NII HOLDINGS INC
Form 10-Q/A
March 28, 2005

**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**FORM 10-Q/A**
**(Amendment No. 1)**

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

**For the quarterly period ended June 30, 2004**

**OR**

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

**For the transition period from to**

**Commission file number 0-32421**

**NII HOLDINGS, INC.**
(Exact Name of Registrant as Specified in its Charter)

| | |
|---|---|
| **Delaware**<br>(State or Other Jurisdiction of Incorporation or Organization) | **91-1671412**<br>(I.R.S. Employer Identification No.) |
| **10700 Parkridge Boulevard, Suite 600**<br>**Reston, Virginia**<br>(Address of Principal Executive Offices) | **20191**<br>(Zip Code) |

Registrant s Telephone Number, Including Area Code:
**(703) 390-5100**

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 þ No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes þ No o

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes þ No o

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

| Title of Class | Number of Shares Outstanding on July 30, 2004 |
|---|---|

| | |
|---|---|
| Common Stock, $0.001 par value per share | 69,692,605 |

## EXPLANATORY NOTE

We have restated our previously issued condensed consolidated financial statements as of and for the six and three months ended June 30, 2004, and 2003, as set forth in Note 2 to the condensed consolidated financial statements in this quarterly report on Form 10-Q/A. We have also restated our previously issued consolidated financial statements and related footnotes as of and for the year ended December 31, 2003, as set forth in Note 2 to our consolidated financial statements included in our 2003 annual report on Form 10-K/A. We are restating our condensed consolidated financial statements to correct for the following items:

- Bookkeeping errors at our operating company in Mexico;
- Accounting for deferred tax asset valuation allowance reversals;
- Certain errors in the calculation of income taxes for financial statement purposes;
- Insurance claim receivables and write-downs for damaged equipment in Mexico;
- Depreciation of handsets in Argentina; and
- Other insignificant miscellaneous adjustments.

All amounts in this quarterly report on Form 10-Q/A have been updated, as appropriate, to reflect this restatement. Other than for the items discussed in this Explanatory Note, we did not update this quarterly report on Form 10-Q/A for subsequent events that occurred after we filed our original quarterly report on Form 10-Q on August 6, 2004.

*Description of Errors*

We identified various bookkeeping errors at our operating company in Mexico. These errors originated in the third quarter of 2002 and occurred through the third quarter of 2004. The identification of these bookkeeping errors occurred as a result of our ongoing review of Nextel Mexico s internal accounts and records in order to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002.

The nature of the errors relate to the following main areas:

- Foreign currency adjustments Some foreign currency transaction gains and losses were double-recorded through a combination of manual entries and system-generated automatic entries recorded upon payment of U.S. dollar denominated payables;
- Accounts receivable adjustments Periodic reconciliations between the accounts receivable subsidiary ledger and the general ledger were not performed properly. As a result, unreconciled differences related to the non-recognition of commissions expense on credit card payments, returned checks, manual adjustments and other items were classified to a current liability account, but were not reversed from the liability account upon resolution of these differences; and
- Liability accounts Certain liability accounts contained balances that could not be supported by invoices or subsequent disbursements.

We determined the reversal of certain valuation allowances on deferred tax assets that were established at the time of our application of fresh-start accounting in 2002 were not correctly reported in our consolidated financial statements for subsequent periods. For the two-month period ended December 31, 2002, the year ended December 31, 2003 and the six-month period ended June 30, 2004, we reversed valuation allowances which reduced the provision for income taxes. In accordance with the American Institute of Certified Public Accountants Statement of Position, or SOP, 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code, the reversal of valuation allowances established in fresh-start accounting should first reduce intangible assets existing at our emergence from reorganization until fully exhausted, followed by increases to paid-in capital.

For the two months ended December 31, 2002 and the ten months ended October 31, 2002, we identified errors in the calculation of income tax expense in Mexico for financial statement purposes. The adjustment to correct our income tax expense for this matter increases our long-lived assets as of October 31, 2002 because of the application of fresh-start accounting under SOP 90-7. As a result, we understated amortization and depreciation related to those long-lived assets for periods subsequent to the ten months ended October 31, 2002.

We reviewed the accounting treatment for various insurance claims related to damaged equipment at our operating company in Mexico. As a result of this review, we determined that write-downs of damaged equipment and recording of insurance claims receivables were recorded in the incorrect quarters within 2004 and that an insurance claim receivable should not have been recorded as of June 30, 2004 as it was not deemed to be probable of collection.

During the monthly process to convert the operating results from accounting principles generally accepted in Argentina to accounting principles generally accepted in the United States, the depreciation expense related to handsets under operating leases was erroneously omitted for financial reporting purposes for the three and six months ended June 30, 2004.

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**INDEX**

**PART I FINANCIAL INFORMATION.**

**Item 1. Financial Statements Unaudited.**

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
**As of June 30, 2004 and December 31, 2003**
**(in thousands)**

| | June 30, 2004 | December 31, 2003 |
|---|---|---|
| | Restated Unaudited | |
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 373,715 | $ 405,406 |
| Short-term investments | 26,859 | |
| Accounts receivable, less allowance for doubtful accounts of $8,327 and $9,020. | 128,213 | 119,985 |
| Handset and accessory inventory, net | 31,315 | 21,138 |
| Deferred income taxes, net | 37,310 | 41,097 |
| Prepaid expenses and other | 57,497 | 59,128 |
| Total current assets | 654,909 | 646,754 |
| **Property, plant and equipment,** net of accumulated depreciation of $92,444 and $56,913 | 420,487 | 368,434 |
| **Intangible assets, net** | 68,620 | 85,818 |
| **Other assets** | 43,736 | 27,430 |
| Total assets | $ 1,187,752 | $ 1,128,436 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| **Current liabilities** | | |
| Accounts payable, accrued expenses and other | $ 188,904 | $ 201,173 |
| Deferred revenues | 34,762 | 32,040 |
| Accrued interest | 6,808 | 5,022 |
| Due to related parties | 16,147 | 13,460 |
| Current portion of long-term debt | 1,661 | 1,466 |
| Total current liabilities | 248,282 | 253,161 |
| **Long-term debt,** including $52,493 and $168,067 due to related parties | 639,919 | 535,290 |
| **Deferred revenues (related party)** | 44,368 | 45,968 |
| **Other long-term liabilities** | 68,123 | 76,247 |
| Total liabilities | 1,000,692 | 910,666 |
| **Commitments and contingencies (Note 6)** | | |
| **Stockholders equity** | | |

| | | | | |
|---|---|---|---|---|
| Common stock, 69,675 shares issued and outstanding 2004, 68,883 shares issued and outstanding 2003. | | 70 | | 69 |
| Paid-in capital | | 182,082 | | 164,705 |
| Deferred compensation | | (15,360) | | |
| Retained earnings | | 78,067 | | 103,978 |
| Accumulated other comprehensive loss | | (57,799) | | (50,982) |
| Total stockholders equity | | 187,060 | | 217,770 |
| Total liabilities and stockholders equity | $ | 1,187,752 | $ | 1,128,436 |

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

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
**AND COMPREHENSIVE (LOSS) INCOME**
**For the Six and Three Months Ended June 30, 2004 and 2003**
**(in thousands, except per share amounts)**
**Unaudited**

| | Six Months Ended June 30, | | Three Months Ended June 30, | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| | Restated | Restated | Restated | Restated |
| **Operating revenues** | | | | |
| Service and other revenues | $ 554,815 | $ 409,431 | $ 288,783 | $ 214,834 |
| Digital handset and accessory sales revenues | 26,573 | 19,913 | 15,345 | 11,117 |
| | 581,388 | 429,344 | 304,128 | 225,951 |
| **Operating expenses** | | | | |
| Cost of service (exclusive of depreciation included below) | 145,643 | 100,343 | 78,082 | 54,458 |
| Cost of digital handset and accessory sales | 92,534 | 58,785 | 51,680 | 30,538 |
| Selling, general and administrative | 180,881 | 147,133 | 95,371 | 80,537 |
| Depreciation | 40,046 | 19,138 | 20,937 | 10,490 |
| Amortization | 6,887 | 16,635 | 3,097 | 7,976 |
| | 465,991 | 342,034 | 249,167 | 183,999 |
| **Operating income** | 115,397 | 87,310 | 54,961 | 41,952 |
| **Other income (expense)** | | | | |
| Interest expense | (27,090) | (30,923) | (10,891) | (17,003) |
| Interest income | 5,611 | 5,228 | 3,006 | 3,295 |
| Loss on early extinguishment of debt, net (Note 5) | (79,327) | | | |
| Foreign currency transaction gains (losses), net | 2,380 | 14,614 | (215) | 22,918 |
| Other income (expense), net | 1,192 | (7,046) | 2,409 | (5,080) |
| | (97,234) | (18,127) | (5,691) | 4,130 |
| **Income before income tax provision** | 18,163 | 69,183 | 49,270 | 46,082 |
| **Income tax provision** | (44,074) | (47,704) | (22,570) | (34,607) |
| **Net (loss) income** | $ (25,911) | $ 21,479 | $ 26,700 | $ 11,475 |
| **Net (loss) income per common share, basic (Note 1)** | $ (0.37) | $ 0.35 | $ 0.38 | $ 0.19 |

| | | | | |
|---|---|---|---|---|
| **Net (loss) income per common share, diluted (Note 1)** | $ (0.37) | $ 0.33 | $ 0.36 | $ 0.18 |
| **Weighted average number of common shares outstanding, basic** | 69,396 | 60,816 | 69,643 | 61,173 |
| **Weighted average number of common shares outstanding, diluted** | 69,396 | 64,219 | 79,130 | 64,452 |
| **Comprehensive (loss) income, net of income tax** | | | | |
| Foreign currency translation adjustment | $ (6,817) | $ (21,745) | $ (14,006) | $ (17,283) |
| Unrealized loss on cash flow hedge | | (5,311) | | (3,589) |
| Other comprehensive loss | (6,817) | (27,056) | (14,006) | (20,872) |
| Net (loss) income | (25,911) | 21,479 | 26,700 | 11,475 |
| | $ (32,728) | $ (5,577) | $ 12,694 | $ (9,397) |

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

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY**
**For the Six Months Ended June 30, 2004 and 2003**
**(in thousands)**
**Unaudited**

| | Common Stock Shares | Common Stock Amount | Paid-in Capital | Deferred Compensation | Retained Earnings | Accumulated Other Comprehensive Loss | Total |
|---|---|---|---|---|---|---|---|
| **Balance, January 1, 2004** | 68,883 | $ 69 | $ 164,705 | $ | $ 103,978 | $ (50,982) | $ 217,770 |
| Net loss | | | | | (25,911) | | (25,911) |
| Other comprehensive loss | | | | | | (6,817) | (6,817) |
| Issuance of restricted stock | | | 16,295 | (16,295) | | | |
| Amortization of restricted stock expense | | | | 935 | | | 935 |
| Stock option expense | | | 213 | | | | 213 |
| Exercise of stock options | 792 | 1 | 869 | | | | 870 |
| **Balance, June 30, 2004 Restated** | 69,675 | $ 70 | $ 182,082 | $ (15,360) | $ 78,067 | $ (57,799) | $ 187,060 |

| | Common Stock Shares | Common Stock Amount | Paid-in Capital | Deferred Compensation | Retained Earnings | Accumulated Other Comprehensive Loss | Total |
|---|---|---|---|---|---|---|---|
| **Balance, January 1, 2003** | 60,000 | $ 60 | $ 49,138 | $ | $ 22,764 | $ (350) | $ 71,612 |
| Net income | | | | | 21,479 | | 21,479 |
| Other comprehensive loss | | | | | | (27,056) | (27,056) |
| Exercise of stock options | 1,593 | 2 | 1,326 | | | | 1,328 |
| **Balance, June 30, 2003 Restated** | 61,593 | $ 62 | $ 50,464 | $ | $ 44,243 | $ (27,406) | $ 67,363 |

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

7

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**For the Six Months Ended June 30, 2004 and 2003**
**(in thousands)**
**Unaudited**

| | 2004 | 2003 |
|---|---|---|
| | Restated | Restated |
| **Cash flows from operating activities** | | |
| Net (loss) income | $ (25,911) | $ 21,479 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | |
| Loss on early extinguishment of debt, net | 79,327 | |
| Amortization of debt financing costs and accretion of senior discount notes | 5,916 | 12,201 |
| Depreciation and amortization | 46,933 | 35,773 |
| Provision for losses on accounts receivable | 2,676 | 5,101 |
| Provision for losses on inventory | 1,603 | 1,998 |
| Foreign currency transaction gains, net | (2,380) | (14,614) |
| Deferred income tax provision | 16,087 | 46,767 |
| Gain on disposal of property, plant and equipment | 2,405 | 43 |
| Other, net | (112) | (29) |
| Change in assets and liabilities: | | |
| Accounts receivable, gross | (10,835) | (19,954) |
| Handset and accessory inventory, gross | (11,608) | (2,275) |
| Prepaid expenses and other | 899 | (18,501) |
| Other long-term assets | (6,265) | (3,083) |
| Accounts payable, accrued expenses and other | (8,720) | 11,400 |
| Current deferred revenue | 2,722 | 4,235 |
| Due to related parties | 2,687 | 3,492 |
| Other long-term liabilities | 115 | 19,765 |
| Proceeds from spectrum sharing agreement with Nextel Communications | | 9,315 |
| Net cash provided by operating activities | 95,539 | 113,113 |
| **Cash flows from investing activities** | | |
| Capital expenditures | (111,285) | (102,037) |
| Purchases of short-term investments | (26,859) | |
| Payments for acquisitions, purchases of licenses and other | (2,485) | (57) |
| Net cash used in investing activities | (140,629) | (102,094) |
| **Cash flows from financing activities** | | |
| Proceeds from stock option exercises | 870 | 1,328 |
| Gross proceeds from issuance of convertible notes | 300,000 | |
| Repayments of senior secured discount notes | (211,212) | |
| Repayments under long-term credit facilities and other | (72,507) | |

| | | |
|---|---|---|
| Repayments under capital lease and financing obligations | (963) | |
| Payment of debt financing costs | (8,538) | |
| Gross proceeds from towers financing transactions | 9,546 | 66,938 |
| Transfers to restricted cash | (4,120) | (7,810) |
| Net cash provided by financing activities | 13,076 | 60,456 |
| **Effect of exchange rate changes on cash and cash equivalents** | 323 | 3,928 |
| **Net (decrease) increase in cash and cash equivalents** | (31,691) | 75,403 |
| **Cash and cash equivalents, beginning of period** | 405,406 | 231,161 |
| **Cash and cash equivalents, end of period** | $ 373,715 | $ 306,564 |

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

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements**
**Unaudited**

## Note 1. Basis of Presentation

***General.*** Our unaudited condensed consolidated financial statements have been prepared under the rules and regulations of the Securities and Exchange Commission. While they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements, they reflect all adjustments that, in the opinion of management, are necessary for a fair presentation of the results for interim periods.

You should read the condensed consolidated financial statements in conjunction with the consolidated financial statements and notes contained in our 2003 annual report on Form 10-K/A and our quarterly report on Form 10-Q/A for the quarter ended March 31, 2004, which were amended and restated for the reasons set forth in Note 2. You should not expect results of operations of interim periods to be an indication of the results for a full year.

The accounts of our consolidated non-U.S. operating companies are presented utilizing balances as of a date one month earlier than the accounts of our parent company, U.S. subsidiaries and our non-operating non-U.S. subsidiaries to ensure timely reporting of consolidated results. As a result, the financial position and results of operations of each of our operating companies in Mexico, Brazil, Argentina, Peru and Chile are presented as of and for the six and three months ended May 31, 2004 and 2003, respectively. In contrast, financial information relating to our parent company, U.S. subsidiaries and our non-operating non-U.S. subsidiaries is presented as of and for the six and three months ended June 30, 2004 and 2003.

On February 26, 2004, we announced a 3-for-1 common stock split which was effected in the form of a stock dividend that was paid on March 22, 2004 to holders of record as of March 12, 2004. As a result of the stock split, we retroactively restated all historical share and earnings per share data, par value and paid-in capital balances included in our financial statements for the six and three months ended June 30, 2004 and 2003.

***Restatement of Previously Issued Condensed Consolidated Financial Statements.*** We have restated our previously issued condensed consolidated financial statements and related footnotes as of and for the six and three months ended June 30, 2004 and 2003, as set forth in this report. For additional information regarding this restatement, see Note 2.

***Short-term Investments.*** Short-term investments primarily include commercial paper and government-backed securities with maturities greater than 90 days and less than one year at the time of purchase. We classify our short-term investments as available-for-sale and report them at market value. We report unrealized gains and losses, net of income taxes, as other comprehensive income or loss. We report realized gains or losses, as determined on a specific identification basis, and other-than-temporary declines in value, if any, on available-for-sale securities in interest income or interest expense.

***Accumulated Other Comprehensive Loss.*** Accumulated other comprehensive loss represents a cumulative foreign currency translation adjustment of $57.8 million as of June 30, 2004 and $51.0 million as of December 31, 2003.

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Unaudited**

***Supplemental Cash Flow Information.***

| | Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2004 | | 2003 | |
| | Restated | | Restated | |
| | (in thousands) | | | |
| **Capital expenditures** | | | | |
| Cash paid for capital expenditures, including capitalized interest | $ | 111,285 | $ | 102,037 |
| Changes in capital expenditures accrued and unpaid or financed | | (12,150) | | 15,017 |
| | $ | 99,135 | $ | 117,054 |
| **Interest costs** | | | | |
| Interest expense | $ | 27,090 | $ | 30,923 |
| Interest capitalized | | 1,109 | | 3,513 |
| | $ | 28,199 | $ | 34,436 |
| **Cash paid for interest, net of amounts capitalized** | $ | 16,200 | $ | 14,091 |
| **Cash paid for income taxes** | $ | 19,998 | $ | 11,805 |
| **Cash paid for reorganization items included in operating activities** | $ | | $ | 2,503 |

***Net (Loss) Income Per Common Share, Basic and Diluted.*** Basic net (loss) income per common share includes no dilution and is computed by dividing the net (loss) income by the weighted average number of common shares outstanding for the period. Diluted net (loss) income per common share reflects the potential dilution of securities that could participate in our earnings. As presented for the six months ended June 30, 2004, our basic and diluted net loss per share calculations are based on the weighted average number of common shares outstanding during the period and do not include other potential common shares, including shares issuable upon exercise of stock options and conversion of our convertible notes, since their effect would have been antidilutive to our net loss. As a result, our basic and diluted net loss per share for the six months ended June 30, 2004 are the same.

As presented for the three months ended June 30, 2004, our calculation of diluted net income per share includes the common shares resulting from the potential conversion of our 3.5% convertible notes (see Note 5), as well as the common shares resulting from shares issuable upon the potential exercise of stock options under our stock-based employee compensation plans. We did not include unrecognized compensation cost from our restricted stock and shares related to stock option grants which are antidilutive in our calculation of diluted earnings per share for the three months ended June 30, 2004 since the inclusion of this amount would have been antidilutive to our net income per share. In addition, we did not include the common shares resulting from the potential conversion of our 2.875% convertible notes as these notes have not met the criteria for conversion into shares of common stock.

The following table provides a reconciliation of the numerators and denominators used to calculate basic and diluted net income per common share as disclosed in our consolidated statements of operations and

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Unaudited**

comprehensive (loss) income for the three months ended June 30, 2004 and the six and three months ended June 30, 2003:

| | Six Months Ended June 30, 2003 Restated | | |
|---|---|---|---|
| | Income (Numerator) | Shares (Denominator) | Per Share Amount |
| | (in thousands, except per share data) | | |
| **Basic net income per share**: | | | |
| Net income | $ 21,479 | 60,816 | $ 0.35 |
| **Effect of dilutive securities**: | | | |
| Stock options | | 3,403 | |
| **Diluted net income per share**: | | | |
| Net income | $ 21,479 | 64,219 | $ 0.33 |

| | Three Months Ended June 30, 2004 Restated | | | Three Months Ended June 30, 2003 Restated | | |
|---|---|---|---|---|---|---|
| | Income (Numerator) | Shares (Denominator) | Per Share Amount | Income (Numerator) | Shares (Denominator) | Per Share Amount |
| | (in thousands, except per share data) | | | | | |
| **Basic net income per share:** | | | | | | |
| Net income | $ 26,700 | 69,643 | $ 0.38 | $ 11,475 | 61,173 | $ 0.19 |
| **Effect of dilutive securities:** | | | | | | |
| Stock options | | 2,737 | | | 3,279 | |
| 3.5% convertible notes | 1,575 | 6,750 | | | | |
| **Diluted net income per share:** | | | | | | |
| Net income | $ 28,275 | 79,130 | $ 0.36 | $ 11,475 | 64,452 | $ 0.18 |

***Stock-Based Compensation.*** We currently sponsor two equity incentive plans. In addition to the 2002 Management Incentive Plan, in April 2004, our Board of Directors approved the 2004 Incentive Compensation Plan (the Plan), which provides us with the opportunity to compensate selected employees with stock options, stock appreciation rights (SAR), stock awards, performance share awards, incentive awards, and/or stock units. A stock option entitles the optionee to purchase shares of common stock from us at the specified exercise price. A SAR entitles the holder to receive the excess of the fair market value of each share of common stock encompassed by such SAR over the initial value of such share as determined on the date of grant. Stock awards consist of awards of common stock, subject to certain restrictions specified in the Plan. An award of performance shares entitles the participant to receive cash, shares of common stock, stock units, or a combination thereof if certain requirements are satisfied. An incentive award is a cash-denominated award that entitles the participant to receive a payment in cash or common stock, stock units, or a combination thereof. Stock units are awards stated with reference to a specified number of shares of common stock that entitle the holder to receive a payment for each stock unit equal to the fair market value of a share of common stock on the date of payment. All grants or awards made under the Plan are governed by written agreements between us and the participant.

In April 2004, our Board of Directors approved grants under the Plan of 429,500 shares of restricted stock to our officers and 2.6 million stock options to the officers and other selected employees. The restricted shares fully vest after a three-year period. The stock options vest twenty-five percent per year over a four-year period. We account for these grants under the recognition and measurement principles of Accounting Principles

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Unaudited**

Board, or APB, Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Under APB Opinion No. 25, compensation expense is based on the intrinsic value on the measurement date, calculated as the difference between the fair value of the common stock and the relevant exercise price. The fair value of the restricted shares on the grant date was $16.3 million, which we are amortizing on a straight-line basis over the three year vesting period. We recognized compensation expense of $0.9 million for the three months ended June 30, 2004 related to the restricted shares. Additionally, we recognized $0.2 million in stock-based employee compensation cost related to our employee stock options as a result of accelerated vesting on certain options for the three months ended June 30, 2004. No other stock-based employee compensation cost related to our employee stock options is reflected in net income as the relevant exercise price of the options issued was equal to the fair value on the date of the grant.

The following table illustrates the effect on net (loss) income and net (loss) income per common share if we had applied the fair value recognition provisions of Statement of Financial Accounting Standards, or SFAS, No. 123, as amended by SFAS No. 148, to stock-based employee compensation.

| | **Six Months Ended June 30,** | | **Three Months Ended June 30,** | |
|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** |
| | **Restated** | **Restated** | **Restated** | **Restated** |
| | **(in thousands, except per share data)** | | | |
| **Net (loss) income, as reported** | $ (25,911) | $ 21,479 | $ 26,700 | $ 11,475 |
| Add: | | | | |
| Stock-based employee compensation expense included in reported net income, net of related tax effects | 1,148 | | 1,148 | |
| Deduct: | | | | |
| Total stock-based employee compensation expense determined under fair value-based method for all awards, net of related tax effects | (3,498) | (413) | (3,129) | (239) |
| **Pro forma net (loss) income** | $ (28,261) | $ 21,066 | $ 24,719 | $ 11,236 |
| **Net (loss) income per share:** | | | | |
| Basic as reported | $ (0.37) | $ 0.35 | $ 0.38 | $ 0.19 |
| Basic pro forma | $ (0.41) | $ 0.35 | $ 0.35 | $ 0.18 |
| Diluted as reported | $ (0.37) | $ 0.33 | $ 0.36 | $ 0.18 |
| Diluted pro forma | $ (0.41) | $ 0.33 | $ 0.33 | $ 0.17 |

***Reclassifications.*** We have reclassified some prior period amounts in the unaudited condensed consolidated financial statements to conform to our current year presentation.

***New Accounting Pronouncements.*** In January 2003, the Financial Accounting Standards Board, or FASB, issued FASB Interpretation, or FIN, No. 46, Consolidation of Variable Interest Entities An Interpretation of ARB No. 51, which clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN No. 46 provides guidance related to identifying variable interest entities (previously known generally as special purpose entities or SPEs) and determining whether such entities should be consolidated. FIN No. 46 must be applied

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Unaudited**

immediately to variable interest entities created, or interests in variable interest entities obtained, after January 31, 2003. For those variable interest entities created, or interests in variable interest entities obtained, on or before January 31, 2003, the guidance in FIN No. 46 must be applied in the first fiscal year or interim period beginning after December 15, 2003. The adoption of FIN No. 46 on January 1, 2004 did not have a material impact on our consolidated financial position, results of operations or cash flows.

In March 2004, the Emerging Issues Task Force, or EITF, reached a final consensus on Issue No. 03-6, Participating Securities and the Two-Class Method Under FASB Statement No. 128, Earnings Per Share. Issue No. 03-6 addresses a number of questions regarding the computation of earnings per share (EPS) by companies that have issued securities other than common stock that contractually entitle the holder to participate in dividends and earnings of the company when, and if, it declares dividends on its common stock. The issue also provides further guidance in applying the two-class method of calculating EPS. It clarifies what constitutes a participating security and how to apply the two-class method of computing EPS once it is determined that a security is participating, including how to allocate undistributed earnings to such a security. EITF 03-6 is effective for the fiscal quarter ended June 30, 2004. The adoption of EITF 03-6 did not have a material impact on our basic or diluted earnings per share.

**Note 2. Restatement of Previously Issued Condensed Consolidated Financial Statements**

We have restated our previously issued condensed consolidated financial statements as of and for the six and three months ended June 30, 2004, and 2003. We have also restated our previously issued consolidated financial statements and related footnotes as of and for the year ended December 31, 2003, as set forth in Note 2 to our consolidated financial statements included in our 2003 annual report on Form 10-K/A. We are restating our condensed consolidated financial statements to correct for the following items:

- Bookkeeping errors at our operating company in Mexico;
- Accounting for deferred tax asset valuation allowance reversals;
- Certain errors in the calculation of income taxes for financial statement purposes;
- Insurance claim receivables and write-downs for damaged equipment in Mexico;
- Depreciation of handsets in Argentina; and
- Other insignificant miscellaneous adjustments.

All amounts in these condensed consolidated financial statements have been updated, as appropriate, to reflect this restatement. Other than for the items discussed in this Note, we did not update these condensed consolidated financial statements for subsequent events that occurred after we filed our original quarterly report on Form 10-Q on August 6, 2004.

*Description of Errors*

We identified various bookkeeping errors at our operating company in Mexico. These errors originated in the third quarter of 2002 and occurred through the third quarter of 2004. The identification of these bookkeeping errors occurred as a result of our ongoing review of Nextel Mexico s internal accounts and records in order to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002.

The nature of the errors relate to the following main areas:

Foreign currency adjustments Some foreign currency transaction gains and losses were double-recorded through a combination of manual entries and system-generated automatic entries recorded upon payment of U.S. dollar denominated payables;

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Unaudited**

Accounts receivable adjustments Periodic reconciliations between the accounts receivable subsidiary ledger and the general ledger were not performed properly. As a result, unreconciled differences related to the non-recognition of commissions expense on credit card payments, returned checks, manual adjustments and other items were classified to a current liability account, but were not reversed from the liability account upon resolution of these differences; and

Liability accounts Certain liability accounts contained balances that could not be supported by invoices or subsequent disbursements.

We determined the reversal of certain valuation allowances on deferred tax assets that were established at the time of our application of fresh-start accounting in 2002 were not correctly reported in our consolidated financial statements for subsequent periods. For the two-month period ended December 31, 2002, the year ended December 31, 2003 and the six-month period ended June 30, 2004, we reversed valuation allowances which reduced the provision for income taxes. In accordance with the American Institute of Certified Public Accountants Statement of Position, or SOP, 90-7, Financial Reporting by Entities in Reorganization Under Bankruptcy Code, the reversal of valuation allowances established in fresh-start accounting should first reduce intangible assets existing at our emergence from reorganization until fully exhausted, followed by increases to paid-in capital.

For the two months ended December 31, 2002 and the ten months ended October 31, 2002, we identified errors in the calculation of income tax expense in Mexico for financial statement purposes. The adjustment to correct our income tax expense for this matter increases our long-lived assets as of October 31, 2002 because of the application of fresh-start accounting under SOP 90-7. As a result, we understated amortization and depreciation related to those long-lived assets for periods subsequent to the ten months ended October 31, 2002.

We reviewed the accounting treatment for various insurance claims related to damaged equipment at our operating company in Mexico. As a result of this review, we determined that write-downs of damaged equipment and recording of insurance claims receivables were recorded in the incorrect quarters within 2004 and that an insurance claim receivable should not have been recorded as of June 30, 2004 as it was not deemed to be probable of collection.

During the monthly process to convert the operating results from accounting principles generally accepted in Argentina to accounting principles generally accepted in the United States, the depreciation expense related to handsets under operating leases was erroneously omitted for financial reporting purposes, for the three and six months ended June 30, 2004.

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Unaudited**

The following tables present the effects of the restatement adjustments on our previously reported unaudited condensed consolidated statements of operations for the six and three months ended June 30, 2004 and 2003 and on our previously reported unaudited condensed consolidated balance sheets as of June 30, 2004 and 2003.

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

| | For the Six Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | June 30, 2004 | | | June 30, 2003 | | |
| | As Reported | Adjustment | As Restated | As Reported | Adjustment | As Restated |
| | (in thousands, except per share amounts) | | | | | |
| **Operating revenues** | $ 581,388 | $ | $ 581,388 | $ 429,344 | $ | $ 429,344 |
| **Operating expenses** | | | | | | |
| Cost of service | 145,643 | | 145,643 | 100,343 | | 100,343 |
| Cost of digital handset and accessory sales | 92,534 | | 92,534 | 58,785 | | 58,785 |
| Selling, general and administrative | 179,564 | 1,317 (a) | 180,881 | 150,455 | (3,322)(a) | 147,133 |
| Depreciation | 38,543 | 1,503 (b) | 40,046 | 19,135 | 3 (b) | 19,138 |
| Amortization | 20,104 | (13,217)(c) | 6,887 | 18,750 | (2,115)(c) | 16,635 |
| **Total operating expenses** | 476,388 | (10,397) | 465,991 | 347,468 | (5,434) | 342,034 |
| **Operating income** | 105,000 | 10,397 | 115,397 | 81,876 | 5,434 | 87,310 |
| **Other income (expense)** | | | | | | |
| Loss on early extinguishment of debt, net | (79,327) | | (79,327) | | | |
| Foreign currency transaction (losses) gains, net | (811) | 3,191 (d) | 2,380 | 14,966 | (352)(d) | 14,614 |
| Interest expense and all other non-operating expenses, net | (20,051) | (236)(e) | (20,287) | (32,741) | | (32,741) |
| **Total other expense** | (100,189) | 2,955 | (97,234) | (17,775) | (352) | (18,127) |
| **Income before income tax provision** | 4,811 | 13,352 | 18,163 | 64,101 | 5,082 | 69,183 |
| **Income tax provision** | (19,788) | (24,286)(f) | (44,074) | (13,045) | (34,659)(f) | (47,704) |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Net (loss) income** | $ (14,977) | $ (10,934) | $ (25,911) | $ 51,056 | $ (29,577) | $ 21,479 |
| **Net (loss) income per common share, basic** | $ (0.22) | $ (0.15) | $ (0.37) | $ 0.84 | $ (0.49) | $ 0.35 |
| **Net (loss) income per common share, diluted** | $ (0.22) | $ (0.15) | $ (0.37) | $ 0.80 | $ (0.47) | $ 0.33 |
| **Weighted average number of common shares outstanding, basic** | 69,396 | | 69,396 | 60,816 | | 60,816 |
| **Weighted average number of common shares outstanding, diluted** | 69,396 | | 69,396 | 64,219 | | 64,219 |

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Unaudited**

The statements of operations components changed, as reflected in the Adjustment column above, as a result of the following restatement adjustments:

| | | Six Months Ended June 30, 2004 | Six Months Ended June 30, 2003 |
|---|---|---|---|
| | | (in thousands) | |
| (a) | *Selling, general and administrative* | | |
| | Mexico bookkeeping errors | $ (1,067) | $ (3,322) |
| | Insurance claims for damaged equipment | 2,384 | |
| | Net increase (decrease) | $ 1,317 | $ (3,322) |
| (b) | *Depreciation* | | |
| | Mexico bookkeeping errors | $ (100) | $ (105) |
| | Tax provision calculation errors | 108 | 108 |
| | Argentina handset depreciation | 1,495 | |
| | Net increase | $ 1,503 | $ 3 |
| (c) | *Amortization* | | |
| | Mexico bookkeeping errors | $ (99) | $ (102) |
| | Tax provision calculation errors | 142 | 142 |
| | Release of deferred tax asset valuation allowance | (13,260) | (2,155) |
| | Net decrease | $ (13,217) | $ (2,115) |
| (d) | *Foreign currency transaction (losses) gains, net* | | |
| | Mexico bookkeeping errors | $ 3,191 | $ (352) |
| | Net change | $ 3,191 | $ (352) |
| (e) | *Interest expense and all other non-operating expenses, net* | | |
| | Other | $ (236) | $ |
| | Net increase | $ (236) | $ |
| (f) | *Income tax provision* | | |
| | Tax provision calculation errors | $ 478 | $ |
| | Release of deferred tax asset valuation allowance, tax impact of Mexico bookkeeping errors and other | (24,764) | (34,659) |
| | Net increase | $ (24,286) | $ (34,659) |

16

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Unaudited**
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

| | For the Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | June 30, 2004 | | | June 30, 2003 | | |
| | As Reported | Adjustment | As Restated | As Reported | Adjustment | As Restated |
| | (in thousands, except per share amounts) | | | | | |
| **Operating revenues** | $ 304,128 | $ | $ 304,128 | $ 225,951 | $ | $ 225,951 |
| **Operating expenses** | | | | | | |
| Cost of service | 78,082 | | 78,082 | 54,458 | | 54,458 |
| Cost of digital handset and accessory sales | 51,680 | | 51,680 | 30,538 | | 30,538 |
| Selling, general and administrative | 93,524 | 1,847 (g) | 95,371 | 78,444 | 2,093 (g) | 80,537 |
| Depreciation | 20,113 | 824 (h) | 20,937 | 10,489 | 1 (h) | 10,490 |
| Amortization | 9,982 | (6,885)(i) | 3,097 | 9,283 | (1,307)(i) | 7,976 |
| **Total operating expenses** | 253,381 | (4,214) | 249,167 | 183,212 | 787 | 183,999 |
| **Operating income** | 50,747 | 4,214 | 54,961 | 42,739 | (787) | 41,952 |
| **Other income (expense)** | | | | | | |
| Foreign currency transaction (losses) gains, net | (3,707) | 3,492 (j) | (215) | 26,128 | (3,210)(j) | 22,918 |
| Interest expense and all other non-operating expenses, net | (5,240) | (236)(k) | (5,476) | (18,788) | | (18,788) |
| **Total other expense** | (8,947) | 3,256 | (5,691) | 7,340 | (3,210) | 4,130 |
| **Income before income tax provision** | 41,800 | 7,470 | 49,270 | 50,079 | (3,997) | 46,082 |
| **Income tax provision** | (16,738) | (5,832)(l) | (22,570) | (8,442) | (26,165)(l) | (34,607) |
| **Net income** | $ 25,062 | $ 1,638 | $ 26,700 | $ 41,637 | $ (30,162) | $ 11,475 |
| **Net income per common share, basic** | $ 0.36 | $ 0.02 | $ 0.38 | $ 0.68 | $ (0.49) | $ 0.19 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Net income per common share, diluted** | $ 0.34 | $ 0.02 | $ 0.36 | $ 0.65 | $ (0.47) | $ 0.18 |
| **Weighted average number of common shares outstanding, Basic** | 69,643 | | 69,643 | 61,173 | | 61,173 |
| **Weighted average number of common shares outstanding, Diluted** | 79,130 | | 79,130 | 64,452 | | 64,452 |

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Unaudited**

The statements of operations components changed, as reflected in the Adjustment column above, as a result of the following restatement adjustments:

| | | Three Months Ended June 30, 2004 | Three Months Ended June 30, 2003 |
|---|---|---|---|
| | | (in thousands) | |
| (g) | *Selling, general and administrative* | | |
| | Mexico bookkeeping errors | $ (537) | $ 2,093 |
| | Insurance claims for damaged equipment | 2,384 | |
| | Net increase | $ 1,847 | $ 2,093 |
| (h) | *Depreciation* | | |
| | Mexico bookkeeping errors | $ (49) | $ (53) |
| | Tax provision calculation errors | 54 | 54 |
| | Argentina handset depreciation | 819 | |
| | Net increase | $ 824 | $ 1 |
| (i) | *Amortization* | | |
| | Mexico bookkeeping errors | $ (51) | $ (51) |
| | Tax provision calculation errors | 71 | 71 |
| | Release of deferred tax asset valuation allowance | (6,905) | (1,327) |
| | Net decrease | $ (6,885) | $ (1,307) |
| (j) | *Foreign currency transaction (losses) gains, net* | | |
| | Mexico bookkeeping errors | $ 3,492 | $ (3,210) |
| | Net change | $ 3,492 | $ (3,210) |
| (k) | *Interest expense and all other non-operating expenses, net* | | |
| | Other | $ (236) | $ |
| | Net increase | $ (236) | $ |
| (l) | *Income tax provision* | | |
| | Tax provision calculation errors | $ 742 | $ |
| | Release of deferred tax asset valuation allowance, tax impact of Mexico bookkeeping errors and other | (6,574) | (26,165) |
| | Net increase | $ (5,832) | $ (26,165) |

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Unaudited**
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET**

| | As of June 30, 2004 | | |
|---|---|---|---|
| | **As Reported** | **Adjustment** | **As Restated** |
| | | **(in thousands)** | |
| **ASSETS** | | | |
| Current deferred income taxes, net | $ 46,034 | $ (8,724)(m) | $ 37,310 |
| Current assets, excluding current deferred income taxes, net | 621,338 | (3,739)(n) | 617,599 |
| Property, plant and equipment, net | 424,436 | (3,949)(o) | 420,487 |
| Intangible assets, net | 175,301 | (106,681)(p) | 68,620 |
| Other assets | 43,736 | | 43,736 |
| Total assets | $ 1,310,845 | $ (123,093) | $ 1,187,752 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | | |
| Accounts payable, accrued expenses and other | $ 189,611 | $ (707)(q) | $ 188,904 |
| Other current liabilities | 59,378 | | 59,378 |
| Other long-term liabilities | 752,295 | 115 (r) | 752,410 |
| Total liabilities | 1,001,284 | (592) | 1,000,692 |
| **Stockholders equity** | | | |
| Common stock | 70 | | 70 |
| Paid-in capital | 182,082 | | 182,082 |
| Deferred compensation | (15,360) | | (15,360) |
| Retained earnings | 200,549 | (122,482)(s) | 78,067 |
| Accumulated other comprehensive loss | (57,780) | (19)(t) | (57,799) |
| Total stockholders equity | 309,561 | (122,501) | 187,060 |
| Total liabilities and stockholders equity | $ 1,310,845 | $ (123,093) | $ 1,187,752 |

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Unaudited**

The balance sheet components changed, as reflected in the Adjustment column above, as a result of the following restatement adjustments:

| | | As of June 30, 2004 (in thousands) |
|---|---|---|
| (m) | *Current deferred income taxes, net* | |
| | Release of deferred tax asset valuation allowance, Mexico bookkeeping errors and other | $ (8,724) |
| | Net decrease | $ (8,724) |
| (n) | *Current assets, excluding current deferred income taxes, net* | |
| | Mexico bookkeeping errors | $ (976) |
| | Insurance claims for damaged equipment | (1,446) |
| | Release of deferred tax asset valuation allowance | (1,317) |
| | Net decrease | $ (3,739) |
| (o) | *Property, plant and equipment, net* | |
| | Mexico bookkeeping errors | $ (810) |
| | Tax provision calculation errors | 1,183 |
| | Insurance claims for damaged equipment | (2,319) |
| | Argentina handset depreciation | (2,003) |
| | Net decrease | $ (3,949) |
| (p) | *Intangible assets, net* | |
| | Mexico bookkeeping errors | $ (817) |
| | Tax provision calculation errors | 1,069 |
| | Release of deferred tax asset valuation allowance | (106,933) |
| | Net decrease | $ (106,681) |
| (q) | *Accounts payable, accrued expenses and other* | |
| | Mexico bookkeeping errors | $ (9,164) |
| | Insurance claims for damaged equipment | (1,497) |
| | Tax provision calculation errors | 9,954 |
| | Net decrease | $ (707) |
| (r) | *Other long-term liabilities* | |
| | Other | $ 115 |
| | Net increase | $ 115 |

| | | | |
|---|---|---|---|
| (s) | *Retained earnings* | | |
| | Mexico bookkeeping errors | $ | 7,043 |
| | Tax provision calculation errors | | (7,701) |
| | Insurance claims for damaged equipment | | (2,384) |
| | Release of deferred tax asset valuation allowance, tax impact of Mexico bookkeeping errors and other | | (117,437) |
| | Argentina handset depreciation | | (2,003) |
| | Net decrease | $ | (122,482) |
| (t) | *Accumulated other comprehensive loss* | | |
| | Mexico bookkeeping errors | $ | (484) |
| | Release of deferred tax asset valuation allowance and other | | 467 |
| | Argentina handset depreciation | | (2) |
| | Net increase | $ | (19) |

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Unaudited**
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET**

| | As of June 30, 2003 | | |
|---|---|---|---|
| | As Reported | Adjustment | As Restated |
| | | (in thousands) | |
| **ASSETS** | | | |
| Current assets | $ 511,905 | $ (154)(s) | $ 511,751 |
| Property, plant and equipment, net | 327,022 | 384 (t) | 327,406 |
| Intangible assets, net | 179,743 | (53,234)(u) | 126,509 |
| Other assets | 22,443 | | 22,443 |
| Total assets | $ 1,041,113 | $ (53,004) | $ 988,109 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | | |
| Accounts payable, accrued expenses and other | $ 211,795 | $ 640 (v) | $ 212,435 |
| Other current liabilities | 87,737 | | 87,737 |
| Other long-term liabilities | 624,334 | (3,760)(w) | 620,574 |
| Total liabilities | 923,866 | (3,120) | 920,746 |
| **Stockholders equity** | | | |
| Common stock | 62 | | 62 |
| Paid-in capital | 50,464 | | 50,464 |
| Retained earnings | 93,622 | (49,379)(x) | 44,243 |
| Accumulated other comprehensive loss | (26,901) | (505)(y) | (27,406) |
| Total stockholders equity | 117,247 | (49,884) | 67,363 |
| Total liabilities and stockholders equity | $ 1,041,113 | $ (53,004) | $ 988,109 |

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Unaudited**

The balance sheet components changed, as reflected in the Adjustment column above, as a result of the following restatement adjustments:

| | | | As of June 30, 2003 (in thousands) |
|---|---|---|---|
| (s) | *Current assets* | | |
| | Mexico bookkeeping errors | $ | (154) |
| | Net decrease | $ | (154) |
| (t) | *Property, plant and equipment, net* | | |
| | Mexico bookkeeping errors | $ | (1,014) |
| | Tax provision calculation errors | | 1,398 |
| | Net increase | $ | 384 |
| (u) | *Intangible assets, net* | | |
| | Mexico bookkeeping errors | $ | (1,016) |
| | Tax provision calculation errors | | 1,353 |
| | Release of deferred tax asset valuation allowance | | (53,571) |
| | Net decrease | $ | (53,234) |
| (v) | *Accounts payable, accrued expenses and other* | | |
| | Mexico bookkeeping errors | $ | (5,611) |
| | Tax provision calculation errors | | 6,251 |
| | Net increase | $ | 640 |
| (w) | *Deferred income taxes* | | |
| | Release of deferred tax asset valuation allowance and other | $ | (3,760) |
| | Net decrease | $ | (3,760) |
| (x) | *Retained earnings* | | |
| | Mexico bookkeeping errors | $ | 3,883 |
| | Tax provision calculation errors | | (3,386) |
| | Release of deferred tax asset valuation allowance, tax impact of Mexico bookkeeping errors and other | | (49,876) |
| | Net decrease | $ | (49,379) |
| (y) | *Accumulated other comprehensive loss* | | |
| | Mexico bookkeeping errors | $ | (457) |

| | | |
|---|---|---|
| Release of deferred tax asset valuation allowance and other | | (48) |
| Net increase | $ | (505) |

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Unaudited**

**Note 3. Supplemental Balance Sheet Information**

***Prepaid Expenses and Other.*** The components of our prepaid expenses and other are as follows:

| | June 30, 2004 | December 31, 2003 |
|---|---|---|
| | Restated | |
| | (in thousands) | |
| Value added tax receivables, current | $ 21,181 | $ 22,596 |
| Advances to suppliers | 7,204 | 8,053 |
| Insurance claims | 1,146 | 4,853 |
| Prepaid income taxes | | 4,470 |
| Other prepaid expenses | 27,966 | 19,156 |
| | $ 57,497 | $ 59,128 |

***Accounts Payable, Accrued Expenses and Other.*** The components of our accounts payable, accrued expenses and other are as follows:

| | June 30, 2004 | December 31, 2003 |
|---|---|---|
| | Restated | |
| | (in thousands) | |
| Accrued income taxes and income taxes payable | $ 10,856 | $ 14,462 |
| Accrued non-income based taxes | 34,947 | 32,899 |
| Accrued payroll, commissions and related items | 30,978 | 32,816 |
| Accrued expenses and amounts payable related to network system and information technology | 42,515 | 40,907 |
| Accrued capital expenditures and capital expenditure related payables | 15,273 | 28,202 |
| Customer deposits | 14,421 | 11,485 |
| Accrued tax and other contingencies | 4,906 | 6,676 |
| Other | 35,008 | 33,726 |
| | $ 188,904 | $ 201,173 |

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Unaudited**

***Other Long-Term Liabilities.*** The components of our other long-term liabilities are as follows:

| | June 30, 2004 Restated | December 31, 2003 |
|---|---|---|
| | (in thousands) | |
| Tax and other contingencies | $ 56,114 | $ 69,627 |
| Asset retirement obligations | 3,374 | 3,021 |
| Capital lease obligations | 3,819 | |
| Other long-term liabilities | 4,816 | 3,599 |
| | $ 68,123 | $ 76,247 |

**Note 4. Intangible Assets**

Our intangible assets consist of our licenses, customer base and tradename, all of which have finite useful lives, as follows:

| | June 30, 2004 Restated | | | December 31, 2003 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Value | Accumulated Amortization | Net Carrying Value | Gross Carrying Value | Accumulated Amortization | Net Carrying Value |
| | (in thousands) | | | | | |
| **Amortizable intangible assets:** | | | | | | |
| Licenses | $ 67,080 | $ (7,242) | $ 59,838 | $ 73,595 | $ (5,380) | $ 68,215 |
| Customer base | 38,774 | (31,788) | 6,986 | 42,133 | (27,684) | 14,449 |
| Tradename | 2,962 | (1,166) | 1,796 | 4,132 | (978) | 3,154 |
| **Total intangible assets** | $ 108,816 | $ (40,196) | $ 68,620 | $ 119,860 | $ (34,042) | $ 85,818 |

SOP 90-7 requires that reversals of valuation allowances associated with deferred tax assets that exist as of the date of application of fresh-start accounting be recorded as a reduction to intangible assets. Substantially all of our deferred tax asset valuation allowances existed as of the date of the application of fresh-start accounting. As such, under SOP 90-7, we record any valuation allowance reversals first as a reduction to our remaining intangible assets existing at our emergence from reorganization and then as an increase to paid-in capital. This accounting methodology for deferred tax asset valuation allowance reversals resulted in a decrease to the bases of our intangible assets from December 31, 2003 to June 30, 2004.

The gross carrying values of licenses, customer base and tradename decreased by $7.8 million, $2.6 million, and $1.1 million respectively from December 31, 2003 to June 30, 2004 due to the reversal of deferred tax asset valuation allowances.

Based on the carrying amount of amortizable intangible assets existing as of June 30, 2004 and current exchange rates, we estimate amortization expense for each of the next five years ending December 31 to be as follows (in thousands):

| Years | Estimated Amortization Expense |
|---|---|
| 2004 | $ 15,638 |
| 2005 | 13,158 |
| 2006 | 4,407 |
| 2007 | 3,746 |
| 2008 | 3,746 |

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Unaudited**

Actual amortization expense to be reported in future periods could differ from these estimates as a result of additional acquisitions of intangibles and the timing of releases of deferred tax asset valuation allowances as well as changes in exchange rates and other relevant factors. During the six and three months ended June 30, 2004, we did not acquire, dispose of or write down any goodwill or intangible assets with indefinite useful lives.

**Note 5. Debt**

| | June 30, 2004 | December 31, 2003 |
|---|---|---|
| | (in thousands) | |
| **3.5% convertible notes due 2033** | $ 180,000 | $ 180,000 |
| **2.875% convertible notes due 2034** | 300,000 | |
| **13.0% senior secured discount notes due 2009**, net of unamortized discount of $14 and $52,196 | 40 | 128,625 |
| **International equipment facility** | 52,493 | 125,000 |
| **Tower financing obligations** | 109,047 | 103,131 |
| Total debt | 641,580 | 536,756 |
| Less: current portion | (1,661) | (1,466) |
| | $ 639,919 | $ 535,290 |

***3.5% Convertible Notes Due 2033.*** Our 3.5% convertible notes due 2033, which we refer to as our 3.5% notes, are senior unsecured obligations and rank equal in right of payment with all of our other existing and future senior unsecured debt. Some of our other long-term debt is secured, and therefore our 3.5% notes effectively rank junior in right of payment to our secured debt to the extent of the value of the assets securing each debt. Historically, some of our long-term debt has been secured and may be secured in the future. In addition, since we conduct all of our operations through our subsidiaries, our 3.5% notes effectively rank junior in right of payment to all liabilities of our subsidiaries. The notes bear interest at a rate of 3.5% per year, payable semi-annually in arrears and in cash on March 15 and September 15 of each year, beginning March 15, 2004. Our 3.5% notes will mature on September 15, 2033, when the entire principal balance of $180.0 million will be due.

The noteholders have the right to require us to repurchase the 3.5% notes on September 15 of 2010, 2013, 2018, 2023 and 2028 at a repurchase price equal to 100% of the principal amount, plus accrued and unpaid interest. In addition, if a fundamental change or termination of trading, as defined, occurs prior to maturity, the noteholders have the right to require us to repurchase all or part of the notes at a repurchase price equal to 100% of the principal amount, plus accrued and unpaid interest.

The 3.5% notes are convertible, at the option of the holder, into shares of our common stock at an adjusted conversion rate of 37.5 shares per $1,000 principal amount of notes, or 6,750,000 aggregate common shares, at a conversion price of about $26.67 per share. The 3.5% notes are convertible, subject to adjustment, at any time prior to the close of business on the final maturity date under any of the following circumstances:

during any fiscal quarter commencing after December 31, 2003, if the closing sale price of our common stock exceeds 110% of the conversion price of $26.67 per share for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter;

during the five business day period after any five consecutive trading day period in which the trading price per note for each day of such period was less than 98% of the product of the closing sale price of our common stock and the number of shares issuable upon conversion of $1,000 principal amount of the notes, or 6,750,000 aggregate common shares, subject to certain limitations;

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Unaudited**

- if the notes have been called for redemption by us; or

- upon the occurrence of certain specified corporate events.

The conversion feature related to the trading price per note meets the criteria of an embedded derivative under SFAS No. 133. As a result, we are required to separate out the value of the conversion feature from the notes and record a liability on our consolidated balance sheet. As of June 30, 2004, the conversion feature had a nominal value, and therefore it did not have a material impact on our financial position or results of operations. We will continue to evaluate the materiality of the value of this conversion feature on a quarterly basis and record the resulting adjustment, if any, in our consolidated balance sheet and statement of operations.

For the fiscal quarters ended June 30, 2004 and March 31, 2004, the closing sale price of our common stock exceeded 110% of the conversion price of $26.67 per share for at least 20 trading days in the 30 consecutive trading days ending on June 30, 2004 and March 31, 2004. As a result, the conversion contingency was met, and effective April 1, 2004, our 3.5% notes became convertible into 37.5 shares of our common stock per $1,000 principal amount of notes, or 6,750,000 aggregate common shares, at a conversion price of about $26.67 per share. As presented for the six months ended June 30, 2004, our calculation of diluted net loss per share does not include the common shares resulting from the potential conversion of our 3.5% notes since their effect would have been antidilutive to our net loss. As presented for the three months ended June 30, 2004, our calculation of diluted net income per share includes the common shares resulting from the potential conversion of our 3.5% notes.

The conversion rate of the 3.5% notes is subject to adjustment if any of the following events occurs:

- we issue common stock as a dividend or distribution on our common stock;

- we issue to all holders of common stock certain rights or warrants to purchase our common stock;

- we subdivide or combine our common stock;

- we distribute to all holders of our common stock shares of our capital stock, evidences of indebtedness or assets, including cash or securities but excluding the rights, warrants, dividends or distributions specified above;

- we or one of our subsidiaries makes a payment in respect of a tender offer or exchange offer for our common stock to the extent that the cash and value of any other consideration included in the payment per share of common stock exceeds the current market price per share of common stock on the trading day next succeeding the last date on which tenders or exchanges may be made pursuant to this tender or exchange offer; or

- someone other than us or one of our subsidiaries makes a payment in respect of a tender offer or exchange offer in which, as of the closing date of the offer, our board of directors is not recommending the rejection of the offer, subject to certain conditions.

Prior to September 20, 2008, the 3.5% notes are not redeemable. Beginning September 20, 2008, we may redeem the 3.5% notes in whole or in part at the following prices expressed as a percentage of the principal amount:

| **Redemption Period** | **Price** |
|---|---|
| Beginning on September 20, 2008 and ending on September 14, 2009 | 101.0% |
| Beginning on September 15, 2009 and ending on September 14, 2010 | 100.5% |
| Beginning on September 15, 2010 and thereafter | 100.0% |

26

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Unaudited**

Neither we, nor any of our subsidiaries, are subject to any financial covenants under our 3.5% notes. In addition, the indenture governing our 3.5% notes does not restrict us or any of our subsidiaries from paying dividends, incurring debt, or issuing or repurchasing our securities.

***2.875% Convertible Notes Due 2034.*** In January 2004, we issued $250.0 million aggregate principal amount of 2.875% convertible notes due 2034, which we refer to as our 2.875% notes. In addition, we granted the initial purchaser an option to purchase up to an additional $50.0 million principal amount of 2.875% notes, which was exercised in full in February 2004. As a result, we issued an additional $50.0 million aggregate principal amount of 2.875% notes, resulting in total net proceeds of $291.6 million. Our 2.875% notes are senior unsecured obligations and rank equal in right of payment with all of our other existing and future senior unsecured debt. Some of our other long-term debt is secured, and therefore our 2.875% notes effectively rank junior in right of payment to our secured debt to the extent of the value of the assets securing each debt. Historically, some of our long-term debt has been secured and may be secured in the future. In addition, since we conduct all of our operations through our subsidiaries, our 2.875% notes effectively rank junior in right of payment to all liabilities of our subsidiaries. The 2.875% notes bear interest at a rate of 2.875% per year, payable semi-annually in arrears and in cash on February 1 and August 1 of each year, beginning August 1, 2004. The 2.875% notes will mature on February 1, 2034, when the entire principal balance of $300.0 million will be due.

The noteholders have the right to require us to repurchase the 2.875% notes on February 1 of 2011, 2014, 2019, 2024 and 2029 at a repurchase price equal to 100% of the principal amount, plus any accrued and unpaid interest up to but excluding the repurchase date. In addition, if a fundamental change or termination of trading, as defined, occurs prior to maturity, the noteholders have a right to require us to repurchase all or part of the notes at a repurchase price equal to 100% of the principal amount, plus accrued and unpaid interest.

The 2.875% notes are convertible, at the option of the holder, into shares of our common stock at an adjusted conversion rate of 18.7830 shares per $1,000 principal amount of notes, or 5,634,900 aggregate common shares, at a conversion price of about $53.24 per share. The 2.875% notes are convertible, subject to adjustment, prior to the close of business on the final maturity date under any of the following circumstances:

- during any fiscal quarter commencing after March 31, 2004, if the closing sale price of our common stock exceeds 120% of the conversion price of $53.24 per share for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter;

- during the five business day period after any five consecutive trading day period in which the trading price per note for each day of this period was less than 98% of the product of the closing sale price of our common stock and the number of shares issuable upon conversion of $1,000 principal amount of the 2.875% notes, or 5,634,900 aggregate common shares, subject to certain limitations;

- if the 2.875% notes have been called for redemption; or

- upon the occurrence of specified corporate events.

We have the option to satisfy the conversion of the 2.875% notes in shares of our common stock, in cash or a combination of both.

The conversion feature related to the trading price per note meets the criteria of an embedded derivative under SFAS No. 133. As a result, we are required to separate out the value of the conversion feature from the notes and record a liability on our consolidated balance sheet. As of June 30, 2004, the conversion feature had a nominal value, and therefore it did not have a material impact on our financial position or results of operations. We will continue to evaluate the materiality of the value of this conversion feature on a quarterly basis and record the resulting adjustment, if any, in our consolidated balance sheet and statement of operations.

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Unaudited**

As of June 30, 2004, our 2.875% convertible notes did not meet any of the criteria necessary for conversion into shares of our common stock.

The conversion rate of the 2.875% notes is subject to adjustment if any of the following events occurs:

- we issue common stock as a dividend or distribution on our common stock;
- we issue to all holders of common stock certain rights or warrants to purchase our common stock;
- we subdivide or combine our common stock;
- we distribute to all holders of our common stock shares of our capital stock, evidences of indebtedness or assets, including cash or securities but excluding the rights, warrants, dividends or distributions specified above;
- we or one of our subsidiaries makes a payment in respect of a tender offer or exchange offer for our common stock to the extent that the cash and value of any other consideration included in the payment per share of common stock exceeds the current market price per share of common stock on the trading day next succeeding the last date on which tenders or exchanges may be made pursuant to this tender or exchange offer; or
- someone other than us or one of our subsidiaries makes a payment in respect of a tender offer or exchange offer in which, as of the closing date of the offer, our board of directors is not recommending the rejection of the offer, subject to certain conditions.

Prior to February 7, 2011, the 2.875% notes are not redeemable. On or after February 7, 2011, we may redeem for cash some or all of the 2.875% notes, at any time and from time to time, upon at least 30 days notice for a price equal to 100% of the principal amount of the 2.875% notes to be redeemed plus any accrued and unpaid interest up to but excluding the redemption date.

Neither we, nor any of our subsidiaries, are subject to any financial covenants under our 2.875% notes. In addition, the indenture governing our 2.875% notes does not restrict us or any of our subsidiaries from paying dividends, incurring debt, or issuing or repurchasing our securities.

***Repurchase and Defeasance of 13.0% Senior Secured Discount Notes.*** In March 2004, NII Holdings (Cayman), Ltd. (NII Cayman), one of our wholly-owned subsidiaries, retired substantially all of its $180.8 million aggregate principal amount 13.0% senior secured discount notes due 2009 through a cash tender offer, resulting in about a $79.3 million pre-tax loss, including a $47.2 million write-off of the unamortized discount and $2.3 million in charges representing the write-off of debt financing costs and the payment of transaction costs. NII Cayman financed this tender offer with intercompany loans from NII Holdings and cash on hand. We used a portion of our proceeds from the issuance of our 2.875% notes to fund these intercompany loans to NII Cayman. For the six months ended June 30, 2004, the basic and diluted loss per share amount resulting from the loss on the early extinguishment of our 13.0% senior secured discount notes was $1.14.

Subsequent to the end of the second quarter of 2004, in July 2004, the trustee for our 13.0% senior secured discount notes due 2009 released its security interests in the underlying collateral, and the remaining amount under these notes was defeased. As a result, our assets are no longer encumbered under these notes.

***Repayment of International Equipment Facility.*** In February 2004, in compliance with our international equipment facility credit agreement, we prepaid, at face value, $72.5 million of the $125.0 million in outstanding principal and related accrued interest of $0.4 million. We did not realize a gain or loss on this prepayment.

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Unaudited**

Subsequent to the end of the second quarter of 2004, in July 2004, we paid the remaining $52.6 million in outstanding principal and related accrued interest under our international equipment facility. Under the terms of the international equipment facility and related agreements, Motorola Credit Corporation was a secured creditor and held senior liens on substantially all of our assets, as well as the assets of our various foreign and domestic subsidiaries and affiliates. As a result of the pay-off of this facility, Motorola Credit Corporation released its liens on these assets, all restrictive covenants under this facility were terminated and all obligations under this facility were discharged. We did not recognize any gain or loss as a result of either of these transactions.

***Tower Financing Obligations.*** During the six and three months ended June 30, 2004 and 2003, Nextel Mexico and Nextel Brazil sold communications towers as follows:

| | Six Months Ended June 30, | | | | Three Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | | 2003 | | 2004 | | 2003 | |
| | Towers | Proceeds | Towers | Proceeds | Towers | Proceeds | Towers | Proceeds |
| Nextel Mexico | 35 | $ 6,622 | 301 | $ 56,138 | 12 | $ 2,244 | 78 | $ 14,609 |
| Nextel Brazil | 22 | 2,924 | 80 | 10,800 | 7 | 867 | 16 | 2,160 |
| Total | 57 | $ 9,546 | 381 | $ 66,938 | 19 | $ 3,111 | 94 | $ 16,769 |

Subsequent to the end of the second quarter of 2004, Nextel Mexico sold an additional 6 towers for $1.1 million in proceeds and Nextel Brazil sold an additional 4 towers for $0.4 million in proceeds.

We account for these tower sales as financing arrangements and, as such, maintain the tower assets on our balance sheet and continue to depreciate them. We recognize the proceeds received as financing obligations that will be repaid through monthly rent payments. To the extent that American Tower leases space on these communication towers to third party companies, our base rent and ground rent related to the towers leased are reduced. We recognize ground rent payments as operating expenses in cost of service and tower base rent payments as interest expense and a reduction in the financing obligation using the effective interest method. In addition, we recognize co-location rent payments made by the third party lessees to American Tower as other operating revenues because we are maintaining the tower assets on our balance sheet. During the six months ended June 30, 2004, we recognized $4.5 million in other operating revenues related to these co-location lease arrangements, a portion of which was recognized as interest expense.

On January 1, 2004, we executed a binding term sheet with American Tower whereby both parties agreed to make certain amendments to the sale-leaseback agreement with respect to the construction and/or the acquisition by American Tower of any new towers to be constructed or purchased by our Mexican and our Brazilian operating companies. The most significant of such amendments provides for: the elimination of minimum purchase and construction commitments; the establishment of new purchase commitments for the following four years, subject to certain collocation conditions; the extension for an additional four years, subject to certain conditions and limitations, of the right of American Tower to market for collocation existing and new towers; and the reduction of the monthly rent payments, as well as the purchase price, of any existing towers not previously purchased or identified for purchase and of any new sites built.

**Note 6. Contingencies**

***Brazilian Contingencies.*** Nextel Brazil has received tax assessment notices from state and federal Brazilian tax authorities asserting deficiencies in tax payments related primarily to value added taxes and import duties based on the classification of equipment and services. Nextel Brazil has filed various petitions disputing these assessments. In some cases Nextel Brazil has received favorable decisions, which are currently being appealed by the respective governmental authority. In other cases Nextel Brazil s petitions have been

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Unaudited**

denied and Nextel Brazil is currently appealing those decisions. Nextel Brazil is also disputing certain non-tax related claims. Nextel Brazil believes it has appropriately accrued for probable losses related to tax and non-tax matters in accordance with SFAS No. 5, Accounting for Contingencies. As a result of ongoing analysis, further consultations with external legal counsel, expirations of the statute of limitations and settlements of certain matters during the first and second quarters of 2004, Nextel Brazil reversed $4.3 million and $10.2 million in accrued liabilities, of which $2.5 million and $6.8 million, respectively, were recorded as reductions to operating expenses. We currently estimate the range of possible losses related to tax and non-tax matters for which we have not accrued liabilities to be between $34.0 million and $38.0 million. From time to time, Nextel Brazil may also receive additional tax assessments or claim notices of a similar nature. We are continuing to evaluate the likelihood of possible losses, if any, related to all known tax and non-tax contingencies. As a result, future increases or decreases to our accrued contingencies may be necessary. As of June 30, 2004, Nextel Brazil had accrued liabilities of $35.1 million related to tax and non-tax contingencies.

***Legal Proceedings.*** We are subject to claims and legal actions that may arise in the ordinary course of business. We do not believe that any of these pending claims or legal actions will have a material effect on our business, financial condition, results of operations or cash flows.

**Note 7. Income Taxes**

During the first and second quarters of 2004, we assessed the realizability of certain deferred tax assets, consistent with the methodology employed for 2003. In that assessment, we considered the reversal of existing temporary differences associated with deferred tax assets, future taxable income, tax planning strategies as considered and historical and future pre-tax book income as adjusted for permanent differences between financial and tax accounting items. Accordingly, during the first quarter of 2004, we reversed $13.2 million of the valuation allowance associated with deferred tax assets in Mexico due to additional information regarding our expected profitability within certain Mexican operations. Since substantially all of the Mexican valuation allowance existed as of the date we applied fresh-start accounting, $11.9 million of the valuation allowance reduced our intangible assets in accordance with SOP 90-7. Additionally, we recorded an income tax benefit of $1.3 million for the remainder of the valuation allowance as that portion related to deferred tax assets that were generated subsequent to our reorganization.

**Note 8. Segment Reporting**

We operate in four reportable segments: (1) Mexico, (2) Brazil, (3) Argentina and (4) Peru. The operations of all other businesses that fall below the segment reporting thresholds are included in the Corporate and other segment below. This segment includes our Chilean operating companies, our corporate operations in the U.S. and our Cayman entity that issued our senior secured discount notes. We evaluate the performance of these segments and provide resources to them based on operating income before depreciation and amortization, which we refer to as segment earnings. We allocate corporate overhead costs to some of our subsidiaries. The segment information below does not reflect any allocations of corporate overhead costs

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Unaudited**

because the amounts of these expenses are not provided to or used by our chief operating decision maker in making operating decisions related to these segments.

| | Mexico | Brazil | Argentina | Peru | Corporate and other | Intercompany Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| | | | | (in thousands) | | | |
| **Six Months Ended June 30, 2004 Restated (see Note 2)** | | | | | | | |
| Operating revenues | $ 359,172 | $ 91,801 | $ 83,454 | $ 46,427 | $ 793 | $ (259) | $ 581,388 |
| Segment earnings (losses) | $ 151,520 | $ 8,201 | $ 19,884 | $ 8,217 | $ (25,492) | $ | $ 162,330 |
| Depreciation and amortization | (33,934) | (5,270) | (5,035) | (2,426) | (479) | 211 | (46,933) |
| Operating income (loss) | 117,586 | 2,931 | 14,849 | 5,791 | (25,971) | 211 | 115,397 |
| Interest expense | (9,306) | (4,950) | (40) | (111) | (12,699) | 16 | (27,090) |
| Interest income | 1,215 | 1,804 | 212 | 837 | 1,559 | (16) | 5,611 |
| Loss on early extinguishment of debt, net | | | | | (79,327) | | (79,327) |
| Foreign currency transaction gains (losses), net | 3,352 | (488) | (487) | 11 | (8) | | 2,380 |
| Other income (expense), net | (816) | 1,875 | 357 | (3) | (221) | | 1,192 |
| Income (loss) before income tax | $ 112,031 | $ 1,172 | $ 14,891 | $ 6,525 | $ (116,667) | $ 211 | $ 18,163 |
| Capital expenditures | $ 53,579 | $ 17,417 | $ 15,551 | $ 10,811 | $ 1,777 | $ | $ 99,135 |
| **Six Months Ended June 30, 2003 Restated (see Note 2)** | | | | | | | |
| Operating revenues | $ 264,610 | $ 68,767 | $ 49,091 | $ 46,376 | $ 767 | $ (267) | $ 429,344 |
| Segment earnings (losses) | $ 109,827 | $ 6,183 | $ 13,459 | $ 10,537 | $ (16,923) | $ | $ 123,083 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Depreciation and amortization | (31,998) | (1,366) | (1,009) | (1,445) | (236) | 281 | (35,773) |
| Operating income (loss) | 77,829 | 4,817 | 12,450 | 9,092 | (17,159) | 281 | 87,310 |
| Interest expense | (8,218) | (5,688) | (46) | (1,021) | (16,458) | 508 | (30,923) |
| Interest income | 1,317 | 2,152 | 326 | 511 | 1,430 | (508) | 5,228 |
| Foreign currency transaction (losses) gains, net | (6,848) | 21,895 | (510) | 89 | (12) | | 14,614 |
| Other (expense) income, net | (568) | (2,939) | 8,280 | (867) | (7,461) | (3,491) | (7,046) |
| Income (loss) before income tax | $ 63,512 | $ 20,237 | $ 20,500 | $ 7,804 | $ (39,660) | $ (3,210) | $ 69,183 |
| Capital expenditures | $ 90,153 | $ 8,397 | $ 7,512 | $ 9,189 | $ 1,803 | $ | $ 117,054 |
| **Three Months Ended June 30, 2004 Restated (see Note 2)** | | | | | | | |
| Operating revenues | $ 186,209 | $ 48,607 | $ 45,765 | $ 23,281 | $ 386 | $ (120) | $ 304,128 |
| Segment earnings (losses) | $ 75,317 | $ 4,694 | $ 9,864 | $ 4,026 | $ (14,906) | $ | $ 78,995 |
| Depreciation and amortization | (17,017) | (2,754) | (2,814) | (1,292) | (262) | 105 | (24,034) |
| Operating income (loss) | 58,300 | 1,940 | 7,050 | 2,734 | (15,168) | 105 | 54,961 |
| Interest expense | (4,119) | (2,287) | (32) | (28) | (4,435) | 10 | (10,891) |
| Interest income | 529 | 881 | 107 | 796 | 703 | (10) | 3,006 |
| Foreign currency transaction gains (losses), net | 156 | (526) | 155 | 5 | (5) | | (215) |
| Other income (expense), net | (262) | 2,416 | 343 | 1 | (89) | | 2,409 |
| Income (loss) before income tax | $ 54,604 | $ 2,424 | $ 7,623 | $ 3,508 | $ (18,994) | $ 105 | $ 49,270 |
| Capital expenditures | $ 28,786 | $ 8,371 | $ 7,319 | $ 5,565 | $ 871 | $ | $ 50,912 |

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Unaudited**

| | Mexico | Brazil | Argentina | Peru | Corporate and other | Intercompany Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| | | | | (in thousands) | | | |
| **Three Months Ended June 30, 2003 Restated (see Note 2)** | | | | | | | |
| Operating revenues | $ 138,176 | $ 35,093 | $ 28,756 | $ 23,683 | $ 377 | $ (134) | $ 225,951 |
| Segment earnings (losses) | $ 54,351 | $ 2,698 | $ 6,995 | $ 4,884 | $ (8,510) | $ | $ 60,418 |
| Depreciation and amortization | (16,553) | (808) | (494) | (766) | (126) | 281 | (18,466) |
| Operating income (loss) | 37,798 | 1,890 | 6,501 | 4,118 | (8,636) | 281 | 41,952 |
| Interest expense | (4,563) | (3,457) | (46) | (486) | (8,670) | 219 | (17,003) |
| Interest income | 566 | 1,548 | 230 | 504 | 666 | (219) | 3,295 |
| Foreign currency transaction gains (losses), net | 4,584 | 19,761 | (1,394) | (37) | 4 | | 22,918 |
| Other (expense) income, net | (744) | (2,868) | 1,089 | (792) | (384) | (1,381) | (5,080) |
| Income (loss) before income tax | $ 37,641 | $ 16,874 | $ 6,380 | $ 3,307 | $ (17,020) | $ (1,100) | $ 46,082 |
| Capital expenditures | $ 41,266 | $ 3,713 | $ 3,666 | $ 3,261 | $ 918 | $ | $ 52,824 |
| **June 30, 2004 Restated (see Note 2)** | | | | | | | |
| Property, plant and equipment, net | $ 299,330 | $ 47,541 | $ 37,425 | $ 33,696 | $ 3,902 | $ (1,407) | $ 420,487 |
| Identifiable assets | $ 660,429 | $ 140,995 | $ 112,531 | $ 78,553 | $ 196,651 | $ (1,407) | $ 1,187,752 |
| **December 31, 2003** | | | | | | | |
| Property, plant and equipment, net | $ 278,118 | $ 38,320 | $ 25,699 | $ 25,313 | $ 2,602 | $ (1,618) | $ 368,434 |
| Identifiable assets | $ 675,035 | $ 138,824 | $ 94,158 | $ 76,935 | $ 145,102 | $ (1,618) | $ 1,128,436 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **June 30, 2003 Restated (see Note 2)** | | | | | | | |
| Property, plant and equipment, net | $ 275,529 | $ 18,212 | $ 13,203 | $ 20,473 | $ 1,818 | $ (1,829) | $ 327,406 |
| Identifiable assets | $ 656,048 | $ 97,884 | $ 64,928 | $ 65,407 | $ 105,671 | $ (1,829) | $ 988,109 |

**Note 9. Condensed Consolidating Financial Information**

We allocate corporate overhead costs to some of our subsidiaries. The condensed consolidating financial information below reflects the impact of our allocations as increases to selling, general and administrative expenses of the guarantor and non-guarantor subsidiaries and corresponding decreases to the selling, general and administrative expenses of NII Holdings, Inc.

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Unaudited**
**CONDENSED CONSOLIDATING BALANCE SHEET**
**As of June 30, 2004**
**(in thousands)**
**Unaudited**
**Restated**

| | NII Holdings, Inc. (Parent) | NII Holdings (Cayman), Ltd. (Issuer)(1) | Guarantor Subsidiaries(2) | Non-Guarantor Subsidiaries | Intercompany Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| **Current assets** | | | | | | |
| Cash and cash equivalents | $ 149,518 | $ 97,336 | $ 94,546 | $ 32,315 | $ | $ 373,715 |
| Short-term investments | | 26,859 | | | | 26,859 |
| Accounts receivable, net | 145 | 73 | 108,900 | 19,095 | | 128,213 |
| Handset and accessory inventory, net | | | 22,550 | 8,765 | | 31,315 |
| Deferred income taxes, net | | | 34,115 | 3,195 | | 37,310 |
| Prepaid expenses and other | 79 | | 47,882 | 9,536 | | 57,497 |
| Total current assets | 149,742 | 124,268 | 307,993 | 72,906 | | 654,909 |
| **Property, plant and equipment, net** | | | 382,873 | 37,614 | | 420,487 |
| **Investments in and advances to affiliates** | 516,388 | 155,795 | 107,739 | 2,917 | (782,839) | |
| **Intangible assets, net** | | | 10,448 | 58,172 | | 68,620 |
| **Other assets** | 16,867 | | 19,011 | 7,858 | | 43,736 |
| | $ 682,997 | $ 280,063 | $ 828,064 | $ 179,467 | $ (782,839) | $ 1,187,752 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | | | | | |
| **Current liabilities** | | | | | | |
| Accounts payable, accrued expenses | $ 107 | $ 266 | $ 146,381 | $ 42,150 | $ | $ 188,904 |

| | | | | | | |
|---|---|---|---|---|---|---|
| and other | | | | | | |
| Deferred revenues | | | 31,272 | 3,490 | | 34,762 |
| Accrued interest | 5,431 | | 1,377 | | | 6,808 |
| Due to related parties | | 279,653 | 234,320 | 50,730 | (548,556) | 16,147 |
| Current portion of long-term debt | | | 1,661 | | | 1,661 |
| Total current liabilities | 5,538 | 279,919 | 415,011 | 96,370 | (548,556) | 248,282 |
| **Long-term debt** | 480,000 | 40 | 159,879 | | | 639,919 |
| **Deferred revenues (related party)** | | | 44,368 | | | 44,368 |
| **Other long-term liabilities** | 10,399 | | 56,726 | 998 | | 68,123 |
| Total liabilities | 495,937 | 279,959 | 675,984 | 97,368 | (548,556) | 1,000,692 |
| **Total stockholders equity** | 187,060 | 104 | 152,080 | 82,099 | (234,283) | 187,060 |
| | $ 682,997 | $ 280,063 | $ 828,064 | $ 179,467 | $ (782,839) | $ 1,187,752 |

(1) NII Holdings (Cayman), Ltd. is the issuer of our senior secured discount notes due 2009. See Note 5.

(2) Represents our subsidiaries that have provided guarantees of the obligations of NII Holdings (Cayman), Ltd. under our senior secured discount notes due 2009. See Note 5.

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Unaudited**
**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**
**For the Six Months Ended June 30, 2004**
**(in thousands)**
**Unaudited**
**Restated**

| | NII Holdings, Inc. (Parent) | NII Holdings (Cayman), Ltd. (Issuer) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Intercompany Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| **Operating revenues** | $ | $ | $ 497,333 | $ 216,605 | $ (132,550) | $ 581,388 |
| **Operating expenses** | | | | | | |
| Cost of revenues (exclusive of depreciation included below) | | | 195,576 | 42,793 | (192) | 238,177 |
| Selling, general and administrative | 3,996 | | 146,296 | 145,022 | (114,433) | 180,881 |
| Depreciation | | | 35,001 | 5,045 | | 40,046 |
| Amortization | | | 3,970 | 2,917 | | 6,887 |
| | 3,996 | | 380,843 | 195,777 | (114,625) | 465,991 |
| **Operating (loss) income** | (3,996) | | 116,490 | 20,828 | (17,925) | 115,397 |
| **Other income (expense)** | | | | | | |
| Interest expense | (7,740) | (4,933) | (13,435) | (982) | | (27,090) |
| Interest income | 929 | 613 | 3,681 | 388 | | 5,611 |
| Loss on early extinguishment of debt, net | | (79,327) | | | | (79,327) |
| Foreign currency transaction gains (losses), net | | | 2,874 | (494) | | 2,380 |
| Equity in (losses) income of affiliates | (15,103) | 10,057 | 12,162 | | (7,116) | |
| Other (expense) income, net | | (344) | 1,360 | 176 | | 1,192 |
| | (21,914) | (73,934) | 6,642 | (912) | (7,116) | (97,234) |
| | (25,910) | (73,934) | 123,132 | 19,916 | (25,041) | 18,163 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **(Loss) income before income tax provision** | | | | | | |
| **Income tax provision** | (1) | | (42,329) | (1,744) | | (44,074) |
| **Net (loss) income** | $ (25,911) | $ (73,934) | $ 80,803 | $ 18,172 | $ (25,041) | $ (25,911) |

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Unaudited**
**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**
**For the Three Months Ended June 30, 2004**
**(in thousands)**
**Unaudited**
**Restated**

| | NII Holdings, Inc. (Parent) | NII Holdings (Cayman), Ltd. (Issuer) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Intercompany Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| **Operating revenues** | $ | $ | $ 258,070 | $ 104,263 | $ (58,205) | $ 304,128 |
| **Operating expenses** | | | | | | |
| Cost of revenues (exclusive of depreciation included below) | | | 104,644 | 25,212 | (94) | 129,762 |
| Selling, general and administrative | 1,663 | | 77,450 | 66,767 | (50,509) | 95,371 |
| Depreciation | | | 18,118 | 2,819 | | 20,937 |
| Amortization | | | 1,646 | 1,451 | | 3,097 |
| | 1,663 | | 201,858 | 96,249 | (50,603) | 249,167 |
| **Operating (loss) income** | (1,663) | | 56,212 | 8,014 | (7,602) | 54,961 |
| **Other income (expense)** | | | | | | |
| Interest expense | (4,317) | (92) | (6,005) | (477) | | (10,891) |
| Interest income | 381 | 312 | 2,113 | 200 | | 3,006 |
| Foreign currency transaction (losses) gains, net | | | (366) | 151 | | (215) |
| Equity in income of affiliates | 32,299 | 6,666 | 6,425 | | (45,390) | |
| Other (expense) income, net | | (218) | 2,320 | 307 | | 2,409 |
| | 28,363 | 6,668 | 4,487 | 181 | (45,390) | (5,691) |
| **Income before income tax (provision) benefit** | 26,700 | 6,668 | 60,699 | 8,195 | (52,992) | 49,270 |
| **Income tax (provision) benefit** | | | (23,428) | 858 | | (22,570) |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Net income** | $ 26,700 | $ 6,668 | $ 37,271 | $ 9,053 | $ (52,992) | $ 26,700 |

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Unaudited**
**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**
**For the Six Months Ended June 30, 2004**
**(in thousands)**
**Unaudited**
**Restated**

| | NII Holdings, Inc. (Parent) | NII Holdings (Cayman), Ltd. (Issuer) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Intercompany Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| **Cash and cash equivalents, beginning of period** | $ 108,688 | $ 123,730 | $ 137,931 | $ 35,057 | $ | $ 405,406 |
| **Cash flows (used in) from operating activities** | (34,548) | 465 | 116,227 | 13,395 | | 95,539 |
| **Cash flows used in investing activities** | (1,622) | (26,859) | (96,503) | (17,267) | 1,622 | (140,629) |
| **Cash flows from (used in) financing activities** | 77,000 | | (63,401) | 1,099 | (1,622) | 13,076 |
| **Effect of exchange rate changes on cash and cash equivalents** | | | 292 | 31 | | 323 |
| **Cash and cash equivalents, end of period** | $ 149,518 | $ 97,336 | $ 94,546 | $ 32,315 | $ | $ 373,715 |

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Unaudited**
**CONDENSED CONSOLIDATING BALANCE SHEET**
**As of December 31, 2003**
**(in thousands)**

| | NII Holdings, Inc. (Parent) | NII Holdings (Cayman), Ltd. (Issuer)(1) | Guarantor Subsidiaries(2) | Non-Guarantor Subsidiaries | Intercompany Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| **Current assets** | | | | | | |
| Cash and cash equivalents | $ 108,688 | $ 123,730 | $ 137,931 | $ 35,057 | $ | $ 405,406 |
| Accounts receivable, net | 110 | 101 | 105,785 | 13,989 | | 119,985 |
| Handset and accessory inventory, net | | | 17,485 | 3,653 | | 21,138 |
| Deferred income taxes, net | | | 33,073 | 8,024 | | 41,097 |
| Prepaid expenses and other | 112 | | 50,187 | 8,829 | | 59,128 |
| Total current assets | 108,910 | 123,831 | 344,461 | 69,552 | | 646,754 |
| **Property, plant and equipment, net** | 2,401 | | 340,133 | 25,900 | | 368,434 |
| **Investments in and advances to affiliates** | 302,994 | 145,955 | 160,805 | 136 | (609,890) | |
| **Intangible assets, net** | | | 15,184 | 70,634 | | 85,818 |
| **Other assets** | 5,097 | 1,728 | 19,557 | 1,048 | | 27,430 |
| | $ 419,402 | $ 271,514 | $ 880,140 | $ 167,270 | $ (609,890) | $ 1,128,436 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | | | | | |
| **Current liabilities** | | | | | | |
| Accounts payable | $ 257 | $ | $ 24,970 | $ 8,454 | $ | $ 33,681 |
| Accrued expenses and other | 185 | 519 | 140,767 | 26,021 | | 167,492 |
| Deferred revenues | | | 29,608 | 2,432 | | 32,040 |
| Accrued interest | 1,835 | | 3,187 | | | 5,022 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Due to related parties | 9,135 | 68,454 | 189,040 | 57,784 | (310,953) | 13,460 |
| Current portion of long-term debt | | | 1,466 | | | 1,466 |
| Total current liabilities | 11,412 | 68,973 | 389,038 | 94,691 | (310,953) | 253,161 |
| **Long-term debt** | 180,000 | 128,625 | 226,665 | | | 535,290 |
| **Deferred revenues (related party)** | | | 45,968 | | | 45,968 |
| **Other long-term liabilities** | 10,220 | | 65,160 | 867 | | 76,247 |
| Total liabilities | 201,632 | 197,598 | 726,831 | 95,558 | (310,953) | 910,666 |
| **Total stockholders equity** | 217,770 | 73,916 | 153,309 | 71,712 | (298,937) | 217,770 |
| | $ 419,402 | $ 271,514 | $ 880,140 | $ 167,270 | $ (609,890) | $ 1,128,436 |

(1) NII Holdings (Cayman), Ltd. is the issuer of our senior secured discount notes due 2009. See Note 5.

(2) Represents our subsidiaries that have provided guarantees of the obligations of NII Holdings (Cayman), Ltd. under our senior secured discount notes due 2009. See Note 5.

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Unaudited**
**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**
**For the Six Months Ended June 30, 2003**
**(in thousands)**
**Unaudited**
**Restated**

| | NII Holdings, Inc. (Parent) | NII Holdings (Cayman), Ltd. (Issuer) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Intercompany Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| **Operating revenues** | $ | $ | $ 373,230 | $ 56,317 | $ (203) | $ 429,344 |
| **Operating expenses** | | | | | | |
| Cost of revenues (exclusive of depreciation included below) | | | 139,365 | 19,966 | (203) | 159,128 |
| Selling, general and administrative | 15,291 | | 107,208 | 24,634 | | 147,133 |
| Depreciation | 188 | | 17,933 | 1,017 | | 19,138 |
| Amortization | | | 14,268 | 2,367 | | 16,635 |
| | 15,479 | | 278,774 | 47,984 | (203) | 342,034 |
| **Operating (loss) income** | (15,479) | | 94,456 | 8,333 | | 87,310 |
| **Other income (expense)** | | | | | | |
| Interest expense | | (14,985) | (15,426) | (779) | 267 | (30,923) |
| Interest income | 128 | 738 | 4,063 | 566 | (267) | 5,228 |
| Foreign currency transaction gains (losses), net | | | 15,135 | (521) | | 14,614 |
| Equity in income (losses) of affiliates | 37,215 | (10,140) | (3,376) | | (23,699) | |
| Other (expense) income, net | (363) | | (7,798) | 1,115 | | (7,046) |
| | 36,980 | (24,387) | (7,402) | 381 | (23,699) | (18,127) |
| **Income (loss) before income tax provision** | 21,501 | (24,387) | 87,054 | 8,714 | (23,699) | 69,183 |
| **Income tax provision** | (22) | | (39,883) | (7,799) | | (47,704) |
| **Net income (loss)** | $ 21,479 | $ (24,387) | $ 47,171 | $ 915 | $ (23,699) | $ 21,479 |

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Unaudited**
**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**
**For the Three Months Ended June 30, 2003**
**(in thousands)**
**Unaudited**
**Restated**

| | NII Holdings, Inc. (Parent) | NII Holdings (Cayman), Ltd. (Issuer) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Intercompany Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| **Operating revenues** | $ | $ | $ 194,773 | $ 31,283 | $ (105) | $ 225,951 |
| **Operating expenses** | | | | | | |
| Cost of revenues (exclusive of depreciation included below) | | | 71,961 | 13,140 | (105) | 84,996 |
| Selling, general and administrative | 7,636 | | 60,223 | 12,678 | | 80,537 |
| Depreciation | 113 | | 9,798 | 579 | | 10,490 |
| Amortization | | | 7,109 | 867 | | 7,976 |
| | 7,749 | | 149,091 | 27,264 | (105) | 183,999 |
| **Operating (loss) income** | (7,749) | | 45,682 | 4,019 | | 41,952 |
| **Other income (expense)** | | | | | | |
| Interest expense | | (7,970) | (8,679) | (386) | 32 | (17,003) |
| Interest income | 92 | 355 | 2,534 | 346 | (32) | 3,295 |
| Foreign currency transaction gains (losses), net | | | 24,306 | (1,388) | | 22,918 |
| Equity in income (losses) of affiliates | 19,495 | 5,279 | (9,326) | | (15,448) | |
| Other (expense) income, net | (363) | | (5,908) | 1,191 | | (5,080) |
| | 19,224 | (2,336) | 2,927 | (237) | (15,448) | 4,130 |
| **Income (loss) before income tax provision** | 11,475 | (2,336) | 48,609 | 3,782 | (15,448) | 46,082 |
| **Income tax provision** | | | (32,232) | (2,375) | | (34,607) |
| **Net income (loss)** | $ 11,475 | $ (2,336) | $ 16,377 | $ 1,407 | $ (15,448) | $ 11,475 |

**NII HOLDINGS, INC. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Unaudited**
**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**
**For the Six Months Ended June 30, 2003**
**(in thousands)**
**Unaudited**
**Restated**

| | NII Holdings, Inc. (Parent) | NII Holdings (Cayman), Ltd. (Issuer) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Intercompany Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| **Cash and cash equivalents, beginning of period** | $ 9,811 | $ 122,499 | $ 81,156 | $ 17,695 | $ | $ 231,161 |
| **Cash flows (used in) from operating activities** | (19,179) | 626 | 115,477 | 16,189 | | 113,113 |
| **Cash flows used in investing activities** | (1,943) | | (98,251) | (5,912) | 4,012 | (102,094) |
| **Cash flows from financing activities** | 19,051 | | 43,806 | 1,611 | (4,012) | 60,456 |
| **Effect of exchange rate changes on cash and cash equivalents** | | | 1,053 | 2,875 | | 3,928 |
| **Cash and cash equivalents, end of period** | $ 7,740 | $ 123,125 | $ 143,241 | $ 32,458 | $ | $ 306,564 |

**10. Subsequent Events**

***Mexican Taxes.*** During the second quarter of 2004, the Mexican tax authorities issued a technical description of their position on their official website regarding specific transactions which they consider harmful and illegal. One such transaction relates to current Mexican tax law that allows a taxpayer to deduct from the basis of property amounts not previously deducted when assets are sold. However, the tax authorities have not yet amended the law currently permitting the use of this deduction or other specifically mentioned transactions. Our Mexican operations included a deduction with respect to the aforementioned transaction in their 2002 and 2003 Mexican income tax filings.

As a result of the Mexican tax authority s current interpretation regarding this matter, and potential sanctions against Nextel Mexico, the Mexican operating companies affected by this potential disallowance amended their 2002 and 2003 income tax returns during the third quarter of 2004 to reflect the reversal of these deductions. The relevant Nextel Mexico companies immediately initiated the process of recovering these amounts. We have received three independent third party Mexican legal opinions supporting the tax position taken in 2002 and 2003, which conclude that it is probable that the tax positions will be sustained. Based on these opinions, we will not reverse the prior year benefits of approximately $14.0 million in our financial statements as a result of applying this tax law.

Additionally, we have included a deferred tax benefit of $1.4 million in our 2004 income tax provision related to this item, which is consistent with the position that the amount should be a supportable deduction based on current Mexican tax law.

***New Director.*** On July 28, 2004, following nomination by the Nominating Committee of our Board of Directors, George A. Cope, President and Chief Executive Officer of Telus Mobility, was elected by our Board of Directors to fill a vacancy as a Class III director whose term of office will continue until the 2006 Annual Meeting of Shareholders.

**Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.**

**INDEX TO MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Introduction**

The following is a discussion and analysis of:

- our consolidated financial condition and results of operations for the six- and three-month periods ended June 30, 2004 and 2003; and

- significant factors which we believe could affect our prospective financial condition and results of operations.

You should read this discussion in conjunction with our 2003 annual report on Form 10-K/A, including, but not limited to, the discussion regarding our critical accounting judgments, as described below and our quarterly report on Form 10-Q/A for the quarter ended March 31, 2004. Historical results may not indicate future performance. See Forward Looking Statements for risks and uncertainties that may impact our future performance.

We present the accounts of our consolidated foreign operating companies utilizing accounts as of a date one month earlier than the accounts of our parent company, our U.S. subsidiaries and our non-operating non-U.S. subsidiaries to ensure timely reporting of consolidated results. As a result, the financial position and results of operations of each of our operating companies in Mexico, Brazil, Argentina, Peru and Chile are presented as of and for the six and three months ended May 31, 2004 and 2003, respectively. In contrast, financial information relating to our parent company, our U.S. subsidiaries and our non-operating non-U.S. subsidiaries is presented as of and for the six and three months ended June 30, 2004 and 2003.

**Restatement of Previously Issued Condensed Consolidated Financial Statements**

We have restated our previously issued condensed consolidated financial statements and related footnotes as of and for the six and three months ended June 30, 2004 and 2003. We have also restated our previously issued consolidated financial statements and related footnotes as of and for the year ended December 31, 2003, as set forth in Note 2 to our consolidated financial statements included in our annual report on Form 10-K/A. We are restating our condensed consolidated financial statements to correct for the following items:

- Bookkeeping errors at our operating company in Mexico;

- Accounting for deferred tax asset valuation allowance reversals;

- Certain errors in the calculation of income taxes for financial statement purposes;

- Insurance claim receivables and write-downs for damaged equipment in Mexico;

- Depreciation of handsets in Argentina; and

- Other insignificant miscellaneous adjustments.

For additional information regarding this restatement, see Note 2 to our unaudited condensed consolidated financial statements included in this quarterly report on Form 10-Q/A. All amounts in this quarterly report on Form 10-Q/A have been updated, as appropriate, to reflect this restatement. Other than for the items discussed herein, we did not update these condensed consolidated financial statements for subsequent events that occurred after we filed our original quarterly report on Form 10-Q on August 6, 2004.

**Critical Accounting Policies and Estimates**

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and related disclosures of contingent assets and liabilities in the condensed consolidated financial statements and related notes for the period presented. Due to the inherent uncertainty involved in making those estimates, actual results to be reported in future periods could differ from those estimates.

We consider the following accounting policies to be the most important to our financial position and results of operations or policies that require us to exercise significant judgment and/or estimates:

- revenue recognition;
- allowance for doubtful accounts;
- valuation of long-lived assets;
- depreciation of property, plant and equipment;
- amortization of intangible assets;
- foreign currency;
- loss contingencies;
- stock-based compensation; and
- income taxes.

A description of these policies is included in our 2003 annual report on Form 10-K/A under Management s Discussion and Analysis of Financial Condition and Results of Operations.

**Business Overview**

We provide digital wireless communication services targeted at meeting the needs of business customers through operating companies located in selected Latin American markets. Our principal operations are in major business centers and related transportation corridors of Mexico, Brazil, Argentina and Peru. We also provide analog specialized mobile radio services in Mexico, Brazil and Peru, as well as in Chile. We refer to our operating companies by the countries in which they operate, such as Nextel Mexico, Nextel Brazil, Nextel Argentina, Nextel Peru and Nextel Chile. Our markets are generally characterized by high population densities and, we believe, a concentration of each country s business users and economic activity. In addition, vehicle traffic congestion, low landline penetration and unreliability of the land-based telecommunications infrastructure encourage the use of mobile wireless communications services in these areas.

We use a transmission technology called integrated digital enhanced network, or iDEN®, developed by Motorola, Inc., to provide our digital mobile services on 800 MHz spectrum holdings in all of our digital markets. This technology allows us to use our spectrum more efficiently and offer multiple digital wireless services integrated on one digital handset device. We are designing our digital mobile networks to support multiple digital wireless services, including:

- digital mobile telephone service, including advanced calling features such as speakerphone, conference calling, voice-mail, call forwarding and additional line service;
- Nextel Direct Connect℠ service, which allows subscribers anywhere on our network to talk to each other instantly, on a push-to-talk basis, on a private one-to-one call or on a group call;
- International Direct Connect℠ service, in partnership with Nextel Communications and Nextel Partners, which allows subscribers to communicate instantly across national borders with our subscribers in Mexico, Brazil, Argentina and Peru and with Nextel Communications and Nextel Partners subscribers in the United States;
- Internet services, mobile messaging services, e-mail and advanced Java enabled business applications, which are marketed as Nextel Online℠ services; and

international roaming capabilities, which are marketed as Nextel Worldwide[SM].

The table below provides an overview of our total digital handsets in commercial service in the countries indicated as of June 30, 2004 and 2003. For purposes of the table, digital handsets in commercial service represent all digital handsets in use by our customers on the digital mobile networks in each of the listed countries.

| Country | Total Digital Handsets In Commercial Service<br>June 30, 2004 | <br>June 30, 2003 |
|---|---|---|
| | (In thousands) | |
| Mexico | 753 | 581 |
| Brazil | 424 | 369 |
| Argentina | 322 | 238 |
| Peru | 165 | 140 |
| **Total** | **1,664** | **1,328** |

**Recent Developments**

***Repurchase and Defeasance of 13.0% Senior Secured Discount Notes.*** On March 8, 2004, NII Holdings (Cayman), Ltd. (NII Cayman), one of our wholly-owned subsidiaries, retired substantially all of its $180.8 million aggregate principal amount 13.0% senior secured discount notes due 2009 through a cash tender offer, resulting in a $79.3 million pre-tax loss, including a $47.2 million write-off of the unamortized discount and $2.3 million in charges representing the write-off of debt financing costs and the payment of transaction costs. NII Cayman financed this tender offer with intercompany loans from NII Holdings and cash on hand. We used a portion of our proceeds from the issuance of our 2.875% convertible notes to fund these intercompany loans to NII Cayman.

Subsequent to the end of the second quarter of 2004, in July 2004, the trustee for our 13.0% senior secured discount notes due 2009 released its security interests in the underlying collateral, and the remaining amount under these notes was defeased. As a result, our assets are no longer encumbered under these notes.

***Repayment of International Equipment Facility.*** In February 2004, in compliance with our international equipment facility credit agreement, we prepaid, at face value, $72.5 million of the $125.0 million in outstanding principal and related accrued interest of $0.4 million. We did not realize a gain or loss on this prepayment.

Subsequent to the end of the second quarter of 2004, in July 2004, we paid the remaining $52.6 million in outstanding principal and related accrued interest under our international equipment facility. Under the terms of the international equipment facility and related agreements, Motorola Credit Corporation was a secured creditor and held senior liens on substantially all of our assets, as well as the assets of our various foreign and domestic subsidiaries and affiliates. As a result of the pay-off of this facility, Motorola Credit Corporation released its liens on these assets, and all restrictive covenants under this facility were terminated and all obligations under this facility were discharged. We did not recognize any gain or loss as a result of either of these transactions.

***Stock Split.*** On February 26, 2004, we announced a 3-for-1 common stock split which was effected in the form of a stock dividend that was paid on March 22, 2004 to holders of record as of March 12, 2004. As a result of the stock split, we retroactively restated all historical share and earnings per share data, par value and additional paid-in capital balances for prior periods in this Form 10-Q/A.

***Income Taxes.*** During the first and second quarters of 2004, we assessed the realizability of certain deferred tax assets, consistent with the methodology employed during 2003. In that assessment, we considered the reversal of existing temporary differences associated with deferred tax assets, future taxable income, tax planning strategies as considered and historical and future pre-tax book income as adjusted for permanent differences between financial and tax accounting items. Accordingly, during the first quarter of 2004, we reversed $13.2 million of the valuation allowance associated with deferred tax assets in Mexico due to additional information regarding our expected profitability within certain Mexican operations. Since substantially all of the Mexican valuation allowance existed as of the date we applied fresh-start accounting, $11.9 million of the valuation allowance reduced our intangible assets in accordance with SOP 90-7. Additionally, we recorded an income tax benefit of $1.3 million for the remainder of the valuation allowance as that portion related to deferred tax assets that were generated subsequent to our reorganization.

**Ratio of Earnings to Fixed Charges**

| | Three Months Ended June 30, | |
|---|---|---|
| | **2004** | **2003** |
| | **Restated** | **Restated** |
| | 4.24x | 3.07x |

For the purpose of computing the ratio of earnings to fixed charges, earnings consist of income from continuing operations before income taxes plus fixed charges and amortization of capitalized interest less capitalized interest, equity in (losses) gains of unconsolidated affiliates and minority interest in losses of subsidiaries. Fixed charges consist of:

- interest on all indebtedness, amortization of debt financing costs and amortization of original issue discount;
- interest capitalized; and
- the portion of rental expense we believe is representative of interest.

**Results of Operations**

Operating revenues primarily consist of wireless service revenues and revenues generated from the sale of digital handsets and accessories. Service revenues primarily include fixed monthly access charges for digital mobile telephone service and digital two-way radio and other services, revenues from calling party pays programs and variable charges for airtime and digital two-way radio usage in excess of plan minutes and local and long distance charges derived from calls placed by our customers.

Our service and other revenues and the variable component of our cost of service are primarily driven by the number of digital handsets in service and not necessarily by the number of customers, as one customer may purchase one or many digital handsets. Our digital handset and accessory revenues and cost of digital handset and accessory sales are primarily driven by the number of new handsets placed into service and handset upgrades provided during the year.

Cost of revenues primarily includes the cost of providing wireless service and the cost of digital handset and accessory sales. Cost of providing service consists largely of costs of interconnection with local exchange carrier facilities and direct switch and transmitter and receiver site costs, including property taxes, insurance costs, utility costs, maintenance costs and rent for the network switches and sites used to operate our digital mobile networks. Interconnection costs have fixed and variable components. The fixed component of interconnection costs consists of monthly flat-rate fees for facilities leased from local exchange carriers. The variable component of interconnection costs, which fluctuates in relation to the volume and duration of wireless calls, generally consists of per-minute use fees charged by wireline and wireless providers for wireless calls from our digital handsets terminating on their networks. Cost of digital handset and accessory sales consists largely of the cost of the handset and accessories, order fulfillment and installation related expenses, as well as write-downs of digital handset and related accessory inventory for shrinkage or obsolescence.

Selling and marketing expenses include all of the expenses related to acquiring customers, excluding the cost of digital handset sales.

General and administrative expenses include expenses related to billing, customer care, corrections including bad debt, management information systems and corporate overhead.

45

*a. Consolidated*

| | June 30, 2004 | % of Consolidated Operating Revenues | June 30, 2003 | % of Consolidated Operating Revenues | Change from Previous Year Dollars | Change from Previous Year Percent |
|---|---|---|---|---|---|---|
| | Restated | Restated | Restated | Restated | Restated | Restated |
| | | | (Dollars in thousands) | | | |
| ***Six Months Ended*** | | | | | | |
| Operating revenues | | | | | | |
| Service and other revenues | $ 554,815 | 95% | $ 409,431 | 95% | $ 145,384 | 36% |
| Digital handset and accessory sales revenues | 26,573 | 5% | 19,913 | 5% | 6,660 | 33% |
| | 581,388 | 100% | 429,344 | 100% | 152,044 | 35% |
| Cost of revenues | | | | | | |
| Cost of service (exclusive of depreciation included below) | (145,643) | (25)% | (100,343) | (23)% | (45,300) | 45% |
| Cost of digital handset and accessory sales | (92,534) | (16)% | (58,785) | (14)% | (33,749) | 57% |
| | (238,177) | (41)% | (159,128) | (37)% | (79,049) | 50% |
| Selling and marketing expenses | (73,902) | (13)% | (57,092) | (13)% | (16,810) | 29% |
| General and administrative expenses | (106,979) | (18)% | (90,041) | (21)% | (16,938) | 19% |
| Depreciation and amortization | (46,933) | (8)% | (35,773) | (8)% | (11,160) | 31% |
| Operating income | 115,397 | 20% | 87,310 | 21% | 28,087 | 32% |
| Interest expense | (27,090) | (4)% | (30,923) | (7)% | 3,833 | (12)% |
| Interest income | 5,611 | 1% | 5,228 | 1% | 383 | 7% |
| Loss on early extinguishment of debt, net | (79,327) | (14)% | | | (79,327) | *NM* |
| Foreign currency transaction gains, net | 2,380 | | 14,614 | 3% | (12,234) | (84)% |
| Other income (expense), net | 1,192 | | (7,046) | (2)% | 8,238 | (117)% |
| Income before income tax provision | 18,163 | 3% | 69,183 | 16% | (51,020) | (74)% |
| Income tax provision | (44,074) | (7)% | (47,704) | (11)% | 3,630 | (8)% |
| Net (loss) income | $ (25,911) | (4)% | $ 21,479 | 5% | $ (47,390) | (221)% |

***Three Months Ended***

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Operating revenues | | | | | | | | |
| Service and other revenues | $ | 288,783 | 95% | $ | 214,834 | 95% | $ | 73,949 | 34% |
| Digital handset and accessory sales revenues | | 15,345 | 5% | | 11,117 | 5% | | 4,228 | 38% |
| | | 304,128 | 100% | | 225,951 | 100% | | 78,177 | 35% |
| Cost of revenues | | | | | | | | | |
| Cost of service (exclusive of depreciation included below) | | (78,082) | (26)% | | (54,458) | (24)% | | (23,624) | 43% |
| Cost of digital handset and accessory sales | | (51,680) | (17)% | | (30,538) | (14)% | | (21,142) | 69% |
| | | (129,762) | (43)% | | (84,996) | (38)% | | (44,766) | 53% |
| Selling and marketing expenses | | (39,990) | (13)% | | (29,750) | (13)% | | (10,240) | 34% |
| General and administrative expenses | | (55,381) | (18)% | | (50,787) | (22)% | | (4,594) | 9% |
| Depreciation and amortization | | (24,034) | (8)% | | (18,466) | (8)% | | (5,568) | 30% |
| Operating income | | 54,961 | 18% | | 41,952 | 19% | | 13,009 | 31% |
| Interest expense | | (10,891) | (4)% | | (17,003) | (8)% | | 6,112 | (36)% |
| Interest income | | 3,006 | 1% | | 3,295 | 1% | | (289) | (9)% |
| Foreign currency transaction (losses) gains, net | | (215) | | | 22,918 | 10% | | (23,133) | (101)% |
| Other income (expense), net | | 2,409 | 1% | | (5,080) | (2)% | | 7,489 | (147)% |
| Income before income tax provision | | 49,270 | 16% | | 46,082 | 20% | | 3,188 | 7% |
| Income tax provision | | (22,570) | (7)% | | (34,607) | (15)% | | 12,037 | (35)% |
| Net income | $ | 26,700 | 9% | $ | 11,475 | 5% | $ | 15,225 | 133% |

*NM-Not Meaningful*

1. Operating revenues

The $152.0 million, or 35%, and $78.2 million, or 35%, increases in consolidated operating revenues from the six and three months ended June 30, 2003 to the six and three months ended June 30, 2004 are primarily due to $145.4 million, or 36%, and $73.9 million, or 34%, increases in service and other revenues resulting from 20% and 22% increases in average digital subscribers caused by increases in handset sales and lower customer turnover. Also contributing to this increase were increases in average consolidated U.S. dollar-based revenues per handset caused by higher access charges and higher revenue generated from service agreements between mobile carriers, despite the depreciation of the Mexican peso. These increases are also the result of the recognition of $21.0 million and $11.5 million in revenues related to handset maintenance programs, $7.1 million and $3.4 million increases in roaming revenues and the recognition of $4.5 million and $2.3 million in revenues earned by Nextel Mexico and Nextel Brazil related to the co-location of third party tenants on their communication towers.

The $6.7 million, or 33%, and $4.2 million, or 38%, increases in digital handset and accessory sales revenues from the six and three months ended June 30, 2003 to the six and three months ended June 30, 2004 are largely due to increases in consolidated handset sales of 32% and 38%, respectively, and more handset upgrades provided to current customers.

2. Cost of revenues

The $45.3 million, or 45%, and $23.6 million, or 43%, increases in consolidated cost of service from the six and three months ended June 30, 2003 to the six and three months ended June 30, 2004 are principally due to the following:

- $25.0 million, or 46%, and $11.6 million, or 38%, increases in interconnect costs mainly resulting from 34% increases in consolidated minutes of use for the six-month and three-month periods ended June 30, 2004 from the same periods last year (due to the 20% and 22% increases in the consolidated customer base) and higher interconnect rates primarily in Brazil and Argentina;

- $10.8 million, or 147%, and $7.0 million, or 159%, increases in service and repair costs related to increased claims under our handset maintenance programs in place in all of our markets; and

- $7.3 million, or 20%, and $2.7 million, or 15%, increases in consolidated direct switch and transmitter and receiver site costs primarily due to a 14% increase in transmitter and receiver sites in service from June 30, 2003 to June 30, 2004.

3. Selling and marketing expenses

The $16.8 million, or 29%, increase in selling and marketing costs from the six months ended June 30, 2003 to the same period in 2004 is primarily a result of the following:

- a $10.1 million, or 47%, increase in direct commissions and payroll expenses principally due to a 55% increase in handset sales by market sales personnel;

- a $4.3 million, or 22%, increase in indirect commissions primarily due to a 16% increase in handset sales by outside dealers; and

- a $2.4 million, or 20%, increase in advertising costs largely due to increased advertising promoting the launch of the Morelia market in Mexico during the first quarter of 2004 and additional advertising campaigns in Mexico and Brazil.

The $10.2 million, or 34%, increase in selling and marketing costs from the second quarter of 2003 to the second quarter of 2004 is largely due to a $5.6 million, or 49%, increase in direct commissions and payroll expenses principally resulting from a 63% increase in handset sales by market sales personnel and a $3.1 million, or 31%, increase in indirect commissions primarily due to a 23% increase in handset sales by outside dealers.

4. General and administrative expenses

The $16.9 million, or 19%, and $4.6 million, or 9%, increases in general and administrative costs from the six and three months ended June 30, 2003 to the same periods in 2004 are largely a result of the following:

$9.9 million, or 20%, and $2.3 million, or 8%, increases in general corporate costs and taxes on operating revenues in Mexico and Argentina;

$5.6 million, or 27%, and $2.9 million, or 26%, increases in customer care expenses primarily due to increases in payroll and employee related expenses caused by increases in customer care personnel necessary to support a larger customer base; and

$2.5 million, or 21%, and $1.1 million, or 17%, increases in information technology expenses due to several maintenance contracts entered into during the first half of 2004 and increases in engineering management expenses.

These increases were partially offset by the following:

the reversal of $9.2 million and $6.8 million in accrued contingencies in Brazil as a result of the expiration of the statute of limitations on certain tax contingencies, as well as the resolution of certain other contingencies; and

$2.4 million, or 48%, and $2.3 million, or 80%, decreases in bad debt expense, which also decreased as percentages of revenues, mostly as a result of improved collections.

5. Depreciation and amortization

In connection with the application of fresh-start accounting principles on October 31, 2002, we recorded $148.6 million in fixed asset write-downs during the fourth quarter of 2002. These write-downs substantially reduced the cost bases of our consolidated fixed assets and resulted in relatively lower depreciation during the six and three months ended June 30, 2003. During 2003 and the first half of 2004, we invested $313.5 million in consolidated capital expenditures, which resulted in a significant increase in our gross property plant and equipment from the first half of 2003 to the first half of 2004. The $11.2 million, or 31%, and $5.6 million, or 30%, increases in depreciation and amortization from the six and three months ended June 30, 2003 to the six and three months ended June 30, 2004 are primarily the result of increased depreciation on our higher property, plant and equipment base partially offset by a decrease in amortization. This decrease is the result of the reversal of certain valuation allowances for deferred tax assets created in connection with our application of fresh-start accounting, which was recorded as a reduction to the intangible assets that existed as of the date of our application of fresh-start accounting.

6. Interest expense

The $3.8 million, or 12%, and $6.1 million, or 36%, declines in interest expense from the six and three months ended June 30, 2003 to the six and three months ended June 30, 2004 are primarily the result of the elimination of interest related to our 13.0% senior secured discount notes in connection with the retirement of substantially all of these notes during the first quarter of 2004 and a decrease in interest expense related to our international equipment facility in connection with the partial pay-down of this facility in the third quarter of 2003 and the first quarter of 2004. These decreases were partially offset by interest incurred on our new 3.5% convertible notes and 2.875% convertible notes in the first half of 2004, as well as higher interest related to our tower financing transactions. Interest expense incurred in connection with our tower financing transactions includes interest related to the co-location of third party tenants on our communication towers.

7. Loss on early extinguishment of debt, net

The $79.3 million net loss on early extinguishment of debt for the six months ended June 30, 2004 represents a loss we incurred in connection with the retirement of substantially all of our 13.0% senior secured discount notes through a cash tender offer in March 2004.

8. Foreign currency transaction (losses) gains, net

Foreign currency transaction gains of $14.6 million and $22.9 million for the six and three months ended June 30, 2003 are primarily the result of the appreciation of the Brazilian real and the Mexican peso compared to the U.S. dollar on our U.S. dollar-denominated credit facilities during the six and three months ended June 30, 2003, which resulted in significant gains in those periods.

Foreign currency transaction losses during the six and three months ended June 30, 2004 are primarily due to the impact of the depreciation of the Mexican peso compared to the U.S. dollar on Nextel Mexico s U.S. dollar-based international equipment facility.

We expect our exposure to foreign currency losses to be reduced in the future due to the pay-down of our international equipment facility.

9. Income tax provision

The $3.6 million, or 8%, decrease in the consolidated income tax provision from the six months ended June 30, 2003 to the same period in 2004 is primarily due to a decrease in profitability in Brazil, partially offset by higher taxes in Mexico resulting from greater profitability.

The $12.0 million, or 35%, decrease in the consolidated income tax provision from the three months ended June 30, 2003 to the same period in 2004 is primarily due to the benefit of transfer pricing in Mexico, as well as a decrease in profitability in Brazil and Argentina.

***Segment Results***

We evaluate performance of our segments and provide resources to them based on operating income before depreciation and amortization, which we refer to as segment earnings. The tables below provide a summary of the components of our consolidated segments for the six and three months ended June 30, 2004 and 2003. The results of Nextel Chile are included in Corporate and other. We allocate corporate overhead costs to some of our subsidiaries. The segment information below does not reflect any allocations of corporate overhead costs because the amounts of these expenses are not provided to or used by our chief operating decision maker in making operating decisions related to these segments.

| **Six Months Ended June 30, 2004** | **Operating Revenues** | **% of Consolidated Operating Revenues** | **Cost of Revenues** | **% of Consolidated Cost of Revenues** | **Selling, General and Administrative Expenses** | **% of Consolidated Selling, General and Administrative Expenses** | **Segment Earnings (Losses)** |
|---|---|---|---|---|---|---|---|
| | | | | | **Restated** | **Restated** | **Restated** |
| | | | **(dollars in thousands)** | | | | |
| Nextel Mexico | $ 359,172 | 62% | $ (110,047) | 46% | $ (97,605) | 54% | $ 151,520 |
| Nextel Brazil | 91,801 | 16% | (61,337) | 26% | (22,263) | 12% | 8,201 |
| Nextel Argentina | 83,454 | 14% | (41,963) | 18% | (21,607) | 12% | 19,884 |
| Nextel Peru | 46,427 | 8% | (24,259) | 10% | (13,951) | 8% | 8,217 |
| Corporate and other | 793 | | (830) | | (25,455) | 14% | (25,492) |
| Intercompany eliminations | (259) | | 259 | | | | |
| Total consolidated | $ 581,388 | 100% | $ (238,177) | 100% | $ (180,881) | 100% | |

| Three Months Ended June 30, 2004 | Operating Revenues | % of Consolidated Operating Revenues | Cost of Revenues | % of Consolidated Cost of Revenues | Selling, General and Administrative Expenses Restated | % of Consolidated Selling, General and Administrative Expenses Restated | Segment Earnings (Losses) Restated |
|---|---|---|---|---|---|---|---|
| | (dollars in thousands) | | | | | | |
| Nextel Mexico | $ 186,209 | 61% | $ (58,318) | 45% | $ (52,574) | 55% | $ 75,317 |
| Nextel Brazil | 48,607 | 16% | (34,318) | 26% | (9,595) | 10% | 4,694 |
| Nextel Argentina | 45,765 | 15% | (24,801) | 19% | (11,100) | 12% | 9,864 |
| Nextel Peru | 23,281 | 8% | (12,035) | 9% | (7,220) | 8% | 4,026 |
| Corporate and other | 386 | | (410) | 1% | (14,882) | 15% | (14,906) |
| Intercompany eliminations | (120) | | 120 | | | | |
| Total consolidated | $ 304,128 | 100% | $ (129,762) | 100% | $ (95,371) | 100% | |

| Six Months Ended June 30, 2003 | Operating Revenues | % of Consolidated Operating Revenues | Cost of Revenues | % of Consolidated Cost of Revenues | Selling, General and Administrative Expenses Restated | % of Consolidated Selling, General and Administrative Expenses Restated | Segment Earnings (Losses) Restated |
|---|---|---|---|---|---|---|---|
| | (dollars in thousands) | | | | | | |
| Nextel Mexico | $ 264,610 | 62% | $ (80,970) | 51% | $ (73,813) | 50% | $ 109,827 |
| Nextel Brazil | 68,767 | 16% | (35,520) | 22% | (27,064) | 19% | 6,183 |
| Nextel Argentina | 49,091 | 11% | (19,247) | 12% | (16,385) | 11% | 13,459 |
| Nextel Peru | 46,376 | 11% | (22,467) | 14% | (13,372) | 9% | 10,537 |
| Corporate and other | 767 | | (1,191) | 1% | (16,499) | 11% | (16,923) |
| Intercompany eliminations | (267) | | 267 | | | | |
| Total consolidated | $ 429,344 | 100% | $ (159,128) | 100% | $ (147,133) | 100% | |

% of
Consolidated

| Three Months Ended June 30, 2003 | Operating Revenues | % of Consolidated Operating Revenues | Cost of Revenues | % of Consolidated Cost of Revenues | Selling, General and Administrative Expenses Restated | Selling, General and Administrative Expenses Restated | Segment Earnings (Losses) Restated |
|---|---|---|---|---|---|---|---|
| | (dollars in thousands) | | | | | | |
| Nextel Mexico | $ 138,176 | 61% | $ (41,261) | 48% | $ (42,564) | 53% | $ 54,351 |
| Nextel Brazil | 35,093 | 16% | (18,553) | 22% | (13,842) | 17% | 2,698 |
| Nextel Argentina | 28,756 | 13% | (12,786) | 15% | (8,975) | 11% | 6,995 |
| Nextel Peru | 23,683 | 10% | (11,920) | 14% | (6,879) | 9% | 4,884 |
| Corporate and other | 377 | | (610) | 1% | (8,277) | 10% | (8,510) |
| Intercompany eliminations | (134) | | 134 | | | | |
| Total consolidated | $ 225,951 | 100% | $ (84,996) | 100% | $ (80,537) | 100% | |

A discussion of the results of operations in each of our reportable segments is provided below.

*b. Nextel Mexico*

| | June 30, 2004 | % of Nextel Mexico s Operating Revenues | June 30, 2003 | % of Nextel Mexico s Operating Revenues | Change from Previous Year Dollars | Change from Previous Year Percent |
|---|---|---|---|---|---|---|
| | Restated | Restated | Restated | Restated | Restated | Restated |
| | | | (dollars in thousands) | | | |
| ***Six Months Ended*** | | | | | | |
| Operating revenues | | | | | | |
| Service and other revenues | $ 349,204 | 97% | $ 255,895 | 97% | $ 93,309 | 36% |
| Digital handset and accessory sales revenues | 9,968 | 3% | 8,715 | 3% | 1,253 | 14% |
| | 359,172 | 100% | 264,610 | 100% | 94,562 | 36% |
| Cost of revenues | | | | | | |
| Cost of service (exclusive of depreciation included below) | (62,151) | (17)% | (46,770) | (18)% | (15,381) | 33% |
| Cost of digital handset and accessory sales | (47,896) | (14)% | (34,200) | (13)% | (13,696) | 40% |
| | (110,047) | (31)% | (80,970) | (31)% | (29,077) | 36% |
| Selling and marketing expenses | (46,509) | (13)% | (35,343) | (13)% | (11,166) | 32% |
| General and administrative expenses | (51,096) | (14)% | (38,470) | (15)% | (12,626) | 33% |
| Segment earnings | 151,520 | 42% | 109,827 | 41% | 41,693 | 38% |
| Depreciation and amortization | (33,934) | (9)% | (31,998) | (12)% | (1,936) | 6% |
| Operating income | 117,586 | 33% | 77,829 | 29% | 39,757 | 51% |
| Interest expense | (9,306) | (3)% | (8,218) | (3)% | (1,088) | 13% |
| Interest income | 1,215 | | 1,317 | | (102) | (8)% |
| Foreign currency transaction gains (losses), net | 3,352 | 1% | (6,848) | (2)% | 10,200 | (149)% |
| Other income (expense), net | (816) | | (568) | | (248) | 44% |
| Income before income tax | $ 112,031 | 31% | $ 63,512 | 24% | $ 48,519 | 76% |
| ***Three Months Ended*** | | | | | | |
| Operating revenues | | | | | | |
| Service and other revenues | $ 181,266 | 97% | $ 133,220 | 96% | $ 48,046 | 36% |
| Digital handset and accessory sales revenues | 4,943 | 3% | 4,956 | 4% | (13) | |
| | 186,209 | 100% | 138,176 | 100% | 48,033 | 35% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Cost of revenues | | | | | | |
| Cost of service (exclusive of depreciation included below) | (32,654) | (17)% | (23,720) | (17)% | (8,934) | 38% |
| Cost of digital handset and accessory sales | (25,664) | (14)% | (17,541) | (13)% | (8,123) | 46% |
| | (58,318) | (31)% | (41,261) | (30)% | (17,057) | 41% |
| Selling and marketing expenses | (25,056) | (14)% | (18,537) | (14)% | (6,519) | 35% |
| General and administrative expenses | (27,518) | (15)% | (24,027) | (17)% | (3,491) | 15% |
| Segment earnings | 75,317 | 40% | 54,351 | 39% | 20,966 | 39% |
| Depreciation and amortization | (17,017) | (9)% | (16,553) | (12)% | (464) | 3% |
| Operating income | 58,300 | 31% | 37,798 | 27% | 20,502 | 54% |
| Interest expense | (4,119) | (2)% | (4,563) | (3)% | 444 | (10)% |
| Interest income | 529 | | 566 | | (37) | (7)% |
| Foreign currency transaction gains, net | 156 | | 4,584 | 3% | (4,428) | (97)% |
| Other income (expense), net | (262) | | (744) | | 482 | (65)% |
| Income before income tax | $ 54,604 | 29% | $ 37,641 | 27% | $ 16,963 | 45% |

51

In accordance with accounting principles generally accepted in the United States, we translated Nextel Mexico s results of operations using the average exchange rates for the six and three months ended June 30, 2004. The average exchange rates of the Mexican peso for the six and three months ended June 30, 2004 decreased in value compared to the U.S. dollar by 5% and 6%, respectively. As a result, compared to Nextel Mexico s results of operations for the six and three months ended June 30, 2003, the components of Nextel Mexico s results of operations for 2004 after translation into U.S. dollars reflect lower increases compared to the same periods in 2003 than would have occurred if it were not for the impact of the depreciation of the peso, taking into consideration our one-month lag financial reporting policy for our non-U.S. operating subsidiaries.

1. Operating revenues

The $93.3 million, or 36%, and $48.0 million, or 36%, increases in service and other revenues from the six and three months ended June 30, 2003 to the six and three months ended June 30, 2004 are primarily due to the following:

- 28% increases in the average number of digital handsets in service from the six and three months ended June 30, 2003 to the same periods in 2004 resulting from Nextel Mexico s expansion of service coverage into new markets, as well as growth in existing markets;

- $12.3 million and $6.3 million in revenues generated from Nextel Mexico s handset maintenance program during the six and three months ended June 30, 2004 due to a restructuring of the maintenance program which resulted in the recognition of these revenues that were netted against costs during 2003, as well as growth in Nextel Mexico s customer base utilizing this program; and

- increases in average revenues per handset on a local currency basis largely due to the successful implementation of previously introduced monthly service plans with higher access charges and price increases applied to the existing customer base.

The $1.3 million, or 14%, increase in digital handset and accessory sales revenues from the six months ended June 30, 2003 to the same period in 2004 is primarily a result of a 27% increase in handset sales.

2. Cost of revenues

The $15.4 million, or 33%, and $8.9 million, or 38%, increases in cost of service from the six and three months ended June 30, 2003 to the six and three months ended June 30, 2004 are principally due to the following:

- increases in interconnect costs primarily resulting from 37% increases in total system minutes of use, partially offset by decreases in variable interconnect cost per minute of use due to the renegotiation of interconnect rates with some of Nextel Mexico s traffic carriers;

- increases in service and repair costs largely due to Nextel Mexico s restructured handset maintenance program which resulted in the recognition of these costs that were netted against revenues during 2003 and increased claims under this program resulting from growth in Nextel Mexico s customer base; and

- increases in direct switch and transmitter and receiver site costs resulting from a 22% increase in the number of transmitter and receiver sites in service from June 30, 2003 to June 30, 2004.

The $13.7 million, or 40%, and $8.1 million, or 46%, increases in cost of digital handset and accessory sales from the six and three months ended June 30, 2003 to the same periods in 2004 are primarily due to 27% and 32% increases in handset sales, respectively, which included a higher proportion of more expensive models during 2004 compared to 2003, as well as increases in handset upgrades provided to current customers.

3. Selling and marketing expenses

The $11.2 million, or 32%, increase in selling and marketing costs from the six months ended June 30, 2003 to the same period in 2004 is primarily a result of the following:

a $6.9 million, or 67%, increase in direct commissions and payroll expenses principally due to a 75% increase in handset sales by Nextel Mexico s sales personnel;

a $2.5 million, or 17%, increase in indirect commissions primarily due to a 9% increase in handset sales by Nextel Mexico s outside dealers, as well as an increase in indirect commissions per handset sale; and

a $1.4 million, or 16%, increase in advertising costs largely due to new advertising campaigns promoting the launch of the Morelia market during the first quarter of 2004.

The $6.5 million, or 35%, increase in selling and marketing costs from the second quarter of 2003 to the second quarter of 2004 is largely due to a $3.8 million, or 69%, increase in direct commissions and payroll expenses principally due to a 76% increase in handset sales by Nextel Mexico s sales personnel and a $2.0 million, or 27%, increase in indirect commissions primarily due to a 15% increase in handset sales by Nextel Mexico s outside dealers, as well as an increase in indirect commissions per handset sale.

4. General and administrative expenses

The $12.6 million, or 33%, and $3.5 million, or 15%, increases in general and administrative costs from the six and three months ended June 30, 2003 to the same periods in 2004 are largely a result of the following:

$9.8 million, or 48%, and $2.7 million, or 20%, increases in general corporate costs resulting from increases in taxes on operating revenues, as well as expenses recognized as a result of government-mandated employee profit sharing;

$2.8 million, or 26%, and $1.4 million, or 25%, increases in customer care expenses primarily due to increases in payroll and employee related expenses caused by increases in customer care personnel necessary to support a larger customer base; and

$1.5 million, or 38%, and $0.7 million, or 31%, increases in information technology expenses resulting from several maintenance contracts entered into during the first half of 2004.

These increases were partially offset by $1.6 million, or 59%, and $1.4 million, or 83%, decreases in bad debt expense, which also decreased as a percentage of revenue from 1.0% and 1.3% for the six and three months ended June 30, 2003 to less than 1.0% for the six and three months ended June 30, 2004, mostly as a result of improved collections.

5. Depreciation and amortization

The $1.9 million, or 6% increase, and $0.5 million, or 3%, increase in depreciation and amortization from the six and three months ended June 30, 2003 to the same periods in 2004 are primarily due to a 22% increase in Nextel Mexico s gross property, plant and equipment mostly due to the build-out of new service areas partially offset by a decrease in amortization. This decrease is the result of the reversal of certain valuation allowances for deferred tax assets created in connection with our application of fresh-start accounting, which we recorded as a reduction to the intangible assets that existed as of the date of our application of fresh-start accounting.

6. Interest expense

The $1.1 million, or 13%, increase in interest expense from the six months ended June 30, 2003 to the same period in 2004 is primarily due to an increase in interest incurred on Nextel Mexico s tower financing obligations, partially offset by a decrease in interest related to the international equipment facility in connection with the incremental pay-downs of this facility during the third quarter of 2003 and the first quarter of 2004. The remaining amount outstanding under this facility was paid off in July 2004.

The $0.4 million, or 10%, decrease in interest expense from the three months ended June 30, 2003 to the three months ended June 30, 2004 is largely a result of decreased interest related to the incremental pay-downs of the international equipment facility described above.

7. Foreign currency transaction gains (losses), net

Foreign currency transaction losses of $6.8 million for the six months ended June 30, 2003 are mostly due to the relative weakening of the peso compared to the U.S. dollar on Nextel Mexico s U.S. dollar-denominated liabilities, principally its portion of the international equipment facility, which was paid down incrementally during the third quarter of 2003 and the first quarter of 2004.

As a result of the pay-off of this facility in July 2004, Nextel Mexico s exposure to foreign currency transaction losses will be substantially reduced.

Foreign currency transaction gains of $4.6 million for the three months ended June 30, 2003 are mostly due to the relative strengthening of the peso compared to the U.S. dollar on Nextel Mexico s U.S. dollar-denominated liabilities, primarily its portion of the international equipment facility, which was paid off in July 2004 as described above.

*c. Nextel Brazil*

| | June 30, 2004 | % of Nextel Brazil s Operating Revenues | June 30, 2003 | % of Nextel Brazil s Operating Revenues | Change from Previous Year Dollars | Change from Previous Year Percent |
|---|---|---|---|---|---|---|
| | **Restated** | **Restated** | **Restated** | **Restated** | **Restated** | **Restated** |
| | | | **(dollars in thousands)** | | | |
| ***Six Months Ended*** | | | | | | |
| Operating revenues | | | | | | |
| Service and other revenues | $ 83,839 | 91% | $ 63,628 | 93% | $ 20,211 | 32% |
| Digital handset and accessory sales revenues | 7,962 | 9% | 5,139 | 7% | 2,823 | 55% |
| | 91,801 | 100% | 68,767 | 100% | 23,034 | 33% |
| Cost of revenues | | | | | | |
| Cost of service (exclusive of depreciation included below) | (37,893) | (41)% | (24,566) | (36)% | (13,327) | 54% |
| Cost of digital handset and accessory sales | (23,444) | (26)% | (10,954) | (16)% | (12,490) | 114% |
| | (61,337) | (67)% | (35,520) | (52)% | (25,817) | 73% |
| Selling and marketing expenses | (13,148) | (14)% | (9,147) | (13)% | (4,001) | 44% |
| General and administrative expenses | (9,115) | (10)% | (17,917) | (26)% | 8,802 | (49)% |
| Segment earnings | 8,201 | 9% | 6,183 | 9% | 2,018 | 33% |
| Depreciation and amortization | (5,270) | (6)% | (1,366) | (2)% | (3,904) | 286% |
| Operating income | 2,931 | 3% | 4,817 | 7% | (1,886) | (39)% |
| Interest expense | (4,950) | (5)% | (5,688) | (8)% | 738 | (13)% |
| Interest income | 1,804 | 2% | 2,152 | 3% | (348) | (16)% |
| | (488) | (1)% | 21,895 | 32% | (22,383) | (102)% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Foreign currency transaction (losses) gains, net | | | | | | |
| Other income (expense), net | 1,875 | 2% | (2,939) | (4)% | 4,814 | (164)% |
| Income before income tax | $ 1,172 | 1% | $ 20,237 | 30% | $ (19,065) | (94)% |

54

| | June 30, 2004 | % of Nextel Brazil s Operating Revenues | June 30, 2003 | % of Nextel Brazil s Operating Revenues | Change from Previous Year Dollars | Change from Previous Year Percent |
|---|---|---|---|---|---|---|
| | **Restated** | **Restated** | **Restated** | **Restated** | **Restated** | **Restated** |
| | | | **(dollars in thousands)** | | | |
| ***Three Months Ended*** | | | | | | |
| Operating revenues | | | | | | |
| Service and other revenues | $ 43,285 | 89% | $ 32,712 | 93% | $ 10,573 | 32% |
| Digital handset and accessory sales | 5,322 | % | 2,381 | % | 2,941 | |
| revenues | 48,607 | 11100% | 35,093 | 7100% | 13,514 | 124% 39% |
| Cost of revenues | | | | | | |
| Cost of service (exclusive of depreciation included below) | (20,315) (14,003) | (42)% (29)% | (13,324) (5,229) | (38)% (15)% | (6,991) (8,774) | 52% 168% |
| Cost of digital handset and accessory sales | (34,318) | (71)% | (18,553) | (53)% | (15,765) | 85% |
| | (7,236) | (15)% | (4,403) | (12)% | (2,833) | 64% |
| Selling and marketing expenses | (2,359) | (4)% | (9,439) | (27)% | 7,080 | (75)% |
| General and administrative expenses | 4,694 | 10% | 2,698 | 8% | 1,996 | 74% |
| Segment earnings | (2,754) | (6)% | (808) | (2)% | (1,946) | 241% |
| Depreciation and amortization | 1,940 | 4% | 1,890 | 6% | 50 | 3% |
| | (2,287) | (5)% | (3,457) | (10)% | 1,170 | (34)% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Operating income | | | | | | |
| Interest expense | 881 | 2% | 1,548 | 4% | (667) | (43)% |
| Interest income | | | | | | |
| Foreign currency transaction (losses) gains, net | (526) 2,416 | (1)% 5% | 19,761 (2,868) | 56% (8)% | (20,287) 5,284 | (103)% (184)% |
| Other income (expense), net | $ 2,424 | 5% | $ 16,874 | 48% | $ (14,450) | (86)% |
| Income before income tax | | | | | | |

In accordance with accounting principles generally accepted in the United States, we translated Nextel Brazil s results of operations using the average exchange rates for the six and three months ended June 30, 2004 and 2003. The average exchange rates for the six and three months ended June 30, 2004 appreciated against the U.S. dollar by 14% and 7%, respectively. As a result, after translation into U.S. dollars, most of Nextel Brazil s revenues and expenses for the six and three months ended June 30, 2004 reflect increases compared to the same periods in 2003, taking into consideration our one-month lag financial reporting policy for our non-U.S. operating subsidiaries.

1. Operating revenues

The $20.2 million, or 32%, and $10.6 million, or 32%, increases in service and other revenues from the six and three months ended June 30, 2003 to the same periods in 2004 are largely the result of the following:

- increases in average revenues per handset on a local currency basis caused by higher revenues generated through calling party pays service agreements;

- 3% and 8% increases in the average number of digital handsets in service;

- increases in revenues earned by Nextel Brazil related to the co-location of third party tenants on its communication towers; and

- higher revenues resulting from Nextel Brazil s handset maintenance program.

The $2.8 million, or 55%, increase in digital handset and accessory sales revenues from the six months ended June 30, 2003 to the same period in 2004 is primarily a result of a 44% increase in handset sales. The $2.9 million, or 124%, increase in digital handset and accessory sales revenues from the second quarter of 2003 to the same period in 2004 is principally due to a 46% increase in handset sales, as well as a change in the mix of handsets sold and leased, which included a higher proportion of expensive models during the second quarter of 2004 compared to the second quarter of 2003 when more refurbished handsets were sold.

2. Cost of revenues

The $13.3 million, or 54%, and $7.0 million, or 52%, increases in cost of service from the six and three months ended June 30, 2003 to the same periods in 2004 are mostly due to the following:

- significant increases in interconnect costs largely resulting from 35% and 37% increases in total system minutes of use as a result of an increase in the number of subscribers with higher usage profiles, as well as increases in interconnect costs per minute of use; and

- increases in direct switch and transmitter and receiver site costs that Nextel Brazil incurred as a result of an 11% increase in the number of transmitter and receiver sites in service from June 30, 2003 to June 30, 2004.

The $12.5 million, or 114%, and $8.8 million, or 168%, increases in cost of digital handset and accessory sales from the six and three months ended June 30, 2003 to the same periods in 2004 are largely the result of 44% and 46% increases in handset sales, respectively, as well as a significant increase in handset upgrades provided to customers and a change in the mix of handsets sold and leased, which included a higher proportion of expensive models during 2004 compared to 2003 and fewer refurbished handsets.

3. Selling and marketing expenses

The $4.0 million, or 44%, and $2.8 million, or 64%, increases in selling and marketing expenses from the six and three months ended June 30, 2003 to the same periods in 2004 are largely due to the following:

- $2.0 million, or 45%, and $1.0 million, or 43%, increases in direct commissions and payroll related costs primarily due to 60% and 66% increases in handset sales by Nextel Brazil s sales personnel, as well as increases in sales and marketing salaries;

- $1.1 million, or 58%, and $0.7 million, or 72%, increases in indirect commissions largely due to 28% and 27% increases in handset sales by outside dealers and increases in indirect commissions per handset sale; and

- $0.8 million, or 55%, and $0.9 million, or 169%, increases in advertising costs due to more advertising campaigns during 2004 compared to 2003 in connection with Nextel Brazil s objectives to reinforce market awareness of its brandname.

4. General and administrative expenses

The $8.8 million, or 49%, and $7.1 million, or 75%, decreases in general and administrative expenses from the six and three months ended June 30, 2003 to the same periods in 2004 are principally due to decreases in general corporate costs resulting from $9.2 million and $6.8 million in tax and other contingency liability reversals during the six and three months ended June 30, 2004. These decreases were partially offset by $0.9 million, or 18%, and $0.4 million, or 14%, increases in customer care expenses resulting from increases in payroll and related expenses due to increased customer care personnel necessary to support a larger customer base.

5. Depreciation and amortization

In connection with the application of fresh-start accounting principles on October 31, 2002, Nextel Brazil recorded $27.8 million in fixed asset write-downs, which substantially reduced the cost bases of Nextel Brazil s fixed assets and resulted in less depreciation during the first half of 2003. For the year ended December 31, 2003, Nextel Brazil spent $33.0 million on capital expenditures, resulting in a significant increase in gross property, plant and equipment from June 30, 2003 to June 30, 2004. The $3.9 million and $1.9 million increases in depreciation from the six and three months ended June 30, 2003 to the same periods in 2004 are primarily due to depreciation on this higher property, plant and equipment base.

6. Interest expense

The $0.7 million, or 13%, and $1.2 million, or 34%, decreases in interest expense from the six and three months ended June 30, 2003 to the same periods in 2004 are primarily the result of the elimination of interest related to the Brazil equipment facility in connection with the extinguishment of this facility during the third quarter of 2003, partially offset by increases in interest incurred on Nextel Brazil s tower financing obligations due to an increase in tower sales during 2004.

7. Interest income

The $0.7 million, or 43%, decrease in interest income from the second quarter of 2003 to the second quarter of 2004 is largely a result of a decrease in Nextel Brazil s outstanding cash balances, as well as a decrease in interest rates.

8. Foreign currency transaction (losses) gains, net

Foreign currency transaction gains of $21.9 million and $19.8 million for the six and three months ended June 30, 2003 are primarily due to the effect of the strengthening of the Brazilian real on Nextel Brazil s U.S. dollar-denominated liabilities during those periods, primarily the Brazil equipment facility, which was extinguished during the third quarter of 2003. As a result of this transaction, Nextel Brazil s exposure to foreign currency transaction losses was significantly reduced.

9. Other income (expense), net

Other income, net, of $1.9 million and $2.4 million for the six and three months ended June 30, 2004 primarily represents the reversal of monetary corrections on certain tax and non-tax related contingencies.

Other expense, net, of $2.9 million for the six and three months ended June 30, 2003 primarily represents monetary corrections on certain tax and non-tax related contingencies.

*d. Nextel Argentina*

| | June 30, 2004 | % of Nextel Argentina s Operating Revenues | June 30, 2003 | % of Nextel Argentina s Operating Revenues | Change from Previous Year Dollars | Change from Previous Year Percent |
|---|---|---|---|---|---|---|
| | Restated | Restated | Restated | Restated | Restated | Restated |
| | | | (dollars in thousands) | | | |
| ***Six Months Ended*** | | | | | | |
| Operating revenues | | | | | | |
| Service and other revenues | $ 75,894 | 91% | $ 44,189 | 90% | $ 31,705 | 72% |
| Digital handset and accessory sales revenues | 7,560 | 9% | 4,902 | 10% | 2,658 | 54% |
| | 83,454 | 100% | 49,091 | 100% | 34,363 | 70% |
| Cost of revenues | | | | | | |
| Cost of service (exclusive of depreciation included below) | (27,551) | (33)% | (11,968) | (24)% | (15,583) | 130% |
| Cost of digital handset and accessory sales | (14,412) | (17)% | (7,279) | (15)% | (7,133) | 98% |
| | (41,963) | (50)% | (19,247) | (39)% | (22,716) | 118% |
| Selling and marketing expenses | (6,567) | (8)% | (4,700) | (10)% | (1,867) | 40% |
| General and administrative expenses | (15,040) | (18)% | (11,685) | (24)% | (3,355) | 29% |
| Segment earnings | 19,884 | 24% | 13,459 | 27% | 6,425 | 48% |
| Depreciation and amortization | (5,035) | (6)% | (1,009) | (2)% | (4,026) | 399% |
| Operating income | 14,849 | 18% | 12,450 | 25% | 2,399 | 19% |
| Interest expense | (40) | | (46) | | 6 | (13)% |
| Interest income | 212 | | 326 | 1% | (114) | (35)% |
| Foreign currency transaction losses, net | (487) | | (510) | (1)% | 23 | (5)% |
| Other income, net | 357 | | 8,280 | 17% | (7,923) | (96)% |
| Income before income tax | $ 14,891 | 18% | $ 20,500 | 42% | $ (5,609) | (27)% |
| ***Three Months Ended*** | | | | | | |
| Operating revenues | | | | | | |
| Service and other revenues | $ 41,219 | 90% | $ 25,606 | 89% | $ 15,613 | 61% |
| Digital handset and accessory sales revenues | 4,546 | 10% | 3,150 | 11% | 1,396 | 44% |

| | | | | | | |
|---|---|---|---|---|---|---|
| | 45,765 | 100% | 28,756 | 100% | 17,009 | 59% |
| Cost of revenues | | | | | | |
| Cost of service (exclusive of depreciation included below) | (16,172) | (35)% | (8,241) | (28)% | (7,931) | 96% |
| Cost of digital handset and accessory sales | (8,629) | (19)% | (4,545) | (16)% | (4,084) | 90% |
| | (24,801) | (54)% | (12,786) | (44)% | (12,015) | 94% |
| Selling and marketing expenses | (3,685) | (8)% | (2,711) | (10)% | (974) | 36% |
| General and administrative expenses | (7,415) | (16)% | (6,264) | (22)% | (1,151) | 18% |
| Segment earnings | 9,864 | 22% | 6,995 | 24% | 2,869 | 41% |
| Depreciation and amortization | (2,814) | (6)% | (494) | (2)% | (2,320) | 470% |
| Operating income | 7,050 | 16% | 6,501 | 22% | 549 | 8% |
| Interest expense | (32) | | (46) | | 14 | (30)% |
| Interest income | 107 | | 230 | 1% | (123) | (53)% |
| Foreign currency transaction gains (losses), net | 155 | | (1,394) | (5)% | 1,549 | (111)% |
| Other income, net | 343 | 1% | 1,089 | 4% | (746) | (69)% |
| Income before income tax | $ 7,623 | 17% | $ 6,380 | 22% | $ 1,243 | 19% |

In accordance with accounting principles generally accepted in the United States, we translated Nextel Argentina s results of operations using the average exchange rates for the six and three months ended June 30, 2004 and 2003. The average exchange rates of the Argentine peso for the six and three months ended June 30, 2004 appreciated against the U.S. dollar by 7% and 2% from the same periods in 2003. As a result, the components of Nextel Argentina s results of operations for the six months ended June 30, 2004 after translation into U.S. dollars reflect increases compared to its results of operations for the same period in 2003, taking into consideration our one-month lag financial reporting policy for our non-U.S. operating subsidiaries.

1. Operating revenues

The $31.7 million, or 72%, and $15.6 million, or 61%, increases in service and other revenues from the six and three months ended June 30, 2003 to the six and three months ended June 30, 2004 are primarily a result of the following:

33% and 34% increases in the average number of digital handsets in service, resulting from growth in Nextel Argentina s existing markets;

increases in average revenues per handset on a local currency basis, primarily due to the implementation of a termination fee between mobile carriers during the second quarter of 2003; and

increased revenues under Nextel Argentina s handset maintenance program.

The $2.7 million, or 54%, and $1.4 million, or 44%, increases in digital handset and accessory sales revenues from the six and three months ended June 30, 2003 to the six and three months ended June 30, 2004 are due to 35% and 49% increases in handset sales and leases, as well as a change in the mix of handsets sold and leased, which included a significantly larger proportion of more expensive models during 2004 compared to 2003 when more lower cost as well as refurbished models were sold and leased in Argentina.

2. Cost of revenues

The $15.6 million, or 130%, and $7.9 million, or 96%, increases in cost of service from the six and three months ended June 30, 2003 to the six and three months ended June 30, 2004 are principally a result of the following:

increases in interconnect costs largely as a result of 41% and 35% increases in total system minutes of use, as well as significant increases in variable interconnect costs per minute of use resulting from higher costs under the agreement between Nextel Argentina and other mobile carriers reached in the second quarter of 2003 that allows each of the carriers to charge a fee for mobile calls that terminate on their networks;

increases in service and repair costs due to increased claims under Nextel Argentina s handset maintenance program; and

increases in direct switch and transmitter and receiver site costs due to a 5% increase in the number of transmitter and receiver sites in service from June 30, 2003 to June 30, 2004.

The $7.1 million, or 98%, and $4.1 million, or 90%, increases in cost of digital handset and accessory sales are largely a result of 35% and 49% increases in handset sales, respectively, a change in the mix of handsets sold toward more expensive models and away from refurbished models that were predominantly sold during 2003 and increases in handset upgrades provided to existing customers.

3. Selling and marketing expenses

The $1.9 million, or 40%, and $1.0 million, or 36%, increases in selling and marketing expenses from the six and three months ended June 30, 2003 to the six and three months ended June 30, 2004 are largely a result of $0.7 million, or 44%, and $0.3 million or 36%, increases in indirect commissions mainly caused by 36% and 44% increases in handset sales by outside dealers, as well as a $0.3 million increase in advertising expenses from the six months ended June 30, 2003 to the same period in 2004 resulting from more advertising campaigns focused on promoting International Direct Connect$^{SM}$.

4. General and administrative expenses

The $3.4 million, or 29%, and $1.2 million, or 18%, increases in general and administrative expenses from the six and three months ended June 30, 2003 to the same periods in 2004 are largely a result of the following:

$3.5 million, or 52%, and $1.5 million, or 40%, increases in general corporate costs primarily as a result of increases in operating taxes on gross revenues in Argentina; and

$0.9 million, or 45%, and $0.5 million, or 47%, increases in customer care expenses from the six and three months ended June 30, 2003 to the same periods in 2004 primarily due to increases in payroll and related expenses caused by increased salaries and 23% and 20% increases in customer care personnel required to support a larger customer base.

These increases were partially offset by $1.2 million, or 111%, and $1.0 million, or 191%, decreases in bad debt expense from the six and three months ended June 30, 2003 to the same periods in 2004 resulting from lower customer turnover and improved economic conditions in Argentina during 2004 compared to 2003. Bad debt expense also decreased as a percentage of revenues from 2.3% and 1.7% during the six and three months ended June 30, 2003 to less than 1.0% during the same periods in 2004.

5. Depreciation and amortization

The $4.0 million and $2.3 million increases in depreciation and amortization from the six and three months ended June 30, 2003 to the six and three months ended June 30, 2004 are due to increased depreciation resulting from a significant increase in Nextel Argentina s gross property, plant and equipment.

6. Foreign currency transaction gains (losses), net

Net foreign currency transaction losses of $1.4 million for the three months ended June 30, 2003 are primarily the result of the strengthening of the Argentine peso relative to the U.S. dollar on Nextel Argentina s U.S. dollar-based net assets.

7. Other income, net

In connection with our emergence from Chapter 11 reorganization in 2002, one of our corporate entities repurchased Nextel Argentina s credit facilities from its creditors. While this corporate entity contributed the principal balance to Nextel Argentina as a capital investment, it forgave the accrued interest during the first quarter of 2003. Other income, net, of $8.3 million for the six months ended June 30, 2003 consists primarily of the gain related to the forgiveness of this accrued interest.

Other income, net, of $1.1 million for the three months ended June 30, 2003 primarily represents a gain related to the reversal of a contingency for withholding taxes, which resulted from the forgiveness of accrued interest related to Nextel Argentina s credit facilities described above.

*e. Nextel Peru*

| | June 30, 2004 | % of Nextel Peru s Operating Revenues | June 30, 2003 | % of Nextel Peru s Operating Revenues | Change from Previous Year Dollars | Percent |
|---|---|---|---|---|---|---|
| | Restated | Restated | Restated | Restated | Restated | Restated |
| | | | (dollars in thousands) | | | |
| ***Six Months Ended*** | | | | | | |
| Operating revenues | | | | | | |
| Service and other revenues | $ 45,344 | 98% | $ 45,219 | 98% | $ 125 | |
| Digital handset and accessory sales revenues | 1,083 | 2% | 1,157 | 2% | (74) | (6)% |
| | 46,427 | 100% | 46,376 | 100% | 51 | |
| Cost of revenues | | | | | | |
| Cost of service (exclusive of depreciation included below) | (17,477) | (38)% | (16,589) | (36)% | (888) | 5% |
| Cost of digital handset and accessory sales | (6,782) | (14)% | (5,878) | (12)% | (904) | 15% |
| | (24,259) | (52)% | (22,467) | (48)% | (1,792) | 8% |
| Selling and marketing expenses | (5,522) | (12)% | (5,837) | (13)% | 315 | (5)% |
| General and administrative expenses | (8,429) | (18)% | (7,535) | (16)% | (894) | 12% |
| Segment earnings | 8,217 | 18% | 10,537 | 23% | (2,320) | (22)% |
| Depreciation and amortization | (2,426) | (5)% | (1,445) | (3)% | (981) | 68% |
| Operating income | 5,791 | 13% | 9,092 | 20% | (3,301) | (36)% |
| Interest expense | (111) | | (1,021) | (2)% | 910 | (89)% |
| Interest income | 837 | 1% | 511 | 1% | 326 | 64% |
| Foreign currency transaction gains, net | 11 | | 89 | | (78) | (88)% |
| Other expense, net | (3) | | (867) | (2)% | 864 | (100)% |
| Income before income tax | $ 6,525 | 14% | $ 7,804 | 17% | $ (1,279) | (16)% |
| ***Three Months Ended*** | | | | | | |
| Operating revenues | | | | | | |
| Service and other revenues | $ 22,747 | 98% | $ 23,052 | 97% | $ (305) | (1)% |
| Digital handset and accessory sales revenues | 534 | 2% | 631 | 3% | (97) | (15)% |
| | 23,281 | 100% | 23,683 | 100% | (402) | (2)% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Cost of revenues | | | | | | |
| Cost of service (exclusive of depreciation included below) | (8,651) | (37)% | (8,924) | (38)% | 273 | (3)% |
| Cost of digital handset and accessory sales | (3,384) | (15)% | (2,996) | (12)% | (388) | 13% |
| | (12,035) | (52)% | (11,920) | (50)% | (115) | 1% |
| Selling and marketing expenses | (2,974) | (13)% | (2,978) | (13)% | 4 | |
| General and administrative expenses | (4,246) | (18)% | (3,901) | (16)% | (345) | 9% |
| Segment earnings | 4,026 | 17% | 4,884 | 21% | (858) | (18)% |
| Depreciation and amortization | (1,292) | (5)% | (766) | (4)% | (526) | 69% |
| Operating income | 2,734 | 12% | 4,118 | 17% | (1,384) | (34)% |
| Interest expense | (28) | | (486) | (2)% | 458 | (94)% |
| Interest income | 796 | 3% | 504 | 2% | 292 | 58% |
| Foreign currency transaction gains (losses), net | 5 | | (37) | | 42 | (114)% |
| Other income (expense), net | 1 | | (792) | (3)% | 793 | (100)% |
| Income before income tax | $ 3,508 | 15% | $ 3,307 | 14% | $ 201 | 6% |

Because the U.S. dollar is the functional currency in Peru, Nextel Peru s results of operations are not significantly impacted by the changes in the U.S. dollar to Peruvian sol exchange rate.

1. Operating revenues

The $0.1 million increase in service and other revenues from the six months ended June 30, 2003 to the six months ended June 30, 2004 is primarily a result of a 14% increase in the average number of digital handsets in service, partially offset by a decrease in average revenue per handset resulting from the implementation of a new rate plan with lower access charges.

The $0.3 million decrease in service and other revenues from the three months ended June 30, 2003 to the three months ended June 30, 2004 is primarily a result of a decrease in average revenue per handset resulting from the implementation of a new rate plan with lower access charges, partially offset by a 15% increase in the average number of digital handsets in service.

2. Cost of revenues

The $0.9 million, or 5%, increase in cost of service from the six months ended June 30, 2003 to the same period in 2004 is primarily due to a $0.6 million, or 29%, increase in service and repair costs resulting from an increase in repaired and refurbished units, as well as a $0.4 million, or 9%, increase in site and switch costs largely resulting from a 9% increase in the number of transmitter and receiver sites in service from June 30, 2003 to June 30, 2004.

The $0.9 million, or 15%, increase in cost of digital handset and accessory sales from the six months ended June 30, 2003 to the same period in 2004 is primarily the result of a 22% increase in handset sales, as well as Nextel Peru s implementation of a handset leasing program during the first quarter of 2004.

3. General and administrative expenses

The $0.9 million, or 12%, and $0.3 million, or 9%, increases in general and administrative expenses from the six and three months ended June 30, 2003 to the same periods in 2004 are primarily due to higher customer care and general corporate payroll and related expenses due to more customer care and general corporate personnel necessary to support a larger customer base.

4. Depreciation and amortization

The $1.0 million, or 68%, and $0.5 million, or 69%, increases in depreciation and amortization from the six and three months ended June 30, 2003 to the six and three months ended June 30, 2004 are primarily due to increased depreciation resulting from a significant increase in Nextel Peru s gross property, plant and equipment.

5. Interest expense

The $0.9 million, or 89%, and $0.5 million, or 94%, decreases in interest expense from the six and three months ended June 30, 2003 to the six and three months ended June 30, 2004 are primarily due to the elimination of interest on Nextel Peru s portion of the international equipment facility which it paid-down during the third quarter of 2003.

*f. Corporate and other*

| | June 30, 2004 Restated | % of Corporate and other Operating Revenues Restated | June 30, 2003 Restated | % of Corporate and other Operating Revenues Restated | Change from Previous Year Dollars Restated | Change from Previous Year Percent Restated |
|---|---|---|---|---|---|---|
| | | | (dollars in thousands) | | | |
| ***Six Months Ended*** | | | | | | |
| Operating revenues | | | | | | |
| Service and other revenues | $ 793 | 100% | $ 767 | 100% | $ 26 | 3% |
| Digital handset and accessory sales revenues | | | | | | |
| | 793 | 100% | 767 | 100% | 26 | 3% |
| Cost of revenues | | | | | | |
| Cost of service (exclusive of depreciation included below) | (830) | (105)% | (717) | (93)% | (113) | 16% |
| Cost of digital handset and accessory sales | | | (474) | (62)% | 474 | (100)% |
| | (830) | (105)% | (1,191) | (155)% | 361 | (30)% |
| Selling and marketing expenses | (2,156) | (272)% | (2,065) | (269)% | (91) | 4% |
| General and administrative expenses | (23,299) | *NM* | (14,434) | *NM* | (8,865) | 61% |
| Segment losses | (25,492) | *NM* | (16,923) | *NM* | (8,569) | 51% |
| Depreciation and amortization | (479) | (60)% | (236) | (31)% | (243) | 103% |
| Operating loss | (25,971) | *NM* | (17,159) | *NM* | (8,812) | 51% |
| Interest expense | (12,699) | *NM* | (16,458) | *NM* | 3,759 | (23)% |
| Interest income | 1,559 | 197% | 1,430 | 186% | 129 | 9% |
| Loss on early extinguishment of debt, net | (79,327) | *NM* | | | (79,327) | *NM* |
| Foreign currency transaction losses, net | (8) | (1)% | (12) | (2)% | 4 | (33)% |
| Other expense, net | (221) | (28)% | (7,461) | (973)% | 7,240 | (97)% |
| Loss before income tax | $ (116,667) | *NM* | $ (39,660) | *NM* | $ (77,007) | 194% |
| ***Three Months Ended*** | | | | | | |
| Operating revenues | | | | | | |
| Service and other revenues | $ 386 | 100% | $ 378 | 100% | $ 8 | 2% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Digital handset and accessory sales revenues | | | (1) | *NM* | 1 | (100)% |
| | 386 | 100% | 377 | 100% | 9 | 2% |
| Cost of revenues | | | | | | |
| Cost of service (exclusive of depreciation included below) | (410) | (106)% | (383) | (102)% | (27) | 7% |
| Cost of digital handset and accessory sales | | | (227) | (60)% | 227 | (100)% |
| | (410) | (106)% | (610) | (162)% | 200 | (33)% |
| Selling and marketing expenses | (1,039) | (269)% | (1,121) | (297)% | 82 | (7)% |
| General and administrative expenses | (13,843) | *NM* | (7,156) | *NM* | (6,687) | 93% |
| Segment losses | (14,906) | *NM* | (8,510) | *NM* | (6,396) | 75% |
| Depreciation and amortization | (262) | (68)% | (126) | (33)% | (136) | 108% |
| Operating loss | (15,168) | *NM* | (8,636) | *NM* | (6,532) | 76% |
| Interest expense | (4,435) | *NM* | (8,670) | *NM* | 4,235 | (49)% |
| Interest income | 703 | 182% | 666 | 177% | 37 | 6% |
| Foreign currency transaction (losses) gains, net | (5) | (1)% | 4 | 1% | (9) | (225)% |
| Other expense, net | (89) | (23)% | (384) | (102)% | 295 | (77)% |
| Loss before income tax | $ (18,994) | *NM* | $ (17,020) | *NM* | $ (1,974) | 12% |

*NM-Not Meaningful*

Corporate and other operating revenues and cost of revenues primarily represent the results of analog operations reported by Nextel Chile.

1. General and administrative expenses

The $8.9 million, or 61%, and $6.7 million, or 93%, increases in general and administrative expenses from the six and three months ended June 30, 2003 to the six and three months ended June 30, 2004 are due to tax

63

equalization expenses recognized during the second quarter of 2004 for which we expect to be reimbursed in future periods, stock compensation expense recognized during the second quarter of 2004 and an increase in business development costs, professional fees and other general and administrative expenses.

2. Interest expense

The $3.8 million, or 23%, and the $4.2 million, or 49%, decreases in interest expense from the six and three months ended June 30, 2003 to the six and three months ended June 30, 2004 are primarily the result of the elimination of interest related to our 13.0% senior secured discount notes in connection with the retirement of substantially all of these notes during the first quarter of 2004 and a decrease in interest expense related to our international equipment facility in connection with the partial pay-down of this facility in the third quarter of 2003 and the first quarter of 2004. These decreases were partially offset by interest incurred on our new 3.5% convertible notes and 2.875% convertible notes in the first half of 2004.

3. Loss on early extinguishment of debt, net

The $79.3 million net loss on early extinguishment of debt for the six months ended June 30, 2004 represents a loss we incurred in connection with the retirement of substantially all of our 13.0% senior secured discount notes through a cash tender offer in March 2004.

**Liquidity and Capital Resources**

We had a working capital surplus of $406.6 million as of June 30, 2004 and $393.6 million as of December 31, 2003. The increase in our working capital is largely the result of cash flows generated by our financing activities described below.

We recognized a net loss of $25.9 million for the six months ended June 30, 2004 and net income of $26.7 million for the three months ended June 30, 2004. The net loss for the six months ended June 30, 2004 primarily resulted from the $79.3 million loss related to the early extinguishment of substantially all of our 13.0% senior discount notes in the first quarter of 2004. We recognized net income of $21.5 million and $11.5 million for the six and three months ended June 30, 2003. Prior to 2003, our operating expenses and capital expenditures associated with developing, enhancing and operating our digital mobile networks more than offset our operating revenues. During 2003 and the first two quarters of 2004, our operating revenues more than offset our operating expenses, excluding depreciation and amortization, and cash capital expenditures. While we expect this trend to continue, if business conditions, timing of capital expenditures or expansion plans change, we may not be able to maintain this trend. See Future Capital Needs and Resources for a discussion of our future outlook and anticipated sources and uses of funds for the remainder of 2004.

***Cash Flows.*** Our operating activities provided us with $95.5 million of net cash during the six months ended June 30, 2004 and $113.1 million of net cash during the six months ended June 30, 2003. The $17.6 million decrease in generation of cash is primarily due to the pay-down of current liabilities during the first quarter of 2004, an increase in inventory during 2004 and $9.3 million of cash received from Nextel Communications during the six months ended June 30, 2003 related to our spectrum sharing agreement in Mexico.

We used $140.6 million of net cash in our investing activities during the six months ended June 30, 2004 compared to $102.1 million during the six months ended June 30, 2003. The $38.5 million increase in cash used in our investing activities is mainly due to $26.9 million in purchases of short-term investments during the six months ended June 30, 2004 and a $9.2 million increase in cash used for capital expenditures.

Our financing activities provided us with $13.1 million of net cash during the six months ended June 30, 2004, primarily due to the following:

- $300.0 million in gross proceeds that we raised in connection with the issuance of our 2.875% convertible notes; and

- $9.5 million in proceeds received in connection with tower sale-leaseback financing transactions;

partially offset by:

- $211.2 million in cash used to retire substantially all of our 13.0% senior secured discount notes in connection with our tender offer;
- $72.5 million in cash used to repay a portion of our international equipment facility with Motorola;
- $8.5 million in cash used to pay debt financing costs in connection with the issuance of our 2.875% convertible notes; and
- $4.1 million in transfers to restricted cash.

Our financing activities provided us with $60.5 million of net cash during the six months ended June 30, 2003, primarily due to $66.9 million in proceeds that we received from our tower sale-leaseback financing transactions that closed during the first half of 2003, partially offset by $7.8 million that we placed in an escrow account as collateral for our former interest rate swap.

**Future Capital Needs and Resources**

***Capital Resources.*** Our ongoing capital resources depend on a variety of factors, including our existing cash and short-term investments, cash flows generated by our operating companies and external financial sources that may be available. As of June 30, 2004, our capital resources included $400.6 million of cash, cash equivalents and short-term investments. Our ability to generate sufficient operating cash flows by our operating companies is dependent upon, among other things:

- the amount of revenue we are able to generate and collect from our customers;
- the amount of operating expenses required to provide our services;
- the cost of acquiring and retaining customers, including the subsidies we incur to provide handsets to both our new and existing customers;
- our ability to continue to grow our customer base; and
- fluctuations in foreign exchange rates.

While we plan to fund our operations using existing cash and short-term investments balances and internally generated cash flows for the foreseeable future, we may access the capital markets if we are able to meet our objectives of lowering our cost of capital, improving our financial flexibility and/or reducing our foreign currency exposure, or if we should decide to expand our operations. Consistent with these objectives, during the first quarter of 2004, we issued $300.0 million aggregate principal amount of 2.875% convertible notes due 2034 for net proceeds of $291.6 million. The notes bear interest at a rate of 2.875% per year, payable semi-annually in arrears and in cash on February 1 and August 1 of each year, beginning August 1, 2004. The notes will mature on February 1, 2034, unless earlier converted or redeemed by the holders or repurchased by us.

In February 2004, we prepaid, at face value, $72.5 million of the $125.0 million in outstanding principal under our international equipment facility. In addition, in March 2004, NII Holdings (Cayman), Ltd., one of our wholly-owned subsidiaries, used $211.2 million to complete a cash tender offer to purchase substantially all of its 13.0% senior secured discount notes due 2009. NII Holdings (Cayman), Ltd. financed the tender offer with intercompany loans from NII Holdings and cash on hand. We used a portion of our proceeds from the issuance of our 2.875% convertible notes to fund these intercompany loans to NII Holdings (Cayman), Ltd.

Subsequent to the end of the second quarter, in July 2004, we repaid the remaining $52.6 million in principal and related accrued interest due under our international equipment facility. In addition, we defeased the remaining $40 thousand due under our 13.0% senior secured discount notes due 2009. The full repayment of our international equipment facility will reduce our future interest costs and foreign currency exposures. Combined with the defeasance of our senior secured discount notes, the repayment of the international equipment facility will increase our financial and operational flexibility due to the release of the vast majority of our assets that formed part of the collateral package that was securing these facilities and the elimination of restrictive covenants requiring the maintenance of certain financial ratios relative to leverage, segment earnings, revenues, subscribers and fixed charges.

Under an existing agreement with American Tower, during the six and three months ended June 30, 2004, we received $9.5 million and $3.1 million from tower sale-leaseback transactions, respectively. In addition, Nextel Brazil has a facility in place under which it can finance handset purchases. Borrowings under this facility have 180 day maturities and interest is prepaid in U.S. dollars at variable market rates. As of June 30, 2004, there were no amounts outstanding under the Nextel Brazil handset credit facility.

***Capital Needs.*** We currently anticipate that our future capital needs will principally consist of funds required for:

- operating expenses relating to our digital mobile networks;
- capital expenditures to expand and enhance our digital mobile networks, as discussed below under Capital Expenditures ;
- future spectrum purchases;
- debt service requirements, including tower financing obligations;
- cash taxes; and
- other general corporate expenditures.

***Capital Expenditures.*** Our capital expenditures, including capitalized interest, were $99.1 million and $50.9 million for the six and three months ended June 30, 2004 compared to $117.1 million and $52.8 million for the six and three months ended June 30, 2003. The decrease in capital expenditures is primarily due to additional funds invested to build-out our network in the Baja California region of Mexico during 2003. In the future, we expect to finance our capital spending using cash from operations, cash on hand, cash from tower-sale leaseback transactions and any other external financing that becomes available. Our capital spending is driven by several factors, including:

- the construction of additional transmitter and receiver sites to increase system capacity and maintain system quality and the installation of related switching equipment in some of our existing market coverage areas;
- the enhancement of our digital mobile network coverage around some major market areas;
- the expansion of our digital mobile networks to new market areas;
- enhancements to our existing iDEN technology to increase voice capacity; and
- non-network related information technology projects.

Our future capital expenditures will be significantly affected by future technology improvements and technology choices. In October 2001, Motorola and Nextel Communications announced an anticipated significant technology upgrade to the iDEN digital mobile network, the 6:1 voice coder software upgrade. We have implemented the network software upgrade for this technology in Mexico. We expect that this software upgrade, which requires that compatible handsets be distributed throughout the network for it to become fully operational, will significantly increase our voice capacity for interconnect calls and leverage our existing investment in infrastructure in Mexico. We do not expect to realize significant benefits from the operation of the 6:1 voice coder until after 2004. If there are substantial delays in realizing the benefits of the 6:1 voice coder, we could be required to invest additional capital in our infrastructure to satisfy our network capacity needs. See Forward Looking Statements.

***Future Outlook.*** Our current business plan, under which we have been operating since emerging from Chapter 11 reorganization in November 2002, does not contemplate a significant expansion and does not require any additional external funding. However, we are currently evaluating expansion plans, primarily in

Mexico, but also in Brazil and other Latin American markets. If we decide to pursue these expansion plans, we would seek external financing to fund them in whole or in part.

If our business plans change, including as a result of changes in technology, or if we decide to expand into new markets, or if economic conditions in any of our markets generally, or competitive practices in the mobile wireless telecommunications industry change materially from those currently prevailing or from those now anticipated, or if other presently unexpected circumstances arise that have a material effect on the cash flow or profitability of our mobile wireless business, then the anticipated cash needs of our business as well as the conclusions presented herein as to the adequacy of the available sources of cash and timing on our ability to generate net income could change significantly. Any of these events or circumstances could involve significant additional funding needs in excess of the identified currently available sources, and could require us to raise additional capital to meet those needs. However, our ability to seek additional capital, if necessary, is subject to a variety of additional factors that we cannot presently predict with certainty, including:

the commercial success of our operations;

the volatility and demand of the capital markets; and

the future market prices of our securities.

**Forward Looking Statements**

***Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995.*** A number of the statements made in this quarterly report on Form 10-Q/A are not historical or current facts, but deal with potential future circumstances and developments and our expectations based on them. They can be identified by the use of forward-looking words such as believes, expects, intends, plans, may, will, would, could, should or other comparable words, or by discussions of strategy that involve risks and uncertainties. We caution you that these forward-looking statements are only predictions, which are subject to risks and uncertainties, including technical uncertainties, financial variations, changes in the regulatory environment, industry growth and trend predictions. We have attempted to identify, in context, some of the factors that we currently believe may cause actual future experience and results to differ from our current expectations regarding the relevant matter or subject area. The operation and results of our wireless communications business also may be subject to the effects of other risks and uncertainties in addition to the other qualifying factors identified in the foregoing Management s Discussion and Analysis of Financial Condition and Results of Operations section, including, but not limited to:

our ability to meet the operating goals established by our business plan;

general economic conditions in Latin America and in the market segments that we are targeting for our digital mobile services;

the political and social conditions in the countries in which we operate, including political instability, which may affect the economies of our markets and the regulatory schemes in these countries;

substantive terms of any international financial aid package that may be made available to any country in which our operating companies conduct business;

the impact of foreign exchange volatility in our markets compared to the U.S. dollar and related currency devaluations in countries in which our operating companies conduct business;

reasonable access to and the successful performance of the technology being deployed in our service areas, and improvements thereon, including technology deployed in connection with the introduction of digital two-way mobile data or Internet connectivity services in our markets;

the availability of adequate quantities of system infrastructure and subscriber equipment and components to meet our service deployment and marketing plans and customer demand;

the success of efforts to improve and satisfactorily address any issues relating to our digital mobile network performance;

future legislation or regulatory actions relating to our specialized mobile radio services, other wireless communication services or telecommunications generally;

the ability to achieve and maintain market penetration and average subscriber revenue levels sufficient to provide financial viability to our digital mobile network business;

the quality and price of similar or comparable wireless communications services offered or to be offered by our competitors, including providers of cellular services and personal communications services;

market acceptance of our new service offerings, including Nextel Worldwide,[sm] Nextel Online[sm] and International Direct Connect[sm];

our ability to access sufficient debt or equity capital to meet any future operating and financial needs; and

other risks and uncertainties described from time to time in our reports filed with the Securities and Exchange Commission, including our 2003 annual report on Form 10-K/A and our quarterly report on Form 10-Q/A for the quarter ended March 31, 2004.

**Effect of New Accounting Standards**

In January 2003, the Financial Accounting Standards Board, or FASB, issued FASB Interpretation, or FIN, No. 46, Consolidation of Variable Interest Entities An Interpretation of ARB No. 51, which clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN No. 46 provides guidance related to identifying variable interest entities (previously known generally as special purpose entities or SPEs) and determining whether such entities should be consolidated. FIN No. 46 must be applied immediately to variable interest entities created, or interests in variable interest entities obtained, after January 31, 2003. For those variable interest entities created, or interests in variable interest entities obtained, on or before January 31, 2003, the guidance in FIN No. 46 must be applied in the first fiscal year or interim period beginning after December 15, 2003. The adoption of FIN No. 46 on January 1, 2004 did not have a material impact on our financial position, results of operations or cash flows.

In March 2004, the Emerging Issues Task Force, or EITF, reached a final consensus on Issue No. 03-6, Participating Securities and the Two Class Method Under FASB Statement No. 128, *Earnings Per Share.* Issue No. 03-6 addresses a number of questions regarding the computation of earnings per share (EPS) by companies that have issued securities other than common stock that contractually entitle the holder to participate in dividends and earnings of the company when, and if, it declares dividends on its common stock. The issue also provides further guidance in applying the two-class method of calculating EPS. It clarifies what constitutes a participating security and how to apply the two-class method of computing EPS once it is determined that a security is participating, including how to allocate undistributed earnings to such a security. EITF 03-6 is effective for the fiscal quarter ended June 30, 2004. The adoption of EITF 03-6 did not have a material impact on our basic or diluted earnings per share.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Our revenues are primarily denominated in foreign currencies, while a significant portion of our operations are financed in U.S. dollars through our convertible notes. As a result, fluctuations in exchange rates relative to the U.S. dollar expose us to foreign currency exchange risks. These risks include the impact of translating our local currency reported earnings into U.S. dollars when the U.S. dollar strengthens against the local currencies of our foreign operations. In addition, we have local currency-based communication tower sale-leaseback transactions in Mexico and Brazil, which we are accounting for as financing transactions (see Note 5). Due to the limited availability of long-term instruments, we currently do not hedge assets or liabilities denominated in foreign currencies or foreign currency transactions.

Interest rate changes expose our fixed rate long-term borrowings to changes in fair value and expose our variable rate long-term borrowings to changes in future cash flows. As of June 30, 2004, substantially all of our borrowings were fixed-rate long-term debt obligations. In some cases, we have used derivative instruments to manage this interest rate exposure by achieving a desired proportion of fixed rate versus variable rate borrowings. We only used derivative instruments for non-trading purposes. We do not have any derivative instruments in place as of June 30, 2004 other than one of the conversion features embedded in each of our convertible notes, which are not material in value.

The table below presents principal amounts, related interest rates by year of maturity and aggregate amounts as of June 30, 2004 for our fixed and variable rate debt obligations, including our 3.5% convertible notes, our 2.875% convertible notes, our international equipment facility and our tower financing obligations. We determined the fair values included in this section based on:

- quoted market prices for our convertible notes;
- carrying values for our international equipment facility as of June 30, 2004 as interest rates are reset periodically; and
- carrying values for our tower financing obligations as interest rates were set recently when we entered into these transactions.

The changes in the fair values of our debt compared to their fair values as of December 31, 2003 reflect changes in applicable market conditions. In addition, the table reflects the prepayment of $72.5 million in outstanding principal and related accrued interest under our international equipment facility in February 2004, as well as the payment of the remaining $52.6 million in outstanding principal and related accrued interest under this facility in July 2004. The table also reflects the extinguishment of substantially all of our senior secured discount notes in March 2004 and the defeasance of the remaining amount under these notes in July 2004. All of the information in the table is presented in U.S. dollar equivalents, which is our reporting currency. The actual cash flows associated with our long-term debt are denominated in U.S. dollars (US$), Mexican pesos (MP) and Brazilian reais (BR).

| | Year of Maturity | | | | | | June 30, 2004 | | December 31, 2003 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007** | **2008** | **Thereafter** | **Total** | **Fair Value** | **Total** | **Fair Value** |
| | | | | | | (dollars in thousands) | | | | |
| ***Long-Term Debt:*** | | | | | | | | | | |
| Fixed Rate (US$) | $ | $ | $ | $ | $ | $ 480,000 | $ 480,000 | $ 562,200 | $ 360,821 | $ 383,580 |
| Average Interest Rate | | | | | | 3.1% | 3.1% | | 8.3% | |
| Fixed Rate (MP) | $ 1,488 | $ 1,758 | $ 2,079 | $ 2,461 | $ 2,914 | $ 65,784 | $ 76,484 | $ 76,484 | $ 71,204 | $ 71,204 |
| Average Interest Rate | 17.2% | 17.2% | 17.2% | 17.2% | 17.2% | 17.2% | 17.2% | | 17.8% | |
| Fixed Rate | $ 173 | $ 231 | $ 309 | $ 414 | $ 555 | $ 30,881 | $ 32,563 | $ 32,563 | $ 31,880 | $ 31,880 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| (BR) | | | | | | | | | | |
| Average Interest Rate | 28.3% | 28.3% | 28.3% | 28.3% | 28.3% | 28.3% | 28.3% | | 28.4% | |
| Variable Rate (US$) | $ 52,493 | $ | $ | $ | $ | $ | $ 52,493 | $ 52,493 | $ 125,000 | $ 125,000 |
| Average Interest Rate | 6.2% | | | | | | 6.2% | | 6.2% | |

**Item 4. Controls and Procedures.**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods required by the Securities and Exchange Commission. We continuously monitor all of our controls and procedures to ensure that they are operating effectively and consistently across the company as a whole.

As of the end of the period covered in this report, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was carried out under the supervision and with the participation of our management teams in the United States and in our operating companies, including our chief executive officer and chief financial officer. This evaluation was subsequently modified due to the identification of the items described below. Based on and as of the date of such evaluation, as modified, these officers concluded that our disclosure controls and procedures were not effective for the reasons described in the following paragraphs.

Our chief executive officer and chief financial officer are also responsible for establishing and maintaining adequate internal controls over our financial reporting. Subsequent to the filing of our quarterly report on Form 10-Q for the period ended June 30, 2004, we identified bookkeeping errors in various balance sheet accounts at our operating company in Mexico. Separately, on November 4, 2004, we were notified by our independent registered public accountants of errors related to our accounting policy and treatment of the subsequent reversal of deferred tax asset valuation reserves established at the time of fresh-start accounting as of October 31, 2002. These items are described in further detail below.

During our evaluation of these items, we concluded the errors (i) reflected a material weakness in our internal control over financial reporting with respect to account reconciliations at Nextel Mexico and (ii) reflected a material weakness in our internal control over financial reporting with respect to the accounting and reporting of income taxes. In addition, the occurrence of a number of significant deficiencies may also indicate a material weakness. A material weakness, as defined by the Public Company Accounting Oversight Board (PCAOB), is a reportable condition in which the design or operation of one or more elements of the internal control structure does not sufficiently reduce the risk of material errors and irregularities occurring and not being timely detected. Our management has communicated the material weaknesses and their background to our board of directors and its audit committee and our independent registered public accounting firm.

As a result of these errors and other adjustments identified through our review, we have restated our condensed consolidated financial statements as of and for the six and three months ended June 30, 2004 and 2003, as set forth in this report.

Except as described herein, there were no changes in our internal control over financial reporting identified in connection with our evaluation that occurred during the three-month period ended June 30, 2004 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

***Nextel Mexico Bookkeeping Errors***

The identification of the bookkeeping errors occurred as a result of our ongoing review of Nextel Mexico s internal accounts and records in order to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002.

Subsequent to the identification of these errors, we completed an account reconciliation project at Nextel Mexico to review and analyze these liability accounts and all other material accounts. The errors impacted accounts receivable, accounts payable, accrued expenses, operating expenses and gains and losses regarding foreign currency transactions. The errors occurred due to our failure to perform account reconciliations and resolve differences in a timely manner, and the errors did not result from any fraudulent activities.

The nature of the errors relate to three main areas:

Foreign Currency Adjustments  Some of our foreign currency transaction gains and losses were double-recorded through a combination of manual entries and system generated automatic entries recorded upon payment of U.S. dollar denominated payables;

Accounts receivable adjustments  Periodic reconciliations between the accounts receivable subsidiary ledger and the general ledger were not performed properly or timely. As a result, unreconciled differences related to the non-recognition of commissions expense on credit card payments, returned checks, manual adjustments and other items were classified to a current liability account, but were not reversed from the liability account upon resolution of these differences; and

Liability accounts  Certain liability accounts contained balances that could not be supported by invoices or subsequent disbursements.

We have taken or are taking the following corrective actions, which we believe will strengthen our internal controls and prevent the possibility of this type of error from occurring in the future:

personnel changes, including the termination of the controller responsible for the unreconciled accounts;

the implementation of additional procedures surrounding the account reconciliation process as well as manual journal entries in our operating companies and related to the monitoring by NII Holdings of key control procedures in our operating companies;

revisions to system controls regarding general ledger posting restrictions; and

the provision of more specific guidance regarding steps that must be completed by our operating companies executives before signing the certifications related to the Section 302 of the Sarbanes-Oxley Act of 2002.

***Accounting for Income Taxes***

Beginning with our emergence from Chapter 11 reorganization on October 31, 2002, we recognized the release of valuation allowances on deferred tax assets established at the time we applied fresh-start accounting as a non-cash reduction to our income tax provision. Upon further review, our current independent registered public accounting firm notified us that our accounting was in error and that in accordance with SOP 90-7, the reversal of valuation allowances established at fresh-start accounting should not be recorded as a reduction to our income tax provision but rather a reduction to intangible assets existing at our emergence from reorganization until these are fully exhausted, followed by increases to paid-in capital.

We have reviewed and corrected our accounting policy for income taxes to accurately track and record the reversal of deferred tax asset valuation allowances established at the time we applied fresh-start accounting. We recorded the reversal of these valuation allowances first as a reduction to our remaining intangible assets existing at our emergence from reorganization. Once these intangible assets are fully exhausted, we will record any additional reversals as an increase to paid-in capital. In addition we have identified various other errors in the calculation of income taxes. These errors occurred as a result of the misapplication of the appropriate financial accounting standard and from the lack of proper review procedures and did not result from any fraudulent activities. We acknowledge that this accounting resulted in a material error and reflects a material weakness as defined by the PCAOB. Lastly, we have restated our historical consolidated financial statements as of and for the six and three months ended June 30, 2004 and 2003, as set forth in this report.

## PART II OTHER INFORMATION.

**Item 1. Legal Proceedings.**

We and/or our operating companies are parties to certain legal proceedings that are described in our 2003 annual report on Form 10-K/A. During the three months ended June 30, 2004, there were no material changes in the status of or developments regarding those legal proceedings that have not been previously disclosed in our 2003 annual report on Form 10-K/A and our quarterly report on Form 10-Q/A for the quarter ended March 31, 2004.

**Item 4. Submission of Matters to a Vote of Security Holders.**

(a) Our Annual Meeting of Stockholders was held on Tuesday, April 28, 2004.

(b) Not applicable.

(c) The common stockholders voted for the election of two (2) directors to serve for terms of three (3) years each, expiring on the date of the annual meeting in 2007 or until their successors are elected. In addition, Charles F. Wright was nominated and elected to the Board of Directors pursuant to Motorola Credit Corporation s rights under the Special Director Preferred Stock. Mr. Wright was not subject to the vote of holders of our common stock. The results of the voting in these elections are set forth below.

| Nominee | Votes For | Votes Withheld | Broker Non-votes |
|---|---|---|---|
| Steven P. Dussek | 52,602,631 | 10,162,909 | N/A |
| Steven M. Shindler | 61,448,298 | 1,317,242 | N/A |
| Charles F. Wright | 1 | | N/A |

The terms of office of the following directors continued after the meeting:

| Class of 2005 | Class of 2006 |
|---|---|
| Neal P. Goldman | George A. Cope |
| Charles M. Herington | Carolyn Katz |
| John W. Risner | Donald E. Morgan |

In addition, the stockholders voted (1) to approve an Amendment to our Restated Certificate of Incorporation to increase the number of authorized shares of common stock from 100 million to 300 million shares, (2) to approve our 2004 Incentive Compensation Plan, and (3) to approve an adjournment of the Annual Meeting to a later date or dates, if necessary, in order to permit the further solicitation of proxies. The results of the voting are set forth below.

| Proposal | Votes For | Votes Against | Votes Withheld | Broker Non-votes |
|---|---|---|---|---|
| Amendment to our Restated Certificate of Incorporation | 55,623,157 | 7,134,302 | 8,081 | N/A |
| 2004 Incentive Compensation Plan | 37,623,952 | 12,474,182 | 27,528 | 12,639,878 |
| Adjournment of the Annual Meeting | 32,756,777 | 20,984,279 | 9,024,484 | N/A |

No other matters were voted upon at the Annual Meeting or during the quarter covered by this report.

**Item 6. Exhibits and Reports on Form 8-K.**

(a) List of Exhibits.

| Exhibit Number | Exhibit Description |
|---|---|
| 12.1 | Ratio of Earnings to Fixed Charges (filed herewith). |
| 31.1 | Statement of Chief Executive Officer Pursuant to Rule 13a-14(a) (filed herewith). |
| 31.2 | Statement of Chief Financial Officer Pursuant to Rule 13a-14(a) (filed herewith). |
| 32.1 | Statement of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 (filed herewith). |
| 32.2 | Statement of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 (filed herewith). |

(b) Reports on Form 8-K.

We filed or furnished the following reports on Form 8-K with the Securities and Exchange Commission during the three months ended June 30, 2004:

On April 16, 2004, we filed a Current Report on Form 8-K, dated April 15, 2004, which reported under Item 5 a detail of fees billed and expected to be billed by PricewaterhouseCoopers LLP for professional services rendered for the audit of our annual financial statements for 2003, as well as fees billed for audit-related services, tax services and all other services rendered for 2003;

On April 29, 2004, we furnished a Current Report on Form 8-K, dated April 29, 2004, which furnished under Item 12 a press release announcing certain financial and operating results for the three months ended March 31, 2004; and

On May 13, 2004, we filed a Current Report on Form 8-K, dated March 12, 2004, which reported under Item 5 the coverage of an additional 23,122,566 shares of our common stock resulting from the three-for-one split of our common shares which were initially registered in connection with the filing of our Registration Statement on Form S-1 dated December 20, 2002.

**SIGNATURE**

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

By: /s/ Ricardo L. Israele

Ricardo L. Israele
Vice President and Controller

Date: March 28, 2005

**EXHIBIT INDEX**

| Exhibit Number | Exhibit Description |
|---|---|
| 12.1 | Ratio of Earnings to Fixed Charges (filed herewith). |
| 31.1 | Statement of Chief Executive Officer Pursuant to Rule 13a-14(a) (filed herewith). |
| 31.2 | Statement of Chief Financial Officer Pursuant to Rule 13a-14(a) (filed herewith). |
| 32.1 | Statement of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 (filed herewith). |
| 32.2 | Statement of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 (filed herewith). |