

TELEFONICA MOBILE INC

Form 20-F

April 12, 2006

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As filed with the Securities and Exchange Commission on April 12, 2006.

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## SECURITIES AND EXCHANGE COMMISSION

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### FORM 20-F

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

For the fiscal year ended: December 31, 2005 Commission file number: 1-15158

## TELEFÓNICA MÓVILES, S.A.

(Exact name of registrant as specified in its charter)

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TELEFONICA MOBILE

(Translation of registrant's name into English)

KINGDOM OF SPAIN

(Jurisdiction of incorporation or organization)

Goya, 24 28001 Madrid, Spain

(Address of principal executive offices)

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

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

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

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

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

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

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

**Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.**

Yes  No

**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.**

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Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Item 17

Item 18

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

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**PRESENTATION OF FINANCIAL INFORMATION**

In this Annual Report, references to dollars or \$ are to United States dollars, references to euro or € are to the single currency of the participating member states in the Third Stage of the European Economic and Monetary Union pursuant to the treaty establishing the European Community, as amended from time to time.

Since January 1, 2005, our consolidated annual and interim financial statements, including our consolidated financial statements (the Consolidated Financial Statements) as of and for the year ended December 31, 2005, are and will be prepared in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS). IFRS, as adopted by the European Union and applied by us in our Consolidated Financial Statements as of and for the year ended December 31, 2005, do not differ from IFRS, as published by the International Accounting Standards Board (IASB), effective as of December 31, 2005, and therefore, comply in full with IFRS, as published by the IASB. Our Consolidated Financial Information as of and for the year ended December 31, 2004 included in our annual Consolidated Financial Statements was restated in accordance with IFRS. For quantitative information regarding the adjustments required to reconcile our Spanish GAAP financial information to IFRS, see note 2 to our Consolidated Financial Statements as of and for the year ended December 31, 2005 prepared under IFRS.

IFRS differs in certain significant respects from Spanish GAAP. As a result, our financial information presented under IFRS is not directly comparable to our financial information presented under Spanish GAAP, and readers should avoid such a comparison.

**FORWARD-LOOKING STATEMENTS**

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

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

Item 3.D Risk Factors ,

Item 4. Information on the Company ,

Item 5. Operating and Financial Review and Prospects , and

Item 11. Quantitative and Qualitative Disclosures About Market Risk

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

### CERTAIN TERMS AND CONVENTIONS

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

### PART I

#### **Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

#### **Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.



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Except as indicated, the following summary selected financial data has been prepared under International Financial Reporting Standards ( IFRS ). Our financial statement for 2004 were originally prepared under Spanish GAAP and have been presented in IFRS for comparison purposes only. For a more detailed description of our financial reporting under IFRS see Item 3.D. Risk Factors. and Item 5. Operating and Financial Review and Prospects.

**Summary Selected Financial Data**

	Year ended December 31,				
	2001	2002	2003	2004	2005
(euro in thousands, except per share and ADS data)					
<b>Statement of Operations Data</b>					
<b>IFRS</b>					
Net sales and rendering of services				11,753,875	16,513,502
Other income				198,557	269,755
Supplies				(3,594,914)	(5,365,453)
Personnel expenses				(541,504)	(799,666)
Other expenses				(3,228,123)	(4,801,137)
Operating income before depreciation and amortization				4,587,891	5,817,001
Depreciation and amortization				(1,522,941)	(2,374,010)
Operating income				3,064,950	3,442,991
Share of profit (loss) of associates				(38,134)	(154,206)
Net financial expenses				(406,002)	(584,578)
Net exchange differences				(75,869)	125,499
Net financial income (expense)				(481,871)	(459,079)
Profit before taxes				2,544,945	2,829,706
Corporate income tax				(868,504)	(946,039)
Profit for the year				1,676,441	1,883,667
Minority interests				15,242	35,241
Profit for the year attributable to equity holders of the parent				1,691,683	1,918,908
Weighted average number of shares (thousands)				4,309,105	4,309,480
Earnings per share attributable to equity holders of the parent (euros)				0.393	0.445
Earnings per ADS				0.392	0.445
Weighted average number of ADS (thousands)				4,310,131	4,310,611
<b>U.S. GAAP</b>					
Net income (loss)(1)	287,446	(3,674,987)	1,798,089	1,567,327	1,901,319
Earnings (loss) per share	0.07	(0.86)	0.42	0.36	0.44
Average outstanding common shares	4,141,432,815	4,290,372,979	4,309,104,934	4,309,104,934	4,309,479,461

	At December 31,				
	2001	2002	2003	2004	2005
	(euro in thousands)				
<b>Balance Sheet Data</b>					
<b>IFRS</b>					
Cash and cash equivalents				1,698,451	2,976,095
Property, plant and equipment				5,643,740	6,749,101
Total assets				23,190,542	26,962,340
Non-current liabilities				10,221,485	9,265,501
Equity (net)				3,820,056	6,246,455
<b>U.S. GAAP</b>					
Total assets(1)	27,886,558	16,299,051	14,779,614	22,034,690	25,267,018
Long-term debt	5,593,197	6,867,368	5,115,572	8,124,892	6,998,825
Shareholders' equity(1)	9,559,702	3,958,362	4,571,652	4,836,767	7,328,566

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	Year ended December 31,				
	2001	2002	2003	2004	2005
	(euro in thousands)				
<b>Other Financial Data</b>					
<b>IFRS</b>					
Cash flow from operating activities				3,914,629	4,479,412
Cash flow from investing activities				(5,679,413)	(2,533,043)
Cash flow from financing activities				2,455,252	(734,662)
Capital expenditures				1,385,685	1,863,967
Cash dividends				795,956	835,797
<b>Operating Data (at year end)</b>					
	(in millions)				
Population in licensed service territories	372	353	389	509	518
Total customers(2)	28.0	39.4	49.6	74.4	94.4
Proportionate customers(3)	24.6	28.6	32.9	53.6	71.1
Pre-paid customers(4)	69%	71%	72%	74%	74%

- (1) US GAAP data for the years ended December 31, 2004, 2003, 2002 and 2001 have been restated retroactively to eliminate the monetary adjustment for inflation in hyperinflationary economies. For additional information, please refer to Note 20 of our Consolidated Financial Statements included elsewhere in this document.
- (2) Represents total number of customers of all companies in which we have an interest, including subsidiaries, companies carried by the equity method and other companies carried as an investment. As of December 2002 we also include Brasilcel's customers. As of December 2003, we also include TCO's customers. For the year ended December 31, 2004, we also include Telefónica Móviles Chile's customers and those of the companies acquired from BellSouth during 2004. For the year ended December 31, 2005, we also include the customers of the companies acquired from BellSouth in 2005 in Argentina and Chile.
- (3) Represents total number of customers of all companies in which we have an interest multiplied by our economic ownership interest in those companies.
- (4) Represents total pre-paid customers as a percentage of total customers at period-end.

**Proposed Merger with Telefónica, S.A.**

On March 29, 2006, the Board of Directors of Telefónica Móviles approved Telefónica S.A.'s proposed merger with Telefónica Móviles. The share swap equation of 4 Telefónica shares, each with a par value of one euro, for every 5 Telefónica Móviles shares or ADSs, each with a par value of 0.50 euros, determined on the basis of the real value of the net worth of the two companies, has also been approved by the Boards of Directors of both companies. The merger proposal is subject to approval by the shareholders at the Ordinary and Extraordinary General Shareholders' Meetings of both companies. If the merger is effected, Telefónica Móviles will be merged into Telefónica S.A. and will cease to exist as an independent corporate entity, with Telefónica acquiring all of the rights and obligations of Telefónica Móviles by universal succession. Accordingly, upon consummation of the merger, Telefónica Móviles's shares and ADSs will cease to be listed on the Spanish stock exchanges and the NYSE, respectively, and the registration of Telefónica Móviles's shares and ADSs with the Securities and Exchange Commission will be terminated.

Our Board of Directors, in the framework of the negotiation of the exchange ratio for the merger, also proposed for the approval of the General Shareholders' Meeting the payment of additional dividends in the amount of 0.085 per share chargeable against the issue premium reserve and other distributable reserves and an interim dividend of 0.35 per share against the results obtained from January 1 through March 28, 2006, which, when aggregated with the dividend proposed by the Board of Directors on February 27, 2006, totals 0.64 per share. The effectiveness of the distribution is subject to approval of the merger by the shareholders' meetings of both companies. Payment of the total dividend of 0.64 per share is expected to be made on July 21, 2006, before the merger of Telefónica and Telefónica Móviles is recorded with the Commercial Registry.

**Exchange Rate Information**

Spain's currency is the euro. For your convenience, we have translated some amounts denominated in euro appearing in this document into U.S. dollars. Unless otherwise stated, we have made these translations at U.S.\$1.1842 per euro, the noon buying rate for euros on December 30, 2005. The noon buying rate is the rate the Federal Reserve Bank of New York announces for customs purposes as the buying rate for foreign currencies.

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in the City of New York on a particular date. You should not construe any translations as a representation that the amounts could have been exchanged at the rate used on December 31, 2005 or any other date.

The noon buying rate for euros on December 31, 2005 may differ from the actual rates we used in the preparation of the financial information in this document. Accordingly, U.S. dollar amounts appearing in this document may differ from the actual U.S. dollar amounts that we originally translated into euros in the preparation of our financial statements. The Noon Buying Rate for the euro on April 6, 2006 was 1.00 = \$1.2216.

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

Year ended December 31,	Noon Buying Rate			
	Period End	Average(1)	High	Low
2001	0.8901	0.8909	0.9535	0.8370
2002	1.0485	0.9495	1.0485	0.8594
2003	1.2597	1.1411	1.2597	1.0361
2004	1.3538	1.2478	1.3625	1.1801
2005	1.1892	1.2400	1.3476	1.1667

Source: Federal Reserve Bank of New York.

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

Month ended	High	Low
October 31, 2005	1.2133	1.1914
November 30, 2005	1.2067	1.1667
December 31, 2005	1.2041	1.1699
January 31, 2005	1.2287	1.1980
February 28, 2006	1.2100	1.1860

Month ended	High	Low
March 31, 2006	1.2197	1.1886
April 30, 2005 (to April 6)	1.2272	1.2124

Source: Federal Reserve Bank of New York.

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

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Our ordinary shares are quoted on the Spanish stock exchanges in euro. Currency fluctuations may affect the dollar equivalent of the euro price of our shares listed on the Spanish stock exchanges and, as a result, the market price of our ADSs, which are listed on the New York Stock Exchange. Currency fluctuations may also affect the dollar amounts received by holders of ADSs on conversion by the Depositary of any cash dividends paid in euro on the underlying shares.

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

### **B. CAPITALIZATION AND INDEBTEDNESS**

Not applicable.

### **C. REASONS FOR THE OFFER AND USE OF PROCEEDS**

Not applicable.

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**D. RISK FACTORS**

**Risks Related to Our Business**

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

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

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

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

provide increased handset subsidies;

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

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

expand and enhance their networks faster.

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

We expect competition among wireless providers, including new entrants, to continue to drive prices for services and handsets lower. In addition, portability requirements, which enable customers to switch wireless providers without changing their wireless telephone numbers, have been introduced in some of the markets in which we operate and may be introduced in other markets in the future. All of these developments could lead to greater movement of customers among competitors, known as customer churn, which could increase our marketing, distribution and administrative costs, slow growth in customers and reduce revenues. Our market position will also depend on effective marketing initiatives and on our ability to anticipate and respond to various competitive factors affecting the industry, including new services, pricing strategies by competitors, changes in consumer preferences and economic, political and social conditions. Any material failure by us to compete effectively or any aggressive competitive behavior by our competitors in pricing their services or acquiring new customers would have a material adverse

effect on our revenues and overall results of operations.

In addition, we face competition from communications technologies that are under development or that will be developed in the future, including cordless technologies and private and shared radio networks. As a result of current trends in the telecommunications industry in Europe, such as the rapid convergence of technologies, we expect there to be further technological advances in the future. Failure to compete effectively could result in a decrease in our customers, revenues and profitability.

*The acquisition and integration of new operators may be costly, difficult and time consuming.*

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

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

The operation, expansion and upgrade of our networks, as well as the marketing and distribution of our services and products, require substantial financing. Achieving the minimum coverage requirements under our



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licenses could require additional financing. Any failure to satisfy our substantial liquidity and capital resource requirements would impede our ability to take advantage of promising but capital-intensive opportunities in our industry. In addition, our results of operations may be negatively affected if we are unable to upgrade our networks or respond to competitive initiatives of competitors that may be less capital-constrained.

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

Historically, we have relied, in large measure, on the Telefónica Group to satisfy our liquidity and capital resource requirements through loans and from time to time capital contributions. As of December 31, 2005, our total debt was 12,577.4 million, of which 9,824.5 million was owed to other members of the Telefónica Group. In the future, we may be required to incur additional indebtedness to support the ongoing development and expansion of our business. We plan to continue to rely upon Telefónica, S.A. and other Telefónica Group companies to satisfy most of these requirements. If Telefónica, S.A. or other members of the Telefónica Group are unable to provide us with funding, we may need to raise debt from other sources to support the ongoing development and expansion of our business.

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

higher debt-service costs that adversely affect our results of operations;

allocation of increasing amounts of cash flow for debt service;

increased difficulty in obtaining future financing;

reduction of any credit ratings issued by rating agencies in respect of any debt we may issue in the future;

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

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

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

As an element of our strategy, we have invested in and developed new wireless services, such as wireless internet and data services. In order for our customers to better access these services, we will need to upgrade our customer base with new handsets compatible for UMTS services in some countries and enabled with MMS, cameras, color screens, and other capabilities. The handsets needed to support these services may increase our cost base while demand for these data services and products may not materialize. We cannot assure you that demand for these services will be as high as expected, or that these initiatives will be profitable. If they are not, our growth could be impaired and we could lose our capital investments in these new services. These initiatives could fail for a number of reasons, such as technological developments or competitive factors. Our ability to introduce new services also depends on whether and on what terms new services are permitted by applicable regulations.

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

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

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

upgrade the functionality of our networks to permit increased customization of services;

fill in coverage gaps and increase capacity in some of our markets;

expand and maintain customer care, network management and administrative systems; and

upgrade our systems to maintain our competitiveness and adapt them to new technologies which become available.

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We cannot assure you that we will be able to execute successfully all of these tasks, many of which are not entirely under our control, on a timely basis or at all. If we fail to successfully execute these tasks, we also may be less attractive to new customers and lose existing customers to our competitors, which would adversely affect our revenues and overall results of operations.

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

Although we have not been materially affected by supply problems in the past, handsets and network infrastructure suppliers may, among other things, extend delivery times, raise prices and limit supply due to their own shortages and business requirements. If these suppliers fail to deliver products and services on a timely basis, or fail to develop and deliver to us handsets that satisfy our customers' demands, we could be negatively affected. Similarly, interruptions in the supply of telecommunications equipment for our networks could impede network development and expansion.

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

Some of our operations, such as Brasilcel, our co-managed joint venture with Portugal Telecom in Brazil, are conducted through joint ventures in which we do not have absolute control over the operations of the venture.

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

The particular corporate governance provisions affecting our companies vary from venture to venture, and often depend upon the size of our investment relative to that of other investors, our experience as a wireless operator compared to that of other investors and the preferences or requirements of foreign governments that local owners hold an interest in licensed telecommunications operators.

Portugal Telecom is currently the subject of a bid by Sonae Telecom, one of its competitors in Portugal. Portugal Telecom may change its strategy regarding its stake in Brasilcel in light of this bid.

*We face risks associated with litigation.*

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

**Risks Related to Our Organizational Structure**

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

In order to enhance our growth profile and enhance our position as one of the leading global wireless operators and achieving superior growth and profitability, we took several major initiatives during, 2003, 2004 and 2005. These initiatives and actions include, among others, the following:

the increase of our ownership interest in Telefónica Móviles, S.A. México (2005);

the increase of our ownership interest in Telefónica Móviles Peru, S.A. (2005);

the increase of our ownership interest in Telefónica Móviles El Salvador, S.A. (2005);

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the acquisition of BellSouth's wireless operations in Latin America (2004-2005);

the acquisition of 100% of Telefónica Móvil de Chile (2004);

the increase in our ownership interest in our Brazilian operations (2000-2005); and

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

All of these items will affect the comparability of our historical and future results of operations and financial condition. For further information on the items described above please see Item 5A. Operating Results Basis of Presentation Events Affecting Comparability of Historical and Future Results of Operations and Financial Condition. We anticipate that future results of operations and financial condition will be different from our results of operations and financial condition reflected in our Consolidated Financial Statements, after taking into account these developments and any other future material developments.

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

Telefónica, S.A. currently owns, directly or indirectly, approximately 92.5% of our shares and controls our company. As a result, Telefónica, S.A. has the power to determine the composition of our Board of Directors and to influence major business and corporate decisions, including, for example, extraordinary corporate transactions, strategic initiatives and dividend policy. Telefónica, S.A. also is able to direct our day-to-day management and operations.

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

We regularly enter into business transactions and contractual arrangements with companies in the Telefónica Group and plan to continue to do so. Although we believe that prior and existing transactions and arrangements have been fair to us in all material respects and that their terms have reflected market conditions, it is possible that in some instances we could have obtained better terms from third parties. In addition, Telefónica, S.A. engages in certain wireless activities through O<sub>2</sub> plc, a large, well-established United Kingdom-based wireless company, and Cesky Telcom, which operates principally in the Czech Republic. Neither of these companies are part of our group. We could face competition from these and other companies within the Telefónica Group that are not part of our company. Consequently, we could be impeded from pursuing some future business opportunities or obligated to pursue them in conjunction with other companies in the Telefónica Group. Because Telefónica, S.A. is a party to business transactions and contractual arrangements with our company and companies of the Telefónica Group are active in businesses that overlap with ours, there is potential for conflicts of interest between Telefónica, S.A. and its affiliates, on the one hand, and our company and subsidiaries, on the other, in circumstances where our interests and those of Telefónica, S.A. are not aligned.

*If Telefónica's merger proposal is approved at the Ordinary and Extraordinary General Shareholders' Meetings of both Telefónica Móviles, S.A. and Telefónica, S.A. and is subsequently effected, we will cease to exist as an independent corporate entity and our shareholders will receive Telefónica shares in consideration for their Telefónica Móviles shares and ADSs.*

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On March 29, 2006, our Board of Directors approved Telefónica, S.A.'s proposed merger with Telefónica Móviles. The share swap equation of 4 Telefónica shares, each with a par value of one euro, for every 5 Telefónica Móviles shares or ADSs, each with a par value of 0.50 euros was also approved by our Board. The merger proposal is subject to approval by the shareholders at the Ordinary and Extraordinary General Shareholders Meetings of both companies. If the merger is effected, Telefónica Móviles will be merged into Telefónica, S.A. and will cease to exist as an independent corporate entity, and our shareholders will receive Telefónica shares in consideration for their Telefónica Móviles shares and ADSs. Accordingly, upon consummation of the merger, our shares and ADSs will cease to be listed on the Spanish stock exchanges and the NYSE, respectively, and the registration of our shares and ADSs with the Securities and Exchange Commission will be terminated.

*We adopted new accounting standards in 2005 that impact our financial reporting.*

In 2004 we prepared our financial statements in accordance with Spanish GAAP, and prepared a reconciliation of certain items to U.S. GAAP as required by SEC regulation. Under current European Union law ( E.U. ), listed E.U. companies had to apply (IFRS) adopted by the E.U. from January 1, 2005 in preparing their consolidated financial statements and provide comparable information in respect of 2004.

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We have included herein in the Consolidated Financial Statements our consolidated financial statements prepared in accordance with IFRS for 2005, as we no longer prepare consolidated financial statements in accordance with Spanish GAAP. We also have included in the Consolidated Financial Statements our 2004 consolidated financial statements prepared in accordance with IFRS for comparison purposes. Neither of such financial statements are comparable to the Spanish GAAP financial statements prepared by us and included in our Annual Report on Form 20-F for the year ended December 31, 2004.

## **Risks Related to Our Industry**

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

The licensing, construction, operation and interconnection arrangements of wireless communications systems are regulated to varying degrees by national, state, regional or local and supra-national authorities, such as the European Union. These authorities could adopt regulations or take other actions that could adversely affect us and our companies. For instance, in March 2006, Commissioner Reding, of the European Union proposed new regulations designed to lower international roaming tariffs at both the wholesale and retail level. If such regulation were to be adopted by the European Council of Ministers it could adversely affect us and Telefónica Móviles España (our Spanish subsidiary).

Our operating companies require licenses or concessions from the governmental authorities of the countries in which they operate. These licenses and concessions specify the types of services permitted to be offered by our operating companies and the spectrum that may be utilized for these purposes. The continued existence and terms of our licenses and concessions are subject to review by regulatory authorities in each country and to interpretation, modification or termination by these authorities. The terms of our licenses and concessions generally range from 15 to 25 years. Although these licenses and concessions generally are renewable upon expiration, we cannot assure you that they will be renewed or that any renewal will be on acceptable terms.

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

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

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

*Our results have been and may continue to be affected in the medium or long term as a result of the new SMP rules in Brazil.*

In 2002, Anatel, the Brazilian telecommunications regulator, introduced a new mobile services licensing regime, or SMP, encouraging companies operating under the personal cellular services, or SMC system, to migrate to the SMP system. Under the SMP regime, Brasilcel's subsidiaries will no longer receive payment from its customers for outbound long distance traffic, but will receive payment for the use of its network, in accordance with the network usage remuneration plan. However, the interconnection fees that that Brasilcel's subsidiaries receive from long distance operators may not compensate Brasilcel for the revenues that it would have received from its customers for outbound long distance traffic.

Until June 30, 2004, SMP service providers could choose to establish a price cap or freely negotiate their interconnection charges. Currently, free negotiation has been the rule, subject to Anatel regulations relating to traffic capacity and requiring that interconnection infrastructure must be made available to requesting parties.



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In addition, under the SMP regime, an SMP mobile operator used to be required to pay for the use of another SMP mobile operator's network in the same registration area only if the traffic carried from the first operator to the second exceeds 55% of the total traffic exchanged between them. In that case, only those calls that surpassed the 55% level were to be subject to payment for network usage. As a result, if the traffic we terminate for other SMP operators exceeds the traffic they terminate for our company, our revenues and results of operations may be adversely affected. In 2005, for example, this regulatory change contributed to a decrease in our revenues from interconnection fees charged to other operators.

There have been discussions from time to time regarding possible amendments to these provisions, including the possible elimination of all payment for network usage between SMP networks. Our business, revenues and results of operations could be materially adversely affected by these and other aspects of the new SMP rules in Brazil.

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

Regulatory policies of many of the countries in which we operate generally favor increasing competition in the wireless services industry, including by granting new licenses in existing licensed territories in order to permit the entry of new competitors.

For instance, on February 2, 2006 the Telecommunications Market Commission issued new regulations with respect to market access to telecommunications networks in Spain. After finding that all Spanish mobile network operators collectively hold a dominant position in the wholesale market, the Telecommunications Market Commission has imposed the following obligations on mobile telephony operators:

an obligation to provide network access following a reasonable request by another mobile telephony operator; and

an obligation to offer reasonable prices for access to its networks.

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

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

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

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

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

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

Media and other reports have suggested that radio frequency emissions from wireless handsets and base stations may cause health problems. If consumers harbor health-related concerns, they may be discouraged from using wireless handsets. These concerns could have an adverse effect on the wireless communications industry and, possibly, expose wireless providers, including us, to litigation. Even if the authorized health institutions confirm there is no scientific evidence of adverse health effects, we cannot assure you that further medical research and studies will refute a link between the radio frequency emissions of wireless handsets and base stations and these health concerns. Government authorities could increase regulation of wireless handsets and base stations as a result of these health concerns or wireless companies, including us, could be held liable for costs or damages associated with these concerns, which could have an adverse effect on our business.

In Spain, for example, we have been required by law to test and certify the emissions of all our base stations in or close to populated areas. All the testing we were required to perform has again demonstrated that our base stations have lower emission levels than those required by regulations. If in the future we fail to comply fully with these standards, we could be subject to claims or regulatory actions.

## **Risks Related to Latin America**

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

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

significant governmental influence over local economies;

substantial fluctuations in economic growth;

historically high levels of inflation;

devaluation or depreciation, or over-valuation of local currencies;

exchange controls or restrictions on expatriation of earnings;

high domestic interest rates;

wage and price controls;

changes in governmental economic or tax policies;

imposition of trade barriers;

unexpected changes in governmental regulation;

social unrest; and

overall political and economic instability.

Many or all of these factors have occurred at various times in the last two decades in most Latin American markets. Adverse economic, political and social conditions in Latin America may have a material adverse effect on our results of operations and the market price for our ordinary shares or ADSs.

For example, our operations in Argentina were affected by the devaluation of the Argentine peso, the adverse macroeconomic conditions in Argentina and the related legislative measures adopted by the Argentine Government in past years.

Additionally, Telefónica Móviles Argentina, S.A. (formerly known as Telefónica Comunicaciones Personales) one of our subsidiaries in Argentina, currently has a negative net worth. Argentine law (Decree 214/2002, as extended) allowed companies to maintain this negative net worth until December 2005 without the need to establish a positive net worth. It is uncertain whether the government of Argentina will once again extend this exception beyond December 2005. However Telefónica Móviles Argentina is currently in a merger procedure with Compañía de Radiocomunicaciones Móviles, S.A., Radio Servicios, S.A. and Compañía de Teléfonos del Plata, S.A., all of which are members of the our group. As a consequence of the merger procedure (which shall include an increase of Telefónica Móviles Argentina share capital) Telefónica Móviles Argentina is expected to have a positive net worth. The merger is expected to occur in the fourth quarter of 2006. If this merger does not occur or the aforementioned exception fails to be extended and if Telefónica Comunicaciones Personales is not capitalized by Telefónica Móviles, either through increased capital or partial capitalization of intercompany loans, Telefónica Comunicaciones Personales could be subject to a dissolution proceeding by the Argentine authorities and could lose its license.

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*Latin American currencies have been subject to fluctuations, which could adversely affect revenues and expenses for our operations in this geographic region.*

Although our reporting currency is the euro, most of our revenues and expenses relating to our Latin American operations are denominated in local currencies. The currencies of many Latin American countries, have experienced substantial devaluations and volatility in recent years, and our revenues from customers will decline in value if the local currencies depreciate relative to the euro.

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

**Item 4. INFORMATION ON THE COMPANY**

**A. HISTORY AND DEVELOPMENT OF THE COMPANY**

**Background of Our Company**

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

We are a holding company that conducts its wireless operations through subsidiaries and investments in Spain, Morocco, and Latin America. We manage the wireless assets of the Telefónica Group in these regions. As of December 31, 2005 Telefónica, S.A., the parent company of the Telefónica Group, holds, directly and indirectly, 92.46% of our shares.

The following tables provide information for our principal acquisitions completed in 2003, 2004 and 2005.

**Acquisitions in 2003**

<u>Date</u>	<u>Company name</u>	<u>Initial%</u>	<u>Acquired%</u>	<u>Final%</u>	<u>Acquisition Price (thousands of euro)</u>
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Apr.	Tele Centro Oeste Celular Participações, S.A. (Brazil)		20.37	20.37	206,285
Jul.	Medi Telecom. (Morocco)	31.34	0.84	32.18	21,234
Oct.	Tele Centro Oeste Celular Participações, S.A. (Brazil)	20.37	8.50	28.87	73,827
Dec.	TCG Holdings, S.A. (Guatemala)	100.00		100.00	3,746

**Acquisitions in 2004**

<u>Date</u>	<u>Company name</u>	<u>Initial%</u>	<u>Acquired%</u>	<u>Final%</u>	<u>Acquisition Price (thousands of euro)</u>
Jul.	Telefónica Móvil de Chile, S.A.		100.00	100.00	869,898
Oct.	Otecel, S.A. (Ecuador)		100.00	100.00	663,428
Oct.	Telefónica Móviles y Compañía, S.C.A. (Guatemala)		100.00	100.00	92,538
Oct.	BellSouth Panamá, S.A.		99.57	99.57	549,275
Oct.	Telcel, S.A. (Venezuela)		100.00	100.00	1,223,984
Oct.	Telefónica Móviles Colombia, S.A.		100.00	100.00	517,456
Oct.	Comunicaciones Móviles del Perú, S.A.		99.85	99.85	7,697
Oct.	Telefonía Celular de Nicaragua, S.A.		100.00	100.00	148,742
Oct.	Abiatar, S.A. (Uruguay)		100.00	100.00	49,419

**Acquisitions in 2005**

<u>Date</u>	<u>Company name</u>	<u>Initial%</u>	<u>Acquired%</u>	<u>Final%</u>	<u>Acquisition Price (thousands of euro)</u>
Jan.	BellSouth Chile		100.00	100.00	317,561
Jan.	BellSouth Argentina		100.00	100.00	519,394
Nov.	Telefónica Móviles Argentina		2.07	100.00	1,987
Dec.	Telefónica Móviles México		8.00	100.00	177,274

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The following chart presents our corporate organization, including our principal operating companies and the companies in which we have non-controlling minority interests, as well as our ownership interests in these companies at December 31, 2005:

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**B. BUSINESS OVERVIEW**

**Overview**

Telefónica Móviles is a leading provider of wireless communications services in Spain and Latin America in terms of managed customers. Telefónica Móviles estimates, based on annual reports and press releases made public by our competitors and information from regulatory authorities, that it is one of the four largest global providers of wireless communication services based upon total managed customers at December 31, 2005. Managed customers include all customers from all operators in which it holds an economic interest, including TCO in Brazil since 2003, Telefónica Móvil de Chile since August 2004, the operators acquired from BellSouth in Colombia, Ecuador, Guatemala, Nicaragua, Panama, Peru, Uruguay and Venezuela since October 2004, and the operators acquired from BellSouth in Chile and Argentina since January 2005. Managed customer figures for 2004 and 2005 exclude Movistar Puerto Rico's customer base, following the termination of its management contract in September 2004. Telefónica Móviles offers a broad range of wireless services, including voice services, enhanced calling features, international roaming and wireless internet services.

At December 31, 2005, Telefónica Móviles provided wireless services through its operating companies and joint venture, to approximately 94.4 million managed customers in territories with a population of approximately 518 million. Telefónica Móviles has operations in Spain, Mexico, Peru, El Salvador, Guatemala, Venezuela, Colombia, Panama, Nicaragua, Ecuador, Uruguay, Argentina and Chile and, through its joint venture with Portugal Telecom, it also provides wireless communication services in Brazil. Telefónica Móviles also operates in Morocco where it has a 32.18% interest in Medi Telecom and currently appoints Medi Telecom's chief executive officer.

Its strategy is to focus on increasing its profitability and cash flow in the medium term by consolidating its competitive position in Spain and Latin America, introducing new services to promote usage, and optimizing its investments and operating efficiencies. It will also continue to analyze the possibility of selective acquisitions and strategic agreements that complement its business. Examples of such acquisitions that it has consummated in the past include acquisitions of: TCO in 2003, BellSouth's Latin American wireless operations in 2004 and 2005 and 100% of Telefónica Móvil de Chile in 2004. It believes that growth in its markets will be mainly driven by (i) increased customer usage of its wireless services, including both voice and data services, (ii) the introduction of new wireless data and internet services, and (iii) increased penetration rates in its Latin American markets.

Telefónica Móviles also has licenses to provide UMTS services in Switzerland through its wholly-owned subsidiaries, in Germany through its 57.2% interest in the Group 3G UMTS Holding GmbH consortium, or Group 3G, and in Italy through its 45.59% interest in the Ipse 2000 consortium. It has, however, restructured its operations in these countries.



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The following table provides a summary overview of its principal operating companies and those companies in which it has non-controlling minority interests.

**Year ended December 31, 2005**

Region	Country	Company	Population	Penetration	Total customers at December 31, 2005	Net Revenue from Operations
			(in millions)		(in millions)	(millions of euro)
<b>Spain</b>	<b>Spain</b>	<b>Telefónica Móviles España</b>	<b>44.6</b>	<b>96.6%</b>	<b>19.9</b>	<b>8,834.2</b>
<b>Brazil</b>	<b>Brazil</b>	<b>Brasilcel, N.V.(1)</b>	<b>136.5</b>	<b>49.2%</b>	<b>29.8</b>	<b>1,889.4</b>
<b>Northern Region</b>			<b>134.7</b>	<b>41.3%</b>	<b>9.2</b>	<b>1,264</b>
	Mexico	Telefónica Móviles México, S.A. de C.V.(2)	106.2	43.9%	6.4	
	Panama	Telefónica Móviles Panamá,(5)	3.2	53.5%	0.8	
	Nicaragua	Telefónica Celular de Nicaragua, S.A.(5)	5.8	19.1%	0.4	
	Guatemala	Telefónica Centroamérica Guatemala, and Telefónica Móviles y Compañía, S.C.A.(5)	12.6	31.4%	1.0	
	El Salvador	Telefónica Móviles El Salvador	6.9	32.8%	0.5	
<b>Andean Region</b>			<b>113.7</b>	<b>40.7%</b>	<b>17.5</b>	<b>2,837</b>
	Venezuela	Telcel, S.A.(5)	26.5	47.8%	6.2	
	Colombia	Telefónica Móviles Colombia, S.A.(5)	46.0	47.5%	6.0	
	Peru	Telefónica Móviles Peru(5)	28.0	20.0%	3.5	
	Ecuador	Otecel, S.A.(5)	13.2	46.9%	1.9	
<b>Southern Cone</b>			<b>57.9</b>	<b>58.1%</b>	<b>14.0</b>	<b>1,714</b>
	Argentina	TCP Argentina, and Radiocomunicaciones Móviles, S.A.(6)	39.1	54.4%	8.3	
	Chile	Telefónica Móvil de Chile(3), and Telefónica Móviles Chile(6)	15.5	72.5%	5.3	
	Uruguay	Abiatar, S.A.(5)	3.3	33.1%	0.4	
Morocco	Morocco	Medi Telecom(4)	31.0	40.0%	4.0	397

- (1) Jointly controlled and managed by Telefónica Móviles and Portugal Telecom. Through its 50% interest in Brasilcel, as of December 31, 2005, Telefónica Móviles indirectly holds 45.50% of Tele Sudeste(TDS), 33.2 % of Celular CRT (CRTPart), 25.35% of Tele Leste Celular (TBE), 33.05% of Telesp Celular Participações, S.A.(TCP) and 17.35% of Tele Centro Oeste Celular Participações, S.A.(TCO) Brasilcel is proportionally consolidated in our financial statements. For information on our ownership interest in Brasilcel, and its operators, please refer to our organizational structure found in Item 5.A. Operating Results Overview. As of March 26, 2006, following TCO's merger with TCP, and TSD's, TBE's and CRTPart's merger into TCP, only one company exists, which has changed its name to VIVO Participações S.A.
- (2) Telefónica Móviles México, S.A. de C.V. holds interests in 100% of Baja Celular Mexicano, 90.0% of Movitel del Noroeste, 100% of Telefónica Celular del Norte, 100% of Celular de Telefónica, S.A. de C.V. and 100% of Pegaso PCS. In December of 2005 we entered into a share exchange agreement with the Burillo Group whereby we acquired 8% of Telefónica Móviles Mexico, S.A. de C.V., increasing our holding to 100% of Telefónica Móviles Mexico. Through its 100.0% interest in Telefónica Móviles México, S.A. de C.V., as of December 31, 2005, Telefónica Móviles indirectly holds 100% of Baja Celular Mexicano, 90% of Movitel del Noroeste, 100% of Telefónica Celular del Norte, 100% of Celular de Telefónica, S.A. de C.V. and 100% of Pegaso PCS.
- (3) In July 2004, it acquired 100% of the shares of Telefónica Móvil de Chile, S.A., and it has been consolidated in its financial statements as from July 1, 2004. Net revenue from operations and operating profit before depreciation and amortization are provided for the last six months of fiscal year 2004. Ownership interests, population and total customers are presented at December 31, 2004.

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- (4) Jointly managed by Telefónica Móviles and Portugal Telecom. Each of Telefónica Móviles and Portugal Telecom has a 32.18% interest in Medi Telecom, and Telefónica Móviles appoints Medi Telecom's chief executive officer.
- (5) Acquired from BellSouth Corporation in October 2004 and consolidated in its financial statements as from November 1, 2004. Net revenue from operations and operating profit before depreciation and amortization are provided for the last two months of fiscal year 2004. Ownership interests, population and total customers are presented at December 31, 2004.
- (6) Acquired from BellSouth Corporation in October 2004 and consolidated in its financial statements as from January 1, 2005. Net revenue from operations and operating profit before depreciation and amortization are provided for the whole fiscal year 2005. Ownership interests, population and total customers are presented at December 31, 2005.

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### **Business Strategy**

The key elements of our strategy consist of the following:

*Maintain our market leadership position in Spain:* As the Spanish market continues to mature and competitive pressure intensifies, we are focused on preserving our leading position in the market, particularly in terms of revenue share. As part of our strategy we are developing new products and pricing schemes targeted at different customer segments to stimulate usage, increase customer retention and attract new customers in segments with high growth potential. In addition, we are leading the deployment of the UMTS in Spain, offering superior coverage than our competitors, with more than 5,000 UMTS base stations as of December 2005. We will also continue to leverage our customer loyalty programs to increase customer retention.

*Consolidate our competitive position in Latin America:* We seek to consolidate our strong competitive position in the growing Latin American market through our extensive presence in the region and our integrated management of operations in the area, leveraging our extensive managerial and operational experience.

Our acquisition of BellSouth's wireless operators in Latin America and Telefónica Móvil de Chile has allowed us to further consolidate our leadership position and strengthen our growth profile in Latin America. At December 31, 2005, we had approximately 70.5 million managed customers in 13 Latin American countries.

*Introduce new services to increase the usage of wireless services:* We will continue leading innovation in our markets to capture the high growth potential of wireless data services. We will continue launching new data services and applications aimed at different customer needs, such as MMS, video message, content downloads, location-based services, corporate services, (such as the launch of Oficin@ Movistar UMTS, ) and domotics. We aim to leverage our extensive experience and best practices to grow revenue from data services across our markets. The introduction of UMTS in Spain and 1XRTT EVDO and Edge in some of our markets in Latin America will enhance customer experience, while we will capitalize on our expertise in developing customized solutions to increase data usage in the corporate segment.

*Optimize capital expenditures and increase operating efficiency:* Our economies of scale allow us to better optimize our capital expenditures and operating expenses. In addition, the integrated management of our operations in Latin America and the promotion of our best practices among our operating companies will allow us to operate more efficiently, optimize investments and improve the time to market of our services.

*Analyze new projects:* We intend to evaluate the possibility of making selective acquisitions and forming selected strategic partnerships in order to improve our competitive position, such as our acquisition of TCO in 2003, our acquisition of 100% of BellSouth's interests in its Latin American wireless operations and our acquisition of 100% of Telefónica Móvil de Chile.

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

### **Services and Products**

Telefónica Móviles' operating companies offer a wide variety of wireless and related services and products to consumer and business customers. Although the services and products available vary from country to country, the following are our principal services and products:

*Wireless Voice Services.* Telefónica Móviles' principal service in all of its markets is wireless voice telephony, which has gained increased usage as a result of Telefónica Móviles' increased customer base and increased market penetration rates. Accordingly, Telefónica Móviles is also able to offer new services such as those detailed below.

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

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*Wireless Data and Internet Services.* Current data services offered include Short Messaging Services, or SMS, and Multimedia Messaging Services, or MMS, which allow customers to send messages with images, photographs and sounds. Customers may also receive selected information, such as news, sports scores and stock quotes. Telefónica Móviles also provides wireless connectivity and internet access. Through wireless internet access, its customers are able to send and receive e-mail, browse web pages, download games, purchase goods and services in m-commerce transactions and use our other data services. Technological advances, which include the development of GPRS, Edge, CDMA 1XRTT (code division multiple access, a broadband transmission system for wireless networks allowing for speeds of up to 144 Kbits/s), CDMA EVDO and UMTS, facilitate the development of these services by increasing the speed at which data is transmitted, and making it possible to expand the offer of services and reduce their cost. Telefónica Móviles also has the technology available to provide other wireless data services such as location-based services and telematics. Location-based services permit the precise location of the handset to be determined by our networks, which will permit users to receive and access information specific to such location. Telefónica Móviles believes that this technology will be widely used in fleet management, logistics and security monitoring. Telematics applications permit the delivery of data to machines, such as automobiles and vending machines.

*Corporate Services.* Telefónica Móviles provides business solutions, including wireless infrastructure in offices, private networking and portals for corporate customers that provide flexible on-line billing. Telefónica Móviles España offers corporate services through *Movistar Corporativo*, and other advanced solutions for data, developed for specific sectors. In addition, in 2004, Telefónica Móviles España launched *Oficin@Movistar UMTS*, the first third generation service offered in Spain by a mobile operator offering high-speed data transmission of up to 384 kbits/s.

*Roaming.* Telefónica Móviles has roaming agreements that allow its customers to use their handsets when they are outside of their service territories, including on an international basis. It has also implemented intelligent network technology using the CAMEL standard for its customers in Spain. This allows Telefónica Móviles customers to use their mobile telephones in European countries where a roaming agreement has been reached as if they were in their home country (for example, by not having to dial customary roaming prefixes). In Brazil, Mexico and Argentina, its roaming agreements allow its customers to make and receive calls throughout the national territories of these countries.

*Fixed Wireless.* In Argentina, Peru and Venezuela, we provide local fixed wireless service.

*Trunking and Paging.* In Spain and Guatemala, Telefónica Móviles provides digital wireless services for closed-user groups of clients and paging services.

*M-payment.* Through its subsidiary Telefónica Móviles España and together with Vodafone España, Amena and other financial institutions and processing companies, it has a 13.36% interest in Mobipay España, a company incorporated to develop micro-payments. Telefónica Móviles also has a 50% interest in Mobipay International, aimed at expediting payments through mobile phones in an international setting. Banco Bilbao Vizcaya Argentaria, S.A. is the other 50% shareholder.

**Telefónica Móviles Operations**

Telefónica Móviles operations currently are conducted in three distinct geographic areas:

Spain;

Morocco; and

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Latin America.

At December 31, 2005, Telefónica Móviles provided wireless services through its operating companies and joint venture, to approximately 94.4 million managed customers in territories with a population of approximately 518 million. Telefónica Móviles has operations in Spain, Mexico, Peru, El Salvador, Guatemala, Venezuela, Colombia, Panama, Nicaragua, Ecuador, Uruguay, Argentina and Chile and, through its joint venture with Portugal Telecom, it also provides wireless communication services in Brazil. Telefónica Móviles also operates in Morocco where it has a 32.18% interest in Medi Telecom and currently appoints Medi Telecom's chief executive officer.

The following section provides a description of the markets in which Telefónica Móviles operates.

In order to achieve critical mass of customers and to enhance efficiency, we manage our assets in Latin American in four large regions:

the Northern Region, which is managed from Mexico and includes both our Mexican subsidiary and our operations in Guatemala, El Salvador, Panama and Nicaragua;

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the Andean Region, which includes our operations in Venezuela, Colombia, Peru and Ecuador;

Brazil; and

the Southern Cone, which includes our operations in Argentina, Chile and Uruguay.

We believe that our larger scale, the regional integrated management of our operations in Latin America and the integration of the BellSouth mobile operators in 2004 and 2005 will lead to material savings in areas like handset and equipment procurement, infrastructure and IT systems sharing and advertising. An example of the integrated management of our operations by region is the launch in April 2005 of the Movistar brand as the single brand for all of our operations in the 13 Spanish-speaking markets in which we have a presence.

*Reported Information*

Telefónica Móviles provides information on total revenues for its fully consolidated operations and equity investments such as Medi Telecom. In Brazil, it provides information on a proportional basis to reflect the proportional consolidation of the joint venture. Telefónica Móviles provides information on total revenues for its fully consolidated operations and equity investments such as Medi Telecom. In Brazil, it provides information on a proportional basis to reflect the proportional consolidation of the joint venture.

Customer information on the wireless markets in which Telefónica Móviles operates, including its market share, are estimates that Telefónica Móviles has made based on annual reports and press releases made public by its competitors or information from local regulators in the respective markets.

*Spain*

Telefónica Móviles offers wireless services in Spain through Telefónica Móviles España, the leading wireless operator in Spain in terms of total number of customers at December 31, 2005. Telefónica Móviles España had approximately 20 million customers at December 31, 2005, representing an estimated 46% market share and 51% outgoing revenues market share. Telefónica Móviles España is a wholly-owned subsidiary and it is our most significant operating company, accounting for 53% of our consolidated net revenues from operations in 2005.

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

<b>Year ended December 31,</b>	
<b>2004</b>	<b>2005</b>

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Total net revenues from operations (euros in millions)	8,213	8,834
Total customers (in millions)(1)	19.0	19.9
Pre-paid customers (in millions)(1)	9.7	9.19
Population in service territory (in millions)	44	45

*Source: Telefónica Móviles.*

- (1) In July 2004, Telefónica Móviles España no longer counted 1.3 million inactive prepaid SIM cards in its reported customer base. This adjustment was made retroactively as of April 1, 2004 and all the operating metrics corresponding to 2004 have been calculated taking this adjustment into account.

Telefónica Móviles España has offered wireless services in Spain since 1982 with the launch of analog wireless services under the brand MoviLine (services discontinued in 2004). Digital wireless services, using GSM 900 MHz technology, were launched in 1995 under the MoviStar brand name, which has since become one of the most widely recognized brands in Spain. In January 1999, Telefónica Móviles España launched the GSM 1800 MHz service. In March 2000, having achieved the highest rating in the award process, Telefónica Móviles España was awarded a third generation wireless, or UMTS, license covering the Spanish national territory for 131 million. In June 2005, Telefónica Móviles España was granted a 4 MHz block for the provision of GSM mobile telephony services in the 900 MHz band.

### *Market*

With an estimated population of approximately 44 million people, Spain is the fifth largest wireless market in Western Europe with approximately 43 million wireless customers at December 31, 2005. This customer base represents a penetration rate of 97%. The penetration in the Spanish market grew 7.5 percentage points in 2005.



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The Spanish wireless market has shown growth as a result of a decline of wireless handset prices and per minute call rates, and the introduction of pre-paid tariffs. At December 31, 2005, Telefónica Móviles España had approximately 20 million customers. The number of contract customers totaled approximately 10.7 million, representing a 15.6% increase compared to 2004.

In an increasingly competitive market, with strong competition in number portability and pressure on pricing, including termination rate reductions, along with the potential entry of new competitors, we are focused on key initiatives to preserve our position as a leading mobile operator in the market, leading us to increase commercial efforts with measures including:

in-depth market segmentation, with a focus on customer value;

smart pricing to stimulate usage, launching segmented packages and innovative tariff options; and

leveraging UMTS to develop new services, deploying the network ahead of competitors.

### *Network and Technology*

Telefónica Móviles España's digital network in Spain is based upon the GSM/UMTS standard. The prevalence of the GSM standard, together with Telefónica Móviles España's international roaming agreements, enables its Movistar customers to make and receive calls throughout Western Europe and in almost 200 countries worldwide. Telefónica Móviles España's GSM/UMTS based network provides its customers with access to many of the most advanced wireless handsets and a full panoply of services and products.

In 2004 and 2005 Telefónica Móviles España invested in the aggregate approximately 1,356 million in building out and enhancing its networks in Spain and developing its technological platforms and information systems. At December 31, 2005, Telefónica Móviles España's GSM/GPRS digital network in Spain, which consisted of 115 switching centers and approximately 18,000 base stations, provided coverage to approximately 99% of the population. The amounts invested since 2002 until now, have been used to complete its GSM network in terms of coverage and capacity and to enhance the quality of its service, to permit more intensive use of its wireless services within buildings in an urban environment and to introduce new technologies. In addition, Telefónica Móviles España has continued to roll-out a high-quality UMTS network, with a focus on urban areas in 2005. At December 31, 2005, Telefónica Móviles España's UMTS network provided coverage in areas where 70% of the Spanish population resides, with 5,000 UMTS base stations installed.

The Spanish wireless market has been receptive to new wireless services, such as SMS, wireless internet and data services. Telefónica Móviles España has offered GPRS services, with higher speed data transmission than existing GSM networks, since 2001, and has also introduced UMTS commercial services since 2004. In addition, High Speed Downlink Packet Access ( HSDPA ) is expected to be introduced during 2006. MMS, which allows customers to send and receive messages combining color photographs and images with voice, sound, animation or text, have been offered by Telefónica Móviles España since 2002. Telefónica Móviles España remains committed to being a leader in technological innovation in Spain and to making the most innovative services available to its customers. The following new services and data applications were launched or developed in 2005:

Mundo Movistar (Movistar World) the first multi-country product and service distribution scheme was launched in December 2005. It complements Mi Favorito Internacional (My favorite international number) and Mis Cinco Internacional

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(My five international numbers) products already offered by the company. See Sales and Marketing . The Mundo Movistar service, which sets Telefónica Móviles España apart from competitors, allows customers to buy a handset and a prepaid card at any sales point in the Movistar network in Spain and have them available for pickup by a customer in Ecuador or Colombia the following day. Plans are to extend this service gradually to other markets in Latin America and Morocco;

Campaigns to reward customer loyalty to encourage greater commitment from our customers, through commercial initiatives such as Ya te llamo yo or the 100x1 promotions were launched in 2005;

Movistar desktop Blackberry Professional Mail and MS Corporativo were also launched in 2005, marketed to our corporate segment; and

In 2005, Telefónica Móviles also introduced new data transmission price schemes, with concepts similar to flat rate plans. We believe that these new price schemes are the most comprehensive and competitive offer in the data transmission market.

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In general, Telefónica Móviles España's strategy is to use a variety of suppliers based on the quality and rates of their services and products. In Spain, Ericsson, Motorola and Nokia have supplied the majority of Telefónica Móviles España's GSM and GPRS network. Ericsson and Siemens are supplying the infrastructure for UMTS.

### *Sales and Marketing*

Since Telefónica Móviles España began providing wireless services in Spain, its sales and marketing strategy has been to generate increased brand awareness, customer growth and increased revenues. Telefónica Móviles España utilizes all types of marketing channels, including television, radio, exterior signage, telemarketing, direct mail and internet advertising, moreover our web page [www.movistar.es](http://www.movistar.es) is one of the most visited webs in Spain. Telefónica Móviles España also sponsors several cultural and sporting events in order to increase its brand recognition.

For purposes of sales and distribution, Telefónica Móviles España divides the Spanish market into the consumer market and business market. At December 31, 2005, Telefónica Móviles España had 9,362 points of sale for the consumer market, including specialized and large retailers. In addition, Telefónica Móviles España uses approximately 118 points of sale that are owned by the Telefónica Group.

In the wireless business sector, Telefónica Móviles España uses its distributors to market to small and medium sized enterprises and uses its own corporate sales force to target large business customers. Telefónica Móviles España offers a variety of plans, ranging from volume discounts to specifically tailored service contracts. In 2005, Telefónica launched new enterprises plans.

Telefónica Móviles España offers several different pricing options for wireless services. At December 31, 2005 54% of Telefónica Móviles España's total customer base are contract customers, and the remainder are pre-paid (*MoviStar Activa*).

In 2005, Telefónica Móviles España continued to encourage customer migration from its pre-paid plans to its contract plans, in line with the process that started in March 2002, when the contract plans of Telefónica Móviles España shifted from a monthly fee to a minimum usage commitment. In 2005, prepaid to contract migrations were over one million, contributing to an improvement in the percentage of our contract customers to our total customers by 5 percentage points as of December 31, 2005 compared to December 31, 2004.

The tariffs and quality of services provided by Telefónica Móviles España, along with its success in encouraging migration to its contract plans, have led to improvement in the usage and spending patterns of its customers. Total traffic increased to 50 billion minutes in 2005, a 20.3% increase compared to 2004, in part as a result of the tariff plans: *Mi Favorito* (allowing customers to call, and send SMS and MMS to a preferred Movistar number for a reduced tariff) and *Mis Cinco* (marketed to groups and families, allowing customers to call, between five pre-selected Movistar numbers or four and one fixed number for a reduced rate). These tailored tariff strategies have been successful; more than 3.5 million customers have chosen these tariffs plans during 2005.

In addition, data and content services are becoming increasingly important methods by which wireless customers in Spain communicate.

*Customer Care*

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

We have developed loyalty programs implemented by Telefónica Móviles España for both our contract and pre-paid customers. The *MoviStar Plus* program, for example, offers contract customers the ability to exchange points earned based on monthly usage for new handsets. The *Estrena* Plan allows pre-paid customers to upgrade their handsets and benefit from special offers (attractive prices of handsets and free traffic). In 2005, there were over 4.5 million handset upgrades based on loyalty programs of Telefónica Móviles España.

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At December 31, 2005, Telefónica Móviles España call centers handled approximately 87 million calls in 2005. This was an important commercial channel for developing customer loyalty. For instance they handled more than 10% of the company's commercial activity, defined as new customers acquired plus migrations from prepaid cards to postpaid contracts plus handset upgrades.

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

Telefónica Móviles España provides e-business services designed for its large corporate customers including a portal with billing facilities that provides on-line billing customization to customers and distributors through the Hermes system, which provides up-to-date information on news, products and services catalogs, events and promotions. Telefónica Móviles España's average monthly customer churn rate was 1.8% for 2005.

### *Competition*

Telefónica Móviles España currently has two competitors in the Spanish market for wireless communications service: Vodafone España, a subsidiary of Vodafone PLC, and Retevisión Móvil S.A., which operates under the trade name *Amena*, and it was acquired by France Telecom during the second term of 2005.

### *Morocco*

Telefónica Móviles provides wireless services in Morocco through Medi Telecom, S.A., in which it holds a 32.18% interest and shares management responsibilities with Portugal Telecom, which also holds a 32.18% interest in Medi Telecom. Medi Telecom is also owned by local minority shareholders. Medi Telecom S.A. is one of two wireless operators in Morocco, with over 4 million customers at December 31, 2005. Medi Telecom commenced offering wireless services in Morocco in March 2000, eight months after it was awarded a GSM license covering the Moroccan national territory.

Telefónica Móviles España has entered into a shareholders' agreement with other shareholders of Medi Telecom under which it has the right to appoint the chief executive officer of Medi Telecom. In addition, as of April 2003, the sale or transfer of shares in Medi Telecom triggers a right of first refusal to the other non-transferring shareholder in two steps; firstly to the Technical Shareholders (Telefónica Móviles España and Portugal Telecom) and secondly to the remaining shareholders. In addition, the change of control in the direct or indirect shareholders of Medi Telecom (which specifically includes the acquisitions of such interest by a competitor of Telefónica, S.A. or Portugal Telecom) would entitle the non-affected shareholder to exercise a call option over Medi Telecom's shares owned by the party undergoing such change of control. The shareholders' agreement also requires specified majority votes to approve most corporate actions.

The following table presents, total net revenues and other statistical data relating to its investment in Medi Telecom:

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	Year ended December 31,	
	2004	2005
Total net revenues from operations (euro in millions)(1)	336	397
Total wireless customers (in millions)	2.73	4.02
Pre-paid customers (in millions)	2.62	3.87
Population in service territory (in millions)	31	31

*Source: Telefónica Móviles, except population data from Pyramid Research*

- (1) Medi Telecom has been consolidated pursuant to the equity method for each of the years ended December 31, 2004 and 2005. We held 32.18 % of Medi Telecom at year end December 31, 2004 and 2005.

*Market*

With a population of approximately 31 million people, Morocco had 12.3 million wireless customers at December 31, 2005 representing a penetration rate of 40%. Medi Telecom estimates that the Moroccan market grew 34% in 2005 when compared to 2004.

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### *Network and Technology*

Medi Telecom's network in Morocco is based upon the GSM standard. In 2004 and 2005, Medi Telecom invested a total of approximately 156 million in building out and enhancing its digital network in Morocco. Medi Telecom has been offering wireless internet since April 2001.

In 2005, Meditel has been awarded a fixed license in Morocco, and the company is rolling out a fixed network based on WiMax technology.

### *Sales and Marketing*

Medi Telecom's sales and marketing strategy has been to generate rapid customer growth. At December 31, 2005, approximately 96% of Medi Telecom's customers used pre-paid plans with the remainder using contract service.

### *Competition*

Medi Telecom is the second largest wireless company in Morocco in terms of customers. It currently competes with Maroc Telecom, the former state monopoly provider of all telecommunications services in Morocco.

### *Latin America*

Latin America is an attractive telecommunications market with a population of approximately 558 million people and a combined gross domestic product of approximately \$2.5 trillion in 2005. Since the introduction of wireless services in Latin America in the late 1980s, they have experienced significant growth. The average penetration rate in Latin America as a whole was 44% at December 31, 2005. The wireless services industry is focusing on increasing penetration and expanding the use of voice service, wireless internet services and wireless data transmission services, through the introduction of technologies such as GSM/GPRS, CDMA/CDMA 1XRTT, and CDMA EVDO.

### *Brazil*

Telefónica Móviles and Portugal Telecom are 50:50 shareholders in Brasilcel, N.V., or Brasilcel, a joint venture which combined Telefónica Móviles and Portugal Telecom's wireless businesses in Brazil. This joint venture is the leading wireless operator in Brazil in terms of total number of customers at December 31, 2005. At December 31, 2005, Brasilcel had a total of 29.8 million customers, of which 5.7 million were contract customers. Brasilcel had an estimated average share in its markets of operations of approximately 44.2% at December 31, 2005. All of the operating companies participating in the joint venture have been operating under the brand name Vivo since April 2003. The licensed areas of Brasilcel include 19 states in Brazil and its federal capital, with a population of approximately 136.5 million, and covering 85.5% of Brazil's gross domestic product.

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On February 22, 2006 the respective Shareholders Meetings of Telesp Celular Participações S.A. ( TCP ), Tele Centro Oeste Celular Participações S.A. ( TCO ), Tele Sudeste Celular Participações S.A. ( TSD ), Tele Leste Celular Participações, S.A. ( TBE ) and Celular CRT Participações S.A. ( CRTPart ) approved the merger of shares of TCO in order to convert it into a wholly owned subsidiary of TCP; and the merger of the companies TSD, TBE and CRT Part into TCP. As of March 2006, TCP was the sole surviving company of these mergers, and it subsequently changed its name to VIVO Participações S.A. Pursuant to the merger, Brasilcel and its subsidiaries now hold 89.04% of VIVO Participações S.A.'s common shares and 47.53% of VIVO Participações S.A.'s preferred shares.

The following table shows the different states where service is provided by Brasilcel's operators in 2005:

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



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The following table presents, net revenues and other statistical data relating to our operations in Brazil:

	Year ended December 31,	
	2004	2005
Net revenues from operations (euro in millions)(1)	1,502	1,889
Population in service territory (in millions)	131.5	136.5
Total customers (in millions)(2)	26.5	29.8
Pre-paid customers (in millions)(2)	21.4	24.1

(1) Net revenues for the fiscal years 2004 and 2005 reflect the proportional consolidation of our 50% interest in Brasilcel, including TCO from May 2003.

(2) Total customers and pre-paid customers in 2004 and 2005 reflect the customers of Brasilcel.

*Source: Telefónica Móviles, except population data from Pyramid Research*

*Market*

Brazil is one of the largest countries in the world, with a surface area of 8.5 square million kilometers and a population of approximately 185.5 million people. At December 31, 2005, with 86.2 million wireless subscribers, Brazil ranked first in Latin America in terms of number of wireless customers. At December 31, 2005, Brazil had an estimated market penetration rate of 46.6% and of 49.2% in the areas where Vivo operates. The Brazilian market has experienced a 29% increase in the number of wireless customers in 2005 as compared to 2004 and of 29% in the areas where Vivo operates. The States of São Paulo, Paraná, Santa Catarina, Bahia and Sergipe and the region of Centro Oeste represented the greatest increase in the number of wireless customers.

*Network and Technology*

The licenses granted to the companies integrated in Brasilcel allow operations over the CDMA, CDMA 1XRTT, CDMA EVDO and TDMA systems. Vivo offers both analog and digital services in the band of 800 MHz. CDMA 1XRTT is a broadband transmission system for wireless networks allowing for speeds of up to 144 Kbits/s. In 2004, Vivo launched CDMA EVDO, a technology that increases data capabilities allowing speeds of up to 2.4 Mbits/s (40 times faster than fixed connections and almost 10 times faster than broadband access in Brazil). TDMA, or time division multiple access, is a digital mobile phone technology that allows several calls to share a single channel without interfering with one another.

The Vivo companies that offered services in CDMA networks (Telesp Celular, Tele Sudeste Celular, Global Telecom and Tele Leste Celular) are upgrading their networks by adding CDMA 1XRTT and CDMA EVDO, and the companies which offered services based on TDMA networks (Celular CRT and TCO) are selectively overlaying CDMA 1XRTT and CDMA EVDO.

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In 2004 and 2005, there was a significant increase of CDMA 1XRTT coverage in Vivo's areas of operations. In 2004, the growth trend in the usage of data services was assisted by the increase in SMS and data enabled handsets. Vivo continued to lead the development and innovation of data services in Brazil, exploiting the competitive advantage of its CDMA 1XRTT and CDMA EVDO networks. With CDMA EVDO technology, Vivo now offers a range of 3G data transmission services in Brazil, such as Vivo Zap3G (providing secure connections to the Internet, corporate networks or the Intranet) or Video 3G (for downloading streaming videos and television content onto a 3G-enabled mobile telephone).

Of Vivo's investment in the development of the networks of its companies in Brazil in 2004 and 2005, approximately 677 million were attributable to Telefónica Móviles as a proportion of the total investment corresponding to its interest in the Brasilcel entities.

### *Sales and Marketing*

The consolidation of the different brands of the Brasilcel joint venture into the Vivo brand in 2003, enabled Vivo companies to develop and operate under a unified commercial strategy.

In the context of a rapidly expanding market, with increased competitive pressure from all operators, Vivo has maintained its leadership position.

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Participation in loyalty programs that were established for both contract and prepaid customers in 2003 grew during 2004. Under these programs, contract customers accrue the right to a handset upgrade based on the revenues that the customers generate. Additionally, prepaid clients have access to modern handsets at a competitive price and enjoy special promotions to migrate to a contract.

Vivo is actively managing its distribution channels, which consisted of 8,282 points of sale at December 31, 2005. Additionally, Vivo prepaid customers were provided access to a wide range of recharge points. Credit recharges can also be made by electronic transfers through the commercial banking network.

As of December 31, 2005, approximately 19% of Vivo's customers were contract clients and the remaining 81% were prepaid customers.

*Competition*

Brasilcel is the leading wireless operator in Brazil in terms of number of customers at December 31, 2005. The growth of the Brazilian market has been considerable during the past years while being accompanied by an increase in competition due to the introduction of new competitors in the regions in which Brasilcel operates. Its major competitors are subsidiaries of Telecom Italia Mobile, America Móvil, Brazil Telecom and Telemar.

*Northern Region*

The Northern Region includes the operations in Mexico, El Salvador, Guatemala, Panama and Nicaragua. This region is the second largest region in Latin America with a population of approximately 135 million. This area is an emerging wireless market with approximately 56 million customers at December 31, 2005, representing a penetration of approximately 41%. Telefónica Móviles has an estimated market share in the Northern Region of approximately 16.2% at December 31, 2005, or 29.4% in the Northern Region excluding Mexico, its most significant component. Mexico represents 79% of the Northern Region's population and 62% of its revenue.

The following table presents, the total net revenues and other statistical data related to the operations of the Northern Region.

	<u>At December 31,</u>	
	<u>2004</u>	<u>2005</u>
Total net revenues from operations (euro in millions)(1)	912.3	1,263.6
Total customers (in millions)	7.7	9.2
Pre-paid customers (in millions)	7.0	8.4
Fixed Wireless (in millions)	0.136	0.146
Population in service territory (in millions)	132.8	134.7

*Source: Telefónica Móviles, except for population data from Pyramid Research*

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- (1) The year over year comparison is affected by the incorporation of the operators acquired from BellSouth in Guatemala, Panama and Nicaragua in November 2004.

### *Network and Technology*

Telefónica Móviles Mexico offers both analog and digital networks. Its digital networks are based upon the CDMA and GSM standard.

The roll-out of Telefónica Móviles Mexico's GSM network on a nationwide basis started in 2003 and continued during 2004 and 2005, covering approximately 50,000 villages and geographic areas representing approximately 90% of the urban population. Telefónica Móviles México has 88% of its customers in its GSM network at the end of December 2005.

The rest of the operators in the region had networks based upon the CDMA or TDMA standards, and during 2004 and 2005, they have been rolling out networks on the GSM standard.

In Guatemala, Telefónica Centroamérica Guatemala operates a digital network, which is based upon the CDMA standard, CDMA EVDO and GSM standard. During 2005 Telefónica Centroamérica Guatemala continued the roll-out of its GSM network which began in 2004. At the end of the year, the 43.3% of its customers are in its GSM network.

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The digital network of Telefónica Móviles El Salvador is based upon the CDMA and GSM standards. The roll-out of its GSM network began in 2005 and at the end of 2005 GSM customers comprise 59% of total base.

The digital network of Telefónica Móviles Panamá is based upon the TDMA, CDMA, CDMA EVDO and GSM standards. The roll-out of its GSM network began in 2005, and GSM customers represented 15% of the total customers at the end of the year 2005.

The digital network of Telefónica Móviles Nicaragua is based upon the TDMA, CDMA, CDMA EVDO and GSM standards. The roll-out of its GSM network began in 2005, and GSM customers represented 14% of the total customers at the end of the year 2005.

Telefónica Móviles has invested in the Northern Region a total of 737 million during 2004 and 2005, 88% of which has been invested in México principally to roll-out its GSM network.

### *Sales and Marketing*

These operations use a broad range of marketing channels, including television, radio, billboards, telemarketing, direct mail and internet advertising to market its products.

At December 31, 2005 approximately 6% of Northern Region customers were contract customers, while 94% were prepaid customers.

In order to improve the quality and efficiency of our distribution channel in Mexico, during 2005 we began to rationalize our distribution channel based on performance criteria, signing new agreements with larger and more financially-sound retailers and local entrepreneurs.

### *Competition*

Telefónica Móviles is the second largest wireless operator in Mexico, El Salvador, Nicaragua and Panama in terms of total number of customers at December 31, 2005. It is the third largest operator in Guatemala in terms of total number of customers at such date.

Telefónica Móviles México competes with various operators at a national level. Telefónica Móviles Mexico's principal competitor is Telcel, a subsidiary of América Móvil. Its other significant competitors are Iusacell, Unefon and Nextel.

In Guatemala, we currently have two competitors: Telgua and Comcel.

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Telefónica Móviles El Salvador currently competes in the El Salvador market for wireless communications service with Telemóvil, Personal (owned by América Móvil) and Digicel.

Telefónica Móviles Panamá currently has only one competitor, Cable & Wireless Móvil (owned by the Panamanian Government and by Cable & Wireless, PLC.)

Currently, Telefónica Móviles Nicaragua competes with Enitel, owned by America Móvil, which was granted licenses in 2002 to operate digital wireless services in Nicaragua.

### *Andean Region*

The Andean Region includes the operations in Venezuela, Colombia, Peru and Ecuador. The market in this region has increased by 75% compared to previous year, representing the largest market increase among the regions in which Telefónica Móviles operates. At December 31, 2005, the wireless market in the region had approximately 46 million customers and Telefónica Móviles had an estimated market share in this area of approximately 36.4%. Telefónica Móviles is the leading wireless operator in terms of total number of customers at December 31, 2005 in Venezuela and Peru and the second largest operator in Colombia and Ecuador.

The Colombian wireless market showed the strongest growth in the region in 2005, with an increase of almost 25 percentage points in the estimated penetration rate to 48% in December 2005.

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The following table presents, the total net revenues and other statistical data related to the operations of the Andean Region.

	<u>At December 31,</u>	
	<u>2004</u>	<u>2005</u>
Total net revenues from operations (euro in millions)(1)	608	2,837
Total customers (in millions)	11.6	17.5
Pre-paid customers (in millions)	9.1	14.2
Fixed wireless (in millions)	0.57	0.68
Population in service territory (in millions)	112	114

*Source: Telefónica Móviles, except for population data from Pyramid Research*

- (1) The comparability of 2005 data and 2004 data is affected by the incorporation of the operators acquired from BellSouth in Venezuela, Colombia, Peru and Ecuador in November 2004.

*Network and Technology*

In Venezuela, Telefónica Móviles Venezuela operates both digital and analog networks. Its digital network is based on CDMA standard and its analog network is based on N-AMPS. Close to 100% of its customers in Venezuela are based on CDMA. During 2005, the company launched a new technology, 1X EVDO CDMA, which improves and allows higher speed data transmission services and capacity.

Telefónica Móviles Colombia operates digital networks based upon the GSM (launched in July 2005), CDMA 1XRTT and TDMA standards. At December 31, 2005, GSM customers represented 27% of the total customers.

Telefónica Móviles Perú operates both analog and digital networks. Its digital network is based upon the CDMA/CDMA 1XRTT standard. At the end of 2005, Telefónica Móviles Perú started rolling out its GSM network, and the GSM services were launched as of February 2006.

Telefónica Móviles Ecuador operates digital networks based upon the GSM (launched in September 2005), and CDMA 1XRTT. At December 31, 2005, the GSM customers represented 9% of total customers.

Telefónica Móviles has invested a total of 616 million in the Andean Region during 2004 and 2005.

*Sales and Marketing*

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Telefónica Móviles operating companies in these countries use a broad range of marketing channels, including television, radio, billboards, telemarketing, direct mail and internet advertising to market their products.

At December 31, 2005, approximately 17% of the Andean Region customers were contract customers, while approximately 78% were prepaid customers. The rest of the customers were fixed-wireless customers.

### *Competition*

Telefónica Móviles is the leading wireless operator in terms of total number of customers at December 31, 2005 in Venezuela and Peru. It is the second largest wireless operator in Colombia and Ecuador in terms of total number of customers at such date.

The major market competitors in Venezuela are Movilnet, which is a wireless services communication provider that uses CDMA and TDMA technology, and Digitel TIM, based on GSM technology (recently acquired by Mr. Oswaldo Cisneros). Movilnet is the mobile division of CANTV, the main fixed line operator. Telmex and América Móvil recently agreed to purchase a 28.5% stake in CANTV.

Telefónica Móviles Colombia currently has two competitors in the Colombian market for wireless communications services: Comcel, which belongs to América Móvil and Colombia Móvil whose brand is Ola, which obtained a PCS license in 2003 and is a joint venture of the two largest Phone Companies of the main cities, Bogota and Medellin.



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Telefónica Móviles Peru currently has two competitors in the Peruvian market for wireless communications service: América Móvil and Nextel Peru.

Telefónica Móviles Ecuador currently has two competitors in the Ecuadorian market for wireless communications services: America Movil and Alegro, which belongs to fix public operators.

***Southern Cone***

The Southern Region includes the operations in Chile, Argentina and Uruguay. At the end of December 31, 2005 the wireless market had approximately 34 million customers and Telefónica Móviles had an estimated market share of approximately 41.2% in the region.

The penetration has reached 58.1% of the total population in the region, at December 31, 2005. It is the region with the highest penetration rates in Latin America and it experienced a 15 percentage point increase in penetration rates in 2005.

Telefónica Móviles is the leading wireless operator in terms of total number of customers at December 31, 2005 in Argentina and Chile, and the second largest operator in Uruguay.

The following table presents, the total net revenues and other statistical data related to the operations of the Southern Cone.

	<b>At December 31,</b>	
	<b>2004</b>	<b>2005</b>
Total net revenues from operations (euro in millions)(1)	530	1,714.1
Total customers (in millions)	6.9	14.0
Pre-paid customers (in millions)	5.1	9.8
Fixed wireless (in millions)	0	0.2
Population in service territory (in millions)	54	57.9

*Source: Telefónica Móviles, except for population data from Pyramid Research*

(1) The comparability of 2005 data and 2004 data is affected by the incorporation of the operators acquired from BellSouth in Uruguay in November 2004, and in Argentina and Chile in January 2005.

*Network and Technology*

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In Argentina we operate both analog and digital networks. Its digital network is based upon the TDMA standard and the GSM standard. At December 31, 2005, GSM customers represented 51% of the total customers.

Telefónica Móvil de Chile operates both TDMA and GSM networks. GSM customers represented 51% of total customer base as of December 31, 2005.

In Uruguay we operate both analog and digital networks. Its digital network is based upon the GSM (launched in April 2005) and CDMA standards. At December 31, 2005, GSM customers represented approximately 40% of total customers.

Telefónica Móviles has invested a total of 515 million in the Southern Region during 2004 and 2005.

### *Sales and Marketing*

These countries use of a broad range of marketing channels, including television, radio, billboards, telemarketing, direct mail and internet advertising to market its products.

At December 31, 2005 approximately 26% of Southern Region customers were contract customers, while approximately 74% were prepaid customers.

### *Competition*

The operators in Argentina currently have three competitors in the Argentine market for wireless communications service, each of which provides services on a nationwide basis: Telecom Personal, which is controlled by Telecom Italia through Telecom Argentina, CTI Móvil (controlled by América Móvil) and Nextel, owned by NII Holdings Inc.

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The operators in Chile currently have two competitors in the Chilean market for wireless communications service, each of which provides services on a nationwide basis: Entel, which is controlled by a domestic group (Sociedad Almendral: Grupo Hurtado Vicuña Fernandez) and Smartcom (which is controlled by América Móvil).

The operators in Uruguay currently have two competitors in the Uruguay market for wireless communications service, each of which provides services on a nationwide basis: Ancel, which is a state-owned company and CTI (controlled by América Móvil).

## **Wireless Internet and Data Initiatives**

### ***Wireless Internet and Data***

We believe that the convergence of data communications and voice communications represents an important opportunity to increase revenue in the mobile communications sector. An important component of our strategy is broadening uses of wireless communications, currently dominated by voice services, to include more widespread use of wireless internet and data services.

Telefónica Móviles España's revenues from data services have increased to 1,030 million in 2005. This increase is primarily due to the increased use of other data services (downloads, browsing, data transmission, MMS and content SMS) in addition to traditional person to person SMS usage. Revenues from non traditional person to person SMS have increased by approximately 9 percentage points in 2005 to 38% of total data revenues.

We expect that the contribution of wireless internet and data services to our revenues will increase significantly as technology and services improve and are made more accessible and user-friendly to mass-market consumers and business customers in each market in which we operate. The availability of compatible handsets at attractive prices will be key to achieving this development.

We offer our clients a wide range of data services that we seek to continuously improve. Current data services offered include short messaging services, or SMS, Multimedia Messaging Services, or MMS, which allows customers to send messages with images, photographs and sounds. Customers may also receive selected information, such as news, sports scores and stock quotes. We also provide wireless connectivity and internet access.

In June 2000, we launched *MoviStar e-moción*, our wireless internet service provider in Spain. Most of our operating companies have launched MoviStar e-moción or similar services under different brands.

We are focusing on consolidating our position in the corporate segment with a view to marketing and introducing new wireless data services and applications. Although internet access services are still in an early phase of development, it is anticipated that demand in the corporate segment will increase as the download speeds increase, through further development of our networks.

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We have been offering GPRS services in Spain since 2001 with the same coverage as our GSM network. In 2004 Telefónica Móviles España launched its UMTS services, offering high-speed data transmission up to 384 kbits/s. In addition to video calls (seeing and speaking via mobile phone), customers are also able to download high quality videos to their telephone screens.

In 2005 Telefónica Móviles España made first demonstrations of HSDPA technology in a real environment. HSDPA is the new version of the UMTS standard, which will enable wireless data transmission speeds of up to 14 Megabytes per second. HSDPA will mean a substantial improvement in our service offering, facilitating high resolution interactive video games, video and music downloads of DVD quality and downloads of e-mails with attachments, among other services.

In other markets such as Brazil and Venezuela we have already launched high speed data services based on technologies such as CDMA 1XRTT and EV-DO. Another step forward in our strategy of providing the most advanced services to all our clients was the signature in 2005 of an agreement with RIM to offer BlackBerry® services, which allow real-time management of e-mail in mobility, in Argentina, Brazil, Chile, Colombia, Ecuador, Guatemala, El Salvador, Nicaragua, Panama, Peru, Mexico, Uruguay and Venezuela. This agreement will enable our subsidiaries to offer their customers the latest BlackBerry handsets at competitive prices, based on networks in their respective countries which provide the fastest data transmission speeds.

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### *M-Payment*

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

### **Capital Expenditures and Divestitures**

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

### **Public Takeover Offers**

In October 2004, Brasilcel completed voluntary tender offers for outstanding public holdings of Tele Sudeste Celular Participações, S.A., Tele Leste Celular Participações, S.A. and Celular CRT Participações, S.A., bringing Brasilcel's holdings in these companies to 90.9%, 50.6% and 67.0%, respectively. Additionally, in October 2004, Telesp Celular Participações, S.A. (TCP), a company controlled by Brasilcel, increased its participation in Tele Centro Oeste Celular Participações, S.A. (TCO) to 50.6% through the acquisition of a 32.8% interest in TCO's preferred shares. In addition, TCP's Board of Directors approved an increase in its share capital of approximately R\$2.1 billion, which was effected in January 2005. The proceeds raised were used in part to finance TCP's increased stake in TCO and the remainder has been used to partially repay short-term debt and improve TCP's capital structure. Through this transaction Brasilcel's stake in TCP's share capital increased to 65.7%.

In April 2005, Telefónica Móviles launched a tender offer for the 0.15% of Comunicaciones Móviles del Perú shares held by minority shareholders. At April 2005, Telefónica Móviles held directly and indirectly a 99.85% stake in Comunicaciones Móviles del Perú. The tender offer ended in May 2005. Telefónica Móviles acquired an additional 0.04% of Comunicaciones Móviles del Perú's outstanding shares for US\$9 thousand, increasing Telefónica Móviles's stake in Comunicaciones Móviles del Perú to 99.89%.

In May 2005, TES Holding, S.A., a wholly-owned subsidiary of Telefónica Móviles launched a tender offer for 3.8% of Telefónica Móviles El Salvador, S.A.'s outstanding shares. Following purchases made from local pension funds and completion of the tender offer, TES Holding held a 99.03% stake in Telefónica Móviles El Salvador. Telefónica Móviles El Salvador, S.A. was delisted from the Salvadorian Stock Exchange on July 19, 2005.

In October 2004, Telefónica Móviles launched a tender offer for 100% of Multiholding Corporation. This company owned directly or indirectly 56.32% of Telefónica Móviles Panamá, S.A.'s outstanding shares. The tender offer ended in November 2004. Telefónica Móviles acquired 99.23% of Multiholding Corporation pursuant to the tender offer.

### **Patents, Licenses and Other Intellectual Property**

We own trademarks registered in various jurisdictions which are assets of great value to our Spanish and international activities. We use **movistar** as the global trademark for the products and services of the Telefónica Móviles Group to convey an image of reliability and quality of service and to boost customer loyalty. Another important trademark is **e-moción**, which is being used for mobile internet services in Spain. We also hold a non-exclusive license on a group of trademarks and trademark applications, including Telefónica MoviStar e-moción, Telefónica Móviles and Telefónica Móviles España, awarded by Telefónica, S.A.

The Group also owns patents throughout the world and various domain names, such as [telefonicamovistar.com](http://telefonicamovistar.com), [telefonicamoviles.com](http://telefonicamoviles.com) and [e-mocion.com](http://e-mocion.com).

## **Regulation**

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

We typically require licenses or concessions from the governments of the countries in which we operate. These licenses and concessions specify the types of services permitted to be offered by us and the conditions

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under which we may use the spectrum. The terms of our licenses and concessions are subject to review, and to interpretation, modification or revocation, by regulatory authorities in each country.

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

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

### *Spain*

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

The General Telecommunications Law (Law 11/1998 of the 24th of April of 1998) superseded the prior Law on Telecommunications of 1987 with respect to the provision of telecommunications services and the installation and exploitation of telecommunication networks. Subsequently, a new General Telecommunications Law was enacted (Law 32/2003 of November 3, 2003) that superseded the General Telecommunications Law of 1998. This new Law implements the new European regulatory framework for Electronic Communications into Spanish law.

### *Spanish Regulatory Authorities*

The following governmental regulatory authorities oversee the Spanish telecommunications industry:

the Commission for the Telecommunications Market (CMT);

the Government Commission for Economic Affairs;

the Ministry of Industry, Tourism and Commerce, or MITC (formerly the Ministry of Science and Technology), and the Telecommunications and Information Society State Secretary, or SETSI, which reports to the MITC;

the Ministry of Economy; and

The Radiocommunications Agency.

*Licenses and Concessions*

Under the new General Telecommunications Law, anyone interested in exploiting a telecommunications network or providing an electronic communications service must notify the CMT prior to engaging in the activity. In turn, the CMT will register the telecommunications operator in the Operator Registry.

Under the new regulatory framework, all licenses and authorizations for the exploitation of telecommunications networks or for the provision of electronic communications services were extinguished once the new General Telecommunications Law came into force. However, in accordance with the first Transitory Disposition of the new General Telecommunications Law, the rights and obligations applicable to the individual licenses and general authorizations held by Telefónica Móviles España (TME) will remain valid. Consequently, TME must comply with the obligations established before new General Telecommunications Law (Law 32/2003) came into force.



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The acquisition of radio-electric spectrum rights, the right to occupy public and private property and numbering are governed by specific regulation subject to the principles established by the new General Telecommunications Law. Telefónica Móviles España holds the following authorizations for the use of spectrum on terms and conditions governed by the licenses previously granted.

<u>Spectrum rights</u>	<u>Duration</u>	<u>Ending Date</u>	<u>Extension Period</u>
GSM 900 (2x12)	15 years	February 3, 2010	5 years
GSM 900 (2x4)	15 years	June 6, 2020	5 years
DCS-1800 (1)	25 years	July 24, 2023	5 years
UMTS	20 years	April 18, 2020	10 years
Paging	20 years	April 24, 2020	10 years
(8) Analogic Trunking	20 years	June 2014	10 years
(4) Analogic Trunking	20 years	November 2016	10 years

(1) On November 29, 2002, the MITC completed the allocation of the DCS-1800 band. We received 2 x 24.8 MHz of spectrum.

Telefónica Móviles España used to hold licenses to provide analog mobile services and trunking services provided by TETRA technology. On December 19, 2003, SETSI issued a Resolution determining the conditions for extinguishing the provision of analog mobile services in the 900 MHz band (MoviLine) and established December 31, 2003 as the deadline for the cessation of such services. TME stopped providing analog mobile services on that date. Further, in January 2004, the Spanish Government accepted our request for the revocation of our TETRA license.

In June, 2005 Telefónica Móviles España won the first frequency block awarded by the Ministry for Industry, Tourism and Commerce in a tender to grant three concessions for the exclusive use of the public radio-electric spectrum for the provision of GSM mobile telephony services in the 900 MHz band. The first block grants Telefónica Móviles España the immediate and contiguous availability of an additional 2x4 MHz of spectrum (20 radio-electric channels), which will bring its spectrum to 2x16 Mhz in the GSM 900 band.

Telefónica Móviles España's licenses entitle it to a total of 48 MHz of spectrum in the 900 MHz band (2x16 Mhz for GSM services and 2x8 MHz for TRAC services) and 2x24.8 MHz of spectrum in the DCS 1800 MHz band. Under the terms of its UMTS license, Telefónica Móviles España is authorized to operate using two paired, or two-way, 15 MHz channels plus one unpaired, or one-way, 5 MHz channel.

The fact that we have been deemed by the CMT as a significant market power requires us to disclose our rates and product information to the Spanish regulatory authorities and the public and to keep separate accounts for each of our activities and services. Additional obligations under our licenses include the following:

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

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

<u>Technology</u>	<u>Year 2003</u> ( /MHz)	<u>Year 2004</u> ( /MHz)	<u>Year 2005</u> ( /MHz)
TACS/TRAC 1	631,908.18	296,685.89(1)	151,298.87
GSM	631,908.18	663,437.84	696,500.25
DCS-1800	505,643.32	530,750.31	557,219.71
UMTS	631,871.69	663,437.90	696,463.82

- (1) After the cessation of our analog service (MoviLine) on December 31st, 2003, these frequencies are exploited by Telefónica de España (Telefónica's fixed-line operating company in Spain) for providing the rural telephone cellular access system (TRAC), according to a specific agreement between both companies. Telefónica Móviles España must pay the annual fee for use of this spectrum.

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

to refrain from engaging in anti-competitive conduct;

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

to facilitate interconnection with the networks of other operators;

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

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

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

We were also required to provide bank guarantees totaling 1,100 million to secure commitments assumed in our UMTS license application. During 2003, Telefónica Móviles España commenced administrative proceedings to change the system of guarantees. This process was concluded through a statement issued by SETSI on July 28, 2003, which released the guarantees securing TME's commitments assumed under the UMTS license, after Telefónica Móviles España, S.A. had arranged, in the same month, a guarantee of 167.5 million with the Government Depository to secure compliance with the UMTS service commitments the first year from the date of commercial launch of the UMTS, in accordance with a new system of guarantees. On June 23, 2004, the Ministry of Industry, Tourism and Commerce, following a request by Telefónica Móviles España, issued an order modifying the commitments assumed by TME with regard to the exploitation of the UMTS service. Due to this modification, the amount of TME's guarantee securing the fulfillment of its commitments under the UMTS license the first year of service were reduced to 157.5 million and remained at that amount as of December 31, 2005.

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

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

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

Our individual licenses may be assigned or transferred subject to compliance with certain requirements.

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Our previous fixed-line license and our analog trunking and paging licenses impose additional obligations on us which we do not consider significant and we do not describe in this report.

We have also obtained general authorizations to provide data transmission services to the public in order to provide internet access and other related services through our network. We also obtained general authorizations to construct and operate private telephone networks for closed-user groups. These authorizations impose obligations and have other terms that are broadly similar to, but generally less stringent than, those imposed by our mobile service licenses.

Our three digital licenses (GSM 900, DCS 1800 and UMTS) also impose upon us, among other things, the following additional obligations:

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

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

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to interconnect our network with the network of our competitors.

*Foreign Ownership/Restrictions on Transfer of Ownership*

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

On May 13, 2003, the European Court of Justice ( ECJ ) ruled (in case C-463/00, European Communities Commission vs. The Kingdom of Spain), that the preliminary authorization rules (golden share) set forth in Law 5/1995, enacted on March 23, 1995 governing the necessary legal requirements regime for the transfer of the Spanish government holdings in certain public companies requiring prior governmental approval with respect to a limited number of fundamental corporate and control transactions affecting us, were no longer valid. In order to adapt Law 5/1995 to the ECJ s May 13, 2003 ruling, Law 5/1995 was modified by virtue of the twenty-fifth additional provision of Law 62/2003, dated December 31, 2003, governing certain tax, administrative and social matters. This regulation establishes a new post-closing notification model (which requires notice to be given to the Spanish government, which can then exercise a veto right), which, for the purposes of the Telefónica Group, is applicable until February 2007.

The post-closing notification requirements described in Law 5/1995 apply to us, Telefónica Móviles España, S.A.U., as well as to other Group Telefónica companies, and must be observed in the following transactions with regard to Telefónica Móviles Group:

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

Any transaction that would decrease Telefónica, S.A. s interest in us or our interest in our Spanish operating company to less than 50% or would otherwise result in a change of control;

Substitution of Telefónica Móviles España s business purpose;

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

A voluntary winding-up, spin-off or merger (most of these transactions must only be reported through a simple written communication, except where these transactions relate strategic assets specified in Law 5/1995, which will require the post-closing notification. Transactions between members of the Telefónica Group affecting strategic assets are exempt from the post-closing notification).

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

### *Rates*

Wireless operators are generally free to fix customer rates for the provision of services under the General Telecommunications Law. In accordance with the General Telecommunications Law, the Government Commission for Economic Affairs may prescribe temporary fixed, maximum and minimum rates, or criteria for establishing rates, based on actual costs of the services rendered and the degree of competition in the market. The Government Commission has not regulated rates of digital wireless services to date. The Ministry of Science and Technology was reviewing methods of promoting increased competition in the Spanish telecommunications market. The Ministry of Industry, Tourism and Commerce (which replaced the Ministry of Science and Technology in April 2004) may continue such review or make recommendations affecting the pricing of wireless services in Spain or other aspects of our business.

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### *Interconnection*

Spanish law requires public telecommunications networks to provide interconnection to other public telecommunications networks established in Spain, the terms of which must be specified in an interconnection agreement between the parties. Interconnection agreements are subject to Spanish government regulations, such as the Spanish Interconnection Decree of 1998, and to supervision and arbitration by the CMT. In March 2002, the European Union passed Directive 2002/19/EC (the Access and Interconnection Directive), which was implanted into Spanish legislation on December 10, 2004 (Decree 2296/2004).

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

Because we have been classified by the CMT as an operator with significant market power in the wireless communications and interconnection markets, we are required, among other obligations, to facilitate cost-oriented interconnection rates on a non-discriminatory and transparent basis and report to the Ministry of Economy and the Ministry of Industries, Tourism and Commerce regarding our compliance. On October 2005, the Telecommunications Market Commission established the average maximum price for Telefónica Móviles España interconnection termination service at approximately 0.11 per minute.

### *Other Provisions*

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

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

### *Virtual mobile operators*

Virtual mobile operators are mobile operators who do not own a network and who may provide mobile telephony service through access agreements with mobile operators who own existing networks.

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On February 2, 2006 the Telecommunications Market Commission issued a decision concerning the market for access and call origination on public mobile telecommunications networks in Spain.

The Commission has found that all Spanish mobile network operators, including Telefónica de España, do collectively hold a dominant position in the wholesale market. Consequently, the Telecommunications Market Commission has imposed the following obligations upon such Spanish mobile network operators:

an obligation to provide network access following a reasonable request by an access seeker; and

an obligation to offer reasonable prices for the access services requested.

Finally, the Telecommunications Market Commission will allow Spanish mobile network operators a reasonable period of time to reach access agreements with virtual mobile operators during commercial negotiations. If such negotiations are unsuccessful, the Commission will require Spanish mobile network operators and virtual mobile operators to reach such agreements under reasonable conditions.

### *EC regulation on roaming tariffs.*

On March 28, 2006, Commissioner Reding announced a proposal for a new regulation on international roaming tariffs. The Commissioner intends to base such regulation on Article 95 of the EC Treaty, pursuant to the approach followed in relation to the cross-border payment regulation in 2001.



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To assist with the preparation of this regulation, the Commission has sought public comment. The second public comment period opened on April 3, 2006 and is to end on April 28, 2006. The European Commission could adopt the proposal in June. If such regulation were to be adopted by the European Parliament and the European Council of Ministers, it would be immediately in effect in all 25 Member States without transposition into national law and could adversely affect us and our operations. See Item 3. Key Information, D. Risks Related to Our Industry We operate in a highly regulated industry and could become subject to more burdensome regulation, which could adversely affect our businesses.

## **European Union**

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

### *New Regulation of the Telecommunications Industry*

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

Significant Market Power. These laws must have been implemented in the national laws of each European Union member state by July 25, 2003. Spain finalized its implementation on October 16, 2003, with the approval by the Congress of the new General Telecommunications Law described above.

### *Legal Framework of European Operations*

We hold UMTS licenses in some other European countries. We have focused on achieving greater flexibility in respect of the obligations imposed by these licenses and in the management of spectrum rights.

We hold the following licenses in Europe:

#### *Telefónica Móviles' licenses in Germany (Quam)*

Group 3G, in which our company holds a 57.2% interest, was awarded, through Group 3G UMTS GmbH, one out of six telecommunications licenses granting the necessary frequency blocks for the operation of transmission lines for the provision of UMTS services in the territory of the

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Federal Republic of Germany. This license expires on December 31, 2021. The license allocation rules neither explicitly permit nor exclude an extension period upon expiration.

Under the UMTS license, Group 3G was allocated frequency packages of two paired, or two-way, 5 MHz channels and one unpaired, or one-way, 5 MHz channel. Group 3G can use these frequencies within the license territory, unless there is a need to coordinate with other users of the same or bordering frequencies. This license required that we provide UMTS services to 25% of the population in Germany by December 31, 2003 and 50% of the population by December 31, 2005. If these obligations are not met, the license may be suspended, changed or revoked by German authorities

In December 2004, the German regulator, RegTP, issued an order revoking Quam's UMTS license. In February 2005, Quam, Telefónica Móviles German operating company, appealed this decision and the appeal is still pending. The government has agreed to suspend the revocation of the license until the litigation process ends.

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

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### *Telefónica Móviles licenses in Italy (IPSE 2000)*

The Ipse 2000 consortium, in which our company directly and indirectly holds 45.6%, has been awarded one out of five UMTS licenses in Italy for a payment of 3,269 million, of which our pro-rata share is 1,491 million. In accordance with the license terms and conditions, our pro-rata share will be paid by us in 10 annual installments through 2010.

Under this license, Ipse 2000 has been allocated frequency packages of two paired, or two-way, 15 MHz channels. In addition, license awardees which were not operating formerly in Italy received 5 MHz of additional spectrum which has been returned by Ipse 2000. This license has certain minimum coverage requirements with respect to regional and provincial capitals which require performance by 2004 and 2007, respectively. If these obligations are not met, the license may be suspended, changed or revoked by the Italian authorities. This license expires on December 31, 2022 and may be extended, subject to the submission of a request six months prior to expiration, for additional twenty-year periods.

As of December 31, 2004, installments amounting to 16,010 thousand were paid for the UMTS license. Simultaneously with the payment of the license, and in order to avoid execution by the Italian Government on the UMTS guarantee issued to the Italian government (see Item 5.E. Off-Balance Sheet Arrangements Ipse 2000 (Italy) UMTS Guarantee ), Ipse paid an additional 104,324 thousand as pending installments for the additional 5 MHz of spectrum which was awarded to Ipse 2000, S.p.A. by the Italian Government for a total amount of 826,331 thousand and returned to the Italian Government, although this return is still being disputed between Ipse 2000, S.p.A. and the Italian Government.

On November 30, 2005, to avoid the Italian Government calling in the guarantee, Ipse 2000, S.p.A. paid 120,334 thousand representing a quarter of the outstanding balance owed as a deferred payment for the additional 5 MHz of spectrum awarded to Ipse 2000 S.p.A. by the Italian Government for an original total value of 826,331 thousand. On December 31, 2005, the payment balance was 601,672 thousand ( 335,452 thousand allocable to the Telefónica Móviles Group). This additional 5 MHz of spectrum was returned by Ipse 2000, S.p.A. and the validity of said return is currently being disputed by the Italian Government.

Additionally on January 31, 2006, the Italian Government notified Ipse 2000 S.p.A., of its decision to revoke the UMTS license granted in 2000. On March, 2006 Ipse 2000 S.p.A. appealed this revocation requesting additionally the reimbursement of losses and damages.

### *Telefónica Móviles licenses in Switzerland (3G Mobile)*

We have been awarded a UMTS license in Switzerland. Under this license, we will be allocated frequency packages of two paired, or two-way, 15 MHz channels and one unpaired, or one-way, 5 MHz channel within the designated frequency spectrum. By December 31, 2004, all UMTS operators in Switzerland had to cover 50% of the population of Switzerland. This license expires on December 31, 2016, and may be extended following the submission of a request to the Federal Communications Commission prior to December 31, 2014 for additional fifteen-year periods.

On September 1, 2004 the regulator BAKOM opened supervisory proceedings under Article 58 of the Telecommunications Law (FMG) to verify our compliance with coverage requirements. We have requested a modification of our UMTS license conditions. On January 21, 2005, the Swiss regulator announced that it would analyze 3GMobile's request to modify the conditions of its UMTS license and the Supervisory Proceedings simultaneously. The regulator's decision is still pending.

*Austria*

In November 2000, we were awarded a UMTS license in Austria for 117 million. In December 2003 we sold our Austrian subsidiary (and the related UMTS license) to mobilkom Austria for a total sale price of 13.6 million.

*Brazil*

The delivery of telecommunications services in Brazil is subject to regulation under the regulatory framework provided in the General Telecommunications Law enacted in July 1997. This law established an independent regulatory agency called the National Agency for Telecommunications, or ANATEL. Telecommunications services are also regulated by decrees issued by the President of Brazil and orders issued by

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the Ministry of Communication that are being replaced by new regulations issued by the National Agency for Telecommunications. Under this regulatory framework, telecommunications service providers may operate under concessions or authorizations that authorize them to provide specified services and which set forth certain obligations. Brazil, under the SMC regime, was divided into ten geographical regions for the purposes of wireless communications operations while under the SMP regime, Brazil is divided into three geographical regions. Companies seeking to offer wireless communications services in any one of those regions are required to apply for a license.

### *Brazilian Regulatory Authorities*

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

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

### *Licenses and Concessions*

On December 4, 2002, ANATEL authorized the contribution to Brasilcel, of the wireless assets in Brazil of both Portugal Telecom and Telefónica Móviles and allowed the migration of Brasilcel's operators to a new licensing regime, Personal Mobile Service, or the SMP regime. Accordingly, Brasilcel's operators replaced all their old licensing titles with new SMP authorization titles. The old licensing titles were concessions granted under the Cellular Mobile Service, or the SMC regime. The new SMP licenses include the right to provide cellular services for an unlimited period of time but restrict the right to use the spectrum according to the schedules listed in the old licenses (Celular CRT until 2007; Telerj Celular until 2020 (renewed in 2005, only once, for a fifteen year period); Telest Celular until 2008; Telebahia Celular and Telergipe Celular until 2008; TCP until 2008 or 2009 (for the cities of Ribeirao Preto and Guatapar); Global Telecom until 2013, TCO until 2006 (for Brazil's Federal District); Teleacre Celular, Teleron Celular, Telemat Celular and Telems Celular until 2009; Telegois Celular until 2008; and Norte Brasil Telecom until 2013). Spectrum rights may be renewed only once for a 15 year period.

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

### *Mobile Personal Service (SMP) Regulation*

In November 2000, The National Agency for Telecommunications published regulations for the issuance of new SMP licenses to provide wireless communications services using the 1800 MHz frequency band. New operators under SMP licenses will compete with existing SMC cellular operators in each region. ANATEL held auctions for SMP licenses during the first quarter of 2001, 2002 and 2004 in which some SMP licenses were awarded.

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Band A and Band B cellular service providers have the option of exchanging their existing SMC concessions for SMP authorizations and all SMC operators exchanged their old licensing titles for new SMP authorization titles.

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

SMP regulation has substituted the older SMC regime. Wireless operators had to comply with the new SMP regulations after replacing their concession. The following regulations were implemented during 2003:

Adjustment of customer service plans, resulting in the elimination of long distance tariffs;

Implementation of the Operator Selection Code, allowing end users to select their preferred long distance operator for national calls (both inter and intrastate), even when they are roaming; and

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

In 2004, reverse billing services for pre-paid customers were implemented both for local (from March 31) and long distance (from June 30) calls.

In 2005, Anatel published proposed regulations under the SMP regime. These proposed regulations include increasing the period of time that pre-paid cards are valid, decreasing the minimum duration of service contracts that wireless service providers may offer customers and requiring wireless service providers to have more customer service stations in cities where wireless service is provided. During the public comment period that ended in January 2006, the Brasilcel operators submitted its comments against the proposed regulations. Except for Resolution 410/2005 discussed above, Anatel has yet to enact any of its other proposed regulations. If Anatel were to enact these proposed regulations, such regulations may negatively affect our Brazilian subsidiaries' business, financial conditions and results of operations.

### *Foreign Ownership/Restrictions on Transfer of Ownership*

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

### *Rates*

The rates that wireless service providers may charge their customers are also regulated by the SMP regime. The SMP regime allows operators to freely negotiate their interconnection rates with other operators. If they fail to reach an agreement, each operator may call upon ANATEL to determine the terms and conditions of interconnection.

In addition, under the SMP rules, the retail rates charged to customers for fixed to mobile calls cannot be less than the sum of the interconnection fees charged on the fixed and mobile terminations.

### *Other Provisions*

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

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

Notable Public Consultations published by Anatel in 2005 include n° 642. The period for public comment on regarding this Public Consultation ended on January 16, 2006. This Public Consultation considers the alteration of the SMP regulation. In this document, Anatel reports points of vital importance for the mobile business such as: the requirement of an attendant store for the cities of the area of covering of the operator, the extension of the period during which prepaid cards are to be valid; the time period which must transpire before an operator can block service, and the termination of mobile operator's inclusion of contractual provisions whereby customers may not terminate service plans in their contracts. During the public comment period we presented our arguments against this proposal. Nonetheless, if such a proposal were adopted it may have adverse effects on our results. Anatel will decide whether to issue a new regulation and on its content.

2005 also was marked by the beginning of the free agreement of the value of remuneration of use of mobile networks VU-M, while the model of costs has yet to be implemented. Provisory agreement between the local fixed concessionaires and the mobile operators was reached guaranteeing a 4.5% readjustment until the judgment by Anatel of the arbitrations of the values of VU-M.

### *Peru*

The provision of telecommunications services in Peru, including wireless services, is governed by the Telecommunications Law, which was enacted in 1993, and related regulations. Pursuant to this law, providers of



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wireless services seeking to operate in Peru must obtain a non-exclusive license from the Ministry of Transport and Communications. Licenses are granted by means of a license agreement entered into between the Ministry and the licensee and set forth the licensee's rights and obligations, including the regions where the licensee is authorized to operate. Licenses are granted either by application or through a bidding process.

### *Peruvian Regulatory Authorities*

The following regulatory authorities oversee the telecommunications industry in Peru:

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

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

### *Licenses and Concessions*

In 1991, Telefónica del Perú's government-owned predecessor, Compañía Peruana de Teléfonos S.A., was granted a license for the provision of wireless services in Lima and Callao. Entel Perú S.A. was granted a concession in 1992 for the provision of wireless service nationwide. In 1995, Entel Perú was merged into Compañía Peruana de Teléfonos and the surviving entity changed its name to Telefónica del Perú. In 1999, Telefónica del Perú, S.A. transferred to Telefónica Móviles del Perú, S.A.C. the concession it held to provide wireless and paging services. Each concession is valid for a term of twenty years. The wireless concession expires on May 24, 2011, and the paging concession expires on February 1, 2012. Each concession may be renewed for additional twenty-year periods by filing an application at least two years prior to the expiration date. The renewal process is based on the fulfillment by Telefónica Móviles del Perú of certain terms and conditions.

Telefónica Móviles del Perú S.A.C has the following concessions:

*Wireless service.* Sub Band A of the 800 MHz band for a twenty year period that may be renewed for successive twenty year periods at the request of the holder. The concessions were granted in May 1991 for Lima and Callao and in February 1992 for other provinces.

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

*International and domestic long distance carrier services.* These services were granted in February 2002 for a twenty year period.

Telefónica Móviles del Perú S.A.C.'s licenses entitle it to a total of 25 MHz of spectrum on the 800 MHz band.

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Following the acquisition by Telefónica Móviles S.A.C. in October 2004 of Comunicaciones Móviles del Perú (formerly BellSouth Peru), from BellSouth, Telefónica Móviles del Perú requested MTC authorization for the transfer of Telefónica Móviles concessions in favor of Comunicaciones Móviles del Perú S.A.C. on January 5, 2005.

In April 2005, by Resolution N ° 160-2005-MTC/03, the MTC approved the above mentioned transfer, with the following conditions: (i) migration from 25 MHz of spectrum of the 800 MHz band to the 1900 MHz band, (ii) expansion of service to 2000 additional locations, (iii) prohibition of offering new tariff plans with differentiated tariffs on net/off net until OSIPTEL issues a pronouncement on this differentiation and the charges of mobile competitors; among others.

Comunicaciones Móviles del Peru has the following concessions:

*Wireless service.* Sub Band B of the 800 MHz band for a twenty year period that may be renewed for successive twenty year periods at the request of the holder. The concession was granted on July 1, 1991 for Lima and Callao and on June 1, 1998 for other provinces. The concession for wireless services of Lima and Callao includes mobile and public telephony.

*Long distance international, domestic and local carrier services.* The concessions for local carrier services expire between 2016 and 2022. The concessions for domestic and international carrier services expire on February 5, 2019.

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*Local fixed telephony services for national coverage*<sup>1</sup>. This concession was granted on August 11, 1999 for a 20 year period.

These concessions may be renewed for successive twenty year periods at the request of the holder.

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

Under the current concession and telecommunications regulations, wireless service providers pay the following taxes:

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

*Tax for use of spectrum.* This annual tax is paid based upon the quantity of mobile terminals activated as of December 31 of the previous year and is calculated as a percentage of Peruvian tax units (UIT).

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

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

### *Rates*

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

The regulator has proposed a reduction of fixed to mobile tariffs over the course of 18 months, which started in June 2004 as per the following chart. The regulatory authority has indicated that it will not regulate such retail tariffs if the reduction takes place. The final ceiling from December 2005 will be 0.49 cents per second.

### **Schedule for fixed to mobile tariff reduction**

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Total reduction = (June 2004 tariff) - (Final maximum tariff) = R

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

### *Interconnection*

Wireless service providers are required, upon request, to interconnect with other concession-holders. According to the principles of neutrality and non-discrimination contemplated in the Telecommunications Law, the conditions agreed upon in any interconnection agreement will apply to third parties in the event that those conditions are more beneficial than terms and conditions agreed upon separately.

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<sup>1</sup> In 2005, the MTC issued a resolution extending the area of the concession of national fixed telephony, pending the subscription of the addendum for the of concession agreement.

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In November of 2005, OSIPTEL published a resolution by means of which the charges of interconnection are established for completion of calls in the networks of the mobile services except for interconnection charges with respect to fixed to mobile calls. This resolution established a gradual reduction of the interconnection charges – current ceiling during the following four years (2006–2009), with a progressive reduction in four years differentiated by operator in function to costs.

### *Foreign Ownership/Restrictions on the Transfer of Ownership*

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

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

the concession cannot be assigned without the prior consent of the Ministry of Transport and Communications; and

in case of transfer of shares representing more than 10% of the capital stock of the concessionaire, the parties shall have to inform such transfer to the Ministry of Transport and Communications.

### *Argentina*

#### *Regulation*

The following regulatory authorities oversee the Argentine telecommunications industry:

the National Communications Commission supervises compliance with licenses and regulations, and approves changes to mandatory goal and service requirements; and

the Secretariat of Communications (SECOM) grants new licenses, regulates the bidding and selection processes for radio-spectrum authorizations, and approves the related bidding terms and conditions.

#### *Licenses and Concessions*

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

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PCS licenses and corresponding authorizations for use of spectrum for each of Northern Argentina, Southern Argentina and Greater Buenos Aires;

Licenses and corresponding authorizations for use of spectrum for wireless telephone services for Greater Buenos Aires and Southern Argentina, respectively; and

Licenses for trunking, or closed user group, services for different cities.

In January 2005, we acquired a 100% interest in Compañía de Radiocomunicaciones Móviles, S.A. (CRM) from BellSouth. The acquisition was approved by both the SECOM and the CNDC (National Commission for Defense of Competition) (resolutions SC 268/04 on November 16, 2004 and SCT 196/04 on December 22, 2004, respectively) subject to the return of the bandwidth that exceeds the spectrum cap. The spectrum cap prohibits any wireless service provider from holding bandwidth of more than 50 MHz in any one service region.

CRM's licenses for the provision of telecommunications services include the following:

PCS licenses and corresponding authorizations for use of spectrum for each of Northern Argentina, Southern Argentina and Greater Buenos Aires;

Licenses and corresponding authorizations for use of spectrum for wireless telephone services for Greater Buenos Aires; and

Licenses for trunking, or closed user group, services for the Buenos Aires area.

Fixed telephony nationwide.

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

According to the provisions set forth in Resolutions SC # 268/04 and SCT # 196/04, The National Secretariat of Communications issued Resolution SC # 343/05 on December 15th, 2005, which approves the

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schedule for the return of spectrum frequencies exceeding 50 MHz by the company arising from the TCP and CRM merger. Such schedule was set forth by the National Communications Commission and provides a four year term for the return of the above mentioned frequencies, with the fulfillment of various goals. To date, our Company has already returned 10 MHz in Region I (North) and another 10 MHz in Region III (South). According to this resolution, it is still pending the return of 20 MHz for Region I, 25 MHz for Region III and 37.5 MHz for Region II (AMBA).

### *Rates*

Rates charged to customers are not regulated in Argentina.

### *Interconnection*

Interconnection agreements are generally freely negotiated between operators. If they fail to reach an agreement, each operator may call upon the SECOM to determine the terms and conditions of interconnection between the relevant operators. Operators with significant market power (defined as operators with more than 25% of total gross revenues generated by wireless operations) and market-dominant operators (operators with more than 75% of total gross revenues) in each service and regional license area must provide cost-oriented interconnection prices. Market-dominant operators must provide interconnections with other operators through a reference interconnection offer (a reference contract revised annually and approved by SECOM).

Under Argentine law, wireless telephone service providers have the right to enter calls into the networks of other telephone service providers at any point, and are allowed to interconnect directly with the other wireless telephone service operators. The SECOM regulates the rates charged for interconnection between fixed-line and wireless systems and also between wireless systems. The National Government did not pursue any of the price revisions anticipated.

Nevertheless, Argentine law provides that interconnection agreements are to be freely negotiated between the relevant service providers, on a non-discriminatory basis, in order to ensure that interconnection for public telecommunications networks and services is not hindered, delayed or prevented.

### *Other Provisions*

On February 4, 2003, the government passed Resolution 75/2003. In accordance with that Resolution, fixed and wireless telephony operators were required to implement a dial operator selection system (which allows call-by-call carrier selection by customers) within the 120 days following the enactment of the Resolution and upon the request of any long distance operator. While we have not received any such requests, we have the capability to implement a dial operator selection system upon request according to the terms of the Resolution.

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

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

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

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



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

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

Subject to certain limited exceptions, any transfers of funds outside Argentina by, among others, private companies, when such transfers relate to debt principal repayments, must be notified to the Central Bank of Argentina.

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

On January 9, 2006 and with an enforcement date as from January 1, 2006, Parliament extended the public emergency referred to social, economic, labor, administrative, financial and exchange issues, which was provided by Act 25,561 and its modifying laws.

## ***Mexico***

The Mexican-owned telecommunications service provider, Teléfonos de Mexico, S.A. de C.V., or Telmex, was privatized in 1990. In connection with this privatization, the Mexican government modified Telmex's concession and allowed Telmex to participate in the bidding process to obtain a concession to provide mobile telephony services in any region as long as a second independent operator existed in that region. As a result of an auction held by the Mexican Ministry of Communications and Transportation, nine companies were granted concessions to provide mobile telephony services utilizing Band A (one per region), and Telcel, a subsidiary of Telmex, was granted licenses to provide services utilizing Band B (in all regions). The provision of all telecommunications services in Mexico is governed by the Federal Telecommunications Law, which was enacted in 1995, and various service-specific regulations.

## ***Mexican Regulatory Authorities***

The following governmental agencies oversee the telecommunications industry in Mexico:

The Secretariat of Communications and Transportation, or SCT; and

The Federal Telecommunications Commission, or COFETEL.

## ***Licenses and concessions***

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In Mexico, authorization to provide mobile telephony services is granted through a concession.

Telefónica Móviles Mexican wireless operating companies have been granted the following concessions to operate mobile telephony services on Band A:

Baja Celular Mexicana, S.A. de C.V., or Bajacel, operates in Region 1, which consists of the states of Baja California, Baja California Sur and the municipality of San Luis Rio Colorado in the state of Sonora;

Movitel del Noroeste, S.A. de C.V., or Movitel, operates in Region 2, which consists of the states of Sinaloa and Sonora, except for the municipality of San Luis Rio Colorado included in Region 1;

Telefonía Celular del Norte, S.A. de C.V., or Norcel, operates in Region 3, which consists of the states of Chihuahua, Durango and the municipalities of Torreón, Francisco I. Madero, Matamoros, San Pedro and Viesca in the state of Coahuila; and

Celular de Telefonía, S.A. de C.V., or Cedetel, operates in Region 4, which consists of the states of Nuevo León, Tamaulipas and Coahuila, excluding the municipalities of Torreón, Francisco I. Madero, Matamoros, San Pedro and Viesca.

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

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Additionally, we have recently acquired the following concessions:

Pegaso, a company we acquired on April 26, 2002, was awarded a license in 1998 to provide public telecommunications services and nine licenses to provide Personal Communication Services (PCS) in each of the nine PCS service region until 2018. These licenses may be extended for additional twenty-year periods, subject to the fulfillment by the operator of certain terms and conditions.

In July 2001, we acquired, through Cedetel, a 49% interest in Grupo de Telecomunicaciones Mexicanas, S.A. de C.V., or GTM, which holds a concession to provide a radio link (point-to-point connection using radioelectric spectrum) in the 7 GHz band. This concession expires in 2019, and may be renewed for additional twenty-year periods.

On June 5, 2003, the SCT granted GTM a concession to provide, among other things, national and international long distance services for a 15 year period. This license may be renewed, subject to the fulfillment by the operator of certain terms and conditions under the Mexican Federal Communications Law, for another 15-year period.

In July, 2004, GTM acquired a concession from the company Megacable to provide a point-to-point links in the 23 GHz band. This concession was originally granted to Megacable in 1998 for a 20-year period, and expires in 2018.

The concessionaires are subject to general obligations set forth by the SCT and COFETEL, and to obligations pursuant to each concession concerning quality of service and network expansion and modernization.

In each of the regions in which Telefónica Móviles Mexico operates, it holds licenses to 20 MHz of spectrum on the 850 MHz band, and a total of 40 MHz of spectrum on the 1900 MHz band.

The SCT, through COFETEL, issued an edict on July 12, 2004 to commence an auction to grant concessions to provide PCS fixed and mobile wireless access. The bidding process for 1900 MHz frequencies available in each of the nine PCS service regions began on January 11, 2005. Telcel, Iusacell, and Telefónica Móviles participated in this bidding process. The bidding process ended on April 4, 2005, and Pegaso (Telefónica Móviles Mexican subsidiary) was awarded by COFETEL with licenses in four different regions (3, 5, 7 and 8). Nevertheless, Pegaso did not receive licenses for regions 1, 6 and 9 because the total spectrum assigned to Pegaso in these regions would exceed Comisión Federal de Competencia's (COFECO) spectrum cap of 35 MHz per region for 1900 MHz frequencies. Accordingly, this left Pegaso as the only mobile operator unable to get more spectrum cap in Region 9, the country's most important region (includes Distrito Federal). Pegaso appealed COFETEL's spectrum cap and the concession of these spectrum licenses is subject to the resolution of these appeals.

### *Rates*

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

### *Interconnection*

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

that the interconnection points of each network be identified;

that access be provided in a non-discriminatory manner;

that no volume discounts on interconnection fees are to be provided;

that reciprocity with regard to interconnection fees and conditions be agreed upon between service providers of similar capacities or functions;

that the providers accomplish interconnections at any switching points or other points which are technically feasible, with adequate capacity and quality; and

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

Between 1999 and 2005, Telefónica Móviles México has entered into interconnection agreements with a majority of operators. In 2005, Telefónica Móviles México renegotiated CPP rates with the rest of mobile operators and several local operators, like Teléfonos de México, S.A. de C.V. (TELMEX).

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

Interconnection tariffs applicable to calls originated and terminated in the same area (local service) are paid on a calling party pays basis and may be negotiated by the parties. However, should the parties fail to agree, COFETEL must fix the tariffs.

COFETEL has shown interest in extending the calling party pays system to national long distance calls in 2005. In order to achieve this, the Federal Commission for Regulatory Improvement (COFEMER) must approve a modification of the current Long Distance Rules. COFETEL has the long distance CPP ready to be issued, but there have been some complaints from long distance carriers that reject this scheme.

### *Foreign Exchange/Dividend Limitations*

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

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

### *El Salvador*

The telecommunications sector in El Salvador is regulated pursuant to the Telecommunications Law enacted in 1997. The legal framework established by this law is a system of free competition and administrative concessions both for the delivery of telecommunications services and for use of spectrum.

### *Regulatory Authorities*

The General Superintendency of Electricity and Telecommunications is responsible for regulation of the telecommunications industry in El Salvador.

### *Licenses and Concessions*

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Pursuant to the Telecommunications Law, telephony is considered a public service. Concessions for the provision of public telephony services are granted for a thirty-year period. The concession may be renewed for successive thirty-year periods. Telefónica Móviles El Salvador holds a concession to provide public telephone service, including wireless services nationwide, until January 1, 2028.

Concessions for use of spectrum are granted for a twenty-year period and may be renewed for additional twenty-year periods upon execution of the proceedings set forth in the Telecommunications Law. Telefónica Móviles El Salvador holds the following concessions for use of spectrum:

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

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

A concession for the provision of public telephony services may be revoked only when a concession holder: (a) fails to supply telephone services within two years after the concession has been granted; or (b) commits three major infractions, as described in the Law, within a three year period. Concessions may be canceled upon the expiration of the concession term. However, prior to the expiration of a concession, the holder may opt to request and follow a renewal process before the General Superintendency of Electricity and Telecommunications. Notwithstanding the foregoing, this procedure does not assure a renewal of the concession in favor of the then current holder.

We are required to pay a variable annual fee to the General Superintendency of Electricity and Telecommunications for administration, management and supervision in connection with our concession for the

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use of the spectrum. This fee is calculated by a fixed formula which incorporates, among other things, the bandwidth of our transmitter equipment, the cost of the radio electric spectrum and a service factor. The cost of the radio electric spectrum is adjusted every year according to the variation of the Consumer Price Index (CPI) of El Salvador.

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

### *Rates*

The General Superintendency of Electricity and Telecommunications determines and publishes maximum telephony rates that may be charged to end customers, including customers of wireless services. These maximum rates are generally based on the rates charged by service providers before the Telecommunications Law came into effect and approved by the regulatory body, and are supposed to be adjusted according to the variation of the CPI. Wireless service providers must publish the rates charged to customers on a quarterly basis.

### *Other Provisions*

Interconnection agreements may be freely negotiated between the parties. However, in case of dispute concerning access to interconnection, the General Superintendency of Electricity and Telecommunications shall appoint an expert to issue a certificate containing proposed terms and conditions for interconnection between the relevant operators. In this event, whichever party's proposal is closer to the terms proposed by the expert will be included in the interconnection agreement between such parties.

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

### *Guatemala*

The General Telecommunications Law of 1996 established the legal framework in Guatemala for the development of telecommunications activities and for the regulation of use of spectrum. In Guatemala, a telecommunications services provider does not require a governmental concession or license to provide such services, but does require an authorization to use spectrum. These authorizations are called titles of use over frequencies.

### *Regulatory Authorities*

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The Superintendency of Telecommunications is responsible for the regulation of the telecommunications industry in Guatemala. Telecommunications operators seeking to provide services must register with the Telecommunications Registry of the Superintendency of Telecommunications.

### *Use of Spectrum*

As of December 2005, TEM Guatemala y Compañía, S.C.A. (formerly Bellsouth Guatemala y Compañía, S.C.A.) was merged with Telefónica Móviles Guatemala, S.A.

As a result, Telefónica Móviles Guatemala, S.A. holds the following titles:

two 15 MHz channels in the 1900 MHz band for the provision of wireless services;

Band C : 1895-1910 / 1975-1990 MHz;

Band D : 1865-1870 / 1945-1950 MHz; and

Band E, F : 1885-1895 / 1965-1975 MHz.

All of such titles are granted for a fifteen-year term and may be renewed for subsequent fifteen-year terms at the request of the holder. In order to renew a title, the holder must demonstrate before the regulatory body, that the spectrum was effectively used during the previous fifteen-year term. All of these titles are set to expire in 2014.



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### *Interconnection and Rates*

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

Operators in Guatemala may freely negotiate interconnection rates. However, if they fail to reach agreement on interconnection, each operator may call upon a dispute resolution proceeding before the Superintendency of Telecommunications, which shall appoint an expert to issue a certificate containing proposed terms and conditions for interconnection between the relevant operators. In this event, whichever party's proposal is closer to the terms proposed by the expert will be included in the interconnection agreement between such parties.

Wireless service providers in Guatemala must pay, upon assignment of telephone numbers, a fee of US\$0.12 per number. Thereafter, wireless service providers must pay an annual administrative fee of approximately \$0.0064 to the Superintendency of Telecommunications for each telephone number assigned to such wireless provider.

### *Other Provisions*

In Guatemala, the rates that wireless providers may charge their customers are not regulated. In addition, there are no restrictions on foreign ownership of, or on the transfer of ownership interests in, wireless providers or foreign exchange limitations. Dividends may be paid only out of realized profits after legal reserve requirements are met.

### *Chile*

The General Telecommunications Law No. 18,168 of 1982, as amended, established the legal framework for the provision of telecommunications services in Chile. The law established the rules for granting concessions and permits to provide telecommunications services and for the regulation of rates and interconnection.

### *Regulatory Authorities*

The main regulatory agency of the Chilean telecommunication sector is the Ministry of Transportation and Telecommunications (the Ministry), which acts primarily through the Undersecretary of Telecommunications (SUBTEL or the Undersecretary). The application, control and interpretation of the provisions of the General Telecommunications Law and other applicable regulations is, subject to review by the courts and the Court for the Protection of Freedom of Competition (TDLC), the responsibility of the Ministry which, for these purposes, acts through the Undersecretary.

*Licenses and Concessions*

As a general rule, the provision of telecommunications services in Chile is subject to the grant of a concession. Telecommunications concessions are granted in Chile without any initial payment of fees. However, telecommunications concessionaires that use the radio electric spectrum, such as mobile telephone concessionaires, are subject to an annual fee. The amount of the fee is based on the size of the applicable system, the portion of the spectrum utilized and the service area that has been authorized.

The Telefónica Group commenced wireless operations in Chile in 1989. In July 2004, we acquired 100% of Telefónica Móvil de Chile, S.A. from Telefónica S.A. In 2005 this company changed its name to Telefónica Móviles de Chile S.A.

Telefónica Móviles de Chile S.A. holds the following concessions for the provision of wireless telecommunication services in the 800 MHz band:

for the Metropolitan Region and Region V, a concession was granted on November 11, 1998 for an unlimited period of time; and

for Regions I to IV and Regions VI to XII, a concession was granted on August 3, 1989 for an unlimited period of time.

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Additionally, a concession for the provision of wireless telecommunications services nationwide in the 1900 MHz band, the 1885-1890 MHz and 1965-1970 MHz bands; and in 1865-1870 MHz and 1945-1950 MHz bands was granted to Telefónica Móvil de Chile for a thirty-year period on November, 16, 2002. This concession may be renewed for successive thirty-year periods at the request of the holder.

In January 2005, we acquired 100% of BellSouth Comunicaciones and BellSouth Chile (BellSouth's operating companies in Chile) from BellSouth. These companies changed their names to Telefónica Móviles Chile S.A. and Telefónica Móviles Chile Larga Distancia S.A., respectively. This acquisition was approved by the TDLC in January 2005 (resolution 2/2005 on January 4, 2005), subject to certain conditions, including the divestiture to unrelated third parties and in a non-discriminatory and open bidding process by Telefónica Móviles de Chile of a block of frequencies in the 800 MHz bandwidth amounting to 25 MHz in the subsequent 18-month period. Should another concession holder acquire such bandwidth, such concession holder must in turn sell any bandwidth exceeding a cumulative 60 MHz. The bidding process will be finished on April 7, 2006.

Telefónica Móviles Chile S.A.'s concessions for the provision of telecommunication services include the following for the provision of wireless telecommunication services in the 800 MHz band. These concessions will be sold in the bidding process referred to above.

for the Metropolitan Region and Region V, the concession was granted for a fifty-year period from January 27, 1982 and may be renewed for successive fifty-year periods at the request of the holder;

for Regions I to IV and Regions VI to X, the concession was granted on February 6, 1990 for an unlimited period of time; and

for Regions XI and XII, the concession was granted on July 26, 1993 for an unlimited period of time.

Telefónica Móviles Chile S.A. also holds a concession for the provision of wireless telecommunications services nationwide in the 1900 MHz band, with a bandwidth of 10 MHz. This concession was granted for a thirty-year period on April 3, 2003, and may be renewed for successive thirty-year periods at the request of the holder.

Telefónica Móviles Chile Larga Distancia S.A. holds a concession for the provision of intermediate services, including long services nationwide. This concession was granted on March 16, 1994 for an unlimited period of time.

## *Rates*

A calling party pays tariff structure was implemented on February 23, 1999. Under this tariff structure, local telephone companies pay mobile telephone companies an access charge for calls placed from fixed networks to mobile networks. Local telephone companies may pass this interconnection charge on to their customers. A fixed network customer calling a mobile telephone pays the local telephone company a rate comprised of a local tranche that is part of the basic local telephone service, plus a fee for interconnecting from the fixed network to the mobile network. Mobile telephone customers may choose not to have the calling party pays tariff structure apply to their mobile telephone accounts and thus continue to pay for incoming calls.

*Interconnection*

The Telecommunications Law requires that holders of public telecommunications service licenses to interconnect their networks to other networks providing the same type of service. This requirement is intended to ensure that subscribers and users of public services are able to communicate with each other, both inside Chile and abroad. The same requirement applies to holders of intermediate service licenses, who are required to interconnect their networks to the local telephone network. SUBTEL sets the applicable tariffs for services provided through the interconnected networks, in accordance with the procedures established in Section 25 of the Telecommunications Law. The structure, level and indexing of these interconnection rates are fixed by a tariff decree by the Chilean Ministries of Economy and Transport and Telecommunications.

The tariffs are set every five years. The interconnection charges for the period 2004-2009 became effective for Telefónica Móviles de Chile S.A. and Telefónica Móviles Chile S.A. on February 13, 2004 and January 24, 2004, respectively. The interconnection charges have decreased by an average of 27.4% for the period 2004-2009 compared to the average tariff in Chilean pesos as of December 31, 2002. The tariffs scheme stipulates three time slots defined as peak , reduced and night .

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### *Foreign Ownership/Restrictions on Transfer and Change in Ownership*

Foreign investments in Chile are subject to exchange controls. The investment of capital in Chile and the repatriation of an investment and its profits must be carried out under either Decree Law No. 600 or under Chapter XIV of the Compendium of Foreign Exchange Regulations issued by the Central Bank of Chile under the Central Bank Act. Compliance with the foreign exchange rules, including registration of a foreign investment in Chile, grants investors, among other things, access to the formal exchange market. Foreign funds registered under Decree Law No. 600 provide specified guarantees with respect to the ability to repatriate funds and the stability of the applicable tax regime. Decree Law No. 600 permits foreign investors to access the formal exchange market to repatriate their investments and profits.

Access to the formal exchange market to repatriate investments and profits derived from investments conducted under Chapter XIV rules are governed by regulations in force and effect at the time of repatriation. The foreign investment regulations may permit foreign investors to access the formal exchange market to repatriate their investments and profits as stated above. They do not, however, necessarily guarantee that foreign currency will be available in the market.

Under Chilean corporate law, corporations, such as our Chilean companies, may distribute dividends among their stockholders only from the net profits of that fiscal year or from retained profits recognized by balance sheets approved by the stockholders meeting. However, if the company has accumulated losses, profits of that corporation must first be allocated to cover the losses. Losses in a specific fiscal year must be offset with retained profits, if any.

Unless otherwise agreed at a stockholders meeting by the unanimous vote of all issued shares, publicly traded corporations must annually distribute at least 30% of the net profits of each fiscal year. This distribution must be in the form of a cash dividend to their stockholders in proportion to their ownership or as otherwise stated in the bylaws. Privately held corporations must follow the provisions of their bylaws, and if the bylaws do not contain such provisions, the rules described above for the distribution of profits by open stock corporations apply. As a general rule, any dividend distributed or remitted by the operating companies to their shareholders abroad will be subject to a 35% withholding tax rate. In such case, the operating companies' shareholders will be entitled to a tax credit equivalent to the corporate tax rate paid by the operating companies on the income distributed or remitted abroad. Such corporate tax rate is equivalent to 17%. This credit must be added back in order to compute the taxable basis of the withholding tax.

The board of directors may distribute provisional dividends if the corporation has no accumulated losses, subject to the personal responsibility of the directors approving the distributions.

### ***Morocco***

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

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

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regulation of individual licenses provide the rest of the regulatory framework for telecommunications.

In July 2004, a new Telecommunications Law was enacted (Law 55/01). The new law establishes the reduction of the contribution to the development of universal service (from 6% of gross revenues to 2% of revenues after interconnection payments).

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

### *Moroccan Regulatory Authorities*

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

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### *Licenses and Concessions*

In July 1999, Medi Telecom was awarded a GSM license entitling it to 50 MHz of spectrum on the 900 MHz band to provide wireless services. This license allows Medi Telecom to provide wireless services and to use the spectrum, and covers all of Morocco. The license was granted for a period of 15 years from August 2, 1999 and should be renewed for an additional five-year period, subject to the fulfillment by the operator of certain terms and conditions.

During 2005, ANRT extended the GSM license for another 10 years, until August 2024. In exchange for this extension period, Medi Telecom must pay 1% of the revenues obtained from the provision of GSM services starting from August 2014 (the previously scheduled expiration date).

In July 2005, Medi Telecom was awarded a new generation license which allows it to provide fixed services and to use any technology for the local loop (the 3.5 GHz band has been assigned to Medi Telecom). The license was granted for a period of 30 years and could be renewed per additional periods of up to five years each. The decree approving the provisions of Specification is not published yet.

Wireless service providers are required to pay a tax to be used for the development of universal service, research and development, and other national development projects. In addition, wireless service providers are assessed a tax for usage of the spectrum, the rate of which is determined annually.

### *Rates*

Morocco does not regulate the rates that wireless and fixed service providers may charge their customers. However, the rates that are set by providers must be communicated to the ANRT 30 days before their effectiveness.

### *Interconnection*

The Telecommunications Law grants every licensed wireless operator of a public telecommunications network the right and the obligation to interconnect their networks, setting forth the technical, administrative and financial conditions that must be specified in interconnection agreements. In addition, operators with more than a 20% share of the wireless market must publish a standard interconnection agreement, or reference interconnection offer, that must be approved by the ANRT. In February 2005, a new Reference Interconnection Offer (RIO) was published, setting a 6% reduction on fixed interconnection rates.

The ANRT has mandated that interconnection fees be calculated on a per second basis. In February 2005, Medi Telecom requested that the ANRT to revise the applicable interconnection tariff methodology.

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In July 2004, Maroc Telecom requested an arbitration process before the ANRT to reduce mobile termination rates by 33%. In July 20, 2005 the ANRT decided to reduce mobile termination rates by 7%, as from September 11, 2005. This decision will be in force until the cost orientation of mobile termination and the operator's nomination which have SMP in the mobile termination market.

Since January 17, 2005, Medi Telecom re-opened international circuits for terminating international traffic routed through Itissalat Al-Maghrib's network. The ANRT established a termination rate for international traffic at a higher rate than the one for national traffic.

### *Foreign Ownership/Restrictions on Transfer and Change in Ownership*

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

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

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



**Table of Contents*****Colombia******Regulation***

In Colombia, telecommunications are a public service, subject to state regulation and oversight. Law 72/89 and Decree 1900/90 establish the general regime for telecommunications and broadcasting services and networks. Fixed and mobile telephony are classified as a basic service, while radio and television are classified as broadcasting services subject to a special regime. Operators seeking to provide telecommunications services in Colombia must obtain a concession from the Colombian government.

***Regulatory authorities***

The following governmental agencies oversee the telecommunications industry in Colombia:

The Ministry of Communications is responsible for, among other things, telecommunications policy, licenses, spectrum management, and control and supervision of the telecommunications regime for non-household telecommunications services.

The Commission of Regulation of Telecommunications (CRT) is responsible for promoting competition, setting the tariff regime, and regulating interconnection, customer protection and dispute resolution.

The Superintendence of Industry and Commerce (SIC) is responsible for overseeing compliance with fair commercial practices and fair competition and for reviewing customer complaints for non-household telecommunications services.

***Licenses and concessions***

We acquired Telefónica Móviles Colombia S.A. (formerly, BellSouth Colombia) from BellSouth in October 2004. The acquisition was approved by the SIC on July 21, 2004.

Telefónica Móviles Colombia holds the following concessions:

<b><u>Service</u></b>	<b><u>Coverage area</u></b>	<b><u>Contract/license</u></b>	<b><u>Duration</u></b>
Mobile cellular	Eastern (Celumovil)	Contract 001, granted on March 28, 1994	Initially for 10 years. Extended for 10 years until March 28, 2014. The contract states that the initial term may be extended for an additional 10 year period.

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	Caribbean coast (Celumovil)	Contract 002, granted on March 28, 1994	Initially for 10 years. Extended for 10 years until March 28, 2014. The contract states that the initial term may be extended for an additional 10 year period.
	Western (Cocelco)	Contract 003, granted on March 28, 1994	Initially for 10 years. Extended for 10 years until March 28, 2014. The contract states that the initial term may be extended for an additional 10 year period.
Added Value	National, and in-connection abroad (Celumovil)	Res. 3742/97, granted on August 15 1997.	Initially for 10 years; may be extended once for 10 years.
	National and in-connection abroad (Cocelco)	Res. 2639/94, granted on December 2, 1994.	Initially for 10 years. Extended until December 30, 2014.
Carrier	National (Celumovil)	Res. 1616/98, granted on June 25, 1998.	Initially for 10 years; may be extended once for 10 years.
	National (Cocelco)	Res. 3009/98, granted on November 20, 1998.	Initially for 10 years; may be extended once for 10 years.

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Compliance with the obligations set forth in each wireless concession is enforced by the Ministry of Communications through regular inspections contracted with third parties. Breach of contractual obligations may result in (i) fines of up to 1,000 times the minimum monthly wage (currently, approximately US\$175,000) or (ii) a declaration of forfeiture (termination) of the contract if the breach seriously and directly affects the execution and purposes of the contract and it can be shown that such breach could lead to service paralysis, or for one of the causes established in Art. 43 of Decree 741/93, including: a violation of the prohibition against monopolistic practices impeding free competition; failure to provide the service efficiently or regularly in accordance with the mutually agreed service quality rules; assignment or transfer of the concession contract without the prior authorization of the Ministry of Communications or otherwise contrary to applicable law; failure to pay the required fees, rates or tariffs; and failure to update the register of subscribers or the provision of false information that affects the quantification of the economic obligations to the Ministry of Communications.

### *Interconnection*

Operators have the right to interconnect to other operators' networks. Before a regulator's intervention, the operators must complete a direct negotiation period. Interconnection must respect the services regime and assure compliance with the following objectives: non-discriminatory treatment, transparency, prices based on costs plus a reasonable profit and promotion of competition. Interconnection of trunking operators with other operators' networks must be at the subscriber level, unless they exercise the right granted by Decree 4239/04 and request it in the conditions stated by the regulator in Resolution 1237/05 that allows direct interconnection and authorize the demand for self numbering.

### *Rates*

Rates charged to customers are not regulated, although they may not be discriminatory. Rates are fixed by wireless operating companies and must be registered with the CRT. On September 2005, CRT issued a resolution setting a \$0.20 price cap on rates for fixed line to mobile calls, which became effective on February 1, 2006. On November 1, 2006, price cap will drop to \$0.17.

### *Ecuador*

The Law for the Economic Transformation of Ecuador (RO. No. S-34 dated 13-03- 2000) requires telecommunications services to be provided on a free market basis. The Special Telecommunications Law (RO. No. 770 dated 30-08-1995), as amended, and the General Regulation to the Special Telecommunications Law (RO. No. 404 dated 4-09-2001) establish the regulatory regime applicable to the provision of telecommunications services in Ecuador.

The Law created three regulatory authorities: CONATEL, SENATEL and, the Superintendency. These authorities constitute the regulatory structure of the Ecuadorian telecommunications market. CONATEL (*Consejo Nacional de Telecomunicaciones*) is the body in charge of issuing official state policies in telecommunications matters; SENATEL (*Secretaría Nacional de Telecomunicaciones*) is the body charged with the execution of the policies issued by CONATEL, and SUPTEL (*Superintendencia de Telecomunicaciones*) is the body in charge of controlling operators.

### *Licenses and Concessions*

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We acquired Telefónica Móviles Ecuador (formerly, Otecel) from BellSouth in October 2004. The acquisition was approved by the regulator SENATEL on August 23, 2004.

Telefónica Móviles Ecuador holds the following concessions:

Concession to provide mobile cellular telephony services, which expires on November 29, 2008 and may be extended for a subsequent 15-year period; and

Concession to provide fixed and wireless carrier services, which expires on April 22, 2017 and may be extended for a subsequent 15-year period.

Cellular concessions were granted for the provision of cellular services in specific areas. In July 2005, CONATEL approved a new regulation to extend the provision of cellular services nationwide.

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Telefónica Móviles Ecuador holds the following licenses, each of which expires on February 21, 2010 and may be extended for a subsequent 10-year period:

Wireless E-mail applications

Mobile Access to Internet applications

Mobile Capture of Data applications

Vehicle localization and administration of fleets (GPS) applications

Mobile Access to Intranets applications

Intelligent Distribution applications

Mobile and Remote Points of Sale

Telefónica Móviles Ecuador also holds a license to provide conventional Internet (fixed) services, which expires on January 25, 2011 and may be extended for a subsequent 10-year period.

International long distance services (incoming and outgoing) may only be rendered exclusively between Telefónica Móviles Ecuador's clients.

A monthly fee amounting to 1% of the invoiced revenues of the carriers services must be paid by all operators holding concessions to SENATEL as a contribution to universal service .

*Rates*

The mobile services concession is subject to a top rate of US\$0.50 per min for mobile services and a top rate of US\$0.10 per min for rural public telephony. Telefónica Móviles Ecuador may fix rates freely so long as it does not exceed the top rates, provided that it notifies the correspondent regulatory body 24 hours ahead of any price increase.

Telefónica Móviles Ecuador may fix rates freely under its carrier services concession.

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### *Foreign Ownership/Restrictions on Transfer and Change in Ownership*

In Ecuador, there are no limitations on foreign investment or the repatriation of capital, and no restrictions on changes of control.

### *Interconnection*

Interconnection agreements may be freely negotiated between operators with respect to prices, terms and conditions. However, in the event that operators are unable to reach agreement, SENATEL is required by law to set the terms of such interconnection agreements by request of any operator involved in the negotiation, pursuant to a cost model approved by CONATEL or following a review of the terms and conditions of similar agreements.

In the case of the negotiation of the interconnection agreement between OTECEL S.A. (Telefónica Móviles Ecuador) and Andinatel, S.A., the National Secretariat issued an Interconnection Order in the summer of 2005 and imposed the interconnection charge to CPP (calling party pays) of US\$0.1131. CONATEL by means of Resolution 07-02-CONATEL-2006, issued on January 18, 2006, extended all the charges imposed by the Interconnection Order of the National Secretariat to all mobile operators under the principle of non-discrimination.

Telefónica Móviles Ecuador has settled the amount due, though payment is still pending in the amount of US\$34.5 million as of December 31, 2005, due to the fact that Andinatel, S.A. and Pacifictel, S.A. have not paid amounts derived from interconnection between May 2004 and July 14, 2005.

### *Other provisions*

In 2000, Law 21, or the Organic Law for the Defense of the Consumer (RO. No.S116 10-07-2000), mandated that interconnection fees be calculated on a per second basis. This law regulates and sanctions misleading publicity and unfair practices. The law allows consumers to terminate an agreement with a service provider at any time, without the application of sanctions and limits the conditions on which a service provider

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may terminate service following customer complaints relating to invoiced prices. The law also established an ombudsman for consumer rights with the power to investigate unfair practices and initiate judicial complaints against service providers.

### *Nicaragua*

The telecommunications industry in Nicaragua is regulated by Telecommunications Law (Law 200) of 1995. As a result of the complete liberalization of the telecommunication market in April 2005, Telefonía Celular de Nicaragua ( TCN ) is carrying out by its own facilities the International Long Distance call service. However, the incumbent operator ENITEL owned by America Movil, does not recognize TCN as an International Long Distance operator, raising some disputes between both operators.

At this moment ENITEL is taking legal actions in order to restrict the possibility of modifying the regulatory framework by the regulatory entity TELCOR.

### *Regulatory Authorities*

The telecommunications industry is currently regulated by the Nicaraguan Telecommunications and Postal Services Institute (TELCOR). However, as a result of recent market liberalization, regulatory responsibility for telecommunications and other services will be scheduled to be shifted to a Superintendency of Public Services (SISEP) in the next presidential government (January 2007).

### *Licenses and Concessions*

We acquired Telefónica Móviles Nicaragua, S.A. (formerly, Telefonía Celular de Nicaragua) from BellSouth in October 2004. No regulatory authorization was required.

Telefónica Móviles Nicaragua was granted a concession in 1992 for a 10-year period for the use of 25 MHZ of spectrum in the 800 MHz Band A to provide cellular telecommunications services. This concession was renewed for another 10-year period in 1998, and will expire on July 31, 2013. The concession may be renewed for another 10-year period through negotiation with TELCOR two years prior to the expiration of the current concession, subject to the fulfillment of certain terms and conditions by the operator.

Initially, the concession permitted Telefónica Móviles Nicaragua to offer cellular services in the Pacific Zone of Nicaragua, which includes the departments of Chinandega, Leon, Managua, Masaya, Carazo and Rivas. In January 2004, TELCOR approved an addendum to the concession allowing Telefónica Móviles Nicaragua to offer cellular services in the Central/Atlantic zone which includes Boaco, Chontales, Rio San Juan, Matagalpa, Jinotega, Nueva Segovia, Madriz, Esteli, RAAS and RAAN.

Telefónica Móviles Nicaragua is required to pay a fixed annual fee of approximately US\$320,000 to TELCOR for the concession.

*Rates*

The concession establishes a maximum rate which may be charged to cellular services customers. The operator must submit a tariff plan to TELCOR for approval before it becomes effective.

*Interconnection*

Telecommunications operators are free to negotiate the terms and conditions of interconnection agreements, subject to certain criteria established by TELCOR concerning interconnection costs. Definitive interconnection agreements must be approved by TELCOR. In the event that parties fail to reach agreement within 90 days of the commencement of negotiations, TELCOR shall determine the terms and conditions of interconnection between the operators.

*Foreign Ownership/Restrictions on Transfer and Change in Ownership*

There are no restrictions on foreign ownership of, or on the transfer of ownership interests in, wireless providers in Nicaragua.



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### *Other*

There are currently no restrictions on foreign exchange or the repatriation of capital in Nicaragua. Dividends must be paid only out of realized profits after legal reserve requirements are met.

### *Panama*

The regulation of the telecommunications industry in Panama was established with the approval of Law No.17 July 9, 1991, Law No. 31 February 8, 1996 as well as the corresponding implementation rules set by the Executive Decree No. 73 April 9, 1997 and Decree No. 21 January 12, 1996.

In order to supervise the sector a Regulatory Body was created by Law No. 26 January 29 1996. This Regulatory Body (Ente Regulador de los Servicios Públicos) is a multi sector body that oversees the Telecommunications, Electrical, Water and Radio & Television industries.

### *Licenses and Concessions*

The cellular concession contract that Telefónica Móviles Panamá, S.A. has with the government (Contract 30-A) states that mobile operators have ownership and price setting freedom, the right to implement the calling party pays standard and the liberty to negotiate the interconnection contracts directly with the interested party. The Contract also established a 0.25% regulation tax.

The spectrum granted to deploy the cellular network consists of the 800 MHz A band (25 MHz) with national coverage and the ability to request all the Micro Wave spectrum required to complete the back half of the network. Telefónica Móviles Panamá, S. A., is currently authorized to use TDMA, CDMA & GSM as the technology to offer cellular services.

The concession period is for 20 years and expires on 2016. This can be extended for another period in accordance with the concession contract.

### *Rates*

The concession contract also grants the mobile operator complete freedom to set the prices for all traffic (incoming and outgoing price per minute) so long as the average price per minute from mobile to fixed is not less than 25% below the average price per minute from fixed to mobile.

### *Other Provisions*

Telefónica Móviles, S.A. was authorized by the National Government of Panama to be the new operating partner for the mobile operating company BellSouth Panamá, S.A. (now Telefónica Móviles Panamá, S.A.) Cabinet Resolution No. 90 dated August 11, 2004. Referring to the same transition event, the Regulator issued Resolution JD-5147 dated February 10, 2005 authorizing the new capital structure for Telefónica Móviles S.A. allowing it to own 99% of the circulating stocks of Telefónica Móviles Panamá, S.A.

### *Uruguay*

The telecommunications industry in Uruguay is governed by Law 17296 (Budget Law of 2001) and the Interconnection Regulation.

### *Regulatory Authorities*

The Regulating Unit of Communication Services (URSEC), created pursuant to the Budget Law of 2001, is responsible for the regulation of the telecommunications industry. URSEC took over this responsibility from the former state-owned monopoly operator, *Administración Nacional de Telecomunicaciones*, or ANTEL, which still maintains a monopoly on fixed-line telephony services in Uruguay. URSEC reports directly to the Government through the Ministry of Industry, Energy and Mining. URSEC has been mandated to regulate and control all telecommunications activities, to protect consumer rights, to promote investment and competition, and to set rules and regulations for operators and customers.

### *Licenses and Concessions*

We acquired 100% of Movicom from BellSouth in October 2004. No regulatory approvals were required.

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In 1990, Movicom entered into a contract with ANTEL to build and operate a wireless telecommunications network and to operate the 800 Band B utilizing a total of 25 MHz of spectrum (835 to 845 MHz, 846.5 to 849 MHz, 880 to 890 MHz and 891.5 to 894 MHz) (Spectrum 1). In 1998, Movicom was authorized, on the same conditions as in the original contract, to develop two 5 MHz blocks of spectrum on the 1900 band (Spectrum 2). Movicom began to operate its CDMA 1900 service in 2000.

In October 2002, Movicom was the only bidder for two additional 5 MHz blocks of spectrum on the 1900 band, and was granted a 20-year license for the two blocks (1885 to 1890 MHz and 1965 to 1970 MHz) (Spectrum 3) in December 2002 and transferred all the 1900 Spectrum 2 customer base to its own Spectrum 3.

Telefónica acquired two additional 5 MHz blocks of spectrum on the 1800 band (Spectrum 4) and 1900 band (Spectrum 5) in an auction, and on July 25, 2004, obtained a license to use Spectrum 4 and 5 for a 20-year period. Telefónica transferred its Spectrum 4 rights to Spectrum 1 and started to operate its GSM service in this Spectrum (Spectrum 1).

Movistar's licenses require it to provide coverage to at least 10% of the population before the conclusion of the sixth year, and at least 25% of the population before the conclusion of the tenth year of the licenses. These requirements have already been fulfilled.

A regulatory tax was approved in 2005 that requires Movistar to pay the equivalent of 0.3% of its annual revenue.

### *Rates*

Wireless operators may freely fix customer rates for the provision of services, taking into account some reference rates established by URSEC.

### *Interconnection*

Wireless service providers are required to provide access to essential resources, including interconnection services, when requested by other telecommunications providers. Wireless service operators may freely negotiate interconnection agreements. If they fail to reach an agreement, each operator may call upon URSEC to determine the terms and conditions of interconnection. The conditions agreed upon in any interconnection agreement will apply to third parties in the event that those conditions are more beneficial than terms and conditions agreed upon separately.

On September 19, 2003 Movicom and ANTEL entered into an interconnection agreement allowing Movicom to tie its mobile telephone lines to the fixed lines operated by ANTEL and to the mobile lines operated by ANCEL.

On December 20, 2004 Movistar and CTI (América Móvil) entered into an interconnection agreement between the new CTI mobile network and the Movistar network.

*Foreign Ownership/Restrictions on Transfer and Change in Ownership*

There are no restrictions on foreign ownership of, or on the transfer of ownership interests in, wireless providers in Uruguay.

*Venezuela*

*Regulation*

On June 1, 2000, the national legislative Commission approved the telecommunication Law and granted it organic law status, which substitutes the vacated law of 1940. The telecommunication law (hereinafter the Telecom law ) was published in the official gazette of Venezuela N° 36.970 on June 12, 2000.

The Telecom law defines the rights and duties of operators, customers and other users of telephone services. The Organic Telecommunications Law, or OTL, established pricing freedom, encouraged open competition, and set forth the basic rules for operator licensing, spectrum management, universal service, interconnection rules, taxes and sanctions. CONATEL (Comisión Nacional de Telecomunicaciones), the regulatory agency primarily responsible for the regulation of the telecommunications market, was restructured pursuant to the OTL as an autonomous body with managerial, technical and financial independence.

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### *Licenses and Concessions*

TEM purchased Telcel, C.A. from BellSouth in October 2004. The acquisition was approved by CONATEL on October 26, 2004.

Telcel has been granted the following telecommunications concessions and licenses:

a mobile telephony concession to operate and exploit cellular services in the 800 MHz band with national coverage was granted in 1991. This concession expires on May 31, 2011 and may be extended for another 20-year term;

a private network services concession, granted in 1993, allows Telcel to offer point-to-point or point-to-multipoint private telecommunication services to corporations. Telcel requested the extension of such concession. However, CONATEL has said that the renewal is not the appropriate way to proceed under the scope of the telecommunication law, due to the transformation of administrative titles, and that it is a process that should be lead by CONATEL, which transforms the old concession into an attributes support by the general habilitation. In the mean time, and according to the telecommunication law, Telcel was granted with the authorization to continue unlimited operations within the same scope, rights and duties until an independent act (title transformation) is issued;

a switched data network concession, granted in 1994, allows Telcel to offer switched data services, such as two way paging services, nationwide. This concession expires on July 14, 2014 and may be extended for another 20-year term; and

a value added services (Internet access) concession was granted in 1995. This concession expired on November 6, 2005, and may be extended for another 10-year term.

In 2000, Telcel was granted a general license (Habilitación General) to offer local telephony services, national long distance services, international long distance services and to otherwise exploit telecommunications networks for a 25-year period expiring on December 15, 2025. In 2001, Telcel obtained a concession to offer fixed wireless access (FWA) services nationwide using wireless local loop technology with 50 MHz of spectrum allocated on the 3.4-3.6 GHz band. In January 2005, following an auction, Telcel was awarded a partially state-subsidized concession (universal service) to install a network and to provide fixed telephony services and Internet access in the South-Western region of the country as part of a universal services project, which requires Telcel to provide minimum levels of access to its customers in the region. In 2005, Telcel participated in another universal service project auction. However, this auction was declared desert because the minimum subsidy claim by all the telecommunication operators, were higher than the maximum stipulated by CONATEL for this project.

### *Rates*

Under the scope of Telecom law, telecommunications operators are free to determine and set prices for the services that they offer. However, exemptions to the free pricing regime may be applicable to market dominant operators, universal services projects (such as the one awarded to Telcel in the South-Western region of the country) or as a result of market distortions caused by anti-competitive conduct as determined by the Competition Agency.

### *Interconnection*

Telecommunications service providers are required to permit other providers to interconnect to their networks. Providers are generally free to negotiate the terms and conditions of interconnection agreements. However, in the event that parties fail to reach agreement, CONATEL shall determine the terms, conditions and fees of interconnection between operators on the basis of international benchmarks or in accordance with a Total Elements Long Run Incremental Cost methodology. Applicable regulations require that all interconnection agreements meet certain economic and technical conditions, and are negotiated in accordance with the principles of neutrality, good faith, non-discrimination, and equality of access among operators.

*Restrictions on Foreign Investment*

In the first quarter of 2003, the government implemented a foreign currency exchange control regime that limits the free convertibility of the Venezuelan currency. At the same time, the government created CADIVI (Comisión de Administración de Divisas), an organism that regulates the purchase and sale of foreign currency in

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and the repatriation of capital from Venezuela. All proposed foreign currency transactions, as well as all proposed exports of capital from Venezuela by foreign persons or corporations, must be notified to and approved by CADIVI. This also applies to repatriation of capital as a product of the operation of the foreign companies that operates in the country.

### *Other provisions*

Telecommunications services are subject to the following special taxes and tributes: a quarterly tax of 2.3% of gross revenue; an annual contribution to the Universal Services Fund amounting to 1% of gross revenue; an annual contribution to the Telecom Development Fund amounting to 0.5% of gross revenue; an annual fee for the utilization of radioelectric spectrum amounting to 0.5% of gross revenue; and a quarterly contribution to CONATEL to finance its activities amounting to 0.5% of gross revenues. An additional tax amounting to 0.5% of annual gross revenues applies only to cellular mobile telephony providers until 2005. According to the telecom law, this tax is scheduled to be eliminated by 2006. All of these taxes are in addition to any general corporate income tax and other related fees paid by telecommunications providers.

The new Municipal Power Law (Ley del Poder Público Municipal), determines a local tax which amount is up to 1% of gross revenue of telecommunication services. In order to apply the new tax, Telcel has to sign contracts with all the local government called municipios, about 330, to establish the amounts and other conditions of payment. Telcel has started to sign these contracts with the major municipals, according to the Law.

## **C. ORGANIZATIONAL STRUCTURE**

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

## **D. PROPERTY, PLANTS AND EQUIPMENT**

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

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

switching, transmissions and receiving equipment;

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

land and buildings;

easements; and

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

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

### **Item 4A. UNRESOLVED STAFF COMMENTS**

Not applicable.

### **Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

#### **First Time Adoption of International Financial Reporting Standards**

The transition of the Telefónica Móviles consolidated financial statements to IFRS has been carried out by applying IFRS 1: First-Time Adoption of International Financial Reporting Standards, using January 1, 2004 as the earliest period presented for comparative purposes under the new accounting standards. This date is considered as the date of transition to IFRS.

As a general rule, the IFRS in force on December 31, 2005 must be applied retrospectively to prepare an opening balance sheet at the date of transition and all following periods. IFRS 1 provides for certain exemptions from full retrospective application of IFRS in the opening balance sheet.



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The main exceptions are as follows:

**IFRS 3 Business Combinations:** Telefónica Móviles has elected to apply IFRS 3 Business Combinations prospectively from the date of transition, therefore it has not restated any business combination that took place before January 1, 2004.

**IAS 16 Fair value or revaluation as deemed cost:** Telefónica Móviles has chosen to continue to carry its property, plant, and equipment and intangible assets at their respective carrying amounts under former Spanish GAAP, without remeasuring any of these items at their fair value at January 1, 2004.

**IAS 21 Accumulated translation differences:** Telefónica Móviles has elected to reset the accumulated translation adjustments up to the date of transition to zero.

**IAS 32 and IAS 39 Financial instruments:** Telefónica Móviles has chosen not to apply the exception allowing the application of IAS 39 Financial Instruments: Recognition and Measurement and IAS 32 Financial Instruments: Presentation and Disclosure from January 1, 2005, applying these standards as from the date of transition to , i.e., January 1, 2004.

**IFRS 2 Share-based Payment:** Telefónica Móviles has elected not to apply IFRS 2 Share-based Payments to account for share-based payment transactions granted prior to November 7, 2002. The main differences and their impact on shareholders' equity at January 1 and December 31, 2004 and net income in 2004, are described in the Notes to the Consolidated Financial Statements included elsewhere herein.

The principal differences and their impact on shareholders' equity at January 1, 2004 and December 31, 2004 and net income for the year ended December 31, 2004 are described in the Notes to the Consolidated Financial Statements included elsewhere herein.

## **A. OPERATING RESULTS**

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

### **Overview**

We are a leading provider of wireless communications services in Spain and Latin America in terms of managed customers. We estimate, based on annual reports and press releases made public by our competitors and information from regulatory authorities, that we are one of the four largest global providers of wireless communication services based upon total managed customers at December 31, 2005. We offer a broad range of wireless services, including voice services, enhanced calling features, international roaming, and wireless internet and data services.

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At December 31, 2005, Telefónica Móviles provided wireless services through its operating companies and joint venture, to approximately 94.4 million managed customers in territories with a population of approximately 518 million. Telefónica Móviles has operations in Spain, Mexico, Peru, El Salvador, Guatemala, Venezuela, Colombia, Panama, Nicaragua, Ecuador, Uruguay, Argentina and Chile and, through its joint venture with Portugal Telecom, it also provides wireless communication services in Brazil. Telefónica Móviles also operates in Morocco where it has a 32.18% interest in Medi Telecom and currently appoints Medi Telecom's chief executive officer.

### **Basis of Presentation**

Our financial statements included in this annual report are consolidated for the years ended and at December 31, 2005 and 2004. The Consolidated Financial Statements may not necessarily be indicative of our results of operations, financial condition and cash flows in the future.

The following table presents, for the periods indicated, the principal companies that are included in our Consolidated Financial Statements and the methods of consolidation used in preparing these financial statements. Companies identified in any period by full consolidation are those included in our financial statements by the

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global integration method, which requires each line item of those companies' results to be integrated into each line item of our statement of operations. Companies identified in any period by proportional method means our share of the assets, liabilities, income and expenses in the joint venture are combined on a line-by-line basis with similar items in our financial statements, or reported as a separate line item in our financial statements. Companies identified in any period by equity method means the results of these companies are only reflected in our consolidated statement of operations under Income (losses) of associated companies.

	Percentage Ownership		Consolidation method	
	Year Ended December 31,		Year Ended December 31,	
	2005	2004	2005	2004
T. Móviles España	100.00%	100.00%	Full consolidation	Full consolidation
Brasilcel(1)	50.00%	50.00%	Proportional method	Proportional method
T. Móviles México	100.00%	92.00%	Full consolidation	Full consolidation
TEM Panamá(2)	99.98%	99.57%	Full consolidation	Full consolidation
TEM Guatemala	100.00%	100.00%	Full consolidation	Full consolidation
TEM Guatemala y Cía(2)	100.00%	100.00%	Full consolidation	Full consolidation
TEM El Salvador(3)	99.03%	91.75%	Full consolidation	Full consolidation
Telefonía Celular Nicaragua(2)	100.00%	100.00%	Full consolidation	Full consolidation
Telcel (Venezuela)(2)	100.00%	100.00%	Full consolidation	Full consolidation
TEM Colombia(2)	100.00%	100.00%	Full consolidation	Full consolidation
TEM Perú	98.03%		Full consolidation	
TM Perú SAC		97.97%		Full consolidation
Comunicaciones Móviles del Perú(2)		99.85%		Full consolidation
Otecel (Ecuador)(2)	100.00%	100.00%	Full consolidation	Full consolidation
TCP Argentina	100.00%	97.93%	Full consolidation	Full consolidation
Radiocomunic. Móviles SA (Argentina)(7)	100.00%		Full consolidation	
TM Chile(4)	100.00%	100.00%	Full consolidation	Full consolidation
Telefónica Móviles Chile(7)	100.00%		Full consolidation	
Abiatar (Uruguay)(2)	100.00%	100.00%	Full consolidation	Full consolidation
Medi Telecom	32.18%	32.18%	Equity method	Equity method
Group 3G (Germany)	57.20%	57.20%	Full consolidation	Full consolidation
Ipse 2000 (Italy)	45.59%	45.59%	Equity method	Equity method
3G Mobile AG (Switzerland)	100.00%	100.00%	Full consolidation	Full consolidation
TM Interacciona(5)		100.00%		Full consolidation
Mobipay España	13.36%	13.36%	Equity method	Equity method
Mobipay Internacional	50.00%	50.00%	Proportional method	Proportional method
TmAs	100.00%	100.00%	Full consolidation	Full consolidation
Tempos 21(6)	38.50%		Equity method	

- (1) Joint Venture which fully consolidates Tele Sudeste Celular Participações, Celular CRT Participações, Tele Leste Celular Participações, Telesp Celular Participações. Telesp Celular Participações fully consolidates Global Telecom Participações and Tele Centro Oeste Participações. Brasilcel owns the following stakes in its consolidated and other subsidiaries: Tele Sudeste Celular Participações 91.0%; Telesp Celular Participações 66.1%; Global Telecom Participações 66.1%; CRT Celular Participações 66.4%; Tele Leste Celular Participações 50.7% and Tele Centro Oeste Participações 34.7%. As of March 26, 2006, following TCO's merger with TCP, and TSD's, TBE's and CRTPart's merger into TCP, only one company exists, which has changed its name to VIVO Participações S.A.
- (2) After the acquisition of BellSouth's mobile operators in Colombia, Ecuador, Guatemala, Nicaragua, Panama, Peru, Uruguay and Venezuela, these companies are included within Group's consolidation perimeter by full consolidation from November 2004.
- (3) After the acquisition of an additional stake in 2005, the TEM Group has increased its stake to 99.03%.
- (4) After the acquisition of 100% of TM Chile, this company is fully consolidated from August 1, 2004.
- (5) In September 2005, Telefónica Móviles approved the merger between TM España and TM Interacciona, with TM España as the surviving Company.
- (6) In June 2005, with effect from January 2005, Tempos 21 is accounted for in our financial statements by the equity method.

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- (7) Acquired from BellSouth in January 2005 and included in our consolidation parameters as of that month.

**Table of Contents****Events Affecting Comparability of Historical and Future Results of Operations and Financial Condition**

The global telecommunications industry is undergoing extensive and rapid change. The wireless communications sector, in particular, is in the process of transformation due to general deregulation, licensing of additional spectrum, development of a broad range of wireless services and products, technological advances in handsets and networks, and the consolidation of wireless operators on a cross-border basis. In order to enhance our position as one of the leading global wireless operators and to achieve superior growth and profitability in our industry, we have taken a series of strategic initiatives during 2005 and 2004 that affect the comparability of our results of operations and financial condition. As a result of these strategic initiatives, our financial condition and results of operations at and for the years ended December 31, 2005 and 2004 may not be comparable with our financial condition and results of operations at and for prior or future periods.

**Foreign Currency Effects and Hedging**

Our consolidated net revenues from operations are to a significant extent denominated in currencies other than our reporting currency, EUR, and are translated into EUR at the average annual exchange rates for such currencies. Consequently, fluctuations in the exchange rates between EUR and the local currencies of the markets where we operate, particularly USD, Brazilian Reals and certain other Latin American currencies, affect the amount of consolidated net revenues from operations that we record in EUR. For a description of our hedging policy in respect of our exchange rate transaction exposure, see Item 11 Quantitative and Qualitative Disclosures About Market Risk Exchange Rate Risk below.

The table below sets forth the average exchange rates against the euro of the U.S. dollar and the key Latin American currencies that impacted our consolidated results during the periods indicated.

	<u>2004</u>	<u>2005</u>	<u>% change</u>
	<u>Average</u>	<u>Average</u>	<u>Average</u>
U.S. Dollar	1.24	1.24	
Argentine Peso	3.65	3.63	(0.55)%
Brazilian Real	3.63	3.00	(17.36)%
Chilean Peso	757.58	694.44	(8.33)%
Mexican Peso	14.02	13.52	(3.57)%
Peruvian Nuevos Soles	4.24	4.10	(3.30)%

Source: *Telefónica Móviles* calculations based on rates obtained from the Central or similar banks of the respective countries.

**Acquisition of BellSouth's Wireless Operations in Latin America**

In October 2004, pursuant to an agreement concluded with BellSouth in March 2004, we acquired from BellSouth its interests in its Latin American wireless operations. In certain countries, we subsequently increased the acquired stakes through the acquisition of minority interests. As of December 31, 2004, we owned 100% of BellSouth Colombia, Otecel, S.A. (Ecuador), Abiatar (Uruguay), Telcel, S.A. (Venezuela), Telefónica Móviles Guatemala y Cía. (formerly BellSouth Guatemala, S.A.) and Telefónica Celular de Nicaragua, S.A., 99.85% of Comunicaciones Móviles del Perú and 99.95% of Telefónica Móviles Panamá, S.A. These companies were consolidated into the Telefónica

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Móviles group as of November 1, 2004. Consequently, our consolidated statement of income for fiscal year 2004 includes the operating results of these companies for November and December 2004, and our consolidated balance sheet for the fiscal year ended December 31, 2004 includes all of the assets and liabilities of these acquired companies.

Additionally, in January 2005, we acquired 100% of Compañía de Radiocomunicaciones Móviles, S.A. (BellSouth's wireless operator in Argentina) and 100% of each of BellSouth Comunicaciones and BellSouth Chile (BellSouth's operating companies in Chile) from BellSouth. These companies were consolidated into the Telefónica Móviles group as of January 1, 2005.

### *Acquisition of Telefónica Móvil de Chile from Telefónica, S.A.*

On July 23, 2004, we acquired 100% of Telefónica Móvil de Chile, S.A. from CTC, a Telefónica S.A. subsidiary. Telefónica Móvil de Chile was consolidated into the Telefónica Móviles group as of August 1, 2004 under IFRS. Consequently, our consolidated statement of income for fiscal year 2004 includes the operating results of Telefónica Móvil de Chile for the last five months of 2004, and our consolidated balance sheet for the

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fiscal year ended December 31, 2004 includes all of Telefónica Móvil de Chile's assets and liabilities. In 2004, Telefónica Móvil de Chile represented approximately 2% of our consolidated net revenues from operations.

### ***Joint Venture with Portugal Telecom***

In June 2004, Brasilcel completed its acquisition of the interests of NTT DoCoMo, Inc. and Itochu Corporation in Sudestecel Participações, S.A., the holding company of Tele Sudeste Celular Participações, S.A. This acquisition brings Brasilcel's control of Sudestecel to 100%. In October 2004, Brasilcel completed voluntary tender offers for outstanding public holdings of Tele Sudeste Celular Participações, S.A., Tele Leste Celular Participações, S.A. and Celular CRT Participações, S.A., bringing Brasilcel's holdings in these companies to 90.9%, 50.6% and 67.0%, respectively. Additionally, in October 2004, Telesp Celular Participações, S.A. (TCP), a company controlled by Brasilcel, increased its participation in Tele Centro Oeste Celular Participações, S.A. (TCO) to 50.6% through the acquisition of a 32.8% interest in TCO's preferred shares. In addition, TCP's Board of Directors approved an increase in its share capital of approximately R\$2.1 billion, which was effected in January 2005. The proceeds raised were used in part to finance TCP's increased stake in TCO and the remainder has been used to partially repay short-term debt and improve TCP's capital structure. Through this transaction Brasilcel's stake in TCP's share capital increased to 65.7%. The proportional consolidation of Brasilcel represented approximately 13% of our consolidated net revenues from operations for 2004 and 11.4% for 2005.

### **Critical Accounting Policies**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reflected in the Consolidated Financial Statements and accompanying notes. We base our estimates on historical experience, where applicable and other assumptions that we believe are reasonable under the circumstances. Actual results may differ from those estimates under different assumptions or conditions. There are certain critical estimates that we believe require significant judgment when preparing our financial statements.

We consider an accounting estimate to be critical if: 1) it requires us to make assumptions because information was not available at the time or it included matters that were highly uncertain at the time we were making our estimate and 2) changes in the estimate or different estimates that we could have selected may have had a material impact on our financial condition or results of operations. The various policies that are important to the portrayal of our financial condition and results of operations include:

accounting for long-lived assets, including goodwill;

deferred taxes; and

provisions.

### ***Accounting for long-lived assets, including goodwill***

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Property, plant and equipment and intangible assets, other than goodwill, are recorded at acquisition cost. If such assets are acquired in a business combination, the acquisition cost is the estimated fair value of the acquired property, plant and equipment or intangible assets. Property, plant and equipment and intangible assets with definite useful lives are depreciated or amortized on a straight-line basis over their estimated useful lives.

Intangible assets with indefinite useful lives are not amortized, but are, instead, subject to an impairment test on a yearly basis and whenever there is an indication that such assets may be impaired.

Accounting for long-lived assets and intangible assets involves the use of estimates for determining: (a) the fair value at the acquisition date in the case of such assets acquired in a business combination, and (b) the useful lives of the assets over which they are to be depreciated or amortized. We believe that the estimates we make to determine an asset's useful life are critical accounting estimates because they require our management to make estimates about technological evolution and competitive uses of assets.

When an impairment in the carrying amount of an asset occurs, nonscheduled write-downs are made. We perform impairment tests of identifiable intangible and long-lived assets whenever there is reason to believe that the carrying value may exceed the recoverable amount, which is the higher of the asset's fair value less costs to sell and its value in use. Furthermore, previously recognized impairment losses may be reversed when changes in the estimates used to determine the asset's recoverable amount indicate that an impairment loss recognized in prior periods no longer exists or may have decreased.



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The determination of whether the impairment of long-lived and intangible assets is necessary involves the use of significant estimates and judgment that includes, but is not limited to, the analysis of the cause of potential impairment in value, the timing of such potential impairment and an estimate of the amount of the impairment, which requires the estimation of the future expected cash flows, discount rates and the fair value of the assets. Specifically, management has to make certain assumptions in respect of uncertain matters, such as growth in revenues, changes in market prices, operating margins, and technology developments and obsolescence, discontinuance of services and other changes in circumstances that indicate the need to perform an impairment test. Management's estimates about technology and its future development require significant judgment because the timing and nature of technological advances are difficult to predict.

Goodwill arises when the cost of a business combination exceeds the acquirer's interest in the net fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed. Goodwill is not amortized, but is, instead, subject to an impairment test on a yearly basis and whenever there is an indication that the goodwill may be impaired.

Nonscheduled write-downs of goodwill are made when an impairment in the carrying amount of goodwill occurs. We review, on a regular basis, the performance of our cash-generating units. We compare the carrying amount of the cash-generating unit to which the goodwill has been allocated with its recoverable amount. The determination of the recoverable amount of the cash-generating unit involves extensive use of estimates and significant management judgment is involved. Methods commonly used by us for valuations include discounted cash flow methods.

A significant change in the facts and circumstances that we relied upon in making our estimates may have a material impact on our operating results and financial condition.

### ***Deferred taxes***

Management assesses the recoverability of deferred tax assets on the basis of estimates of our future taxable profit. The recoverability of deferred tax assets ultimately depends on our ability to generate sufficient taxable profit during the periods in which the deferred tax assets are utilized. In making this assessment, our management considers the scheduled reversal of deferred tax liabilities, projected taxable profit and tax planning strategies.

This assessment is carried out on the basis of internal projections which are updated to reflect our most recent operating trends. In accordance with applicable accounting standards, a deferred tax asset must be recognized for all deductible temporary differences and for the carry-forward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Our current and deferred income taxes are impacted by events and transactions arising in the normal course of business as well as in connection with special and non-recurring items. Assessment of the appropriate amount and classification of income taxes is dependent on several factors, including estimates of the timing and realization of deferred tax assets and the timing of income tax payments. Actual collections and payments may materially differ from these estimates as a result of changes in tax laws as well as unanticipated future transactions impacting our income tax balances.

### ***Provisions***

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Provisions are recorded when, at the end of the period, the Group has a present obligation as a result of past events, whose settlement requires an outflow of resources that is considered probable and can be measured reliably. This obligation may be legal or constructive, arising from, but not limited to, regulation, contracts, common practice or public commitments, which have created a valid expectation on third parties that the Group will assume certain responsibilities. The amount recorded is the best estimation performed by the management in respect of the expenditure that will be required to settle the obligations, considering all the information available at the closing date, including the opinion of external experts, such as legal advisors or consultants.

If we are unable to reliably measure the obligation, no provision is recorded and information is then presented in the Notes to the Consolidated Financial Statements.

Because of the inherent uncertainties in this estimation, actual expenditures may be different from the originally estimated amount recognized.

**Table of Contents****Recent Accounting Pronouncements under IFRS*****Statements of Financial Accounting Standards No. 123 (Revised 2004): Share-Based Payment***

In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share Based Payments* (SFAS 123R). This statement eliminates the option to apply the intrinsic value measurement provisions of Accounting Principles Board ( APB ) Opinion No. 25, *Accounting for Stock Issued to Employees* to stock compensation awards issued to employees. Rather, SFAS 123R requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award the requisite service period (usually the vesting period). SFAS 123R applies to all awards granted after the required effective date, December 15, 2005, and to awards modified, repurchased, or cancelled after that date. SFAS 123R will be effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005 and therefore we will apply this standard for U.S. GAAP purposes in our the fiscal year beginning January 1, 2006. The Company does not anticipate that adoption of this Standard will have a material effect on its financial position, results of operations, or cash flows.

***SAB No. 107: Shared Based Payment***

On March 29, 2005, the SEC released a Staff Accounting Bulletin (SAB) relating to the FASB accounting standard for stock options and other share-based payments. The interpretations in SAB No. 107, *Share-Based Payment*, (SAB 107) express views of the SEC Staff regarding the application of SFAS No. 123 (revised 2004), *Share-Based Payment* (Statement 123R). Among other things, SAB 107 provides interpretive guidance related to the interaction between Statement 123R and certain SEC rules and regulations, as well as provides the Staff's views regarding the valuation of share-based payment arrangements for public companies. The Company does not anticipate that adoption of SAB 107 will have any effect on its financial position, results of operations or cash flows.

***Statements of Financial Accounting Standards No. 151: Inventory Costs An Amendment of ARB No. 43, Chapter 4***

On November 24, 2004, the FASB issued SFAS No. 151, *Inventory Cost*, a revision of ARB No. 43, Chapter 4 . The amendments to SFAS No. 151 aim to improve financial information, stating that the expenses of inactive facilities, transportation costs, manipulation costs and scrap material costs should be recorded in the statement of operation as expenses of the period. The application of fixed cost to inventories should be based on the normal capacity of the production facilities. SFAS No. 151 will be applicable to valuation of Inventories for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after the date this Statement is issued. The Company does not anticipate that the adoption of SFAS No. 151 will have a material impact on its financial position, cash flows or results of operations.

***Statements of Financial Accounting Standards No. 153: Exchanges of Non-monetary Assets An Amendment of APB Opinion No. 29***

On December 16, 2004, the FASB issued SFAS No. 153, *Exchanges of Non-monetary Assets* an amendment of APB Opinion No. 29 , which amends Accounting Principles Board Opinion No. 29 *Accounting for Nonmonetary Transactions* . This amendment is based on the idea that exchange transactions should be valued in accordance with the value of the exchanged assets. The exception made for similar non-monetary productive assets is eliminated and substituted by a more extensive exception related to non-monetary assets with a non-commercial

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consideration. APB No. 29 stated that the exchange transaction of a productive asset for a similar one should be recorded at the book value of the exchanged asset.

SAS No. 153 will be applicable for non-monetary asset exchange transactions occurring in fiscal periods beginning after June 15, 2005. The Company does not anticipate that the adoption of SFAS No. 153 will have a material impact on its financial position, cash flows or results of operations.

***Statements of Financial Accounting Standards No. 154: Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3***

On May, 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3. This Statement requires retrospective application to prior periods financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change.

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SFAS No. 154 shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Early adoption is permitted for accounting changes and corrections of errors made in fiscal years beginning after the date the Statement is issued. The Company does not anticipate that the adoption of SFAS No. 154 will have a material impact on its financial position, cash flows or results of operations.

### ***Statement of Financial Accounting Standards No. 155 Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140***

On February 2006 the FASB issued this Statement that amends FASB Statements No. 133, Accounting for Derivative Instruments and Hedging Activities, and No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. This Statement resolves issues addressed in Statement 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interests in Securitized Financial Assets.

This Statement permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends Statement 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This Statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. Earlier adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements, including financial statements for any interim period for that fiscal year. The Company does not anticipate that the adoption of this new statement at the required effective date will have a significant effect in its results of operations, financial position or cash flows.

### ***Statement of Financial Accounting Standards No. 156 Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140***

On March 2006 the FASB issued this Statement that amends FASB Statements No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, with respect to the accounting for separately recognized servicing assets and servicing liabilities.

The new Statement should be adopted as of the beginning of the first fiscal year that begins after September 15, 2006. The Company does not anticipate that the adoption of this new statement at the required effective date will have a significant effect in its results of operations, financial position or cash flows.

### ***The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments***

On November 2, 2005, the FASB issued Financial Staff Position ( FSP ) FAS 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, which nullifies certain requirements of Emerging Issues Task Force ( EITF ) Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments and supersedes EITF Abstracts Topic No. D-44, Recognition of Other-Than-Temporary Impairment Upon the Planned Sale of a Security whose Cost Exceeds Fair Value. The

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guidance in this FSP will be applied to reporting periods beginning after December 15, 2005. The Company does not expect that the adoption of this guidance will have a material effect on its financial position, results of operations or cash flows.

### *Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination*

At the June 15 and 16 EITF meeting, and further modified at the September 15, 2005 meeting, the EITF discussed Issue 05-6, *Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination*, ( EITF 05-6 ), and concluded on the appropriate amortization periods for leasehold improvements either acquired in a business combination or which were not preexisting and were placed in service significantly after, and not contemplated at, the beginning of the lease term. This Issue is effective for leasehold improvements (that are within the scope of this Issue) that are

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purchased or acquired in reporting periods beginning after June 29, 2005. The Company does not anticipate that the adoption of EITF 05-6 will have a material effect on its financial position, results of operations or cash flows.

### **Recent Accounting Pronouncements under IFRS**

At the date of preparation of these consolidated financial statements, several new IFRS, Amendments and IFRIC Interpretations were issued but not yet effective, being the following the most relevant to Telefónica Móviles' s consolidated financial statements:

#### ***Amendment to IAS 19 Employee Benefits***

This Amendment to IAS 19 Employee Benefits provides with a third optional treatment to account for actuarial gains and losses related to defined benefit plans. Under the currently effective text of IAS 19, an entity can elect to recognize actuarial gains and losses either in the income statement or in shareholders' equity, considering the percentages defined under the corridor approach. According to this Amendment, an entity may also choose to recognize all actuarial gains and losses directly against shareholders' equity.

An entity shall apply this Amendment for annual periods beginning on or after 1 January 2006. The Group does not anticipate that the adoption of this Amendment at the required effective date will have a significant effect in its results of operations, financial position or cash flows.

#### ***Amendment to IAS 21 The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation***

According to this Amendment to IAS 21 The Effects of Changes in Foreign Exchange Rates exchange differences arising from intragroup monetary items, which in substance, form part of the net investment in a foreign operation, are classified as equity until the disposal of the foreign operation, irrespective of which is the currency in which the monetary item is denominated.

An entity shall apply this Amendment for annual periods beginning on or after 1 January 2006. The Group does not anticipate that the adoption of this Amendment at the required effective date will have a significant effect in its results of operations, financial position or cash flows.

#### ***Amendment to IAS 39 Financial Instruments: Recognition and Measurement - Fair Value Option***

This Amendment to IAS 39 Financial Instruments: Recognition and Measurement revises the IAS 39 fair value option for financial assets and liabilities and limits its use to those financial instruments that meet certain criteria. Thus, an entity can use the fair value option when doing so eliminates or significantly reduces measurement or recognition inconsistencies that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. An entity may also use this designation when doing so results in more relevant information because a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. The fair value option also applies to embedded derivatives that meet

certain characteristics.

Following the recommendation of early application and transitional provisions, the Group has adopted this Amendment to IAS 39 Financial Instruments: Recognition and Measurement Fair Value Option before the effective date, which is January 1, 2006.

***Amendment to IAS 39 Financial Instruments: Recognition and Measurement Cash Flow Hedges of Forecast Intragroup Transactions***

This Amendment to IAS 39 Financial Instruments: Recognition and Measurement affects forecast intragroup transactions in a currency other than the functional currency of the reporting entity, when such transactions are highly probable and are subject to foreign exchange rate risk, which is likely to impact on the consolidated income statement. This Amendment allows transactions of the described nature to be designated as hedged items under a cash flow hedge for the purposes of the consolidated financial statements.

An entity shall apply this Amendment for annual periods beginning on or after 1 January 2006, although earlier application is encouraged. The Group does not anticipate that the adoption of this Amendment at the required effective date will have a significant effect in its results of operations, financial position or cash flows.



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***Amendment to IAS 39 Financial Instruments: Recognition and Measurement Financial Guarantee Contracts***

This Amendment to IAS 39 Financial Instruments: Recognition and Measurement is effective for annual periods beginning on or after January 1, 2006. Under the provisions of this Amendment, financial guarantee contracts issued and commitments to provide a loan at a below-market interest rate are scoped in IAS 39. Therefore, such instruments shall be measured at fair value upon initial recognition and remeasured subsequently at the higher of:

the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, and

the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 *Revenues*.

The Group does not anticipate that the adoption of this Amendment at the required effective date will have a significant effect in its results of operations, financial position or cash flows.

***IFRIC 4 Determining Whether an Arrangement Contains a Lease January 1, 2006***

The issues addressed in this Interpretation are: (a) how to determine whether an arrangement is, or contains, a lease as defined in IAS 17 *Leases*; (b) when the assessment or a reassessment of whether an arrangement is, or contains, a lease should be made; and (c) if an arrangement is, or contains, a lease, how the payments for the lease should be separated from payments for any other elements in the arrangement. According to this Interpretation, determining whether an arrangement is, or contains, a lease shall be based on the substance of the arrangement and requires an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset), and whether the arrangement conveys a right to use the asset.

An entity shall apply this Interpretation for annual periods beginning on or after January 1, 2006, although earlier application is encouraged. The Group does not anticipate that the adoption of this new Interpretation at the required effective date will have a significant effect in its results of operations, financial position or cash flows.

Other IFRS, Amendments and IFRIC Interpretations that have been issued but are not yet effective at the date of preparation of these consolidated financial statements are as follows:

<b><u>Standards and amendments to standards</u></b>	<b><u>Effective date</u></b>
IFRS 6 <i>Exploration for and Evaluation of Mineral Assets</i>	January 1, 2006
IFRS 7 <i>Financial Instruments: Disclosures</i>	January 1, 2007
Amendment to IAS 1 <i>Presentation of Financial Statements Capital Disclosures</i>	January 1, 2007
<b>Interpretations</b>	<b>Effective date</b>

IFRIC 5	<i>Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>	January 1, 2006
IFRIC 6	<i>Liabilities Arising from Participating in a Specific Market Waste Electrical and Electronic Equipment</i>	Years beginning after December 1, 2005
IFRIC 7	<i>Applying the Restatement Approach under IAS 29 Financial Information in Hyperinflationary Economies</i>	March 1, 2006
IFRIC 8	<i>Scope of IFRS 2 Share-based Payment</i>	May 1, 2006

The Group does not anticipate that the first-time adoption of the aforementioned Standards, Amendments and Interpretations will not have a significant impact on its consolidated financial statements.

**Economic Developments and Outlook**

*Spain*

Our results of operations are dependent to a large extent on the level of demand for our services in Spain. For the year ended December 31, 2005, net sales and rendering of services of our operations in Spain represented

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53.5% of our consolidated net sales and rendering of services for such year. Demand for our services in Spain is related to the performance of the Spanish economy. Spain's real gross domestic product (GDP) expanded by approximately 3.4% in 2005, the highest rate in the last five years, reflecting relatively stronger domestic demand. Inflation was 3.8% in 2005. The current-account deficit was estimated at 7.4% of GDP in 2005. The unemployment rate was 8.7% at December 31, 2005, the lowest rate in decades.

*Brazil*

Brazil's estimated GDP growth was 2.3% in 2005 compared to 4.9% in 2004 and 0.5% in 2003. Inflation has been gradually declining, with consumer prices increasing by 5.7% in 2005 compared to 7.6% in 2004 and 9.3% in 2003. In order to curb the inflationary trend and achieve the official government target rate of inflation, the Central Bank of Brazil raised the basic interest rate (Selic) from 16.00% in August 2004 to 19.75% in June 2005. After inflation was reduced to the target rate of inflation (5.1% in 2005), the Central Bank of Brazil began to gradually reduce the Selic rate to 19.50% in September 2005. At March 22, 2006, the Selic rate was 16.5%. Brazil ended 2005 with a record trade balance surplus of US\$44.7 billion, compared to US\$33.7 billion in 2004. In 2005, exports increased by 23% to US\$118.3 billion, while imports increased by 17% to US\$73.5 billion.

*Argentina*

Argentina's estimated GDP growth for 2005 was approximately 9.1%, which matched the average growth rate for 2003 and 2004 and represented the third consecutive year of growth after four years of recession from 1999 to 2002. The peso depreciated by 1.7% closing at 3.03 peso/U.S.\$1.00. The consumer inflation rate increased by 12.3%, above the original target range of 5% to 8% established by Argentina's central bank, while wholesale prices rose by 10.6% in 2005. The external surplus, following a 2004 surplus equivalent to 2.2% of GDP, was 2.5% of GDP in September of 2005. The unemployment rate decreased to 10.1% in December 2005 from 12.1% in December 2004 due to continued economic growth and the implementation of a wide range of social assistance programs. The accumulation of international reserves in the last two years has allowed Argentina to repay \$9.5 billion of its debt to the International Monetary Fund (IMF).

*Chile*

Chile's GDP grew approximately 6.3% in 2005 compared to 6.1% in 2004. Inflation increased from 1.1% in 2004 to 3.1% in 2005. The Chilean peso appreciated approximately 8.9% in nominal terms (8.0% in real terms) against the U.S. dollar in 2005. Chile's unemployment rate decreased to 6.9% at December 31, 2005 compared to 7.8% at December 31, 2004. In 2005, Chile had its largest budget surplus in eight years, reaching 4.8% of GDP in 2005, more than doubling the previous year's 2.2% of GDP due to strong growth in domestic demand and increasing copper prices.

*Colombia*

During 2005, Colombia's GDP growth rate was slightly over 4%, maintaining the stability of the last two years. Investment and private consumption were the main contributors to economic growth, while the external sector showed a mild deterioration caused by imports acceleration. The inflation rate decreased to 4.9% due to the strong commitment of Central Bank to keep it between 4.5% and 5.5%. The Colombian peso appreciated a 4.4%, partially due to Central Bank interventions.

*Mexico*

Mexico's GDP growth in 2005 was 3.0% compared to 4.4% in 2004. Inflation was 3.3%, the lowest rate in the last 37 years. The Mexican peso's strength against other foreign currencies improved during much of 2005 due to Mexico's liquidity, foreign demand for Mexican financial assets and the improvement in foreign accounts, supported by immigrant repatriation flows, high crude oil prices and foreign direct investment inflows. Mexico's accumulation of international reserves allowed Mexico to prepay \$6.8 billion of foreign debt.

*Peru*

During 2005, Peru saw a significant improvement in its main macroeconomic indicators. GDP grew 6.7% in 2005 (the highest rate in eight years) and by December 2005 the Peruvian economy had experienced a record of 54 consecutive months of growth. Annual inflation was 1.5% in 2005. The balance of payment current account showed a surplus of 1.3% of GDP (the highest level in 26 years) in 2005, and the fiscal deficit decreased to 0.4%

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of GDP (the lowest level since 1997). The government pre-paid foreign debt in an aggregate principal amount of US\$2.3 billion in 2005. Moreover, during 2005, Standard & Poor's and Fitch Ratings improved the Peruvian government's credit rating outlook to positive from stable.

### *Venezuela*

In 2005, Venezuela's GDP growth was 9.3%, lower than the 14% registered in 2004, but well above its historical rate. 2005 was the second year of positive growth, after two years of sharp economic recession. This recovery, driven by public expenditure and investment, was fostered by higher than expected oil prices during the period. This high oil prices contributed as well to the strong performance of the external sector, with a historical current account surplus (\$25 billion) twice as large as the 2004 one. The inflation rate declined throughout the year closing at 14.4%, down from 19% in 2004, although it remains the highest rate in Latin America. In the exchange rate policy context, the Venezuelan government devalued the exchange rate to 2150 bolivars/US\$ in March 2005, keeping it fixed for the rest of the year.

## **Introduction to Results of Operations**

The following is a brief description of the revenues and expenses that are included in the line items of the Consolidated Financial Statements.

### *Net Sales and Services*

Net sales and rendering of services consist of the following:

*Wireless communications services.* These revenues are derived from use of our wireless network to provide communication services to customers, which is our principal business activity. Revenues generated by wireless communications services include:

**Fees for voice services:** These fees for voice services are generally based on a customer's actual airtime usage. Fees for voice services also include connection and monthly fees. Fees for voice services are received on a pre-paid basis and on a contract basis.

**Value-added services fees:** These fees include additional charges for value-added services, such as SMS, Movistar e-moción, and MMS, which are used by some customers in addition to standard voice services.

**Interconnection fees:** These fees are collected from other telecommunications operators for terminating their calls on our network. Spain and the other countries in which we currently operate, other than Mexico (in respect of national calls only) have implemented a calling party pays system so that we receive substantial revenues in the form of payments from other telecommunications providers for calls made by their customers to customers on our network.

**Roaming fees:** These fees are collected from other wireless operators for calls by their customers that use our network.

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*Sales of handsets and accessories.* These revenues relate principally to the sale of handsets and other equipment.

*Other services.* These revenues are derived principally from fixed wireless services in rural Spain and from fixed-line services in Latin America.

### *Other Income*

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

### *Operating Expenses*

Our principal operating expenses are:

*Supplies.* These expenses include interconnection fees paid by us to other telecommunications companies, including our affiliates in the Telefónica Group, and the cost of purchasing handsets and accessories.

*Personnel expenses.* These expenses include all personnel-related expenses, primarily wages and salaries and employee benefits.

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*Other expenses.* These expenses include the costs of distribution and other commercial costs, advertising and marketing expenses, sales overhead, customer care, third-party network maintenance costs and long distance leased lines.

*Depreciation and amortization.* These expenses include non-cash items such as depreciation of property, plant and equipment, amortization of licenses and concessions and amortization of other intangible assets.

### *Non-Operating Expenses*

Our principal non-operating income (expense) items are:

*Share of profit (loss) of associates.* This represents our share of the income or loss of companies we have interests in and which we account for under the equity method.

*Net financial income (expense).* Our financial income and expense principally consists of revenues from interest bearing accounts and investment securities and other instruments and foreign exchange gains and interest on our debt and foreign exchange losses.

### *Corporate Income Tax*

The amounts provisioned for taxes are based upon income before taxes as calculated in accordance with applicable tax regulations in Spain and the other jurisdictions in which we operate. To date, the Spanish entities controlled by us have been members of the Telefónica, S.A. consolidated tax group and will continue to be so for as long as it owns at least a 75% interest in our company. The tax provision is calculated as an aggregate of the various tax provisions on earnings posted by each operator, with the corresponding adjustments.

### *Minority Interests*

These amounts reflect the minority interests held by third parties in our consolidated companies, which decreases our participation in the income or losses of those companies.

## **Non-GAAP Financial Information**

Operating income before depreciation and amortization ( OIBDA ) is calculated by excluding depreciation and amortization expenses from our operating income in order to eliminate the impact of generally long-term capital investments that cannot be significantly influenced by our management in the short-term. Our management believes that operating income before depreciation and amortization is meaningful for investors because it provides an analysis of our operating results and our segment profitability using the same measure used by our management. Operating income before depreciation and amortization also allows us to compare our results with those of other companies in the telecommunications sector without considering their asset structure. We use operating income before depreciation and amortization to track our business evolution and establish operational and strategic targets. Operating income before depreciation and amortization is also a measure commonly reported and widely used by analysts, investors and other interested parties in the telecommunications industry.

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Operating income before depreciation and amortization is not an explicit measure of financial performance under IFRS or U.S. GAAP and may not be comparable to other similarly titled measures for other companies. Operating income before depreciation and amortization should not be considered an alternative to operating income as an indicator of our operating performance, or an alternative to cash flows from operating activities as a measure of our liquidity.

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

	<b>Year ended December 31,</b>	
	<b>2004</b>	<b>2005</b>
	<b>(in millions of euros)</b>	
Operating income before depreciation and amortization	4,587.9	5,817.0
Depreciation and amortization expense	(1,522.9)	(2,374.0)
<b>Operating income</b>	<b>3,065.0</b>	<b>3,443.0</b>



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The following table provides a reconciliation of operating income before depreciation and amortization to operating income for each business lines for the periods indicated.

**Year ended December 31, 2005**

	<u>Spain</u>	<u>Latin America</u>	<u>Others</u>	<u>TOTAL</u>
Operating income before depreciation and amortization	4,127.9	1,754.6	(65.5)	5,817.0
Depreciation and amortization expenses	(664.9)	(1,489.5)	(219.6)	(2,374.0)
<b>Operating income</b>	<b>3,463.0</b>	<b>265.1</b>	<b>(285.1)</b>	<b>3,443.0</b>

**Year ended December 31, 2004**

	<u>Spain</u>	<u>Latin America</u>	<u>Others</u>	<u>TOTAL</u>
Operating income before depreciation and amortization	4,158.2	551.2	(121.5)	4,587.9
Depreciation and amortization expenses	(662.8)	(806.5)	(53.6)	(1,522.9)
<b>Operating income</b>	<b>3,495.4</b>	<b>(255.4)</b>	<b>(175.1)</b>	<b>3,065.0</b>

**Results of Operations**

The following table presents our results of operations for 2005 and 2004 under IFRS:

	<u>2005</u>	<u>2004</u>	<u>% Change</u>
	(euros in millions)		
Net sales and rendering of services	16,513.5	11,753.9	40.5%
Other income	269.8	198.6	35.9%
Supplies	(5,365.5)	(3,594.9)	49.3%
Personnel expenses	(799.7)	(541.5)	47.7%
Other expenses	(4,801.1)	(3,228.1)	48.7%
Operating income before depreciation and amortization	5,817.0	4,587.9	26.8%
OIBDA margin	35.2%	39.0%	(9.7)%
Depreciation and amortization	(2,374.0)	(1,522.9)	55.9%

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<b>Operating income</b>	<b>3,443.0</b>	<b>3,064.9</b>	<b>12.3%</b>
Share of profit (loss) of associates	(154.2)	(38.1)	304.7%
Net financial income (expense)	(459.1)	(481.9)	4.7%
<b>Profit before taxes</b>	<b>2,829.7</b>	<b>2,544.9</b>	<b>11.2%</b>
Corporate income tax	(946.0)	(868.5)	8.9%
Minority interests	35.2	15.24	131.0%
<b>Profit for the year</b>	<b>1,918.9</b>	<b>1,691.7</b>	<b>13.4%</b>

The following discussion of our results of operations focuses primarily on the results of operations in Spain (including Telefónica Móviles España but excluding the operations of the holding company) and Latin America (excluding Telefónica Móviles Soluciones y Aplicaciones, S.A.), our principal regions of operations. For purposes of this discussion, our intercompany and other eliminations have been excluded from the financial information regarding Spain and Latin America and from individual company results of operations. Some figures may not add up due to these exclusions or to rounding.

**Table of Contents****Year Ended December 31, 2005 Compared to Year Ended December 31, 2004***Net sales and rendering of services*

The following table presents information regarding our net sales and rendering of services for the periods indicated.

	Year Ended December 31,		%
	2005	2004	
	(euros in millions)		
Spain	8,834.2	8,213.8	7.6%
Latin America	7,704.5	3,552.4	116.9%
Others and intragroup eliminations	(25.3)	(12.3)	105.1%
<b>Total</b>	<b>16,513.5</b>	<b>11,753.9</b>	<b>40.5%</b>

In 2005 net sales and rendering of services rose 40.5% compared to 2004, to 16,513.5 million, principally due to the contribution of a full year of net sales and rendering of services from the companies we acquired from BellSouth in 2004, as well as for the reasons described below.

The principal reason for the increase was the growth of our customer base. In 2005, we increased our managed customer base by approximately 20 million, or over 26%, to approximately 94 million managed customers by the end of the year. Service revenues were 40.4% higher than in 2004, at 14,354 million, while revenues from handset sales increased 41.4%, to 2,160 million. We recorded organic growth of 14.2% in net sales and rendering of services in 2005 compared to 2004, principally due to growth in net sales and rendering of services across all of our operations.

*Net sales and rendering of services in Spain:* net sales and rendering of services in Spain increased by 7.6%. Service revenues rose by 7.0% principally due to higher voice and data usage, offset in part by decreases in service prices and lower interconnection tariffs.

*Net sales and rendering of services in Latin America:* Net sales and rendering of services in Latin America represented 47% of our total consolidated figure and a year-on-year increase of approximately 117%. In organic terms, revenues were 23.5% higher, mainly due to the increase in our customer bases in Colombia (83%), Argentina (44.9%) and Venezuela (38.9%).

The main operating expenses by areas of operation were as follows:

*Supplies*

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Supplies, which mainly include handset purchases and interconnection costs, increased 49.3% to 5,365.5 million from 3,594.9 million in 2004. Supplies accounted for 32.5% of net sales and rendering of services, a two percentage point increase over 2004 (30.6%).

*Operations in Spain:* Total supply costs increased 14.7% to 2,359.3 million from 2,056.3 million in 2004, principally due to an increase in commercial activity and initiatives (gross adds, migrations and handset upgrades), as well as to an increase in interconnection expenses, mainly as a result of the growth in outgoing traffic. As a percentage of net sales and rendering of services in Spain, supplies increased nearly two percentage points to 26.7% in 2005 from 25.0% in 2004.

*Operations in Latin America:* supplies in Latin America totaled 3,026.3 million in 2005, up from 1,544.5 million in 2004, principally due to changes in our scope of consolidation and increased commercial activity in 2005. As a percentage of net sales and rendering of services in Latin America, supplies decreased to 39.3% in 2005 from 43.5% in 2004.

### *Personnel expenses*

The headcount at December 31, 2005 at fully and proportionally consolidated Telefónica Móviles Group companies stood at 23,511 compared to 20,282 at December 31, 2004. This increase was principally due to changes in our scope of consolidation as a result of our acquisitions from BellSouth in Argentina and Chile in January 2005.

Personnel expenses increased 47.7%, from 541.5 million to 799.7 million, representing 4.8% of net sales and rendering of services in 2005 compared to 4.6% in 2004.

*Operations in Spain:* The Telefónica Móviles Group's operations in Spain represented 34% of Telefónica Móviles Group's total personnel expenses. Personnel expenses increased 2.6%, from

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264.6 million in 2004 to 271.0 million in 2005, principally due to a 2.3% increase in the average workforce and salary increases. Personnel expenses in Spain represented 3.1% of net sales and rendering of services in 2005, the same percentage as in 2004.

*Operations in Latin America:* The Telefónica Móviles Group's operations in Latin America represented 61.4% of total personnel expenses, principally due to changes in the scope of our consolidation.

*Other expenses*

Other expenses increased 49% from 3,228.1 million in 2004 to 4,801.1 million in 2005. As a percentage of net sales and rendering of services, other expenses rose to 29.1% in 2005 from 27.5% in 2004, due in part to the launch of a common brand throughout all of the Spanish-speaking countries where we have operations.

*Operations in Spain:* Operations in Spain accounted for 45.5% of other expenses in 2005, a 21.1% increase, principally due to stronger commercial efforts, which led to increases in subscriber acquisition costs, subscriber retention costs and advertising expenses. Other expenses increased from 1,801.6 million in 2004 to 2,182.5 million in 2005, representing 24.7% of net sales and rendering of services compared to 21.9% in 2004.

*Operations in Latin America:* Operations in Latin America accounted for 53.5% of total other expenses. Other expenses in Latin America totaled 2,568.5 million in 2005 compared to 1,326.6 million in 2004, principally due to increased commercial activity and changes in the scope of our consolidation. When calculated as a percentage of net sales and rendering of services in Latin America, these expenses fell to 33.3% in 2005 from 37.3% in 2004.

*Depreciation and amortization*

Depreciation and amortization increased 55.9% to 2,374.0 million in 2005 from 1,522.9 million in 2004 principally due to changes in our scope of consolidation.

*Operating income before depreciation and amortization (OIBDA)*

The following table presents information regarding OIBDA for the periods indicated.

	<u>2005</u>	<u>2004</u>	<u>% Change</u>
	(euros in millions)		
Spain	4,127.9	4,158.2	(0.7)%
Latin America	1,754.6	551.2	218.4%
Rest of World and intragroup eliminations	(65.5)	(121.5)	(46.1)%
<b>Total</b>	<b>5,817.0</b>	<b>4,587.9</b>	<b>26.8%</b>

OIBDA increased 26.8% from 4,587.9 million in 2004 to 5,817 million in 2005. The consolidated OIBDA margin was 35.2%, down from 39.0% in 2004. OIBDA excluding the effect of our acquisitions during 2005 increased 7.4% for the year.

*Operations in Spain:* Operations in Spain represented 71.0% of the Telefónica Móviles Group's OIBDA in 2005, a 0.7% decrease from the previous year. The 2005 OIBDA margin was 46.7%, compared to 50.6% in 2004.

*Operations in Latin America:* OIBDA from Latin American operations increased 218.4% and represented 30.2% of consolidated OIBDA in 2005. In organic terms, OIBDA increased 27.9%, principally due to strong growth in Venezuela, Chile and Argentina.

*Net financial income (expense)*

Net financial expense decreased 4.7% to 459.1 million in 2005 from 481.9 million in 2004 principally due to positive exchange rate differences on intercompany loans arising from the appreciation of Latin American currencies and the US dollar versus the euro. Without such exchange rate differences, net financial expense would have increased in 2005 compared to 2004 due to the increase in average net debt and a larger proportion of debt denominated in local currencies.

*Share of profit (loss) of associates*

Losses from associated companies was 154.2 million in 2005 compared to 38.1 million in 2004. The increase in losses from associated companies was due to write-downs at Ipse 2000 S.p.A. ( 161 million in 2005

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compared to 28 million in 2004), which was offset in part by 8.5 million in profit from associated companies relating to Medi Telecom in 2005 compared to losses relating to Medi Telecom of 8.6 million in 2004.

### *Corporate income tax*

The corporate income tax expense in 2005 was 946.0 million, representing an effective tax rate of 33.4%, compared to corporate tax expense of 868.5 million in 2004, representing an effective tax rate of 34.1%.

### *Minority interests*

Minority interests were 35.2 million in 2005 compared to 15.2 million in 2004. The increase in minority interests was principally due to the participation of minority shareholders in certain of our companies in Mexico which recorded losses during the year.

### *Profit for the year attributable to equity holders of the parent company*

As a result of the above, profit for the year attributable to equity holders of the parent increased to 1,918.9 million in 2005 from 1,691.7 million in 2004.

## **B. LIQUIDITY AND CAPITAL RESOURCES**

### **Liquidity and Capital Resources**

We expect to have substantial liquidity and capital resource requirements in order to develop and expand our business, as we continue to implement our strategy.

#### *Liquidity and Capital Resource Requirements*

Our principal liquidity and capital resource requirements consist of the following:

capital expenditures for existing and new operations, including the roll-out of our GSM networks in several Latin America countries;

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acquisition of new licenses, or other wireless operators or companies engaged in complementary or related businesses;

debt service requirements relating to our existing and future debt; and

costs and expenses relating to the operation of our business.

*Capital Expenditures.* The following table presents our actual capital expenditures for 2004 and 2005:

	2004	2005
	(millions of euros)	
Spain	630	728
Latin America(1)	987	1,557
Others(2)	1	1
<b>Total</b>	<b>1,618</b>	<b>2,285</b>

(1) Includes capital expenditures for years in which our Latin American operating companies are included in our Consolidated Financial Statements.

(2) Principally Telefónica Móviles, S.A. (parent company) and Terra Mobile (now Telefónica Internacional that was absorbed by Telefónica Móviles España in 2005).

Our total capital expenditures totaled approximately 2,285 million for 2005 and 1,618 million for 2004. In each of these periods, the principal capital expenditures related to the build-out and development of our networks in Spain and the other countries in which we operate. In Spain, we substantially expanded the capacity of our digital network in order to accommodate the growth in our customer base and usage, and continued the roll out of our UMTS network. In 2005, we have also made significant expenditures to increase CDMA 1XRTT and CDMA EVDO coverage in Brasil, to develop 1XEVD0 CDMA technology in Venezuela, to roll out new GSM networks in Colombia, Ecuador, Panamá, Uruguay, and Nicaragua and to continue rolling out our GSM networks in México, Chile, Argentina, Guatemala and El Salvador.



**Table of Contents***Debt Profile*

The following table presents, at December 31, 2005, our historical debt at both the holding company and operating company levels, as well as information regarding interest expense of the weighted average interest rates of such debt:

	Maturity			2005 Interest Expense	Weighted Average Interest Rate(2)
	Short- Term	Long- Term	Total Debt		
(millions of euros)					
Historical debt:					
Spain	3,331	6,196	9,527	518	4.47%
Latin American operations	1,129	1,784	2,913	354	10.39%
<b>Total</b>	<b>4,460</b>	<b>7,981</b>	<b>12,441</b>	<b>872</b>	<b>5.52%</b>

(2) After hedging.

*Historical Debt.* We had total debt in an aggregate principal amount of 12,441 million at December 31, 2005 and 11,369 million at December 31, 2004. At December 31, 2005, total debt consisted of 4,460 million in short-term debt and 7,981 million in long-term debt. At December 31, 2004, total debt consisted of 2,680 million in short-term debt and 8,444 million in long-term debt.

At December 31, 2005, 9,755 million, or 78%, of our total debt was payable to the Telefónica Group, and 2,686 million, or 22%, of our total debt was payable to banks and other financial institutions. Approximately 10% of our debt payable to the Telefónica Group was incurred in connection with the acquisition of BellSouth's wireless operations in Chile and Argentina. While we are a 92.46%-owned subsidiary of Telefónica, S.A., we believe that historically most of our debt to Telefónica, S.A. was obtained substantially at market terms when arranged or incurred. In connection with the allocation of assets and debt lent to us by the Telefónica Group prior to our initial global public offering, the terms, particularly the weighted average interest rate of our debt to the Telefónica Group, was brought into line with then-prevailing market terms.

Our total debt includes both fixed-rate and variable-rate debt. At December 31, 2005, approximately 25.6% of our debt was fixed-rate and the remainder of our debt was variable-rate. Our total debt consists of debt denominated in euro, U.S. dollars, Brazilian reais, Chilean pesos, Colombian pesos, Mexican pesos and, to a lesser degree, other currencies. At December 31, 2005, and after taking into account hedging transactions, approximately 55.24% of our debt was denominated in euro, 10.5% in U.S. dollars; 9.7% in Brazilian reais, 6.2% in Chilean pesos, 11.2% in Mexican pesos, 3.5% in Colombian pesos, and a small amount in other currencies. We have entered into swaps and other derivative-based transactions, in large measure, to hedge interest-rate and exchange-rate risks relating to our debt. See note 17 to the Consolidated Financial Statements and the discussion under Item 11. Quantitative and Qualitative Disclosure About Market Risks for a discussion of our market risks relating to interest rates and foreign exchange rates at December 31, 2005.

The agreements and instruments pertaining to the debt of our operating companies in Latin America impose various customary financial and negative covenants such as ratios of debt to Operating Income before Depreciation and Amortization and Operating Income before Depreciation and Amortization to financial expenses, limitations on asset sales, mergers, etc., and negative pledges. These debt instruments define Operating

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Income before Depreciation and Amortization as the sum of net income, (income/loss) attributable to minority interests, taxes, financial interests, amortization, depreciation and legal provision that do not require a cash disbursement, minus (gain/loss) of companies accounted for by the equity method.

*Debt Service Requirements.* We have significant debt service requirements arising from debts payable to the Telefónica Group, which conducts the treasury operations for the Telefónica Group, and debts payable to banks and other financial institutions. These debt service requirements consist of interest payments, which are reflected in our income statements under Net financial income (expense), and principal payments. Net financial income (expense) also includes the effects of foreign currency movements on debt denominated in currencies other than the euro. Our interest expense, excluding the effects of foreign currency movements, totaled approximately 872 million in 2005 as compared with 580 million in 2004. The increase in interest expense (50%) is explained by the increase in the average debt of the Group (57%).

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### *Historical Dividend Payments*

Historically, Telefónica Móviles España, our Spanish operating company, made significant dividend payments to Telefónica, S.A., including 274 million in 1999 and 210 million in 1998.

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

On April 16, 2004, the Shareholders Meeting of Telefónica Móviles resolved the payment of a gross cash dividend, with a charge to profits for fiscal year 2003, in the amount of 0.1838 on each of the Company's current issued and outstanding shares. Payment was made on June 16, 2004, through the entities participating in the securities and clearing institution Iberclear.

On May 6, 2005, the Shareholders Meeting of Telefónica Móviles resolved the payment of a gross cash dividend, with a charge to profits for fiscal year 2004, in the amount of 0.193 on each of the Company's current issued and outstanding shares. Payment was made on June 15, 2005, through the entities participating in the securities and clearing institution Iberclear and the retentions required by applicable legislation will be applied.

On February 27, 2006 the Board of Directors of Telefónica Móviles resolved to propose to the General Shareholders Meeting the payment of a gross cash dividend, with a charge to profits for fiscal year 2005 and reserves, in the amount of 0.205 each of the Company's current issued and outstanding shares. Payment will be made, if approved by the General Shareholders Meeting on July 21, 2006, through the entities participating in the securities and clearing institution Iberclear and the retentions required by applicable legislation will be applied.

On March 29, 2006, the Board of Directors of Telefónica Móviles, in the framework of the negotiation of the exchange ratio for the merger, also proposed for the approval of the General Shareholders Meeting the payment of additional dividends in the amount of 0.085 per share chargeable against the issue premium reserve and other distributable reserves and an interim dividend of 0.35 per share against the results obtained from January 1 through March 28, 2006, which, when aggregated with the dividend proposed by the Board of Directors on February 27, 2006, totals 0.64 per share. The effectiveness of the distribution is subject to approval of the merger by the shareholders meetings of both companies. Payment of the total dividend of 0.64 per share is expected to be made on July 21, 2006, before the merger of Telefónica and Telefónica Móviles is recorded with the Commercial Registry.

### *Sources of Liquidity and Capital Resources*

Our primary sources of liquidity and capital resources have traditionally consisted of the following:

*Net Cash Provided by Operating Activities.* Our principal source of liquidity has historically been cash provided by operating activities. Our cash provided by operating activities was 4,479 million in 2005 and 3,915 million in 2004.

*Debt Financing Strategy.* Although, in the future, we may seek to access local and international loan and debt capital markets, we intend to rely principally upon Telefónica, S.A. to make borrowings or issue debt securities on our behalf and then on-lend the net proceeds to us. We anticipate that the on-lending will be based on arm's-length terms and will reflect the prevailing market conditions for borrowers and issuers of debt securities of similar credit quality to our own. We do not expect to pay any fees or other amounts to Telefónica, S.A., other than, possibly, amounts which will be insignificant, for its role in financing our liquidity or capital resource requirements. Telefónica, S.A. is under no obligation, however, to provide us with sources of liquidity or capital resources. Our debt outstanding in credit lines with the Telefónica Group was 6,239 million and 7,479 million at December 31, 2005 and December 31, 2004, respectively.

*Shareholders' Equity*

We had shareholders' equity of 5,746 million at December 31, 2005 and 3,543 million at December 31, 2004, under IFRS. As reflected in the consolidated and combined balanced sheets, net equity investment by Telefónica, S.A. consists of the accumulated undistributed net income of our company and our operating companies, capital contributions that had been made from time to time by Telefónica, S.A. and translation differences resulting from the effects of exchange rate fluctuations on the net assets of our companies domiciled outside of Spain. We intend to maintain a capital structure that will enable us to obtain and retain investment

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grade ratings from major rating agencies for any debt securities that we may issue in the future. We cannot be certain that our future financial requirements will not be greater than expected or that future conditions in the loan and debt and equity capital markets will not adversely affect our ability to meet these requirements, particularly if the cost of capital increases as we and other wireless operators seek increasingly large amounts of debt and equity financing to develop and expand our and their respective operations.

*Committed Credit Lines*

We maintain a committed line of credit with the Telefónica Group. This credit line totaled 6,465 million at December 31, 2005 and 7,730 million at December 31, 2004. This credit line contains customary default provisions that could impact the continued availability of credit or result in the acceleration of repayment. These events include bankruptcy, defaults in payment of other indebtedness, judgments against us that are not paid or insured or failure to meet or maintain certain covenants.

We believe that cash provided by operating activities, our debt financing, and our committed credit lines will provide sufficient financial resources to meet our projected capital and other expenditure requirements and to settle or refinance our projected liabilities as they fall due. However, if we have underestimated our capital requirements or overestimated our future cash flows, we may be forced to issue equity or incur additional debt, including entering into lease arrangements. We cannot assure you that future conditions in financial markets will not adversely affect our financial condition or results of operations.

*Related Party Debt*

	Telefónica Móviles	Telefónica Móviles España	Móviles Inter- acciona	Móviles México	Inversiones TEM Holding Ltda.	Short Term	Long Term	Weighed average rate (1)
(euro in millions)								
Telefónica, S.A.	9,190					3,306	5,884	4.65%
TELFISA-BEI		271	0			26	245	2.85%
Telfisa México				0		0		11.18%
Telefónica Internacional Chile S.A.					300	0	300	2.80%
<b>Total</b>	<b>9,190</b>	<b>271</b>	<b>0</b>	<b>0</b>	<b>300</b>	<b>3,331</b>	<b>6,429</b>	<b>4.58%</b>

(1) After hedging.

**U.S. GAAP***Background on adoption of IFRS*

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As of January 1, 2004, our Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS), which vary in certain respects from accounting principles generally accepted in the United States of America (U.S. GAAP). The tables included in note 20 give the effect that application of U.S. GAAP would have on net income and shareholders' equity as reported under IFRS. Pursuant to current EU law, Telefónica Móviles has applied the International Financial Reporting Standards endorsed by the EU in preparing its Consolidated Financial Statements. Our Consolidated Financial Statements would not present any difference had the standards issued by the International Accounting Standards Board (IASB) been applied instead of those endorsed by the EU.

IFRS 1 provides first-time adopters of IFRS with a number of exemptions and exceptions from full retrospective application, some of which are applicable to Telefónica Móviles (see Note 2). Had IFRS been applied fully retrospectively, net result and shareholders' equity under IFRS shown in the table included in Note 20 would have been different and the reconciling items to U.S. GAAP shown would also have been different.

### *Reconciliation to U.S. GAAP*

The Consolidated Financial Statements have been prepared in accordance with IFRS. Shareholders' equity would have been 7,329 million under U.S. GAAP compared to 6,246 million under IFRS at December 31, 2005 and 4,837 million under U.S. GAAP compared to 3,820 million under IFRS at December 31, 2004.

The increase in shareholders' equity under U.S. GAAP in 2005 and 2004 as compared with shareholders' equity under IFRS is principally related to business combinations, goodwill and other intangible assets and the effect of presentation of minority interests. See Notes 20.6 and 20.1 to our Consolidated Financial Statements.

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Net income would have been 1,901 million under U.S. GAAP compared to 1,919 million under IFRS for 2005 and 1,576 million under U.S. GAAP compared to 1,692 million under IFRS for 2004.

The decrease in net income under U.S. GAAP in 2005 as compared with net income under IFRS is principally related to the effects of business combinations, goodwill and other intangible assets, amortization method of licenses and capitalized interests. See Notes 20.7, 20.6 and 20.3 to our Consolidated Financial Statements.

The decrease in net income under U.S. GAAP in 2004 as compared with net income under IFRS is principally related to the effects of business combinations, goodwill and other intangible assets, amortization method of licenses, revenue recognition, capitalized interests and recognition of tax credits in periods initially awarded. See Notes 20.7, 20.6, 20.5, 20.3 and 20.10 to our Consolidated Financial Statements.

See note 20 to the Consolidated Financial Statements for a description of the principal differences between IFRS and U.S. GAAP as they pertain to us and for a quantitative reconciliation of net income and shareholders' equity from IFRS to U.S. GAAP.

## **Hedging Policy**

Exchange rate fluctuation (especially for Latin American currencies) has positively impacted our results of operations. Specifically, consolidated operating income before depreciation and amortization for fiscal year 2005 was 5,817 million. Excluding the impact of currency fluctuation, consolidated operating income before depreciation and amortization would have been 1.4% lower for 2005 and 0.7% higher for 2004, due to the negative fluctuation during that year. In order to hedge the possible adverse impact of the exchange rate fluctuations on our operating results, we primarily seek to mitigate the impact on the value of our assets by financing the purchase of such assets, as well as our local operations by incurring debt denominated in local currencies when available and under attractive market conditions. We also hedge this risk by entering into other financial instruments including exchange rate swaps. In accordance with our risk management policy in most cases we enter into hedging transactions to cover debt payments or payments denominated in foreign currencies. For further information on the risks we face, please see Item 11 Quantitative and Qualitative Disclosure About Market Risk.

## **Seasonality of Our Business**

Our business is subject to a certain degree of seasonality, characterized by a higher traffic in the summer and, as a result of increased handset sales, a higher number of new customers in the Christmas season. We believe that this seasonality is driven by Christmas marketing campaigns and higher mobile telephony in the residential segment during vacation periods. In addition, roaming revenue derived from visitors who use Telefónica Móviles España's network normally represents 2% to 3% of Telefónica Móviles España's quarterly operating revenue. In the third quarter, such revenue normally increases from 4% to 5%, in line with increased visitors to Spain in the summer months.

## **C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.**

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We cooperate with the research and development departments of various handset manufacturers to ensure the development and success of CDMA 1XRTT, GPRS and UMTS-ready handsets with capacity to transmit data at high speeds. We engage in our own research and development to ensure compatibility between our services and products and the latest handset models and to develop new services. At the end of 1999 we set up a Development and Technologies Center dedicated to the development of wireless internet products and services. This center develops projects in conjunction with universities and Spanish and international companies in the wireless sector, to increase public awareness of the possibilities offered by wireless communications. We invested approximately 205 million in 2005 and 153 million in 2004 on our research and development activities.

R+D projects carried out by the Telefónica Móviles Group in 2005 were aimed at profitable innovation, process efficiency, the creation of new revenue sources, customer satisfaction, growth in new markets and technological leadership.

### **D. TREND INFORMATION**

The penetration rate in the Spanish market for wireless services was 97% at December 31, 2005. We believe the wireless market in Spain will continue to grow, mainly driven by increased usage of voice and data services. While we believe the penetration rate in Spain will continue to increase, we do not expect that it will continue to grow at the same high rates that it experienced in the past.



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In an increasingly competitive market, with strong competition in number portability and pressure on pricing, including termination rate reductions, along with the potential entry of new competitors, we are focused on key initiatives to preserve our revenue leadership in the market, leading to increased commercial efforts:

in-depth market segmentation, with focus on customer value,

smart pricing to stimulate usage, launching segmented packages and innovative tariff options,

leverage UMTS to develop new services, deploying the network ahead of competitors.

In an effort to further increase customer loyalty and usage, Telefónica Móviles España in 2005 has launched several commercial initiatives, including new pricing schemes that are assisting us in our efforts to contain the churn rate. Customers who have signed up for our on-net pricing plans, launched in April 2005 have significantly lower churn rates than those customers that have not signed up for such pricing plans.

Telefónica Móviles España is also launching campaigns to reward customer loyalty, offering favorable prices on handset upgrades to encourage greater customer loyalty. Handset upgrades increased 23.2% to 4.5 million in 2005.

Telefónica Móviles España is also encouraging customer migration from its pre-paid plans to its contract plans. These migrations have contributed to the 5 percentage point increase in the proportion of the contract segment in the total customer base to 54% in 2005 and have also encouraged increased spending from its contract customers. In 2005, migrations from pre-paid to contract plans reached close to 1.0 million customers.

We believe that these activities and our other commercial initiatives are proving to be important loyalty tools.

Telefónica Móviles España's new commercial offers have also helped increase customer usage. The company carried more than 50,000 million minutes in 2005, a 20% increase compared to 2004. On-net traffic also increased 30% in 2005 compared to 2004. At the same time, our customers' use of data and content services also grew. We believe the UMTS/HSDPA deployment will increase wireless data services usage, especially for wireless e-mail management and Internet access.

Our operations in Latin America, although in an expansion phase of development in most countries, have generally been successful in achieving significant market penetration.

In Latin America our managed customer base increased from 52.7 million at December 31, 2004 to 70.5 million at December 31, 2005, mainly due to the increased commercial activity in our markets and our acquisition and consolidation of BellSouth's mobile operators in Argentina and Chile since January 2005. In 2005, all of our operations in Latin America posted double digit customer growth rates. In addition, in Chile, wireless penetration exceeded the 70% mark.

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We are capitalizing on the regional management of operations in the region, the integration of operators acquired to BellSouth, our larger scale and Group know-how to enhance operating efficiency across our operations in Latin America.

We also plan to leverage other strategic business initiatives such as the launch of a single brand for our operations in Spanish-speaking markets, which we carried out during the second quarter of 2005, handset and equipment procurement, infrastructure and IT systems sharing, global solutions for the corporate segment and integrated commercial offerings to consolidate competitive positions in our markets while increasing profitability.

The Latin American wireless communications market has been shaped by several underlying trends that we believe will contribute to growth in this market in the future, including the following:

*Market liberalization.* Deregulation of the Latin American telecommunications markets, which has allowed for the entry of new competitors and the granting of new licenses, has resulted in increased competition for substantially all telecommunications services and products. Competition in these markets has increased the availability of advanced wireless services and reduced prices, which has resulted, in turn, in increased demand for these services.

*Calling party pays billing system.* Following the European experience, and in contrast to U.S. practice, regulators in most Latin American countries introduced in the late 1990s a mandatory calling party pays system, under which the person who initiates a call is billed for that call. In Latin America, this system has resulted in increased wireless usage.

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*Expanding penetration and usage, above fixed-line penetration rate.* The number of wireless customers and wireless penetration levels have steadily increased in Latin America in recent years, to the extent that, in most of the countries in the region, the wireless penetration has become higher than the fixed-line penetration, although wireless penetration in Latin America remains low compared with penetration rates in Western Europe. As the cost of wireless services and handsets has declined, these services have become more affordable for a significantly larger percentage of the Latin American population, and both overall minutes of use and revenues have increased. Greater penetration and wireless traffic means that wireless operators can apportion their fixed costs among a greater number of customers, resulting in lower costs per unit which, together with low handset prices, has resulted in a larger percentage of the population being able to afford wireless services, thereby increasing demand and revenues.

*Introduction of new technologies.* Voice services as well as mobile Internet and data transmission services have increased through the installation of new 2.5/3G technologies (GSM/GPRS, EDGE and CDMA/CDMA 1XRTT/CDMA EVDO). The progress in introducing GSM/GPRS technology in the region over the last two years has been particularly significant, above all in the principal markets such as Brazil, Mexico, Chile, Colombia and Argentina, where various operators have started migrating their 1G and 2G networks to the standard GSM/GPRS networks. The increase in CDMA 1XRTT data networks has also been significant, especially in some countries such as Brazil and Venezuela, making it possible to increase the data revenues of wireless operators. Also, in Brazil in 2004 Vivo launched CDMA EVDO, a technology that increases data capabilities allowing speeds of up to 2.4 Mbits/s. We launched the same technology in Venezuela in 2005.

*Regional consolidation.* In recent years, a number of wireless operators in the region have consolidated in order to exploit economies of scale and synergies that will improve profitability through increased cost-efficiencies. We participated actively in this process through the establishment of the Brasilcel joint venture and the acquisition of Tele Centro Oeste Participações S.A. in Brazil in 2003, as well as our acquisition of BellSouth's wireless operators in Latin America in 2004 and January 2005 and the acquisition of Telefónica Móvil de Chile in July 2004. The Mexican cellular group, América Móvil, has also played an important role in this process.

This section contains forward looking statements that are based upon certain assumptions. Such forward looking statements are not guarantees of future performance and involve numerous risks and uncertainties, and actual results may differ materially from those anticipated. For a discussion of important factors that could cause such differences please see the discussion in this section as well as Item 3 Risk Factors, Item 4 Information on the Company, Item 5 Operating and Financial Review and Prospects and Item 11 Quantitative and Qualitative Disclosures about Market Risk.

## **E. OFF-BALANCE SHEET COMMITMENTS**

We have commitments that could require us to make material payments in the future. These commitments are not included in our consolidated balance sheet as of December 31, 2005. A summary of our principal off-balance sheet commitments as of the date of this annual report is provided below. These commitments are primarily contingent obligations in the form of guarantees for our subsidiaries and put and call rights with respect to some of our joint ventures. These arrangements allow us to provide the necessary credit support for some of our subsidiaries to develop their operations and allow us to enter into joint ventures on market terms. As of the date of this annual report, we are not aware of any events that would result in the material reduction to us of any of these off-balance sheet arrangements. For a more detailed discussion of our off-balance sheet commitments please refer to notes 15 and 18 of our consolidated and Consolidated Financial Statements.

### **IPSE 2000 (Italy)**

### ***UMTS Guarantee***

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On December 11, 2000, a syndicate of banks agreed to issue a guarantee in an aggregate amount of 1,292 million on behalf of Ipse 2000 to the Italian Ministry of Treasury. This guarantee covered the deferred portion of Ipse 2000's required payment for its UMTS license in Italy. As of December 31, 2005, the amount outstanding for the UMTS license was 601.7 million.

As of December 31, 2005, the guarantee amount was 626.4 million. Telefónica, S.A. has agreed to guarantee to the syndicate of banks up to a maximum amount of 365.5 million as of December 31, 2005. On December 27, 2002, we in turn agreed to guarantee Telefónica, S.A. for 91.79% of the amount guaranteed by Telefónica (approximately 335.5 million as of December 31, 2005).

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### **Telefónica Móviles España (Spain)**

#### ***UMTS Bank Guarantees***

With respect to our UMTS license in Spain, we were required to provide bank guarantees totaling 1,100 million to secure the commitments assumed in our UMTS license application. These guarantees support several network build-out requirements, research and development requirements and job creation requirements, and were to be released from time to time as milestones were reached.

On June 23, 2004 the Ministry of Industry, Tourism and Commerce, pursuant to a request made by Telefónica Móviles España, issued an order modifying the commitments assumed by Telefónica Móviles España for the exploitation of the UMTS service. As a result of the modification, the amount to be secured by Telefónica Móviles España, as guarantee of the fulfillment of both the commitments prior to the launch of the UMTS service as well as those regarding the first year of service were reduced to 157.5 million. At December 31, 2005, the guarantee amounted to 157.5 million.

### **Medi Telecom (Morocco)**

Telefónica Móviles España, as a stockholder of Medi Telecom, signed in October 2000 a Stockholders Support Agreement together with Portugal Telecom and the BMCE Group. As of December 31, 2005, this commitment requires the signatories to jointly and severally provide up to 118.3 million in the event of noncompliance with financial clauses and up to 50 million in the event of a shortfall in funds at Medi Telecom, S.A. that prevent it from meeting its debt servicing obligations. If Medi Telecom, S.A. obtains certain levels of operating income before depreciation and amortization during a certain period of time and if it fulfills all its obligations under the loan agreement, this financial commitment will be automatically cancelled.

### **NewComm Wireless (Puerto Rico)**

On April 20, 2005, we agreed to counter guarantee Telefónica, S.A. for its guarantee of the NewComm Wireless Services, Inc.'s obligations under a US\$61 million bridge loan granted by ABN AMRO. This loan matures on June 30, 2008, with a possible extension of two additional years. Additionally, on April 20, 2005, we agreed to counter guarantee Telefónica, S.A. for its guarantee of NewComm Wireless Services, Inc.'s obligations under a Subordinated Loan of up to US\$40 million granted by ABN AMRO for the payment of amounts due under NewComm's FCC licenses. This loan matures on June 30, 2010.

### ***GTM***

We have issued a support letter in Mexico for our affiliate Grupo de Telecomunicaciones Mexicanos S.A. de C.V., or GTM. This is a letter of support for GTM's request to the Mexican regulator, COFETEL, for a national long distance license. The maximum amount of the support commitment is 124,154,700 Mexican pesos (approximately 9.8 million based on an exchange rate of 12.71445 Mexican pesos per euro) at December 31, 2005.

**Portugal Telecom (Brazil)**

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

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

we underwent a change of control;

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

Telefónica, S.A. underwent a change of control.

Similarly, we will be entitled to sell our interest in Brasilcel, N.V. to the Portugal Telecom Group if there is a change of control at Portugal Telecom SGPS, S.A., PT Moveis SGPS, S.A. or any other subsidiary of either company that held a direct or indirect ownership interest in Brasilcel N.V. In either case, the price would be determined on the basis of an independent appraisal pursuant to terms in the Shareholders Agreement and Subscription Agreement.

For the purposes of the previous paragraph, pursuant to the provisions of the Shareholders Agreement entered into by us, Portugal Telecom SGPS, S.A. and PT Moveis SGPS, S.A., a change of control is considered to exist if (i) a competitor of either party acquires (x) 15% of the share capital of Telefónica, S.A. or Portugal Telecom SGPS, S.A. or (y) the majority of the share capital of any subsidiary of Telefónica, S.A. or Portugal Telecom SGPS, S.A. holding shares in Brasilcel, NV; or (ii) a corporate transaction takes place with respect to Telefónica, S.A. or Portugal Telecom SGPS, S.A. and as a consequence thereof the majority of the members of the board of directors of such entities change.

### **Telefónica Móviles Colombia**

On October 28, 2004, Telefónica Móviles, S.A. entered into counter guarantees on behalf of Telefónica, S.A. for the following obligations guaranteed by Telefónica, S.A.: a) a bridge loan between Telefónica Móviles Colombia, S.A. (formerly BellSouth Colombia, S.A.) and Santander Overseas Bank, Inc. in the amount of US\$274 million, and b) a bridge loan between Telefónica Móviles Colombia, S.A. and Santander Colombia, S.A. in the amount of 59.024 million Colombian pesos. Each loan matured on October 28, 2005. Each was refinanced for another year, in the amount of US\$254 million with Santander Overseas Bank Inc. and 104,762 million Colombian pesos (approximately US\$45.9 million) with Banco Santander de Colombia S.A. This arrangement was guaranteed by Telefónica S.A. and counter-guaranteed by Telefónica Móviles S.A.

### **Telefónica Finanzas México**

On September 30, 2005 Telefónica Móviles, S.A. entered into a counter guarantee in favor of Telefónica, S.A. for the issuance by Telefónica Finanzas México, S.A. of up to 12,000 million pesos of negotiable bonds (*certificados bursátiles*), guaranteed by Telefónica, S.A. As of December 31, 2005, 5,000 million pesos have been issued (approximately US\$464 million). In February 2006, an additional 6,500 million pesos were issued.

## **F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS**

The following table sets forth aggregate information about our principal contractual obligations by type of obligation at December 31, 2005, and the periods in which payments are due.

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
	(millions of euros)				
Debentures and Bonds	680	0	108	274	299
Notes Payable	98	92	6		
Loans and credits	7,950	3,175	2,908	1,793	75
Loans and credits Foreign Currency	3,434	1,131	608	1,228	468
Financial Guarantee (1)	336	67	201	67	
Derivatives	272	195	60	18	(2)
<b>Total</b>	<b>12,770</b>	<b>4,660</b>	<b>3,891</b>	<b>3,381</b>	<b>839</b>

- (1) Guarantees of Ipse's debt to the State of Italy for the deferred payment of the UMTS license awarded in that country, expressed as the percentage attributable to Telefónica Móviles, S.A. This guarantee initially amounted to 1,292 million, having subsequently been reduced to the total actual guaranteed amount of 626.4 million, in each case expressed as the percentage attributable to Telefónica Móviles, S.A.



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Additionally, the Telefónica Móviles Group has contractual obligations that by their nature are not included in the financial statements as of December 31, 2005. These contractual obligations are shown by type of obligations and payment in the following table:

	Payments Due by Period				After 5 years
	Total	Less than 1 year	1-3 years	3-5 years	
	(millions of euros)				
Operating leases	1,477	213	425	267	572
Unconditional purchase obligations (1)	562	560	2		
Other long term obligations (OPEX)	50	48	2		
<b>Total</b>	<b>2,090</b>	<b>821</b>	<b>429</b>	<b>267</b>	<b>572</b>

(1) Includes mainly purchase obligations relating to handsets and capital expenditures.

**Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****A. DIRECTORS AND SENIOR MANAGEMENT***Management**Board of Directors*

Under the Spanish Corporation Law, the Board of Directors is responsible for management, administration and representation of the company in all matters concerning our business, subject to the provisions of the by-laws (*estatutos*) and resolutions adopted at the general shareholders meetings. The Board of Directors will seek to propose candidates for election to the Board of Directors so that a majority of candidates are from outside of our company, including both independent directors and representatives of our controlling shareholder, Telefónica, S.A. The Good Corporate Governance standards of the Spanish National Securities Commission, (*Comisión Nacional del Mercado de Valores*), or CNMV, and the Rules and Regulations governing our Board of Directors, specify that independent directors, are defined as individuals who meet conditions that ensure their impartiality and objectivity, including that:

(i) they do not have or have not had recently any material direct or indirect employment, commercial or contractual relationship with us, our executives, our directors who were nominated for appointment by our controlling shareholder, credit institutions occupying a prominent position in our financing, or organizations that receive significant subsidies from us;

(ii) they are not directors of another listed company whose board of directors includes any directors that serve on our Board of Directors; and

(iii) they do not have close family ties with any of our executives or any directors that represent the interest of our parent company, Telefónica S.A.

Under our by-laws, our Board of Directors consists of a minimum of three and a maximum of nineteen members elected by the holders of ordinary shares at a meeting of shareholders, with the actual number being determined by a resolution passed at the shareholders' meeting. The number of directors is currently fixed at 14. Directors are elected by our shareholders to serve, according to our by-laws a five-year term and may be re-elected to serve for an unlimited number of terms. Pursuant to Article 138 of the Company Law of Spain (*Ley de Sociedades Anónimas*), if during the term of appointment of a director a vacancy occurs (for whatever reason) or if a director does not serve out his or her entire term, the Board of Directors may fill the vacancy by appointing a shareholder as a replacement director to serve until the next general shareholders' meeting. At the general shareholders' meeting, the appointment may be ratified or a new director may be elected to fill the vacancy, which is referred to as a cooptation. A director may resign or be removed from office by the shareholders at the shareholders' meeting. Our by-laws provide that a majority of the members of the board (represented in person or by proxy) constitute a quorum. Except as described below, resolutions of the Board of Directors are passed by an absolute majority of the directors present or represented at a board meeting.

Under the Spanish Corporation Law, the Board of Directors may delegate its powers to an executive committee or delegate committee or to one or more *consejeros delegados* (directors empowered by the board to act on its behalf). The Spanish Corporation Law provides that resolutions appointing an executive committee or any managing director or authorizing the permanent delegation of all, or part of, the board's power require a two-thirds majority of the members of the Board of Directors. Some powers specified in the Spanish Corporation Law and our by-laws, as well as those necessary for an adequate discharge of the board's oversight function, may not be delegated.

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### *Committees of the Board*

Our Board of Directors has established a delegate committee, an audit and control committee, and a nominating and compensation committee in accordance with the recommendations set forth in the Good Corporate Governance standards. Each of the audit and control committee and the nominating and compensation committee is required by board regulations to have a minimum of three and a maximum of five non-managing directors. We define non-managing directors as directors that do not hold a managing position within the Telefónica Móviles Group. Non-managing directors includes both (i) independent directors that meet the criteria for independence as set by Spain's Good Corporate Governance Standards and the rules of the New York Stock Exchange and (ii) directors affiliated with Telefónica S.A., our controlling shareholder (Dominicales). A significant majority of our directors (13) are non-managing directors. Of these directors, five have been deemed independent by our Board of Directors, as defined by Spanish law. This requirement is also provided for in the by-laws of the company with regard to the audit committee. The following is a brief description of the committees of our Board of Directors.

### *Delegate Committee*

The delegate committee functions as our Executive Committee of the Board of Directors to which all of the powers of the Board of Directors we delegated other than powers specified as non-delegable under the Spanish Corporation Law and our by-laws. On April 29, 2003, the Board of Directors, resolved, without prejudice to the powers already delegated to the Committee and in line with the recommendations on Good Governance, to entrust to the Committee the functions that are normally assigned to strategy committees. The mandate of the Executive Committee has thus been renewed.

### *Audit and Control Committee*

The audit and control committee is responsible for providing support to the Board of Directors in supervising the correct application of generally accepted accounting principles, reviewing compliance with the internal control system, reviewing the registration statements and financial information we furnish to the market and our supervisory boards and maintaining the integrity of the preparation of individual and consolidated audits.

In addition, the Audit and Control Committee is also responsible for:

(i) reporting through its Chairman to the General Shareholders Meetings on the matters raised there by the shareholders on subjects within the Committee's scope;

(ii) proposing to the Board of Directors, for submission to the General Shareholders Meeting, the appointment of the auditor referred to under Article 204 of the Joint Stock Companies Law, as well as the terms of the retainer thereof, the scope of the professional assignment and the renewal or revocation of the appointment, as pertinent;

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(iii) supervising the internal auditing services; as part of this responsibility, in 2005, the audit and control committee supervised several internal investigations performed from time to time in response to allegations of possible breaches of our internal control systems or other wrongdoing, none of which resulted in the audit and control committee determining that there had been a material breach of our internal control system or other wrongdoing;

(iv) examining the financial information reporting process and the internal control oversight systems; and

(v) maintaining the relationship with the auditor, to receive information on such matters as may jeopardize the latter's independence, and any other matters related to the process of conducting financial audits, as well as receiving information and maintaining the communication with the Auditor as provided for in the auditing legislation and in the technical rules for auditing.

### *Nominating and Compensation Committee*

The nominating and compensation committee assists in the nomination of directors and is responsible for proposing the compensation and incentive plans for the Board of Directors and senior management of our company.

**Table of Contents***Directors*

The following are our current directors and their respective positions and ages at April 6, 2006:

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Date of first appointment</b>
Antonio Viana-Baptista(1)	48	Chairman and Chief Executive Officer	August 29, 2002
Enrique Corominas Vila(2)	70	Vicepresident	July 26, 2005
Luis Lada Díaz	56	Director	August 10, 2000
José María Álvarez-Pallete López	42	Director	May 6, 2005
Lars M. Berg	58	Director	October 20, 2000
Miguel Angel Canalejo Larrainzar	64	Director	October 20, 2000
Maximino Carpio García	60	Director	October 20, 2000
Victor Goyenechea Fuentes	55	Director	October 20, 2000
Antonio Massanell Lavilla	51	Director	October 20, 2000
Alfonso Merry del Val Gracie	59	Director	October 20, 2000
Fernando de Almansa Moreno-Barreda	57	Director	April 1, 2003
Alejandro Burillo Azcarraga	54	Director	April 1, 2003
Javier Echenique Landiribar	54	Director	May 6, 2005
José María Más Millet(1)	52	Director and Secretary	June 28, 2002

- (1) Mr. Antonio Viana-Baptista and Mr. José María Más Millet were appointed by the Board of Directors and their appointments were ratified by the General Shareholders Meeting held on April 1, 2003. See Management Board of Directors for a description of the cooptation procedure.
- (2) Mr. Enrique Corominas Vila was appointed by the Board of Directors and his appointment has to be ratified by the next General Ordinary Shareholders Meeting to be held 2006.

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

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

The delegate committee of the Board of Directors consists of Messrs. Viana-Baptista, Corominas Vila, Álvarez-Pallete López, Merry del Val Gracie, de Almansa Moreno-Barreda, Canalejo Larrainzar, Echenique Landiribar, Lada Díaz, and Más Millet and is chaired by Mr. Viana-Baptista.

The audit and control committee of the Board of Directors consists of Messrs. Echenique, Canalejo and Merry de Val and is chaired by Mr. Echenique.

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The nominating and compensation committee of the Board of Directors consists of Messrs. Más Millet, Echenique, Carpio García, Merry del Val and Berg and is chaired by Mr. Más Millet.

**Table of Contents***Executive Officers*

The executive officers are elected by, and report to, the Board of Directors. Below is a list of our current Executive Officers and their respective positions with our company and ages at April 6, 2006.

<u>Name</u>	<u>Ages</u>	<u>Position</u>
Antonio Viana-Baptista	48	Chairman and Chief Executive Officer
Ernesto López Mozo	41	Chief Financial Officer
Fernando Herrera Santa María	45	Chief Commercial Officer of Telefónica Móviles España, S.A.
Antonio Hornedo Muguero	51	General Counsel and Vice Secretary (non-member) of the Board of Directors
Ignacio Camarero García	56	Chief Operating Officer of Telefónica Móviles España, S.A.
Belén Amatriaín Corbi	47	Managing Director of Telefónica Móviles España, S.A.
Manuel Costa Marques	46	General Manager of Development of Business
Luis Miguel Gilpérez	47	Executive Director of the International Area of Telefónica Móviles
Emilio Gayo Rodríguez	40	General Manager of Operations of Telefónica Móviles
Eduardo Caride	48	Chief Executive officer for south area
Miguel Menchén Alumbrosos	52	General Manager for Telefónica Móviles México
Iñigo Serrano Chacón	41	General Manager of Medi Telecom

The following is the biographical information for each of our directors:

**Antonio Viana-Baptista** has served as Chairman and Chief Executive Officer since September 2002. He is an economist who graduated from the Catholic University of Lisbon in 1980. He has a post graduate degree in European Economy (1981), and an MBA, obtained with a distinction mention, from INSEAD (Fontainebleu). He is member of the Board of Directors, the Delegate Committee of Telefónica S.A., the Board of Directors of O<sub>2</sub> plc and the Supervisory Board of Cesky Telecom, a.s. He is also Chairman of Telefónica Móviles España, S.A. and member of the Board of Directors of Telefónica Internacional, S.A., Portugal Telecom SGPS, Brasilcel N.V., Telefónica de España, S.A. and Telefónica de Argentina, S.A. Until July 2002, he served as President of Telefónica Internacional and Executive President of Telefónica Latinoamérica. Before that he also served from 1991 until 1996, as Executive Director of BPI (Banco Portugues de Investimento). From 1985 until 1991 Mr. Viana-Baptista was Principal Partner of McKinsey & Co. in Madrid and Lisbon.

**Enrique Corominas Vila** serves as Vicepresident of the Board of Directors. He is currently the Chairman of the Control Committee of Caja de Ahorros y Pensiones de Barcelona or La Caixa. He also serves as a member of the Board of Directors of Abertis and AGBAR.

**Luis Lada Díaz** serves as a director. He is currently the Chairman of the Board of Telefónica de España. He holds a degree in telecommunications engineering and joined the Telefónica Group in 1973 in the Research and Development Department, rising through the ranks to hold various managerial and executive positions. In 1989, Mr. Lada was Deputy General Manager for Technology, Planning and International Services when he left the Telefónica Group to join Amper Group, a telecommunications systems and equipment manufacturer as General Manager for Planning and Control. Mr. Lada returned to the Telefónica Group in 1993 as Controller of the Subsidiaries and Participated Companies. In 1994, he was appointed as CEO of Telefónica Móviles España S.A., and was promoted to Chairman of Telefónica Móviles, S.A. in August 2000. He served as President until July 2002 after which he accepted his present position. He also serves on the Board of Directors of Telefónica Internacional, S.A., Telefónica, S.A., Sogecable, S.A. and Cesky Telecom, a.s.

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



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**Lars M. Berg** serves as a director. Since August 2000, Mr. Berg has been an independent investor and consultant and non-executive board member of several companies in the telecommunications and financial industries, and currently serves as a director of Telefónica Móviles Colombia and Telcel Venezuela and, among others, Eniro AB, Ratos AB, Net Insight AB, Wayfinder Systems and Viamare Investment AB. In March 1999, he joined Mannesmann AG, Dusseldorf, as one of the members of the Executive Board, responsible for telecommunications, and from 1994 until 1999 he was President and Chief Executive Officer of Telia AB, a telecommunications operator in the Nordic/Baltic area. Between 1970 and 1994 he held various management positions in the Ericsson Group, including the position of President of Ericsson Venezuela, Ericsson Radio Systems Sweden AB, Ericsson Cables AB and Ericsson Business Networks AB, among others. He was a member of the Ericsson Corporate Management Committee for 10 years. Mr. Berg received a degree in business administration from the Gothenburg School of Economics in 1970.

**Miguel Angel Canalejo Larrainzar** serves as a director. In 1967 he began working for Union Carbide Corporation. In 1977 he was appointed Chairman and Managing Director of Unión Carbide Navarra and Unión Carbide Ibérica. In July 1984, Mr. Canalejo joined Standard Eléctrica, S.A., as Managing Director. From December 1986 until December 2000 he was Chairman and Chief Executive Officer of Alcatel Spain. From January 1996 until September 2000 he served as President of Alcatel Latinamérica. At present he is, among others, a member of the Board of Directors of Unión Fenosa, S.A., Azcoyen, S.A., Sodena, S.A., Nazca Capital, S.G.E.C.R. and FYCSA and Sodena, S.A. He studied at the Escuela Técnica Superior de Ingenieros Industriales in Madrid and completed his professional training at IESE.

**Maximino Carpio García** serves as a director. Mr. Carpio is a member of the Board of Directors of Telefónica, S.A. He also serves as a member of the Advisory Committee of Abengoa, S.A. From 1992 to 1995, Mr. Carpio was Dean of the Economics faculty and from 1984 to 1992, he was the head of the Department of Economics and Public Finance, in each case at the Universidad Autónoma de Madrid. Mr. Carpio also received his doctorate degree from the Universidad Autónoma de Madrid.

**Victor Goyenechea Fuentes** serves as a director. He is also a member of the boards of directors of, among others, Fonytel, and a member of the Advisory Board of Nokia. He served in the past as Deputy Director General of Banco Bilbao Vizcaya Argentaria since 1986 and managed BBVA's Telecommunications, Media and Internet Unit. From 1974 to 1986, he worked at Telefónica de España, S.A. as Deputy General Manager ( Subdirector General ). Mr. Goyenechea received his undergraduate degree in business and economics from the Universidad Comercial de Deusto, and a masters degree in strategic planning from the same institution. Currently he is retired and works as an independent consultant.

**Antonio Massanell Lavilla** serves as a director. He is also a senior Executive Vice President of Caja de Ahorros y Pensiones de Barcelona, la Caixa, and member of the Board of Directors of Telefónica, S.A., and among others, Port Aventura, S.A. and Baqueira Beret, S.A. and e-la Caixa. As a representative of Caja de Ahorros y Pensiones de Barcelona, he has worked with the Telefónica group in the deployment of Caja de Ahorros y Pensiones de Barcelona's corporate telecommunications network. Mr. Massanell has a B.A. degree in Economics and Business Administration from the University of Barcelona.

**Alfonso Merry del Val Gracie** serves as a director. From 1976 until October 2000 Mr. Merry Del Val was Chief Executive Officer of Hipermercados Continente (España). He currently serves as a member of the Board of directors of among others, NH Hoteles, S.A., J. García Carrión, S.A. and AEGON Unión Aseguradora, S.A. He has also served as CEO of the merged Company Carrefour in Spain. Mr. Merry Del Val studied Business Administration at Bocconi University in Milan and holds a masters degree in Business Administration from Pavia University.

**Javier Echenique Landiribar** serves as a director and is the Chairman of the Audit and Control Committee. He currently serves as a member of the boards of directors of Telefónica Móviles México, S.A. de C.V. and, among others, ACS Actividades de Construcción y Servicios, S.A., URALITA, S.A., Hidrocantábrico, S.A. y Grupo Empresarial ENCE. In recent years he has served as a member of the boards of directors of Telefónica de España, S.A., Sevillana de Electricidad, S.A., Autopistas Concesionaria de España, S.A., Finanzia Banco de Crédito, S.A., Metrovacesa and Grupo AXA Aurora. Mr. Echenique served from 1990 as executive officer at various areas of BBVA. He received a degree in

economics in 1974.

**José María Mas Millet** serves as a director and Secretary of the Board of Directors and is the Chairman of the Nominating and Compensation Committee. Mr. Mas is a member of the boards of directors of Telefónica Móviles Colombia, S.A., Telcel (Venezuela) and, among others, NH Hoteles, S.A., SOS CUETARA, S.A.,

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SOTOGRANDE, S.A. and Aumar, S.A. From 1997 to April 2001, Mr. Más served as General Counsel of Telefónica, S.A. and Secretary of its Board of Directors. From 1995 to January 2000 he served on the Board of Directors of Caja de Ahorro de Valencia, Castellón y Alicante. Prior to 1997, Mr. Mas holds a degree in law.

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

**Alejandro Burillo Azcárraga** serves as a director. He is a founding member of Televisa, and participates in different executive positions in various companies such as PanAmSat, Univisión and ECO among others. In 1996, Alejandro Burillo created Grupo Pegaso, to concentrate his different businesses. In 2000, he decided to transfer his participation in Televisa, being at the time the second major shareholder of the company. Currently, he is the President of the Board of Directors of Grupo Pegaso, a holding company which owns interests in several companies such as Pegaso PCS, Grupo Wcom, Televisión Internacional, S.A. de C.V., and PanAmSat de México. He also has interests in sports businesses, (being the owner of different soccer teams in Mexico and the adviser of the FIFA President) and in the cultural area, he is founder of Casa Lamm, which promotes different artists in Mexico, and participates in beneficial institutions in Mexico.

The following is the biographical information for our executive officers:

**Ernesto López Mozo** serves as Chief Financial Officer. Mr. López is a member of the Board of Directors of Telefónica Móviles España, S.A., Telefónica Móviles México, S.A. de C.V., Brasilcel N.V., MobiPay International, S.A., Telefónica Móviles, S.A. (Perú) and Telefónica Móviles Colombia, S.A. He was previously a senior manager in the financing department of Telefónica, S.A. where he was also responsible for relationships with credit rating agencies. Before joining Telefónica in March 1999, Mr. López worked for five years at J.P. Morgan where he was a Vice President in charge of the interest rate derivatives trading desk for Spain and Portugal for three years. At J.P. Morgan, he was also involved in sales to mutual and pension funds. Prior to joining J.P. Morgan, Mr. López worked as an engineer, managing the construction of highways and other infrastructure. He holds a degree in civil engineering from ETSICCP in Madrid and a Masters in Business Administration from the Wharton School.

**Fernando Herrera Santa María** serves as Chief Commercial Officer of Telefónica Móviles España, S.A. Mr. Herrera is a member of the Board of Directors of Telefónica Móviles España, S.A. He has a degree in economics from the Universidad Complutense de Madrid and a masters in business administration from IESE. Mr. Herrera has eight years of experience in the telecommunications industry holding various managerial positions within the Telefónica Group. Prior to this appointment he acted as general Manager of Resources and Management Control of Telefónica Móviles España. He also serves on the Board of Directors of Telefónica Móviles España S.A.

**Antonio Hornedo Muguero** serves as the General Counsel and Vice-Secretary (non-member) of the Board of Directors. He serves as director of Telefónica Móviles El Salvador, S.A. de C.V., Telefónica Móviles Guatemala, S.A., Telefónica Móviles Panamá, S.A. and Multi Holding Corporation. Mr. Hornedo also serves as Secretary (non-member) of Seguros de Vida y Pensiones-ANTARES, S.A. He served as Secretary for Fonditel, EGFP from 1993 to 2000. Until March 1999, he worked as a legal counsel for Telefónica de España.

**Ignacio Camarero García** serves as Chief Technology Officer. Mr. Camarero currently also serves on the Board of Directors of Telefónica Móviles España, S.A. Telefónica I+D, S.A. and MobiPay España, S.A. From 1996 to 1998 he served as Vice President and General Manager of Southern Europe for Motorola Inc. and from 1998 to 2001 as Manager of Technology at Airtel España. Mr. Camarero received his degree in physics from the Universidad de Valladolid.

**Belén Amatriaín Corbi** serves, since May 2005, as Chief Executive Officer of Telefónica Móviles España. She was previously, from June 2000, Executive Chairman of Telefónica Publicidad e Información (TPI). She

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joined the Telefónica Group in 1997 as head of marketing at TPI-Yellow Pages. Two years later she was appointed Chief Operating Officer of the Internet and New Technologies area and to the Board of Directors of Euredit, which publishes Europages. Ms Amatriain began her professional career in American food multinational Kraft General Foods mass marketing department, where she was Product Manager. She continued her career in the Advertising department of BSB, part of the Saatchi & Saatchi group, as Account Manager. She then joined the advertising multinational GREY, where she was Customer Services Director and Director of Media Relations. She was also the founder of Marketing Plan, a retail marketing consultancy, and was Sales and Marketing Director at King's Educational Group. She earned a degree in law and economics from ICADE.

**Luis Miguel Gilpérez** serves as Executive Director of the International Area of Telefónica Móviles. Mr. Gilpérez also serves on the Board of Directors of Medi Telecom, S.A., Telefónica Móviles México, S.A. de C.V., Brasilcel, N.V., Telesp Celular Participações, S.A. Telefónica Móviles, S.A (Perú), Telefónica Móviles Colombia, S.A. (Chairman), Otecel, S.A. (Chairman), Telcel Venezuela, C.A. (Chairman), Telefonía Celular de Nicaragua, S.A., Telefónica Móviles Argentina Holding, S.A., Telefónica Móviles Chile, S.A., Telefónica Móviles de Chile, S.A., Telefónica Móviles Panamá, S.A. (Chairman), Multiholding Corporation (Chairman), Telefónica Móviles Nicaragua, S.A. and Telefónica Móviles Guatemala, S.A. (Chairman), among others. He is also de Chairman of MobiPay International, S.A. Mr. Gilpérez has a degree in Industrial Engineering and an MBA. He began his career at an insurance company, where he worked for six years, in various departments. He joined the Telefónica group in 1981, where he has worked since. He has particularly been involved with activities related to mobile telephony. He was in charge of the service's commercial activities from 1987 to 1993, when Telefónica Móviles España was created. At Telefónica Móviles España he has held management positions in virtually all its business areas.

**Manuel Costa Marques** serves as General Manager of Development of Latin American Business. From 1984 until 1990 he served as Executive Board Member of various financial institutions including a brokerage firm, two leasing companies and CISF, a listed Bank, where he was one of the three members of CISF's Board Executive Committee. From 1990 until 1997 he was President, CEO and major shareholder of SISF, a holding company of various financial companies. SISF later became part of the Banco Portugues de Investimento Group. In 1997 he served as Managing Director of Banco Portugues de Investimento heading privatizations of companies, and as Executive Board member of Finangest, the holding company of all major Portuguese state industrial participations. Mr. Costa Marques also serves as Head of Strategic Planning, M&A and Corporate Finance, and member of the Board of Directors of Telefónica Internacional, S.A. Mr. Costa Marques also served as a member of the Board of Directors of Emergia N.V. from June 1999, until December 2002. He serves on the Board of Directors of Telefónica Móviles México and Otelcel, among others.

**Miguel Menchén Alumbreiros** is acting General Manager of Telefónica Móviles Mexico. Mr. Menchen also serves on the Board of Directors of Telefónica Móviles México, S.A. de C.V. Mr. Menchén joined the Telefónica Group in 1978 and has held various managerial positions since including positions at Telefónica de España, and Telefónica Móviles España and Medi Telecom. Mr. Menchén holds a degree in Telecommunications engineering from the Madrid Universidad Politécnica.

**Emilio Gayo Rodriguez** serves as the General Manager of Operations of Telefónica Móviles. Mr. Gayo also serves on the Board of Directors of Mobipay International, S.A. He was previously a senior partner in Europraxis Consulting in charge of Telecommunication Industry and a member of its Board of Directors. Prior to joining Europraxis Consulting, he worked at Bain & Company and ATT Network Systems. Mr. Gayo has a degree in telecommunications engineering from the Universidad Politécnica de Madrid and a masters in business administration from IESE.

**Eduardo Caride** serves as Chief Executive Officer for the Southern Cone. He began his career with Deloitte & Touche. In 1981, he joined Citibank, holding several management posts until 1990, when he joined Telefónica de Argentina, S.A., where he was responsible for the Finance, Insurance, Internal Auditing, Budget and Investor Relations departments. In 1997, he was appointed Head of the Residential Communications Business Unit. In 1998, he became General Manager. Mr. Caride joined Emergia as Chief Operating Officer and in June 2001 he was appointed Executive Chairman of Telefónica Data and Emergia. In 2004, he was appointed General Manager for Argentina, Chile and Uruguay at Telefónica Móviles. He holds a degree as a certified public accountant and a graduate degree in business administration, both from the Economics Faculty of the University of Buenos Aires. Mr. Caride is a member of the Boards of Directors of Telefónica Móviles, S.A. (Perú),

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Telefónica Móviles Argentina Holding, S.A. Telefónica Móviles Chile, S.A. (Chairman), Telefónica Moviles de Chile, S.A. (Chairman), Telefónica Comunicaciones Personales and Abiatar (Chairman),. Telefónica Móviles Argentina, S.A. (Chairman), Compañía de Radiocomunicaciones Moviles, S.A. (Chairman), Telefónica Moviles Inversora, S.A. (Chairman), B.A. Celular Inversora, S.A. (Chairman), Compañía de Telefonos de la Plata, S.A. (Chairman).

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**Iñigo Serrano** serves as General Manager for Medi Telecom. Before joining the Telefónica Group in 1996 he held several managerial positions at AT&T Network Systems and Nortel. Subsequently he has held various managerial positions in the Telefónica Group. He is also member of the Boards of Directors of Medi Telecom, S.A. Prior to his actual appointment he served as General Manager of corporate development in Asia. Mr.Serrano holds a degree in Telecommunications engineering from Madrid Universidad Politécnica.

**B. COMPENSATION**

*Compensation of Directors and Executive Officers*

The compensation paid to our directors consists of a fixed and defined allocation, fees for attendance at meetings of our board committees, and, since October 2004, an additional fixed and defined allocation for membership of the board committees, except for the President of the Delegate Committee, who does not receive this additional allocation. The Executive Directors receive the respective payments for discharging their duties.

In 2005, the aggregate compensation of all of our directors paid or accrued by us was 3,789 thousand, as described in the following table:

	<b>Year 2005</b>
	<b>(thousand euro)</b>
Salaries(1)	762
Variable compensation(1)	661
Fixed remuneration (2)	2,085
Attendance fees	96
Benefits in kind(3)	71
External services(4)	114
<b>Total</b>	<b>3,789</b>

- (1) Compensation for Executive Directors.
- (2) Includes fixed remuneration for being members of board committees as well as compensation directors received for belonging to the Board of Directors of other Companies in the Telefónica Móviles Group.
- (3) Includes health insurance, housing, life insurance and pension plans for Executive Directors.
- (4) Includes compensation received by MELOG, BBVA and Mas Querol y Asociados for advisory and consulting services. See Item 7.B Related Party Transactions Agreement with Mr. Lars Berg and Item 7.B Related Party Transactions Agreement with José María Más Millet.

The following tables set forth the compensation received by our Directors in 2005:

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

	<u>Year 2005</u>
	(thousand euro)
Chairman	120
Vicepresident	200
Members	120
Secretary	120

**Other Board Committees.**

Fixed amount for membership of Board Committees:

<u>Position</u>	<u>At Year-End 2005</u>
	(thousand euro)
President(1)	20
Member	10

(1) Not payable to the President of the Delegate Committee.

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

	<b>Number of</b>	<b>Per diem per</b>	<b>Total paid to</b>
	<b>meetings</b>	<b>meeting</b>	<b>all committee</b>
	<b>(Year 2005)</b>	<b>(thousand euros)</b>	<b>members</b>
	<u>(Year 2005)</u>	<u>meeting</u>	<u>(Year 2005)</u>
Audit and Control Committee	11	1,250	35
Delegate Committee	1	1,250	11
Nominating and Compensation Committee	8	1,250	50



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Our executive officers (excluding the Chairman), as well as those persons who report directly to the Chairman, received compensation of approximately 8,044 thousand in 2005, as described in the following table:

	<b>Year 2005</b>
	<b>(thousand euros)</b>
Salaries	4,928
Variable compensation	2,830
Benefits in kind	172
Pension plans	114
<b>Total</b>	<b>8,042</b>

Other than their eligibility to participate in our share option plan, our directors and executive officers are entitled to the same general employee benefits as the other employees of our company.

*Employee Share Option Plan*

Our shareholders authorized our Board of Directors to implement an employee share option plan to help attract, retain and motivate employees. The Board of Directors defined the terms of the plan (the MOS Program) in a meeting held on September 21, 2001. This plan covers up to a total of 21,445,962 ordinary shares of our company.

The terms and conditions of the MOS Program described below apply to our executive directors and senior management and to employees of the Telefónica Móviles Group.

Under the MOS Program, each beneficiary who was an executive director or a manager (including general managers and similar posts) and meets the requirements was granted a predetermined number of options (based on their position) of each of the following three classes of options:

Class A Options, with an exercise price of 11.00 per option, which was the price of our shares in our initial public offering in November 2000.

Class B Options, with an exercise price of 16.50 per option. This exercise price was 150% of the price fixed for our shares in our initial public offering in November 2000.

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

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

every 20 options granted to them.

The options have been exercised in tranches of one-third, one tranche in each of the three-month periods beginning January 3, 2004, January 3, 2005 and January 3, 2006. In each exercise period, options may only be exercised in full, except that options not exercised in any given exercise period are carried over to the next exercise period, with the limit of the last exercise period. The options may be settled in cash or in ordinary shares, at the election of the holder at the time of each exercise. The holder will bear the cost of any applicable withholdings, deductions and taxes, and any settlement costs arising out of the exercise of the options must be paid by the holder at the time of exercise.

In order to provide coverage for the MOS Program, on September 21, 2001, the Board of Directors resolved to carry out the capital increase approved by the Special Stockholders Meeting on October 26, 2000. The Company issued 21,445,962 shares of 0.50 par value each, which were subscribed and paid by BBVA (50%) and La Caixa (50%).

On September 27, 2001, Telefónica Móviles, S.A., on the one hand, and BBVA and La Caixa, on the other, entered into the related share subscription and call option contracts under which the two aforementioned financial institutions granted Telefónica Móviles, S.A. a call option on each of the shares subscribed in order to enable Telefónica Móviles, S.A. to meet its commitments to the beneficiaries of the MOS Program. The capital increase required in connection with physically-settled options was approved by the CNMV on September 28, 2001.

The first phase of the MOS Program commenced in December 2001. The options allocated in the first phase were granted on January 2, 2002. Subsequently, in June 2002, the second phase of the MOS Program

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commenced and covered the companies and new employees who fulfilled the requirements envisaged in the plan. The second phase ended on December 31, 2003. The terms and conditions under which they can join are identical to the terms and conditions for those who joined before them, except for the number of options granted, which are reduced by a monthly factor to account for the shorter time at the Móviles Group. See Item 6.E Share Ownership for options granted to directors.

A total of 6,970 beneficiaries under the MOS Program held 9,446,373 options as of December 31, 2005. The first exercise period began on January 2, 2004 and ended April 3, 2004. During this period, a total of 79,823 options were exercised by 778 beneficiaries. Of those only two chose to receive shares, while the remainder chose to receive cash in the total amount of 109 thousand. Additionally, during 2004, we paid approximately 844 thousand to 859 beneficiaries holding 1,681,928 shares who have exited the MOS as a result of early terminations and voluntary resignations. The second exercise period ended in April 2005. A total of 1,019 employees exercised a total of 383,116 options. Of those only six chose to receive shares, while the remainder chose to receive cash in the total amount of 320.4 thousand. Additionally, during 2005, we paid approximately 791.7 thousand to 605 beneficiaries holding 1,307,6552 shares who have exited the MOS as a result of early terminations and voluntary resignations.

As of December 31, 2005 we have set aside a total of 8,000 thousand for benefits and pension plans for our executive Directors.

## **C. BOARD PRACTICES**

The only board member that could potentially be entitled to employee benefits upon termination of employment is Antonio Viana-Baptista, our Chairman and Chief Executive Officer.

## **D. EMPLOYEES**

### **Human Resources**

We believe that our human resources constitute one of our key strengths as an integrated international wireless operator. As part of the Telefónica Group, we benefit from the human resources and recruiting strength of a leading international telecommunications group. The Telefónica Group has long endeavored to give promising managers experience in international markets. Consequently, we benefit from being able to draw managers from a significant pool of talent with experience in both Spain and Latin America. Approximately 20% of our senior managers are engineers by training, 20% hold degrees in business or economics, 10% have law degrees, 10% have studied computer science and 25% have other graduate and postgraduate degrees. We also believe that we benefit from the loyalty of our employees, as indicated by our relatively low level of employee turnover.

To provide incentives and make managers' potential compensation more attractive, in addition to base salaries, our standard compensation packages for senior managers include a performance-based bonus that can total between 30% and 50% of a senior manager's annual salary. We have also implemented an employee stock option plan. See Item 6.B Compensation. We provide a comprehensive benefits package that we believe compares favorably in each of our markets.

**Employees**

At December 31, 2005, we employed approximately 22,600 individuals in our consolidated operations. The following table sets forth the number of employees by country:

Country	2003	2004	2005
	(in thousands)		
Spain (including headquarters in Madrid, Spain)	4.7	4.6	4.7
Brazil(1)	3.3	3.1	3.0
Argentina	0.8	0.9	2.9
Peru(2)	0.7	1.2	1.2
Mexico	2.0	1.9	2.0
El Salvador	0.3	0.3	0.4
Guatemala(3)	0.3	0.5	0.5
Colombia		1.8	2.0
Uruguay		0.3	0.3
Venezuela		2.4	2.4
Ecuador		0.6	0.7
Panamá		0.5	0.6
Nicaragua		0.2	0.3
Chile(4)	0.1	0.9	1.6
<b>Total</b>	12.2	19.2	22.6

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- (1) Since our Brazilian operations are operated as a joint venture with Portugal Telecom, the number of employees in Brazil represents 50% of the total number of employees of the Brazilian entities which are proportionally consolidated in our financial statements.
- (2) The number of employees in Peru for 2004 and 2005 includes the employees of BellSouth Peru, which we acquired in October 2004.
- (3) The number of employees in Guatemala for 2004 and 2005 includes the employees of BellSouth Guatemala, which we acquired in October 2004.
- (4) The number of employees in Chile for 2004 and 2005 includes the employees of Telefónica Móvil de Chile, which we acquired in July 2004.

We are a party to collective bargaining agreements covering a total of approximately 9,900 employees of Telefónica Móviles España in Spain, Telefónica Móvil in Chile and Vivo in Brazil. New collective bargaining agreements were signed with employees of Telefónica Móviles España and Vivo in 2004. Our collective bargaining agreements typically govern salaries, overtime, length of workday, and benefits, as well as relations with the respective labor union of each company. Employees that are managers, directors or supervisors are ineligible to participate in these collective bargaining agreements. Items not covered by our collective bargaining agreements include organization of tasks and designation of employee responsibilities, recruiting and employee work schedules. All eligible employees in Spain and Brazil are party to such collective bargaining agreements. Neither we nor our operating companies have had any work stoppages or strikes.

We do not currently have any material pending labor-related claims.

**E. SHARE OWNERSHIP**

As of April 6, 2006, the members of our Board of Directors owned an aggregate of 82,024 of our ordinary shares, representing less than 0.01% of our capital stock, as shown in the table below.

<u>Name</u>	<u>No. of Shares</u>
Antonio Viana-Baptista	10,000
Luis Lada Díaz	13,576
José María Más Millet	10
José María Álvarez-Pallete López	1512
Lars M. Berg	12,500
Miguel Canalejo Larrainzar	0
Maximino Carpio García	3341
Enrique Corominas Vila	400
Victor Goyenechea Fuentes	2,202
Antonio Massanell Lavilla	105
Alfonso Merry del Val Gracie	378
Javier Echenique Landiribar	38,000
Alejandro Burillo Azcarraga	0
Fernando de Almansa Moreno-Barreda	0
<b>Total</b>	<b>82,024</b>

As of April 6, 2006, our executive officers (excluding members of the Board of Directors as noted above) owned an aggregate of 30,763 of our ordinary shares, representing less than 0.01% of our capital stock.

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Pursuant to the MOS Program described in Item 6.B Compensation Employee Share Option Plan above, executive directors and senior management have been granted options on our ordinary shares, some of them have exercised their options in the relevant exercise period, the remaining options granted and not exercise are as follows:

	<u>Class A Options</u>	<u>Class B Options</u>	<u>Class C Options</u>	<u>Total</u>
Antonio Viana-Baptista	45,434	45,434	90,868	181,736
Ignacio Camarero García	38,985	38,985	77,970	155,940
Ernesto López Mozo	18,019	18,019	36,038	72,076
Fernando Herrera Santamaría	18,019	18,019	36,038	72,076
Antonio Hornedo Muguero	17,319	17,319	34,638	69,276
Manuel Costa Marques	20,078	20,078	40,156	80,312
Luis Miguel Gilpérez	24,940	24,940	49,880	99,760
Iñigo Serrano	4,876	4,876	9,752	19,504
Miguel Menchén Alumbrosos	19,195	19,195	38,391	76,781

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

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As of April 6, 2005, according to information known to us or available in the public registers of the CNMV, beneficial owners of 5% or more of our voting stock were as follows:

<u>Title of Class</u>	<u>Identity of Person or Group</u>	<u>Number of Shares</u>	<u>Percent</u>
Ordinary(1)	Telefónica, S.A	3,077,983,129	71.07
Ordinary	Telefónica Internacional, S.A.	927,917,620	21.43

- (1) Number of shares held directly by Telefónica S.A. As of April 6, 2006, Telefónica S.A. owned, either directly or indirectly, through Telefónica Internacional, S.A. (TISA), its 100%-owned subsidiary, 92.5% of our capital stock. Pursuant to the planned merger between Telefónica, S.A. and Telefónica Móviles, S.A., Telefónica, S.A. has announced its intention to purchase the 927,917,620 Telefónica Móviles shares held by Telefónica Internacional, S.A.

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

As of March 29, 2006, holders with registered addresses in the United States owned an aggregate of approximately 1,603,274 of our ordinary shares, representing less than 0.004% of our ordinary shares issued and outstanding.

**Limitations on Certain Transactions**

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

Following the amendment of Law 5/1995 by Law 62/2003 of December 30, 2003 (the Law accompanying the State Budget for 2004), arrangements are now in force until February 18, 2007 requiring the government to be notified of and giving it the power to veto any disposals of shares in Telefónica Móviles representing at least 10% of its capital stock or any transaction that would decrease Telefónica, S.A.'s interest in us or our interest in our Spanish operating company to less than 50%, as well as any sale, transfer or encumbrance of the material assets of Telefónica Móviles España.

The notification requirement described above does not apply to acquisitions of shares representing 10% or more of the capital stock of Telefónica Móviles, S.A. that are merely for investment purposes and are not for the purpose of taking over the control and/or management of

the Company.

However, pursuant to the reasoned opinion sent by the European Commission to the Spanish government on November 25, 2005, the Spanish Cabinet approved a bill to abolish this framework for the disposal of publicly-owned shareholdings in certain companies. If adopted, this bill would accelerate the abolishment of this system, which, in Telefónica Móviles case, was scheduled to occur on February 18, 2007.

## **B. RELATED PARTY TRANSACTIONS**

### **Relationship Between Our Company and the Telefónica Group**

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

The Telefónica Group also engages in wireless activities through companies that are not part of our group. For instance, Telefónica, S.A. engages in certain wireless activities through O<sub>2</sub> plc, a large, well-established United Kingdom-based wireless company, and Cesky Telecom, which operates principally in the Czech Republic. These companies may have activities which overlap or compete with our activities. As a result, Telefónica, S.A. may be called upon to address competitive conflicts between Telefónica Móviles and other companies in the Telefónica Group. These conflicts would be addressed by the executive committee of the Board of Directors of Telefónica, S.A.



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### **Proposed Merger with Telefónica, S.A.**

On March 29, 2006, the Board of Directors of Telefónica Móviles approved Telefónica S.A.'s proposed merger with Telefónica Móviles. The share swap equation of 4 Telefónica shares, each with a par value of one euro, for every 5 Telefónica Móviles shares or ADSs, each with a par value of 0.50 euros, determined on the basis of the real value of the net worth of the two companies, has also been approved by the Boards of Directors of both companies. The merger proposal is subject to approval by the shareholders at the Ordinary and Extraordinary General Shareholders' Meetings of both companies. If the merger is effected, Telefónica Móviles will be merged into Telefónica S.A. and will cease to exist as an independent corporate entity, with Telefónica acquiring all of the rights and obligations of Telefónica Móviles by universal succession. Accordingly, upon consummation of the merger, Telefónica Móviles' shares and ADSs will cease to be listed on the Spanish stock exchanges and the NYSE, respectively, and the registration of Telefónica Móviles' shares and ADSs with the Securities and Exchange Commission will be terminated.

Our Board of Directors, in the framework of the negotiation of the exchange ratio for the merger, also proposed for the approval of the General Shareholders' Meeting the payment of additional dividends in the amount of 0.085 per share chargeable against the issue premium reserve and other distributable reserves and an interim dividend of 0.35 per share against the results obtained from January 1 through March 28, 2006, which, when aggregated with the dividend proposed by the Board of Directors on February 27, 2006, totals 0.64 per share. The effectiveness of the distribution is subject to approval of the merger by the shareholders' meetings of both companies. Payment of the total dividend of 0.64 per share is expected to be made on July 21, 2006, before the merger of Telefónica and Telefónica Móviles is recorded with the Commercial Registry.

### **Business Transactions and Contractual Arrangements with Directors and Senior Management**

During 2001 and 2002, we entered into the three agreements which currently remain in force with members of our Board of Directors or parties controlled by them. Both agreements were negotiated on an arm's-length basis and are described below.

#### *Agreement with Mr. Lars Berg*

In 2001, we entered into a consulting agreement with MELOG, BBVA, a company controlled by one of our directors, Lars M. Berg. This agreement ended during second quarter of 2005. MELOG, BBVA provided telecom technology consulting services to the companies of the Telefónica Móviles Group. In 2005, we paid 54,091 to MELOG, BBVA under the consulting agreement.

#### *Agreement with José María Más Millet*

In 2001, we entered into an agreement with José María Más Millet, Secretary of the Board of Directors, to provide legal advisory services to Telefónica Móviles, S.A. This agreement will continue in force for as long as Mr. Más Millet is Secretary of the Board of Directors. Compensation is negotiated on an arm's-length basis and is calculated on a yearly basis. In 2005, we paid 60,777 to Mr. Más Millet's firm under the agreement.

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### *Agreement with the Burillo Group*

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

Our agreement with Mr. Burillo at the time that he was an 8% shareholder in Telefónica Móviles Mexico included put rights for the Burillo Group and call rights for us with respect to the Burillo Group's shares in Telefónica Móviles Mexico. Under that agreement the dates for executing our call option would have been the third quarter of 2007 (4% share) and the third quarter of 2008 for the remaining 4% or 8% if the option was not partially exercised in 2007.

In December of 2005 we entered into a share exchange agreement with the Burillo Group whereby we acquired 8% of Telefónica Móviles Mexico, S.A. de C.V., increasing our holding to 100% of Telefónica Móviles Mexico.

The transaction represents a cost to us of 177 million. It is being structured via the exchange of shares of Telefónica Móviles Mexico, S.A. for the shares of Telefónica, S.A. Accordingly, Mr. Burillo will become a stockholder of the parent company of the Telefónica Móviles Mexico Group.

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The operation will not involve any significant increase in our debt as, under IFRS, the minimum price for Grupo Burillo's put option has been booked as debt. At December 31, 2005, such debt would have been 152.8 million.

### **Business Transactions and Contractual Arrangements with the Telefónica Group**

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

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

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

In September 2003, the secured convertible promissory notes representing the investment of Telefónica Internacional, S.A. in the Puerto Rican operator NewComm Wireless Services, Inc. were transferred to the Móviles Group. These convertible promissory notes and others directly owned by us, which amounted to \$82 million, entitled us to acquire 49.9% of NewComm's capital stock. We exercised these conversion of this notes on April 20, 2005. During 2005 and the first quarter of 2006, our interest in NewComm has been diluted to approximately 2% as a result of two separate capital increases in which we elected not to participate. Notwithstanding this, we are entitled to purchase after a period of three years commencing on April 20, 2005 the number of shares necessary for us to acquire control of NewComm. Telefónica, S.A. is guaranteeing up to US\$100,000 thousand in loans to the company and we are providing Telefónica, S.A. with a counter guarantee.

#### *Agreements with Terra Networks, S.A.*

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

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

In 2005, Terra Networks, S.A. was merged with and into Telefónica, S.A.

*Stock Purchase Agreement with Compañía de Telecomunicaciones de Chile*

On May 18, 2004, the Board of Directors of Telefónica CTC Chile, S.A., or CTC, accepted our binding offer for the purchase of 100% of the shares of its subsidiary, Telefónica Móvil de Chile, S.A. Telefónica S.A. owns 43.6% of CTC. We have been managing Telefónica Móvil de Chile's operations since 2000. We completed the acquisition on July 23, 2004. The purchase price was \$869.9 million. In addition, we assumed approximately 168,000 million Chilean Pesos in debt owed by Telefónica Móvil de Chile to CTC.

*Agreement with Telefónica Sistemas, S.A.*

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

*Intra-Group Loan and Financing Arrangements*

The Telefónica Group has historically extended loans to our company or our subsidiaries to help satisfy our liquidity and capital resource requirements. At December 31, 2005, we had an aggregate of \$9,824.5 million of

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loans and credit due to Telefónica, S.A. and other Telefónica Group companies. We expect that Telefónica, S.A. will continue to provide financing to us by obtaining funds at prevailing market rates and then on-lending these funds to our company. These on-lendings are expected to reflect the rates and terms our company would be able to obtain from third parties.

### *Interconnection and Related Telecommunications Services*

As wireless service providers, our operating companies and the companies in which we hold an interest interconnect their networks with those of fixed-line service providers as well as those of other wireless service providers. We also require network and maintenance services. When possible, we utilize the interconnection and network maintenance services of other companies in the Telefónica Group, including, in Spain, Telefónica de España, S.A. In addition, as a result of the transfer of the Telefónica Group's Peruvian and Argentine wireless operations we inherited established relationships between those wireless operators and Telefónica del Perú and Telefónica de Argentina, respectively. In Spain, as in each of the countries in which we operate, the terms of interconnection agreements are generally regulated by the respective governments to ensure that the same terms are available to all operators and that there is no discrimination based upon inter-company relationships. In 2005 and 2004, the purchase and outside services account accrued by the Telefónica Group amounted to 853 million and 735 million, respectively, which mainly include interconnection fees, use of network and maintenance.

### *Corporate, Administrative and Other Services*

Although we intend to rely primarily on our own employees and resources for the provision of internal corporate and administrative services, including management of our finance, auditing, insurance, payroll, personnel, information technology and data processing needs, we also rely on the Telefónica Group for some of these services. The provision of services by the Telefónica Group would be made pursuant to arm's-length agreements at fair market prices. In addition, some of operating companies may outsource specified corporate and administrative services to shared cost centers in the Telefónica Group, paying for them on a cost basis.

### *Proposed Merger with Telefónica, S.A.*

On March 29, 2006, the Board of Directors of Telefónica Móviles approved Telefónica S.A.'s proposed merger with Telefónica Móviles. The share swap equation of 4 Telefónica shares, each with a par value of one euro, for every 5 Telefónica Móviles shares or ADSs, each with a par value of 0.50 euros, determined on the basis of the real value of the net worth of the two companies, has also been approved by the Boards of Directors of both companies. The merger proposal is subject to approval by the shareholders at the Ordinary and Extraordinary General Shareholders' Meetings of both companies.

## **Management Contracts**

### *Puerto Rico*

In April 2005, our management and technical capacity transfer arrangements with NewComm Wireless Services, Inc. terminated.

*Brazil*

On October 5, 2000, we entered into an agreement with Telefónica Internacional pursuant to which Telefónica Internacional transferred to us all of its rights and obligations under a Consulting Services Agreement with Telerj Celular, Telest Celular, Telebahia Celular and Telergipe Celular, and under a Services Agreement with TBS Celular Participações, S.A. Pursuant to these agreements, we are entitled to an annual fee, in exchange for our services, varying from 1% to 2% of net revenues of these companies obtained by a formula with different variables. As of December 31, 2005 and 2004, the revenues earned in this connection relating to Telerj Celular, S.A. and Telest Celular, S.A. amounted to 11,499 thousand and 426 thousand, respectively, and those relating to Telebahia Celular, S.A. and Telergipe Celular, S.A. amounted to 753 thousand and 1,347 thousand, respectively.

Pursuant to the consulting service agreement with Celular CRT, S.A., we are entitled, in exchange for our services, to an annual fee equal to 1% of the net revenues of the Celular CRT, S.A., based on the fulfillment of certain contractually established network service quality requirements. The revenues earned in this connection amounted to 2,599 thousand and 2,315 thousand as of December 31, 2005 and 2004, respectively.

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On December 17, 2004 Telefónica Móviles entered into contracts for the Transfer of Technical and Management Capacity with Telefónica Móviles S.A.C., which is Telefónica Móviles' operator in Peru. The contract has an initial term of one year and can be extended for additional one-year periods. The contract for the transfer of technical capacity sets forth a fee equivalent to 1% of the billable income from Telefónica Móviles S.A.C.'s operations. This fee is fixed for the term of the contract. The contract for transfer of management capacity sets forth a detailed fee table in connection with the services to be provided by management capacity specialized professionals and technicians appointed by Telefónica Móviles. The accrued income from these services at year end December 31, 2005 and 2004 was 3,415 thousand and 11,569 thousand, respectively.

*El Salvador*

Until December of 2005, Telefónica Móviles S.A. was a party to a technical capacity transfer and management contracts with Telefónica Móviles El Salvador, S.A. de C.V. (TELESAL). Pursuant to this agreement, we are entitled, in exchange for our services, to an annual fee, payable quarterly, equal to 1% of the revenues received from services billed in transactions of Telefónica Móviles El Salvador, S.A. de C.V. under the technical capacity transfer contract, and 9% of the operating income reported by TELESAL under the management contract. The revenues earned from these contracts amounted to 2,367 thousand and 1,677 thousand as of December 31, 2004 and 2003, respectively.

Until December 31, 2005, Telefónica Móviles S.A. held applicable contracts for the Transfer of Technical and Management Capacity with Telefónica Móviles El Salvador, S.A. de C.V. (TELESAL). The compensation set forth in these contracts was an annual fee payable quarterly, equivalent to 1% of the income received from billed services of Telefónica Móviles El Salvador, S.A. de C.V.'s operations from the contract for transfer of technical capacity. Also, an annual 9% fee, payable quarterly, was set forth from TELESAL's income derived from the management contract. The accrued income from both of these contracts at year end December 31, 2005 and 2004, was 4,130 thousand and 2,367 thousand, respectively. We are assessing the possibility of entering into a new contract.

*Guatemala*

Telefónica Móviles S.A. has entered into technical capacity transfer and management contracts with Telefónica Centroamerica Guatemala, S.A. (TCG). Pursuant to this agreement, we are entitled, in exchange for our services to an annual fee, payable quarterly, equal to 1% of the revenues received from services billed in transactions of TCG under the technical capacity transfer contract, and 9% of the operating income obtained by TCG under the management contract. The revenues earned from these two contracts amounted to 1,812 thousand and 793 thousand as of December 31, 2004 and 2003, respectively.

Until December 31, 2005, Telefónica Móviles S.A. held applicable contracts for the Transfer of Technical and Management Capacity with Telefónica Móviles Guatemala, S.A. de C.V. (TMG). The compensation set forth in these contracts was an annual fee payable quarterly, equivalent to 1% of the income received from billed services of TMG's operations from the contract for transfer of technical capacity. Also, an annual 9% fee, payable quarterly, was set forth from TMG's income derived from the Management contract. The accrued income from both of these contracts at year end December 31, 2005 and 2004, was 5,431 thousand and 1,812 thousand, respectively. We are assessing the possibility of entering into a new contract.

*Morocco*

We currently manage, jointly with Portugal Telecom International, SGPS, S.A. our wireless operations in Morocco under a management agreement executed with Medi Telecom, S.A. on August 5, 1999. See Item 4.B Business Overview Morocco.

*Use of Brand Names and Other Intellectual Property*

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



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### *Tax-Sharing Arrangements*

We will continue to be part of the Telefónica, S.A. tax consolidation group as long as Telefónica, S.A. beneficially holds at least 75% of our company. So long as this is the case, all tax credits and tax bases, up to the limit applicable to the Telefónica tax group, are transferred to Telefónica, S.A. recognizing the corresponding tax credit or debit with the parent company depending on the outcome of the individual company tax return.

The reorganization of the Telefónica Group along global business lines, including the transfers of its wireless operations to us, has been carried out to eliminate or minimize tax liabilities, both in Spain and in our other countries of operation. In order to achieve and preserve the favorable tax treatment for the reorganization, some limitations and restrictions may apply to future transfers of our interests in some of our operating companies for a period of time. We are controlled by the Telefónica Group and expect to comply with directives from Telefónica, S.A. designed to ensure that our actions do not result in the imposition on the Telefónica Group or our company of avoidable tax liabilities related to the reorganization.

## **C. INTERESTS OF EXPERTS AND COUNSEL**

Not applicable.

## **Item 8. FINANCIAL INFORMATION**

### **A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION**

See Item 18.

### **Legal Proceedings**

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

### ***Spain***

*Antitrust violations for entering into exclusivity agreements*

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

On February 3, 2003, the National Court dismissed the appeal filed by us and the two other operators. On September 23, 2003, we submitted our appeal to the *Tribunal Supremo* (Central Court) requesting reversal of the lower court decision. We expect the Central Court's decision on May 16, 2006. We cannot assure you that the antitrust authorities will not find that we have abused our dominant position in the Spanish wireless market by being a party to exclusivity agreements after 1997 and, as a result, may impose further fines on us or rescind our current exclusivity agreements with those distributors.

*Challenge to the Spanish Government's increase of Spectrum Fees*

The Spanish government adopted legislation imposing additional fees on us totaling approximately 228 million with respect to our use of spectrum both for new UMTS licenses as well as existing analog and digital concessions and other uses for year 2001. We filed claims with the Central Administrative Economic Tribunal (Tribunal Económico Administrativo Central) challenging the increase in fees for that year, which were dismissed in September 2001. We have paid all relevant fees to the State Secretariat of Telecommunications and have appealed before the National Court.

A ruling has since been made in the cases appealing the DCS-1800 and GSM reservation fees, raising the question of unconstitutionality. In the case of the UMTS license, Telefónica Móviles España, S.A. has pleaded to the National Appellate Court to raise the question of unconstitutionality at a higher instance, i.e. the Constitutional Court, and to bring the issue before the European Community Court of Justice for a preliminary ruling.

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### *Economic-administrative claim relating to business tax (IAE) payment in 2003*

In December 2003, Telefónica Móviles España, S.A. filed a claim with the regional tax authorities of Madrid in connection with the 2003 IAE payment of 26,000 thousand euros. Telefónica Móviles España believes the tax authorities committed an administrative error in processing this tax payment, not recognizing a prior wire payment of 3,226 thousand euros.

Telefónica Móviles España, S.A. has paid the amounts in question. The purpose of the claim is to demand the repayment of the amounts the Company believes it overpaid.

### *Interconnection termination tariffs with RETEVISIÓN MÓVIL, S.A.*

The ruling on January 12, 2006 closed the interconnection suit brought by RETEVISIÓN MÓVIL, S.A. against Telefónica Móviles España, S.A. in relation to the call termination tariffs on the former's network. Pursuant to the ruling, Telefónica Móviles España, S.A. must apply the interconnection call-termination fees in effect before October 7, 2004 retroactively from February 4, 2005. Telefónica Móviles España, S.A.'s appeal to this ruling was fully upheld by the CMT (telecommunications regulatory body) in its ruling on February 16. This ruling finds that RETEVISIÓN MÓVIL, S.A.'s termination rates in effect prior to October 7, 2004 are not applicable to Telefónica Móviles España, S.A. Accordingly, Telefónica Móviles España, S.A. is not obliged to pay any amounts, in addition to those actually paid during the conflict in this regard. RETEVISIÓN MÓVIL, S.A. could file a complaint for judicial review by the CMT ruling within two months of the decision.

## ***Germany***

### *Ostheimer*

In 2003, Ostheimer GmbH filed a suit against Quam GMBH demanding indemnification of 100 million euros as a result of damages arising from the termination of the framework distribution agreement signed with Quam. The courts ruled in favor of Quam GMBH in 2005. Ostheimer is appealing this ruling.

### *Cancellation of the license granted to Quam GMBH*

In December 2004, the Regulatory Authority for Telecommunications and Post (RegTP) revoked the UMTS license granted to Quam GMBH in 2000. After obtaining a suspension of the revocation order, Quam filed a suit against the revocation order with the German courts. There are two main parts to this claim: the first seeking that the suspension of the license revocation order issued by the RegTP be upheld, and the second, in the event the first is not successful, seeking the partial and total repayment of the original amount paid for the license.

## ***Italy***

In the wake of the Italian government's refusal to accept the return by Ipse 2000, S.p.A, of the additional 5Mhz of spectrum awarded to it after it was granted a UMTS license, Ipse 2000, S.p.A. filed a claim based on its right to renounce the rights granted to it by the government and requested a 826 million euro reduction in payments owed (corresponding to the 5Mhz of spectrum).

Simultaneously, in light of the new regulatory framework establishing a maximum annual price per 5Mhz, which is below that set when the license was granted to Ipse, S.p.A., the company filed a suit with the same organism of the Italian Ministry for Communications, requesting the cancellation of pending payments in connection with the UMTS license, which, if successful, would represent a reduction over the initial amount of between approximately 1.2 and 2.3 billion euros. On May 31, 2004, Ipse 2000, S.p.A. also filed a complaint against the Italian government's allocation of GSM frequency free of charge.

Currently, all these claims have been brought under one suit. In August 2005, the Italian courts ruled against the first two claims and delayed its ruling on the last one (the free allocation of GSM frequency).

Additionally on January 31, 2006, the Italian Government notified Ipse 2000 S.p.A., of its decision to revoke the UMTS license granted in 2002. On March, 2006 Ipse 2000 S.p.A. appealed this revocation requesting additionally the reimbursement of losses and damages.

## ***Mexico***

### *Corporate income tax law regarding interest deductibility*

Telefónica Móviles México, S.A. de C.V. and its subsidiaries filed a suit against certain temporary provisions of the corporate income tax law limiting deductibility of interest payments on loans under certain circumstances.

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Notification was received in January 2006 that the case was being dismissed on the grounds that since the judge did not consider that it was the right time to call into question the unconstitutionality of the provisions.

The Mexican subsidiaries plan to appeal the ruling on the basis that the provisions in question have been detrimental to the companies since they came into effect.

### *Annual fees for use and operation of spectrum frequency*

The Mexican Federal Rights Act establishes an annual fee for the use and operation of spectrum frequency tendered since 2003. Telefónica Móviles México, S.A. de C.V. was awarded spectrum on the 1900 MHz frequency in the tender process held in April 2005, on which it is obliged to pay spectrum fees.

Telefónica Móviles México, S.A. de C.V. has filed a claim against the unconstitutionality of the fee imposed on the spectrum it was granted.

In December 2005, Telefónica Móviles México, S.A. de C.V. appealed the sentence ruling against its claim.

Telefónica Móviles México, S.A. has paid the fees in question. The purpose of the claim is to demand the repayment of the amounts already paid.

### *Kargo, Inc., ACK Ventures Holdings, LLC and United Mobile Technologies, LLC.*

Kargo, Inc., has filed a suit against Telefónica Móviles México, S.A. de C.V., Pegaso PCS, S.A. de C.V., Pegaso Telecomunicaciones, S.A. de C.V., Telefónica Móviles, S.A. and Telefónica, S.A. for the payment of damages, legal fees and expenses, and any other amounts deemed payable by the courts, for alleged failure to comply with a systems and hosting agreement negotiated by Pegaso PCS, S.A. de C.V.

The case is currently being heard at a Federal court. In January 2006, Telefónica Móviles México, S.A. de C.V. filed a motion to have the case dismissed for lack of grounds.

### *Challenge to Mexican federal government fee for public concessions*

Licensee companies in Mexico pay the Mexican federal government a fee which is calculated as a share of their revenue from operating the public service concessions. On September 11, 2003, the Secretariat of Revenue and Public Credit issued an order stating that the revenues subject to this fee must include revenues obtained from interconnection traffic received from other communications companies under the caller

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pays system. Our Mexican operators. On October 2005, a ruling against Telefónica Móviles was issued. Telefónica Móviles México and our operators in Mexico have been paying according to this order. Accordingly, no additional payment will be required as a result of this decision.

### **Brazil**

#### *Universal service fund (FUST)*

The Vivo Group operators have appealed ANATEL's decision to modify the basis for calculating amounts payable into the FUST (Fundo de Universalização de Serviços de Telecomunicações), a fund to pay for telecommunications services providers' obligations to provide universal service (wireline and wireless). On March 13, 2006, the Vivo Group companies were provisionally allowed to calculate amounts payable into FUST as if such modification had not taken place.

### *Lune*

Lune Projetos Especiais em Telecomunicações Com has filed a suit against the VIVO Group companies, alleging to own the patent on caller ID and to have registered the Bina brand. The suit demands the cessation of this service and requests indemnification for an amount equal to the amount customers have paid for this service.

Several wireless infrastructure manufacturers, including subsidiaries of the VIVO Group, have lodged a complaint with the Brazilian institute for industrial property demanding that it declare the patent in question null and void.

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*PIS and COFINS*

COFINS (Contribuição Social para o Financiamento da Seguridade Social) and PIS (Programa de Integração Social) are gross revenue taxes levied on corporations in Brazil. In 1998, Law 9,718 modified the calculation of these taxes, (i) increasing the COFINS tax from 2% to 3% and (ii) expanding the taxable base. The VIVO Group operators all elected to file a suit with the Brazilian state against this law and to fully provision these amounts, with the exception of Celular CRT S.A., which chose to pay the taxes pursuant to Law 9,718.

In terms of the expanded taxable base issue, two VIVO Group companies (Tele Centro Oeste Celular Participações S.A. and Telergipe Celular S.A.) have been granted favorable rulings. Rulings in favor of the rest of the companies are expected over the course of the coming year.

*Venezuela*

Appeal for tax review by TELCEL, C.A. in 2002 against the Venezuelan agency (SENIAT) which is demanding TELCEL, C.A. pay approximately 54,364,291 euros for alleged tax irregularities between 11-01-94 and 10-31-95, 11-01-95 and 10-31-96 and between 11-01-96 and 10-31-97.

*Medi Telecom s challenge to Moroccan regulator s decision*

In March 2002, Medi Telecom filed claims against the Moroccan wireless regulator s decision that interconnection fees be calculated by the second, having the Court ruled against Medi Telecom petition.

**B. SIGNIFICANT CHANGES**

In December of 2005 we entered into a share exchange agreement with the Burillo Group whereby we acquired 8% of Telefónica Móviles Mexico, S.A. de C.V., increasing our holding to 100% of Telefónica Móviles Mexico.

The transaction represents a cost to us of 177 million. It is being structured via the exchange of shares of Telefónica Móviles Mexico, S.A. for the shares of Telefónica, S.A. Accordingly, Mr. Burillo will become a stockholder of the parent company of the Telefónica Móviles Mexico Group.

On January 7, 2005, pursuant to the March 5, 2004 stock purchase agreement entered into with BellSouth Corporation, Telefónica Móviles, S.A., acquired a 100% interest in BellSouth Chile for a total amount of US\$531.8 million, after receiving the necessary regulatory approvals.

**Item 9. THE OFFER AND LISTING**

**A. OFFER AND LISTING DETAILS**

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



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

	<b>Telefónica Móviles</b>			
	<b>Shares(1)</b>		<b>ADS(2)</b>	
	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>
	<b>(euro)</b>		<b>(U.S. dollars)</b>	
<b>Annual Information for the past five years</b>				
2001	11.01	4.90	10.63	5.00
2002	8.75	5.46	7.80	5.40
2003	8.37	5.30	10.58	5.90
2004	9.51	7.89	12.83	9.71
2005	10.14	8.35	13.14	10.04
<b>Quarterly information for the past two years</b>				
<b>2004</b>				
First Quarter	9.51	8.28	12.09	10.21
Second Quarter	9.17	8.27	11.09	9.97
Third Quarter	8.77	7.89	10.93	9.71
Fourth Quarter	9.40	8.56	12.83	10.64
<b>2005</b>				
First Quarter	10.14	9.14	13.14	11.75
Second Quarter	9.48	8.59	12.18	10.37
Third Quarter	9.45	8.35	11.46	10.04
Fourth Quarter	9.38	8.53	11.12	10.20
<b>Most recent six months</b>				
October	9.21	8.53	11.12	10.21
November	9.38	8.71	10.90	10.26
December	8.93	8.66	10.65	10.20
January	9.29	8.93	11.20	10.46
February	9.95	8.80	11.79	10.49
March	10.95	9.75	13.35	11.62
April (through April 6)	10.72	10.68	13.05	12.88

(1) Source: Madrid stock exchange.

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

**Securities Trading in Spain**

The Spanish securities market for equity securities consists of four stock exchanges located in Madrid, Bilbao, Barcelona and Valencia and the Automated Quotation System, or *Mercado Continuo*. During 2005, the Automated Quotation System accounted for the majority of the total trading volume of equity securities on the Spanish stock exchanges.

*Automated Quotation System*

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The Automated Quotation System links the four Spanish stock exchanges, providing those securities listed on it with a uniform continuous market that eliminates certain of the differences among the local exchanges. The principal features of the system are the computerized matching of buy and sell orders at the time of entry of the order. Each order is executed as soon as a matching order is entered, but can be modified or canceled until executed. The activity of the market can be continuously monitored by investors and brokers. The Automated Quotation System is operated and regulated by Sociedad de Bolsas, S.A., a corporation owned by the companies that manage the stock exchanges. All trades on the Automated Quotation System must be placed through a brokerage firm, an official stock broker or a dealer firm that is a member of a Spanish stock exchange. Beginning January 1, 2000, Spanish banks were able to become members of a Spanish stock exchange and are therefore able to place trades on the Automated Quotation System.

In a pre-opening session held from 8:30 a.m. to 9:00 a.m. each trading day, an opening price is established for each security traded on the Automated Quotation System based on a real-time auction in which orders can be entered, modified or cancelled but are not executed. During this pre-opening session, the system continuously displays the price at which orders would be executed if trading were to begin. Market participants only receive

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information relating to the auction price (if applicable) and trading volume permitted at the current bid and offer price. If an auction price does not exist, the best bid and offer price and associated volumes are shown. The auction terminates with a random period of 30 seconds in which share allocation takes place. Until the allocation process has finished, orders cannot be entered, modified or cancelled. In exceptional circumstances (including the inclusion of new securities on the Automated Quotation System) and after giving notice to the CNMV, Sociedad de Bolsas, S.A. may establish an opening price without regard to the reference price (the previous trading day's closing price), alter the price range for permitted orders with respect to the reference price and modify the reference price.

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

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

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

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

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

Sociedad de Bolsas, S.A. finds other justifiable cause.

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

### ***Clearance and Settlement System***

A new financial act (*Ley 44/2002 de Medidas de Reforma del Sistema Financiero*) was enacted on November 22, 2002, to increase the efficiency of the Spanish financial markets. The new law introduced a new article, 44-bis to the *Ley del Mercado de Valores* (the Spanish Securities Act) under which Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores S.A.U., or Iberclear, was created.

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Iberclear is regulated by the Spanish Securities Act and where appropriate by Royal Decree 505/1987 of April 3, 1987, Royal Decree 166/1992 of February 14, 1992, and by any other related regulation. This company, which is a wholly owned subsidiary of Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A. (the Sociedad Holding ), has the following functions:

bookkeeping of securities represented by means of book entries admitted to trading in the stock markets or in the public debt book entry market.

managing the clearance and settlement system for the brokerage transactions in the stock markets and at the public debt book entry market.

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providing technical and operational services directly linked to the registry, clearance and settlement of securities, or any other service required by Iberclear to be integrated with any other registry, clearance, and settlement systems.

Iberclear will provide the CNMV, the Bank of Spain and the Ministry of Economy with the information that these entities may request regarding the registry, clearance and settlement performed within the systems managed by Iberclear.

Transactions carried out on the Spanish stock exchanges are cleared and settled through Iberclear.

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

The settlement of any transactions must be made three business days following the date on which the transaction was carried out.

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

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

## **Spanish Securities Market Legislation**

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

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

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

required stock exchange members to be corporate entities;

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

established the legal framework for the Automated Quotation System;

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

deregulated brokerage commissions; and

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

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

The concept of the investment services company was created. Brokers, dealers and portfolio managing companies are considered to be investment services companies. These companies are entitled

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to render investment services and complementary activities. Banks are not considered to be investment services companies, although they may render investment services upon becoming members of the Spanish stock exchanges.

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

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

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

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

On July 8, 2003, in order to increase the transparency of the Spanish financial markets, the Spanish parliament passed the so-called Transparency Act (*Ley de Transparencia*), also known as the Ley Aldama. The Act regulates the corporate governance structure of listed companies, setting out new reporting obligations and defining the duties of directors and their legal liabilities. The Transparency Act amends the Securities Market Act of 1988 (24/1988) and the Public Companies Act approved by Legislative Royal Decree 1564/1989.

On November 16, 2005, Royal Decree 1310/2005 on admission to trading of securities, public offers and required prospectuses was published. This Royal Decree incorporates Directive 2003/71/CE of the European Parliament and of the Council dated on November 4, 2003 on the prospectus to be published when securities are offered to the public or admitted to trading, into Spanish law. Previously, this Directive has been partially incorporated into Spanish Law with the Royal Decree 5/2005 enacted on March 11, 2005. Royal Decree 1310/2005 repeals Royal Decree 201/1992, of March 27, 1992, regarding admission to trading of securities and public offers and establishes the regulation of the applicable requirements for the admission of securities to the Spanish stock exchanges and the requirements for the preparation, review and distribution of the prospectus to be published when transferable securities are offered to the public.

On November 23, Royal Decree 1333/2005 on insider trading was published. The Royal Decree 1333/2005 develops the Securities market Law 24/1988, July 28, regarding market abuse and completes the incorporation into to Spanish Law of the new European Community Regulation regarding this matter.

## **B. PLAN OF DISTRIBUTION**

Not applicable.

**C. MARKETS**

See Item 9A.

**D. SELLING SHAREHOLDERS**

Not applicable.

**E. DILUTION**

Not applicable.



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**F. EXPENSES OF THE ISSUE**

Not applicable.

**Item 10. ADDITIONAL INFORMATION**

**A. SHARE CAPITAL**

Not applicable.

**B. MEMORANDUM AND ARTICLES OF ASSOCIATION**

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

*Corporate Objects*

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

*Significant Differences between our Corporate Governance Practices and U.S. Corporate Governance Standards*

*Corporate Governance Guidelines*

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In Spain, companies with securities listed on a Spanish stock exchange are expected to follow the Olivencia Code of Good Governance and the Aldama Report, which include recommendations for corporate governance guidelines and shareholder disclosure. Additionally, listed companies are now required by law to publish an Annual Report on Corporate Governance and also to publish corporate governance information on their websites. We base our corporate governance procedures on the recommendations of the Olivencia Code and the Aldama Report. As part of our corporate governance procedures, we have adopted regulations for our Board of Directors that govern, among other things, director qualification standards, responsibilities, compensation, access to management information, the Board of Directors' purpose and each of our Board Committees' purpose and responsibilities. Moreover, we have a Regulation of the General Shareholders' Meeting that aims to reinforce its transparency, providing shareholders with a framework guaranteeing and facilitating exercise of their rights. The Annual Report on Corporate Governance published by us provides a detailed explanation of our corporate governance procedures and explains the role and duties of our Board of Directors and Board Committees.

Our Annual Report on Corporate Governance is available at our registered office and on our website at [www.telefonicomoviles.com](http://www.telefonicomoviles.com). None of the information contained on our website is incorporated in this Annual Report.

### *Committees*

We have had an Audit and Control Committee since 2000, composed of three directors deemed independent by our Board of Directors. Our committee's functions and duties are similar to those required by the NYSE.

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

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### *Independence of the Board*

As of the date of this Annual Report, we had 14 directors, out of which five have been deemed independent by our Board of Directors. A significant majority of our current directors (12) are non-executive directors. The NYSE rules include detailed criteria for determining director independence. We, in accordance with our Board of Directors Regulations, assess the independence of our directors by evaluating, among other things, (i) the contractual, employment and commercial relations between directors and us, (ii) other Board of Directors positions held by directors and (iii) the director's familial relationships. The Nominating and Compensation Committee evaluates these criteria and notifies the Board of Directors of its decision. Our Board of Directors, in turn, is responsible for assessing whether a director is deemed independent as reported in our Annual Report on Corporate Governance.

### *Internal audit function*

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

### *Non-executive director meetings*

Pursuant to the NYSE listing standards, non-executive directors of U.S. listed companies must meet on a regular basis without management present and the company must disclose a method for any interested parties to communicate directly with the non-executive directors. As a group, our non-executive directors do not meet formally without management present. Our Audit and Control Committee, which is composed of three independent directors, has unanimously approved procedures that allow any employee to anonymously and confidentially report instances of fraud, alterations of financial information or specific risks to the company and its subsidiaries. These procedures are currently in place.

### *Code of ethics*

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

### *Director Qualification*

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

*Interested Transactions*

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

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

A director must retire upon reaching the age of 70. Such retirement shall take effect at the first Board meeting following the general shareholders meeting that approves the financial statements for the year in which such director turned 70. Directors who also hold management functions must retire upon reaching the age of 65, although this requirement may be dispensed with by the Board of Directors.

*Description of Telefónica Móviles Capital Stock*

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

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### *General*

At April 6, 2006, our issued share capital was 2,165,275,448 represented by 4,330,550,896 ordinary shares, with a nominal value per share of 0.50. Non-residents of Spain may hold and vote ordinary shares subject to the restrictions set forth below.

### *Attendance and Voting at Shareholders Meetings*

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

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

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

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

Our by-laws provide that, on the first call of a general shareholders meeting, a duly constituted general meeting of shareholders requires a quorum of at least one-quarter of our issued and voting share capital. On the second call, there is no quorum requirement. Consideration of extraordinary matters such as modification of our by-laws, changes in our share capital structure, changes in the corporate form, mergers, spin-offs, issues of bonds, dissolution and liquidation require on first call a quorum of at least one-half of our issued and voting share capital, and on second call the presence of shareholders representing at least one-quarter of our issued and voting share capital. If, after the second call, the shareholders present or represented constitute less than one-half of our issued and voting share capital, resolutions relating to extraordinary matters may be adopted only with the approval of two-thirds of the share capital present or represented at such meeting. A shareholders meeting at which 100% of the capital stock is present or represented is validly constituted even if no notice of the meeting was given, and, upon unanimous agreement, shareholders may consider any matter at the meeting.

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

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

### *Preemptive Rights*

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

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### *Form and Transfer*

Our shares are in registered book-entry form. Transfers executed through stock exchange systems are implemented pursuant to the stock exchange clearing and settlement procedures carried out by the Spanish clearing institution. Transfers executed outside of stock exchange systems, that is, over the counter, are implemented pursuant to the general legal regime for book-entry transfer, including registration by the Spanish clearing institution.

There are no restrictions with respect to the transfer of our shares.

### *Liquidation Rights*

Under Spanish law, upon our liquidation, the shareholders would be entitled to receive, on a *pro rata* basis, any assets remaining after the payment of our debts and taxes and liquidation expenses.

## **C. MATERIAL CONTRACTS**

### **Agreement with Portugal Telecom**

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

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

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

In accordance with the Shareholders Agreement and Subscription Agreement signed by Telefónica Móviles on the one hand and Portugal Telecom SGPS, S.A. and its subsidiary PT Moveis SGPS, S.A. on the other, we and the Portugal Telecom Group have the same voting rights in

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Brasilcel, N.V. This equality in voting rights will continue to exist even if either party's economic and voting interest is diluted below 50%, but not lower than 40%, as a consequence of a capital increase. The equality in voting rights will cease to exist if the percentage of ownership of one of the parties falls below 40% during an uninterrupted period of six months. In this event, if the group with the reduced interest were the Portugal Telecom Group, it would be entitled to sell to us, who would be obliged to buy (directly or through another company) all of Portugal Telecom's ownership interest in Brasilcel N.V. This right expires on December 31, 2007. The price for the acquisition of the Portugal Telecom Group's holding in Brasilcel, N.V. would be calculated on the basis of an independent appraisal (in the terms provided for in the Shareholders Agreement and Subscription Agreement) performed by investment banks, selected using the procedure established in these agreements. Subject to certain conditions, the payment could be made, at our choice, in (i) cash, (ii) our shares and/or Telefónica, S.A. shares, or (iii) a combination of the two. This put option would be exercisable in the 12 months subsequent to the end of the aforementioned six-month period, provided that the Portugal Telecom Group had not increased its ownership interest to 50% of the total capital stock of Brasilcel N.V.

Also, in accordance with the Shareholders' Agreement and Subscription Agreement, the Portugal Telecom Group will be entitled to sell to us, who would be obliged to buy, all of Portugal Telecom Group's ownership interest in Brasilcel, N.V. should there be a change in control at Telefónica, S.A., Telefónica Móviles, S.A. or any other subsidiary of the latter that held a direct or indirect ownership interest in Brasilcel N.V. Similarly, we will be entitled to sell to the Portugal Telecom Group, which would be obliged to buy, our interest in Brasilcel, N.V. if there is a change of control at Portugal Telecom SGPS, S.A., PT Moveis SGPS, S.A. or any other



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subsidiary of either company that held a direct or indirect ownership interest in Brasilcel N.V. The price will be determined on the basis of an independent appraisal (in the terms provided for in the Shareholders' Agreement and Subscription Agreement) performed by investment banks, selected using the procedure established in these agreements. The Portugal Telecom Group and us have agreed to retain the services of a related third party of Telefónica Móviles to provide Brasilcel with financial services.

For the purposes of the previous paragraph, pursuant to the provisions of the Shareholders' Agreement entered into by us, Portugal Telecom SGPS, S.A. and PT Moveis SGPS, S.A., a change of control is considered to exist if (i) a competitor of either party acquires (x) 15% of the share capital of Telefonica, S.A. or Portugal Telecom SGPS, S.A. or (y) the majority of the share capital of any subsidiary of Telefonica, S.A. or Portugal Telecom SGPS, S.A. holding shares in Brasilcel, NV; or (ii) a corporate transaction takes place with respect to Telefonica, S.A. or Portugal Telecom SGPS, S.A. and as a consequence thereof the majority of the members of the board of directors of such entities change.

### **Acquisition of BellSouth Operations in Latin America**

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

The effective transfer of the shares of these companies was conditional upon the obtainment of the required regulatory authorizations in each country and on the acceptance of the offers by the minority stockholders.

On October 14, 2004, we acquired BellSouth's holdings in its wireless operations in Ecuador, Guatemala and Panama. On October 28, 2004, we acquired BellSouth's holdings in its wireless operations in and the holdings in Colombia, Nicaragua, Peru, Uruguay and Venezuela. Finally, we acquired BellSouth's holdings in its wireless operations in Chile on January 7, 2005 and in Argentina January 11, 2005.

In addition to the acquisition of the BellSouth Group's ownership interests in its wireless telephony operators in Latin America, in compliance with the commitments assumed under share purchase agreements, Telefónica Móviles offered to acquire the ownership interest held by the minority stockholders of each of these companies, and in all cases the acquisition price was equal to that agreed on with BellSouth.

Under the stock purchase agreement, the total assets of the aforementioned operators were valued at US\$4,330 million (US\$5,850 million including the investments in Argentina and Chile acquired in January 2005). The following sets for the values assigned to, and the acquisition cost for Telefónica Móviles of, each Latin American operator acquired from BellSouth during fiscal year 2004:

Acquisition of all the shares of the operator Otecel, S.A. (Ecuador) for a total company value of US\$833 million. The acquisition cost for Telefónica Móviles, adjusted by the company's net debt, was 663.4 million.

Acquisition of 60% of the shares of Telefónica Móviles y Compañía, S.C.A. in Guatemala, representing BellSouth's entire stake in that company and representing a total company value of US\$175 million. Telefónica Móviles subsequently acquired the remaining 40% of the company's shares directly from its minority shareholders. The total acquisition cost for Telefónica Móviles, adjusted by the

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company's net debt, was 92.5 million.

Acquisition of 43.68% of the shares of BellSouth Panamá, S.A., representing BellSouth's entire stake in that company. Telefónica Móviles subsequently acquired an additional 55.88% of the company's shares from its minority shareholders. The company value of BellSouth Panamá, S.A. was US\$657 million. The total acquisition cost for Telefónica Móviles, adjusted by the company's net debt, was 549.3 million.

Acquisition of all the shares of Telcel, S.A. (Venezuela) for a total company value of US\$1,195 million. The acquisition cost for Telefónica Móviles, adjusted by the company's net debt, was 1,224.0 million.

Acquisition of all the shares of Telefónica Móviles Colombia, S.A. for a total company value of US\$1,050 million. The acquisition cost for Telefónica Móviles, adjusted by the company's net debt, was 517.5 million.

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Acquisition of 97.43% of the shares of Comunicaciones Móviles del Perú, S.A. (formerly know as BellSouth Perú, S.A.), representing BellSouth's entire stake in that company, for a total company value of US\$210 million. Telefónica Móviles subsequently acquired an additional 2.42% of the company's shares from its minority shareholders. The acquisition cost for Telefónica Móviles, adjusted by the company's net debt, was 7.7 million.

Acquisition of all the shares of Telefonía Celular de Nicaragua, S.A. for a total company value of US\$150 million. The acquisition cost for Telefónica Móviles, adjusted by the company's net debt, was 148.7 million.

Acquisition of a 68% interest in Abiatar, S.A., representing BellSouth's entire stake in that company. Telefónica Móviles subsequently acquired an additional 32% of the company's shares from its minority shareholders. The total company value of Abiatar, S.A. was US\$60 million. The acquisition cost for Telefónica Móviles, adjusted by the company's net debt, was 49.4 million.

## **D. EXCHANGE CONTROLS**

### **Exchange Controls and Other Limitations Affecting Security Holders**

#### *Preliminary administrative authorization of certain transactions (Golden Share)*

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

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

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

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

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

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

5/1995; and

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

*Ownership Limitations*

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

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### *Dividend and Liquidation Rights*

Payment of a final dividend is proposed by our Board of Directors but must be authorized by our shareholders at the general meeting of shareholders. According to Spanish law and our by-laws, dividends may only be paid out of profits or distributable reserves if the value of our net worth is not, and as a result of such distribution would not be, less than our capital stock. Pursuant to Spanish law, we are required to reserve 10% of our fiscal year net income until the amount in our legal reserve reaches 20% of our capital.

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

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

### *Trading in Our Own Shares*

At December 31, 2005, we held 1,599 shares of treasury stock derived from our employee option scheme. We may from time to time purchase shares in the secondary market subject to the restrictions described below.

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

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

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

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

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

Any acquisition of our own shares exceeding, or that causes us and our subsidiaries' holdings to exceed, 1% of our share capital must be reported to the CNMV. At our general shareholders' meeting on May 6, 2005, our shareholders authorized our Board of Directors to acquire up to 5% of our share capital. This authorization is valid for 18 months from the date of such authorization. A proposal authorizing our Board of Directors to acquire up to 5% of our share capital will be voted on by shareholders at our next general ordinary shareholders' meeting.

## E. TAXATION

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

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

(a) that is, for U.S. federal income tax purposes, one of the following:

(i) a citizen or resident of the United States,

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(ii) a corporation (or other entity taxable as a corporation) created or organized in or under the laws of the United States or any political subdivision thereof, or

(iii) an estate or trust, the income of which is subject to U.S. federal income taxation regardless of its source.

(b) who is entitled to the benefits of the Treaty under the Limitation on Benefits provisions contained in the Treaty;

(c) who holds the shares or ADSs as capital assets for U.S. federal income tax purposes;

(d) who owns, directly, indirectly or by attribution, less than 10% of the share capital or voting stock of Telefónica Móviles, S.A.; and

(e) whose holding is not effectively connected with a permanent establishment in Spain.

This summary does not address tax considerations that may apply to holders that are subject to special tax rules, such as U.S. expatriates, insurance companies, tax-exempt organizations, banks or certain other financial institutions, persons subject to the alternative minimum tax, dealers and certain traders in securities or foreign currencies, retirement plans, investors holding the shares or ADSs as part of a straddle, hedging, conversion or other integrated transaction, persons who acquired their shares or ADSs pursuant to the exercise of employee stock options or otherwise as compensation, partnerships or other entities classified as partnerships for U.S. federal income tax purposes, or persons whose functional currency is not the U.S. dollar. Such holders may be subject to U.S. federal income tax consequences different from those set forth below.

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

The U.S. Treasury has expressed concerns that parties to whom ADSs are pre-released may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. Holders of ADSs. Such actions would also be inconsistent with the claiming of the reduced rate of tax applicable to dividends received by certain non-corporate U.S. Holders. Accordingly, the availability of foreign tax credits to U.S. Holders of ADSs and the reduced tax rate for dividends received by certain non-corporate U.S. Holders of ADRs, both as described below, could be affected by actions that may be taken by parties to whom ADSs are pre-released.

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

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This discussion assumes that Telefónica Móviles, S.A. is not, and will not become, a passive foreign investment company ( PFIC ), as discussed below under United States Federal Income Tax Considerations Passive Foreign Investment Company Rules.

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

### Spanish Tax Considerations

#### *Taxation of Dividends*

Under Spanish law, dividends paid by Telefónica Móviles to a U.S. Holder are subject to an income tax withheld at source on the gross amount of dividends at a 15% tax rate.

On June 15, 2005, we made a cash dividend distribution of 0.193 per share.

#### *Taxation of Capital Gains*

Spanish income tax is generally levied at a 35% tax rate on capital gains obtained by nonresidents of Spain who are not entitled to the benefit of any applicable treaty for the avoidance of double taxation and who do not operate through a fixed base or a permanent establishment in Spain.



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

### *Spanish Wealth Tax*

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

### *Spanish Inheritance and Gift Taxes*

Transfers of shares or ADSs on death and by gift to individuals are subject to Spanish inheritance and gift taxes (*Impuesto sobre Sucesiones y Donaciones*), respectively, if the transferee is a resident of Spain for tax purposes, or if the shares or ADSs are located in Spain at the time of death, regardless of the residence of the heir or beneficiary. The applicable tax rate, after applying all relevant factors, ranges from 7.65% and 81.6% for individuals. Gifts of shares granted to corporate U.S. Holders are subject to corporate tax which is generally levied at the rate of 35%.

### *Expenses of Transfer*

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

## **United States Federal Income Tax Considerations**

### *Taxation of Dividends*

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Distributions received by a U.S. Holder on shares or ADSs, including the amount of any Spanish taxes withheld, other than certain pro rata distributions of shares to all shareholders (including ADS holders), will constitute foreign source dividend income to the extent paid out of Telefónica Móviles' current or accumulated earnings and profits (as determined for U.S. federal income tax purposes). The amount of the dividend a U.S. Holder will be required to include in income will equal the U.S. dollar value of the euro, calculated by reference to the exchange rate in effect on the date the payment is received by the Depositary (in the case of ADSs) or by the U.S. Holder (in the case of ordinary shares), regardless of whether the payment is converted into U.S. dollars on the date of receipt. If a U.S. Holder realizes gain or loss on a sale or other disposition of euro, it will be U.S. source ordinary income or loss. Corporate U.S. Holders will not be entitled to claim the dividends-received deduction with respect to dividends paid by Telefónica Móviles. Subject to applicable limitations and the discussion above regarding concerns expressed by the U.S. Treasury, dividends received by certain non-corporate U.S. Holders in taxable years beginning before January 1, 2009 will be taxable at a maximum rate of 15%. Non-corporate U.S. Holders should consult their own tax advisors to determine whether they are subject to any special rules that limit their ability to be taxed at these favorable rates.

Spanish taxes withheld from dividends on shares or ADSs at a rate not exceeding the rate provided in the Treaty will be creditable against a U.S. Holder's U.S. federal income tax liability, subject to applicable restrictions and limitations that may vary depending upon the U.S. Holder's circumstances and the discussion above regarding concerns expressed by the U.S. Treasury. Instead of claiming a credit, a U.S. Holder may elect

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to deduct such Spanish taxes in computing its taxable income, subject to generally applicable limitations. The limitation of foreign taxes eligible for credit is calculated separately with respect to specific classes of income. The rules governing foreign tax credits are complex. Therefore, U.S. Holders should consult their own tax advisors regarding the availability of foreign tax credits in their particular circumstances.

### *Taxation Upon Sale or Other Disposition of Shares or ADSs*

A U.S. Holder will generally recognize capital gain or loss on the sale or other disposition of shares or ADSs, which will be long-term capital gain or loss if the U.S. Holder has held such shares or ADSs for more than one year. The amount of the U.S. Holder's gain or loss will be equal to the difference between the amount realized on such sale or other disposition and the U.S. Holder's tax basis in the shares or ADSs, as determined in U.S. dollars. Any gain or loss will generally be U.S. source gain or loss for foreign tax credit purposes.

As discussed under *Spanish Tax Considerations-Taxation of Capital Gains* above, gain realized by a U.S. Holder on the sale or other disposition of shares or ADSs may be subject to Spanish tax unless the U.S. Holder provides the relevant Spanish tax authorities with both a certificate of U.S. tax residence on IRS Form 6166 and Spanish Form 210. Spanish law requires that both of these forms be filed within one month from the date on which the capital gain is realized. U.S. Holders are advised to submit IRS Form 8802 and the accompanying declaration to the IRS well in advance of the date on which the IRS Form 6166 that will be issued by the IRS may be required by the Spanish tax authorities, as there may be delays in obtaining the necessary forms. U.S. Holders should consult their own tax advisors regarding the potential Spanish tax consequences of a sale or other disposition of shares or ADSs and the procedures available for an exemption from such tax.

### *Passive Foreign Investment Company Rules*

Telefónica Móviles believes that it was not a PFIC for U.S. federal income tax purposes for its 2004 taxable year. However, since PFIC status depends upon the composition of a company's income and assets and the market value of its assets (including, among others, less than 25% owned equity investments) from time to time, there can be no assurance that Telefónica Móviles will not be considered a PFIC for any taxable year. If Telefónica Móviles were treated as a PFIC for any taxable year during which a U.S. Holder held a share or ADS, certain adverse tax consequences could apply to the U.S. Holder.

If Telefónica Móviles is treated as a PFIC for any taxable year during which a U.S. holder held a share or ADS, gain recognized by such U.S. Holder on a sale or other disposition of shares or ADSs would be allocated ratably over the U.S. Holder's holding period for the shares or ADSs. The amounts allocated to the taxable year of the sale or other disposition and to any year before Telefónica Móviles became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, and an interest charge would be imposed on the amount allocated to each such taxable year. Further, any distribution in respect of shares or ADSs in excess of 125% of the average of the annual distributions on shares or ADSs received by the U.S. Holder during the preceding three years or the U.S. Holder's holding period, whichever is shorter, would be subject to taxation as described above. Certain elections may be available (including a mark-to-market election) to U.S. Holders that may help to mitigate the adverse U.S. federal income tax consequences resulting from Telefónica Móviles being a PFIC.

In addition, if Telefónica Móviles were to be treated as a PFIC in a taxable year in which it pays a dividend or the prior taxable year, the favorable dividend rates discussed above with respect to dividends paid to certain non-corporate U.S. Holders would not apply.

*Information Reporting and Backup Withholding*

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting and to backup withholding unless the U.S. Holder is a corporation or other exempt recipient or, in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle such U.S. Holder to a refund, provided that the required information is furnished to the IRS.

**F. DIVIDENDS AND PAYING AGENTS**

Not applicable.

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### **G. STATEMENTS BY EXPERTS**

Not applicable.

### **H. DOCUMENTS ON DISPLAY**

#### **Where You Can Find More Information**

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

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

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

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

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

### **I. SUBSIDIARY INFORMATION**

Not applicable.

### **Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

Gains or losses on these instruments are recorded as adjustments to the underlying transactions. Our counterparties in our financial derivatives transactions are Telefónica S.A. and financial institutions.

#### **Interest rate risk**

We use several derivative strategies, including swaps to manage our exposure to interest rate fluctuations. Giving effect to these derivative transactions, at December 31, 2005 approximately 73.8% of our long-term debt portfolio bore interest at a variable rate. Our floating rate debt portfolio is principally subject to fluctuations in the London Interbank Offered Rate (particularly for the U.S. dollar LIBOR), the European Interbank Offered Rate (EURIBOR) and the Brazilian Selic, Brazil's prime rate.

#### **Exchange rate risk**

The exchange rate risk to which we are exposed derives principally from (1) our long-term debt portfolio that is denominated in (or swapped into) currencies other than the euro and (2) the fact that we conduct a

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substantial amount of business in, and have substantial investments in, countries outside of Spain, principally Latin American countries. We hedge our debt-related exchange rate exposure to the extent that we consider necessary and hedges are commercially available. From time to time we hedge our exchange rate exposure arising from attributed net income from our non-Spanish subsidiaries. We use swaps, options and exchange rate forward contracts to manage our exposure to exchange rate fluctuations.

**Tabular description of market rate sensitive instruments**

The tables below describe the financial instruments bearing interest or exchange rate risk for the companies consolidated in the Telefónica Móviles Group.

The tables below have been prepared as follows:

The debt obligations are ordered according to their final characteristics and taking into account the effect of the associated derivative instruments. They are classified according to the currency in which they are denominated, within the following categories:

Euro (EUR);

U.S. dollar (USD);

Latin American currencies (ARS Argentinean Pesos; BRL Brazilian Reais; CLP Chilean Pesos; COP Colombian Pesos; PEN Peruvian Pesos; MXN Mexican Pesos; GTQ Guatamalan Quetzales);

Japanese Yen (JPY); and

Moroccan dirham (MAD).

Each such group is further divided into:

Floating rate interest; and

Fixed rate interest.

Each column shows the notional amount of each debt obligation maturing in the year indicated at the top of the column through a five-year period. The notional amount outstanding after such five-year period is shown in the next column. The column "Total" is the sum of the notional amounts.

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Notional amounts do not include accrued interest.

The fair value columns show the value for (1) the underlying debt (net present value), (2) the derivatives linked to the underlying debt (Black & Scholes Model for the options and net present value for the others) and (3) the total (the sum of the two previous values).



**Table of Contents****MARKET RISK SENSITIVE INSTRUMENTS****TELEFÓNICA MÓVILES GROUP**

Instruments outstanding at December 31, 2005

(Millions of \$, except percentages)

	MATURITY DATES						FAIR VALUE			
	2006	2007	2008	2009	2010	Thereafter	TOTAL	Underlying Debt	Associated Derivatives	TOTAL
<b>EURO</b>	<b>2,320</b>	<b>2,297</b>	<b>487</b>	<b>1,270</b>	<b>479</b>	<b>-22</b>	<b>6,830</b>	<b>7,435</b>	<b>-887</b>	<b>6,547</b>
Floating Rate	2,061	2,094	259	1,227	310	-22	5,930	6,846	-1,255	5,591
Spread Ref Euribor	0.59%	1.52%	-0.08%	0.54%	0.58%	-7.42%	0.91%			
Fixed Rate	259	203	228	43	168		900	588	367	956
Interest Rate	5.42%	5.84%	3.22%	3.63%	6.43%		5.06%			
<b>AMERICA</b>	<b>2,135</b>	<b>738</b>	<b>429</b>	<b>1,180</b>	<b>483</b>	<b>477</b>	<b>5,443</b>	<b>2,618</b>	<b>1,176</b>	<b>3,794</b>
<b>Instruments in USD</b>	<b>-162</b>	<b>-7</b>	<b>96</b>	<b>972</b>	<b>58</b>	<b>341</b>	<b>1,298</b>	<b>3,055</b>	<b>-2,115</b>	<b>940</b>
Floating Rate	-132	-118	10	907	12	73	753	2,280	-1,559	721
Spread	-2.94%	-0.55%	61.78%	0.04%	0.77%	0.56%	1.53%			
Fixed Rate	-30	111	86	64	47	268	546	775	-556	219
Interest Rate	3.32%	5.10%	4.09%	4.75%	5.61%	5.53%	5.26%			
<b>Instruments in ARS</b>	<b>126</b>	<b>57</b>					<b>183</b>	<b>-21</b>	<b>149</b>	<b>128</b>
Floating Rate										
Spread										
Fixed Rate	126	57					183	-21	149	128
Interest Rate	7.35%	9.48%					8.01%			
<b>Instruments in BRL</b>	<b>532</b>	<b>444</b>	<b>18</b>	<b>37</b>	<b>145</b>	<b>17</b>	<b>1,193</b>	<b>37</b>	<b>836</b>	<b>873</b>
Floating Rate	365	444	18	37	145	17	1,026	37	674	712
Spread	0.19%	0.12%	0.12%				3.95%	0.19%		
Fixed Rate	167						167		161	161
Interest Rate	10.40%						10.40%			
<b>Instruments in CLP</b>	<b>430</b>	<b>82</b>	<b>180</b>	<b>79</b>			<b>771</b>	<b>-56</b>	<b>765</b>	<b>709</b>
Floating Rate	260		20	18			298		293	293
Spread			-0.35%	-0.33%			-0.04%			
Fixed Rate	170	82	160	62			474	-56	472	417
Interest Rate	4.05%	4.49%	4.82%	5.14%			4.53%			
<b>Instruments in UFC</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>4</b>	<b>5</b>		<b>5</b>
Floating Rate										
Spread										
Fixed Rate	1	1	1	1	1	1	4	5		5
Interest Rate	7.85%	7.85%	7.85%	7.85%	7.85%	7.85%	7.85%			
<b>Instruments in PEN</b>	<b>138</b>	<b>25</b>					<b>163</b>	<b>-23</b>	<b>131</b>	<b>108</b>
Floating Rate										
Spread										
Fixed Rate	138	25					163	-23	131	108
Interest Rate	4.72%	5.32%					4.81%			

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<b>Instruments in COP</b>	245	58	128			0	430	31	404	435
Floating Rate	97		0			0	97	0	96	96
Spread	0.00%		6.50%			6.50%	0.00%			
Fixed Rate	148	58	128				334	31	308	339
Interest Rate	9.20%	8.79%	8.04%				8.68%			
<b>Instruments in VEB</b>									-639	-639
Floating Rate										
Spread										
Fixed Rate									-639	-639
Interest Rate										
<b>Instruments in MXN</b>	810	80	7	92	279	118	1,385	239	993	1,232
Floating Rate	702	13	3	88	277		1,084	279	808	1,087
Spread	-0.01%	-0.66%	-0.52%	2.59%	0.60%		0.35%			
Fixed Rate	108	67	3	3	2	118	301	-40	185	145
Interest Rate	7.75%	7.93%	8.83%	8.83%	8.83%	9.25%	8.41%			
<b>Instruments in GTQ</b>	15						15	-10	13	3
Floating Rate	15						15		13	13
Spread										
Fixed Rate									-10	-10
Interest Rate										

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	MATURITY DATES							FAIR VALUE		
	2006	2007	2008	2009	2010	Thereafter	TOTAL	Underlying Debt	Associated Derivatives	TOTAL
<b>ASIA</b>	<b>0</b>	<b>-0</b>	<b>0</b>			<b>1</b>	<b>1</b>	<b>84</b>	<b>-83</b>	<b>2</b>
<b>Instruments in JPY</b>	0	-0	0			1	1	84	-83	2
Floating Rate	0	0	0			1	2	2		2
Spread	3.79%	3.79%	3.79%			3.79%	3.79%			
Fixed Rate	0	-0					-0	83	-83	0
Interest Rate	1.80%	0.03%					0.03%			
<b>AFRICA</b>						<b>91</b>	<b>91</b>		<b>55</b>	<b>55</b>
<b>Instruments in MAD</b>						91	91		55	55
Floating Rate										
Spread										
Fixed Rate						91	91		55	55
Interest Rate						4.54%	4.54%			
<b>TOTAL</b>	<b>4,455</b>	<b>3,035</b>	<b>917</b>	<b>2,450</b>	<b>962</b>	<b>547</b>	<b>12,366</b>	<b>10,137</b>	<b>260</b>	<b>10,397</b>
<b>Exchange Rate Options</b>										<b>7</b>

All amounts are expressed in millions of euro, except for interest rates.

**Sensitivity to interest rates at December 31, 2005****Detail for Interest Rate Swaps**

(Millions of €, except percentages)

	MATURITY DATES							TOTAL	Fair Value
	2006	2007	2008	2009	2010	Subsequent			
<b>EURO</b>									<b>1</b>
<b>Fixed to floating</b>									<b>-15</b>
Receiving leg		-66	-313	-49				-428	-41
Average Interest Rate		3.34%	4.32%	3.27%				4.05%	
Paying leg		66	313	49				428	26
Average Spread									
<b>Floating to fixed</b>									<b>-16</b>

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Receiving leg	-66	-498	-255			-819	-50
Average Spread							
Paying leg	66	498	255			819	66
Average Interest Rate	3.34%	3.87%	(4.65)%			4.07%	
<b>USD</b>							<b>-2</b>
<b>Floating to fixed</b>							<b>-2</b>
Receiving leg	-51	-44				-95	-10
Average Spread							
Paying leg	51	44				95	8
Average Interest Rate	3.81%	3.87%				3.84%	
<b>BRL</b>							
<b>Floating to floating</b>							
Receiving leg	-115					-115	-57
Average Spread	9.43%					9.43%	
Paying leg	115					115	57
Average Spread							
<b>MXN</b>							<b>2</b>
<b>Floating to fixed</b>							<b>2</b>
Receiving leg	-105	-58			-7	-169	-15
Average Spread	-0.64%	-0.83%			-0.54%	-0.70%	
Paying leg	105	58			7	169	17
Average Interest Rate	7.72%	7.93%			8.43%	7.82%	

All amounts are expressed in millions of euro, except for interest rates.

**Table of Contents****MARKET RISK SENSITIVE INSTRUMENTS****TELEFÓNICA MÓVILES GROUP**

Instruments outstanding at December 31, 2004

	MATURITY DATES							FAIR VALUE (Euro in millions)		
	2005	2006	2007	2008	2009	Thereafter	TOTAL	Underlying Debt	Associated Derivatives	TOTAL
<b>EURO</b>	<b>2,400</b>	<b>3,096</b>	<b>2,275</b>	<b>306</b>	<b>223</b>	<b>503</b>	<b>8,803</b>	<b>7,904</b>	<b>1,136</b>	<b>9,040</b>
Floating Rate	1,079	2,853	2,089	95	197	43	6,356	5,856	1,109	6,965
Spread Ref Euribor	-0.77%	0.41%	1.52%	-1.08%	0.79%	0.57%	0.57%			
Fixed Rate	1,321	243	186	211	26	460	2,447	2,048	27	2,075
Interest Rate	5.14%	5.68%	6.23%	3.35%	4.98%	5.29%	5.15%			
<b>AMERICA</b>	<b>188</b>	<b>250</b>	<b>282</b>	<b>356</b>	<b>756</b>	<b>426</b>	<b>2,258</b>	<b>3,418</b>	<b>-936</b>	<b>2,482</b>
<b>Instruments in USD</b>	<b>-916</b>	<b>-188</b>	<b>5</b>	<b>121</b>	<b>684</b>	<b>418</b>	<b>124</b>	<b>3,083</b>	<b>-2,303</b>	<b>780</b>
Floating Rate	-1,238	-93	-22	121	668	90	-474	2,017	-2,124	-107
Spread	-0.13%	-0.90%	-4.00%	4.49%	0.33%	0.10%	-2.33%			
Fixed Rate	322	-95	27		16	328	598	1,066	-179	887
Interest Rate	5.04%	-4.00%	5.23%	5.68%	6.08%	5.39%	6.70%			
<b>Instruments in ARS</b>	<b>15</b>	<b>7</b>	<b>50</b>				<b>72</b>		<b>73</b>	<b>73</b>
Floating Rate	15						15		15	15
Spread										
Fixed Rate		7	50				57		58	58
Interest Rate		9.25%	9.48%				9.45%			
<b>Instruments in BRL</b>	<b>416</b>	<b>233</b>	<b>58</b>	<b>85</b>	<b>3</b>	<b>6</b>	<b>801</b>	<b>297</b>	<b>82</b>	<b>379</b>
Floating Rate	336	233	58	85	3	4	719	295		295
Spread	0.502%	-4.431%	1.284%	1.072%	3.781%		-0.95%			
Fixed Rate	80					2	82	2	82	84
Interest Rate	16.364%						15.97%			
<b>Instruments in CLP</b>	<b>260</b>		<b>65</b>	<b>144</b>	<b>63</b>		<b>532</b>		<b>531</b>	<b>531</b>
Floating Rate	260			16	14		290		289	289
Spread				-0.35%	-0.33%		-0.04%			
Fixed Rate			65	128	49		242		242	242
Interest Rate			4.49%	4.82%	5.14%		4.80%			
<b>Instruments in PEN</b>	<b>133</b>	<b>11</b>	<b>8</b>				<b>152</b>		<b>153</b>	<b>153</b>
Floating Rate	48						48		48	48
Spread										
Fixed Rate	85	11	8				104		105	105
Interest Rate	4.53%	5.95%	5.35%				4.75%			
<b>Instruments in COP</b>	<b>129</b>	<b>95</b>	<b>30</b>				<b>254</b>	<b>30</b>	<b>215</b>	<b>245</b>
Floating Rate	129	5					134	30	97	127
Spread	0.37%	4.00%					0.50%			
Fixed Rate		90	30				120		118	118
Interest Rate		9.32%	10.55%				9.63%			
<b>Instruments in MXN</b>	<b>150</b>	<b>92</b>	<b>66</b>	<b>6</b>	<b>6</b>	<b>2</b>	<b>322</b>	<b>7</b>	<b>313</b>	<b>320</b>
Floating Rate	3	3	11	3	3	1	24		175	175
Spread	-8.48%	2.97%	-0.66%	-0.52%	-0.52%	-0.52%	-1.14%			
Fixed Rate	147	89	55	3	3	1	298	7	138	145

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Interest Rate	3.98%	7.75%	7.93%	8.83%	8.83%	8.83%	5.95%			
<b>Instruments in GTQ</b>	1						1	1		1
Floating Rate										
Spread										
Fixed Rate	1						1	1		1
Interest Rate	10.50%						10.50%			
<b>ASIA</b>								25	-2	22
<b>Instruments in JPY</b>								25	-2	22
Floating Rate										
Spread										
Fixed Rate								25	-2	22
Interest Rate										
<b>AFRICA</b>	31						31		31	31
<b>Instruments in MAD</b>	31						31		31	31
Floating Rate										
Spread										
Fixed Rate	31						31		31	31
Interest Rate	4.23%						4.23%			
<b>TOTAL</b>	<b>2,619</b>	<b>3,346</b>	<b>2,557</b>	<b>662</b>	<b>979</b>	<b>929</b>	<b>11,092</b>	<b>11,347</b>	<b>229</b>	<b>11,576</b>
<b>EXCHANGE RATE OPTIONS</b>	22						22		22	22

All amounts are expressed in millions of euro, except for interest rates.

**Table of Contents****Sensitivity to interest rates at December 31, 2004****Detail for Interest Rate Swaps**

(Millions of \$)

	MATURITY DATE						Total	Fair Value
	2005	2006	2007	2008	2009	Subsequent		
<b>BRL</b>								
<b>Floating to fixed</b>								
Received leg	(221)						(221)	-28.99
Average Spread (+CDI)	0.00%						0.00%	
Paying leg	221						221	30.43
Average interest rate	15.40%						15.40%	
<b>USD</b>								
<b>Floating to fixed</b>								
Receiving leg	(88)						(88)	-0.56
Average Spread (+US LIBOR)	0.63%						0.63%	
Paying leg	88						88	0.84
Average interest rate	4.52%						4.52%	
<b>EUR</b>								
<b>Floating to fixed</b>								
Receiving leg	(211)	(26)	(26)	(396)	(26)	0	(684)	-35.51
Average Spread (+EURIBOR)							0.00%	
Paying leg	211	26	26	396	26		684	55.53
Average interest rate	2.40%	4.98%	4.98%	1.78%	4.98%		2.33%	
<b>Fixed to Floating</b>								
Receiving leg				(185)			(185)	-28.94
Average interest rate				5.01%			5.01%	
Paying leg				185			185	8.98
Average Spread (+EURIBOR)				-1.23%			-1.23%	
<b>MXN</b>								
<b>Floating to fixed</b>								
Receiving leg	(47)	(88)	(49)	(1)	(1)	(1)	(187)	-33.43
Average Spread (+TIIE)	-0.06%	-0.63%	-0.83%	-0.54%	-0.54%		-0.54%	
Paying leg	47	88	49	1	1	1	187	33.02
Average interest rate	9.43%	7.73%	7.94%	8.43%	8.43%		8.20%	

**Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not applicable.

**PART II**

**Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None.

**Item 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

None.

**Item 15. CONTROLS AND PROCEDURES**

(a) *Disclosure Controls and Procedures.* Our Chairman and Chief Executive Officer and our Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in U.S. Exchange Act Rule 13a-15(e)) as of the end of the period covered by this Form 20-F, have concluded that, as of such date, our disclosure controls and procedures were effective.

(b) *Internal Control Over Financial Reporting.* There were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2005 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



**Table of Contents****Item 16.****Item 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

The Board of Directors has determined that Mr. Miguel Canalejo Larrainzar, Mr. Javier Echenique Landiribar and Mr. Alfonso Merry del Val Gracie are audit committee financial experts as defined in Item 16A of Form 20-F.

**Item 16B. CODE OF ETHICS**

We have adopted a code of ethics that applies, among others, to our Chairman and Chief Executive Officer, our Chief Financial Officer, our Principal Accounting Officer and controller, and persons performing similar functions in Telefónica Móviles, S.A. and subsidiaries consolidated within the Telefónica Móviles group. The code of ethics was filed as exhibit 11.1 to our annual report on Form 20-F for 2003.

**Item 16C. ACCOUNTANTS FEES AND SERVICES**

The fees accrued for the fiscal year of 2005 from the various member firms of Ernst & Young, to which Ernst & Young, S.L., our auditors belong, amounted to 3,450 thousand. The fees accrued for the fiscal year 2004 from the various member firms of the Deloitte Touche Tohmatsu international organization, to which Deloitte, S.L., our auditors that year belong, amounted to 4,476 thousand. These fees include the total amounts of the Spanish and foreign companies in which we have effective control or joint control with third parties.

These fees included the following:

	<b>2005</b>	<b>2004</b>
	<b>Ernst &amp; Young</b>	<b>Deloitte</b>
	<b>(in thousands of euro)</b>	
Audit Fees	2,587	3,355
Audit-Related Fees(1)	190	837
Tax Fees(2)	64	175
All Other Fees(3)	609	109
<b>Total Fees</b>	<b>3,450</b>	<b>4,476</b>

(1) *Audit-Related Fees:* The services included under this caption are basically due diligence services related to business combinations, review of information required by the different regulatory authorities and attestation services related to financial reporting that are not required by statute or regulation.

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- (2) *Tax Fees:* The services included under this caption are, among others, consultancy and tax advising, review of tax returns, studies of transference prices, tax reviews and issuance of tax opinions required by local regulations.
- (3) *All Other Fees:* The services included under this caption are assistance in relation to the Sarbanes-Oxley Act, improvement and consolidation of Internet portals, process consulting related to project implementation and quality assurance and revision of operating procedures.

### *Audit Committee Pre-approval Policies and Procedures*

Our audit committee policies and procedures, Regulations on Relations with External Auditing of Telefónica Móviles, S.A., are filed as Exhibit 14.1.

### **ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable.

**Table of Contents****ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

The following table shows the repurchases of shares made by the Group or any of its affiliated purchasers during 2005:

<b>Period of Fiscal Year</b>	<b>(a) Total Number of Shares (or Units) Purchased(1)</b>	<b>(b) Average Price Paid per Share (or Unit)(2) (euros)</b>	<b>(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs(1)</b>	<b>(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs</b>
January 1 to January 31				21,158,843
February 1 to February 29				21,158,843
March 1 to March 31	13.688	2	13.688	21,141,155
April 1 to April 30				21,141,155
May 1 to May 31				21,141,155
June 1 to June 30	25.796	2	25.796	21,115,359
July 1 to July 31				21,115,359
August 1 to August 31	121.365	2	121.365	20,993,994
September 1 to September 30				20,993,994
October 1 to October 31				20,993,994
November 1 to November 30	9.165	2	9.165	20,984,829
December 1 to December 31				20,984,829
<b>Total</b>	<b>170.014</b>		<b>170.014</b>	<b>20,984,829</b>

- (1) All of the share purchases were made to cover our obligations to beneficiaries under our corporate stock option plan (the MOS Program) pursuant to call option agreements with BBVA and La Caixa. The MOS Program is our sole public stock option plan. The MOS Program was approved by a Special Stockholders Meeting on October 26, 2000 and publicly announced on September 28, 2001. The final exercise period under the MOS Program ended on April 3, 2006. The company must settle any options exercised within three months of the exercise date. The General Shareholders Meeting after the settlement takes place must approve either the amortization of the unexercised options or their rollover into a new options scheme. For further information on our MOS Program, see Item 6.B Compensation Employee Share Option Plan.
- (2) Our call option agreements with BBVA and La Caixa, pursuant to which all of our purchases of Telefónica Móviles shares were made, provide for a fixed purchase price of 2.00 per share.

**PART III****Item 17. FINANCIAL STATEMENTS**

We have responded to Item 18 in lieu of responding to this Item.

**Item 18. FINANCIAL STATEMENTS**

Please see pages F-1 through F-116.

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**Item 19. EXHIBITS**

**Exhibit  
Number**

1.1	Amended and Restated Articles of Association (English translation).**
4.1	Contribution Agreement dated as of April 26, 2002 among Telefónica Móviles, S.A., Don Alejandro Burillo Azcáraga, Doña Carmela Azcáraga Milmo, Scotiabank Inverlat S.A. Institución de Banca Múltiple Grupo Financiero Scotiabank Inverlat.*
4.2	Stock Purchase Agreement dated as of April 26, 2002 among Telefónica Móviles, S.A., Pegaso Telecomunicaciones, S.A. de C.V., Pegaso Comunicaciones y Sistemas, S.A. de C.V., Pegaso PCS, S.A. de C.V., Pegaso Finanzas, S.A. de C.V., Pegaso Finco I, S.A. de C.V., Pegaso Recursos Humanos, S.A. de C.V., Don Alejandro Burillo Azcáraga, Doña Carmela Azcáraga Milmo, Scotiabank Inverlat S.A. Institución de Banca Múltiple Grupo Financiero Scotiabank Inverlat, Leap PCS Mexico, Inc., Leap Wireless International, Inc., International Equity Investments, Inc., NI Media Equity, LLC, Laif X SPRL, Qualcomm Incorporated, Sprint Mexico, Inc., Sprint Corporation, Alcatel, and Telefonaktiebolaget LM Ericsson (PUBL).*
4.3	Shareholders Agreement dated as of October 17, 2002, amended as of December 3, 2004, among Telefónica Móviles, S.A., Portugal Telecom, SPGS, S.A., PT Móveis, SGPS, S.A., and Brasilcel B.V.****
4.4	Subscription Agreement dated as of October 17, 2002 among Telefónica Móviles, S.A., Portugal Telecom, SPGS, S.A., PT Móveis, SGPS, S.A., and Brasilcel B.V.****
4.5	Stock purchase agreement dated as of March 5, 2004 by and among Telefónica Móviles, S.A., each of the entities listed on Schedule 1 thereto, and BellSouth Corporation.***
4.6	Share Purchase Agreement dated as of July 23, 2004 among Compañía de Telecomunicaciones de Chile S.A., Compañía de Telecomunicaciones de Chile-Equipos y Servicios and Inversiones Telefónica Móviles Holdings Limitada.*****
4.7	Merger Plan dated March 29, 2006 between Telefónica Móviles, S.A. and Telefónica, S.A.*****
8.1	Subsidiaries of Telefónica Móviles, S.A.
11.1	Code of Ethics***
12.1	Certification of the Chairman and Chief Executive Officer of Telefónica Móviles, S.A., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
12.2	Certification of the Chief Financial Officer of Telefónica Móviles, S.A., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
15.1	Regulations on Relations with External Auditing of Telefónica Móviles, S.A.***

\* Incorporated by reference to Telefónica Móviles S.A.'s annual report on Form 20-F for 2001.

\*\* Incorporated by reference to Telefónica Móviles S.A.'s annual report on Form 20-F for 2002.

\*\*\* Incorporated by reference to Telefónica Móviles S.A.'s annual report on Form 20-F for 2003.

\*\*\*\* Incorporated by reference to Telefónica Móviles S.A.'s Amendment No. 1 to its annual report on Form 20-F for 2003, filed with the Securities and Exchange Commission on January 31, 2005 (Commission File No. 001-15158).

\*\*\*\*\* Incorporated by reference to Telefónica Móviles S.A.'s filing made pursuant to Rule 425 under the U.S. Securities Act of 1933, as amended, on March 29, 2006.

Confidential material appearing in this document has been omitted and filed separately with the Securities and Exchange Commission in accordance with the Securities Exchange Act of 1934, as amended, and Rule 24b-2 promulgated thereunder. Omitted information has been marked through.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders of

Telefónica Móviles, S.A:

We have audited the accompanying consolidated balance sheet of Telefónica Móviles, S.A. and companies composing the Telefónica Móviles Group, as of December 31, 2005 and the related consolidated statements of income, cash flows and recognized income and expense for the year then ended. These consolidated financial statements are the responsibility of the controlling Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2005 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Telefónica Móviles, S.A. and companies composing the Telefónica Móviles Group as of December 31, 2005, and of the consolidated results of its operations and its cash flows for the year then ended in conformity with International Financial Reporting Standards as adopted by the European Union, which differ in certain respects from U.S. generally accepted accounting principles. Information relating to the nature and effect of such differences is presented in Note 20 to the consolidated financial statements.

Ernst & Young, S.L.

/s/ José Luis Perelli Alonso  
José Luis Perelli Alonso

Madrid, Spain

April 12, 2006

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of

Telefónica Móviles, S.A.:

We have audited the accompanying consolidated balance sheet of Telefónica Móviles, S.A. and of the companies comprising the Telefónica Móviles Group (the Company) as of December 31, 2004, the related consolidated statements of income, cash flows and recognized income and expense for the year then ended. These consolidated financial statements are the responsibility of the controlling Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provide a reasonable basis for our opinion.

Comparative financial statements related to the year ended December 31, 2003, as required in IAS 1, *Presentation of Financial Statements*, are not presented. In our opinion, disclosure of such comparative information is required under International Financial Reporting Standards, as adopted by the European Union.

In our opinion, except for the omission of the comparative financial statements as discussed in the preceding paragraph, such consolidated financial statements present fairly, in all material respects, the financial position of Telefónica Móviles, S.A. and of the companies composing Telefónica Móviles Group as of December 31, 2004, and the results of their operations and their cash flows for the year ended December 31, 2004, in conformity with International Financial Reporting Standards, as adopted by the European Union.

As discussed in Note 2, the Company adopted International Financial Reporting Standards, as adopted by the European Union (IFRS-EU) in preparing their consolidated financial statements as of and for the year ended December 31, 2005. For purposes of these consolidated financial statements, the Company has developed accounting policies based on IFRS-EU issued to date that are effective at the Company's reporting date of December 31, 2005. IFRS 1, *First-time Adoption of International Financial Reporting Standards*, requires that an entity develops accounting policies based on the standards and related interpretations effective at the reporting date of its first IFRS-EU financial statements. IFRS 1 also requires that those policies be applied as of the date of transition to IFRS-EU and throughout all periods presented in the first IFRS-EU financial statements. Accordingly, the figures for 2004 differ from those previously contained in the approved consolidated financial statements for 2004, which were prepared in accordance with the accounting principles generally accepted in Spain (Spanish GAAP) in force in that year.

IFRS-EU vary in certain significant respects from accounting principles generally accepted in the United States of America (U.S. GAAP). Information relating to the nature and effect of such differences is presented in Note 20 to the consolidated financial statements. In prior years, pursuant to Item 17(c)(iv)(A) of Form 20-F, the Company's reconciliation from Spanish GAAP to U.S. GAAP excluded any adjustments



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attributable to the effect of differences resulting from the accounting for inflation under Spanish GAAP. With the Company's adoption of IFRS-EU, Item 17(c)(iv)(A) of Form 20-F is no longer applicable. Therefore, for purposes of the information relating to the nature and effect of differences between IFRS-EU and U.S. GAAP, consolidated shareholders' equity and consolidated net income under U.S. GAAP have been restated for the year ended December 31, 2004, in order to remove the effects of inflation that previously were not made.

Deloitte, S.L.

/s/ DELOITTE, S.L.  
Madrid, Spain

April 12, 2006

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**Table of Contents****Telefónica Móviles, S.A.****CONSOLIDATED BALANCE SHEETS AT DECEMBER 31**

	(Thousands of euros)	
Assets	2005	2004
<b>Non-current assets</b>	<b>18,831,511</b>	<b>17,017,360</b>
Intangible assets (Note 4)	4,134,448	3,509,655
Goodwill (Note 5)	4,706,817	3,288,565
Property, plant and equipment (Note 6)	6,749,101	5,643,740
Investments in associates (Note 8)	53,560	76,715
Non-current financial assets (Note 7)	1,369,153	3,033,225
Deferred tax assets (Note 14)	1,818,432	1,465,460
<b>Current assets</b>	<b>8,130,829</b>	<b>6,173,182</b>
Inventories	518,391	411,998
Trade and other receivables	3,304,790	2,373,505
Receivables from Telefónica Group companies (Note 11)	290,995	377,261
Current financial assets (Note 7)	904,057	1,095,321
Current income tax receivables (Note 14)	136,501	216,646
Cash and cash equivalents (Note 7)	2,976,095	1,698,451
<b>Total assets</b>	<b>26,962,340</b>	<b>23,190,542</b>
<b>Liabilities</b>	<b>2005</b>	<b>2004</b>
<b>Equity (Note 9)</b>	<b>6,246,455</b>	<b>3,820,056</b>
Equity attributable to equity holders of the parent	5,746,052	3,543,453
Minority interests	500,403	276,603
<b>Non-current liabilities</b>	<b>9,265,501</b>	<b>10,221,485</b>
Interest-bearing loans and borrowings (Note 12)	1,531,434	668,151
Loans from Telefónica Group companies (Note 11)	6,455,667	7,837,452
Trade and other payables	214,561	285,019
Deferred tax liabilities (Note 14)	854,472	611,414
Provisions (Note 10)	209,367	819,449
<b>Current liabilities</b>	<b>11,450,384</b>	<b>9,149,001</b>
Interest-bearing loans and borrowings (Note 12)	1,055,710	896,484
Loans from Telefónica Group companies (Note 11)	5,528,746	4,224,117
Trade and other payables	4,372,598	3,683,083
Income tax payables (Note 14)	362,338	290,858
Provisions	130,992	54,459

<b>Total equity and liabilities</b>	<b>26,962,340</b>	<b>23,190,542</b>
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The accompanying Notes 1 to 20 and Exhibits I to III are an integral part of these consolidated balance sheets.

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**Table of Contents****Telefónica Móviles, S.A.****CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31**

<b>Income Statement</b>	<b>(Thousands of euros)</b>	
	<b>2005</b>	<b>2004</b>
Net sales and rendering of services (Note 15)	16,513,502	11,753,875
Other income (Note 16)	269,755	198,557
Supplies (Note 15)	(5,365,453)	(3,594,914)
Personnel expenses	(799,666)	(541,504)
Other expenses (Notes 15 and 16)	(4,801,137)	(3,228,123)
Depreciation and amortization	(2,374,010)	(1,522,941)
<b>I. Operating Income</b>	<b>3,442,991</b>	<b>3,064,950</b>
<b>Share of profit (loss) of associates (Note 8)</b>	<b>(154,206)</b>	<b>(38,134)</b>
Net financial expenses (Note 16)	(584,578)	(406,002)
Net exchange differences	125,499	(75,869)
<b>Net financial income (expense)</b>	<b>(459,079)</b>	<b>(481,871)</b>
<b>II. Profit before taxes</b>	<b>2,829,706</b>	<b>2,544,945</b>
Corporate income tax (Note 14)	(946,039)	(868,504)
<b>III. Profit for the year</b>	<b>1,883,667</b>	<b>1,676,441</b>
Minority interests (Note 9)	35,241	15,242
<b>IV. Profit for the year attributable to equity holders of the parent</b>	<b>1,918,908</b>	<b>1,691,683</b>
Basic earnings per share attributable to equity holders of the parent (euros) (Note 16)	0.445	0.393
Diluted earnings per share attributable to equity holders of the parent (euros) (Note 16)	0.445	0.392

The accompanying Notes 1 to 20 and Exhibits I to III are an integral part of these consolidated income statements.

**Table of Contents****Telefónica Móviles, S.A.****CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED DECEMBER 31**

<b>CASH FLOW STATEMENTS (Thousands of euros)</b>	<b>2005</b>	<b>2004</b>
<b>Cash flows from operating activities</b>		
Cash receipts from customers	18,668,263	13,741,250
Cash paid to suppliers and employees	(13,120,060)	(9,322,275)
Net interest and other financial expenses paid	(508,507)	(411,211)
Taxes paid	(560,284)	(93,135)
<b>Net cash from operating activities</b>	<b>4,479,412</b>	<b>3,914,629</b>
<b>Cash flows from investing activities</b>		
Proceeds on disposals of property, plant and equipment and intangible assets	10	33
Payments on investments in property, plant and equipment and intangible assets	(1,863,977)	(1,385,718)
Proceeds on disposals of companies, net of cash and cash equivalents disposed	13,640	6,746
Payments on investments in companies, net of cash and cash equivalents acquired	(924,853)	(4,683,878)
Proceeds from financial investments not included under cash equivalents	442,421	371,711
Payments made on financial investments not included under cash equivalents	(726,851)	(992)
Interest received on excess cash not included under cash equivalents	526,567	12,685
<b>Net cash used in investing activities</b>	<b>(2,533,043)</b>	<b>(5,679,413)</b>
<b>Cash flows from financing activities</b>		
Dividends paid (Note 9)	(835,797)	(795,956)
Shareholder contributions	31,178	92,314
Proceeds on issue of debentures and bonds	538,459	
Proceeds on loans, credits and promissory notes	3,327,476	5,748,828
Repayments of loans, credits and promissory notes	(3,795,978)	(2,589,934)
<b>Net cash used in financing activities</b>	<b>(734,662)</b>	<b>2,455,252</b>
<b>Effect of foreign exchange rate changes on receivables and payables</b>	<b>65,940</b>	<b>(22,009)</b>
<b>Effect of changes in consolidation methods and other non-monetary effects</b>	<b>(3)</b>	<b>(37,039)</b>
<b>Net increase (decrease) in cash and cash equivalents during the year</b>	<b>1,277,644</b>	<b>631,420</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (Note 7)</b>	<b>1,698,451</b>	<b>1,067,031</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (Note 7)</b>	<b>2,976,095</b>	<b>1,698,451</b>

The accompanying Notes 1 to 20 and Exhibits I to III are an integral part of these consolidated cash flow statements.



**Table of Contents****Telefónica Móviles, S.A.****CONSOLIDATED STATEMENTS OF RECOGNIZED INCOME AND EXPENSE FOR THE  
YEARS ENDED DECEMBER 31**

	Thousands of euros	
	2005	2004
Gain (loss) on cash flow hedges	24,423	(23,309)
Translation differences	1,180,243	(188,149)
Tax effect of items recognized directly in equity	(8,548)	8,158
<b>Net income (loss) recognized directly in equity</b>	<b>1,196,118</b>	<b>(203,300)</b>
<b>Profit for the year</b>	<b>1,883,667</b>	<b>1,676,441</b>
<b>Total income and expense recognized for the year</b>	<b>3,079,785</b>	<b>1,473,141</b>
Attributable to:		
<b>Equity holders of the parent</b>	3,038,396	1,480,391
<b>Minority interests</b>	41,389	(7,250)
	<b>3,079,785</b>	<b>1,473,141</b>

The accompanying Notes 1 to 20 and Exhibits I to III are an integral part of these statements of recognized income and expense.

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**Telefónica Móviles, S.A.**

**TELEFÓNICA MÓVILES, S.A. AND COMPANIES COMPOSING THE TELEFÓNICA MÓVILES GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONSOLIDATED ANNUAL ACCOUNTS) FOR THE YEAR ENDED DECEMBER 31, 2005 (Continued)**

**1) INTRODUCTION AND GENERAL INFORMATION**

Telefónica Móviles, S.A. was incorporated as a joint stock company on February 14, 2000. Its registered office is at Calle Goya, 24, Madrid (Spain).

Telefónica Móviles, S.A. (the Company, the parent company or Telefónica Móviles) and its subsidiaries and investees make up an integrated group of companies (the Telefónica Móviles Group, the Móviles Group or the Group) operating mainly in telecommunications.

Telefónica Móviles' basic corporate purpose, per Article 2 of its bylaws, is the provision of all manner of telecommunications services, and all manner of ancillary or complementary telecommunications and related value added services in the broadest sense of the term. All the business activities that constitute this stated corporate purpose may be carried out either directly by the Company, or through shareholdings in other companies with an identical or a similar corporate purpose.

On October 26, 2000, Telefónica Móviles' shareholders approved an initial public offering (IPO) via a capital increase. In November 2000, Telefónica Móviles, S.A. solicited admission for trading of its shares on the New York Stock Exchange (NYSE) in the form of American Depositary Shares (ADS) and on the official stock exchanges of Madrid, Valencia, Barcelona and Bilbao, as well as quotation on the Spanish continuous market. The IPO was fully subscribed.

The Company's main assets are its shareholdings in various telecommunications operators in different countries. Exhibit I lists the companies making up the Group at December 31, 2005, as well as the direct, indirect and total shareholdings held by Telefónica Móviles, S.A. in each company.

The Móviles Group operators providing telecommunications services at December 31, 2005 are subject to specific regulatory regimes, and in certain instances their tariffs are also regulated. In addition, some of these companies have made commitments to the corresponding regulatory authorities to fulfill certain installation and service quality criteria over a fixed period of time.

At December 31, 2005 all the operators were in compliance with these commitments.

A more detailed breakdown of the activities carried out by the Group is provided in Note 15.



## 2) BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

### *a) Accounting policies*

The accompanying consolidated financial statements were prepared from the accounting records of Telefónica Móviles, S.A. and of each of the companies composing the Telefónica Móviles Group, prepared in accordance with the International Financial Reporting Standards ( IFRS ) endorsed by the European Union. The financial statements are presented in accordance with the provisions of IFRS for the preparation of consolidated financial statements and give a true and fair view of the equity, financial position, results and funds generated and used in 2005.

The accompanying consolidated financial statements for the year ended December 31, 2005 were prepared by the Company's Board of Directors in its meeting on February 27, 2006, for approval at the General Shareholders Meeting. The Board expects the financial statements to be approved without any modification.

The figures included in the documents composing the consolidated financial statements are expressed in thousands of euros, unless otherwise stated.

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**Telefónica Móviles, S.A.**

***b) Consolidation principles***

The consolidation methods applied are as follows:

The companies over which the Company exercises effective control, or which it controls by virtue of agreements with the other shareholders, were fully consolidated.

Companies which are jointly controlled with third parties (joint ventures) were proportionally consolidated. Similar line items are grouped together so that the corresponding proportion of these companies' overall assets, liabilities, expenses and revenues are integrated line by line into the consolidated financial statements.

The companies in which there is significant influence, but not control or joint control with third parties are accounted for by the equity method.

The remaining investees which are not included in the previous categories are recorded at fair value, or at cost in instances where their fair value cannot be reliably estimated.

In certain circumstances, some Group's investees may require a qualified majority to adopt certain resolutions. This, together with other factors, is taken into account when selecting the consolidation method.

All significant intra-group balances, transactions, income and expenses and profit and losses resulting from intra-group transactions that are recognized in assets are eliminated in full.

The financial statements for the consolidated subsidiaries have the same financial year end as the parent company's individual financial statements and are prepared using the same accounting policies.

The consolidated income statement includes the revenues and expenses of divested companies up to the date on which the related holding is sold or the company is liquidated, and those of the new companies included in the Group from the date on which the holding is acquired or the company is incorporated until year-end.

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The value of stakes held by minority investors in the equity and earnings of the fully consolidated subsidiaries is consolidated and presented under *Minority interests* on the consolidated balance sheet and income statement (see Note 9).

### *c) Comparative information and first-time adoption of International Financial Reporting Standards*

#### **Comparative information**

The consolidated financial statements for the year ended December 31, 2004, approved at Telefónica Móviles, S.A.'s Ordinary Shareholders Meeting on May 6, 2005, were prepared in accordance with Spain's generally accepted accounting principles (the Spanish General Chart of Accounts or *Spanish GAAP*). Pursuant to European Parliament regulation no. 1606/2002, of July 19, 2002, Telefónica Móviles is obliged to apply the International Financial Reporting Standards (IFRS) endorsed by the European Union for preparing and presenting its consolidated financial information as from January 1, 2005. Accordingly, the consolidated financial statements for the year ended December 31, 2005 have been prepared under IFRS, and the 2004 consolidated financial information included for comparative purposes has been prepared in accordance with the same accounting standards.

Note 3 contains a detailed description of the most significant accounting policies used to prepare the consolidated financial statements.

#### **First-time adoption of IFRS**

##### *Exceptions to the complete retroactive application of IFRS*

IFRS 1 *First-time Adoption of IFRS* details the rules for preparing consolidated financial statements under IFRS for the first time.

**Table of Contents****Telefónica Móviles, S.A.**

The starting point for IFRS accounting is the preparation of an opening balance sheet under IFRS on the *IFRS transition date*. This date is the beginning of the first period for which full comparative financial statements are presented under IFRS, i.e., January 1, 2004 in the case of the Telefónica Móviles Group. As a general rule, the accounting policies in force on December 31, 2005 must be applied retroactively to prepare an opening balance sheet for the transition date and all following years. Notwithstanding the above, IFRS 1 provides for certain exceptions to the complete retroactive restatement of the opening balance sheet under IFRS. The most relevant to the Móviles Group are:

IFRS 3 Business Combinations	The Telefónica Móviles Group has elected to apply IFRS 3 Business Combinations prospectively from the transition date, i.e., it has not restated business combinations occurring prior to January 1, 2004.
IAS 16 Fair value or revaluation as deemed cost	The Telefónica Móviles Group has chosen to continue to carry its property, plant and equipment and intangible assets at their respective carrying amounts under former Spanish GAAP, without restating any of these items at their fair value as of January 1, 2004.
IAS 21 Accumulated translation differences	The Telefónica Móviles Group has elected to reset the accumulated translation adjustments up to the IFRS transition date to zero.
IAS 32 and IAS 39 Financial instruments	The Telefónica Móviles Group has chosen not to apply the exception permitting the application of IAS 39 <i>Financial Instruments: Recognition and Measurement</i> and IAS 32 <i>Financial Instruments: Presentation and Disclosure</i> from January 1, 2005, applying these standards as from the IFRS transition date, i.e., January 1, 2004.
IFRS 2 Share based Payment	The Telefónica Móviles Group has elected not to apply IFRS 2 <i>Share-based Payments</i> to measure share-based payment schemes to be settled in shares and granted prior to November 7, 2002.

*Description of the main adjustments*

The preparation of the consolidated financial statements under IFRS requires a series of modifications to the recognition, presentation and measurement standards applied by the Company until January 1, 2005, as certain IFRS principles and requirements are substantially different from their Spanish GAAP equivalents.

The main differences between the accounting principles used to prepare the consolidated financial statements for the year ended December 31, 2005 (IFRS adopted by the European Union effective as of that date) and those used in the preparation of the consolidated financial statements for the prior financial year (Spanish GAAP), are described below, with disclosure of the impact of IFRS adoption on the Company's equity at December 31 and January 1, 2004 and on consolidated net profit for 2004.

<u>Millions of euros</u>	<u>Consolidated equity 1/1/04</u>	<u>Consolidated equity 12/31/04</u>	<u>Consolidated net profit 12/31/04</u>
<b>Amount under Spanish GAAP</b>	<b>4,040</b>	<b>4,720</b>	<b>1,634</b>
Goodwill and concessions	(586)	(714)	52
Capitalized expenses	(235)	(198)	53
Corporate income tax	(175)	(102)	27
Inflation adjustments	(60)	(99)	(60)
Revenue recognition	(29)	(31)	3

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Financial instruments and changes in exchange rates	(90)	(30)	(17)
Other	(6)	(2)	
<b>Total adjustments</b>	<b>(1,181)</b>	<b>(1,176)</b>	<b>58</b>
<b>Amount under IFRS (*)</b>	<b>2,859</b>	<b>3,544</b>	<b>1,692</b>

(\*) This amount does not include equity attributable to minority interests.

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**Telefónica Móviles, S.A.**

**Goodwill and concessions**

Telefónica Móviles has elected to apply the exemption provided for under IFRS 1 *First-time Adoption of IFRS*, providing for the prospective application of IFRS 3 *Business Combinations* from the IFRS transition date. Accordingly, business combinations occurring before January 1, 2004 have not been restated.

Under Spanish GAAP, goodwill and fair value adjustments in business combinations involving foreign companies may be translated at the historic exchange rate. Under IFRS, these items should be translated at the prevailing exchange rates at the balance sheet closing date and calculated from the date the companies are effectively incorporated into the Móviles Group.

Under IFRS, goodwill and intangible assets of indefinite useful life are no longer amortized, although they are subject to an annual impairment test to determine their recoverability. Under Spanish GAAP, goodwill and all intangible assets are systematically amortized on a straight-line basis over their estimated useful lives which cannot exceed certain limits.

Under IFRS, the cost of administrative concessions is amortized on a straight-line basis over their useful lives. Under Spanish GAAP, Telefónica Móviles systematically depreciated these concessions over their useful lives using methods based on revenues generated in each financial year.

These adjustments have a net negative impact on equity of 714 and 586 million euros at December 31, and January 1, 2004, respectively. The positive impact on net income at December 31, 2004 is 52 million euros.

The impact of translating these items at the closing exchange rate is a decrease in Goodwill of 353 million and a decrease in Intangible assets of 345 million euros. The positive impact on net profit at December 31, 2004 is a reduction in amortization of 37 million euros.

The change in the license amortization method (from progressive to straight line) results in a decrease of 76 million euros in Intangible assets on the closing balance sheet for 2004, of which 55 million euros correspond to the impact of higher amortization in 2004.

These reductions are partially offset by the 92 million euros reversal of goodwill amortization for 2004 recorded under Goodwill.

**Capitalized expenses**

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Under Spanish GAAP, start-up and pre-operating expenses can be capitalized and are amortized over a period of no more than five years. Under IFRS, outlays that do not meet the requirements for being considered qualifying assets must be expensed when incurred.

Costs associated with share capital increases are also capitalized and amortized over a period of no more than five years under Spanish GAAP. Under IFRS, these costs are taken to equity and are deducted from Reserves .

Spanish GAAP provides for the capitalization of certain research and development costs as intangible assets which are generally amortized over a three-year period from when the R&D project is completed. Under IFRS, all research related costs must be expensed as incurred.

The net negative impact of this change on equity is 198 million and 235 million euros at December 31, and January 1, 2004, respectively. The net positive impact on net profit in 2004 amounts to 53 million euros.

### **Corporate income tax**

Under Spanish GAAP, the accounting treatment of corporate income tax is income statement oriented, taking into consideration temporary differences between accounting income and the taxable income. Under IFRS,

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**Telefónica Móviles, S.A.**

deferred taxes are recognized based on balance sheet analysis and the temporary differences considered are those generated as a result of the difference between the fiscal value of assets and liabilities and their respective carrying amounts.

Thus, at January 1, 2004 and December 31, 2004, the Company recorded certain deferred tax assets and liabilities from temporary differences under IFRS, in addition to those arising on the other reconciliation adjustments, of 18 million and 471 million euros, respectively. A portion of these deferred tax liabilities was generated by business combinations taking place in 2004 (362 million euros), and the corresponding offsetting entry was recognized in Goodwill. The net negative impact on equity is 102 million and 175 million euros at December 31, and January 1, 2004, respectively. The positive impact on net income in 2004 amounts to 27 million euros.

**Inflation adjustments**

Under Spanish GAAP, monetary adjustment of the financial statements of consolidated foreign subsidiaries is permitted when local accounting standards require inflation accounting.

Under IFRS, certain qualitative and quantitative indicators must be analyzed to determine whether hyperinflation exists and whether it is therefore necessary to restate financial statements for inflation in terms of current purchasing power at the balance sheet closing date.

The negative impact under IFRS on equity and net profit of eliminating monetary adjustments at December 31, 2004 is 99 million and 60 million euros, respectively. The impact on equity at January 1, 2004 is 60 million euros.

**Revenue recognition**

Under Spanish GAAP, connection fees generated when customers connect to our network are recognized as revenues when a customer contracts our services, as are the related expenses. In addition, revenues from handset sales are recorded when the handset is delivered physically.

Under IFRS, connections fees are recognized in income together with the corresponding revenues from handset and other equipment sales, provided there are no amounts contingent on pending delivery of other devices or provision of services to the customer. Connection revenues not recognized together with revenues from equipment sales are deferred and recognized in income throughout the average estimated customer relationship period. Under IFRS, revenues from handset and equipment sales are recognized when delivered to the end customer.

These adjustments have a net negative impact on equity of 31 and 29 million euros at December 31, and January 1, 2004, respectively. The positive impact on net income in 2004 was 3 million euros. These differences in revenue recognition policies result in the recognition of



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Deferred income of 48 million on the liability side of the 2004 closing balance sheet under IFRS. This heading is taken to the income statement over the course of the average estimated length of the customer relationship.

### **Financial instruments and exchange rate movements**

Under Spanish GAAP, financial assets, including derivatives, are carried at the lower of cost or market value, while financial liabilities are carried at repayment value. Financial assets are removed from the balance sheet when they are sold, transferred or at maturity.

Under IFRS, financial assets and liabilities are classified according to a series of categories that determine whether they are carried at fair value or amortized cost. Similarly, certain gains and losses on financial instruments are taken directly to equity until the instrument is taken off the balance sheet or is written down in the event of impairment. In addition, IFRS establish very strict criteria for derecognizing financial assets from the balance sheet, based on an analysis of the risks and rewards of ownership of the assets transferred.

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The application of hedge accounting criteria under IFRS requires fulfilling very specific requirements. As a result, certain hedging transactions that meet hedge accounting criteria under Spanish GAAP do not meet the equivalent IFRS criteria. Furthermore, under Spanish GAAP, share capital increases undertaken to cover share option commitments are recognized in equity, while under IFRS these are treated as financial liabilities.

Under Spanish GAAP, the difference between unrealized exchange rate gains in excess of unrealized exchange rate losses taken to income for the period, or in prior periods, are capitalized. Under IFRS, all exchange-rate gains and losses must be taken to the income statement.

The impact of these new accounting policies for financial assets and liabilities is a decrease in equity and net profit at December 31, 2004 of 30 million and 17 million euros, respectively. The negative adjustment at January 1, 2004 was 90 million euros.

These adjustments, other reclassifications and presentation differences, mainly relating to options granted to minority shareholders, result in higher non-current and current borrowings on the liability side of the balance sheet at December 31, 2004 of 345 million and 52 million euros, respectively. Non-current and current financial assets at December 31, 2004 were 81 million and 51 million euros higher.

Finally, under Spanish GAAP, exchange rate gains and losses generated on intra-group foreign currency loans (mainly dollar-denominated) are eliminated from the income statement on consolidation. Under IFRS, exchange rate gains and losses from intra-group loans are not eliminated on consolidation unless the loan can be considered part of the net investment in the foreign operation. The policy change has no impact on equity at December 31, 2004 or at January 1, 2004.

***d) Changes in the consolidated Group***

The main changes in the consolidated Group in 2005 and 2004 were as follows:

2005

The acquisitions of 100% of BellSouth's Chilean and Argentine operators were completed on January 7 and January 11, 2005, respectively, thereby completing the purchase of the Latin American operators from BellSouth.

The acquisition of BellSouth's Chilean operators was completed on January 7, 2005. The value assigned to these companies in the share purchase agreement dated March 5, 2004 was 532 million dollars. The acquisition cost for Telefónica Móviles, adjusted for the outstanding net debt, was 317,561 thousand euros.

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The acquisition of BellSouth's Argentine subsidiaries was completed on January 11, 2005. The agreed-upon enterprise value for these companies was 988,355 thousand dollars. The acquisition cost for Telefónica Móviles, adjusted for the outstanding net debt, was 519,394 thousand euros.

The cost of acquiring shareholdings from the BellSouth Group in 2004 and 2005 includes the costs associated with hedging the exchange rate risk arising from the transactions. Under IFRS these amounts are not considered part of the acquisition cost and must be taken directly to equity (Note 3 r).

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**Table of Contents****Telefónica Móviles, S.A.**

The net carrying amounts of the assets and liabilities acquired from the BellSouth operators in Chile and Argentina and the goodwill generated, after the purchase price allocation to the fair value of all assets assumed in the acquisition, are as follows:

<b>Millions of euros</b>	<b>January 2005</b>	
	<b>Carrying amount</b>	<b>Fair value</b>
<b>ASSETS</b>		
Intangible assets	127	212
Property, plant and equipment	322	155
Non-current financial assets	3	3
Deferred taxes	128	128
Current assets	330	287
<b>LIABILITIES</b>		
Non-current trade payables	110	110
Deferred taxes	121	112
Current trade payables	421	421
Current provisions	71	71
<b>Net asset value</b>	<b>187</b>	<b>71</b>
<b>Acquisition cost</b>		<b>837</b>
<b>Goodwill</b>		<b>766</b>

The approximately 2,054 million Brazilian real capital increase carried out by Telesp Celular Participações, S.A. on January 4, 2005 was fully subscribed. Brasilcel, N.V. now owns 65.7% of Telesp Celular Participações, S.A.

On April 20, 2005, TES Holding, S.A., a 100%-owned Telefónica Móviles, S.A. subsidiary, acquired an additional 4.44% interest in Telefónica Móviles El Salvador, S.A. The acquisition raised TES Holding, S.A.'s stake to 96.16%. This transaction entailed an outlay of 5,064 thousand dollars.

Also in April 2005, Telcel, C.A. increased its capital by 26,791 thousand dollars (20,988 thousand euros). The new shares were subscribed in full by Telefónica Móviles, S.A., thus bringing its stake in Telcel to 91.63%. This transaction had no impact on the consolidated financial statements.

The takeover bid launched by TES Holding, S.A., a Salvadoran company, 100%-owned by Telefónica Móviles, S.A., for Telefónica Móviles El Salvador, S.A. was completed in June 2005. 2.7% of the share capital was acquired for 3,096 thousand dollars. Following this and subsequent transactions, TES Holding, S.A.'s stake in Telefónica Móviles El Salvador, S.A. stands at 99.03%.

In June 2005, the Group acquired an additional 0.38% of Telefónica Móviles Panamá for a total outlay of 2,196 thousand euros. Following this and subsequent acquisitions, Telefónica Móviles controls 99.98% of the company.

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In June 2005, the merger between Comunicaciones Móviles del Perú, S.A. and Telefónica Móviles S.A.C. concluded. The resulting company is Telefónica Móviles Perú, S.A., in which the Telefónica Móviles Group has a shareholding of 98.03%. This transaction had no impact on the consolidated financial statements.

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**Table of Contents****Telefónica Móviles, S.A.**

In July 2005, the Group capitalized the tax credits arising from the tax incentives related to goodwill of various companies comprising the Brasilcel Group as well as of several acquisitions made during the year. The Group's new holding in these companies is as follows:

<b>Brasilcel, N.V.</b>	<b>Shareholding at 12/31/04</b>	<b>Shareholding at 12/31/05</b>
Tele Sudeste Celular Participações, S.A.	91.03%	91.03%
Tele Leste Celular Participações, S.A.	50.59%	50.67%
Celular CRT Participações, S.A.	65.94%	66.36%
Telesp Celular Participações, S.A.	65.12%	66.09%
Tele Centro Oeste Participações, S.A.	32.98%	34.68%

In September 2005, Telefónica Móviles approved the merger by absorption of Telefónica Móviles Interacciona, S.A. This transaction had no impact on the consolidated financial statements.

In October 2005, the Venezuelan companies Telcel, C.A., Servicios Telcel, C.A. and Telecomunicaciones BBS, C.A. merged, subsisting after the merger only Telcel, C.A. This transaction had no impact on the consolidated financial statements.

In November 2005, Telefónica Móviles acquired 2.07% of Telefónica Móviles Argentina, S.A. for 1,987 thousand euros, bringing its stake in this subsidiary to 100%.

In December 2005, Telefónica Móviles, S.A. reached an agreement to acquire 8% of Telefónica Móviles México, S.A. de C.V in exchange for shares in Telefónica, S.A. The operation is valued in 177,274 thousand euros. Telefónica Móviles now owns 100% of the Mexican subsidiary.

In December 2005, Telefónica Móviles Guatemala, S.A. and Tele-Escucha, S.A., were merged by absorption into TEM Guatemala y Cia. S.C.A. The resulting entity adopted the business name, Telefónica Móviles Guatemala, S.A. This transaction had no impact on the consolidated financial statements.

2004

On June 10, 2004, the Company acquired an additional 13.95% in Mobipay Internacional, bringing its shareholding to 50%. As a result of this acquisition, this company was no longer consolidated under the equity method and is now proportionally consolidated.

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On July 23, 2004, Telefónica Móviles, S.A. acquired 100% of Telefónica Móvil de Chile, S.A., a wireless telecommunications provider in Chile, for 1,058 million dollars and assumed a debt of 168,000 million Chilean pesos. As of that date, Telefónica Móvil de Chile, S.A. is fully consolidated by the Móviles Group. The acquisition cost for Telefónica Móviles was 870 million euros.

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**Table of Contents****Telefónica Móviles, S.A.**

The net carrying amounts of the assets and liabilities acquired from Telefónica Móvil de Chile, S.A. and the goodwill generated, after the purchase price allocation of fair value of all assets assumed in the acquisition, are as follows:

<u>Millions of euros</u>	<u>July 2004</u>	
	<u>Carrying amount</u>	<u>Fair value</u>
<b>ASSETS</b>		
Intangible assets	36	216
Property, plant and equipment	391	391
Non-current financial assets	9	9
Current assets	123	123
<b>LIABILITIES</b>		
Non-current trade payables	157	157
Deferred tax liabilities		63
Current trade payables	161	161
<b>Net asset value</b>	<b>241</b>	<b>358</b>
<b>Acquisition cost</b>		<b>870</b>
<b>Goodwill</b>		<b>512</b>

At the end of June 2004, Brasilcel N.V. acquired from NTT DoCoMo, Inc. and Itochu Corporation their shareholdings in Sudestecel Participações, S.A., a holding company controlling a bloc of shares in the operator Tele Sudeste Celular Participações, S.A., representing 10.5% of its capital stock, for 20,839 thousand euros. This transaction gave Brasilcel, N.V. 100% control of Sudestecel Participações, S.A.

In August 2004, Brasilcel N.V. and Telesp Celular Participações, S.A. (TCP) announced their intention to launch friendly tender offers for Tele Sudeste Celular Participações, S.A., Tele Leste Celular Participações, S.A., Celular CRT Participações, S.A and Tele Centro Oeste Celular Participações, S.A (TCO). These tender offers closed in October 2004, resulting in the following shareholdings:

<u>Brasilcel, N.V.</u>	<u>Pre-offer shareholding</u>	<u>Post-offer shareholding</u>
Tele Sudeste Celular Participações, S.A.	86.7%	90.9%
Tele Leste Celular Participações, S.A.	27.9%	50.6%
Celular CRT Participações, S.A.	51.5%	67.0%
Tele Centro Oeste Celular Participações, S.A.	18.8%	32.9%

These tender offers gave rise to a cash payment of approximately 607 million reais by Brasilcel, N.V. and of 902 million reais by Telesp Celular Participações, S.A. (TCP).



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On October 8, 2004, Telesp Celular Participações, S.A. approved a share capital increase of 2,054 million reais. This share capital increase was fully subscribed and closed on January 4, 2005. Brasilcel, N.V.'s shareholding in Telesp Celular Participações, S.A. went from 65.12% to 65.70% as a result.

On March 5, 2004, Telefónica Móviles, S.A. reached an agreement with BellSouth to acquire 100% of its holdings in Argentina, Chile, Peru, Venezuela, Colombia, Ecuador, Uruguay, Guatemala, Nicaragua and Panama.

The effective transfer of the shares of these companies was conditional upon obtaining the required regulatory authorizations in each country and on the acceptance of bids to buy out minority shareholders. The shares were effectively transferred in the last quarter of 2004. BellSouth's holdings in Ecuador, Guatemala and Panama were transferred on October 14, 2004 and those in Colombia, Nicaragua, Peru, Uruguay and Venezuela were transferred on October 28, 2004. BellSouth's holdings in Chile and Argentina were transferred on January 7 and January 11, respectively.

In addition to acquiring the BellSouth's shareholdings in the wireless operators in Latin America, in compliance with the commitments assumed under the share purchase agreement, Telefónica Móviles launched an

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offer to buy out the minority shareholders in these companies, the purchase price in each case being equal to the price agreed with BellSouth.

This agreement valued 100% of the assets of these operators at 4,330 million dollars (5,850 million dollars if we include the Argentine and Chilean acquisitions completed in January 2005). The total acquisition cost for Telefónica Móviles, adjusted by the net debt of all the companies at the transfer date, amounted to 3,252,539 thousand euros (excluding Chile and Argentina).

The values assigned to each transaction and the acquisition cost for Telefónica Móviles are as follows:

Acquisition of 100% of Otecel,S.A. (Ecuador) for a total enterprise value of 833 million dollars. The acquisition cost for Telefónica Móviles, adjusted for outstanding net debt, was 663,428 thousand euros.

Acquisition of 100% of Telefónica Móviles y Compañía, S.C.A. (Guatemala) for a total enterprise value of 175 million dollars. The acquisition cost for Telefónica Móviles, adjusted for outstanding net debt, was 92,538 thousand euros.- Acquisition of 99.57% of BellSouth Panamá, S.A. for a total enterprise value of 657 million dollars. The acquisition cost for Telefónica Móviles, adjusted for outstanding net debt, was 549,275 thousand euros.

Acquisition of 100% of Telcel, S.A. (Venezuela) for a total enterprise value of 1,195 million dollars. The acquisition cost for Telefónica Móviles, adjusted for outstanding net debt, was 1,223,984 thousand euros.

Acquisition of 100% of Telefónica Móviles Colombia, S.A. for a total enterprise value of 1,050 million dollars. The acquisition cost for Telefónica Móviles, adjusted for outstanding net debt, was 517,456 thousand euros.

Acquisition of 99.85% of Comunicaciones Móviles del Perú, S.A. for a total enterprise value of 210 million dollars. The acquisition cost for Telefónica Móviles, adjusted for outstanding net debt, was 7,697 thousand euros.

Acquisition of 100% of Telefonía Celular de Nicaragua, S.A. for a total enterprise value of 150 million dollars. The acquisition cost for Telefónica Móviles, adjusted for outstanding net debt, was 148,742 thousand euros.

Acquisition of 100% of Abiatar, S.A. for a total enterprise value of 60 million dollars. The acquisition cost for Telefónica Móviles, adjusted for outstanding net debt, was 49,419 thousand euros.

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The net carrying amounts of the assets and liabilities acquired from BellSouth and the goodwill generated, after the purchase price allocation to fair value of all assets assumed in the acquisition of these operators, are as follows:

<u>Millions of euros</u>	<u>October 2004</u>	
	<u>Carrying amount</u>	<u>Fair value</u>
<b>ASSETS</b>		
Intangible assets	246	1,105
Goodwill	719	719
Property, plant and equipment	818	701
Non-current financial assets	32	32
Current assets	962	926
<b>LIABILITIES</b>		
Non-current trade payables	390	390
Deferred tax liabilities		299
Current trade payables	739	739
<b>Net asset value</b>	<b>1,648</b>	<b>2,055</b>
<b>Acquisition cost</b>		<b>3,252</b>
<b>Goodwill</b>		<b>1,197</b>

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The unaudited pro forma information provided below summarizes the impact on the Company's consolidated net income had the acquisitions taken place on January 1, 2005 and 2004.

	Millions of euros	
	Year ended December 31, 2005	Year ended December 31, 2004
Revenues		2,385
Net income	(34)	(51)
Basic earnings per share (euros)		

These unaudited pro forma results were prepared exclusively for comparison purposes. They are not meant to be indicative of the results that would actually have been obtained had these transactions taken place on January 1, 2005 and 2004, or of the future results of the consolidated entities.

**e) Publicly listed subsidiaries**

The Group's publicly listed subsidiaries at December 31, 2005 are:

**Companies**

Telefónica Móviles, S.A.  
 Tele Sudeste Celular Participações, S.A.  
 Tele Leste Celular Participações, S.A.  
 Celular CRT Participações, S.A.  
 Telesp Celular Participações, S.A.  
 Tele Centro Oeste Celular Participações, S.A.  
 Telefónica Móviles Perú Holding, S.A.A.  
 Telefónica Móviles Perú, S.A.  
 Multiholding Corporation, S.A.

**Securities markets**

Official stock exchanges in Spain and NYSE  
 Bovespa Sao Paulo (Brazil) and NYSE  
 Bovespa Sao Paulo (Brazil) and NYSE  
 Bovespa Sao Paulo (Brazil)  
 Bovespa Sao Paulo (Brazil) and NYSE  
 Bovespa Sao Paulo (Brazil) and NYSE  
 Lima, Peru  
 Lima, Peru  
 Panama

**3) VALUATION CRITERIA**

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As indicated in Note 2 c, pursuant to European Parliament regulation no. 1606/2002, of July 19, 2002, Telefónica Móviles is obliged to apply the International Financial Reporting Standards (IFRS) endorsed by the European Union for preparing and presenting its consolidated financial information as from January 1, 2005. Accordingly, the consolidated financial statements for the year ended December 31, 2005 have been prepared under IFRS, and the 2004 consolidated financial information included for comparative purposes has been presented in keeping with the same accounting standards.

The main valuation criteria used in preparing the consolidated financial statements are as follows:

### *a) Business combinations and goodwill*

A business combination is the bringing together of independent entities under a single financial reporting entity as a result of a merger between the entities or when one company takes control of the net assets and operations of another.

A business combination of entities under common control occurs when control of the combining entities is held by the same entity or entities, both before and after the business combination, and this control is not transitory.

An acquisition is a business combination in which one of the companies (the acquirer) acquires control of the net assets and activities of the other (the acquiree).

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**Telefónica Móviles, S.A.**

The acquisition date is the date on which control of the acquired entity passes to the acquirer, regardless of when the acquisition is legally completed.

Acquisitions are accounted for using the purchase method, which entails the following steps:

Identification of the acquirer, the combining entity taking control of the other combined entities or businesses.

Determination of acquisition cost. The cost of acquisition is the total fair value, at the transfer date, of assets transferred, liabilities incurred or assumed by and equity instruments issued by the acquirer in exchange for control of the acquiree, plus any direct costs incurred in connection with the business combination.

Assignment, at the acquisition date, of fair values to the assets and liabilities acquired and the contingent liabilities assumed.

In business combinations taking place in several stages, each exchange is treated independently.

Telefónica Móviles has elected to apply the exemption provided for in first-time adoption of IFRS permitting it not to restate business combinations taking place before January 1, 2004 (see Note 2 c). As a result, the accompanying consolidated balance sheets include consolidation goodwill, net of amortization deducted until December 31, 2003, originated before the IFRS transition date, arising from the positive difference in consolidation between the amounts paid to acquire the shares of the subsidiaries fully consolidated or accounted for by the equity method and their underlying carrying amounts plus fair value amounts allocable to the assets of the acquirees on the acquisition date, net of any amounts effectively allocated as greater value of said assets.

For acquisitions taking place after January 1, 2004, the IFRS transition date, goodwill represents the excess of the acquisition cost over the acquirer's interest, at the acquisition date, in the fair values of identifiable assets, liabilities and contingent liabilities acquired of a subsidiary, associate or joint venture. After the initial measurement, goodwill is carried at cost, adjusted for any potential accumulated impairment.

In all cases, goodwill is recognized as an asset denominated in the currency of the company acquired.

Goodwill is tested for impairment annually or more frequently in the event of certain events or changes indicating the possibility that the net carrying amount is not recoverable.

Impairment is determined based on analysis of the recoverable amount of the cash-generating unit (or group of cash generating units) to which goodwill is allocated upon acquisition date. If this recoverable amount does not exceed the net carrying amount, an irreversible impairment loss is recognized in the income statement (see Note 3 g).

*b) Translation methodology*

The annual financial statements of the Group's foreign subsidiaries were translated to euros at the year-end exchange rates, except for:

1. Capital and reserves, which were translated at historical exchange rates.
2. Income statements, which were translated at the average exchange rates for the year.

The goodwill and balance sheet restatements to fair value arising when a stake is acquired in a foreign operation are recognized as assets and liabilities of the acquiree and, therefore, translated at the year-end exchange rate.

The exchange differences arising from application of this method are included in Translation Differences under Equity in the accompanying consolidated balance sheets, net of the portion of said differences attributable to minority interests, which is recorded under Equity attributable to equity holders of the parent.

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When a foreign operation is sold, totally or partially, translation differences in relation to said entity accumulated since January 1, 2004 the IFRS transition date recognized directly equity are taken proportionally to the income statement as part of the gain or loss generated by the disposal.

***c) Foreign currency transactions***

Monetary transactions denominated in foreign currencies are translated to euros at the exchange rate prevailing on the transaction date, and are adjusted at year end to the prevailing exchange rates.

All realized and unrealized exchange gains or losses are taken to profit for the year, with the exception of gains or losses arising from specific-purpose financing of foreign currency investments in investees to hedge the exchange risk to which these investments are exposed, that are recorded under Translation differences in the consolidated balance sheet (see Note 3 r).

When a foreign operation is sold, totally or partially, the corresponding portion of associated translation differences recognized directly equity are taken to the consolidated income statement as part of the gain or loss generated by the disposal.

***d) Intangible assets***

Intangible assets are recorded at their acquisition or production cost, less accumulated amortization or any impairment losses.

The useful economic life of an intangible asset is analyzed on a case-by-case basis to assess if it is indefinite or finite. Intangible assets with a finite useful life are amortized on a straight-line basis over the course of their useful lives and are tested for impairment in the event of indications that the net carrying amount may not be recoverable. Intangible assets with an indefinite useful life are not amortized, but are subject to impairment tests on at least an annual basis, and more frequently in the event of indicators that their net carrying amount may not be recoverable (see Note 3 g).

In all cases, amortization methods and schedules are revised annually and, where appropriate, adjusted prospectively.

***Research and development expenses***



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Research expenses are expensed as incurred. Costs incurred in developing new products to be marketed or used for the Group's own network, and whose future economic viability is reasonably certain, are capitalized and amortized using the straight-line method over the period during which the project in question is estimated to generate economic benefits, starting upon its completion.

As long as intangible assets developed internally are not in use, the associated capitalized development costs are subject to impairment tests on at least an annual basis, and more frequently if there are indicators that their net carrying amount may not be recoverable. Costs incurred in connection with projects that are not economically viable are charged to the consolidated income statement for the year in which this circumstance becomes known.

### *Administrative concessions*

These relate to the acquisition cost of the licenses to operate of telephony services granted to the Telefónica Móviles Group by various public authorities and to the value assigned to licenses held by certain companies at the time they were included in the Telefónica Móviles Group.

These concessions are amortized on a straight-line basis over the duration of related licenses from inception.

### *Software and others*

These items are recorded at cost and are amortized on a straight-line basis over their useful lives, generally estimated at three years.

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This heading also includes the portion of the cost of acquisition allocated to customers portfolios acquired in business combinations, amortized over the estimated customer relationship life, up to a maximum of five years.

***e) Property, plant and equipment***

Property, plant and equipment are recorded at acquisition or production cost less accumulated depreciation and any impairment losses. Land is not depreciated.

Cost includes external and internal costs comprising warehouse materials used, direct labor used in installation work and the allocable portion of the indirect costs required for the related investment. The latter two items are recorded as income under *Other income*. Cost includes, where appropriate, the estimate of decommissioning, withdrawal and site reconditioning costs when they correspond to obligations arising as a result of the use of related assets.

Interest and other financial expenses incurred and directly attributable to the acquisition or construction of qualifying assets are capitalized. Qualifying assets at the Telefónica Móviles Group are those assets that require preparation of at least 18 months for their intended use or sale. The Group did not capitalize any financial costs in 2004 or 2005.

The costs of expansion, modernization or improvement leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of assets are capitalized when recognition requirements are met.

Upkeep and maintenance expenses are expensed as incurred.

The Telefónica Móviles Group assesses the need to write down, if appropriate, the carrying amount of each item of property, plant and equipment to its recoverable amount at each year end, whenever indicators exist that the assets' net carrying amount may not be recoverable through the generation of sufficient revenues to cover all costs and expenses. Asset impairments are reversed when there is a positive change in estimated recoverable amount up to a limit of the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized. The write-up is credited to the income statement (See Note 3 g).

The Group's subsidiaries depreciate their property, plant and equipment once they are in full working condition by using the straight-line method based on the assets' estimated useful lives, calculated in accordance with technical studies which are revised periodically based on technological advances and the rate of dismantling, as follows:

	<b>Years of Estimated Useful Life</b>
Buildings	5-50
Plant and machinery	5-10
Data processing equipment	3-5
Furniture, tools and other items	2-10

Estimated residual values and the depreciation methods and schedules are revised at each balance sheet date and adjusted prospectively, where appropriate.

*f) Leases*

The determination of whether a contract represents a lease arrangement depends on an analysis of the nature of the agreement; specifically whether the terms of the contract refer to the use of a specific asset and whether the agreement grants the Telefónica Móviles Group the right to use of said asset.

Leases in which the lessor preserves substantially all the risks and rewards associated with the ownership of the leased assets, are considered operating leases. Payments made pursuant to such operating leases are expensed on a straight-line basis over the life of the lease.

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Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. These are recognized at the inception of the lease, classified accordingly, along with the associated debt, at the lower of the present value of the minimum lease payments and the fair value of the leased asset. Lease payments are apportioned between reduction of the lease principal, interest expense and financial charges, so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the income statement over the lease term.

If it is not reasonably certain that the Group will acquire ownership of the asset at the end of the lease, finance lease assets are amortized at the shorter of their useful life or the lease term.

***g) Impairment of non-current assets***

Non-current assets, including goodwill and intangible assets, are evaluated at each balance sheet date for indications of impairment losses. Wherever such indications exist, or in the case of assets which are subject to an annual impairment test, the Group estimates the recoverable amount as the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects the time value of money and risks specific to the asset. An asset is considered to be impaired when its recoverable amount is less than its carrying amount. In this case, the net carrying amount is restated to recoverable amount and the resulting loss is taken to income. Future depreciation charges are adjusted for the new carrying amount for the asset's remaining useful life. The Group carries out asset impairment tests on an individual basis, except when the cash flows generated by the asset are not independent of those generated by other assets (cash-generating units).

When indications of an impairment reversal exist, the corresponding asset's recoverable amount is recalculated. Impairment losses are only reversed in the event of a change in the assumptions used to calculate the recoverable amount since the most recent impairment loss was recognized. In this case, the asset's carrying amount is increased to the revised estimate of its recoverable amount, but may not exceed the carrying amount that would have been recorded had no impairment loss been recognized for the cash-generating unit in prior years. The reversal is recognized in the income statement and future depreciation charges are adjusted to reflect the new carrying amount. Goodwill impairment losses may not be reversed in subsequent years.

The Group's operating countries represent the cash generating units considered for non-current assets. When determining goodwill recoverability, in line with the Group's internal regional management model, Telefónica Móviles analyzes the following cash generating units:

Spain

Brazil

Northern region (Mexico, Guatemala, El Salvador, Panama and Nicaragua)

Andean region (Venezuela, Colombia, Ecuador and Peru)

Southern cone (Chile, Argentina and Uruguay)

Mediterranean basin (Morocco).

***h) Investments in associates***

The Telefónica Móviles Group's investments in companies in which it has significant influence, but which are neither a subsidiary nor a joint venture, are accounted for by the equity method. The carrying amount of investments in associates includes related goodwill and the consolidated income statement reflects the share in the income or loss on operations of the associate. If the associate recognizes any gains or losses directly in equity, the Group also recognizes the corresponding portion of these gains or losses directly in its own equity.

***i) Financial assets***

All conventional financial asset purchases and sales are recognized on the balance sheet on the transaction date, i.e., when the Group assumes the commitment to purchase or sell such assets. The Telefónica Móviles Group classifies its financial assets into four categories for initial recognition purposes: (i) financial assets measured at fair value through profit or loss, (ii) loans and receivables, (iii) held-to-maturity investments and (iv) available-for-sale financial assets. Classification is reviewed annually, where appropriate.

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Financial assets held for trading, i.e., investments made with the aim of realizing short-term returns as a result of price changes, are classified as financial assets measured at fair value through profit or loss and are presented as current assets. All derivatives fall under this category, with the exception of those qualifying as hedging instruments. The Group also classifies certain financial instruments under this category when doing so eliminates or mitigates measurement or recognition inconsistencies that could arise from the application of other criteria for recording assets and liabilities or for recognizing gains and losses on different bases, thereby providing more meaningful information. Financial instruments included in this category are recorded at fair value and are measured again at subsequent reporting dates for fair value, with any realized or unrealized losses or gains taken to the income statement.

When the Group has the positive intention and ability (legal and financial) to hold financial assets to maturity, these are classified as held-to-maturity and are recorded under Current assets and Non-current assets, depending on the time left until maturity. Financial assets falling into this category are carried at amortized cost using the effective interest rate method, with gains and losses recognized in the income statement at settlement or upon impairment, as well as due to scheduled amortization.

Financial assets which the Group intends to hold for an unspecified period of time and could be sold at any time to meet specific liquidity requirements or in response to interest-rate movements are classified as available-for-sale. These instruments are recorded as Non-current assets, unless it is probable or feasible that they will be sold within 12 months. Available-for-sale investments are carried at fair value. Gains or losses arising from changes in fair value are recognized in equity at each closing date until the asset is disposed of or is determined to be impaired, at which time they are taken to the income statement. Dividends from available-for-sale assets are taken to the income statement once the Company's right to receive said dividend is recognized.

Fair value is determined in accordance with the following criteria:

1. Listed securities on active markets: Fair value is considered to be the market value on the closing date.
2. Unlisted securities on active markets: Fair value is determined using valuation techniques such as discounted cash flow analysis, option valuation models, or by referring to comparable transactions. When fair value cannot be determined reliably, these investments are carried at cost.

Loans and receivables include financial assets that are not traded on organized markets and do not fall into any of the previous categories. These assets are carried at amortized cost using the effective interest-rate method. Gains and losses are taken to the income statement when the assets are disposed of or impaired, as well as due to scheduled amortization.

Financial instruments are subject to impairment testing at each closing date. If there is objective evidence of impairment of a financial asset recognized at amortized cost, the excess of the carrying amount over the estimated recoverable amount is recorded as an impairment loss in the income statement. The estimated recoverable amount is the net present value of the asset's estimated future cash flows (excluding potential future losses), discounted using the original effective interest rate of the asset. If there is objective evidence that an available-for-sale financial instrument is impaired, the loss recognized in equity is taken to the income statement. This loss is calculated as the difference between the original cost (net of any principal repayments) and its fair value at that date, net of any impairment losses taken in prior periods.

Financial assets are only derecognized from the balance sheet in the following circumstances:

The rights to receive the cash flows associated with the asset have expired.

The Company has contracted to pay all the cash flows received from the asset to a third party.

The Company has transferred the rights to receive the cash flows from the asset to a third party, transferring substantially all the risks and rewards associated with the asset.

*j) Inventories*

Inventories are carried at the lower of weighted average cost and net realizable value.

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When the cash flows associated with the purchase of inventory are effectively hedged, the corresponding gains and losses accumulated in equity become part of the cost of purchased inventories.

Obsolete, defective or slow-moving inventories have been reduced to estimated net realizable value. The write-down of inventory is calculated based on inventory age and turnover.

***k) Trade receivables***

Trade receivables are carried at their face value, subject to restatement if there is objective evidence of default risk on the part of the debtor. The allowance recognized is measured as the difference between the carrying amount of the doubtful trade receivables and their recoverable amount. As a general rule, the cash flows from short-term commercial bills are not discounted.

***l) Cash and cash equivalents***

Cash and cash equivalents comprise cash on hand and at banks, demand deposits and other highly liquid investments with maturity of less than three months. These items are stated at historical cost, which does not differ significantly from the realizable amount.

For the purposes of the consolidated cash flow statement, cash and cash equivalents are stated net of any bank overdrafts.

***m) Treasury shares***

Treasury shares are stated at cost and netted from shareholders' equity. Any gain or loss arising on the acquisition, sale, issuance or cancellation of treasury shares is recognized directly in equity.

***n) Capital grants received***

Capital grants received are recorded under Trade and other payables on the balance sheet once there is reasonable certainty that they will be collected and the related conditions met. They are brought to the income statement on a straight-line basis over the course of the useful life of the assets financed with said grants. Operating grants are brought to income in line with the expenses they cover.



***o) Provisions***

Provisions are made when a past event gives rise to a present obligation (legal or constructive) on the part of the Group, the settlement of which requires an outflow of resources embodying economic benefits that is considered probable and can be estimated reliably. If the impact of the time value of money is significant, the provision is discounted, and the corresponding increase in the provision is recorded as a financial expense.

***p) Share-based payments***

As described in Note 2c, IFRS 2 is applied to compensation schemes linked to the share price granted after November 7, 2002. The policy applied to employee stock option compensation schemes granted before that date consists of recording a provision evenly throughout the duration of the plan based on the best estimate of the net expenditure required to settle the plans in the future, in accordance with the terms and conditions of each plan.

***q) Interest-bearing loans and borrowings***

These debts are recognized initially at fair value of the consideration received, net of directly attributable transaction costs. In subsequent periods, the financial liabilities are carried at amortized cost using the effective interest rate method. Any difference between the cash received (net of transaction costs) and the repayment value is recognized in the income statement over the life of the debt. Financial debts are considered non-current when their maturity is over 12 months or the Telefónica Móviles Group has full discretion to defer settlement for at least another 12 months from the closing date.

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Financial liabilities are derecognized from the balance sheet when the corresponding obligation is settled, cancelled or matures. When a financial liability is replaced with another on substantially different terms, this is accounted for as a derecognition of the original liability and the recognition of a new one and the difference between their respective fair values is taken to profit or loss.

*r) Derivatives financial instruments and hedge accounting*

*Risk management policies*

The Group's subsidiaries are exposed to a range of market risks, the most important of which are:

Exchange rate risk, arising mainly from the Telefónica Móviles Group's international presence, with investments and businesses in countries outside the Euro zone, and foreign currency-denominated debt in its countries of operations.

Interest rate risk: on the one hand, the impact on the cost of floating-rate debt financing of interest rate movements and on the other hand on the value of long-term liabilities at fixed rates (market value moves in the opposite direction to rates).

In addition, the Group has liquidity risk given the potential for temporary imbalances between the need for funds and their sources.

Finally, country risk can be highlighted (related to the aforementioned risks), i.e. the chance that the value of foreign assets and, on the cash flows they generate on, that are repatriated to the parent company could decline as a result of political, economic and social instability in the countries where the Group operates.

The Telefónica Móviles Group actively manages these risks with the aim of stabilizing cash flows, in order to facilitate financial planning and leverage investment opportunities, maximize capital and reserves and protect its investments. Risk management guidelines are disseminated by the parent company at the Group level and are implemented by its subsidiaries (ensuring that the individual interests of the Group and its subsidiaries are aligned).

Telefónica Móviles uses derivative financial instruments to manage risks, primarily exchange-rate and interest-rate hedges.

*Derivative instruments and hedge accounting*

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Derivative financial instruments are initially recognized at fair value, normally equivalent to cost. Their carrying amounts are adjusted at each subsequent balance sheet date to fair value, classified under current financial assets or current financial liabilities depending on whether fair value is positive or negative, respectively. Derivatives that meet all the criteria for consideration as long-term hedging instruments are recorded as non-current assets and liabilities, depending on their fair value.

The accounting treatment of any gain or loss resulting from changes in the fair value of a derivative depends on whether the derivative in question meets all the criteria for hedge accounting and, if appropriate, on the nature of the hedge.

Accordingly, the Group designates certain derivatives as:

1. Instruments to hedge risk associated with the fair value of an asset or liability or of a firmly committed transaction (fair value hedge),  
or
2. Instruments to hedge risk associated with changes in cash flows due to risks associated with a recorded asset or liability or with an expected transaction (cash flow hedge), or
3. Instruments to hedge net investment in a foreign operation

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An instrument designed to hedge foreign currency exposure in a firm transaction could be designated as either a fair value or a cash flow hedge.

Changes in fair value of derivatives that qualify as fair value hedges are recognized in the income statement, together with changes in the fair value of the hedged asset or liability attributable to the risk being hedged.

Changes in fair value of derivatives that qualify and have been assigned to hedge cash flows, which are highly effective, are recognized in equity. The portion considered ineffective is recognized directly in profit or loss. Fair value changes from hedges that relate to firm commitments or forecast transactions that result in the recognition of non-financial assets or liabilities are included in the initial measurement of those assets or liabilities. Otherwise, changes in fair value previously deferred to equity are recognized in the income statement in the period in which the hedged transaction affects income.

An instrument designed to hedge foreign currency exposure from a net investment in a foreign operation is accounted for in the same way as a cash flow hedge as described in the preceding paragraph.

The application of the company's corporate risk management policies could result in financial risk-hedging transactions that make economic sense, yet are not strictly IFRS compliant for hedge accounting. Alternatively, the Group may opt not to apply hedge accounting criteria in certain instances. In these cases, gains or losses resulting from changes in the fair value of the derivatives are taken directly to the income statement. Derivatives used to reduce the exchange risk relating to the income contributed by Latin American subsidiaries are not treated as hedging transactions.

From inception, the Group formally documents the hedging relationship between the derivative and the hedged asset or liability, as well as the associated risk management objectives and strategies. This documentation includes identification of the hedge instrument, the hedged asset or liability or transaction and the nature of the risk hedged.

In addition, it states the manner in which hedge effectiveness, i.e. the extent to which the hedge instrument offsets any changes in the underlying hedged item's fair value or cash flows that can be attributed to the risk hedged, is measured. Its effectiveness is measured, prospectively and retroactively, both at the beginning of the hedge transaction as well as on a systematic basis throughout the life of the hedge.

Hedge accounting is discontinued whenever the hedging instrument expires or is sold, terminated or settled or no longer qualifies for hedge accounting. In these instances, gains or losses accumulated in equity are not recognized in profit or loss until the forecast or committed transaction occurs. However, if the hedged transaction is no longer expected to occur, the cumulative gains or losses recognized directly in equity are taken immediately to profit or loss.

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The fair value of derivative financial instruments used for hedging purposes is detailed in Note 13. In addition, the statement of changes in equity provides a detail of the movements in gains and losses due to cash flow hedges.

The fair value of the derivative portfolio includes estimates based on calculations using observable market data, as well as specific pricing and risk management tools commonly used by financial entities.

### *s) Corporate income tax and other taxes*

This heading in the accompanying consolidated income statement includes all the debits and credits arising from the corporate income tax levied on the Spanish Group companies and similar taxes applicable to the Group companies abroad (see Note 14).

Corporate income tax recorded each year includes current and deferred taxes, if any.

The carrying amount of assets and liabilities related to current tax and prior periods taxes represents the estimated amount owed to/due from the tax authorities. The tax rates and regulations used as a basis for calculating these amounts are those prevailing (or practically endorsed) at the closing date.

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Deferred taxes are calculated based on balance sheet analysis. The temporary differences considered are those generated as a result of the difference between tax bases of the assets and liabilities and their respective carrying amounts.

The main temporary differences arise due to discrepancies between the tax bases and carrying amounts of intangible assets, plant, property and equipment, non-deductible provisions, unused tax credits, tax loss carryforwards as well as differences in the fair value and tax bases of net assets acquired of a subsidiary, associate or joint venture.

The Group estimates deferred tax assets and liabilities by applying the tax rates it believes will be in effect when the corresponding asset is received or the liability settled, based on prevailing tax rates and regulations (or practically endorsed) at the closing date.

At each year end, the carrying amount of deferred tax assets on the balance sheet is tested for impairment and the necessary restatements are made if there is uncertainty as to their recoverability. Also at each close, deferred tax assets not recognized on the balance sheet are evaluated. These are recorded to the extent that their recoverability via future taxable profits becomes probable.

Deferred tax liabilities on investments in subsidiaries, branches, associates and joint ventures are not recognized if the parent company is in a position to control the timing of the reversal and if the reversal is unlikely to take place in the foreseeable future.

The tax effect of items taken to equity is recognized directly in equity. Deferred tax assets and liabilities resulting from business combinations are added to or netted from goodwill.

Deferred tax assets and liabilities are only offset when they relate to taxes imposed by the same fiscal authority on the same tax entity and where the right to offset current tax assets and liabilities is legally recognized.

***t) Revenues and expenses***

Revenues and expenses are recognized on the income statement on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

***Sales of equipment and accessories***

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Revenues generated on the sale of equipment and accessories are recorded when the purchase transaction is completed. The transaction is considered complete when substantially all the risks associated with ownership of the goods have been transferred.

### *Traffic sales*

Revenues generated on traffic sales are recorded on an accrual basis, i.e., as the traffic is consumed by the customers.

Revenue related to prepaid phone cards and recharges is recognized as the minutes are consumed. Unconsumed minutes are recorded as deferred income under "Trade and other payables" on the liability side of the balance sheet.

### *Connection fees*

This relates to the one-off fee invoiced when the service is contracted.

Under IFRS, connection fees are recognized in income together with the corresponding revenues from handset and other accessory sales, provided there are no amounts contingent on pending delivery of other goods or services to the customer. Connection revenues not recognized together with revenues from equipment sales are deferred and recognized in income throughout the average estimated customer relationship period.

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***Handset rental (Comodato)***

Part of property, plant and equipment, these assets are owned by the group companies throughout the rental period and are depreciated based on their useful lives, being the lesser of the following:

Contractual rental period.  
The average useful life of the customer relationships.

***Loyalty programs***

The points program is a tool for enhancing customer loyalty. As customers consume traffic, they earn points which they can exchange for handset upgrades or other services. The accounting treatment for these programs is to accrue points earned as negative revenues as the customer consumes the traffic giving rise to the right to accumulate points.

If the points have an expiration date, the surplus provision made on points accrued is written back to the income statement under the same heading used to record the accrual.

***Multiple-element sales contracts***

Under IFRS, a specific revenue recognition method must be applied separately to each transaction, and even in certain circumstances it may be necessary to apply a different recognition method to different identifiable components within a single transaction in order to reflect the economic basis of the transaction.

It is common practice among telecommunications operators to sell promotional packages which primarily include the sale of handsets combined with airtime. The Group applies the following rule for recognizing and measuring the various components of promotional package sales combining multiple elements or components:

The package components that have value to the customer independently, i.e., are also sold separately and could be in turn resold by the customer himself, are identified.

Total package revenue is split among the identified components in proportion to their respective fair values, but is not allocated to components that are contingent upon delivery of pending goods or services.



*u) Use of estimates in recognizing assets and liabilities*

The main assumptions made and other significant sources of uncertainty in the estimates made at the closing date that could have a material impact on the carrying amount of assets and liabilities in the next financial year are:

*Property, plant and equipment and goodwill*

The accounting treatment of property, plant and equipment and intangible assets entails the use of estimates to determine their useful lives for depreciation and amortization purposes to assess fair value at their acquisition dates, especially for assets acquired in business combinations.

Determining useful lives requires making estimates in connection with future technological developments and alternative uses for assets. There is a significant element of judgment involved in making technological development assumptions, since the timing and scope of future technological advances are difficult to predict.

When property, plant and equipment are considered to be impaired, the corresponding loss is taken to the income statement for the period. The decision to recognize an impairment loss involves estimates of the timing and potential scope of the impairment, as well as analysis of the reasons for the potential loss. Furthermore, additional factors, such as technological obsolescence, the suspension of certain services and other circumstantial changes are taken into account.

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The Telefónica Móviles Group evaluates its cash-generating units' performance regularly to identify potential goodwill impairments. Determining the recoverable amount of the cash-generating units to which goodwill is allocated also entails the use of assumptions and estimates and requires a significant element of judgment.

A significant change in the facts and circumstances on which these estimates are based could have a material negative impact on the Group's earnings and financial position.

*Deferred tax assets and liabilities*

The Group evaluates the recoverability of deferred tax assets based on estimates of future earnings. The ability to recover these taxes depends ultimately on the Group's ability to generate taxable earnings over the course of the period for which the deferred tax assets remain deductible. This analysis is based on the estimated schedule for reversing deferred taxes as well as estimates of taxable earnings and tax planning strategies which are sourced from internal projections and are continuously updated to reflect the latest trends.

The appropriate classification of tax assets and liabilities depends on a series of factors, including estimates as to the timing and materialization of deferred tax assets and the forecast tax payment schedule. Actual Group company income tax receipts and payments could differ from the estimates made by the Group as a result of changes in tax legislation or unforeseen transactions that could affect tax balances.

*Provisions*

Provisions are made when a past event gives rise to a present obligation (legal or constructive) on the part of the Group, the settlement of which requires an outflow of resources embodying economic benefits that is considered probable and can be estimated reliably. This obligation may be legal or constructive, deriving from, *inter alia*, regulations, contracts, normal practices or public commitments that lead third parties to reasonably expect that the Group will assume certain responsibilities. The amount of the provision is determined based on the best estimate of the outflow of resources required to settle the obligation, bearing in mind all available information at the closing date, including the opinions of independent experts such as legal counsel or consultants.

No provision is recognized if the amount of liability cannot be estimated reliably. In this case, the relevant information is provided in the notes to the financial statements.

Given the uncertainties inherent in the estimates used to determine provision amounts, actual outflow of resources may differ from the amounts recognized originally on the basis of the estimates.

*v) Pension plans*

Some Group companies have commitments for supplementary pension payments with their personnel. These obligations and commitments are for the most part defined-contribution plans and are formalized in pension plans or insurance policies. In the event of defined benefit plans or similar, the companies accrue the expenses associated with defined-contribution pension plans and similar commitments over the life of the employment contracts on the basis of appropriate actuarial studies.

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At the date of preparation of the consolidated financial statements, the following IFRS and IFRIC interpretations have been published but their application is not mandatory:

<b>Standards and amendments to standards</b>	<b>Effective date</b>
IFRS 6 <i>Exploration for and Evaluation of Mineral Assets</i>	January 1, 2006
IFRS 7 <i>Financial Instruments: Disclosures</i>	January 1, 2007
Amendment to IAS 1 <i>Presentation of Financial Statements Capital Disclosures</i>	January 1, 2007
Amendment to IAS 19 <i>Employee Benefits</i>	January 1, 2006
Amendment to IAS 21 <i>The Effects of Changes in Foreign Exchange Rates Net Investment in a Foreign Operation</i>	January 1, 2006
Amendment to IAS 39 <i>Financial Instruments: Recognition and Measurement Fair Value Option</i>	January 1, 2006
Amendment to IAS 39 <i>Financial Instruments: Recognition and Measurement Cash Flow Hedges of Forecast Intragroup Transactions</i>	January 1, 2006
Amendment to IAS 39 <i>Financial Instruments: Recognition and Measurement Financial Guarantee Contracts</i>	January 1, 2006
<b>Interpretations</b>	<b>Effective date</b>
IFRIC 4 <i>Determining Whether an Arrangement Contains a Lease</i>	January 1, 2006
IFRIC 5 <i>Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>	January 1, 2006
IFRIC 6 <i>Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>	December 1, 2005
IFRIC 7 <i>Applying the Restatement Approach under IAS 29 Financial Information in Hyperinflationary Economies</i>	March 1, 2006
IFRIC 8 <i>Scope of IFRS 2 Share-based Payment</i>	May 1, 2006

In accordance with the recommendation of advance application and temporary provisions, the Group has adopted the amendment to IAS 39 *Financial Instruments: Recognition and Measurement - Fair Value Option* before the effective date.

The Group believes that the adoption of the aforementioned standards and interpretations will not have a significant impact on its financial statements.

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This heading comprises primarily the value of Telefónica Móviles telecommunications services licenses and concessions in its countries of operation.

The detail and movement in this heading in 2005 and 2004 are as follows:

Thousands of euros							
	Balance at 12/31/04	Increases	Decreases	Changes in consolidation scope	Translation differences	Transfers	Balance at 12/31/05
<b>Cost:</b>							
Development expenses	2,159					(1,999)	160
Administrative concessions	2,930,487	47,730	(1,337)	122,806	650,522	24,622	3,774,830
Software	1,470,871	328,825	(28,981)	4,567	168,410	101,570	2,045,262
Other intangible assets	345,887	63,952	(12)	84,871	61,127	(27,168)	528,657
<b>Total gross intangible assets</b>	<b>4,749,404</b>	<b>440,507</b>	<b>(30,330)</b>	<b>212,244</b>	<b>880,059</b>	<b>97,025</b>	<b>6,348,909</b>
<b>Accumulated depreciation:</b>							
Development expenses	(1,373)					1,373	
Administrative concessions	(362,628)	(261,024)	1,321		(111,704)	(19,311)	(753,346)
Software	(831,805)	(316,290)	27,768		(115,221)	37,467	(1,198,081)
Other intangible assets	(43,803)	(209,421)	12		(16,241)	6,419	(263,034)
<b>Total accumulated depreciation</b>	<b>(1,239,609)</b>	<b>(786,735)</b>	<b>29,101</b>		<b>(243,166)</b>	<b>25,948</b>	<b>(2,214,461)</b>
<b>Provisions for impairment</b>	<b>(140)</b>				<b>(43)</b>	<b>183</b>	
<b>Net intangible assets</b>	<b>3,509,655</b>	<b>(346,228)</b>	<b>(1,229)</b>	<b>212,244</b>	<b>636,850</b>	<b>123,156</b>	<b>4,134,448</b>

Thousands of euros							
	Balance at 01/01/04	Increases	Decreases	Changes in consolidation scope	Translation differences	Transfers	Balance at 12/31/04
<b>Cost:</b>							

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Development expenses	1,321				838	2,159
Administrative concessions	2,029,272	7,312		967,049	(70,190)	(2,956)
Software	1,127,145	221,568	(959)	81,552	(3,395)	44,960
Other intangible assets	41,088	35,871	(245)	272,118	3,274	(6,219)
<b>Total gross intangible assets</b>	<b>3,198,826</b>	<b>264,751</b>	<b>(1,204)</b>	<b>1,320,719</b>	<b>(70,311)</b>	<b>36,623</b>
<b>Accumulated depreciation:</b>						
Development expenses	(1,258)	(73)			(42)	(1,373)
Administrative concessions	(232,808)	(134,877)			1,438	3,619
Software	(578,354)	(250,920)	646		2,566	(5,743)
Other intangible assets	(5,869)	(40,323)			1,223	1,166
<b>Total accumulated depreciation</b>	<b>(818,289)</b>	<b>(426,193)</b>	<b>646</b>		<b>5,227</b>	<b>(1,000)</b>
<b>Provisions for impairment</b>	<b>(944)</b>	<b>(140)</b>	<b>944</b>			<b>(140)</b>
<b>Net intangible assets</b>	<b>2,379,593</b>	<b>(161,582)</b>	<b>386</b>	<b>1,320,719</b>	<b>(65,084)</b>	<b>35,623</b>

In 2005 Changes in consolidation scope includes the addition of the BellSouth Chile and BellSouth Argentina assets. In 2004, the Changes in consolidation scope column includes most notably the incorporation of Telefónica Móvil de Chile, S.A. into the consolidation scope and the operators acquired from BellSouth (see Note 2d).

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**Telefónica Móviles, S.A.**

Increase primarily includes investments in information and billing systems, as well as the development of new services.

The carrying amount of the licenses of Tele Centro Oeste Celular Participações, S.A. was increased by 70,675 thousand and 27,320 thousand euros in 2004 and 2005, respectively, as the assets of this acquired subsidiary were recognized at fair value (see Note 5).

Independent appraisals of the assets acquired from BellSouth in Chile and Argentina resulted in the allocation in 2005 of 84,692 thousand euros of the acquisition price to customer portfolios acquired which is recorded under Other intangible assets .

Independent appraisals of the assets acquired from Telefónica Móvil de Chile, S.A. and the BellSouth operators resulted in the allocation in 2004 of 754,563 thousand euros to Administrative concessions (licenses) and a 32,023 thousand euro write-up in Software . Furthermore, 248,787 thousand euros of the acquisition price was allocated to customer portfolios acquired which are recorded under Other intangible assets (see Notes 3a and 5). These allocations are reflected under Changes in consolidation scope.

Translation differences reflects the impact of exchange rate movements on opening balances of assets at foreign subsidiaries. The effect of exchange rates on variations in the year is included in the appropriate column for each variation.

In-house developments capitalized in 2005 and 2004 by the Group companies totaled 423 and 263 thousand euros, respectively.

The amount of fully amortized intangible assets at December 31, 2005 and 2004 stood at 680,275 and 352,076 thousand euros, respectively.

At December 31, 2005 and 2004, the Company carried intangible assets with indefinite useful lives amounting to 145,210 and 66,879 thousand euros, respectively. These assets relate primarily to licenses to operate wireless telecommunications services in Argentina.

The Company's management reviews the indefinite useful life classification of these assets each year.

They are also subject to impairment tests whenever there is indication of a potential loss in value and, in any event, at the end of each year. There was no material impact on the consolidated financial statements for 2005 or 2004 as a result of these impairment tests.

The balance of intangible assets carried by the Telefónica Móviles Group under finance leases at December 31, 2005 and 2004 is not material.





**Table of Contents****Telefónica Móviles, S.A.****5) GOODWILL**

The detail of the movement in this heading in 2005 and 2004 are as follows:

	Thousands of euros					
	Balance at 12/31/04	Changes in consolidation scope	Increases	Transfers	Translation differences	Balance at 12/31/05
<b>Spain</b>	<b>12,208</b>					<b>12,208</b>
Telefónica Móviles España, S.A.	12,208					12,208
<b>Brazil</b>	<b>522,552</b>		<b>11,564</b>	<b>(115,391)</b>	<b>140,530</b>	<b>559,255</b>
Subsidiaries of Brasilcel, N.V.	522,552		11,564	(115,391)	140,530	559,255
<b>Northern region</b>	<b>779,901</b>		<b>102,052</b>	<b>(52)</b>	<b>102,101</b>	<b>984,002</b>
TES Holding, S.A. de C.V. (El Salvador)	47,083		5,657		7,663	60,403
Telefónica Móviles Mexico Group	223,210		85,763		20,319	329,292
Mexican company subsidiaries	106,944				22,119	129,063
TCG Holdings, S.A. (Guatemala)	30,860				5,487	36,347
Telefónica Móviles Panamá, S.A.	272,843		2,815	(52)	42,307	317,913
Telefónica Móviles Guatemala y Cía., S.C.A.	27,478		8		4,876	32,362
Telefonía Celular de Nicaragua, S.A.	71,483		7,809		(670)	78,622
<b>Andean region</b>	<b>1,440,055</b>		<b>2,062</b>	<b>(26,971)</b>	<b>188,609</b>	<b>1,603,755</b>
Telefónica Móviles Perú Holding, S.A.	2,216				230	2,446
Telcel, C.A. (Venezuela)	481,362			(4,861)	15,028	491,529
Olympic, Ltd. (Colombia)	541,310			(5,118)	111,040	647,232
Otecel, S.A. (Ecuador)	403,870		58	(7,401)	62,196	458,723
Telefonica Móviles Perú, S.A.	11,297		12	(9,591)	115	1,833
Latin American Celular Holding B.V			1,992			1,992
<b>Southern cone</b>	<b>533,849</b>		<b>781,189</b>	<b>(111)</b>	<b>232,670</b>	<b>1,547,597</b>
Telefónica Móvil de Chile, S.A.	523,550				130,888	654,438
Telefónica Móviles Uruguay, S.A.	10,299			(111)	2,670	12,858
Telefónica Móviles Chile Inversiones, S.A.			219,444		44,385	263,829
Compañía Radio Comunicaciones Móviles, S.A.(Argentina)			547,218		55,077	602,295
Telecomunicaciones Personales, S.A. (Argentina)			14,527		(350)	14,177
<b>Total goodwill</b>	<b>3,288,565</b>		<b>896,867</b>	<b>(142,525)</b>	<b>663,910</b>	<b>4,706,817</b>

**Table of Contents****Telefónica Móviles, S.A.**

	Thousands of euros					
	Balance at 01/01/04	Changes in consolidation scope	Increases	Transfers	Translation differences	Balance at 12/31/04
<b>Spain</b>	<b>12,208</b>					<b>12,208</b>
Telefónica Móviles España, S.A.	12,208					12,208
<b>Brazil</b>	<b>474,301</b>		<b>114,201</b>	<b>(70,675)</b>	<b>4,725</b>	<b>522,552</b>
Brasilcel, N.V. subsidiaires	474,301		114,201	(70,675)	4,725	522,552
<b>Northern region</b>	<b>382,246</b>		<b>461,510</b>		<b>(63,855)</b>	<b>779,901</b>
TES Holding, S.A. de C.V. (El Salvador)	50,781				(3,698)	47,083
Grupo Telefónica Móviles México	183,631		47,564		(7,985)	223,210
Mexican company subsidiaries	115,673				(8,729)	106,944
TCG Holdings, S.A. (Guatemala)	32,161				(1,301)	30,860
Telefónica Móviles Panamá, S.A.			305,146		(32,303)	272,843
Telefónica Móviles Guatemala y Cía., S.C.A.			32,147		(4,669)	27,478
Telefonía Celular de Nicaragua, S.A.			76,653		(5,170)	71,483
<b>Andean region</b>	<b>2,265</b>	<b>719,284</b>	<b>771,385</b>		<b>(52,879)</b>	<b>1,440,055</b>
Telefónica Móviles Perú Holding, S.A.	2,265				(49)	2,216
Telcel, C.A. (Venezuela)			491,124		(9,762)	481,362
Olympic, Ltd. (Colombia)		719,284	(183,190)		5,216	541,310
Otecel, S.A. (Ecuador)			451,372		(47,502)	403,870
Comunicaciones Móviles Perú, S.A.			12,079		(782)	11,297
<b>Southern cone</b>			<b>523,225</b>		<b>10,624</b>	<b>533,849</b>
Telefónica Móvil de Chile, S.A.			512,399		11,151	523,550
Telefónica Móviles Uruguay, S.A.			10,826		(527)	10,299
<b>Total goodwill</b>	<b>871,020</b>	<b>719,284</b>	<b>1,870,321</b>	<b>(70,675)</b>	<b>(101,385)</b>	<b>3,288,565</b>

Based on the estimates and projections available to them, the directors consider that future earnings attributable to the Group from investments in companies with goodwill balances at year-end 2005 will be at least equal to the net book value of the related goodwill carried.

Goodwill generated from the acquisition of foreign companies is treated as an asset denominated in the currency of the acquiree and is therefore subject to exchange rate differences, which are included under Translation differences.

Changes in consolidation scope in 2005 related to the incorporation of the BellSouth operators in Chile and Argentina in the consolidation scope.

In 2005, 115,391 thousand euros were reclassified mainly as a result of the write-up in the carrying amount of the licenses of Tele Centro Oeste Celular Participações, S.A. in the wake of the fair value recognition of the acquired assets when further participations in this subsidiary were acquired (see Note 4).



**Table of Contents****Telefónica Móviles, S.A.**

In 2004, Increases relates primarily to the incorporation of Telefónica Móvil de Chile, S.A. into the consolidation scope and the operators acquired from BellSouth, as well as the higher shareholdings in the Brazilian operators as a result of the public takeover bids (see Note 2d).

In 2004, 70,675 thousand euros were reclassified mainly as a result of the write-up in the carrying amount of the assets of Tele Centro Oeste Celular Participações, S.A. in the wake of the fair value recognition of the acquired assets when further participations in this subsidiary were acquired (see Note 4).

The Company uses the projections for the various cash-generating units to which goodwill is allocated to carry out its impairment tests, applying forecasted growth rates which are extrapolated at a constant rate from when the cash flows are deemed to be stable. The discount rate is adjusted for country and business risk, as appropriate. These tests are performed annually and when there are indications that the recoverable amount of goodwill may be impaired.

**6) PROPERTY, PLANT AND EQUIPMENT**

The detail of the movement of property, plant and equipment and related depreciation in 2005 and 2004 are as follows:

Thousands of euros							
	Balance at 12/31/04	Additions	Disposals	Changes in consolidation scope	Translation differences	Transfers	Balance at 12/31/05
<b>Cost:</b>							
Land and buildings	1,320,024	13,219	(6,007)	52,739	154,972	141,624	1,676,571
Plant and machinery	9,265,694	161,413	(206,615)	56,711	1,333,743	1,275,536	11,886,482
Data processing equipment	595,720	83,284	(11,288)	6,272	74,902	27,642	776,532
Furniture, tools and other items	435,500	379,603	(18,109)	37,246	88,490	(220,191)	702,539
Work-in-progress	700,988	1,246,637	(331)	2,004	116,543	(1,279,398)	786,443
Advances on PP&E	5,762	5,774	(11)		622	(7,690)	4,457
<b>Gross PP&amp;E</b>	<b>12,323,688</b>	<b>1,889,930</b>	<b>(242,361)</b>	<b>154,972</b>	<b>1,769,272</b>	<b>(62,477)</b>	<b>15,833,024</b>
<b>Accumulated depreciation:</b>							0
Buildings	(410,604)	(164,920)	3,834		(56,987)	12,018	(616,659)
Plant and machinery	(5,635,948)	(1,244,879)	187,042		(879,328)	(17,614)	(7,590,727)
Data processing equipment	(441,826)	(82,184)	10,773		(53,725)	21,141	(545,821)
Furniture, tools and other items	(155,754)	(95,292)	16,096		(59,032)	18,752	(275,230)
<b>Total accumulated depreciation</b>	<b>(6,644,132)</b>	<b>(1,587,275)</b>	<b>217,745</b>		<b>(1,049,072)</b>	<b>34,297</b>	<b>(9,028,437)</b>
<b>Provisions for impairment</b>	<b>(35,816)</b>	<b>(14,765)</b>	<b>5,863</b>		<b>(4,577)</b>	<b>(6,191)</b>	<b>(55,486)</b>

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Net PP&E	5,643,740	287,890	(18,753)	154,972	715,623	(34,371)	6,749,101
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Thousands of euros

	Balance at 01/01/04	Additions	Disposals	Changes in consolidation scope	Translation differences	Transfers	Balance at 12/31/04
<b>Cost:</b>							
Land and buildings	951,612	54,358	(1,455)	203,497	(14,049)	126,061	1,320,024
Plant and machinery	7,857,718	164,776	(71,800)	690,452	(96,708)	721,256	9,265,694
Data processing equipment	504,883	35,227	(6,059)	47,165	(4,271)	18,775	595,720
Furniture, tools and other items	285,223	271,847	(4,564)	48,229	(7,185)	(158,050)	435,500
Work-in-progress	545,434	817,868	(3,095)	101,328	(20,662)	(739,885)	700,988
Advances on PP&E	3,942	555	(1)	1,173	(176)	269	5,762
<b>Gross PP&amp;E</b>	<b>10,148,812</b>	<b>1,344,631</b>	<b>(86,974)</b>	<b>1,091,844</b>	<b>(143,051)</b>	<b>(31,574)</b>	<b>12,323,688</b>
<b>Accumulated depreciation:</b>							
Buildings	(302,264)	(80,405)	807		1,656	(30,398)	(410,604)
Plant and machinery	(4,868,783)	(893,531)	57,379		44,216	24,771	(5,635,948)
Data processing equipment	(383,800)	(68,312)	4,702		3,932	1,652	(441,826)
Furniture, tools and other items	(119,209)	(54,500)	3,410		4,723	9,822	(155,754)
<b>Total accumulated depreciation</b>	<b>(5,674,056)</b>	<b>(1,096,748)</b>	<b>66,298</b>		<b>54,527</b>	<b>5,847</b>	<b>(6,644,132)</b>
<b>Provisions for impairment</b>	<b>(35,447)</b>	<b>787</b>	<b>1,182</b>		<b>1,449</b>	<b>(3,787)</b>	<b>(35,816)</b>
<b>Net PP&amp;E</b>	<b>4,439,309</b>	<b>248,670</b>	<b>(19,494)</b>	<b>1,091,844</b>	<b>(87,075)</b>	<b>(29,514)</b>	<b>5,643,740</b>

**Table of Contents****Telefónica Móviles, S.A.**

As in the case of intangible assets, the Company has measured property, plant and equipment acquired as part of the purchase of the BellSouth operators in order to allocate the corresponding portion of the purchase price to related assets, up to the limit of their market value.

Changes in consolidation scope in 2005 reflects the addition of the assets of BellSouth Chile and BellSouth Argentina (see Note 2d).

In 2004, Changes in consolidation scope comprises the incorporation of Telefónica Móvil de Chile, S.A. into the consolidation scope and the operators acquired from BellSouth (see Note 2d).

In both 2005 and 2004, the amounts recorded under Additions relate primarily to network capacity expansion and rollout by the Móviles Group operators.

Translation differences reflects the impact of exchange-rate movements on opening balances of assets at foreign subsidiaries. The effect of exchange rates on movements in the year is included in the corresponding columns.

The detail, at December 31, 2005 and 2004, of the property, plant and equipment owned by consolidated Group subsidiaries located abroad is as follows:

	Thousands of euros	
	12/31/05	12/31/04
Cost	9,193,181	6,334,541
Accumulated depreciation and impairment	(4,351,593)	(2,441,541)
<b>Total</b>	<b>4,841,588</b>	<b>3,893,000</b>

The following items in use had been fully depreciated:

	Thousands of euros	
	12/31/05	12/31/04
Buildings	51,653	46,929
Plant and machinery	3,922,793	2,457,893
Data processing equipment	411,693	317,020

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Furniture, tools and other items	116,517	568,657
<b>Total</b>	<b>4,502,656</b>	<b>3,390,499</b>

The detail of Telefónica Móviles Group property, plant and equipment under finance leases is as follows:

	Thousands of euros	
	12/31/05	12/31/04
Land and buildings	20,100	16,438
Plant and machinery	65,701	
Data processing equipment	14,049	10,694
Furniture, tools and other items	1,576	1,095
<b>Cost</b>	<b>101,426</b>	<b>28,227</b>
Accumulated depreciation	(39,011)	(6,968)
<b>Total</b>	<b>62,415</b>	<b>21,259</b>

Group company policy is to take out insurance policies to reasonably cover the possible risks to which their property, plant and equipment are subject.



**Table of Contents****Telefónica Móviles, S.A.****7) FINANCIAL ASSETS***Non-current financial assets*

The detail of non-current financial assets and the corresponding impairment provisions at December 31, 2005 and 2004 are as follows:

Thousands of euros								
	Other shareholdings	Loans to Telefónica Group companies (Note 11)	Other loans	Derivative financial assets	Deposits and guarantees	Other non- current financial assets	Impairment losses	Total
<b>Balance at 01/01/04</b>	<b>5,851</b>	<b>1,206,118</b>	<b>61,300</b>	<b>92,573</b>	<b>486,882</b>	<b>27,660</b>	<b>(3,357)</b>	<b>1,877,027</b>
Increases	966	229,617	120,086		6,885	8,587	(49,995)	316,146
Decreases	(803)	(2,248)	(5,102)	(2,465)	(70,325)	(5,902)		(86,845)
Changes in consolidation scope			268		1,553	8,905		10,726
Translation differences	83	(46,996)	(9,272)	(10,122)	173	(676)		(66,810)
Fair value restatements		35,722		(1,908)				33,814
Transfers	4,852	958,937	97	(14,526)		(179)	(14)	949,167
<b>Balance at 12/31/04</b>	<b>10,949</b>	<b>2,381,150</b>	<b>167,377</b>	<b>63,552</b>	<b>425,168</b>	<b>38,395</b>	<b>(53,366)</b>	<b>3,033,225</b>
Increases	2,077	166,980	29,447	2,714	6,130	19,443	(2,853)	223,938
Decreases	(1,615)	(518,516)	(81,576)		(69,657)	(14,788)	1,923	(684,229)
Changes in consolidation scope						242		242
Translation differences	6,222	6,203	25,557	1,152	4,292	2,598	(12,880)	33,144
Fair value restatements				(1,706)				(1,706)
Transfers	43,739	(877,063)	(12,619)	(50,942)	10,616	(20,374)	(328,818)	(1,235,461)
<b>Balance at 12/31/05</b>	<b>61,372</b>	<b>1,158,754</b>	<b>128,186</b>	<b>14,770</b>	<b>376,549</b>	<b>25,516</b>	<b>(395,994)</b>	<b>1,369,153</b>

At December 31, 2004, Other loans included 60,945 thousand euros of convertible promissory notes in the Puerto Rican operator Newcomm Wireless Services, Inc. which Telefónica Móviles carried through its subsidiary TEM Puerto Rico, Inc. In 2005, this balance was transferred to the Other shareholdings column when the aforementioned promissory notes were converted into 49.9% of the investee's share capital. In addition, the Móviles Group diluted its shareholding from 49.9% to 49.3% when it did not participate in the capital increase carried out by Newcomm Wireless Services, Inc in August 2005. In light of this operator's financial situation, an impairment loss of 46,632 thousand euros was recognized in 2004.

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Derivative financial assets reflect the fair value of derivatives used to hedge assets or liabilities whose maturity is 12 months or greater, as part of the Group's financial risk hedging strategy (see Note 13).

Deposits and guarantees relates primarily to balances to cover IPSE 2000, S.p.A. guarantees amounting to 335,452 thousand and 400,866 thousand euros at December 31, 2005 and 2004, respectively. These deposits will decrease as the respective obligations they are guaranteeing are reduced (see Note 17). At December 31, 2005, the Group had provisioned the deposits held in connection with the IPSE 2000, S.p.A. guarantees (see Note 10).

### *Current financial assets*

This heading in the consolidated balance sheets includes mainly the following:

Current investments of cash surpluses at Group companies, which amounted to 134,783 thousand euros (181,798 thousand euros at December 31, 2004) and investment of loans proceeds totaling 140,161 thousand euros (525,477 thousand euros at December 31, 2004).

Derivative financial assets amounting to 51,778 thousand euros (12,425 thousand euros at December 31, 2004).

Loans to Telefónica Group companies amounting to 940,095 thousand euros (399,921 thousand euros at December 31, 2004) which are detailed in Note 11.

**Table of Contents****Telefónica Móviles, S.A.**

At December 31, 2005, the Group had recorded current financial asset impairment provisions, corresponding mainly to the 351,028 thousand euro provision on loans made to IPSE 2000, S.p.A. (See Note 10).

Given the short-term maturity of the assets described above, their fair value is similar to their carrying amounts.

**Cash and cash equivalents**

Cash and cash equivalents at December 31, 2005 and 2004 comprise mainly cash on hand and at banks, demand deposits and other highly liquid investments that mature in less than three months.

In addition, this heading includes the cash balances at the Telefónica Group companies, Telefonía y Finanzas, S.A. (Telfisa), Fisatel México, S.A. de C.V. and Telefónica Finanzas Perú S.A.C., arising on transfers to and from the banks with which Telefónica Group has current accounts. At December 31, 2005, the balance outstanding with the aforementioned Group companies amounted to 1,744,537 thousand euros (1,396,227 thousand euros at December 31, 2004) (see Note 11).

**8) INVESTMENTS IN ASSOCIATES**

The detail of associates and key financial highlights is the following:

2005

COMPANY	Thousands of euros				
	Total assets	Total liabilities	Ordinary income	Profit (loss) for the year	Goodwill
IPSE 2000, S.p.A.(1)	42,255	1,033,588		(1,223,389)	
Medi Telecom, S.A.	1,154,920	991,359	390,584	26,434	9,822
Mobipay España, S.A.	3,171			(4,791)	
<b>TOTAL</b>	<b>1,200,346</b>	<b>2,024,947</b>	<b>390,584</b>	<b>(1,201,746)</b>	<b>9,822</b>

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- (1) Losses at IPSE S.p.A. in 2005 include the full write-off of the license that had already been partially written down to 136,787 thousand euros in previous years.

2004

Thousands of euros					
COMPANY	Total assets	Total liabilities	Ordinary income	Profit (loss) for the year	Goodwill
IPSE 2000, S.p.A.	797,677	724,883	558	(61,838)	
Medi Telecom, S.A.	1,144,379	1,010,523	324,808	(26,881)	9,575
Mobipay España, S.A.	15,905	7,943	2,919	(4,611)	
Mobipay Internacional, S.A.	4,146	431		(1,024)	
<b>TOTAL</b>	<b>1,962,107</b>	<b>1,743,780</b>	<b>328,285</b>	<b>(94,354)</b>	<b>9,575</b>

The detail of the movements in Investments in associates in 2005 and 2004 were as follows:

Thousands of euros						
	Balance at 12/31/04	Profit (loss)	Increases	Translation differences	Transfers	Balance at 12/31/05
IPSE 2000, S.p.A.	32,757	(160,770)	101,918		26,095	
Medi Telecom, S.A.	43,075	8,506		1,196	(143)	52,634
Mobipay España, S.A.	883	(640)			180	423
Other companies		(1,302)	773	(63)	1,095	503
<b>Total</b>	<b>76,715</b>	<b>(154,206)</b>	<b>102,691</b>	<b>1,133</b>	<b>27,277</b>	<b>53,560</b>

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**Table of Contents****Telefónica Móviles, S.A.**

	Thousands of euros					Balance at 12/31/04
	Balance at 01/01/04	Profit (loss)	Increases	Translation differences	Transfers	
IPSE 2000, S.p.A.	79,221	(28,192)	76,769		(95,041)	32,757
Medi Telecom, S.A.	52,252	(8,650)	(243)	(284)		43,075
Mobipay International, S.A.	2,158	(512)	3,252		(4,898)	
Mobipay España, S.A.	996	(616)	503			883
Other companies		(164)	69	95		
<b>Total</b>	<b>134,627</b>	<b>(38,134)</b>	<b>80,350</b>	<b>(189)</b>	<b>(99,939)</b>	<b>76,715</b>

In 2005, Ipse 2000, S.p.A. fully provisioned the unamortized balance of its license, setting the carrying amount of its investment to zero (See Note 19). The net loss taken by the Móviles Group in connection with IPSE 2000, S.p.A. in 2005 is 136,787 thousand euros, which corresponded to its net exposure to this associate investment.

Transfers in 2005 and 2004 include the transfer of 26,095 thousand and 95,041 thousand euros, respectively, related to the provision for liabilities and charges allocated to IPSE 2000, S.p.A., since this associate had recorded certain concepts in its statutory accounts that had already been previously provisioned by Telefónica Móviles (see Note 10).

In 2004 Transfers includes Mobipay International, S.A. which went from being consolidated under the equity method to being proportionally consolidated (See Note 2d).

**9) EQUITY**

The detail of the movement of equity accounts in 2005 and 2004 is as follows:

	Thousands of euros						
	Share capital	Share premium	Reserves	Translation differences	Total	Minority interests	Total equity
<b>Balance at January 1, 2004</b>	<b>2,165,275</b>	<b>151,764</b>	<b>541,979</b>		<b>2,859,018</b>	<b>359,411</b>	<b>3,218,429</b>
Dividends			(795,956)		(795,956)		(795,956)

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Purchases and sales of minority interests					(75,558)	(75,558)	
Income and expense recognized in the year			1,676,532	(196,141)	1,480,391	(7,250)	1,473,141
<b>Balance at December 31, 2004</b>	<b>2,165,275</b>	<b>151,764</b>	<b>1,422,555</b>	<b>(196,141)</b>	<b>3,543,453</b>	<b>276,603</b>	<b>3,820,056</b>
Dividends			(835,797)		(835,797)		(835,797)
Purchases and sales of minority interests						182,411	182,411
Income and expense recognized in the year			1,934,783	1,103,613	3,038,396	41,389	3,079,785
<b>Balance at December 31, 2005</b>	<b>2,165,275</b>	<b>151,764</b>	<b>2,521,541</b>	<b>907,472</b>	<b>5,746,052</b>	<b>500,403</b>	<b>6,246,455</b>

*a) Share capital and share premium*

2005

Share capital at December 31, 2005 consisted of 4,330,550,896 fully subscribed and paid ordinary shares of a single series and 0.5 euros par value each, all recorded by the book-entry system and traded on the Spanish continuous market, on the four Spanish Stock Exchanges (Madrid, Barcelona, Valencia and Bilbao) and on the New York Stock Exchange.

**Table of Contents****Telefónica Móviles, S.A.**

At its General Shareholders Meeting on May 6, 2005, Telefónica Móviles shareholders voted in favor of a gross interim dividend against 2004 income of 0.193 euros per outstanding share. The dividend was paid on June 15, 2005. At the same shareholders meeting, approval was given to take the remaining 18,582 thousand euros in profit to voluntary reserves.

The following were among the motions voted on at the General Shareholders Meeting on May 6, 2005.

Authorization was given to the Board of Directors for the derivative acquisition of its own shares, in accordance with the limits, terms and conditions established at the Shareholders Meeting, within a maximum period of 18 months from that date, provided that the par value of the shares acquired, added to that of the treasury shares already held by the Company or its subsidiaries, does not exceed 5% of share capital. It was specifically stated at the shareholders meeting that the authorization could be totally or partially used to acquire shares of Telefónica Móviles which it is obliged to deliver or transfer to managers or employees of the Group's companies or subsidiaries when they exercise their options within the context of share-based payment systems.

At December 31, 2005, the company had an insignificant number of treasury shares (1,599) which were acquired under the MOS Program (see Note 18). These shares will either be delivered to beneficiaries who exercise their options at a future date or amortized in accordance with the Company's commitments. Under IFRS, treasury shares are netted from equity on the consolidated balance sheet.

The shareholder structure of Telefónica Móviles, S.A. at December 31, 2005 is as follows:

<u>Shareholder</u>	<u>Number of Shares</u>	<u>% Shareholding</u>
Telefónica S.A.	3,075,983,129	71.03%
Telefónica Internacional, S.A.	927,917,620	21.43%
Other shareholders	326,650,147	7.54%
<b>Total at 12/31/2005</b>	<b>4,330,550,896</b>	<b>100.00%</b>

2004

Share capital at December 31, 2004, consisted of 4,330,550,896 fully subscribed and paid ordinary shares of a single series and 0.5 euros par value each, all recorded by the book-entry system and traded on the Spanish continuous market, on the four Spanish Stock Exchanges (Madrid, Barcelona, Valencia and Bilbao) and on the New York Stock Exchange.

At its General Shareholders Meeting on April 16, 2004, Telefónica Móviles shareholders voted in favor of a gross cash dividend against 2003 profit of 0.1838 euros per outstanding share. The dividend was paid on June 16, 2004. At the same shareholders meeting, approval was given to

take the remaining 470,730 thousand euros in profit to voluntary reserves.

The following resolution was among those adopted at the General Shareholders Meeting on April 16, 2004:

Authorization was given to the Board of Directors for the derivative acquisition of its own shares, in accordance with the limits, terms and conditions established at the Shareholders Meeting, within a maximum period of 18 months from that date, provided that the par value of the shares acquired, added to that of the treasury shares already held by the Company or its subsidiaries, does not exceed 5% of share capital. It was specifically stated at the shareholders meeting that the authorization could be totally or partially used to acquire shares of Telefónica Móviles which it is obliged to deliver or transfer to managers or employees of the Group's companies or subsidiaries when they exercise their options within the context of share-based payment systems.

At December 31, 2004, the company had an insignificant number of treasury shares (496), acquired within the context of the partial execution of the MOS Program (see Note 18). These shares will either



**Table of Contents****Telefónica Móviles, S.A.**

be delivered to beneficiaries who exercise their options at a future date or amortized in accordance with the Company's commitments. Under IFRS, treasury shares are netted from equity on the consolidated balance sheet.

The shareholder structure of Telefónica Móviles, S.A. at December 31, 2004 was as follows:

Shareholder	Number of Shares	% Shareholding
Telefónica S.A.	3,075,983,129	71.03%
Telefónica Internacional, S.A.	927,917,620	21.43%
Other shareholders	326,650,147	7.54%
<b>Total at 12/31/2004</b>	<b>4,330,550,896</b>	<b>100.00%</b>

***b) Translation gains and losses taken to equity***

Translation differences relate mainly to the effect of exchange rate fluctuations on the net assets of the companies located abroad. Gains of 1,103,613 thousand euros were recorded for this concept in 2005, while losses of 196,141 thousand euros were taken in 2004.

These amounts also include exchange rate differences resulting from specific-purpose foreign-currency financing transactions relating to investments in investees and which hedge the exchange rate risk on these investments (see Note 3c). These transactions resulted in losses of 120,093 thousand and 8,151 thousand euros in 2005 and 2004, respectively.

***c) Reserves in consolidated companies***

The movement in this heading corresponds to the prior year's retained earnings.

***d) Legal reserve***

Under Spanish Corporation Law, 10% of income for each year must be transferred to the legal reserve until the balance of this reserve is equivalent to at least 20% of share capital. The legal reserve can be used to increase capital to the extent that it exceeds 10% of increased share capital. With the exception of the above, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses provided other

reserves are insufficient for this purpose.

At December 31, 2005, the Group's parent company had met in full its legal reserve requirements, totalling 433,055 million euros under Other reserves on the accompanying consolidated balance sheet.

*e) Legislation regulating the sale of holdings*

Following the modification of Law 5/1995, of March 23, regarding the legal regime for selling publicly-owned holdings in certain companies, introduced in Law 62/2003, of December 30, (Law accompanying the State Budget Law) effective until February 18, 2007, there is administrative intervention (requirement to notify the Spanish government which in turn has a veto right) on the disposal or encumbrance of Telefónica Móviles shares representing at least 10% of its share capital, with an exception to this notification requirement where shares representing 10% or more of Telefónica Móviles S.A.'s share capital are acquired for purely financial purposes and not with the aim of taking control over the company, including management control.

In addition, the acquisition of significant holdings in Telefónica Móviles share capital is subject to the significant holdings disclosure requirements contained in Royal Decree 377/1991, of March 15, amended by Royal Decree 2590/1998, of December 7, regarding modifications to securities markets legislation.

**Table of Contents****Telefónica Móviles, S.A.***f) Proposed appropriation of profit attributable to equity holders of the parent*

The Board of Directors will propose the following appropriation of income at the General Shareholders Meeting:

	<b>Thousands of euros</b>
<b>Profit for the year</b>	<b>783,938</b>
Appropriation of profit to:	
dividends	783,938

At the General Shareholders Meeting, the Board of Directors will also propose the payment of an additional dividend of 103,825 thousand euros from Voluntary reserves .

*g) Minority interests*

The amounts recorded under Minority interests represent the direct and indirect shareholdings of the Group's minority shareholders in the equity of the following companies:

	<b>12/31/05</b>	<b>12/31/04</b>
Group 3G UMTS Holding, GmbH	42.80%	42.80%
Telefónica Móviles Perú Holding, S.A.	2.03%	2.03%
Telefónica Móviles Argentina, S.A.		2.07%
Telefónica Móviles México, S.A. de C.V.		8.00%
Brasilcel, N.V. subsidiaries		
Tele Sudeste Celular Participações, S.A.	4.50%	4.56%
Tele Leste Celular Participações, S.A.	24.66%	24.96%
Celular CRT Participações, S.A.	16.69%	17.03%
Telesp Celular Participações, S.A.	16.96%	17.44%
Tele Centro Oeste Celular Participações, S.A.	32.66%	33.51%
Telefónica Móviles Panamá, S.A.	0.02%	0.43%
Telefónica Móviles Perú, S.A.(*)	0.15%	0.15%
Sistemas Timetrac, C.A.	25.00%	25.00%

(\*) A company resulting from the merger between Comunicaciones Móviles Perú and Telefónica Móviles Perú SAC.

The detail of the movements in minority interests in 2005 and 2004, broken down by subsidiary:

## Thousands of euros

	<b>Balance at 12/31/04</b>	<b>Changes in consolidation scope</b>	<b>Profit (loss)</b>	<b>Translation differences</b>	<b>Increases</b>	<b>Transfers</b>	<b>Other movements</b>	<b>Balance at 12/31/05</b>
Brasilcel, N.V. subsidiaries	279,370		(1,209)	78,671	144,485		(8,681)	492,636
Telefónica Móviles Perú Holding, S.A.	4,024		(4)	186	(93)			4,113
Telefónica Móviles Argentina, S.A.	(10,843)		(124)	(1,594)			12,561	
Telefónica Móviles México, S.A. de C.V. and subsidiaries	675		(34,202)	(187)			34,676	962
Telefónica Móviles Panamá, S.A.	414		1	177			(567)	25
Telefónica Móviles Perú, S.A.	(15)		(1)	(87)	55			(48)
Sistemas Timetrac, C.A.	2,293		615	(93)				2,815
Other companies, net	685		(317)	(443)			(25)	(100)
<b>Total</b>	<b>276,603</b>		<b>(35,241)</b>	<b>76,630</b>	<b>144,447</b>		<b>37,964</b>	<b>500,403</b>

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**Table of Contents****Telefónica Móviles, S.A.**

Thousands of euros

	<b>Balance at 01/01/04</b>	<b>Changes in consolidation scope</b>	<b>Profit (loss)</b>	<b>Translation differences</b>	<b>Increases</b>	<b>Transfers</b>	<b>Other movements</b>	<b>Balance at 12/31/04</b>
Brasilcel, N.V. subsidiaries	361,538		43,103	4,783	4,245	6,590	(140,889)	279,370
Telefónica Móviles Perú Holding, S.A.	4,396		(292)	(80)				4,024
Telefónica Móviles Argentina, S.A.	(10,240)		(1,669)	1,066				(10,843)
Telefónica Móviles México, S.A. de C.V. and subsidiaries	1,684		(55,119)	2,304			51,806	675
Telefónica Móviles Panamá, S.A.		420	23	(29)				414
Telefónica Móviles Perú, S.A.		(12)	(4)	1				(15)
Sistemas Timetrac, C.A.		2,282	93	(82)				2,293
Other companies, net	2,033		(1,377)	29				685
<b>Total</b>	<b>359,411</b>	<b>2,690</b>	<b>(15,242)</b>	<b>7,992</b>	<b>4,245</b>	<b>6,590</b>	<b>(89,083)</b>	<b>276,603</b>

In 2004, Other movements includes the increase in Brasilcel, N.V.'s shareholding in various Brazilian subsidiaries, as detailed in Note 2d.

Group 3G UMTS Holdings GmbH minority interests recorded at December 31, 2004 and 2005 totaled 382,442 thousand euros (debit balance) and were fully provisioned for. This interest is presented on a net basis for presentation purposes.

**10) PROVISIONS**

The detail of the movements in Non-current provisions in 2005 and 2004 is as follows:

	<b>Thousands of euros</b>
<b>Balance at January 1, 2004</b>	<b>813,538</b>
Increases	82,020
Decreases	(104,051)
Changes in consolidation scope	35,675
Transfers	516
Translation differences	(8,249)
<b>Balance at December 31, 2004</b>	<b>819,449</b>

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Increases	52,650
Decreases	(63,209)
Changes in consolidation scope	3,350
Transfers	(619,507)
Translation differences	16,634
	<hr/>
<b>Balance at December 31, 2005</b>	<b>209,367</b>
	<hr/>

Provisions include the estimated amounts required to cover the company's probable or certain obligations arising from litigation underway, indemnifications or pending commitments.

In 2005, when the Italian Government informed Ipse 2000, S.p.A. of its decision to revoke the UMTS license granted to it in 2000, Ipse 2000, S.p.A. provisioned the entire unamortized carrying amount of its license, and this investment was completely written-off in the Group's balance sheet (see Notes 7 and 19).

The movement in non-current provisions in 2005 reflects the impact of allocating the 632,396 thousand euros impairment loss recognized at December 31, 2004, on its investment in Ipse 2000, S.p.A. corresponding to loans and guarantees provided by Móviles Group companies, recorded under Non-current financial assets and Current financial assets (see Note 7).

**Table of Contents****Telefónica Móviles, S.A.**

This heading also includes provisions related to the dismantling and relocation of assets by Group companies (see Note 3e) and other litigation and claims related provisions.

Given the nature of the risks covered by these provisions, it is not possible to determine a reliable schedule of potential payments.

**11) RELATED PARTY TRANSACTIONS**

Related party transactions are as follows:

**11.a) Accounts and transactions with Telefónica Group companies**

The detail of payables and receivables with Telefónica Group companies and associates at December 31, 2005 and 2004 are as follows:

	Thousands of euros			
	2005		2004	
	Receivables	Payables	Receivables	Payables
Telefónica, S.A.	1,670,521	11,110,402	2,392,237	11,134,763
Telefónica de España, S.A.	114,453	111,253	208,730	96,191
Telefónica Internacional, S.A.	6,951	7,124	15,531	308,300
Telefónica Internacional Chile, S.A.		306,015		
Telefónica Investigación y Desarrollo, S.A.		7,678	787	20,687
T. Servicios Integrales de Distribución		6,993		
Telecomunicações de Sao Paulo, S.A.	37,791	21,486	24,537	44,682
Telefónica Finanzas, S.A. (Telfisa)	1,580,706	272,255	1,415,244	300,649
Teleinformática y Comunicaciones, S.A. (TELYCO)	13,864	7,708	19,053	9,188
Telefónica Soluciones de Informática y Com de España	224	29,904		
Atento Group	523	18,992	659	11,663
Ipse 2000, S.p.A.	351,028		313,694	
Telefónica Argentina, S.A.	640	6,901		
Telefónica del Perú, S.A.	21,735	22,293	21,820	33,524
Medi Telecom, S.A.	78,189	384	74,169	
Brasilcel Group	18,631	629	14,275	533
Fisatel Mexico, S.A. de C.V.	163,813		386	40,074
Compañía de Telecomunicaciones de Chile, S.A.	31,323	10,532	16,411	7,324

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Other Telefónica Group companies	43,989	43,864	37,026	53,991
<b>Total</b>	<b>4,134,381</b>	<b>11,984,413</b>	<b>4,554,559</b>	<b>12,061,569</b>

The detail of payables, by concept, is as follows:

	Thousands of euros			
	2005		2004	
	Current	Non-current	Current	Non-current
Loans and credit lines	3,422,307	6,455,667	1,836,566	7,837,452
Consolidated corporate income taxes payable	1,813,066		2,055,855	
Purchases of goods, services and other	293,373		331,696	
<b>Total</b>	<b>5,528,746</b>	<b>6,455,667</b>	<b>4,224,117</b>	<b>7,837,452</b>



**Table of Contents****Telefónica Móviles, S.A.**

The outstanding balances of loans and credit lines granted by Telefónica Group companies at December 31, 2005 and 2004 are as follows:

Company	Thousands of euros			
	2005		2004	
	Current	Non-current	Current	Non-current
Telefónica Móviles, S.A.				
Telfisa credit line in USD			14,979	
Telefónica, S.A. credit lines in euros	1,962,152	3,418,460	972,917	5,159,606
Telefónica, S.A. credit lines in USD	218,665	640,443	221,593	1,060,873
Telefónica, S.A. loan in euros	978,329	908,744	240,000	867,252
Telefónica, S.A. loan in USD	10,596	850,914	133,424	111,982
Other borrowings	215,131	82,820	173,569	91,840
Telefónica Móviles España, S.A.				
Telfisa-BEI loan in euros	27,274	77,156	37,851	102,875
Telfisa-BEI loan in USD		167,842		147,836
Telefónica, S.A. loan in euros		13,433		
Telefónica Móviles México, S.A. de C.V.				
Fisatel México, S.A. de C.V. credit line in MXN			40,074	
Inversiones Telefónica Móviles Holding Limitada				
Telefónica, S.A. loan in euros	10,160	295,855	1,757	295,188
Other			402	
<b>Total</b>	<b>3,422,307</b>	<b>6,455,667</b>	<b>1,836,566</b>	<b>7,837,452</b>

All of the loans and credit lines described above carry market interest rates. The average interest rate on the financing described above was 3.72% and 4.01% in 2005 and 2004 respectively.

In 2005 and 2004, 1,795,124 thousand and 1,477,429 thousand euros of outstanding borrowings with Telefónica Group companies was paid down. Meanwhile, the Telefónica Móviles Group financing in 2005 amounted to 1,703,307 thousand euros, mainly to finance the acquisition of the BellSouth operators in Chile and Argentina. In 2004, the Group drew down additional financing of 5,058,065 thousand euros, mainly to finance the acquisition of BellSouth's Latin American operators.

At December 31, 2005 and 2004, the Telefónica Group had granted credit lines amounting to 6,465 and 7,730 million euros, respectively. Of total credit lines extended at December 31, 2005, 985 million euros are dollar denominated while 42 million euros are denominated in Mexican pesos. Of total credit lines extended at December 31, 2004, 1,297 million euros were dollar denominated and 54 million euros were denominated in Mexican pesos.

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At December 31, 2005 and 2004, 6,239 million and 7,479 million euros of the aforementioned credit lines had been drawn down, respectively, of which 859 and 1,297 million euros, respectively, were dollar denominated. At December 31, 2004, 40 million euros of Mexican peso denominated credit lines had been drawn down. No peso denominated credit lines had been drawn down at December 31, 2005.

Unpaid accrued interest at December 31, 2005 and 2004 amounted to 53,513 and 31,789 thousand euros, respectively.

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**Table of Contents****Telefónica Móviles, S.A.**

The maturity profile of these borrowings at December 31, 2005 is as follows:

	<b>Thousands of euros</b>
2005	3,422,307
2007 - 2008	2,983,732
2009 - 2010	2,984,985
Subsequent years	486,950
<b>Total at December 31, 2005</b>	<b>9,877,974</b>

Telefónica Móviles, S.A. and Telefónica Móviles España, S.A. centralize all their cash balances at the Telefonía Group companies, Telefonía y Finanzas, S.A. (Telfisa), Fisatel México, S.A. de C.V. and Telefónica Finanzas Perú S.A.C., by means of transfers to and from the banks with which they have current accounts.

The main transactions with Telefónica Group companies and associates in 2005 were:

	<b>Thousands of euros</b>			
	<b>Net sales and services</b>	<b>Financial income</b>	<b>Financial expenses</b>	<b>Procurements and other expenses</b>
Telefónica, S.A.	1,266	28,407	510,960	44,348
Telefónica de España, S.A.	677,933			412,527
Telefónica Internacional, S.A.	346			1,245
Telefónica Internacional Chile, S.A.			10,458	
Telefónica Investigación y Desarrollo, S.A.	616			2,776
Telefónica Telecomunicaciones Públicas, S.A.	8,288			194
Telefónica Servicios Integrales de Distribución	91			46,954
Telecomunicações de Sao Paulo, S.A.	288,866			36,931
Telefonía y Finanzas, S.A. (Telfisa)	5	52,235	8,579	
Teleinformática y Comunicaciones, S.A.	274,700			49,870
Atento Group	2,240	2		133,764
Ipse 2000, S.p.A.		23,499		
Telefónica Argentina, S.A.	2,949			75,010
Telefónica del Perú, S.A.	98,236			32,339
Compañía de Telecomunicaciones de Chile, S.A.	76,345			20,184
ATCO Group	307			3,667
Telefónica Soluciones de Informática y Comunicaciones, S.L.	974			21,240
Medi Telecom, S.A.	919	2,800		2,267

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TIWS, S.L.	3,123			3,150
TPI	1,541			39
Fisatel México		4,303	5,879	
Other Telefónica Group companies	7,541	518	4	55,763
<b>Total</b>	<b>1,446,286</b>	<b>111,764</b>	<b>535,880</b>	<b>942,268</b>

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**Table of Contents****Telefónica Móviles, S.A.**

The main transactions with Telefónica Group companies and associates in 2004 were:

	Thousands of euros			
	Net sales and services	Financial income	Financial expenses	Procurements and other expenses
Telefónica, S.A.	710	8,010	315,698	41,030
Telefónica de España, S.A.	743,757			391,810
Telefónica Internacional, S.A.	189		3,046	101
Telefónica Investigación y Desarrollo, S.A.	427			11,248
Telefónica Telecomunicaciones Públicas, S.A.	31,763			283
Zeleris España, S.A.U.	130			39,459
Telecomunicações de Sao Paulo, S.A.	256,986			48,122
Telefonía y Finanzas, S.A. (Telfisa)	3	38,730	5,857	
Teleinformática y Comunicaciones, S.A.	286,249			40,674
Atento Group	1,517	13		76,557
Ipe 2000, S.p.A.		20,705		
Telefónica Argentina, S.A.	997			38,517
Telefónica del Perú, S.A.	84,178	90	299	22,480
Telefónica Gestión de Servicios Compartidos Group	115			14,537
Compañía de Telecomunicaciones de Chile, S.A.	12,203			7,219
Telefónica Soluciones de Informática y Comunicaciones, S.L. España	690			11,627
Medi Telecom, S.A.	616	2,857		
Other Telefónica Group companies	20,818	832	3,762	35,721
<b>Total</b>	<b>1,441,348</b>	<b>71,237</b>	<b>328,662</b>	<b>779,385</b>

In October 2000, the Company took over Telefónica Internacional, S.A.'s consulting services contract with the Brazilian companies Telerj Celular, S.A., Telest Celular, S.A., Telebahia Celular, S.A., Telergipe Celular, S.A. and Celular CRT, S.A., which gives it the right to receive a fee of between 1% and 2% of service revenues invoiced by these companies.

Within the framework of the joint venture agreements signed between Telefónica Móviles and Portugal Telecom, in 2004 both parties agreed to evenly split the amounts accruing to each group from their individual management agreements with their former Brazilian subsidiaries from January 1, 2003.

The Telefónica Móviles Group also has a management agreement with Medi Telecom, S.A. by virtue of which it receives a fee equivalent to 1% of Medi Telecom, S.A.'s gross revenues or 4.5% of profit before interest and tax, depending of the level of operating income generated by the Moroccan operator.

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Between January 1, 2002 and September 2004, Telefónica Móviles, S.A. provided operating management services to Newcomm Wireless Services, Inc. ( Newcomm ), pursuant to the subrogation by Telefónica Móviles, S.A. of Telefónica Larga Distancia de Puerto Rico, Inc. in its management contract with Newcomm.

### **11.b) Directors and senior executive compensation, other benefits and additional information**

#### *a) Directors compensation and other benefits*

The compensation of Telefónica Móviles, S.A.'s directors is governed by Article 20 of the Corporate bylaws, which states that the compensation paid by the Company to its directors shall be determined at the General Shareholders Meeting and shall remain in force until the Shareholders Meeting resolves to change it. The Board of Directors is responsible for setting the exact amount to be paid within the stipulated limits and distributing it among the directors.

On April 1, 2003, the Company's shareholders set the maximum gross annual amount to be paid to the Board of Directors at 2 million euros. This includes a fixed payment and fees for attending meetings of the Board

**Table of Contents****Telefónica Móviles, S.A.**

of Directors advisory or control committees. In 2004, in accordance with Article 25.b.5 of the Rules of the Board of Directors, the Appointments and Compensation Committee reviewed the compensation system for the Company's directors, which had not been revised since the Company was incorporated in 2000, with the exception of the modification to the fees for attending Audit and Compliance Committee sessions, and submitted a proposal to the Board of Directors to change said compensation system. On October 26, 2004, the Board of Directors resolved to revise the fixed annual amount to be paid as compensation to the members of the Board of Directors and the fees for attending the meetings of the other Board Committees, and to establish a fixed annual amount to be paid as compensation to the members of these Board Committees, all within the maximum limit set at the Shareholders Meeting on April 1, 2003.

Subsequently, on July 26, 2005, the Board of Directors resolved to appoint a Vice Chairman to the board and set the fixed compensation for this position.

Therefore, the compensation of Telefónica Móviles directors in their capacity as members of the Board of Directors and the advisory and control committees consists of a fixed amount payable monthly plus fees for attending the meetings of the Board's committees. Additionally, executive directors receive the corresponding amounts for discharging their executive duties as stipulated in their respective contracts.

2005

Total compensation paid to Telefónica Móviles directors in their capacity as members of the Board of Directors in 2005 was 1,984 thousand euros, 1,887 thousand euros in fixed compensation and 96 thousand euros in fees for attending Board committee meetings. In addition, certain directors were paid a total of 114 thousand euros for advisory services to the Company and 198 thousand euros in compensation for their roles as directors of other Telefónica Móviles Group companies.

In addition, the Executive Chairman, in his capacity of Company executive, was paid 1,423 thousand euros in salary and variable compensation, 63 thousand euros in compensation-in-kind, including life and health premiums plus housing allowance and 8 thousand euros in contributions to Company-sponsored pension plans.

The detail of the compensation and benefits received by the directors in 2005 is as follows:

i) **Board of Directors:** Fixed payment made to each director (in thousands of euros):

<u>Position</u>	<u>2005</u>
Chairman	120
Vice Chairman	200

Members, nominee directors and independent directors	120
Secretary	120

Directors receive no fees for attending Board meetings.

**ii) Board committees.**

a) Fixed payment in 2005 for each director forming part of one of the Board committees, by position (thousands of euros):

<u>Position</u>	<u>2005</u>
Chairman <sup>(1)</sup>	20
Members	10

(1) The Chairman of the Standing Committee does not receive fixed compensation.



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**Telefónica Móviles, S.A.**

b) Total fees paid to directors in 2005 for attending meetings of the Board committees (euros):

<u>Committee</u>	<u>2005</u>
Audit and Compliance Committee	Attendance fee/meeting: 1,250 Number of meetings: 11 Total paid: 35,000
Appointments and Compensation Committee	Attendance fee/meeting: 1,250 Number of meetings: 8 Total paid: 50,000
Standing Committee	Attendance fee/meeting: 1,250 Number of meetings: 1 Total paid: 11,250

iii) **Executive directors:** Total amounts paid to executive directors for carrying out their executive duties:

<u>Item</u>	<u>Thousands of euros</u>
Salary	762
Variable compensation	661
Compensation in kind <sup>(1)</sup>	63
Contributions to pension plans	8

(1) Includes life and health premiums plus housing allowance.

The executive directors, as directors of the Telefónica Móviles Group, are beneficiaries of the MOS stock option plan (see Note 18).

Additionally, it should be noted that the non-executive directors do not receive and did not receive in 2005 any compensation in the form of pensions or life insurance, nor do they participate in the shared-based compensation plans.

The Company does not grant and did not grant in 2005 any advances, loans or credits to the directors, or to its top executives, thereby complying with the requirements of the Sarbanes-Oxley Act passed in the U.S. which is applicable to Telefónica Móviles as a listed company in that market.

iv) **Telefónica Móviles S.A.'s senior executives (excluding the Executive Chairman):** Compensation amounting to approximately 8,044 thousand euros in 2005, broken down as follows:

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<u>Concept</u>	<u>Thousands of euros</u>
Fixed compensation	4,928
Variable compensation	2,830
Compensation in kind	172
Contributions to pension plans	114
<b>Total</b>	<b>8,044</b>

Of this compensation, 3,215 thousand euros corresponded to compensation of certain members of the Management Committee who run other Telefónica Móviles Group companies. In addition, certain members left the Management Committee in 2005. These individuals were paid a total of 1,421 thousand euros.

2004

Total compensation paid to Telefónica Móviles directors in their capacity as members of the Board of Directors in 2004 was 1,594 thousand euros: 1,473 thousand euros in fixed compensation, including compensation received for their presence on the Boards of other Telefónica Móviles Group companies and 121 thousand euros in fees for attending Board committee meetings. Certain directors also received compensation for advisory services provided to the Company, totaling 132 thousand euros.

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**Telefónica Móviles, S.A.**

In addition, the Executive Chairman, in his capacity of Company executive, was paid 1,299 thousand euros in salary and variable compensation, 60 thousand euros in compensation-in-kind, including life and health premiums plus housing allowance, and 8 thousand euros in contributions to Company-sponsored pension plans.

The detail of the compensation and benefits received by the directors in 2004 is as follows:

**i) Board of Directors:** Fixed payment paid to each director (in thousands of euros):

<u>Position</u>	<u>2004</u>
Chairman	98
Members, nominee directors and independent directors	98
Secretary	98

Directors receive no fees for attending Board meetings.

**ii) Board committees.**

a) Fixed payment for each director forming part of one of the Board committees in October, November and December 2004, by post (thousands of euros):

<u>Position</u>	<u>2004</u>
Chairman <sup>(1)</sup>	5
Members	2

(1) The Chairman of the Standing Committee does not receive fixed compensation.

b) Total fees paid to directors in 2004 for attending meetings of the Board committees (euros):

<u>Committee</u>	<u>2004</u>
Audit and Compliance Committee	Attendance fee/meeting (until 09/30/04): 1,352

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Appointments and Compensation Committee	Attendance fee/meeting (since 10/01/04): 1,250 Number of meetings: 12 Total paid: 39,852
Standing Committee	Attendance fee/meeting (until 09/30/04): 901 Attendance fee/meeting (since 10/01/04): 1,250 Number of meetings: 10 Total paid: 50,242 Attendance fee/meeting (until 09/30/04): 901 Attendance fee/meeting (since 10/01/04): 1,250 Number of meetings: 5 Total paid: 30,651

**iii) Executive directors:** Total paid to executive directors for carrying out their executive duties:

Item	Thousands of euros
Salary	698
Variable compensation	601
Compensation in kind <sup>(1)</sup>	60
Contributions to pension plans	8

(1) Includes life and health premiums plus housing allowance.

The executive directors, as directors of the Móviles Group, are beneficiaries of the MOS share option plan described in Note 18.

Additionally, it should be noted that the non-executive directors do not receive and did not receive in 2004 any compensation in the form of pensions or life insurance, nor do they participate in the shared-based compensation plans.

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The Company does not grant and did not grant in 2004 any advances, loans or credits to the directors, or to its top executives, thereby complying with the requirements of the Sarbanes-Oxley Act passed in the U.S. which is applicable to Telefónica Móviles as a listed company in that market.

**iv) Telefónica Móviles S.A. s senior executives (excluding the Executive Chairman):** Compensation amounting to approximately 3,992 thousand euros in 2004, broken down as follows:

<u>Concept</u>	<u>Thousands of euros</u>
Fixed compensation	2,806
Variable compensation	1,062
Compensation in kind	63
Contributions to pension plans	61
<b>Total</b>	<b>3,992</b>

Of this compensation, 2,607 thousand euros corresponded to compensation of certain members of the Management Committee who run other Telefónica Móviles Group companies. In addition, certain members left the Management Committee in 2004. These individuals were paid a total of 5,524 thousand euros in the form of salaries, variable compensation and severance pay.

*j) Detail of the equity interests in companies engaging in a similar activity and the performance of similar activities by the directors on their own behalf and on behalf of third parties*

Pursuant to Article 127 ter. 4 of the Spanish Corporation Law, introduced by Law 26/2003, which amends Securities Market Law 24/1988, and the revised Spanish Corporation Law, in order to reinforce transparency at listed corporations, Exhibit II to the accompanying consolidated financial statements details the companies engaging in an activity that is identical, similar or complementary to the corporate purpose of Telefónica Móviles, S.A., in which the members of the Board of Directors own equity interests, and of the functions, if any, that they perform in them.

**12) BORROWINGS**

The detail of borrowings in 2005 and 2004 is as follows:

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	Millions of euros	
	Balance at	Balance at
	12/31/05	12/31/04
Issues	746,842	138,003
Interest-bearing loans and borrowings	1,840,302	1,426,632
<b>Total</b>	<b>2,587,144</b>	<b>1,564,635</b>
Total non-current	1,531,434	668,151
Total current	1,055,710	896,484

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**Table of Contents****Telefónica Móviles, S.A.***Debenture and bond issues*

The detail of the movements in the debenture and bond issues in the years ended December 31, 2005 and 2004 were as follows:

	Thousands of euros
<b>Balance at January 1, 2004</b>	<b>132,920</b>
New issues	8,974
Redemptions, conversions and exchanges	1,259
Restatements and other movements	(5,150)
<b>Balance at December 31, 2004</b>	<b>138,003</b>
New issues	679,765
Redemptions, conversions and exchanges	31,474
Restatements and other movements	(102,400)
<b>Balance at December 31, 2005</b>	<b>746,842</b>
Maturity profile:	
Non-current	692,222
Current	54,620

The main issues in 2005 were:

*Telefónica Móviles México, S.A.*

Issue type	Date	Face value (thousands)	Currency	Maturity	Interest rate
Non-convertible bonds	September 2005	3,486,805	Mexican pesos	Non-current	9.64
Non-convertible bonds	September 2005	1,494,344	Mexican pesos	Non-current	9.25

*Brasilcel Group*

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<u>Issue type</u>	<u>Date</u>	<u>Face value (thousands)</u>	<u>Currency</u>	<u>Maturity</u>	<u>Interest rate</u>
Non-convertible bonds	May 2005	200,000	Brazilian reais	Non-current	103.3% CDI
Non-convertible bonds	May 2005	800,000	Brazilian reais	Non-current	104.20% CDI

The maturity profile of debenture and bond issues at December 31, 2005 is as follows:

	<u>Thousands of euros</u>
2006	54,620
2007	
2008	90,538
2009	
2010	231,948
Subsequent years	369,736
<b>Total at December 31, 2005</b>	<b>746,842</b>

	<u>Thousands of euros</u>
2005	9,425
2006	59,433
2007	
2008	69,145
2009	
Subsequent years	
<b>Total at December 31, 2004</b>	<b>138,003</b>



**Table of Contents****Telefónica Móviles, S.A.****Interest-bearing loans and borrowings**

The detail of this heading at December 31, 2005 and 2004 is as follows:

<b>Company</b>	<b>Thousands of Euros</b>	<b>Maturity</b>	
	<b>2005</b>	<b>Current</b>	<b>Non-current</b>
Telefónica Móviles España, S.A.	15,704	643	15,061
Telefónica Móviles, S.A.	233	233	
Brasilcel Group	868,730	369,123	499,607
TCG Holdings, S.A.	14,937	14,937	
Telefónica Móviles Argentina, S.A.	3,580	3,580	
Telefónica Móviles Perú Holding, S.A.	176,679	153,846	22,833
Telefónica Móviles México, S.A.	49,206	27,026	22,180
Telefónica Móviles Soluciones y Aplicaciones, S.A.	887	597	290
Telcel Group Venezuela	21,575	17,763	3,812
Olympic Group (Colombia)	479,083	355,653	123,430
Otecel, S.A. (Ecuador)	22,168	22,168	
Grupo TM Inversora Argentina, S.A.	32,718	32,718	
Grupo Telefónica Móviles Chile, S.A.	154,802	2,803	151,999
<b>Total</b>	<b>1,840,302</b>	<b>1,001,090</b>	<b>839,212</b>

<b>Company</b>	<b>Thousands of Euros</b>	<b>Maturity</b>	
	<b>2004</b>	<b>Current</b>	<b>Non-current</b>
Telefónica Móviles España, S.A.	84,795	855	83,940
Telefónica Móviles, S.A.	232	232	
Brasilcel Group	764,164	460,299	303,865
TES Holding, S.A. de C.V.	4,790	4,790	
TCG Holdings, S.A.	1,292	1,292	
Telefónica Móviles Argentina, S.A.	6,948	3,860	3,088
Telefónica Móviles Perú Holding, S.A.	7,165	672	6,493
Telefónica Móviles México, S.A.	52,729	27,853	24,876
Telefónica Móviles Puerto Rico, Inc.	5,635	5,635	
Telefónica Móviles Soluciones y Aplicaciones, S.A.	975	448	527
Telcel Group Venezuela	16,804	6,903	9,901
Comunicaciones Móviles de Perú, S.A.	147,776	147,776	
Olympic Group (Colombia)	328,467	221,582	106,885
Otecel, S.A. (Ecuador)	4,860	4,860	

<b>Total</b>	<u>1,426,632</u>	<u>887,057</u>	<u>539,575</u>
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All intra-Group loans carry market interest rates, and some contain covenants. At the date of preparation of the accompanying consolidated financial statements, all these covenants have been either fulfilled or renegotiated, as appropriate, with the corresponding financial entities.

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**Telefónica Móviles, S.A.**

The maturity profile of the Group's total borrowings:

**Thousands of euros**

Company	Maturity					Subsequent Years	Total
	2006	2007	2008	2009	2010		
Telefónica Móviles España, S.A.	643	15,061					15,704
Telefónica Móviles, S.A.	233						233
Brasilcel Group	369,123	456,171	32,825	4,297	4,175	2,139	868,730
TCG Holdings, S.A.	14,937						14,937
Telefónica Móviles Argentina, S.A.	3,580						3,580
Telefónica Móviles Perú Holding, S.A.	153,846	17,608	1,386	1,535	2,304		176,679
Telefónica Móviles México, S.A.	27,026	6,406	6,318	6,304	3,152		49,206
Telefónica Móviles Soluciones y Aplicaciones, S.A.	597	235	55				887
Telcel Group Venezuela	17,763	3,812					21,575
Olympic Group (Colombia)	355,653	20	123,200	14	15	181	479,083
Otecel, S.A. (Ecuador)	22,168						22,168
Grupo TM Inversora Argentina, S.A.	32,718						32,718
Grupo Telefónica Móviles Chile, S.A.	2,803					151,999	154,802
<b>Total at December 31, 2005</b>	<b>1,001,090</b>	<b>499,313</b>	<b>163,784</b>	<b>12,150</b>	<b>9,646</b>	<b>154,319</b>	<b>1,840,302</b>

**Thousands of euros**

Company	Maturity					Subsequent Years	Total
	2005	2006	2007	2008	2009		
Telefónica Móviles España, S.A.	855				45,680	38,260	84,795
Telefónica Móviles, S.A.	232						232
Brasilcel Group	460,299	133,312	86,141	75,442	3,426	5,544	764,164
TES Holding, S.A. de C.V.	4,790						4,790
TCG Holdings, S.A.	1,292						1,292
Telefónica Móviles Argentina, S.A.	3,860	3,088					6,948
Telefónica Móviles Perú Holding, S.A.A.	672	879	1,085	1,202	1,331	1,996	7,165
Telefónica Móviles México, S.A.	27,853	5,582	5,496	5,495	5,496	2,807	52,729
Telefónica Móviles Puerto Rico, Inc.	5,635						5,635
Telefónica Móviles Soluciones y Aplicaciones, S.A.	448	467	60				975
Telcel Group Venezuela	6,903	6,601	3,300				16,804
Comunicaciones Móviles de Perú, S.A.	147,776						147,776
Olympic Group (Colombia)	221,582	19	17	106,660	12	177	328,467
Otecel, S.A. (Ecuador)	4,860						4,860
<b>Total at December 31, 2004</b>	<b>887,057</b>	<b>149,948</b>	<b>96,099</b>	<b>188,799</b>	<b>55,945</b>	<b>48,784</b>	<b>1,426,632</b>

The Group purchases financial instruments to hedge its exchange rate risk (see Note 13). In markets where it is not possible to contract a derivative with the same characteristics and maturity as the loan being hedged, the Group's policy is to renew these derivatives until the hedged loan expires.

At December 31, 2005 and 2004 there were no credit lines other than those extended by the Telefónica Group companies which are detailed in Note 11.

**Table of Contents****Telefónica Móviles, S.A.**

The detail of loans in euros and foreign currency at December 31, 2005 and 2004, is as follows:

Company	Foreign Currency (Millions)	Thousands of Euros	Foreign Currency (Millions)	Thousands of Euros
	2005		2004	
<b>Brasilcel Group</b>				
Euros				225
USD	1,361	576,675	599	441,636
Brazilian reais	884	224,731	1,081	297,411
Yen	18,747	67,327	3,470	24,892
<b>TES Holding, S.A. de C.V.</b>				
USD			7	4,790
<b>TCG Holdings, S.A.</b>				
USD	17	14,223		
Quetzal	6	714	14	1,292
<b>Telefónica Móviles Mexico Group</b>				
USD	55	45,866	62	45,330
Mexican pesos	42	3,339	113	7,399
<b>Telefónica Móviles Perú Holding, S.A.</b>				
USD	209	176,678	10	7,165
<b>Telefónica Móviles Puerto Rico, Inc.</b>				
USD			8	5,635
<b>Telefónica Móviles Argentina, S.A.</b>				
USD	4	3,579	9	6,948
<b>Telefónica Móviles España, S.A.</b>				
USD	0,77	643	53	39,115
Euros	15	15,060	46	45,680
<b>Grupo Tmoviles Inversiones Argentina</b>				
Argentine pesos	117	32,719		
<b>Telefónica Móviles Soluciones y Aplicaciones, S.A.</b>				
Chilean pesos	537	886	739	975
<b>Otecel, S.A. (Ecuador)</b>				
USD	26	22,168	7	4,860
<b>Comunicaciones Móviles de Perú, S.A.</b>				
USD			202	147,776
<b>Grupo Olympic (Colombia)</b>				
USD	519	439,608	423	309,995
Colombian pesos	106,407	39,477	60,171	18,472
<b>Telefónica Móviles, S.A.</b>				
Euros		233		232
<b>Telefónica Móviles Chile Group</b>				
USD	183	154,802		
<b>Telcel Group Venezuela</b>				
USD	25	21,574	23	16,804
<b>Total</b>		<b>1,840,302</b>		<b>1,426,632</b>

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**Table of Contents****Telefónica Móviles, S.A.***Other financial commitments*

The detail of operating lease commitments and other payment commitments at December 31, 2005 and 2004, by maturity, is the following (thousands of euros):

<b>December 31, 2005</b>	<b>Total</b>	<b>Less than</b>			<b>Over</b>
		<b>1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>5 years</b>
Operating leases	1,477,103	213,382	425,007	266,662	572,052
Purchase commitments	562,294	560,137	2,157		
Other non-current commitments	50,236	47,685	2,100	264	187
<b>Total</b>	<b>2,089,633</b>	<b>821,204</b>	<b>429,264</b>	<b>266,926</b>	<b>572,239</b>

<b>December 31, 2004</b>	<b>Total</b>	<b>Less than</b>			<b>Over</b>
		<b>1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>5 years</b>
Operating leases	1,052,005	154,461	342,950	182,148	372,446
Purchase commitments	786,103	653,687	126,446	4,175	1,795
Other non-current commitments	303,035	75,324	113,954	113,758	
<b>Total</b>	<b>2,141,143</b>	<b>883,472</b>	<b>583,350</b>	<b>300,081</b>	<b>374,241</b>

**13) DERIVATIVE FINANCIAL PRODUCTS**

The Telefónica Móviles Group is exposed to various financial market risks as a result of (i) its ordinary business, (ii) debt taken on to finance its business, (iii) investments in companies, and (iv) other financial instruments related to the above.

As part of its risk management policy, the Group uses financial instruments to hedge the aforementioned risks. The main market risks affecting the Group are as follows:

## 1. Exchange rate risk

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Exchange rate risk arises mainly from Telefónica Móviles' international presence through investments and businesses in countries outside the Euro zone (primarily Latin America) and foreign currency-denominated debt in its countries of operations.

### 2. Interest rate risk

This arises from changes in (i) financial expenses on floating rate debt (or short-term debt likely to be renewed), due to changes in interest rates and (ii) the value of long-term liabilities at fixed interest rates (whose market value rises as interest rates fall).

Accounting policies take into account the derivative instruments permitted to hedge risks of this nature, as well as the method and time frequency applied to measure the hedge's effectiveness.

In accordance with the Group's accounting policies, hedge management is carried out on a dynamic basis, adapted to the variability of the aforementioned risks.

As previously indicated, in 2005 and 2004 the Group used derivatives both to limit interest rate risk and exchange rate risk on unhedged positions and to adapt its debt structure to market conditions.

At December 31, 2005 and 2004 the total outstanding balance of derivatives transactions acquired to hedge interest rate and exchange rate balance sheet risks was 9,355 million and 7,243 million euros, respectively, of which 2,593 million euros related to interest rate risk and 6,762 million euros to exchange risk at December 31, 2005. Hedging derivative transactions on interest and exchange rate risks amounted to 1,955 million euros and 5,288 million euros, respectively at December 31, 2004.



**Table of Contents****Telefónica Móviles, S.A.**

The detail of the Group's derivative portfolio by hedged risk and maturity at December 31, 2005 is as follows:

Thousands of euros	Fair value	Notional value				
		2006	2007	2008	Subsequent years	Total
<b>Interest rate hedges</b>	<b>767</b>	<b>73,392</b>	<b>25,719</b>	<b>25,719</b>	<b>195,253</b>	<b>320,083</b>
Cash flow hedges	1,686	25,719	25,719	25,719	195,253	272,410
Fair value hedges	(920)	47,673				47,673
<b>Exchange rate hedges</b>	<b>(2,195)</b>	<b>175,943</b>	<b>16,930</b>	<b>16,930</b>	<b>25,395</b>	<b>235,199</b>
Cash flow hedges	(2,195)	175,943	16,930	16,930	25,395	235,199
Fair value hedges						
<b>Interest and exchange rate hedges</b>	<b>105,497</b>	<b>244,570</b>	<b>284,604</b>	<b>13,352</b>	<b>85,159</b>	<b>627,685</b>
Cash flow hedges						
Fair value hedges	105,497	244,570	284,604	13,352	85,159	627,685
<b>Investment hedges</b>	<b>71,041</b>	<b>(96,991)</b>	<b>(66,095)</b>	<b>(143,994)</b>	<b>(86,366)</b>	<b>(393,446)</b>
<b>Derivatives not designated as hedges</b>	<b>84,809</b>	<b>(220,549)</b>	<b>(154,022)</b>	<b>(2,696)</b>	<b>19,106</b>	<b>(358,161)</b>
Interest rate	(1,625)	129,257	125,584	128,984	94,503	478,329
Exchange rate	57,298	128,451	(148,520)	(3,811)	(5,805)	(29,684)
Interest and exchange rate	29,136	(478,258)	(131,087)	(127,870)	(69,593)	(806,807)
<b>Total</b>	<b>259,920</b>					

**14) TAX MATTERS**

The Móviles Group's main Spanish subsidiaries pay corporate income tax on a consolidated basis and are therefore not required to pay taxes directly to the Spanish tax authorities. All tax credits and tax bases, up to the limit applicable to the Telefónica Tax Group, are transferred to Telefónica, S.A., recognizing the corresponding tax credit or debit with the parent company depending on the outcome of the individual company tax return, which is recorded under "Receivables from Telefónica Group companies" if the tax return results in moneys owed to the Telefónica Móviles Group, or under "Payables to Telefónica Group companies" if money is owed to the parent company as a result of the tax return.

The balances receivables from Telefónica Group companies are cancelled by means of cash payments by Telefónica, S.A. to the Móviles Group entity which contributed the tax credit, as said credit is effectively used by Telefónica's consolidated tax group (see section d of this note).

The other Móviles Group subsidiaries do not pay taxes on a consolidated basis. They recognize their tax credits and debits, which can only be settled with the public tax authorities of the countries where they were generated, under current and deferred tax liabilities and assets, as appropriate.

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Corporate income tax recorded is the sum of the corporate income tax and other analogous taxes payable recorded by the Móviles Group companies. These taxes have been calculated in accordance with the tax standards in effect in each country on the basis of earnings on the unconsolidated financial statements, the sum of which is not necessarily equal to consolidated income.

The years open for review by the tax inspection authorities vary from one Group company to another, depending on each country's tax legislation, taking into account their respective statutes-of-limitation. Management does not believe that a possible tax inspection would result in material tax liabilities.

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**Table of Contents****Telefónica Móviles, S.A.****a) Deferred tax assets and liabilities**

The detail at December 31, 2005 and 2004, of this heading, and the variations therein, is as follows:

	Thousands of euros	
	Deferred tax assets	Deferred tax liabilities
<b>Balance at 1/1/04</b>	<b>1,205,364</b>	<b>260,388</b>
New	400,325	464,588
Reversals	(168,852)	(108,044)
Changes in consolidation scope and others	44,378	(5,518)
Transfers	(15,755)	
<b>Balance at 12/31/04</b>	<b>1,465,460</b>	<b>611,414</b>
New	644,052	327,769
Reversals	(498,898)	(320,923)
Changes in consolidation scope and others	260,862	180,738
Transfers	(53,044)	55,474
<b>Balance at 12/31/05</b>	<b>1,818,432</b>	<b>854,472</b>

The detail of Deferred tax assets on the consolidated balance sheet at December 31, 2005 and 2004 and the variations therein is the following:

Thousands of euros	Balance at 01/01/05	Increases	Decreases	Transfers	Changes in consolidation scope	Translation differences	Balance at 12/31/05
Tax loss carryforwards	134,139	60,627	(146,858)	(48,729)	116,763	16,347	132,289
Tax credits for deductions	85,763	80,160	(73,315)				92,608
Temporary differences	1,245,558	503,265	(278,725)	(4,315)	34,614	93,138	1,593,535
<b>TOTAL</b>	<b>1,465,460</b>	<b>644,052</b>	<b>(498,898)</b>	<b>(53,044)</b>	<b>151,377</b>	<b>109,485</b>	<b>1,818,432</b>

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<u>Thousands of euros</u>	<u>Balance at 12/31/05</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Changes in consolidation scope</u>	<u>Translation differences</u>	<u>Balance at 12/31/04</u>
Tax loss carryforwards	153,253	58,665	(45,394)	(31,107)	2,026	(3,304)	134,139
Tax credits for deductions	70,525	62,622	(31,629)	(15,755)			85,763
Temporary differences	981,586	279,038	(91,829)	31,107	40,652	5,004	1,245,558
<b>TOTAL</b>	<b>1,205,364</b>	<b>400,325</b>	<b>(168,852)</b>	<b>(15,755)</b>	<b>42,678</b>	<b>1,700</b>	<b>1,465,460</b>

This heading includes 92,608 thousand euros in tax credits for deductions (deductions for technological RDI, investment in the Canary Islands, special events, double tax treaties, etc.) in addition to the credits on tax loss carryforwards and deductible temporary differences detailed below.

In addition, Telefónica Móviles S.A. has recorded an export promotion activity deduction tax credit of 20,921 thousand euros arising from the acquisition of BellSouth's wireless operators in Argentina and Chile. The Company recorded a tax credit of 65,928 for this same concept in 2004 in relation to the acquisition of the other BellSouth operators.

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**Table of Contents****Telefónica Móviles, S.A.**

At December 31, 2005 and 2004, Deferred tax assets and Deferred tax liabilities include deductible and taxable temporary differences whose origin and detail are described in the following table:

	2005		2004	
	Assets for deductible temporary differences	Liabilities for taxable temporary differences	Assets for deductible temporary differences	Liabilities for taxable temporary differences
Property, plant and equipment	76,274	33,478	48,159	35,260
Intangible assets	59,018	577,213	66,803	413,978
Personnel expenses		83	5,462	494
Inventories and accounts receivable	34,337		24,373	
Provisions	210,202	154,441	106,090	83,991
Investments in associates, subsidiaries and joint ventures	1,052,386		932,321	
Other	161,318	82,257	62,350	77,691
<b>Total</b>	<b>1,593,535</b>	<b>854,472</b>	<b>1,245,558</b>	<b>611,414</b>

The detail of total assets for deductible temporary differences (1,593,535 thousand euros) is as follows:

1,277,899 thousand euros generated by Group companies in Spain, of which 1,052,386 thousand euros correspond to provisions related to investments, mainly in Germany, Mexico, Argentina and Italy, and 225,513 thousand euros to other non-deductible provisions and expenses (provision for bad debts, derivatives, etc.).

The remaining 315,636 thousand euros were generated by foreign subsidiaries and relate primarily to depreciation of property, plant and equipment, write-down of inventories and bad debt provisioning.

**b) Current tax receivables and payables:**

Income tax receivables and payables (corporate income tax and equivalent credits and debits outside the scope of the Telefónica Tax Group) include assets of 136,501 thousand euros and liabilities of 362,338 thousand. At December 31, 2004, receivables stood at 216,646 thousand euros and payables at 290,858 thousand euros.

Trade and other receivables and Trade and other payables comprise all credits and debits with the public tax authorities for taxes other than corporate income and equivalent taxes. The detail of this heading at December 31, 2005 and 2004 is as follows:

	Thousands of euros	
	2005	2004
<b>Tax receivables (tax authorities)</b>		
Indirect taxes	529,699	502,467
Social security agencies and others	73,255	4,938
<b>Total</b>	<b>602,955</b>	<b>507,405</b>

	Thousands of euros	
	2005	2004
<b>Tax payables (tax authorities)</b>		
Indirect taxes	416,061	480,581
Personal income tax withholdings	12,419	7,883
Social security	12,038	11,479
Fees	679	3,115
<b>Total</b>	<b>441,197</b>	<b>503,058</b>

**Table of Contents****Telefónica Móviles, S.A.****c) Reconciliation of book profit to taxable income for corporate income tax purposes**

The following table reconciles the Group's reported profit before taxes and the tax expense recorded on the income statement, explaining the differences between actual tax expense and tax expense at prevailing statutory rate:

	Thousands of euros	
	2005	2004
<b>Book profit before taxes</b>	<b>2,829,706</b>	<b>2,544,945</b>
<b>Taxes expense at prevailing statutory rate 35%</b>	<b>990,397</b>	<b>890,730</b>
Impact of applying statutory rates prevailing in other countries	9,671	34,555
Changes in tax expense from asset or wealth taxes	23,892	4,975
Permanent differences	15,946	43,981
Booking of tax assets from current deductions	(21,922)	(16,343)
Booking of tax assets from previous years	(154,078)	(52,163)
Losses not recognized against tax	60,277	41,253
Decreases of tax assets for losses or deductions	584	7,278
Consolidation adjustments	19,652	(85,656)
Corporate income tax adjustment from prior years	1,619	(107)
<b>Corporate income tax expense</b>	<b>946,039</b>	<b>868,504</b>

The main reasons for the discrepancy between the local prevailing statutory rate (35%) and the final effective tax rate in 2005 (33.4%) and 2004 (34.1%) are:

Booking of tax credits and deductions from prior years. These include, among others, export promotion activity deductions at Spanish entities, the offsetting of tax losses in Colombia and the booking of tax asset in Argentina.

Unrecognized tax losses given that tax consolidation is not applicable in Brazil and Mexico (in Mexico due to the impact of minority interests).

The breakdown of the tax expense in the table above and the concepts used for the calculation bases is the following:

<u>Tax expense:</u>	<u>2005</u>	<u>2004</u>
Deferred tax liabilities	(358,310)	(124,633)

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Current taxes	1,304,349	993,137
	<u>          </u>	<u>          </u>
<b>Total corporate income tax</b>	<b>946,039</b>	<b>868,504</b>
	<u>          </u>	<u>          </u>

*d) Detail of tax credits from tax loss carryforwards.*

The tax losses available for carryforward at the main Móviles companies that did not belong to the Tax Group at December 31, 2005 and 2004 stood at 3,636,524 thousand euros and 3,575,924 thousand euros, respectively. The maximum time period for offsetting these carryforwards varies depending on the applicable tax legislation in the country where the losses were generated. At year-end 2005 and 2004, 402,630 thousand euros and 263,893 thousand euros, respectively, had been capitalized, thus generating tax assets of 132,289 thousand euros and 90,362 thousand euros, respectively, classified under Deferred tax assets .



**Table of Contents****Telefónica Móviles, S.A.**

The tax losses available for carryforward at the main Móviles companies belonging to the Tax Group at December 31, 2005 and 2004 stood at 6,478,666 thousand euros and 6,148,470 thousand euros, respectively. These can only be offset within 15 years of being incurred. At year-end 2005 and 2004, 4,341,426 thousand euros and 3,700,737 thousand euros, respectively, had been capitalized, thus generating tax assets of 1,519,499 thousand euros and 1,295,258 thousand euros, respectively, classified under Current- and Non-current Telefónica Group company receivables, and break down as follows:

	<b>Balance at 12/31/04</b>	<b>Increases</b>	<b>Applied by Tax Group</b>	<b>Transfers</b>	<b>Adjustment from prior years</b>	<b>Balance at 12/31/05</b>
Non-current	2,248,744	1,162	(500,662)	(699,047)	(655)	1,049,542
Current	8,337	149,333	(8,337)	320,624		469,957
<b>Total</b>	<b>2,257,081</b>	<b>150,495</b>	<b>(508,999)</b>	<b>(378,423)</b>	<b>(655)</b>	<b>1,519,499</b>

Unused tax loss carry forwards, totaling 2,137,243 thousand euros, relate to a negative adjustment made to the taxable base for corporate income tax purposes in 2002 as a result of the transfer of certain holdings acquired in previous years where the market value differed from the carrying amount at which they were recognized.

The Tax Group applied 508,999 thousand euros in tax credits:

500,662 thousand euros were paid to Telefónica Móviles S.A in 2005.

8,337 thousand euros relate to intra-group withholdings made in previous years.

Transfers of 699,047 thousand euros from non-current receivables relate to:

320,624 thousand euros corresponding to prior year tax credits transferred to Current assets Receivable from Telefónica Group companies

378,423 thousand euros are presented as a reduction in Current assets Receivable from Telefónica Group companies.

Of total tax loss carryforwards outstanding at December 31, 2005 (1,519,499 thousand euros), 721,861 thousand euros were generated by Telefónica Móviles S.A and 797,638 thousand euros by Telefónica Móviles España S.A.

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Goodwill arising from business combinations with foreign companies is deductible under Spanish tax legislation under certain conditions. Goodwill deductible for tax purposes -under certain conditions- is defined as the excess of financial goodwill over the amount allocated to the goods, rights and contingent liabilities of the foreign operations acquired.

### 15) SEGMENT REPORTING

The Telefónica Móviles Group's management structure is organized along geographic lines in order to optimize efficiency in each region. The main geographic segments are:

**Spain.** Wireless services operator in Spain.

**Latam.** Wireless services operator in Latin America.

**Row.** Wireless services provider in the Mediterranean basin and the rest of Europe.

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**Table of Contents****Telefónica Móviles, S.A.**

Key information by geographic segment:

Thousands of euros	Spain	Latam	Row & intragroup eliminations	Total
2005				
Revenues	8,834,249	7,704,531	(25,278)	16,513,502
Capitalized expenses of Group work on non current assets	76,089	36,966	10,542	123,596
Other operating income	30,714	99,252	16,193	146,159
Procurements and other operating expenses	(4,813,177)	(6,086,134)	(66,946)	(10,966,256)
<b>OIBDA</b>	<b>4,127,875</b>	<b>1,754,615</b>	<b>(65,489)</b>	<b>5,817,001</b>
Depreciation and amortization	(664,888)	(1,489,504)	(219,618)	(2,374,010)
<b>Operating income</b>	<b>3,462,987</b>	<b>265,111</b>	<b>(285,107)</b>	<b>3,442,991</b>
Financial income (loss)	(43,103)	(172,418)	(243,558)	(459,079)
Share in income (loss) from companies accounted for by the equity method		(24)	(154,182)	(154,206)
Corporate income tax	(1,051,610)	(226,162)	331,733	(946,039)
Minority interests		72,206	(36,965)	35,241
<b>Profit (loss) for the year</b>	<b>2,368,274</b>	<b>(61,287)</b>	<b>(388,079)</b>	<b>1,918,908</b>
<b>Investment in PP&amp;E</b>	<b>727,450</b>	<b>1,602,207</b>	<b>(43,332)</b>	<b>2,286,325</b>
<b>Segment assets</b>	<b>10,597,995</b>	<b>15,834,654</b>	<b>529,691</b>	<b>26,962,340</b>
<b>Segment liabilities</b>	<b>8,070,268</b>	<b>11,740,292</b>	<b>905,325</b>	<b>20,715,885</b>

Thousands of euros	Spain	Latam	RoW & intragroup eliminations	Total
2004				
Revenues	8,213,839	3,552,363	(12,327)	11,753,875
Capitalized expenses of Group work on non current assets	48,257	38,105	3,138	89,500
Other operating income	18,651	70,022	20,384	109,057
Procurements and other operating expenses	(4,122,515)	(3,109,340)	(132,686)	(7,364,541)
<b>OIBDA</b>	<b>4,158,232</b>	<b>551,150</b>	<b>(121,492)</b>	<b>4,587,890</b>
Depreciation and amortization	(662,796)	(806,519)	(53,626)	(1,522,941)
<b>Operating income</b>	<b>3,495,436</b>	<b>(255,368)</b>	<b>(175,119)</b>	<b>3,064,949</b>
Financial income (loss)	(108,039)	(440,082)	66,250	(481,871)
Share in income (loss) from companies accounted for by the equity method		(163)	(37,971)	(38,134)
Corporate income tax	(1,100,343)	(74,222)	306,062	(868,503)
Minority interests		(54,444)	69,686	15,242
<b>Profit (loss) for the year</b>	<b>2,287,054</b>	<b>(824,279)</b>	<b>228,908</b>	<b>1,691,683</b>
<b>Investment in PP&amp;E</b>	<b>628,185</b>	<b>981,684</b>	<b>7,746</b>	<b>1,617,615</b>
<b>Segment assets</b>	<b>9,596,150</b>	<b>11,695,182</b>	<b>1,899,210</b>	<b>23,190,542</b>
<b>Segment liabilities</b>	<b>8,111,067</b>	<b>8,799,375</b>	<b>2,460,044</b>	<b>19,370,486</b>

The items detailed in the tables above were selected to reflect the main factors affecting management and strategic decisions in each segment.



**Table of Contents****Telefónica Móviles, S.A.****16) REVENUES AND EXPENSES***Other income*

The detail of this heading is as follows:

	Thousands of euros	
	2005	2004
Non-core and other current operating revenues	143,639	96,487
Capitalized expenses of Group work on non current assets	123,596	89,500
Government grants	288	909
Gain on disposal of assets	2,232	11,661
<b>Total</b>	<b>269,755</b>	<b>198,557</b>

*Other expenses*

The breakdown of this heading in 2005 and 2004 is as follows:

	Thousands of euros	
	2005	2004
External services	4,135,625	2,871,602
Taxes	333,483	170,880
Other operating expenses	53,115	23,898
Changes in operating provisions	266,093	86,474
Asset impairment (Note 7)	10,750	66,320
Loss on disposal of assets	2,071	8,949
<b>Total</b>	<b>4,801,137</b>	<b>3,228,123</b>

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Research and development expense recognized in the income statement in 2005 amounted to 205 million euros (105 million euros in 2004).

### *Number of employees*

The average number of employees at the Telefónica Móviles Group in 2005 and 2004 totaled 22,655 and 13,524, respectively. The breakdown by professional category in 2005 and 2004 is as follows:

	Average number of employees	
	2005	2004
Senior management	21	21
Executives and mid-level managers	2,339	1,470
Rest of workforce	20,295	12,033
<b>Total</b>	<b>22,655</b>	<b>13,524</b>

### *Financial income (expenses)*

The detail of Net financial expenses recorded on the consolidated income statement for the years ended December 31, 2005 and 2004 is as follows:

	Thousands of euros	
	2005	2004
Finance expenses	(871,525)	(579,815)
Financial income	286,947	173,813
<b>Total</b>	<b>(584,578)</b>	<b>(406,002)</b>

**Table of Contents****Telefónica Móviles, S.A.*****Foreign currency transactions***

The Group's foreign currency transactions relate primarily to traffic transactions carried out by fully consolidated subsidiaries which are settled in the corresponding local currency, as well as to interest payments and loan repayments which are detailed in Note 13.

***Information by consolidation method***

Income attributable to the companies that comprise the Group in 2005 and 2004:

	<b>Thousands of euros</b>	
	<b>2005</b>	<b>2004</b>
Fully and proportionally consolidated companies	2,073,114	1,729,817
Companies accounted for by the equity method	(154,206)	(38,134)
<b>Total</b>	<b>1,918,908</b>	<b>1,691,683</b>

***Earnings per share***

The basic figure for earnings per share is calculated by dividing net profit for the year attributable to equity holders in the parent company by the weighted average number of shares outstanding over the period.

Diluted earnings per share is calculated by dividing net profit for the year attributable to equity holders of the parent (adjusted for any dilutive effects as if the conversion of potential ordinary shares had occurred) by the weighted average number of ordinary shares outstanding over the period adjusted to give effect to all dilutive potential ordinary shares that were outstanding during the period.

Both basic and diluted earnings per share attributable to equity holders of the parent are calculated based on the following data:

***Net profit***

	Thousands of euros	
	2005	2004
Profit attributable to equity holders of the parent	1,918,908	1,691,683

*Number of shares*

	Thousands	
	2005	2004
Weighted average number of shares outstanding over the period for the purposes of basic earnings per share	4,309,480	4,309,105
Dilutive effect of conversion of potential ordinary shares		
Telefónica Móviles S.A. employee share option plans	1,131	1,026
Weighted average number of ordinary shares outstanding for the purposes of diluted earnings per share	4,310,611	4,310,131

*Earnings per share*

	Euros	
	2005	2004
Basic earnings per share	0.445	0.393
Diluted earnings per share	0.445	0.392



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**Telefónica Móviles, S.A.**

**17) OTHER INFORMATION**

***a) Guarantees***

The most significant guarantees provided at December 31, 2005 are the following:

On June 23, 2004, the Ministry of Industry, Tourism and Commerce issued an order authorizing the modification to the commitments assumed by Telefónica Móviles España, S.A. in connection with the operation of the third-generation wireless telecommunications (UMTS) service. Under this Order, the requests filed by Telefónica Móviles España, S.A. in this respect were upheld, compliance with certain commitments was reinterpreted and other commitments were eliminated for the benefit of public interest.

As a result of this modification, the amount guaranteed by Telefónica Móviles España, S.A. as a performance bond for the commitments assumed prior to the launch of the UMTS service and in the first year of service was reduced to 157.5 million euros. At December 31, 2005, this guarantee therefore stood at 157.5 million euros. Telefónica Móviles de España, S.A. has begun the procedures to accredit its first year of operating the UMTS service before the Ministry. Compliance with the commitment would reduce the amount guaranteed.

Telefónica Móviles España S.A., as a shareholder of Medi Telecom, signed a Shareholders Support Agreement together with Portugal Telecom SGPS, S.A. and the BMCE Group. This commitment requires the joint and several provisions of up to 210 million euros of financial assistance to Medi Telecom in the event of non-compliance with financial clauses, and up to 50 million euros in the event of a shortfall in funds at Medi Telecom that would prevent it from meeting its debt servicing obligations. If Medi Telecom obtains a specific level of OIBDA during a certain period of time and fulfils all its obligations under the loan agreement, this financial commitment will automatically be cancelled. As a result of the loans and capital increases subscribed by, inter alia, Telefónica Móviles España, S.A., in addition to new commitments, the outstanding balances at December 31, 2005 stood at 118.3 million and 50 million euros, respectively.

On December 23, 2003, Telefónica Móviles, S.A. arranged a counter-guarantee for Telefónica, S.A. vis-à-vis the commitment to Newcomm Wireless Services, Inc. of Puerto Rico in relation to a 61 million dollar bridge loan provided by ABN AMRO which matures on June 30, 2005. These guarantees are deemed to be recoverable on the basis of the company's business plan and of the seniority of their claim over equity.

Subsequently, on April 21, 2005, an agreement was reached to extend the bridge loan to June 30, 2008, and the possibility of a further 2-year extension, with a corresponding extension of the counter-guarantee.

On April 21, 2005, Telefónica Móviles S.A. also arranged a counter-guarantee for Telefónica, S.A. vis-à-vis the commitment to Newcomm Wireless Services, Inc. of Puerto Rico in relation to a subordinated loan of up to 40 million dollars provided by ABN AMRO to meet Newcomm's license payments to the FCC (Federal Communications Commission), maturing June 30, 2010.

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The Group provided a bank guarantee to Mobilkom Austria Aktiengesellschaft & Co KG (Mobilkom) to cover potential contingencies related to the sale in December 2003 of 3G Mobile Telecommunications GmbH up to a maximum of 1,650 thousand euros. This guarantee matured on December 31, 2005.

At the end of 2000, Ipse 2000, S.p.A. acquired a third generation wireless telephony (UMTS) license for 3,269 million euros. The terms of the license agreement stipulated that 40% of this amount be paid in ten equal annual installments through 2010.

On December 27, 2002, Telefónica Móviles, S.A. arranged a counter-guarantee for Telefónica, S.A., which in turn was counter guaranteed by Telefónica Móviles España, S.A. Under this agreement, subject to certain terms and conditions, Telefónica Móviles, S.A. undertakes vis-à-vis Telefónica, S.A. to pay 91.79% of any amounts Telefónica S.A. may be legally, contractually or judicially obliged to pay in connection with the guarantee that it (jointly with other strategic partners of Ipse 2000, S.p.A.) provided to certain banks, which in turn provided a bank guarantee to the Italian authorities as security for the

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**Telefónica Móviles, S.A.**

deferred payment of the UMTS license. On November 30, 2005, to avoid the Italian Government calling in the guarantee, IPSE 2000, S.p.A paid 120,334 thousand euros representing a quarter of the outstanding balance owed as deferred payment for the additional 5 MHz of spectrum awarded to Ipse 2000 SpA by the Italian Government for an original total value of 826,331 thousand euros. On December 31, 2005, the payment balance was 601,672 thousand euros (335,452 thousand euros allocable to the Telefónica Móviles Group). This additional 5MHz of spectrum was returned by Ipse 2000, S.p.A. and the validity of said return is currently being disputed by the Italian Government.

On October 25, 2000, Ipse 2000, S.p.A. signed an agreement with Ferrovie dello Stato, S.p.A., an Italian railroad company, whereby Ipse 2000, S.p.A. was granted certain access and user rights to specific sites owned by the railroad company. Telefónica, S.A. provided a guarantee of up to 48.2 million euros to secure the amounts owed under this agreement. On May 9, 2005 the parties executed the agreement through the payment of 93,360,000 euros. Of this amount, the Telefónica Móviles Group paid 39,387,139 euros.

On October 28, 2004, Telefónica Móviles S.A. entered into the following counter-guarantee agreements vis-à-vis Telefónica S.A. on the following obligations guaranteed by Telefónica S.A.:

- a) Bridge loans arranged for Telefónica Móviles Colombia S.A. (previously BellSouth Colombia S.A.) for 273,934 thousand dollars with Santander Overseas Bank Inc. and for 59,024 million Colombian pesos (approximately 23,500 thousand dollars) with Santander Colombia S.A. Both these companies are part of the Santander Group. Both loans were due on October 28, 2005. They were refinanced for another year for 254,000 thousand dollars with Santander Overseas Bank Inc. and 104,762 million Colombian pesos (approximately 41,738 thousand dollars) with Banco Santander de Colombia S.A. This arrangement was again guaranteed by Telefónica S.A. and counter-guaranteed by Telefónica Móviles S.A.
- b) Syndicated loan for Comunicaciones Móviles del Perú S.A. (now Telefónica Móviles Perú S.A.) for 200 million dollars due February 24, 2006.

On January 7, 2005, Telefónica Móviles S.A. counter guaranteed Telefónica S.A.'s guarantee on the 179,615 thousand dollar syndicated loan arranged by Telefónica Móviles Chile S.A. (previously BellSouth Communications), maturing January 7, 2006. This loan was refinanced upon maturity and is currently guaranteed directly by Telefónica Móviles de Chile.

On September 30, 2005, Telefónica Móviles S.A. arranged a counter guarantee for Telefónica S.A. in relation to Telefónica Finanzas México S.A.'s issue of *certificados bursátiles* (peso bonds) for up to 12,000 million Mexican pesos, underwritten by Telefónica S.A. At December 31, 2005, 5,000 million pesos had been issued under this program (approximately 464 million dollars).

The Company does not believe it will incur material losses as a result of the guarantees provided.

Group management believes the likelihood that additional unprovisioned liabilities could result from these guarantees is remote.

***b) Litigation***

Telefónica Móviles, S.A. and its Group companies are subject to a range of lawsuits the unfavorable resolution of which, in the Company's opinion and based on the advice of its legal counsel, would not materially affect the financial position or solvency of Group.

The suits that the Company deems probable it could lose have been adequately provisioned (see Note 10). Of the suits that the Company deems probable it could lose, but do not require provisioning, those that are considered material by virtue of their nature or the significance of the amounts involved are listed below.

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***SPAIN.***

**Claims in relation to the fee for reserving public radio spectrum for GSM, DCS-1800 and UMTS services in 2001**

Law 13/2000 establishing the general Spanish budget for 2001 modified the formula for calculating the reservation fee for public radio spectrum, resulting in a significant increase in said payments. Telefónica Móviles España, S.A. lodged three claims against the three payments owed in connection with its GSM, DCS-1800 and UMTS services in 2001, which were dismissed. As a result, Telefónica Móviles España, S.A. filed an appeal for judicial review of this decision at the National Appellate Court. At the same time, it proceeded to settle the payments with the Secretary of State for Telecommunications. A ruling has since been made in the cases appealing the DCS-1800 and GSM reservation fees, raising the question of unconstitutionality. In the case reclaiming the UMTS payment, Telefónica Móviles España, S.A. has pleaded to the National Appellate Court to reraise the question of unconstitutionality at a higher instance, i.e. the Constitutional Court, and to bring the issue before the European Community Court of Justice for a preliminary ruling. The magnitude of the claim in terms of overstated payments totals 228,357 thousand euros.

**Economic-administrative claim relating to business tax (IAE) payment in 2003**

In December 2003, Telefónica Móviles España, S.A. filed a claim with the regional tax authorities of aMadrid in connection with the 2003 IAE payment of 26,000 thousand euros. Telefónica Móviles España believes the tax authorities committed an administrative error in processing this tax payment, not recognizing a prior wire payment of 3,226 thousand euros.

Telefónica Móviles España, S.A. has paid the amounts in question. The purpose of the claim is to demand the repayment of the amounts the Company believes it overpaid.

**Interconnection termination tariffs with RETEVISIÓN MÓVIL, S.A.**

The ruling on January 12, 2006 closed the interconnection suit brought by RETEVISIÓN MÓVIL, S.A. against Telefónica Móviles España, S.A. in relation to the call termination tariffs on the former's network. Pursuant to the ruling, Telefónica Móviles España, S.A. must apply the interconnection call-termination fees in effect before October 7, 2004 retroactively from February 4, 2005. Telefónica Móviles España, S.A.'s appeal to this ruling was fully upheld by the CMT (telecommunications regulatory body) in its ruling on February 16. This ruling finds that RETEVISIÓN MÓVIL, S.A.'s termination rates in effect prior to October 7, 2004 are not applicable to Telefónica Móviles España, S.A. Accordingly, Telefónica Móviles España, S.A. should not be obliged to pay any amounts, in addition to those actually paid during the conflict in this regard. RETEVISIÓN MÓVIL, S.A. could file a complaint for judicial review by the CMT ruling within two months of the decision.

***GERMANY***

**Ostheimer**

In 2003, Ostheimer GmbH filed a suit against Quam GMBH demanding indemnification of 100 million euros as a result of damages arising from the termination of the framework distribution agreement signed with Quam. The courts ruled in favor of Quam GMBH in 2005 but the ruling has been appealed recently by Ostheimer.

**Cancellation of the license granted to Quam GMBH**

In December 2004, the Regulatory Authority for Telecommunications and Post (RegTP) revoked the UMTS license granted to Quam GMBH in 2000. After obtaining a suspension of the revocation order, Quam filed a suit against the revocation order with the German courts. On January 16, 2005. There are two main parts to this claim: the first seeking that the suspension of the license revocation order issued by the RegTP be upheld, and the second, in the event the first does not prosper, seeking the partial and total repayment of the original amount paid for the license.

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**Telefónica Móviles, S.A.**

***ITALY***

In the wake of the Italian government's refusal to accept the return by Ipse 2000, S.p.A, of the additional 5Mhz of spectrum awarded to it after it was granted a UMTS license, Ipse 2000, S.p.A. filed a claim based on its basic right to renounce to its rights granted by the government and requested a 826 million euro reduction in payments owed (corresponding to the 5Mhz of spectrum).

Simultaneously, in light of the new regulatory framework establishing a maximum annual price per 5Mhz, which is below that set when the license was granted to Ipse, S.p.A., the company filed a suit with the same organism against the Italian Ministry for Communications, requesting the cancellation of pending payments in connection with the UMTS license, which, if successful, would represent a reduction over the initial amount of between approximately 1.2 and 2.3 billion euros. On May 31, 2004, Ipse, S.p.A. also filed a complaint against the Italian government's allocation of GSM frequency free of charge.

Currently, all these claims have been brought under one suit. In August 2005, the Italian courts ruled against the first two claims and delayed its ruling on the last one (the free allocation of GSM frequency).

***MEXICO***

**Corporate income tax law regarding interest deductibility**

Telefónica Móviles México, S.A. de C.V. and its subsidiaries filed a suit against certain temporary provisions of the corporate income tax law limiting deductibility of interest payments on loans under certain circumstances.

Notification was received in January 2006 that the case was being dismissed on the grounds that since the judge did not consider that it was the right time to call into question the unconstitutionality of the provisions.

The Mexican subsidiaries plan to appeal the ruling on the basis that the provisions in question have been detrimental to the companies since they came into effect.

**Annual fees for use and operation of spectrum frequency**

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The Mexican Federal Rights Act establishes an annual fee for the use and operation of spectrum frequency tendered since 2003. Telefónica Móviles México, S.A. de C.V. was awarded spectrum on the 1900 MHz frequency in the tender process held in April 2005, on which it is obliged to pay spectrum fees.

Telefónica Móviles México, S.A. de C.V. has filed a claim against the unconstitutionality of the fee imposed on the spectrum it was granted.

In December 2005, Telefónica Móviles México, S.A. de C.V. appealed the sentence ruling against its claim.

Telefónica Móviles España, S.A. has paid the fees in question. The purpose of the claim is to demand the repayment of the amounts already paid.

### **Kargo, Inc., ACK Ventures Holdings, LLC and United Mobile Technologies, LLC.**

Kargo, Inc., has filed a suit against Telefónica Móviles México, S.A. de C.V., Pegaso PCS, S.A. de C.V., Pegaso Telecomunicaciones, S.A. de C.V., Telefónica Móviles, S.A. and Telefónica, S.A. for the payment of damages, legal fees and expenses, and any other amounts deemed payable by the courts, for alleged failure to comply with a systems and hosting agreement negotiated by Pegaso PCS, S.A. de C.V.

The case is currently being heard at a Federal court. In January 2006, Telefónica Móviles México, S.A. de C.V. filed a motion to have the case dismissed for lack of grounds.



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**Telefónica Móviles, S.A.**

***BRAZIL***

**Universal service fund (FUST)**

The VIVO Group operators have appealed ANATEL's decision to modify the basis for calculating amounts payable into the FUST (Fundo de Universalização de Serviços de Telecomunicações), a fund to pay for telecommunications services providers' obligations to provide universal service (wireline and wireless).

**Lune**

Lune Projetos Especiais em Telecomunicações Com has filed a suit against the VIVO Group companies, alleging to own the patent on caller ID and to have registered the Bina brand. The suit demands the cessation of this service and requests indemnification for an amount equal to the amount customers have paid for this service.

Several wireless infrastructure manufacturers, including subsidiaries of the VIVO Group, have lodged a complaint with the Brazilian institute for industrial property demanding that it declare the patent in question null and void.

**PIS and COFINS**

COFINS (Contribuição Social para o Financiamento da Seguridade Social) and PIS (Programa de Integração Social) are gross revenue taxes levied on corporations in Brazil. In 1998, Law 9,718 modified the calculation of these taxes, (i) increasing the COFINS tax from 2% to 3% and (ii) expanding the taxable base. The VIVO Group operators all elected to file a suit with the Brazilian state against this law and to fully provision these amounts, with the exception of Celular CRT S.A., which chose to pay the taxes pursuant to Law 9,718.

In terms of the expanded taxable base issue, two VIVO Group companies (Tele Centro Oeste Celular Participações S.A. and Telergipe Celular S.A.) have been handed down favorable rulings. Rulings in favor of the rest of the companies are expected over the course of the coming year.

***VENEZUELA***

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Appeal for tax review by TELCEL, C.A. in 2002 against the Venezuelan agency (SENIAT) which is demanding TELCEL, C.A. pay approximately 54,364,291 euros for alleged tax irregularities between 11-01-94 and 10-31-95, 11-01-95 and 10-31-96 and between 11-01-96 and 10-31-97.

### *c) Alliances*

Telefónica Móviles, Orange, T-Mobile and Vodafone signed an agreement in February 2003 to create a wireless payment services association, which has been operating under the Simpays brand since June 2003. The purpose of this association is to foster the adoption of *m-commerce* by customers, content suppliers, commercial establishments and banks by creating a wireless telephony payment system based on open, interoperable standards under a shared brand.

### *d) Investments in joint ventures*

On December 27, 2002, having complied with Brazilian regulatory provisions, Telefónica Móviles, S.A. and PT Movéis Serviços de Telecomunicações, SGPS, S.A. (PT Movéis) set up a 50/50 joint venture, Brasilcel, N.V., via the contribution of 100% of the groups' direct and indirect shareholdings in Brazilian cellular operators.

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The contributions of Brasilcel, N.V. to the Telefónica Móviles Group's 2005 and 2004 consolidated balance sheets and income statements are as follows:

	Thousands of Euros	
	2005	2004
Current assets	1,242,021	948,358
Non-current assets	3,448,292	2,634,308
Current liabilities	1,132,169	1,156,447
Non-current liabilities	1,028,986	502,095
Revenues	1,955,267	1,550,831
Expenses	1,857,984	1,353,166

**e) Environmental matters**

Through its investees and in line with its environmental policy, the Telefónica Móviles Group has undertaken various environmental-management initiatives and projects. In 2005 and 2004 these initiatives resulted in expenditure and investment for insignificant amounts which were recognized in the consolidated income statement and balance sheet.

The various Group companies have launched a series of preventative projects at existing systems with a view to reducing the environmental impact of its facilities. Project costs are included in that of the installations to which the project relates.

The Group has also rolled out internal control mechanisms sufficient to pre-empt any environmental liabilities that may arise in future, which are assessed at regular intervals either by internal staff or renowned third-party institutions. No significant risks have been identified in these assessments.

**f) Auditors' fees**

In 2005, fees paid to the various companies forming part of the Ernst&Young International Group, to which Ernst & Young, S.L. (the auditors of the Telefónica Móviles Group) belongs, amounted to 3,450 thousand euros. In 2004, fees paid to the various companies forming part of the Deloitte Touche Tohmatsu International Group, to which Deloitte, S.L. (the auditors of the Telefónica Móviles Group in 2004) belongs, amounted to 3,839 thousand euros.

The detail of these amounts is as follows:

	Thousands of Euros	
	2005 Ernst & Young	2004 Deloitte & Touche
Audit of financial statements	2,308	2,279
Other audit services	469	1,325
Non-audit work	673	235
<b>Total</b>	<b>3,450</b>	<b>3,839</b>

These fees include amounts paid in respect of fully and proportionally consolidated Spanish and foreign Telefónica Móviles Group companies (50% of the fees paid by proportionally consolidated companies in 2004 included in the detail amounted to 606 thousand euros).

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The detail of fees paid to other auditors in 2005 and 2004 amounted to 3,527 thousand and 4,778 thousand euros, respectively, is as follows:

	Thousands of Euros	
	2005	2004
Audit of financial statements	1,312	227
Other audit services	1,030	
Non-audit work	1,185	4,551
<b>Total</b>	<b>3,527</b>	<b>4,778</b>

These fees include amounts paid by fully and proportionally consolidated Spanish and foreign Telefónica Móviles Group companies (50% of other auditors' fees paid by proportionally consolidated companies in 2005 included in the detail amounted to 796 thousand euros).

**18) OTHER COMMITMENTS**

On October 26, 2000, authorization was given at the Extraordinary Shareholders' Meeting of Telefónica Móviles, S.A. to establish a corporate share option plan for the executives and employees of Telefónica Móviles, S.A. and its subsidiaries. To facilitate coverage of the Company's obligations to the beneficiaries of the plan, it was resolved to increase the share capital of Telefónica Móviles, S.A. by 11,400,000 euros through the issuance of 22,800,000 shares of 0.50 euro par value each.

Subsequently, at the Shareholders' Meeting of Telefónica Móviles, S.A. on June 1, 2001, certain modifications and clarifications were introduced to the share option plan with a view to making it more attractive and efficient to encourage the loyalty of its beneficiaries.

Finally, on September 21, 2001, the Board of Directors of Telefónica Móviles S.A. resolved to develop and establish the terms and conditions of the share option plan in conformity with the aforementioned resolutions of the Shareholders' Meetings on October 26, 2000 and June 1, 2001. The main features of this plan are as follows:

1. The plan is open to all the executive directors, executives (including general managers or similar) and employees who on December 1, 2001 were working for companies in which Telefónica Móviles, S.A. directly or indirectly, during the term of the plan, (i) has a holding with voting rights of over 50%, or (ii) has the right to appoint over 50% of the members of the Board of Directors.

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The MOS Program also envisaged the possibility of awarding new options at dates subsequent to its initial implementation. In order to carry this out, following the issuance of a report by the Appointments and Compensation Committee, the Board of Directors resolved to assign options to both the employees of the new companies which, when joining the Telefónica Móviles Group, met the aforementioned requirements and the employees hired by companies already participating in the MOS Program. The Board also resolved that employees could join the plan until December 31, 2003. Consequently, new beneficiaries joined the plan in 2002 and 2003. In 2003 certain companies were excluded from the MOS Program because they no longer meet the related requirements.

2. There are three types of options:

Type-A options, with a strike price of 11 euros.

Type-B options, with a strike price of 16.5 euros.

Type-C options, with a strike price of 7.235 euros.

3. Each beneficiary of the Program will receive an equal number of type-A and type-B options and a number of type-C options equal to the sum of the type-A and type-B options received.

4. The executive directors and executives who are beneficiaries of the MOS Program must deposit one share of Telefónica Móviles, S.A. for every 20 options assigned to them.

5. Each option, regardless of the type, entitles its holder to receive one share of Telefónica Móviles, S.A.

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6. The options may be exercised at a rate of one-third each year from the day after the day on which two, three and four years have elapsed from the option grant date (January 2, 2002). The first exercise period commenced on January 2, 2004. The second period commenced on January 3, 2005. The third and last exercise period commenced on January 3, 2006.

7. At the exercise date, the options may be settled, at the beneficiary's request, either (i) through delivery of shares of Telefónica Móviles, S.A., once the beneficiary has paid the option strike price, or (ii) cash settlement.

The first phase of the Program commenced on January 2, 2002. The second phase of the plan, which included the companies and new employees who fulfilled the requirements envisaged in the plan, commenced on June 1, 2002, and finished on December 31, 2003. The total number of beneficiaries of the MOS Program was 6,970 at December 31, 2005 (7,575 at December 31, 2004). Of these beneficiaries, one is an executive director of Telefónica Móviles, S.A. and 10 are general managers or similar executives. 9,446,373 options had been assigned at December 31, 2005 (11,137,144 at December 31, 2004).

In 2004, in the second exercise period, 778 employees exercised a total of 79,823 options. Of these employees, two beneficiaries opted for share settlement and the remainder for cash settlement. The amount received by these beneficiaries upon the exercise of their options was 109 thousand euros.

Additionally, in 2004, 859 employees, owning a total of 1,681,928 options, left the program as a result of early settlement or voluntary withdrawal. 844 thousand euros were paid for this concept in 2004.

In 2005, in the third exercise period, 1,019 employees exercised a total of 383,116 options. Of these employees, six beneficiaries opted for share settlement and the remainder for cash settlement. The amount received by these beneficiaries upon the exercise of their options was 320.4 thousand euros.

Additionally, in 2005, 605 employees, owning a total of 1,307,655 options, left the program as a result of early settlement or voluntary withdrawal. 791.7 thousand euros were paid for this concept in 2005.

In order to provide coverage for the MOS Program, on September 21, 2001, the Board of Directors resolved to carry out the capital increase approved at the Extraordinary Shareholders' Meeting on October 26, 2000. Since not all the shares comprising the capital increase were subscribed, the company issued 21,445,962 shares of 0.50 euro par value each, which were subsequently subscribed and paid in by BBVA (50%) and La Caixa (50%).

On September 27, 2001, Telefónica Móviles, S.A., on the one hand, and BBVA and La Caixa, on the other, entered into the related share subscription and call option contracts under which the two aforementioned financial institutions granted Telefónica Móviles, S.A. a call option on each of the shares subscribed in order to enable Telefónica Móviles, S.A. to meet its commitments to the beneficiaries of the MOS Program,

as described earlier.

The implementation of the MOS Program and the capital increase to provide coverage for the Program were notified to the CNMV and published in an abridged prospectus, which was verified and registered in the CNMV's Official Register on November 2, 2001.

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The following table summarizes the status of the MOS Plan at December 31, 2004 and 2005:

	<b>Number of Options</b>
<b>Outstanding at January 1, 2004</b>	<b>12,819,072</b>
Granted	
Exercised	(1,118,665)
Cancelled	(563,263)
<b>Outstanding at December 31, 2004</b>	<b>11,137,144</b>
Granted	
Exercised	(1,298,072)
Cancelled	(392,699)
<b>Outstanding at December 31, 2005</b>	<b>9,446,373</b>

***Agreements with Portugal Telecom.***

On January 23, 2001, Telefónica, S.A. and its subsidiary Telefónica Móviles, S.A., on the one hand, and Portugal Telecom SGPS, S.A. and its subsidiary PT Móveis, SGPS, S.A., on the other, agreed to group together all their wireless telephony businesses in Brazil.

On October 17, 2002, Telefónica Móviles, S.A., on the one hand, and Portugal Telecom SGPS, S.A. and its subsidiary PT Móveis SGPS, S.A., on the other, entered into the definitive agreements that implement the aforementioned agreement. On December 27, 2002 (having obtained the necessary authorizations), the two groups' holdings in their respective Brazilian wireless telephony operators were contributed to a Dutch joint venture, Brasilcel N.V.

In accordance with the aforementioned definitive agreements, Telefónica Móviles, S.A. and the Portugal Telecom Group will have the same voting rights at Brasilcel, N.V. This equality in voting rights will cease to exist if, as a result of capital increases at Brasilcel, N.V., the percentage ownership of either of the parties falls below 40% during an uninterrupted period of six months. In this event, if the Portugal Telecom Group is the diluted party, it would be entitled to sell to Telefónica Móviles, S.A., which would be obliged to buy (directly or through another company), all the Portugal Telecom Group's ownership interest in Brasilcel N.V. This right expires on December 31, 2007. The price for the acquisition of the Portugal Telecom Group's holding in Brasilcel, N.V. would be calculated on the basis of an independent appraisal (in the terms provided for in the definitive agreements) performed by investment banks, selected using the procedure established in these agreements. Subject to certain conditions, the payment could be made, at Telefónica Móviles' choice, in (i) cash, (ii) Telefónica Móviles S.A. shares and/or Telefónica, S.A. shares, or (iii) a combination of the two. This put option would be exercisable in the 12 months subsequent to the end of the aforementioned six-month period, provided that the Portugal Telecom Group had not increased its ownership interest to 50% of the total capital share of Brasilcel N.V.

In accordance with the definitive agreements, the Portugal Telecom Group will also be entitled to sell to Telefónica Móviles, S.A., which will be obliged to buy, its holding in Brasilcel, N.V. should there be a change in control at Telefónica, S.A., at Telefónica Móviles, S.A. or at any other subsidiary of the latter that held a direct or indirect ownership interest in Brasilcel N.V. Similarly, Telefónica Móviles, S.A. will be entitled to sell to the Portugal Telecom Group, which will be obliged to buy, its holding in Brasilcel, N.V. if there is a change of control at Portugal Telecom SGPS, S.A., at PT Móveis SGPS, S.A or at any other subsidiary of either company that held a direct or indirect ownership interest in Brasilcel N.V. The price would be determined on the basis of an independent appraisal (in the terms provided for in the definitive agreements) performed by investment banks, selected using the procedure established in these agreements. The related payment could be made, at the choice of the group exercising the put option, in cash or in shares of the wireless telephony operators contributed by the related party, making up the difference, if any, in cash.

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**Telefónica Móviles, S.A.**

***Agreements with the Pegaso Group.***

On December 21, 2005, the Burillo Group and Telefónica Móviles S.A. agreed to the acquisition by Telefónica Móviles S.A. of the 8% stake in the share capital of Telefónica Móviles México S.A. de C.V. owned by the Burillo Group.

This deal gave Telefónica Móviles 100% ownership of Telefónica Móviles México S.A. de C.V. before the exercise date for its share purchase options in the third quarter of 2007 on 4% of the capital and in the third quarter of 2008 for the remaining 4% (or 8% if it had not exercised its options in 2007).

This acquisition concludes the agreements signed by the two parties and settles all call and put options on Telefónica Móviles de México S.A. de C.V. awarded under the agreements.

This acquisition cost to Telefónica Móviles 177 million euros and was structured as an exchange of Telefónica Móviles México S.A. shares for 14,135,895 Telefónica S.A. shares.

The transaction created no material additional debt for the Móviles Group as, in accordance with IFRS, the minimum exercise price of the Burillo Group's put option was recognized as debt and at November 30, 2005 stood at 153 million euros (including interest paid to that date).

***Domestic long-distance license awarded to GTM.***

Telefónica Móviles, S.A. is backing the commitments assumed by Grupo de Telecomunicaciones Mexicanos, S.A. de C.V. (GTM) with the regulator, COFETEL, for its domestic long-distance (DLD) license. The maximum amount of this support is 124,155 thousand Mexican pesos. At the date of preparation of these consolidated financial statements no disbursements had been made in this connection.

**19) SUBSEQUENT EVENTS**

From December 31, 2005 until the date of preparation of these consolidated financial statements the following events took place at the Telefónica Móviles Group:

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On January 31, 2006, the Italian Government informed Ipse 2000, S.p.A., an indirect investee in which Telefónica Móviles owns 45.59%, of its decision to revoke the UMTS license granted to it in 2000. The company is studying its potential courses of action.

In February 2006, approval was given at the respective shareholders' meetings of Telesp Celular Participações, S.A. ( TCP ), Tele Centro Oeste Celular Participações, S.A. ( TCO ), Tele Sudeste Celular Participações, S.A. ( TSD ), Tele Leste Celular Participações, S.A. ( TLE ) and Celular CRT Participações, S.A. ( CRT Part ) for a corporate restructuring for the exchange of TCO shares for TCP shares and absorption of TSD, TLE and CRT Part. Thus, TCP became a 100% subsidiary.

Under its bond issuance program launched in September 2005, Telefónica Finanzas de México, S.A. de C.V. issued 6,500 million Mexican pesos (517 million euros) in 7-year peso bonds (*certificados bursátiles*) on February 10, 2006.

In July 2003, Telefónica Móviles together with T-Mobile International, Telecom Italia Mobile (TIM) and Orange signed an agreement to form a strategic alliance which it subsequently named Freemove. Within the context of the acquisition by Telefónica, S.A. of British telecommunications operator (O2), the European Commission ordered Telefónica Móviles to withdraw from the Freemove alliance in an orderly fashion. Telefónica Móviles, S.A.'s Standing Committee approved the withdrawal of Telefónica Móviles, S.A. from the aforementioned alliance in its session on January 10, 2006.

As part of the restructuring process at the Telefónica Móviles Group in Argentina, on January 2, 2006, Telefónica Móviles, S.A. transferred 98% of its stake in Telefónica Móviles Inversora S.A. (company controlling 100% of B.A. Celular Inversora S.A.) to Telefónica Móviles Argentina, S.A. As consideration for the share contribution, Telefónica Móviles Argentina, S.A. assumed a 343,726 thousand euro debt with Telefónica Móviles, S.A. which was capitalized on January 3, 2006.

**Table of Contents****Telefónica Móviles, S.A.****20. Differences between International Financial Reporting Standards and United States of America Generally Accepted Accounting Principles and other required disclosures**

As of 1 January 2004, Telefónica Móviles Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS), which vary in certain respects from accounting principles generally accepted in the United States of America (U.S. GAAP). The tables below give the effect that application of U.S. GAAP would have on net income and shareholders' equity as reported under IFRS. Pursuant to current European Union law, Telefónica Móviles has applied the International Financial Reporting Standards endorsed by the EU in preparing its Consolidated Financial Statements. Our consolidated financial statements as of December 31, 2005 and 2004 would not present any difference had the standards issued by the International Accounting Standards Board (IASB) been applied instead of those endorsed by the EU.

IFRS 1 *First-time Adoption of International Financial Reporting Standards* provides first-time adopters of IFRS with a number of exemptions and exceptions from full retrospective application, some of which are applicable to Telefónica Móviles (see Note 2.c). Had IFRS been applied fully retrospectively, net income and shareholders' equity under IFRS shown in the table below would have been different and the reconciling items to U.S. GAAP shown below would also have been different.

**Reconciliation of Net Income and Shareholders' Equity to Generally Accepted Accounting Principles in the United States of America from International Financial Reporting Standards**

The following table ( Reconciliation Table ) sets forth the most significant adjustments to consolidated net income and shareholders' equity that would have been required had U.S. GAAP been applied instead of IFRS:

	Thousands of Euros	
	12/31/2005	12/31/2004
<b>Shareholders' equity under IFRS</b>	<b>6,246,455</b>	<b>3,820,056</b>
Additions (deductions) for U.S. GAAP purposes:		
Minority interests (Note 20.1)	(500,403)	(276,603)
Capitalized interest costs (Note 20.2)	24,627	10,767
Development costs (Note 20.3)	(160)	(786)
Amortization method of licenses (Note 20.5)		9,198
Business combinations, goodwill and other intangible assets (Note 20.6)	1,026,121	862,166
U.S. GAAP adjustments related to Brasilcel (Note 20.7)	619,670	487,284
Effect of Inflation upon adoption of IFRS (Note 20.8)	(92,119)	(82,061)
Tax effect of the above adjustments	4,115	6,333
Effect of minority interests on the above adjustments	260	413
<b>Total additions</b>	<b>1,082,111</b>	<b>1,016,711</b>

<b>Shareholders' equity under U.S. GAAP*</b>	<b>7,328,566</b>	<b>4,836,767</b>
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(\*) Shareholders' equity under U.S. GAAP as of 1/1/2004 has been restated as a consequence of the elimination of the effect of the inflation (see below the reconciliation of shareholders' equity under U.S. GAAP as previously reported and shareholders' equity as restated).

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**Table of Contents****Telefónica Móviles, S.A.**

	Thousands of Euros	
	12/31/05	12/31/04
<b>Profit for the year under IFRS</b>	<b>1,883,667</b>	<b>1,676,441</b>
Additions (deductions) for U.S. GAAP purposes:		
Minority interests (Note 20.1)	35,241	15,242
Capitalized interest costs (Note 20.2)	9,943	(2,802)
Development costs (Note 20.3)	626	(723)
Amortization method of licenses (Note 20.5)		26,489
Business combinations, goodwill and other intangible assets (Note 20.6)	(18,665)	1,104
U.S. GAAP adjustments related to Brasilcel (Note 20.7)	32,222	41,370
Effect of Inflation upon adoption of IFRS (Note 20.8)	6,728	5,566
Tax effect on the above adjustments	1,791	(1,327)
Recognition of tax credits in period initially awarded (Note 20.9)		(145,809)
Effect of minority interests on the above adjustments	(34)	828
<b>Net income under U.S. GAAP, before cumulative effect of change in accounting principle</b>	<b>1,951,519</b>	<b>1,616,379</b>
<i>Cumulative effect of change in accounting principle:</i>		
- Revenue recognition EITF 00-21(Note 20.4), net of tax and minority interests		(49,052)
- Change in amortization method of licenses (Notes 20.5), net of tax and minority interests	(50,200)	
<b>Net income under U.S. GAAP*</b>	<b>1,901,319</b>	<b>1,567,327</b>

(\*) Net income under U.S. GAAP for the year ended 12/31/2004 has been restated as a consequence of the elimination of the effect of the inflation (see below the reconciliation of net income under U.S. GAAP as previously reported and net income as restated).

Additionally, movements in Shareholders equity under U.S. GAAP for the years ended December 31, 2004 and 2005 are as follows:

	Thousands of Euros	
	2005	2004
<b>Shareholders equity beginning balance under U.S. GAAP</b>	<b>4,836,767</b>	<b>4,571,652</b>
Variations:		
Net income for the year as restated	1,901,319	1,567,327
Goodwill transactions under common control (Note 20.6.d)		(187,573)
Dividends	(835,797)	(795,955)
OCI adjustments net of taxes and minority interests	(8,548)	(18,056)
Other		129
Translation differences	1,434,825	(300,757)
<b>Shareholders equity ending balance under U.S. GAAP</b>	<b>7,328,566</b>	<b>4,836,767</b>

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Shareholders' rights and all dividend distributions are based on the financial statements as reported by Telefónica Móviles, S.A for local Spanish statutory purposes.

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The reconciliations of previously reported net income and shareholders' equity under U.S. GAAP and net income and shareholders' equity under U.S. GAAP have been restated for the effect of eliminating price-level adjustment for inflation are as follows:

	Thousands of Euros	
	Shareholders' equity	Net Income
	12/31/2004	12/31/2004
<b>U.S. GAAP as previously reported</b>	<b>5,001,850</b>	<b>1,621,681</b>
Effect of inflation	(186,346)	(54,013)
Tax effect	21,263	(341)
<b>Net effect</b>	<b>(165,083)</b>	<b>(54,354)</b>
<b>U.S. GAAP as restated</b>	<b>4,836,767</b>	<b>1,567,327</b>
<b>Earnings per share before restatement</b>		<b>0,376</b>
<b>Earnings per share after restatement</b>		<b>0,364</b>

Under Spanish GAAP, our former primary GAAP, the restatement for inflation recorded in the foreign consolidated companies was permitted if the restatement was required locally. US GAAP only allows these adjustments if the company is operating in a hyperinflationary economy, however until December 2004 the Company applied the SEC accommodation that allows foreign registrants not to eliminate price-level accounting. This provision applies to all issuers who adjust price-level even if the currency of the primary economic environment is not hyperinflationary as defined under U.S. GAAP.

Upon adoption of IFRS, it has been concluded that the indicators set in IAS 29 Financial Reporting in Hyperinflationary Economies, are not met and therefore the economies of our foreign subsidiaries cannot be considered as highly inflationary under IFRS (see Note 2.c) and as IFRS does not allow inflation accounting unless the company operates in a hyperinflationary economy. Therefore, the Company is no longer allowed to utilize the above SEC accommodation. Therefore, previously reported net income and shareholders' equity under U.S. GAAP have been restated, in order to eliminate the effects of this exemption provided by IFRS and not permitted under U.S. GAAP.

**The differences between IFRS and U.S. GAAP as indicated in the tables above are explained in the following paragraphs, including related disclosures required under U.S. GAAP.**

**1) Minority interests**

Under U.S. GAAP, shareholder's equity and net income is made up only of the equity portion attributed to equity holders of the Parent.

However, under IFRSs equity and net income includes the equity and net income corresponding to the shareholders of both the Parent and the minority interests. Therefore, an adjustment to reconcile to U.S. GAAP is recorded in order to exclude the minority interests portion of shareholder s equity and net income.

## **2) Capitalized interest costs**

Under the allowed alternative treatment in accordance with IFRS, borrowing costs that are directly attributable to the acquisition or construction of qualifying assets are capitalized. For our reporting purposes, qualifying assets are those assets that necessarily require at least 18 months to get prepared for their intended use or sale. The Group did not capitalize any financial costs in 2004 or 2005 under IFRS.

Under U.S. GAAP (SFAS 34, Capitalization of interest ), interest costs incurred during periods in which an asset is under construction prior to in use, sale or lease, are capitalized, regardless of the length of its construction period, and are amortized over the expected life of such assets. The amount of capitalized interest related to Brasilcel, N.V. is included in the reconciliation table under the line item U.S. GAAP adjustments related to Brasilcel .

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**3) Development costs**

Under IFRS the costs incurred during the development phase are capitalized when the technical and economic feasibility of a project can be demonstrated, and further prescribed conditions are satisfied. Such costs are amortized on a straight-line basis over the estimated useful life of the internally generated intangible asset. If the required criteria are not met, development costs are expensed as incurred.

Under U.S. GAAP, with the exception of some software development costs, all development costs must be expensed as incurred in accordance with SFAS 2, Accounting for research and development costs .

**4) Recognition of revenues and expenses**

Under U.S. GAAP, the application of EITF 00-21 was accounted for as a cumulative effect of change in accounting principle. Therefore, the cumulative effect of this change as of January 1, 2004, amounting to 49 million, was recorded in the 2004 income statement. However, under IFRS, in accordance with IFRS 1 *First-time adoption of International Financial Reporting Standards*, the mentioned effect was accounted for in equity as of January 1, 2004. As a consequence, there is an adjustment between U.S. GAAP and IFRS in net income for the year ended 2004, whereas shareholders' equity as of December 2004 is the same both under IFRS and under U.S. GAAP.

The Group enters into contracts with customers to provide a variety of wireless communication services. The minimum contractual period is generally one year for substantially all of the Group's wireless contracts. Generally, the customer is charged the following fees under these contracts:

- a) A nominal fee for the initial connection of the wireless service and a nominal charge for the handset. This charge is often less than the cost of the handset itself.
- b) A monthly fee for use of the Group's wireless networks.
- c) Service fees consisting of an initial fee for establishing the call plus fees based on the airtime used by the caller, the destination of the call and the service provided.
- d) An additional monthly fee or fee based on usage of airtime for added value services, such as short messages services and data services as incurred.

The Group recognizes revenues related to the monthly network fees in the month in which the wireless service is provided to the customer. The Group recognizes interconnection fees arising from wireless to fixed calls and fees from other services utilized by the customers in the period in which the related calls are completed. The Group charges roaming per minute fees to other wireless companies for the use of its network by their

customers.

Some arrangements entered into by the Group include offers to customers for free or discounted products or services that will be delivered at a future date if the customer completes a specified cumulative level of revenue transactions. These arrangements are considered by the Group in the same way under both IFRS and U.S. GAAP, and are subject to the appropriate provisions when entered into.

Our revenue and expense recognition policies for U.S. GAAP reporting purposes changed as from January 1, 2004, when we adopted the provisions of the Emerging Issues Task Force Issue No. 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables* (EITF 00-21).

*Accounting for revenues and expenses under US GAAP until December 31, 2003*

For U.S. GAAP purposes, until December 31, 2003, in accordance with SEC Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements (SAB 101)*, the Company deferred revenues from obtaining new customers over the expected period that the customers would use the services, as it had historical experience indicating that new customers generally extended their contracts beyond one year. The related cost associated with obtaining new customers was also deferred and amortized over the same period as the related revenues were being recognized. As of December 31, 2003, this represented the only difference with Spanish GAAP (our former primary GAAP), since under Spanish GAAP such costs were expensed as incurred.

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Where the customer acquisition costs incurred exceeded the deferred revenues, the excess costs were deferred and amortized over the minimum enforceable contract period, since based on historical experience the Company concluded that it was probable that the revenues less any direct costs, that is, the net margin, relating to the total telecommunications service arrangements would exceed the costs deferred during the minimum enforceable contract term.

The minimum enforceable contract period is the period in which the customer is required to use our wireless communications services (generally, one year). Should the customer decide to terminate the agreement before the end of such period, the customer is committed to pay any amounts due under the minimum enforceable contractual period. Moreover, amounts paid by customers in advance for services are non-refundable.

The Company determines the expected average term of the subscriber relationship based on its past statistical history as an operator providing wireless services, considering metrics such as the churn rate of subscribers and future projections of such churn rate.

***Accounting for revenues and expenses under US GAAP after December 31, 2003***

We adopted the provisions of the Emerging Issues Task Force Issue No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables (EITF 00-21) for multiple-element revenue arrangements as of January 1, 2004.

EITF 00-21 requires that arrangements involving the delivery of bundled products or services be separated into individual component deliverables, each with its own separate earnings process. Revenue relating to the bundled contract is allocated to the different deliverables identified, based on their relative fair values (i.e., the fair value of each individual component deliverables in relation to the total fair value of the bundled deliverables).

Very often handsets are sold to customers in a bundled package. As the handsets and the airtime are price-sensitive and volatile in a competitive marketplace, the determination of fair values in the mobile phone business is quite complex.

Upon customer activation, the arrangement consideration received for such packages is allocated to each unit of accounting based on their relative fair values. As non-refundable, up-front connection fees charged do not meet the criteria of separate units of accounting, the additional arrangement consideration received from such fees is allocated to the other delivered item(s) limited to the amount that is not contingent upon the delivery of additional undelivered items. Any proceeds from connection fees or up-front fees that is not allocated to the delivered handsets is deferred upon connection and recognized as service revenue over the expected customer relationship period.

***Change in revenue accounting model and cost deferral under U.S. GAAP upon application of EITF 00-21 as of January 1, 2004***

In EITF 00-21 the Task Force agreed not to provide guidance on accounting for direct costs and expenses related to an arrangement with multiple deliverables due to the broad, general nature of the issue.

Upon application of EITF 00-21 the deferral of customer acquisition costs would create a mixed accounting model. That is, in some circumstances the entire amount of costs would be eligible for deferral and, in other circumstances, the amount eligible for deferral would be limited to an insignificant amount or nil. By adopting an accounting policy whereby all of these costs are expensed when incurred, all customer acquisitions costs are accounted for consistently.

For the reasons described below, we believe this accounting treatment is preferable:

We understand that a change from one generally accepted method of accounting (as it was the SAB 101 revenue and cost deferral accounting policy used until December 31, 2003) to another generally accepted method of accounting is preferable when such change eliminates inconsistencies such as those created by a mixed model of accounting.

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**Telefónica Móviles, S.A.**

Additionally, when we originally adopted our accounting policy with respect to customer acquisition costs, a significant portion of the Company's sales had contractually enforceable minimum contract periods. Thus, a significant portion of customer acquisition costs met the criteria for deferral. The SAB 101 adjustment only considered those contracts that met the criteria for deferral. Over the past few years the Company's mix of business has changed due to growth in Latin American regions and an increase in competition. Sales of prepaid phone cards currently comprise a significant portion of the Company's sales and the total number of contracts that the Company sells with a contractually enforceable minimum contract period has declined. The Company expects these trends to continue into the foreseeable future. As a result of this change in business, the amount of customer acquisition costs that are eligible for deferral has decreased over the last years and the amount is currently considered to be immaterial.

According to the Company's accounting policy under IFRS, customer acquisition costs are expensed when incurred. Therefore, the adoption of a similar accounting policy under U.S. GAAP has eliminated one of the reconciling items between IFRS and U.S. GAAP.

**5) Amortization method of licenses**

Under both our former primary GAAP (Spanish GAAP) and U.S. GAAP the Company amortized its licenses based on the estimated revenues generated in each year over the license period. As explained in Note 2.c Goodwill and licenses, upon transition to IFRS, licenses are amortized on a straight-line basis over their useful lives. The accumulated effect of this change as of January 1, 2004, was accounted for in equity in accordance with IFRS 1 First-time adoption of International Financial Reporting Standards (IFRS 1). For U.S. GAAP reporting purposes, the Company has applied this same method of amortization to both new and previously recorded licenses from January 1, 2005. This change in accounting policy has required an adjustment in net income for the cumulative effect of the change, as determined under APB 20. As a consequence, there is a difference between U.S. GAAP and IFRS in net income for the years ended December 31, 2004 and 2005. Additionally there is a difference between U.S. GAAP and IFRS in shareholders' equity as of December 31, 2004. Shareholders' equity as of December 31, 2005 is the same under both IFRS and U.S. GAAP.

We consider that the straight-line method of amortization is preferable, due to the following reasons:

- 1 It is consistent with the amortization method that we are applying under IFRS.
- 2 Currently almost all the main telecom operators use the straight-line method of amortization for their licenses. We consider that a change from one method of amortization to another is justified as preferable given that the new method is more prevalent in the industry in which we operate.

On a pro-forma basis, assuming the straight-line amortization method had been adopted at the beginning of the first period presented, the effect in the Group's net income for 2004 under U.S. GAAP would have been 36 million.

**6) Business combinations, goodwill and other intangible assets**

The main differences between IFRS and U.S. GAAP arise because IFRS 1 *First-time adoption of International Financial Reporting Standards* grants an exemption to apply IFRS 3 *Business Combinations* only prospectively and thus not to restate business combinations that occurred before the date of transition to IFRS which is January 1, 2004. This means that the differences that existed between Spanish GAAP and U.S. GAAP in the amount of goodwill as of that date are generally carried forward in the reconciliation from IFRS to U.S. GAAP.

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A breakdown of the differences between IFRS and U.S. GAAP arising in relation to goodwill is as follows:

		Thousands of Euros	
		Equity	
		2005	2004
Amortization of goodwill prior to the IFRS first implementation date	a)	177,387	155,973
Additional goodwill T. Móviles México	b)	900,535	744,369
Additional goodwill Mesotel	c)	49,216	42,266
Goodwill arising transactions involving companies under common control	d)	(101,017)	(80,442)
<b>Total</b>		<b>1,026,121</b>	<b>862,166</b>

- a) Under IFRS, goodwill and certain intangible assets are not amortized on a systematic basis since January 1, 2004. Under U.S. GAAP, in accordance with SFAS 142 "Goodwill and other intangible assets", goodwill and certain intangible assets deemed to have indefinite useful lives are not amortized since January 1, 2002, but are instead subject to periodic impairment testing under a fair value approach. Under Spanish GAAP, goodwill is depreciated on a straight line basis. As of January 1, 2004, the Spanish GAAP balance of goodwill was considered as deemed cost according to IFRS 1.

This consideration results in a difference in equity under U.S. GAAP corresponding to the 2002 and 2003 amortization of goodwill recorded for Spanish GAAP purposes (former primary GAAP) and maintained under IFRS. In the fourth quarter of 2004 and 2005, impairment tests were performed for all the reporting units as required by SFAS 142. The results of the first step tests indicated that the carrying value of the reporting units and its assigned goodwill under U.S. GAAP did not exceed their estimated fair value. Similarly, IAS 36 Impairment of Assets requires goodwill and intangible assets with indefinite useful lives to be tested for impairment annually by comparing the carrying amount with the recoverable amount, irrespective of whether there is an indication that it may be impaired.

As of December 31, 2004 and 2005, the Company did not record any impairment charge under IFRS or U.S. GAAP.

- b) In June 2001, Telefónica, S.A. acquired a 100% holding in Baja Celular Mexicana, S.A. de C.V., Celular de Telefonía, S.A. de C.V. and Telefonía Celular del Norte, S.A. de C.V. and a 90% holding in Movitel del Noroeste, S.A. de C.V. in exchange of 122,560,575 new Telefónica, S.A.'s ordinary shares of 1 par value each and additional paid-in capital of 4.5 per share, transferring these interests to Telefónica Móviles, S.A. through an exchange of shares on July 5, 2001. Under our former primary GAAP (Spanish GAAP), goodwill of 371,251 thousand was recorded based on the difference between the stated value of the shares issued and the fair value of the net assets acquired. The resulting amount of goodwill has remained unchanged under IFRS, since business combinations that occurred prior to January 1, 2004 have not been restated. For U.S. GAAP purposes, the goodwill should be based on the fair value of the shares issued. This additional consideration would result in additional goodwill, including the effect of translation differences as of each of the years presented under U.S. GAAP.

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- c) On July 22, 2002, Telefónica Móviles, S.A. carried out a capital increase, for a total amount (par value plus additional paid-in capital) of 27,658 thousand. Mesotel subscribed and paid in full the 14,557,046 new shares of 0,5 par value each and additional paid-in capital of 1,4 per share, through the contribution of its shares in the following companies: TES Holding, S.A. de C.V., Telca Gestión, S.A. de C.V., TCG Holdings, S.A., Telca Gestión Guatemala, S.A., Paging de Centroamérica, S.A. and Telefónica de Centroamérica, S.L. Under our former primary GAAP (Spanish GAAP), goodwill of 14,184 thousand was recorded based on the difference between the stated value of the shares issued and the fair value of the net assets acquired. The resulting amount of goodwill has remained unchanged under IFRS, since business combinations that occurred prior to January 1, 2004 have not been restated. For U.S. GAAP purposes, the goodwill should be based on the fair value of the shares issued. This additional consideration would result in additional goodwill, including the effect of translation differences as of each of the years presented under U.S. GAAP.
- d) On July 23, 2004, Telefónica Móviles, S.A. acquired from Telefónica CTC Chile, a 44.89% subsidiary of Telefónica, S.A. (which is the parent company of Telefónica Móviles, S.A.), all the shares of Telefónica

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**Telefónica Móviles, S.A.**

Móvil de Chile, S.A., which provides wireless telecommunications services in Chile, for US\$ 1,058 million and the assumption of debt amounting to CLP 168,000 million. Since that date, Telefónica Móvil de Chile, S.A. has been fully consolidated in the Móviles Group.

The total acquisition cost for Telefónica Móviles under IFRS, amounted to 870 million. The acquisition cost considered under U.S. GAAP amounts to 865.7 million. The difference amounting to 4.3 thousand is due to specific derivative transactions that were entered into in order to hedge the forecasted acquisition, which have not been considered as part of the acquisition cost under U.S. GAAP.

Telefónica CTC Chile was operated as an indirect subsidiary of Telefónica, S.A., and it was fully consolidated by Telefónica S.A because the required conditions of control exist for such accounting treatment under both IFRS and U.S. GAAP.

Under IFRS, this acquisition has been recorded by Telefónica Móviles Group as if control had been totally acquired from third parties in 2004.

Under US GAAP, when accounting for a transfer of assets or exchange of shares between entities under common control, Telefónica Móviles, S.A., which is the entity that receives the net assets or the equity interests, has initially recognized the assets and liabilities transferred at their carrying amounts in the accounts of the transferring entity at the date of transfer. The purchase method of accounting has been applied for the transfer or exchange of the noncontrolling equity interests in the subsidiary.

Telefónica Móviles, S.A accounts for similar assets and liabilities using similar accounting methods and therefore it has not been necessary to adjust the carrying values of the assets and liabilities transferred.

The financial statements of Telefónica Móviles, S.A under U.S. GAAP report results of operations for the period in which the transfer occurs as though the transfer of net assets or exchange of equity interests had occurred at the beginning of the period. Results of operations for 2004 under U.S. GAAP, thus comprise those of the previously separate entities combined from the beginning of the period to the date the transfer is completed and those of the combined operations from that date to the end of the period. The increase in net income for the year ended December 31, 2004 due to the consideration under U.S. GAAP of this transaction as involving entities under common control, net of taxes and minority interests, has been considered in the reconciliation, including the effect of translation differences, as of each of the years presented under U.S. GAAP. The effects of intercompany transactions on current assets, current liabilities, revenue, and cost of sales for periods presented have been eliminated, as well as such effects on retained earnings at the beginning of the periods presented.

Similarly, under U.S. GAAP, Telefónica Móviles presents the statement of shareholders' equity as of the beginning of the year 2004 as though the assets and liabilities had been transferred at that date.

Under U.S. GAAP, the allocation performed in 2004 from this purchase was as follows:

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	<b>Millions of Euros</b>
Current assets	123.3
Property, plant and equipment	391.0
Intangible assets	135.6
Other long-lived assets	8.6
Goodwill	401.2
<i>Total assets acquired</i>	<i>1,059.7</i>
Current liabilities	160.5
Deferred tax liability	63.0
Long-term debt and other	158.1
<i>Total liabilities assumed</i>	<i>381.6</i>
<b>Total net assets acquired</b>	<b>678.1</b>

Under the accounting treatment required by U.S. GAAP, the amount paid to Telefónica Group companies in excess of the carrying value at the date of the acquisition is deducted from net equity, as it is considered a capital distribution. This amount is calculated by deducting the total net assets acquired amounting to

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678.1 million, as shown above, to the total acquisition cost which amounted to 865.7 million for U.S. GAAP purposes, considering the effect of translation differences as of each of the years presented under U.S. GAAP.

The following information presents a summary of the revenues, minority interests and net income from Telefónica Móviles consolidated and from Telefónica Móvil de Chile, S.A. in year 2004.

**Millions of Euros**

	<b>Móviles Group consolidated from January 1, 2004 to July 31, 2004</b>	<b>Telefónica Móvil Chile from January 1, 2004 to July 31, 2004</b>	<b>Móviles Group consolidated from August 1, 2004 to December 31, 2004</b>	<b>Móviles Group combined from January 1, 2004 to December 31, 2004  (*)</b>
Revenues	6,422	229	5,530	12,181
Minority interests	(5)	7	20	22
Net income	1,122	(5)	570	1,687

(\*) This column reflects the revenues, minority interests and net income as though the transfer of net asset had occurred at the beginning of the period. These amounts, thus, comprise those of the previously separate entities combined from the beginning of the period to the date the transfer is completed and those of the combined operations from that date to the end of the period.

The Basic EPS (Euros) if the transfer of net assets had occurred on January 1, 2004 would have been 0.39. The effect in the cash flows would have been insignificant.

- e) On March 5, 2004, Telefónica Móviles, S.A. reached an agreement with BellSouth Corporation ( BellSouth ) for the acquisition of all the holdings owned by Bellsouth in Argentina, Chile, Peru, Venezuela, Colombia, Ecuador, Uruguay, Guatemala, Nicaragua and Panama, making it the only cellular operator in all the key Latin American markets.

The effective transfer of the shares of these companies was conditional upon the obtainment of the required regulatory authorizations in each country and on the acceptance of the offers by the minority stockholders. The shares were effectively transferred in the last quarter of 2004. BellSouth's holdings in Ecuador, Guatemala and Panama were transferred on October 14, 2004, and the holdings in Colombia, Nicaragua, Peru, Uruguay and Venezuela were transferred on October 28, 2004. Lastly, the holdings in Chile and Argentina were transferred on January 7 and 11, 2005.

As indicated in Note 2.b to the financial statements, the consolidated statements of income include the revenues and expenses of the companies from the date on which the related holding was acquired or the company was formed through year-end. Therefore, the revenues relating to the companies acquired from BellSouth on October, 2004 relate to two months of operations.

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There are no Research and Development assets acquired in these companies. There are no contingent considerations in connection with the mentioned acquisitions.

The value assigned to each transaction and the acquisition cost for Telefónica Móviles under IFRS is described in Note 2.d. and are the same under US GAAP.

As of December 2004, the cost allocation was made on the basis of the preliminary conclusions drawn from the related valuation performed by independent appraisers. However, once the process of allocating the acquisition price to all the assets and liabilities of the companies acquired was completed at the end of 2005, the amounts of the goodwill recorded was modified in the form of reclassifications to other balance sheet captions. Such reclassifications are not material.

### **7) U.S. GAAP adjustments related to Brasilcel**

On December 27, 2002, Telefónica Móviles, S.A. and PT Móveis Serviços de Telecomunicações, SGPS, S.A. (PT Móveis) formed the joint venture Brasilcel, N.V. 50% owned by each company, through the contribution of all the shares directly or indirectly held by the two groups in the wireless communications companies in Brazil. As such, under IFRS Telefónica Móviles, S.A. accounts for its investment in Brasilcel, N.V.

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using the proportional integration method from the date mentioned above. For U.S. GAAP purposes, Brasilcel, N.V. would be accounted for under the equity method from such date. In addition, for 2005 and 2004, this reconciliation item includes the U.S. GAAP adjustments to shareholders' equity of the investment that would be accounted for under the equity method of accounting.

The fair value of the contribution to Brasilcel, N.V. of the wireless assets owned by Telefónica Móviles, S.A. was 1,898 million. Its balance sheet was proportionally consolidated in the consolidated financial statements and the results for the whole year of the Brazilian companies contributed by Telefónica Móviles were recorded in the consolidated statement of operations when this transfer was made (on December 27, 2002). Under U.S. GAAP, Telefónica Móviles, S.A. should consolidate these companies under equity method. According to EITF Issue 01-02 Interpretation of APB Opinion N° 29, the exchange of a consolidated business for an interest in a joint venture, should not result in the recognition of a gain, absent the receipt of cash or near cash consideration. As a consequence, Brasilcel, N.V. has been considered at the historical cost of the consolidated business in Brazil both for IFRS and U.S. GAAP purposes.

The main impacts in shareholders' equity as of December 31, 2005 and 2004, and in net income reconciliation as of December 31, 2005 and 2004, under U.S. GAAP are as follows:

		<b>Thousands of Euros</b>	
		<b>2005</b>	<b>2004</b>
Capitalized interest costs	Note 20.2	33,348	14,574
Business combinations, goodwill and other intangible assets	See below	608,262	440,670
Amortization method of licenses	Note 20.5		67,001
Others		5,919	3,923
Tax effect on the above adjustments		(13,351)	(18,483)
Effect of minority interests on the above adjustments		(14,508)	(20,401)
<b>Total effect in equity</b>		<b>619,670</b>	<b>487,284</b>
Capitalized interest costs	Note 20.2	13,611	4,428
Business Combinations, goodwill and other intangible assets	See below	25,185	19,769
Amortization method of licenses	Note 20.5		28,238
Others		719	1,372
Tax effect on the above adjustments		(4,872)	(11,403)
Effect of minority interests on the above adjustments		(2,421)	(1,034)
<b>Impacts in net income before cumulative effect of change in accounting principle</b>		<b>32,222</b>	<b>41,370</b>

Concerning business combinations, as explained above, differences between IFRS and U.S. GAAP arise principally because of the exemption granted by IFRS 1 First-time adoption of International Financial Reporting Standards not to apply IFRS 3 Business Combinations retrospectively to business combinations that occurred before the date of transition to IFRS, which is January 1, 2004. This means that the amount of goodwill recorded under Spanish GAAP as at January 1, 2004 is carried forward under IFRS.

The main effects considered in the adjustment for business combinations are the following:

- 1) On July 6, 2000, the Group acquired a 68.41% interest in Tele Sudeste Celular Participações, S.A. Under our former primary GAAP (Spanish GAAP), the goodwill that arose in this transaction was recorded based on the difference between the stated value of the shares issued and the fair value of the net assets acquired. Under U.S. GAAP, the goodwill resulting from this transaction would be based on the fair value of the shares issued. This additional consideration would result in additional goodwill for U.S. GAAP purposes.
  
- 2) In December 2001, a goodwill impairment analysis was performed on the Company's recorded goodwill. Based on this analysis, the Company determined that the goodwill related to Tele Sudeste Celular Participações, S.A. was impaired, and thus reduced the amount of goodwill recorded for U.S. GAAP purposes. This impairment charge was not necessary under IFRS because this additional goodwill impaired was not recognized in our primary GAAP financial statements (Spanish GAAP).

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**Telefónica Móviles, S.A.**

**8) Effect in inflation upon adoption of IFRS**

According to IAS 29 Financial reporting in hyperinflationary economies, the financial statements of an entity whose currency is the currency of a hyperinflationary economy shall be restated in terms of the measuring unit current at the balance sheet date. Hyperinflation is deemed to exist when certain indicators are present. For the purposes of our former primary GAAP (Spanish GAAP), price-level adjustments were accepted if the subsidiary operated in a country where the price-level adjustment was mandatory.

As described in Note 2, the Company has used the exemption provided by IFRS 1 First-time Adoption of International Financial Reporting Standards, and has not removed the cumulative effect of inflation recorded prior to first application of IFRS, relating to items of property, plant and equipment and intangible assets. Therefore, the previous GAAP restated amounts have been used as deemed cost of property, plant and equipment and intangible assets as of the transition date. After the adoption of IFRS our foreign subsidiaries' financial statements are no longer restated to include price-level adjustments. Under U.S. GAAP price-level adjustments are not permitted. The amounts shown in the reconciliation tables above include a difference in shareholders' equity to eliminate the cumulative effect of inflation that has not been removed upon adoption of IFRS (inflation as at January 1, 2004 related to non-current assets), and an increase in net income for the year, resulting from the recalculation of the period depreciation on a historical cost basis.

In prior years' Form 20-F the effect of inflation included in the primary financial statements prepared in accordance with Spanish GAAP was not considered in the reconciliation of shareholders' equity and net income from Spanish GAAP to U.S. GAAP, as permitted by Item 17 (c)(2)(iv)(A).

**9) Recognition of tax credits in period initially awarded and corporate income taxes**

Under IFRS a deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that: (a) is not a business combination; and (b) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). In addition under IFRS deferred tax asset and liabilities are considered to be non-current. We consider that the effect of the classification of tax assets and liabilities that would be considered as current under U.S. GAAP is not significant for the years presented.

Under U.S. GAAP an enterprise shall recognize all deferred tax liability or asset for all temporary differences and operating loss and tax credit carryforwards, independently if at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss), except for any temporary differences that arises from initial recognition of goodwill. Any recognized deferred tax assets should be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized. In addition, U.S. GAAP requires classification of deferred tax liabilities and assets as current or non-current based on the classification for financial reporting of the related non-tax asset or liability.

Except for the income tax effects of U.S. GAAP adjustments which are recorded in our reconciliations to U.S. GAAP, when applicable, and the balance sheet classification difference as disclosed below as of December 31, 2005 and 2004 we have not identified any significant difference

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from the application of IFRS and U.S. GAAP for tax matters.

	Thousands of Euros			
	12/31/2004		12/31/2005	
	Tax	Valuation	Tax	Valuation
	Asset	Allowance	Asset	Allowance
Prior Year Losses and temporary differences	2,096,850	(2,096,850)	2,006,210	(2,006,210)
Deductions (*)	200,609	(200,609)	87,927	(87,927)
<b>Total</b>	<b>2,297,459</b>	<b>(2,297,459)</b>	<b>2,094,139</b>	<b>(2,094,139)</b>

(\*) In July 15, 2004 there has been a European Court Decision that indicated that Spanish tax credits for export activities could be viewed as an illegal state government aid, which could restrict its future utilization. In

**Table of Contents****Telefónica Móviles, S.A.**

In addition, the European Community has asked Spain for additional information regarding such credits in order to reach a definitive conclusion of its usage. Therefore, given such evidence and indications, the Company has decided to record a valuation allowance in December 31, 2004 for such tax credits since it considered that it is more likely than not that some portion or all of such credits would not be realized. The difference in net income under U.S. GAAP amounting to 145.8 million corresponds to the valuation allowance performed under U.S. GAAP for the year ended 2004. As a consequence at December 31, 2004 the shareholders equity under both GAAP is the same.

**Additional disclosures required under U.S. GAAP****1) Use of estimates in preparation of the consolidated financial statements**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from such estimates.

**2) Changes in accounting principles**

As indicated in Notes 21.4 and 21.5 of our Form 20-F for the fiscal year ended December 31, 2004, filed with the Securities and Exchange Commission on June 23, 2005, Telefónica Móviles, S.A. adopted effective on January 1, 2004 the EITF 00-21, which supposes a change in accounting policy related with revenue recognition. As described in Note 2.c, under IFRS, the effect was accounted for by adjusting retained earnings recognized in equity in accordance with IFRS 1 First-Time Adoption of International Financial Reporting Standards.

As indicated in Note 20.5, Telefónica Móviles, S.A. adopted effective for US GAAP purposes on January 1, 2005 a change in the amortization method for its licenses, which involves a change in accounting principles. In accordance with U.S. GAAP (APB 20, Accounting changes) a change in the amortization method for previously recorded assets is a change in accounting principle, whereby the cumulative effect of the change is reflected in the current year's income statement (50,200 thousands, net of tax and minority interests).

The earnings per share (basic and diluted) computed on the change in the accounting principles are as follows:

	Thousands of Euros	
	12/31/2005	12/31/2004
<b>Basic:</b>		
Earnings per share before cumulative change in accounting principles	0.453	0.375
	(50,200)	

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Cumulative effect of a change in accounting principle, net of tax and minority interests (amortization method of licenses)		
Total effect of a change in accounting principles in revenue recognition, net of tax and minority interest	(49,052)	

### *Earnings per share*

Earnings per share after cumulative change in accounting principles	0.441	0.364
Weighted average number of common shares used in calculation (in thousands)	4,309,480	4,309,105

### **Diluted:**

Earnings per share before cumulative change in accounting principles	0.453	0.375
Effect of cumulative change in accounting principle, net of tax and minority interests (amortization method of licenses)	(50,200)	
Effect of cumulative change in accounting principle, net of tax and minority interests (EITF 00-21)		(49,052)

### *Earnings per share*

Earnings per share after cumulative change in accounting principles	0.441	0.364
Weighted average number of common shares used in calculation (in thousands)	4,310,611	4,310,131

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**Table of Contents****Telefónica Móviles, S.A.*****3) Stock option plan***

IFRS 2, Share-based Payment, was applied to share option schemes for employees granted on or after 7 November 2002, so that for the years ended December 31, 2004, and December 31, 2005, no compensation expense has been recorded under IFRS.

Under U.S. GAAP, the Company accounts for stock-based awards to employees using the intrinsic value method in accordance with APB 25, Accounting for Stock Issued to Employees. Compensation cost for stock options granted to employees is measured as the excess of the quoted market price of the Company's stock on the measurement date over the amount an employee must pay to acquire the stock (the intrinsic value), and is recognized over the vesting period. As this stock option plan permits at the option of the holder either exercise for cash or in shares, according to U.S. GAAP, the stock option plan currently in place should be accounted for as a variable plan. On December 31, 2004 the closing market share price was 9.26 and on December 31, 2005 the closing market share price was Euro 8.87. There are three tranches of Options: tranche A, with an exercise price of 11; tranche B, with an exercise price of 16.5 and tranche C, with an exercise price 7.235. Each beneficiary of the Program will receive an equal number of tranche A and tranche B options and a number of tranche C options equal to the sum of the tranche A and tranche B options received. For the tranche C options (in the money at the end of 2004 and 2005), the charge in net income for the years ended 2004 and 2005 would not have been significant nor would have been the effect in the basic earnings per share ratio for such periods.

Had compensation expense for options granted under the stock option plan currently in place been determined based on fair value at each of the period closing dates in accordance with SFAS No. 123, the Company's charge would not have been significant in net income for the years ended December 31, 2004 and 2005 or in the basic earnings per share ratio for such periods. Additionally, the weighted-average grant-date fair value of options granted during the year has been less than the market price of the stock on the grant date. The fair value of each option granted was estimated using the Black-Scholes option pricing model, for each option with the same vesting period, using the following average assumptions: December 31, 2004: risk-free interest rate of 2.27%; expected dividend yield of 2.07 percent; and assumed volatility of 17.75%, December 31, 2005 risk-free interest rate of 2.56%; expected dividend yield of 2.31 percent; and assumed volatility of 23.19%

The status of the Company's stock option plan as of December 31, 2005 and 2004 are explained in Note 18.

***4) Consolidation method***

For IFRS purposes, the financial statements of Brasilcel, N.V. and its dependent companies have been consolidated under the proportional integration method in 2004 and 2005. However, according to U.S. GAAP, Telefónica Móviles, S.A. should account for these investments under the equity method.

**Table of Contents****Telefónica Móviles, S.A.**

The following summarizes the effect on the balance sheet at December 31, 2005 and 2004, and on the statements of operations and cash flows for the years ended December 31, 2005 and 2004, of reversing the proportional consolidation of these investments and accounting for them under the equity method in accordance with U.S. GAAP:

	<u>Thousands of Euros</u>	<u>Thousands of Euros</u>
	<u>12/31/2005</u>	<u>12/31/2004</u>
<b>Condensed balance sheets</b>		
Intangible assets	(1,379,838)	(1,036,661)
Property, plant and equipment	(1,202,129)	(890,653)
Investments in associated companies	2,036,522	1,644,754
Other financial investments	(866,326)	(706,994)
Current assets	(1,242,021)	(948,358)
	<u>(2,653,792)</u>	<u>(1,937,912)</u>
<b>Total Assets</b>	<b>(2,653,792)</b>	<b>(1,937,912)</b>
Minority interests	(492,637)	(279,370)
Long-term liabilities	(1,028,986)	(502,095)
Current liabilities	(1,132,169)	(1,156,447)
	<u>(2,653,792)</u>	<u>(1,937,912)</u>
<b>Total Liabilities</b>	<b>(2,653,792)</b>	<b>(1,937,912)</b>

	<u>Thousands of Euros</u>	
	<u>12/31/2005</u>	<u>12/31/2004</u>
<b>Statement of income</b>		
Net revenues from operations	(1,889,350)	(1,502,324)
Other revenues	(65,918)	(48,507)
Operating Expenses:	1,857,984	1,353,167
Services and goods purchased	554,433	482,144
External services and local taxes	606,210	423,002
Personnel expenses	113,424	90,312
Other operating expenses	184,702	64,325
Depreciation and amortization	399,215	293,384
	<u>(97,284)</u>	<u>(197,664)</u>
Income of associates accounted under equity method	(89,392)	(22,828)
Financial expense	329,604	272,526
Financial income	(178,331)	(145,521)
	<u>(35,403)</u>	<u>(93,487)</u>
<b>Profit before tax</b>	<b>(35,403)</b>	<b>(93,487)</b>
Corporate income tax	36,612	50,383

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<b>Income before minority interests</b>	<b>1,209</b>	<b>(43,104)</b>
Share attributable to minority interests	(1,209)	43,104
<b>Income</b>		

Thousands of Euros

	<u>12/31/2005</u>	<u>12/31/2004</u>
<b>Condensed statements of cash flow</b>		
Net cash provided by operating activities	(247,695)	(144,054)
Net cash used in investing activities	301,272	435,652
Net cash used in financing activities	(368,856)	(303,385)
<b>Net change in cash and cash equivalents</b>	<b>(315,279)</b>	<b>(11,787)</b>
Cash and cash equivalents at beginning of year	(27,541)	(15,754)
<b>Cash and cash equivalents at year-end</b>	<b>(342,820)</b>	<b>(27,541)</b>

During 2004 and 2005 no dividend has been distributed by Brasilcel.

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**Telefónica Móviles, S.A.**

***5) Disclosure about fair value of financial instruments***

SFAS No. 107, Disclosure about Fair Value of Financial Instruments, requires the disclosure of estimated fair value of the Group's financial instruments at December 31, 2005 and 2004. The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such fair value:

a) Cash and short-term financial investments

The fair value of these investments is estimated based on listed market prices for those or similar investments. The carrying value of these investments approximates fair value because of the short maturity of those instruments.

b) Long-term financial investments

The fair value of certain investments is estimated based on listed market prices for those or similar investments. For investments for which there are no market prices, a reasonable estimate of fair value could not be made without incurring excessive costs. In view of the limited volume of these investments, the cost of their valuation based on an estimate of future cash flows discounted at market interest rates for investments of this type would be disproportionate with respect to the additional information to be gained thereby, and the Group's management considers that the difference between the book value and the fair value is not material.

c) Current assets

The carrying value for most of the current assets approximates fair value because of the relatively short period of time between the origination of the instruments and their expected realization.

d) Short-term payables

The carrying value for most of the short-term payables approximates fair value because of the relatively short period of time between the origination of the instruments and their expected settlement.

e) Payable to credit entities and Telefónica Group companies

The fair value of long-term debts was estimated based on the discounted value of future cash flows expected to be paid, using discount rates that reflect the relative risks involved.



## f) Derivatives

Swap agreements: the fair value is the estimated amount that the Company would receive or pay to terminate the swap agreements at the reporting date.

Where no comparison of book versus fair value is presented for a financial asset or liability line item in the schedule below, no significant difference in values is believed to exist.

	Thousands of Euros			
	Balance at 12/31/2005		Balance at 12/31/2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	_____	_____	_____	_____
<b>Liabilities:</b>				
Short-term payables	10,318,221	10,347,130	7,992,555	7,994,488
Security issues	420,610	430,656	59,431	59,431
Other payables	211,696	211,696	271,253	279,399
Payable to banks and other financial institutions	339,605	345,966	235,710	247,496
Payable to Telefónica Group companies	6,455,667	6,593,963	7,837,452	8,314,200
<b>Derivative financial instruments:</b>				
Foreign currency swaps, options and forwards	(271,152)	(271,152)	(209,080)	(209,080)
Interest rate swaps	(788)	(788)	(3,043)	(3,043)
Others	12,020	12,020	(11,419)	(11,419)

**Table of Contents****Telefónica Móviles, S.A.****6) Comprehensive income**

SFAS No. 130 defines comprehensive income as a measure of all changes in equity during a period that result from transactions and other economic events other than transactions with owners. The following represents the statement of comprehensive income prepared under U.S. GAAP (in thousands of euros):

	<u>12/31/2005</u>	<u>12/31/2004</u>
<b>Statement of Comprehensive Income</b>		
Net Income under U.S. GAAP	1,901,319	1,567,327
<i>Other Comprehensive Income:</i>		
Foreign currency translation differences	1,434,828	(300,757)
Derivatives and hedging activities net of tax	(8,548)	(18,056)
<b>Comprehensive income</b>	<b><u>3,327,599</u></b>	<b><u>1,248,514</u></b>

The following chart describes changes in accumulated Other comprehensive income :

	<b>Thousands of Euros</b>
	<b><u>Foreign Currency Items</u></b>
<b>Other Comprehensive Income</b>	
Ending balance at December 2003	(3,578,674)
Period change	(318,813)
Ending balance at December 2004	(3,897,487)
Period change	1,426,280
Ending balance at December 2005	(2,471,207)

The following chart describes the accumulated balances of Other comprehensive income as of December 31, 2004 and 2005:

	<b>Thousands of Euros</b>	
	<b><u>Year ended</u></b>	
	<u>12/31/2005</u>	<u>12/31/2004</u>
<b>Components of accumulated other comprehensive Income (Loss)</b>		
Foreign currency translation differences	(2,449,592)	(3,884,420)
Derivatives and hedging activities net of tax	(21,615)	(13,067)

<b>Comprehensive income</b>	<u>(2,471,207)</u>	<u>(3,897,487)</u>
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7) *Earnings per share*

The weighted-average shares outstanding for diluted earnings per share are not greater than such shares used in the basic earnings per share calculation since there are no dilutive shares to be issued.

	<u>12/31/2005</u>	<u>12/31/2004</u>
<b>Earnings per share (U.S. GAAP):</b>		
Basic	0.441	0.364
Diluted	0.441	0.364
<b>Weight average number of shares used in calculation: (Thousands)</b>		
Basic	4,309,480	4,309,105
Diluted	4,310,611	4,310,131

8) *Segment data*

As explained in the Note 15, the Group is organized and managed by geographic segments. We believe that this criterion is accepted under IFRS and U.S. GAAP, having therefore no differences in the segment reporting disclosure.

**Table of Contents****Telefónica Móviles, S.A.****9) External services (advertising)**

The Company advertises its branded services and products through national and regional media in the countries in which it operates. These advertising costs are expensed as incurred, and are charged against Other operating expenses. Advertising expenses for 2004 and 2005 amounted to 768,967 thousand and 1,075,027 thousand, respectively.

**10) Amortization of intangible assets**

The expected amortization for the next five years for those intangible assets owned by the Group as of December 31, 2005 for the next five years is as follows:

<b>Total Amortization</b>	<b>Millions of Euros</b>
2006	834
2007	670
2008	392
2009	261
2010	261
<b>Total</b>	<b>2,418</b>

**11) Financial statement classifications**

As it is explained in Consolidation method in the Additional Disclosures Required under U.S. GAAP, Brasilcel, N.V. and its dependent companies have been consolidated during 2004 and 2005 using the proportional integration method under IFRS. However, under U.S. GAAP, Telefónica Móviles, S.A. should account for these investments under the equity method. This caption summarizes the effect on the balance sheet at December 31, 2004 and 2005, and on the statements of operations and cash flows for the years ended December 31, 2004 and 2005, of reversing the proportional consolidation of these investments and accounting for them under the equity method in accordance with U.S. GAAP.

For U.S. GAAP purposes the liability method of accounting is used for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes. Under the liability method, deferred taxes are determined based on differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. The recognition criteria for deferred tax assets and liabilities under IFRS do not differ significantly from U.S. GAAP. The amount of deferred tax assets and liabilities are the same both under IFRS and U.S. GAAP, except as explained in Note 20.9.

For U.S. GAAP purposes, valuation allowances are recorded to reduce deferred tax assets, including credits and tax loss carryforwards, when it is more likely than not that a tax benefit will not be realized. The amounts of deferred tax assets and related allowances recorded under U.S. GAAP are explained in Note 20.9. In accordance with IAS 12, Income Taxes, an entity is required to recognize deferred tax assets if it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.

IAS 1, Presentation of financial statements, requires deferred tax assets and liabilities to be classified as non-current assets and non-current liabilities in the balance sheet. Under SFAS 109, Accounting for income taxes, classification is split between current and non-current components based on the classification of the underlying asset and liability. A deferred tax liability or asset that is not related to an asset or liability for financial reporting, including deferred tax assets related to tax loss carryforwards, shall be classified according to the expected reversal date of the temporary difference pursuant to FASB Statement No. 37, Balance sheet classification of deferred income taxes. The valuation allowance for a particular tax jurisdiction is allocated between gross current and non-current deferred tax assets for that tax jurisdiction on a pro rata basis. The deferred tax assets and liabilities classification difference based on underlying current assets are not material.

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Under U.S. GAAP SFAS 52, foreign currency translation, and IAS 21 the effects of changes in foreign exchange rates, exchange differences are not recycled from equity to income until sale of substantially complete liquidation of the investment. Telefónica Móviles has elected to reset to zero the accumulated translation differences as of the transition date to IFRS. This reclassification does not have any impact in shareholders equity at the date of transition. Consequently, all disposals of investments acquired before January 1, 2004, will generate a different result between U.S. GAAP and IFRS because under U.S. GAAP, the effect of foreign currency translation differences recorded before January 1, 2004 will be considered as part of the net result of the disposal.

**12) Financial expense and income**

The detail of financial expense is as follows:

	<b>Thousands of Euros</b>	
	<b>12/31/2005</b>	<b>12/31/2004</b>
Interest on payables to Telefónica s Group companies	535,881	328,662
Other interest on payables and loans	335,645	251,153
Exchange losses	759,628	511,662
<b>Total</b>	<b>1,631,154</b>	<b>1,091,477</b>

The detail of financial income is as follows:

	<b>Thousands of Euros</b>	
	<b>12/31/2005</b>	<b>12/31/2004</b>
Revenues from securities and loans	286,948	173,813
Exchange gains	885,127	435,793
<b>Total</b>	<b>1,172,075</b>	<b>609,606</b>

**13) New accounting standards**

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### *Statements of Financial Accounting Standards No. 123 (Revised 2004): Share-Based Payment*

In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Shared Based Payments* (SFAS 123R). This statement eliminates the option to apply the intrinsic value measurement provisions of Accounting Principles Board ( APB ) Opinion No. 25, *Accounting for Stock Issued to Employees* to stock compensation awards issued to employees. Rather, SFAS 123R requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award the requisite service period (usually the vesting period). SFAS 123R applies to all awards granted after the required effective date, December 15, 2005, and to awards modified, repurchased, or cancelled after that date. SFAS 123R will be effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005 and therefore we will apply this standard for U.S. GAAP purposes in our the fiscal year beginning January 1, 2006. The Company does not anticipate that adoption of this Standard will have a material effect on its financial position, results of operations, or cash flows.

### *SAB No. 107: Shared Based Payment*

On March 29, 2005, the SEC released a Staff Accounting Bulletin (SAB) relating to the FASB accounting standard for stock options and other share-based payments. The interpretations in SAB No. 107, *Share-Based Payment*, (SAB 107) express views of the SEC Staff regarding the application of SFAS No. 123 (revised 2004), *Share-Based Payment* (Statement 123R). Among other things, SAB 107 provides interpretive guidance related to the interaction between Statement 123R and certain SEC rules and regulations, as well as provides the Staff's views regarding the valuation of share-based payment arrangements for public companies. The Company does not anticipate that adoption of SAB 107 will have any effect on its financial position, results of operations or cash flows.

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**Telefónica Móviles, S.A.**

*Statements of Financial Accounting Standards No. 151: Inventory Costs An Amendment of ARB No. 43, Chapter 4*

On November 24, 2004, the FASB issued SFAS No. 151, *Inventory Cost*, a revision of ARB No. 43, Chapter 4. The amendments to SFAS No. 151 aim to improve financial information, stating that the expenses of inactive facilities, transportation costs, manipulation costs and scrap material costs should be recorded in the statement of operation as expenses of the period. The application of fixed cost to inventories should be based on the normal capacity of the production facilities. SFAS No. 151 will be applicable to valuation of Inventories for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after the date this Statement is issued. The Company does not anticipate that the adoption of SFAS No. 151 will have a material impact on its financial position, cash flows or results of operations.

*Statements of Financial Accounting Standards No. 153: Exchanges of Non-monetary Assets An Amendment of APB Opinion No. 29*

On December 16, 2004, the FASB issued SFAS NO.153, *Exchanges of Non-monetary Assets* an amendment of APB Opinion No. 29, which amends Accounting Principles Board Opinion No. 29 *Accounting for Nonmonetary Transactions*. This amendment is based on the idea that exchange transactions should be valued in accordance with the value of the exchanged assets. The exception made for similar non-monetary productive assets is eliminated and substituted by a more extensive exception related to non-monetary assets with a non-commercial consideration. APB No. 29 stated that the exchange transaction of a productive asset for a similar one should be recorded at the book value of the exchanged asset.

SAS No. 153 will be applicable for non-monetary asset exchange transactions occurring in fiscal periods beginning after June 15, 2005. The Company does not anticipate that the adoption of SFAS No. 153 will have a material impact on its financial position, cash flows or results of operations.

*Statements of Financial Accounting Standards No. 154: Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3*

On May, 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections* a replacement of APB Opinion No. 20 and FASB Statement No. 3. This Statement requires retrospective application to prior periods financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change.

SFAS No. 154 shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Early adoption is permitted for accounting changes and corrections of errors made in fiscal years beginning after the date the Statement is issued. The Company does not anticipate that the adoption of SFAS No. 154 will have a material impact on its financial position, cash flows or results of operations.



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*Statement of Financial Accounting Standards No. 155 Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140*

On February 2006 the FASB issued this Statement that amends FASB Statements No. 133, Accounting for Derivative Instruments and Hedging Activities, and No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. This Statement resolves issues addressed in Statement 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interests in Securitized Financial Assets.

This Statement permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial

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**Telefónica Móviles, S.A.**

instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends Statement 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This Statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. Earlier adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements, including financial statements for any interim period for that fiscal year. The Company does not anticipate that the adoption of this new statement at the required effective date will have a significant effect in its results of operations, financial position or cash flows.

*Statement of Financial Accounting Standards No. 156 Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140*

On March 2006 the FASB issued this Statement that amends FASB Statements No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, with respect to the accounting for separately recognized servicing assets and servicing liabilities.

The new Statement should be adopted as of the beginning of the first fiscal year that begins after September 15, 2006. The Company does not anticipate that the adoption of this new statement at the required effective date will have a significant effect in its results of operations, financial position or cash flows.

*The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*

On November 2, 2005, the FASB issued Financial Staff Position ( FSP ) FAS 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, which nullifies certain requirements of Emerging Issues Task Force ( EITF ) Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments and supersedes EITF Abstracts Topic No. D-44, Recognition of Other-Than-Temporary Impairment Upon the Planned Sale of a Security whose Cost Exceeds Fair Value. The guidance in this FSP will be applied to reporting periods beginning after December 15, 2005. The Company does not expect that the adoption of this guidance will have a material effect on its financial position, results of operations or cash flows.

*Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination*

At the June 15 and 16 EITF meeting, and further modified at the September 15, 2005 meeting, the EITF discussed Issue 05-6, Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination, ( EITF 05-6 ), and concluded on the appropriate amortization periods for leasehold improvements either acquired in a business combination or which were not preexisting and were placed in service significantly after, and not contemplated at, the beginning of the lease term. This Issue is effective for leasehold improvements (that are within the scope of this Issue) that are purchased or acquired in reporting periods beginning after June 29, 2005. The Company does not anticipate that the adoption of EITF 05-6 will have a material effect on its financial position, results of operations or cash flows.



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In addition, on January 31, 2006, Telefónica Móviles Argentina, S.A approved the measures necessary to carry out the merger by absorption of Telefónica Móviles Inversora S.A. and BA Celular Inversora S.A. into Telefónica Móviles Argentina, S.A. The merger will be effective as from January 1, 2006.

Exhibit I.

Subsidiaries and their holdings (1)	Holding		Móviles Group	Consolidation Method	Equity (2) (thousands of euros)			
	% Direct	% Indirect			Capital	Reserves	Profit	Interim Dividend
							(loss)	
<b>Brasilcel, N.V. (NETHERLANDS)</b> Joint Venture and holding Company for wireless communications services	50.00%		50.00%	PC	134	5,829,445	20,428	
Strawinskylaan 3105 - 1077ZX - Amsterdam								
<b>Vivo Brasil Comunicação Ltda (BRAZIL)</b> Holding company Rua da Consolação, 247-6ºandar sala 57-São Paulo-SP		100.00%	50.00%	PC	18		(19,040)	
<b>Tagilo Participações, S.A. (BRAZIL)</b> Intellectual and industrial property ownership		99.99%	50.00%	PC	127,566	6,723	(29)	
Rua Martiniano de Carvalho 851, 20 andar, Parte,Bela Vista, São Paulo								
<b>Sudestecel Participações, S.A. (BRAZIL)</b> Holding company		100.00%	50.00%	PC	698,697	(25,905)	(14,552)	
Rua Martiniano de Carvalho 851, 20 andar, Parte,Bela Vista, São Paulo								
<b>Avista Part. S.L. (BRAZIL)</b> Holding company		99.99%	50.00%	PC	223,084	(2,750)	(11,961)	
Rua da Consolação, 247-6ºandar sala 57- São Paulo-SP								
<b>Tele Sudeste Celular Participações,S.A. (BRAZIL)</b> Holding company		91.02%	45.51%	PC	752,026	269,062	200,603	
Prai de Botafogo 501,20 andar, parte bela Vista, São Paulo								
<b>Telerj Celular, S.A. (BRAZIL)</b> Wireless operator		100.00%	45.51%	PC	602,182	61,384	40,895	
Praia de Botafogo 501-5º a 8º Andares, Botafogo- Rio de Janeiro								
<b>Telest Celular, S.A. (BRAZIL)</b>		100.00%	45.51%	PC	130,514	43,985	11,341	

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Wireless operator

Avda Nossa Senhora da Penha 275-Praia de  
Santa Helena, Vitoria-Espíritu Santo

**TBS Celular Participações, S.A.**

**(BRAZIL)**

1.12%

96.26%

49.25%

PC 211,929

17,886

9,090

Holding company

Avda.Martiniano de Carvalho 851, 20 andar,  
parte São Paulo, São Paulo

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Subsidiaries and their holdings (1)	Holding		Consolidation		Equity (2)			
	% Direct	% Indirect	Móviles Group	Method	(thousands of euros)			Interim Dividend
					Capital	Reserves	Profit (loss)	
<b>Celular CRT Participações, S.A. (BRAZIL)</b> Holding company		67.44%	33.50%	PC	118,612	285,467	43,396	
Rua José Bonifacio, 245, Bon Fim, Porto Alegre - Rio Grande Do Sul								
<b>Celular CRT, S.A. (BRAZIL)</b> Wireless operator		100.00%	33.50%	PC	206,590	(13,283)		
Rua José Bonifacio, 245, Bon Fim, Porto Alegre - Rio Grande Do Sul								
<b>Tele Leste Celular Participações, S.A. (BRAZIL)</b> Holding company		50.67%	25.33%	PC	130,514	43,985	11,341	
Rua Silveria Martins, n 1036, Cabula, Salvador - Bahia								
<b>Telebahia Celular, S.A. (BRAZIL)</b> Wireless operator		100.00%	25.33%	PC	129,584	(22,312)	(33,458)	
Rua Silveria Martins, n 1036, Cabula, Salvador - Bahia								
<b>Telegipe Celular, S.A. (BRAZIL)</b> Wireless operator		100.00%	25.33%	PC	111,119	16,067	(27,502)	
Avda Francisco Porto 686, 13 de julho-Aracaju, Sergipe								
<b>Ptelecom Brasil, S.A. (BRAZIL)</b> Holding company		99.99%	49.99%	PC	956,470	(550,118)	(8,034)	
Rua Cubatao 320, 4andar, São Paulo, São Paulo								
<b>Portelcom Participações, S.A. (BRAZIL)</b> Holding company		99.99%	49.99%	PC	1,282,416	(262,214)	(21,975)	
Avda Brigadeiro Faria Lima 2277, 15ª andar, Conj1503, Jardim Paulistano, São Paulo								
<b>Telesp Celular Participações, S.A. (BRAZIL)</b> Holding company		66.08%	33.04%	PC	2,415,595	(638,385)	(289,184)	

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Av.Roque Petroni Júnior nº1464, 6  
andar-parte, bloco B, Morumbi, São  
Paulo,  
São Paulo

<b>Telesp Celular S.A. (BRAZIL)</b>	100.00%	33.04%	PC	788,151	269,812	55,565
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Holding company

Av.Roque Petroni Júnior nº1464, 6  
andar-parte, bloco B, Morumbi, São  
Paulo,  
São Paulo

<b>Telesp Celular internacional</b>	100.00%	33.04%	PC	1	13,128	
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Holding company

Av.Roque Petroni Júnior nº1464, 6  
andar-parte, bloco B, Morumbi, São  
Paulo,  
São Paulo

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**Table of Contents****Telefónica Móviles, S.A.**

Subsidiaries and their holdings (1)	Holding		Móviles Group	Consolidation Method	Equity (2) (thousands of euros)			
	% Direct	% Indirect			Capital	Reserves	Profit (loss)	Interim Dividend
<b>Telesp Celular overseas</b> Holding company Av.Roque Petroni Júnior nº1464, 6 andar-parte, bloco B, Morumbi, São Paulo, São Paulo		100.00%	33.04%	PC		12		
<b>Global Telcom Telecom S.A. (BRAZIL)</b> Wireless operator Av.Higienópolis, nº1635, Curitiba Parana		100.00%	33.04%	PC	1,465,752	(992,036)	(85,465)	
<b>Tele Centro Oeste Celular Participações, S.A. (BRAZIL)</b> Holding company and telecommunications operator for the commercial sector Sul,Quadra 2, Bloco C, nº226. Edif Telebrasil Celular, 7 andar, Brasilia DF		52.47%	17.34%	PC	370,022	522,995	106,443	
<b>Telegoiás Celular, S.A. (BRAZIL)</b> Wireless operator Rua 136-C,Quadra F-44, nº150, Sector Sul Goiania, Goias		100.00%	17.34%	PC	94,079	154,416	50,738	
<b>Telemat Celular, S.A. (BRAZIL)</b> Wireless operator Av.Getúlio Vargas nº1,300, Centro, Cuiabá, Matogrosso		100.00%	17.34%	PC	55,064	95,569	35,194	
<b>Telems Celular, S.A. (BRAZIL)</b> Wireless operator Av.Alfonso Pena nº2,386,Ed Dolor de Andrade, Campo Grande, Matogrosso Do Sul		100.00%	17.34%	PC	42,802	66,458	21,652	
<b>Teleron Celular, S.A. (BRAZIL)</b> Wireless operator Av.Getúlio Vargas nº1,941, Porto Velho, Rondonia		100.00%	17.34%	PC	13,504	21,405	4,242	
<b>Teleacre Celular, S.A. (BRAZIL)</b> Wireless operator Rua Minas Gerais, nº64, Ivete Vargas, Rio Branco-Acre		100.00%	17.34%	PC	7,175	11,189	575	
<b>Norte Brasil Telecom, S.A. (BRAZIL)</b> Wireless operator Travessa Padre Eutíquio nº1,226, Barrio Batista Campos, Belém, Para		100.00%	17.34%	PC	65,187	14,105	5,297	
		100.00%	17.34%	PC	4,151	(3,971)	(98)	



**Tele Centro Oeste IP, S.A.**  
**(BRAZIL)**

Wireless operator AC/Sul Quadra o2,  
Bloco C, n°256,

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Subsidiaries and their holdings (1)	Holding		Móviles Group	Consolidation Method	Equity (2) (thousands of euros)			
	% Direct	% Indirect			Capital	Reserves	Profit (loss)	Interim Dividend
AC/Sul Quadra o2, Bloco C, nº256, 3º Pavimento, Ed Toufic, Plano Piloto, Brasilia, DF								
<b>Telefónica Móviles El Salvador Holding, S.A. de C.V. (EL SALVADOR)</b>	100.00%		100.00%	FC	158,550	(63,950)	(336)	
Holding company Alameda Roosevelt y Avenida Sur.Torre Telefónica nivel 10-San Salvador								
<b>Telefónica Móviles El Salvador, S.A. de C.V. (EL SALVADOR)</b>		99.03%	99.03%	FC	59,346	(41,121)	(5,818)	
Operator of long distance, international wireless services. Alameda Roosevelt y Avenida Sur.Torre Telefónica nivel 10-San Salvador								
<b>Telefónica Multiservicios, S.A. de C.V. (EL SALVADOR)</b>		77.50%	76.75%	FC	7,528	(1,660)	(1,097)	
Cable modem system operator. Alameda Roosevelt y Avenida Sur.Torre Telefónica nivel 10-San Salvador								
<b>Telefónica Móviles Centroamérica, S.A. de C.V. (EL SALVADOR)</b>		100.00%	99.03%	FC	1,211	(63)	208	
Operative company Alameda Roosevelt y Avenida Sur.Torre Telefónica nivel 10-San Salvador								
<b>Telefónica El Salvador, S.A. de C.V. (EL SALVADOR)</b>		100.00%	99.03%	FC	21	(25)	(19)	
Operative company Alameda Roosevelt y Avenida Sur.Torre Telefónica nivel 10-San Salvador								
<b>TCG Holdings, S.A. (GUATEMALA)</b>	100.00%		100.00%	FC	351,160	(1,448)	183	
Holding company Bulevar Los Próceres 5-56 Zona 10 Univentro Nivel 11, Ciudad de Guatemala								
<b>Telefónica Móviles Guatemala, S.A. (GUATEMALA)</b>		100.00%	100.00%	FC	248,893	(148,303)	(2,006)	
Provision of wireless, wireline and radio paging communications services Bulevar Los Próceres 5-56 Zona 10 Univentro Nivel 11, Ciudad de Guatemala								
		70.00%	70.00%	FC	483	(170)	(48)	

**Infraestructura Internacional, S.A.**  
**(GUATEMALA)**

Provision of telecommunications and radio  
paging services  
5ª avenida, 7-76 Zona 10, Ciudad de  
Guatemala

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Subsidiaries and their holdings (1)	Holding		Móviles Group	Consolidation Method	Equity (2) (thousands of euros)			
	% Direct	% Indirect			Capital	Reserves	Profit (loss)	Interim Dividend
<b>PageMart de Centroamérica. (GUATEMALA)</b> Operative company Bulevar Los Próceres 5-56 Zona 10 Univentro Nivel 11, Ciudad de Guatemala		30.00%	30.00%	FC				
<b>Central America Servies Holding Ltd. (BRITISH VIRGIN ISLANDS)</b> Inactive company Palm Grove House, PO Box 438, tortola, BVI		100.00%	100.00%	FC				
<b>Telefónica Móviles España, S.A., unipersonal. (SPAIN)</b> Provision of wireless communications services Plaza de la Independencia 6 Pta.5 28001 MADRID	100.00%		100.00%	FC	476,514	393,360	2,104,850	(700,000)
<b>TLD Top Level Domain Ltd. (IRELAND)</b> Inactive company		5.00%	5.00%	C				
<b>Spiral Investments B.V. (NETHERLANDS)</b> Holding company Strawinskyiaan 3105 1077ZX Amsterdam		100.00%	100.00%	FC	38,535	(135,712)	(3,190)	
<b>3G Mobile AG. (SWITZERLAND)</b> Wireless operator Bahnhofplatz 4, 8001 Zurich		100.00%	100.00%	FC	35,432	(77,453)	(2,633)	
<b>Mobipay España, S.A. (SPAIN)</b> Provision of payment services through wireless telephony Avda. Europa 20 Alcobendas Madrid		13.36%	13.36%	EM	16,052	7,962	(4,791)	
<b>Solivella Investments B.V. (NETHERLANDS)</b> Holding company Strawinskyiaan 3105 1077ZX Amsterdam		100.00%	100.00%	FC	880,699	(1,412,276)	(90,041)	
<b>Ipse 2000, S.p.A. (ITALY)</b> Installation and execution of third-generation telecommunications services Piazza dei Capprettari, 70 Roma		45.59%	45.59%	EM	150,500	81,556	(1,223,388)	



**Table of Contents****Telefónica Móviles, S.A.**

Subsidiaries and their holdings (1)	Holding		Móviles Group	Consolidation Method	Equity (2) (thousands of euros)			
	% Direct	% Indirect			Capital	Reserves	Profit (loss)	Interim Dividend
<b>Group 3G UMTS Holding GmbH. (GERMANY)</b>		57.20%	57.20%	FC	250,025	(965,509)	(32,837)	
Network development and provision of third-generation telecommunications services Alois-Wolfmüller-Str.8 80939 München								
<b>Quam GmbH. (GERMANY)</b>		100.00%	57.20%	FC	250,025	9,001,113	(7,320)	
Provider of UMTS services Alois-Wolfmüller-Str.8 80939 München								
<b>Opcó Mobile Services GmbH. (GERMANY)</b>		100.00%	57.20%	FC	50	(1)		
Provider of UMTS services Alois-Wolfmüller-Str.8 80939 München								
<b>Medi Telecom, S.A. (MOROCCO)</b>		32.18%	32.18%	EM	427,935	(320,942)	11,273	
Provision of wireless communications services Twin Center, Tour A.Angle Bd Zertouni et El Massira El Kadra Casablanca								
<b>Terra Mobile, Brasil Ltd. (BRAZIL)</b>		100.00%	100.00%	FC	5,650	(5,634)		
Inactive company 22° ANDAR 17 Bairro ou Distrito FLAMENCO, Rio de Janeiro								
<b>Gruppo 3G, SRL. (ITALY)</b>		100.00%	100.00%	C	67			
Holding company Via Lepetit, 4 Milán								
<b>Tempos 21, Innovación en Aplicaciones Móviles, S.A. (SPAIN)</b>		38.50%	38.50%	EM	4,638		(3,331)	
Research, development and commercial operation of wireless services and applications Avda. Diagonal, 640 Barcelona								
<b>Simpay, Ltd. (UK)</b>	25.00%		25.00%	C				
Payment services through wireless telephony 62-65 Chandos Place, London WC2N 4LP								
<b>Omicron Ceti, S.L. (SPAIN)</b>	100.00%		100.00%	C				
Inactive company José Abascal, Madrid								
<b>Telefónica Móviles Puerto Rico, Inc. (PUERTO RICO)</b>	100.00%		100.00%	FC	83,593	(73,140)	(1,899)	
Ownership of wireless operators in Puerto Rico Metro Office Park Calle Edificio # 17, Suite 600 00968 Guaynabo								



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Subsidiaries and their holdings (1)	Holding		Móviles Group	Consolidation Method	Equity (2) (thousands of euros)			
	% Direct	% Indirect			Capital	Reserves	Profit (loss)	Interim Dividend
<b>Newcomm Wireless Services, Inc.</b> Wireless operator		49.30%	49.30%	C				
<b>OMTP Limited (Open Mobile Terminal Platform)</b> Inactive company	2.04%		2.04%	C				
<b>MobiPay Internacional, S.A. (SPAIN)</b> Provision of payment services through wireless telephony Avda. Europa 20 Alcobendas Madrid	50.00%		50.00%	PC	11,822	(3,579)	(2,420)	
<b>Telefónica Móviles Perú Holding, S.A. (PERU)</b> Holding company Avda. Arequipa, 1155 Lima, 01	97.97%		97.97%	FC	180,708	31,931	(4,328)	
<b>Telefónica Móviles Perú, S.A. (PERU)</b> Provision of wireless communications services. Avda. Arequipa 1155 Lima, 01	0.09%	99.89%	98.03%	FC	38,518	183,430	(4,704)	
<b>Inmuebles Aries SAC (PERU)</b> Services company		100.00%	98.03%	FC				
<b>Billing&amp;Management (PERU)</b> Services company		100.00%	98.03%	FC				
<b>Telefónica Móviles Argentina, S.A. (ARGENTINA)</b> Holding company Ing Huergo 723, piso 17 Capital Federal Argentina	100.00%		100.00%	FC	450,631	(732,505)	(138,249)	
<b>Telefónica Comunicaciones Personales, S.A. (ARGENTINA)</b> Provision of wireless communications services Ing Huergo 723, piso 17 Capital Federal Argentina		100.00%	100.00%	FC	344,664	(625,978)	(1,864)	
<b>Radio Servicios, S.A. (ARGENTINA)</b> Inactive company Ing Huergo 723, piso 17 Capital Federal Argentina		100.00%	100.00%	EM	12	(339)	(20)	
<b>Telefónica de Centroamérica, S.L. (SPAIN)</b> Inactive company Gran Vía, nº 28, Madrid	100.00%		100.00%	C	500	10	(127)	
<b>Telefónica Móviles Holding Uruguay, S.A. (URUGUAY)</b> Inactive company Plaza de la Independencia 8, planta baja Montevideo	100.00%		100.00%	FC	30,332		(299)	



<b>Telefonica Móviles Uruguay, S.A. (URUGUAY)</b>	100.00%	100.00%	FC	24,006	(88)
Inactive company Plaza de la Independencia 8, planta baja Montevideo					

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Subsidiaries and their holdings (1)	Holding		Móviles Group	Consolidation Method	Equity (2) (thousands of euros)			
	% Direct	% Indirect			Capital	Reserves	Profit (loss)	Interim Dividend
<b>Wireless Network Ventures. (BRITISH VIRGIN ISLANDS)</b>		100.00%	100.00%	FC				
Holding company Palm Grove House, PO Box 438, tortola, BVI								
<b>Telefónica Móviles México, S.A. de C.V. (MEXICO)</b>	100.00%		100.00%	FC	1,772,134	(1,468,501)	(405,943)	
Holding company Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120								
<b>Telefónica Finanzas México, S.A. de C.V. (MEXICO)</b>		100.00%	100.00%	FC	4	1,154	1,836	
Promotion, formation, organization, exploitation, operation and participation of companies' capital stock Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120								
<b>Baja Celular Mexicana, S.A. de C.V. (MEXICO)</b>		100.00%	100.00%	FC	119,189	(55,305)	2,071	
Provision of wireless local loop services Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120								
<b>Movitel de Noroeste, S.A. de C.V. (MEXICO)</b>		90.00%	90.00%	FC	17,269	(19,745)	(3,721)	
Provision of wireless local loop services Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120								
<b>Moviservicios, S.A. de C.V. (MEXICO)</b>		99.99%	99.99%	FC	2,221	744	13	
Technical, administrative, consultancy, advisory and supervision services. Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120								
<b>Telefonía Celular del Norte, S.A. de C.V. (MEXICO)</b>		100.00%	100.00%	FC	36,818	(107,693)	2,544	
Provision of wireless local loop services								

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Paseo de los Tamarindos No. 400-A,  
piso 4, Col. Bosques de las Lomas,  
México, D.F. 05120

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**Table of Contents****Telefónica Móviles, S.A.**

Subsidiaries and their holdings (1)	Holding		Móviles Group	Consolidation Method	Equity (2) (thousands of euros)			
	% Direct	% Indirect			Capital	Reserves	Profit (loss)	Interim Dividend
<b>Celular de Telefonía, S.A. de C.V. (MEXICO)</b> Provision of wireless local loop services Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120		100.00%	100.00%	FC	29,493	(144,927)	(17,880)	
<b>Enlaces del Norte, S.A. de C.V. (MEXICO)</b> Acquisition, disposal and custodianship of securities Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120		94.90%	94.90%	FC	44	(10,589)	12,151	
<b>Grupo de Telecomunicaciones Mexicanas, S.A. de C.V. (MEXICO)</b> Provision of wireless local loop services Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120		100.00%	97.40%	FC	702	(9,067)	25,506	
<b>Pegaso Telecomunicaciones, S.A. de C.V. (MEXICO)</b> Installation, maintenance and operation of public or private telecommunications networks Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120		100.00%	100.00%	FC	888,509	(1,924,445)	(387,046)	
<b>Pegaso Comunicaciones y Sistemas, S.A. de C.V. (MEXICO)</b> Provision of wireless local loop services Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120		100.00%	100.00%	FC	704,137	(1,380,697)	85,764	
<b>Pegaso PCS, S.A. de C.V. (MEXICO)</b> Provision of wireless local loop services Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120		100.00%	100.00%	FC	12,625	(388,644)	(521,986)	

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Subsidiaries and their holdings (1)	Holding		Móviles Group	Consolidation Method	Equity (2) (thousands of euros)			
	% Direct	% Indirect			Capital	Reserves	Profit (loss)	Interim Dividend
<b>Pegaso Recursos Humanos, S.A. de C.V. (MEXICO)</b> Technical professional services for the development of public telecommunications networks Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120		100.00%	100.00%	FC	2,781	950	(1,835)	
<b>Activos para Telecoms., S.A. de C.V. (MEXICO)</b> Provision of handsfree wireless telecommunications services Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120 05120		100.00%	100.00%	FC	4	(100,302)	74,728	
<b>Telecomunicaciones Punto a Punto Mexico, S.A. de C.V. (MEXICO)</b> Provision of handsfree wireless telecommunications services Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120		100.00%	100.00%	FC	4	(38,780)	(699)	
<b>Telefónica Telecomunicaciones México. (MEXICO)</b> Holding company Río Duero 31, México DF 06500	94.90%		94.90%	FC				
<b>Telefónica Móviles Soluciones y Aplicaciones, S.A. (CHILE)</b> Provision of computer and communications services Avda del Cóndor n°720, piso4, comuna de Huechuraba, de la Ciudad de Santiago de Chile	100.00%		100.00%	FC	13,956	(6,089)	(3,019)	
<b>Inversiones Telefónica Móviles Holding Limitada. (CHILE)</b> Holding company Av.El Bosque Sur 090, Las Condes, Santiago de Chile	100.00%		100.00%	FC	428,232	264,207	(32,396)	
<b>Pleyade Chile (CHILE)</b> Wireless operator Av.El Bosque Sur 090, Las Condes, Santiago de Chile		0.17%	0.17%	C				
<b>TEM Inversiones Chile Limitada. (CHILE)</b> Holding company		100.00%	100.00%	FC	1,119,977	12,483	(25,202)	

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Av.El Bosque Sur 090, Las Condes,  
Santiago de Chile

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**Table of Contents****Telefónica Móviles, S.A.**

Subsidiaries and their holdings (1)	Holding		Móviles Group	Consolidation Method	Equity (2) (thousands of euros)			
	% Direct	% Indirect			Capital	Reserves	Profit (loss)	Interim Dividend
<b>Telefónica Moviles Chile Distribucion S.A. (CHILE)</b> Wireless operator Fidel Oteza 1953, Oficina 201, Providencia, Santiago de Chile		100.00%	99.99%	FC	17		(39)	
<b>Telefónica Moviles de Chile S.A. (CHILE)</b> Wireless operator Av.El Bosque Sur 090, Las Condes, Santiago de Chile		100.00%	100.00%	FC	292,639	(47,620)	(170,589)	
<b>TEM eServices Latin America, Inc. (USA)</b> Provider of computer services Mellon Financial Center 1111 Brickell ave. Suite 1000, Miami, Florida 33131	100.00%		100.00%	FC	12,131	(1,786)	4,617	
<b>Ecuador Cellular Holding, B.V. (ECUADOR)</b> Holding company Strawinskylaan 3105 1077ZX Amsterdam	100.00%		100.00%	FC	18	640,172	132	
<b>BS Ecuador Holdings, Ltd. (BRITISH VIRGIN ISLANDS)</b> Holding company Palm Grove House, PO Box 438, tortola, BVI		100.00%	100.00%	FC				
<b>Otecel, S.A. (ECUADOR)</b> Provision of wireless communications services Avda. de la República y la Pradera esq. Casilla, Quito		100.00%	100.00%	FC	93,749	62,908	2,561	
<b>Cellular Holdings (Central America), Inc. (BRITISH VIRGIN ISLANDS)</b> Inactive company Palm Grove House, PO Box 438, tortola, BVI	100.00%		100.00%	FC				
<b>Guatemala Cellular Holdings, B.V. (NETHERLANDS)</b> Holding company Strawinskylaan 3105 1077ZX Amsterdam	100.00%		100.00%	FC	18	27,712	(13)	
<b>TMG (BVI) Holdings Ltd. (BRITISH VIRGIN ISLANDS)</b> Inactive company Palm Grove House, PO Box 438, tortola, BVI		100.00%	100.00%	FC				
<b>Centram Communications, LP. (BRITISH VIRGIN ISLANDS)</b>		100.00%	100.00%	FC				

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Inactive company  
Palm Grove House, PO Box 438, tortola,  
BVI

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Subsidiaries and their holdings (1)	Holding		Móviles Group	Consolidation Method	Equity (2) (thousands of euros)			
	% Direct	% Indirect			Capital	Reserves	Profit (loss)	Interim Dividend
<b>TEM Guatemala Ltd. (BRITISH VIRGIN ISLANDS)</b> Holding company Palm Grove House, PO Box 438, tortola, BVI		100.00%	100.00%	FC				
<b>Multi Holding Corporation. (PANAMA)</b> Holding company Edificio HSBC, Piso11, Avd Samuel Lewis, Panamá, República de Panamá	99.96%		99.96%	FC				
<b>Panamá Cellular Holdings, B.V. (NETHERLANDS)</b> Holding company Strawinskylaan 3105 1077ZX Amsterdam	100.00%		100.00%	FC	18	243,367	(7,404)	
<b>BellSouth Panamá, Ltd. (CAYMAN ISLANDS)</b> Inactive company Cayman Islands		100.00%	100.00%	FC				
<b>Panamá Cellular Holdings, B.V. (USA)</b> Holding company Delaware, USA		100.00%	100.00%	FC				
<b>BSC de Panama Holdings, SRL. (PANAMA)</b> Holding company Avda Samuel Lewis y Calle 54 Edificio Afra, Panamá		100.00%	100.00%	FC		100,646	2,082	
<b>BSC Cayman. (CAYMAN ISLANDS)</b> Inactive company General Partnership Cayman Islands		100.00%	99.98%	FC				
<b>Telefónica Móviles Panamá, S.A. (PANAMA)</b> Wireless operator Edificio Magna Corp. Calle 51 Este y Avda Manuel Maria Icaza, Ciudad de Panamá		100.00%	100.00%	FC	78,096	110,287	41,639	
<b>Panamá Cellular Investments, LLC. (USA)</b> Services company Delaware, USA		100.00%	100.00%	FC				
<b>Latin America Cellular Holdings, B.V. (NETHERLANDS)</b> Holding company Strawinskylaan 3105 1077ZX Amsterdam	100.00%		100.00%	FC	18	1,251,407	(17,205)	
<b>Ablitur, S.A. (URUGUAY)</b> Holding company Constituyente 1467 Piso 23, Montevideo 11200, Uruguay		100.00%	100.00%	FC	44,799	(10,623)	8,765	



**Table of Contents****Telefónica Móviles, S.A.**

Subsidiaries and their holdings (1)	Holding		Móviles Group	Consolidation Method	Equity (2) (thousands of euros)			
	% Direct	% Indirect			Capital	Reserves	Profit (loss)	Interim Dividend
<b>Redanil, S.A. (URUGUAY)</b> Holding company Constituyente 1467 Piso 23, Montevideo 11200, Uruguay	27.00%	73.00%	100.00%	FC	6,318	21,086	1,203	
<b>Abiatar, S.A. (URUGUAY)</b> Wireless operator and services Constituyente 1467 Piso 23, Montevideo 11200, Uruguay		100.00%	100.00%	FC	6,880	24,987	659	
<b>T.Móviles Nicaragua, S.A. (NICARAGUA)</b> Holding company Managua, Nicaragua		100.00%	100.00%	FC				
<b>Pisani Resources y Cía, Ltd. (NICARAGUA)</b> Inactive company Managua, Nicaragua		100.00%	100.00%	FC				
<b>Doric Holding y Cía, Ltd. (NICARAGUA)</b> Inactive company Managua, Nicaragua		100.00%	100.00%	FC				
<b>Kalamai Holdings, Ltd. (Virgin Islands)</b> Inactive company Managua, Nicaragua		100.00%	100.00%	FC				
<b>Kalamai Hold. Y Cía, Ltd. (NICARAGUA)</b> Inactive company Palm Grove House, PO Box 438, tortola, BVI		100.00%	100.00%	FC				
<b>Telefonía Celular de Nicaragua, S.A. (NICARAGUA)</b> Wireless operator Carretera Mazalla, Managua, Nicaragua		100.00%	100.00%	FC	12,329	35,317	(6,957)	
<b>Comtel Comunicaciones Telefónicas, S.A. (VENEZUELA)</b> Holding company Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 Venezuela	65.14%	34.86%	100.00%	FC	671	104,192	(107,421)	
<b>Telcel, C.A. (VENEZUELA)</b> Wireless operator Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 Venezuela	91.63%	8.37%	100.00%	FC	26,195	430,240	187,980	
<b>Sistemas Timetrac, C.A. (VENEZUELA)</b> Fleet locating services Calle Pantin, Edificio Grupo Secusat, piso3, Caracas Venezuela		75.00%	75.00%	FC	1,689	9,601		
		100.00%	100.00%	FC		127		

**Telcel International, Ltd. (CAYMAN ISLANDS)**

Holding company  
Cayman Islands

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Subsidiaries and their holdings (1)	Holding		Móviles Group	Consolidation Method	Equity (2)			
	% Direct	% Indirect			(thousands of euros)			
					Capital	Reserves	Profit (loss)	Interim Dividend
<b>Corporación 271191, C.A. (VENEZUELA)</b> Telecommunication services and customer services Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela		100.00%	100.00%	FC	211			
<b>Promociones 4222, C.A. (VENEZUELA)</b> Sale and purchase of real estate Av. Francisco de Miranda, Edif Parque Cristal		100.00%	100.00%	FC	745	(731)		
<b>S.T. Mérida, C.A. (VENEZUELA)</b> Telecommunication services and customer services Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 Venezuela		100.00%	100.00%	FC	1	(1)		
<b>S.T. Ciudad Ojeda, C.A. (VENEZUELA)</b> Telecommunication services and customer services Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 Venezuela		100.00%	100.00%	FC	1	(1)		
<b>S.T. San Cristóbal, (VENEZUELA)</b> Telecommunication services and customer services Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 Venezuela		100.00%	100.00%	FC	1			
<b>S.T. Maracaibo, C.A. (VENEZUELA)</b> Telecommunication services and customer services Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 Venezuela		100.00%	100.00%	FC	2	9		
<b>S.T. Punto Fijo, C.A. (VENEZUELA)</b> Telecommunication services and customer services Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 Venezuela		100.00%	100.00%	FC	1	(1)		
<b>S.T. Valera, C.A. (VENEZUELA)</b> Telecommunication services and customer services Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 Venezuela		100.00%	100.00%	FC	1	(1)		
<b>S.T. Valencia, C.A. (VENEZUELA)</b> Inactive company Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 Venezuela		100.00%	100.00%	FC				



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Subsidiaries and their holdings (1)	Holding		Móviles Group	Consolidation Method	Equity (2)			
	% Direct	% Indirect			(thousands of euros)			
					Capital	Reserves	Profit (loss)	Interim Dividend
<b>SyRed, T.E.L., C.A. (VENEZUELA)</b> Telecommunication services and customer services Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 Venezuela		100.00%	100.00%	FC	70	(141)		
<b>Servicios Telcel Acarigua, C.A. (VENEZUELA)</b> Inactive company Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 Venezuela		100.00%	100.00%	FC				
<b>Servicios Telcel Barquisimeto, C.A. (VENEZUELA)</b> Inactive company Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 Venezuela		100.00%	100.00%	FC				
<b>Serv. Telcel Charallave. (VENEZUELA)</b> Inactive company Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 Venezuela		100.00%	100.00%	FC				
<b>S.T. Cumana, C.A. (VENEZUELA)</b> Inactive company Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 Venezuela		100.00%	100.00%	FC				
<b>S.T. Guarenas, C.A. (VENEZUELA)</b> Inactive company Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 Venezuela		100.00%	100.00%	FC				
<b>S.T. Los Teques, C.A. (VENEZUELA)</b> Inactive company Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 Venezuela		100.00%	100.00%	FC				
<b>S.T. Maracay, C.A. (VENEZUELA)</b> Inactive company Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 Venezuela		100.00%	100.00%	FC				
<b>S.T. Margarita, C.A. (VENEZUELA)</b> Inactive company Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 Venezuela		100.00%	100.00%	FC				

**Table of Contents****Telefónica Móviles, S.A.**

Subsidiaries and their holdings (1)	Holding		Móviles Group	Consolidation Method	Equity (2) (thousands of euros)			
	% Direct	% Indirect			Capital	Reserves	Profit (loss)	Interim Dividend
<b>S.T. Maturín, C.A. (VENEZUELA)</b> Inactive company Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 Venezuela		100.00%	100.00%	FC				
<b>S.T. Puerto Ordaz, C.A. (VENEZUELA)</b> Inactive company Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 Venezuela		100.00%	100.00%	FC				
<b>S.T. Puerto la Cruz, CA. (VENEZUELA)</b> Inactive company Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 Venezuela		100.00%	100.00%	FC				
<b>S.T. La Guaira, C.A. (VENEZUELA)</b> Inactive company Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 Venezuela		100.00%	100.00%	FC				
<b>Olympic, Ltda. (COLOMBIA)</b> Holding company Av.82 n° 10 62, piso 6		100.00%	100.00%	FC	31	935,732	(18,134)	
<b>Telefónica Móviles Colombia, S.A. (COLOMBIA)</b> Wireless operator Calle 100 n°7-33, piso 15, Bogotá Colombia	22.44%	77.56%	100.00%	FC	347	1,113,632	1,568	
<b>Bautzen Inc. (PANAMA)</b> Financial management Ciudad de Panamá		100.00%	100.00%	FC	255	(244)		
<b>Comoviles S.A. (COLOMBIA)</b> Telecommunications services Calle 100, n°7-33, piso 17, Bogotá		99.97%	99.97%	FC		206	(8)	
<b>Comunicaciones Trunking S.A. (COLOMBIA)</b> Telecommunications services Calle 100, n°7-33, piso 16, Bogotá		99.98%	99.95%	FC	21	79	(8)	
<b>Paracomunicar S.A. (COLOMBIA)</b> Telecommunications services Calle 100, n°7-33, piso 17, Bogotá		99.35%	99.31%	FC		2	4	
<b>Kbrocom Electrónica Ltda. (COLOMBIA)</b> Telecommunications services Calle 100, n°7-33, piso 15, Bogotá		100.00%	99.95%	FC	53	(20)	(1)	





**Table of Contents****Telefónica Móviles, S.A.**

Subsidiaries and their holdings (1)	Holding		Móviles Group	Consolidation Method	Equity (2) (thousands of euros)			
	% Direct	% Indirect			Capital	Reserves	Profit (loss)	Interim Dividend
<b>Telefónica Móviles Chile Inversiones. S.A. (CHILE)</b> Holding company Avda. El Bosque Sur 090, Las Condes, Santiago de Chile	100.00%		100.00%	FC	31,722	(44,657)	(1,787)	
<b>Telefónica Moviles Chile larga Distancia, S.A. (CHILE)</b> Wireless operator Avda. El Bosque Sur 090, Las Condes, Santiago de Chile		100.00%	100.00%	FC	31,747	(45,286)	(582)	
<b>Telefónica Moviles Chile, S.A. (CHILE)</b> Wireless operator Avda. El Bosque Sur 090, Las Condes, Santiago de Chile	100.00%		100.00%	FC	341,618	8,795	10,620	
<b>Intertel, S.A. (CHILE)</b> Wireless operator Avda. El Bosque Sur 090, Las Condes, Santiago de Chile		100.00%	100.00%	FC		15	(1)	
<b>Telefonica Moviles Inversora.S.A. (ARGENTINA)</b> Holding company Av. Libertador 602, Piso 20, Buenos Aires		100.00%	100.00%	FC	24	424	(173)	
<b>B.A. Celular Inversora.S.A. (ARGENTINA)</b> Holding company Av. Libertador 602, Piso 4, Buenos Aires		100.00%	100.00%	FC	24	405	(168)	
<b>Compañía Radiocomunicaciones Móviles.S.A. (ARGENTINA)</b> Wireless operator Ingeniero Butty 240, Piso 4, Buenos Aires.	27.26%	72.74%	100.00%	FC	7,760	112,574	(42,509)	
<b>Compañía de telefonos del Plata. (ARGENTINA)</b> Wireless operator Av. Libertador 602, Piso 4, Buenos Aires		100.00%	100.00%	FC	7	861	(25)	

(1) The data on companies outside the euro zone were translated to euros by applying the year-end exchange rates to capital and reserves and the average exchange rates for the period to their results.

(2) This caption does not include the equity of minority stockholders.

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*Detail of the equity interests in companies engaging in a similar activity and the performance of similar activities of the directors on their own behalf or on behalf of third parties*

The following table lists the companies engaging in an activity that is identical, similar or complementary to the corporate purpose of Telefónica Móviles, S.A., in which the members of the Board of Directors own equity interests, and of the functions, if any, that they discharge in them.

<u>Name</u>	<u>Investee</u>	<u>% ownership</u>	<u>Activity</u>	<u>Position held or functions performed</u>
Antonio Viana-Baptista	Telefónica, S.A.	< 0.01%	Telecommunications	Director
Antonio Viana Baptista	Portugal Telecom., SGPS.	< 0.01%	Telecommunications	Director
Antonio Viana Baptista	PT Multimedia	< 0.01%	Internet	Director
José María Álvarez-Pallete	Telefónica, S.A.	< 0.01%	Telecommunications	Management committee Member
Maximino Carpio García	Telefónica, S.A.	< 0.01%	Telecommunications	Director
José María Más Millet	Telefónica, S.A.	< 0.01%	Telecommunications	None
Javier Echenique Landiribar	Telefónica, S.A.	< 0.01%	Telecommunications	None
Luis Lada Díaz	Telefónica, S.A.	< 0.01%	Telecommunications	Director
Luis Lada Díaz	Sogecable, S.A.	< 0.01%	Television, telecommunications and audiovisual production services	Director
Fernando de Almansa Moreno-Barreda	Telefónica, S.A.	< 0.01%	Telecommunications	Director
Antonio Massanell Lavilla	Telefónica, S.A.	< 0.01%	Telecommunications	Director
Alejandro Burillo Azcárraga	PanAmsat, S.R.L. de C.V.	51%	Satellite capacity provider	None
Alejandro Burillo Azcárraga	Grupo Wcom, S.A. de C.V.	99%	Value added satellite services	None
Alejandro Burillo Azcárraga	Corporativo Wcom, S.A. de C.V.	99%	Value added satellite services	None
Alejandro Burillo Azcárraga	Televisión Internacional, S.A. de C.V.	11.7%	Cable services, internet and telephone signals	None

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The table below gives details of activities carried out, on their own behalf or on behalf of third parties, by the various members of the Company Board of Directors that are identical, or similar or complementary to those of the corporate purpose of Telefónica Móviles, S.A.

<b>Name</b>	<b>Activity</b>	<b>Arrangement under which the activity is performed</b>	<b>Company through which the activity is performed<sup>1</sup>&lt;0</b>	<b>Positions held or functions performed</b>
Antonio Viana-Baptista	Telecommunications	Employee	Telefónica, S.A.	Director
Antonio Viana-Baptista	Wireline telecommunications	Employee	Telefónica Internacional, S.A.	Director
Antonio Viana-Baptista	Wireless telecommunications	Employee	Telefónica Móviles España, S.A.	Chairman
Antonio Viana-Baptista	Telecommunications	Employee	Cesky Telecom, a.s.	Supervisory Board Member
Antonio Viana-Baptista	Wireline telecommunications	Employee	Telefónica de España, S.A.	Director
Antonio Viana-Baptista	Wireless telecommunications	Employee	Brasilcel, N.V.	Director
Antonio Viana-Baptista	Wireless telecommunications	Employee	Portugal Telecom., SGPS	Director
José María Álvarez-Pallete	Telecommunications	Employee	Telefónica, S.A.	Management Committee Member
José María Álvarez-Pallete	Wireline telecommunications	Employee	Telefónica Internacional, S.A.	Executive Chairman
José María Álvarez-Pallete	Data telecommunications	Employee	Telefónica Datacorp, S.A.	Director
José María Álvarez-Pallete	Wireline telecommunications	Employee	Telefónica de España, S.A.	Director
José María Álvarez-Pallete	Wireless telecommunications	Employee	Telefónica Móviles, S.A.	Director
José María Álvarez-Pallete	Wireline telecommunications	Employee	Telefónica de Argentina, S.A.	Director (Vice chairman)
José María Álvarez-Pallete	Wireline telecommunications	Employee	Telecomunicaciones de Sao Paulo, S.A.	Director (Vice chairman)
José María Álvarez-Pallete	Wireline telecommunications	Employee	Compañía de Telecomunicaciones de Chile, S.A.	Director
José María Álvarez-Pallete	Telecommunications	Employee	Telefónica Mundo, S.A.	Director
José María Álvarez-Pallete	Wireline telecommunications	Employee	Telefónica del Perú, S.A.A.	Director
José María Álvarez-Pallete	Telecommunications	Employee	Telefónica Larga Distancia de Puerto Rico, Inc.	Director
José María Álvarez-Pallete	Telecommunications	Employee	Compañía Internacional de Telecomunicaciones,	Director

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José María Álvarez-Pallete	Telecommunications	Employee	S.A. Telefónica Internacional Chile, S.A.	Director
José María Álvarez-Pallete	Telecommunications	Employee	Telefónica Holding Argentina, S.A.	Director
José María Álvarez-Pallete	Telecommunications	Employee	Cesky Telecom, a.s.	Director

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**Table of Contents****Telefónica Móviles, S.A.**

<b>Name</b>	<b>Activity</b>	<b>Arrangement under which the activity is performed</b>	<b>Company through which the activity is performed<sup>1</sup>&lt;0</b>	<b>Positions held or functions performed</b>
José María Álvarez-Pallete	Wireline telecommunications	Employee	China Netcom Corporation.	Director
Maximino Carpio García	Telecommunications	Employee	Telefónica, S.A.	Director
Maximino Carpio García	Telecommunications equipment provider	Employee	Abengoa, S.A.	Advisory Committee Member
Fernando de Almansa Moreno-Barreda	Telecommunications	Employee	Telefónica, S.A.	Director
Fernando de Almansa Moreno-Barreda	Wireline telecommunications	Employee	Telefónica Internacional, S.A.	Director
Fernando de Almansa Moreno-Barreda	Wireline telecommunications	Employee	Telefónica de Argentina, S.A.	Director
Fernando de Almansa Moreno-Barreda	Wireline telecommunications	Employee	Telecomunicaciones de Sao Paulo, S.A.	Director

<sup>1</sup> fn

<b>Name</b>	<b>Activity</b>	<b>Arrangement under which activity is performed</b>	<b>Company through which activity is performed</b>	<b>Position held or functions performed</b>
Fernando de Almansa Moreno-Barreda	Wireline telecommunications	Employee	Telefónica del Perú, S.A.	Director
Luis Lada Díaz	Telecommunications	Employee	Telefónica, S.A.	Director
Luis Lada Díaz	Wireline telecommunications	Employee	Telefónica Internacional, S.A.	Director
Luis Lada Díaz	Television, telecommunications and audiovisual production services	Employee	Sogetcable, S.A.	Director
Luis Lada Díaz	Telecommunications	Employee	Cesky Telecom a.s.	Vice chairman
Javier Echenique Landiribar	Wireless telecommunications	Employee	Telefónica Móviles México, S.A.	Director
Antonio Massanell Lavilla	Telecommunications	Employee	Telefónica, S.A.	Director
Lars M. Berg	Wireless telecommunications	Employee	TELCEL, S.A.	Director
Lars M. Berg	Wireless telecommunications	Employee	Telefónica Móviles Colombia, S.A.	Director
Alejandro Burillo Azcárraga	Wireless telecommunications	Employee	Pegaso, S.A.	Director

**EXHIBIT III.****Description of market-sensitive financial instruments.**

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The tables below describe financial instruments designed to hedge interest and exchange rate risk at the companies consolidated by the Telefónica Móviles Group.

The tables were prepared using the following criteria:

Borrowings were classified according to their financial characteristics, bearing in mind the effect of the associated derivatives. They are classified by the currency in which they are denominated into one of the following categories:

Euro (EUR)

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**Telefónica Móviles, S.A.**

US dollar (USD)

Latin American currencies (ARS Argentine peso; BRL Brazilian real; CLP Chilean peso; COP Colombian peso; PEN Peruvian sol; MXN Mexican peso; GTQ Guatemala quetzal)

Japanese yen (JPY)

Moroccan dirham (MAD)

Each category is subdivided into:

Floating rate

Fixed rate

Each column contains the amount of debt due to mature in the next five years, broken down by year. The total column sums the yearly amounts.

Face values do not include accrued interest.

*Note: The assets included in this table relate exclusively to derivative financial products*

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**Table of Contents****Telefónica Móviles, S.A.****TELEFÓNICA MÓVILES GROUP'S MARKET-SENSITIVE FINANCIAL INSTRUMENTS****Instruments outstanding at December 31, 2005**

(Millions of Euros)

	Maturity					Subsequent years	TOTAL
	2006	2007	2008	2009	2010		
<b>EURO</b>	<b>2,320</b>	<b>2,297</b>	<b>487</b>	<b>1,270</b>	<b>479</b>	<b>-22</b>	<b>6,830</b>
Floating rate	2,061	2,094	259	1,227	310	-22	5,930
Spread to Euribor	0.59%	1.52%	-0.08%	0.54%	0.58%	-7.42%	0.91%
Fixed rate	259	203	228	43	168		900
Interest rate	5.42%	5.84%	3.22%	3.63%	6.43%		5.06%
<b>AMERICAS</b>	<b>2,135</b>	<b>738</b>	<b>429</b>	<b>1,180</b>	<b>483</b>	<b>477</b>	<b>5,443</b>
<b>Instruments in USD</b>	<b>-162</b>	<b>-7</b>	<b>96</b>	<b>972</b>	<b>58</b>	<b>341</b>	<b>1,298</b>
Floating rate	-132	-118	10	907	12	73	753
Spread	-2.94%	-0.55%	61.78%	0.04%	0.77%	0.56%	1.53%
Fixed rate	-30	111	86	64	47	268	546
Interest rate	3.32%	5.10%	4.09%	4.75%	5.61%	5.53%	5.26%
<b>Instruments in ARS</b>	<b>126</b>	<b>57</b>					<b>183</b>
Floating rate							
Spread							
Fixed rate	126	57					183
Interest rate	7.35%	9.48%					8.01%
<b>Instruments in BRL</b>	<b>532</b>	<b>444</b>	<b>18</b>	<b>37</b>	<b>145</b>	<b>17</b>	<b>1,193</b>
Floating rate	365	444	18	37	145	17	1,026
Spread	0.19%	0.12%	0.12%			3.95%	0.19%
Fixed rate	167						167
Interest rate	10.40%						10.40%
<b>Instruments in CLP</b>	<b>430</b>	<b>82</b>	<b>180</b>	<b>79</b>			<b>771</b>
Floating rate	260		20	18			298
Spread			-0.35%	-0.33%			-0.04%
Fixed rate	170	82	160	62			474
Interest rate	4.05%	4.49%	4.82%	5.14%			4.53%
<b>Instruments in UFC</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>4</b>
Floating rate							
Spread							
Fixed rate	1	1	1	1	1	1	4
Interest rate	7.85%	7.85%	7.85%	7.85%	7.85%	7.85%	7.85%
<b>Instruments in PEN</b>	<b>138</b>	<b>25</b>					<b>163</b>
Floating rate							
Spread							
Fixed rate	138	25					163
Interest rate	4.72%	5.32%					4.81%
<b>Instruments in COP</b>	<b>245</b>	<b>58</b>	<b>128</b>				<b>430</b>
Floating rate	97						97

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Spread	0.00%		6.50%			6.50%	0.00%
Fixed rate	148	58	128				334
Interest rate	9.20%	8.79%	8.04%				8.68%
<b>Instruments in MXN</b>	810	80	7	92	279	118	1,385
Floating rate	702	13	3	88	277		1,084
Spread	-0.01%	-0.66%	-0.52%	2.59%	0.60%		0.35%
Fixed rate	108	67	3	3	2	118	301
Interest rate	7.75%	7.93%	8.83%	8.83%	8.83%	9.25%	8.41%
<b>Instruments in GTQ</b>	15						15
Floating rate	15						15
Spread							
Fixed rate							
Interest rate							
<b>ASIA</b>						<b>1</b>	<b>1</b>
<b>Instruments in JPY</b>						1	1
Floating rate						1	2
Spread	3.79%	3.79%	3.79%			3.79%	3.79%
Fixed rate							
Interest rate	1.80%	0.03%					0.03%
<b>AFRICA</b>						<b>91</b>	<b>91</b>
<b>Instruments in MAD</b>						91	91
Floating rate							
Spread							
Fixed rate						91	91
Interest rate						4.54%	4.54%
<b>TOTAL</b>	<b>4,455</b>	<b>3,035</b>	<b>917</b>	<b>2,450</b>	<b>962</b>	<b>547</b>	<b>12,366</b>
<b>Exchange rate options</b>							
<b>TOTAL</b>	<b>4,455</b>	<b>3,035</b>	<b>917</b>	<b>2,450</b>	<b>962</b>	<b>547</b>	<b>12,366</b>

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**Table of Contents****Telefónica Móviles, S.A.****TELEFÓNICA MÓVILES GROUP'S MARKET SENSITIVE FINANCIAL INSTRUMENTS****Instruments outstanding at December 31, 2004**

(Millions of Euros)

	MATURITIES					Subsequent years	TOTAL
	2005	2006	2007	2008	2009		
<b>EURO</b>	2,4	3,096	2,275	306	223	503	8,803
Floating rate	1,079	2,853	2,089	95	197	43	6,356
Spread to Euribor	-0.77%	0.41%	1.52%	-1.08%	0.79%	0.57%	0.57%
Fixed rate	1,321	243	186	211	26	460	2,447
Interest rate	5.14%	5.68%	6.23%	3.35%	4.98%	5.29%	5.15%
<b>AMERICAS</b>	<b>188</b>	<b>250</b>	<b>282</b>	<b>356</b>	<b>756</b>	<b>426</b>	<b>2,258</b>
<b>Instruments in USD</b>	-916	-188	5	121	684	418	124
Floating rate	-1,238	-93	-22	121	668	90	-474
Spread	-0.13%	-0.90%	-4.00%	4.49%	0.33%	0.10%	-2.33%
Fixed rate	322	-95	27		16	328	598
Interest rate	5.04%	-4.00%	5.23%	5.68%	6.08%	5.39%	6.70%
<b>Instruments in ARS</b>	15	7	50				72
Floating rate	15						15
Spread							
Fixed rate		7	50				57
Interest rate		9.25%	9.48%				9.45%
<b>Instruments in BRL</b>	416	233	58	85	3	6	801
Floating rate	336	233	58	85	3	4	719
Spread	0.502%	-4431%	1284%	1072%	3781%		-0.95%
Fixed rate	80					2	82
Interest rate	16364%						15.97%
<b>Instruments in CLP</b>	260		65	144	63		532
Floating rate	260			16	14		290
Spread				-0.35%	-0.33%		-0.04%
Fixed rate			65	128	49		242
Interest rate			4.49%	4.82%	5.14%		4.80%
<b>Instruments in PEN</b>	133	11	8				152
Floating rate	48						48
Spread							
Fixed rate	85	11	8				104
Interest rate	4.53%	5.95%	5.35%				4.75%
<b>Instruments in COP</b>	129	95	30				254
Floating rate	129	5					134
Spread	0.37%	4.00%					0.50%
Fixed rate		90	30				120
Interest rate		9.32%	10.55%				9.63%
<b>Instruments in MXN</b>	150	92	66	6	6	2	322
Floating rate	3	3	11	3	3	1	24

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Spread	-8.48%	2.97%	-0.66%	-0.52%	-0.52%	-0.52%	-1.14%
Fixed rate	147	89	55	3	3	1	298
Interest rate	3.98%	7.75%	7.93%	8.83%	8.83%	8.83%	5.95%
<b>Instruments in GTQ</b>	1						1
Floating rate							
Spread							
Fixed rate	1						1
Interest rate	10.50%						10.50%
<b>ASIA</b>							
<b>Instruments in JPY</b>							
Floating rate							
Spread							
Fixed rate							
Interest rate							
<b>AFRICA</b>	31						31
<b>Instruments in MAD</b>	31						31
Floating rate							
Spread							
Fixed rate	31						31
Interest rate	4.23%						4.23%
<b>TOTAL</b>	<b>2,619</b>	<b>3,346</b>	<b>2,557</b>	<b>662</b>	<b>979</b>	<b>929</b>	<b>11,092</b>
<b>Exchange rate options</b>	22						22

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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and has duly caused and authorized the undersigned to sign this annual report on its behalf.

TELEFÓNICA MÓVILES, S.A.

By: /s/ Antonio Viana-Baptista

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Name: Antonio Viana-Baptista  
Title: Chairman and Chief Executive Officer

Date: April 12, 2006