
SECURITIES AND EXCHANGE COMMISSION

FORM 20-F

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g)
OF THE SECURITIES EXCHANGE ACT OF 1934
OR
 ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2001
Commission file number: 1-15158

TELEFÓNICA MÓVILES, S.A.

(Exact name of Registrant as specified in its charter)

Kingdom of Spain
(Jurisdiction of incorporation)

Goya, 24
28001 Madrid, Spain
(Address of principal executive offices)

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Ordinary Shares, nominal value €0.50 per share*	New York Stock Exchange
American Depositary Shares, each representing 1 Ordinary Share	New York Stock Exchange

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

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

The number of outstanding shares of each class of stock of Telefónica Móviles, S.A. as of May 31, 2002 was:

Ordinary Shares, nominal value €0.50 per share: 4,315,993,850

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.

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PRESENTATION OF FINANCIAL INFORMATION

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

FORWARD-LOOKING STATEMENTS

This annual report contains statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this annual report and include statements regarding our intent, belief or current expectations with respect to, among other things, trends affecting our business, financial condition and results of operations.

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

- “Item 3—Key Information—Risk Factors”;
- “Item 4—Information on the Company”;
- “Item 5—Operating and Financial Review and Prospects”; and
- “Item 11—Quantitative and Qualitative Disclosures About Market Risk”

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

CERTAIN TERMS AND CONVENTIONS

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

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

A. DIRECTORS AND SENIOR MANAGEMENT

Not applicable.

B. ADVISERS

Not applicable.

C. AUDITORS

On April 1, 2002, Arthur Andersen S.L. (then Arthur Andersen y Cia) entered into an agreement with the French and Spanish national practices of Deloitte Touche Tohmatsu (“DTT”) that provides for the association of Arthur Andersen S.L. with those national practices (and therefore with DTT), subject to regulatory approval which is currently under consideration. Until such time as this approval is granted and this relationship becomes final, Deloitte & Touche has agreed to perform the quality control procedures required for foreign associated firms that are embodied in the requirements of the SEC Practice Section of the American Institute of Certified Public Accountants. Deloitte & Touche has performed such quality control procedures with respect to Arthur Andersen S.L.’s audit of the financial statements for the year ended December 31, 2001 included in this annual report on Form 20-F.

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

Item 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

The following summary selected financial data should be read together with the combined financial statements included in this annual report. Our combined financial statements have been prepared in accordance with Spanish GAAP, which differs in certain significant respects from U.S. GAAP. See note 20 to our combined financial statements. The principles of consolidation are described in note 2(c) to our combined financial statements. The following summary selected financial data at December 31, 2000 and 2001 and for each of the three years ended December 31, 2001 are derived from our combined financial statements, which have been audited by Arthur Andersen y Cia, S.Com, independent accountants.

Summary Selected Financial Data

	Year ended December 31,				
	1997	1998	1999	2000	2001
	(euro in thousands)				
Statement of Operations Data					
<i>Spanish GAAP</i>					
Net revenues from operations	2,181,632	3,092,130	5,015,729	6,377,249	8,411,064
Other revenues	55,317	73,685	97,430	110,622	147,747
Services and goods purchased	(465,382)	(752,810)	(1,337,895)	(1,559,181)	(1,862,117)
External services and local taxes	(956,811)	(956,024)	(1,834,992)	(2,277,186)	(2,603,758)
Personnel expenses	(70,204)	(100,026)	(168,235)	(270,696)	(533,831)
Depreciation and amortization	(350,372)	(430,307)	(621,777)	(871,137)	(1,258,159)
Change in operating provisions	(74,171)	(75,559)	(101,974)	(129,284)	(225,416)
Total operating expenses.....	(1,916,940)	(2,314,726)	(4,064,873)	(5,107,484)	(6,483,281)
Operating income.....	320,009	851,089	1,048,286	1,380,387	2,075,530
Amortization of goodwill.....	(11,930)	(8,907)	(18,415)	(26,420)	(53,802)
Income (losses) of associated companies	4,021	10,109	(3,588)	(94,701)	(119,193)
Financial expense.....	(83,030)	(148,624)	(346,784)	(304,471)	(714,869)
Financial income.....	5,632	60,967	234,143	109,607	386,810

	Year ended December 31,				
	1997	1998	1999	2000	2001
	(euro in thousands)				
Income from ordinary activities	234,702	764,634	913,642	1,064,402	1,574,476
Extraordinary income (expense)	(17,057)	6,503	(194,992)	(51,241)	(100,705)
Corporate income tax	(67,554)	(224,948)	(210,372)	(347,872)	(628,768)
Minority interests	433	(57,135)	31,956	(20,518)	48,352
Net income	150,524	489,054	540,234	644,771	893,355
Earnings per share				0.18	0.22
Average outstanding common shares				3,560,966,298	4,141,432,815
U.S. GAAP					
Net income(1)	159,462	494,535	534,093	727,483	320,447
Earnings per share				0.20	0.08
Average outstanding common shares				3,560,966,298	4,141,432,815

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

	At or for the year ended December 31,				
	1997	1998	1999	2000	2001
	(euro in thousands, except as indicated)				
Balance Sheet Data					
(at period end)					
Spanish GAAP					
Property, plant and equipment, net	1,823,026	2,492,896	3,340,551	3,820,869	5,244,414
Total assets	2,522,784	4,958,168	7,104,366	21,260,624	24,914,086
Short-term debt(1)	533,428	274,964	513,863	4,707,849	6,615,828
Long-term debt(2)	829,102	1,869,430	2,717,302	3,007,622	5,279,338
Total liabilities	1,825,604	3,936,640	5,913,815	15,941,284	17,425,434
Shareholders' equity	697,180	1,021,528	1,190,551	5,319,340	7,488,652
U.S. GAAP					
Total assets(3)	2,550,684	4,991,494	7,894,329	19,227,998	26,935,747
Long-term debt	829,102	1,869,430	2,934,666	2,214,726	5,236,446
Shareholders' equity(3)	725,080	1,228,222	1,391,042	7,940,875	9,496,119
Other Financial Data					
Spanish GAAP					
Adjusted EBITDA(4)	670,381	1,281,396	1,670,063	2,251,524	3,333,689
Adjusted EBITDA margin(5)	30.7%	41.4%	33.3%	35.3%	39.6%
Cash flow from operating activities	404,668	1,128,387	1,449,451	5,594,426	1,332,485
Cash flow from investing activities	(603,180)	(1,773,564)	(2,337,761)	(12,057,634)	(4,038,059)
Cash flow from financing activities	229,669	648,661	764,829	6,455,915	2,408,281
Capital expenditures	605,063	554,545	1,403,063	13,620,172	2,121,999
Cash dividends	—	210,354	268,672	851,616	—
Operating Data					
(in millions at period end)					
Population in licensed service territories					
	50	88	127	285	372
Total customers(6)	35.0	6.5	12.6	19.2	28.0
Proportionate customers(7)	3.2	5.3	10.3	16.7	24.6
Pre-paid customers(8)	14%	28%	55%	64%	69%
Short messages(9)	—	134	539	2,276	6,300

- (1) Consists of short-term debt payable to banks and other financial institutions, short-term marketable debt securities and short-term debt payable to Telefónica Group companies. Short-term debt excludes interest payable and trade payables.
- (2) Consists of long-term debt payable to banks and other institutions, long-term debt payable to Telefónica Group companies and long-term debt incurred in connection with the acquisition of UMTS licenses included under “Other liabilities” on the combined balance sheet.
- (3) Includes at December 31, 2000 the accumulated effect of applying SAB 101 since 1995 in the amount of €132.3 million and the effect of applying SAB 101 at such date in the amount of €32.2 million. See note 20 to our combined financial statements.
- (4) See “Item 5.A—Adjusted EBITDA” for a definition of adjusted EBITDA and a discussion concerning our use of, and limitations relating to, that term.
- (5) Represents adjusted EBITDA as a percentage of net revenues from operations.
- (6) 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.
- (7) Represents total number of customers of all companies in which we have an interest multiplied by our economic ownership interest in those companies.
- (8) Represents total pre-paid customers as a percentage of total customers at period-end.
- (9) 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

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

Year Ended December 31,	Noon Buying Rate			
	Period End	Average(1)	High	Low
1997	152.40	147.14	158.80	129.80
1998	142.15	149.42	157.41	136.80
1999 (through January 15, 1999).....	143.55	142.84	144.26	140.86

Source: Federal Reserve Bank of New York.

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

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

The Federal Reserve Bank of New York no longer quotes a Noon Buying Rate for the currencies of any of the participating member states, including Spain. The Noon Buying Rate for the euro on June 26, 2002 was \$0.9825 = €1.00. The equivalent exchange rate in pesetas, translated at the irrevocably fixed exchange rate of Ptas 166.386 = €1.00, was approximately Ptas 169.35 = \$1.00.

The following tables describes, 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

Source: Federal Reserve Bank of New York.

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

Month	Period End	High	Low
Month ended December 31, 2001.....	0.8897	0.9042	0.8772
Month ended January 31, 2002.....	0.8591	0.9031	0.8594
Month ended February 28, 2002.....	0.8658	0.87788	0.8613
Month ended March 31, 2002.....	0.8717	0.8836	0.8652
Month ended April 30, 2002.....	0.9002	0.9028	0.8750
Month ended May 31, 2002.....	0.9339	0.9373	0.9022
Month ended June 30, 2002 (through June 26).....	0.9885	0.9885	0.9390

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.

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

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

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

Risks Related to Telefónica Móviles’ Business

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

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

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

- offer lower prices, more attractive calling plans or better services and features;
- provide increased handset subsidies;
- bundle offerings of fixed-line telephone services with other services;
- develop and deploy more rapidly new or improved wireless technologies, services and products; or
- expand and enhance their networks faster.

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

We anticipate that market prices for wireless services generally will decline in the future due to increased competition. We expect significant 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.

We will be unable to develop and expand our business if we fail to satisfy our substantial liquidity and capital resource requirements.

The operation, expansion and upgrade of our networks, as well as the marketing and distribution of our services and products, require substantial financing. These requirements increased substantially as a result of our acquisition of UMTS licenses in Spain, Germany, Italy, Austria and Switzerland. Our liquidity and capital resource requirements may further increase if we participate in other license award processes or make acquisitions in other countries. Our company also has major capital resource requirements relating to, among other things, the following:

- acquisition or construction of networks and of additional network capacity for existing networks;
- acquisition of additional new licenses or concessions;
- development of new services and products;
- development of distribution channels in new countries of operation;
- development and implementation of new wireless technologies; and
- potential acquisitions of, and investments in, other telecommunications companies.

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

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

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

- high debt-service costs that adversely affect our results of operations;
- allocation of increasing amounts of cash flow for debt service;
- increased difficulty in obtaining future financing;
- reduction of any credit ratings issued by rating agencies in respect of any debt we issue in the future;
- exposure to interest and exchange rate fluctuations;
- restrictions on our company's capital resources or operations imposed by lenders; and
- reduced flexibility to take advantage of, or pursue, other business opportunities.

In addition, our joint venture partner in Germany and Italy, Sonera, has announced its intention to limit its financial exposure to its UMTS investments by not investing additional funds in Group 3G in Germany or, other than in connection with license payments, in IPSE 2000 in Italy. Although we are not required to, we may elect to contribute more than our pro rata share of any expenditures in these countries in order to develop our businesses there.

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

Our future revenue growth and profitability depends upon the development of UMTS technology and of demand for UMTS services and products, which are unproven.

We have made substantial investments to acquire UMTS licenses in Spain, Germany, Italy, Austria and Switzerland. Substantial additional investments will be required over the next several years if we are to establish a customer base, gain market share and develop new services and products in each of Germany, Italy, Austria and Switzerland. We may elect in the future to make substantial investments in order to build our UMTS networks and develop related services and products.

Our future revenue growth and profitability is dependent, in large measure, upon the capabilities and widespread market acceptance of UMTS technology. UMTS technology, however, is unproven. It has developed more slowly than initially anticipated, and has not been commercially rolled-out in our markets in a timely manner or, if developed, it may not provide the expected advantages over existing technologies. In addition, demand is unproven for UMTS-based services and products, and may not develop and roll out as we anticipate. If UMTS technology is not developed and rolled out on a timely basis, or if it does not deliver the anticipated advantages or gain widespread acceptance, we would be materially and adversely affected because revenues from UMTS-related services would fail to offset related financial costs and operating expenses.

Sonera has agreed to be acquired by Telia, a Swedish telecommunications company. Under our agreements with Sonera, we have the right to purchase Sonera's interests in our consortia upon the acquisition of Sonera by a competitor of Telefónica Móviles. Since Telia would qualify as a competitor, the acquisition of Sonera would trigger such purchase right. These agreements also provide that if regulatory authorities require Sonera to sell its interest in a consortium in the event of a change of control or otherwise, Sonera has the right to cause us to purchase such interest.

We may be required to adjust the value of our investments in UMTS licenses.

We have acquired UMTS licenses in Spain, Germany, Italy, Austria and Switzerland. Although this technology is not yet commercially available, there are specific plans in each of these countries to develop the related businesses. These plans are based on certain assumptions we have made and our actual results may vary. Accordingly, management of the companies plans to periodically update our business plans and make, where appropriate, any necessary adjustments to the carrying value of such licenses.

Due to the variety of concerns relating to the development of UMTS network and services, we regularly perform a review of the value of our investments in UMTS licenses. There can be no assurance that a change of strategy or business plans of these companies or changes in the telecommunications industry will not require us to write-down the value of these investments in the future, which could adversely affect our business, financial condition or results of operations.

Our company could be unsuccessful in developing new wireless services, which could adversely affect growth in our revenues and profitability.

As an element of our strategy, we plan to develop and provide new wireless services, such as wireless internet and data services. We cannot assure you 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, including insufficient capital resources, new 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.

Demand is unproven for wireless internet and data services. We cannot assure you that high demand for these services will develop in the future. We may incur significant costs to develop services for which there is less demand than anticipated. In addition, pricing levels for these new services may not provide an adequate return on our investments.

Our ability to deploy and deliver some of the new services is dependent upon new and unproven 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. In addition, we may not be able to deliver these services on an economic basis, particularly in comparison to competing technologies.

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 in each of our markets, to enhance our financial performance and to satisfy regulatory requirements. Among other things, we must:

- upgrade the functionality of our networks to permit increased customization of services;
- fill in coverage gaps and increase coverage in buildings in some of our markets;
- expand and maintain customer care, network management and administrative systems; and
- upgrade older 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 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 strategy may call for the acquisition and integration of new operations, services and technologies, which may be costly, difficult and time-consuming.

As part of our strategy, we may pursue acquisitions of new licenses and concessions and telecommunications providers. We may also face technological, administrative and other challenges involved in integrating new services, acquired operations and technologies into our existing networks and operations. Remedial actions could prove costly

and time consuming and could divert our attention from key business matters. Any failure to expand and improve our service and product offerings through acquisitions may place us at a competitive disadvantage relative to other wireless communications providers. Customers may choose these competitors over our company, which could adversely affect our ability to increase our revenues and leverage our cost base.

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

We depend upon a small number of major suppliers for essential products and services, such as handsets and network infrastructure. Although we have not been materially affected by supply problems in the past, these 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 are comparable with or better than handsets otherwise available in our markets, 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 UMTS networks as multiple operators seek to construct networks in multiple countries at the same time.

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

Some of our operations are conducted through joint ventures in which our company owns a significant, but often less than a controlling, ownership interest. In these operations, our company does not have absolute control over the operations of the venture. In addition, in some cases where we own a majority of the venture, we may 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. As a result, our company must generally obtain the cooperation of its partners in order to implement and expand upon its business strategies and finance and manage its operations.

We have acquired UMTS licenses in some Western European countries through consortia involving partners with established local and international market presences. The success of these consortia will depend, in part, upon the cooperation of the partners and will be subject to risks comparable to those affecting our other joint ventures.

Our joint venture with Portugal Telecom might not be realized and, if it is realized, we will be giving up exclusive control of our operating companies in Brazil.

If we do not receive the necessary approvals to consummate our 50:50 joint venture with Portugal Telecom, or if significant conditions are placed on the joint venture, we may not realize the anticipated benefits from the joint venture, including economies of scale and opportunities to realize potential synergies and cost savings. We cannot assure you that we will receive the remaining necessary approvals in connection with the joint venture. In addition, if the joint venture is consummated, we will be ceding our exclusive control over our Brazilian operating companies that are the subject of the joint venture.

Risks Related to Telefónica Móviles' Organizational Structure

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

The combined financial statements included in this annual report have been prepared as if we had been in existence at all dates and during all the periods presented and include the accounts of the operating companies and interests transferred to us by Telefónica, S.A. prior to December 31, 2001. Because some of these wireless operations were historically held through holding companies, the assets, liabilities, revenues, costs and cash flows relating to the wireless operations of these companies have been "carved-out" from the accounts of these companies. The combined financial statements reflect, among other things, historical accounts of our wireless operations in Spain, the Rio de Janeiro/Espírito Santo region in Brazil, El Salvador and Guatemala, carved-out and combined accounts of the wireless-related interests of the holding companies for some of the Telefónica Group's international

operations and our wireless operations in the Rio Grande do Sul region in Brazil, and carved out and equity method-reported accounts of our wireless operations in the Bahia/Sergipe region in Brazil and Morocco. The combined financial statements also include, as of July 1, 2001 the accounts of the wireless operations we acquired in Mexico, as of January 1, 2001, the wireless operations spun-off to us in Peru and, as of October 1, 2000, the wireless operations spun-off to us in Argentina. The combined financial statements may not necessarily be indicative of our future results of operations, financial condition and cash flows or of what our results of operations, financial condition and cash flows would have been had we been operated at the dates and during the periods covered by these financial statements as a separate, stand-alone, integrated wireless group rather than as separate parts of integrated telecommunications companies within the Telefónica Group.

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

In order to achieve our overall strategy of enhancing our position as one of the leading global wireless operators and achieving superior growth and profitability, we took several major initiatives during 2000, 2001 and early 2002. In addition, we and Telefónica, S.A. have taken, or are taking, other significant actions as part of the reorganization of the Telefónica Group along global business lines. These initiatives and actions include, among others, the following:

- the increase in our ownership interest in Tele Sudeste Celular in Brazil;
- the acquisition of our UMTS licenses in Western Europe;
- the increase of our ownership interests in Telefónica Centroamérica Guatemala and Telefónica Móviles El Salvador;
- the acquisition by us of four wireless operators in Mexico;
- the acquisition by us of the Telefónica Group's wireless operations in Peru and Argentina;
- the acquisition by us from Telefónica, S.A. of the wireless assets in Brazil acquired by it from the Iberdrola Group;
- the probable acquisition of a 65% interest in the Mexican wireless operator Pegaso Telecomunicaciones, S.A. de C.V. and its integration with our existing Mexican operations; and
- the consummation of our proposed joint venture with Portugal Telecom in Brazil.

None of these transactions is reflected in all of the periods covered by the combined financial statements, and transactions that had not been consummated by December 31, 2001 are not reflected in the combined financial statements at all. All of these items will affect the comparability of our historical and future results of operations and financial condition. We anticipate that future results of operations and financial condition will be different from our results of operations and financial condition reflected in our combined financial statements, after taking into account these developments and any other future material developments.

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

Telefónica, S.A. currently owns, directly or indirectly, approximately 92.75% 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 interests in business transactions with us, or take advantage of business opportunities otherwise available to us, which could reduce our revenues or increase our costs.

We regularly enter into business transactions and contractual arrangements with companies in the Telefónica Group and plan to continue to do so. Although we believe that prior and existing transactions and arrangements have been fair to us in all material respects and that their terms have reflected market conditions, it is possible that we could have obtained better terms from third parties. We could also face competition from other companies within the Telefónica Group that are not part of our company. In addition to traditional fixed-line telephone services, companies in the Telefónica Group are engaged in business activities that we have targeted as part of our strategy, including Terra Networks, which operates internet services-related businesses, and Telefónica Data Corp, which is the principal data communications company in the Telefónica Group. 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 interests between Telefónica, S.A. and its affiliates, on the one hand, and our company, on the other, in circumstances where our interests and those of Telefónica, S.A. are not aligned.

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

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

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

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

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

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

Risks Related to Telefónica Móviles' Industry

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

The licensing, construction, operation and interconnection arrangements of wireless communications systems are regulated to varying degrees by national, state, regional or local, and supra-national authorities, such as the European Union. These authorities could adopt regulations or take other actions that could adversely affect us and our companies. These actions could include revocation of a license or concession to offer wireless services in a particular market, failure to renew a license or concession, modification of the terms of a license or concession or the granting of new licenses or concessions to competitors.

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. Many of these licenses and concessions are revocable for public interest reasons.

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 revocation or forfeiture of the license for that area and, in Spain, the forfeiture of up to €781 million in performance guarantees as well. 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, could have a material adverse effect on our company. New regulations could also increase the costs of regulatory compliance.

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

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. The Spanish government has also announced its intention to implement measures to increase competition through the introduction of mobile virtual network operators. These and similar regulatory policies are likely to have the effect, over time, of reducing our market shares in the service territories in which we currently operate.

Because we hold leading market shares in many of the countries in which we have operations, we could face regulatory actions by national or, in the case of Europe, European Union antitrust or competition authorities if it is determined that we have prevented, restricted or distorted competition. These authorities could prohibit us from making further acquisitions or continuing to engage in particular practices or impose fines or other penalties on us, which, if they were significant, could harm our financial performance and future growth.

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 wireless electronic commerce, which is commonly called “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 in 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. If consumers predominately select services offered through other technologies, our investment in some of our current networks could be impaired and our related revenues could decline.

Our revenues could also decline if the next generation wireless technology deployed by our operating companies is delayed in its implementation, either due to unavailability of necessary equipment or problems in upgrading our current network, proves to be faulty in its operation or fails to gain widespread consumer acceptance. 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 media 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, including cancer, and may also interfere with electronic medical devices, including hearing aids and pacemakers. 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. If a link is demonstrated, 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. The Spanish government has issued new standards for radio frequency emissions. We do not believe that compliance with these standards will have a material adverse effect on our company. However, if 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.

We derive a substantial portion of our revenues and profits from Latin American operations. Our financial performance 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;

- devaluations 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.

We face similar risks in Morocco and may face similar risks in any other less developed country outside Latin America into which we may expand in the future.

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. For example, in some of the countries in which we operate, we bill our customers in local currencies for wireless services provided to them. 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 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 further expanding our presence in the region, our exposure to foreign currency movements is likely to increase over time.

The recent devaluation of the Argentina peso, the adverse macroeconomic conditions currently prevailing in Argentina and recent emergency measures adopted by the Argentine government have had, and may continue to have, a material adverse effect on our business, financial condition and results of operations.

As a result of the devaluation of the Argentine peso in January 2002, in accordance with Spanish accounting regulations we created various provisions and allowances against our net income for 2001 and adjusted the “translation differences in consolidation” account in our consolidated balance sheet at December 31, 2001. Accordingly, the devaluation of the Argentine peso resulted in a decrease in net income of €42 million in 2001 and a reduction in shareholders’ equity of €297 million at December 31, 2001. These provisions and allowances were made applying the rate of exchange of €1.00 = 1.5149 Argentine pesos, which is equivalent to the rate of U.S.\$1.00 = 1.7 Argentine pesos, the exchange rate at market close on January 11, 2002, following an extended bank holiday during which exchange markets were closed. Our maximum exposure in Argentina, based on the attributable equity value in our investments in Argentina and our intragroup financings, amounted to €493 million at December 31, 2001 and €241 million at March 31, 2002. At March 31, 2002, the rate of exchange had fallen to €1.00 = 2.49 Argentine pesos resulting in an additional decrease in net income of €15.9 million and an additional reduction in shareholders’ equity of €161.4 million. On June 25, 2002, the rate of exchange was €1.00 = 3.78 Argentine pesos.

Our business, financial condition and results of operations may be adversely affected by declines in the value of the Argentine peso or the currencies of other Latin American countries where we operate.

As a result of the adverse macroeconomic situation in Argentina, at March 31, 2001, Telefónica Comunicaciones Personales was in breach of financial covenants relating to minimum shareholders' equity in its respective agreements with Ericsson and Banco Bilbao Vizcaya Argentaria. The aggregate amount outstanding under such agreements is approximately €120.3 million, of which Ericsson accounts for €95.9 million. Telefónica Comunicaciones Personales has obtained a waiver from Ericsson of such breach through June 30, 2002, and is currently negotiating with Ericsson an extension of such waiver. Telefónica Comunicaciones Personales also is currently negotiating with Banco Bilbao Vizcaya Argentaria to obtain a waiver of such breach. We believe that we have strong relationships with these parties and may be able to obtain any necessary waivers of any such breaches. We can provide no assurance of our ability to do so, however, and our ability to do so may be affected by the evolving situation in Argentina. If Telefónica Comunicaciones Personales is not able to obtain any necessary waivers following any such breach, it is possible that the related indebtedness could become due and payable, which could trigger cross-default provisions in other indebtedness of Telefónica Comunicaciones Personales, including €670.4 million of intragroup financing, up to an aggregate amount of €804.1 million. Telefónica Comunicaciones Personales is currently operating in a highly uncertain economic and political environment in which compliance with financial and other obligations is increasingly difficult.

Risks Related to Telefónica Móviles' Ordinary Shares

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

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

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

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

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

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

- management strategy;
- synergies;
- efficiencies;

- cost savings;
- general market and similar data relating to the wireless communications industry in Spain, Latin America and other geographic areas;
- strategic partnerships, relationships and joint ventures;
- capital expenditures;
- timing for the introduction or enhancement of our services and products;
- possible bids for additional licenses or concessions;
- our proposed acquisition of Pegaso Telecomunicaciones, S.A. de C.V., and
- our proposed joint venture with Portugal Telecom in Brazil.

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

- “Item 3—Key Information—Risk Factors”;
- “Item 4—Information on the Company”;
- “Item 5—Operating and Financial Review and Prospects”; and
- “Item 11—Quantitative and Qualitative Disclosures About Market Risk”.

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

Item 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

Background of Our Company

We are a holding company that conducts its wireless operations through subsidiaries and investments in Europe, Latin America and the Mediterranean Basin. We, or consortia in which we participate, have acquired UMTS licenses to provide wireless services in Spain, Germany, Italy, Austria and Switzerland. The following is a brief summary of key steps in the development of our company:

- *Spain*—The Telefónica Group began to offer wireless services in Spain in 1982. In 1995 the Group’s wireless services were transferred to Telefónica Servicios Móviles, a wholly-owned subsidiary of Telefónica, S.A. that was subsequently renamed Telefónica Móviles España, S.A. As part of the reorganization of the Telefónica Group, Telefónica, S.A. transferred to our company all of the shares of Telefónica Móviles España in exchange for ordinary shares of our company. Telefónica Móviles España is a direct wholly-owned subsidiary of our company and constitutes our most significant subsidiary in terms of its contribution to our revenues and profitability. In December 2001, we merged Telefónica Móviles Intercontinental, S.A into Telefónica Móviles España, S.A. Telefónica Móviles Intercontinental, S.A held our interests in Germany, Switzerland, Austria, Italy and Morocco.
- *Germany*—In August 2000, we acquired, through an auction process, one of six UMTS licenses in Germany. We acquired this UMTS license through a German holding company, Group 3G UMTS Holding, GmbH (“Group 3G”), in which we hold a 57.2% interest and in which the remaining 42.8% interest is held

by Sonera Oy. Group 3G holds a 100% interest in Group 3G UMTS, GmbH, which holds our UMTS license in Germany. Group 3G began offering GSM/GPRS services at the end of November 2001 under the *Quam* brand name pursuant to a national roaming agreement entered into with E-Plus in April 2001, which enabled the launch of GSM/GPRS services prior to the development of the UMTS network. Our UMTS network in Germany will be deployed, subject to its technological and commercial viability, in accordance with the network sharing agreement with E-Plus.

- *Italy*— In October 2000, the IPSE 2000 consortium, in which we indirectly hold a 45.6% interest, was awarded one of five UMTS licenses in Italy. We are the largest shareholder of IPSE 2000. The shareholders of IPSE 2000 decided at the end of January 2002 to follow a business approach based on UMTS technology and services. The decision made was based on prevailing market conditions. Delaying the launch of operations until UMTS is commercially viable allows IPSE 2000 to continue exploring roaming and network sharing options that could significantly improve IPSE 2000's business plan. In the meantime, IPSE 2000 is reviewing its activities and structure so that they meet the needs of the new business model.
- *Austria*— In November 2000, we were awarded one of six UMTS licenses in Austria. We are waiting to progress with roaming and network sharing agreements to assess the advisability of launching commercial operations.
- *Switzerland*— In January 2001, we were awarded one of four UMTS licenses in Switzerland. We are waiting to progress with roaming and network sharing agreements to assess the advisability of launching commercial operations.
- *Brazil*—The Telefónica Group has had operations in Brazil since 1996 when it acquired a 7.9% beneficial interest in Companhia Riograndense de Telecomunicações S.A. ("CRT"), at that time an integrated telecommunications operator in the state of Rio Grande do Sul. In 1998, through its participation in the privatization of Telebrás, the former Brazilian government-controlled telecommunications monopoly, the Telefónica Group acquired several interests in the wireless sector, including a 15.9% interest in Tele Sudeste Celular Participações, located in the region covering the states of Rio de Janeiro and Espírito Santo, and a 7.3% interest in Tele Leste Celular Participações, located in the region covering the states of Bahia and Sergipe. The Telefónica Group subsequently increased its interest in CRT Celular, Tele Sudeste Celular and Tele Leste Celular in several transactions. In October 2000, each of Telefónica, S.A. and Telefónica Internacional, S.A. transferred to our company its interests in these companies in exchange for ordinary shares of our company. We currently own a 83.56% interest in Tele Sudeste Celular, a 38.6% interest in Celular CRT and a 27.71% interest in Tele Leste Celular. We also manage our five operating companies in Brazil. See "—Latin America—Brazil—Agreement with Portugal Telecom" for a description of our proposed joint venture in Brazil with Portugal Telecom.
- *Peru*—The Telefónica Group has had operations in Peru since 1994 when it acquired control of two integrated telecommunications companies. Wireless operations were commenced in Peru in 1991. In accordance with the resolution of the shareholders of Telefónica del Perú S.A.A. to divide the company along business lines, Telefónica del Perú S.A.A. spun-off in June 2001 its wireless operations in the form of shares of Telefónica Móviles S.A.C. Following this spin-off and share exchanges and additional share purchases, we hold indirectly a 97.97% interest in Telefónica Móviles S.A.C. The former minority shareholders of Telefónica del Perú S.A.A. own the remaining minority interest in Telefónica Móviles S.A.C.
- *Argentina*—The Telefónica Group has had operations in Argentina since 1990 and commenced wireless operations in that country in 1993. In accordance with 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. Following the spin-off and share exchanges, we indirectly hold a 97.93% interest in Telefónica Comunicaciones Personales S.A. and do not hold an interest in such data operations or Telefónica de Argentina S.A. The former minority shareholders of Telefónica de Argentina S.A. own the remaining minority interest in Telefónica Comunicaciones Personales S.A.

- Mexico*—In July 2001 we acquired from Telefónica, S.A. its interest in four wireless operators in Mexico acquired by it from Motorola, Inc. in June 2001. The companies operate in four of the nine wireless regions of Mexico and began operations in 1990, the year in which Teléfonos de México, S.A. de C.V., or Telmex, the state-owned telecommunications monopoly, was privatized. The interests acquired include the following: 100% of Baja Celular Mexicana, S.A. de C.V., or Bajacel, which has licenses to operate in the Mexican States of Baja California, Baja California Sur, and parts of Sonora; 90% of Movitel del Noroeste, S.A. de C.V., or Movitel, which has licenses to operate in the Mexican States of Sinaloa and parts of Sonora; 100% of Telefonía Celular del Norte, S.A. de C.V., or Norcel, which has licenses to operate in the Mexican States of Chihuahua, Durango, and parts of Coahuila; and 100% of Celular de Telefonía, S.A. de C.V., or Cedetel, which has licenses to operate in the Mexican States of Nuevo Leon, Tampaulipas, and parts of Coahuila. The purchase price paid by Telefónica, S.A. for these wireless operators was an aggregate of U.S.\$1,845.9 million in shares of Telefónica, S.A. and cash. Telefónica, S.A. transferred the wireless operators to us in exchange for our ordinary shares of equivalent value, based upon our initial public offering price. Accordingly, we transferred approximately 203 million ordinary shares to Telefónica, S.A. On April 26, 2002, we signed agreements to purchase 65% of Pegaso Telecomunicaciones, S.A. de C.V., a wireless operator with 800,000 customers as of December 31, 2001 in twelve of Mexico's population centers, including Mexico City. The purchase price under the agreements is comprised of \$87 million and a commitment to subscribe to 65% of a capital increase of between approximately \$326 million and \$488 million to be carried out by Pegaso. We have also agreed to cause Pegaso to pay approximately \$586 million in existing debt obligations and any amount drawn down from \$100 million in additional interim financing provided by a third party within 30 to 60 days of the closing of the acquisition. The total value of Pegaso has been set at \$1,360 million, including existing debt obligations. We plan to contribute our entire interests in Pegaso and our Mexican operators acquired from Motorola to a newly formed entity of which we will own between 90% and 92%, depending on the definitive amount of Pegaso's capital increase. The Burillo Group, which owns 35% of Pegaso, will own the remaining percentage. Our agreement with the Burillo Group includes certain put rights for the Burillo Group and call rights for us relating to the Burillo Group's shares in the newly formed entity. See “—Latin America—Mexico—Acquisition of Pegaso Telecomunicaciones, S.A. de C.V.”.
- Central America*—The Telefónica Group commenced operations in El Salvador in December 1998 and in Guatemala in October 1999. Telefónica Internacional, S.A. transferred all of its shares in the two Central American holding companies discussed below to our company in 2000 in exchange for ordinary shares of our company. We currently hold a 67.3% interest in the two holding companies that own 90.3% of Telefónica Móviles El Salvador, S.A. de C.V. and 100% of Telefónica Centroamérica Guatemala, S.A. Mesoamérica Telecom, a fund comprised principally of Central American investors, holds the remaining 32.7% interest. We have entered into an agreement with Mesotel de Costa Rica, S.A., an affiliate of Mesoamérica Telecom, to acquire its direct and indirect interests in Telefónica Móviles El Salvador, S.A. de C.V., Telefónica Centroamérica Guatemala, S.A. and the two companies through which we manage these operators, 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. As a result of this acquisition we now hold 60.7% of Telefónica Móviles El Salvador and 67.3% of Telefónica Centroamérica Guatemala. The remaining two-thirds will be delivered by Mesotel de Costa Rica, S.A. no later than August 2, 2002, at which time we will issue and transfer the remaining 14.6 million of our ordinary shares to Mesotel de Costa Rica, S.A. Following consummation of such transaction, we will hold a 90.3% indirect interest in Telefónica Móviles El Salvador and a 100% indirect interest in Telefónica Centroamérica Guatemala. Telefónica Móviles El Salvador, S.A. de C.V. and Telefónica Centroamérica Guatemala, S.A. have principally wireless operations, but also fixed-line operations. We consider our ownership of fixed-line operations to be outside the scope of our overall business.
- Morocco*—The Telefónica Group commenced wireless operations in Morocco in March 2000 through Médi Telecom. The Group has a 30.5% equity interest in Médi Telecom and also shares management responsibility for that company through an agreement providing for joint corporate governance with Portugal Telecom, which holds a 30.5% equity interest. Telefónica, S.A. transferred to our company such 30.5% interest in Médi Telecom in exchange for ordinary shares of our company.

Telefónica, S.A. has agreed to transfer to us its investment in a wireless operator in Puerto Rico. The following is a brief summary of the key steps in the development of those operations and the terms of these expected acquisitions:

Telefónica Internacional, S.A. holds a note convertible into up to 49.9% of the capital stock of NewComm Wireless Services, subject to the approval of the U.S. Federal Communications Commission. This company is a wireless operator in Puerto Rico that commenced operations in September 1999. As part of its reorganization along business lines, the Telefónica Group plans to transfer the convertible note to us as soon as practicable. In addition, the Telefónica Group, with a view to hold a controlling interest in NewComm Wireless Services, has entered into an agreement with ClearComm to purchase a further 0.2% interest in NewComm Wireless Services, subject to the approval of the Federal Communications Commission.

Although it may elect to do so in the future, Telefónica, S.A. has, at this time, elected not to transfer to us its wireless operations in Chile due to business considerations relating to the minority shareholders of that operation. We currently manage the Telefónica Group's Chilean wireless operations pursuant to a letter agreement with such wireless operator.

We have undertaken the following strategic initiatives that we believe are complementary to our core wireless communications activities.

- *Terra Mobile*—In June 2000, we created Terra Mobile, a joint venture with Terra Networks in which we currently hold an 80% interest, to develop our wireless internet portal as well as wireless related internet services and products. In 2001, Terra Mobile refocused its business strategy to concentrate mainly on offering products and services and developing applications that take advantage of synergies with mobile networks while reducing costs.
- *Mobile Payment System*—We are jointly developing with other companies a mobile payment system to create a standard technological platform that will permit wireless customers to utilize their handsets to purchase goods and services and carry out other transactions.

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

Country	Name of Company	Service Territory	Ownership Interest at December 31, 2001	POPs	Total Customers at December 31, 2001	Year ended December 31, 2001	
						Net Revenue from Operations	Adjusted EBITDA(4)
				(in millions)	(in millions)	(millions of euro)	
Our Operations:							
Spain	Telefónica Móviles España	Nationwide	100.00%	40	16.8	5,736	2,816
Germany	Group 3G	Nationwide	57.20%	83	—	—	—
Italy	IPSE 2000	Nationwide	45.60%	58	—	—	—
Austria	3G Mobile GmbH	Nationwide	100.00%	8	—	—	—
Switzerland	3G Mobile AG	Nationwide	100.00%	7	—	—	—
Brazil	Tele Sudeste Celular	Rio de Janeiro/ Espírito Santo	82.02%	18	3.0	813	288
	Celular CRT	Rio Grande do Sul	38.20%	10	1.8	393	160
	Tele Leste Celular	Bahia/Sergipe	10.75%	15	0.8	184	59
	Telefónica Móviles Peru	Nationwide	97.97%	26	1.1	277	89
Argentina	Telefónica Comunicaciones Personales.....	Nationwide	97.93%	38	1.8	725	109
Mexico	Baja Celular Mexicana; Movitel del Noroeste; Telefonía Celular del Norte; and Celular de Telefonía.....	Four wireless regions (Northern Mexico)	100.00%(1)	21	1.2	279	10
El Salvador	Telefónica Móviles El Salvador	Nationwide	46.05%(2)	7	0.2	118	26
Guatemala	Telefónica Centroamérica Guatemala	Nationwide	51.00%(2)	12	0.2	81	0
Morocco	Médi Telecom	Nationwide	30.50%	29	1.1	188	(8.8)

Pending Acquisitions(3):

Mexico	Pegaso Telecomunicaciones, S.A. de C.V.	Nationwide	65.00%				
Total				372	28		

- (1) Except for Movitel del Noroeste in which we have a 90.0% ownership interest.
- (2) We have entered into an agreement to acquire additional direct and indirect interests in Telefónica Móviles El Salvador and Telefónica Centroamérica Guatemala. If the acquisition is consummated, we would own an 90.3% interest in Telefónica El Salvador and a 100.0% interest in Telefónica Centroamérica Guatemala.
- (3) The Telefónica Group plans to transfer to us an investment in NewComm Wireless Services, Inc., a wireless operator in Puerto Rico.
- (4) See “Item 5.A—Adjusted EBITDA” for a definition of adjusted EBITDA and a discussion concerning our use of, and limitations relating to, that term.

We are a limited liability company duly organized and existing under the laws of the Kingdom of Spain. We were incorporated in February 14, 2000. Our principal executive offices are located at Goya 24, 28001 Madrid, Spain and our telephone number is (34) 91 423-4004. Our agent for service of process in the United States is Telefónica Móviles USA, Inc., 1001 Brickell Bay Drive, Miami, FL 33131.

B. BUSINESS OVERVIEW

Overview

We are a leading provider of wireless communications services in Spain and Latin America and one of the ten largest wireless operators in the world based upon our total customers at December 31, 2001. We provide wireless services to approximately 28 million customers and, including new markets where we or consortia in which we participate have acquired wireless licenses, we are present in 12 countries with a total population of more than 370 million.

We are focused on maximizing our growth profile while increasing our profitability and free cash flow in the medium term. We anticipate that growth in our markets will be driven by increased penetration rates, as measured by customers in relation to total population, and the introduction of new wireless internet and data services. We plan to position our company as a global leader in the provision of these services.

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. We offer in some of our markets high speed data services using general packet radio service, or GPRS, an advanced data transfer technology. We also offer wireless internet services such as e-moción, our wireless internet access service and Terra Mobile, our global wireless internet portal.

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

Competitive Strengths

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

- *Market leadership in Spain and Latin America*—We have the leading market position in Spain, with an estimated 56% market share based on customers at June 2001 according to the Spanish Commission for the Telecommunications Market, and the leading market share in each of the regions of Brazil in which we operate and in Peru. Market leadership provides us with strong brand recognition, negotiating leverage with suppliers and business customers, and economies of scale, while positioning us as a preferred partner for major global technology and content providers.
- *Management control over our operations*—We manage or jointly manage most of the wireless companies in which we have an interest. We believe we benefit from operating synergies arising from operating most of our wireless businesses as a unified group, including from the use of a common framework of operations featuring common information systems, technology platforms and catalogues of services.
- *Proven track record of innovation*—We believe that we are a leader in developing innovative wireless services. Our Spanish operating company was the first operator worldwide to offer international roaming services to pre-paid customers and among the first to bundle messaging and other data services into its basic package of services. We were the first wireless operator in Spain to launch GPRS services on a nationwide basis. Our *e-moción* wireless internet service provider, our Terra Mobile wireless internet portal and our new payment system exemplify our continued commitment to innovation.
- *Strong distribution channels*—We have established extensive distribution channels in our markets. We believe that our distribution channels are the most extensive of any wireless company in Spain and in our Brazilian markets. Our Spanish distribution system has close to 12,000 points of sale, including new dedicated points of sale for pre-paid customers such as ATMs, gas stations and kiosks.
- *Extensive operational experience*—We field teams of seasoned managers with significant experience in established markets and in rolling out wireless services in new international markets. The management teams in most of our key markets combine local managers with those who have had extensive operating, technical and financial background in other companies and countries comprising the Telefónica Móviles Group's operations. We believe that our Spanish operating company has been one of the most effective incumbent European operators in preserving market share upon the opening of the market to new competitors.
- *Financial strength and flexibility*—We believe that the cash flow generated by our operations and our solid balance sheet, will allow us to compete more effectively in the rapidly evolving global wireless industry, including in the introduction of new wireless internet and data services and the roll-out of UMTS networks and services.
- *Relationship with the Telefónica Group*—As part of the Telefónica Group, we benefit from our ongoing relationship with other Group companies, including Terra Networks and content companies, such as Endemol, Admira and Telefónica Publicidad e Información. We also have access to Group personnel and other shared resources, including financing and administrative services, and, more generally, are able to draw upon the experience and resources of those Group companies engaged in complementary businesses.

Business Strategy

The key elements of our strategy consist of the following:

- *Strengthen our market leadership position in Spain*—We seek to maintain and strengthen our market position in Spain through enhanced customer services, technological innovation, and the development and marketing of value-added services, such as *e-moción* and GPRS and UMTS services.
- *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, our joint venture with Portugal Telecom in Brazil, the proposed acquisition of Pegaso, which will allow us to operate throughout Mexico, well-established brands and our extensive managerial and operational experience. We believe that we will benefit from synergies which should arise from operating as a unified group across Latin America.
- *Manage our options in Western Europe*— We have obtained UMTS licenses in Spain, Germany, Italy, Switzerland and Austria to expand our operations across Western Europe. These licenses open a range of options, from managing operations on the basis of network sharing agreements to business consolidation. We will select options to obtain an attractive return on our investments. We believe that consolidation in Western Europe will increase the economic and strategic value of our position in this market. Possible changes in the regulatory environment and the potential lifting of restrictions in some European countries that currently impede combining or trading spectrum could facilitate such consolidation.
- *Introduce new services to increase the use of wireless services and lead the development of wireless internet and data markets*—We seek to consolidate our position in the emerging wireless internet and data markets through *e-moción*, Terra Mobile and *Mobipay*. We also plan to boost the use other transmission data services, such as short messaging services and corporate services.
- *Optimize capital expenditures and increase operating efficiency*—We are encouraging the transfer of “best practices” among our operating companies, centralizing purchasing and other functions, and developing synergies through technical and operational programs which we believe 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 growth profile and generate higher free cash flows in the medium term. We regularly analyze opportunities to enter new markets, including other markets in Latin America, Europe and the Mediterranean basin.

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 mobile wireless telephony, and most of our other services and products involve enhancements and additional features for our wireless customers. We offer convenient and affordable wireless service with a variety of payment plans and packages, including payment on a contract and pre-paid basis. Our networks are designed and managed to provide high quality wireless voice services throughout our markets.
- *Enhanced Calling Features.* Customers in most of our markets now have access to a range of enhanced calling features including voice mail, call hold, call waiting, call forwarding and three-way calling. Customers may receive a number of these services bundled with basic voice service, while other customers may choose to order them as optional supplements to their basic voice service.
- *Wireless Data Transmission.* Our networks and systems allow customers to use their handsets for data transmission, including to send messages to other customers, to receive selected information, such as news,

sports scores and stock quotes and to provide wireless connectivity for devices such as laptops and personal digital assistants. These offerings are at different stages of development in each of our markets.

- *Wireless Internet.* As part of our strategy to become a leader in the wireless internet sector, we offer internet access using wireless application protocol technology in a growing number of our service areas, primarily under the *e-moción* brand. *e-moción* was the first wireless internet access service in the Spanish language and, in Brazil, the first wireless internet access service in Portuguese. Through wireless internet access, our customers are able to send and receive e-mail, browse web pages, purchase goods and services in m-commerce transactions and use our other data services. We launched GPRS services in Spain for customers in 2001. Additionally, Terra Mobile offers services and applications through its wireless internet portal.
- *M-payment.* On May 30, 2001, we, Banco Bilbao Vizcaya Argentaria, Banco Santander Central Hispano and Vodafone agreed to integrate our respective mobile payment systems to form a single mobile payment standard. The new payment system is an open system, which other financial institutions, wireless operators (such as Amena) and payment processing companies in Spain have joined. This system is being developed in Spain through Mobipay España, S.A. and outside Spain through Mobipay International, S.A.
- *Corporate Services.* We provide business solutions, including wireless infrastructure in offices, private networking and portals for corporate customers that provide flexible on-line billing. This market is rapidly developing in Spain through *MoviStar Corporativo 2000*, a service creating wireless virtual private networks for companies.
- *Trunking and Paging:* We provide digital wireless services for closed-user groups of clients in Argentina and paging services in Spain and Guatemala.
- *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. Our Spanish operating company was the first operator worldwide to offer international roaming services to pre-paid customers.
- *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 multi-country operations allow us to develop and evaluate new types of service and product offerings on a small scale before introducing them in all our markets, while remaining flexible and able to adapt to particular regional or national conditions. As a result, some of our companies offer services and products targeted to their specific operational environment. Some of these services and products may be transferred to our other operating companies. We will continue to expand our services and products as technology and customer demand allow or warrant.

Our Operations

Our operations currently are conducted in three distinct geographic areas:

- Western Europe;
- Latin America; and
- the Mediterranean basin (Morocco).

We have identified these geographic regions as being strategic to our company due to historical, cultural, economic and geographic considerations. We currently have wireless communications operations in Spain, Latin America and Morocco. In 2000, we were awarded nationwide UMTS licenses in Germany, Italy, Switzerland and Austria. The geographic coverage of our operating companies and companies in which we hold significant non-

controlling interests includes a total population of approximately 372 million. Of this total population, approximately 11% is in Spain, approximately 22% is in Germany, approximately 16% is in Italy, approximately 40% is in Latin America and approximately 8% is in Morocco. We have signed agreements to purchase 65% of Pegaso, a Mexican wireless services operator with a nationwide license. We may explore opportunities in these areas for further selective expansion.

Western Europe

We believe that Western Europe will shape the future evolution of the wireless markets. The homogeneity of Western Europe's wireless technology standards and its high GDP per capita and population density should contribute to the development of demand for value-added services.

Western Europe is the world's largest wireless communications market, as measured by wireless customers, with a population of approximately 390 million and a combined GDP of approximately €9.5 trillion in 2001. Western Europe had 294 million wireless customers at December 31, 2001 and €101.5 billion of wireless service revenues in 2001. The market had an average wireless penetration rate, as measured by customers over total population, of 68% at year-end 2000 and 75% at December 31, 2001. Western European markets have generally been at the forefront of wireless communications services development and experienced 20% growth in customers during 2001.

Growth and prospects for continuing growth in the Western European wireless communications market has been shaped by several underlying trends, including the following:

- *Expanding penetration and usage.* The Western European wireless market has experienced substantial increases in new customers, wireless penetration levels and total traffic. Greater wireless penetration permits network optimization and gives rise to economies of scale by allowing wireless operators to apportion their network fixed costs among a greater number of customers and to reduce some variable costs per minute of use, such as network costs. However, as penetration continues to increase, incremental customers are added who generally use wireless services with less frequency and average revenue per user levels from voice services tend to decrease. The average revenue per user has declined from U.S.\$30.40 per month in 1998 to U.S.\$28.07 per month in 2001. The industry has been able to partly offset the decline in average revenue per user derived from voice services by increasing the use of wireless devices for data applications, including messaging services, e-mail and wireless internet.
- *Customer-tailored pricing plans and pre-paid services.* The increasing use of pre-paid and other customer-tailored wireless payment plans in Western Europe has allowed wireless service providers to accelerate growth in the number of customers by offering products for customers who are unwilling to enter into long-term commitments or who have lower purchasing power. Pre-paid wireless services have the following advantages for providers:
 - lower customer acquisition costs;
 - low bad debt rates;
 - higher price per minute; and
 - lower billing costs.

From the point of view of the customers, pre-paid wireless services are attractive because they do not require entering into a formal agreement, verification of creditworthiness or payment of subscriptions or monthly fees.

- *New wireless applications.* Existing and new wireless data technologies, coupled with the widespread use of the internet, have caused wireless providers to focus increasingly on wireless internet and data services offerings.
- *UMTS technology.* The advance of wireless applications led to extraordinary competition for "third generation" UMTS licenses throughout Western Europe between 1999 and 2001, resulting in substantial capital expenditures by telecommunications companies in Western Europe, including us, for the purchase

of such licenses. More recently, concerns regarding the technological and commercial viability of UMTS networks are affecting expectations in Western European wireless communication markets.

Spain

We are the leading wireless operator in Spain with approximately 16.8 million customers at December 31, 2001. Our Spanish operations are conducted through Telefónica Móviles España S.A., a wholly-owned subsidiary, which is our most significant operating company, accounting for 68% of our combined net revenues from operations and 84% of our adjusted EBITDA for 2001.

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

	Year ended December 31,		
	1999	2000	2001
Net revenue from operations (euro in millions)	3,739	4,796	5,736
Adjusted EBITDA (euro in millions).....	1,354	1,791	2,816
Total customers (in millions at period end)	9.1	13.7	16.8
Pre-paid customers (in millions at period end)	5.5	8.9	11.5
Average monthly revenue per customer (euro).....	44	34	31
Average monthly revenue per customer decrease compared to previous year (in local currency)	n.a	(23)%	(9.5)%
Population in service territory (in millions at period end)	40	40	40

The Telefónica Group has offered wireless services in Spain since 1982 with the launch of analog wireless services. Digital wireless services were launched in 1995 under the *MoviStar* brand name, which has since become one of the most widely recognized brands in Spain. In 1997 we launched the first prepaid wireless service in Spain under the *MoviStar Activa* brand name, and in January 1999 we launched the GSM 1,800 MHz service. In March 2000, having achieved the highest rating in the award process, we were awarded a third generation wireless, or UMTS, license covering the Spanish national territory for €131 million. In 2001 we launched GPRS commercial services.

Market. With a population of approximately 40 million people, Spain is the fifth largest wireless market in Western Europe with approximately 29 million wireless customers at December 31, 2001. This customer base represents a penetration rate of 73%, in line with the European average at December 31, 2001. The Spanish market grew 22% in 2001.

Initially, the Spanish wireless market was limited to small businesses, professionals and high-end private users. As wireless handset prices and per minute call rates have declined, market penetration has increased and wireless service has become perceived as necessary and affordable by a broad segment of the population. The introduction of pre-paid service provided further impetus in the growth of the market by offering customers access to the network without being tied to a contract. At December 31, 2001, pre-paid customers accounted for 68% of our customers in Spain. In addition, the Spanish wireless market has also been receptive to new wireless services, such as short messaging services and wireless internet. The number of short messages sent by our digital customers almost doubled in 2001, with an average of approximately 39 per customer per month in December 2001. As a result, revenue derived from data transmission services increased to 10.4% of average monthly revenue per customer in Spain in 2001 from 5.9% in 2000.

Network and Technology. Our licenses and concessions in Spain permit us to operate both analog and digital networks. We also hold one of four nationwide licenses for UMTS services in the country.

Our digital network in Spain is based upon the GSM standard, which has been adopted by more than 130 countries worldwide, including all member countries of the European Union. The prevalence of the GSM standard, together with our international roaming agreements, enables our *MoviStar* customers to make and receive calls throughout Western Europe and in more than 100 countries worldwide. Our GSM-based network provides our customers with access to many of the most advanced wireless handsets and a full panoply of services and products.

Our concessions and licenses entitle us to 52 MHz of spectrum in the 900 MHz band and 26 MHz of spectrum in the DCS 1800 MHz band, which we may increase to up to 50 MHz by 2003. We believe that this spectrum is adequate for our requirements. Pursuant to the terms of our GSM 1800 license, which provides that by December 31, 2002, the 25 MHz of spectrum must have been made available to us, we received 5MHz from the Spanish authorities, pending receipt of the remaining 5 MHz. Under the terms of our UMTS license, we are authorized to operate using two paired, or two-way, 15 MHz channels plus one unpaired, or one-way, 5 MHz channel.

In 2000 and 2001, we invested in the aggregate approximately €1.7 billion in building out and enhancing our networks in Spain. At December 31, 2001, our network in Spain, which consisted of approximately 110 switching centers and more than 13,300 base stations, provided coverage to approximately 99% of the population and 97% of the national territory. We are currently increasing the density of our network coverage. The amounts invested in 2000 and 2001 have also been used to enhance the quality of our coverage of high-density areas, to permit more intensive use of our wireless services within buildings in an urban environment, further enhancing the appeal of wireless communications, and to carry out the initial build-out of our GPRS platform.

We continually update our technology by enhancing our platforms and incorporating features, such as wireless application protocol, which provide enhanced access to wireless internet, and our wireless internet access service, *e-moción*, which provides access to more content than any other service provider in Spain, with links to more than 250 content providers. In addition, in 2001 we launched general packet radio service, or GPRS, which permits faster packet-based technology for the transmission of data and improved network utilization than circuit-switched technology.

We offer analog service on the ETACS 900, or extended total access communications system, in Spain. Our analog network has 29 switching centers and over 3,000 base stations. We do not anticipate making significant capital expenditures on our analog network in the future.

In general, our strategy is to use a variety of suppliers based on the quality and rates for their services and products. In Spain, Ericsson, Motorola and Nokia supplied the majority of our digital network. We seek to assure an adequate supply of handsets for our customers at competitive prices. In December 2001 we implemented a centralized handset procurement model in which Telefónica Móviles España buys and sells handsets in the market in connection with its customer expansion and customer loyalty activities. This approach has significant competitive advantages, in terms of handsets purchase prices and facilitating our technological transition. Moreover, we cooperate with the research and development departments of various handset manufacturers to ensure the development and success of general packet radio service 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. Our research and development center includes a division dedicated to the development of wireless internet products and services.

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

We utilize all types of marketing channels, including television, radio, exterior signage, telemarketing, direct mail and internet advertising. We also sponsor a leading motorcycle grand prix racing team and cultural and sporting events in order to increase our worldwide brand recognition. Generally, our advertising emphasizes our 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 our pre-paid service, *MoviStar Activa*, emphasize its simplicity and mobility with a focus on the younger segment of the market. For our contract customers, we market *MoviStar Plus*, which emphasizes exclusivity and value with specific offers of new services, such as free short messages per month, the ability to earn points that can be used to replace handsets and a monthly menu of new services to sample free of charge.

The positive evolution of the customer base of our Spanish operating company reflects our success in containing churn rates, a specially relevant factor in a mature market where maintaining and managing efficiently our superior customer base is key.

For purposes of sales and distribution, we divide the Spanish market into the consumer market and business market. We have approximately 12,000 points of sale for the consumer market, which includes stores that sell our products exclusively as well as stores that sell a variety of merchandise. In addition, we use approximately 100 points of sale that are owned by the Telefónica Group.

Our operating company in Spain provides e-business services designed for our 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, services catalogs, events and promotions.

In the wireless business sector, we use our distributors to market to small and medium sized enterprises and we have a corporate sales force to target large business customers. We offer a variety of plans, ranging from volume discounts for small businesses to specifically tailored pricing and services for large business customers.

We offer several different pricing options for wireless services. At December 31, 2001, approximately 32% of our customers had a service contract, while 68% used pre-paid calling cards. We have various pricing plans which include different fees and rates based on airtime usage. In addition, we offer family, multiline and multiplan pricing options for digital wireless service. Since the beginning of 2002, we have reduced prices by adjusting peak rates and establishing the same rates for calls to fixed lines and calls to our other wireless customers.

In order to stimulate usage among customers who would like to use wireless services without committing to a monthly service charge, we launched our first pre-paid plan, *MoviStar Activa Clásica*, which consisted of a pre-paid card for digital customers, in February 1997. Subsequently, we added new *MoviStar* pre-paid card plans under the *MoviStar Activa Joven*, *MoviStar Activa 4*, *MoviStar Activa Próxima*, and *MoviStar Activa Plus* brands names. These plans offer a range of options capable of meeting the requirements of all types of customers. Currently, subscribers have the option to switch plans in the *MoviStar Activa* line by making a call on their wireless handset to our automated system that immediately changes the customer's payment rate option, making it easier for the customer to choose the card plan that is most convenient at any given time. We also offer recharging of our pre-paid cards automatically at a pre-determined time or when the amount remaining on the card reaches a predetermined level. Although pre-paid accounts can be anonymous, to better tailor our services to the needs and profile of our customers and improve customer loyalty, we provide free airtime in exchange for personal information from users and a significant number of our pre-paid customers elect to provide us their personal data.

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

At December 31, 2001, we maintained 11 customer relations centers with real time access to our information systems. These call centers handled over 94 million calls in 2001, a 7% increase from 2000. In an effort to control costs and to further improve the quality of service, 84% of the approximately 3,300 personnel employed at our call centers at December 31, 2001 had been outsourced, principally to Atento, S.A., a company of the Telefónica Group. Our call centers are subject to quality control and supervision which, we believe, results in high levels of service. For example, in December 2001, on average, over 94.8% of calls to our centers were answered within 20 seconds. Our enhanced network coverage is another important component of our quality of service, as are our diverse product offerings. We also provide to both our contract and pre-paid customers real time internet access to billing information regarding their accounts and pre-paid cards. We intend to continue to be at the forefront of offering new wireless services in Spain. We have implemented various loyalty programs for both our contract and prepaid customers, such as *MoviStar Plus*, which awards our contract customers points for increased usage that may be applied toward new handsets.

“Customer churn” represents the number of our customers who disconnect from our network. We estimate that our average monthly customer churn rate was 2.5% for 2000 and 1.1% for 2001. We believe that we apply conservative policies in calculating customers both in and outside Spain and the related customer churn rates. These policies may result in higher churn rates and lower market share figures than if we had used criteria employed by some other operators in calculating their churn rates. For information concerning the methodology used by us in calculating customer churn rates, see “Item 5—Operating and Financial Review and Prospects—Customer Churn”.

The high proportion of pre-paid customers decreases our risk of bad debt. Telefónica Móviles de España's bad debt was 1% of its net revenues from operations in 2001, using the figures included in the combined financial statements.

Competition. We currently have two competitors in the Spanish market for wireless communications service: Vodafone, a subsidiary of Vodafone AirTouch and Retevisión Móvil, which operates under the trade name *Amena* and in which Endesa and Unión Fenosa have significant interests. At December 31, 2001, our Spanish operating company had approximately 16.8 million customers. According to figures published by the Commission for the Telecommunications Market, in June 2001 we had a 56.1% market share. Although we anticipate that our market share will continue to decline as our competitors pursue new customers, we believe that, to date, we have been successful in preserving and expanding our advantage in terms of absolute numbers of customers and quality of average customer in terms of minutes of usage. In 2001 our customers in Spain increased by 22%, mainly due to our customer loyalty and retention programs.

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 Amena, Vodafone and the Xfera consortium, which Vivendi controls and in which Sonera has a minority stake. Our UMTS network in Spain fulfilled as of June 2002 the minimum coverage requirements of the Spanish authorities as of that date. The Spanish government has announced that it may, when UMTS technology is a reality, award additional licenses permitting the offer of wireless services, subject to spectrum availability. We are likely to seek compensation from the government if it reallocates to new licensees spectrum previously licensed to our company.

Germany

Group 3G UMTS Holding GmbH, a consortium in which we hold a 57.2% interest, was awarded through its subsidiary Group 3G UMTS GmbH a UMTS license in Germany in August 2000 for a total purchase price of €8,471 million. Sonera Oy, the leading Finnish wireless communications company, holds the other 42.8% interest in Group 3G through Sonera 3G Holding B.V. Our pro rata share of the total purchase price for the UMTS license was €4,845 million.

Market. Germany is one of the most attractive wireless markets in Europe because of its high per capita income and its population of approximately 83 million people. Germany was the largest market for wireless services in Western Europe in 2001 as measured by revenues with €17.6 billion in revenues and, at December 31, 2001, it was the largest in terms of customers, with 57 million wireless telephone users. The wireless penetration rate in Germany was 68% at December 31, 2001, which is slightly lower than the Western European average of 75% at that date. In 2001, the total number of customers increased by 15.9% as compared with 2000. Average revenue per user per month in Germany in 2001 was €27.9. The number of customers with WAP-enabled handsets in Germany at December 31, 2001 has been estimated at 4.5 million.

Business Plan. Since the UMTS license was awarded to Group 3G in August 2000, the wireless sector and the German wireless market have experienced significant changes. In this context, Group 3G has reviewed its strategy and business plan, adapting them to the new scenario and gaining flexibility for the future. Telefónica Móviles and Sonera have continued to revise Group 3G's business plan, in order to improve the company's financial projections.

The new strategy has been reflected in the commercial launch of operations prior to the dates initially anticipated through the provision of GSM/GPRS services under a nationwide roaming agreement with E-Plus. Group 3G expects to subsequently roll-out UMTS-based services when the UMTS technology is available, and commercially viable.

Group 3G, which operates under the brand name *Quam*, has carried out a soft commercial launch targeted at specific market segments to position its brand name and to attract and build an initial customer base. Group 3G began offering its products and services in November 2001 through a sales network with 15 proprietary stores and more than 2,000 points of sale. Group 3G has designed a multichannel distribution strategy to reach targeted segments.

Group 3G's current business plan incorporates the benefits derived from the network sharing agreement entered into with E-Plus in 2001. The agreement involves sharing radio network sites and radio equipment and area sharing of network deployment in certain areas. This agreement is expected to reduce both companies' initially estimated

capital expenditures and operating expenses in UMTS-related infrastructure. Under the agreement, Group 3G will own 50% of one of the three main UMTS networks that will likely be built in Germany. Group 3G has entered into non-recourse vendor financing agreements with its UMTS suppliers in Germany, which will finance a significant portion of its capital expenditures and reduce our financial exposure.

We periodically review the performance of our operations in Germany to align the level of activity with our objectives.

Concession. Under the terms of our nationwide UMTS license in Germany, we are authorized to operate using two paired, or two-way, 5 MHz channels to provide wireless services, including voice and data. We are also authorized to operate a single unpaired, or one-way, 5 MHz channel which can be used for wireless data applications. Our UMTS license is valid for a term of 20 years.

Agreements. Under our shareholders agreement with Sonera (as amended in November 2001), upon a change of control of either party that results in that party being controlled by a competitor of the other party, a call right is triggered under which the party which was not the subject of the change of control may, provided that it holds more than 50% of Group 3G, purchase the other party's interest. Sonera has agreed to be acquired by Telia, a Swedish telecommunications company. Since Telia would qualify as a competitor of Telefónica Móviles, such acquisition would entitle us to exercise such purchase right. In addition, the shareholders' agreement provides that, if the acquiring competitor holds a UMTS license in Germany and the German regulator issues an order stating that it will revoke Group 3G's license unless the party subject to the change of control divests from Groups 3G, this party may, provided that it holds less than 51% of Group 3G, compel the party which was not the subject of the change of control to acquire its interest in Group 3G at fair market value, as determined by an independent expert.

In 2001, Group 3G entered into an agreement with E-Plus for the sharing of infrastructures and the division of the territory to deploy the UMTS network, which will generate significant savings in our initially estimated investments and operating costs. Group 3G has also entered into national roaming agreements with E-Plus that have enabled the launch of GSM/GPRS services.

On April 10, 2002, we entered into agreements for the provision of UMTS infrastructure and network construction services with Ericsson and Nortel, and related non-recourse financing agreements. These agreements will provide us with a total of between €500-600 million for the period 2002-2003.

Competition. In addition to the license awarded to our company through Group 3G, five other UMTS licenses were awarded in August 2000, including four UMTS licenses that were awarded to the incumbent wireless service providers in Germany. The other wireless service providers in Germany are:

- T-Mobil, owned by Deutsche Telekom;
- Mannesmann A.G., owned by the Vodafone Group;
- E-Plus, which KPN N.V. owns;
- Viag Interkom, which is controlled by mmO2; and
- Mobilcom, owned principally by Gerhard Schmid and France Telecom.

Mannesmann and T-Mobil are the two market leaders in Germany with in the aggregate over three quarters of the wireless market at December 31, 2001.

Italy

The IPSE 2000 consortium, in which we hold a 45.6% interest, was awarded one of the two UMTS licenses with broadcast bandwidth in Italy in November 2000 for a total payment of €3,269 million, to which we contributed our pro rata share of €1,490 million. The Telefónica Group also has an additional indirect 4.1% interest in IPSE 2000 through its holding in Atlanel, an Italian company. Our partners in this consortium include the following: Sonera, our partner in Group 3G in Germany, which has a 12.55% interest; Banca di Roma, which has 10%; Xera, a technology company, which has 5%; Syntek, a financial company with strategic investments in the technology field, which has 4.8%; Acea, an Italian multi-utility company, which has 3.96% through Atlanel; Fiat, which has 3.96%

through Altanet; Montedison, which has 5%; e-planet, which has 0.5%; and 29 other partners, which have an aggregate of 4.55%.

Market. At December 31, 2001, Italy was the second largest wireless market in Europe, based on the number of subscribers, with 50.1 million subscribers out of a population of 58 million people. Italy's wireless penetration rate of approximately 86% at that date is significantly above the Western European average of 75%. Italy had wireless revenues of €15.11 billion in 2001. Average revenue per user per month in Italy in 2001 was €27.5.

Business Plan. In January 2002, the shareholders of IPSE 2000 decided to implement a business model based on UMTS technologies and services. The decision was based on prevailing market conditions. Delaying the launch of operations until UMTS is commercially viable allows IPSE 2000 to continue exploring roaming and network sharing agreements that could significantly improve IPSE 2000's business plan.

In the meantime, IPSE 2000 is reviewing its activities and structure so that they meet the needs of the new business model. IPSE 2000 has established a budget for 2002 adjusted to the new business model. The shareholders of IPSE 2000 have agreed that the company will initially be financed through shareholder loans. In this regard, our subsidiary, Telefónica Móviles España, has agreed to loan up to €250 million to IPSE 2000 to be drawn down during 2002. However, the smaller size and decreased activity of IPSE 2000 prior to the launch of commercial operations will limit the financing needs for the project in the short-term.

We intend to continue to manage our operations in Italy and other Western European countries in order to obtain improvements in the business plans in each country, reduce significantly the resources required, maintain the necessary flexibility to face changes in the regulatory and competitive environment and improve the optionality of the positions taken in each country.

Concession. Under the terms of the nationwide UMTS license which IPSE 2000 won in the auction, it will be authorized to operate using two paired, or two-way, 10 MHz channels, a further two paired 5 MHz channels and one unpaired, or single, 5 MHz channel to provide wireless services, including voice and data services. The UMTS license in Italy is valid for a term of 15 years and its extension to 20 years is under way.

Agreements. Under the terms of our consortium agreement in Italy (as amended on January 30, 2002), a change of control affecting Sonera and a finding by the Italian regulator that such change of control would be prejudicial to the holding of our UMTS license and that, consequently, the person acquiring such control cannot hold an interest in the consortium, would trigger a right for us to purchase Sonera's interest and a right for Sonera to sell its interest to us, in both cases at terms agreed upon between us at such time. In addition, we are permitted by the terms of the agreement to transfer up to 5% of our interest in IPSE 2000 to Suez Lyonnaise des Eaux.

Competition. In addition to the license awarded to IPSE 2000, four other UMTS licenses were awarded in November 2000, including three UMTS licenses that were awarded to the incumbent wireless service providers in Italy. The other wireless service providers in Italy are:

- Telecom Italia Mobile, owned by Telecom Italia;
- Omnitel, owned by the Vodafone Group;
- Wind, owned by Enel, France Telecom and a consortium consisting of Tiscali, Hutchinson and CIR; and
- H3G, owned by Hutchinson Whampoa and other shareholders.

Telecom Italia Mobile and Omnitel are the two market leaders in Italy with in the aggregate over three quarters of the wireless market at December 31, 2001.

Austria

On November 2, 2000, we were awarded a UMTS license in Austria at a cost of €117 million. We hold a 100% interest in this license.

Market. With approximately 8 million people and 7 million wireless telephone customers at December 31, 2001 and €2.7 billion of annual wireless service revenues in 2001, Austria is the eighth largest wireless market in

Western Europe in terms of existing wireless customers. The wireless penetration rate in Austria was 84% at December 31, 2001 above the Western European average of 75%. In 2001, the total number of customers in Austria increased by 12%. Average revenue per user per month in Austria at December 31, 2001 was €34.

Business Plan. Given the geographic proximity, we are currently analyzing the possibility of managing our activities in this country with our German operations to achieve synergies. We are waiting to progress with roaming and network sharing agreements to assess the advisability of launching commercial operations. We intend to continue to manage our operations in Austria and other Western European countries in order to obtain improvements in the business plans in each country, reduce significantly the resources required, maintain the necessary flexibility to face changes in the regulatory and competitive environment and improve the optionality of the positions taken in each country.

Concession. Under the terms of the UMTS license, we are authorized to operate two sets of two paired 5MHz channels to provide wireless services in Austria.

Competition. In addition to the UMTS license awarded to us, six other UMTS licenses were awarded in November 2000, including three licenses that were awarded to incumbent wireless service providers in Austria. The principal wireless service providers are:

- Mobilkom, owned by Austria Telecom and Telecom Italia;
- max.mobil, owned by Deutsche Telekom through T-Mobil;
- Connect Austria/One, owned by Viag, Orange, TeleDanmark, Telenor and other shareholders;
- tele.ring, owned by Western Wireless; and
- Hutchinson 3G, owned by Hutchinson Whampoa, NTT DoCoMo and KPN.

At December 31, 2001, Mobilkom and max.mobil were the two the market leaders within the aggregate over three quarters of the wireless market.

Switzerland

In January 2001, we were awarded, through 3G Mobile AG, following an auction process, a UMTS license in Switzerland for a total payment of €32.5 million.

Market. Switzerland has one of the highest per capita incomes in Europe of €36 thousand in 2000 and a very balanced distribution of wealth. Switzerland had a population of approximately 7.4 million people, and the wireless penetration rate at December 31, 2001 was approximately 74%, slightly lower than the Western European average of 75% at that date. Switzerland had wireless revenues of approximately €2.9 billion in 2001, with an average revenue per user per month of €48.

Business Plan. Given the geographic proximity, we are currently analyzing the possibility of managing our activities in this country with our German operations to achieve synergies. We are waiting to progress with roaming and network sharing agreements to assess the advisability of launching commercial operations. We intend to continue to manage our operations in Switzerland and other Western European countries in order to obtain improvements in the business plans in each country, reduce significantly the resources required, maintain the necessary flexibility to face changes in the regulatory and competitive environment and improve the optionality of the positions taken in each country.

Concession. Under the terms of the UMTS license, we are authorized to operate using two sets of two paired 15 MHz channels to provide wireless services in Switzerland. We are also authorized to operate a single unpaired, or one-way, 5 MHz channel which can be used for wireless data applications.

Competition. In addition to the license awarded to us, three other licenses were awarded in January 2001 to the incumbent wireless service providers in Switzerland. These three incumbent wireless service providers are:

- Sunrise, owned by TeleDanmark and other shareholders;

- Orange; and
- SwissCom Mobile, owned by Swisscom and the Vodafone Group.

At December 31, 2001, SwissCom Mobile was the market leader in Switzerland with an estimated market share of approximately two-thirds.

Latin America

Latin America is an attractive telecommunications market with a population of approximately 491 million people and a combined GDP of approximately €2.1 trillion in 2001. 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 16.6% at year-end 2001. As penetration rates in Latin America have increased, the average revenue per user in Latin America per month has declined to an average of €25 in 2001, averaging €20.7 in Brazil, €41 in Argentina, €23 in Peru, €36 in El Salvador, €24 in Guatemala and €21 in Mexico. To reverse this trend, the wireless services industry is focusing on increasing the use of handsets, wireless internet services and wireless data transmission services, including wireless m-commerce.

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.* Privatization and deregulation of the Latin American telecommunications market have resulted in increased competition for substantially all telecommunications services and products, and governments in the region generally are demonstrating an increasingly pro-competition approach to the industry. The six largest telecommunications markets in Latin America are parties to the WTO Agreement on Basic Telecommunications Services, which proposes the liberalization of telecommunications markets. Competition in these markets has increased the availability of advanced wireless services and reduced prices, which has resulted, in turn, in increased demand for these services.
- *Expanding penetration and usage.* The number of wireless customers and wireless penetration levels have steadily increased in Latin America, but remain low compared with penetration rates in Western Europe. As the cost of wireless services and handsets has declined, these services have become more affordable for a significantly larger percentage of the Latin American population, and both overall minutes of use and revenues have increased. Greater penetration and wireless traffic means that wireless operators can apportion their fixed costs among a greater number of customers, resulting in lower costs per unit which, in turn, has resulted in a larger percentage of the population being able to afford wireless services, thereby increasing demand and revenues.
- *“Calling party pays” billing system.* Following the European experience and as opposed to U.S. practice, regulators in most Latin American countries have introduced a mandatory “calling party pays” system, under which the person who initiates a call is billed for that call. In Latin America, this system has resulted in increased wireless usage, as wireless customers tend to leave their handsets on and encourage other users to call them, because these customers do not pay for incoming calls. If they are different, the wireless operator of each customer who receives a call generally is paid an interconnection fee by the telecommunications company of the originating customer.

Brazil

We are the leading wireless operator in Brazil based upon the total number of customers of companies that we control or manage. At December 31, 2001, the companies in which we both had interests and we managed had approximately 5.6 million wireless customers. The population of the wireless regions in which our Brazilian operating companies and an additional company in which we have an interest totals approximately 41 million. Our interests in wireless companies in Brazil at December 31, 2001 consist of the following:

Region	Company	Voting Interest	Economic Ownership Interest	Customers at December 31, 2001 (millions)	Manage
Rio de Janeiro/Espírito Santo.....	Tele Sudeste Celular	75.73%	82.02%	3.0	yes
Rio Grande do Sul.....	Celular CRT	60.01%	38.20%	1.8	yes
Bahia/Sergipe.....	Tele Leste Celular	21.89%	10.75%	0.8	yes

We manage Telerj, Telest, Telebahía, Telergipe and Celular CRT, our five operating companies. Tele Sudeste Celular, Tele Leste Celular and Celular CRT are publicly held companies.

Brazil is one of the largest countries in the world, with a surface area of 8.5 square million kilometers and a population of approximately 173 million people. At December 31, 2001, with 28.5 million wireless subscribers, Brazil ranked first in Latin America in terms of number of wireless telephone users. At that date, Brazil had a wireless penetration rate of 16.5% and a fixed line penetration of 21%. Brazil experienced a 55% increase in the number of wireless telephone users in 2001.

The Brazilian wireless communications market is highly fragmented with 18 wireless service providers operating under wireless licenses at December 2001. Nine of these wireless operators are former incumbent operators of which eight were created in the 1998 privatization of Telebrás, the former Brazilian state-sponsored monopoly telecommunications provider.

Agreement with Portugal Telecom

On January 23, 2001, we, Telefónica, S.A., Portugal Telecom and PT Moveis, S.G.P. agreed to create a joint venture to consolidate our wireless businesses in Brazil with those of Portugal Telecom. Our goal is to create the leading wireless operator in Brazil, benefiting from expected synergies, enhanced market positioning and improved valuations derived from the combination of our wireless businesses. If fully consummated, including the anticipated contribution of our interest in Tele Leste Celular as discussed below, the joint venture will be the leading wireless operator in Brazil based on the total number of customers at December 31, 2001 with a total of 11.6 million controlled customers and covering a potential market of 56% of Brazil's population. Its licensed areas include five of the six largest regions in Brazil in terms of gross domestic product and regions accounting for approximately 71% of Brazil's gross domestic product.

Each of the Telefónica Group and the Portugal Telecom Group has agreed to contribute to a 50:50 joint venture certain of its respective wireless businesses in Brazil, including interests in operating companies and holding companies that own cellular or wireless licenses in Brazil as well as other assets or business that are operated for the benefit of those companies. The wireless assets to be contributed by the Telefónica Group include its direct and indirect interests in Tele Sudeste Celular Participações S.A., Celular CRT Participações S.A and Tele Leste Celular Participações S.A. The wireless assets to be contributed by Portugal Telecom include its direct and indirect interests in Telesp Celular S.A. and Global Telecom S.A. If there is a difference in the value of the contributions in-kind represented by the wireless businesses contributed by the Telefónica Group and the Portugal Telecom group, the party whose contribution in-kind is of a lower value will contribute cash to make up such difference.

In our joint venture framework agreement, which has been incorporated by reference as an exhibit to this Annual Report, we have agreed that most decisions of the board of directors of the joint venture company will require the approval of directors appointed by both joint venture partners, except if one of the partner's ownership interest falls below 40%. The agreement also provides that each partner has in certain circumstances rights of first refusal in the event of transfers of shares in the joint venture by the other party, put rights on its shares in the joint venture in the event of a change of control of the other party and call rights over specified percentages of shares of the other party in certain companies to be contributed to the joint venture. The consummation of the joint venture is subject to significant regulatory approvals, including the approval of Anatel, the Brazilian telecommunications commission. We cannot assure you that we will obtain the necessary approvals or that the failure to obtain these approvals will not have a material adverse effect on our results of operations. In addition, we, Telefónica, S.A. and Portugal Telecom are currently negotiating definitive documentation relating to the joint venture. This definitive documentation may contain provisions or obligations different from or in addition to those of the joint venture framework agreement herein.

Agreement with Iberdrola

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

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

In May 2002, Telefónica, S.A. transferred all these shares to us in exchange for a total of 26,801,494 new Telefónica Móviles ordinary shares.

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

We are the leading wireless operator in the Rio de Janeiro/Espírito Santo region of Brazil with approximately 3.0 million customers at December 31, 2001, which represents one million customers more than its competitor. Our operations in the region are conducted through Telerj Celular S.A. and Telest Celular S.A., the two wholly-owned operating subsidiaries of Tele Sudeste Celular Participações S.A. Tele Sudeste Celular, which is our 83.56%-owned subsidiary, accounted for approximately 10% of our combined net revenues from operations and 9% of our adjusted EBITDA for 2001.

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

We manage Tele Sudeste Celular's two operating subsidiaries in exchange for an annual fee of 1% of their net revenues from wireless operations.

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

	Year ended December 31,		
	1999	2000	2001
Net revenues from operations (euro in millions)	771	911	813
Adjusted EBITDA (euro in millions).....	213	315	288
Total customers (in millions at period end)	1.9	2.5	3.0
Pre-paid customers (in millions at period end)	0.8	1.5	2.0
Average monthly revenue per customer (euro).....	38	31	23
Average monthly revenue per customer decrease compared to previous year (in local currency)	n.a.	(27.8)%	(7.6)%
Population in service territory (in millions at period end)	17	17	18

Market. With a population of approximately 18 million people, Rio de Janeiro/Espírito Santo is the second largest wireless market in Brazil with 4.9 million customers at December 31, 2001. This customer base represents a penetration rate of 27.7%. The wireless market in Rio de Janeiro/Espírito Santo grew 24% in 2001.

Network and Technology. Our licenses in Rio de Janeiro/Espírito Santo permit us to operate both an analog network and a digital network, which is based upon the CDMA standard. Due to the absence of nationwide licenses in Brazil and current regulations restricting ownership of licenses by a single entity in multiple regions, roaming

agreements within Brazil are important for operators. Our roaming agreements with other networks in Brazil and abroad enable our customers to make and receive calls throughout Brazil and in over 100 countries worldwide.

Our licenses entitle us to 25 MHz of spectrum in the 800 MHz band. We believe that this spectrum is adequate for our requirements.

We invested a total of approximately €481.4 million in building out and enhancing our network in Rio de Janeiro/Espírito Santo in 2000 and 2001. At December 31, 2001, our network in Rio de Janeiro/Espírito Santo consisted of 14 digital switching centers, 1,162 digital radio base stations, nine analog switching centers and approximately 800 analog base stations, giving coverage to over 86.4% of the population. We are currently increasing the reach and the density of our network coverage. Our network platforms were enhanced to enable us to offer wireless internet, under the *e-moción* brand, starting in 2000. We do not anticipate making significant capital expenditures on our analog network in the future.

In general, our strategy is to use a variety of suppliers based on the quality and rates for their services and products. In 1998 and 1999, NEC do Brasil, S.A. and Lucent Technologies Network Systems do Brasil, Ltda. constructed the majority of our currently existing digital network. Our network is maintained by our employees and sub-contracted third parties. Our principal handset suppliers in Brazil are Motorola and Nokia. We have been selling wireless application protocol enabled handsets in Rio de Janeiro since April 2000.

Sales and Marketing. We utilize a broad range of marketing channels, including television, radio, print media, exterior signage, telemarketing, direct mail and internet advertising. Generally, our advertising emphasizes our image as the market leader and qualities such as convenience and reliability, with specific campaigns based on price or new product offerings. Our operations in Rio de Janeiro/Espírito Santo use the *MoviStar* brand.

For purposes of sales and distribution, we have divided the Rio de Janeiro/Espírito Santo market functionally between the consumer and business markets. For the consumer market, we use 612 third party points of sale and 41 proprietary points of sale. In addition, we have 6,716 pre-paid card points of sale in the Rio de Janeiro/Espírito Santo region. In the business sector, we use our distributors to market to small and medium-sized enterprises and have a corporate sales force to target large business customers.

We offer a variety of plans, ranging from volume discounts for small businesses to specifically tailored pricing and services for large business customers. At December 31, 2001, 33% of our customers have a service contract under the *MoviStar Top* brand name, while 67% use pre-paid calling cards under the *MoviStar Amigo* and *MoviStar Fácil* brand names.

Customer Care. Our call centers handled 27.1 million calls in 2000 and 27.8 million calls in 2001. To control costs, all of the approximately 1,250 personnel employed at our call centers at December 31, 2001 are outsourced, principally to Atento.

We estimate that our average accumulated monthly churn rate for Tele Sudeste Celular was 1.6% for 2000 and 1.5% for 2001. We believe that we apply conservative policies in calculating customers both in and outside Spain and the related customer churn rates. These policies may result in higher churn rates and lower market share figures than if we had used criteria employed by some other operators in calculating their churn rates. For information concerning the methodology used by us in calculating customer churn rates, see “Item 5—Operating and Financial Review and Prospects—Customer Churn”.

Tele Sudeste Celular’s bad debt was 2.9% of its net revenues from operations in 2001, using the figures included in the combined financial statements.

Competition. We currently have one competitor in the Rio de Janeiro/Espírito Santo market for wireless communications services: Algar Telecom Leste S.A., or ATL, which is controlled by Telecom Americas Ltd. ATL began operations in December 1998 using the TDMA D-AMPS digital standard. At December 31, 2001, our Rio de Janeiro/Espírito Santo operations had 3.0 million customers, compared to an estimated 1.8 million for ATL.

Rio Grande do Sul—Celular CRT Participações S.A.

We are the leading wireless operator in the Rio Grande do Sul region of Brazil through Celular CRT, S.A. in which we, directly and indirectly, hold a 38.6% equity interest but control through our ownership of the majority of

ordinary shares. The remaining ownership interest in Celular CRT is held, directly or indirectly, by Telefónica, S.A., subsidiaries of Portugal Telecom and Banco Bilbao Vizcaya Argentaria, S.A., as well as various minority shareholders. Celular CRT had approximately 1.8 million customers at December 31, 2001, representing, according to our estimates, more than two times the number of customers of the other wireless operator in the region.

We manage Celular CRT under a Services Agreement with TBS Celular Participações, S.A., which entitles us to an annual fee of 1% of Celular CRT's net revenues, provided that we meet certain network quality standards set out in the agreement.

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

	Year ended December 31,		
	1999	2000	2001
Net revenues from operations (euro in millions)	340	449	393
Adjusted EBITDA (euro in millions).....	110	158	160
Total customers (in millions at period end)	1.0	1.4	1.8
Pre-paid customers (in millions at period end)	0.4	0.9	1.2
Average monthly revenue per customer (euro).....	32	28	20
Average monthly revenue per customer decrease compared to previous year (in local currency).....	n.a	(23.6)%	(12.6)%
Population in service territory (in millions at period end)	10	10	10

Market. With a population of approximately 10 million people, Rio Grande do Sul is the third largest wireless region in Brazil with approximately 2.6 million customers at December 31, 2001. This customer base represents a penetration rate of 26%. The market expanded at a rate of 30.4% in 2001.

Network and Technology. Our licenses in Rio Grande do Sul permit us to operate both an analog network and digital network, which is based upon the Time Division Multiple access Standard, known as TDMA. Our roaming agreements with other networks in Brazil and abroad enable our customers to make and receive calls throughout Brazil and in over 100 countries worldwide.

Our licenses entitle us to 25 MHz of spectrum in the 800 MHz band. We believe that this spectrum is adequate for our requirements.

We invested a total of approximately €197.1 million in building out and enhancing our network in Rio Grande do Sul in 2000 and 2001. At December 31, 2001, our network in Rio Grande do Sul consisted of 12 dual capacity switching centers, 814 digital base stations and 123 analog base stations giving coverage to over 81% of the total population. These funds have been used to expand and enhance our digital network, to increase road coverage, systems capacity and wireless application protocol platforms, among other things. We do not anticipate making significant capital expenditures on our analog network in the future.

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

Sales and Marketing. We use the *Telefónica Celular* brand name and utilize a broad range of marketing channels, including television, radio, print media, exterior signage, telemarketing, direct mail and internet advertising. Generally, our advertising emphasizes our image as the market leader and qualities such as convenience and reliability, with specific campaigns based on price or new product offerings. For example, campaigns for our pre-paid service, *MoviStar Amigo and MoviStar Fácil*, emphasize its attractive price and reliability. For our contract customers, we market *MoviStar Top*, which emphasizes rates, tariff plans and handset promotions.

For purposes of sales and distribution, we divide the Rio Grande do Sul market functionally between the consumer and business markets. We use approximately 1,350 third party points of sale and 14 proprietary points of sale. At December 31, 2001, we had more than 8,000 sales outlets for pre-paid cards.

We offer a variety of pricing options for wireless service in Rio Grande do Sul. At December 31, 2001, approximately 32% of our customers had a service contract providing monthly billing based upon usage, while 68% use pre-paid calling cards.

Customer Care. Our call centers handled 11.7 million calls in 2001. To control costs, all of the approximately 825 personnel employed at our call centers are outsourced, principally to Atento.

We estimate that our average monthly churn rate was 1.7% for 2000 and 1.4% for 2001. We believe that we apply conservative policies in calculating customers both in and outside Spain and the related customer churn rates. These policies may result in higher churn rates and lower market share figures than if we had used criteria employed by some other operators in calculating their churn rates. For information concerning the methodology used by us in calculating customer churn rates, see “—Operating and Financial Review and Prospects—Customer Churn”.

Celular CRT’s bad debt was 3.9% of its net revenues from operations in 2001, using the figures included in the combined financial statements.

Competition. We currently have one competitor operating in the Rio Grande do Sul market for wireless communications services: Telet S.A., which is owned by Bell Canada International, Tele Systems International and Telecom Americas, as well as other minority shareholders. At December 31, 2001, we had approximately 1.8 million customers compared to an estimated 0.8 million customers for Telet. Telet began its operations in March 1999. We estimate that during 2001 the overall Rio Grande do Sul market for wireless communications increased at a rate of 30.4%.

Bahia/Sergipe—Tele Leste Celular Participações S.A.

Tele Leste Celular, in which we currently hold directly and indirectly a 27.71% equity interest, is the leading wireless operator in the Bahia/Sergipe region of Brazil with approximately 0.8 million customers at December 31, 2001, or, according to our estimates, 77% more customers than the other wireless operator in the region. Tele Leste Celular’s operations in Bahia/Sergipe are conducted through its two operating subsidiaries, Telebahia Celular S.A. and Telergipe Celular S.A. Tele Leste Celular Participações is 21.9% owned by Iberoleste Participações S.A., an equity investment company that we wholly own. In addition, we hold a further 2.42% through our wholly-owned subsidiary Tagilo Participações, Ltda., and the remaining 3.38% directly. We manage Tele Leste Celular’s two operating subsidiaries under management agreements that entitle us to 1% of net revenues from wireless operations.

The following table presents, at the dates and for the periods indicated, selected statistical data relating to Tele Leste Celular’s operations in Bahia/Sergipe. We account for our interest in Tele Leste Celular under the equity method.

	Year ended December 31,		
	1999	2000	2001
Net revenues from operations (euro in millions)	231	197	184
Adjusted EBITDA (euro in millions).....	(14)	50	59
Total customers (in millions at period end)	0.5	0.7	0.8
Pre-paid customers (in millions at period end)	0.2	0.3	0.5
Average monthly revenue per customer (euro).....	28	28	21
Average monthly revenue per customer decrease compared to previous year (in local currency)	n.a	(14.5)%	(4.7)%
Population in service territory (in millions at period end)	15	15	15

Market. With a population of approximately 15 million people, Bahia/Sergipe is the tenth largest wireless market in Brazil with approximately 1.3 million customers at December 31, 2001. This customer base represents a penetration rate of approximately 8.7%. The wireless market in the Bahia/Sergipe grew at a rate of 18.2% in 2001.

Network and Technology. Tele Leste Celular operates both analog and digital networks. Tele Leste Celular’s digital network is based upon the CDMA standard. Tele Leste Celular invested a total of approximately €132 million in building out and enhancing its network in Bahia/Sergipe in 2000 and 2001. At December 31, 2001, Tele

Leste Celular's network consisted of four digital switching centers, 267 digital radio base stations, 5 analog switching centers and 273 analog base stations, giving coverage to over 62% of the population.

Sales and Marketing. Tele Leste utilizes all types of marketing channels, including television, radio, exterior signage, telemarketing, direct mail and internet advertising. Tele Leste Celular utilizes approximately 320 third-party points of sale and 16 proprietary points of sale. At December 31, 2001, we had more than 2,300 sales outlets for pre-paid cards. At December 31, 2001, approximately 39% of Tele Leste Celular's customers had a service contract, while 61% used pre-paid calling cards.

Customer Care. Tele Leste Celular maintains one customer relations call center. In December 2001, the call center received an average of 30,654 calls per business day answered by representatives and 11,055 calls per business day answered by the automated system. In September 1999, Tele Leste Celular introduced an exclusive call center for corporate customers, which in 2001 answered an average of 139 calls per working day. Tele Leste Celular outsources its call centers to Atento.

We estimate that our Tele Leste's average accumulated monthly churn was 1.97% for 2000 and 1.93% for 2001. We believe that we apply conservative policies in calculating customers both in and outside Spain and the related customer churn rates. These policies may result in higher churn rates and lower market share figures than if we had used criteria employed by some other operators in calculating their churn rates. For information concerning the methodology used by us in calculating customer churn rates, see "Item 5—Operating and Financial Review and Prospects—Customer Churn".

Tele Leste Celular's bad debt was 3.4% of its net revenues from operations in 2001, using the figures included in the combined financial statements.

Competition. We currently have one competitor in the Bahia/Sergipe market for wireless communications service: Maxitel, which is controlled by Telecom Italia. At December 31, 2001, Tele Leste Celular operations had approximately 0.8 million customers, representing approximately 75% more customers than the other wireless operator in the region at that date.

Peru

Telefónica Móviles, S.A.C., or Telefónica Móviles Peru, is the leading wireless operator in Peru with approximately 1.1 million customers at December 31, 2001, or approximately 62% more than the number of customers of the other three operators in the country combined.

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

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

	Year ended December 31,		
	1999	2000	2001
Net revenues from operations (euro in millions)	205	247	277
Adjusted EBITDA (euro in millions).....	67	90	89
Total customers (in millions at period end)	0.7	0.9	1.1
Pre-paid customers (in millions at period end)	0.5	0.7	0.9
Average monthly revenue per customer (euro).....	n.a.	25	20

	Year ended December 31,		
	1999	2000	2001
Average monthly revenue per customer decrease compared to previous year (in local currency)	n.a.	n.a.	(15.3)%
Population in service territory (in millions at period end)	25	26	26

The predecessor entity of Telefónica Móviles Peru commenced offering wireless services in Peru in 1993 with the launch of analog wireless services. 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. In April 1997, the Telefónica Group launched the first pre-paid wireless service in Peru.

Market. With a population of approximately 26 million people, Peru is the seventh largest wireless market in Latin America with approximately 1.6 million customers at December 31, 2001, which represents a penetration rate of 6.3%. The Peruvian market grew at a rate of 30.4% in 2001. At December 31, 2001 we had approximately 1.1 million customers, representing a 21% increase from 2000.

Network and Technology. Telefónica Móviles Peru operates both analog and digital networks. Its digital network is based upon the CDMA standard. It has roaming agreements enabling Telefónica Móviles Peru's contract customers to make and receive calls in over 100 countries, including most of the Americas.

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

Telefónica Móviles Peru invested approximately €81 million in building out and enhancing its network in 2000 and 2001. At December 31, 2001, its digital network consisted of five dual capacity switching centers and 395 network sites, providing coverage to over 50% of the population in its service territory. Telefónica Móviles Peru is currently extending and enhancing its network coverage and has budgeted capital expenditures that will be used to increase the network's coverage in rural areas and enhance the quality of its coverage of urban areas.

Telefónica Móviles Peru's analog network has five dual capacity switching centers and 322 base stations, some of which have also dual capacity. We do not anticipate significant capital expenditures in the future on the Peruvian analog network.

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

Sales and Marketing. Telefónica Móviles Peru is one of the largest advertisers in Peru. Telefónica Móviles Peru utilizes all types of marketing channels, including television, radio, print media, exterior signage, telemarketing, direct mail and internet advertising. Generally, Telefónica Móviles Peru's advertising emphasizes its image as the market leader and qualities such as convenience and reliability, with specific campaigns based on price or new product offerings.

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 779 points of sale in Peru and also 36 proprietary points of sale. Telefónica Móviles Peru engages in direct sales to corporate customers through dedicated salespeople. Telefónica Móviles Peru's current arrangements with distributors are growth-oriented contracts that pay the distributors per customer gained and periodically for continued service.

Telefónica Móviles Peru offers several different pricing options for wireless service. At December 31, 2001, approximately 21% of its customers had a service contract, while 79% used pre-paid calling cards. The number of corporate customers increased by 66% in 2001.

Customer Care. Telefónica Móviles Peru maintains a customer relations call center with real time access to its information systems. This call center handled approximately 9.2 million calls in 2001. To control costs, all of the approximately 320 personnel employed at the call center at December 31, 2001 were outsourced, principally to Atento.

We estimate that we apply conservative policies in calculating customers both in and outside Spain and the related customer churn rates. These policies may result in higher churn rates and lower market share figures than if we had used criteria employed by some other operators in calculating their churn rates. For information concerning the methodology used by us in calculating customer churn rates, see “Item 5—Operating and Financial Review and Prospects—Customer Churn”. Telefónica Móviles Peru’s average accumulated monthly churn rate for 2001 was 2.42% and for 2000 was 1.9%

Telefónica Móviles Peru’s bad debt was approximately 1.4% of its net revenues from operations in 2001.

Competition. Telefónica Móviles Peru currently has three competitors in the Peruvian market for wireless communications service: BellSouth, Stet Mobile Holdings and Nextel Peru.

At December 31, 2001, Telefónica Móviles Peru had approximately 1.1 million customers, compared to approximately 420 thousand for BellSouth, 150 thousand for Stet Mobile Holdings Peru and 100 thousand for Nextel Peru.

Argentina

Telefónica Comunicaciones Personales S.A. is the second largest wireless operator in Argentina with approximately 1.8 million customers at December 31, 2001.

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 to us 15.1% of the common stock of Telefónica de Argentina S.A. 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 or Telefónica de Argentina S.A.

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

	Year ended December 31,		
	1999(1)	2000(1)	2001(1)
Net revenues from operations (euro in millions)	272	774	725
Adjusted EBITDA (euro in millions).....	63	107	109
Total customers (in millions at period end)	1.1	1.7	1.8
Pre-paid customers (in millions at period end)	0.5	1.0	1.2
Average monthly revenue per customer (euro).....	n.a.	42	30
Average monthly revenue per customer decrease compared to previous year (in local currency)	n.a.	n.a.	(33.8)%
Population in service territory (in millions at period end)	37	37	37.5

(1) Information for prior periods has been provided based on the 12 months ended December 31, 1999 and 2000, as the case may be.

(2) In the fourth quarter of 2001, the fiscal year end of Telefónica Comunicaciones Personales was changed from September 30 to December 31. As a result, the consolidated financial statements of Telefónica Móviles for the year ended December 31, 2001 incorporate the financial statements of Telefónica Comunicaciones Personales for the same period. 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 under which Telefónica Comunicaciones Personales and Telecom Personal 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 and May 1999, the Telefónica Group launched pre-paid wireless services in Greater Buenos Aires and Southern Argentina, respectively.

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.

Telefónica Comunicaciones Personales has implemented a range of initiatives to adapt its cost structure to the environment in which it operates: it reduced its customer acquisition costs by cutting handset subsidies and usage promotion costs, and increased productivity, raising connections by employee to 1,430 in 2001 from 930 in 2000.

Market. With a population of approximately 38 million people, Argentina is the third largest wireless market in Latin America with 6.9 million customers at December 31, 2001, which represents a penetration rate of 18.3%. The Argentine market has grown at a rate of 6% for the year ended December 31, 2001. The growth of the Argentine wireless market in 2001 has been slower as a result of the economic crisis. According to our estimates, our customer base growth has been similar to the overall growth of the Argentine economy, totaling 1.8 million customers at December 31, 2001, consolidating us as the second largest wireless operator in Argentina after Telecom Personal, which had an estimated approximately 2.1 million customers at year end.

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

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

Telefónica Comunicaciones Personales invested a total of approximately €549 million in building out and enhancing its digital network in Argentina in the periods ended September 30, 2000 and December 31, 2001. In 2001, Telefónica Comunicaciones Personales adjusted its investments to market conditions, resulting in 71.6% decrease from 2000. At December 31, 2001, its digital network in Argentina consisted of 32 switching centers and 1,215 base stations giving coverage to over 90% of the population.

Telefónica Comunicaciones Personales' network has dual capacity so that the analog network has the same number of switching centers and base stations as the digital network. We do not anticipate significant capital expenditures on Telefónica Comunicaciones Personales' analog network in the future.

In general, Telefónica Comunicaciones Personales' strategy is to use a variety of suppliers based on the quality and rates for their services and products. Substantially all of its 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 3,166 points of sale. In addition, Telefónica Comunicaciones Personales has 17 proprietary points of sale.

In the business sector, Telefónica Comunicaciones Personales orients its marketing to small businesses through distributors and has a corporate sales force to target large business customers. Telefónica Comunicaciones Personales offers a variety of plans, ranging from volume discounts for small businesses to specifically tailored pricing and services for large business customers. At December 31, 2001, approximately 34% of its customers had a service contract and the remaining 66% used pre-paid calling cards.

Customer Care. Telefónica Comunicaciones Personales maintains 25 walk-in customer relations centers and two telephonic customer relations centers with real time access to our information systems. These call centers handled nearly 14 million calls in 2001. At December 31, 2001, 100% of Telefónica Comunicaciones Personales's call centers were managed by Atento.

Telefónica Comunicaciones Personales estimates that its average accumulated monthly churn rate was 1.5% for each of the years 2000 and 2001. We believe that we apply conservative policies in calculating customers both in and outside Spain and the related customer churn rates. These policies may result in higher churn rates and lower market share figures than if we had used criteria employed by some other operators in calculating their churn rates. For information concerning the methodology used by us in calculating customer churn rates, see "Item 5—Operating and Financial Review and Prospects—Customer Churn".

Telefónica Comunicaciones Personales' bad debt was approximately 12.8% of its net revenues from operations in 2001, using the figures included in the combined financial statements.

Competition. Telefónica Comunicaciones Personales is the second largest wireless operator in Argentina with approximately 1.8 million customers at December 31, 2001. Telefónica Comunicaciones Personales currently has three competitors in the Argentine market for wireless communications service, each of which provides services on a nationwide basis: Telecom Personal, which is controlled by France Telecom and Telecom Italia through Telecom Argentina, BellSouth's Movicom and CTI Móvil.

Mexico

In July 2001 we acquired from Telefónica, S.A. four wireless operators in Mexico that it had acquired from Motorola, Inc. in June 2001. Telefónica, S.A. acquired such operators in exchange for an aggregate of U.S.\$1,835.5 million in shares of Telefónica, S.A. and U.S.\$10.5 million in cash, and transferred them to us in exchange for approximately 203 million of our ordinary shares. At December 31, 2001, these operating companies had an aggregate of approximately 1.2 million wireless customers. The operating companies in Mexico, which operate primarily in the north of the country, are Baja Celular Mexicana, S.A. de C.V., or Bajacel; Movitel del Noroeste, S.A. de C.V., or Movitel; Telefonía Celular del Norte, S.A. de C.V., or Norcel; and Celular de Telefonía, S.A. de C.V., or Cedetel. Our interests in these wireless operations consist of the following:

Region	Company	Ownership Interest
Baja California/Baja California Sur/parts of Sonora.....	Bjacel	100%
Sinaloa/parts of Sonora.....	Movitel	90%
Chihuahua/Durango/parts of Coahuila	Norcel	100%
Nuevo León/Tamaulipas/parts of Coahuila	Cedetel	100%

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

	July 1 to December 31, 2001
Net revenues from operations (euro in millions)	279
Adjusted EBITDA (euro in millions).....	10.4
Total customers (in millions at period end)	1.2
Pre-paid customers (in millions at period end)	1.0
Average monthly revenue per customer (euro).....	30
Population in service territory (in millions at period end)	21.3

We began managing the Mexico wireless operators on an integrated basis in March 2001. Since that time, we have taken a number of steps to progressively implement our business model at these companies. We are working on a new distribution framework, the development of information technology systems and other management programs aimed at improving the efficiency of these wireless operators. We are also focusing on introducing new services and increasing customer loyalty.

Market. Mexico is Latin America's second largest country with a population of approximately 100 million people of which 21 million are covered by our northern operators. Mexico is an emerging wireless market with approximately 22 million wireless customers at December 31, 2001, representing a penetration of approximately 21.7%. The wireless market in Mexico grew at a rate of 38% for the year ended December 31, 2001. The Mexican economy, particularly in the industrialized northern regions in which these companies operate, benefits from its proximity to the United States.

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

Network and Technology. Our wireless operators offer both analog and digital networks. Their digital networks are based upon the CDMA standard. At December 31, 2001, our digital network in Mexico consisted of 11 switching center and 263 network sites and our analog network sites consisted of 408 network sites, giving coverage to approximately 86% of the population.

In each of their regions, our wireless operators hold licenses of 20 MHz of spectrum on the 800 MHz band. We believe this spectrum is adequate for our likely requirements in these regions. Their licenses expire in 2010.

Sales and Marketing. Our Mexico wireless operators use the *Movistar* brand name and utilize a broad range of marketing channels, including television, radio, exterior signage, telemarketing, direct mail and internet advertising. Although the direct sales and marketing strategies are focused on corporate accounts and other high-end subscribers, they have also had success in penetrating the broader consumer market with the introduction of pre-paid cellular and calling-party-pays system. The Mexico wireless operators market their products through direct and indirect sales agents, including some of the most important retail distributors in the northern region of Mexico. The Mexican operators use an aggregate of 1,147 points of sale in Mexico, including 236 proprietary points of sale, 111 distributors and 800 consumer points of sales.

The Mexico wireless operators have designed multiple pricing strategies to appeal to specifically targeted market segments. Their digital, postpaid and enhanced service offerings appeal to higher-income heavy users while their pre-paid plans appeal to more cost-conscious subscribers. The introduction of calling-party-pays in 1999 has had a positive impact on average revenue per user.

Customer Care. The customer relations centers handled over 7 million calls in the six months ended December 31, 2001. In an effort to control costs our call centers have been outsourced, principally to Atento, S.A.

We estimate that the Mexican operators' accumulated monthly churn rate for 2001 was 5.5%. We believe that we apply conservative policies in calculating customers both in and outside Spain and the related customer churn rates. These policies may result in higher churn rates and lower market share figures than if we had used criteria employed by some other operators in calculating their churn rates. For information concerning the methodology

used by us in calculating customer churn rates, see “Item 5—Operating and Financial Review and Prospects—Customer Churn”.

The Mexican operators’ bad debt was approximately 1.3% of net revenues from operations for the year ended December 31, 2001, using the figures included in the combined financial statements.

Competition. The Mexico wireless operators currently have a variety of competitors in the region for wireless telecommunications services, several of which are affiliated with international telecommunications companies. Their principal competitor is Telcel, which is owned by América Móvil.

Acquisition of Pegaso Telecomunicaciones, S.A. de C.V. On April 26, 2002, we signed agreements to purchase approximately 65% of Pegaso Telecomunicaciones, S.A. de C.V. (“Pegaso”), a wireless operator with approximately 800,000 customers at December 31, 2001, from Sprint, Leap Wireless, Qualcomm and other financial investors. In connection with this acquisition we have also agreed with the Burillo Group, who currently holds a 35% interest in Pegaso, to contribute our interests in Pegaso and our other Mexican operators with the Burillo Group’s interest in Pegaso to a new company (“Newco”) owned by us and the Burillo Group in proportion to the value of the assets we contribute to it (the “Recap”).

Pegaso’s total value has been set at \$1,360 million, including existing debt obligations. As part of the Pegaso acquisition, we have agreed to pay \$87 million in cash and to cause Pegaso to pay approximately \$586 million in existing debt obligations within 30 to 60 days of the closing of the acquisition (the “Closing”). The final amount of debt obligations to be repaid will depend on the date of Closing. During the period prior to Closing, a third party is providing \$100 million in interim financing for Pegaso, and all amounts drawn down during this period must also be repaid within 30 days of Closing.

Furthermore, in addition to the \$586 million of existing debt obligations, Pegaso has approximately \$603 million of existing non-recourse vendor financing debt that will be rolled over at Closing with a final maturity of December 31, 2008. Of the \$603 million of non recourse debt, \$280 million would be accelerated if Pegaso were to implement a change in its wireless technology. The payment of the accelerated vendor debt is guaranteed by us.

As part of the Recap, we have agreed to subscribe for 65% of a capital increase of between \$326 million and \$488 million to be carried out by Pegaso simultaneously with the Closing. The proceeds of the capital increase will be used to repay a portion of the existing debt obligations described above. After contributing our interests in Pegaso and our other Mexican operators pursuant to the Recap, we will own between 90% and 92% of Newco, depending on the definitive amount of Pegaso’s capital increase to which the Burillo Group subscribes. The Burillo Group will own the remaining 8% to 10% of Newco.

Our agreement to create Newco and combine our interests in Pegaso and our other Mexican operators with the Burillo Group’s interest in Pegaso includes exit mechanisms for our local partners. These exit mechanisms operate via certain put rights for the Burillo Group relating to the Burillo Group’s Newco shares. In addition, we also have call rights with regard to the Burillo Group’s Newco shares. The Burillo Group will have the right to require us to purchase its shares in Newco in 2007 or 2008, or if its interest in Newco decreases to less than 50% of its original holding, 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 the right, after November 14, 2008, to require it to sell to us its entire interest in Newco. In each such case, the purchase price will be determined based on a valuation of Newco performed pursuant to specified procedures at the time the related right is exercised. If we are required to purchase the Burillo Group’s Newco shares under its put right, or if we purchase its Newco shares under our call right, we have agreed to pay a portion of the purchase price in cash in an amount based on the Burillo Group’s original investment of \$160 million to \$216 million in Newco, plus the annual cost of carry (which is equal to the annual U.S. dollar swap rate), less any cash distributions received by the Burillo Group, and any remaining amount, if any, in, at our option, cash or Telefónica Móviles shares or a combination thereof.

In connection with the formation of Newco, we and the Burillo Group will enter into a shareholders agreement that, in certain circumstances, will grant the Burillo Group customary veto rights in Newco for resolutions regarding conversion of classes of shares, declaration of bankruptcy, dissolution or liquidation of Newco, 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 Newco. In addition, the Burillo Group will have the right to nominate the first non-executive Chairman of the Board of

Directors of Newco and to appoint one or two out of eleven members of the Board of Directors of Newco, depending on the Burillo Group's percentage ownership of Newco.

After the Pegaso acquisition and the Recap, Telefónica Móviles will become Mexico's second-largest wireless operator, with over two million active customers and access to the entire Mexican territory through a distribution network of more than 3,500 points of sale and presence in 12 of the main Mexican cities. Pegaso operates a digital network based upon the CDMA standard and uses spectrum in the 1900 MHz band, the same technology we use in Mexico. These factors are expected to give rise to economies of scale and synergies in aspects such as brand name, network deployment and technology or services development. The consummation of these transactions is subject to receipt of regulatory approvals and certain other conditions. The transactions are expected to close in the third or fourth quarter of 2002.

Central America

We operate in El Salvador and Guatemala through TES Holdings, S.A. and TCG Holding, S.A., respectively, two holding companies in which we participate jointly with Mesoamérica Telecom, a private fund of Central American investors. These holding companies hold our interests in our operating companies in these countries. Our strategy is to enter the region's market as a new competitor offering state-of-the-art technology and a broad range of services. We believe that recent privatization and liberalization processes, low mobile penetration levels, and high pent-up demand for fixed-lines and other telecommunication services present very attractive opportunities for growth in these markets. Our current activities in El Salvador and Guatemala represent our first steps to become the leading wireless operator in Central America.

At December 31, 2001, we owned 51% of TES Holdings, S.A. and TCG Holding, S.A., and Mesoamérica Telecom, through its subsidiary Mesotel de Costa Rica, S.A., owned the remaining 49% interest in the companies. TES Holdings, S.A. holds a 90.3% interest in Telefónica Móviles El Salvador, S.A. and TCG Holding, S.A. holds a 100% interest in Telefónica Centroamérica Guatemala, S.A. We manage these operators through Telca Gestión, S.A. (el Salvador) and Telca Gestión Guatemala, S.A., respectively, in which we held a 51% interest at December 31, 2001, in exchange for an annual fee of 9% of operating profits of each operating company.

In August 2001, we entered into an agreement with Mesotel de Costa Rica, S.A., a subsidiary of Mesoamérica Telecom, to acquire its direct and indirect interests in Telefónica Móviles El Salvador, Telefónica Centroamérica Guatemala, Telca Gestión, S.A. and Telca Gestión Guatemala, S.A., and other companies in which we have shared holdings in exchange for approximately 21.9 million of our ordinary shares. In January 2002 we amended this agreement and acquired one-third of Mesotel de Costa Rica, S.A.'s interests in exchange for 7.3 million of our ordinary shares. As a result of this acquisition we now hold 60.7% of Telefónica Móviles El Salvador and 67.3% of the Telefónica Centroamérica Guatemala. The remaining two-thirds will be delivered by Mesotel de Costa Rica, S.A. no later than August 2, 2002, at which time we will issue and transfer the remaining 14.6 million of our ordinary shares to Mesotel de Costa Rica, S.A. Following consummation of such transaction, we will hold a 90.3% indirect interest in Telefónica Móviles El Salvador and a 100% indirect interest in Telefónica Centroamérica Guatemala.

In connection with this transaction, the parties have also agreed to terminate the shareholders' agreement with Mesoamérica Telecom as of the closing of the transaction. We believe that this transaction will enable us to realize administrative efficiencies in Central America and to further strengthen our strategic position in the region.

El Salvador

We are the second largest of the three wireless operators in El Salvador, with approximately 239,000 customers at December 31, 2001, or an estimated 40 thousand customers fewer than the largest operator. Our operations in El Salvador are conducted through Telefónica Móviles El Salvador, S.A. de C.V., in which we indirectly hold a 46.05% interest.

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

	Year ended December 31,		
	1999	2000	2001
Net revenues from operations (euro in millions)(1).....	52	111	118
Adjusted EBITDA (euro in millions)(1).....	3	25	26.4
Total customers (at period end)	132,052	230,319	238,605
Pre-paid customers (at period end)	33,007	83,292	91,293
Average monthly revenue per customer (euro).....	27	29	22
Average monthly revenue per customer decrease compared to previous year (in local currency)	n.a.	(5.6)%	(26.1)%
Population in service territory (in millions at period end)	6.2	6.2	6.3

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

We commenced offering digital wireless services in El Salvador in December 1998 under the *MoviStar* brand name. In addition to wireless services, we also provide fixed-line telephone services through Telefónica Multiservicios, a joint venture between our El Salvador operating company and Amnet, another El Salvador company. In addition, we provide internet protocol data and long distance services and public telephone services.

Market. With a population of approximately six million people, El Salvador is an emerging wireless market with approximately 1.0 million customers at December 31, 2001. This customer base represents a penetration rate of 13.6%. The wireless market grew by 38% in 2001. These growth rates are comparable to other liberalized markets in Latin America, but exceed the average growth rate for Central America for the same period.

Network and Technology. Our digital network in El Salvador is based upon the CDMA standard. Our licenses entitle us to 25 MHz of spectrum in the 800 MHz band. During 2000 and 2001, we have invested a total of approximately €127 million in building out and enhancing our networks in El Salvador. At December 31, 2001, our digital network in El Salvador consisted of a switching center and 130 network sites giving coverage to over 80% of the population. In August 2000, we launched wireless application protocol services in El Salvador under the *e-moción* brand name.

Sales and Marketing. We utilize all types of marketing channels, including television, radio, exterior signage, telemarketing, direct mail and internet advertising. Our products and services are marketed under the *MoviStar* brand names. Generally, our advertising emphasizes the reliability of our service, with specific campaigns based on price or new product offerings. We have an extensive distribution network which includes a combination of third party and proprietary points of sale. At December 31, 2001, approximately 62% of our customers had contracts with us, while 38% used pre-paid calling cards.

Customer Care. Our El Salvador call center handled almost 2 million calls in 2001. To control costs, the 120 people employed by our call center are outsourced to Atento.

We estimate that our average monthly churn rate was 0.9% for 2000 and 1.0% for 2001. We believe that we apply conservative policies in calculating customers both in and outside Spain and the related customer churn rates. These policies may result in higher churn rates and lower market share figures than if we had used criteria employed by some other operators in calculating their churn rates. For information concerning the methodology used by us in calculating customer churn rates, see “Item 5—Operating and Financial Review and Prospects—Customer Churn”.

Our El Salvador operations had bad debt of 7.5% of net revenues from operations in 2001, using the figures included in the combined financial statements.

Competition. We currently compete in the El Salvador market for wireless communications service with Telemóvil, which is controlled by Millicom, and CTE Telecom which is controlled by France Telecom. At December 31, 2001, we had an approximately 35% market share of the El Salvador wireless market, compared to approximately 41% for Telemovil. Telemovil and CTE Telecom began operations in 1992 and 1999, respectively. We estimate that, during 2001, the overall El Salvador market for wireless communications increased by 38%.

Guatemala

We had approximately 156 thousand customers in Guatemala at December 31, 2001, representing approximately 15% of the existing wireless customers in Guatemala at that date. Our Guatemala operations are conducted through Telefónica Centroamérica Guatemala, S.A.

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

	Year ended December 31,	
	2000	2001
Net revenues from operations (euro in millions)(1).....	83	81
Adjusted EBITDA (euro in millions)(1).....	0	0.4
Total customers (at period end)	141,915	156,178
Pre-paid customers (at period end)	22,597	31,309
Average monthly revenue per customer (euro).....	25	37
Average monthly revenue per customer decrease compared to previous year (in local currency).....	(12.1)%	(34.9)%
Population in service territory (in millions at period end)	12	12.3

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

We commenced offering digital wireless services in Guatemala in October 1999 under the *MoviStar* brand name. We also provide fixed-line public telephone service, data and long distance services in Guatemala. We 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 we hold in Guatemala. Through Telescucha, we also provide paging services to 14,000 customers.

Market. With a population of approximately 12 million people, Guatemala has the potential for considerable growth in the wireless market. The country had approximately 1.0 million wireless customers at December 31, 2001. This customer base represents a penetration rate of 8.9% at that date. The Guatemalan wireless market grew at a rate of 47% in 2001.

Network and Technology. In Guatemala we operate a digital network, which is based upon the CDMA standard. Our licenses entitle us to 30 MHz of spectrum in the 900 MHz band. In 2000 and 2001, we invested a total of approximately €117 million in building out and enhancing our network in Guatemala. At December 31, 2001, our digital wireless network in Guatemala consisted of two switching centers and 221 network sites giving coverage to over 76% of the population. In August 2000, we launched wireless application protocol services in Guatemala under the *e-moción* brand name.

Sales and Marketing. We utilize all types of marketing channels, including television, radio, exterior signage, telemarketing, direct mail and internet advertising. Our products and services are marketed under the *MoviStar* and *Telefónica* brand names. Generally, our advertising emphasizes the reliability of our service, with specific campaigns based on price or new product offerings. We are also in the process of developing an extensive distribution network following the roll-out model used in El Salvador.

At December 31, 2001, approximately 80% of our customers had contracts with us, while the remaining 20% used pre-paid calling cards.

Customer Care. Our Guatemala call center handled approximately 2.2 million calls in 2001. To control costs, the approximately 100 people employed at our call centers at December 31, 2001 were outsourced to Atento.

We estimate that our average monthly churn rate was 1.2% for each of 2001 and 2000. We believe that we apply conservative policies in calculating customers both in and outside Spain and the related customer churn rates. These policies may result in higher churn rates and lower market share figures than if we had used criteria employed by some other operators in calculating their churn rates. For information concerning the methodology used by us in calculating customer churn rates, see “Item 5—Operating and Financial Review and Prospects—Customer Churn”.

Our Guatemala operations had bad debt of 24.8% of net revenues from operations in 2001, using the figures included in the combined financial statements.

Competition. We currently have three competitors in the Guatemala wireless market. At December 31, 2001, Comcel, which is controlled by Millicom, had an approximately 37% market share in Guatemala, followed by Telgua, which is controlled by Telmex, with approximately 34% and BellSouth, which commenced operations in the fourth quarter of 2000. At such date, we had an approximately 20% market share. Comcel began operations in Guatemala in 1989, and Telgua began operations in 1999. During 2001, the overall Guatemalan market for wireless communications grew by 47%.

Pending Acquisitions in Latin America—Puerto Rico

The Telefónica Group plans to transfer to us, after receipt of regulatory approval and resolution of a pending regulatory proceeding, its investment in NewComm Wireless Services, Inc., a Puerto Rican wireless operator with approximately 187 thousand customers at December 31, 2001. This investment has been made through several convertible securities in an aggregate amount of a U.S.\$44.0 million that are convertible into up to 49.9% of the capital stock of NewComm Wireless, subject to receipt of necessary U.S. regulatory authorizations. In addition, the Telefónica Group, with a view to holding a controlling interest in NewComm Wireless Services, has entered into an agreement with ClearComm to purchase a further 0.2% interest in NewComm Wireless Services. We currently manage the day-to-day operations of NewComm Wireless under a management agreement entered into between Telefónica Internacional and NewComm Wireless.

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 34.6% at December 31, 2001. NewComm Wireless commenced operations in late September 1999. NewComm Wireless operates a CDMA standard digital network, which consists of one switching center and approximately 145 base stations. In July 2000, NewComm Wireless launched wireless application protocol, or WAP, services under the *e-moción* brand.

Any conversion of the convertible note into NewComm Wireless' capital stock that would result in such noteholder acquiring more than 25% of such stock requires the approval of the U.S. Federal Communication Commission, or FCC. Subject to the approval of the FCC, we currently plan to convert the convertible note into 49.9% of the capital stock of NewComm Wireless. In addition, to acquire control of the company, the Telefónica Group has entered into an agreement with ClearComm to purchase a further 0.2% interest in NewComm Wireless Services, subject to the approval of the FCC.

Mediterranean Basin

Morocco

Médi Telecom, S.A., in which we hold a 30.5% interest and share management responsibilities with Portugal Telecom, is the second largest wireless operator in Morocco with approximately 1.1 million customers at December 31, 2001, compared with approximately 1.8 million for the former monopoly telecommunications provider. Médi Telecom is also owned by Portugal Telecom International, which has a 30.5% equity interest; BMCE, a Moroccan financial group, which has a 20% equity interest; Holdco (Afriquia), a petroleum and distribution company which has an 11% equity interest; and CDG, a Moroccan public investment company which has an 8% equity interest.

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

We have entered into a management agreement to provide, jointly with Portugal Telecom International management, services to Médi Telecom. Under the terms of the agreement, we have created a management services committee, which is comprised of equal members of our company and of Portugal Telecom International, and which provides, among other things, marketing, technical know-how, distribution and operational advice to Médi Telecom. In exchange for management services, Médi Telecom pays a fee of 1% of total gross revenues until its earnings reach a specified level and, thereafter, pays a fee of 4.5% of earnings before interest and taxes. These fees are

divided between our company and Portugal Telecom International proportionally to our respective equity interests in Médi Telecom. The fee for these projects is paid directly to the party that performed the service. We equity account for our interest in Médi Telecom.

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

	Year ended December 31,	
	2000	2001
Net revenues from operations (euro in millions)	84	188
Adjusted EBITDA (euro in millions).....	(86)	(8.8)
Total wireless customers (in millions at period end)	0.5	1.1
Pre-paid customers (in millions at period end)	0.49	1.0
Average monthly revenue per customer (euro).....	28	22
Average monthly revenue per customer decrease compared to previous year (in local currency)	n.a.	(19.7)%
Population in service territory (in millions at period end)	29	29

Médi Telecom commenced offering wireless services in Morocco in March 2000, eight months after it was awarded a GSM license covering the Moroccan national territory.

Market. With a population of approximately 29 million people, half of which are under age 25, Morocco is an attractive wireless market, with 2.6 million wireless customers at December 31, 2001. This customer base represents a penetration rate of 16% at that date. The Moroccan market grew at a rate of 47% in 2001.

Network and Technology. Médi Telecom’s network in Morocco is based upon the GSM standard. Our licenses entitle us to 50 MHz spectrum in the 900 MHz band. In 2000 and 2001, Médi Telecom invested a total of approximately €400 million in building out and enhancing its digital network in Morocco. At December 31, 2001, Médi Telecom’s digital network in Morocco consisted of nine switching centers and 120 base stations giving coverage to over 80% of the population.

Sales and Marketing. Médi Telecom’s sales and marketing strategy has been to generate rapid customer growth. At December 31, 2001, approximately 94% of Médi Telecom’s customers used pre-paid plans with the remainder using contract service. Médi Telecom plans to target business customers and the more affluent segments of the consumer market in the short-term. Médi Telecom also intends to expand the range of services offered to its customers and is in the process of building an extensive network of distributors in Morocco.

Customer Care. Médi Telecom believes that an emphasis on responsiveness to its customers will enable Médi Telecom to distinguish itself from its competitor in Morocco. Médi Telecom maintains customer relations call centers with real time access to its information systems. We estimate that Médi Telecom’s average monthly churn rate for 2001 was 2.8%. We believe that we apply conservative policies in calculating customers both in and outside Spain and the related customer churn rates. These policies may result in higher churn rates and lower market share figures than if we had used criteria employed by some other operators in calculating their churn rates. For information concerning the methodology used by us in calculating customer churn rates, see “Item 5—Operating and Financial Review and Prospects—Customer Churn”.

Médi Telecom’s bad debt was 9.5% of its net revenue from operations in 2001.

Competition. Médi Telecom currently competes with Maroc Telecom, the former state monopoly provider of all telecommunications services in Morocco. At December 31, 2001, Maroc Telecom had an estimated approximately 1.8 million customers, compared to an estimated approximately 1.1 million for Médi Telecom. We estimate that in the twelve months of Médi Telecom’s operations through December 31, 2001, the overall Moroccan market for wireless communications increased by 47%.

Wireless Internet and Data Initiatives

An important component of our strategy is broadening uses of wireless communications, currently dominated by voice services, to include more widespread use of wireless internet and data services. By diversifying our

services, we are seeking to capture the value created by new services and to offset the trend of declining average revenue per customer for voice services and, over time, potentially increase levels of average revenue per customer. As with other services, critical elements in the commercialization of these services are expected to include time to market, quality and breadth of service offerings, reliability and extent of network and pricing. 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.

Wireless Internet

Our wireless internet strategy is two-fold. We seek to participate in the development of this rapidly emerging new market through:

- our existing service *e-moción*, as a wireless internet service provider; and
- Terra Mobile, our joint venture with Terra Networks, as a wireless internet portal.

Wireless internet is in a preliminary stage of development, currently hampered by the slow speed of wireless data transfers and by technical limitations to accessing internet content through wireless handsets. We anticipate that substantial growth in the demand for wireless internet services will occur as a result of technological advances, such as the introduction of high-speed packet-switched data services, such as GPRS, and, more recently, the UMTS network platform, which will increase transmission speeds, as well as growing customer interest in wireless internet access having the functionality that the new technology can deliver. We have launched general packet radio service, or GPRS, services in Spain commercially with the same coverage as our GSM network.

e-moción-Wireless Internet Service Provider

In June 2000, we launched *e-moción*, our wireless internet service provider. *e-moción* offers our customers wireless access to the internet, including the ability to browse any wireless application protocol site and access to a broad and fast growing menu of links to wireless content providers, which, in the case of Spain, numbered more than 250 at December 31, 2001. It also offers our customers the ability to access preconfigured links to wireless application protocol and universal resource locator sites with sub levels that offer customization options. All of our operating companies have launched *e-moción*. At December 31, 2001, more than 2.5 million customers had accessed *e-moción* since the service was launched.

Due to our leading position in most of our markets, we believe we are well-positioned to be the first mover and develop the market for wireless internet service provider services by educating potential customers regarding wireless internet to create demand and acting as a catalyst for the local development of wireless application protocol-ready content and services. We are currently focused on attracting the maximum available content for *e-moción* by offering to providers links in our internet access service. Recognizing limited consumer awareness of the wireless internet, we have launched multi-media campaigns promoting *e-moción*, *internet en la palma de la mano* (“e-motion, internet in the palm of your hand”). Through *e-moción*, we are seeking to act, not as a content provider, but as the visible platform to our customers for accessing the wireless internet.

Currently *e-moción* has several content groups in Spain, including mobile banking, media, news, portals, ticketing, m-commerce, travel, entertainment, health and yellow pages, among others. Customers can also access *MoviStar* proprietary services, such as e-mail and itemized call information. We have signed agreements with more than 250 content providers to provide links through *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.

Sources of Revenues. Our wireless internet access services are currently billed on the basis of connection time, at a discount to voice rates, for WAP services, on the basis of the volume of data sent, for GPRS services, and, in each case, depending on the content. We receive 100% of the revenues derived from wireless airtime induced by *e-moción*. We also charge a percentage of the m-commerce revenues of our partners and a fee to the portals included in the related portals navigation option of *e-moción*. As this market is in an early state of development, it is expected that our revenue model will continue to evolve.

Terra Mobile—Wireless Portal

Portal Services. Terra Mobile is a joint venture between us and Terra Networks to create a major wireless Internet portal with a presence in the U.K., Germany, Spain and Brazil. An internet portal is a user's point of entry to content and services on the internet. A wireless portal is an internet portal created and configured specifically for access through a wireless handset. Terra Mobile will develop the internet portal of our group with content and services in several languages as new portals are launched targeting additional markets. Using Terra Mobile's wireless Internet portal, we envision that users will be able to access a wide variety of m-commerce (i.e., e-commerce carried out through a handset), business, entertainment and information services. Customers will be able to send e-mail, schedule meetings, bank, pay bills, send and receive faxes, shop, play games, browse freely on the Internet, download icons and music, or be told where to find the nearest place to their current location to perform these and other tasks.

Our internet portal allows users to visualize a menu that features, among others, the following options and services:

- Channels featuring a wide range of information services and contents, including news, financial information, sports, maps and guides and entertainment;
- Personal Information Manager, including e-mail, agenda and unified mailing;
- m-commerce services, including tickets for shows, travel tickets and banking services;
- Links to other options and services;
- Search engine, with access to other sites; and
- Customization, by book marking favorite sites and individualizing home page.

In addition to developing portals, Terra Mobile will focus on improving quality of service and ease of use, which are significant barriers to the first versions of wireless internet services. As technology evolves and overcomes these problems, wireless portals and wireless internet service providers will have to redesign or adapt their contents to allow customers to take full advantage of new technologies. Terra Mobile will also focus on the development of contents in wireless mark-up language for wireless internet and the development of products and services.

We launched Terra Mobile's initial portal in September 2000 in Spain. In December 2001, Terra Mobile adopted a new business model focused on:

- offering products and services and developing applications that take greater advantage of synergies with wireless networks;
- significantly reducing costs; and
- concentrating in the most significant markets (i.e., Spain, Germany and the United Kingdom).

Accordingly, Terra Mobile has reorganized its global structure to concentrate its European operations on markets with larger customer bases and discontinued operations in certain smaller markets. At December 31, 2001, we had commercial presence in the United Kingdom, Germany, Spain and Brazil, and had 5.8 million registered users. In addition, Terra Mobile reduced its headcount by 50%.

In December 2001, in view of Terra Mobile's new business model, which is more focused on the technological development of wireless networks, and our efforts to develop new wireless internet applications, we and Terra Networks adjusted our relative ownership interests pursuant to which we increased our ownership interest in Terra Mobile from 51% to 80% while Terra Networks reduced its ownership interest from 49% to 20%. We also entered into a put/call arrangement with Terra Networks pursuant to which Terra Networks has a call right and a put right with respect to Terra Mobile. Under this agreement, Terra Networks has the right to acquire up to a 49% stake in Terra Mobile at the lower of (i) fair market value or (ii) the value of our investment in Terra Mobile, as adjusted to

cost of carry. This option may be exercised once between January 1, 2003 and January 1, 2006. Terra Networks also has the right to require us to purchase its 20% stake in Terra Mobile at the lower of (i) fair market value or (ii) the value of our investment in Terra Mobile, as adjusted to cost of carry. This option may be exercised between January 1, 2003 and the termination of the shareholders' agreement (which shall be in effect for as long as we own an interest in Terra Mobile) if Terra Networks disagrees with any decision to (i) cause Terra Mobile to increase its share capital or issue debt or (ii) adopt measures that may affect directly Terra Networks' strategic position. Because the amounts payable by either party are based on fair market values of Terra Mobile and Terra Mobile is not publicly traded, the determination of the fair market value of Terra Mobile was not practicable at the date of this annual report.

Joint Venture Operations. While drawing on the resources of its shareholders, Terra Mobile will develop—internally and through acquisitions—specific expertise in wireless internet content, services and functionality. Terra Mobile will draw principally upon our company for technical know-how, customer service and billing. Terra Mobile will draw principally upon Terra Networks for content, partnerships and certain services such as information services, unified messaging and certain m-commerce offerings. Although Terra Mobile is to become our primary internet portal, we anticipate that Terra Mobile will contract with other wireless operators in addition to our company. Similarly, we will also offer our customers access to other wireless portals and charge Terra Mobile market prices for the services we provide. Our operating companies will receive all revenues for induced usage.

Acquisition of Iobox. Terra Mobile acquired Iobox, a leading pan-European wireless internet portal, in July 2000 for €216.2 million in cash, of which €187.0 million was paid in cash and the balance is payable in later years only upon satisfaction of specified conditions.

Sources of Revenues. Terra Mobile's revenue sources are similar to those of fixed internet portals:

- Promotions sent via text messages to the customer's handset;
- Fees from services and content providers in exchange for best positions in our portal;
- Fees for providing links in our portal to websites;
- Fees from *m-commerce* transactions;
- Subscriptions to value added services; and
- Charges for downloading icons, music, games, etc.

Wireless Data Services

We have targeted wireless data services, together with wireless internet services, as a key growth initiative for our company. Technological advances, including the implementation of general packet radio service technology, are facilitating the development of these services by reducing the use of bandwidth and multiplying the speeds at which data is transmitted, facilitating the offer of higher quality services at lower costs and encouraging increased demand. We have launched GPRS services in Spain and offer these services since 2001. Our wireless data services include short messages and internet access via personal computers, including the *Movistar Internet Premium*, the first wireless service in the world that bills on the basis of the volume of data received. We are focusing on consolidating our position in the corporate segment (where we have most of our customers) with a view to marketing and introducing new wireless data services and applications.

An important component of our data transmission strategy is the development and commercialization of our wireless services as a means of payment. To develop this market, we are pursuing two broad initiatives: first, the use of the wireless handset as an access device for the activation of traditional payment systems; and, second, the development of new means of payment, specifically designed for the wireless handset.

m-Payment Services. For the first initiative, we are working with merchants and financial institutions to develop m-payment services that will increase the use of our network.

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

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

The project will be developed through the following operating structure:

- Mobipay España, S.A., established by Telefónica Móviles de España, S.A. and other Spanish wireless operators, financial entities and payment systems entities, is the company that will set up the payment systems platform in Spain; and
- Mobipay International, S.A., participated by Telefónica Móviles, Amena, Vodafone, BBVA and SCH, was established to set up the payment systems platform abroad by licensing the system or through subsidiaries incorporated outside Spain.

Mobile payment services were launched in Spain on a pilot basis in May 2002.

Sources of Revenues. The principal sources of revenue of *Mobipay* will be the following:

- Fees on transactions by retail businesses;
- Customer subscriptions; and
- Royalties.

Corporate Organization and Synergies

General

We have organized our company to take advantage of synergies and economies of scale made possible by the consolidation of the Telefónica Group's wireless operations. We also recognize that each market is distinct in nature and requires in-country managers to have decision-making autonomy to respond to local market conditions. Decisions about matters that directly affect customers in local markets, such as sales and marketing programs and customer service, generally are made on a local basis, while decisions in areas where our company can realize the benefits of the scale of its operations, such as purchasing, technology and product and brand development, are being centralized to the extent possible. Although our operating companies were previously part of the Telefónica Group, because several companies were managed as part of integrated telecommunications companies, potential synergies were not fully realized. For example, due to historical reasons relating to the independent development of our constituent companies prior to their ownership by the Telefónica Group, our networks and systems do not all use the same technology, which has the effect of reducing somewhat the advantages of scale in purchasing and other operational matters. We anticipate that the implementation of third generation wireless technology will result in the convergence of our technology platforms and an increase in operating efficiencies.

Upon commencing operations as an integrated wireless group in March 2000, we created a centralized "corporate center" integrating key functions, such as purchasing, technology, finance and other and shared services, to establish and take advantage of synergies.

In addition to permitting improved management of our business, these measures have already permitted us to achieve synergies from our operations in multiple markets. For example, based upon our experience in Spain, we have greatly increased our distribution networks in our Latin American markets, while implementing procedures

designed to ensure a common corporate look, image and quality of service in our points of distribution. In Brazil and Peru, we have developed a plan for decreasing our uncollectible debt by implementing greater market segmentation and customer scoring, as well as by reengineering the billing and collections processes. We have also sought to streamline our international roaming arrangements by managing roaming service in Latin America as a global business with global processes and group roaming agreements, unified customer care. We have entered into an agreement with Lucent Technologies for the supply and maintenance of our CDMA network in Latin America at favorable terms due to the scope of our operations in the region.

Best Practices Centers

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

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

- Network:
 - design and implementation of the corporate strategy for the Network Technology area;
 - taking advantage of synergies in the design, configuration and maintenance of the network;
 - reducing network costs;
 - identifying, configuring and guaranteeing network development centers for the operators;
 - negotiating with providers on a global basis the supply of equipment for network development, thereby taking advantage of economies of scale; and
 - keeping abreast of technological developments.
- Information Technology:
 - design and implementation of the corporate strategy for the Information Technologies area;
 - taking advantage of synergies in the Information Systems area;
 - optimizing network costs;
 - developing best practices centers related to Information Technologies ;
 - leading the negotiations with providers on a global basis to take advantage of economies of scale; and
 - reducing costs in the Information Technologies area.
- Commercial:
 - optimizing pricing structures for contract and pre-paid customers;
 - improving customer care and loyalty programs;
 - developing common procedures to reduce uncollectible debt and fraud; and
 - developing common marketing procedures and tools, such as data warehousing and customer valuation models.
- Services and Products:
 - developing a common catalogue of services and products to reduce time to market;

- creating “Excellence Centers”;
 - optimizing development and implementation costs; and
 - launching bundled services designed for multinational business customers.
- Brand Image:
 - developing our image as global operator; and
 - trademark management.

Capital Expenditures and Divestitures

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

Public Takeover Offers

On February 27, 2001, we announced our intention to launch an exchange offer under which we would offer to exchange our Brazilian depository receipts or American depository shares for 100% of the outstanding ordinary shares and preferred shares of Celular CRT Participações S.A. not owned by us or our affiliates. On September 14, 2001, we announced that we would not commence the offer due to market conditions.

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 *e-moción*, *Mensajería Movistar*, *Movifácil*, *Moviliberia*, *Moviline*, *Moviline Activa*, *Moviline Prepago*, *Movistar*, *Movistar Activa*, *Movistar Activa Joven*, *Radioed*, *T Movistar*, *T.M.E.* and *TSM*. We also hold a non-exclusive license on a group of trademarks and trademark applications, including *Telefónica 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*, *telefonicomoviles.net*, *tsm.es* or *wap-movistar.org*.

Regulation

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

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

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

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

Spain

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

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

Under the prior regulatory regime, wireless telephone services were considered to be public services and, as such, were provided pursuant to a system of administrative concessions, which granted to operators the right to provide wireless telephone services and construct and operate the networks required to do so. One of our rights is still held in the form of an administrative concession that is governed by legislation applicable prior to the enactment of the General Telecommunications Law. We have requested to the relevant authorities the early termination of this concession.

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

Spanish Regulatory Authorities

The following governmental regulatory authorities oversee the Spanish telecommunications industry:

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

Licenses and Concessions

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

Our analog service concession expires on January 1, 2007. The terms and conditions of this concession granted prior to the enactment of the General Telecommunications Law remain in force until the Ministry of Science and Technology approves its conversion from concession into license under the General Telecommunications Law. We may assign and transfer this concession only after we have provided services thereunder for a minimum of five years and, in addition to other requirements, with the approval of the Spanish government.

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

- to pay the Commission for the Telecommunications Market an annual fee of 0.1% of the income before tax from the provision of services;
- to pay the Spanish Treasury an annual fee for use of spectrum (which amounted to €5 million in 2001);
- to draft a standard contract with customers, subject to approval by the Ministry of Science and Technology;
- to timely notify the Ministry of Science and Technology and associations of users and consumers of rates and amendments to rates applicable to customers;

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

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

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

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

- nationwide digital services
- nationwide UMTS services;
- trunking, or closed user group, services;
- paging services; and
- fixed-line telephony.

Our digital licenses expire in 2010 and 2023, our UMTS license in 2020, our trunking licenses in 2014, 2016 and 2020, our paging license in 2012 and our fixed-line license in 2019. Our licenses can be extended for at least ten years, except for our digital licenses, which may be extended for a period of five years. In March 2002, we requested to the relevant authority that our trunking licenses be terminated due to changes in technical, economic and market conditions since the licenses were granted.

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

- to pay to the Commission for the Telecommunications Market an annual fee of up to 0.2% (currently, 0.15%) of income before tax from the provision of services;
- to pay the Spanish Treasury an annual fee for use of spectrum (which amounted to €163 million and €65.4 million for our UMTS and digital licenses, respectively, in 2001);
- 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;
- 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.

Regarding our UMTS license, we were required to provide bank guarantees totaling €1,100 million to secure commitments assumed in our license application. We will forfeit all or part of these bank guarantees if we do not satisfy these assumed commitments.

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.

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

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

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

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

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

- to comply with minimum coverage obligations established in the terms and conditions which governed the public bidding process for the concession;
- to guarantee the extension of the service beyond Spain by executing roaming agreements with other telecommunications operators; and
- to interconnect our network with the network of our competitors.

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

Foreign Ownership/Restrictions on Transfer of Ownership

Under the General Telecommunications Law, non-European Union individuals or entities cannot own, directly or indirectly, more than 25% of our assets or share capital, unless such ownership is permitted by authorization of the Spanish government in cases of reciprocal treatment between Spain and a non-European Union country, or by specific agreement between Spain and a non-European Union country. Spain has ratified the Telecoms Annex to the

General Agreement on Trade in Services, or GATS, pursuant to which specific authorization will not be required so long as direct or indirect control of 25% or more of our assets or share capital is owned by persons or entities domiciled in countries party to the Telecoms Annex to GATS.

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

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

Rates

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

Interconnection

The European Union’s Interconnection Directive (97/93/EC) requires member states, including Spain, to remove restrictions that prevent the negotiation of interconnection agreements, to ensure that interconnection agreements are non-discriminatory, and to ensure adequate and efficient interconnection for public telecommunications networks and services. Currently, Spanish law requires public telecommunications networks to provide interconnection to other public telecommunications networks established in Spain, the terms of which must be specified in an interconnection agreement between the parties. Interconnection agreements are subject to Spanish government regulations, such as the Spanish Interconnection Decree of 1998, and to supervision and arbitration by the Commission for the Telecommunications Market. In March 2002 the European Union passed Directive 2002/19/EC (the Access and Interconnection Directive), which must be transposed by member states into their national laws by July 25, 2003. Spain has not yet implemented it.

The terms of Telefónica, 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).

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.

The Spanish government has announced its intention to award new licenses permitting the offer of wireless services.

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 Union, acting principally through 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 telecommunications operators through the issuance of directives and administrative proceedings.

Significant Market Power

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

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

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

The Interconnection Directive does not specify which services should be classified by national regulators as "interconnection" as opposed to "special network access". Consequently, the terms on which an operator found to

have significant market power may offer a particular service in a country depend on the way in which the relevant national regulatory authority classifies that service. There is considerable scope for different regulation of the provision of these services among the European Union member states.

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

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

Regulation of Call Termination Charges

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

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

Regulation of International Roaming Charges

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

New Regulation of the Telecommunications Industry

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

Germany

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

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

German Regulatory Authorities

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

Licenses and Concessions

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

Group 3G, in which our company holds a 57.2% interest, has been 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 for €8,471 million. This license expires on December 31, 2020.

Under the UMTS license, Group 3G has been allocated frequency packages of two paired, or two-way, 5 MHz and one unpaired, or one-way, 5 MHz channel. The actual frequency allocation has still to be made pursuant to the Telecommunications Act within the range of frequency blocks awarded in the license auction. 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.

Under our UMTS license, we are required to meet certain coverage targets. Specifically, we must reach 25% of the population by year-end 2003 and 50% of the population by year-end 2005.

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

Foreign Ownership/Restrictions on Transfer and Change in Ownership

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

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

Network Access and Interconnection

The German Telecommunications Act regulates general and special network access (including interconnection). In principle, each operator of a public telecommunications network is obligated, irrespective of its market position,

to submit an offer for interconnection with its network to other operators at their request. Prices for interconnection between UMTS licensees to allow carrier selection are subject to negotiation. If public telecommunications carriers fail to reach an agreement on interconnection, the Regulatory Authority is called upon to order interconnection at the request of a party and may to a certain extent determine the terms and conditions, of interconnection. Agreements on special network access are subject to certain regulations prescribed by the Network Access Ordinance, in particular the obligation to offer unbundled services and access. In addition, special provisions apply to market-dominant providers obligating them to offer network access on a non-discriminatory basis. In January, 2002, a new system to calculate interconnection prices charged by Deutsche Telekom AG, as the German market-dominant provider, was enacted. Under this new system, interconnection prices will be based on the cost of the network elements necessary for the provision of the interconnection services. This new system will reduce interconnection charges incurred by Group 3G.

Other Provisions

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

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

Italy

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

Licenses and Concessions

The IPSE 2000 consortium, in which our company directly and indirectly holds 45.6%, has been awarded one out of five UMTS licenses in Italy at a total cost of €3,269 million.

Under this license, IPSE 2000 has been allocated frequency packages of two paired, or two-way, 15 MHz channels. This license expires on December 31, 2017.

Under our UMTS license, we are required to meet certain coverage targets. Specifically, we must reach all regional capitals by July 1, 2004, all provincial capitals by year-end 2007, the region of Camarra by year-end 2005 and eighteen cities by year-end 2006.

Foreign Ownership/Restrictions on Transfer and Change in Ownership

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

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

Rates

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

Interconnection

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

Other Provisions

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

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

Austria

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

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

Austrian Regulatory Authorities

The following regulatory authorities oversee the telecommunications industry in Austria:

- The Telekom nControl Commission, which acts in a quasi-judicial capacity, has various powers under the Austrian Telecommunications Act of 1997, including, the authority to grant and revoke licenses, to approve rates and related terms and conditions of market-dominant providers, to determine payment obligations to the universal service fund by licensees and the compensation paid to universal service providers from such fund, to settle disputes relating to interconnection, to allocate frequencies and to prevent cross-subsidizing; and
- The Regulatory Authority for Broadcasting and Telecommunications (RTR), which is responsible for promoting a competitive and liberalized market and, more specifically, administering number portability, arbitrating disputes and providing support and advise to the Telekom-Control Commission.

Licenses and Concessions

We have been awarded one out of six UMTS licenses in Austria at a total cost of approximately €117 million. Under this license, we will be allocated frequency packages of two paired, or two-way, 5 MHz channel within the designated frequency spectrum. Operation pursuant to each frequency is subject to authorization from the relevant telecommunications authority. We can use these frequencies within the license territory. Restrictions on usage in border areas will be determined pursuant to the authorization to operate each frequency. This license expires on December 31, 2020.

Under our UMTS license, we are required to meet certain coverage targets. Specifically, we must reach 25% of the population by year-end 2003 and 50% of the population by year-end 2005.

Foreign Ownership/Restrictions on Transfer and Change in Ownership

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

Rates

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

Interconnection

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

Other Provisions

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

Switzerland

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

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

Swiss Regulatory Authorities

The following regulatory authorities oversee the telecommunications industry in Switzerland:

- The Federal Communications Commission, which is an independent administrative body, has various powers under the Swiss Federal Telecommunications Act, including the authority to grant licenses, to control interconnection, to allocate frequencies, to approve national numbering plans, to regulate number portability and the freedom to choose service providers for national and international connections and to impose sanctions; and
- The Federal Office for Communication, which is an administrative body under the direction of the Federal Communications Commission, is responsible for adjudicating certain licenses, submitting proposals to the Federal Communications Commission, executing the decisions of the Federal Communications Commission and mediating interconnection disputes among providers, among other responsibilities.

Licenses and Concession

We have been awarded a UMTS licenses in Switzerland at a total cost of approximately €32.5 million. Under this license, we will be allocated frequency packages of two paired, or two-way, 15 MHz and one unpaired, or one-way, 5 MHz channel within the designated frequency spectrum. This license expires on December 31, 2016, and may be extended subject to the submission of a request to the Federal Communications Commission prior to December 31, 2014.

Under our UMTS license, we are required to meet certain coverage targets. Specifically, we must reach 50% of the population by year-end 2004.

Foreign Ownership/Restrictions on Transfer and Change in Ownership

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

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

Rates

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

Network Access and Interconnection

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

Other Provisions

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

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

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

Brazil

The delivery of telecommunications services in Brazil is subject to regulation under the regulatory framework provided in the General Telecommunications Law enacted in July 1997. This law established an independent regulatory agency called the National Agency for Telecommunications, or ANATEL, which has begun to adopt a series of regulations to implement the provisions of the Telecommunications Law. Telecommunications services are also regulated by decrees issued by the President of Brazil and orders issued by the Ministry of Communication that are being replaced by new regulations issued by the National Agency for Telecommunications. Under this regulatory framework, telecommunications services providers may operate under concessions or authorizations which 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 concession or license.

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

Region	Band				
	Band A	Band B	Band C(1)	Band D(1)	Band E(1)
Region 1 São Paulo Metropolitan Area	Telesp Celular	Bell South	None assigned	Telecom Italia	None Assigned
Region 2 São Paulo State		Tess			
Region 3 Rio de Janeiro State Espírito Santo State	Tele Sudeste Celular	ATL		Telemar	Telecom Italia
Region 4 Minas Gerais State	Telemig Celular	Maxitel			
Region 5 Paraná State Santa Catarina State	Tele Centro Sul Celular	Global Telecom			
Region 6 Rio Grande do Sul State	Celular CRT	Telet			
Region 7 Distrito Federal Goiás State Tocantins State Mato Grosso State Mato Grosso do Sul State Rondônia State Acre State	Tele Centro Oeste Celular	Americel		Telecom Italia	None Assigned
Region 8 Amazonas State Amapá State Pará State Maranhão State Roraima State	Tele Norte Celular	Norte Brasil Telecom			
Region 9 Bahia State Sergipe State	Tele Leste	Maxitel		Telemar	Telecom Italia
Region 10 Piauí State Ceará State Rio Grande do Norte State Paraíba State Alagoas State	Tele Nordeste Celular	Bell South			

- (1) Under regulations issued by the Brazilian National Agency for Telecommunications in connection with the issuance of personal communication services, or PCS, licenses, Brazil has been divided into three new service regions. New region 1 for the PCS licenses comprises regions 3, 4, 8, 9 and 10 in which the existing cellular operators provide services. New region 2 comprises regions 5, 6 and 7 in which existing cellular operators provide services, while new region 3 comprises regions 1 and 2.

Brazilian Regulatory Authorities

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

Licenses and Concessions

In Brazil, authorization to provide wireless communications services may be granted through concession or license. Our companies have been granted the following concessions, which include appropriate authorization to use our spectrum:

- Telerj Celular S.A. and Telest Celular S.A. have been granted concessions to operate wireless communications services on the Band A (800 MHz) frequency range in Rio de Janeiro and Espírito Santo, respectively;
- Celular CRT S.A. has been granted a concession to provide wireless communications services on the Band A (800 MHz) frequency range in Rio Grande do Sul; and
- Telebahia Celular S.A. and Telergipe Celular S.A. have been granted concessions to provide wireless communications services on the Band A (800 MHz) frequency range in Bahia and Sergipe, respectively.

Currently, only one Band A service provider and one Band B service provider may provide wireless services in each region. Each concession is granted for an initial period of 15 years, and may be renewed at the discretion of the National Agency for Telecommunications for additional periods of 15 years each. The concessions to provide wireless services awarded to the above operating companies expire in 2005, for Telerj Celular, 2007, for Celular CRT, and 2008, for Telest Celular, Telebahia Celular and Telergipe Celular.

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

In addition to obligations under their concessions, wireless providers also have obligations under a new protocol for quality of service, which was jointly adopted by the National Agency for Telecommunications and all Brazilian wireless service providers in November 1999. Our Brazilian wireless operators fulfilled in 2001 the quality targets and rates required under this protocol.

PCS Regulation

In November 2000, The National Agency for Telecommunications published regulations for the issuance of new licenses to provide wireless communication services using a new technology known as personal communication services, or PCS. New operators under PCS licenses will compete with existing cellular operators in each region. PCS, which is similar to digital cellular telecommunications technology, will utilize the 1800 MHz frequency. The new regulations divide the country into three regions covering the same geographic areas as the concessions for fixed-line telecommunication services and provide for three PCS licenses to be granted in each of these regions. The three licenses in each region are referred to as Band C, Band D and Band E, respectively. The National Agency for Telecommunications held auctions for PCS licenses during the first quarter of 2001 in which some of these PCS licenses were awarded (see below). It plans to hold additional auctions in the future to sell the remaining PCS licenses. According to the regulations:

- Each successful bidder will receive an authorization to provide domestic and international long-distance services in the relevant region;
- Existing cellular service providers, as well as new entrants in the Brazilian telecommunications market, may bid for Band C, Band D and Band E PCS licenses. However, fixed-line operators and their controlling shareholders may only bid for Band D and Band E PCS licenses;
- A cellular or PCS operator, or its respective controlling shareholders, may not hold more than one license in any region. Accordingly, a cellular operator that is awarded a PCS license which results in geographical overlap between its licenses has two alternatives:
 - It may divest its stake in its existing cellular operator within six months of executing the contract relating to the PCS license; or

- It may renounce the PCS license within six months in the geographic regions where the overlap exists.
- Current Band A and Band B cellular service providers have the option of exchanging their existing concessions for PCS licenses.

Band C Competition

There were no participants in the auction for the Band C PCS licenses held in January 2001. The National Agency for Telecommunications plans to hold a new auction for the Band C PCS licenses.

Band D Competition

On February 13, 2001, the National Agency for Telecommunications held an auction for the Band D PCS licenses. Tele Norte Leste Participações S.A., or Telemar, the primary fixed-line operator in the region in which Tele Sudeste operates, bid successfully for the PCS license covering the region in which it offers fixed-line telecommunications services, comprising 16 states in the north and east of Brazil, including the states of Rio de Janeiro, Espírito Santo, Bahia and Sergipe. Telemar paid R\$1.1 billion for the Band D PCS license, which represents a 17.23% premium above the minimum bid price established by the National Agency for Telecommunications, and will provide PCS services using GSM technology. In June 2002 the National Agency of Telecommunications granted Telemar a certificate of achievement of targets, which will permit Telemar to commence operations under this license.

The Band D PCS licenses in the two remaining regions, the center-south of Brazil region and the São Paulo state region, were awarded to Telecom Itália Mobile – TIM. Telecom Itália Mobile – TIM paid R\$543 million for the Band D PCS license in the center-south region, which includes the state of Rio Grande do Sul, and R\$997 million for the Band D PCS license in the São Paulo state region, representing premiums of 0.6% and 40.42%, respectively, above the minimum bid price established by the National Agency for Telecommunications.

Band E Competition

On March 13, 2001, the National Agency for Telecommunications held an auction for the Band E PCS licenses. Telecom Itália Mobile – TIM was the only bidder in the Band E PCS auction, acquiring a license to provide PCS services in the region comprising the 16 states in the north and east of Brazil in which Telemar operates as a fixed-line provider. There were no bidders for the Band E PCS licenses in the two other regions. Telecom Itália Mobile – TIM paid R\$990 million for the license, which represents a 5.32% premium above the minimum bid price established by the National Agency for Telecommunications.

Because there are geographical overlaps between the PCS licenses awarded to Telecom Itália Mobile – TIM and its existing cellular concessions, Telecom Itália Mobile – TIM decided to renounce the PCS license in the region in which the overlaps exists. Telecom Itália Mobile – TIM will therefore receive a R\$470 million discount in the price for the Band E PCS license which it was awarded. Telecom Itália Mobile – TIM will also be permitted to commence Band E PCS operations in 2002, provided Brasil Telecom, its fixed-line provider in the center south region, achieves its operational targets established by the National Agency for Telecommunications prior to December 2003.

The National Agency for Telecommunications plans to hold a second auction for the Band E PCS licenses in the center-south and São Paulo state regions.

We believe that the PCS regulations and any others that permit operators to hold interests in more regions will likely result in greater consolidation of the Brazilian wireless communications market.

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 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

Rates that wireless service providers may charge their customers are regulated by the wireless concessions, which include, among other things, a “reference basket” of prices that service providers may charge for their standard plans, as well as maximum prices for additional services and the rules and related formula and index or the adjustment of rates.

Other Provisions

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

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

Peru

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

Peruvian Regulatory Authorities

The following regulatory authorities oversee the telecommunications industry in Peru:

- The Ministry of Transport, Communications, Housing and Construction is responsible for, among other things, formulating, supervising and carrying out telecommunications policies and regulations; and
- The Organization for Supervision of Private Investment in Telecommunications is responsible for promoting private investment in the telecommunications sector, ensuring the development of a free and fair telecommunications market, guaranteeing the quality and efficiency of service provided to customers and regulating rates.

Licenses and Concessions

In 1991 and 1992, Telefónica del Perú’s government-owned predecessors, Compañía Peruana de Teléfonos S.A. was granted a license for the provision of wireless services in Lima and Callao and Entel Perú S.A. was granted a license for the provision of wireless service nationwide. In 1995, Entel Peru was merged into Compañía Peruana de Teléfonos and the surviving entity changed its name to Telefónica del Perú. Each of these licenses is for a term of 20 years and expires on May 24, 2011 and February 1, 2012, respectively. Each license can be renewed at its expiration by filing an application at least two years prior to the expiration date.

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

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

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

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

- *Paging service.* Frequency in the 450 MHz band.

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

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

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

- *Commercial operation rate.* An annual rate equal to 0.5% of gross revenues from wireless services. Revenues derived from settlements of international traffic are included for the purpose of calculating this tariff;
- *Tax for use of spectrum.* This annual tax is paid by licensees of base stations and is calculated as a percentage of Peruvian tax units. Telefónica Móviles S.A.C. pays 20% of a tax unit for each commuting cellular station and 0.5% for each wireless station depending on the capacity of the relevant commuting central;
- *Special contribution to Telecommunications Investment Fund.* Telefónica Móviles S.A.C. is subject to this special annual contribution that equals 1% of Telefónica Móviles S.A.C.'s annual gross revenues, after deducting the general sales tax and other similar taxes; and
- *Supervision Fee.* A monthly supervision fee is paid to the Organization for Supervision of Private Investment in Telecommunications of 0.5% of Telefónica Móviles S.A.C.'s gross revenues from services, after deducting the general sales tax and other similar taxes.

Rates

Rates charged by wireless providers to their customers have been subject to a free tariff regime supervised by the Organization for Supervision of Private Investment in Telecommunications. Operators freely establish their rates for telephone calls by fixed-line users to wireless service, and vice versa. Currently, the two tariffs in force are: "the wireless user pays"; and "the calling party pays." In February 1999, however, the Organization for Supervision of Private Investment in Telecommunications issued a resolution stating that rates applicable to communications between the users of fixed-line services and the users of wireless services were then under review, and that until this review was complete that existing rates could not be increased. Thereafter, the Organization for Supervision of Private Investment in Telecommunications authorized a 6.21 % and a 4% increase in the rates applicable to calls made from fixed and public telephones to wireless users.

Interconnection

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

Foreign Ownership/Restrictions on the Transfer of Ownership

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

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

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

Argentina

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

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

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

Argentine Regulatory Authorities

The following regulatory authorities oversee the Argentine telecommunications industry:

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

Licenses and Concessions

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

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

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

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

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

Wireless service providers are required to pay a fee to the National Communication Commission equal to 0.5% of income from services as well as monthly fixed fees based on, among other things, the number of customers.

Rates

Rates charged to customers are not regulated in Argentina.

Interconnection

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

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

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

Other Provisions

Under Argentine law, wireless telephone service providers have the right to enter calls into the networks of other telephone service providers at any point, and are allowed to interconnect directly with the other wireless telephone service operators. The Secretariat of Communications regulates the rates charged for interconnection between fixed-line and wireless systems and also between wireless systems. Nevertheless, Argentine law provides that interconnection agreements are to be freely-negotiated between the relevant service providers, on a non-discriminatory basis, in order to ensure that interconnection for public telecommunications networks and services is not hindered, delayed or prevented.

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

On January 6, 2002, Law No. 25,561 on Public Emergency and Exchange System Reform (the “Economic Emergency Law”) was passed, amending the currency board that pegged, by law, the Argentine peso at parity with the U.S. dollar (the “Convertibility Law”). It was established a dual exchange rate whereby export and certain import transactions would be governed by a fixed, “official” exchange rate of Ps.1.40 to U.S.\$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:

- (a) The conversion into pesos of U.S. dollar deposits in Argentine banks at the rate of Ps.1.40 = U.S.\$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 = U.S.\$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.
- (b) 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.
- (c) The conversion into pesos of all private U.S. dollar-denominated debt obligations as of January 6, 2002 at a Ps.1.00 = U.S.\$1.00 exchange rate and subsequent adjustment through the benchmark stabilization coefficient described above, plus an equitable readjustment in certain cases.

- (d) The conversion into pesos of public service rates which were originally agreed upon in U.S. dollars at a Ps.1.00 = U.S.\$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.
- (e) 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.
- (f) 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.

Under applicable Argentine corporate law, dividends may be paid only from liquid and realized profits as shown on a company's financial statements prepared in accordance with Argentine generally acceptable accounting principles. Five percent of these profits must be set aside until a reserve equal to 20% of the company's capital stock has been established. Subject to these requirements, the balance of profits may be declared as dividends and paid in cash pursuant to a majority vote of the shareholders. Under current law, there is a 15.05% withholding tax on interest payments, which arise from loans obtained abroad from banks which are included on the list of countries following the banking supervision rules established by the Basle Bank Committee or where the borrowers are regulated financial entities. In other cases, there is a 35% withholding tax on interest payments. There is no withholding tax on dividends, except as provided in applicable double taxation treaties.

Mexico

Introduction

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

Licenses and concessions

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

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

Currently, only one Band A and one Band B service provider may provide mobile telephony services in each region. Each concession is granted for a period of twenty years, and may be renewed at the discretion of the SCT. 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.

On April 26, 2002, we signed definitive agreements to purchase 65% of Pegaso Telecomunicaciones, S.A. de C.V. Pegaso operates a digital network based upon the CDMA standard and uses spectrum in the 1900 MHz band, the same technology we use in Mexico. In 1998, Pegaso was awarded licenses to provide personal communication services. The consummation of this transaction is subject to receipt of regulatory approval by the Mexican authorities.

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

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

Rates

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

Interconnection

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

- the interconnection points of each network be identified;
- access be provided in a non-discriminatory manner;
- no volume discounts on interconnection fees are to be provided;

- reciprocity with regard to interconnection fees and conditions be agreed upon between service providers of similar capacities or functions;
- the providers accomplish interconnections at any switching points or other points which are technically feasible, with adequate capacity and quality; and
- 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, are fixed by the Federal Telecommunications Commission.

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

The Special Tax to Products and Services was amended in 2002 to introduce, effective January 1, 2002, a new 10% tax on telecommunication services, including wireless services. Pre-paid wireless services are exempted if airtime is purchased in amounts not exceeding U.S.\$22. This tax can be passed through to customers.

El Salvador

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

Licenses and Concessions

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

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

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

- Concession to use 25 MHz of spectrum in the 800 MHz B band; and
- Concession to use the following frequencies for multi-channel connections, including the delivery of wireless services: 5GHz; 11GHz; and 23GHz.

We are required to pay a variable annual fee to the General Superintendency of Electricity and Telecommunications for the 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.

Rates

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

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.

Number portability is required under the Telecommunications Law. However, this requirement is not yet being applied in order to allow wireless providers in El Salvador to implement the necessary technology.

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

Guatemala

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

Use of Spectrum

In Guatemala, telecommunications services providers do not require a governmental concession to provide services, but do require an authorization to use the spectrum. These authorizations, called “titles”, are either granted directly to a wireless service provider or, when more than one wireless provider seeks to use a given band, they are awarded by public auction. Titles are granted for a term of fifteen years and can be renewed for subsequent fifteen-year terms at the request of the holder.

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.

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 U.S.\$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. Interconnection rates also are not regulated by the government. Operators negotiate freely interconnection rates. If public they fail to reach an 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.

Puerto Rico

Regulatory Authorities

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

- The U.S. Federal Communications Commission, or FCC, regulates interstate service in the United States (including Puerto Rico) as well as rates and entry regulations for service providers; and
- The Puerto Rican Telecommunications Regulatory Board regulates areas of the telecommunications sector in Puerto Rico not regulated by the FCC.

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

Licenses and Concessions

NewComm Wireless Services, Inc., the company in which Telefónica, S.A. has an investment in the form of a convertible note, operates under two PCS licenses which were assigned to it by ClearComm, L.P. as part of a joint venture between ClearComm and Telefónica Larga Distancia de Puerto Rico, Inc., a Telefónica Group company. The PCS licenses consist of two C-block 15 MHz licenses in the San Juan and Mayaguez-Aguadilla-Ponce areas of Puerto Rico. PCS licenses are granted for ten-year terms and may be renewed for additional ten-year terms if the license holder has provided substantial service during its past license term and substantially complied with applicable U.S. Federal Communications Commission rules and policies and other applicable communications law.

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

The U.S. Federal Communications Commission has initiated a rulemaking proceeding to help facilitate the offering of “calling party pays” as an optional wireless service. Most wireless customers in the United States currently pay both to place calls and to receive them.

Interconnection

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

Foreign Ownership/Restrictions on Transfer of Ownership

The U.S. Federal Communications Commission 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.

Morocco

Introduction

With the enactment of the Postal and Telecommunications Law in 1997, the National Postal and Telecommunications Office, the government entity which oversaw the state monopoly over postal and telecommunications services, was restructured to allow for the separation of the state-owned telecommunications operator from the state-owned postal and financial services provider, and for the creation of 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 2000 began the privatization of the Morocco-owned telecommunications service provider, Itissalat Al Maghrib. In December 2001, the provision of international communications services was liberalized.

Moroccan Regulatory Authorities

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

Licenses and Concessions

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

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

Wireless service providers are required to pay a total of 7% of their revenues to the National Agency for Telecommunications Regulation 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.

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 National Agency for Telecommunications Regulation thirty days before their effectiveness.

Interconnection

In February 1999, the Law on Telecommunications was enacted, granting every licensed wireless operator of a public telecommunications network the right and the obligation to interconnect their networks, and setting forth the technical, administrative and financial conditions that must be specified in interconnection agreements. In addition, operators with more than 20% of the wireless market must publish a standard interconnection agreement, or reference interconnection offer, that must be approved by the National Agency for Telecommunications Regulation.

The National Agency for Telecommunications Regulation has mandated that interconnection fees be calculated by the second.

Foreign Ownership/Restrictions on Transfer and Change in Ownership

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

Médi Telecom's license requires prior written notice to the National Agency for Telecommunications Regulation 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 Médi Telecom during the first five years from the grant of the license must also be approved by the National Agency for Telecommunications Regulation.

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

C. ORGANIZATIONAL STRUCTURE

See “Item 5—Overview”.

D. PROPERTY, PLANTS AND EQUIPMENT

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

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

- switching, transmissions and receiving equipment;
- connecting lines (cables, wires, poles and other support structures, conduits and similar items);
- land and buildings;
- easements; and
- other miscellaneous properties (work equipment, furniture and plants under construction).

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

Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

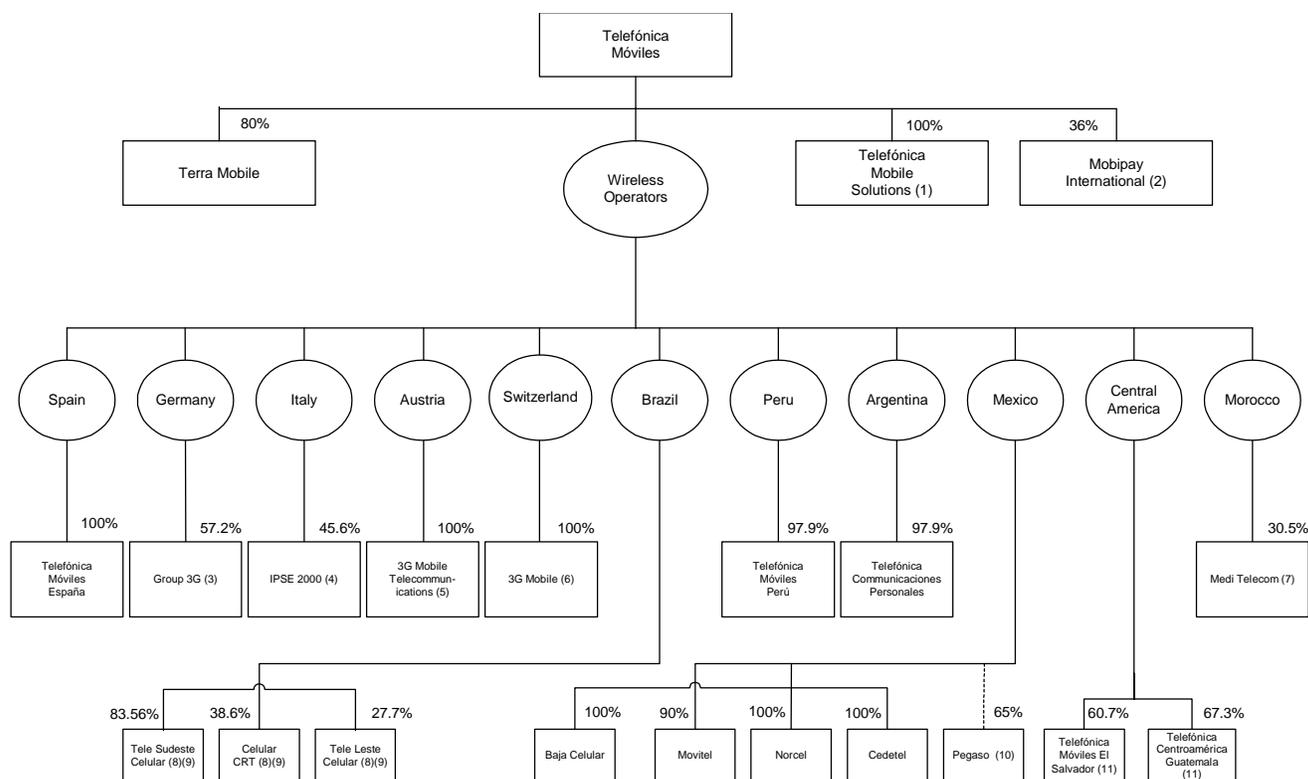
A. OPERATING RESULTS

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

Overview

We are a leading provider of wireless communications services in Spain and Latin America and one of the ten largest wireless operators in the world, based upon our total customers at December 31, 2001. We provide wireless services to approximately 28 million customers and, including new markets in Germany, Italy, Switzerland and Austria where we or consortia in which we participate have acquired UMTS licenses, cover service territories with a total population of approximately 372 million.

The following chart presents our corporate organization, including our principal operating companies, the companies in which we have non-controlling minority interests and a company we have agreed to acquire, as well as our current or expected economic ownership interests in these companies:



- (1) Telefónica Móviles, S.A., Telefónica, S.A. and Telefónica Data, S.A. have agreed to transfer Telefónica Mobile Solutions to Telefónica Data, S.A. or one of its affiliates.
- (2) On May 31, 2001, we agreed to jointly develop mobile payment services with several other companies. As a result, our interest in Mobipay International may change or be contributed to this joint venture.
- (3) Consortium which holds a UMTS license in Germany.
- (4) Consortium which holds a UMTS license in Italy but which has no existing wireless operations.
- (5) Company which holds a UMTS license in Austria but which has no existing wireless operations.
- (6) Company which holds a UMTS license in Switzerland but which has no existing wireless operations.
- (7) Jointly managed with Portugal Telecom.
- (8) Expected to be contributed to our proposed joint venture with Portugal Telecom.
- (9) Managed by our company pursuant to a management agreement.
- (10) Expected to be acquired by us in the second half of 2002, subject to receipt of necessary regulatory and other approvals.
- (11) We have entered into an agreement to acquire additional direct and indirect interests in Telefónica Móviles El Salvador and Telefónica Centroamérica Guatemala. If the acquisition is consummated, we would own a 90.3% interest in Telefónica Móviles El Salvador and a 100.0% interest in Telefónica Centroamérica Guatemala.

The above chart does not include the Telefónica Group's investment in a convertible note issued by a wireless operator in Puerto Rico, which it plans to transfer to us, subject to receipt of regulatory approvals.

Presentation of Financial Information

Basis of Presentation of Combined Financial Statements

The combined financial statements have been prepared as if our company had been in existence at all dates and during all the periods presented and had included the operating companies and interests and investments in other wireless companies contributed to us by Telefónica, S.A. prior to December 31, 2001. 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 related solely to the wireless operations of these companies have been “carved-out” from the accounts of these other holding companies. The combined financial statements reflect, in particular, combined accounts of our wireless operations in Spain, the Rio de Janeiro/Espírito Santo region in Brazil, El Salvador and Guatemala, carved-out and combined accounts of our holding companies for investments outside of Spain and of our wireless operations in the Rio Grande do Sul region in Brazil, and equity method-reported accounts of our wireless operations in the Bahia/Sergipe region in Brazil. In addition, the combined financial statements include our wireless operations in Argentina in Peru as of October 1, 2000 and January 1, 2001, respectively, the effective dates for accounting purposes of the transfer of those operations to us.

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

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

The following table presents, for the periods indicated, the principal companies that are included in our combined financial statements and the methods of consolidation used in preparing these financial statements. Companies identified in any period as “consolidated” are those combined in our financial statements by the global integration method, which requires each line item of those companies’ results to be integrated into each line item of our statement of operations. Companies identified in any period as “equity method” means the results of these companies are only reflected in our combined statement of operations under “Income (losses) of associated companies”. Investments in companies identified in any period as “cost method” are generally not reflected in the combined statement of operations unless there is a financial loss.

Company	Year ended December 31.		
	1999	2000	2001
Telefónica Móviles España, S.A.....	consolidated	consolidated	consolidated
Celular CRT S.A.....	consolidated	consolidated	consolidated
Tele Sudeste Celular Participações, S.A.	consolidated	consolidated	consolidated
Telefónica Móviles El Salvador, S.A. de C.V.	consolidated	consolidated	consolidated
Telefónica Centroamérica Guatemala, S.A.....	consolidated	consolidated	consolidated
Group 3G UMTS Holding GmbH	—	consolidated	consolidated
Ipse 2000, S.p.A.....	—	consolidated	equity method(1)
3G Mobile Telecommunications GmbH.....	—	consolidated	consolidated
3G Mobile AG	—	—	consolidated
Telefónica Móviles S.A.C.....	—	—	consolidated
Telefónica Comunicaciones Personales, S.A.....	—	—	consolidated
Baja Celular Mexicana, S.A. de C.V.	—	—	consolidated(2)
Movitel del Noroeste, S.A. de C.V.	—	—	consolidated(2)
Telefonía Celular del Norte, S.A. de C.V.	—	—	consolidated(2)
Celular de Telefonía, S.A. de C.V.	—	—	consolidated(2)
Tele Leste Celular Participações, S.A.....	equity method	equity method	equity method
Médi Telecom, S.A.	cost method	equity method	equity method
Terra Mobile, S.A.	—	equity method	consolidated (3)

- (1) Consolidated through September 30, 2001.
- (2) Consolidated as of July 1, 2001.
- (3) Equity method through September 30, 2001.

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

The global telecommunications industry is undergoing extensive and rapid change. The wireless communications sector, in particular, is in the process of transformation due to general deregulation, licensing of additional spectrum, development of a broad range of wireless services and products, technological advances in handsets and networks, and the consolidation of wireless operators on a cross-border basis. In order to enhance our position as one of the leading global wireless operators and to achieve superior growth and profitability in our industry, we have taken a series of strategic initiatives during 2000 and 2001 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, 2000 and 2001 may not be comparable with our financial condition and results of operations at and for prior or future periods.

Acquisition of Wireless Operations in Peru and Argentina

We recently acquired the Telefónica Group's wireless operations in Peru and Argentina. We issued an aggregate of 240,802,928 ordinary shares to Telefónica S.A. in exchange for interests in Telefónica del Perú S.A.A. and Telefónica de Argentina S.A. Telefónica del Perú S.A.A. spun-off its wireless operations to us in June 2001 and Telefónica de Argentina S.A. spun-off its wireless operations to us in November 2001. Following the spin-off by Telefónica del Perú S.A.A. and certain share exchanges with other members of the Telefónica Group and additional share purchases, we hold a 97.97% interest in Telefónica Móviles, S.A.C., our wireless operator in Peru. Telefónica Móviles, S.A.C. has been consolidated in our results of operations and balance sheet since January 1, 2001, the effective date for accounting purposes of its transfer to us. Following the spin-off by Telefónica de Argentina S.A. and similar share exchanges with other members of the Telefónica Group, we hold a 97.93% interest in Telefónica Comunicaciones Personales S.A., our wireless operator in Argentina. Telefónica Comunicaciones Personales S.A. has been consolidated in our results of operations and balance sheet since January 1, 2001. Because the effective date of its transfer to us for accounting purposes was September 30, 2000, its earnings for the period from October 1, 2000 to December 31, 2000 were recorded under the "Extraordinary income (expense)" line item of our consolidated income statement. The amount of its net losses was not material to our results of operations. These wireless operations in Peru and Argentina together represented approximately 11.9% of our company's combined net revenues from operations for 2001. 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 Mexico Wireless Operators from Motorola, Inc.

In July 2001 we acquired from Telefónica, S.A. four wireless operators in Mexico that it had acquired from Motorola, Inc. in June 2001. Telefónica, S.A. acquired such operators in exchange for an aggregate of U.S.\$1,835.5 million in shares of Telefónica, S.A. and U.S.\$10.5 million in cash, and transferred them to us in exchange for our ordinary shares having an equivalent fair market value based on our initial public offering price, or approximately 203 million ordinary shares. The results of operations of these companies are included in our combined results of operations as of July 1, 2001. We believe that this acquisition significantly enhances our business in Latin America by giving us a strong market presence in some of the most attractive regions of Latin America's second largest market.

Planned Acquisition of Pegaso Comunicaciones S.A. de C.V.

In April, 2002 we signed definitive agreements to acquire Pegaso Comunicaciones S.A. de C.V., a wireless operator with 800,000 customers as of December 31, 2001 in twelve of Mexico's population centers, including Mexico City, for a purchase price of \$87 million and a commitment to subscribe to 65% of a capital increase of between approximately \$326 million and \$488 million to be carried out by Pegaso. The total value of Pegaso has been set out \$1,360 million, including existing debt obligations. We have also agreed to cause Pegaso to pay approximately \$586 million in existing debt obligations and any amount drawn down from \$100 million in additional interim financing provided by a third party within 30 to 60 days of the closing of the acquisition. We plan to integrate Pegaso with our current Mexican operations into a newly formed entity of which we will own between 90% and 92%, depending on the definitive amount of Pegaso's capital increase. The Burillo Group will own the remaining percentage. Our agreement with the Burillo Group includes certain put rights for the Burillo Group and call rights for us relating to the Burillo Group's shares in the newly formed entity. See "—Latin America— Mexico—Acquisition of Pegaso Telecomunicaciones S.A. de C.V.". Upon closing of the transaction, the results of

operations of this company will be included in our combined results of operations. By giving us a nationwide presence in the Mexican market, this acquisition will significantly further enhance our business in Latin America.

Joint Venture with Portugal Telecom

On January 23, 2001, we, Telefónica, S.A. Portugal Telecom SPGS, S.A. and PT Moveis, SPGS, S.A., a wireless company owned by Portugal Telecom, agreed to create a joint venture to consolidate certain of our wireless assets in Brazil with those of Portugal Telecom. The joint venture will be managed jointly by us and PT Moveis.

Under the joint venture framework agreement, the joint venture will include Portugal Telecom's interests in Telesp Celular, which operates in the Brazilian state of São Paulo, and Global Telecom, which operates in the Brazilian states of Santa Catarina and Paraná and is a 83%-owned subsidiary of Telesp Celular, and our interests in Tele Sudeste Celular and Celular CRT. We also intend to contribute our interest in Tele Leste to the joint venture. Assuming all regulatory approvals are obtained and the joint venture is fully consummated (including contribution of our interest in Tele Leste), the joint venture would have, according to information available to us directly or indirectly, a 83.56% interest in Tele Sudeste Celular Participações, S.A., a 48.5% interest in Celular CRT Participações, S.A., a 27.71% interest in Tele Leste Participações, S.A. and 41.23% interest in Telesp Celular Participações, S.A.. We anticipate that the joint venture will generate synergies in operations, marketing and customer service. We and Portugal Telecom may contribute to the joint venture our respective interests in Tele Leste Celular, although we are not required under the joint venture framework agreement to do so.

Formation of Terra Mobile

In June 2000, we created Terra Mobile, a joint venture between our company and Terra Networks, to develop the wireless internet portal of the Telefónica Group. Because we originally shared management and control of Terra Mobile with Terra Networks, we reflected the financial condition and results of operations of Terra Mobile in our consolidated financial statements using the equity method. In October, 2001 Terra Mobile shifted its business model to focus on developing products, services and applications for wireless networks. As a result, we increased our stake in Terra Mobile to 80% and began consolidating it in our combined financial statements. At December 31, 2001, Terra Mobile had approximately 5.8 million users.

Increase in Ownership Interest in Tele Sudeste 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 minority interest.

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 an €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 our company. In addition, Telefónica, S.A. allocated an additional €875 million principal amount of outstanding Telefónica Group debt to our company. At the same time, Telefónica, S.A. did not allocate to our company approximately €1,497 million principal amount of debt. All of these transactions are reflected in the combined balance sheet at December 31, 2001 and 2000.

Acquisition of UMTS Licenses in Spain, Germany, Italy, Austria and Switzerland

In March 2000, having achieved the highest rating in the award process, we were awarded a license to provide UMTS-based services in Spain for €131 million. In August 2000, Group 3G, in which we have a controlling 57.2%

interest sheet, was awarded, at a cost of €8,471 million, of which our pro rata share is €4,845 million, a UMTS license in Germany. In October 2000, the IPSE 2000 consortium, in which we hold a 45.6% interest, won an auction for a UMTS license in Italy for a payment of €3,269 million, of which our pro rata share is €1,491 million. In November, 2000 we were awarded a UMTS license in Austria for a payment of €117 million. In December, 2000 we won an auction for a UMTS license in Switzerland for €32.5 million. All of the related companies are consolidated in our combined financial statements by the global integration method, except for the IPSE 2000 consortium in Italy which has, since October 1, 2001, been accounted for using the equity method. We expect these consortia to finance the cost of the new licenses and of the related network build-outs through a combination of debt and equity. The substantial financial obligations undertaken in connection with our UMTS licenses, including the cost of the licenses and the expected costs of network build-outs and of establishing operations in high-cost European countries, will have a substantial effect on our future financial condition and results of operations. We will begin amortizing all of these licenses upon the commencement of UMTS commercial operations.

Valuation of Selected Investments

In line with the recommendations by the SEC, we may hire independent third parties to cooperate with us in the assessment and verification of the valuations of selected investments. This process may start in the second half of 2002. As a result of this process, we may be required to review the carrying value of selected investments, which could adversely affect our business, financial condition or result from operations.

Argentina

Background

Argentina's economy is in its fourth straight year of recession. The gross domestic product decreased 3.0% and 0.5% in 1999 and 2000, respectively. In addition, the Argentine government recorded an increasing fiscal deficit of approximately US\$4.1 billion, US\$4.8 billion and US\$9.2 billion in 1998, 1999 and 2000, respectively. In September 2001, Argentina's sovereign debt had increased to approximately US\$141.2 billion. Economic activity slowed sharply in the last weeks of 2001, and real gross domestic product declined 2.8% for the year. By the end of 2001, Argentina found itself suffering from deep social unrest and economic decline accompanied by political and economic instability.

In reaction to these events, the Argentine government has imposed severe economic restrictions, including (i) suspending payments on the government's external debt; (ii) abrogating the peg of the Argentine peso ("Ps.") to the U.S. dollar, which was known as "convertibility"; (iii) converting U.S. dollar denominated bank-deposits into Argentine peso-denominated deposits at an exchange rate of Ps.1.40 per \$1.00; (iv) converting U.S. dollar denominated debts into Argentine peso-denominated debts at an exchange rate of Ps.1.00 for each U.S. dollar (except internal federal and provincial government debt, which is converted at Ps.1.40 per \$1.00); (v) restricting bank withdrawals and transfers of funds, including U.S. dollars abroad; (vi) closing down the Argentine banking system for extended periods; (vii) enacting changes in the bankruptcy law to protect debtors; (viii) imposing withholding taxes on exports by the oil and gas and the agricultural sectors, among others; and (ix) amending the charter of the Argentine Central Bank to provide for increased money supply.

The resultant economic effects of these events have caused increased inflation, volatile exchange rates and reduced economic activity. According to information provided by INDEC, the Argentine consumer price index rose by 2.3% and 3.1% and the wholesale price index rose by 6.6% and 11.2% at January 31, 2002 and February 28, 2002, respectively. Unemployment is estimated at 23% to 25% of the workforce. Tax revenues in January and February, 2002 fell by 19.1% and 20.3%, respectively.

Impact on Telefónica Móviles

As a result of the devaluation of the Argentine peso in January 2002, in accordance with Spanish accounting regulations we created various provisions and allowances against our net income for 2001 and adjusted the "translation differences in consolidation" account in our consolidated balance sheet at December 31, 2001. Accordingly, the devaluation of the Argentine peso resulted in a decrease in net income of €42 million in 2001 and a reduction in shareholders' equity of €297 million at December 31, 2001. These provisions and allowances were made applying the rate of exchange of €1.00 = 1.5149 Argentine pesos, which is equivalent to the rate of U.S.\$1.00 = 1.7 Argentine pesos, the exchange rate at market close on January 11, 2002, following an extended bank holiday

during which exchange markets were closed. Our maximum exposure in Argentina based on the attributable equity value in our investments in Argentina and our intragroup financings amounted to €493 million at December 31, 2001 and €241 million at March 31, 2002. At March 31, 2002, the rate of exchange had fallen to €1.00 = 2.49 Argentine pesos resulting in an additional decrease in net income of €15.9 million and an additional reduction in shareholders' equity of €161.4 million. On June 25, 2002, the rate of exchange was €1.00 = 3.78 Argentine pesos. Our business, financial condition and results of operations may be adversely affected by declines in the value of the Argentine peso or the currencies of other Latin American countries where we operate.

As a result of the adverse macroeconomic situation in Argentina, at March 31, 2001, Telefónica Comunicaciones Personales was in breach of financial covenants relating to minimum shareholders' equity in its respective agreements with Ericsson and Banco Bilbao Vizcaya Argentaria. The aggregate amount outstanding under such agreements is approximately €120.3 million, of which Ericsson accounts for €95.9. Telefónica Comunicaciones Personales has obtained a waiver from Ericsson of such breach through June 30, 2002, and is currently negotiating with Ericsson an extension of such waiver. Telefónica Comunicaciones Personales also is currently negotiating with Banco Bilbao Vizcaya Argentaria to obtain a waiver of such breach. We believe that we have strong relationship with these parties and may be able to obtain any necessary waivers of any such breaches. We can provide no assurance of our ability to do so, however, and our ability to do so may be affected by the evolving situation in Argentina. If Telefónica Comunicaciones Personales is not able to obtain any necessary waivers following any such breach, it is possible that the related indebtedness could become due and payable, which could trigger cross-default provisions in other indebtedness of Telefónica Comunicaciones Personales, including €670.4 million of intragroup financing, up to an aggregate amount of €804.1 million. Telefónica Comunicaciones Personales is currently operating in a highly uncertain economic and political environment in which compliance with financial and other obligations is increasingly difficult.

Critical Accounting Policies under Spanish GAAP

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

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

For further explanations, see note 4 to the 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. The financial expenses capitalized in 2001 amounted to €182.4 million for financing arranged by Telefónica Móviles, S.A. and to €222.9 million for the financing granted by other stockholders of the companies holding UMTS licenses. A total amount of €179.3 million was capitalized in this connection in 2000. If such assets are acquired in a business combination, the purchase price is allocated to the estimated fair value of the acquired property, plant and equipment and intangible assets. Property, plant and equipment are depreciated or amortized on a straight-line basis over their estimated useful lives, and licenses included in the intangible assets are depreciated or amortized using an amortization method based on their estimated capacity to generate revenues during the concession period. For UMTS licenses, the amortization will coincide with the beginning of commercial operations. 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.

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.

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 that 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.

Financial Assets

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.

Net Investment Hedges

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

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

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 combined balance sheet as of December 31, 2000 and 2001 includes the related accounting provision based on the estimated valuation of the accumulated points at those dates.

Critical Accounting Policies under U.S. GAAP

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

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

To assess impairment of intangible assets and property, plant and equipment and related goodwill under U.S. GAAP, we apply SFAS No. 121, “Accounting for the impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of”. 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.

Nevertheless, according to APB 17, “Intangible Assets”, any goodwill which is not identified with assets that are subject to an impairment loss should be tested for recoverability at the enterprise level by a comparison with its fair value according to discounted cash flows, a method which is similar to the one applied under Spanish GAAP. Any carrying amounts that exceed its fair value should be immediately written off. Provisions under Spanish GAAP considered temporary or which did not qualify as goodwill impairment under U.S. GAAP were reverted and any other impairment according to U.S. GAAP requirements were recorded.

Revenue and Expense Recognition

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

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

The minimum contract period is the period in which the customer must use the wireless communications services provided by us. This period is generally for a period lasting one year 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.

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 metrics 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 effect future operating results.

Impairment of Long-term Investments

Under U.S. GAAP, if a long-term investment’s fair value declines below cost, the investor must determine whether there is adequate evidence to overcome the presumption that the decline is other than temporary. Such evidence may include:

- recoveries in fair value subsequent to the balance sheet date;
- the investee’s financial performance and near-term prospects (as indicated by factors such as earnings trends, dividend payments, asset quality, and specific events), and
- the financial condition and prospects for the investee’s geographic region and industry.

The evaluation of whether a decline in fair value is other than temporary may require considerable management judgment.

New Accounting Standards

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 replaces Accounting Principles Board Opinion No. 16 (APB 16), Business Combinations, and requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting, and broadens the criteria for recording intangible assets separate from goodwill. Recorded goodwill and intangible assets will be evaluated against this new criteria and may result in certain intangibles being subsumed into goodwill, or alternatively, amounts initially recorded as goodwill may be separately identified and recognized apart from goodwill. SFAS No. 142 requires the use of a non-amortization approach to account for purchased goodwill and certain intangibles. Under a non-amortization approach, goodwill and certain intangibles will not be amortized into results of operations, but instead would be reviewed for impairment and written down and charged to results of operations in the periods in which the recorded value of goodwill and certain intangibles exceeds its fair values. The provisions of SFAS No. 141 and SFAS No. 142, which apply to goodwill and intangible assets acquired prior to June 30, 2001, will be adopted by the Company on January 1, 2002. We are currently assessing the potential impact of these standards on our financial position and results of operations. In addition, goodwill on prior business combinations will cease to be amortized for U.S. GAAP reporting purposes. Had we adopted SFAS No. 142 at January 1, 2001, we would not have recorded a goodwill amortization charge of €54 million under U.S. GAAP.

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. An entity shall measure changes in the liability for an asset retirement obligation due to passage of time by applying an interest method of allocation to the amount of the liability at the beginning of the period. The interest rate used to measure that change shall be the credit-adjusted risk-free rate that existed when the liability was initially measured. That amount shall be recognized as an increase in the carrying amount of the liability and as an expense classified as an operating item in the statement of income. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. Management estimates that the adoption

of this Statement will not have a material effect on the financial position or results of operations of the Telefónica Móviles Group.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale consistent with the fundamental provisions of SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be disposed of. While it supersedes APB Opinion 30, Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, it retains the presentation of discontinued operations but broadens that presentation to include a component of an entity (rather than a segment of a business). However, discontinued operations are no longer recorded at net realizable value and future operating losses are no longer recognized before they occur. Under SFAS No. 144 there is no longer a requirement to allocate goodwill to long-lived assets to be tested for impairment. It also establishes a probability weighted cash flow estimation approach to deal with situations in which there are ranges of cash flows that may be generated by the asset being tested for impairment. SFAS No. 144 also establishes criteria for determining when an asset should be treated as held for sale. The provisions of this statement will be effective for financial statements issued for fiscal years beginning after December 15, 2001. Management has not yet determined what effect, if any, the adoption of this pronouncement will have on the earnings or financial position of the Telefónica Móviles Group.

On April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections. This Statement rescinds SFAS No. 4, Reporting Gains and Losses from Extinguishments of Debt, and an amendment of that Statement, SFAS No. 64, Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements. This Statement also rescinds SFAS No. 44, Accounting for Intangible Assets of Motor Carriers. This Statement amends SFAS No. 13, Accounting for Leases, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The provisions of this Statement related to the rescission of Statement 4 shall be applied in fiscal years beginning after May 15, 2002. The provisions of this Statement related to Statement 13 shall be effective for transactions occurring after May 15, 2002, with early application encouraged. All other provisions of this Statement shall be effective for financial statements issued on or after May 15, 2002, with early application encouraged. Management has not yet assessed what effect, if any, the application of this Statement will have on the financial position or results of operations of the Telefónica Móviles Group.

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 gross domestic product (GDP) grew by 3.9% in 1999, 3.9% in 2000 and 2.6% in 2001. It is expected to grow by approximately 2.0% in 2002. Our Spanish operations accounted for 68% of net revenues from operations in 2001.

Latin America

Results of operations from our Latin American subsidiaries are impacted by macroeconomic conditions in the region. Since the United States economy entered into a recession in March 2001, economic conditions in Latin America have worsened. Our future results of operations from our Latin American subsidiaries will depend in part on the evolution of economic conditions in Latin America.

Brazil. Growth in Brazil's GDP slowed markedly in the second half of 2001 due mostly to a decline in industrial production during the third quarter. Estimated real GDP growth for the year is approximately 1.5%. Monetary policy has been kept tight by the Brazilian government in order to limit inflation and to bolster the currency. The Brazilian real depreciated approximately 40.0% relative to the U.S. dollar in mid-2001, but rebounded to finish the year down 17.0%. Slow economic growth in the range of 2.0% to 2.5% is expected in 2002.

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

Peru. Peru's GDP growth slowed markedly in the second half of 2001 due mostly to a decline in industrial production during the third quarter. Estimated real GDP growth for the year is approximately 0.2%. Monetary policy has been kept tight by the Peruvian government in order to limit inflation and to bolster the currency, which depreciated by approximately 2.3% relative to the U.S. dollar during the course of 2001. Economic growth in the range of 3.0% to 3.5% is expected in 2002.

Mexico. Mexico's GDP growth slowed markedly in the second half of 2001 due mostly to a decline in industrial production during the third quarter. Estimated real GDP growth for the year is approximately (0.3)%. Monetary policy has been kept tight by the Mexican government in order to limit inflation and to bolster the currency, which depreciated by approximately 4.5% relative to the U.S. dollar during the course of 2001. Economic growth in the range of 1.5% to 2.0% is expected in 2002.

Trends in Our Principal Markets

The penetration rate in the Spanish market for wireless services was 73% at December 31, 2001. 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. Consequently, our focus is shifting from customer acquisition to enhancing customer service, providing value-added services and products designed to retain and continue to attract the best customers, and bringing to market services and products that should bolster average revenue per customer, which has been declining in the last several years.

A significant portion of our growth in customers in Spain has resulted from an emphasis on pre-paid wireless services. Of the increases of 4.6 million customers in 2000, and 3.1 million in 2001, 73.6% and 83.0%, respectively, were pre-paid customers as compared to contract customers. Pre-paid services offer several significant advantages including lower customer acquisition cost, higher per minute charges, reduced credit risk and lower administrative costs. Due to lower average minutes of use for pre-paid customers as compared to contract customers, the growth in pre-paid customers as a percentage of our customer base has resulted in significant declines in our average airtime per customer and our average revenue per user in Spain. In 2001, minutes of use per customer declined 3% as compared to 2000 and average revenue per user declined 9.5% in the same period.

We have experienced initial market receptivity in Spain for our services that are at an early phase of development, such as wireless internet and data services. Our wireless internet service provider, *e-moción*, had approximately 3 million visits in the month of December 2001, after less than two years of commercial service. Similarly, in wireless data services, in 2001, our Spanish operations carried approximately 6.3 billion short text messages, a 177% increase over 2000. Wireless internet and data services represent a central component of our strategy, both in terms of enhancing customer loyalty and inducing higher minutes of use.

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 customers increased to 10.1 million at December 31, 2001 from 7.7 million at year-end 2000. As in Spain, the substantial portion of our growth in Latin America has resulted from an emphasis on pre-paid wireless services. At December 31, 2001, pre-paid customers accounted for 67.8% of our customers in Latin America. We expect to continue to emphasize pre-paid services in Latin America and to gradually introduce additional services including, in particular, wireless internet and data services. We are already offering wireless internet services in most of our Latin American operations.

Adjusted EBITDA

We have included under "—Results of Operations" a discussion of our adjusted EBITDA. Our adjusted EBITDA has increased to €3,334 million for 2001 from €2,252 million in 2000 and €1,670 million in 1999. Although we expect our adjusted EBITDA margins for existing operations to remain stable or improve in the future, this improvement, if any, will likely be offset by lower adjusted EBITDA margins, if any, for the first years of our operations in the countries where we have obtained UMTS.

We define adjusted EBITDA as net income plus

- minority interest,

- corporate income tax,
- financial expense,
- amortization of goodwill and
- depreciation and amortization,

and less income (losses) from associated companies, extraordinary income (expense) and financial income. All components of adjusted EBITDA are calculated in accordance with Spanish GAAP.

We have presented adjusted EBITDA because it is an important measure of operational and financial performance used by our management. It also provides additional information to our investors for evaluating the ability of our company to generate cash flows and to meet our obligations. Adjusted EBITDA should be viewed as a supplement to our cash flow information prepared in accordance with Spanish GAAP. However, adjusted EBITDA is not a measure of performance or financial condition under Spanish GAAP or U.S. GAAP. Cash flows consist of cash flows from operating, investing and financing activities. In particular, cash flows from operating activities reflect net income or loss, including interest expense and income taxes not reflected in our calculation of adjusted EBITDA, adjusted for all non-cash charges or credits including, but not limited to, depreciation and amortization and changes in operating assets and liabilities. Our presentation of adjusted EBITDA does not take into consideration changes in operating assets and liabilities.

All companies do not calculate EBITDA in the same manner, such that disclosures of EBITDA by other companies may not be comparable with adjusted EBITDA used by us.

Customer Churn

We provide “customer churn” rates for each of our wireless operations under “Item 4—Information on the Company—Our Operations”. We believe that we apply conservative policies in calculating customer totals both in and outside Spain and the related customer churn rates. These policies may result in higher churn rates and lower market share figures than if we had used criteria employed by some other operators in calculating total customer churn rates.

We calculate churn rates by determining the number of customers whose wireless service is discontinued during a period, whether voluntarily or involuntarily (such as when a customer fails to pay his or her bill), divided by the average number of customers during the period.

In Spain, we include in involuntary churn any contract customer who has failed to pay his or her outstanding balance for two months and who, after having received notice of nonpayment, fails to pay the outstanding balance. We also include any pre-paid customer in Spain who has not recharged his or her call credits in one month following the date such credits have been reduced to zero.

Outside Spain, and depending on the country, we include 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. We also include any pre-paid customer outside Spain who has not recharged his or her call credits for between three and six consecutive months following the date such credits have been reduced to zero. We use longer periods for these purposes in Latin America, in part, due to local market practices and the typically lengthier pay cycles in the region.

We may include as discontinued some customers in and outside Spain who have “migrated”, or changed, from pre-paid to contract service, or vice versa, and who have not informed the relevant operator of the change so that the operator assumes that it has lost the customer.

Introduction to Results of Operations

The following is a brief description of the revenues and expenses that are included in the line items of the combined financial statements.

Net Revenues from Operations

Net revenues from operations consist of the following:

- *Wireless communications services.* These revenues are derived from use of our wireless network to provide communication services to customers, which is our principal business activity. Revenues generated by wireless communications services include:
 - *Fees for voice services:* These fees for voice services are generally based on a customer's actual airtime usage. Fees for voice services also include connection and monthly fees. Fees for voice services are received on a pre-paid basis and on a contract basis.
 - *Value-added services fees:* These fees include additional charges for value-added services, such as short messaging services and *e-moción*, which are consumed by some customers in addition to standard voice services.
 - *Interconnection fees:* These fees are collected from other telecommunications operators for terminating their calls on our network. Spain and the other countries in which we currently operate, other than Guatemala, Argentina and Mexico (in respect of national calls only) have implemented a "calling party pays" system so that we receive substantial revenues in the form of payments from other telecommunications providers for calls made by their customers to customers on our network.
 - *Roaming fees:* These fees are collected from other wireless operators for calls by their customers on our network.
- *Sales of handsets and accessories:* These revenues relate principally to the sale of handsets and other equipment.
- *Other services.* These revenues are derived principally from fixed wireless services in rural Spain and from fixed-line services in Central America. These revenues also include management fees earned from affiliated companies.

Other Revenues

These non-operating revenues include the capitalized expenses of in-house work performed to construct property, plant and equipment, which themselves are to be capitalized, and increases in the value of inventories over the prior period.

Operating Expenses

Our principal operating expenses are:

- *Services and goods purchased.* These expenses include interconnection fees paid by us to other telecommunications companies, including our affiliates in the Telefónica Group, and the cost of purchasing handsets and accessories.
- *External services and local taxes.* These expenses include the costs of distribution and other commercial costs, advertising and marketing expenses, sales overhead, customer care, third-party network maintenance costs and long distance leased lines. Local taxes were immaterial for all periods presented. 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. We will be amortizing all of our UMTS licenses upon commencement of UMTS commercial operations.
- *Changes in operating provisions.* These expenses primarily reflect changes in the provision for bad debt.

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.
- *Income (losses) of associated companies.* This item reflects our company's participation in the income or losses of companies carried by the equity method.
- *Financial expense.* Our financial expense principally consists of interest on our debt and foreign exchange losses.
- *Financial income.* Our financial income principally consists of revenues from interest bearing accounts and investment securities and other instruments and foreign exchange gains.
- *Extraordinary income (expense).* This item reflects extraordinary non-recurring gains and losses. Spanish GAAP is less restrictive than U.S. GAAP in permitting the classification of items as "extraordinary".

Corporate Income Tax

The amounts provisioned for taxes are based upon income before taxes as calculated in accordance with applicable tax regulations in Spain and the other jurisdictions in which we operate. To date, we have been a member of the Telefónica, S.A. consolidated tax group and will continue to be so for so long as it owns at least a 75% interest in our company. Our tax provision is calculated as if we and our operating companies and investees comprised a separate consolidated tax group.

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 combined financial statements do not include the results of the Mexican wireless operator, Pegaso, we have agreed to acquire. As a result, the following results of operations do not reflect the expected contribution of this company to our future 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,		
	1999	2000	2001
	(percentages of net revenues from operations)		
Net revenues from operations:			
Wireless communications services	88.8%	91.1%	91.6%
Sales of handsets and accessories	8.1	5.1	7.0
Other services.....	3.1	3.8	1.4
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Other revenues	1.9	1.7	1.8

	Year ended December 31,		
	1999	2000	2001
	(percentages of net revenues from operations)		
Operating expenses:			
Services and goods purchased.....	(26.7)	(24.4)	(22.1)
External services and local taxes.....	(36.6)	(35.7)	(31.0)
Personnel expenses	(3.4)	(4.2)	(6.3)
Depreciation and amortization	(12.4)	(13.7)	(15.0)
Change in operating provisions.....	(2.0)	(2.0)	(2.7)
Total operating expenses	(81.0)	(80.0)	(77.1)
Operating income.....	20.9	21.7	24.7
Non-operating expenses:			
Amortization of goodwill.....	(0.4)	(0.4)	(0.6)
Income (losses) of associated companies.....	(0.1)	(1.5)	(1.4)
Financial expense	(6.9)	(4.8)	(8.5)
Financial income.....	4.7	1.7	4.6
Income from ordinary activities.....	18.2	16.7	18.7
Extraordinary income (expense).....	(3.9)	(0.8)	(1.2)
Income before tax and minority interests.....	14.3	15.9	17.5
Corporate income tax	(4.2)	(5.4)	(7.5)
Minority interests	0.6	(0.3)	0.6
Net income.....	10.8%	10.1%	10.6%
Adjusted EBITDA	33.3%	35.3%	39.6%

The following discussion of our results of operations primarily focuses on the results of operations in Spain (including Telefónica Móviles España, M-Solutions and, since October 2001, Terra Mobile) and Latin America, our two 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 due to these exclusions or to rounding.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

The year ended December 31, 2001 was characterized by continued growth in revenues and total customers and by improvement in operating margins despite increasing competition in our markets and economic slowdown in our main countries of operation.

Net Revenues from Operations

The following table presents, for the periods indicated, the breakdown of net revenues from operations and the percentage variation from year to year:

	Year ended December 31,		
	2000	2001	% Variation
	(euro in millions)		
Wireless communications services	5,810	7,702	32.6%
Sales of handsets and accessories	326	588	80.3%
Other services	241	121	(49.8)%
Net revenues from operations	6,377	8,411	31.9%

Our net revenues from operations increased by 31.9% to €8,411 million for 2001 from €6,377 million for 2000. This increase resulted from the following factors:

- ***Spanish operations.*** Our Spanish operations accounted for 69% of net revenues from operations in 2001. Net revenues from our Spanish operations increased 20.4% to €5,815 million for 2001 from €4,828 million for 2000 due to the following factors:

- *Wireless communications services:* For 2001, wireless communications services represented 92% of net revenues from operations in Spain, reflecting a 17.4% increase to €5,340 million for 2001 from €4,547 million for 2000. This increase resulted from a 22% growth in our customers to 16.8 million at year-end 2001 from 13.7 million at year-end 2000. The increased revenues derived from customer growth were partially a result of the success of our *MoviStar Plus* program, which contributed to a gain of more than 0.5 million contract-based clients. The increase translated into a 28.2% increase in total minutes of use compared to 2000. The increased revenues derived from customer growth were partially offset by a 9.5% decline in average revenue per user to €31 for 2001 from €34 for 2000, which was principally due to rate reductions and to a change in customer mix as pre-paid customers increased to 68% of our total customer base at year-end 2001 from 65% at year-end 2000. In the case of wireless data services, we experienced a 177% increase in our short messaging revenue for 2001 compared to 2000. Net revenues from data services represented 15% of our total revenues from our digital customers for 2001.
- *Sales of handsets and accessories:* For 2001, sales of handsets and accessories represented 5.9% of net revenues from operations in Spain, reflecting a 174.4% increase to €341 million for 2001 from €124 million for 2000. This increase resulted principally from our new centralized handset procurement model introduced in December 2001 pursuant to which we more actively purchase and sell handsets.
- *Other services:* Net revenues from operations derived from other services in Spain decreased 14% to €134 million for 2001 from €156 million for 2000.
- *Latin American operations.* Our Latin American operations accounted for 32% of net revenues from operations for 2001. Net revenues from operations for our Latin American operations increased by 73% to €2,686 million for 2001 from €1,553 million for 2000 due to the following factors:
 - *Wireless communications services:* For 2001, wireless communications services represented 88% of net revenues from operations in Latin America, reflecting a 87% increase to €2,361 million for 2001 from €1,263 million for 2000. This increase was due principally to the 115% increase in our number of customers to 9.3 million at year-end 2001 from 4.3 million year-end 2000. Such increase was due, in large part, to the incorporation of wireless operations in Peru, Argentina and Mexico during 2001.
 - *Sales of handsets and accessories:* For 2001, sales of handsets and accessories represented 9% of net revenues from operations in Latin America, reflecting a 18% increase to €239 million for 2001 from €202 million for 2000. This increase resulted principally from the incorporation of wireless operations in Peru, Argentina and Mexico during 2001, which accounted for 45 percentage points of such increase and offset lower customer growth in the Brazilian market.
 - *Other services:* Net revenues from operations derived from other services in Latin America were €86 million for 2001, representing 3% of net revenues from operations in the region and a decrease of 3% from €88 million for 2000.

Other Revenues

Our other revenues increased by 34.0% to €148 million for 2001 from €111 million for 2000, principally as a result of higher levels of capitalized expenses relating to our start-up operations.

Operating Expenses

The following table presents, for the years indicated, the breakdown of operating expenses and the percentage variation from year to year:

	Year ended December 31,		
	2000	2001	% Variation
	(euro in millions)		
Services and goods purchased	1,559	1,862	19.4
External services and local taxes	2,277	2,604	14.3
Personnel expenses	271	534	97.2
Depreciation and amortization	871	1,258	44.4
Changes in operating provisions	129	225	74.4
Total operating expenses	5,107	6,483	26.9

Services and Goods Purchased. Services and goods purchased increased by 19.4% to €1,862 million for 2001 from €1,559 million for 2000. As a percentage of net revenues from operations, services and goods purchased decreased to 22.1% for 2001 from 24.5% for 2000. The decrease in this expense item as a percentage of net revenues from operations resulted from the following factors:

- *Spanish operations:* Our Spanish operations accounted for 69% of our services and goods purchased for 2001. These expenses increased 27.2% to €1,289 million for 2001 from €1,013 million for 2000. This increase was primarily attributable to increased traffic, which resulted in higher interconnection costs despite a decline in interconnection tariffs, and increased handset purchases as a result of our new centralized handset procurement model discussed above. As a percentage of net revenues from operations generated by our Spanish operations, services and goods purchased increased to 22.2% for 2001 from 21.0% for 2000.
- *Latin American operations:* Our Latin American operations accounted for 31% of our services and goods purchased for 2001. These expenses increased 6.0% to €581 million for 2001 from €546 million for 2000 primarily as a result of the incorporation of our wireless operations in Peru, Argentina and Mexico during 2001, which accounted for 30 percentage points of such increase, which more than offset lower levels of commercial activity. In addition, the year-on-year comparison is affected by the sharp devaluation of the Brazilian real against the U.S. dollar in 2000, which resulted in higher services and goods purchased expense in that year as a result of the increased cost of handsets in local currency, as handset prices are denominated in U.S. dollars. As a percentage of net revenues from operations generated by our Latin American operations, services and goods purchased decreased to 21.6% for 2001 from 35.2% for 2000.

External Services and Local Taxes. Our expenses due to external services and local taxes increased by 14.3% to €2,604 million for 2001 from €2,277 million for 2000. As a percentage of net revenues from operations, these external expenses decreased to 31.0% for 2001 from 35.7% for 2000. The relative decrease in this expense item as a percentage of net revenues from operations resulted from the following factors:

- *Spanish operations:* Our Spanish operations accounted for 59% of our total external expenses in 2001, as these expenses decreased by 18.0% to €1,542 million for 2001 from €1,873 million for 2000. As a percentage of net revenues from Spanish operations, external expenses decreased to 27.0% for 2001 from 38.8% for 2000. This decrease was principally due to the reduction in subscriber acquisition costs and the lower growth in new customers than in prior periods.
- *Latin American operations:* Our Latin American operations accounted for 39% of our total external expenses for 2001, as these expenses increased 168% to €1,023 million from €382 million in 2000. As a percentage of the net revenues from Latin American operations, external expenses increased to 38% for 2001 from 24.6% for 2000. External expenses for our Latin American operations increased by 168% in 2001 compared to 2000, principally due to the incorporation of wireless operations in Peru, Argentina and Mexico during 2001, which accounted for 169 percentage points of such increase.

Personnel Expenses. Our personnel expenses increased by 97.2% to €534 million for 2001 from €271 million for 2000. As a percentage of net revenues from operations, personnel expenses increased to 6.3% for 2001 from 4.2% for 2000. The increase of this expense item as a percentage of net revenues from operations resulted from the following factors:

- *Spanish operations:* Our Spanish operations accounted for 44% of our total personnel expenses for 2001. These expenses increased by 39% to €236 million for 2001 from €169 million for 2000. As a percentage of net revenues from operations generated by our Spanish operations, personnel expenses increased to 4.1% for 2001 from 3.5% for 2000. This increase was due to the growth of our operations, which led to a personnel increase from 3,937 people at year-end 2000 to 4,372 people at year-end 2001. Nonetheless, employee productivity, as measured by customers per employee, increased by 17% to approximately 3,500 customers per employee at year-end 2001.
- *Latin American operations:* Our Latin American operations accounted for 41% of our total personnel expenses for 2001. These expenses increased by 153% to €220 million for 2001 from €87 million for 2000. As a percentage of net revenues from operations generated by our Latin American operations, personnel expenses increased to 8.2% for 2001 from 5.6% for 2000. This increase in personnel expenses was principally attributable to the incorporation of wireless operations in Peru, Argentina and Mexico, which accounted for 144% of such increase. In addition to our personnel expenses in Spain and Latin America, we consolidated personnel expenses related to our start-up operations in European countries.

Depreciation and Amortization. Depreciation and amortization increased by 44% to €1,258 million for 2001 from €871 million for 2000. As a percentage of net revenues from operations, depreciation and amortization increased to 15% for 2001 from 13.65% for 2000. The increase in this expense item resulted from the following factors:

- *Spanish operations:* Our Spanish operations accounted for 52% of our total depreciation and amortization for 2001. This expense increased 13.3% to €655 million for 2001 from €578 million for 2000. As a percentage of net revenues from operations generated by our Spanish operations, depreciation and amortization decreased to 11.3% in 2001 from 12% in 2000. This decrease was principally due to economies of scale derived from the volume of operations.
- *Latin American operations:* Our Latin American operations accounted for 43% of our total depreciation and amortization for 2001. This expense increased 99% to €537 million for 2001 from €270 million for 2000. This increase was principally a result of the incorporation of wireless operations in Peru, Argentina and Mexico during 2001, which accounted for 93 percentage points of such increase, and higher expenses incurred to expand our networks in connection with the increased commercial activity in our Latin American operations. As a percentage of the net revenues from operations generated by our Latin American operations, depreciation and amortization increased to 20% for 2001 from 17.4% for 2000.

Changes in Operating Provisions. Changes in operating provisions increased by 74.4% to €225 million for 2001 from €129 million for 2000. These expenses, as a percentage of net revenues from operations, increased in 2001 by 2.7% from 2.0% for 2000.

Operating Income

As a result of the above factors, operating income increased by 50.6% to €2,076 million for 2001 from €1,380 million for 2000. Operating income, as a percentage of net revenues from operations, increased to 25% for 2001 from 21.7% for 2000.

Non-Operating Expenses

Amortization of Goodwill. Amortization of goodwill increased 103.6% to €54 million for 2001 from €26 million for 2000. This increase resulted principally from commencement of the amortization of goodwill relating to our Mexican operations and Argentina operations, as well as the commencement of amortization of goodwill relating to Terra Mobile following the change in the method pursuant to which we account for this entity from the equity method to consolidation as of October 1, 2001.

Income (Losses) of Associated Companies. Our share in income (losses) of companies carried by the equity method resulted in a loss of €119.2 million for 2001, as compared to a loss of €95 million for 2000. This change resulted principally from an increase in losses of Terra Mobile from €28 million in 2000 to €38 million in 2001 prior to such accounting change, losses at IPSE 2000 of €10 million, which were accounted for under the equity method as of October 1, 2001, and increased losses at Medi Telecom.

Financial Expense. Our financial expense increased by 134.8% to €715 million for 2001 from €304 million for 2000, principally due to a 134% increase in interest on payables to Telefónica Group companies to €230 million in 2001 from €98 million in 2000 and a substantial increase in exchange losses to €346 million in 2001 from €61 million in 2000 principally due to the devaluation of various Latin American currencies (principally the Brazilian real and the Argentine peso) during the period, which was offset in part by a 5.4% decline in other interest on payables and loans to €138 million in 2001 from €146 million in 2000.

Financial Income. Our financial income increased by 253% to €387 million for 2001 from €110 million for 2000. This increase was principally due to a substantial increase in exchange gains to €248 million in 2001 from €20 million in 2000 principally due to exchange rate hedging transactions entered into by us and a 55.1% increase in revenues from securities and loans to €138 million in 2001 from €89 million in 2000 principally due to interest on short-term financial investments made as a result of increased cash flow in our Spanish operations.

Extraordinary Income (Expense)

Our extraordinary expense, net was €101 million for 2001 compared to extraordinary expense, net of €52 million for 2000. Extraordinary expenses of €178 million in 2001 consisted principally of losses on fixed asset disposals, principally in Argentina, of €77 million, extraordinary expenses of €41.4 million relating to our Argentina wireless operations' net loss for the three months ended December 31, 2000, which were included in the combined results of operations in this caption following its change in fiscal year end from September 30 to December 31, and other extraordinary expenses of €24 million. Extraordinary income of €77 million in 2001 consisted principally of reversals of provisions relating to pension plans and provisions relating to contingencies and other expenses totaling €39 million, recoveries of insurance claims of €11 million and other extraordinary revenue of €17 million.

Corporate Income Tax

Our corporate income tax expense increased by 81% to €629 million for 2001 from €348 million for 2000. This increase resulted principally from our improved results of operations, especially in Spain, and the reduced availability of tax credits.

Minority Interests

Minority interests for 2001 resulted in a gain of €48 million compared to a loss of €21 million in 2000. This change was a result of losses incurred in El Salvador, Guatemala, Argentina and Germany attributable to minority interests.

Net Income

As a result of the above factors, net income increased by 38.6% to €893 million for 2001 from €645 million for 2000. Net income, as a percentage of net revenues from operations, was 10.6% for 2001, up slightly from 10.1% for 2000.

Adjusted EBITDA

Adjusted EBITDA increased by 48% to €3,334 million for 2001 from €2,252 million for 2000. As a percentage of net revenues from operations, adjusted EBITDA increased to 39.6% for 2001 from 35.3% for 2000. The increase in adjusted EBITDA was generally attributable to the following factors:

- *Spanish operations:* Our Spanish operations accounted for 84% of adjusted EBITDA for 2001. The adjusted EBITDA of our operations in Spain increased 57% to €2,803 million for 2001 from €1,791 million for 2000. This increase was due principally to economies of scale and a reduction in customer churn, as well as to a 36% reduction in customer acquisition costs. As a percentage of net revenues from operations, adjusted EBITDA decreased to 48.2% for 2001 from 37.1 % for 2000.
- *Latin American operations:* Our Latin American operations accounted for 20% of adjusted EBITDA for 2001. Adjusted EBITDA in our Latin American operations increased 36.7% to €684 million for 2001 from €500 million for 2000, principally as a result of the incorporation of our wireless operations in Peru,

Argentina and Mexico, which accounted for 41.7 percentage points of such increase. As a percentage of net revenues from operations, adjusted EBITDA decreased to 25.5% for 2001 from 32.2% for 2000.

- *Other European operations:* Our other European operations accounted for (2.7)% of adjusted EBITDA for 2001. We had negative adjusted EBITDA in our other European operations of €90 million in 2001 due to the start-up nature of our operations in Europe.

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

The year ended December 31, 2000 was characterized by continued growth in revenues and total customers and by improvement in operating margins despite increasing competition in our markets.

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:

	<u>Year ended December 31,</u>		<u>% Variation</u>
	<u>1999</u>	<u>2000</u>	
	<i>(euro in millions)</i>		
Wireless communications services	4,453	5,810	30.5%
Sales of handsets and accessories	406	326	(19.7)%
Other services	157	241	53.4%
Net revenues from operations	<u>5,016</u>	<u>6,377</u>	27.1%

Our net revenues from operations increased by 27.1% to €6,377 million for 2000 from 5,016 million for 1999. This increase resulted from the following factors:

- *Spanish operations.* Our Spanish operations accounted for 75.7% of net revenues from operations in 2000. Net revenues from our Spanish operations increased 29.1% to €4,828 million for 2000 from €3,739 million for 1999 due to the following factors:
 - *Wireless communications services:* For 2000, wireless communications services represented 94.2% of net revenues from operations in Spain, reflecting a 29.3% increase to €4,547 million for 2000 from €3,517 million for 1999. This increase resulted from a 51% growth in our customers to 13.7 million at year-end 2000 from 9.1 million at year-end 1999. The increased revenues derived from customer growth were partially a result of the success of our *MoviStar Plus* program, which contributed to a gain of more than 4.6 million contract-based clients. The increase translated into a 53% increase in total minutes of use compared to 1999. The increased revenues derived from customer growth were partially offset by a 23% decline in average revenue per user to €34 for 2000 from €44 for 1999, which was principally due to rate reductions and to a change in customer mix as pre-paid customers increased to 65% of our total customer base at year-end 2000 from 61% at year-end 1999. In the case of wireless data services, we experienced a 322% increase in our short messaging service for 2000 compared to 1999. Net revenues from data services represented 6% of our total revenues from our digital customers for 2000.
 - *Sales of handsets and accessories:* For 2000, sales of handsets and accessories represented 2.6% of net revenues from operations in Spain, reflecting a 5.9% increase to €124 million for 2000 from €117 million for 1999. This increase resulted principally from an increase in the price of handsets as we reduced handset subsidies during the period.
 - *Other services:* Net revenues from operations derived from other services in Spain increased 48.6% to €156 million for 2000 from €105 million for 1999.
- *Latin American operations.* Our Latin American operations accounted for 24.4% of net revenues from operations for 2000. Net revenues from operations for our Latin American operations increased by 21.8% to €1,553 million for 2000 from €1,275 million for 1999 due to the following factors:

- *Wireless communications services:* For 2000, wireless communications services represented 81.3% of net revenues from operations in Latin America, reflecting a 34.9% increase to €1,263 million for 2000 from €936 million for 1999. This increase was due principally to the 43.3% increase in our number of customers to 4.3 million at year-end 2000 from 3.0 million year-end 1999.
- *Sales of handsets and accessories:* For 2000, sales of handsets and accessories represented 13.0% of net revenues from operations in Latin America, reflecting a 29.9% decrease to €202 million for 2000 from €288 million for 1999. This decrease resulted principally from slower customer growth in the Brazilian market in 2000 as compared with 1999.
- *Other services:* Net revenues from operations derived from other services in Latin America were €88 million for 2000, representing 5.7% of net revenues from operations in the region and an increase of 76% from €50 million for 1999. The increase in revenues principally reflects revenues generated by our fixed-line operations in El Salvador and in Guatemala, which began operations at the end of 1999.

Other Revenues

Our other revenues increased by 13.5% to €111 million for 2000 from €97 million for 1999, principally as a result of higher levels of capitalized expenses and increases in handset inventory levels. Variations in handset inventory levels from the prior period-end are recorded as other revenue under Spanish GAAP.

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,		% Variation
	1999	2000	
	(euro in millions)		
Services and goods purchased	1,338	1,559	16.5%
External services and local taxes	1,835	2,277	24.1%
Personnel expenses	168	271	60.9%
Depreciation and amortization	622	871	40.1%
Changes in operating provisions	102	129	26.8%
Total operating expenses	<u>4,065</u>	<u>5,107</u>	25.6%

Services and Goods Purchased. Services and goods purchased increased by 16.5% to €1,559 million for 2000 from €1,338 million for 1999. As a percentage of net revenues from operations, services and goods purchased decreased to 24.5% for 2000 from 26.7% for 1999. The decrease in this expense item as a percentage of net revenues from operations resulted from the following factors:

- *Spanish operations:* Our Spanish operations accounted for 65% of our services and goods purchased for 2000. These expenses increased 27.5% to €1,013 million for 2000 from €795 million for 1999. This increase was primarily attributable to a 285% increase in revenues directly related to interconnection costs, as well as to the increase in commercial activity. As a percentage of net revenues from operations generated by our Spanish operations, services and goods purchased decreased to 21.0% for 2000 from 21.3% for 1999.
- *Latin American operations:* Our Latin American operations accounted for 35% of our services and goods purchased for 2000. These expenses increased 0.5% to €546 million for 2000 from €543 million for 1999 primarily as a result of lower cost of handsets. As a percentage of net revenues from operations generated by our Latin American operations, services and goods purchased decreased to 35.2% for 2000 from 42.6% for 1999.

External Services and Local Taxes. Our expenses due to external services and local taxes increased by 24.1% to €2,277 million for 2000 from €1,835 million for 1999. As a percentage of net revenues from operations, these external expenses decreased to 35.7% for 2000 from 36.6% for 1999. The relative decrease in this expense item as a percentage of net revenues from operations resulted from the following factors:

- *Spanish operations:* Our Spanish operations accounted for 82.3% of our total external expenses in 2000, as these expenses increased by 25.1% to €1,873 million for 2000 from €1,497 million for 1999. As a percentage of net revenues from Spanish operations, external expenses decreased to 38.8% for 2000 from 40.0% for 1999. This increase was principally due to expenses resulting from higher commercial activity and a shift in commercial costs from handset acquisitions, which are recorded as services and goods purchased, to distributor incentives, which are recorded as external services. Distributor incentives have a similar effect to handset acquisitions because distributors respond to the available incentives by offering distributor-subsidized handsets or other inducements.
- *Latin American operations:* Our Latin American operations accounted for 16.8% of our total external expenses for 2000, as these expenses increased 11.6% to €382 million from €342 million in 1999. As a percentage of the net revenues from Latin American operations, external expenses decreased to 24.6% for 2000 from 26.8% for 1999. This increase was principally due to higher network and maintenance costs as we sought to upgrade our Brazilian networks, and to the commencement of operations in Guatemala.

Personnel Expenses. Our personnel expenses increased by 60.9% to €271 million for 2000 from €168 million for 1999. As a percentage of net revenues from operations, personnel expenses increased to 4.2% for 2000 from 3.4% for 1999. The increase of this expense item as a percentage of net revenues from operations resulted from the following factors:

- *Spanish operations:* Our Spanish operations accounted for 62.3% of our total personnel expenses for 2000. These expenses increased by 41.1% to €169 million for 2000 from €119 million for 1999. As a percentage of net revenues from operations generated by our Spanish operations, personnel expenses increased to 3.5% for 2000 from 3.2% for 1999. This increase was due to the growth of our operations, which led to a personnel increase from 3,372 people at year-end 1999 to 3,937 people at year-end 2000. Nonetheless, employee productivity, as measured by customers per employee, increased by 28.9% to 3,461 customers per employee at year-end 2000.
- *Latin American operations:* Our Latin American operations accounted for 32.1% of our total personnel expenses for 2000. These expenses increased by 82.6% to €87 million for 2000 from €48 million for 1999. As a percentage of net revenues from operations generated by our Latin American operations, personnel expenses increased to 5.6% for 2000 from 3.7% for 1999. This increase in personnel expenses was principally attributable to a restructuring of Tele Sudeste Celular in June 2000, which resulted in increased severance payments and related costs.

Depreciation and Amortization. Depreciation and amortization increased by 40.1% to €871 million for 2000 from €622 million for 1999. As a percentage of net revenues from operations, depreciation and amortization increased to 13.65% for 2000 from 12.4% for 1999. The increase in this expense item resulted from the following factors:

- *Spanish operations:* Our Spanish operations accounted for 66.3% of our total depreciation and amortization for 2000. This expense increased 28.4% to €578 million for 2000 from €450 million for 1999. As a percentage of net revenues from operations generated by our Spanish operations, depreciation and amortization was stable at 12.0% in each of 2000 and 1999. This decrease was principally due to economies of scale derived from the volume of operations.
- *Latin American operations:* Our Latin American operations accounted for 30.9% of our total depreciation and amortization for 2000. This expense increased 72.9% to €270 million for 2000 from €156 million for 1999. This increase was principally a result of higher expenses incurred to expand our networks in connection with the increased commercial activity in our Latin American operations. As a percentage of

the net revenues from operations generated by our Latin American operations, depreciation and amortization increased to 17.4% for 2000 from 12.2% for 1999.

Changes in Operating Provisions. Changes in operating provisions increased by 26.8% to €129 million for 2000 from €102 million for 1999. These expenses, as a percentage of net revenues from operations, were stable at 2.0% for each of 2000 and 1999.

Operating Income

As a result of the above factors, operating income increased by 31.7% to €1,380 million for 2000 from €1,048 million for 1999. Operating income, as a percentage of net revenues from operations, increased to 21.7% for 2000 from 20.9% for 1999.

Non-Operating Expenses

Amortization of Goodwill. Amortization of goodwill increased 43.5% to €26 million for 2000 from €18 million for 1999. This increase resulted principally from our increased ownership interest in Tele Sudeste Celular, CRT Celular and Telerj Celular during 1999.

Income (Losses) of Associated Companies. Our share in income (losses) of companies carried by the equity method resulted in a loss of €95 million for 2000, as compared to a loss of €4 million for 1999. This change resulted principally from our 30.5% participation in the losses incurred by our commencement of operations in Morocco and our 51% share in the losses incurred by Terra Mobile.

Financial Expense. Our financial expense decreased by 12.2% to €304 million for 2000 from €347 million for 1999, principally due to the refinancing of our debt denominated in Brazilian reais at an interest rate of 10% and the conversion of that debt into a U.S. dollar-denominated loan at an interest rate of 5%. In addition, financial expense at our Brazilian companies was affected in 1999 by the devaluation of the *real*.

Financial Income. Our financial income decreased by 53.2% to €110 million for 2000 from €234 million for 1999. This decrease was principally due to the fact that in 1999 we obtained gains relating to BNDES bonds from favorable hedges against the risk of devaluation of the *real* at the time of the acquisition of Tele Sudeste Celular and of our interest in Tele Leste Celular.

Extraordinary Income (Expense)

Our extraordinary expense, net was €52 million for 2000 compared to extraordinary expense, net of €195 million for 1999. This change resulted principally from a write-down in 1999 of intangible assets relating to the value of Tele Sudeste Celular's license following the devaluation of the *real*.

Corporate Income Tax

Our corporate income tax expense increased by 65.4% to €348 million for 2000 from €210 million for 1999. This increase resulted principally from our improved results of operations, especially in Latin America, and the reduced availability of tax credits.

Minority Interests

Minority interests for 2000 resulted in a loss of €21 million compared to a gain of €32 million in 1999. This change was a result of the positive results of our Latin American operations in 2000, particularly Tele Sudeste Celular and Celular CRT, which had negative net income during 1999.

Net Income

As a result of the above factors, net income increased by 19.4% to €645 million for 2000 from €540 million for 1999. Net income, as a percentage of net revenues from operations, was 10.1% for 2000, which was largely consistent with 10.8% for 1999.

Adjusted EBITDA

Adjusted EBITDA increased by 34.8% to €2,252 million for 2000 from €1,670 million for 1999. As a percentage of net revenues from operations, adjusted EBITDA increased to 35.3% for 2000 from 33.3% for 1999. The increase in adjusted EBITDA was generally attributable to the following factors:

- *Spanish operations:* Our Spanish operations accounted for 79.5% of adjusted EBITDA for 2000. The adjusted EBITDA of our operations in Spain increased 32.3% to €1,791 million for 2000 from €1,353 million for 1999. This increase was due principally to economies of scale, as well as to a 17% reduction in customer acquisition costs. As a percentage of net revenues from operations, adjusted EBITDA increased to 37.1% for 2000 from 36.2 % for 1999.
- *Latin American operations:* Our Latin American operations accounted for 22.2% of adjusted EBITDA for 2000. Adjusted EBITDA in our Latin American operations increased 60.8% to €500 million for 2000 from €311 million for 1999, principally as a result of our consolidation of operations in Brazil. As a percentage of net revenues from operations, adjusted EBITDA increased to 32.2% for 2000 from 24.5% for 1999.

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 and 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 in order to build-out networks in countries where we have acquired UMTS licenses;
- acquisitions of new licenses and concessions, such as the UMTS license in Germany acquired through Group 3G in August 2000, the UMTS license in Italy won in an auction by IPSE 2000, the UMTS license in Austria awarded to us in November 2000, the UMTS license in Switzerland awarded to us in January 2001 and any further licenses that we may acquire in the future;
- acquisitions of other wireless operators or companies engaged in complementary or related businesses, such as our recent acquisition of our Mexican operators and our proposed acquisition of Pegaso;
- debt service requirements relating to our existing and future debt; and
- costs and expenses relating to the operation of our business.

Capital Expenditures. The following table presents our actual capital expenditures for 1999, 2000 and 2001 (excluding capital expenditures to acquire UMTS licenses):

	1999	2000	2001
	(millions of euro)		
Spain	772	897	780
Rest of Europe	—	—	295
Western Europe(1).....	772	897	1,075
Latin America(2).....	632	541	597
Other(3).....	—	18	18
Total.....	1,404	1,456	1,690

(1) Does not include any capital expenditures that would be required if we acquire UMTS licenses in other countries.

- (2) Includes capital expenditures for years in which our Latin American operating companies are included in our combined financial statements. Includes with respect to our Argentina operations its capital expenditures during the 15 months ended December 31, 2001.
- (3) Principally Telefónica Móviles, S.A. (parent company), Terra Mobile and M-Solutions.

The above table does not reflect capital expenditures to acquire UMTS licenses in Spain, Germany, Italy, Austria and Switzerland. See “—Capital Expenditures for UMTS Licenses.”

Our total capital expenditures totaled approximately €1,690 for 2001, €1,456 million for 2000, and €1,404 million for 1999. In each of these years, 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 2001 and 2000, we substantially expanded the capacity of our digital network in Spain in order to accommodate the rapid growth in our customer base in that country. In that period, we also made significant capital expenditures to increase the geographic coverage and capacity of our network in Brazil.

We expect to have overall capital expenditures of less than 15% of net revenues from operations by 2005, assuming constant exchange rates, except for the Argentine peso, and no change in the composition of our group. In Spain, we expect to grow our annual capital expenditures at a compound annual growth rate of between negative 3% and 1% per year through 2005 to approximately 7-11% of net revenues from operations in Spain. In Germany, Group 3G expects to have capital expenditures of between €650 million and €750 million in the period 2002–2003. In Latin America (excluding capital expenditures, related to the proposed acquisition of Pegaso), we expect to reduce our annual capital expenditures at a compound annual rate of between 5-9% per year through 2005 to approximately 12-16% of net revenues from operations in Latin America. In Mexico (including capital expenditures related to the proposed acquisition of Pegaso), we expect to have capital expenditures of approximately US\$1,900 million and US\$2,100 million in the aggregate in the period 2002–2005.

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, the IPSE 2000 consortium, in which we currently hold a 45.6% interest, won an auction for one of five UMTS licenses in Italy for a total cost of €3,269 million, of which our pro rata share is €1,491 million. Approximately €2 billion was paid upon award of the license in October 2000, and the balance is payable over a ten-year period. We financed our pro rata share of the initial payment with debt financing.

In November 2000, we acquired a UMTS license in Austria for a total payment of €117 million.

In January 2001, we acquired a UMTS license in Switzerland for a total payment of €32.5 million.

Contractual Obligations and Commercial Commitments

Contractual Obligations

The following table discloses aggregate information about our principal contractual obligations by type of obligation at December 31, 2001, and the periods in which payments are due.

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
	(euro in millions)				
Contractual Obligations					
Loans and credits	10,498	6,126	665	512	3,195
Loans and credits in foreign currency.....	1,397	490	659	248	-
Total contractual cash obligations.....	<u>11,895</u>	<u>6,616</u>	<u>1,324</u>	<u>760</u>	<u>3,195</u>

The following table presents, at December 31, 2001, our historical debt at both the holding company and operating company levels, as well as information regarding interest expense of the weighted average interest rates of such debt:

	Maturity			Interest Expense(1)	Weighted Average Interest Rate(2)
	Short-Term	Long-Term	Total Debt		
	(millions of euro)				
Historical debt:					
Telefónica Móviles, S.A.(2).....	5,421	1,335	6,756	148	5.04%
European operations	705	3,389	4,094	49	4.78%
Latin American operations.....	490	555	1,045	171	8.08%
Total(3)	6,616	5,279	11,895	368	5.31%

- (1) The interest for UMTS-related loans is being capitalized during the pre-operations period and is not included in this column.
- (2) For illustrative purposes, includes as interest expense amounts which have been capitalized related to UMTS-related loans.
- (3) Refers to parent company only.

Historical Debt. We had total debt in an aggregate principal amount of €11,895 million at December 31, 2001 (€9,013 million net of cash and short-term financial investments) and €7,715 (€6,487 net of cash and short-term financial investments) million at December 31, 2000. The increase in our total debt at December 31, 2001 from our total debt at December 31, 2000 was partly due to the incorporation of our wireless operations in Peru, Argentina and Mexico. On June 28, 2002, Sonera and Telefónica Móviles capitalized the shareholders loans related to the acquisitions of the UMTS licenses. The amounts capitalized by Telefónica Móviles and Sonera are €4.077 billion and €3.051 billion, respectively. At December 31, 2001, total debt consisted of €6,616 million in short-term debt and €5,279 million in long-term debt. At December 31, 2000, total debt consisted of €4,708 million in short-term debt and €3,007 million in long-term debt.

At December 31, 2001, approximately €7,857 million principal amount, or 66%, of our total debt was payable to Telefónica, S.A. and Telfisa and approximately €4,038 million principal amount, or 34%, of our total debt was payable to banks and other financial institutions. The majority of our debt to Telefónica, S.A. and Telfisa was incurred in connection with our acquisition of UMTS licenses in Germany, Italy and other Western European countries. Historically, as a wholly-owned subsidiary of Telefónica, S.A., we believe that most of our debt was substantially at market terms when arranged or incurred. In connection with the allocation of assets and debt to us by the Telefónica Group prior to our initial global public offering, the terms, particularly the weighted average interest rate of our debt with the Telefónica Group, was brought into line with available market terms.

Our total debt includes both fixed-rate and variable-rate debt. At December 31, 2001, approximately 12% 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, which once completed, will restructure the profile of our debt. A significant portion of our cash and marketable securities on hand will be used to prepay our debt. Furthermore, we will also modify the fixed-rate versus variable-rate interest profile of our long-term debt. As a result, once the restructuring is completed, approximately one-half of our debt will bear interest at a fixed rate and one-half of such debt will bear interest at a floating rate. 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, 2001, approximately 88% of our debt was denominated in euro; 6% in U.S. dollars; 4% in Brazilian *reais* and the remaining balance 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 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, 2001.

The agreements and instruments governing the debt incurred by our company 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, merging, etc., and negative pledges. None of the debt of our operating companies contains cross-default or cross-acceleration provisions tied to the debt of Telefónica Móviles, S.A. (parent company). However, most of such debt contains customary cross default provisions to other debt of the same issuer and some of such debt contains cross default provisions relating to indebtedness of other companies in the group other than Telefónica Móviles, S.A. (parent company).

Debt Service Requirements. We have significant debt service requirements arising from debts payable to Telefónica, S.A. and Telefónica Finanzas, S.A., or Telfisa, which conducts the treasury operations for the Telefónica Group, and debts payable to banks and other financial institutions. These debt service requirements consist of interest payments, which are reflected in our statements of operations under “Financial expense,” and principal payments. Financial expense also includes the effects of foreign currency movements on debt denominated in currencies other than the euro. Our interest expense, excluding effects of foreign currency movements, totaled approximately €368 million in 2001 as compared with €244 million in 2000 and approximately €241 million in 1999.

Commercial Commitments

In addition to the contractual obligations shown above under “-Contractual Obligations”, we have commitments that could require us to make material payments in the future. These commitments are not included in our combined balance sheet at December 31, 2001. Our principal commitments as of the date of this Annual Report are described below.

IPSE 2000 entered into an agreement with Ferrovie dello Stato SpA, an Italian railway company, on October 25, 2000 pursuant to which IPSE 2000 has been granted certain access rights to and rights of use of a specified portfolio of such railway company’s sites. Telefónica, S.A. has guaranteed amounts due under such agreement up to €49.2 million. We expect to enter into a back-to-back guarantee with Telefónica, S.A. or for such guarantee to be transferred to us.

IPSE 2000 agreed with a syndicate of banks on December 11, 2000 that such banks would issue a guarantee in an aggregate amount of €1,292 million in favor of the Italian Ministry of Treasury for the deferred portion of IPSE 2000’s required payment for its UMTS license in Italy. Telefónica, S.A. has guaranteed amounts due under such guarantee up to €515.6 million. We expect to enter into a back-to-back guarantee with Telefónica, S.A. or for such guarantee to be transferred to us.

Our subsidiary, Telefónica Móviles España, has agreed with IPSE 2000 to loan up to €250 million to it, to be drawn down during 2002, in order to preserve its activities and permit the launching of UMTS services in Italy when the technology becomes commercially feasible.

We have agreed with Portugal Telecom to subscribe pro rata to a capital increase by Medi Telecom of €34.4 million. We expect the capital increase to occur in the second half of 2002.

Under our agreement to acquire 65% of Pegaso Telecomunicaciones, S.A. de C.V. (“Pegaso”), we have agreed to pay \$87 million in cash and to cause Pegaso to pay approximately \$586 million in existing debt obligations and any amount drawn down from \$100 million in additional interim financing provided by a third party, within 30 to 60 days of the closing of the acquisition. In addition, \$280 million of Pegaso’s existing non-recourse vendor financing would accelerate and become immediately due if Pegaso were to implement a change in its wireless technology. The payment of the accelerated vendor debt is guaranteed by us. In connection with the Pegaso acquisition, we have agreed to contribute our interest in Pegaso and our other Mexican operators to a new company (“Newco”) formed with Pegaso’s other shareholder and subscribe for 65% of a capital increase of between \$326 million and \$488 million to be carried out by Pegaso simultaneously with the closing of the Pegaso acquisition.

Our agreement to create Newco and combine our interests in Pegaso and our other Mexican operators with the Burillo Group’s interest in Pegaso includes exit mechanisms for our local partners. These exit mechanisms operate via certain put rights for the Burillo Group relating to the Burillo Group’s Newco shares. In addition, we also have call rights with regard to the Burillo Group’s Newco shares. The Burillo Group will have the right to require us to purchase its shares in Newco in 2007 or 2008, or if its interest in Newco decreases to less than 50% of its original holding, 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 the right, after November 14, 2008, to require it to sell to us its entire interest in

Newco. In each such case, the purchase price will be determined based on a valuation of Newco performed pursuant to specified procedures at the time the related right is exercised. If we are required to purchase the Burillo Group's Newco shares under its put right, or if we purchase its Newco shares under our call right, we have agreed to pay a portion of the purchase price in cash in an amount based on the Burillo Group's original investment of \$160 million to \$216 million in Newco, plus the annual cost of carry (which is equal to the annual U.S. dollar swap rate), less any cash distributions received by the Burillo Group, and any remaining amount, if any, in, at our option, cash or Telefónica Móviles shares or a combination thereof. Because the amounts payable by us pursuant to the foregoing put and call rights are based on a valuation of Newco at the time the related right is exercised in 2007 or 2008, and the actual interest of the Burillo Group (either 8% or 10%) we are not able to determine as of the date of this Annual Report our potential commitment pursuant to such rights.

The Pegaso transaction is subject to receipt of required government approvals. We expect the closing to occur in the second half of 2002.

We have made certain guarantees totaling €781 million to the Spanish government in connection with our acquisition of a UMTS license in Spain. These guarantees support certain network build-out requirements, research and development requirements and job creation requirements, and are released from time to time as milestones are reached. Phase I of the build-out requirements has been completed and we are currently in negotiations with the Spanish government to release a significant portion of such guarantees.

In December 2001, in view of Terra Mobile's new business model, which is more focused on the technological development of wireless networks, and our efforts to develop new wireless internet applications, we and Terra Networks adjusted our relative ownership interests in Terra Mobile pursuant to which we increased our ownership interest in Terra Mobile from 51% to 80% while Terra Networks reduced its ownership interest from 49% to 20%. We also entered into a put/call arrangement with Terra Networks pursuant to which Terra Networks has a call right and a put right with respect to Terra Mobile. Under this agreement, Terra Networks has the right to acquire up to a 49% stake in Terra Mobile at the lower of (i) fair market value or (ii) the value of our investment in Terra Mobile, as adjusted to cost of carry. This option may be exercised once between January 1, 2003 and January 1, 2006. Terra Networks also has the right to require us to purchase its 20% stake in Terra Mobile at the lower of (i) fair market value or (ii) the value of our investment in Terra Mobile, as adjusted to cost of carry. This option may be exercised between January 1, 2003 and the termination of the shareholders' agreement (which shall be in effect for as long as we own an interest in Terra Mobile) if Terra Networks disagrees with any decision to (i) cause Terra Mobile to increase its share capital or issue debt or (ii) adopt measures that may affect directly Terra Networks' strategic position. Because the amounts payable by either party are based on fair market values of Terra Mobile and Terra Mobile is not publicly traded, the determination of the fair market value of Terra Mobile was not practicable at the date of this annual report.

Telefónica Móviles España and Group 3G have entered into a UMTS infrastructure supply and network construction services contracts with Ericsson and Nortel for Germany and Spain, respectively. The supply contract in respect of Germany was entered into together with non-recourse vendor financing agreements that are expected to provide Group 3G with a total of between €500 million and €600 million during the period 2002—2004. The shareholders have agreed to provide the necessary funds to Group 3G to make up any difference between the funding requirements of Group 3G set forth in its business plan and the amounts provided to it pursuant to such vendor financing arrangements. Because the amounts payable by us pursuant to the foregoing are based on our business plan, which is subject to change, we are not able to determine as of the date of this Annual Report our potential commitment pursuant to this agreement.

The following table discloses aggregate information about the commercial commitments described above that can be quantified as of the date of this Annual Report. Because some of the commitments described above cannot be quantified as of the date hereof, the following table may set forth aggregate commitment amounts that are lower than the actual amount we would be required to pay pursuant to our commitments.

	Amount of Commitment Expiration Per Period				
	Total Amounts Committed	Less than 1 year	1-3 years	4-5 years	Over 5 years
	(euro in millions)				
IPSE 2000:					
Ferrovia dello Stato.....	49.2	49.2	—	—	—
Bank guarantee.....	515.6	515.6	—	—	—
Credit line.....	250.0	250.0	—	—	—
Médi Telecom:					
Equity contribution.....	17.7	17.7	—	—	—
Pegaso:					
Equity subscription.....	87	87	—	—	—
Debt repayments.....	586	586	—	—	—
Spain:					
UMTS guarantees.....	781	144	224	413	—
Total commercial commitments	2,286	1,650	224	413	—

Historical Dividend Payments.

Historically, Telefónica Móviles España, our Spanish operating company, made significant dividend payments to Telefónica, S.A., including €274 million in 1999 and €210 million in 1998. In connection with the transfer of Telefónica Móviles España to our company and the re-allocation of assets and liabilities to provide our company with a strong capital base, Telefónica Móviles España paid a €800 million dividend to Telefónica, S.A. prior to its transfer to our company. This dividend payment and an €800 million loan that was entered into by our company to finance that payment were largely offset by the reallocation and retention by Telefónica, S.A. of debt associated with its acquisition of our operating companies in Latin America.

Sources of Liquidity and Capital Resources

Our primary sources of liquidity and capital resources have traditionally consisted of the following:

- cash provided by operating activities;
- loans from Telefónica, S.A. and other Telefónica Group companies, particularly Telfisa; and
- loans from banks and other financial institutions.

We expect to continue to rely upon these sources of liquidity and capital resources. In connection with our global initial public offering in November 2000 we received funds in the amount of approximately €3.3 billion. We also may from time to time issue additional ordinary shares to finance and support the development of our business, including as consideration for possible future acquisitions.

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 €1,332 million for 2001, €5,594 million for 2000, and €1,449 million for 1999.

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.

Shareholders' Equity. We had shareholders' equity of €7,489 million at December 31, 2001 and €5,319 million at December 31, 2000. As reflected in the combined balanced sheets, net equity investment by Telefónica, S.A. consists of the accumulated undistributed net income of our company and our operating companies, capital contributions that had been made from time to time by Telefónica, S.A. and translation differences resulting from the effects of exchange rate fluctuations on the net assets of our companies domiciled outside of Spain.

We intend to maintain a capital structure that will enable us to obtain and retain investment grade ratings from major rating agencies for any debt securities that we may issue in the future. We cannot be certain that our future financial requirements will not be greater than expected or that future conditions in the loan and debt and equity capital markets will not adversely affect our ability to meet these requirements, particularly if the cost of capital increases as we and other wireless operators seek increasingly large amounts of debt and equity financing to develop and expand our and their respective operations.

Committed Credit Lines

We maintain a committed line of credit with the Telefónica Group. This credit line totaled €5,367 million at December 31, 2001 and €7,606 million at December 31, 2000, of which €546 million and €3,365 million were unused at December 31, 2001 and December 31, 2000, 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 also had unused committed credit lines totaling €25 million at December 31, 2001 with financial institutions. We do not maintain any uncommitted lines of credit.

Reconciliation to U.S. GAAP

Our financial statements have been prepared in accordance with Spanish GAAP. Shareholders' equity would have been €9,496 million under U.S. GAAP compared to €7,489 million under Spanish GAAP at December 31, 2001 and €7,941 million under U.S. GAAP compared to €5,319 million under Spanish GAAP at December 31, 2000.

Net income would have been €320 million under U.S. GAAP compared to €893 million under Spanish GAAP for 2001 and €727 million under U.S. GAAP compared to €645 million under Spanish GAAP for 2000. For 1999, net income would have been €534 million under U.S. GAAP compared to a net income of €540 million under Spanish GAAP.

The decrease in net income under U.S. GAAP in 2001 as compared with net income under Spanish GAAP is principally related to goodwill impairments, treatment of start-up expenses and revenue recognition principles. In December 2001 we performed a goodwill impairment analysis on our recorded goodwill. As a result of this analysis, we determined that the goodwill related to Tele Sudeste was impaired and accordingly reduced the goodwill by approximately €362 million under U.S. GAAP. The decrease in net income under U.S. GAAP compared with net income under Spanish GAAP was also due to start-up expenses, which under Spanish GAAP may be capitalized but under U.S. GAAP must be expensed as incurred. Finally, such decrease in net income under U.S. GAAP was due to certain deferrals of revenues required under U.S. GAAP. See notes 20.6, 20.1.b and 20.4 of the combined financial statements.

The increase in net income under U.S. GAAP in 2000 compared with net income under Spanish GAAP is principally related to the change in accounting principles related to revenue and expense recognition, which was made to conform to the guidance provided by the Securities and Exchange Commission in Staff Accounting Bulletin No. 101. We have recorded the cumulative effect of the change in this accounting principle to the U.S. GAAP income as of January 1, 2000, as explained in note 20.5 of the combined financial statements.

Under this new policy, costs in excess of deferred revenues are deferred and amortized over the minimum contract period, which, in most cases, is 12 months. As of December 31, 2001 and 2000, the deferral of excess costs over revenues, net of taxes and minority interests, amounts to a loss of €71.2 and €140.9 million respectively. This

amount will be amortized in most cases over 12 months and therefore will reduce net income before tax over those periods by an equal amount.

See note 20 to the combined financial statements for a description of the principal differences between Spanish GAAP and U.S. GAAP as they pertain to us and for a quantitative reconciliation of net income and shareholders' equity from Spanish GAAP to U.S. GAAP.

Seasonality of Our Business

Our business is subject to a certain degree of seasonality, characterized by a higher number of new clients in summer and in the Christmas season. We believe that this seasonality is driven by Christmas marketing campaigns and higher mobile telephony usage during vacation periods. However, there is no intrinsic business rationale for this trend to continue in the future.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.

We cooperate with the research and development departments of various handset manufacturers to ensure the development and success of general packet radio service and UMTS-ready handsets with capacity to transmit data at high speeds. We engage in our own research and development to ensure compatibility between our services and products and the latest handset models and to develop new services. At the end of 1999 we set up a Development and Technologies Center dedicated to the development of wireless internet products and services. This Center develops projects in conjunction with universities and Spanish and international companies in the wireless sector, to increase public awareness of the possibilities offered by wireless communications. We spent approximately €136 million in 2001 and €128 million in 2000 on our research and development activities.

In November, 2001, Tempos 21, Innovación en Aplicaciones Móviles, S.A. was created 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, and creating wireless internet related products and other wireless services products. Tempos 21 also provides consulting services and develops integrated solutions for the aforementioned sectors. We hold a 38.5% interest in Tempos 21.

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 our company in all matters concerning our business, subject to the provisions of the by-laws (*estatutos*) and resolutions adopted at general shareholders' meetings. The board of directors will seek to propose candidates for election to the board of directors comprised of a majority of candidates from outside of our company, including both independent directors and representatives of our controlling shareholder, Telefónica, S.A. Under the *Código de Buen Gobierno* (Code of Good Corporate Governance) of the *Comisión Nacional del Mercado de Valores*, or Spanish National Securities Commission, and the Rules and Regulations governing our board of directors, the following persons would not be considered independent directors: persons who have had a significant relationship with our company or have been officers of our company during the two years prior to the date of appointment or have family relationships with our company, with the members of the board of directors or with our senior managers, or persons who have made or received payments in amounts significant enough to compromise their independence, or persons who have had relationships with the company that the nominating and compensation committee deems may reduce their independence.

Under our by-laws, the board of directors consists of a minimum of three and a maximum of nineteen members elected by the holders of ordinary shares at a meeting of shareholders, with the actual number being determined by a resolution passed at the shareholders' meeting. The number of directors is currently fixed at 12. Directors are elected by our shareholders to serve a five-year term and may be re-elected to serve for an unlimited number of terms. If a director does not serve out his or her entire term, the board of directors may fill the vacancy by appointing a shareholder as a replacement director to serve until the next general shareholders' meeting, when the

appointment may be ratified or a new director may be elected to fill the vacancy. 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.

The current board of directors was elected during 2000, and their terms will end upon the election of the new directors at a shareholders' meeting to be held in 2005, except for Javier Echenique, who was appointed on May 2002 by the Board of Directors following the cooption procedure and whose appointment runs until the next Shareholders' Meeting.

Committees of the Board

Our board of directors has established a delegate committee, an audit and control committee, and a nominating and compensation committee in accordance with the recommendations set forth in the Code of Good Corporate Governance. 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 outside directors. 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.

Audit and Control Committee

The audit and control committee is responsible for supervising corporate accounting and auditing, reviewing the registration statements and financial information we furnish to the market and our supervisory boards, proposing the nomination of our independent auditor and verifying our compliance with the internal regulations of our company, including those related to our activities in the securities markets.

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 May 1, 2002:

Name	Age	Position
Luis Lada Díaz.....	52	Chairman
Fernando Abril-Martorell Hernández	40	Director
Enrique Alvarez López	58	Director
José María Alvarez-Pallete López	38	Director
Lars M. Berg	54	Director
Miguel Angel Canalejo Larrainzar	60	Director
Maximino Carpio García	57	Director
Fernando Xavier Ferreira.....	53	Director
Victor Goyenechea Fuentes	51	Director

Name	Age	Position
Antonio Massanell Lavilla	47	Director
Alfonso Merry del Val Gracie	56	Director
Javier Echenique Landiribar	51	Director
José María Mas Millet	48	Secretary (non-Director)

We have appointed five independent directors to satisfy requirements of the Code of Good Corporate Governance of the Spanish National Securities Commission for Spanish public companies and the rules of the New York Stock Exchange. Messrs. Álvarez López, Berg, Canalejo, Merry del Val and Echenique are the independent directors on the board of directors.

Banco Bilbao Vizcaya Argentaria, S.A. has an approximate 5.1% ownership interest in Telefónica, S.A. and three representatives on Telefónica, S.A.'s board of directors. Caja de Ahorros y Pensiones de Barcelona has an interest in Telefónica, S.A. and two representatives on Telefónica, S.A.'s board of directors. Neither Banco Bilbao Vizcaya Argentaria, S.A. nor Caja de Ahorros y Pensiones de Barcelona is a significant shareholder of our company and neither has any contractual right to representation on our board of directors. Telefónica, S.A. has elected to include on our board of directors Mr. Goyenechea, an executive of Banco Bilbao Vizcaya Argentaria, and Mr. Massanell, an executive of Caja de Ahorros y Pensiones de Barcelona.

The delegate committee of the board of directors consists of Messrs. Lada, Abril-Martorell, Álvarez-Pallete, Canalejo, Merry del Val and Mas and is chaired by Mr. Lada.

The audit committee of the board of directors consists of Messrs. Canalejo, Álvarez López and Álvarez-Pallete and is chaired by Mr. Canalejo.

The nominating and compensation committee of the board of directors consists of Messrs. Álvarez López, Abril-Martorell, Carpio and Merry del Val and is chaired by Mr. Álvarez López.

Executive Officers

The executive officers are elected by, and serve at the pleasure of, the board of directors. The following are our current executive officers and their respective positions with our company and ages at May 1, 2002:

Name	Age	Position
Luis Lada Díaz.....	52	Chairman and Chief Executive Officer
Ignacio Aller Mallo.....	56	Chief Operating Officer
Félix Pablo Ivorra Cano.....	55	Executive Director for Brazil and South America
Ernesto López Mozo.....	38	Chief Financial Officer
Fernando Herrera Santamaría	41	General Manager of Strategy and Communications acting as Executive Officer for Central Europe and the Mediterranean Basin
Antonio Vitaller Cortés.....	55	General Manager of Resources and Organization
Antonio Hornedo Muguero	47	General Counsel and Vice Secretary (non-member) of the board of directors
Ignacio Camarero García	51	Chief Technology Officer
Francisco Ruiz Vinuesa	52	Executive Director for Mexico, Central America and the Caribbean
Javier Aguilera Arauzo	49	Chief Executive Officer of Telefónica Móviles España, S.A.

Biographical Information

The following is basic biographical information for each of our directors and executive officers:

Luis Lada Díaz has been Chairman and President of Telefónica Móviles since August 2000. Mr. Lada is currently the Chairman of Telefónica Móviles España, S.A., and serves on the board of Telefónica, S.A. Mr. Lada was previously the Chief Executive Officer of Telefónica Móviles España, S.A., the Spanish operating company of Telefónica Móviles, and has focused on the wireless business of the Telefónica Group since 1994. He joined the Telefónica Group in 1973 as an engineer, rising through the ranks to hold various managerial and executive

positions. In 1989, Mr. Lada left the Telefónica Group to join Grupo Amper, a telecommunications systems and equipment manufacturer, where he rose to Director for Planning and Control, before returning to the Telefónica Group in 1993. He has also served on the boards of the industry association of telecommunications engineers and of several technology companies. Mr. Lada holds a degree in telecommunications engineering and began his career in research and development in data transmission, telephone equipment and new services.

Fernando Abril-Martorell Hernández serves as a director. Mr. Abril-Martorell is currently the Chief Operating Officer of Telefónica, S.A. Mr. Abril-Martorell serves on the board of Telefónica, S.A. Except for a few months during 2000, he has been involved in the Telefónica Group since 1997, when he joined Telefónica as General Manager of Finance. Since joining Telefónica, Mr. Abril-Martorell has been involved in important transactions of Telefónica such as the privatization of the company in 1997, the capital increase in 1998 and the acquisition of the government-owned Brazilian telecommunications companies. From 1987 to 1997, he worked for J.P. Morgan, holding various positions at their offices in New York, London and Madrid. In Madrid he was Director of Treasury and a member of the Management Committee. Mr. Abril-Martorell holds a law and business degree from ICADE in Spain.

Enrique Álvarez López serves as a director. In August 2000, he retired from Arthur Andersen and, in October 2000, was appointed to the boards of directors of Grupo Empresarial Ence, S.A. and Grupo Auxiliar Metalúrgico, S.A. (GAMESA). He currently serves on the boards of Grupo Empresarial Ence, S.A. and Vallehermoso, S.A. Until August 2000, he was a member of the European Executive Committee of Arthur Andersen, supervisor for their offices in the Mediterranean Basin and Middle East and responsible for Spain. Mr. Alvarez joined Arthur Andersen in 1968 and was elected partner in 1978 and a director in 1981. He has published various articles on financial and economic matters and was one of the co-founders of the Spanish Association of Business Administration and Accounting. Mr. Alvarez holds an economic degree from the Universidad Complutense de Madrid, where he taught from 1967 to 1968, and from 1983 to 1984.

José María Álvarez-Pallete López serves as a director. Since September 1999, Mr. Alvarez-Pallete has been the Chief Financial Officer of Telefónica, S.A. He is a member of the board of director of Antares. From 1995 to 1999, Mr. Alvarez-Pallete was Financial Manager of Compañía Valenciana de Cementos Portlan (Cemex). From 1988 to 1995 he was a Senior Manager at Benito & Monjardín/Kidder, Peabody & Co., and from 1987 to 1988 he was an associate of Arthur Young Auditors. Mr. Alvarez-Pallete holds a degree in public finance from the Universidad Complutense de Madrid.

Lars M. Berg serves as a director. Since August 2000, Mr. Berg has been an independent investor and consultant and non-executive board member of several companies in the telecommunications and financial industries, and currently serves as a director of Eniro, Ratos, Net Insight AB, C. Technologies, Ledstiernan, Genesis IT, Schibsted, Askus, Wideyes, Capedal, 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, the leading telecommunications operator in the Nordic/Baltic area. Between 1970 and 1994 he held various management positions in the Ericsson Group, including the position of President of Ericsson Venezuela, Ericsson Radio Systems Sweden AB, Ericsson Cables AB and Ericsson Business Networks AB, among others. He was a member of the Ericsson Corporate Management Committee for 10 years. Mr. Berg received a degree in business administration from the Gothenburg School of Economics in 1970.

Miguel Angel Canalejo Larrainzar serves as a director. Mr. Canalejo is the former president and a current director of Alcatel España, S.A. and is currently a member of the board of directors of Alcatel Telecom, Meta 4, H. Neymann International Management Consultants, S.A. and the Advisory Committee of Accenture, S.L. In 1984 he joined Standard Eléctrica, S.A. as a member of the board, and from 1986 to December 2000 he served as president of Alcatel España. In 1967 he joined Union Carbide, and became president of Union Carbide Navarra and Union Carbide Ibérica in 1977. Mr. Canalejo holds a degree from the Escuela Técnica Superior de Ingenieros Industriales in Madrid.

Maximino Carpio García serves as a director. Mr. Carpio is a member of the board of directors of Telefónica, S.A. as well as a professor of the faculty of Economics of the Universidad Autónoma de Madrid. He also serves as a member of the Economic and Social Council, a Spanish government advisory entity. From 1992 to 1995, Mr. Carpio was Dean of the Economics faculty and from 1984 to 1992, he was the head of the Department of Economics and

Public Finance, in each case at the Universidad Autónoma de Madrid. Mr. Carpio also received his doctorate degree from the Universidad Autónoma de Madrid.

Fernando Xavier Ferreira serves as a director. Currently, Mr. Ferreira is the Chief Executive Officer of the Telefónica Group in Brazil and President of Telecomunicações de São Paulo S.A.—TELESP. Mr. Ferreira is also a member of the boards of directors of Tele Sudeste Celular Participações, S.A., Tele Leste Celular Participações, S.A., CRT Participações, S.A., Sudestecel Participações, S.A., Iberoleste Participações, 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 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. Mr. Goyenechea serves as Deputy Director General of Banco Bilbao Vizcaya Argentaria since 1986 and currently manages BBVA's Telecommunications, Media and Internet Unit. He is also a member of the boards of directors of Corporación IBV, S.A. and Hispasat, S.A. From 1974 to 1986, he worked at Telefónica de España, S.A. as Deputy General Manager ("Subdirector General"). Mr. Goyenechea received his undergraduate degree in business and economics from the Universidad Comercial de Deusto, and a masters degree in strategic planning from the same institution.

Antonio Massanell Lavilla serves as a director. Mr. Massanell is Deputy Director General of Caja de Ahorros y Pensiones de Barcelona and a member of the boards of directors of Telefónica S.A., Building Center Autema, Inmobiliaria Colonial, S.A., Universal Port Aventura, S.A. and Baqueira Beret, S.A. He is also Chairman of Servihabitat, e-laCaixa, S.A. and BIT2000. Mr. Massanell received his degree in economics 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 several companies, including IPSE 2000, S.p.A, NH Hoteles, S.A., J. García Carrión, S.A., Corporación Uriach, Hays Logistics Iberia, S.A. and Aegon Seguros, S.A. He has also served as president of Hipermercados Continente (España). Mr. Merry Del Val holds an undergraduate degree in business from Bocconi University in Milan and masters degree from Pavia University.

Javier Echenique Landiribar serves as a director. From 1990 he has served as executive officer at various areas of BBVA. He currently serves as a member of the boards of directors of Corporación IBV and Grupo Porres (Mexico). Over the last five years he has served as a member of the boards of directors of Telefónica de España, S.A., Sevillana de Electricidad, S.A., Autopistas Concesionaria de España, S.A., Finanzia Banco de Crédito, S.A., Metrovacesa and Grupo AXA Aurora. Mr. Echenique received a degree in economics in 1984.

José María Mas Millet serves as the Secretary (non-member) of the board of directors. Mr. Mas is a member of the boards of NH Hoteles, S.A. and Koipe, 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. Mas practiced law in Spain.

Ignacio Aller Mallo serves as Chief Operating Officer. Mr. Aller is a member of the board of directors of Terra Mobile, S.A., Mobipay España, S.A. and Medi Telecom. Mr. Aller has held several positions at Telefónica de España since 1967, including Director of Operations and Information Services in 1986, General Director of Mensatel in 1995 and General Executive Director of Operations of Telefónica Servicios Móviles in 1999. Mr. Aller has also served as a member of the board of directors of Venturini España, S.A., Mensatel and is currently a board member of Telyco and PMT.

Felix Pablo Ivorra Cano serves as Executive Director for Latin America. Mr. Ivorra currently serves on the board of directors of Telesp S.A., Portelcom Participações S.A., Atento Brasil S.A., 4A Telemarketing and other Telefónica Móviles group companies in Brazil. 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 de España, S.A., Terra Mobile, S.A., Tele Sudeste Celular Participações, S.A. and CRT Participações, 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 General Manager of Strategy. 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.

Antonio Vitaller Cortés serves as General Manager for Resources and Organization. Since joining the initial wireless operations project of Telefónica de España in 1993, Mr. Vitaller has been General Director for Resources and Management Control of Telefónica Móviles España. Prior to 1993, he held several other managerial positions in the telecommunications sector within the Telefónica Group and the Amper Group. Mr. Vitaller has a degree in industrial engineering from ETSII in Madrid and a business administration degree from ICADE.

Antonio Hornedo Muguero serves as the General Counsel and Vice Secretary (non-member) of the board of directors. Mr. Hornedo also serves as Secretary (non-member) of Seguros de Vida y Pensiones-ANTARES, S.A. He served as Secretary for Fonditel, EGFP from 1993 to 2000. Until March 1999, he worked as a legal counsel for Telefónica de España. Mr. Hornedo teaches graduate and undergraduate courses in law at Instituto de Estudios Superiores de la Fundación Universitaria San Pablo (CEU).

Ignacio Camarero García serves as Executive Director of Technology. Mr. Camarero currently serves on the board of directors of Telefónica I+D and Telefónica Mobile Solutions, S.A. From 1996 to 1998 he served as Vice President and General Manager of Southern Europe for Motorola Inc and from 1998 to 2001 as Manager of Technology at Airtel España. Mr. Camarero received his degree in physics from the Universidad de Valladolid.

Francisco Ruiz Vinuesa serves as Executive Director for México, Central America and the Caribbean. From 1996 to 2001 he acted as General Manager of Network at Telefónica Móviles De España. From 2001 until his appointment to his current position, he served as General Manager of Network Infrastructure for the entire Telefónica Móviles Group. Mr. Ruiz holds a degree in telecommunications engineering, an MBA from INSEAD and an MBA from IESE.

Javier Aguilera Arauzo serves as Chief Executive Officer of Telefónica Móviles España since 2000. 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.

B. COMPENSATION

Compensation of Directors and Executive Officers

We were incorporated in February 2000. In 2001, the aggregate compensation of all of our directors paid or accrued by us was €2,056 thousand, as described in the following table:

	<u>Year 2001</u>
	(euro in thousands)
Salaries(1)	650.66
Variable compensation(1).....	150.30

	<u>Year 2001</u>
	(euro in thousands)
Attendance fees.....	1,119.68(2)
Benefits in kind(3).....	17.70
External services(4).....	112.20
Pension plans.....	5.46
Total	<u>2,056.00</u>

- (1) Compensation for executive directors.
- (2) Includes fees for attending meetings of the board of directors and its committees. Telefónica, S.A. receives attendance fees relating to directors it appoints to our Board, who also serve as executive officers for Telefónica, S.A.
- (3) Includes health insurance and life insurance.
- (4) Includes compensation received by MELOG, BVBA and José María Mas Millet for advisory and consulting services.

Our executive officers (excluding the Chairman) received compensation of approximately €3.265 million in 2001, as described in the following table:

	<u>Year 2002</u>
	(euro in thousands)
Salaries.....	2,277.83
Variable compensation.....	1,240.90
Benefits in kind.....	56.39
Pension plans.....	50.30
Total	<u>3,625.42</u>

Other than their eligibility to participate in our share option plan, our directors and executive officers are entitled to the same general employee benefits as the other employees of our company.

Employee Share Option Plan

Our shareholders authorized our board of directors to implement an employee share option plan to help attract, retain and motivate employees. The board of directors defined the terms of the plan (the “MOS Program”) in a meeting held on September 21, 2001. This plan covers up to a total of 21,445,962 ordinary shares of our company.

The terms and conditions of the MOS Program described below apply to our executive directors and senior management and to employees of the Telefónica Móviles Group.

Under the MOS Program, each beneficiary who is a director will be granted a predetermined number of options (based on their position) of each of the following three classes of options:

- Class A Options, with an exercise price of €11 per option;
- Class B Options, with an exercise price of €16.5 per option; and
- Class C Options, with an exercise price of €7.235 per option;

Each option of each class entitles holders to one ordinary share of Telefónica Móviles, S.A. Beneficiaries receive the same number of Class A and B Options (which were granted in February, 2002) and twice as many Class C Options (which were granted in March, 2002). Directors and executive officers must provide collateral of one ordinary share for every 20 options granted to them.

The options may only be exercised in tranches of one third, one tranche in each of the three-month periods beginning January 3, 2004, January 3, 2005 and January 3, 2006, except that tranches not exercised in full 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.

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 are also implementing an employee stock option plan. See Item 6B. We provide a comprehensive benefits package that we believe compares favorably in each of our markets.

Employees

At December 31, 2001, we employed approximately 13,459 individuals in our consolidated operations. The following table sets forth the number of employees by country at December 31, 2001:

<u>Country</u>	<u>Number of Employees</u>
Spain (including headquarters in Madrid, Spain)	4,993
Brazil	2,649
Argentina	1,023
Peru	547
Mexico	2,713
El Salvador.....	343
Guatemala.....	306
United States.....	-
Germany	705
Austria.....	73
Switzerland	107
Total.....	<u>13,459</u>

We are a party to collective bargaining agreements covering a total of 1,200 employees of Telefónica Móviles España in Spain and Tele Sudeste Celular, Tele Leste and Celular CRT in Brazil. These collective bargaining agreements expire on December 31, 2002. Our collective bargaining agreements typically govern salaries, overtime, length of workday, and benefits, as well as relations with the respective labor union of each company. Employees that are managers, directors or supervisors are ineligible to participate in these collective bargaining agreements. Items not covered by our collective bargaining agreements include organization of tasks and designation of employee responsibilities, recruiting and employee work schedules. All eligible employees in Spain and Brazil are party to such collective bargaining agreements. Neither we nor our operating companies have had any work stoppages or strikes.

We believe that our relations with our employees are good. We do not have any pending material labor-related claims.

E. SHARE OWNERSHIP

Share Ownership of Directors

At May 30, 2002, the members of our board of directors owned an aggregate of 44,540 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 beneficially owned</u>
Luis Lada Díaz.....	13,579
Fernando Abril-Martorell Hernández	5,916
Enrique Álvarez López	681
José María Álvarez-Pallete López	1,512
Lars M. Berg.....	-
Miguel Canalejo Larrainzar	-
Maximino Carpio García	3,341
Fernando Xavier Ferreira.....	-
Victor Goyenechea Fuentes	2,202
Antonio Massanell Lavilla.....	105
Alfonso Merry del Val Gracie	529
Javier Echenique Landiribar	16,678

Pursuant to the MOS Program described in “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>
Luis Lada Díaz.....	45,434	45,434	90,868	181,736
Ignacio Aller Mallo.....	42,729	42,729	85,458	170,916
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
Antonio Vitaller Cortés.....	20,634	20,634	41,268	82,536
Ernesto López Mozo.....	18,019	18,019	36,038	72,076
Fernando Herrera Santamaría	18,019	18,019	36,038	72,076
Antonio Hornedo Muguiro	17,319	17,319	34,638	69,276
Javier Aguilera Arauzo	43,947	43,947	87,894	175,789

Item 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

As of May 30, 2002, 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:

<u>Title of Class</u>	<u>Identity of Person or Group</u>	<u>Number of Shares</u>	<u>Percent of Class</u>
Ordinary.....	Telefónica, S.A	3,074,969,573	71.25

(1) Parent company-only. Other Telefónica Group companies owned an additional approximately 21.50% of our ordinary shares at May 30, 2002.

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.

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

As of March 31, 2002, holders with registered addresses in the United States owned an aggregate of approximately 697,140 of our ordinary shares, representing less than 1% of our ordinary shares issued and outstanding.

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 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

In 2001, we entered into the two agreements described below with members of our board of directors or parties controlled by them. Both agreements were negotiated at arms-length and the consideration under the agreements has been reflected under the line item "external services" in the table describing the compensation of directors and senior management in "Directors, Senior Management and Employees—Compensation of Directors and Executive Officers" above.

Consulting Agreement with MELOG, BVBA

In 2001, we entered into an agreement with MELOG, BVBA, a company controlled by Lars M. Berg, under which MELOG, BVBA will provide consulting services to the companies of the Group. The term of the agreement is one year, renewable for subsequent periods of one year.

Agreement with José María Mas Millet

In 2001, we entered into an agreement with José María Mas Millet, Secretary of the board of directors, to provide legal advisory services to Telefónica Móviles, S.A. for as long as he remains in his position.

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:

Agreements and Arrangements Providing for Transfers of the Telefónica Group's Peru and Argentina Wireless Operations to Our Company

On August 30, 2000, the board of directors of Telefónica, S.A. resolved to contribute its Peru and Argentina wireless operations to our company. Subsequently, in October 2000, our company entered into agreements with Telefónica, S.A. under which Telefónica, S.A. agreed to transfer to our company an aggregate of 97.1% of the capital stock of Telefónica Móviles S.A.C. and 97.9% of the capital stock of Telefónica Comunicaciones Personales S.A. in Argentina for ordinary shares in our company. In January 2001, as a preliminary step in the transfer to us of Telefónica Comunicaciones Personales S.A., Telefónica, S.A. transferred to us 15.1% of the common stock of Telefónica de Argentina S.A. 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, Telefónica de Argentina S.A. spun-off in November 2001 its wireless operations in the form of shares of Telefónica Comunicaciones Personales S.A. and its data operations. We had previously agreed with the 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 the 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 the spin-off. Following the spin-offs and share exchanges, we indirectly hold a 97.93% interest in Telefónica Comunicaciones Personales S.A. and do not hold any interest in such data operations or Telefónica de Argentina S.A.

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

Agreement Providing for the Transfer to Our Company of Wireless Operators Acquired from Motorola, Inc.

In October 2000, we and Telefónica, S.A. entered into an agreement with Motorola, Inc. to acquire four wireless operators in Mexico. In June 2001 Telefónica, S.A. acquired these operators in exchange for an aggregate of U.S.\$1,835.5 million in shares of Telefónica, S.A. and U.S.\$10.5 million in cash. In July 2001, Telefónica, S.A. transferred these operators to us in exchange for our ordinary shares of an equivalent value based upon our initial public offering price, or approximately 203 million ordinary shares.

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 26,801,494 of the shares in the Brazilian wireless operators that it acquired from Iberdrola, S.A. to us in exchange for our ordinary shares. We expect to contribute these interests to our joint venture with Portugal Telecom. See "Item 4—Information on the Company—Latin America—Brazil—Agreement with Iberdrola."

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

Telefónica Internacional, S.A. intends to transfer to us, after receipt of regulatory approval and resolution of a pending regulatory proceeding, its investment in NewComm Wireless Services, Inc., a Puerto Rican wireless operator.

Agreement for the Transfer of the Rights and Obligations under the Transfer of Technical Capabilities Agreement with Telefónica Móviles El Salvador, S.A. de C.V to Our Company

On October 5, 2000, we entered into an agreement with Telefónica Internacional, S.A. and Telefónica Móviles El Salvador, S.A. de C.V. pursuant to which Telefónica Móviles, S.A. transferred to us all of its rights and obligations under a Transfer of Technical Capabilities Agreement between Telefónica, S.A. and Telefónica Móviles El Salvador, S.A. de C.V., dated July 31, 1999. As consideration for the services we provide under the Transfer of Technical Capabilities Agreement, Telefónica Móviles El Salvador, S.A. de C.V. will pay us an annual fee, payable quarterly, equal to 1% of the gross revenues of Telefónica Móviles El Salvador, S.A.. In 2001, the accrued fee was €1.04 million.

Transfer of Technical Capabilities and Management Agreement with Telefónica Centroamérica Guatemala, S.A.

On October 5, 2000, we entered into a Transfer of Technical Capabilities Agreement with Telefónica Centroamérica Guatemala, S.A. As consideration for the services we provide under this agreement, Telefónica Centroamérica Guatemala will pay us an annual fee, payable quarterly, equal to 1% of the gross revenues of Telefónica Centroamérica Guatemala. In 2001, the accrued fee was €359,000.

Transfer of Technical Capabilities and Management Agreement with Telefónica Móviles, S.A.C.

On January 2, 2001, we entered into a Transfer of Technical Capabilities and Management Agreement with Telefónica Móviles, S.A.C. In exchange for transfer of technical capabilities under the agreement, we will receive an annual fee equal to 1% of revenues from services billed by Telefónica Móviles, S.A.C. In exchange for our management services we provide under the agreement, we will receive an annual fee, payable quarterly, equal to 9% of the operating profits of Telefónica Móviles, S.A.C. Income accrued out of this agreement in 2001 was approximately €15.6 million.

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, 2001, we had an aggregate of €8,003 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, 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 2001 and 2000, "purchase and outside services" account accrued by the Telefónica Group amounted to €829 million and €687 million, respectively, which mainly include interconnection fees, use of network and maintenance.

Corporate, Administrative and Other Services

Although we plan 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 may also rely on the Telefónica Group for some of these services in the future. The provision of services by the Telefónica Group would be made pursuant to arm's-length 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. We plan to enter into a definitive management agreement relating to these operations in the second half of 2002.

Puerto Rico

Telefónica Internacional, S.A. has entered into a management agreement with NewComm Wireless Services under which we manage substantially all of the business of that company. In exchange, we receive an annual fee, payable quarterly, equal to the higher of 9% of NewComm Wireless' earnings before interest, taxes, depreciation and amortization and U.S.\$750,000. In addition, we will be paid for any project that we perform at the request of NewComm Wireless that is not covered by this agreement.

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.. The necessary formalities to effect such transfer are currently being complied with in Brazil. Income accrued out of the Consulting Services Agreement in 2001 was approximately €14.6 million for services provided to Telerj Celular and Telest Celular and €3.7 for services provided to Telebahia Celular and Telergipe Celular.

The Services Agreement entitles us to an annual fee of 1% of Celular CRT's net revenues, provided that the quality standards set out in the agreement are met. Income accrued out of this agreement in 2001 was approximately €3.6 million.

Peru

Under the Transfer of Technical Capabilities and Management Agreement with Telefónica Móviles, S.A.C described above, we are entitled, in exchange for our management services, to an annual fee, payable quarterly, equal to 9% of the operating profits of Telefónica Móviles, S.A.C. See "—Transfer of Technical Capabilities and Management Agreement with Telefónica Móviles, S.A.C."

El Salvador

We currently manage Telefónica Móviles El Salvador through Telca Gestión, S.A. de C.V., in which we hold a 67.3% interest, under a management agreement that entitles Telca Gestión to an annual fee, payable quarterly, of 9% of Telefónica Móviles El Salvador's income from operations.

Guatemala

We currently manage Telefónica Centroamérica Guatemala, S.A. through Telca Gestión Guatemala, S.A., in which we hold a 67.3% interest, under a management agreement that entitles Telca Gestión Guatemala to an annual fee, payable quarterly, of 9% of Telefónica Centroamérica Guatemala's income from operations.

Mexico

We manage our four Mexican operating companies acquired from Motorola. The initial management period under the management agreement has expired and we have entered into a new agreement that incorporates general terms similar to those included in other management agreements with other operating subsidiaries. We were paid approximately €6.2 million in exchange for the services we provided under this agreement in 2001.

Morocco

We currently manage, jointly with Portugal Telecom International, SGPS, S.A. our wireless operations in Morocco under a management agreement executed with Médí Telecom, S.A. on August 5, 1999. See “Item 4—Information on the Company—Business Overview—Our Operations—Mediterranean Basin—Morocco.” We are in the process of complying with the necessary formalities to legally transfer to us 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* and *Moviline* brands. 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.

Terra Mobile

In June 2000, we and Terra Networks, S.A. entered into a joint venture agreement that established Terra Mobile. Terra Mobile has been organized to create a major wireless internet portal for the Telefónica Group and to develop wireless internet-related services and products.

Terra Mobile was initially formed as a joint venture between us, with a 51% interest, and Terra Networks, with a 49% interest. In October 2001, Terra Mobile adopted a new business model focused on offering products and services and developing applications that take greater advantage of synergies with wireless networks. As a result, we and Terra Networks adjusted our relative ownership interests pursuant to which we hold a 80% interest in Terra Mobile and Terra Networks holds a 20% interest. The shareholders’ agreement provides for rights of first refusal and preemptive rights in the case of transfers and issuances of Terra Mobile’s shares. The shareholders’ agreement also provides that we are to receive all revenues from induced usage of wireless services. In addition, the agreement provides for separate agreements under which Terra Networks will provide content and be compensated for doing so.

We also entered into a put/call arrangement with Terra Networks pursuant to which Terra Networks has a call right and a put right with respect to Terra Mobile. Under this agreement, Terra Networks has the right to acquire up to a 49% stake in Terra Mobile at the lower of (i) fair market value or (ii) the value of our investment in Terra

Mobile, as adjusted to cost of carry. This option may be exercised once between January 1, 2003 and January 1, 2006. Terra Networks also has the right to require us to purchase its 20% stake in Terra Mobile at the lower of (i) fair market value or (ii) the value of our investment in Terra Mobile, as adjusted to cost of carry. This option may be exercised between January 1, 2003 and the termination of the shareholders' agreement (which shall be in effect for as long as we own an interest in Terra Mobile) if Terra Networks disagrees with any decision to (i) cause Terra Mobile to increase its share capital or issue debt or (ii) adopt measures that may affect directly Terra Networks' strategic position. Because the amounts payable by either party are based on fair market values of Terra Mobile and Terra Mobile is not publicly traded, the determination of the fair market value of Terra Mobile was not practicable at the date of this annual report.

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

Item 8. FINANCIAL INFORMATION

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.

Challenge to UMTS Award Process

Lince Telecomunicaciones, S.A. has appealed before the National Court the Ministerial Order dated March 10, 2000 under which we and three other operators were granted UMTS licenses in Spain, challenging the legality of the award process for the UMTS licenses. In December 2001, we filed a response to Lince's complaint. We are unable to estimate the possible duration of the related investigation or make any predictions as to its possible outcome. A loss or revocation of our UMTS license in Spain could have a material adverse effect on our future business, results of operations, financial condition or prospects.

Antitrust review of the agreement to create a single mobile payment standard

On November 17, 2000 the Spanish government, based on the opinion of the Spanish Antitrust Court (*Tribunale de Defensa de la Competencia*), approved our joint venture with Banco Bilbao Vizcaya Argentaria to create the *Mobipay* mobile payment system (formerly known as *Movilpago*). At the same time, Banco Santander Central Hispano and Vodafone (formerly "Airtel") were jointly developing a separate mobile payment system known as *Pagomóvil*. On May 30, 2001, we, Banco Bilbao Vizcaya Argentaria, Banco Santander Central Hispano and Vodafone agreed to integrate our respective mobile payment systems to form a single mobile payment standard for the Spanish market. *Revisión Móvil*, S.A. and several other financial institutions have joined the project. On August 1, 2001, the Spanish antitrust authority (*Servicio de Defensa de la Competencia*) submitted the matter to the Antitrust Court with a favorable opinion recommending that the Court declared the agreement to be compliant with antitrust laws. We are unable to estimate the possible duration of this review process.

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 have appealed the decision before the National Court. 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 party to exclusivity agreements after 1997 and, as a result, impose further fines on us or rescind our current exclusivity agreements with providers.

Challenge to the Spanish Government's Increase of Spectrum Fees

The Spanish government has adopted legislation imposing additional fees on us totaling approximately €233 million with respect to Telefónica Móviles for use of spectrum both for new UMTS licenses as well as existing analog and digital concessions and other uses. We filed claims with the Central Administrative Economic Tribunal (*Tribunal Económico Administrativo Central*) challenging the increase in fees for the year 2001, 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.

Complaint by Dairphone

Dairphone, 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. This proceeding has been stayed as a result of a complaint for embezzlement and other corporate crimes filed by Telefónica Móviles de España against Dairphone. In December, 2001, our complaint was dismissed. In 2002 we filed a complaint against Cristobal Pablos, the owner of Dairphone, for self-dealing, which has stayed Dairphone's proceeding against us.

Complaint by Retevisión Móvil, S.A.

In September, 2001, Retevisión Móvil, S.A. filed a complaint against Telefónica Móviles de España before the Spanish Commission for the Telecommunications Market for alleged abuses of dominant position in the wireless market arising out customer loyalty programs. In November, 2001, Telefónica Móviles de España filed a response. On June 12, 2002, the Commission for the Telecommunications Market issued a draft resolution ruling for Telefónica Móviles de España. However, the final resolution may rule against us and enjoin us to make changes to our loyalty programs.

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.

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. The complaint has been admitted and a date for the commencement of the hearings is still to be scheduled.

Dividend Information

We were incorporated in February 2000 and have never declared or paid cash dividends on our ordinary shares.

We plan to retain any future earnings to finance the development and expansion of our business and, as a result, do not intend to declare or pay cash dividends on our ordinary shares for the foreseeable future. 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 future prospects and other factors deemed relevant by our board of directors. Notwithstanding the above, the company intends to analyse 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.

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’s ADSs commenced trading on the NYSE on November 22, 2000.

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)	
2000				
Fourth Quarter.....	11.47	9.82	10.00	8.75
2001				
First Quarter.....	11.25	7.85	10.63	7.18
Second Quarter	9.68	7.36	8.60	6.15
Third Quarter	8.27	4.35	6.75	5.00
Fourth Quarter.....	9.25	6.32	8.10	5.90
2002				
First Quarter.....	11.01	8.00	10.63	7.40
Second Quarter (through June 19)	7.42	5.97	6.60	5.58
2002, Month ended				
January	8.83	7.52	7.80	6.30
February	7.79	6.88	6.75	5.96
March.....	8.13	7.19	7.00	6.25
April.....	7.42	6.64	6.60	6.09
May.....	7.20	6.31	6.30	5.85
June (through June 19).....	6.78	5.97	6.28	5.58

(1) Source: Madrid stock exchange.

(2) Source: Bloomberg.

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.

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 companies that manage the stock exchanges. All trades on the Automated Quotation 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 National Securities and Markets Commission (the “CNMV”), the Sociedad de Bolsas 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 the 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 the 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 the 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
- the 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 the 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 the Servicio de Compensación y Liquidación de Valores, S.A. (the “SCL”). Only members of the system are entitled to use it, and 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 the SCL) 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. The SCL is owned by its members (excluding, if applicable, the Bank of Spain) and by the companies which manage the local 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. The SCLV, 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 the SCL as holding the relevant shares in its own name, or
- the investor appearing in the records of the member entity as holding the shares.

The SCL has approved certain regulations introducing the so-called “T+3 Settlement System” by which the settlement of any transactions 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, the SCL 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 Securities Market Act of July 28, 1988 (Law 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;
- 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.

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 corporation (*sociedad anónima*) or a

limited liability company (*sociedad de responsabilidad limitada*) and, once incorporated, the company must be registered with the Commercial Registry and the CNMV Registry. 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.

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 this type 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.

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 May 31, 2002 our issued share capital was €2,157,996,925 represented by 4,315,993,850 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 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.

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 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. The Servicio de Compensación y Liquidación de Valores, S.A., or SCLV, 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.

Reporting Requirements

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
- 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.

C. MATERIAL CONTRACTS

Agreement with Portugal Telecom

On January 26, 2001, we, Telefónica, S.A., Portugal Telecom, SGPS, S.A. and PT Moveis SGPS, S.A. announced our agreement to create a joint venture to consolidate certain of our wireless businesses in Brazil with those of Portugal Telecom. Our goal is to create the leading wireless operator in Brazil, benefiting from expected synergies, enhanced market positioning and improved valuations derived from the combination of our wireless businesses. If fully consummated, including the anticipated contribution of our interest in Tele Leste Celular, the joint venture will be the leading wireless operator in Brazil based on the total number of customers at December 31, 2001 with a total of 11.6 million controlled customers and covering a potential market of 56% of Brazil's population. Its licensed areas include five of the six largest regions in Brazil in terms of gross domestic product and regions accounting for approximately 71% of Brazil's gross domestic product. The principal terms of the joint venture are described in "Item 4.B—Latin America—Brazil—Agreement with Portugal Telecom".

Agreement with Motorola, Inc.

In October 2000, we and Telefónica, S.A. entered into an agreement to acquire Motorola, Inc.'s four wireless operators in Northern Mexico: Bajacel, Movitel, Norcel and Cedetel. Telefónica, S.A. acquired these companies in June 2001 in exchange for shares of Telefónica, S.A. valued at U.S.\$1,835.5 million and U.S.\$10.5 million in cash. Telefónica, S.A. transferred the wireless operations to us in July 2001 in exchange for our ordinary shares of equivalent value, based upon our initial public offering price. Accordingly, we transferred approximately 203 million ordinary shares to Telefónica, S.A.

Acquisition of Pegaso Telecomunicaciones, S.A. de C.V.

On April 26, 2002, we signed agreements to purchase 65% of Pegaso Telecomunicaciones, S.A. de C.V., a wireless operator with 800,000 customers as of December 31, 2001 in twelve of Mexico's population centers, including Mexico City. The purchase price under the agreements is comprised of \$87 million and a commitment to subscribe to 65% of a capital increase of between approximately \$326 million and \$488 million to be carried out by Pegaso. We have also agreed to cause Pegaso to pay approximately \$586 million in existing debt obligations and any amount drawn down from \$100 million in additional interim financing provided by a third party within 30 to 60 days of the closing of the acquisition. The total value of Pegaso has been set at \$1,360 million, including existing debt obligations. We plan to contribute our entire interests in Pegaso and our Mexican operators acquired from Motorola to a newly formed entity of which we will own between 90% and 92%, depending on the definitive amount of Pegaso's capital increase. The Burillo Group, which owns 35% of Pegaso, will own the remaining percentage. Our agreement with the Burillo Group includes certain put rights for the Burillo Group and call rights for us relating to the Burillo Group's shares in the newly formed entity. See "—Latin America—Mexico—Acquisition of Pegaso Telecomunicaciones S.A. de C.V.".

After this purchase, Telefónica Móviles will become Mexico's second-largest wireless operator, with over two million active customers and access to the entire Mexican territory and a potential market of 100 million customers.

The consummation of this transaction is subject to receipt of regulatory approval by the Mexican authorities and certain other conditions.

D. EXCHANGE CONTROLS

Exchange Controls and Other Limitations Affecting Security Holders

Foreign Investment and Exchange Control Regulations

In 1991, Spain adopted the European Union standards for free movement of capital and services. As a result, exchange controls and restrictions on foreign, i.e., non-Spanish, investments have generally been abolished.

Pursuant to Spanish Law 18/1992 on Foreign Investments (Ley 18/1992, de 1 de Julio) and Royal Decree 664/1999 (Real Decreto 664/1999, de 23 de Abril), foreign investors may freely invest in shares of Spanish companies, except in the case of specified strategic industries.

Shares in Spanish companies held by foreign investors must be reported to the Spanish Registry of Foreign Investments by the ADR depository or relevant SCLV member. When a foreign investor acquires shares that are subject to the reporting requirements of the Spanish National Securities Commission, notice must be given by the foreign investor directly to the Registry of Foreign Investment in addition to the notices of majority interests that must be sent to the company, the Spanish National Securities Commission and the applicable stock exchanges. This notice must be given through a bank or other financial institution duly registered with the Bank of Spain and the Spanish National Securities Commission or through bank accounts opened with any branch of such registered entities.

Investment by foreigners domiciled in tax haven jurisdictions, which are countries identified in Royal Decree 1080/1991 (Real Decreto 1080/1991, de 5 de Julio), is subject to special reporting requirements.

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, so that specific authorization will not be required so long as direct or indirect control of 25% or more of our assets or share capital is owned by persons or entities domiciled in countries party to the Telecoms Annex to GATS.

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

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.

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 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 subject to a Spanish withholding tax at the rate of 18%. The Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income entered into between Spain and the United States provides that certain holders of ADRs or shares that are residents for purposes of that treaty in the United States may be entitled to a reduced withholding tax and, therefore, a refund of any withholding levied in excess of such reduced 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, 2001, 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 4, 2002, 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

Spanish Tax Considerations

The following summary describes the material Spanish tax consequences to United States Residents (as defined below) of the acquisition, ownership and disposition of ADSs or shares of Telefónica Móviles, S.A. This summary does not address all tax considerations that may be relevant to all categories of United States Residents, some of whom (such as life insurance companies, tax-exempt entities, dealers in securities or financial institutions) may be subject to special rules. In particular, the summary deals only with United States Residents that hold ADSs or shares as capital assets and who do not at any time own individually, nor are treated as owning, 10% or more of the shares, including ADSs, of Telefónica Móviles, S.A.

As used herein, the following terms have the following meanings:

- (1) "Treaty" means the Convention between the United States and Spain for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on income together with a related Protocol.
- (2) "United States Resident" means a U.S. Holder (as defined below under "U.S. Tax Considerations") that is a resident of the United States for purposes of the Treaty and entitled to the benefits of such Treaty, 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.

Holders of ADSs or shares who are not United States Residents should also consult their own tax advisors, particularly as to the applicability of any tax treaty. The statements regarding Spanish tax laws and the Treaty set out below are based on interpretations of those laws in force as of date of this annual report. Such statements also assume that each obligation in the Deposit Agreement and any related agreement will be performed in full accordance with its terms.

Taxation of Dividends

Under Spanish law, dividends paid by a Spanish resident company to a holder of shares or ADRs not residing in Spain for tax purposes and not operating through a permanent establishment in Spain are subject to an income tax withheld at source on the gross amount of dividends, currently at an 18% tax rate. However, under the Treaty, a United States Resident is subject to the Treaty-reduced rate of 15%.

To benefit from the Treaty-reduced rate of 15%, a United States Resident must provide:

- a certificate from the United States Internal Revenue Service (the “IRS”) that to the best knowledge of the IRS such holder is a United States Resident within the meaning of the Treaty; and
- a certificate from the Depository (in the case of holder of ADSs) or the holder’s broker (in the case of holders of shares) representing that, at the dividend payment date, such holder is the beneficial owner of the ADSs or shares.

To get direct application of the Treaty-reduced rate of 15%, the certificates referred to above must be provided to us no later than the tenth day of the month next succeeding the relevant dividend payment date. Otherwise we will apply the normal 18% rate. Before dividends are paid, we will notify the Depository of the dividend to be paid and the steps to be followed to obtain the benefit of the reduced tax rate available under the Treaty.

If the certificates referred to above are not provided to us on or before the dividend payment date, the United States Resident may afterwards obtain a refund of the 3% withheld in excess.

Spanish Refund Procedure

The Royal Decree 326/1999 and Order of December 22, 1999 (the “Order”) prescribe the procedure for requesting from the Spanish taxing authorities a refund of the amount of income taxes withheld in excess of the Treaty-reduced rate. To pursue the refund claim, the Order requires the United States Resident to file:

- a Spanish “210 Form”;
- the two certificates referred to above; and
- a certificate issued by Telefónica Móviles, S.A. providing that Spanish income tax was withheld with respect to such United States Resident.

The refund claim must be filed within two years from the date in which the withheld tax was collected by the Spanish tax authorities.

United States Residents are urged to consult their own tax advisors regarding refund procedures and any U.S. tax implications thereof.

Taxation of Capital Gains

Under Spanish law, any capital gains derived from securities issued by persons residing in 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 obtained by non-residents 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 an 18% tax rate on capital gains if such gains arise from earnings derived from the transfer or refund of shares and investments in “collective investment schemes” such as investment companies or investment funds.

Capital gains realized by United States Residents 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 at least 25% in our capital during the twelve months preceding the disposition of the stock. United States Residents may be required to establish that they are entitled to this exemption by providing to the relevant Spanish tax authorities an IRS certificate of residence in the United States, together with the corresponding Spanish tax form.

Spanish Wealth Tax

Individuals who hold shares or ADRs located in Spain are subject to the Spanish Wealth Tax (Spanish Law 19/1991), which imposes tax on property located in Spain on the last day of any year. Individuals who hold shares or ADRs 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 ADRs representing such shares are located in Spain for Spanish tax purposes. If such a view were to prevail, non-residents of Spain who held shares or ADRs 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 ADRs during the last quarter of such year, as published by the Spanish Ministry of Economic Affairs. Non-residents of Spain should consult their tax advisors with respect to the Spanish Wealth Tax.

Spanish Inheritance and Gift Taxes

Transfers of shares or ADRs on death and by gift are subject to Spanish inheritance and gift taxes, respectively, if the transferee is a resident of Spain for tax purposes, or if the shares or ADRs are located in Spain at the time of death, regardless of the resident beneficiary. However, the Spanish tax authorities may seek to tax inheritances or gifts of shares or ADRs independently of the place or residence of the beneficiary. The applicable tax rate, after applying all relevant factors, ranges 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 ADRs 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.

U.S. Tax Considerations

The following summary describes certain United States federal income tax consequences to U.S. Holders (as defined below) of the acquisition, ownership and disposition of ADSs or shares, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to acquire such securities. The summary applies only to U.S. Holders that hold ADSs or shares as capital assets for tax purposes and does not address special classes of holders, such as:

- certain financial institutions;
- insurance companies;
- dealers in securities or foreign currencies;
- holders holding ADSs or shares as part of a hedge, straddle or other conversion transaction;
- holders whose “functional currency” for U.S. federal income tax purposes is not the U.S. dollar;
- holders liable for alternative minimum tax;
- tax exempt organizations;
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes; or
- a holder that owns or is deemed to own 10% or more of the ADSs or shares of Telefónica Móviles, S.A.

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 will be performed in accordance with its terms. The U.S. Treasury has expressed concern that parties to whom ADRs are released may be taking action that are inconsistent with the claiming of foreign tax credits. Accordingly, the analysis of the creditability of Spanish taxes described below could be affected by actions that may be taken the U.S. Treasury.

The summary is based upon tax laws of the United States including the Internal Revenue Code of 1986, as amended to the date hereof (the “Code”), administrative pronouncements, judicial decisions and final, temporary and proposed Treasury Regulations, changes to any of which may affect the tax consequences described herein, possibly with retroactive effect. U.S. Holders of ADSs or shares should consult their own tax advisors as to the United States, Spanish or other tax consequences of the purchase, ownership and disposition of such securities in their particular circumstances, including the effect of any state or local tax laws.

As used in this particular section, a “U.S. Holder” is a beneficial owner of ADSs or shares that is, for United States federal income tax purposes:

- a citizen or resident of the United States;
- a corporation created or organized in or under the laws of the United States or of any political subdivision thereof; or
- an estate or trust the income of which is subject to United States federal income taxation regardless of its source.

For United States federal income tax purposes, U.S. Holders of ADSs will be treated as the owners of the underlying shares.

Taxation of Distributions

To the extent paid out of current or accumulated earnings and profits of Telefónica Móviles, S.A. (as determined in accordance with United States federal income tax principles), distributions made with respect to ADSs or shares (other than certain distributions of capital stock of Telefónica Móviles, S.A. or rights to subscribe for shares of capital stock of Telefónica Móviles, S.A.) will be includible in the income of a U.S. Holder as ordinary dividend income before reduction for any Spanish income tax withheld by us or our paying agent. Such dividends will not be eligible for the “dividends received deduction” generally allowed to corporations under the Code. To the extent that a distribution exceeds Telefónica Móviles, S.A.’s current and accumulated earnings and profits, it will be treated as a nontaxable return of capital to the extent of the U.S. Holder’s tax basis in the ADSs or shares, and thereafter as capital gain. The amount of the distribution will equal the U.S. dollar value of the pesetas or euro received, calculated by reference to the exchange rate in effect on the date such distribution is received (which, for holders of ADSs, will be the date such dividend is received by the Depositary), whether or not the Depositary or U.S. Holder in fact converts any pesetas or euro received into U.S. dollars at that time. Any gains or losses resulting from the conversion of pesetas or euro into U.S. dollars will be treated as ordinary income or loss, as the case may be, of the U.S. Holder and will be U.S. source. Dividends generally will constitute foreign source “passive” income for U.S. foreign tax credit purposes.

Subject to certain generally applicable limitations, a U.S. Holder 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 by us or our paying agent. However, any taxes withheld in excess of the rate provided in the U.S.-Spain Income Tax Treaty will not be eligible for credit against the U.S. Holder’s federal income tax unless such holder exhausts all remedies to recover such excess withholding, including the seeking of competent authority assistance from the Internal Revenue Service, without obtaining a refund. See “Spanish Tax Considerations—Taxation of Dividends” and “—Spanish Refund Procedure” above for a description of how a U.S. Holder can secure the Tax Treaty rate for withholding on dividends paid by us or obtain a refund if amounts withheld on dividends paid by us exceed the Tax Treaty rate. A U.S. Holder may be required to recognize ordinary income or loss attributable to currency fluctuations upon its receipt of a refund in respect of Spanish withholding tax to the extent that the U.S. dollar value of the refund differs from the U.S. dollar equivalent of the refund amount on the date the underlying dividend was received.

A U.S. Holder must satisfy minimum holding period requirements in order to be eligible to claim a foreign tax credit for foreign taxes withheld on dividends. A foreign tax credit is not allowed for foreign taxes withheld on dividends in circumstances where the U.S. Holder is under an obligation to make related payments in connection with positions in “substantially similar or related property”. U.S. Holders should consult their own tax advisors to determine whether they are subject to special rules that may limit their ability to claim or make effective use of foreign tax credit.

Taxation of Capital Gains

A gain or loss realized by a U.S. Holder on (i) the sale or exchange of ADSs or shares or (ii) the Depository's sale or exchange of shares received as distributions on the ADSs will be subject to United States federal income tax as capital gain or loss in an amount equal to the difference between the U.S. Holder's tax basis in the ADSs or shares and the amount realized on the disposition. Gain or loss, if any, will be U.S. source. U.S. Holders should consult their tax advisors regarding the United States federal tax treatment of capital gains, which may be taxed at lower rates than ordinary income for individuals, and losses, the deductibility of which is subject to limitations.

Deposits and withdrawals of shares in exchange for ADSs will not result in taxable gain or loss for United States federal income tax purposes.

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 (including, among others, less than 25 per cent owned equity investments) 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 an ADS or ordinary share, 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 ADS or ordinary share would be allocated ratably over the United States Holder's holding period for the ADS or ordinary share. The amounts 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. Further, any distribution in respect of ADSs or ordinary shares in excess of 125 per cent of the average of the annual distributions on ADSs or ordinary shares 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 (including a mark to market election) to United States persons that may mitigate the adverse consequences resulting from PFIC status.

Information Reporting and Backup Withholding

Payment of dividends or sales proceeds in connection with the ADSs or shares within the United States or through a U.S.-related financial intermediary are generally subject to information reporting and backup withholding unless the U.S. Holder (1) is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact or (2) provides a correct taxpayer identification number on a properly completed Form W-9 or a substitute form and certifies that no loss of exemption from backup withholding has occurred and that such holder is a U.S. person. Any amount withheld under these rules will be creditable against the U.S. Holder's federal income tax liability, and may entitle the U.S. Holder to a refund, provided that the required information is furnished to the Internal Revenue Service. A U.S. Holder who does not provide a correct taxpayer identification number may be subject to certain penalties.

F. DIVIDENDS AND PAYING AGENTS

Not applicable.

G. STATEMENTS BY EXPERTS

Not applicable.

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., New York, New York and Chicago, Illinois. 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 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. 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>".

We have appointed Citibank, N.A. to act as depositary for the Telefónica Móviles ADSs. Citibank will, as provided in the deposit agreement, arrange for the mailing of summaries in English of such reports and communications to all record holders of the ADSs of Telefónica Móviles. Any record holder of the Telefónica Móviles ADSs may read such reports, notices or summaries thereof, and communications at Citibank's office located at 111 Wall Street, New York, New York 10043.

Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary market risks relate to changes in interest rates and foreign currency exchange rates.

We actively manage both of these market risks, in part with financial derivatives. All of our financial derivatives are entered into for hedging purposes. We are required to classify our exchange rate forward contracts as held for trading purposes if the exchange rate forward contracts are being used to hedge expected foreign income or the hedges are put into place at a level other than the entity where related obligations are held. Instruments that are held for trading purposes are carried at market prices and resulting gains or losses are recorded immediately in the statement of operations as financial revenue or expense, as the case may be. All other exchange forward contracts are classified as hedges under Spanish GAAP. As a result, gains or losses on these instruments are recorded as adjustments to the underlying transactions. Our counterparties in derivative transactions are principally Telefónica, S.A. and financial institutions.

Interest Rate Risk

We use swaps and options to manage our exposure to interest rate fluctuations. Taking into account our debt and derivatives portfolio, approximately 12.0% of our debt bore interest at a fixed rate at December 31, 2001. Our floating rate debt is principally subject to fluctuations in the London Interbank Offered Rate, known as LIBOR, and the Madrid Interbank Offered Rate, known as MIBOR.

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, 2001 and for that portion of our fixed-rate debt portfolio at that date maturing in the succeeding twelve months (i.e., through December 31, 2002) would have resulted in a decrease in net income for 2001 of approximately €80 million.

We incurred higher average balances of debt in 2001 to finance the development of our business. In addition the debt associated with the Peru wireless operations spun-off to us in mid-2001 and the Argentina wireless operations spun-off to us on November 2001 are reflected on our consolidated balance sheet for the first time in 2001. As a result, future interest rate movements are likely to have a more significant effect on net income in 2002 and future years. We cannot make any prediction concerning actual interest rate movements in 2002 or in any future year.

Exchange Rate Risk

Foreign currency exchange rate risk to which we are exposed relates principally to (1) our long-term debt portfolio that is denominated in, or swapped into, currencies other than the euro or the currencies of those countries that have adopted the euro and (2) our operations and substantial investments in countries outside of Spain, principally in Latin America. We have incurred foreign currency-denominated debt obligations in order to fund investments outside Spain, primarily in Latin America. Consequently, substantially all of our foreign debt obligations, excluding those which are denominated in currencies of countries which have adopted the euro, are denominated in U.S. dollars or Latin American currencies. 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 foreign-currency dividend payments, management fees and attributed net income from our principal non-Spanish subsidiaries. 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 6% of our long-term debt at December 31, 2001.

The potential immediate loss we would have incurred from a hypothetical 10% adverse change in foreign currency exchange rates was approximately €22 million at December 31, 2001. 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. At March 31, 2002, the rate of exchange of the Argentine peso had fallen to €1.00 = 2.49 Argentine pesos, which resulted in an additional decrease in net income of €15.9 million.

Sensitivity Analysis

The following tables present our debt instruments held at December 31, 2001 and December 31, 2000 by maturity date and currency:

	Instruments Outstanding at December 31, 2001							Fair Value		
	Maturity Dates							Underlying Debt	Associated Derivatives	Total
	2002	2003	2004	2005	2006	Thereafter	Total			
	(thousands of euros, except for interest rates)									
Instruments in Euro										
Floating Rate.....	(5,333)	(136)	(56)	(106)	(457)	(262)	(6,350)	(5,389)	(1,015)	(6,403)
Spread-Reference MIBOR..	0.39%	0.32%	0.13%	0.48%	0.33%	0.87%	0.33%			
Fixed Rate.....	(117)	(82)	(318)	(162)	(4)	(320)	(1,003)	(786)	(285)	(1,071)
Interest Rate	9.63%	6.00%	4.05%	6.16%	5.59%	7.00%	6.15%			
Instruments in CHF										
Floating Rate.....	(42)						(42)	(42)		(42)
Spread (%CDI)	0.70%						0.70%			
Instruments in USD										
Floating Rate.....	(923)	(77)	(65)	251	28	382	(906)	(2,033)	1,069	(964)
Spread.....	2.71%	2.50%	2.40%	0.62%	7.41%	0.11%	3.13%			
Fixed Rate.....	104	83	411	53	8	49	709	(148)	967	819
Interest Rate	5.62%	8.10%	5.27%	13.30%	13.00%	13.57%	5.27%			
Instruments in Argentine pesos										
Fixed Rate.....	(51)						(51)		(45)	(45)
Interest Rate										
Instruments in Peruvian nuevo soles										
Floating Rate.....	(93)						(93)		(92)	(92)
Spread.....										
Instruments in Brazilian reais										
Floating Rate.....	(15)	(111)	(120)	(60)	(8)	(40)	(354)	68	(478)	(410)
Spread (%CDI)	99.85%	100.00%	99.79%	100.00%	100.00%	100.00%	99.92%			
Instruments in Mexican pesos										
Fixed Rate.....	(8)						(8)	(8)		(8)
Interest Rate	8.51%						8.51%			
Instruments in Guatemalan quetzales										
Fixed Rate.....			(11)				(11)	(11)		(11)
Interest Rate			13.88%				13.88%			
Instruments in Moroccan dirham										
Fixed Rate.....	(34)						(34)		(35)	(35)
Interest Rate	10.35%						10.35%			

* Rate equals 8% of CDI.

	Instruments Outstanding at December 31, 2000							Fair Value		
	Maturity Dates							Underlying Debt	Associated Derivatives	Total
	2001	2002	2003	2004	2005	Thereafter	Total			
	(thousands of euros, except for interest rates)									
Instruments in Euro										
Floating Rate.....	3,046	875	80	—	80	—	4,081	4,111	—	4,111
Spread-Reference MIBOR	0.31%	0.35%	0.45%	—	0.63%	—	0.33%	—	—	—
Fixed Rate.....	34	106	106	26	186	608	997	1,112	(28)	1,083
Interest Rate	4.53%	5.55%	5.55%	4.98%	6.01%	5.82%	5.83%	—	—	—
Instruments in Dollars										
Floating Rate.....	288	56	20	11	115	138	628	654	—	654
Spread-Reference LIBOR	1.19%	1.27%	2.87%	2.65%	4.6%	5.24%	2.80%	—	—	—
Fixed Rate.....	—	—	—	—	—	—	—	—	—	—
Interest Rate	—	—	—	—	—	—	—	—	—	—
Instruments in Reais										
Floating Rate.....	46	46	58	40	47	52	289	310	16	294
Spread-Reference(*) CDI.	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	—	—	—
Fixed Rate.....	(26)	—	—	—	—	—	(26)	(27)	—	(27)
Interest Rate	17.86%	—	—	—	—	—	17.86%	—	—	—
Instruments in Moroccan dirham										
Fixed Rate	34	—	—	—	—	—	34	—	34	34
Interest Rate	11.00%	—	—	—	—	—	11.00%	—	—	—

* Rate equals 8% of CDI.

Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

Item 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

Item 15. RESERVED

Item 16. RESERVED

PART III

Item 17. FINANCIAL STATEMENTS

We have responded to Item 18 in lieu of responding to this Item.

Item 18. FINANCIAL STATEMENTS

Reference is made to pages F-1 through F-90.

The following financial statements are filed as part of this Form 20-F:

	<u>Page</u>
Independent Auditor's Report.....	F-3
Combined Balance Sheets as of December 31, 2000 and 2001	F-5
Combined Statements of Operations for the Years Ended December 31, 1999, 2000 and 2001	F-7
Notes to the combined financial statements as of December 31, 1999 and 2000, and for the Years Ended December 31, 1999, 2000 and 2001	F-8

Item 19. EXHIBITS

Exhibit Number	
1.1	Amended and Restated Articles of Association.
1.2	Amended and Restated Articles of Association (English translation).
4.1	Mexican Stock Purchase Agreement among Motorola, Inc., Telefónica, S.A. and Telefónica Móviles, S.A. dated as of October 10, 2000.*
4.2	Joint Venture Agreement dated as of January 23, 2001 among Telefónica, S.A., Telefónica Móviles, S.A., Portugal Telecom, SGPS, S.A. and PT Môteis SGPS, S.A.**†
4.3	Association Agreement, made on August 16, 2000, among Telefónica Intercontinental, S.A. and Sonera 3G Holding B.V. relating to the German consortium.*
4.4	Association Agreement, dated as of August 22, 2000, among Telefónica Intercontinental, S.A., Acea Telefonica S.p.A., Banca de Roma S.p.A., ePlanet S.p.A., Goldenegg Ventures, S.A. and Xera relating to the Italian consortium and Amendment dated September 7, 2000.*
4.5	Transfer Agreement, dated as of October 13, 2000, between Telefónica, S.A. and Telefónica Móviles, S.A. to transfer Telefónica Móviles, S.A.C. (Peru) to Telefónica Móviles, S.A. (English translation).*
4.6	Transfer Agreement, dated October 13, 2000, between Telefónica, S.A. and Telefónica Móviles, S.A. to transfer Telefónica Comunicaciones Personales S.A. (Argentina) to Telefónica Móviles, S.A. (English translation).*
4.7	Credit Agreement between Telefónica, S.A. and Telefónica Móviles, S.A., dated as of October 11, 2000 (English translation).*
4.8	Credit Agreement between Telefónica, S.A. and Telefónica Móviles, S.A., dated as of October 10, 2000 (English translation).*
4.9	Loan Agreement, dated as of August 29, 2000, between Telefónica, S.A. and Telefónica Móviles, S.A. relating to the German UMTS license payment (English translation).*
4.10	Authorization, dated October 2, 2000, from the Spanish Government for the transfer of Telefónica Móviles España, S.A. from Telefónica Móviles, S.A. relating to the “golden share” (English translation).*
4.11	License Certificate for the provision of third generation mobile radio services to the public in the territory of the Federal Republic of Germany, dated September 6, 2000 (English translation).*
4.12	License for the provision of third generation mobile radio services to the public in the Kingdom of Spain, dated March 10, 2000 (English translation).*
4.13	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.†
4.14	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).

* Incorporated by reference to the registration statement of Telefónica Móviles, S.A. on Form F-1, registration number 333-12808.

** Incorporated by reference to Telefónica Móviles S.A.’s annual report on Form 20-F for 2000.

† 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.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

TELEFÓNICA MÓVILES, S.A.

By: /s/ Luis Lada
Name: Luis Lada
Title: Chairman and Chief Executive Officer

Date: July 1, 2002

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8.1	List of Subsidiaries.

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