Móviles Interacciona, S.A. | (6,004) | | | 33,546 | (46,250) | 182 | | | (18,526) |
| Telefónica Móviles Perú Holding, S.A.A. | 5,770 | | | | (79) | (869) | | | 4,822 |
| Telefónica Móviles Argentina, S.A. | (4,568) | | | | (6,925) | (215) | | | (11,708) |
| Telefónica Móviles México, S.A. de C.V. | | 166,132 | | | (13,637) | (19,229) | | | 133,266 |
| Subsidiaries of Telefónica Móviles México, S.A. de C.V. | | | 4,784 | | (939) | (92) | | | 3,753 |
| Movitel del Noroeste, S.A. de C.V. | 6,341 | | (4,687) | | (854) | (800) | | | |
| Other companies | 6,399 | | (97) | | (600) | (779) | (559) | | 4,364 |
| Total | 1,198,328 | 249,055 | 138,604 | 3,104,722 | (4,363,987) | (202,829) | (133,541) | (4,769) | (14,417) |

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

Thousands of Euros

| Company | Balance at 12/31/02 | Inclusion of Companies | Transfers | Additions | Income (Loss) | | | Dividends Paid | Balance at 12/31/03 |
|---|------------------------|---------------------------|-----------|----------------|------------------|----------------------------|---------------------|-------------------|------------------------|
| | | | | | for the Year | Translation Differences | Other Variations | | |
| Subsidiaries of Brasilcel, N.V. | 252,054 | 3,414 | | 120,083 | 21,876 | 2,629 | (12,079) | 387,977 | |
| Group 3G UMTS Holding GmbH | (382,442) | | | | | | | (382,442) | |
| Telefónica Móviles Interacciona, S.A. | (18,526) | | | 8,000 | | (8) | 10,534 | | |
| Telefónica Móviles Perú Holding, S.A.A. | 4,822 | | | | 298 | (710) | | 4,410 | |
| Telefónica Móviles Argentina, S.A. | (11,708) | | | | 1,645 | 345 | | (9,718) | |
| Telefónica Móviles México, S.A. de C.V. | 133,266 | | | | (42,404) | (20,586) | | 70,276 | |
| Subsidiaries of Telefónica Móviles México, S.A. de C.V. | 3,753 | | | | (1,467) | (635) | | 1,651 | |
| Other companies | 4,364 | | | | (1,075) | (630) | | 2,517 | |
| Total | (14,417) | 3,414 | | 128,083 | (21,127) | (19,595) | (1,687) | 74,671 | |

In 2002 the Transfers column includes the change in the method used to consolidate Tele Leste Celular Participações, S.A., prior to its contribution to Brasilcel, N.V. (Note 2.d).

Based on the matters indicated in Note 1, a provision was recorded under the Provisions for Contingencies and Expenses caption for the account receivable from the minority stockholder of Group 3G UMTS Holding GmbH as of December 31, 2002.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

The Additions column for 2003 includes mainly the increase in minority interests due to the acquisition of Tele Centro Oeste Celular Participações, as mentioned in Note 2.d.

F-57

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

11. Transactions with Telefónica Group companies

The breakdown of the balances receivable from and payable to the Telefónica Group as of December 31, 2002 and 2003 is as follows:

| | Thousands of Euros | | | |
|--|--------------------|------------------|------------------|------------------|
| | 12/31/02 | | 12/31/03 | |
| | Receivable | Payable | Receivable | Payable |
| Telefónica, S.A. | 1,787,705 | 6,142,187 | 1,149,370 | 5,699,553 |
| Telefónica de España, S.A. | 155,190 | 107,574 | 255,068 | 98,402 |
| Telefónica Internacional, S.A. | 2,689 | 12,833 | 1,208 | 12,391 |
| Telefónica Investigación y Desarrollo, S.A. | 197 | 21,219 | 1,056 | 18,770 |
| Telefónica Telecomunicaciones Públicas, S.A. | 5,193 | | 5,577 | 223 |
| Grupo Zeleris | 190 | 9,193 | 190 | 7,714 |
| Telefónica Larga Distancia, Inc. | 34,172 | | | |
| Telecomunicações de Sao Paulo, S.A. | 12,239 | 2,759 | 26,843 | 16,232 |
| Telefónica Finanzas, S.A. (Telfisa) | 644,105 | 389,952 | 984,953 | 320,170 |
| Teleinformática y Comunicaciones, S.A. | 15,381 | 6,650 | 53,040 | 7,349 |
| Grupo Atento | 2,215 | 15,937 | 570 | 12,463 |
| Ipse 2000, S.p.A. | 231,722 | | 280,608 | |
| Telefónica Argentina, S.A. | | | 3,203 | |
| Telefónica del Perú, S.A.A. | 31,202 | 72,740 | 67,349 | 80,019 |
| Tele Leste Celular Participações, S.A. | 2,755 | | 2,994 | |
| Medi Telecom, S.A. | 54,961 | 108 | 70,131 | |
| CRT Celular, S.A. | 485 | 104 | 4,980 | 53 |
| Grupo Telesudeste Participações | 12,900 | 183 | 13,414 | 3 |
| Tele Brasil Sul Celular Participações, S.A. | 3,351 | | | |
| Fisatel Mexico, S.A. de C.V. | | | 1,894 | 19,620 |
| Telefónica Mobile Solutions, S.A. | | | 1,549 | 11,637 |
| Other Telefónica Group companies | 18,124 | 21,445 | 23,302 | 33,109 |
| Total | 3,014,776 | 6,802,884 | 2,947,299 | 6,337,708 |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

The breakdown of the accounts payable by concepts, is as follows:

| | Thousands of Euros | | | |
|------------------------------------|--------------------|------------------|------------------|------------------|
| | 2002 | | 2003 | |
| | Short Term | Long Term | Short Term | Long Term |
| Loans and credit facilities | 523,875 | 6,025,870 | 1,193,605 | 4,864,416 |
| Consolidated corporate income tax | 2,175 | 7 | | 7 |
| For purchases, services and others | 250,957 | | 279,680 | |
| Total | 777,007 | 6,025,877 | 1,473,285 | 4,864,423 |

F-58

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

The breakdown of the loans granted by the Telefónica Group as of December 31, 2002 and 2003, is as follows:

| <u>Company</u> | <u>Thousands of Euros</u> | | | |
|--|---------------------------|-----------------------|------------------------|-----------------------|
| | <u>2002</u> | | <u>2003</u> | |
| | <u>Short- Term</u> | <u>Long- Term</u> | <u>Short- Term</u> | <u>Long- Term</u> |
| Telefónica Móviles, S.A.: | | | | |
| Credit lines in euros by Telefónica, S.A. | 166,039 | 763,789 | | 1,745,762 |
| Credit lines in US\$ by Telefónica, S.A. | 97,225 | 362,069 | 4,350 | 180,339 |
| Loan in euros by Telefónica, S.A. | 160,000 | 3,939,394 | 999,601 | 2,047,067 |
| Loans in US\$ by Telefónica, S.A. | | 478,595 | 130,061 | 391,320 |
| Other financial debts | 24,190 | 70,961 | 7,434 | 161,531 |
| Telefónica Móviles España, S.A. (sole-stockholder company): | | | | |
| Loan in euros by Telefónica, S.A. | 30,051 | | | |
| Multicurrency credit line by TELFISA-IEB | 25,723 | 339,545 | 25,718 | 286,947 |
| Telefónica Móviles Interacciona, S.A.: | | | | |
| Credit line in euros by Telfisa | 8,239 | | 6,988 | |
| Telefónica Móviles México, S.A.: | | | | |
| Fisatel México, S.A. de C.V. credit line in MXN. | | | 19,453 | |
| Telefónica Móviles Perú Holding, S.A.A.: | | | | |
| Loan in US\$ by Telefónica del Perú, S.A.A. | | 71,517 | | 51,450 |
| Telefónica Mobile Solutions, S.A. (sole-stockholder company): | | | | |
| Credit line in euros by Telfisa | 12,408 | | | |
| Total | 523,875 | 6,025,870 | 1,193,605 | 4,864,416 |

All the loans and credit lines detailed above bear interest at market rates. The average market interest rate of the loans and credit lines described above in 2003 and 2002 were 4.19% and 4.60%, respectively.

Of the outstanding balance payable to Telefónica Group companies as of December 31, 2002, 1,482,195 thousand were repaid in 2003. The Group had also drawn down 1,554,338 thousand to settle various of its subsidiaries' obligations to non-Group entities. Of this amount, 475,553

thousand were repaid within the year.

As of December 31, 2003 and 2002, credit lines had been granted by the Telefónica Group totaling 2,195 million and 3,195 million, respectively, of which 291 million were denominated in U.S. dollars and 106 were denominated in Mexican pesos. As of December 31, 2002 1,170 million were denominated in U.S. dollars.

1,956 million and 1,409 million had been drawn down against the aforementioned credit lines as of December 31, 2003 and 2002, respectively, of which 185 million and 459 million, respectively, relate to the credit lines denominated in U.S. dollars and 19 million to the credit lines denominated in Mexican pesos. As of December 31, 2002 there were no lines denominated in Mexican pesos.

Although the Group's books reflect a working capital deficiency as of December 31, 2003, in accordance with the 2004 budget no liquidity problems are expected to arise in the coming year.

Telefónica Móviles, S.A., Telefónica Móviles España, S.A. and Telefónica Móviles Interacciona, S.A. centralize all their cash balances at the Telefónica Group company Telefonía y Finanzas, S.A. (Telfisa), through transfers from and to the banks with which it has current accounts. The balances with Telfisa earn and bear interest at market rates.

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

The main transactions with Telefónica Group and associated companies in 2001, 2002 and 2003 were as follows:

| | Thousands of Euros | | | |
|---|-----------------------|-----------------------|-----------------------|--------------------------------------|
| | 2001 | | | |
| | Operating Revenues | Financial Revenues | Financial Expenses | Purchases and Outside Services |
| Telefónica, S.A. | 2,602 | | 173,921 | 27,166 |
| Telefónica de España, S.A. | 960,718 | | | 482,366 |
| Telefónica Sistemas, S.A. | 661 | | | 1,238 |
| Telefónica I + D, S.A. | 685 | | | 16,179 |
| Terra Networks, S.A. | 379 | | 1,989 | 12 |
| Terra Networks México, S.A. de C.V. | | | | 2,534 |
| Telefónica Telecomunicaciones Públicas, S.A. | 69,537 | | | 42 |
| Telefónica Servicios de Distribución, S.A. | 54 | | | 10,854 |
| Telefónica Publicidad e Información, S.A. | 1,491 | | | 745 |
| Telefónica Data España, S.A. | 811 | | | 2,140 |
| Telefónica Gestión de Servicios Compartidos, S.A. | 12 | | | 4,874 |
| Inmobiliaria Telefónica, S.A. | | | | 1,857 |
| Zeleris Soluciones Integrales, S.I. | | | | 4,321 |
| Venturini España, S.A. | | | | 1,328 |
| Telefonía y Finanzas, S.A. | | 79,171 | 22,586 | |
| Atento Holding de Telecomunicaciones, S.A. | 30 | | | 31,595 |
| Atento do Brasil, S.A. | | | | 25,898 |
| Atento Argentina, S.A. | 4,183 | | | 10,013 |
| Atento Guatemala, S.A. | | | | 2,266 |
| Teleinformática y Comunicaciones, S.A. | 102,136 | | | 38,561 |
| Terra Mobile, S.A. | 1,851 | 20,909 | | |
| Tele Leste Celular Participações, S.A. | 3,654 | | | 871 |
| Telebahia Celular, S.A. | 4,363 | | | |
| Telergipe Celular, S.A. | 6 | | | |
| Telefónica del Perú, S.A.A. | 127,986 | | 11,359 | 41,386 |
| Telefónica Internacional, S.A. | 84 | | 20,080 | 1,028 |
| Radio Móvil Digital Argentina, S.A. | | 336 | | |
| Telinver, S.A. | 2,699 | | | 138 |
| Advance Telecomunicaciones, S.A. | 282 | | | 385 |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | | | |
|----------------------------------|------------------|----------------|----------------|----------------|
| Telesp Participações, S.A. | | | | 3,078 |
| Telefónica Argentina, S.A. | 39,595 | 96 | 247 | 115,857 |
| Ipse 2000, S.p.A. | 5,109 | | | |
| Medi Telecom, S.A. | 1,983 | | | |
| Other Telefónica Group companies | 5,892 | | | 2,747 |
| Total | 1,336,803 | 100,512 | 230,182 | 829,479 |

F-60

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

| | Thousands of Euros | | | |
|---|-----------------------|-----------------------|-----------------------|---|
| | 2002 | | | |
| | Operating Revenues | Financial Revenues | Financial Expenses | Procurements and Outside Services |
| Telefónica, S.A. | 2,762 | | 268,103 | 32,089 |
| Telefónica de España, S.A. | 937,859 | | | 461,297 |
| Telefónica Internacional, S.A. | 69 | | | 2 |
| Telefónica I+D, S.A. | 669 | | | 15,585 |
| Terra Networks España, S.A. | 3,709 | | | 393 |
| Telefónica Telecomunicaciones Públicas, S.A. | 50,410 | | | 170 |
| Telefónica Servicios de Distribución, S.A. | 3 | | | 11,779 |
| Zeleris España, S.A. (Sole-Stockholder Company) | 266 | | | 13,273 |
| Telefónica Datacorp, S.A. (Sole-Stockholder Company) | 358 | | | 5,720 |
| Telefónica Data España, S.A. | 852 | | | 897 |
| Telefónica Data Argentina, S.A. | 91 | | 30 | 123 |
| Telefónica Gestión de Servicios Compartidos España, S.A. | 69 | | | 3,216 |
| Telefónica Gestión de Servicios Compartidos Guatemala, S.A. | | | | 1,355 |
| Telefónica Gestión de Servicios Compartidos El Salvador, S.A. de C.V. | | | | 1,446 |
| Telefónica Gestión de Servicios Compartidos de Perú, S.A. | | | | 4,387 |
| Telefónica Gestión de Servicios Compartidos México, S.A. | 1,250 | | | 2,174 |
| Telesp Participações, S.A. | 14,527 | | | 4,113 |
| Telesp Celular Participações, S.A. | | | | 2,646 |
| Telefonía y Finanzas, S.A. (Telfisa) | 3 | 68,413 | 26,769 | |
| Teleinformática y Comunicaciones, S.A. | 243,268 | | | 35,077 |
| Atento Holding de Telecomunicaciones, S.A. | 24 | | | 52 |
| Atento Teleservicios España, S.A. (Sole-Stockholder Company) | 2,937 | | | 35,927 |
| Atento Argentina, S.A. | 15 | 140 | | 5,703 |
| Atento de Guatemala, S.A. | | | | 1,265 |
| Teleatento del Perú SAC | 111 | | | 2,778 |
| Atento El Salvador S.A. de C.V. | | | | 2,478 |
| Atento Do Brasil, S.A. | | | | 23,665 |
| Atento Mexicana S.A. | | | | 8,891 |
| Ipse 2000, S.p.A. | 1,851 | 10,425 | | |
| Telefónica Argentina, S.A. | 1,143 | | 86 | 31,591 |
| Telefónica del Perú, S.A.A. | 121,565 | | 7,239 | 27,820 |
| Tele Leste Celular Participações, S.A. | 793 | | | |
| ST 3G, S.A. | 1,012 | 344 | | |
| Mobipay International, S.A. | 203 | | | |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | | | |
|---|------------------|---------------|----------------|----------------|
| Medi Telecom, S.A. | 2,540 | 2,879 | | |
| Telefónica Móviles de Chile, S.A. | 3,387 | | | 43 |
| Inmobiliaria Telefónica, S.L. | 95 | | | 4,010 |
| Seguros de Vida y Pensiones Antares, S.A. | 12 | | | 980 |
| Emergia Guatemala | 1,915 | | | 6,883 |
| Other Telefónica Group companies | 3,150 | 2,248 | 405 | 5,620 |
| Total | 1,396,918 | 84,449 | 302,632 | 753,448 |

F-61

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

| | Thousands of Euros | | | |
|--|-----------------------|-----------------------|-----------------------|---|
| | 2003 | | | |
| | Operating Revenues | Financial Revenues | Financial Expenses | Procurements and Outside Services |
| Telefónica, S.A. | 2,515 | 6,779 | 314,064 | 34,920 |
| Telefónica de España, S.A. | 828,155 | | | 415,818 |
| Telefónica Internacional, S.A. | 575 | | | 644 |
| Telefónica Investigación y Desarrollo, S.A. | 889 | | | 11,977 |
| Telefónica Telecomunicaciones Públicas, S.A. | 28,417 | | | 275 |
| Zeleris España, S.A.U | 433 | | | 24,763 |
| Telecomunicações de Sao Paulo, S.A. | 232,650 | | | 31,393 |
| Telefonía y Finanzas, S.A. (Telfisa) | 3 | 38,477 | 6,688 | |
| Teleinformática y Comunicaciones, S.A. | 256,529 | | | 31,191 |
| Atento Group | 2,906 | 72 | | 65,693 |
| Ipse 2000, S.p.A. | | 19,520 | | |
| Telefónica Argentina, S.A. | 975 | | | 31,145 |
| Telefónica del Perú, S.A.A. | 96,108 | 1,101 | 2,497 | 22,502 |
| Medi Telecom, S.A. | 541 | 1,397 | | 1 |
| Telefónica Mobile Solutions, S.A. | 599 | 275 | | 16,225 |
| Other Telefónica Group companies | 19,912 | 1,328 | 296 | 48,663 |
| Total | 1,471,207 | 68,949 | 323,545 | 735,210 |

The Company has entered into technical capacity transfer and business management and support contracts with Telefónica El Salvador, S.A. de C.V., Telefónica Centroamérica Guatemala, S.A. and Telefónica Móviles, S.A.C. Under these contracts the Company receives a fee equal to 1% of the services billed for transactions and 9% of the operating revenues of the aforementioned companies. Also, in October 2000 the Company was subrogated to Telefónica Internacional, S.A.'s consulting services contracts with the Brazilian companies Telerj Celular, S.A., Telest Celular, S.A., Telebahia Celular, S.A., Telergipe Celular, S.A. and Celular CRT, S.A. Under these contracts, the Company is entitled to receive a fee ranging from 1% to 2% of the revenues received for services billed for transactions of these companies. Lastly, the Telefónica Móviles Group has entered into a management contract with Medi Telecom, S.A. under which it receives a fee equal to 1% of the gross revenues or 4.5% of income before interest and taxes of Medi Telecom, S.A., depending on the operating revenues achieved by the company.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Additionally, since February 2000, Telefónica Móviles S.A. has been providing technical capacity transfer services to Newcomm Wireless Services, Inc. in Puerto Rico, by virtue of the subrogation of Telefónica Móviles, S.A. to Telefónica Internacional, S.A.'s technical capacity transfer contract. Under this contract the Company receives an annual fee, payable in quarterly installments, of 1% of the revenues received for services billed in the previous year for Newcomm's transactions. Lastly, since January 1, 2002, Telefónica Móviles, S.A. has been managing the operations of Newcomm Wireless Services, Inc., since it was subrogated to the management contract entered into between Telefónica Larga Distancia de Puerto Rico, Inc and Newcomm. The Company is entitled to an annual fee payable in quarterly installments, equal to the higher of (i) 9% of the operating income obtained by Newcomm in the previous year, or (ii) US\$ 750,000.

F-62

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

12. Payable to Banks and other Financial Institutions

The breakdown of the payables to banks and other financial institutions as of December 31, 2002 and 2003 is as follows:

| | Thousands of Euros | | | | | |
|---|--------------------|----------------|----------------|----------------|----------------|----------------|
| | | | Maturity | | | |
| | | | 12/31/02 | | 12/31/03 | |
| | 12/31/02 | 12/31/03 | Short-Term | Long-Term | Short-Term | Long-Term |
| Borrower: | | | | | | |
| Telefónica Móviles España, S.A. (sole stock holder company) | 2,324 | 26,879 | 2,324 | | | 26,879 |
| Celular CRT, S.A. | 82,362 | 42,584 | 18,066 | 64,296 | 10,501 | 32,083 |
| Tele Sudeste Celular Participações, S.A. | 56,501 | 25,701 | 25,211 | 31,290 | 20,700 | 5,001 |
| Tele Leste Celular Participações, S.A. | 48,137 | 30,433 | 12,385 | 35,752 | 11,170 | 19,263 |
| Telesp Celular Participações, S.A. | 607,573 | 625,682 | 284,674 | 322,899 | 438,493 | 187,189 |
| Telefónica Móviles el Salvador Holding, S.A. de C.V. | 30,161 | 14,865 | 30,161 | | 14,865 | |
| TCG Holdings, S.A. | 9,834 | | | 9,834 | | |
| Telefónica Móviles Argentina, S.A. | 20,642 | 17,174 | 13,624 | 7,018 | 9,719 | 7,455 |
| Telefónica Móviles Perú Holding, S.A.A. | 9,961 | 8,123 | 177 | 9,784 | 398 | 7,725 |
| Corporativo del Norte Group | 15,942 | | 15,942 | | | |
| Baja Celular Group | 53,492 | | 53,492 | | | |
| Pegaso Telecomunicaciones, S.A. de C.V. | 17,627 | | 10,030 | 7,597 | | |
| Telefónica Móviles México, S.A. | | 54,819 | | | 30,869 | 23,950 |
| Telefónica Móviles Puerto Rico, Inc. | | 8,160 | | | 8,160 | |
| Telefónica Móviles Aplicaciones y Soluciones, S.A. | 220 | 758 | 220 | | 270 | 488 |
| Total | 954,776 | 855,178 | 466,306 | 488,470 | 545,145 | 310,033 |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

All the loans to Group companies bear interest at market rates. Some of these loans are subject to certain financial restrictions. At the date of preparation of these consolidated financial statements, these conditions were either being met satisfactorily or were being negotiated, where appropriate, with the related financial institutions.

F-63

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

The Group's total payables to banks and other financial institutions as of December 31, 2003 matures as follows:

| | Thousands of Euros | | | | | | Total |
|---|--------------------|----------------|-----------------|---------------|---------------|---------------------|----------------|
| | Maturity | | | | | | |
| | 2004 | 2005 | 2006 | 2007 | 2008 | Subsequent Years | |
| Borrower: | | | | | | | |
| Telefónica Móviles España, S.A. (sole stockholder company) | | | | | 26,879 | | 26,879 |
| Celular CRT, S.A. | 10,501 | 13,049 | (198) | 19,232 | | | 42,584 |
| Tele Sudeste Celular Participações, S.A. | 20,700 | 5,001 | | | | | 25,701 |
| Tele Leste Celular Participações, S.A. | 11,170 | | | | 19,263 | | 30,433 |
| Telesp Celular Participações, S.A. | 438,493 | 178,473 | (39,658) | 47,880 | 494 | | 625,682 |
| Telefónica Móviles el Salvador Holding, S.A. de C.V. | 14,865 | | | | | | 14,865 |
| Telefónica Móviles Argentina, S.A. | 9,719 | 7,455 | | | | | 17,174 |
| Telefónica Móviles Perú Holding, S.A.A. | 398 | 724 | 948 | 1,170 | 1,295 | 3,588 | 8,123 |
| Telefónica Móviles México, S.A. de C.V. | 30,869 | (4,088) | 6,481 | 6,159 | 6,159 | 9,239 | 54,819 |
| Telefónica Móviles Puerto Rico, Inc | 8,160 | | | | | | 8,160 |
| Telefónica Móviles Aplicaciones y Soluciones, S.A. | 270 | 302 | 186 | | | | 758 |
| Total | 545,145 | 200,916 | (32,241) | 74,441 | 54,090 | 12,827 | 855,178 |

The Group arranges financial instruments as mentioned in Note 17 to hedge its exchange rate risk. In markets where it is not possible to arrange a derivative with the same characteristics as the loan being hedged, the Group seeks to renew the loans until their maturity; for this reason, when certain of the loans fall due, there is a balance receivable which will be offset by the balance payable in subsequent periods.

As of December 31, 2002 and 2003, there were no credit lines other than those granted by the Telefónica Group disclosed in Note 11.

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

The detail of the domestic and foreign-currency loans as of December 31, 2002 and 2003 is as follows:

| | Outstanding Balance Currency of Loans (Millions) | | Thousands of Euros | |
|---|--|----------|--------------------|----------------|
| | 12/31/02 | 12/31/03 | 12/31/02 | 12/31/03 |
| Telefónica Móviles España, S.A. (sole stockholder company) | | | | |
| Euros | 2 | | 2,324 | |
| U.S. dollar | | 34 | | 26,879 |
| | | | <u>2,324</u> | <u>26,879</u> |
| Celular CRT, S.A. | | | | |
| U.S. dollar | 86 | 67 | 82,362 | 42,584 |
| Brazilian reais | | | | |
| | | | <u>82,362</u> | <u>42,584</u> |
| Tele Sudeste Celular Participações, S.A. | | | | |
| U.S. dollar | 59 | 32 | 56,501 | 25,701 |
| | | | <u>56,501</u> | <u>25,701</u> |
| Tele Leste Celular Participações, S.A. | | | | |
| U.S. dollar | 50 | 38 | 48,137 | 30,433 |
| | | | <u>48,137</u> | <u>30,433</u> |
| Telesp Celular Participações, S.A. | | | | |
| Euros | 230 | 138 | 230,100 | 138,210 |
| U.S. dollar | 396 | 511 | 377,473 | 300,209 |
| Brazilian reais | | 542 | | 145,606 |
| Japanese Yens | | 5,681 | | 41,657 |
| | | | <u>607,573</u> | <u>625,682</u> |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | | | |
|---|----|----|---------------|---------------|
| TES Holding, S.A. de C.V. | | | | |
| U.S. dollar | 32 | 19 | 30,161 | 14,865 |
| Colons | | | | |
| | | | 30,161 | 14,865 |
| TCG Holdings, S.A. | | | | |
| U.S. dollar | | | | |
| Quetzals | 80 | | 9,834 | |
| | | | 9,834 | |
| Telefónica Móviles Argentina, S.A. | | | | |
| U.S. dollar | 22 | 22 | 20,642 | 17,174 |
| | | | 20,642 | 17,174 |
| Telefónica Móviles Perú Holding, S.A.A | | | | |
| U.S. dollar | 10 | 10 | 9,961 | 8,123 |
| | | | 9,961 | 8,123 |

F-65

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

| | Outstanding Balance Currency of Loans (Millions) | | Thousands of Euros | |
|---|--|----------|--------------------|----------------|
| | 12/31/02 | 12/31/03 | 12/31/02 | 12/31/03 |
| | _____ | _____ | _____ | _____ |
| Grupo Telefónica Móviles México | | | | |
| U.S. dollar | 91 | 72 | 87,061 | 47,156 |
| Mexican pesos | | 109 | | 7,663 |
| | | | 87,061 | 54,819 |
| Telefónica Móviles Puerto Rico, Inc | | | | |
| U.S. dollar | | 10 | | 8,160 |
| | | | | 8,160 |
| Telefónica Móviles Aplicaciones y Soluciones, S.A. | | | | |
| Chilean pesos | 166 | 569 | 220 | 758 |
| | | | 220 | 758 |
| Total | | | 954,776 | 855,178 |

13. Tax Matters

The Company files consolidated corporate income tax returns and, accordingly, is not obliged to pay its tax debt, and all the tax credits and tax bases up to the limit of the deduction for the consolidated group, are transferred to Telefónica, S.A., and a balance receivable from or payable to the parent company is recorded for the tax loss or tax debt, respectively, of the individual company, which is recorded under the Current Assets Loans to Telefónica Group Companies caption if a tax loss is reported by Telefónica Móviles, S.A. or under the Current Liabilities Payable to Telefónica Group companies caption if a tax debt is transferred to the parent company.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

The corporate income tax expense was calculated by aggregating the corporate income tax or similar expenses recorded by companies reporting taxable income. The tax amounts were determined in accordance with the tax regulations in effect in each country and on the basis of the income or loss reflected in the individual financial statements, the sum of which does not necessarily coincide with consolidated income.

The years open for review by the tax inspection authorities vary at each Group company, based on each country's tax legislation and on their respective statute-of-limitations periods. No material liabilities are expected to arise in the event of a tax audit of the open years.

F-66

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

a) Prepaid and deferred taxes

The details as of December 31, 2002 and 2003 of the Telefónica Móviles Group's prepaid and deferred taxes, and of the variations therein in the periods then ended, are as follows:

| | Thousands of Euros | | | |
|--|--------------------|------------------|----------------|----------------|
| | Prepaid Taxes | | Deferred Taxes | |
| | Short Term | Long Term | Short Term | Long Term |
| | | | | |
| Balance as of December 31, 2001 | 202,457 | 268,863 | 228,637 | 120,623 |
| Reversal | | (288,246) | (187,709) | (78,589) |
| Arising in the year | | 955,584 | 85,220 | 10,056 |
| Inclusion of companies and other | (202,457) | (41,504) | | 8,918 |
| Transfers | | 241,791 | | (2,503) |
| Balance as of December 31, 2002 | | 1,136,488 | 126,148 | 58,505 |
| Reversal | (7,754) | (128,465) | (9,397) | (31,126) |
| Arising in the year | 14,114 | 97,299 | 3,750 | 16,719 |
| Inclusion of companies and other | 5,433 | 5,119 | 143,457 | 3,529 |
| Transfers | 21,833 | (264,823) | (117,007) | (42,199) |
| Balance as of December 31, 2003 | 33,626 | 845,618 | 146,951 | 5,428 |

The balance of 1,052,266 thousand under the Long-Term Deferred Tax Assets caption in the accompanying consolidated balance sheet includes tax credits, together with the deferred tax assets reflected in the foregoing table.

The balance of 35,811 thousand under the Long-Term Deferred Tax Liabilities caption in the accompanying consolidated balance sheet includes various local taxes and the deferred tax liabilities reflected in the foregoing table.

b) Accrued taxes payable and tax receivables

The details of Accrued taxes payable and Tax receivables captions as of December 31, 2002 and 2003 are as follows:

| | Thousands of Euros | |
|---|------------------------|------------------------|
| | Balance at 12/31/02 | Balance at 12/31/03 |
| Accrued taxes payable: | | |
| Indirect taxes payable | 44,641 | 181,907 |
| Deferred tax liabilities | 126,148 | 146,951 |
| Corporate income tax | 22,231 | 24,542 |
| Social security taxes | 9,090 | 11,137 |
| Personal income tax withholdings | 13,571 | 6,314 |
| Withholdings from income from movable capital | 7,636 | 4,253 |
| Other | 139,627 | 19,282 |
| Total | 362,944 | 394,386 |

F-67

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

| | Thousands of Euros | |
|------------------------------|------------------------|------------------------|
| | Balance at 12/31/02 | Balance at 12/31/03 |
| Tax receivables: | | |
| Indirect taxes refundable | 36,476 | 213,936 |
| Deferred tax assets | | 33,626 |
| Prepaid corporate income tax | 11,632 | 27,518 |
| Tax credit | 36,767 | 25,159 |
| Others | 123,311 | 14,839 |
| | 208,186 | 315,078 |

c) Reconciliation of income per books to the taxable income and determination of the expense incurred

The reconciliation of net income as reported to taxable income for corporate income tax purposes for 2001, 2002 and 2003, the determination of the corporate income tax expense incurred and the net tax payable for those periods are as follows:

| | Thousands of Euros | | |
|--|--------------------|--------------------|------------------|
| | 12/31/01 | 12/31/02 | 12/31/03 |
| Income before tax and minority interests (per books) | 1,473,771 | (10,219,207) | 2,477,204 |
| Permanent differences | (804,214) | 3,571,472 | (602,833) |
| Timing differences | 539,925 | 2,009,759 | (225,230) |
| | 1,209,482 | (4,637,976) | 1,649,141 |
| Gross tax payable | 423,319 | (1,523,937) | 585,428 |
| Tax credits and tax relief | | | (17,489) |
| | 423,319 | (1,523,937) | 567,939 |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | | |
|--|----------------|--------------------|----------------|
| Effect of timing differences and deferred revenues | (188,974) | (703,415) | 75,444 |
| Spanish corporate income tax expense | 234,345 | (2,227,352) | 643,383 |
| Accrued foreign taxes and other | 394,423 | 96,531 | 247,110 |
| Total income tax | 628,768 | (2,130,821) | 890,493 |

The tax asset of 1,523,937 thousand recorded in 2002 arose mainly as a result of the decline in value (tax-deductible investment valuation provision) of the European subsidiaries of Telefónica Móviles España awarded the third generation wireless telephony licenses (Note 1).

The permanent differences arose mainly from the results obtained by the companies located abroad, the amortization of consolidation goodwill and the assets assigned in consolidation and the attributable results of associated companies. These last two items, which arose in consolidation, do not form part of the individual tax bases resulting from the calculation of the related taxes at each Group company.

The main timing differences arose from the period provisions for bad debts and for the decline in value of property, plant and equipment and the investment valuation provisions which are not deductible for tax purposes in the period.

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

Also, the Company credited a negative adjustment of 2,137,243 thousand in its corporate income tax settlement for tax year 2002, arising as a result of the transfer in 2002 of certain holdings acquired in prior years the market value of which differs from the book value at which they were recorded (underlying book value) because the Company availed itself of Article 159 of the Corporations Law. This adjustment was not taken into account for accounting purposes because the stance taken by the tax authorities differs from the Company's interpretation of this issue.

d) Accrual of investment tax credit

The effect of this accrual on the corporate income tax expense (Note 4.h) is as follows:

| | Thousands of Euros |
|-------------------------------------|-------------------------------|
| Balance at December 31, 2001 | 24,864 |
| Reversal | (19,950) |
| Arising in the year | 15,261 |
| Balance at December 31, 2002 | 20,175 |
| Reversal | (11,499) |
| Arising in the year | 12,981 |
| Balance at December 31, 2003 | 21,657 |

14. Revenues and Expenses

a) Personnel expenses

The breakdown of Personnel expenses is as follows:

| | Thousands of Euros | | |
|--|--------------------|----------------|----------------|
| | 12/31/01 | 12/31/02 | 12/31/03 |
| Wages and salaries | 380,567 | 396,998 | 337,652 |
| Social security costs and other personnel expenses | 153,264 | 149,383 | 148,341 |
| Total | 533,831 | 546,381 | 485,993 |

The number of employees, by categories, as of December 31, 2001, 2002 and 2003 is the following:

| | 12/31/01 | 12/31/02 | 12/31/03 |
|--|---------------|---------------|---------------|
| Directors | 10 | 13 | 16 |
| Executives | 1,857 | 1,927 | 1,352 |
| Operations staff, clerical and support staff | 11,592 | 12,909 | 10,882 |
| Total | 13,459 | 14,849 | 12,250 |

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

b) Financial expense and income

The detail of financial expense is as follows:

| | Thousands of Euros | | |
|--|--------------------|----------------|------------------|
| | 12/31/01 | 12/31/02 | 12/31/03 |
| Interest on payables to Telefónica s Group companies (Note 11) | 230,182 | 302,632 | 323,545 |
| Other interest on payables and loans | 138,155 | 117,191 | 318,660 |
| Variation in financial investments, provisions and other | | | |
| Exchange losses | 346,532 | 502,160 | 646,269 |
| Total | 714,869 | 921,983 | 1,288,474 |

The detail of financial income is as follows:

| | Thousands of Euros | | |
|------------------------------------|--------------------|----------------|----------------|
| | 12/31/01 | 12/31/02 | 12/31/03 |
| Revenues from securities and loans | 138,335 | 124,146 | 163,992 |
| Exchange gains | 248,475 | 481,641 | 746,345 |
| Total | 386,810 | 605,787 | 910,337 |

In addition to the operating transactions performed by the companies consolidated by the global integration method in the currencies of their respective countries, the Group s other transactions in foreign currencies related mainly to the payment of interest and repayment of loans, the

amounts of which are shown in Notes 11 and 12.

c) Breakdown of net income by accounting method

The detail of the Telefónica Móviles, S.A. controlling company's equity in the income of the Group companies was as follows:

| | Thousands of Euros | | |
|---|---------------------------|--------------------|------------------|
| | <u>12/31/01</u> | <u>12/31/02</u> | <u>12/31/03</u> |
| Companies consolidated by global integration method | 1,012,548 | (3,564,922) | 1,688,494 |
| Companies carried by equity method | (119,193) | (159,477) | (80,656) |
| Total | 893,355 | (3,724,399) | 1,607,838 |

F-70

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

The contributions to Group earnings by the companies consolidated by the global integration method in 2001, 2002 and 2003 were as follows:

| | Thousands of Euros | | |
|--|--------------------|--------------------|------------------|
| | 12/31/01 | 12/31/02 | 12/31/03 |
| Company: | | | |
| Telefónica Móviles España, S.A. (sole stockholder company) | 1,037,629 | (3,350,288) | 1,856,632 |
| Telefónica Móviles U.S.A., Inc. | (571) | (100) | |
| Telefónica Mobile Solutions, S.A. (sole stockholder company) | 1,052 | (12,150) | (229) |
| TCG Holdings, S.A. | (27,785) | (17,386) | (22,071) |
| Telefónica Móviles el Salvador Holding, S.A. de C.V. | (16,328) | (12,620) | (12,893) |
| Celular CRT Participações, S.A. | 15,518 | 21,180 | 13,408 |
| Tele Sudeste Celular Participações, S.A. | 78,264 | 41,694 | 16,677 |
| Tele Leste Celular Participações, S.A. | | (559) | (1,634) |
| Telesp Celular Participações, S.A. | | | (46,098) |
| IPSE 2000, S.p.A. | (3,504) | | |
| Group 3G UMTS Holding GmbH | (29,107) | (5,788,960) | (44,416) |
| 3G Mobile AG | (6,803) | (126,293) | (4,055) |
| 3G Mobile Telecommunications GmbH | (3,720) | (164,057) | (6,068) |
| Telefónica Móviles, S.A.C. | 12,904 | (3,809) | 14,381 |
| Telefónica Móviles Soluciones y Aplicaciones, S.A. | | 476 | 1,379 |
| Telefónica Comunicaciones Personales, S.A. | (696,146) | (326,066) | 77,374 |
| Corporativo Integral de Comunicación, S.A. de C.V. | (8,829) | (12,246) | |
| Telefónica Móviles Group México | | (143,934) | (414,669) |
| Grupo Corporativo del Norte, S.A. de C.V. | (14,857) | (28,530) | |
| Baja Celular Mexicana, S.A. de C.V. | (11,407) | (15,418) | |
| Telefónica Móviles Interacciona, S.A. | (24,179) | (185,000) | (22,867) |
| Holding companies and other consolidation adjustments | 710,417 | 6,559,144 | 283,643 |
| Total | 1,012,548 | (3,564,922) | 1,688,494 |

The Holding Companies and other Consolidation Adjustments caption includes mainly the results of Telefónica Móviles, S.A. and the elimination of the variation in investment valuation allowances and intra-Group transactions.

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

The breakdown, by company, of the income contributed by the companies carried by the equity method in 2001, 2002 and 2003 was as follows:

| | Thousands of Euros | | |
|--|--------------------|------------------|-----------------|
| | 12/31/01 | 12/31/02 | 12/31/03 |
| Company: | | | |
| Tele Leste Celular Participações, S.A. | 920 | | |
| Telefónica Móviles Interacciona, S.A. | (38,843) | | |
| Médi Telecom, S.A. | (66,905) | (55,341) | (38,335) |
| Mobipay International, S.A. | (1,244) | (4,154) | (2,847) |
| Mobipay España, S.A. | (174) | (588) | (765) |
| Ipse 2000, S.p.A. | (9,634) | (97,836) | (38,421) |
| Other | (3,313) | (1,558) | (288) |
| Total | (119,193) | (159,477) | (80,656) |

d) Extraordinary income (expense)

The detail of extraordinary income is as follows:

| | Thousands of Euros | | |
|---|--------------------|----------|----------|
| | 12/31/01 | 12/31/02 | 12/31/03 |
| Capital subsidies | 421 | 348 | 348 |
| Income for halting of UMTS operations in Europe (Note 1) | | 17,629 | 2,468 |
| Gains on fixed assets and financial investments disposals | 1,328 | 1,955 | 17,217 |
| Prior years incomes | 7,549 | 5,605 | 4,902 |
| Over provision for pension plan | 22,250 | 2,690 | |
| Recovery of insurances claims | 11,407 | 872 | 2,487 |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | | |
|--|-------------------|-------------------|-------------------|
| Overprovision for contingencies and other expenses | 16,967 | | |
| Loans forgiven | | | 5,375 |
| Tax recovered | 12,988 | 46,464 | 14,675 |
| Other extraordinary revenues | 4,007 | 12,663 | 7,648 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total | 76,917 | 88,226 | 55,120 |
| | <u> </u> | <u> </u> | <u> </u> |

F-72

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

The detail of extraordinary expenses is as follows:

| | Thousands of Euros | | |
|--|--------------------|-------------------|---------------|
| | 12/31/01 | 12/31/02 | 12/31/03 |
| Expenses for halting of UMTS operations in Europe (Note 1) | | 2,581,098 | |
| Period provisions for contingencies and other | 8,805 | 3,262 | |
| Losses on fixed assets disposals | 77,446 | 9,383,619 | 27,160 |
| Prior years expenses | | 4,034 | 5,204 |
| Write-off goodwill (Note 8) | 3,245 | 154,466 | |
| Change in Subsidiaries' Fiscal Year End | 41,392 | | |
| Insurances claims | 3,215 | 279 | 48 |
| Shortfall in pension fund | 6,371 | | |
| Penalties and fines | | 4,701 | 1,927 |
| Severance cost, Indemnities, etc | 11,540 | 17,519 | 12,357 |
| Absorption of minority interests by Telefónica Móviles Interacciona, S.A | | | 10,539 |
| Subsidies and voluntary donations | 1,334 | | |
| Other extraordinary expenses | 24,274 | 15,150 | 2,421 |
| Total | 177,622 | 12,164,128 | 59,656 |

The caption "Prior years expenses" reflects additional allowances for doubtful accounts

In January 2001, there was an earthquake in El Salvador, where Telefónica Móviles' subsidiary TES Holding, S.A. de C.V. is located. This subsidiary has an insurance policy covering its property, plant and equipment against this kind of risk. However, the Group decided to record a provision in 2000 to cover the losses that might arise in the future from this disaster and which are not covered by the insurance policy (Note 4.k). As of December 31, 2001, this provision had been used for the purpose for which it was recorded.

The caption "Change in Subsidiaries' Fiscal Year End" reflects the losses of Telefónica Comunicaciones Personales, S.A. for the period from October 1 to December 31, 2000, as this company has changed in 2001 its fiscal year-end for legal purposes, and the earnings of period exceeding the common 12-month period should be considered as an extraordinary item (Note 2.d).

e) Foreign currency transactions

In addition to the operating transactions carried out by the companies consolidated by the global integration method in the currencies of the related countries, there are other foreign currency transactions carried out by the Group which relate mainly to the payment of interest and the repayment of loans, the amounts of which are shown in Note 11.

15. Contingencies

a) Guarantees

The most significant guarantees provided as of December 31, 2002 and 2003 are as follows:

On July 10, 1995, as a result of the final guarantee required for the award of the GSM license, Telefónica Móviles España, S.A. provided a guarantee of 24 million to the Ministry for Development,

F-73

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

formerly known as the Ministry of Public Works, Transport and the Environment. In order to transform the certificates authorizing provision of the GSM service into individual type B2 licenses, Telefónica Móviles España, S.A. requested the Secretary of State for Telecommunications and for the Information Society to release the guarantee and this release was authorized by Resolution dated November 28, 2003. The guarantee was effectively released in December, 2003.

Due to the granting of the license for the provision of the DCS 1800 MHz personal wireless communications service, on July 21, 1998, Telefónica Móviles España, S.A. had to provide a definitive guarantee of 12 million to the Ministry of Development. In order to transform the certificates authorizing provision of the DCS service into individual type B2 licenses, Telefónica Móviles España, S.A. requested the Secretary of State for Telecommunications and for the Information Society to release the guarantee and this release was authorized by Resolution dated November 28, 2003. The guarantee was effectively released in December, 2003.

On April 5 and 7, 2000, as a result of the final guarantee required for the award of the UMTS license, Telefónica Móviles España, S.A. provided guarantees totaling 1,100 million to the Ministry for Development. Telefónica Móviles España began negotiations with the Ministry with a view to changing the existing system of guarantees. This process was concluded through a statement issued by the Secretary of State for Telecommunications and for the Information Society on July 28, 2003, which released to Telefónica Móviles España, S.A. the guarantees in force at that date securing the commitments assumed under the UMTS license, after Telefónica Móviles España, S.A. had arranged, in the same month, a guarantee of 167.5 million with the Government Depository, to secure compliance with the UMTS service commitments prior to launch of the UMTS and the commitments of the first year from the date of commercial launch, in accordance with the new system of guarantees. In September, Telefónica Móviles España, S.A. cancelled the released guarantees at the respective banks.

Telefónica Móviles España, as a stockholder of Medi Telecom, signed a Stockholders Support Agreement together with Portugal Telecom and the BMCE Group. This commitment requires the signatories to jointly and severally provide up to 210 million of financial assistance to Medi Telecom in the event of noncompliance with financial clauses or a shortfall in funds at Medi Telecom which would prevent it from meeting its debt service obligations. If Medi Telecom reaches a specific level of operating income before depreciation and amortization within a certain period of time and if it fulfills all its obligations under the loan agreement, this financial commitment will automatically be cancelled. As a result of the aforementioned loans and the capital increase subscribed, inter alia, by Telefónica Móviles España, S.A., and the aforementioned commitment between Telefónica Móviles España, Portugal Telecom and the BMCE Group reduced the total amount was reduced to 118.3 million as of December 31, 2003.

On September 29, 2003, Telefónica Móviles, S.A. arranged a counterguarantee with Telefónica Internacional, S.A. for the obligation of Telefónica Móviles Puerto Rico (a subsidiary of Telefónica Móviles) regarding a loan of 11 million granted by Banco Santander de Puerto Rico which matures on December 31, 2004.

On December 23, 2003, Telefónica Móviles, S.A. arranged a counterguarantee with Telefónica, S.A. for the obligation of Newcomm Wireless Services, Inc. de Puerto Rico, regarding a bridge loan of US\$ 61 million granted by ABN AMRO which matures on December 31, 2004.

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

On December 22, 2003, the purchase and sale agreement of the Austrian company 3G Mobile Telecommunications GmbH signed between Telefónica Móviles España, S.A. and Mobilkom Austria Aktiengesellschaft & Co KG (Mobilkom) was executed. As required under the agreement, Telefónica Móviles España arranged a first-call bank guarantee with Mobilkom for up to 1,650 thousand to secure possible tax contingencies. This bank guarantee was issued by Société Générale for Mobilkom on December 22, 2003 for a maximum period of two years. On the same date, Telefónica Móviles, S.A. arranged a counterguarantee for the same amount and period for the issuer bank of the first guarantee.

At 2000 year-end, Ipse 2000, S.p.A. acquired a third-generation wireless telephony license (UMTS) for 3,269 million. In accordance with the license terms and conditions, approximately 40% of the amount agreed on will be paid by this company in 10 annual installments through 2010.

On December 27, 2002, Telefónica Móviles, S.A. arranged a counterguarantee for Telefónica, S.A., which has in turn been counterguaranteed by Telefónica Móviles España, S.A., so that, subject to certain terms and conditions, Telefónica Móviles S.A. undertakes to settle 91.79% of the amounts Telefónica, S.A. is legally or contractually bound to pay due to the guarantee arranged by Telefónica, S.A. (together with the other strategic stockholders of Ipse 2000, S.p.A.) for certain banks which in turn issued bank guarantees for the Italian authorities to secure the deferred payment for the UMTS license. As of December 31, 2003, the installments payable for the UMTS license amounted to 16,010 thousand and 826,331 thousand were payable for the additional 5 Mhz of spectrum which was awarded to Ipse 2000, S.p.A. by the Italian Government and returned, although this return is still being disputed between Ipse 2000, S.p.A. and the Italian Government.

On October 25, 2000, Ipse 2000, S.p.A. concluded an agreement with the Italian railroad company Ferrovie dello Stato, S.p.A., under which Ipse 2000 was granted a number of rights of use of and access to certain sites belonging to this railroad company. Telefónica, S.A. has guaranteed up to 48.2 million of the amounts payable under this agreement. Telefónica Móviles intends to either counterguarantee this guarantee or to transfer it to the Móviles Group in proportion to its ownership interest.

Group management considers that the probability of any unforeseen liabilities, which might arise from the guarantees provided, is remote.

b) Litigation

Telefónica Móviles, S.A. and its Group companies are involved in various lawsuits relating to civil, labor, administrative, tax and antitrust law. The Company considers that it may be reasonably concluded that any adverse outcome of these lawsuits would not have a material effect on the economic and financial position or the solvency of the Group. The lawsuit relating to intellectual property filed against Pegaso, a subsidiary of Telefónica Móviles in Mexico, was resolved in 2003 to the satisfaction of Telefónica Móviles.

c) Alliances

In July 2003, Telefónica Móviles, T-Mobile International, Telecom Italia Mobile (TIM) and Orange signed a joint agreement to cooperate on the formation of a strategic alliance in the wireless telephony industry, which will enable them to offer customers in all the countries in which they operate common products and services of a superior quality, and thus strengthen the partners' ability to compete in international markets.

F-75

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

**Notes to Consolidated Financial Statements
for the Years Ended December 31, 2001, 2002 and 2003 (Continued)**

d) Environmental matters

The Telefónica Móviles Group, through its investees, and in line with its environmental policy, has been undertaking various activities and projects relating to environmental matters. Throughout 2003 it incurred expenses and made investments for scantily significant amounts which were recorded in the consolidated statement of operations and consolidated balance sheet, respectively.

As regards the current systems implemented by the Group to reduce the environmental impact of its plant, systems were brought into service for, inter alia, reducing emissions into the atmosphere, treating and recycling water, measuring effluents, reducing noise and vibrations, etc. The cost of these items was included in the cost of the plant in which they are located.

As regards possible environmental contingencies, there are sufficient internal control mechanisms which are periodically supervised, either in-house or by prestigious outside firms. No significant contingencies have been disclosed in this connection.

d) Fees paid to auditors

The fees paid in 2003 and 2002 to the various member firms of the Deloitte & Touche international organization, to which Deloitte & Touche España, S.L., the auditors of Telefónica Móviles consolidated Group, belongs, amounted to 2,947 thousand and 4,011 thousand, respectively.

The detail of the foregoing amount is as follows:

| Thousands | |
|------------------|-------------|
| of Euros | |
| 2003 | 2002 |
| | |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | |
|---|-------------------|-------------------|
| Audit of financial statements | 1,707 | 1,614 |
| Other audit services | 1,012 | 508 |
| Work additional to or other than audit services | 228 | 1,889 |
| | <u> </u> | <u> </u> |
| TOTAL | 2,947 | 4,011 |
| | <u> </u> | <u> </u> |

The fees paid to other auditors in 2003 and 2002 amounted to 765 thousand and 381 thousand, respectively, the detail being as follows:

| | Thousands of Euros | |
|---|-------------------------------|-------------------|
| | 2003 | 2002 |
| | <u> </u> | <u> </u> |
| Audit of financial statements | 106 | 178 |
| Other audit services | 145 | |
| Work additional to or other than audit services | 514 | 203 |
| | <u> </u> | <u> </u> |
| TOTAL | 765 | 381 |
| | <u> </u> | <u> </u> |

These fees include the amounts paid in connection with the fully consolidated Spanish and foreign Telefónica Móviles Group companies. In this connection, the amounts paid in 2003 include 917 thousand

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

relating to 50% of the fees of the proportionally consolidated companies (Deloitte Touche Tohmatsu, 703 thousand; other auditors, 214 thousand).

16. Directors' remuneration and other benefits

a) Directors' compensation and other benefits

The compensation paid to the Directors of Telefónica Móviles consists of a fixed and defined allocation payable monthly and fees for attendance at the meetings of the Board's Committees. The executive directors also receive the respective payments for discharging their executive duties.

2003

In 2003 the Directors of Telefónica Móviles received compensation totaling 2,446 thousand, which included 1,294 thousand relating to the fixed allocation, including compensation for serving on the Boards of Directors of other companies of the Telefónica Móviles Group; 79 thousand of fees for attending meetings of the Board's Committees; 127 thousand for advisory services provided by certain directors; 875 thousand relating to the executive directors' salaries and variable remuneration; 63 thousand of compensation in kind to the executive directors, which included life insurance, health insurance and housing contributions, and 8 thousand of pension plan contributions made by the Company as the promoter and in favor of the executive directors.

The compensation and benefits received by the Directors in 2003 were as follows:

a) Board of Directors: Fixed allocation received by each director in 2003.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | Thousands of Euros |
|-----------------------------------|-------------------------------|
| Chairman | 90 |
| Nominee and independent directors | 90 |
| Secretary | 90 |

The Directors do not receive fees of any kind for attending the Board meetings.

b) Other Committees of the Board of Directors: Total fees received by the Directors as a whole for attendance at Advisory and Standing Committee meetings in 2003:

| COMMITTEES | | Thousands of Euros |
|-------------------------------|----------------------------|-------------------------------|
| Audit and Control(1) | Fees per meeting: 1,352.28 | |
| | Number of meetings: 10 | 31 |
| Appointments and Compensation | Fees per meeting: 901.51 | |
| | Number of meetings: 9 | 28 |
| Standing | Fees per meeting: 901.51 | |
| | Number of meetings: 3 | 20 |

(1) Although 10 meetings were held, the fees for the last meeting in December 2002 are included. The fees received by the Audit and Control Committee members were established on the basis of the large volume of work and specific duties of these members.

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

c) Executive Directors: Total amounts received by the Executive Directors under the following headings:

| | Thousands of Euros |
|--------------------------------|-------------------------------|
| Salaries | 634 |
| Variable remuneration | 241 |
| Compensation in kind(1) | 63 |
| Contributions to pension plans | 8 |

(1) Includes health insurance, life insurance and housing.

The Executive Directors, as executives of Grupo Móviles, S.A., are beneficiaries of the MOS Program options plan described in Note 18.

2002

In 2002 the Directors of Telefónica Móviles received compensation totaling 2,613 thousand, which included 1,104 thousand relating to the fixed allocation, including compensation for serving on the Boards of Directors of other companies of the Telefónica Móviles Group; 54 thousand of fees for attending meetings of the Board's Committees; 132 thousand for advisory services provided by certain directors; 1,302 thousand relating to the executive directors' salaries and variable remuneration; 13 thousand of compensation in kind to the executive directors, which included life insurance contributions, and 8 thousand of pension plan contributions made by the Company as the promoter and in favor of the executive directors.

The compensation and benefits received by the Directors in 2002 were as follows:

a) Board of Directors: Fixed allocation received by each director in 2002.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| <u>POSITION</u> | <u>Thousands of Euros</u> |
|-----------------------------------|-------------------------------|
| Chairman | 90 |
| Nominee and independent directors | 90 |
| Secretary | 90 |

The Directors do not receive fees of any kind for attending the Board meetings.

b) Other Committees of the Board of Directors: Total fees received by the Directors as a whole for attendance at Advisory and Standing Committee meetings in 2002.

| <u>COMMITTEES</u> | <u>Thousands of Euros</u> |
|-------------------------------|-------------------------------|
| Audit and Control | Fees per meeting: 901.51 |
| | No. of meetings: 10 (1) 27 |
| Appointments and Compensation | Fees per meeting: 901.51 |
| | No. of meetings: 11 27 |

(1) Although 10 meetings were held, the amount indicated excludes the fees paid for the meeting of December, which were recorded in 2003.

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

c) Executive Directors: Total amounts received by the Executive Directors under the following headings:

| | Thousands of Euros |
|-------------------------------|-------------------------------|
| Salaries | 701 |
| Variable remuneration | 601 |
| Compensation in kind(1) | 13 |
| Contribution to pension plans | 8 |

(1) Includes health insurance and life insurance.

The Executive Directors, as executives of Grupo Móviles, S.A., are beneficiaries of the MOS Program options plan described in Note 18.

b) Detail of holdings in companies with similar activities and performance of similar activities by the Directors for their on account or for the account of others

Pursuant to Article 127 ter.4 of the Spanish Corporations Law, introduced by Law 26/2003, which amends Securities Market Law 24/1988, and the revised Spanish Corporations Law, in order to reinforce the transparency of listed corporations, following is a detail of the companies engaging in an activity that is identical, similar or complementary to, the activity that constitutes the corporate purpose of Telefónica Móviles, S.A. in which the members of the Board of Directors own equity interests, and of the functions, if any, that they discharge thereat.

| Shareholder | Investee | Ownership Percentage | Line of Business | Function discharged or Position Held |
|------------------------|-----------------------------|---------------------------------|-------------------------|---|
| Antonio Viana Baptista | Telefónica, S.A. | < 0.01% | Telecommunications | Director |
| Antonio Viana Baptista | Portugal Telecom., SGPS. | < 0.01% | Telecommunications | Director |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | | | |
|-----------------------------|-------------------|---------|--------------------|--------------------------------|
| Antonio Viana Baptista | Telecom Italia | < 0.01% | Telecommunications | None |
| Antonio Viana Baptista | Hellenic Telecom. | < 0.01% | Telecommunications | None |
| Antonio Viana Baptista | PT Multimedia | < 0.01% | Internet | None |
| José María Álvarez-Pallete | Telefónica, S.A. | < 0.01% | Telecommunications | Member of Management Committee |
| Maximino Carpio García | Telefónica, S.A. | < 0.01% | Telecommunications | Director |
| José María Más Millet | Telefónica, S.A. | < 0.01% | Telecommunications | None |
| Javier Echenique Landiribar | Telefónica, S.A. | < 0.01% | Telecommunications | None |
| Luis Lada Díaz | Telefónica, S.A. | < 0.01% | Telecommunications | Director |

F-79

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

| <u>Shareholder</u> | <u>Investee</u> | <u>Ownership Percentage</u> | <u>Line of Business</u> | <u>Function discharged or Position Held</u> |
|------------------------------------|----------------------|---------------------------------|--|---|
| Luis Lada Díaz | Sogecable, S.A. | < 0.01% | Television, telecommunications and audiovisual production services | Director |
| Fernando de Almansa Moreno-Barreda | Telefónica, S.A. | < 0.01% | Telecommunications | Director |
| Antonio Massanell Lavilla | Telefónica, S.A. | < 0.01% | Telecommunications | Director |
| Miguel Canalejo Larrainzar | Alcatel España, S.A. | < 0.01% | Manufacture of telecommunications systems | Director |

Additionally, in accordance with the aforementioned text, a detail is provided below of the activities engaged in by the directors for their own account or for the account of others and which are identical, similar or complementary to the activity that constitutes the corporate purpose of Telefónica Móviles, S.A.:

| <u>Name</u> | <u>Activity Performed</u> | <u>Account on Which Activity Performed</u> | <u>Company through which Activity is Performed</u> | <u>Position Held or Function Discharged at Company through which Service is Provided</u> |
|------------------------|-----------------------------|--|--|--|
| Antonio Viana Baptista | Telecommunications | Others | Telefónica, S.A. | Director |
| Antonio Viana Baptista | Wireline telecommunications | Others | Telefónica Internacional, S.A. | Director |
| Antonio Viana Baptista | Wireless telecommunications | Others | Telefónica Móviles España, S.A. | Director |
| Antonio Viana Baptista | Wireline telecommunications | Others | Telefónica de Argentina, S.A. | Director |
| Antonio Viana Baptista | Wireline telecommunications | Others | Compañía de Telecomunicaciones de Chile, S.A. | Director |
| Antonio Viana Baptista | Wireline telecommunications | Others | Telecomunicaciones de Sao Paulo, S.,A. | Director |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | | | |
|----------------------------|-----------------------------|--------|--------------------------------|--------------------------------|
| Antonio Viana Baptista | Wireless telecommunications | Others | Brasilcel, N.V. | Director |
| Antonio Viana Baptista | Telecomunicaciones | Others | Portugal Telecom., SGPS | Director |
| José María Álvarez-Pallete | Telecomunicaciones | Others | Telefónica, S.A. | Member of Management Committee |
| José María Álvarez-Pallete | Wireline telecommunications | Others | Telefónica Internacional, S.A. | Chairman Executive Director |
| José María Álvarez-Pallete | Telecommunications Data | Others | Telefónica Datacorp, S.A. | Director |

F-80

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

| <u>Name</u> | <u>Activity Performed</u> | <u>Account on Which Activity Performed</u> | <u>Company through which Activity is Performed</u> | <u>Position Held or Function Discharged at Company through which Service is Provided</u> |
|------------------------------------|---|--|---|--|
| José María Álvarez-Pallete | Wireline telecommunications | Others | Telefónica de España, S.A. | Director |
| José María Álvarez-Pallete | Wireless telecommunications | Others | Telefónica Móviles España, S.A. | Director |
| José María Álvarez-Pallete | Wireline telecommunications | Others | Telefónica de Argentina, S.A. | Director |
| José María Álvarez-Pallete | Wireline telecommunications | Others | Telecomunicaciones de Sao Paulo, S.A. | Director |
| José María Álvarez-Pallete | Wireline telecommunications | Others | Compañía de Telecomunicaciones de Chile, S.A. | Director |
| José María Álvarez-Pallete | Telecommunications | Others | Compañía de Teléfonos de Chile Transmisiones Regionales, S.A. | Director |
| José María Álvarez-Pallete | Wireline telecommunications | Others | Telefónica del Perú, S.A. | Director |
| José María Álvarez-Pallete | Telecommunications | Others | Telefónica Larga Distancia, Inc. | Director |
| Maximino Carpio García | Telecommunications | Others | Telefónica, S.A. | Director |
| Maximino Carpio García | Supply of telecommunications systems | Others | Abengoa, S.A. | Member of Advisory Committee |
| Miguel Canalejo Larrainzar | Manufacture of telecommunications systems | Others | Alcatel España, S.A. | Director |
| Fernando de Almansa Moreno-Barreda | Telecommunications | Others | Telefónica, S.A. | Director |
| Fernando de Almansa Moreno-Barreda | Wireline telecommunications | Others | Telefónica de Argentina, S.A. | Director |
| Fernando de Almansa Moreno-Barreda | Wireline telecommunications | Others | Telecomunicaciones de Sao Paulo, S.A. | Director |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | | | |
|------------------------------------|-----------------------------|--------|--------------------------------|----------|
| Fernando de Almansa Moreno-Barreda | Wireline telecommunications | Others | Telefónica del Perú, S.A. | Director |
| Luis Lada Díaz | Telecommunications | Others | Telefónica, S.A. | Director |
| Luis Lada Díaz | Wireless telecommunications | Others | SudesteCel Participações, S.A. | Director |

F-81

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

| <u>Name</u> | <u>Activity Performed</u> | <u>Account on Which Activity Performed</u> | <u>Company through which Activity is Performed</u> | <u>Position Held or Function Discharged at Company through which Service is Provided</u> |
|-----------------------------|--|--|--|--|
| Luis Lada Díaz | Television, telecommunications and audiovisual production services | Others | Sogecable, S.A. | Director |
| Javier Echenique Landiribar | Wireless telecommunications | Others | Telefónica Móviles México, S.A. | Director |
| Víctor Goyenechea Fuentes | Wireline telecommunications | Others | Telecomunicaciones de Sao Paulo, S.A. | Director |
| Antonio Masanell Lavilla | Telecommunications | Others | Telefónica, S.A. | Director |
| Fernando Xavier Ferreira | Wireless telecommunications | Others | Brasilcel, N.V. | Director |
| Fernando Xavier Ferreira | Wireless telecommunications | Others | Tele Sudeste Celular Participações, S.A. | Director |
| Fernando Xavier Ferreira | Wireless telecommunications | Others | Tele Leste Celular Participações, S.A. | Director |
| Fernando Xavier Ferreira | Wireless telecommunications | Others | Telesp Celular, S.A. | Director |
| Fernando Xavier Ferreira | Wireless telecommunications | Others | Telefónica Brasil Sul Celular Participações, S.A. | Director |
| Fernando Xavier Ferreira | Wireless telecommunications | Others | Iberoleste Participações, S.A. | Director |
| Fernando Xavier Ferreira | Wireless telecommunications | Others | Celular CRT Participações, S.A. | Director |
| Fernando Xavier Ferreira | Wireless telecommunications | Others | SudesteCel Participações, S.A. | Director |
| Fernando Xavier Ferreira | Wireless telecommunications | Others | Tele Centro Oeste Celular Participações, S.A. | Director |
| Fernando Xavier Ferreira | Wireline telecommunications | Others | SP Telecomunicações Holding, Ltda. | Director |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | | | |
|--------------------------|--|--------|-------------------------------------|----------|
| Fernando Xavier Ferreira | Wireline telecommunications | Others | Telecomunicações de Sao Paulo, S.A. | Director |
| Fernando Xavier Ferreira | Wireless telecommunications | Others | Teleacre Celular, S.A. | Director |
| Fernando Xavier Ferreira | Wireless telecommunications | Others | Telegoiás Celular, S.A. | Director |
| Fernando Xavier Ferreira | Telecommunications and Internet access | Others | Tele Centro Oeste IP, S.A. | Director |

F-82

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

| <u>Name</u> | <u>Activity Performed</u> | <u>Account on Which Activity Performed</u> | <u>Company through which Activity is Performed</u> | <u>Position Held or Function Discharged at Company through which Service is Provided</u> |
|--------------------------|--|--|---|--|
| Fernando Xavier Ferreira | Wireline telecommunications | Others | Telemat, S.A. | Director |
| Fernando Xavier Ferreira | Wireless telecommunications | Others | Telems, S.A. | Director |
| Fernando Xavier Ferreira | Wireless telecommunications | Others | Teleron Celular, S.A. | Director |
| Fernando Xavier Ferreira | Wireless telecommunications | Others | Norte de Brasil Telecom., S.A. | Director |
| Fernando Xavier Ferreira | Telecommunications Data | Others | Telefónica Data Brasil Holding, S.A. | Director |
| Fernando Xavier Ferreira | Underwater cable | Others | Aliança Atlântica, B.V. | Director |
| Fernando Xavier Ferreira | Underwater cable | Others | Emergia Participações, Ltda. | General Manager |
| Fernando Xavier Ferreira | On-line negotiation, electronic transactions | Others | Mercador, S.A. | Director |
| Fernando Xavier Ferreira | Factoring | Others | Telefónica Factoring do Brasil, S.A. | Director |
| Fernando Xavier Ferreira | Business management service | Others | Telefónica Gestao de Servicos Compartilhados do Brasil, Ltda. | Chairman of Control Committee |

17. Financial derivatives

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

The Group used derivatives to hedge interest rate and exchange risks in uncovered positions and to adapt its debt structure to market conditions.

As of December 31, 2003, the total outstanding balance of derivatives transactions arranged to hedge on-balance-sheet exposure to fluctuations in interest rates and exchange rates amounted to 3,593 million (3,898 million as of December 31, 2002), of which 729 million (610 million as of December 31,2002) related to interest rate risk and 2,864 million (3,288 million as of December 31, 2002) to currency risk.

F-83

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

The detail, by type, of the derivative notional values arranged by the Group as of December 31, 2002 is as follows:

| | Amounts in Millions | | | | |
|--------------------------------------|---------------------------------|------------|----------|----------------|----------|
| | Equivalent Value in Euros | Group Pays | | Group Receives | |
| | | Value | Currency | Value | Currency |
| Type of Risk: | | | | | |
| Euro interest rate swaps: | 576 | | | | |
| From floating to fixed | 391 | 391 | EUR | 391 | EUR |
| From fixed to floating | 185 | 185 | EUR | 185 | EUR |
| Currency interest rate swaps: | 34 | | | | |
| From fixed to floating | 34 | | | | |
| MXN/MXN | 34 | 372 | MXN | 372 | MXN |
| Currency swaps: | 2,307 | | | | |
| From floating to fixed | 260 | | | | |
| EUR/BRL | 97 | 288 | BRL | 97 | EUR |
| EUR/MAD | 34 | 349 | MAD | 34 | EUR |
| US\$/BRL | 40 | 109 | BRL | 42 | US\$ |
| US\$/BRL | 8 | 9 | US\$ | 31 | BRL |
| US\$/PEN | 38 | 141 | PEN | 40 | US\$ |
| US\$/MXN | 43 | 450 | MXN | 45 | US\$ |
| From fixed to floating | 527 | | | | |
| US\$/BRL | 527 | 1,051 | BRL | 553 | US\$ |
| From floating to floating | 1,520 | | | | |
| EUR/US\$ | 801 | 877 | EUR | 840 | US\$ |
| US\$/MXN | 346 | 3,637 | MXN | 363 | US\$ |
| US\$/BRL | 143 | 329 | BRL | 150 | US\$ |
| EUR/BRL | 230 | 558 | BRL | 230 | EUR |
| Exchange rate options: | 816 | | | | |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | | | | |
|--------------------------|--------------|-------|------|-------|------|
| Bought | 364 | | | | |
| US\$/MXN | 286 | 3,139 | MXN | 300 | US\$ |
| EUR/BRL | 78 | 98 | EUR | 288 | BRL |
| Sold | 452 | | | | |
| US\$/MXN | 312 | 300 | US\$ | 3,379 | MXN |
| EUR/BRL | 49 | 121 | BRL | 49 | EUR |
| US\$/BRL | 91 | 150 | US\$ | 338 | BRL |
| Currency forward: | 165 | | | | |
| EURUS\$ | 93 | 101 | EUR | 98 | US\$ |
| US\$/PEN | 72 | 273 | PEN | 75 | US\$ |
| Total | 3,898 | | | | |

F-84

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

The detail, by type, of the derivative notional values arranged by the Group as of December 31, 2003 is as follows:

| | Amounts in Millions | | | | |
|--------------------------------------|---------------------------------|------------|----------|----------------|----------|
| | Equivalent Value in Euros | Group Pays | | Group Receives | |
| | | Value | Currency | Value | Currency |
| Type of Risk: | | | | | |
| Euro interest rate swaps: | 525 | | | | |
| From floating to fixed | 340 | 340 | EUR | 340 | EUR |
| From fixed to floating | 185 | 185 | EUR | 185 | EUR |
| Currency interest rate swaps: | 204 | | | | |
| From fixed to floating | 204 | | | | |
| MXN/MXN | 204 | 2,900 | MXN | 2,900 | MXN |
| Currency swaps: | 2,535 | | | | |
| From floating to fixed | 196 | | | | |
| EUR/BRL | 97 | 288 | BRL | 97 | EUR |
| EUR/MAD | 34 | 349 | MAD | 34 | EUR |
| US\$/PEN | 36 | 159 | PEN | 45 | US\$ |
| US\$/MXN | 29 | 372 | MXN | 36 | US\$ |
| From fixed to floating | 1,237 | | | | |
| EUR/US\$ | 243 | 298 | US\$ | 243 | EUR |
| US\$/EUR | 660 | 871 | EUR | 834 | US\$ |
| US\$/MXN | 334 | 4,261 | MXN | 422 | US\$ |
| From floating to floating | 1,102 | | | | |
| US\$/EUR | 168 | 183 | EUR | 212 | US\$ |
| JPY/BRL | 42 | 152 | BRL | 5,682 | JPY |
| US\$/BRL | 673 | 1,941 | BRL | 849 | US\$ |
| EUR/BRL | 219 | 541 | BRL | 219 | EUR |
| Exchange rate options: | 329 | | | | |
| Bought | 237 | | | | |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | | | | |
|--------------|-------------------|-----|------|-------|-----|
| MXN /EUR | 237 | 243 | EUR | 3,365 | MXN |
| Sold | 92 | | | | |
| BRL / US\$ | 92 | 150 | US\$ | 338 | BRL |
| | <u> </u> | | | | |
| Total | 3,593 | | | | |
| | <u> </u> | | | | |

F-85

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

The detail, by maturity, of the hedging transactions arranged by the Group as of December 31, 2002, is as follows:

| <u>Type of Transaction</u> | Millions of Euros | | | | |
|--|-------------------|-----------------|----------------------|----------------------|-----------------|
| | Amount | Up to 1 Year | From 1 to 3 years | From 3 to 5 years | Over 5 years |
| With underlying asset (loans): | 3,595 | 953 | 1,312 | 563 | 767 |
| In euros | 576 | | | | 576 |
| In foreign currencies | 3,019 | 953 | 1,312 | 563 | 191 |
| Without underlying asset (liability): | 303 | 303 | | | |
| Exchange rate options | 126 | 126 | | | |
| Currency swaps | 177 | 177 | | | |
| Total at 12/31/02 | 3,898 | 1,256 | 1,312 | 563 | 767 |

The detail, by maturity, of the hedging transactions arranged by the Group as of December 31, 2003, is as follows:

| <u>Type of Transaction</u> | Millions of Euros | | | | |
|---------------------------------------|-------------------|-----------------|----------------------|----------------------|-----------------|
| | Amount | Up to 1 Year | From 1 to 3 years | From 3 to 5 years | Over 5 years |
| With underlying asset (loans): | 3,193 | 844 | 1,507 | 797 | 45 |
| In euros | 1,306 | 123 | 540 | 608 | 35 |
| In foreign currencies | 1,887 | 721 | 967 | 189 | 10 |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | | | | |
|--|--------------|--------------|--------------|------------|-----------|
| Without underlying asset (liability): | 400 | 396 | 4 | | |
| Exchange rate options | 330 | 330 | | | |
| Currency swaps | 70 | 66 | 4 | | |
| Total at 12/31/03 | 3,593 | 1,240 | 1,511 | 797 | 45 |

18. Other commitments

Stock option plan

On October 26, 2000, the Special Stockholders Meeting of Telefónica Móviles, S.A. authorized the establishment of a corporate stock option plan for the executives and employees of Telefónica Móviles, S.A. and its subsidiaries and, in order to facilitate coverage of the Company's obligations to the beneficiaries of the Plan, resolved to increase the capital stock of Telefónica Móviles, S.A. by 11,400,000 through the issue of 22,800,000 shares of 0.50 par value each.

Subsequently, on June 1, 2001 the Annual Stockholders Meeting of Telefónica Móviles, S.A. approved the introduction of certain modifications and clarifications of the stock option plan with a view to making it more attractive and a more efficient mechanism for the motivation and loyalty building of its beneficiaries.

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

Lastly, on September 21, 2001, the Board of Directors of Telefónica Móviles, S.A. resolved to develop and establish, in conformity with the aforementioned resolutions of the Stockholders Meetings on October 26, 2000 and June 1, 2001, the terms and conditions of the stock option plan. The main features of this plan are as follows:

1. The Plan is open to all the executive directors, executives and employees who on December 1, 2001 were working for companies in which Telefónica Móviles directly or indirectly, during the term of the Plan (i) has a holding with voting rights of over 50%, or (ii) has the right to appoint over 50% of the members of the Board of Directors.

Without prejudice to the above, the MOS Program envisages the possibility of awarding new options at dates subsequent to its initial implementation. Pursuant to this plan, the Board of Directors, based on a report of the Appointments and Compensation Committee, resolved to award options to the new companies which, on joining the Telefónica Móviles Group, fulfilled the aforementioned requirements, and to new employees of companies already participating in the MOS Program, provided they were hired latest by December 31, 2003. As a result, in 2002 and through December 2003 new beneficiaries were included in the MOS Program. Also in 2003, certain companies were excluded from the MOS Program since they no longer met the requirements for adhesion to the plan.

2. There are three types of Options:

Type A options, with an exercise price of 11.

Type B options, with an exercise price of 16.5.

Type C options, with an exercise price 7.235.

3. Each beneficiary of the Program will receive an equal number of type A and type B options and a number of type C options equal to the sum of the type A and type B options received.
4. The executive directors and executives who are beneficiaries of the MOS Program must place a deposit on one share of Telefónica Móviles for every 20 options assigned to them.
5. Each option, regardless of type, will entitle its holder to receive one share of Telefónica Móviles, S.A.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

6. The options may be exercised at a rate of one-third each year from the day after the day on which two, three and four years have elapsed since the date on which the options were awarded (January 2, 2002). The first period for exercise began on January 2, 2004.
7. At the exercise date, the options may be settled, at the beneficiary's request, either (i) through delivery of shares of Telefónica Móviles, S.A. once the beneficiary has paid the option exercise price, or (ii) by the cashless for cash method.

The first phase of the plan commenced on January 2, 2002. On June 1, 2002, the second phase of the plan commenced and covered the companies and new employees who fulfilled the requirements envisaged in the plan. The second phase ended on December 31, 2003. The number of beneficiaries under the MOS Program totaled 8,434, of whom, one is an executive director, eight are general managers or similar executives of Telefónica Móviles, S.A. As of December 31, 2003, 12,819,072 options had been assigned.

In 2003, 3,991 participants, the holders of 3,573,091 options, were excluded from the plan. The amount paid in 2004 for early exercise of these options to the beneficiaries as a whole was 1,156 thousand.

In order to provide coverage for the MOS Program, on September 21, 2001, the Board of Directors resolved to carry out the capital increase approved by the Special Stockholders Meeting on October 26, 2000. Since the

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

capital increase was not subscribed in full, the Company issued 21,445,962 shares of 0.50 par value each, which were fully subscribed and paid by BBVA and La Caixa (50% each).

On September 27, 2001, Telefónica Móviles, S.A. on the one hand, and BBVA and La Caixa on the other, entered into the related share subscription and purchase option agreements under which the two aforementioned financial institutions awarded Telefónica Móviles, S.A. a purchase option on each of the shares subscribed in order to enable Telefónica Móviles, S.A. to meet its commitments to the beneficiaries of the MOS Program, as described above.

The implementation of this Telefónica Móviles, S.A. stock option plan (the MOS Program) and the capital increase at Telefónica Móviles, S.A. to provide coverage for the Plan were notified to the Spanish National Securities Market Commission (CNMV) and published in the Abridged Prospectus, which was verified and registered in the CNMV's Official Register on November 2, 2001.

Agreements with Portugal Telecom

On January 23, 2001, Telefónica, S.A. and its subsidiary Telefónica Móviles, S.A., of the one part, and Portugal Telecom SGPS, S.A., and its subsidiary PT Moveis, SGPS, S.A., of the other, entered into an agreement to group together all their wireless telephony businesses in Brazil. Accordingly, they undertook to contribute, to a newly formed company (a subsidiary 50% owned by each of the two groups), after the relevant regulatory authorizations had been obtained, all the Groups' wireless telephony assets in Brazil. Also, under this agreement, the two parties expressed their interest in increasing their reciprocal shareholdings, subject to compliance with the applicable statutory and bylaw requirements.

On October 17, 2002, Telefónica Móviles, S.A., on the one hand, and Portugal Telecom SGPS, S.A. and its subsidiary PT Móveis SGPS, S.A., on the other, entered into the definitive agreements (Stockholders' Agreement and Subscription Agreement) that implement the aforementioned agreement signed in January 2001. On December 27, 2002 (after having obtained the necessary authorizations), the two groups' holdings in their respective Brazilian wireless telephony operators were contributed to a Dutch joint venture, Brasilcel N.V., in accordance with the provisions of the aforementioned Subscription Agreement (Note 2.d).

In accordance with the aforementioned definitive agreements, Telefónica Móviles, S.A. and the Portugal Telecom Group will have the same voting rights at Brasilcel, N.V. This equality in voting rights will cease to exist if, as a result of the capital increases at Brasilcel, N.V., 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

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

reduced interest were the Portugal Telecom Group, it would be entitled to sell to Telefónica Móviles, S.A., which 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 definitive agreements) performed by investment banks, selected using the procedure established in these agreements. Subject to certain conditions, the payment could be made, at Telefónica Móviles' choice, in (i) cash, (ii) Telefónica Móviles S.A. shares and/or Telefónica, S.A. shares, or (iii) a combination of the two. This sale 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 definitive agreements, the Portugal Telecom Group will be entitled to sell to Telefónica Móviles, S.A., which will be obliged to buy its holding in Brasilcel, N.V. should there be a change in

F-88

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

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, Telefónica Móviles, S.A. will be entitled to sell to the Portugal Telecom Group, which will be obliged to buy, its holding in Brasilcel, N.V. if there is a change of control at Portugal Telecom SGPS, S.A., PT Móveis 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 definitive agreements) performed by investment banks, selected using the procedure established in these agreements. The related payment could be made, at the choice of the group exercising the sale option, in cash or in shares of the wireless telephony operators contributed by the related party, making up the difference, if any, in cash.

Agreements for the acquisition of Pegaso

Under the agreements entered into for the acquisition of Pegaso, the Burillo Group has certain mechanisms with which it can cease to be a stockholder, instrumented through an option to sell its holding in Telefónica Móviles México, S.A. de C.V. The Burillo Group can exercise its sale option in 2007 or 2008, or, if its holding in the company falls below 50% of its original ownership interest, on the date on which such decrease occurs. If the Burillo Group did not exercise its sale option, Telefónica Móviles could exercise its purchase option on the shares of the company owned by the Burillo Group. The purchase price for the shares would be determined on the basis of a valuation of the company on the date on which the rights were exercised. The agreements entered into envisage that a portion of the purchase price will be paid in cash, the amount of which will depend upon the Burillo Group's original investment in the company, to which interest will be added, and from which any cash distribution received by the Burillo Group will be deducted. The remaining portion of the purchase price, if any, will be paid, at Telefónica Móviles' choice, in cash, in shares of Telefónica Móviles or a combination of the two.

Also, under the shareholders agreement entered into the Burillo Group has certain rights to veto agreements on the conversion of shares from one class to another, declarations of bankruptcy or Chapter 11-type insolvency proceedings, dissolution or liquidation, bylaw amendments which adversely affect the rights of the Burillo Group and mergers or corporate reorganizations which do not afford the Burillo Group the opportunity to maintain a given percentage of ownership.

National long-distance license obtained by GTM.-

Telefónica Móviles S.A. guarantees the commitments assumed by Grupo de Telecomunicaciones Mexicanos S.A de C.V. (GTM) to the regulatory body COFETEL for the national long-distance license obtained, up to a maximum amount of 124,154,700 Mexican pesos. At the date of preparation of the consolidated financial statements, no amount had been paid.

19. Subsequent events

On March 5, 2004 Telefónica Móviles entered into a stock purchase agreements with BellSouth Corporation, or BellSouth, to acquire 100% of BellSouth's interests in its wireless operations in Argentina, Chile, Perú, Venezuela, Colombia, Ecuador, Uruguay, Guatemala, Nicaragua and Panama, making it the only cellular operator in all the key Latin American markets (population over 421 million) and leaving it an excellent position to capture the region's strong growth potential.

Under the signed agreement, the transaction values 100% of the companies acquired (firm value) at 5,850 million US dollars and will be financed from cash generated by Telefónica Móviles and debt. Telefónica Móviles

F-89

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

will assume the companies' net debt and it will acquire the shareholdings of BellSouth, offering minority shareholders the possibility of selling their stakes for an identical price. The acquisition in each country is subject to the respective regulatory approvals.

20. Differences between Spanish and United States of America Generally Accepted Accounting Principles and other required disclosures

The consolidated financial statements of Telefónica Móviles, S.A. were prepared in accordance with generally accepted accounting principles in Spain (Spanish GAAP), which differ in some respects from generally accepted accounting principles in the United States of America (U.S. GAAP). A reconciliation of net income and shareholders' equity from Spanish GAAP to U.S. GAAP is provided below. The most significant differences are as follows:

Reconciliation of Net Income and Shareholders' Equity to Generally Accepted Accounting Principles in the United States of America

The following table (Reconciliation Table) sets forth the most significant adjustments to consolidated net income and shareholders' equity that would have been required had U.S. GAAP been applied instead of Spanish GAAP:

| | Thousands of Euros | |
|--|--------------------|------------------|
| | 12/31/02 | 12/31/03 |
| Shareholders' equity under Spanish GAAP | 3,247,583 | 4,040,435 |
| Additions (deductions) for U.S. GAAP purposes: | | |
| Capital increase expenses (Note 20.1.a) | (98,691) | (66,444) |
| Start-up expenses (Note 20.1.b) | (228,109) | (259,728) |
| Reflagging expenses (Note 20.1.c) | (9,373) | (5,636) |
| Capitalized interests (Note 20.1.d) | 2,189 | 1,378 |
| Research and development costs (Note 20.2) | (7,042) | (3,695) |
| Revenue recognition - SAB 101 (Notes 20.4): | (45,124) | (44,102) |
| Business combinations, goodwill, other intangible assets and impairments (Note 20.6) | 1,008,324 | 643,744 |
| Effective interest rate (Note 20.15) | | (3,729) |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | |
|---|------------------|------------------|
| Foreign currency exchange rate (Note 20.16) | | 19,432 |
| Assets retirement obligations SFAS 143 (Note 20.17) | | (16,448) |
| Derivatives and Hedging Activities SFAS 133 (Notes 20.9 and 20.5) | 23,471 | (8,595) |
| U.S. GAAP adjustments related to companies consolidated by the equity method (Note 20.10) | (1,193) | (1,002) |
| U.S. GAAP adjustments related to Brasilcel (Note 20.11) | (140,226) | (13,538) |
| Tax effect of the above adjustments | 175,667 | 186,690 |
| Shares in Deposit at Finance Entities acting as Agents in Stock | (42,892) | (42,892) |
| Option Plans (Note 20.12) | | |
| Employees terminations (Note 20.14) | 4,288 | 130 |
| Recognition of tax credits in period initially awarded (Note 20.3) | 110,063 | 165,858 |
| Effect of minority interests on the above adjustments | 6,804 | 7,149 |
| | <hr/> | <hr/> |
| Total additions (deductions) | 758,156 | 558,572 |
| | <hr/> | <hr/> |
| Shareholders equity under U.S. GAAP | 4,005,739 | 4,599,007 |
| | <hr/> | <hr/> |

F-90

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

| | Thousands of Euros | | |
|--|--------------------|--------------------|------------------|
| | 12/31/01 | 12/31/02 | 12/31/03 |
| Net income under Spanish GAAP | 893,355 | (3,724,399) | 1,607,838 |
| Additions (deductions) for U.S. GAAP purposes: | | | |
| Capital increase expenses (Note 20.1.a) | 31,842 | 37,309 | 32,725 |
| Start-up expenses (Note 20.1.b) | (292,242) | 71,104 | (32,034) |
| Reflagging expenses (Note 20.1.c) | 7,837 | 6,860 | 3,737 |
| Capitalized interests (Note 20.1.d) | 11,401 | 7,173 | (807) |
| Research and development costs (Note 20.2) | 1,172 | (4,175) | 3,347 |
| Revenue recognition SAB 101 (Note 20.4) | (138,593) | (71,100) | 1,022 |
| Business combinations, goodwill, another intangible assets and impairments (Note 20.6) | (458,664) | 104,190 | 51,398 |
| Pension plan (Note 20.7) | (23,385) | | |
| Contingencies (Note 20.8) | (15,795) | | |
| Effective interest rate (Note 20.15) | | | (4,151) |
| Foreign currency exchange rate (Note 20.16) | | | 19,432 |
| Assets retirement obligations SFAS 143 | | | |
| Effect in period (Note 20.17) | | | (3,071) |
| Cumulative effect of a change in accounting principle (Note 20.5) | | | (8,761) |
| Derivatives and Hedging Activities SFAS 133: | | | |
| Effect in period (Note 20.9) | 3,877 | (56,917) | (31,282) |
| Cumulative effect of a change in accounting principle (Note 20.5) | 9,009 | | |
| U.S.GAAP adjustments related to companies consolidated by the equity method (Note 20.10) | 8,204 | (3,338) | 744 |
| U.S.GAAP adjustments related to Brasilcel (Note 20.11) | | | 118,298 |
| Change in Subsidiaries' Fiscal Year End (Note 20.13) | 41,392 | | |
| Tax effect on the above adjustments | 127,501 | 2,153 | 5,110 |
| Employees terminations (Note 20.14) | | 4,288 | (4,262) |
| Recognition of tax credits in period initially awarded (Note 20.3) | 90,223 | (36,092) | 55,795 |
| Effect of minority interests on the above adjustments | 23,313 | 15,690 | 60 |
| Net income under U.S. GAAP | 320,447 | (3,647,254) | 1,815,138 |

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

Additionally, movements in Shareholders equity under U.S. GAAP for the years ended December 31, 2001, 2002 and 2003 are as follows:

| | Thousands of Euros | | |
|---|--------------------|------------------|------------------|
| | 12/31/01 | 12/31/02 | 12/31/03 |
| Shareholders equity beginning balance under U.S. GAAP | 7,940,875 | 9,496,119 | 4,005,739 |
| Variations: | | | |
| Net income for the year | 320,447 | (3,647,254) | 1,815,138 |
| Capital increase | 1,478,947 | 244,419 | |
| Restatement of prior period financials effects (*) | (806,057) | | |
| Shares in Deposit at Finance Entities | (42,892) | | |
| Goodwill generated in acquisition | 1,487,337 | 82,874 | |
| Dividends | | | (757,851) |
| Reserves not contributed | 99,402 | (6,322) | |
| Capital increase expenses | (8,244) | (146) | (311) |
| SFAS 133 OCI adjustments net of taxes and minority interest | 8,378 | 500 | (3,889) |
| Change in Subsidiaries Fiscal Year End net of taxes and minority interest | (26,348) | | |
| Other | | (3,039) | 6,149 |
| Translation differences | (955,726) | (2,161,412) | (465,968) |
| Shareholders equity ending balance under U.S. GAAP | 9,496,119 | 4,005,739 | 4,599,007 |

(*) Effect of restatement in Shareholders equity movement.

Shareholders rights and all dividend distributions are based on the financial statements as reported for local Spanish statutory purposes by Telefónica Móviles, S.A.

The differences included in the Reconciliation Tables above are explained in the following paragraphs:

1) Accruals and deferrals

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Different criteria are applied under Spanish and U.S. GAAP to accrue certain items and, accordingly, the related adjustments have to be made in the reconciliation of Shareholders equity and Net income from Spanish to U.S. GAAP:

- a. Capital increase expenses. In accordance with Spanish GAAP, expenses associated with equity issues are capitalized and amortized over five years. Under U.S. GAAP, capital increase expenses must be deducted from the proceeds of the new capital.

- b. Start-up expenses. In accordance with Spanish GAAP, period expenses incurred during the start-up of a business which will contribute to the development of future revenues may be capitalized and are amortized over five years. Under U.S. GAAP, except for those costs that are directly related to and specifically identifiable with system construction or those; which are clearly related to any asset acquisition, all costs incurred during the start-up period should be expensed in accordance with issued Statements of Position (SOP) 98-5, Reporting on the Costs of Start-up Activities. This includes pre-operating costs such as organizational expenses, advertising fees and promotion, market research and administrative costs. The portion relating to the start-up expenses of Brasilcel, N.V. has been reclassified to item 11 of the reconciliation.

F-92

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

- c. Reflagging expenses. As a result of increasing competition in wireless communications, the Telefónica Móviles Group has invested certain amounts in reflagging and remodeling the stores in its distributor network, in order to increase distributor loyalty and to assure that they continue to sell the Telefónica Móviles Group's products exclusively. Under Spanish GAAP, such expenses have been deferred for a period of three years, which is the term of the exclusive distribution agreement for Telefónica Móviles Group products entered into with these distributors, and have been included under the "Deferred charges" caption of the consolidated balance sheet as of December 31, 2002 and 2003. Under U.S. GAAP, reflagging expenses are expensed as incurred.
- d. Capitalized Interests. In accordance with Spanish GAAP, interests incurred during periods exceeding 12 months in which assets were under construction may be capitalized. Under U.S. GAAP, interests incurred during periods in which qualifying assets, as defined by SFAS No. 34, Capitalization of Interest Costs, are under construction are capitalized and amortized over the expected life of the assets. The portion relating to the capitalized interest of Brasilcel, N.V. has been reclassified to item 11 of the reconciliation.

2) *Research and development*

In accordance with Spanish GAAP, research and development expenses are capitalized and amortized over a period not exceeding five years. Under U.S. GAAP, research and development expenses are expensed as incurred, in accordance with SFAS No. 2, Accounting for Research and Development Costs.

3) *Corporate income tax*

For U.S. GAAP purposes, the Group utilizes the liability method of accounting for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes. Under the liability method, deferred taxes are determined based on differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. Valuation allowances are recorded to reduce deferred tax assets, including credits and loss carryforwards, when it is more likely than not that a tax benefit will not be realized.

Spanish GAAP procedures for recording income taxes differ from those under U.S. GAAP with regard to the period in which certain prepaid and deferred taxes must be recorded and with respect to the required disclosures. In this connection, the differences affecting the Telefónica Móviles Group are as follows:

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

- a. Under Spanish GAAP, deductible temporary differences that are expected to reverse in more than ten years from the balance sheet date are not recorded as deferred tax assets. U.S. GAAP requires deferred taxes to be provided for all differences between financial reporting and tax bases of assets and liabilities.
- b. Under Spanish GAAP, tax credit carryforwards are not recognized until they are utilized, as opposed to when they are more likely than not to be realized under U.S. GAAP.
- c. Under Spanish GAAP, until December 31, 2001, tax credits were not recognized until they were utilized, as opposed to U.S. GAAP, where they are recorded when generated and provisioned, if not expected to be recovered, through a valuation allowance. As from January 1, 2002, under Spanish GAAP, those deductible temporary differences are being recorded when their future realization is assured beyond any reasonable doubt .

F-93

Table of Contents

- d. Under Spanish GAAP, for investment tax credits generated subsequent to January 1, 1996, the reduction in income tax payments for financial reporting purposes is reflected over the life of the related fixed asset and thus a deferred revenue is created. The amortization begins in the year the investment tax credit is realized on the tax return. Under U.S. GAAP, the Telefónica Móviles Group continues to record investment tax credits in the year generated, subject to a valuation allowance, if necessary.
- e. According to Spanish accounting policies, the Group companies have not provided tax liabilities in their accounts for reserves pending distribution either by the subsidiaries or by the equity method investees. For the purpose of U.S. GAAP, the Group has not recorded a deferred tax liability for such potential tax obligation where such reserves are the subject of distribution, as, in most cases, it will be entitled to a double tax deduction for the dividends it receives (or the parts of the capital gain obtained in the sale in respect of reserves accumulated during the period of ownership of the shareholdings), so that the Group believes that any future tax it may bear on reserves pending distribution would not be in a significant amount.

An analysis of the investment tax credits generated and the amounts recognized in income at December 31, 2002 and 2003 under U.S. GAAP is presented below:

| | Thousands of Euros | | | |
|--|-------------------------------------|--|--|---|
| | Tax asset increase (decrease) | Valuation allowance (increase) decrease | Deferred tax (Note 13.d) (increase) decrease | Net income (increase) decrease |
| Balance at December 31, 2001 | 196,420 | (75,135) | 24,870 | (90,223) |
| Credits arising in 2002 (b) | 335,848 | | 15,261 | (351,109) |
| Credit taken from preceding years | (31,397) | | (19,956) | 51,353 |
| Tax credit carry forwards | | | | |
| Increase of valuation allowance (b) | | (335,848) | | 335,848 |
| Translation differences and other | (55,151) | 58,773 | | |
| Balance at December 31, 2002 | 445,720 | (355,832) | 20,175 | 36,092 |
| Credits arising in 2003 (a, b, c) | 941,671 | | 12,981 | (954,652) |
| Credit taken from preceding years | (26,440) | 26,440 | (11,499) | 11,499 |
| Tax credit carry forwards | | | | |
| Increase of valuation allowance (a, b) | | (887,358) | | 887,358 |
| Translation differences and other | (28,172) | 28,172 | | |
| Balance at December 31, 2003 | 1,332,779 | (1,188,578) | 21,657 | (55,795) |

The tax asset column includes, as of the periods presented:

- a) The Company included 2,137,243 thousand in its corporate income tax settlement for tax year 2002, arising as a result of the transfer in 2002 of certain holdings acquired in prior years differing their acquisition market value from the book value at which they were recorded (underlying book value) because the Company availed itself of Article 159 of the Corporations Law. This tax deduction to be applied in future years was not taken into account for accounting purposes under Spanish GAAP because the stance taken by the tax authorities could differ from the Company's interpretation of this issue. As a consequence of this tax deduction considered in the corporate income tax settlement for tax year 2002, a tax credit of 748,035 thousand would arise. This tax credit is fully provided for

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

under US GAAP as the Company considers that is more likely than not, that this tax credit will not be recovered in the future.

- b) As of December 31, 2003 and to 2002, there are tax losses available for carryforward that come from Group companies, amounting (net of minority interests) to 1,273 million and 1,024 million, respectively. These tax losses can be offset within a variable period depending on the legislation of the

F-94

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

countries where these tax losses arise. Under Spanish GAAP, no amount of these losses has been capitalized. Therefore as of December 31, 2003 and 2002, under U.S.GAAP, tax losses for carryforward amounting (net of minority interests) to 1,273 million and 1,024 million, giving rise to a tax asset of (net of minority interests) 441 million and 356 million respectively, would exist. This tax credit is fully provided for under US GAAP as the Company considers that is more likely than not that this tax credit will not be recovered in the future.

- c) And finally, tax asset increase column includes a deduction arising from investments in foreign entities aiming to export goods and services.

4) *Recognition of revenues and expenses*

Under Spanish GAAP, 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. The Group accounts for its revenues and expenses following the below mentioned criteria.

Net Revenues from Operations-

Under Spanish GAAP, the Group categorizes the revenue sources in the statements of operations as follows:

- a. Wireless communication services: (a) monthly fee for use of wireless network; (b) interconnection fees and (c) initial connection fees.
- b. Sales of handsets and accessories: revenues from (a) sales of handsets as part of contracts and (b) sales of accessories.
- c. Other services: revenues from other wireless communication services, such as (a) paging, (b) radiotelephony and (c) rent of network infrastructure.

The Group recognizes revenues from the following sources:

Contracts with customers-

The Group enters into contracts with customers to provide a variety of wireless communication services. The minimum contractual period is generally one year for substantially all of the Group's wireless contracts. Under these contracts, the customer generally is charged the following fees:

- a. A nominal fee for the initial connection of the wireless service and a nominal charge for the handset. This charge is often less than the cost of the handset itself.
- b. A monthly fee for use of the Group's wireless networks.
- c. Call fees consisting of an initial fee for establishing the call plus fees based on airtime used by the caller, destination of the call and service.
- d. On occasion, an additional monthly fee or fee based on usage of airtime for added value services, such as short messages services and data services.

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

The collection of the contractual revenue is probable and the contract is enforceable and it is the intention to the Group to enforce it.

The Group recognizes revenues related to the monthly network fees in the month that the wireless service is provided to the customer.

The Group recognizes interconnection fees arising from wireless to fixed calls and fees from other services utilized by the customers in the period in which the related calls are completed.

The Group charges roaming per-minute fees to other wireless companies for the use of its network by their customers.

Group companies recognize initial connection fees, when charged, upon initial signing of the contract with customers. However, the amount of such fees has been de minimis during all periods presented.

The Group recognizes revenues from the sale of the handset upon the initial signing of the contract.

Pre-paid phone cards-

The Group also sells to customers pre-paid phone cards, separately or bundled together with a handset. These cards allow customers to make a predetermined allotment of wireless phone calls and/or take advantage of other services offered by the Group, such as short messages and sending or receiving faxes.

At the time that the pre-paid phone card is purchased, the Group records the receipt of cash as deferred revenues. Group companies recognize revenues from the phone cards in the period that time (measured as subscribed airtime minutes applying the respective prices) under the phone cards is used by purchasers of the card. Unused time on sold phone cards is not recognized as revenues until the time is used or the card expires.

Sales of handsets and accessories-

Group companies sell handsets and accessories, such as phone cases. Revenues from these sales are recognized at the time that the customer purchases the item.

The Group also records provisions for estimated returns and allowances as a direct reduction of sales at the time the related sales are recorded.

Expenses-

Under Spanish GAAP, the primary expenses incurred by the Group in relation to the provision of wireless communication services relate to interconnection costs, costs of handsets and other accessories sold, commissions payable to agents for obtaining wireless customers on behalf of the Group and marketing, depreciation and maintenance of the network and leases of circuits.

Calls made by the Group's customers from areas outside of Telefónica Móviles, S.A.'s territories are subject to roaming fees charged by the wireless provider in those territories. These roaming charges are recorded as revenues on a gross basis, with the related roaming charges being recorded as an operating expense, as the Telefónica Móviles Group acts as the principal in the transaction with the customer and bears the risk of non-collection from the customer.

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

The costs of the handset, whether sold to customers through the distribution channel as part of the contract or provided to customers purchasing pre-paid phone cards are expensed as Services and goods purchased at the time that the phone is issued to the customer.

Commissions paid to agents related to new subscriptions are also expensed in the period that the related customer initiates wireless communication services with a Group company.

Revenues and expenses under U.S. GAAP-

Under Spanish GAAP, 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. Connection fees and monthly fees are recorded upfront since they are nonrefundable.

Since SAB 101 became effective (January, 2000), under US GAAP, the Company has deferred revenues from obtaining new customers over the expected period that the customer will use the services as it has historical experience indicating that customers generally extend their contracts beyond one year.

Under US GAAP the Company also defers and amortizes the related cost associated with obtaining new customers over the same period as the related revenues are being recognized. The Company believes that this is the only accounting difference with Spanish GAAP.

Where the costs incurred exceed the deferred revenues the excess costs are deferred and amortized over the minimum contract period. The Company has 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 the Company. This period is generally for a period lasting one year in duration. 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.

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

The effect of the SAB 101 adjustment included in the reconciliation of net income has been presented netted and represents an increase in revenues and expenses, respectively, amounting to 5,026 and 143,619 thousand, as of December 31, 2001; 6,923 and 78,023 thousand, as of December 31, 2002 and 1,889 and 867 thousand, as of December 31, 2003.

5) *Changes in accounting principles*

As indicated in Note 20.9, Telefónica Móviles, S.A. adopted effective on January 1, 2001 the SFAS N° 133, which suppose a change in accounting principles related with derivatives instruments and hedging activities.

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

As indicated in Note 20.17, Telefónica Móviles, S.A. adopted effective on January 1, 2003 the SFAS N° 143, which suppose a change in accounting principles related with accounting for asset retirement obligations.

The earnings per share (basic and diluted) computed on the change in the accounting principles are as follows:

| | <u>12/31/03</u> | <u>12/31/01</u> |
|---|-----------------|-----------------|
| Basic: | | |
| Earnings per share before cumulative change in accounting principles | 0.42 | 0.08 |
| Cumulative effect of a change in accounting principle, net of tax and minority interests (SFAS 143) | (8,761) | |
| Cumulative effect of a change in accounting principle, net of tax and minority interests (SFAS 133) | | 9,009 |
| Earnings per share | 0.00 | 0.00 |
| Earnings per share after cumulative change in accounting principles | 0.42 | 0.08 |
| Weighted average number of common shares used in calculation | 4,309,104,934 | 4,141,432,815 |
| Diluted: | | |
| Effect of cumulative change in accounting principle, net of tax and minority interests (SFAS 143) | (8,761) | |
| Effect of cumulative change in accounting principle, net of tax and minority interests (SFAS 133) | | 9,009 |
| Earnings per share before cumulative change in accounting principles | 0.42 | 0.08 |
| Earnings per share | 0.00 | 0.00 |
| Earnings per share after cumulative change in accounting principles | 0.42 | 0.08 |
| Weighted average number of common shares used in calculation | 4,330,550,896 | 4,146,250,812 |

The Group has recorded to the U.S. GAAP result the cumulative effect as of January 1, 2001 and 2003 of the change in these accounting principles.

6) Business combinations, goodwill, another intangible assets and impairments

| | | <u>2002</u> | <u>2003</u> |
|--|----|-------------|-------------|
| Not amortization of goodwill according to SFAS 142 | a) | 62,377 | 121,375 |
| Additional goodwill T.Móviles México | b) | 1,450,152 | 1,450,152 |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | | |
|-----------------------------|----|------------------|----------------|
| Additional goodwill Mesotel | c) | 70,311 | 70,311 |
| SFAS 52 | d) | (574,516) | (987,298) |
| Other | e) | | (10,796) |
| | | | |
| Total | | 1,008,324 | 643,744 |
| | | | |

- a) Under U.S. GAAP, in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill and certain intangible assets deemed to have indefinite lives should no longer be amortized, but instead be subject to periodic, impairment testing under a fair value approach. This consideration results in lower amortization expense, of 62,377 thousand and 59,674 thousand as of December 31, 2002 and 2003, respectively. The provisions of SFAS No. 142. are applied beginning January 1, 2002 for U.S. GAAP reporting purposes.

F-98

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

The following information presents a reconciliation of reported net income to the adjusted net income and a reconciliation of earnings per share in accordance with this Statement in all periods presented.

| | For the Year Ended December 31, | | |
|--|--|-------------|-------------|
| | 2003 | 2002 | 2001 |
| | <i>(Thousands except for earnings-per-share amounts)</i> | | |
| Net income: | | | |
| Reported net income | 1,815,138 | (3,647,254) | 320,447 |
| Add back: Goodwill amortization | | | 179,714 |
| Add back: Intangible assets amortization | | | 5,190 |
| Adjusted net income | 1,815,138 | (3,647,254) | 505,351 |
| Basic earnings per share: | | | |
| Reported net income | 0.42 | (0.85) | 0.08 |
| Add back: Goodwill amortization | | | 0.04 |
| Add back: Intangible assets amortization | | | 0.00 |
| Adjusted net income | 0.42 | (0.85) | 0.12 |
| Diluted earnings per share: | | | |
| Reported net income | 0.42 | (0.85) | 0.08 |
| Add back: Goodwill amortization | | | 0.04 |
| Add back: Intangible assets amortization | | | 0.00 |
| Adjusted net income | 0.42 | (0.85) | 0.12 |

SFAS No. 142 requires to test all goodwill and indefinite-lived intangibles for impairment as of January 1, 2002. Under Spanish GAAP, the Group 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.

In 2002 the goodwill arising on the acquisition of Iobox Oy was written down (Notes 8 and 14.e) by 154 million, due to the dissolution of Iobox Oy and the closure of its subsidiaries. This goodwill is included in the segment Spain in the Segment Data included in Note 7 in the Additional Disclosures Required Under U.S. GAAP. Telefónica Móviles continues with the activities performed by Iobox Oy. As a consequence, the results of operations of Iobox Oy have not been reported as Discontinued Operations, according to SFAS No. 144, Accounting for the Impairment or

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Disposal of Long-Lived Assets.

In the fourth quarter of 2003, impairment tests were performed for all the reporting units as required by SFAS 142. The results of the first step tests did not indicate that the carrying value of the reporting units and its assigned goodwill exceeded their estimated fair value. As a result, as of December 31, 2003, the Company did not record any impairment charge both, under Spanish and US GAAP.

- b) In June 2001, Telefónica, S.A. acquired a 100% holding in Baja Celular Mexicana, S.A. de C.V., Celular de Telefonía, S.A. de C.V. and Telefonía Celular del Norte, S.A. de C.V. and a 90% holding in Movitel del Noroeste, S.A. de C.V. in exchange of 122,560,575 new Telefónica, S.A. s ordinary shares

F-99

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

of 1 par value each and additional paid-in capital of 4.5 per share, transferring these interests to Telefónica Móviles, S.A. through an exchange of shares on July 5, 2001. Under Spanish GAAP, goodwill of 371,251 thousand was recorded based on the difference between the stated value of the shares issued and the fair value of the net assets acquired. However, for U.S. GAAP purposes, the goodwill should be based on the fair value of the shares issued. This additional consideration would result in additional goodwill of 1,487,337 thousand, and in additional amortization expense of 37,185 thousand as of December 31, 2001.

Under US GAAP, the Company performed the following allocation of the purchase price at the acquisition date in accordance with APB No. 16:

| | Millions of Euros |
|---|----------------------------------|
| Current assets | 158.2 |
| Property, plant and equipment | 445.7 |
| Intangible assets | 37.9 |
| Other long-lived assets | 12.5 |
| Goodwill | 1,895.8 |
| Total assets acquired | 2,550.1 |
| Current liabilities | 351.5 |
| Long-term debt and other | 62.1 |
| Total liabilities assumed | 413.6 |
| Total net assets acquired assets | 2,136.5 |

As determined by SFAS No. 142 and SFAS No. 109, due to the fact the valuation allowance is recognized for the northern Mexican companies tax credit carryforwards at the acquisition date, Telefónica Móviles did not recognized any deferred taxes asset related to such concept. At the acquisition date the total amount of tax credit carryforwards for the northern Mexican companies amounted to 43.2 million, which could give raise to a future tax benefit of 14.7 million. Under US GAAP, for future periods, upon the elimination of the valuation allowance related to such deferred tax asset, all tax benefit, if any, will be applied first to reduce to zero any goodwill related to this acquisition, second to reduce to zero any other noncurrent intangible assets related to the acquisition, and third to reduce our income tax expense.

- c) On July 22, 2002, Telefónica Móviles, S.A. carried out a capital increase, for a total amount (par value plus additional paid-in capital) of 27,658 thousand. Mesotel subscribed and paid the 14,557,046 new shares of 0.5 par value each and additional paid-in capital of 1.4 per share, in full through the contribution of the shares of the following companies still held by it: TES Holding, S.A.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

de C.V., Telca Gestión, S.A. de C.V., TCG Holdings, S.A., Telca Gestión Guatemala, S.A., Paging de Centroamérica, S.A. and Telefónica de Centroamérica, S.L. Under Spanish GAAP, goodwill of 14,184 thousand was recorded based on the difference between the stated value of the shares issued and the fair value of the net assets acquired. However, for U.S. GAAP purposes, the goodwill should be based on the fair value of the shares issued. This additional consideration would result in additional goodwill of 70,311 thousand as of December 31, 2002.

- d) Under U.S. GAAP, after a business combination accounted for by the purchase method, the amount allocated at the date of acquisition to the assets acquired and the liabilities assumed (including goodwill

F-100

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

or an excess of acquired net assets over cost as those terms are used in SFAS No. 141, Goodwill and Other Intangible Assets) should be translated at the current exchange rate, in conformity with the requirements of SFAS No. 52, Foreign Currency Translation. This translation effect is not recorded under Spanish GAAP, and thus an adjustment is required. The impact of this GAAP difference in net income was 14,447 thousand as of December 31, 2002 and 2,520 thousand as of December 31, 2003. The accumulated negative effect in Shareholders' Equity is 574,516 thousand as of December 31, 2002 and of 987,298 thousand as of December 31, 2003.

- e) On April 26, 2002, we signed agreements to purchase a 65.23% of Pegaso from Sprint, Leap Wireless, Qualcomm and other financial investors. Pegaso operates in 14 cities throughout Mexico (Tijuana, Guadalajara, México D.F., Monterrey, Ensenada, Nuevo Laredo, Reynosa, Toluca, Chapala, Mexicali, Saltillo, Cuernavaca, Puebla and León) and 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 related Mexican authorities, Telefónica Móviles acquired a 65.23% holding in Pegaso Telecomunicaciones, S.A. de C.V. (Mexico) for 92,870 thousand. Subsequently, in order to strengthen its net worth position, Pegaso Telecomunicaciones, S.A. de C.V. carried out a capital increase in which Telefónica Móviles, S.A. paid 211,454 thousand corresponding to its 65.23% holding. The agreements entered into with the Pegaso Group envisaged the integration of the holdings in the northern Mexican companies and in Pegaso Telecomunicaciones, S.A. de C.V. into a single company of which the two groups would be stockholders. This transaction was implemented through the sale of the holdings to Telefónica Móviles Mexico, followed by the conversion of the debt into equity by the creditors, giving Telefónica Móviles a nationwide presence in Mexico. We hold a 92% interest in Telefónica Móviles Mexico and the Burillo Group owns the remaining 8%.

The Company adopted SFAS No. 141 to account for this acquisition. As this business combination was made in the last quarter of 2002, there was an amount of goodwill from the acquisition of Pegaso that was 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) was not considered to be significant. The amount of goodwill at the time of acquisition was the same under Spanish and US GAAP.

In order to account for the acquisition of Pegaso Telecomunicaciones, S.A. de C.V. and the integration of the holding in the northern Mexican companies in Telefónica Móviles México, EITF 90.13 literature was considered. In determining the values assigned to Pegaso (Target) and to the Mexican northern companies contributed (Subsidiary), assets and liabilities and the minority interest for purposes of Telefónica Móviles, S.A. consolidated financial statements, Telefónica Móviles, S.A. should step up Pegaso's assets and liabilities to the extent acquired by Telefónica Móviles, S.A. and should step up the Mexican northern companies assets and liabilities to the extent sold to Burillo. The result obtained in the sale of the 8% of the northern Mexican companies to Burillo which were contributed to Telefónica Móviles México was not significant and therefore was not considered in the reconciliation to US GAAP. In September, 2002, the new cost basis in Telefónica Móviles México amounts to 1,885.7 million, which equals to the 92% of the fair value of Telefónica Móviles México and the historic cost of the net

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

assets contributed to Telefónica Móviles México amounts to 1,362.9 million (1,452.8 million from the northern Mexican companies and (89.9) million from Pegaso). In 2003, after the allocation process

F-101

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

required by SFAS No. 141, 504.6 million, were allocated as a net additional value of the licenses obtained to operate nationwide wireless communications services in Mexico; this allocation has also been considered for Spanish GAAP purposes. This amount was reclassified, once the respective valuations were completed, to the Intangible Assets Concessions, Patents, Licenses and Other caption (Notes 4.d and 5.b). These licenses are being amortized over the concession period based on the estimated capacity to generate revenues in each period.

Under US GAAP, the allocation performed in 2003 from this purchase was as follows:

| | Millions of Euros |
|--------------------------------------|------------------------------|
| Current assets | 290.9 |
| Property, plant and equipment | 572.9 |
| Intangible assets | 764.1 |
| Goodwill | 18.2 |
| Total assets acquired | 1,646.0 |
| Current liabilities | 643.5 |
| Long-term debt and other | 569.6 |
| Total liabilities assumed | 1,213.1 |
| Total net assets acquired (1) | 432.9 |

(1) Relating to the net additional value of the license, the net assets contributed from Pegaso and the goodwill not allocated.

As determined by SFAS No. 142 and SFAS No. 109, due to the fact the valuation allowance is recognized for Pegaso tax credit carryforwards at the acquisition date, Telefónica Móviles did not recognize any deferred taxes asset related to such concept. At the acquisition date the total amount of tax credit carryforwards for Pegaso amounted to 874.9 million, which could give rise to a future tax benefit of 297.4 million. Under US GAAP, for future periods, upon the elimination of the valuation allowance related to such deferred tax asset, all tax benefit, if any, will be applied first to reduce to zero any goodwill related to this acquisition, second to reduce to zero any other noncurrent intangible assets related to the acquisition, and third to reduce our income tax expense.

In Note 18 certain agreements relating to the acquisition of the remaining 8% of Telefónica Móviles México are explained. The options included in these agreements have no value at December 31, 2003 as the minimum value to be paid to Burillo is equal to the fair value of the 8% of

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Telefónica Móviles México as of December 31, 2003.

Pegaso Telecomunicaciones, S.A. de C.V. did not have any Research and Development assets.

Under U.S. GAAP, in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill and certain intangible assets deemed to have indefinite lives should no longer be amortized, but instead be subject to periodic, impairment testing under a fair value approach. This consideration results in lower amortization expense. Consequently, the allocation above mentioned, generate a GAAP difference for the amortization of the asset assigned not registered during the pending period. The negative impact of this GAAP difference in net income and shareholders' equity was 10,796 thousand as of December 31, 2003.

- f) On March 5, 2004 Telefónica Móviles entered into a stock purchase agreement with BellSouth Corporation, or BellSouth, in which Telefónica Móviles will acquire 100% of BellSouth's stakes in its

F-102

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

operators in Argentina, Chile, Peru, Venezuela, Colombia, Ecuador, Uruguay, Guatemala, Nicaragua and Panama, making it the only cellular operator in all the key Latin American markets (population over 421 million) and leaving it an excellent position to capture the region's strong growth potential.

Under the signed agreement, the transaction values 100% of the companies acquired (firm value) at 5,850 million US dollars and will be financed from cash generated by Telefónica Móviles and debt. Telefónica Móviles will assume the companies' net debt and it will acquire the shareholdings of BellSouth, offering minority shareholders the possibility of selling their stakes for an identical price. The acquisition in each country is subject to the respective regulatory approvals.

Regarding the calendar, the regulatory authorities of several of the countries in which these companies operate must approve, if it is the case, some of these acquisitions, so that it is not possible to determine precisely the effective date of the acquisition. As of today, it is not possible to quantify the amount of goodwill which would be generated as the dates of the acquisition of each one of the assets will be different according to the authorizations requested. Additionally, as of today, it is not possible to quantify the exact percentage of ownership acquired, subject to the minority shareholders' final decision. Consequently, it is not possible either to quantify the final cost of the acquired entities or to provide more additional information required by SFAS 141.

7) *Pension plan of the Brazilian companies*

The dependent companies Telerj Celular, S.A. and Telest Celular, S.A. and the associated companies Telebahia Celular, S.A. and Telergipe Celular, S.A. had various commitments with its employees as pension plans and medical and life insurance. In 2000 these companies, like the other companies composing the former Brazilian telecommunications system, Telebrás, carried out a process of negotiation with their employees, which culminated in October 2000, to the transformation of the former Pension Plan into a new defined-contribution Pension Plan, and the cancellation of the Life Insurance Plan. Substantially all the employees availed themselves in the new plan. As a result of this change, since a provision had been recorded in prior years to cover the actuarial liabilities accrued through that date, under Spanish GAAP management of the Group calculated the new liability to be recorded for the benefits payable to its employees and reclassified the resulting over-provision to the Deferred Revenues - Other deferred revenues caption. Also under Spanish GAAP, Telefónica Móviles, S.A. decided to defer the effect on the income statement of the over-provision recorded in prior years systematically over the remaining service life of the employees covered by the new plan. Under U.S. GAAP and according to SFAS No. 88, Employers' Accounting and Settlements and Curtailments of Defined Benefit Pension Plans and for the Termination Benefits, this over-provision should be recognized as income in the period in which it is generated.

During 2001 the initial assumptions estimated to calculate the provision for the Pension Plan awarded to a group of employees had changed from those preliminary accounted for. According to the new assumptions, Telefónica Móviles has decided to recognize this fact under Spanish GAAP and consequently there is no effect on 2001 shareholders' equity.

8) *Contingencies*

In January 2001 there was an earthquake in El Salvador, city where Telefonía Móviles subsidiary TES Holding, S.A. de C.V. is located. This subsidiary has an insurance policy covering its property, plant and

F-103

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

equipment against this kind of risk. However, the Group decided to record a provision in 2000 to cover the losses that might arise in the future from this disaster and which are not covered by the insurance policy (Note 4.k). Under U.S. GAAP, this issue should be recognized only in 2001.

As of December 31, 2001, under Spanish GAAP this provision had been used for the purpose for which it was recorded. Nevertheless, the reversal of this provision should not be recognized under U.S. GAAP, as the original provision was not recorded in 2000.

9) *Derivative instruments and hedging activities*

Under U.S. GAAP, Telefónica Móviles, S.A. adopted, effective January 1, 2001, Statement of Financial Accounting Standard No. 133 (SFAS 133), Accounting for Derivative Instruments and Hedging Activities, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (embedded derivatives) and for hedging activities. SFAS No. 133 requires that all derivatives, whether designated in hedging relationships or not, be recorded on the balance sheet at fair value. The difference between a derivative's previous carrying amount and its fair value shall be reported as a transition adjustment in net income or other comprehensive income, as appropriate, as the effect of a change in accounting principle. The accounting for changes in fair value of a derivative instrument depends on its intended use and the resulting designation.

If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive income (OCI) and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings. The gain or loss on a hedging derivative instrument that is designated as, and is effective as, an economic hedge of the net investment in a foreign operation shall be reported in the same manner as a translation adjustment to the extent it is effective as a hedge.

Upon adoption of SFAS No. 133 on January 1, 2001, Telefónica Móviles designated all its hedging relationships anew. The adoption resulted in an after-tax increase (reduction) to income of 9 million and an after-tax increase (reduction) to OCI of 4 million. All the amounts classified as OCI referred related to the effective portion of cash flow hedges, the total of which has partially been reclassified into earnings during 2001.

Fair Value Hedges

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Part of the debt of Telefónica Móviles, S.A.'s affiliate, Telefónica Móviles España, had been granted with a multi-currency credit line by Telefonía y Finanzas, S.A. (Telfisa), a Telefónica Group company, in U.S. Dollars, and uses currency swap exchange contracts to hedge against the effect that fluctuation in exchange rates may have on the future payments associated with this credit line.

Under Spanish GAAP those derivatives designated as fair value hedges are not recorded at fair value and the respective hedged item is recorded taking into consideration the characteristics of the hedging instrument. Under U.S. GAAP all derivatives, whether designated in hedging relationships or not, are recorded on the balance sheet at fair value. The fair value hedges under Spanish GAAP have been considered as trading under US GAAP, and accordingly, all derivatives have been marked to market under US GAAP.

F-104

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

Net Investment Hedges

Telefónica Móviles' policy is to attempt to finance its activities in the same currencies as those used for its foreign investments or in a currency that matches the functional currency of the investee's country, in order to hedge foreign currency exposure of net investments in foreign operations. This policy is implemented through financing in the related currency or in a currency that matches the functional currency of the investee's country, thereby reducing the exchange risk.

For the year ended December 31, 2002, approximately 2,841 thousand of main amounts of net income related to non-derivative instruments used as net investment hedges were included as a cumulative translation adjustment under Spanish GAAP and U.S. GAAP. This amount principally offset the net gains recorded on the respective net investments in foreign currencies being hedged. These hedge instruments resulted in no amount of ineffectiveness. Under Spanish GAAP as of December 31, 2002, there were instruments that qualified as net investment hedges. These net investment hedges did not qualify under U.S. GAAP, and therefore, as of December 31, 2002, an adjustment was considered into the reconciliation to U.S. GAAP, from cumulative translation adjustment to net income amounting to 20,597 thousand. In 2003 there are not instruments that qualify as net investment hedges under U.S. GAAP.

Cash Flow Hedges

As part of its overall risk management strategy, Telefónica Móviles, S.A. uses derivatives to convert its variable-rate notes into fixed-rate debt. Most of these derivatives, considered effective according to SFAS No. 133, are designated as cash flow hedges to manage the cash flow exposure due to interest rate fluctuations.

As of December 31, 2003, Telefónica Móviles, S.A. has recognized 479 thousand of the main deferred losses in other comprehensive income for the effective portion of hedges of future cash flows. Derivative gains and losses included in other comprehensive income are reclassified into earnings concurrently with the recognition in earnings of the cash flow item being hedged.

Under Spanish GAAP those derivatives designated as cash flow hedges of forecasted transactions are carried at lower of the cost or market value.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Under U.S. GAAP all derivatives, whether designated in hedging relationships or not, are recorded on the balance sheet at fair value. Additionally, those hedging relationships which are designated as cash flow hedges under U.S. GAAP have their respective effective portion of the gain or loss recorded in other comprehensive income until it is necessary to be adjusted against net income in order to offset the respective change in expected future cash flows on the hedged transaction. All of the ineffective portion and excluded component of the derivative instruments is included in earnings.

Telefónica Móviles estimates that an insignificant amount of the net derivative gains included in OCI as of December 31, 2003 will be reclassified into earnings within the next twelve months. The maximum time over which Telefónica Móviles is hedging exposure to variability of cash flows is 7 years.

Other Derivative Contracts

Telefónica Móviles, S.A. holds various interest rate and foreign exchange derivative instruments, which were not formally designated under SFAS 133 for the application of hedge accounting.

F-105

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

Under Spanish GAAP these derivatives are recorded at lower of cost or market value. Under U.S. GAAP all derivatives not designated as certain hedges are recorded on the balance sheet at fair value being recorded as a component of income from continuing operations during the period that such contracts remain outstanding. The impact of this GAAP difference in losses as of December 31, 2003 was 25,647 thousand.

Derivative instruments are reported on a net-by-counter party basis on the consolidated balance sheet where management believes a legal right of setoff exists under an enforceable netting agreement. The fair value of derivative instruments, as of December 31, 2002 is set forth below:

| | Thousands of Euros | |
|---------------------------------|---------------------------|--------------------|
| | December 31, 2002 | |
| | Assets | Liabilities |
| Interest rate swaps | 301 | |
| Currency forward operations | | 7,799 |
| Foreign currency Swap contracts | 23,000 | 63,026 |
| Options | 27,287 | 13,383 |

The fair value of derivative instruments, as of December 31, 2003 is set forth below:

| | Thousands of Euros | |
|---------------------------------|---------------------------|--------------------|
| | December 31, 2003 | |
| | Assets | Liabilities |
| Interest rate swaps | | 7,665 |
| Foreign currency Swap contracts | 21,927 | 202,645 |
| Options | 3,831 | |

10) U.S. GAAP adjustments related to companies consolidated by the equity method

It reflects the U.S. GAAP adjustments made in the companies consolidated by the equity method. All the adjustments made in these companies have the same nature as the adjustments described above. The main adjustments refer to Recognition of Revenues and Expenses (Note 20.4) and to Start-up expenses (Note 20.1.b) in the companies Médi Telecom, S.A., Ipse 2000, S.p.A., Mobipay España, S.A. and Mobipay International, S.A.

11) U.S.GAAP adjustments related to Brasilcel

As disclosed in Note 2.d, on December 27, 2002, Telefónica Móviles, S.A. and PT Móveis Serviços de Telecomunicações, SGPS, S.A. (PT Móveis) formed the joint venture Brasilcel, N.V. 50% owned by each company, through the contribution of all the shares directly or indirectly held by the two groups in the wireless communications companies in Brazil. As such, Telefónica Móviles, S.A. use under Spanish GAAP the proportional integration method from the date above mentioned as method of accounting for Brasilcel, N.V. For US GAAP purposes, Brasilcel, N.V. would be accounted for under the equity method from such date and only 2003 for net income. In addition, for 2003 and 2002, this reconciliation item includes the US GAAP adjustments to shareholders' equity of investment that would be accounted for under the equity method of accounting. The

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

US GAAP adjustments to net income related to Brasilcel have only been considered for 2003, as the joint venture was formed in December 27, 2002, and therefore, the income statements of the Brazilian companies were fully consolidated under Spanish and US GAAP in the year 2002.

The fair value of the contribution to Brasilcel, N.V. of the wireless assets owned by Telefónica Móviles, S.A. was 1,898 million. Its balance sheet was proportionally consolidated in the consolidated financial statements and the results for the whole year of the Brazilian companies contributed by Telefónica Móviles were recorded in the consolidated statement of operations when this transfer was made (on December 27, 2002). Under U.S. GAAP, Telefónica Móviles, S.A. should consolidate these companies under equity method. According to EITF Issue 01 / 02 Interpretation of APB Opinion N° 29, the exchange of a consolidated business for an interest in a joint venture, would not result in a gain recognition, absent the receipt of cash or near cash consideration; as a consequence, Brasilcel, N.V. was considered in the consolidation for U.S. and Spanish GAAP at historical cost of the consolidated business in Brasil prior to the transaction.

The following unaudited proforma information presents a summary of the effect in Telefónica Móviles combined statements of operations as if the joint venture described above had been formed on January 1, 2002 and 2001.

| | Millions of Euros | |
|-------------------|---|---|
| | Year ended December 31, 2001 | Year ended December 31, 2002 |
| Revenues | 8,552 | 9,305 |
| Net income | 888 | (3,973) |
| Basic EPS (Euros) | 0.21 | (0.93) |

These unaudited proforma results have been prepared for comparative purposes only and include certain adjustments, such as amortization of goodwill and investees' results of operations for each entire period. They do not purport to be indicative of the results of operations that actually would have resulted had these operations occurred at January 1, 2002 and 2001, or future results of operations of the consolidated entities.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

The main impacts in shareholders' equity reconciliation, as of December 31, 2003 and 2002, and in net income reconciliation as of December 31, 2003, are as follows:

| | | <u>2002</u> | <u>2003</u> |
|---|-------------|-------------------------|------------------------|
| Start-up expenses | Note 20.1.a | (16,961) | (5,822) |
| Capitalized interests | Note 20.1.d | 8,389 | 7,898 |
| Business combinations | | (122,330) | (60,311) |
| SFAS 133 | | (30,997) | 110,491 |
| Tax effect on the above adjustments | | 14,118 | (39,129) |
| Effect of minority interests on the above adjustments | | 7,555 | (26,665) |
| Total effect in equity | | <u>(140,226)</u> | <u>(13,538)</u> |

F-107

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

| | | <u>2003</u> |
|---|-------------|----------------|
| Start-up expenses | Note 20.1.a | 10,707 |
| Capitalized interests | Note 20.1.d | 1,772 |
| Business combinations | c), d), e) | 46,798 |
| SFAS 133 | | 149,985 |
| Tax effect on the above adjustments | | (56,862) |
| Effect of minority interests on the above adjustments | | (34,102) |
| Total effect in net income | | 118,298 |

Business combinations

The main effects considered in the adjustment for business combinations are the following:

| | | <u>2002</u> | <u>2003</u> |
|-------------------------------------|----|------------------|-----------------|
| Additional goodwill | a) | 1,654,072 | 1,654,072 |
| Impairment Telesudeste | b) | (361,792) | (361,792) |
| SFAS 142 | c) | 27,366 | 70,986 |
| TCO acquisition goodwill allocation | d) | | (2,286) |
| SFAS 52 | e) | (1,441,976) | (1,421,291) |
| Total effect in equity | | (122,330) | (60,311) |

- a) On July 6, 2000, Telefónica, S.A. issued 90,517,917 new shares of \$1 par value each and additional paid-in capital of \$2.995 per share, in exchange for shares of Tele Sudeste Celular Participações, S.A., held by public shareholders of this company. As result of this transaction, the Telefónica Group acquired an additional 68.41% interest in Tele Sudeste Celular Participações, S.A. The accounts of this company have been reflected in the combined financial statements of Telefónica Móviles, S.A. from the date of acquisition by the Telefónica Group of the initial interest in this company in July 1998.

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Under Spanish GAAP, negative goodwill of 38,831 thousand was recorded based on the difference between the stated value of the shares issued, as determined by Telefónica S.A.'s board of directors, and the fair value of the net assets acquired. Under U.S. GAAP, the goodwill resulting from this transaction would be based on the fair value of the shares issued. This difference results in additional goodwill of 1,774,603 thousand. Such additional goodwill resulted in additional amortization expense of 44,367 thousand as of December 31, 2000 and of 88,727 thousand as of December 31, 2001.

Other similar minor transactions related to Brasilcel, N.V. carry out an additional goodwill under U.S. GAAP of 12,563 thousand as of December 31, 2002.

- b) In December, 2001, a goodwill impairment analysis was performed on the Company's recorded goodwill. From this analysis, the Company determined that the goodwill related to Tele Sudeste Celular Participações, S.A. was impaired, and thus reduced the goodwill by approximately Euros 362 million.
- c) Under U.S. GAAP, in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill and certain intangible assets deemed to have indefinite lives should no longer be amortized, but instead be subject to periodic, impairment testing under a fair value approach. This consideration results in lower amortization expense of 43,620 thousand as of December 31, 2003.

F-108

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

- d) As described in Note 2.d, during 2003, Telesp Celular Participações, S.A. (TCP), 65.12% owned by Brasilcel, N.V., acquired from the Brazilian company Fixcel (controlled by the Splice Group) a percentage of the capital stock of the Brazilian company Tele Centro Oeste Celular Participações, S.A (TCO). As a consequence of this acquisition a goodwill was recorded based on the difference between the stated value of the shares issued, as determined by TCP's board of directors, and the fair value of the net assets acquired. Under U.S. GAAP, the goodwill resulting was allocated as a net additional value of the licenses obtained to operate nationwide wireless communications services in the Brazilian areas where the acquired company runs. The adjustment amounts as of December 31, 2003 to a negative net equity of 2,286 thousand and to a loss of 10,225 thousand.
- e) The translation adjustment, in conformity with the requirements of SFAS No. 52, Foreign Currency Translation, related to goodwill of Brasilcel, N.V. amounts a gain of 13,403 thousand as of December 31, 2003 and the accumulated negative effect in Shareholders Equity is 1,441,976 thousand and 1,421,291 thousand as of December 31, 2002 and 2003, respectively.

12) Shares in Deposit at Finance Entities acting as Agents in Stock Option Plans

On October 11, 2001, Telefónica Móviles, S.A. carried out the capital increase authorized by the Stockholders Meeting on October 26, 2000, the objective of which is the coverage of the stock options plan of Telefónica Móviles, S.A. (MOS Program), through the issue of a total of 21,445,962 common shares with a par value of 0.5 each. These shares were subscribed and paid 50% by Banco Bilbao Vizcaya Argentaria, S.A. and 50% by Caja de Ahorros y Pensiones de Barcelona with additional paid-in capital of 32,169,000 (Note 18).

In the Spanish GAAP financial statements, the amount paid by the two finance entities, Banco Bilbao Vizcaya Argentaria (BBVA) and Caja de Ahorros y Pensiones de Barcelona (La Caixa), acting as agents in the Stock Option Plan for Telefónica Móviles, S.A.'s employees is recorded as a capital increase subscribed to by the afore-mentioned companies. For U.S. GAAP reporting purposes, this amount is shown as a component of the long-term liabilities.

According to Spanish GAAP, the Company has not recorded any compensation expense relating to the MOS Plan for the year ended December 31, 2003.

Under U.S. GAAP, the Company accounts for stock-based awards to employees using the intrinsic value method in accordance with APB 25, *Accounting for Stock Issued to Employees*. Compensation cost for stock options granted to employees is measured as the excess of the quoted market price of the Company's stock on the measurement date over the amount an employee must pay to acquire the stock (the intrinsic value), and is recognized over the vesting period. As this stock option plan permits at the option of the holder either exercise for cash or in shares, according to US GAAP, the option should be accounted for as a variable plan. On December 31, 2002 the closing market share price was Euro

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

6.20 consequently no compensation charge was recorded relating to the MOS Plan for the year ended December 31, 2002, since this plan did not have positive intrinsic value at that date. On December 31, 2003 the closing market share price was Euro 8.28. There are three tranches of Options: tranche A, with an exercise price of 11; tranche B, with an exercise price of 16.5 and tranche C, with an exercise price 7.235; each beneficiary of the Program will receive an equal number of tranche A and tranche B options and a number of tranche C options equal to the sum of the tranche A and tranche B options received. For the tranche C options (in the money at the end of 2003), the Company's charge for the year ended 2003 would not have been significant in net income or basic earnings per share.

F-109

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

Had compensation expense for options granted under MOS Program been determined based on fair value at each of the period closing dates in accordance with SFAS No. 123, the Company's charge for the years ended December 31, 2002 and 2003 would not have been significant in net income or basic earnings per share. Additionally, the weighted-average grant-date fair value of options granted during the year has been less than the market price of the stock on the grant date. The fair value of each option granted was estimated using the Black-Scholes option pricing model, for each option with the same vesting period, using the following average assumptions: December 31, 2002: risk-free interest rate of 4.08%; expected dividend yield of 0.00 percent; and assumed volatility of 45.27%. December 31, 2003: risk-free interest rate of 2.27%; expected dividend yield of 2.63 percent; and assumed volatility of 29.18%.

The status of the Company's stock option plan is summarized below as of December 31, 2003:

| | Number of Stock Options |
|---|------------------------------------|
| Outstanding at December 31, 2001 | |
| Granted | 16,392,164 |
| Forfeited / expired | |
| Outstanding at December 31, 2002 | 16,392,164 |
| Granted | 606,895 |
| Cancelled (1) | (2,262,513) |
| Exercised (2) | (1,917,472) |
| Outstanding at December 31, 2003 | 12,819,072 |

(1) Options of employees who left the Group from 1-01-01 until 30-09-03 with no exercise value.

(2) Options settled before the maturity date to the employees who work for companies out of the Group and to the employees who left the Group from 1-10-03 until 31-12-03.

None of the outstanding options at December 31, 2003 are exercisable. All options vest between January 2004 and January 2006.

13) Change in Subsidiaries Fiscal Year End

As explained in Note 2.d, during 2001, since Telefónica Móviles Group and its subsidiaries in Argentina had different fiscal year-ends, Telefónica Móviles, S.A. decided to change the fiscal year-end of those subsidiaries in order to match the Group's fiscal year end. Under Spanish GAAP, the impact of this change was recorded as extraordinary expenses (Note 14.d). For U.S. GAAP, the effects of this change for any periods in excess of 12 months were credited directly to retained earnings.

14) Employees terminations

Under local GAAP, as of December 2002, 4,288 thousand were provided for employees terminations that do not fulfill the mentioned requirements in EITF 94-3 or either in SFAS 146 and therefore this amount was adjusted under US GAAP. As of December 2003, 4,262 thousand have been reversed as these employees terminations have been paid.

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

15) *Effective interest rate*

Several contracts in Telefónica Comunicaciones Personales, S.A. accrue increasing interest rates. This practice is allowed under Spanish GAAP. However, for US GAAP purposes according to APB 21, it is necessary to calculate an effective interest rate (an Investment Return Rate equivalent) for the period in which the contract is effective.

16) *Foreign currency exchange rate*

Spanish GAAP requires unrealized foreign currency exchange gains in excess of recorded foreign currency exchange loss to be deferred. Under U.S. GAAP, foreign currency exchange gains are included in income, in accordance with SFAS No. 52, Foreign Currency Translation.

17) *Assets retirement obligations*

Effective January 1, 2003, Telefónica Móviles Group adopted the provisions of SFAS No. 143, Accounting for Asset Retirement Obligations. An asset retirement obligation represents a legal obligation associated with the retirement of a tangible long-lived asset that is incurred upon the acquisition, construction, development or normal operation of that long-lived asset. This standard requires Telefónica Móviles Group to recognize asset retirement obligations in the period in which they are incurred, if a reasonable estimate of fair value can be made. The asset retirement obligations are accreted to their present value at the end of each reporting period. The associated estimated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depreciated over its useful life.

Telefónica Móviles Group evaluated its assets, particularly wireless network installations, utilized in its operations in Spain and overseas. During this evaluation, it was determined that it had legal obligations to return certain assets to their condition before Telefónica Móviles Group obtained ownership or use of the related assets.

Adoption of this standard resulted in an increase in non-current assets and non-current liabilities of 34,3 million and 44,1 million, respectively, and a cumulative effect adjustment reducing net income by 8,8 million after-tax (Note 20.5).

On a pro forma basis, assuming SFAS 143 had been adopted at the beginning of the period, Telefónica Móviles Group's Statements of Income for 2002 and 2001 would have decreased by 1,9 million and 1,8 million, net of tax, respectively, and the liability for asset retirement obligations as of December 31, 2002 and 2001 would have been 42,3 million and 40,5 million, respectively. Because the amounts related to the income for 2002 and 2001 would have been no significant there would not have any effect in the earning per share (EPS) for 2002 and 2001.

Additional Disclosures Required Under U.S. GAAP

1) Use of estimates in preparation of the consolidated financial statements

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from such estimates.

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

2) Consolidation method

Under Spanish GAAP, unlisted companies in which a holding of at least 20% (or 3% if listed) is owned, are carried by the equity method. On the other hand, investments in companies in which the Company owns less than 50% of the common voting stock must be consolidated when such companies are considered for Spanish GAAP purposes to be controlled by the Company. In general, under U.S. GAAP, companies in which a holding of between 20% and 50% is owned are carried by the equity method, unless there is evidence that significant influence is exercised over their management.

2001

Since October 1, 2001, Ipse 2000, S.p.A. has been carried by the equity method under Spanish GAAP, because since that date certain difficulties have been gradually disclosed which, in practice, have substantially affected management of Ipse 2000, S.p.A. by the Telefónica Móviles Group. Therefore, the difference in consolidation between Spanish and U.S. GAAP related to this affiliate is reflected only through September 30, 2001.

On November 8, 2001 Telefónica Móviles, S.A. signed a new Shareholders agreement with Sonera where most actions of Group 3G UMTS Holding GmbH can be adopted by simple majority, except for certain transactions which are considered to be protective rights (Capital reductions, distribution of earnings or the Company's Clearance sale). As a result of this new agreement, Group 3G UMTS Holding GmbH has starting on November 8, 2001, been consolidated under U.S. GAAP. Therefore, the difference in consolidation between Spanish and U.S. GAAP related to this affiliate is reflected only through November 8, 2001.

The following summarizes the effect on the statements of operations and cash flows for the year ended December 31, 2001, of reversing the consolidation of these investments and accounting for them under the equity method under U.S. GAAP:

| | Thousands of euros |
|---|-------------------------------|
| Condensed statements of operations | 12/31/01 |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | |
|---|----------------|
| Net revenues from operations | 23,489 |
| Other revenues | (9,907) |
| Operating Expenses: | |
| Services and goods purchased | 7 |
| External services and local taxes | 45,372 |
| Personnel expenses | 22,275 |
| Depreciation and amortization | 1,436 |
| Other operating expenses | 211 |
| | <hr/> |
| Operating Income | 82,883 |
| Income (losses) of associated companies | (175,555) |
| Financial expense | 6,644 |
| Financial income | 200,651 |
| | <hr/> |
| Income (losses) from ordinary activities | 114,623 |
| Extraordinary income (expense) | 333 |
| | <hr/> |
| Income (losses) before tax and minority interest | 114,956 |
| Corporate income tax | (96,849) |
| Minority interest | (18,107) |
| | <hr/> |
| Net Income (losses) for the year | <hr/> |

F-112

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

| Condensed statements of cash flow | Thousands of euros 12/31/01 |
|--|--|
| Net cash provided by operating activities | (469,436) |
| Net cash used in investing activities | 946,003 |
| Net cash used in financing activities | (402,703) |
| Net change in cash and cash equivalents | 73,864 |
| Cash and cash equivalents at beginning of year | (73,864) |
| Cash and cash equivalents at year-end | |

2002 - 2003

Brasilcel, N.V. and its dependent companies have been consolidated during 2002 and 2003 under Spanish GAAP under the proportional integration method. However, under U.S. GAAP, Telefónica Móviles, S.A. should consolidate these companies under equity method.

The following summarizes the effect on the balance sheet at December 31, 2002 and 2003, and on the statements of operations and cash flows for the years ended December 31, 2002 and 2003, of reversing the consolidation of these investments and accounting for them under the equity method under U.S. GAAP:

| Condensed balance sheets | Thousands of Euros 12/31/02 | Thousands of Euros 12/31/03 |
|---------------------------------|--|--|
| Start-up expenses | (28,079) | (34,334) |
| Intangible assets | (1,201,390) | (1,186,714) |
| Property, plant and equipment | (833,673) | (853,924) |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | |
|-------------------------------------|--------------------|--------------------|
| Investments in associated companies | 1,869,049 | 1,831,336 |
| Other financial investments | (843,882) | (783,874) |
| Current assets | (341,744) | (757,341) |
| | <u>(1,379,719)</u> | <u>(1,784,851)</u> |
| Minority interests | (252,054) | (387,985) |
| Long-term liabilities | (493,740) | (369,286) |
| Current liabilities | (633,925) | (1,027,581) |
| | <u>(1,379,719)</u> | <u>(1,784,851)</u> |

F-113

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

| <u>Condensed statements of operations</u> | Thousands of Euros | |
|---|---------------------------|------------------|
| | 12/31/02 | 12/31/03 |
| Net revenues from operations | | (1,377,840) |
| Other revenues | | (41,051) |
| Operating Expenses: | | |
| Services and goods purchased | | 401,601 |
| External services and local taxes | | 365,036 |
| Personnel expenses | | 83,128 |
| Depreciation and amortization | | 336,531 |
| Other operating expenses | | 25,700 |
| | | |
| Operating Income | | (206,896) |
| Amortization of Goodwill | | 43,617 |
| Income (losses) of associated companies | | (52,057) |
| Financial expense | | 621,676 |
| Financial income | | (481,776) |
| | | |
| Income (losses) from ordinary activities | | (75,436) |
| Extraordinary income (expense) | | (11,531) |
| | | |
| Income (losses) before tax and minority interest | | (86,967) |
| Corporate income tax | | 65,091 |
| Minority interest | | 21,876 |
| | | |
| Net Income (losses) for the year | | |

There is no effect on the statements of operations in 2002, as the contributions of the shares were made on December 27, 2002.

| <u>Condensed statements of cash flow</u> | Thousands of Euros | Thousands of Euros |
|--|-------------------------------|-------------------------------|
| | 12/31/02 | 12/31/03 |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | |
|--|-----------------|-----------------|
| Net cash provided by operating activities | | (304,663) |
| Net cash used in investing activities | (69,052) | 353,592 |
| Net cash used in financing activities | | 4,369 |
| Net change in cash and cash equivalents | (69,052) | 53,298 |
| Cash and cash equivalents at beginning of year | | (69,052) |
| Cash and cash equivalents at year-end | (69,052) | (15,754) |

3) *Disclosure about fair value of financial instruments*

SFAS No. 107, Disclosure about Fair Value of Financial Instruments, requires that the Group disclose the estimated fair value of its financial instruments at December 31, 2002 and 2003. The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such fair value:

- a. Cash and short-term financial investments-

F-114

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

The fair value of these investments is estimated based on listed market prices for those or similar investments. The carrying value of these investments approximates fair value because of the short maturity of those instruments.

b. Long-term financial investments-

The fair value of certain investments is estimated based on listed market prices for those or similar investments. For investments for which there are no market prices, a reasonable estimate of fair value could not be made without incurring excessive costs. In view of the limited volume of these investments, the cost of their valuation based on an estimate of future cash flows discounted at market interest rates for investments of this type would be disproportionate with respect to the additional information to be gained thereby, and the Group's management considers that the difference between the book value and the fair value is not material.

c. Current assets-

The carrying value for most of the current assets approximates fair value because of the relatively short period of time between the origination of the instruments and their expected realization.

d. Short-term payables-

The carrying value for most of the short-term payables approximates fair value because of the relatively short period of time between the origination of the instruments and their expected settlement.

e. Payable to credit entities and Telefónica Group companies-

The fair value of long-term debts was estimated based on the discounted value of future cash flows expected to be paid, using discount rates that reflect the relative risks involved.

f. Off-balance sheet risks-Derivatives-

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Swap agreements: the fair value is the estimated amount that the Company would receive or pay to terminate the swap agreements at the reporting date.

Where no comparison of book versus fair value is presented for a financial asset or liability line item in the schedule below, no significant difference in values is believed to exist.

| | Thousands of Euros | | | |
|---|---------------------|---------------|---------------------|---------------|
| | Balance at 12/31/02 | | Balance at 12/31/03 | |
| | Carrying value | Fair Value | Carrying value | Fair Value |
| Liabilities: | | | | |
| Short-term payables | 2,855,311 | 2,860,604 | 3,920,325 | 3,932,539 |
| Security issues | 669,469 | 714,230 | | |
| Other payables | | | 125,737 | 140,527 |
| Payable to banks and other financial institutions | 34,233 | 35,726 | 66,497 | 69,307 |
| Payable to Telefónica Group companies | 6,025,877 | 6,344,092 | 4,864,423 | 5,183,557 |
| Derivative financial instruments: | | | | |
| Foreign currency swaps, options and forwards | (57,093) | (33,921) | (175,957) | (176,887) |
| Interest rate swaps | | 301 | | (7,665) |

F-115

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

4) Comprehensive Income

SFAS No. 130 defines comprehensive income as a measure of all changes in equity of an enterprise during a period that result from transactions and other economic events of the period other than transactions with owners. Under Spanish GAAP, comprehensive income components are recorded as separate items in Shareholders' equity .

The following represents the statement of comprehensive income prepared under U.S. GAAP:

| Statement of Comprehensive Income | Thousands of Euros | | |
|--|---------------------------|--------------------|------------------|
| | Year ended | | |
| | 12/31/01 | 12/31/02 | 12/31/03 |
| Net Income under U.S. GAAP | 320,447 | (3,647,254) | 1,815,138 |
| Other Comprehensive Income: | | | |
| Foreign currency translation adjustments | (955,726) | (2,161,412) | (465,968) |
| SFAS 133 adjustment | 8,378 | 500 | (3,889) |
| Comprehensive income | (626,901) | (5,808,166) | 1,345,281 |

The following chart describes changes in accumulated Other comprehensive income :

| Other Comprehensive Income | Thousands of Euros |
|-----------------------------------|---------------------------------------|
| | Foreign Currency Items |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | |
|---------------------------------|-------------|
| Ending balance at December 2001 | (894,786) |
| Period change | (2,160,912) |
| Ending balance at December 2002 | (3,055,698) |
| Period change | (469,857) |
| Ending balance at December 2003 | (3,525,555) |

The following chart describes the accumulated balances of Other comprehensive income as of December 31, 2001, 2002 and 2003:

| Components of accumulated other comprehensive Income (Loss) | Thousands of Euros | | |
|--|--------------------|--------------------|--------------------|
| | Year ended | | |
| | 12/31/01 | 12/31/02 | 12/31/03 |
| Foreign currency translation adjustments, net of tax | (903,164) | (3,064,576) | (3,530,544) |
| Derivatives and hedging activities SFAS 133, net of tax | 8,378 | 8,878 | 4,989 |
| Comprehensive income | (894,786) | (3,055,698) | (3,525,555) |

5) *Statements of cash flows*

Spanish GAAP does not require presentation of a statement of cash flows.

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments (or investments) purchased to be cash equivalents, i.e., cash and banks and short-term investments .

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

The following are consolidated statements of cash flows based on the financial statement amounts reported under Spanish GAAP:

| | Thousands of Euros | | |
|--|--------------------|--------------------|--------------------|
| | 12/31/01 | 12/31/02 | 12/31/03 |
| Net income under Spanish GAAP: | 893,355 | (3,724,399) | 1,607,838 |
| Adjustments to reconcile net income to net cash | | | |
| Provided by operating activities: | | | |
| Depreciation and amortization | 1,357,557 | 1,403,502 | 1,522,351 |
| Provision for contingencies and expenses | (3,990) | 2,085,586 | (12,138) |
| Other provisions | 140,949 | (27,843) | 14,528 |
| Participation in results of associated companies | 24,497 | 159,477 | 80,656 |
| Loss on disposal of fixed assets | 77,446 | 9,383,619 | 9,497 |
| Gain on sale of fixed assets and financial investment disposals | (1,328) | (1,955) | (14,081) |
| Results attributed to minority interests | (48,352) | (4,363,987) | (21,127) |
| Change in operating assets and liabilities, net of effects from purchase of new investments: | | | |
| Decrease (increase) in inventory | (43,802) | 23,024 | (12,887) |
| Decrease (increase) in accounts receivable | (562,205) | (241,915) | (537,566) |
| Decrease (increase) in prepayments and income tax receivable | (181,001) | (2,212,611) | (118,279) |
| Increase (decrease) in accounts payable and accrued expenses | (446,932) | 715,927 | 354,957 |
| Increase (decrease) in interest payable | (14,250) | 7,509 | (3,024) |
| Increase (decrease) in income tax payable | 140,541 | (1,049,178) | 810,757 |
| Total adjustments | 439,130 | 5,881,155 | 2,073,643 |
| Net cash provided by (used in) operating activities | 1,332,485 | 2,156,756 | 3,681,481 |
| Cash flow from investing activities: | | | |
| Proceeds from sale of property, plant and equipment | 72,449 | 41,212 | 24,618 |
| Proceeds from financial investments, net of purchases | (178,156) | 566 | 14,318 |
| Proceeds from capital grants | (421) | (355) | |
| Capital expenditures | (2,141,210) | (1,046,596) | (834,879) |
| Purchase of new investments, net of cash acquired | (1,457,214) | (797,238) | (346,429) |
| Payments for deferred charges | (333,507) | 46,192 | (12,740) |
| Net cash provided by (used in) investing activities | (4,038,059) | (1,756,219) | (1,155,113) |
| Cash flow from financing activities: | | | |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | | |
|--|------------------|------------------|--------------------|
| Proceeds from capital increase | 1,478,947 | | |
| Reserves not contributed | 99,402 | | |
| Proceeds from other loans, credit facilities and notes payable | 2,919,615 | 5,807,619 | 2,236,641 |
| Repayments from other loans, credit facilities and notes payable | (2,078,348) | (6,139,841) | (4,081,009) |
| Dividends paid and contributions from minority interest owners | (11,335) | 17,874 | (767,760) |
| Net cash provided by (used in) financing activities | 2,408,281 | (314,348) | (2,612,128) |
| Effects of exchange rate changes on cash | 191,286 | (37,055) | 27,134 |
| Net change in cash | (106,007) | 49,134 | (58,626) |
| Cash at beginning of year | 177,419 | 71,412 | 120,546 |
| Cash at end of year | 71,412 | 120,546 | 61,920 |

F-117

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

Supplementary information required by SFAS 95, Interest and income tax payments made during 2001, 2002 and 2003, is as follows:

| | Thousands of Euros | | |
|--------------|--------------------|----------|----------|
| | 12/31/01 | 12/31/02 | 12/31/03 |
| Interest | 256,163 | 502,261 | 648,490 |
| Income taxes | 644,024 | 934,119 | 51,231 |

6) Earnings per share

Spanish GAAP does not require the net earnings per share to be disclosed in the financial statements.

Earnings per share for U.S. GAAP purposes has been presented only for the years 2001, 2002 and 2003, since Telefónica Móviles, S.A. had no capital structure prior to February 14, 2000.

The weighted-average shares outstanding for diluted earnings per share are not greater than such shares used in the basic earnings per share calculation since there are no dilutive shares to be issued.

| | 12/31/01 | 12/31/02 | 12/31/03 |
|---|---------------|---------------|---------------|
| Earnings per share (U.S. GAAP): | | | |
| Basic | 0.08 | (0.85) | 0.42 |
| Diluted | 0.08 | (0.85) | 0.42 |
| Weight average number of shares used in calculation: | | | |
| Basic | 4,141,432,815 | 4,290,372,979 | 4,309,104,934 |
| Diluted | 4,146,250,812 | 4,311,818,941 | 4,330,550,896 |

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

7) Segment data

The Group is organized and managed by geographic segments.

The Company views operating income or loss before depreciation and amortization as one of the primary measures of segment profit (loss).

The accounting principles used in accounting for the segments are the same as those used in the consolidated financial statements. Transactions between segments were immaterial during 2002 and 2003.

Segment information for 2001, 2002, and 2003 was as follows:

| | Thousands of Euros | | | | | |
|--|--------------------|-----------|------------------|--------------------------------------|---|-----------|
| | 2001 | Spain | Latin America | Europe and Mediterranean Basin | Consolidation Adjustments and other (*) | Total |
| Net revenues from operations | | 5,815,440 | 2,685,983 | 8,931 | (99,290) | 8,411,064 |
| Other revenues | | 112,090 | (10,036) | 33,254 | 12,439 | 147,747 |
| Operating expenses (excluding depreciation and amortization) | | 3,124,524 | 1,992,085 | 132,036 | (23,523) | 5,225,122 |
| Operating income before depreciation and amortization | | 2,803,006 | 683,862 | (89,851) | (63,328) | 3,333,689 |
| Depreciation and amortization | | 654,803 | 537,047 | 11,149 | 55,160 | 1,258,159 |
| Operating Income | | 2,148,204 | 146,815 | (101,000) | (118,489) | 2,075,530 |
| Amortization of goodwill | | 5,187 | 12,993 | | 35,622 | 53,802 |
| Income (losses) of associated companies | | (40,261) | (2,392) | (76,540) | | (119,193) |
| Financial income (expense) | | (136,616) | (579,713) | 14,406 | 373,864 | (328,059) |
| Extraordinary income (expense) | | (461,926) | (108,056) | (264) | 469,541 | (100,705) |
| Income before tax and minority interests | | 1,504,214 | (556,339) | (163,398) | 689,294 | 1,473,771 |
| Corporate income tax | | 536,019 | 113,338 | (38,224) | 17,635 | 628,768 |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | | | | |
|-------------------------------------|------------|-----------|------------|-------------|------------|
| Minority interests | | 21,888 | | 26,464 | 48,352 |
| Net income (loss) | 968,195 | (647,789) | (125,174) | 698,123 | 893,355 |
| Capital expenditures | 792,308 | 597,927 | 721,475 | 10,289 | 2,121,999 |
| Property, plant and equipment (net) | 2,335,881 | 2,833,046 | 72,350 | 3,137 | 5,244,414 |
| Total assets | 13,926,358 | 4,644,099 | 10,664,251 | (4,320,622) | 24,914,086 |

F-119

Table of Contents

Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

| | Thousands of Euros | | | | |
|--|--------------------|-----------|------------------|--------------------------------------|---|
| | 2002 | Spain | Latin America | Europe and Mediterranean Basin | Consolidation Adjustments and other (*) |
| Net revenues from operations | 6,833,740 | 2,291,446 | 51,895 | (37,246) | 9,139,835 |
| Other revenues | 69,642 | 38,239 | 8,623 | (25,434) | 91,070 |
| Operating expenses (excluding depreciation and amortization) | 3,442,804 | 1,736,793 | 285,770 | (29,668) | 5,495,035 |
| Operating income before depreciation and amortization | 3,460,578 | 592,892 | (225,252) | (92,348) | 3,735,870 |
| Depreciation and amortization | 683,634 | 514,942 | 62,422 | 55,408 | 1,316,406 |
| Operating Income | 2,776,944 | 77,950 | (287,674) | (147,756) | 2,419,464 |
| Amortization of goodwill | 18,672 | 19,411 | | 49,013 | 87,096 |
| Income (losses) of associated companies | (4,742) | (1,558) | (153,177) | | (159,477) |
| Financial income (expense) | (192,924) | (450,483) | (49,332) | 376,543 | (316,196) |
| Extraordinary income (expense) | (7,408,067) | (30,685) | (11,418,991) | 6,781,841 | (12,075,902) |
| Income before tax and minority interests | (4,847,461) | (424,187) | (11,909,174) | 6,961,615 | (10,219,207) |
| Corporate income tax | (1,874,440) | 67,730 | 33,959 | (358,070) | (2,130,821) |
| Minority interests | | 65,874 | | 4,298,113 | 4,363,987 |
| Net income (loss) | (2,973,021) | (426,043) | (11,943,133) | 11,617,798 | (3,724,399) |
| Capital expenditures | 524,546 | 311,683 | 203,393 | 6,974 | 1,046,596 |
| Property, plant and equipment (net) | 2,098,049 | 2,558,127 | 3,263 | 2,290 | 4,661,729 |
| Total assets | 7,915,218 | 5,492,704 | 1,224,842 | 1,598,950 | 16,231,714 |

| | Thousands of Euros | | | | |
|--|--------------------|-----------|------------------|--------------------------------------|---|
| | 2003 | Spain | Latin America | Europe and Mediterranean Basin | Consolidation Adjustments and other (*) |
| Net revenues from operations | 7,513,076 | 2,588,250 | | (31,042) | 10,070,284 |
| Other revenues | 83,729 | 44,966 | 1,883 | 21,825 | 152,403 |
| Operating expenses (excluding depreciation and amortization) | 3,658,010 | 2,050,913 | 10,229 | 40,651 | 5,759,803 |
| Operating income before depreciation and amortization | 3,938,795 | 582,304 | (8,346) | (49,869) | 4,462,884 |
| Depreciation and amortization | 707,189 | 676,009 | 60 | 37,390 | 1,420,648 |
| Operating Income | 3,231,606 | (93,705) | (8,406) | (87,259) | 3,042,236 |

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

| | | | | | |
|--|-----------|-----------|-----------|-----------|-----------|
| Amortization of goodwill | | 131,732 | | (30,029) | 101,703 |
| Income (losses) of associated companies | (765) | (288) | (76,756) | (2,847) | (80,656) |
| Financial income (expense) | (181,199) | (213,016) | (45,715) | 61,793 | (378,137) |
| Extraordinary income (expense) | (252,435) | (940) | (415) | 249,254 | (4,536) |
| Income before tax and minority interests | 2,797,207 | (439,681) | (131,292) | 250,970 | 2,477,204 |
| Corporate income tax | 974,353 | 62,660 | 3 | (146,523) | 890,493 |
| Minority interests | | (19,335) | | 40,462 | 21,127 |
| Net income (loss) | 1,822,854 | (521,676) | (131,295) | 437,955 | 1,607,838 |

F-120

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

| | Thousands of Euros | | | | |
|-------------------------------------|--------------------|-----------|------------------|--------------------------------------|---|
| | 2003 | Spain | Latin America | Europe and Mediterranean Basin | Consolidation Adjustments and other (*) |
| Capital expenditures | 522,112 | 690,967 | 41 | 545 | 1,213,665 |
| Property, plant and equipment (net) | 1,912,924 | 2,474,870 | 100 | (39,451) | 4,348,353 |
| Total assets | 5,480,253 | 7,794,874 | 9,421 | 2,379,516 | 15,664,063 |

(*) Include holding companies

Measurement of Segments:

We include in the disclosure of segment data those measures of profit or loss which are reviewed by the operating management to assess the performance of each segment, basically operating revenues (sales to external clients and to other segments), operating expenses, operating income before depreciation and amortization, and capital expenditures.

The budgets and strategic plans of the segments include the above mentioned measures, and our chief operating decision maker reviews them on a monthly basis in order to assess the performance of the segments and make decisions to improve it and also to evaluate the accomplishment of the management of each segment.

The rest of the measures disclosed are also considered for purposes of making decisions about allocating resources to each segment. Management uses more than one measure of a segment's profit or loss, however, the reported measures are those that management believes are determined in accordance with the measurement principles most consistent with Spanish GAAP.

Accounting principles:

All transactions between segments are made at market prices or at prices which have been approved and published by the regulatory authority.

8) External services (Advertising)

The Company advertises its branded services and products through national and regional media in the countries in which it operates. These advertising costs are expensed as incurred, and are charged against Other operating expenses, except those related to reflagging expense, as described in Note 20.1.c. Advertising expenses for 2001, 2002 and 2003 amounted to 344,680 thousand, 306,223 thousand, and 501,003 thousand, respectively.

9) Financial statement classifications

In the Spanish GAAP financial statements, amortization of goodwill is shown separately in the consolidated statement of operations below operating income. For U.S. GAAP reporting purposes, amortization of goodwill is shown as a deduction before operating income. Also, goodwill arising from acquisition of equity method investees would be accounted for as part of the carrying amount of the investment under U.S. GAAP, rather than been shown as goodwill on the balance sheet under Spanish GAAP. This would increase the carrying amount of the equity investments and decrease goodwill respectively by 4,262 thousand (net of amortization), 5,097 thousand and 11,044 thousand at December 31 2001, 2002 and 2003, respectively.

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

As it is explained in Caption 2 Consolidation method in the Additional Disclosures Required under U.S. GAAP, Brasilcel, N.V. and its dependent companies have been consolidated during 2002 and 2003 under Spanish GAAP under the proportional integration method. However, under U.S. GAAP, Telefónica Móviles, S.A. should consolidate these companies under equity method. This Caption summarizes the effect on the balance sheet at December 31, 2002 and 2003, and on the statements of operations and cash flows for the years ended December 31, 2002 and 2003, of reversing the consolidation of these investments and accounting for them under the equity method under U.S. GAAP.

Spanish GAAP requires certain income and expenses, which are not ordinary income and expenses, to be classified as extraordinary income and expenses. Under U.S. GAAP, income and expenses must be both unusual in nature and infrequent in occurrence in order to be classified as extraordinary. Accordingly, no extraordinary income and expenses exist under U.S. GAAP for 2001, 2002 and 2003.

Internal expenditures capitalized consist of the internal direct labor and allocable portion of the indirect costs. Under Spanish GAAP internal capitalized expenses of in-house work of fixed assets are capitalized in Other revenues by 128,599 thousand, 74,461 thousand and 90,140 thousand in 2001, 2002 and 2003, respectively. For U.S. GAAP purposes, the cost capitalized should be netted against the related cost.

Variation in finished goods inventories represents the net change in finished goods inventories during the period. This includes beginning finished goods inventory plus purchases less sales and obsolescence provisions. Under Spanish GAAP, the net changes in finished goods inventories are included in Other revenues by (37,209) thousand, (45,021) thousand and (15,291) thousand in 2001, 2002 and 2003, respectively. Under U.S. GAAP the net change in finished goods inventories is included in operating expenses.

As described in Note 1 and in Note 4.k, as of December 31, 2002, 1,699.9 million relate to the provision recorded for the value of the investment in Ipse 2000, S.p.A. are recorded under the caption Provisions for contingencies and expenses. The provision recorded is broken down as follows:

| | | Million of Euros |
|---|----|---------------------------------|
| IPSE 2000, S.p.A impairment | a) | 884.3 |
| Allowance for loan losses in accounts receivable from IPSE 2000 | b) | 231.7 |
| Provision for contingencies from IPSE 2000 | c) | 583.9 |

| | |
|--------------|----------------|
| Total | 1,699.9 |
|--------------|----------------|

- a) IPSE 2000, S.p.A. impairment

During the first half of 2002 there were significant changes in the marketplace, from a competitive, technological, financial and regulatory perspective which caused Telefónica Móviles to reevaluate and update the assumptions of the business plans of its affiliate in Italy and to reconsider its overall short and medium term strategy in this country.

Based on the new assessments obtained in 2002, and to ensure that the investments were correctly valued, Telefónica Móviles decided in 2002 to reduce the risk exposure in its books relating to this equity investment in Italy under US and Spanish GAAP. According to APB 18, a current fair value of an investment that is less than its carrying amount may indicate a loss in value of the investment. As the fair value for this investment obtained from independent appraisals was significantly lower than the

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

carrying value, it clearly indicated a loss in the value of the investment; that was other than a temporary decline. Therefore, an impairment loss was recognized in the value of the investment.

Under Spanish GAAP, this correction in the value of the investment was registered as a provision; under US GAAP, it should be registered as a reduction of the cost of that investment. The equity value of Ipse 2000, S.p.A. accounted as Investment in associated companies in the financial statements of Telefónica Móviles as of December 31, 2002 under Spanish GAAP amounted to 1,013.7 million. Under USGAAP, this equity investment would have been 129.4 million, as the provision of 884.3 million recorded under Spanish GAAP is considered a reduction of the investment under US GAAP.

- b) Allowance for loan losses in accounts receivable from IPSE 2000

In accordance with SFAS 114, the account receivable that Telefónica Móviles had with Ipse 2000, S.p.A. as of December 31, 2002 amounting to 231.7 million was fully provided based on the calculation performed on the possible recoverability of this account receivable.

- c) Provision for contingencies from IPSE 2000

Paragraph 19 of APB 18 states that an investor should not provide for additional losses unless the investor has guaranteed obligations of the investee or is otherwise committed to provide further financial support for the investee. Additionally, according to SFAS 5, any estimated loss from a loss contingency should be accrued by a charge to income if the conditions required under paragraph 8 are met. The management based on the available facts considers that these conditions are met and therefore a provision was recorded under Spanish GAAP for an amount of 538.3 million of guarantees given by Telefónica Móviles to certain banks, which provided a bank guarantee to the Italian authorities as security for the deferred payments for the UMTS licenses and also recorded a provision for a further guarantee for 45.6 million to Ferrovie dello Stato, S.p.A., an Italian railway company, as Ipse 2000 entered into an agreement with this company pursuant to which Ipse 2000 granted certain access rights to and rights of use of a specified portfolio of such railway company's sites. These provisions would be considered in the liabilities side of the balance sheet under US GAAP.

10) Impairment of long-lived assets

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

Telefónica Móviles, S.A. evaluates the recoverability of the carrying amount of its long-lived assets, including its administrative concessions, when events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable.

In performing the review for recoverability of long-lived assets under Spanish GAAP and U.S. GAAP, Telefónica Móviles, S.A. estimates its future cash flows expected to result from each respective long-lived asset. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the long-lived assets, an impairment loss is recognized under U.S. GAAP. Otherwise, an impairment loss is not recognized under both GAAP. Measurement of an impairment loss is based on the fair value of the long-lived assets under Spanish GAAP (discounted cash flows). Since both discounted and undiscounted cash flows are higher than the carrying amount of the long-lived assets, no difference has arisen in 2002 and 2003 between Spanish and U.S. GAAP.

The estimates for the demand of 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

F-123

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

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 is more important to have sufficient scale in a particular market to obtain reasonable returns.

Taking into account these circumstances and considering SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, Telefónica Móviles, S.A. compared the value obtained from undiscounted cash flows 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 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. Based on the assessments obtained, and to ensure that the investments are correctly valued at all times, Telefónica Móviles decided in 2002 to eliminate the risk exposure in its books relating to the investments in Germany, Austria and Switzerland, basically.

11) New accounting standards

SFAS No. 132 (Revised 2003) Employers Disclosures about Pensions and Other Postretirement Benefits

Statement of Financial Accounting Standards No. 132 (Revised 2003), (SFAS 132R) requires an entity to make additional disclosures about pensions and other postretirement benefits. These disclosures include information describing the types of plan assets, investment strategy, measurement date(s), plan obligations, cash flows and components of net periodic benefit cost. The Group does not have any pension plan that could be impacted by this accounting pronouncement.

SFAS No. 146 Accounting for Costs Associated with Exit or Disposal Activities

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No. 146 supersedes guidance established in the FASB's Emerging Issues Task Force (EITF) Issue No. 94-3 regarding certain exit and disposal costs. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of this Statement had no impact in the financial statements.

SFAS No. 148 Accounting for Stock-Based Compensation Transition and Disclosure

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*. This Statement amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure requirements relating to stock options under SFAS No. 123 and APB Opinion No. 28, *Interim Financial Reporting*. The Group currently accounts for stock based compensation in

F-124

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

Notes to Consolidated Financial Statements

for the Years Ended December 31, 2001, 2002 and 2003 (Continued)

accordance with APB No. 25 (Note 20.12 Shares in Deposit at Finance Entities acting as Agents in Stock Option Plans of the Reconciliation), therefore the adoption of this Statement had no impact in the financial position or in the results of operations.

SFAS No. 149 Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities. This Statement amended and refined certain characteristics of derivative instruments and hedges. The adoption of this Statement had no impact in the financial position or in the results of operations.

SFAS No. 150 Accounting for Certain 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 requires, among other things, the classification of certain financial instruments, previously classified within the equity section of the balance sheet, to be included in liabilities. This Statement is effective for financial instruments entered into or modified after May 31, 2003 and June 15, 2003 for all other instruments. The adoption of this Statement had no impact on the financial position or in the results of operations.

FIN No. 45 Guarantors Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others

In November 2002, the FASB issued Interpretation No. 45 (FIN 45), Guarantors Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. FIN 45 elaborates on the disclosures to be made by a guarantor about its obligations under certain guarantees. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. As required by FIN 45, on January 1, 2003, we adopted the initial recognition and measurement provisions on a prospective basis for guarantees issued or modified after December 31, 2002. The adoption of the recognition/measurement provisions did not have material effect in the financial statements.

FIN No. 46 Consolidation of Variable Interest Entities an interpretation of ARB No. 51

In January 2003, the Financial Accounting Standards Board (FASB) released Interpretation No. 46 Consolidation of Variable Interest Entities (FIN 46) which requires that all primary beneficiaries of Variable Interest Entities (VIE) consolidate that entity. FIN 46 is effective immediately for VIEs created after January 31, 2003 and to VIEs in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003 to VIEs in which an enterprise holds a variable interest it acquired before February 1, 2003. In December 2003, the FASB published a revision to FIN 46 (FIN 46R) to clarify some of the provisions of the interpretation and to defer the effective date of implementation for certain entities. Under the guidance of FIN 46R, entities that do not have interests in structures that are commonly referred to as special purpose entities are required to apply the provisions of the interpretation in financials statements for periods ending after March 14, 2004. The Group is assessing at this moment the impact, if any, that the adoption of FIN 46R will have on its financial position, cash flows and results of operations.

F-125

Table of Contents

**Telefónica Móviles, S.A. and
Telefónica Group Companies Comprising
the Telefónica Móviles Group**

**Notes to Consolidated Financial Statements
for the Years Ended December 31, 2001, 2002 and 2003 (Continued)**

SAB No. 104 Revenue Recognition

In December 2003, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition. SAB 104 updates portions of the interpretive guidance included in Topic 13 of the codification of Staff Accounting Bulletins in order to make this interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. The company believes it is currently following the guidance of SAB 104.

EITF 00-21 Accounting for Revenue Arrangements with Multiple Element Deliverables

In November 2002, the Emerging Issues Task Force (EITF), of the FASB reached a consensus on EITF 00-21. EITF 00-21 provides guidance on how to account for arrangements that may involve multiple revenue-generating activities, for example, the delivery of products or performance of services, and/or rights to use other assets. The requirements of EITF 00-21 will be applicable to agreements entered into for periods beginning after 15 June 2003. The Group is assessing at this moment the impact, if any, that the adoption of EITF will have on its financial position or results of operations.

EITF Issue No. 01-08 Determining Whether an Arrangement Contains a Lease

In May 2003, the EITF reached consensus in EITF Issue No. 01-08 to clarify the requirements of identifying whether an arrangement should be accounted for as a lease at its inception. The guidance in the consensus is designed to mandate reporting revenue as rental or leasing income that otherwise would be reported as part of product sales or service revenue. EITF Issue No. 01-08 requires both parties to an arrangement to determine whether a service contract or similar arrangement is, or includes, a lease within the scope of SFAS No. 13, Accounting for Leases. The Company does not anticipate that the adoption of EITF Issue No. 01-08 will have a material effect on its consolidated results of operations, cash flows or financial position.

EITF Issue No. 03-11 Reporting Realized Gains and Losses on Derivative Instruments That Are Subject to FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, and Not Held for Trading Purposes

Edgar Filing: TELEFONICA MOBILE INC - Form 20-F

In July 2003, the EITF reached consensus in EITF Issue No. 03-11 that determining whether realized gains and losses on derivative contracts not held for trading purposes should be reported on a net or gross basis is a matter of judgment that depends on the relevant facts and circumstances and the economic substance of the transaction. In analyzing the facts and circumstances, EITF Issue No. 99-19, and Opinion No. 29, Accounting for Nonmonetary Transactions, should be considered. EITF Issue No. 03-11 is effective for transactions or arrangements entered into after September 30, 2003. The Company does not anticipate that the adoption of EITF Issue No. 03-11 will have a material effect on its consolidated results of operations, cash flows or financial position.

F-126