

TELEFONICA MOBILE INC  
Form 20-F  
June 23, 2005  
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As filed with the Securities and Exchange Commission on June 23, 2005.

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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, 2004

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:**

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

\* 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**

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**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: 4,309,104,934

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

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

Item 17  Item 18

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**PRESENTATION OF FINANCIAL INFORMATION**

In this annual report, references to dollars, US\$ or \$ are to United States dollars. References herein to euro or are to the single currency of participating member states in the Third Stage of the European and Economic Monetary Union, including Spain, pursuant to the treaty establishing the European Community, as amended from time to time. Our consolidated and combined financial statements and the notes to our consolidated and combined financial statements are presented in euro. The Telefónica Móviles Group previously reported some of this information in Spanish pesetas.

**FORWARD-LOOKING STATEMENTS**

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

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

Item 3.D Risk Factors ,

Item 4. Information on the Company ,

Item 5. Operating and Financial Review and Prospects , and

Item 11. Quantitative and Qualitative Disclosures About Market Risk

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

**CERTAIN TERMS AND CONVENTIONS**

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

**PART I**

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

Not applicable.

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

Not applicable.



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The following summary selected financial data should be read together with the Item 5. Operating and Financial Review and Prospects and our consolidated and combined financial statements included in this annual report. Our consolidated financial statements for the years ended and at December 31, 2003 and 2004 and our combined financial statements for the year ended at December 31, 2002 have been prepared in accordance with Spanish GAAP, which differs in certain significant respects from U.S. GAAP. See note 21 to our consolidated and combined financial statements. The principles of consolidation are described in note 2(c) to our consolidated and combined financial statements.

**Summary Selected Financial Data**

	Year ended December 31,				
	2000	2001	2002	2003	2004
(euro in thousands, except per share and ADS data)					
<b>Statement of Operations Data</b>					
<i>Spanish GAAP</i>					
Net revenues from operations	6,377,249	8,411,064	9,139,835	10,070,284	11,827,591
Other revenues	110,622	147,747	91,070	152,403	217,270
Services and goods purchased	(1,559,181)	(1,862,117)	(2,406,039)	(2,592,541)	(3,676,302)
External services and local taxes	(2,277,186)	(2,603,758)	(2,412,370)	(2,581,995)	(3,040,952)
Personnel expenses	(270,696)	(533,831)	(546,381)	(485,993)	(539,917)
Depreciation and amortization	(871,137)	(1,258,159)	(1,316,406)	(1,420,648)	(1,611,003)
Change in operating provisions	(129,284)	(225,416)	(130,245)	(99,274)	(86,723)
<b>Total operating expenses</b>	<b>(5,107,484)</b>	<b>(6,483,281)</b>	<b>(6,811,441)</b>	<b>(7,180,451)</b>	<b>(8,954,897)</b>
<b>Operating income</b>	<b>1,380,387</b>	<b>2,075,530</b>	<b>2,419,464</b>	<b>3,042,236</b>	<b>3,089,964</b>
Amortization of goodwill	(26,420)	(53,802)	(87,096)	(101,703)	(94,708)
Income (losses) of associated companies	(94,701)	(119,193)	(159,477)	(80,656)	(38,232)
Financial expense	(304,471)	(714,869)	(921,983)	(1,288,474)	(925,718)
Financial income	109,607	386,810	605,787	910,337	571,950
<b>Income from ordinary activities</b>	<b>1,064,402</b>	<b>1,574,476</b>	<b>1,856,695</b>	<b>2,481,740</b>	<b>2,603,256</b>
Extraordinary income (expense)	(51,241)	(100,705)	(12,075,902)	(4,536)	(92,949)
Corporate income tax	(347,872)	(628,768)	2,130,821	(890,493)	(898,117)
Minority interests	(20,518)	48,352	4,363,987	21,127	21,720
<b>Net income (loss)</b>	<b>644,771</b>	<b>893,355</b>	<b>(3,724,399)</b>	<b>1,607,838</b>	<b>1,633,910</b>
Earnings (loss) per share	0.18	0.22	(0.87)	0.37	0.38
Average outstanding common shares	3,560,966,298	4,141,432,815	4,290,372,979	4,309,104,934	4,309,104,934
<i>U.S. GAAP</i>					
Net income (loss)(1)	683,982	301,249	(3,644,742)	1,818,096	1,621,681
Earnings (loss) per share	0.19	0.07	(0.85)	0.42	0.38

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Average outstanding common shares 3,560,966,298 4,141,432,815 4,290,372,979 4,309,104,934 4,309,104,934

At December 31,

	2000	2001	2002	2003	2004
(euro in thousands)					
<b>Balance Sheet Data</b>					
<i>Spanish GAAP</i>					
Property, plant and equipment, net	3,820,869	5,244,414	4,661,729	4,384,354	5,639,994
Total assets	21,260,624	24,914,086	16,231,714	15,664,065	23,570,914
Short-term debt(2)	4,707,849	6,615,828	991,596	1,776,063	2,676,040
Long-term debt(3)	3,007,622	5,279,338	7,213,809	5,368,594	8,448,088
Total liabilities	15,941,284	17,425,434	12,984,131	11,623,630	18,851,021
Shareholders' equity	5,319,340	7,488,652	3,247,583	4,040,435	4,719,893
<i>U.S. GAAP</i>					
Total assets(4)	20,297,852	27,909,248	16,460,021	14,923,924	22,221,036
Long-term debt(4)	2,414,881	5,593,197	6,867,368	5,115,572	8,124,892
Shareholders' equity(4)	8,053,329	9,580,469	4,114,534	4,709,053	5,001,850

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	At December 31,				
	2000	2001	2002	2003	2004
<b>Other Financial Data</b>					
<i>Spanish GAAP</i>					
Cash flow from operating activities	5,594,426	1,332,485	2,156,756	3,681,481	3,931,355
Cash flow from investing activities	(12,057,634)	(4,038,059)	(1,756,219)	(1,155,113)	(5,968,007)
Cash flow from financing activities	6,455,915	281,834	(314,348)	(2,612,128)	2,217,288
Capital expenditures	13,620,172	2,141,210	1,046,596	834,879	1,397,317
Cash dividends	851,616			767,760	795,955

**Operating Data**

	(in millions)				
Population in licensed service territories	285	372	353	389	509
Total customers <sup>(5)</sup>	19.2	28.0	39.4	49.6	74.4
Proportionate customers <sup>(6)</sup>	16.7	24.6	28.6	32.9	53.6
Pre-paid customers <sup>(7)</sup>	64%	69%	71%	72%	74%

- (1) Net income under U.S. GAAP as of December 31, 2003, 2002, 2001 and 2000 has been restated as a consequence of the effect of the acquisition of Telefónica Móvil de Chile from an entity under common control with us on July 23, 2004. See Note 21-6(g) to our consolidated financial statements.
- (2) Consists of short-term debt payable to banks and other financial institutions, short-term marketable debt securities and short-term debt payable to Telefónica Group companies. Short-term debt excludes interest payable and trade payables.
- (3) Consists of long-term debt payable to banks and other institutions, long-term debt payable to Telefónica Group companies and as of December 31, 2001 long-term debt incurred in connection with the acquisition of UMTS licenses included under Other liabilities on our consolidated and combined balance sheet.
- (4) Shareholders' equity, total assets and long-term debt under U.S. GAAP as of December 31, 2003, 2002, 2001 and 2000 has been restated as a consequence of the effect of the acquisition of Telefónica Móvil de Chile from an entity under common control with us on July 23, 2004. See Note 21-6(g) to our consolidated financial statements.
- (5) Represents total number of customers of all companies in which we have an interest, including subsidiaries, companies carried by the equity method and other companies carried as an investment. As of December 2002 we also include Brasilcel's customers. As of December 2003, we also include TCO's customers. 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.
- (6) Represents total number of customers of all companies in which we have an interest multiplied by our economic ownership interest in those companies.
- (7) Represents total pre-paid customers as a percentage of total customers at period-end.

**Exchange Rate Information**

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

The Noon Buying Rate for the euro on June 20, 2005 was \$1.00 = 1.2140.

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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.

<b>Year ended December 31,</b>	<b>Noon Buying Rate</b>			
	<b>Period End</b>	<b>Average(1)</b>	<b>High</b>	<b>Low</b>
2000	0.9388	0.9207	1.0335	0.8270
2001	0.8901	0.8909	0.9535	0.8370
2002	1.0485	0.9495	1.0485	0.8594
2003	1.2597	1.1411	1.2597	1.0361
2004	1.3538	1.2478	1.3625	1.1801

*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.

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Month ended	High	Low
November 30, 2004	1.3288	1.2703
December 31, 2004	1.3538	1.3224
January 31, 2005	1.3476	1.2954
February 28, 2005	1.3274	1.2773
March 31, 2005	1.3465	1.2877
April 30, 2005	1.3093	1.2819
May 31, 2005	1.2936	1.2349
June 20, 2005	1.2320	1.2035

*Source: Federal Reserve Bank of New York.*

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

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

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

**B. CAPITALIZATION AND INDEBTEDNESS**

Not applicable.

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

Not applicable.

**D. RISK FACTORS****Risks Related to 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;

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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.

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

On March 5, 2004 we entered into a stock purchase agreement with BellSouth Corporation, or BellSouth, to acquire 100% of BellSouth's interests in its wireless operations in Argentina, Chile, Peru, Venezuela, Colombia, Ecuador, Uruguay, Guatemala, Nicaragua and Panama. The acquisitions were completed in October 2004 and January 2005. The total acquisition cost for our interest in the companies purchased from BellSouth and minority shareholders in 2004, adjusted by the net debt of the companies purchased at closing and following certain additional post-closing adjustments, amounted to \$3,248.6 million. The total acquisition cost for the companies purchased from BellSouth in 2005, adjusted by the net debt of the companies purchased, amounted to \$836.6 million. In addition, on May 18, 2004, the board of directors of Telefónica CTC Chile, S.A. accepted our binding offer for the purchase of 100% of the shares of its subsidiary, Telefónica Móvil de Chile, S.A., which was completed on July 23, 2004 for a total acquisition cost of \$869.9 million.

We financed these acquisitions through cash generated by our operating activities and loans from Telefónica S.A., our controlling shareholder. In addition to the financing required for these acquisitions, our capital resource requirements may increase as a result of the upgrades (including, in some cases, significant technological upgrades) to and the integration of the networks of these newly acquired operators. We may be required to further increase our debt or divert funds from our existing operations to invest in our new acquisitions, which could have a material adverse effect on our revenues and overall results of operations.

*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.



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

The operation, expansion and upgrade of our networks, as well as the marketing and distribution of our services and products, require substantial financing. Achieving the minimum coverage requirements under our licenses could require additional financing. 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, 2004, our total debt was 11,124 million, of which 9,615 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

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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.

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;

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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.

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.

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

*We face risks associated with litigation.*

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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.

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### **Risks Related to Our Organizational Structure**

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

In order to achieve our overall strategy of enhancing our position as one of the leading global wireless operators and achieving superior growth and profitability, we took several major initiatives during 2002, 2003, 2004 and early 2005. These initiatives and actions include, among others, the following:

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);

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

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

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

the acquisition by us of four wireless operators in Mexico (2001) and the acquisition by us of a 65% interest in the Mexican wireless operator Pegaso Telecomunicaciones, S.A. de C.V. and its integration with our Northern Mexican operations (2002).

The transactions that had not been consummated by December 31, 2004 are not reflected in our consolidated financial statements at all. All of these items will affect the comparability of our historical and future results of operations and financial condition. For further information on the items described above please see Item 5A. Operating Results Basis of Presentation Events Affecting Comparability of Historical and Future Results of Operations and Financial Condition. We anticipate that future results of operations and financial condition will be different from our results of operations and financial condition reflected in our consolidated 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. We could also face competition from other companies within the Telefónica Group that are not part of our company. Consequently, we could be impeded from pursuing some future business opportunities or obligated to pursue them in conjunction with other companies in the Telefónica Group. Because Telefónica, S.A. is a party to business transactions and contractual arrangements with our company and companies of the Telefónica Group are active in businesses that overlap with ours, there is potential for conflicts of interest between Telefónica, S.A. and its affiliates, on the one hand, and our company and subsidiaries, on the other, in circumstances where our interests and those of Telefónica, S.A. are not aligned.

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*We must adopt new accounting standards in 2005 that will 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, listed EU companies had to apply the International Financial Reporting Standards (IFRS) adopted by the EU from January 1, 2005 in preparing their consolidated financial statements.

Applying these standards to our financial statements will imply a change in the presentation of our financial information, since the financial statements will include more components and additional disclosure will be required. Additionally, there will be a change in the valuation of certain items. Regarding the former, at this moment it is not possible to determine the exact impact that this new regulation will entail compared to Spanish GAAP, since new pronouncements from the International Accounting Standards Board (IASB), or pronouncements that are not endorsed by the European Union (EU) prior to the preparation of our December 31, 2005 consolidated financial statements, may have an impact on our financial statements. Regarding the latter, we have performed a preliminary analysis of how the adoption of IFRS will impact our financial condition and results of operations. Based on this analysis, we estimate that the principal adjustments to our total shareholders' equity at December 31, 2004 under IFRS would result in a decline in our shareholders' equity of approximately 1,284.5 million from 4,719.9 million at that date under Spanish GAAP. For additional information concerning significant differences identified between IFRS and Spanish GAAP, see Item 5 Operating and Financial Review and Prospects Preliminary Guidance on Differences Between IFRS and Spanish GAAP .

## **Risks Related to Our Industry**

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

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

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

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

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.



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*Our results may 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. Although the new regime has not had a significant impact on Brasilcel's subsidiaries, we cannot assure that in the future the interconnection fees that we will receive from long distance operators will 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. After that date, free negotiation has been the rule, subject to Anatel regulations.

In addition, under the SMP regime, an SMP mobile operator must pay for the use of another SMP mobile operator's network in the same registration area only if the traffic carried from the first operator to the second exceeds 55% of the total traffic exchanged between them. In that case, only those calls that have surpassed the 55% level will be subject to payment for network usage. This rule will remain in effect until June 30, 2005, after which date no payments will be due for network usage between SMP networks, regardless of the amount of traffic. As a result, if the traffic Brasilcel's subsidiaries terminate for other SMP mobile operators exceeds the traffic such other SMP mobile operators terminate for Brasilcel's subsidiaries, Brasilcel's revenues and results of operations may be adversely affected.

Anatel submitted its proposed new regulations on interconnection for public comment. The public comment period ended on October 18, 2004 and Brasilcel subsidiaries presented their arguments against some of the proposals that may have adverse effects on their results. Anatel has not yet decided whether to modify its proposed new regulations. If these regulations take effect, they may negatively affect our revenues and results of operations.

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

Regulatory policies of many of the countries in which we operate generally favor increasing competition in the wireless services industry, including by granting new licenses in existing licensed territories in order to permit the entry of new competitors. In Spain the National Regulatory Authority (NRA) is currently analyzing, in accordance with the principles of the European Telecom Regulation Framework, the market of access and call originated on public mobile telephone networks. On the basis of this market analysis, the NRA will determine whether this market is effectively competitive or not, and subsequently impose, amend or withdraw regulatory obligations accordingly. Should the NRA conclude that the market of access and call origination on public mobile telephone networks is not effectively competitive, it may impose on network operators more stringent regulatory obligations, which may include, among others, to provide access to the mobile virtual network operator MVNOs (being mobile operator that do not own a network and instead buys mobile minutes wholesale from those network operators with physical networks and sells them to its clients).

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.

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*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.

*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. For the year ended December 31, 2004, all the tests we were obliged to do have again confirmed lower emission levels than those required by regulations. If in the future we fail to comply fully with these standards, we could be subject to claims or regulatory actions.

## **Risks Related to Latin America**

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

The portion of our revenues and profits deriving from Latin American operations will be increasing due mainly to the development of our operations in Brazil, Mexico and other Latin American countries, including the operations recently acquired from CTC (a subsidiary of Telefónica) and BellSouth. 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;

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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;

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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 Comunicaciones Personales is currently in a negative net worth position. Although current Argentine law (Decree 214/2002, as extended) allows companies to maintain this negative net worth position until December 2005 without the need to establish a positive net worth position, it is uncertain whether the government of Argentina will once again extend this exception beyond December 2005. Should this exception fail 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.

*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 all of the wireless assets of the Telefónica Group, a diversified

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telecommunications group that provides a comprehensive range of services in Spain and Latin America. As of December 31, 2004 Telefónica, S.A., the parent company of the Telefónica Group, holds, directly and indirectly, 92.46% of our shares.

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

*Spain:* The Telefónica Group commenced wireless operations in Spain in 1982. In 2000, Telefónica, S.A. transferred to our company all of the shares of its wireless subsidiary in Spain, Telefónica Móviles España, in exchange for 84,445,927 ordinary shares of our company. Telefónica Móviles España is a direct wholly-owned subsidiary of our company and constitutes our most significant subsidiary in terms of its contribution to our revenues and profitability.

*Brazil:* The Telefónica Group commenced wireless operations in Brazil in 1996. In 2002, we and Portugal Telecom created Brasilcel, N.V., or Brasilcel, a joint venture which combined our respective wireless operations in Brazil. The joint venture is 50%-owned by each group and consolidated by the proportional method in our financial statements. Our holdings and those of Portugal Telecom in the following operations were combined in the Brasilcel joint venture:

Tele Sudeste Celular Participações S.A.;

Celular CRT Participações S.A.;

Tele Leste Celular Participações S.A.; and

Telesp Celular Participações S.A.

The value of our contribution to Brasilcel of the wireless assets owned by us was 1,898 million. Subsequently, in 2003, Telesp Celular Participações S.A. acquired 86.6% of the voting capital stock (representing approximately 28.9% of the total capital stock) of Tele Centro Oeste Participações S.A., a wireless operator that provides wireless services in Brazil's Federal District and 11 Brazilian states.

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 during 2005 Sudestecel increased its participation in Tele Sudeste Celular Participações, S.A. to 24.52% bringing Brasilcel's participation to 91.14%. 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%.

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*Peru:* The Telefónica Group commenced wireless operations in Peru in 1991. Its subsidiary, Telefónica del Perú S.A.A., spun off in June 2001 its wireless operations in the form of shares of Telefónica Móviles S.A.C. Following this spin-off and later share exchanges and additional share purchases, as of June 23, 2005, we indirectly hold a 97.97% interest in Telefónica Móviles S.A.C. Following our acquisition of BellSouth's interest in its Peruvian operations in October 2004, as of June 23, 2005, we hold, directly and indirectly, a 99.85% interest in Comunicaciones Móviles del Perú, S.A. (formerly BellSouth Perú, S.A.). On April 26, 2005, we launched a tender offer for the acquisition of the outstanding minority interest (0.15%) in Comunicaciones Móviles del Perú, S.A. which ended on May 23, 2005, with the acquisition of 0.04% of the share capital for US\$9,239.80, bringing our interest in Comunicaciones Móviles del Perú, S.A. to 99.89%.

We have merged Telefonica Moviles, S.A.C. and Comunicaciones Móviles del Perú, S.A. Currently, we hold, directly and indirectly, 98.04% of the resulting entity.



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*Argentina:* The Telefónica Group commenced wireless operations in Argentina in 1993. Its subsidiary, Telefónica de Argentina S.A., spun off its wireless operations in the form of shares of Telefónica Comunicaciones Personales S.A. and its data operations in 2001. Following the spin-off and share exchanges, as of June 23, 2005, we indirectly hold a 97.93% interest in Telefónica Comunicaciones Personales S.A. We do not hold an interest in the data operations formerly owned by Telefónica de Argentina. Following our acquisition of BellSouth's interest in its Argentine operations in January 2005, as of June 23, 2005, we hold, directly and indirectly, a 100% interest in Compañía de Radiocomunicaciones Móviles, S.A.

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

- 1) *Acquisitions of Northern operators.* We acquired four Northern wireless operators (Bajacel, Movitel, Norcel, and Cedetel) from Telefónica, S.A. in July 2001.
- 2) *Acquisition of Pegaso and formation of Telefónica Móviles Mexico.* On April 26, 2002, we signed agreements to purchase 65.23% of Pegaso Telecomunicaciones, S.A. de C.V. We also agreed to contribute our interests in Pegaso and our other Mexican operators and with Burillo Group's interest in Pegaso into a new holding company, Telefónica Móviles Mexico.

*Chile:* The Telefónica Group commenced wireless operations in Chile in 1990. In July 2004, we acquired 100% of Telefónica Móvil de Chile, S.A. from CTC (a subsidiary of Telefónica S.A.). We have been managing Telefónica Móvil de Chile's operations since 2000.

*Guatemala and El Salvador:* The Telefónica Group commenced wireless operations in El Salvador in 1998 and in Guatemala in 1999. In 2000, The Telefónica Group transferred to us its shares in TES Holdings, S.A. and TCG Holding, S.A., its holding companies in El Salvador and Guatemala, in exchange for 5,542,534 ordinary shares of our company. We acquired the remaining interests in TES Holdings, S.A. and TCG Holding, S.A. in 2002 for 14.5 million of our ordinary shares. Following our acquisition of BellSouth's interest in its Guatemalan operations, as of June 23, 2005, we hold, directly and indirectly, 100% of Telefónica Móviles Guatemala y Compañía. (formerly BellSouth Guatemala, S.A.).

On April 20, 2005, TES Holding acquired shares representing approximately 4.4% of Telefónica Móviles El Salvador, S.A.'s capital stock for approximately \$5.1 million. Following this acquisition, TES Holding owns 96.19% of Telefónica Móviles El Salvador, S.A.

*Colombia, Ecuador, Uruguay, Panama, Nicaragua, Venezuela:* In October 2004, we acquired BellSouth's interests in its operations in these countries. Additionally, in various countries we increased the acquired stakes by acquisition of minority shareholders. As of June 23, 2005, we hold, directly and indirectly, 100% of BellSouth Colombia, Otecel, S.A. (Ecuador), Abiatar (Uruguay), Telcel, S.A. (Venezuela), Telefónica Celular de Nicaragua, S.A., and 99.95% of Telefónica Móviles Panamá, S.A.

*Morocco:* The Telefónica Group commenced wireless operations in Morocco in 2000. In October 2000, Telefónica, S.A. transferred to our company a 30.5% interest in Medi Telecom. We increased our holding through capital increases of Medi Telecom in 2002 and 2003. As of June 23, 2005, we hold a 32.18% equity interest in Medi Telecom.

*Europe:* In 2000 and 2001, we obtained third-generation wireless telephony (UMTS) licenses in Germany, Italy, Austria and Switzerland. The financial, technological, competitive and regulatory changes that have taken place in the market since then resulted in our reviewing our

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European strategy. Accordingly, in July 2002 we decided to halt our commercial activities in Germany and updated the assumptions of the business plans of our subsidiaries in Austria, Germany, Italy and Switzerland. As a result, at December 31, 2002, a net loss of 5,049.8 million was recorded in our combined financial statements associated with the write-down of assets and the restructuring of operations in these four countries. In December 2003, we sold our Austrian subsidiary to Mobilkom Austria for a total sale price of 13.6 million.

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*Puerto Rico:* We entered into a management contract with NewComm Wireless, a Puerto Rican wireless operator, when it commenced operations. In September 2004, the management contract was terminated and Clearcomm took charge of the management of Newcomm Wireless. At the same time, we decided to write-off the value of convertible notes ( 46 million) issued by Newcomm Wireless to the Telefónica Group. In September 2003, the Telefónica Group transferred these convertible notes to us for an aggregate amount of \$60.9 million. On April 20, 2005, we converted these notes into 49.9% of the capital stock of NewComm Wireless and currently hold this interest through our 100%-owned subsidiary, Telefónica Móviles Puerto Rico Inc. Since we do not have a controlling interest in and we no longer manage the operations of Newcomm Wireless, we no longer count its customers in our total managed customer base.

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

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

The development of further joint technical projects and procurement initiatives are expected to deliver economic benefits, while the volume of devices jointly acquired is targeted to increase over time. Collective synergies will also help members to be the first to market new models and to potentially secure exclusivity periods on those models with manufacturers.

*Acquisition of BellSouth's Latin America wireless operations:* On March 5, 2004, we entered into a stock purchase agreement with BellSouth to acquire 100% of BellSouth's interests in its wireless operations in Argentina, Chile, Peru, Venezuela, Colombia, Ecuador, Uruguay, Guatemala, Nicaragua and Panama. The firm value of the wireless operators that we have acquired from BellSouth, including the interests of minority shareholders and the net debt of these wireless operators, was valued at US\$5,850 million, including BellSouth's wireless operations in Argentina and Chile, which we acquired in January 2005. The firm value of the wireless operators that we have acquired from BellSouth as of December 31, 2004, including the interests of minority shareholders and the net debt of these wireless operators, was US\$4,330 million.

The total amount paid for our interests in these wireless operators as of December 31, 2004, adjusted for the net debt of the acquired companies, was 3,248.6 million. The total acquisition cost for BellSouth's wireless operations in Argentina and Chile, which we acquired in January 2005, adjusted for the net debt of the acquired companies, was 836.6 million.

*Acquisition of 100% of Telefónica Móvil de Chile in 2004:* On May 18, 2004, the board of directors of Telefónica CTC Chile, S.A., or CTC, accepted our binding offer for the purchase of 100% of the shares of its subsidiary, Telefónica Móvil de Chile, S.A. Telefónica S.A. owns 43.6% of CTC Chile. 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.

The following tables provide information for our principal acquisitions completed in 2002, 2003 and 2004.

Acquisitions in 2002

<u>Month</u>	<u>Company name</u>	<u>Initial%</u>	<u>Acquired%</u>	<u>Final%</u>	<u>Acquisition Price (thousands of euro)</u>
Jan	TES Holding, S.A. de C.V. (El Salvador)	51.00	16.30	67.30	32,106
Jan.	TCG Holdings, S.A. (Guatemala)	51.00	16.30	67.30	25,226
May	Iberoleste Participações, S.A. (1) (Brazil)	37.98	62.02	100.00	113,196

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

(1) These acquisitions were performed through capital increases.

**Acquisitions in 2003**

<b>Date</b>	<b>Company name</b>	<b>Initial%</b>	<b>Acquired%</b>	<b>Final%</b>	<b>Acquisition Price (thousands of euro)</b>
Apr.	Tele Centro Oeste Celular Participações, S.A. (Brazil)		20.37	20.37	206,285
Jul.	Medi Telecom. (Morocco)	31.34	0.84	32.18	21,234
Oct.	Tele Centro Oeste Celular Participações, S.A. (Brazil)	20.37	8.50	2.87	73,827
Dec.	TCG Holdings, S.A. (Guatemala)	100.00		100.00	3,746

**Acquisitions in 2004**

<b>Date</b>	<b>Company name</b>	<b>Initial%</b>	<b>Acquired%</b>	<b>Final%</b>	<b>Acquisition Price (thousands of euro)</b>
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

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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, 2004:

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- (1) Jointly managed with Portugal Telecom.
- (2) We acquired 100% of Telefónica Móvil de Chile's shares on July 23, 2004, and it was fully consolidated in our financial statements as from August 1, 2004.
- (3) Telefónica Móviles increased its stake in Telefónica Móviles El Salvador to 91.75% in 2004 after capitalizing certain loans to the subsidiary.
- (4) In October 2004, we purchased BellSouth's wireless operators in Colombia, Ecuador, Guatemala, Nicaragua, Panama, Peru, Uruguay and Venezuela. These companies were consolidated in our financial statements as from November 1, 2004.
- (5) Telefónica Móviles increased its stake in this company to 50% in June 2004.

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### **B. BUSINESS OVERVIEW**

#### **Overview**

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

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

At December 31, 2004, we provided wireless services through our operating companies and joint ventures, to approximately 74.4 million managed customers in territories with a population of approximately 509 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 ventures with Portugal Telecom, it also provides wireless communication services in Brazil and Morocco.

Our strategy is to focus on increasing our profitability and cash flow in the medium term by consolidating our competitive positions in Spain and Latin America, introducing new services to promote usage, and optimizing our investments and operating efficiencies. We will continue to analyze the possibility of selective acquisitions and strategic agreements that complement our business. For example, we have acquired TCO in 2003, BellSouth's Latin American wireless operations in 2004 and 2005 and 100% of Telefónica Móvil de Chile in 2004. We believe that growth in our markets will be driven by (i) increased customer usage of our wireless services, including both voice and data services, (ii) the introduction of new wireless data and internet services, and (iii) increased penetration rates in our Latin American markets.

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



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

**Year ended December 31, 2004**

<b>Country</b>	<b>Company</b>	<b>Service Territory</b>	<b>Ownership Interest at December 31, 2004</b>	<b>Population</b>	<b>Total customers at December 31, 2004</b>	<b>Net Revenue from Operations</b>	<b>Operating profit before depreciation and amortization (4)</b>
				<b>(in millions)</b>	<b>(in millions)</b>	<b>(millions of euro)</b>	
Ecuador	Otecel, S.A.(7)	Nationwide	100%	12.9	1.1	43.8	(0.9)
Panama	BellSouth Panamá, S.A.(10)	Nationwide	99.95%	3.2	0.6	24.0	7.7
Venezuela	Telcel, S.A.(7)	Nationwide	100.0%	26.0	4.3	215.2	51.0
Colombia	Telefónica Móviles	Nationwide	100.0%	45.3	3.3	94.9	(0.4)
Nicaragua	Colombia, S.A.(7) Telefónica Celular de	Nationwide	100.0%	5.6	0.3	8.3	1.0
Uruguay	Nicaragua, S.A.(7) Abiatar, S.A.(7)	Nationwide	100.0%	3.4	0.2	5.6	0.9
Spain	Telefónica Móviles España	Nationwide	100.0%	44	19	8,190.0	4,202.0
Brazil	Brasilcel, N.V.(1)	Nationwide (2)	50.0%	131.5	26.5	1,522.0	500.0
Peru	Telefónica Móviles Peru	Nationwide	97.97%	27.6	2.1	248.0	70.0
	Comunicaciones Móviles del	Nationwide	99.85%	27.6	0.7	19.0	2.6
Argentina	Perú, S.A(7) Telefónica Comunicaciones	Nationwide	97.93%	38.7	3.4	360.5	4.0
Mexico	Personales Telefónica Móviles México,	Nationwide	92.0%	104.7	5.6	730.0	(145.0)
El Salvador	S.A. de C.V.(3) Telefónica Móviles El	Nationwide	91.75%	6.7	0.4	104.0	12.4
Guatemala	Salvador Telefónica Centroamérica	Nationwide	100.0%	12.7	0.4	79.0	8.5
	Guatemala Telefónica Móviles y	Nationwide	100.0%	12.7	0.4	13.7	4.5
Morocco	Compañía, S.C.A.(7) Medi Telecom(6)	Nationwide	32.18%	31	2.7	336.0	154.0
Chile	Telefónica Móvil de Chile(5)	Nationwide	100.0%	15.4	3.3	182.8	50.1

- (1) Jointly controlled and managed by Telefónica Móviles and Portugal Telecom. Through its 50% interest in Brasilcel, as of December 31, 2004, Telefónica Móviles indirectly holds 45.45% of Tele Sudeste, 26.42% of Celular CRT, 25.3% of Tele Leste Celular, 32.56% of Telesp Celular Participações, S.A. and 10.74% of Tele Centro Oeste Celular Participações, S.A. 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.

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- (2) The service territory in Brazil is nationwide with the exception of region 4 (the state of Minas Gerais).
- (3) 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. Through its 92.0% interest in Telefónica Móviles México, S.A. de C.V., as of December 31, 2004, Telefónica Móviles indirectly holds 92.0% of Baja Celular Mexicano, 82.8% of Movitel del Noroeste, 92.0% of Telefónica Celular del Norte, 92.0% of Celular de Telefónica, S.A. de C.V. and 92.0% of Pegaso PCS.
- (4) See Item 5.A. Operating Results Introduction to Results of Operations Non-GAAP Financial Information for a definition of operating profit before depreciation and amortization and a discussion concerning our use of, and limitations relating to, that measure.
- (5) In July 2004, we acquired 100% of the shares of Telefónica Móvil de Chile, S.A., and it has been consolidated in our 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.
- (6) Jointly controlled and managed by Telefónica Móviles and Portugal Telecom. Portugal Telecom owns 32.18% of the share capital of Medi Telecom.
- (7) Acquired from BellSouth Corporation in October 2004 and consolidated in our 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.

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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 the competitive pressure increases, mainly in number portability and pricing for the corporate segment, 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 3,800 UMTS base stations as of December 2004. 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, 2004, we had approximately 74.4 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 in some of our markets in Latin America will enhance customer experience, while we will capitalize on our expertise in developing customize 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 expenditure. 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, our acquisition of 100% of Telefónica Móvil de Chile as well as our alliances with T-Mobile International, TIM (Telecom Italia Mobile) and Orange in Europe. In addition, on February 26, 2003 we announced our participation in the new MPESA association (Mobile Payment Services Association). The association, which is composed of Vodafone, Orange, T-Mobile and us will operate under the brand name Simpay. For further information see Wireless Internet and Data Initiatives M-Payment.

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

## Services and Products

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

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

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

*Wireless data and internet Services.* Current data services offered include Short Messaging Services, or SMS, and Multimedia Messaging Services, or MMS, which allows customers to send messages with images, photographs and sounds. Customers may also receive selected information, such as news, sports scores and stock quotes. We also provide wireless connectivity for devices such as laptops and personal digital assistants. We offer internet access in an increasing number of areas, allowing our clients to access a wide range of mobile internet services through voice, WAP (wireless application protocol, a standard protocol allowing for wireless Internet access) or GPRS. Through wireless internet access, our customers are able to send and receive e-mail, browse web pages, download games, purchase goods and services in m-commerce transactions and use our other data services. Technological advances, which include the development of GPRS, CDMA 1XRTT (code division multiple access, a broadband transmission system for wireless networks allowing for speeds of up to 144 Kbits/s) and UMTS, facilitate the development of these services by increasing the speed at which data is transmitted, and making it possible to expand the offer of services and reduce their cost. Telefónica Móviles España launched its Oficin@ Movistar UMTS GPRS/UMTS data card, making it available to its corporate customers in February 2004, and to all residential and prepaid customers in May 2004, together with the launch of the first UMTS videophone services in the Spanish market. We also have 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. We believe that this technology will be widely used in fleet management, logistics and security monitoring. Telematics applications permit the delivery of data to machines, such as automobiles and vending machines.

*Corporate Services.* We provide business solutions, including wireless infrastructure in offices, private networking and portals for corporate customers that provide flexible on-line billing. Telefónica Móviles España offers corporate services through *MoviStar Corporativo 2000*, and other advanced solutions for data, developed for specific sectors. In addition, as of February 13, 2004, Telefónica Móviles España has offered its corporate customers Oficin@Movistar UMTS, the first third generation service offered in Spain by a mobile operator offering high-speed data transmission of up to 384 kbits/s.

*Roaming.* We have roaming agreements that allow our customers to use their handsets when they are outside of their service territories, including on an international basis. In 2002, we extended international roaming services to pre-paid customers. We have also implemented intelligent network technology using the CAMEL standard for our customers in Spain. This allows our customers to use their mobiles in European countries where a roaming agreement has been reached as if they were in their home country (for example, by not having to dial customary roaming prefixes). Through Telefónica Móviles España's FreeMove alliance with T-Mobile International, Telecom Italia Mobile and Orange, customers of the four partners now enjoy seamless roaming services when traveling abroad through the Virtual Home Environment. In Brazil, Mexico and Argentina, our roaming agreements allow our customers to make and receive calls throughout the national territories of these countries.

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

*M-payment.* Through our subsidiary Telefónica Móviles España and together with Vodafone España, Amena and many other financial institutions and processing companies, we have an interest of 13.36% in Mobipay España, a company incorporated to develop micro-payments. We also have, together with BBVA, a 50%/50% interest in Mobipay International, aimed at expediting payments through mobile phones in an international setting. In addition, we participate in the new MPSA association (Mobile Payment Services Association). The association, which is composed of Vodafone, Orange, T-Mobile and us will operate under the brand name Simpay. For further information see Wireless Internet and Data Initiatives M-Payment.

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### **Our Operations**

Our operations currently are conducted in three distinct geographic areas:

Spain

Morocco

Latin America

We have operations in Spain, Mexico, Peru, El Salvador, Guatemala, Venezuela, Colombia, Panama, Nicaragua, Ecuador, Uruguay, Argentina and Chile, all of which operate under the Movistar brand as of April 2005, and through our joint ventures with Portugal Telecom, we also provide wireless communication services in Brazil and Morocco. At December 31, 2004, we provided wireless services through our operating companies and joint ventures to approximately 74.4 million managed customers and our licenses and concessions covered markets with over 509 million people.

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

We provide information on total revenues for our fully consolidated operations and equity investments such as Medi Telecom. In Brazil, we provide information on total net revenues for fiscal year 2002 (which reflect the total revenues of Tele Sudeste, Celular CRT and Tele Leste Celular). These companies were fully consolidated in our statement of operations until their transfer to Brasilcel on December 27, 2002. After their transfer, we ceased reporting revenues by the individual operating companies in the Brasilcel joint venture. Instead, we now report revenues at the Brasilcel joint venture level. As a result, the revenue figures for Brasilcel for fiscal years 2003 and 2004 are presented on a proportional basis to reflect the proportional consolidation of the joint venture in 2003.

We provide customer churn rates for each of our wireless operations described below. We calculate churn rates by determining the number of customers whose wireless service is discontinued during a period, whether voluntarily or involuntarily, divided by the average number of customers during the period. We determine when service is discontinued according to different criteria in the different countries in which we operate, and therefore calculate churn differently for our customers in Spain, Latin American countries and Morocco.

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

*Spain*

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We offer wireless services in Spain through Telefónica Móviles España, the leading wireless operator in Spain in terms of total number of customers at December 31, 2004. Telefónica Móviles España had approximately 19.0 million customers at December 31, 2004, representing an estimated 48.5% market share. Telefónica Móviles España is a wholly owned subsidiary and is our most significant operating company, accounting for 69% of our consolidated net revenues from operations for 2004.

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

	Year ended December 31,		
	2002	2003	2004
Total net revenues from operations (euro in millions)	6,770	7,496	8,190
Total customers (in millions at period end) (1)	18.4	19.7	19.0

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	Year ended December 31,		
	2002	2003	2004
Pre-paid customers (in millions at period end) (1)	11.9	11.7	9.7
Population in service territory (in millions at period end)	42	43	44

*Source: Telefónica Móviles*

- (1) In July 2004, we decided to stop counting 1.3 million inactive prepaid SIM cards in our reported customer base. This adjustment was made as of April 1, 2004 and all the operating metrics corresponding to 2004 have been calculated taking this adjustment into account.

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

*Market*

With an estimated population of approximately 44 million people, Spain is the fifth largest wireless market in Western Europe with approximately 39.2 million wireless customers at December 31, 2004. This customer base represents a penetration rate of 89.1%. The Spanish market grew 4.4% in 2004.

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, 2004, Telefónica Móviles España had approximately 19.0 million customers. The number of contract customers totaled approximately 9.3 million, representing a 16.8% increase compared to 2003.

Telefónica Móviles España believes that, to date, it has been successful in preserving its advantage in terms of absolute numbers of customers and quality of average customer in terms of minutes of usage. Telefónica Móviles España estimates that its traffic market share is higher than its customer market share.

*Network and Technology*

Telefónica Móviles España's licenses and concessions in Spain permit it to operate digital networks and analog networks. Since December 31, 2003, Telefónica Móviles España has not operated an analog network, having moved its analog MoviLine subscribers to GSM Movistar services. Telefónica Móviles España also holds one of four nationwide licenses for UMTS services in the country.



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

In 2002, 2003 and 2004, Telefónica Móviles España invested in the aggregate approximately 1,669 million in building out and enhancing its networks in Spain, developing its technological platforms and information systems. At December 31, 2004, Telefónica Móviles España's GSM/GPRS digital network in Spain, which consisted of 115 switching centers and more than 16,200 base stations, provided coverage to approximately 99% of the population. The amounts invested in 2002, 2003 and 2004 have been used to enhance the quality of its coverage of high-density areas, to permit more intensive use of its wireless services within buildings in an urban environment, further enhancing the appeal of wireless communications and to introduce new technologies. In addition, Telefónica Móviles España has continued to roll-out its UMTS network in 2004, complying with its obligations under its UMTS license. By the end of the year, Telefónica Móviles España's UMTS network provided coverage to 40% of the population, with 3,800 base stations in approximately 100 cities.

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The Spanish wireless market has been receptive to new wireless services, such as SMS and wireless internet. Telefónica Móviles España has offered GPRS services, with higher speed data transmission than existing GSM networks, since 2001. Multi-media messaging services, or MMS, which allow 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 2004:

GPRS technology continued developing significantly in 2004. Telefónica Móviles España estimates that close to 3.8 million of its customers were web browsing using GPRS technology during the month of December 2004, almost 2.4 million more compared to December 2003. During December 2004, following the launch of i-mode navigation services as part of its e-moción brand in June 2003 under a general collaboration agreement with NTT DoCoMo, almost 700 thousand of Telefónica Móviles España's web browsing customers were using the i-mode service.

Utilization of multimedia messaging services (MMS) continued to grow in 2004, with almost 1.5 million users during the month of December 2004 (compared to 0.5 million during December 2003). Almost one half of the handsets sold by Telefónica Móviles España in 2004 were equipped with MMS technology.

With regard to the corporate and professional segment, Telefónica Móviles España launched its *Oficin@ Movistar* UMTS GPRS/UMTS data card—the first 3G service offered by a mobile operator in Spain with high-speed data transmission up to 384 kbits/s to its corporate customers on February 13, 2004. This service was extended to all Telefónica Móviles España residential and prepaid customers on May 24, 2004, initially in Madrid and Barcelona, and is gradually being extended to the major urban areas in Spain. On May 24, 2004, Telefónica Móviles España also launched the first UMTS videophone service in the Spanish market.

Telefónica Móviles España has continued to compete for high-value customers and the corporate segment by developing new value-creating products, services and solutions. During the fourth quarter of fiscal year 2004, Telefónica Móviles España stepped up the commercialization of services such as *Movistar desktop* and *Blackberry Professional Mail* with attractive offers for its devices. Telefónica Móviles España also launched the TSM 520 handset, primarily targeted at these segments, with the Windows Mobile Smartphone 2003 system built in.

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

### *Sales and Marketing*

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

Telefónica Móviles España utilizes all types of marketing channels, including television, radio, exterior signage, telemarketing, direct mail and internet advertising. Telefónica Móviles España also sponsors a leading motorcycle grand prix racing team and cultural and sporting events in order to increase its brand recognition.

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For purposes of sales and distribution, Telefónica Móviles España divides the Spanish market into the consumer market and business market. At December 31, 2004, Telefónica Móviles España had approximately 8,500 points of sale for the consumer market. In addition, Telefónica Móviles España uses approximately 100 points of sale that are owned by the Telefónica Group.

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

Telefónica Móviles España offers several different pricing options for wireless services. At December 31, 2004, approximately 49% of Telefónica Móviles España's total customer base are contract customers, and the remainder are pre-paid (*MoviStar Activa*).

In 2004, 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 2004, prepaid to contract migrations stood at over a million, contributing to an improvement in the contract weight to the total customer mix by 8.5 percentage points as of December 31, 2004 compared to December 31, 2003.

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 30.4 billion minutes in 2004, a 12% increase compared to 2003. 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 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 2004, there were over 3.6 million handset upgrades based on loyalty programs of Telefónica Móviles España.

At December 31, 2004, Telefónica Móviles España maintained 19 customer relations centers with real time access to its information systems. These call centers handled approximately 60.3 million calls in 2004.

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

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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 1.6% for 2004.

### *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*.

### *Morocco*

We provide wireless services in Morocco through Medi Telecom, S.A., in which we hold a 32.18% interest and share management responsibilities with Portugal Telecom, which holds a 32.18% interest in Medi Telecom as well. Medi Telecom is also owned by local minority shareholders. Medi Telecom S.A. is the second largest wireless

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operator in Morocco with over 2.7 million customers at December 31, 2004. Medi Telecom commenced offering wireless services in Morocco in March 2000, eight months after it was awarded a GSM license covering the Moroccan national territory.

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

The following table presents, at the dates and for the periods indicated, total net revenues and other statistical data relating to our investment in Medi Telecom:

	<u>Year ended December 31,</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Total net revenues from operations (euro in millions)(1)	230	274	336
Total wireless customers (in millions at period end)	1.6	2.06	2.73
Pre-paid customers (in millions at period end)	1.5	1.93	2.62
Population in service territory (in millions at period end)	30	30	31

*Source: Telefónica Móviles, except population*

*Population: Pyramid Research*

(1) Medi Telecom has been consolidated pursuant to the equity method for each of the years ended December 31, 2002, 2003 and 2004. We held 30.5%, 32.18% and 32.18 % of Medi Telecom at year end December 31, 2002, 2003 and 2004, respectively.

*Market*

With a population of approximately 31 million people, Morocco is an attractive wireless market with a high potential for growth. Morocco had 9.13 million wireless customers at December 31, 2004 representing a penetration rate of 29%. Medi Telecom estimates that the Moroccan market grew 25.5% in 2004 when compared to 2003.

*Network and Technology*

Medi Telecom's network in Morocco is based upon the GSM standard. In 2002, 2003 and 2004, Medi Telecom invested a total of approximately 252 million in building out and enhancing its digital network in Morocco. At December 31, 2004, Medi Telecom's digital network in Morocco consisted of 13 switching centers and 1,689 base stations providing coverage to over 96% of the population. Medi Telecom has been offering wireless internet since April 2001.

*Sales and Marketing*

Medi Telecom's sales and marketing strategy has been to generate rapid customer growth. At December 31, 2004, approximately 96% of Medi Telecom's customers used pre-paid plans with the remainder using contract service. Medi Telecom plans to target business customers and the more affluent segments of the consumer market in the short-term. Medi Telecom also intends to expand the range of services offered to its customers.

*Customer Care*

Medi Telecom believes that an emphasis on its customer service will enable it to distinguish itself from its competitor in Morocco. Medi Telecom maintains customer relations call centers with real time access to its information systems. The call centers in Morocco handled approximately 8.8 million calls in 2004. Medi Telecom's average monthly churn rate was 2.3% in 2004.

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### *Competition*

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

### *Latin America*

Latin America is an attractive telecommunications market with a population of approximately 512 million people and a combined gross domestic product of approximately \$1.9 trillion in 2004. 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 30.3% at year-end 2004. 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 2.5G technologies such as GSM/GPRS and CDMA/CDMA 1XRTT.

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

*Market liberalization.* Deregulation of the Latin American telecommunications markets, which has allowed for the entry of new competitors and the granting of new licenses, has resulted in increased competition for substantially all telecommunications services and products. Competition in these markets has increased the availability of advanced wireless services and reduced prices, which has resulted, in turn, in increased demand for these services.

*Calling party pays* billing system. Following the European experience, and in contrast to U.S. practice, regulators in most Latin American countries introduced in the late 1990s a mandatory calling party pays system, under which the person who initiates a call is billed for that call. In Latin America, this system has resulted in increased wireless usage.

*Expanding penetration and usage, above fixed-line penetration rate.* The number of wireless customers and wireless penetration levels have steadily increased in Latin America in the last years, to the extent that, in most of the countries in the region, the wireless penetration has become higher than the fixed-line penetration, although wireless penetration in Latin America remains low compared with penetration rates in Western Europe. As the cost of wireless services and handsets has declined, these services have become more affordable for a significantly larger percentage of the Latin American population, and both overall minutes of use and revenues have increased. Greater penetration and wireless traffic means that wireless operators can apportion their fixed costs among a greater number of customers, resulting in lower costs per unit which, 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 2.5G technologies.* Voice services as well as mobile Internet and data transmission services have increased through the installation of new 2.5 technologies (GSM/GPRS, EDGE and CDMA/CDMA 1XRTT). The progress in introducing GSM/GPRS technology in the region over the last two years has been particularly significant, above all in the principal markets such as Brazil, Mexico, Chile and Argentina, where various operators have started migrating their 1G and 2G networks to the standard GSM/GPRS networks. The increase in CDMA 1XRTT data networks has also been significant, especially in some countries such as Brazil and Peru, making it possible to increase the data revenues of wireless operators.

*Regional consolidation.* In recent years, a number of wireless operators in the region have consolidated in order to exploit economies of scale and synergies that will improve profitability through increased cost-efficiencies. We have participated actively in this



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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.

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We, along with Portugal Telecom, are 50:50 shareholders in Brasilcel, N.V., or Brasilcel, a joint venture which combined our wireless businesses in Brazil with those of Portugal Telecom. This joint venture is the leading wireless operator in Brazil in terms of total number of customers at December 31, 2004. At December 31, 2004, Brasilcel had a total of 26.5 million customers, of which 5.2 million were contract customers. Brasilcel had an estimated average share in its markets of operations of approximately 51% at December 31, 2004. 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 131.5 million, and covering 85.5% of Brazil's gross domestic product.

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 following table shows the different States where service is provided by Brasilcel's operators in 2004:

<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)

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

	<u>Year ended December 31,</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Net revenues from operations (euro in millions)(1)	1,160	1,378	1,522
Population in service territory (in millions at period end)	97	130	131.5
Total customers (in millions at period end)(2)	13.7	20.7	26.5
Pre-paid customers (in millions at period end)(2)	10.1	15.8	21.4

(1)

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Net revenues for the fiscal years 2004 and 2003 reflect the proportional consolidation of our 50% interest in Brasilcel, including TCO from May 2003. Net revenues for the fiscal year ended 2002 reflect the total revenues of Tele Sudeste, Celular CRT and Tele Leste Celular. Tele Leste Celular, Tele Sudeste Celular, and Celular CRT were fully consolidated in our combined statement of operations for fiscal year 2002 until their transfer to Brasilcel on December 27, 2002.

- (2) Total customers and pre-paid customers in 2004 and 2003 reflect the customers of Brasilcel. Total customers and pre-paid customers for 2002 reflect the customers of Tele Leste Celular, Tele Sudeste Celular, Telesp Celular and Celular CRT.

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### *Market*

Brazil is one of the largest countries in the world, with a surface area of 8.5 squares million kilometers and a population of approximately 179 million people. At December 31, 2004, with 65.6 million wireless subscribers, Brazil ranked first in Latin America in terms of number of wireless customers. At December 31, 2004, Brazil had an estimated market penetration rate of 37% and of 40% in the areas where Vivo operates. The Brazilian market has experienced a 42% increase in the number of wireless customers in 2004 as compared to 2003 and of 42% 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.

### *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 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 companies of Vivo 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 EVDO, and the companies which offered services based on TDMA networks (Celular CRT and TCO) are selectively overlaying CDMA 1XRTT and EVDO.

In 2004, there has been 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 launching EVDO networks. With EVDO technology, Vivo can now offer 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 2003 and 2004, approximately 278 million and 431 million, respectively, was 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, has enabled Vivo companies to develop and operate under a unified commercial strategy.

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

Participation in loyalty programs that were established for both contract and prepaid customers in 2003 grew significantly 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 7,998 points of sale at the national level in 2004. 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, 2004, approximately 20% of Vivo's customers were contract clients and the remaining 80% were prepaid customers.

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### *Customer Service*

The call centers of Vivo attended an average 1,117,266 calls a day during 2004. Vivo has adopted integrated solutions to foster customer loyalty. Brasilcel's average monthly customer churn rate during 2004 was 1.9%.

### *Competition*

The growth of the Brazilian market has been considerable during the past years while being accompanied by an increase in competition due to the introduction of new competitors in the regions in which Brasilcel operates. Our major competitors are subsidiaries of Telecom Italia Mobile, America Mobil and Brazil Telecom.

### *Mexico*

We hold 92% of Telefónica Móviles México, which is Mexico's second largest wireless operator, with over 5.6 million customers at December 31, 2004. Telefónica Móviles Mexico owns licenses covering the entire Mexican territory.

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

- 1) *Acquisitions of Northern operators.* We acquired the four Northern wireless operators (Bajacel, Movitel, Norcel and Cedetel) from Telefónica, S.A. in July 2001. Telefónica, S.A. acquired these operators from Motorola, Inc. in exchange for an aggregate of \$1,835.5 million in Telefónica, S.A. shares and \$10.5 million in cash, and transferred them to us in exchange for approximately 203 million of our ordinary shares.
- 2) *Acquisition of Pegaso Telecomunicaciones, S.A. de C.V. and Formation of Telefónica Móviles Mexico.* On April 26, 2002, we signed agreements to purchase 65.23% of Pegaso from Sprint, Leap Wireless, Qualcomm and other financial investors. Pegaso owns licenses to operate on a nationwide basis. In connection with this agreement, we also agreed with the Burillo Group, who held a 34.77% interest in Pegaso at the time of our acquisition, to contribute our interests in Pegaso and our other Mexican operators and with Burillo Group's interest in Pegaso into a new holding company, Telefónica Móviles Mexico.

On September 10, 2002, having obtained authorization from the relevant Mexican authorities, we acquired a 65.23% holding in Pegaso for \$92.9 million. In accordance with our agreement with the Burillo Group, on September 10, 2002 we contributed our interest in Pegaso and our other Mexican operators (Bajacel, Movitel, Norcel and Cedetel) to Telefónica Móviles Mexico. On the same date the Burillo Group contributed its wireless interests to Telefónica Móviles Mexico. We hold a 92% interest in Telefónica Móviles Mexico and the Burillo Group owns the remaining 8%. For further information, see Item 5.A Operating Results Presentation of Financial Information, and note 2 to our consolidated and combined financial statements.

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

	<b>Year ended December 31, 2002</b>	<b>Year ended December 31, 2003</b>	<b>Year ended December 31, 2004</b>
Total net revenues from operations (euro in millions)(1)	465	540	730
Total customers (in millions at period end)(1)	2.4	3.5	5.6
Pre-paid customers (in millions at period end)(1)	2.1	3.2	5.3
Population in service territory (in millions at period end)	102	103.3	104.7

(1) Telefónica Móviles Mexico has been fully consolidated in our financial statements for each of the years ended December 31, 2002, 2003 and 2004. Total net revenues and customer information for fiscal year 2002 include Pegaso as from September 1, 2002.

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

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*Market.* Mexico is Latin America's second largest country with a population of approximately 104.7 million. Mexico is an emerging wireless market with approximately 38 million wireless customers at December 31, 2004, representing a penetration of approximately 37%. The wireless market in Mexico grew at a rate of 25% for the year ended December 31, 2004.

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

*Network and Technology.* Telefónica Móviles Mexico offers both analog and digital networks. Its digital networks are based upon the CDMA and GSM standard. At December 31, 2004, Telefónica Móviles Mexico's digital network in Mexico consisted of 35 switching center and 4,894 base stations, including both digital (GSM, CDMA 1900 and 850) and analog (AMPS) base stations.

The roll-out of Telefónica Móviles Mexico's GSM network on a nationwide basis took place during 2003 and continued during 2004, covering approximately 250 of Mexico's principal cities and a geographic area representing approximately 77% of Mexico's GDP by the end of the year.

Telefónica Móviles Mexico has invested a total of \$970 million during 2002, 2003 and 2004, mostly during 2003 and 2004 on the GSM network.

The suppliers of the GSM network are Nokia and Ericsson.

*Sales and Marketing.* Telefónica Móviles México's marketing priority during 2004 was to launch a wide range of new products and services such as VPN and GPRS, to meet its customers' needs.

Telefónica Móviles México has continued to increase its commercial activity through the use of a broad range of marketing channels, including television, radio, billboards, telemarketing, direct mail and internet advertising to market its products.

In 2004, Telefónica Móviles Mexico has developed its distribution network by expanding the number of points of sale throughout the country to over 10,400 and training its sales personnel to focus on increased productivity.

At December 31, 2004, approximately 5% of Telefónica Móviles México's customers were contract customers, while approximately 95% were prepaid customers.

*Customer Care.* Telefónica Móviles Mexico's customer relations centers handled 23.4 million calls in 2004. Telefónica Móviles Mexico estimates that its accumulated monthly churn rate was 4.6% in 2004.



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

*Peru*

We have been providing wireless services in Peru through Telefónica Móviles, S.A.C., or Telefónica Móviles Perú since 2001. Prior to its transfer to us by Telefónica, S.A., Telefónica Móviles, S.A.C. commenced offering wireless services in Peru in 1993 with the launch of analog wireless services. In April 1997, the Telefónica Group launched the first pre-paid wireless service in Peru. In September 1997, the Telefónica Group launched digital wireless service in Peru under the MoviStar brand name, which has since become one of the most widely recognized brands in Peru.

In March 2001, as a preliminary step in the transfer of the Telefónica Group's wireless operations in Peru to us, Telefónica, S.A. transferred an approximately 16.5% interest in Telefónica del Perú S.A.A. to us in exchange for 65,939,564 of our ordinary shares. In accordance with the resolution of Telefónica del Perú's shareholders to divide the company along business lines, Telefónica del Perú spun off its wireless operations in June 2001 in the form of

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shares of Telefónica Móviles, S.A.C., and its data operations. We agreed with other members of the Telefónica Group who were shareholders of Telefónica del Perú to exchange, following such spin-offs, the shares of such data operations that we received in its spin-off, as well as the shares we held in Telefónica del Perú, for the shares in Telefónica Móviles, S.A.C. that they received in its spin-off. As a result of the spin-off and share exchanges, as well as additional subsequent share purchases, we currently hold indirectly a 97.97% interest in Telefónica Móviles, S.A.C. and do not hold any interest in Telefónica del Perú or its former data operations.

With the acquisition of 99.85% of Comunicaciones Móviles del Perú the remaining 0.15% is still publicly listed from BellSouth under the global agreement to acquire its operations in Latin America, Telefónica Móviles consolidated its leadership in the Peruvian market, with an estimated market share of approximately 69%. At December 31, 2004 the combined operators' customer base totaled over 2.8 million (TM Peru: 2.12 million customers; Comunicaciones Móviles del Perú: 0.75 million).

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

	<b>Year ended December 31,</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
Total net revenues from operations (euro in millions)(1)	283	247	267
Total customers (in millions at period end)(2)(3)	1.2	1.5	2.8
Pre-paid customers (in millions at period end)(2)	1.0	1.2	2.3
Population in service territory (in millions at period end)	26	27	28

*Source: Telefónica Móviles, except population*

*Population: Pyramid Research*

- (1) Total net revenues from operations for the year ended December 31, 2004 includes the revenues from Comunicaciones Móviles del Perú as from November 1, 2004. This contribution amounted to 19 million.
- (2) Customer data includes the costumers belonging to Comunicaciones Móviles del Perú, which we acquired in October 2004.
- (3) Total costumers in 2004 include 0.06 million fixed wireless customers belonging to Comunicaciones Móviles del Perú.

*Market.* With a population of approximately 28 million people, Peru is the seventh largest wireless market in Latin America with approximately 4.1 million customers at December 31, 2004, which represents a penetration rate of 15%. The Peruvian market grew at a rate of 38.6% in 2004.

*Network and Technology.* Telefónica Móviles Peru operates both analog and digital networks. Its digital network is based upon the CDMA/CDMA 1XRTT standard. It has roaming agreements enabling Telefónica Móviles Peru's contract customers to make and receive calls in over 180 countries, including most of the Americas.

Telefónica Móviles Peru invested approximately 119 million in building out and enhancing its network in 2002, 2003 and 2004. In 2004, the amounts invested have been used to increase the switching capacity of the network, and to roll out the CDMA 1XRTT network.

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At December 31, 2004, Telefónica Móviles Peru's network consisted of the CDMA 1XRTT network and the Motorola Analog-Digital Network. The CDMA 1XRTT network consisted of 4 switching centers and 273 base stations. The Motorola Analog-Digital Network consisted of 6 dual capacity switching centers, 291 analog base stations and 334 digital base stations.

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

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*Sales and Marketing.* Telefónica Móviles Peru utilizes numerous marketing channels, including television, radio, print media, billboards, telemarketing, direct mail and internet advertising. During 2004, Telefónica Móviles Peru maintained its leading position as a result of an active commercial strategy, and as a result of its customer retention policies.

For purposes of sales and distribution, Telefónica Móviles Peru divides the Peruvian market into the consumer market and business market. Telefónica Móviles Peru uses 444 points of sale in Peru, of which 48 are proprietary points of sale. For the consumer market, an emphasis was placed on an incentive program for pre-paid card activations by developing different activities and highlighting various promotions.

Telefónica Móviles Peru directly targets corporate clients through Movistar Empresas.

*Customer Care.* Telefónica Móviles Peru maintains a customer relations call center with real time access to its information systems. This call center handled approximately 14 million calls in 2004.

Telefónica Móviles Peru's average accumulated monthly churn rate was 2.3% for 2004 due to the highly competitive environment in Peru.

*Competition.* Telefónica Móviles Peru currently has two competitors in the Peruvian market for wireless communications service: Mobile Holdings, which obtained a GSM/PCS license in March 2000 and subsequently launched its services under the TIM brand; and Nextel Peru. In addition, America Mobile recently acquired a license to provide wireless telephone services.

## *Argentina*

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

Pursuant to our March 5, 2004 stock purchase agreement with BellSouth Corporation to acquire 100% of BellSouth's interests in its wireless operations in Latin America, we acquired Movicom in Argentina on January 11, 2005.

The following table presents, at the dates and for the periods indicated, total net revenues and other statistical data relating to the operations of Telefónica Comunicaciones Personales.

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	<u>2002</u>	<u>2003</u>	<u>2004</u>
Total net revenues from operations (euro in millions)	195	240	360
Total customers (in millions at period end)	1.6	1.8	3.4
Pre-paid customers (in millions at period end)	1.1	1.2	2.1
Population in service territory (in millions at period end)	38	38.2	38.7

*Source: Telefónica Móviles, except population*

*Population: Pyramid Research*

Telefónica Comunicaciones Personales provides wireless services in each of Argentina's three service regions: Greater Buenos Aires; Southern Argentina; and Northern Argentina. In Greater Buenos Aires, the Telefónica Group commenced offering analog wireless services in 1993 under the Miniphone brand name through a company that it

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owned jointly with Telecom Argentina, an affiliate of France Telecom and Telecom Italia. In 1994, Miniphone launched digital wireless services in Greater Buenos Aires. In 1999, Telefónica Comunicaciones Personales and Telecom Personal divided Miniphone's assets, including customers, between them and entered into an agreement which allows Telefónica Comunicaciones Personales and Telecom Personal to continue to operate in Greater Buenos Aires separately.

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

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

*Market.* With a population of approximately 38.7 million people, Argentina is the fourth largest wireless market in Latin America with 13.2 million customers at December 31, 2004, which represents a penetration rate of 34.1% as compared to 20.6% at December 31, 2003. Our customer base increased by approximately 84.4% in 2004 from 1.8 million customers at December 31, 2003 to 3.4 million at December 31, 2004, making Telefónica Comunicaciones Personales, S.A. the third largest wireless operator in Argentina according to our estimates, with approximately 26% of the market share.

*Network and Technology.* Telefónica Comunicaciones Personales operates both analog and digital networks. Its digital network is based upon the TDMA standard and GSM. It has roaming agreements enabling its customers to make and receive calls in more than 170 countries worldwide.

Telefónica Comunicaciones Personales invested a total of approximately 109.4 million in building out and enhancing its digital network in Argentina in 2002, 2003 and 2004. This GSM network has 109 base stations, covering approximately 82% of national GDP and providing roaming service for international travelers.

At December 31, 2004, its network in Argentina consisted of 38 switching centers and 2,099 base stations (including both digital and analog network) covering over 90% of the population. Telefónica Comunicaciones Personales' network has dual capacity so that the analog network has the same number of switching centers and base stations as the digital network.

Substantially all of Telefónica Comunicaciones Personales' cellular network equipment is provided by Ericsson and it purchases handsets from Ericsson, Nokia and Motorola.

*Sales and Marketing.* Telefónica Comunicaciones Personales utilizes all types of marketing channels, including television, radio, billboards, telemarketing, direct mail, sponsorship and internet advertising. Generally, its advertising emphasizes qualities such as convenience and reliability, with specific campaigns based on price or new product offerings.

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For purposes of sales and distribution, Telefónica Comunicaciones Personales divides the Argentine wireless market into three geographic regions and into consumer and business customer segments. For the consumer market, it uses exclusive and non-exclusive distributors for a total of 6,343 points of sale. In addition, Telefónica Comunicaciones Personales has 15 proprietary points of sale.

In the business sector, Telefónica Comunicaciones Personales orients its marketing to small businesses through distributors and has a corporate sales force to target large business customers. Telefónica Comunicaciones Personales offers a variety of plans, ranging from volume discounts for small businesses to specifically tailored pricing and services for large business customers. At December 31, 2004, approximately 27% of its customers had a service contract and the remaining 63% used pre-paid calling cards.

*Customer Care.* Telefónica Comunicaciones Personales maintains 27 walk-in customer relations centers and four call centers with real time access to our information systems. These call centers handled nearly 19.4 million calls in 2004.

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Telefónica Comunicaciones Personales average accumulated monthly churn rate was 1.3% for 2004.

*Competition.* Our 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 (which is controlled by América Móvil) and Nextel, owned by NII Holdings Inc.

*Chile*

On July 23, 2004, after the acceptance of our binding offer by CTC's Board (a subsidiary of Telefónica, S.A.), Telefónica Móviles acquired 100% of the shares of Telefónica Móvil de Chile, a Chilean mobile telephone operator, which we have been managing since 2000. The purchase price was \$869.9 million.

Telefónica Móvil de Chile had approximately 3.3 million customers at December 31, 2004, which, according to estimates based on information provided by competitors and regulatory authorities, accounted for 34.7% of the overall mobile telephony market in Chile. Since the launch of its GSM services in April 2003, Telefónica Móvil de Chile has attracted approximately 1.5 million GSM customers, approximately 44% of its total customers.

The following table presents, for the period indicated, selected statistical data relating to Telefónica Móvil de Chile.

	<b>Year ended</b> <b>December 31, 2004 (1)</b>
Total net revenues from operations (euro in millions)	182.8
Total customers (in millions at period end)	3.3
Pre-paid customers (in millions at period end)	2.8
Population in service territory (in millions at period end)	15.4

*Source: Telefónica Móviles, except population*

*Population: Pyramid Research*

- (1) We acquired 100% of Telefónica Móvil de Chile's shares on July 23, 2004, and it was fully consolidated in our financial statements as from August 1, 2004. Prior to this date we managed Telefónica Móvil de Chile's operations but did not consolidate Telefónica Móvil de Chile's results in our financial statements. The net revenues for 2004 only represent results for the five months from August through December.

*Network and Technology*

Telefónica Móvil de Chile maintains a fully digital nationwide TDMA mobile network of 25 MHz in the 800 MHz frequency. In addition, in 2002, Telefónica Móvil de Chile acquired through a bidding process two nationwide bands of 10 MHz each in the 1900 MHz mobile frequency



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(PCS), which it is developing with GSM/GPRS technology. In April 2003, Telefónica Móvil de Chile launched its GSM service, which has the benefit of operating over the only GSM/GPRS network covering the entire length of Chile. In 2004, it continued to make improvements to this network's quality and coverage.

In 2003, with the launch of this new network, Telefónica Móvil de Chile began to offer new services such as multimedia messaging (Móvil Image), game downloads (Móvil Game) and ring-tone downloads (Móvil Music). Also, in July 2003, a new data transmission service, the GPRS mobile Internet, was launched.

In March 2004, Telefonica Movil de Chile was the first operator in Chile to launch mobile TV services, providing its clients with on line TV local programs and video streaming on their mobile phones. EDGE ( Enhanced Data Rates for Global Evolution ) was relaunched in April, offering clients an always on connection with a transfer speed up to 474 kbps.

The new GSM/GPRS mobile network extended roaming services to more than 160 countries.

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During the last five months of 2004, we invested approximately 69 million in developing our operations in Chile.

*Central America*

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

In August 2001, we entered into an agreement with Mesotel de Costa Rica, S.A., a subsidiary of Mesoamérica Telecom, to acquire its direct and indirect interests in Telefónica Móviles El Salvador, Telefónica Centroamérica Guatemala, Telca Gestión, S.A. and Telca Gestión Guatemala, S.A., and other companies in which we had shared holdings in exchange for approximately 21.9 million of our ordinary shares. In January 2002, we amended this agreement and acquired one-third of Mesotel de Costa Rica, S.A.'s interests in these companies in exchange for 7.3 million of our ordinary shares. The remaining two-thirds were transferred by Group Mesotel in July 2002 for the remaining 14.6 million of our ordinary shares. We currently hold through TES Holdings, S.A. and TCG Holdings S.A. a 96.19% indirect interest in Telefónica Móviles El Salvador and a 100% indirect interest in Telefónica Centroamérica Guatemala.

In addition, in October 2004, we acquired 100% of Telefónica Móviles Guatemala y Compañía from BellSouth, pursuant to the March 2004 agreement to acquire its wireless operations in Latin America.

*El Salvador*

We provide wireless services in El Salvador through Telefónica Móviles El Salvador, the third largest of the four wireless operators in El Salvador, with approximately 372 thousand customers at December 31, 2004, representing 23.7% of the market. We currently indirectly hold a 96.19% interest in Telefónica Móviles El Salvador.

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

	<u>Year ended December 31,</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Total net revenues from operations (euro in millions)(1)	112	96	104
Total customers (at period end)	230,856	247,520	372,000
Pre-paid customers (at period end)	160,266	186,309	294,000
Population in service territory (in millions at period end)	6.5	6.6	6.7

*Source: Telefónica Móviles, except population*

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### *Population: Pyramid Research*

- (1) Includes both fixed-line and wireless operations. Our operations in El Salvador have been fully consolidated for each of the years ended December 31, 2002, 2003, 2004. We held a 90.3%, 90.3% and 91.75% interest in our operations in El Salvador at year end December 31, 2002, 2003 and 2004, respectively.

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

*Market.* As of December 31, 2004, El Salvador had approximately 1,523 thousand wireless customers and a market penetration rate of 22.5% compared to a fixed-line penetration rate of 9.9%.

*Network and Technology.* The digital network of Telefónica Móviles El Salvador is based upon the CDMA and GSM standard. During 2002, 2003 and 2004, Telefónica Móviles El Salvador invested a total of approximately 38 million,

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mostly in building out and enhancing its networks in El Salvador. At December 31, 2004, the digital network of Telefónica Móviles El Salvador consisted of five switching centers shared by the fixed-line and mobile networks and 252 base stations covering over 50% of the population.

*Sales and Marketing.* Telefónica Móviles El Salvador utilizes a variety of marketing channels, including television, radio, billboards, telemarketing, direct mail and internet advertising. Telefónica Móviles El Salvador's products and services are marketed under the MoviStar brand names. Telefónica Móviles El Salvador has an extensive distribution network which includes a combination of third-party and proprietary points of sale. At December 31, 2004, approximately 21% of its customers were contracts customers, while 79% used pre-paid calling cards.

*Customer Care.* Telefónica Móviles El Salvador's call center handled over 1.3 million calls in 2004. We estimate that Telefónica Móviles El Salvador's average monthly churn rate was 2.2% for 2004. For information concerning the methodology used by us in calculating customer churn rates, see Our Operations Customer Churn.

*Competition.* Telefónica Móviles El Salvador currently competes in the El Salvador market for wireless communications service with Telemóvil, Personal and Digicel.

*Guatemala*

We provide wireless services in Guatemala indirectly through our wholly-owned subsidiary Telefónica Centroamérica Guatemala and since our acquisition of Telefónica Móviles Guatemala y Compañía from BellSouth in October 2004, through that operator as well. At December 31, 2004, our total customer base in Guatemala stood at 751 thousand (Telefónica Centroamérica Guatemala: 376 thousand; Telefónica Móviles Guatemala y Compañía: 375 thousand).

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

	<b>Year ended December 31,</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
Total net revenues from operations (euro in millions) (1)	77	69	93
Total customers (at period end) (2)	97,089	156,868	750,554
Pre-paid customers (at period end) (2)	48,865	113,551	562,051
Population in service territory (in millions at period end)	12.9	12.0	12.7

*Source: Telefónica Móviles, except population*

*Population: Pyramid Research*

(1) Total net revenues from operations for the year ended December 31, 2004 include the revenues from Telefónica Móviles Guatemala y Compañía as from November 1, 2004. This contribution amounted to 14 million.

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- (2) Subscriber data for 2004 includes 375,000 of Telefónica Móviles Guatemala y Compañía's subscribers, a company acquired by Telefónica Móviles from BellSouth in October 2004.

Following the acquisition of 100% of Telefónica Móviles Guatemala y Compañía from BellSouth in October 2004, we had, according to our estimates, 29.1% of the market as of December 31, 2004.

Telefónica Centroamérica Guatemala commenced offering digital wireless services in Guatemala in October 1999 under the Movistar brand name. Telefónica Centroamérica Guatemala also provides fixed-line public telephone service, data and long distance services and paging services through its subsidiary Tele Escucha, which had 7 thousand customers as of December 31, 2004. Telefónica Centroamérica Guatemala may in the future enter into an agreement with Telefónica S.A. or its affiliates providing for the spin-off or transfer to it of all of the non-wireless assets that Telefónica Centroamérica Guatemala holds in Guatemala.

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*Market.* As of December 31, 2004, Guatemala had a market penetration rate of 20.6%, representing approximately 2.6 million wireless customers at December 31, 2004.

*Network and Technology.* In Guatemala, Telefónica Centroamérica Guatemala operates a digital network, which is based upon the CDMA standard. In 2002, 2003 and 2004, Telefónica Centroamérica Guatemala invested a total of approximately \$34 million, mostly in building out and enhancing its network in Guatemala. At December 31, 2004, Telefónica Centroamérica Guatemala's digital wireless network consisted of five switching centers and 422 base stations, covering over 81% of the population.

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

At December 31, 2004, approximately 88% of Telefónica Centroamérica Guatemala's customers used pre-paid calling cards, while the remaining 12% had contracts.

*Customer Care.* Telefónica Centroamérica Guatemala's call center handled over one million calls in 2004. We estimate that Telefónica Centroamérica Guatemala's average monthly churn rate was 2.8% for 2004. For information concerning the methodology used by us in calculating customer churn rates, see "Our Operations Customer Churn."

*Competition.* We currently have two competitors in the Guatemala wireless market: Telgua and Comcel.

### *Puerto Rico*

We managed the day-to-day operations of NewComm Wireless, a Puerto Rican wireless operator, until the termination of our management contract in September 2004 and we no longer count its customers in our total managed customer base. In the fourth quarter of 2004, we decided to write-off the value of (i) our convertible notes in NewComm Wireless and (ii) certain accounts payable by NewComm to Telefónica Móviles (together resulting in total provisions of approximately \$80 million) as a result of the continued highly competitive environment in Puerto Rico. We acquired these convertible notes (which are convertible into 49.9% of NewComm Wireless capital stock) from the Telefónica Group for an aggregate amount of \$60.9 million in September 2003. We also have a call right to acquire an additional 0.2% of NewComm Wireless stock from Clearcomm (our partners in NewComm Wireless), which would give us control of 50.1% of the capital stock of NewComm Wireless. On April 20, 2005, after reaching a settlement agreement with Clearcomm which provided for the termination of the Management Agreement and the Technology Transfer Agreement (with effect from September 2004) and the postponement of the exercise of our call right for a period of three years, we converted these convertible notes and capitalized the management fees, technological assistance fees and FCC payments that NewComm accrued to us into 49.9% of the capital stock of NewComm Wireless. We currently hold this 49.9% interest through our 100%-owned subsidiary, Telefónica Móviles Puerto Rico Inc.

Also, as part of the settlement agreement with Clearcomm, the Bridge Loan Facility Agreement was extended for another three years (this loan matures on June 30, 2008) and NewComm entered into a Subordinated Loan for the payment to the FCC of the outstanding amount of the licenses held by NewComm in an amount of up to \$40 million, which has been guaranteed by Telefónica, S.A. and counter-guaranteed by us. For

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more information on the Bridge Loan Facility Agreement and the Subordinated Loan, see [Item 5 Operating and Financial Review and Prospects](#) [Off-Balance Sheet Commitments](#) .

### **Other operations (other Latin American operators acquired from BellSouth)**

At December 31, 2004, the customer base of the other six Latin American operators acquired from BellSouth in October 2004 (in Ecuador, Panama, Uruguay, Nicaragua, Colombia and Venezuela) totaled 9.9 million. See [Business Overview Overview](#) for additional customer and revenue information on the newly acquired operators.

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Commercial activity during the two months under Telefónica Móviles management was marked by Christmas marketing campaigns primarily targeting potential prepaid customers, which resulted in significant growth in the number of new customers in November and December.

These operators contributed 392 million, or approximately 3%, to our consolidated net revenues in 2004.

## **Wireless Internet and Data Initiatives**

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

We believe that the convergence of data communications and voice communications represents a new and important opportunity to create value in the mobile communications sector in the near future. An important 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 855 million in 2004. This increase is primarily due to the increased use of other data services in addition to traditional SMS usage. Revenues from other data services, excluding traditional SMS, have increased by approximately 5 percentage points in 2004 to 24% of total data revenues.

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

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

In June 2000, we launched *MoviStar e-moción*, our wireless internet service provider in Spain. Most of our operating companies (Brazil, Argentina, Peru, El Salvador, Guatemala and Morocco) have launched MoviStar e-moción or similar services under different brands such as *Vivo ao Vivo* in Brazil.

Currently *MoviStar e-moción* has several content groups in Spain, including mobile banking, media, news, portals, ticketing, m-commerce, travel, entertainment, health and yellow pages, among others. We have signed agreements with more than 250 content providers to provide links through *MoviStar e-moción* for products and services in Spain.

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



We are focusing on consolidating our position in the corporate segment (where we have a strong position in terms of market share) with a view to marketing and introducing new wireless data services and applications. Although internet access services are still in an early phase of development, it is anticipated that demand in the corporate segment will increase as the download speeds increase, through further development of our UMTS network.

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

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Our wireless internet access services in Spain are currently billed on the basis of connection time, at a discount to voice rates, for WAP CDS services, and on the basis of the volume of data sent, for WAP GPRS services, i-mode™ services and GPRS/UMTS access, and, in each case, depending on the content. We also offer premium services, under which access to premium content incurs an extra charge, which we share with the content providers.

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

In addition to video calls (seeing and speaking via mobile phone), customers will also be able to download high quality videos to their telephone screens. Telefónica Móviles has signed exclusive agreements with various content providers to include on *MoviStar e-moción*.

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

### *M-Payment*

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

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

### **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**

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

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

On May 25, 2003, in compliance with Brazilian legislation, TCP launched a tender offer for the common shares of TCO not owned by it. The acceptance period finished on November 18, 2003. As a result of the shares tendered, we acquired 72.2% of the outstanding available common shares at the price of R\$ 16.73 per 1,000 common shares. The total purchase price for the new shares amounted to R\$538.8 million. At December 31, 2004 TCP held 86.6% of TCO's ordinary shares, representing a 28.9% interest in TCO. TCP also announced the intention to launch an exchange offer for the remaining shares of TCO through which TCP would have become TCO's sole shareholder. This would have been followed by a merger of TCO into TCP. After the launch of the exchange offer, the CVM raised questions as to its compliance with Brazilian law. Although TCP and TCO believed, and believe, that the exchange offer complied with applicable law, TCP and TCO decided to terminate the exchange offer in January 2004.

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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%.

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

We own trademarks registered in various jurisdictions which are assets of great value to our Spanish and international activities. We use these trademarks to convey an image of reliability and quality of service and to boost customer loyalty. Some of the most significant trademarks are Movistar and e-moción. We also hold a non-exclusive license on a group of trademarks and trademark applications, including Telefónica Movistar e-moción, Telefónica Móviles, Telefónica Móviles España and Telefónica Movistar, awarded by Telefónica, S.A.

The Group also owns patents throughout the world and various domain names, such as movistar.com, telefonicamoviles.com and e-mocion.com.

## **Regulation**

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

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

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***

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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.

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*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.

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.

<b>Spectrum rights</b>	<b>Duration</b>	<b>Ending Date</b>	<b>Extension Period</b>
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

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(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.

On 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.

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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.

Our 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;

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

<u>Technology</u>	<u>Year 2003 ( /MHz)</u>	<u>Year 2004 ( /MHz)</u>	<u>Year 2005 ( /MHz)</u>
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;

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, 2004.

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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.

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

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

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

to interconnect our network with the network of our competitors.

### *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

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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, for the purposes of the Telefónica Group, is applicable until February 2007.

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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 Telefonica Group affecting strategic assets are exempt from the post-closing notification).

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.

### *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

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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

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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 (a classification that is generally defined as the attainment of a market share of more than 25% measured by income tax generated by networks and services in the previous year), we are required, among other obligations, to facilitate cost-oriented interconnection rates on a non-discriminatory and transparent basis and report to the Ministry of Economy and the Ministry of Industries, Tourism and Commerce regarding our compliance.

### *Other Provisions*

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

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

On March 20, 2002, the Government published an order regulating mobile virtual network operators, or MVNOs. Companies wanting to operate as a MVNO need a special license, which would provide them:

interconnection rights;

independent telephone numbers under the National Cellular Numbering Plan; and

an independent network code.

The order advocates that the benefit of these services should be based on the rule of Permission, not Obligation, with the safeguard that the agreements between the MVNOs and other operators will have to respect the principle of non-discrimination.

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

## **European Union**

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

*New Regulation of the Telecommunications Industry*

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

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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 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.

#### *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

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### *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.

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

### *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*

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

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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 and 2002 in which some SMP licenses were awarded.

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

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.

Furthermore, SMP will allow for a Bill and Keep interconnection scheme (a scheme where no payments are exchanged between operators) between SMP operators in the same register area from June 30, 2005 onwards. Until that date, Bill and Keep schemes will be allowed only if traffic in one direction is not greater than 55% of the total traffic.

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

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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.

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### *Peru*

The provision of telecommunications services in Peru, including wireless services, is governed by the Telecommunications Law, which was enacted in 1993, and related regulations. Pursuant to this law, providers of wireless services seeking to operate in Peru must obtain a non-exclusive license from the Ministry of Transport 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 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.

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

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

Following the acquisition by Telefónica Móviles in October 2004 of Comunicaciones Móviles del Perú (formerly Bellsouth Peru), from BellSouth, Telefónica Móviles del Perú requested MTC authorization for the transfer of Telefonica Móviles' concessions in favor of Comunicaciones Móviles del Perú on January 5, 2005. The Ministry of Transport and Communications has not ruled out this request. Until authorization of transfer is granted, the proposed merger between Telefónica Móviles S.A.C. and Comunicaciones Móviles S.A. will not take place.

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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.

*Local fixed telephony services for Lima and Callao.* 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 by base station concession-holders and is calculated as a percentage of Peruvian tax units (UIT). A wireless licensee pays 0.4% of UIT by subscriber in the provinces of Lima and Callao and 0.3% of UIT by subscriber, in the rest of provinces, depending on the quantity of mobile activated terminals declared on December 31 of the previous year;

*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*



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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**

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

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<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.

Interconnection rates can be negotiated among wireless operators in Peru. Nevertheless, a maximum rate is fixed by OSPITEL for termination rates of long distance and public telephony local calls. This rate has been calculated by OSIPTEL based on an international benchmark analysis.

*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*

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

*Argentine Regulatory Authorities*

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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.'s licenses for the provision of wireless services include the following:

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

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

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

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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.

Telefónica Comunicaciones Personales licenses entitle it to 12.5 MHz of spectrum in the 800 MHz band and 30 MHz of spectrum in the 1900 MHz band in Greater Buenos Aires, 25 MHz of spectrum in the 800 MHz band and 20 MHz of spectrum in the 1900 MHz band in Southern Argentina and 40 MHz of spectrum in the 1900 MHz band in Northern Argentina.

### *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).

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

### *Other Provisions*

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

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.

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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.

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.

Pursuant to a resolution of Parliament, the Economic Emergency Law will remain in effect until December 31, 2005 with respect to social, economic, administrative, financial and currency exchange affairs, which include all of the measures listed above.

## ***Mexico***

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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.

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### *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*

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

Telefonica Moviles 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.

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



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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.

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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 11 spectrum licenses by COFETEL. Nevertheless, Pegaso didn't receive licenses for regions 1, 6 and 9 because the total spectrum assigned to Pegaso in these regions would exceed COFETEL's spectrum cap of 35 MHz per region for 1900 MHz frequencies. 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*

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

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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.

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.

### *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. 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.

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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*

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, upon expiration or revocation of a concession, the General Superintendency of Electricity and Telecommunications may grant a renewal depending on the fulfillment of certain terms and conditions.

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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 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 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.

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### *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*

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*

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

On October 14, 2004, we acquired Bellsouth Guatemala y Compañía, S.C.A (subsequently renamed TEM Guatemala y Compañía, S.C.A.) from BellSouth. TEM Guatemala y Compañía, S.C.A. holds the following titles, all of which are set to expire in 2014:

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

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

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

*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.

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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 \$0.13 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.

Telefónica Móvil de Chile holds the following concessions for the provision of wireless telecommunications services in the 800 MHz band:



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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.

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. 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.

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BellSouth Comunicaciones concessions for the provision of telecommunication services include the following for the provision of wireless telecommunications services in the 800 MHz band:

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.

BellSouth Comunicaciones 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.

BellSouth Chile holds a concession for the provision of intermediate services, including long distance 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 new interconnection charges for the period 2004-2009 became effective for Telefónica Móvil de Chile and BellSouth Comunicaciones on February 13, 2004 and January 24, 2004, respectively. The new interconnection charges have decreased by

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an average of 27.4% for the period 2004-2009 compared to the average tariffs in Chilean pesos as of December 31, 2002. The new tariffs scheme stipulates three time slots defined as peak reduced and night .

### *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.

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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 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.

*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

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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.

In March 2005, Medi Telecom has reached an agreement with the ANRT for extending the GSM license for another 10 years, until August 2024, pending the formal publication of a governmental decree. 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).

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 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.

In July 2004, Maroc Telecom requested an arbitration process before the ANRT to reduce mobile termination rates by 33%. The ANRT has not yet ruled on this request.

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.

### ***Colombia***

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.

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*Colombian 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.

*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:

<u>Service</u>	<u>Coverage area</u>	<u>Contract/license</u>	<u>Duration</u>
Wireless telephony	Eastern (Celumovil)	Contract 001, granted on March 28, 1994	Extended for 10 years until March 28, 2014. The contract does not allow extensions.
	Caribbean coast (Celumovil)	Contract 002, granted on March 28, 1994	Extended for 10 years until March 28, 2014. The contract does not allow extensions.
	Western (Cocelco)	Contract 003, granted on March 28, 1994	Extended for 10 years until March 28, 2014. The contract does not allow extensions.
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; may be extended once for 10 years. A 10-year extension was requested in December 2004.
Carrier		Res. 1616/98, granted on	



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In and between 17 cities  
(Celumovil). Now national.

June 25, 1998.

Initially for 10 year; may be  
extended once for 10 years.

In and between 4 cities  
(Cocelco). Now national.

Res. 3009/98, granted on

November 20, 1998.

Initially for 10 years; may be  
extended once for 10 years.

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\$150,000) 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

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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.

### *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.

### *Interconnection*

Law 37/93 provides that wireless operators must have the right to interconnect their own networks with those of other providers. Law 555/2000 requires all operators to allow interconnection with their networks and grant access to and use of their essential installations by any other operator upon request, in accordance with the terms and conditions set forth by the CRT. A unified regime for interconnection has been established by the CRT (Resolution CRT 575-2002) requiring fixed telephony operators, cellular telephony operators and PCS operators to allow interconnection to one another's networks.

### *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*

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

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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. Recently, CONATEL approved a new regulation to extend the provision of cellular services nationwide. Cellular operators must pay a one-time fee of US\$412,000 for the right to provide nationwide coverage.

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

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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 must be paid by all operators holding concessions for the use of frequency 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.

*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 Telefónica Móviles Ecuador and Andinatel, S.A, SENATEL has delayed setting the terms of the interconnection agreement. As a result, since January 2005, Telefónica Móviles Ecuador and all other mobile operators that are involved in similar negotiations, continue to await a ruling that will be effective from the date of its publication. Any SENATEL ruling would also apply to Pacifictel, S.A. (a state-owned fixed-line operator).

Telefónica Móviles Ecuador has continued to accrue accounts receivable for over a year, which amounted to US\$19 million as of December 31, 2004, due to the fact that Andinatel, S.A and Pacifictel, S.A. have not paid amounts derived from interconnection. Telefónica Móviles Ecuador estimates this amount as a result of the application of the previous terms and conditions that we believe should have been extended.

*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,

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without the application of sanctions and limits the conditions on which a service provider 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. Currently, international long distance and PSTN services are provided only by ENITEL and all international and long distance traffic (including cellular traffic) must be carried through ENITEL's network. ENITEL is the incumbent operator owned by America Movil, whose monopoly is due to be dissolved in 2005.

### *Regulatory Authorities*

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

### *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 telecommunications industry in Panama is governed by Law No. 17 of July 9, 1991, Law No. 31 of February 8, 1996 and the corresponding implementation rules set forth in Executive Decree No. 21 of January 12, 1996 and Executive Decree No. 73 of April 9, 1997.

### *Regulatory Authorities*

The Regulatory Body for Public Services (ERSP), created pursuant to Law No. 26 of January 29, 1996, oversees the telecommunications, electrical, water and broadcasting industries.

### *Licenses and Concessions*

We acquired Telefónica Móviles Panamá, S.A. (formerly, BellSouth Panamá) from BellSouth in October 2004. The acquisition was approved by Panama's National Government on August 11, 2004 (Cabinet Resolution No. 90). On February 10, 2005, ERSP issued Resolution JD-5147 approving our ownership of 99% of Telefónica Móviles Panamá's outstanding share capital.

Telefonica Móviles Panamá has been granted the following concessions:

Cellular services (800 MHz Band A) (expiring in February 2016)

Local, national and international fixed telephony (expiring in February 2022)

Public telephony (expiring in February 2022)

Telecommunications reselling services (expiring in July 2024)



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The cellular services concession was granted for a 20-year period expiring in 2016, and may be extended for another 20-year period pursuant to the concession agreement upon application by the operator. The concessions also established a regulation tax payable monthly in an amount equal to 0.25% of monthly revenues minus the related interconnection charges.

Telefónica Móviles Panamá has been granted 25 MHz of spectrum on the 800 MHz Band A to deploy the cellular network with national coverage and has the right to request the microwave spectrum required to substantially complete the transmission network. Telefónica Móviles Panamá is currently authorized to use TDMA & CDMA technology.

The Local telephony and the public telephony service concessions originally required the operator to commence these services within 24 months. Telefonica Móviles Panamá did not commence these services by that date and ERSP granted a 12-month extension on December 13, 2004, which will expire October 24, 2005.

Telefonica Móviles Panamá is also authorized to provide the following services: data transmission; Internet access; data switching international private links; VSAT; store & forward fax; high fidelity audio, video and data signals and value added services.

A public bidding process for providing PCS services is scheduled to take place in 2008.

### *Rates*

Wireless services operators freely set rates and implement the calling party pays standard, provided that the average price per minute from mobile lines to fixed lines is not less than 25% below the average price per minute from fixed lines to mobile lines.

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### *Interconnection*

Wireless service operators may freely negotiate interconnection agreements.

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

Any change in control of the operator must be justified to the Regulator and approved by Executive Decree.

### *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 Defense. 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.

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). On July 25, 2004, following an auction, Movicom obtained a license to use Spectrum 1 for a 20-year period.

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.

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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.

Movicom acquired two additional 5 MHz blocks of spectrum on the 1900 band (Spectrum 5) in an auction, and on July 25, 2004, obtained a license to use Spectrum 5 for a 20-year period.

Movicom'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 recently approved which will require Movicom to pay the equivalent of 0.3% of its annual revenue.

### *Rates*

Wireless operators may freely fix customer rates for the provision of services.

### *Interconnection*

Wireless service providers are required to provide access to essential resources, including interconnection services, when requested by other telecommunications providers. 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.

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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.

### *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*

The basic regulatory framework for the telecommunications industry is based on the Organic Telecommunications Law, or OTL, of 2000, which defines the rights and duties of operators, customers and other users of telephone services. The 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.

### *Licenses and Concessions*

We purchased Telcel, S.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, which was granted with the authorization to continue unlimited operations within the same scope, rights and duties until an independent act, yet to be issued, would establish the exact duration of the renewal.

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.

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

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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 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.

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### *Rates*

Under the OTL, 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 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, although 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.

## **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;

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

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land and buildings;

easements; and

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

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

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

### **A. OPERATING RESULTS**

The following discussion should be read in conjunction with the consolidated and combined financial statements included in this annual report. These financial statements have been prepared in accordance with Spanish GAAP, which differs in significant respects from U.S. GAAP. For a discussion of these differences and a reconciliation of net income and shareholders' equity from Spanish GAAP to U.S. GAAP, see note 21 to the consolidated and combined financial statements. The following discussion is based on the consolidated and combined results of operations and financial condition of our company, unless otherwise specified or indicated.

#### **Overview**

We are a leading provider of wireless communications services in Spain and Latin America 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 five largest global providers of wireless communication services based upon total managed customers at December 31, 2004. We offer a broad range of wireless services, including voice services, enhanced calling features, international roaming, wireless internet and data services, wireless intranets and other corporate services.

At December 31, 2004, we provided wireless services through our operating companies and joint ventures, to approximately 74.4 million managed customers in territories with a population of approximately 509 million. We have operations in Spain, Mexico, Peru, El Salvador, Guatemala, Venezuela, Colombia, Panama, Nicaragua, Ecuador, Uruguay, Argentina and Chile and, through its joint ventures with Portugal Telecom, it also provides wireless communication services in Brazil and Morocco.

#### **Non-GAAP Financial Information**

Operating income before depreciation and amortization is calculated by excluding depreciation and amortization expenses from our operating income in order to eliminate the impact of general long-term capital investments that cannot be significantly influenced by our management on a



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short-term basis. Our management believes that operating income before depreciation and amortization is meaningful for investors because it provides an analysis of our operating results and our segment profitability using the same measure used by our chief operating decision makers. To facilitate the analysis of our operations, this indicator excludes depreciation and amortization expenses from operating profit in order to eliminate the impact of general long term capital investment. Operating income before depreciation and amortization also allows us to compare our results with other companies in the telecommunications sector without considering their asset structure. We use operating income before depreciation and amortization to track our business evolution and establish operational and strategic targets. Operating income before depreciation and amortization is also a measure commonly reported and widely used by analysts, investors and other interested parties in the telecommunications industry.

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

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

	Year ended December 31,		
	2002	2003	2004
	(in millions of euros)		
Operating income before depreciation and amortization	3,736	4,463	4,701
Depreciation and amortization expense	(1,317)	(1,421)	(1,611)
<b>Consolidated Operating Income</b>	<b>2,419</b>	<b>3,042</b>	<b>3,090</b>

**Year ended December 31, 2004**

	Spain	Latin		TOTAL
		America	Others	
Operating Income before depreciation and amortization	4,200	562	(61)	4,701
Depreciation and amortization expenses	(720)	(805)	(86)	(1,611)
<b>Operating income</b>	<b>3,481</b>	<b>(243)</b>	<b>(148)</b>	<b>3,090</b>

**Year ended December 31, 2003**

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

**Year ended December 31, 2002**

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

**Basis of Presentation**

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Our financial statements included in this annual report are consolidated for the years ended and at December 31, 2004 and 2003 and combined for the year at December 31, 2002. The combined financial statements have been prepared as if our company had been in existence at all dates and during all the periods presented and include the accounts of the operating companies and interests and investments in other wireless companies contributed to us by Telefónica, S.A. prior to December 31, 2002. The differences between the consolidated financial statements for the years ended at December 31, 2004 and 2003 and the combined financial statements for the year ended at December 31, 2002 are not significant in terms of revenues, net income or earnings per share.

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

The consolidated and combined financial statements reflect, in particular, historical accounts of our wireless operations in Spain, Brazil, El Salvador, Guatemala and equity method reported accounts of our wireless operators

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in Morocco. The consolidated and combined financial statements also include the accounts of Telefónica Móviles Mexico, including as of July 1, 2001, the accounts of our Northern Mexico operators acquired in 2001, and as of September 2002 Pegaso's operations. In addition, our combined financial statements include on a fully consolidated basis the accounts of Tele Leste Celular as of January 1, 2002, and our wireless operations in Argentina and Peru as of October 1, 2000 and January 1, 2001, respectively, the effective dates for accounting purposes of the transfer of these operations to us.

The consolidated financial statements also include on a fully consolidated basis the accounts of Telefónica Móvil de Chile as from August 1, 2004, and the accounts of the companies acquired from BellSouth in Peru, Venezuela, Colombia, Ecuador, Uruguay, Guatemala, Nicaragua and Panama as from November 1, 2004.

The mobile operator managed by Telefónica Móviles in Puerto Rico until September 2004 has not historically been included in our consolidated and combined financial statements.

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

Company	Year ended December 31,		
	2002	2003	2004
Telefónica Móviles España, S.A.	consolidated	consolidated	consolidated
Brasilcel(1)	proportional	proportional	proportional
Telefónica Móviles El Salvador, S.A. de C.V.	consolidated	consolidated	consolidated
Telefónica Centroamérica Guatemala, S.A.	consolidated	consolidated	consolidated
Group 3G UMTS Holding GmbH (Germany)	consolidated	consolidated	consolidated
IPSE 2000, S.p.A. (Italy)	equity	equity	equity
3G Mobile Telecommunications GmbH (Austria)(2)	consolidated		
3G Mobile AG (Switzerland)	consolidated	consolidated	consolidated
Telefónica Móviles S.A.C. (Peru)	consolidated	consolidated	consolidated
Telefónica Comunicaciones Personales, S.A. (Argentina)	consolidated	consolidated	consolidated
Telefónica Móviles Mexico(3)	consolidated	consolidated	consolidated
Medi Telecom, S.A. (Morocco)	equity	equity	equity
TM Interacciona	consolidated	consolidated	consolidated
Telefónica Móvil de Chile, S.A.(4)			consolidated
Otecel, S.A. (Ecuador)(5)			consolidated
Telefónica Móviles y Compañía, S.C.A. (Guatemala)(5)			consolidated
BellSouth Panamá, S.A(5)			consolidated
Telcel, S.A. (Venezuela)(5)			consolidated
Telefónica Móviles Colombia, S.A(5)			consolidated
Comunicaciones Móviles del Perú, S.A(5)			consolidated
Telefonía Celular de Nicaragua, S.A(5)			consolidated

Abiatar, S.A. (Uruguay)(5)

consolidated

- (1) Joint venture with Portugal Telecom that includes 100% of the assets of the Brazilian mobile companies transferred by us (Tele Sudeste Celular, Celular CRT, Tele Leste Celular and Telesp Celular) and Portugal Telecom (Telesp Celular and Global Telecom). Brasilcel's balance sheet was proportionally consolidated in our consolidated financial statements as of December 31, 2003 and 2004 and combined financial statements as of

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December 31, 2002 and the results for the whole year of Tele Leste Celular, Tele Sudeste Celular, Telesp Celular and Celular CRT were fully consolidated in the combined statement of operations in these periods until this transfer was made to Brasilcel on December 27, 2002.

- (2) After the disposal of 3G Mobile Telecommunications GmbH to Mobilkom Austria with effect from December 2003, this company is not included within our scope of consolidation.
- (3) Telefónica Móviles Mexico, after receiving the contribution of the Northern Mexico subsidiaries (Norcel, Bajacel, Movitel and Cedetel) and Pegaso PCS by Telefónica Móviles and the Burillo Group, consolidates the Northern Mexico subsidiaries and Pegaso PCS as of July 1, 2001 and September 1, 2002, respectively.
- (4) In July 2004, we acquired 100% of the shares of Telefónica Móvil de Chile, S.A., and it has been consolidated in our financial statements as from August 1, 2004.
- (5) Acquired from BellSouth Corporation in October 2004 and consolidated in our financial statements as from November 1, 2004.

**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 2004, 2003 and 2002 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, 2004 and 2003 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.

	2003(1)	2004(1)	% change
	Average	Average	Average
U.S. Dollar	1.13	1.24	9.7%
Argentine Peso	3.32	3.65	9.9%
Brazilian Real	3.45	3.63	5.2%
Chilean Peso	670.17	757.58	13.0%
Mexican Peso	12.68	12.02	(5.2)%
Peruvian Nuevos Soles	3.91	4.24	8.4%

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

- (1) These exchange rates are used to convert the income statements of our Latin American subsidiaries from local currency to euro. Income statements for subsidiaries that use inflation adjusted accounting criteria (Mexico, Chile, Peru, Colombia and Venezuela), are first converted to US dollars at the closing exchange rate, and then the conversion into euros is made according to the average exchange rate during the period.

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

In 2000 we, directly or through consortiums with other international and local partners, were awarded with UMTS licenses in Spain, Germany, Italy, Austria and Switzerland. Most of these licenses were awarded in the second half of the year 2000. At the end of 2001 and in the beginning of 2002, although UMTS technology was not commercially available, the prevailing conditions in these markets and the specific business plans for the development of these businesses allowed us to anticipate the recoverability of our investments already made and those we planned for the future. Therefore during the preparation of the year ended 2001 financial statements, we compared the book value of the licenses to the financial projections included in the business plan and considered that we could recover the investments that we had made up to that time.

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

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

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

### ***General UMTS market conditions***

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

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

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



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

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

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

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

### *Our UMTS operations*

We developed and implemented various initiatives directed at improving our business plans in the countries in which we were awarded UMTS licenses. These included, for example, roaming and network sharing agreements, non-recourse vendor financing and various commercial agreements. We also analyzed other strategic alternatives such as consolidation with other operators. Ultimately, we decided none of these alternatives were viable. As a result, we adopted the most appropriate decisions for each country as a function of the prevailing conditions in each market.

*Germany.* On the basis of the roaming and infrastructure sharing agreements with another German operator, Group 3G started operations as a GSM/GPRS virtual mobile operator, or VMO, at the end of 2001. GPRS, or general packet radio service, is the natural evolution of GSM towards 3G, allowing wireless voice and higher-speed data transmission. A VMO, or a virtual mobile operator, is a mobile operator that does not own a network and instead buys mobile minutes wholesale from those network operators with physical networks and sells them to its clients. Subsequently, and once the actual operational and financial results for two quarters of commercial operations as a 2/2.5G VMO in Germany became available, we realized that the results of Group 3G since the launch of commercial activity up to July 2002 showed significant divergences with regards to its original targets. Such deviations materially impacted the expected profitability of the business in the context of a significant slowdown in the growth of the wireless market in Germany. The number of subscribers was forecasted to grow at less than one percent in the first half of 2002. As a consequence, and after an in depth assessment of the expected evolution of these parameters with an independent third party report, it was concluded that continuing our operations in Germany would not generate value for Group 3G's shareholders. Therefore, we and Sonera, a 42.8% shareholder in Group 3G, decided to halt all commercial operations in Germany.

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

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

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Based on the assessments obtained from independent experts, and taking into account that in Germany, Austria and Switzerland the coverage requirements in the licenses might come into force earlier than in Italy, and to ensure that its investments were correctly valued at all times, we decided to fully write down the book value of our investments in Germany, Austria and Switzerland.

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The impact on the fixed assets as a result of the above-mentioned write-downs in 2002 are as follows:

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

*Telefónica Móviles España.* Currently, Telefónica Móviles only provides UMTS services in Spain through Telefónica Móviles España. On February 13, 2004, Telefónica Móviles España began offering to its corporate customers *Oficin@ Movistar UMTS*. This service was extended to all Telefónica Móviles España customers in Madrid and Barcelona on May 24, 2004, and gradually extended to the rest of Spain. In addition, on May 24, 2004, Telefónica Móviles España launched the first UMTS video services in the Spanish market. We believe that any large-scale launch of UMTS technology will ultimately be determined by the availability of reasonably priced UMTS handsets.

In the case of Telefónica Móviles España, the value of the UMTS assets on its balance sheet is not significant. It was awarded a license to provide UMTS services for 131 million and, as of December 31, 2004, had a customer base of approximately 19.0 million customers. The time required for us to recover the value of our investments is significantly shorter and the impact of the delay in the introduction of a commercially viable UMTS technology in its revenue generation is much lower and differs substantially from those of start-up operations in other European countries.

***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 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. In 2004, the newly acquired wireless operations together represented approximately 3.5%, or 425 million, of our consolidated net revenues from operations and approximately 1.4%, or 66 million, of our consolidated operating income before depreciation and amortization. In addition, these newly acquired wireless operations contributed approximately 11 million new customers to our operations.

Additionally, in January 2005, we acquired 100% 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 Telefónica S.A. Telefónica Móvil de Chile was consolidated into the Telefónica Móviles group as of August 1, 2004 under Spanish GAAP. 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 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.

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***Joint Venture with Portugal Telecom***

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

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

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

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%. In 2004, the proportional consolidation of Brasilcel represented approximately 13% of our consolidated net revenues from operations.

***Argentina***

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

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

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

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

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

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

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

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

## **Critical Accounting Policies under Spanish GAAP**



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

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

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

### *Accounting for Long-lived Assets Except Goodwill*

Property, plant and equipment and purchased intangible assets other than goodwill are recorded at acquisition cost. The acquisition cost of UMTS licenses includes the financial expenses incurred directly for their acquisition, from the granting of the license to the time when the technology required to operate UMTS services becomes available, provided such acquisition cost does not exceed the realizable value of such assets. These financial expenses are not included anymore due to the write-down of the investments in Germany, Austria and Switzerland. The financial expenses capitalized in 2002 amounted to 59.5 million for financing arranged by Telefónica Móviles, S.A. and to 68 million for the financing granted by other stockholders of the companies holding UMTS licenses. Property, plant and equipment are depreciated or amortized on a straight-line basis over their estimated useful lives, and licenses included in the intangible assets are depreciated or amortized using an amortization method based on their estimated capacity to generate revenues during the concession period. Computer software and other intangible assets are amortized on a straight-line basis over three to five years.

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

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

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

### *Goodwill*

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

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

In 2004, 730,008 thousand were allocated as an addition to the Concessions, Patents, Licenses and Other caption and 276,724 thousand were allocated as an addition to the Computer Software and Other caption in relation to the eight operators acquired from BellSouth during 2004 and Telefónica Móvil de Chile, S.A. Also,

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certain items of property, plant and equipment overstated by 117 million when these companies were included in the Group were identified. These amounts were allocated 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 has been completed at the end of 2005, there could be reclassifications from goodwill to other balance sheet captions, although it is considered that such reclassifications would not be material. These licenses are being amortized over the concession period based on the estimated capacity to generate revenues in each period. The Computer Software and Other are amortized over the period that the customers are expected to remain as such.

In 2004, also, 76,065 thousand were allocated as a net addition to the licenses of Tele Centro Oeste Celular Participações, S.A. These licenses are being amortized over the concession period based on the estimated capacity to generate revenues in each period

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

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

### *Equity Investments*

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

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

Taking into account the circumstances explained in the caption Accounting for Long-lived Assets Except Goodwill, Telefónica Móviles, S.A. recorded as of December 31, 2002, an impairment in the Equity Investment of IPSE 2000. The fair value of this investment after the impairment is 300 million (136 million of which represents our UMTS operations in IPSE 2000).

*Recognition of Revenues and Expenses*

Revenues and expenses are recognized on an accrual basis, i.e., when the goods and services are actually provided, regardless of when the resulting monetary or financial flow occurs. However, in accordance with the accounting principle of prudence, foreseeable contingencies and losses, even when probable, are recorded as soon as they become known.

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During 2000, some of our subsidiaries commenced a commercial promotion in which our customers accumulate points based on the amount of airtime consumed. These points can be exchanged for discounts of future handset purchases, airtime or other kinds of services. The services for which users can exchange their points depends on the number of points earned by these users and the nature of the contract that the user has signed with the company. The consolidated and combined balance sheet as of December 31, 2002, 2003 and 2004 includes the related accounting provision based on the estimated valuation of the accumulated points at those dates.

### **Critical Accounting Policies under U.S. GAAP**

In order to prepare the reconciliation of our consolidated and combined financial statements to U.S. GAAP, the following critical accounting policies require significant judgments and estimates different from those used for Spanish GAAP. For further explanations see note 21 to the consolidated and combined financial statements.

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

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

In 2002, the estimates of the demand for 3G services were revised downwards as result of the actual data services demand and the ongoing delay in the availability of a stable and competitive UMTS technology. The demand for data services was hampered by the impossibility to coordinate the value chain and by the conflicts between suppliers and software and application developers, which had hindered the adoption of interoperable devices. On the other hand, the delay in the introduction of a commercially viable UMTS technology allowed incumbent operators to make a much smoother migration to the new technology, thus hampering the successful introduction of new entrants. In addition, the delay has caused the major European markets to approach saturation, reducing the potential market for new entrants to capturing low value marginal clients or those clients that had not been retained by existing operators. At the same time, there was an increased perception of the difficulty of success of new entrants, even using proven technologies such as GSM. The international footprint issue, so important a couple of years ago, was no longer a critical factor and it is more important to have sufficient scale in a particular market to obtain reasonable returns. Taking into account these circumstances, Telefónica Móviles, S.A. compared the value obtained from undiscounted cash flow with the carrying value of the licenses and considering that this carrying value was higher, decided, using a discounted cash flow approach, to estimate the fair value of the UMTS licenses, resulting in a write-down of these long-lived assets. The discount rate used in this discounted cash flow was calculated considering the interest rate in Europe and the risk of this business. A sensitivity analysis would not show significant differences, due to the fair value obtained in the cash flow approach.

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001. SFAS No. 141 requires intangible assets to be recognized if they arise from contractual or legal rights or are separable, i.e., it is feasible that they may be sold, transferred, licensed, rented, exchanged or pledged. As a result, it is likely that more intangible assets will be recognized under SFAS No. 141 than its predecessor, Accounting Principles Board, or APB, Opinion No. 16, although in some instances

previously recognized intangibles will be subsumed into goodwill.

Under SFAS No. 142, goodwill will no longer be amortized on a straight-line basis over its estimated useful life, but will be tested for impairment on an annual basis and whenever indicators of impairment arise. The goodwill

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

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

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

As this business combination was made in the last quarter of 2002, there was an amount of goodwill from the acquisition of Pegaso that was pending to be allocated to any potential intangibles that could exist. Considering that the intangibles that could result, if any, would have a long useful life, the effect of the amortization of those intangibles in year 2002 (three month period from acquisition) was not considered to be significant. The amount of goodwill at the time of acquisition was the same under Spanish and U.S. GAAP.

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

In order to account for the acquisition of the operators acquired in 2004 from BellSouth and Telefónica Móvil de Chile, S.A., 730,008 thousand were allocated as an addition to the Concessions, Patents, Licenses and Other caption and 276,724 thousand were allocated as an addition to the Computer Software and Other caption in relation to the operators acquired. Also, certain items of property, plant and equipment overstated by 117 million when these companies were included in the Group were identified. These amounts were allocated on the basis of the preliminary conclusions drawn from the related valuation performed by independent appraisers; this allocation has also been considered for Spanish GAAP purposes. However, once the process of allocating the acquisition price to all the assets and liabilities of the companies acquired has been completed at the end of 2005, there could be reclassifications from goodwill to other balance sheet captions, although it is considered that such reclassifications would not be material. These licenses are being amortized over the concession period based on the estimated capacity to generate revenues in each period. The Computer Software and Other are amortized over the period that the customers are expected to remain as such.

### *Revenue and Expense Recognition*

*Revenues and expenses under U.S. GAAP until December 31, 2003*



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Under US GAAP, until December 31, 2003, in accordance with SEC Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements (SAB 101), the Company has deferred revenues from obtaining new customers over the expected period that the customer will use the services as it has historical experience indicating that customers generally extend their contracts beyond one year.

Under US GAAP the Company also defers and amortizes the related cost associated with obtaining new customers over the same period as the related revenues are being recognized. The Company believes that this is the only accounting difference with Spanish GAAP until December 31, 2003.

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

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

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

### *Revenues and expenses under US GAAP after December 31, 2003*

We have 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 entered into after December 31, 2003.

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 among the different deliverables, based on their relative fair values (the relative fair value of each of the component deliverables to the aggregated relative fair value of the bundled deliverables).

Handsets are sold many times in a bundled package to the customers, as the handsets and the air-time are price-sensitive and, thus, volatile in a competitive marketplace, the determination of fair values in the mobile phone sector business is quite complex. Revisions to our estimates of these relative fair values may significantly affect the allocation of sales values among the different deliverables, affecting our future operating results.

Because we enter in thousands of revenue arrangements every period, an analysis has been made of the products and services provided by the Company in order to conclude when those products and services are sold in a bundled package and if they fall under scope of EITF 00-21. The main activities affected by this new literature are the prepaid and postpaid contract businesses.

For the mentioned activities, upon customer activation, arrangement consideration received is allocated to each unit of accounting based on their relative fair values. As any nonrefundable, up-front connection fee charged does not meet the criteria of a separate unit of accounting, the additional arrangement consideration received from connection fees or up-front fees is allocated to the other delivered item(s) to the extent that the aggregate handsets and connection fee or up-front fee proceeds do not exceed the allocated fair value of the handsets. Any connection fee or up-front fees proceeds not allocated to the delivered handsets are deferred upon connection and recognized as service revenue over the expected customer relationship period. The amount allocable to a delivered item (the handset) is always limited to the amount that is not contingent upon the delivery of additional service (the airtime) or meeting other specified performance conditions (the non contingent amount).

Some arrangements entered into 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 Spanish and US GAAP, and are subject to the appropriate provisions when entered into. These offers have not had any impact upon adoption of EITF 00-21 because they are specifically excluded from the scope of Issue 00-21.

*Other Accruals*

Under U.S. GAAP, loss contingencies are recognized in accordance with SFAS 5, Accounting for Contingencies. Liabilities are accrued when a loss contingency is considered to exist and when a loss is considered

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probable and can be reasonably estimated. Management makes these estimates primarily with the support of internal specialists, if available, or with the support of outside consultants, such as actuaries or legal counsel. Revision of management's estimates of these loss contingencies may significantly affect future operating results.

### **Preliminary Guidance on Differences Between IFRS and Spanish GAAP**

We are required to prepare consolidated financial statements in accordance with IFRS from January 1, 2005. The opening IFRS consolidated balance sheet will be prepared for the period beginning January 1, 2004. The Committee of European Securities Regulators has recommended that selected IFRS financial information be disclosed in advance of publication of such IFRS financial statements. In line with this recommendation, we are providing a summary of certain of the expected differences in the preparation of our consolidated financial statements on the basis of IFRS. The following summary is not an exhaustive description of the effects of preparing our Consolidated Financial Statements under International Financial Reporting Standards, or IFRS compared to Spanish GAAP. Additional significant effects on our Consolidated Financial Statements may occur when they are prepared under IFRS due to new pronouncements from the International Accounting Standards Board (IASB) or pronouncements that are not endorsed by the EU prior to the preparation of our December 31, 2005 Consolidated Financial Statements. The actual effects on our Consolidated Financial Statements from the adoption of IFRS may be different from those shown below for these or other reasons.

The information included in this Annual Report regarding the potential effects on our Consolidated Financial Statements from the adoption of IFRS are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and readers are cautioned not to place undue reliance on such information.

### ***Total Shareholders' Equity***

At December 31, 2004 our total shareholders' equity was 4,719.9 million under Spanish GAAP. We have performed a preliminary analysis of how the adoption of IFRS will impact our total shareholders' equity. Based on this analysis, we estimate that the principal adjustments to our total shareholders' equity at December 31, 2004 under IFRS would result in a decline in our shareholders' equity of approximately 1,284.5 million from 4,719.9 million at that date under Spanish GAAP. This decrease would be principally due the adoption of accounting policies under IFRS that would require us to change how we measure the value of certain assets and liabilities and to change the timing of when certain revenues and expenses are recognized.

### ***Principal Adjustments Affecting Our Shareholders' Equity Under IFRS***

The principal adjustments that would affect our total shareholders' equity under IFRS as estimated are the following:

### **Goodwill and fair value adjustments in business combinations**

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Telefónica Móviles will adopt the exemption granted by IFRS 1 *First-Time Adoption of IFRS* to apply IFRS 3 *Business combinations* prospectively from the transition date and thus not to restate business combinations prior to January 1, 2004.

Under Spanish GAAP, goodwill and fair value adjustments are reported at historical exchange rates. Under IFRS these items are translated at the exchange rates prevailing at each balance sheet date.

IFRS permits certain intangible assets to be classified as having an indefinite useful life, which is not permitted under Spanish GAAP. Under IFRS, goodwill and intangible assets with indefinite useful lives are not amortized, but are instead subject to an impairment test at least once a year. Under Spanish GAAP, goodwill and all intangible assets must be amortized over their useful lives.

Under IFRS, the cost of telecommunications licenses is amortized on a straight-line basis over their economic useful lives. Under Spanish GAAP, Telefónica's policy is to amortize its telecommunications licenses systematically over their useful lives, using patterns based on revenues generated or the average number of clients during such measuring period.

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Based on our preliminary analysis, we estimate that these changes to our accounting policies would have reduced our total shareholders' equity at December 31, 2004 by approximately 733.6 million.

### **Capitalized costs**

Under Spanish GAAP, start-up costs are deferred and amortized over five years. Under IFRS, expenditures that do not meet the criteria for recognition as an asset are expensed as incurred.

Under Spanish GAAP, costs related to the issuance of equity instruments are also capitalized and amortized over five years. Under IFRS, capital increase expenses are charged against the gross proceeds of the new capital.

Under Spanish GAAP, research and development expenses are capitalized and amortized over three years from the date of completion of the internal project. Under IFRS research costs are expensed as incurred.

Based on our preliminary analysis, we estimate that these changes to our accounting policies would have reduced our total shareholders' equity at December 31, 2004 by approximately 220.4 million.

### **Income taxes**

The accounting treatment for income taxes under Spanish GAAP requires the use of the income statement liability method, which focuses on timing differences between taxable profit and accounting profit. IFRS require the recognition of deferred taxes using the balance sheet liability method, which focuses on temporary differences between the tax base of an asset or liability and its carrying value on the balance sheet.

Based on our preliminary analysis, we estimate that these changes to our accounting policies would have reduced our total shareholders' equity at December 31, 2004 by approximately 121 million.

### **Financial reporting in hyperinflationary economies**

Under Spanish GAAP, the restatement of financial statements for hyperinflation is required when it is required under local GAAP.

Under IFRS, a number of qualitative and quantitative indicators are analyzed to determine whether hyperinflation exists, and therefore whether financial statements should be restated in terms of the measuring unit current at each balance sheet date. Under IFRS, of the countries in which we operate only Venezuela is considered to be a hyperinflationary economy.

Based on our preliminary analysis, we estimate that these changes to our accounting policies would have reduced our total shareholders' equity at December 31, 2004 by approximately \$99.8 million.

### **Minority Interests**

Under Spanish GAAP, minority interests are classified as a separate liability on the balance sheet but excluded from total shareholders' equity. Under IFRS, minority interests are considered as part of total shareholders' equity.

Based on our preliminary analysis, we estimate that these changes to our accounting policies would have reduced our total shareholders' equity at December 31, 2004 by approximately \$86.1 million.

### **Revenue recognition**

Under Spanish GAAP, connection fees are recognized upfront, on activation. Also, handset sales are recognized separately upon delivery.

For IFRS purposes, connection revenues are recorded together with the related revenues from handsets or other equipment to the extent that the aggregate of such equipment and connection revenues do not exceed the fair value of the equipment delivered to the customer. Any connection revenues not recognized together with the related equipment revenues are recognized over the period in which services are expected to be provided to the customer. Under IFRS equipment sales are recognized upon delivery to end customers.

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Based on our preliminary analysis, we estimate that these changes to our accounting policies would have reduced our total shareholders' equity at December 31, 2004 by approximately 30.8 million.

### ***Other Adjustments Affecting Our Shareholders' Equity Under IFRS***

#### **Financial instruments**

Spanish GAAP requires that financial assets, including derivatives, be measured at the lower of cost or market value, whereas financial liabilities are measured at their redemption amount. Financial assets are derecognized when expired, transferred or sold.

Under IFRS, financial assets and liabilities are classified into categories that determine their measurement at fair value or at amortized cost. Certain gains and losses on financial instruments are required to be recognized directly in shareholders' equity until derecognition, or in the event of an impairment. Also, IFRS sets out very strict requirements for the derecognition of financial assets, based on an assessment of the risks and rewards related to the asset.

In addition to this, IFRS requires compliance with very specific criteria in order to apply hedge accounting. As a consequence, certain hedging relationships that would qualify for hedge accounting under Spanish GAAP would not qualify for hedge accounting under IFRS.

#### **Foreign exchange differences**

Spanish GAAP requires unrealized foreign currency exchange gains in excess of recorded foreign currency exchange losses to be deferred. Under IFRS, foreign currency exchange gains or losses are recognized or expensed through the income statement.

Under Spanish GAAP, the exchange differences arising in intra-group loans (mainly in U.S. dollars) are eliminated in the consolidation process against cumulative translation differences. Under IFRS, exchange differences arising in intra-group loans are recognized in the income statement unless the loan is considered to be part of the entity's net investment in a foreign operation.

#### **Net Financial Debt**

At December 31, 2004 our net financial debt was 8,176.4 million under Spanish GAAP. We have performed a preliminary analysis of how the adoption of IFRS will impact our net financial debt. Based on our analysis, we estimate that our net financial debt at December 31, 2004 would have been approximately 8,335.4 million under IFRS.



*Adjustments Affecting Our Net Income Under IFRS*

**Net Income**

Our net income was 1,634 million for the year ended December 31, 2004 under Spanish GAAP. We have performed a preliminary analysis of how the adoption of IFRS will impact our net income. Based on our analysis, we estimate that our net income for the year ended December 31, 2004 would have been approximately 1,700 million under IFRS. This increase would be principally due to the changes in how capitalized costs, goodwill in business combinations, income taxes, financial instruments and hyperinflationary economies are measured under IFRS as described above.

**New Accounting Standards**

*SAB No. 104 Revenue Recognition*

In December 2003, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition. SAB 104 updates portions of the interpretive guidance included in Topic 13 of the codification of Staff Accounting Bulletins in order to make this interpretive guidance consistent with current

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authoritative accounting and auditing guidance and SEC rules and regulations. The company believes it is currently following the guidance of SAB 104. SAB 104 also revises or rescinds certain interpretive guidance regarding SAB 101 that was in conflict with the provisions of EITF 00-21.

***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 for our fiscal year ending December 31, 2005. 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.

***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 by the end of the first reporting period ending after June 15, 2005. 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 N0.153, *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.

***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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### ***FASB Interpretation No. 47: Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143***

On March 2005, FASB issued FASB Interpretation No. 47 (FIN 47). The Board concluded that asset retirement obligations within the scope of Statement 143 that meet the definition of a liability in Concepts Statement 6 should be recognized as a liability at fair value if fair value can be reasonably estimated. The Board believes that when an existing law, regulation, or contract requires an entity to perform an asset retirement activity, an unambiguous requirement to perform the retirement activity exists, even if that activity can be deferred indefinitely. At some point, deferral is no longer possible, because no tangible asset will last forever, except land. Therefore, the obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. The use of an expected value technique to measure the fair value of the liability reflects any uncertainty about the amount and timing of future cash outflows. This Interpretation is effective no later than December 31, 2005, for calendar-year enterprises. The Company does not anticipate that adoption of FIN 47 will have any effect on its financial position, results of operations or cash flows.

### ***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, 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 principles, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change.

SFAS No. 151 will be effective for accounting changes made in fiscal years beginning after December 15, 2005. 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.

## **Economic Developments and Outlook**

### *Spain*

Our results of operations are dependent, to a large extent, on the level of demand for our services in Spain. Demand for our services in Spain is related to the performance of the Spanish economy. Spain's real gross domestic product growth expanded by approximately 2.7% in 2004, reflecting relatively stronger domestic demand. Inflation was 3.2% in 2004. The current-account deficit was estimated at 4.5% of GDP in 2004. The unemployment rate was 10.4% at December 31, 2004.

### *Brazil*

The Brazilian economy experienced robust growth in 2004. Brazil's GDP rose an estimated 5.3% in 2004, a much faster pace than the 0.5% growth registered in 2003. Consumer prices increased 7.6% in 2004 compared to 9.3% in 2003. In order to curb inflation and achieve target inflation rates, the Central Bank of Brazil began raising interest rates in 2004. As of March 5, 2005, the Brazilian central bank's benchmark lending rate stood at 18.75% compared to 16% in September 2004. Brazil finished 2004 with a trade balance surplus of U.S.\$33.7 billion,

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compared to U.S.\$24.8 billion in 2003. Exports went up by 32% to U.S.\$96.5 billion, while imports increased by 30% to U.S.\$62.8 billion.

### *Argentina*

Argentina's estimated GDP growth in 2004 was 8.8%, which matched the growth rate in 2003 and concluded the second year of growth after 4 years of recession ending with the deep economic and political crisis of 2001-2002. The peso depreciated 1.7% closing at 2.98 peso/U.S.\$1. The consumer inflation rate increased by approximately 6.1%, below the target range of 7% to 11% established by Argentina's central bank, while wholesale prices rose by approximately 7.9% in 2004. The unemployment rate decreased to approximately 13.2% in September 2004 from 14.5% in December 2003 due to continued economic growth and the implementation of the Plan Jefes y Jefas de Hogar, the federal government's main social assistance program.

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### *Mexico*

Mexico's estimated GDP growth in 2004 was 4.5%, compared to 1.2% in 2003. Monetary policy has been kept tight by the Mexican government in order to limit inflation and to bolster the currency, which appreciated by approximately 0.3% relative to the U.S. dollar during the course of 2004.

### *Chile*

Chile's GDP grew approximately 5.9% in 2004 compared to 3.2% growth in 2003. In 2004, inflation stood at approximately 1.1%, compared to an inflation rate of approximately 2.8% in 2003. The Chilean peso, which floats freely, appreciated approximately 13.4% in nominal terms (11.4% in real terms) against the U.S. dollar in 2004. Chile's unemployment rate rose to 8.8% in 2004 compared to 8.5% in 2004. In 2004, Chile had its largest budget surplus in eight years after a surge in copper prices boosted revenue. The surplus, following a 2003 deficit equivalent to 0.4% of GDP, was 2.2% of GDP.

### *Peru*

Peru's GDP grew by 5.1%, the highest rate in seven years. This growth was mainly explained by an exceptional improvement in terms of trade, which increased 8.1% (the highest increase since 1979). In 2004, exports rose 15.2% last year and private investment rose 9.4%. Exports are expected to continue growing, albeit at a more modest rate, while domestic demand is expected to grow in line with GDP. During 2004, Standard & Poor's and Fitch raised the Peruvian government's credit rating to BB (stable), two levels below investment grade. In 2002, Peru's central bank adopted an explicit medium-term annual inflation target at 2.5% within a range that could vary +/-1%. Inflation for 2004 was 3.5% compared to 2.5% in 2003.

## **Introduction to Results of Operations**

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

### *Net Revenues from Operations*

Net revenues from operations consist of the following:

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

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**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.

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

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

### *Other Revenues*

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

### *Operating Expenses*

Our principal operating expenses are:

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

*External services and local taxes.* These expenses include the costs of distribution and other commercial costs, advertising and marketing expenses, sales overhead, customer care, third-party network maintenance costs and long distance leased lines. Unlike under U.S. GAAP, which permits customer acquisition costs to be amortized over the expected life of the customer relationship, Spanish GAAP requires customer acquisition costs to be expensed in the period incurred.

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

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

*Changes in operating provisions.* These expenses primarily reflect changes in the provision for bad debt.

### *Operating income before depreciation and amortization*

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

Our operating income before depreciation and amortization has increased to 4,701 million for 2004 from 4,463 million for 2003 and 3,736 million in 2002.



*Non-Operating Expenses*

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

*Amortization of goodwill.* This non-cash item relates to amortization of accumulated goodwill. Under Spanish GAAP amortization of goodwill is reflected below the operating income line item. The criteria applied to the treatment of goodwill in our combined financial statements are that goodwill is amortized on a straight-line basis during the period in which it contributes to revenue generation in the corporations involved. The maximum amortization period for goodwill is 20 years, which is the period generally estimated for recovery, except in cases where the amount of goodwill is expected to be recovered in a shorter period.

*Income (losses) of associated companies.* This item reflects our company's participation in the income or losses of companies carried by the equity method.

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*Financial expense.* Our financial expense principally consists of interest on our debt and foreign exchange losses.

*Financial income.* Our financial income principally consists of revenues from interest bearing accounts and investment securities and other instruments and foreign exchange gains.

*Extraordinary income (expense).* This item reflects extraordinary non-recurring gains and losses. Spanish GAAP is less restrictive than U.S. GAAP in permitting the classification of items as extraordinary.

*Corporate Income Tax*

The amounts provisioned for taxes are based upon income before taxes as calculated in accordance with applicable tax regulations in Spain and the other jurisdictions in which we operate. To date, 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.

**Results of Operations**

The following table presents, for the periods indicated, each line item as a percentage of net revenues from operations:

	Year ended December 31,		
	2002	2003	2004
	(percentage of revenues from operations)		
Net revenues from operations:			
Wireless communications services	86.9	85.2	83.9
Sales of handsets and accessories	10.5	11.9	13.5
Other services	2.6	2.9	2.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Other revenues	1.0	1.5	1.8
Operating expenses:			
Services and goods purchased	(26.3)	(25.7)	(31.1)

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External services and local taxes	(26.4)	(25.6)	(25.7)
Personnel expenses	(6.0)	(4.8)	(4.6)
Depreciation and amortization	(14.4)	(14.1)	(13.6)
Change in operating provisions	(1.4)	(1.0)	(0.7)
	<u>          </u>	<u>          </u>	<u>          </u>
Total operating expenses	(74.5)	(71.3)	(75.7)
	<u>          </u>	<u>          </u>	<u>          </u>
Operating income	26.5	30.2	26.1
Non-operating expenses:			
Amortization of goodwill	(1.0)	(1.0)	(0.8)
Income (loss) of associated companies	(1.7)	(0.8)	(0.3)
Financial expense	(10.1)	(12.8)	(7.8)
Financial income	6.6	9.0	4.8
	<u>          </u>	<u>          </u>	<u>          </u>
Income from ordinary activities	20.3	24.6	22.0
	<u>          </u>	<u>          </u>	<u>          </u>
Extraordinary income (expense)	(132.1)	(0.0)	(0.8)
Income before tax and minority interests	(111.8)	24.6	21.2
	<u>          </u>	<u>          </u>	<u>          </u>

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	Year ended December 31,		
	2002	2003	2004
	(percentage of revenues from operations)		
Corporate income tax	23.3	(8.8)	(7.6)
Minority interests	47.7	0.2	0.2
Net income	(40.7)	16.0	13.8

The following discussion of our results of operations focuses primarily on the results of operations in Spain (including Telefónica Móviles España and all our operations in Spain, except those 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.

***Year Ended December 31, 2004 Compared to Year Ended December 31, 2003******Net Revenues from Operations***

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

	Year ended December 31,		% Variation
	2003	2004	
	(euro in millions)		
Wireless communications services	8,580	9,929	15.7
Sales of handsets and accessories	1,199	1,589	32.5
Other services	292	310	6.2
Net revenues from operations	10,070	11,828	17.5

Our net revenues from operations increased by 17.5% to 11,828 million for 2004 from 10,070 million for 2003. This increase resulted from the following factors:

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*Spanish operations.* Our Spanish operations accounted for 69.3% of net revenues from operations in 2004. Net revenues from our Spanish operations increased 9.1% to 8,194 million for 2004 from 7,513 million for 2003 due to the following factors:

*Wireless communications services:* For 2004, wireless communications services represented 87.3% of net revenues from operations in Spain, reflecting a 9.6% increase to 7,156 million for 2004 from 6,532 million for 2003 as a result of increased customer usage (total traffic increased by 12% in 2004 compared to 2003), partially offset by lower termination rates and lower prices. The use of wireless data services also increased in 2004. Of the net revenues from data services in 2004, 71.2% were from SMS, or short message services, 15.5% from messages utilizing content services, 1.6% from MMS, or multi-media messaging services, and 11.7% from other data services.

*Sales of handsets and accessories:* For 2004, sales of handsets and accessories represented 11.1% of net revenues from operations in Spain, reflecting a 10.2% increase to 908 million for 2004 from 826 million for 2003. This increase was primarily the result of a 3.9% increase in commercial activity resulting from a 25% increase in gross additions (the gross number of new customers) from 2003, mainly derived from number portability and ongoing levels of handset upgrades in Spain in 2004 compared to 2003. This performance is also explained by the increase in the average price of handsets sold in 2004 as a result of a higher proportion of sales of high-end handsets.

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*Other services:* Net revenues from operations derived from other services in Spain decreased by 16.1% to 130.3 million for 2004 from 155 million for 2003.

*Latin American operations.* Our Latin American operations accounted for 31% of net revenues from operations for 2004. Net revenues from operations for our Latin American operations increased by 41.4% to 3,659 million for 2004 from 2,588 million for 2003. The increase in net revenues from our Latin American operations was due to the following factors:

*Wireless communications services:* For 2004, wireless communications services represented 75.8% of net revenues from operations in Latin America, reflecting a 35.4% increase to 2,773 million for 2004 from 2,048 million for 2003, principally as a result of the consolidation of the operators acquired from BellSouth as from November 1, 2004 and Telefónica Móvil de Chile as from July 1, 2004, as well as an organic 13.9 million increase in the number of total customers of our Latin American operations in 2004 from 2003. Assuming constant exchange rates and excluding the change in our consolidation perimeter, the year-on-year growth rate in revenues from wireless communications services would have been approximately 22% in 2004 from 2003, principally as a result of the above-mentioned increase in the number of total customers of our Latin American operations, principally in Brazil, Mexico and Argentina.

*Sales of handsets and accessories:* For 2004, sales of handsets and accessories represented 18.6% of net revenues from operations in Latin America, reflecting a 82.7% increase to 681 million for 2004 from 373 million for 2003. This increase was due primarily to the consolidation of the operators acquired from BellSouth as from November 1, 2004 and Telefónica Móvil de Chile as from July 1, 2004, as well as an increase in gross additions, primarily in Brazil, Mexico and Argentina, and higher levels of handset upgrades by existing customers. Assuming constant exchange rates and excluding the change in our consolidation perimeter, the year-on-year growth rate in revenues from sales of handsets and accessories would have been approximately 66%, principally as a result of the increase in gross additions and handset upgrades discussed above.

*Other services:* Net revenues from operations derived from other services in Latin America were 205 million for 2004, representing 5.6% of net revenues from operations in the region and an increase of 22.5% from 168 million for 2003.

*Other Revenues*

Our other revenues increased by 42.8% to 217 million for 2004 from 152 million for 2003. The increase was primarily due to the change in our consolidation perimeter.

*Operating Expenses*

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

	2003	2004	%
	<u>2003</u>	<u>2004</u>	<u>Variation</u>
	(euro in millions)		
Services and goods purchased	2,593	3,676	41.8
External services and local taxes	2,582	3,041	17.8
Personnel expenses	486	540	11.1

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Depreciation and amortization	1,421	1,611	13.4
Changes in operating provisions	99	87	(12.1)
	<u>          </u>	<u>          </u>	
Total operating expenses	7,181	8,955	24.7
	<u>          </u>	<u>          </u>	

*Services and Goods Purchased.* Services and goods purchased increased by 41.8% to 3,676 million for 2004 from 2,593 million for 2003. As a percentage of net revenues from operations, services and goods purchased increased to 31.1% for 2004 from 25.7% for 2003. This was a result of the following factors:

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*Spanish operations:* Our Spanish operations accounted for 55.6% of our services and goods purchased for 2004. These expenses increased 13.2% to 2,046 million for 2004 from 1,807 million for 2003. This increase was primarily attributable to an increase in handset and accessory purchases resulting principally from the increase in the gross number of new connections in Spain, as well as a 15.3% increase in outgoing traffic to other operators that resulted in increased interconnection costs. As a percentage of net revenues from operations generated by our Spanish operations, services and goods purchased increased to 25.0% for 2004 from 24.0% for 2003.

*Latin American operations:* Our Latin American operations accounted for 44.6% of our services and goods purchased for 2004. These expenses increased 108% to 1,638 million for 2004 from 788 million for 2003 primarily as a result of an increase in handset and accessory purchases resulting from an increase in gross additions, primarily in Brazil, Mexico and Argentina, and higher levels of handset upgrades by exiting customers, as well as the consolidation of the operators acquired from BellSouth as from November 1, 2004 and Telefónica Móvil de Chile as from July 1, 2004. Assuming constant exchange rates and excluding the change in our consolidation perimeter, the year-on-year growth rate in services and goods purchased would have been approximately 83.6%, principally as a result of the increase in handset and accessory purchases discussed above. As a percentage of net revenues from operations generated by our Latin American operations, services and goods purchased increased to 44.8% for 2004 from 30.4% for 2003.

*External Services and Local Taxes.* Our expenses due to external services and local taxes increased by 17.8% to 3,041 million for 2004 from 2,582 million for 2003. As a percentage of net revenues from operations, these external expenses increased to 25.7% for 2004 from 25.6% for 2003. This was a result of the following factors:

*Spanish operations:* Our Spanish operations accounted for 57.9% of our total external expenses in 2004, as these expenses increased by 12.9% to 1,761 million for 2004 from 1,560 million for 2003. This increase was principally the result of higher commercial costs (customer acquisition, retention and advertising costs) resulting from increased competitive pressure based mainly on number portability. As a percentage of net revenues from Spanish operations, external expenses increased to 21.5% for 2004 from 20.8% for 2003.

*Latin American operations:* Our Latin American operations accounted for 41.2% of our total external expenses for 2004. External expenses for our Latin American operations increased by 23.6% to 1,252 million in 2004 from 1,013 million in 2003 principally due to higher commercial costs (customer acquisition, retention and advertising costs) associated with the increase in gross additions in Latin America, principally Brazil, Mexico and Argentina, as well as the consolidation of the operators acquired from BellSouth as from November 1, 2004 and Telefónica Móvil de Chile as from July 1, 2004. Assuming constant exchange rates and excluding the change in our consolidation perimeter, the year-on-year growth rate in services and goods purchased would have been approximately 16.2%, principally as a result of the increase in commercial costs discussed above. As a percentage of the net revenues from Latin American operations, external expenses decreased to 34.2% for 2004 from 39.1% for 2003.

*Personnel Expenses.* Our personnel expenses increased by 11.1% to 540 million for 2004 from 486 million for 2003. As a percentage of net revenues from operations, personnel expenses decreased to 4.6% for 2004 from 4.8% for 2003. This was a result of the following factors:

*Spanish operations:* Our Spanish operations accounted for 48.3% of our total personnel expenses for 2004. These expenses increased by 5.6% to 261 million for 2004 from 247 million for 2003. This increase was primarily due to a 1.3% increase in the average number of employees during 2004 compared to 2003, as well as increased employee salaries and benefits due to the renegotiation of our collective bargaining agreements with trade unions representing our employees in Spain on June 8, 2004. The new agreement applied retroactively to the entire 2004 fiscal year. As a percentage of net revenues from operations generated by our Spanish operations, personnel expenses decreased to 3.2% for 2004 from 3.3% for 2003.

*Latin American operations:* Our Latin American operations accounted for 45.3% of our total personnel expenses for 2004. These expenses increased by 25.4% to 244 million for 2004 from 195 million for 2003. This increase was primarily due to an increase in



the number of employees resulting from the

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consolidation of Telefónica Móvil de Chile as from July 1, 2004 and the operators acquired from BellSouth as from November 1, 2004, as well as increased employee salaries and benefits. Assuming constant exchange rates and excluding the change in our consolidation perimeter, the year-on-year increase was approximately 12.1%, principally as a result of increased employee salaries and benefits due to the renegotiation of our collective bargaining agreement with trade unions representing our employees in Brazil. As a percentage of net revenues from operations generated by our Latin American operations, personnel expenses decreased to 6.7% for 2004 from 7.5% for 2003.

*Operating Income Before Depreciation and Amortization*

Operating income before depreciation and amortization increased by 5.3% to 4,701 million for 2004 from 4,463 million for 2003. As a percentage of net revenues from operations, operating income before depreciation and amortization decreased to 39.7% for 2004 from 44.3% for 2003. This was a result of the following factors:

*Spanish operations:* Our Spanish operations accounted for 89.3% of operating income before depreciation and amortization for 2004. Operating income before depreciation and amortization of our operations in Spain increased 6.6% to 4,200 million for 2004 from 3,939 million for 2003. This increase was principally due to higher wireless communications revenues, offset partially by the increased services and goods purchased expenses due to increased commercial activity in Spain. As a percentage of net revenues from operations, operating income before depreciation and amortization decreased to 51.3% for 2004 from 52.4% for 2003, principally as a result of higher commercial expenses.

*Latin American operations:* Our Latin American operations accounted for 12% of operating income before depreciation and amortization for 2004. Operating income before depreciation and amortization in our Latin American operations decreased 3.5% to 562 million for 2004 from 582 million for 2003, principally due to higher losses from our Mexican operations and lower margins from our Argentine operations due to the strong growth of their customer bases, partially offset by the consolidation of Telefónica Móvil de Chile as from July 1, 2004 and the operators acquired from BellSouth as from November 1, 2004. Assuming constant exchange rates and excluding the change in our consolidation perimeter described above, the year-on-year decrease would have been 20.7%, principally as a result of above-mentioned factors. As a percentage of net revenues from operations, operating income before depreciation and amortization decreased to 15.4% for 2004 from 22.5% for 2003.

*Depreciation and Amortization.* Depreciation and amortization increased by 13.4% to 1,611 million for 2004 from 1,421 million for 2003. As a percentage of net revenues from operations, depreciation and amortization decreased to 13.6% for 2004 from 14.1% for 2003. This was a result of the following factors:

*Spanish operations:* Our Spanish operations accounted for 44.7% of our total depreciation and amortization for 2004. This expense increased 1.8% to 720 million for 2004 from 707 million for 2003. As a percentage of net revenues from operations generated by our Spanish operations, depreciation and amortization decreased to 8.8% in 2004 from 9.4% in 2003.

*Latin American operations:* Our Latin American operations accounted for 50% of our total depreciation and amortization for 2004. This expense increased 19.1% to 805 million for 2004 from 676 million for 2003. This increase was principally a result of investment in our GSM networks in Mexico (390.7 million) and Argentina (104.5 million), as well as the consolidation of the operators acquired from BellSouth as from November 1, 2004 and Telefónica Móvil de Chile as from July 1, 2004. Assuming constant exchange rates and excluding the change in our consolidation perimeter described above, the year-on-year increase would have been 12.5%, principally as a result of investments in our GSM networks described above. As a percentage of the net revenues from operations generated by our Latin American operations, depreciation and amortization decreased to 22.0% for 2004 from 26.1% for 2003.

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*Changes in Operating Provisions.* Changes in operating provisions decreased by 12.1% to 87 million for 2004 from 99 million for 2003. These expenses, as a percentage of net revenues from operations, decreased to 0.7% in 2004 from 1.0% for 2003.

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### *Operating Income*

As a result of the above factors, operating income increased by 1.6% to 3,090 million for 2004 from 3,042 million for 2003. Operating income, as a percentage of net revenues from operations, decreased to 26.1% for 2004 from 30.2% for 2003.

### *Non-Operating Expenses*

*Amortization of Goodwill.* Amortization of goodwill decreased by 6.9% to 95 million for 2004 from 102 million for 2003. This decrease was principally the result of a decrease in the amortization of goodwill from our Mexican operations to 12 million for 2004 from 38 million for 2003 due to the reclassification of goodwill in Mexico to intangible assets (licenses).

*Income (Losses) of Associated Companies.* Our share in income (losses) of companies carried by the equity method resulted in a loss of 38 million for 2004, as compared to a loss of 81 million for 2003. This change resulted principally from the reduction in the losses of Medi Telecom and Ipse 200 in 2004 compared to 2003..

*Financial Expense.* Our financial expense decreased by 28.1% to 926 million for 2004 from 1,288 million for 2003, principally due to a decrease in our average debt in 2004 and lower financial costs in Brazil. See note 21 to the consolidated and combined financial statements and the discussion under Item 11. Quantitative and Qualitative Disclosure About Market Risks regarding hedging of foreign currency net investments by currency borrowings and other hedging instruments at December 31, 2004.

*Financial Income.* Our financial income decreased by 37.1% to 572 million for 2004 from 910 million for 2003. This decrease was due principally to a substantial decrease in exchange gains to 402 million in 2004 from 746 million in 2003, resulting mainly from a 1.6% depreciation in the Argentine peso against the US dollar in 2004 compared to a 13.0% appreciation in the Argentine peso against the US dollar in 2003.

### *Extraordinary Income (Expense)*

Our extraordinary expense, net, was 93 million for 2004 compared to extraordinary expense, net, of 5 million for 2003. In 2004, extraordinary expenses consisted principally of our provision for the value of our investment in NewComm Wireless Services in Puerto Rico.

### *Corporate Income Tax*

The provision for corporate income tax is based on pre-tax income calculated according to applicable tax law in Spain and in other jurisdictions in which we operate. The Spanish entities controlled by us form part of the Telefónica S.A.'s tax consolidation group and will continue to do so for as long as Telefónica S.A. owns at least 75% of our capital stock. The tax provision is calculated as an aggregate, with the corresponding

adjustments, from the various income tax provisions posted by each operator.

Our corporate income tax expense increased to 898 million for 2004 from a tax expense of 890 million for 2003.

*Minority Interests*

Minority interests for 2004 resulted in a gain of 22 million compared to a gain of 21 million in 2003.

*Net Income*

As a result of the above factors, net income increased to 1,634 million for 2004 from 1,608 million for 2003. Net income, as a percentage of net revenues from operations, was 13.8% for 2004.

**Table of Contents*****Year Ended December 31, 2003 Compared to Year Ended December 31, 2002****Net Revenues from Operations*

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

	<b>Year ended December 31,</b>		<b>% Variation</b>
	<b>2002</b>	<b>2003</b>	
	<b>(euro in millions)</b>		
Wireless communications services	7,947	8,580	8.0
Sales of handsets and accessories	960	1,199	24.8
Other services	233	292	25.3
<b>Net revenues from operations</b>	<b>9,140</b>	<b>10,070</b>	<b>10.2</b>

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

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

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

*Sales of handsets and accessories:* For 2003, sales of handsets and accessories represented 11.0% of net revenues from operations in Spain, reflecting a 17.3% increase to 826 million for 2003 from 704 million for 2002. This increase was a result of the 18.8% increase in commercial activity in Spain in 2003 compared to 2002. This was primarily due to a 71% increase in handset upgrades from 4.05 million in 2003 to 2.36 million in 2002 largely due to the loyalty programs of Telefónica Móviles España.

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

*Latin American operations.* Our Latin American operations accounted for 25.7% of net revenues from operations for 2003. Net revenues from operations for our Latin American operations increased in euro by 12.9% to 2,588 million for 2003 from 2,291 million for 2002. Exchange rate fluctuations had a negative impact of approximately 27 percentage points on revenues from Latin America. Excluding the impact of exchange rate fluctuations, the year on year growth rate was 39.5%. The increase in net revenues from our Latin American operations was due to the following factors:

*Wireless communications services:* For 2003, wireless communications services represented 79.1% of net revenues from operations in Latin America, reflecting a 9.8% increase to 2,048 million for 2003 from 1,865 million for 2002. Assuming constant exchange rates, the year-on-year growth rate would

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have reached 36.3%. This increase was principally due to fully consolidating twelve months of operations in Pegaso in 2003 compared to three months of operations in 2002 as well as consolidating the Brasilcel joint venture in 2003 compared to our participation in TeleSudeste, TeleLeste and CRT in 2002. This increase was also due to the 50.3% increase in total customers in Brazil to 20.7 million in 2003 from 13.7 million in 2002, the 42.8% increase in total customers in Mexico to 3.5 million in 2003 from 2.4 million in 2002 and the 12.8% increase in total customers in Argentina to 1.8 million in 2003 from 1.6 million in 2002.

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

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

*Other Revenues*

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

*Operating Expenses*

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

	<b>Year ended December 31,</b>		
	<b>2002</b>	<b>2003</b>	<b>% Variation</b>
	<b>(euro in millions)</b>		
Services and goods purchased	2,406	2,593	7.8
External services and local taxes	2,412	2,582	7.0
Personnel expenses	546	486	(11.1)
Depreciation and amortization	1,316	1,421	7.9
Changes in operating provisions	130	99	(23.8)
<b>Total operating expenses</b>	<b>6,811</b>	<b>7,180</b>	<b>5.4</b>

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



of the following factors:

*Spanish operations:* Our Spanish operations accounted for 69.7% of our services and goods purchased for 2003. These expenses increased 9.5% to 1,807 million for 2003 from 1,649 million for 2002. This increase was primarily attributable to the 18.8% increase in commercial activity described above as well as the 33.2% increase in outgoing traffic to other operators that resulted in increased interconnection costs. As a percentage of net revenues from operations generated by our Spanish operations, services and goods purchased decreased to 24.0% for 2003 from 24.1% for 2002.

*Latin American operations:* Our Latin American operations accounted for 30.4% of our services and goods purchased for 2003. These expenses increased 11.7% to 788 million for 2003 from 705 million for 2002.

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

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

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

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

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

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

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

*Operating Income Before Depreciation and Amortization*

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

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

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

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

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

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

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

*Operating Income*

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

*Non-Operating Expenses*

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

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

*Financial Expense.* Our financial expense increased by 39.8% to 1,288 million for 2003 from 922 million for 2002, principally due to a 6.9% increase in interest on payables to Telefónica Group companies to 324 million in 2003 from 303 million in 2002 as well as an increase in exchange losses to 646 million in 2003 from 502 million in 2002. The increase in financial expense is principally due to the changes mentioned above in the consolidation of Brasilcel and Pegaso in 2003. Our financial expenses for 2002 do not include the financial expenses originated by the acquisition of the UMTS license in Germany in the first half of 2002. These expenses were capitalized. See note 21

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to the consolidated and combined financial statements and the discussion under Item 11. Quantitative and Qualitative Disclosure About Market Risks regarding hedging of foreign currency net investments by currency borrowings and other hedging instruments at December 31, 2003.

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

### *Extraordinary Income (Expense)*

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

### *Corporate Income Tax*

The provision for corporate income tax is based on pre-tax income calculated according to applicable tax law in Spain and in other jurisdictions in which we operate. We form part of the Telefónica S.A.'s tax consolidation group and will continue to do so for as long as Telefónica S.A. owns at least 75% of our capital stock. The tax provision is calculated as an aggregate, with the corresponding adjustments, from the various income tax provisions posted by each operator.

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

### *Minority Interests*

Minority interests for 2003 resulted in a gain of 21 million compared to a gain of 4,364 million in 2002. In the fiscal year 2002, this amount corresponds primarily to the minority shareholders' share of expenses from the write-downs and restructuring expenses in Germany.

### *Net Income*

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

## **B. LIQUIDITY AND CAPITAL RESOURCES**

**Liquidity and Capital Resources**

We expect to have substantial liquidity and capital resource requirements in order to develop and expand our business, as we continue to implement our strategy.

*Liquidity and Capital Resource Requirements*

Our principal liquidity and capital resource requirements consist of the following:

capital expenditures for existing and new operations, including the roll-out of GSM networks in Mexico and Argentina;

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

debt service requirements relating to our existing and future debt; and

costs and expenses relating to the operation of our business.

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*Capital Expenditures.* The following table presents our actual capital expenditures for 2002, 2003 and 2004:

	2002	2003	2004
	(millions of euros)		
Spain	519	522	630
Latin America(1)	310	691	987
Others(2)	90	1	1
<b>Total</b>	<b>919</b>	<b>1,214</b>	<b>1,618</b>

- (1) Includes capital expenditures for years in which our Latin American operating companies are included in our combined financial statements.
- (2) Principally Telefónica Móviles, S.A. (parent company), Terra Mobile (now Telefónica Internacciona) and M-Solutions (transferred to T Data in 2003) and other European operations.

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

Our total capital expenditures totaled approximately 1,618 million for 2004, 1,214 million for 2003, and 919 million for 2002. Our total capital expenditure was 311 million for the three months ended March 31, 2005. 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 started the roll out of our UMTS network. In that period, we also made significant capital expenditures to increase the geographic coverage and capacity of our networks in Brazil and to build up GSM networks in México and Argentina.

*Debt Profile*

The following table presents, at December 31, 2004, 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		Total Debt	2004 Interest Expense	Weighted Average Interest Rate(2)
	Short- Term	Long- Term			
(millions of euros)					
Historical debt:					
Telefónica Móviles, S.A.(1)	1,723	7,268	8,991	319	4.87%
European operations	35	316	351	32	2.41%
Latin American operations	922	860	1,782	242	12.27%



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Total	2,680	8,444	11,124	594	6.22%
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- (1) Refers to parent company only.  
(2) After hedging.

*Historical Debt.* We had total debt in an aggregate principal amount of 11,124 million at December 31, 2004 and 7,145 million at December 31, 2003. 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, 2003, total debt consisted of 1,776 million in short-term debt and 5,369 million in long-term debt.

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At December 31, 2004, approximately 9,615 million, or 86%, of our total debt was payable to the Telefónica Group, and approximately 1,509 million, or 14%, of our total debt was payable to banks and other financial institutions. Around 36% of our debt to Telefónica, S.A. was incurred in connection with the acquisition of BellSouth's wireless operations in Peru, Venezuela, Colombia, Ecuador, Uruguay, Guatemala, Nicaragua and Panama. 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 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 available market terms.

Our total debt includes both fixed-rate and variable-rate debt. At December 31, 2004, approximately 41.7% of our debt was fixed-rate and the remainder of our debt was variable-rate. In April 2002, in coordination with Telefónica, S.A., we started a plan to restructure the profile of our debt. A significant portion of our cash and marketable securities on hand have been used to prepay our debt. Furthermore, we have also modified the fixed-rate versus variable-rate interest profile of our long-term debt. Our total debt also consists of debt denominated in euro, U.S. dollars, Brazilian reais, Chilean pesos, Colombian pesos, Mexican pesos and, to a lesser degree, other currencies. At December 31, 2004, and after taking into account hedging transactions, approximately 69.9% of our debt was denominated in euro, 9.7% in U.S. dollars; 7.4% in Brazilian reais, 4.9% in Chilean pesos, 2.9% in Mexican pesos, 2.3% 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 and combined financial statements and the discussion under Item 11. Quantitative and Qualitative Disclosure About Market Risks for a discussion of our market risks relating to interest rates and foreign exchange rates at December 31, 2004.

The agreements and instruments governing the debt incurred by us do not, in our view, subject us to any material financial or negative covenants. By contrast, the agreements and instruments pertaining to the debt of our operating companies in Latin America impose various customary financial and negative covenants such as ratios of debt to 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 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. None of the debt of our operating companies contains cross-default or cross-acceleration provisions tied to the debt of Telefónica Móviles, S.A. (parent company). However, most of such debt contains customary cross default provisions to other debt of the same issuer and some of such debt contains cross default provisions relating to indebtedness of other companies in the group other than Telefónica Móviles, S.A. (parent company).

*Debt Service Requirements.* We have significant debt service requirements arising from debts payable to the Telefónica Group, which conducts the treasury operations for the Telefónica Group, and debts payable to banks and other financial institutions. These debt service requirements consist of interest payments, which are reflected in our statements of operations under Financial expense, and principal payments. Financial expense also includes the effects of foreign currency movements on debt denominated in currencies other than the euro. Our interest expense, excluding the effects of foreign currency movements, totaled approximately 594 million in 2004 as compared with 642 million in 2003. The interest expense resulting from the acquisition of BellSouth's wireless operations in Latin America and the acquisition in July 2004 of Telefónica Móvil de Chile has been offset by the lower interest expense accrued by our operations in Brazil, Mexico and Argentina.

*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.

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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.

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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 will be 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.

### *Sources of Liquidity and Capital Resources*

Our primary sources of liquidity and capital resources have traditionally consisted of the following:

*Net Cash Provided by Operating Activities.* Our principal source of liquidity has historically been cash provided by operating activities. Our cash provided by operating activities was 3,931 million in 2004 and 3,681 million in 2003.

*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 7,479 million and 1,956 million at December 31, 2004 and December 31, 2003, respectively.

### *Shareholders' Equity*

We had shareholders' equity of 4,720 million at December 31, 2004 and 4,040 million at December 31, 2003, under Spanish GAAP. 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 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*

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We maintain a committed line of credit with the Telefónica Group. This credit line totaled 7,730 million at December 31, 2004 and 2,195 million at December 31, 2003, of which 251 million and 239 million were unused at December 31, 2004 and December 31, 2003, respectively. This credit line contains customary default provisions that could impact the continued availability of credit or result in the acceleration of repayment. These events include bankruptcy, defaults in payment of other indebtedness, judgments against us that are not paid or insured or failure to meet or maintain certain covenants. We have no unused committed credit lines at December 31, 2003 with financial institutions. We do not maintain any uncommitted lines of credit.

We believe that cash provided by operating activities, our debt financing, and our committed credit lines will provide sufficient financial resources to meet our projected capital and other expenditure requirements and to settle or refinance our projected liabilities as they fall due. However, if we have underestimated our capital requirements or overestimated our future cash flows, we may be forced to issue equity or incur additional debt, including entering into lease arrangements. We cannot assure you that future conditions in financial markets will not adversely affect our financial condition or results of operations.

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*Related Party Debt*

	Telefónica Móviles	Telefónica Móviles España	Móviles Inter- acciona	Móviles México	Móviles Perú	Short Term	Long Term	Weighed average rate (1)	Use of Proceeds
(euro in millions)									<ul style="list-style-type: none"> <li>.. Investments in UMTS</li> <li>.. Capital participations</li> <li>.. Financing needs of subsidiaries</li> <li>.. Capital expenditures</li> <li>.. Operating expenditures</li> <li>.. Amortization of debt</li> </ul>
Telefónica, S.A.	8,991					1,723	7,267	4.87%	.. Financing costs
TELFISA-BEI		276	9			35	250	1.77%	.. Capital expenditures
Telfisa México				40		40		8.64%	.. Working capital
Telefónica del Perú S.A.A.									.. Working capital
					300		300	2.73%	.. Capital expenditures
<b>Total</b>	<b>8,991</b>	<b>276</b>	<b>9</b>	<b>40</b>	<b>300</b>	<b>1,798</b>	<b>7,817</b>	<b>4.73%</b>	

(1) After hedging.

**Reconciliation to U.S. GAAP**

Our financial statements have been prepared in accordance with Spanish GAAP. Shareholders' equity would have been 5,002 under U.S. GAAP compared to 4,720 million under Spanish GAAP at December 31, 2004 and 4,709 million under U.S. GAAP compared to 4,040 million under Spanish GAAP at December 31, 2003.

The increase in shareholders' equity under U.S. GAAP in 2004 and 2003 as compared with shareholders' equity under Spanish GAAP is principally related to business combinations, goodwill and other intangible assets and impairments, the treatment of start-up expenses and capital increase expenses under SFAS 109 and the effect of transactions with companies under common control. See Notes 21.1, 21.3 and 21.6 to our consolidated financial statements.

Net income would have been 1,622 under U.S. GAAP compared to 1,634 million under Spanish GAAP at December 31, 2004 and 1,818 million under U.S. GAAP compared to 1,608 million under Spanish GAAP for 2003. For 2002, net loss would have been (3,645) million under U.S. GAAP compared to (3,724) million under Spanish GAAP.

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The increase in net income under U.S. GAAP in 2004 as compared with net income under Spanish GAAP is principally related to the effects of foreign currency exchange rates, revenue recognition, net amortization of goodwill, treatment of start-up expenses, capital increase expenses, and recognition of tax credits in periods initially awarded. See Notes 21.13, 21.4, 21.6, 21.1 and 21.3 to our consolidated financial statements.

The increase in net income under U.S. GAAP in 2003 as compared with net income under Spanish GAAP is principally related to the net amortization of goodwill, treatment of start-up expenses, capital increase expenses, recognition of tax credits in periods initially awarded, derivatives and hedging activities and revenue recognition principles. See Notes 21.6, 21.1, 21.3, 21.9, 21.11 and 21.4 to the consolidated financial statements.

The increase in net income under U.S. GAAP in 2002 as compared with net income under Spanish GAAP is principally related to the net amortization of goodwill, treatment of start-up expenses, capital increase expenses, derivatives and hedging activities and revenue recognition principles. See Notes 21.6, 21.1, 21.9 and 21.4 to our consolidated financial statements.

See note 21 to the consolidated and combined financial statements for a description of the principal differences between Spanish GAAP and U.S. GAAP as they pertain to us and for a quantitative reconciliation of net income and shareholders' equity from Spanish GAAP to U.S. GAAP.

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**Table of Contents****Hedging Policy**

Exchange rate fluctuation (especially for Latin American currencies) has negatively impacted our results of operations. Specifically, consolidated operating income before depreciation and amortization for fiscal year 2004 was 4,701 million. Excluding the impact of currency fluctuation, consolidated operating income before depreciation and amortization would have been 0.7% higher for 2004 and 3.4% higher for 2003. In order to hedge the possible adverse impact of the exchange rate fluctuations on our operating results, we primarily seek to mitigate the impact on the value of our assets by financing the purchase of such assets, as well as our local operations by incurring debt denominated in local currencies when available and under attractive market conditions. Occasionally, we hedge this risk by entering into other financial instruments including exchange rate swaps. In accordance with our risk management policy in most cases we enter into hedging transactions to cover debt payments or payments denominated in foreign currencies. For further information on the risks we face, please see Item 11 Quantitative and Qualitative Disclosure About Market Risk.

**Seasonality of Our Business**

Our business is subject to a certain degree of seasonality, characterized by a higher number of new clients in summer and, as a result of increased handset sales, in the Christmas season. We believe that this seasonality is driven by Christmas marketing campaigns and higher mobile telephony usage during vacation periods, although we believe there is no intrinsic business rationale for this trend to continue in the future. In addition, roaming revenue derived from visitors who use Telefónica Móviles España's network normally represents 2% to 3% of Telefónica Móviles España's quarterly operating revenue. In the third quarter, such revenue normally increases to 4% to 5%, in line with increased visitors to Spain in the summer months.

**C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.**

We cooperate with the research and development departments of various handset manufacturers to ensure the development and success of 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 spent approximately 153 million in 2004, 190 million in 2003, and 275 million in 2002 on our research and development activities.

In November 2001, Telefónica Móviles España, together with Ericsson, Hewlett Packard and the regional government of Cataluña created Tempos21, Innovación en Aplicaciones Móviles, S.A., with the objective of conducting research and development on wireless services and applications based on the GSM, GPRS and UMTS standards or other technologies that may be developed. Tempos21, which began operations in 2002, is developing, implementing and managing wireless internet related products and other wireless services and applications for enterprises (B2B and B2B2C). Tempos21 also provides consulting services and develops integrated solutions for the aforementioned sectors. Telefónica Móviles España holds a 38.5% interest in Tempos21. We carry Tempos21 by the cost method in our consolidated and combined financial statements as of December 31, 2002, 2003 and 2004. The gross and net book value Tempos21 in our consolidated financial statements at December 31, 2003 amounted to 5,091 thousand and 3,489 thousand, respectively. The gross and net book value Tempos21 in our consolidated financial statements at December 31, 2004 amounted to 5,091 thousand and 1,096 thousand, respectively.

**D. TREND INFORMATION**



The penetration rate in the Spanish market for wireless services was 89.1% at December 31, 2004. 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, mainly in the corporate segment, 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 is encouraging customer migration from its pre-paid plans to its contract plans. These migrations have supported the increase in the weight of the contract segment in the total customer base to 49% in 2004 (+8.5 percentage points compared to 2003) and has also encouraged increased spending from its contract customers. In 2004, migrations from pre-paid to contract plans reached 1.0 million customers.

Our high-quality offerings, efforts in innovation as well as the success of our policy to encourage migration has had a decisive impact on increasing usage trends. Total traffic posted an annual increase of 12% for 2004 as a whole. At the same time, our customers' use of data and content services is also rapidly growing. We believe the UMTS deployment will speed up wireless data services usage.

Our operations in Latin America, although in an expansion phase of development in most countries, are generally at an earlier point in achieving the market penetration that we have in Spain. In this context, we are exploring the growth potential in our markets, leading to strong commercial efforts.

In Latin America our managed customer base increased from 30.3 million at December 31, 2003 to 52.7 million at December 31, 2004. The substantial portion of our growth in Latin America has resulted from our acquisitions and consolidation of certain of BellSouth's wireless operators in October 2004, as well as our emphasis on pre-paid wireless services. At December 31, 2004, pre-paid customers accounted for 80.7% of our managed customers in Latin America.

We are capitalizing on the regional management of operations in the region, the integration of operators acquired to BellSouth and Group skills to enhance operating efficiency across our operations in Latin America.

We will also leverage other strategic business initiatives such as the launch of a single brand for our operations in Spanish-speaking markets, handset procurement, customer retention, global solutions for the corporate segment and integrated commercial offerings to consolidate competitive positions in our markets while increasing profitability.

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 at December 31, 2004. 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 our subsidiaries to develop their operations and allow us to enter into joint ventures on market terms. As of the date of this annual report, we are not aware of any events that would result in the material reduction to us of any of these off-balance sheet arrangements. For a more detailed discussion of our off-balance sheet commitments please refer to notes 15 and 18 of our consolidated and combined financial statements.

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### **IPSE 2000 (Italy)**

#### ***Ferrovie Agreement***

On October 25, 2000, IPSE 2000 entered into an agreement with Rete Ferroviaria Italiana S.p.A. (formerly known as Ferrovie dello Stato S.p.A.), an Italian railway company owned by the Italian government. Pursuant to this agreement, IPSE 2000 has been granted certain access rights to, and rights of use of, a specified portfolio of such railway company's sites. On November 28, 2003 IPSE 2000 notified Ferrovie of its decision to revoke the agreement, which was rejected by Ferrovie and arbitral proceedings began on July 4, 2004. The parties subsequently reached a settlement in the amount of 93,360 thousand. Of this amount, Telefónica Móviles paid approximately 39,387 thousand in May 2005.

#### ***UMTS Guarantee***

On December 11, 2000, a syndicate of banks agreed to issue a guarantee in an aggregate amount of 1,292 million on behalf of IPSE 2000 to the Italian Ministry of Treasury. This guarantee covered the deferred portion of IPSE 2000's required payment for its UMTS license in Italy. As of December 31, 2004, the amount outstanding for the UMTS license was 722.0 million.

As of December 31, 2004, the guarantee amount was 746.9 million. Telefónica, S.A. has agreed to guarantee to the syndicate of banks up to a maximum amount of 436.7 million as of December 31, 2004. On December 27, 2002, we in turn agreed to guarantee Telefónica, S.A. for 91.79% of the amount guaranteed by Telefónica. This amount is in proportion to our participation in IPSE 2000.

### **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 July 28, 2003, following negotiations with the Ministry of Industry, Tourism and Commerce and the issuance of a new guarantee in the amount of 167.5 million by Telefónica Móviles España, we were released from these guarantees by the Secretary of State for Telecommunications and for the Information Society. 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, 2004, 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, 2004, 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 given 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.

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### **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.

### **3G Mobile Telecommunications (Austria)**

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

### **Telefónica Móviles Mexico (Mexico)**

#### ***Burillo Group***

Our agreement with the Burillo Group to create Telefónica Móviles Mexico includes put rights for the Burillo Group and call rights for us with respect to the Burillo Group's shares in Telefónica Móviles Mexico. The Burillo Group has a put right to require us to purchase its shares in Telefónica Móviles Mexico in 2007 or 2008. This put right is exercisable if the Burillo Group's interest in Telefónica Móviles Mexico decreases to less than 50% of its original ownership interest, after the occurrence of the event that results in such a dilution of its interest. If the Burillo Group does not exercise its put rights, we have a call right, after December 2008. This call right will require the Burillo Group to sell to us its entire interest in Telefónica Móviles Mexico.

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

#### ***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 8.1 million considering an exchange rate of 15.3438 Mexican pesos per euro).

**Portugal Telecom (Brazil)**

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

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

we underwent a change of control;

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

Telefónica S.A. underwent a change of control.

Similarly, we will be entitled to sell our interest in Brasilcel, N.V. to the Portugal Telecom Group if there is a change of control at Portugal Telecom SGPS, S.A., PT Moveis SGPS, S.A. or any other subsidiary of either company that held a direct or indirect ownership interest in Brasilcel N.V. In either case, the price would be determined on the basis of an independent appraisal pursuant to terms in the Shareholders Agreement and Subscription Agreement.

**BellSouth Colombia and Comunicaciones Móviles del Perú (Colombia and Peru)**

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 BellSouth Colombia, S.A. and Santander Overseas Bank, Inc. in the amount of US\$273.9 million and Santander Colombia, S.A. in the amount of US\$23.5 million, maturing on October 28, 2005; and (b) a syndicated loan between BellSouth Perú, S.A. (currently named Comunicaciones Móviles del Perú, S.A.) and ABN Amro in the amount of US\$200 million, maturing on February 25, 2006.

**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, 2004, and the periods in which payments are due.

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
	(million of euros)				
Debentures and Bonds	84	9	75		
Other Instruments Negotiable					
Notes Payable	65	65			
Loans and credits	7,677	1,248	5,376	721	333
Loans and credits Foreign Currency	3,201	1,379	532	951	339
Financial Guarantee (1)	401	400	31	10	8



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Dividends (2)	852	852			
<b>Total</b>	<b>12,281</b>	<b>3,955</b>	<b>5,983</b>	<b>1,671</b>	<b>672</b>

- (1) Guarantees of Ipse's debt to the Italian State for the deferred payment of the UMTS license awarded in that country, in the percentage corresponding to Telefónica Móviles, S.A. This guarantee initially amounted to 1,292 million, having subsequently been reduced to the total actual guaranteed amount of 746.9 million.
- (2) Our Ordinary General Meeting of Shareholders held on May 6, 2005 approved the payment of a dividend of 0.193 per share. The total amount in dividends to be paid by Telefónica Móviles, S.A. is 835.8 million.

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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, 2004. These contractual obligations are shown by type of obligations and payment in the following table:

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
	(million of euros) (1)				
Capital leases obligations	13	7	3	2	1
Operating leases	1,052	154	343	182	372
Unconditional purchase obligations	786	654	126	4	2
Other long term obligations (OPEX)	303	75	114	114	0
<b>Total</b>	<b>2,155</b>	<b>891</b>	<b>586</b>	<b>302</b>	<b>376</b>

**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 must be individuals who meet conditions that ensure their impartiality and objectivity, including that:

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

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- (iii) they do not have close family ties with any of our executives or any directors that represent the interest of our parent company, Telefónica S.A.

Under our by-laws, the board of directors consists of a minimum of three and a maximum of nineteen members elected by the holders of ordinary shares at a meeting of shareholders, with the actual number being determined by a resolution passed at the shareholders' meeting. The number of directors is currently fixed at 14. Directors are elected by our shareholders to serve a five-year term and may be re-elected to serve for an 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

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director or authorizing the permanent delegation of all, or part of, the board's power require a two-thirds majority of the members of the board of directors. Some powers specified in the Spanish Corporation Law and our by-laws, as well as those necessary for an adequate discharge of the board's oversight function, may not be delegated.

### *Committees of the Board*

Our board of directors has established a delegate committee, an audit and control committee, and a nominating and compensation committee in accordance with the recommendations set forth in the Good Corporate Governance standards. Each of the audit and control committee and the nominating and compensation committee is required by board regulations to have a minimum of three and a maximum of five non-managing directors. Non-managing directors are directors that do not hold a managing position within the Telefónica Móviles Group. Non-managing directors includes both (i) independent directors that meet the criteria for independence as set by Spain's Good Corporate Governance Standards and the rules of the New York Stock Exchange and (ii) directors affiliated with Telefónica S.A., our controlling shareholder (Dominicales). A significant majority of our directors (13) are non-managing directors. Of these directors, five are independent. This requirement is also provided for in the by-laws of the company with regard to the audit committee. The following is a brief description of the committees of our board of directors.

### *Delegate Committee*

The delegate committee functions as our Executive Committee of the board of directors to which are delegated all of the powers of the board of directors other than powers specified as non-delegable under the Spanish Corporation Law and our by-laws. On April 29, 2003, the Board of Directors, resolved, without prejudice to the powers already delegated to the Committee and in line with the recommendations on Good Governance, to entrust to the Committee the functions that are normally assigned to strategy committees. The 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 supervising the correct application of generally accepted accounting principles, reviewing compliance with the internal control system, reviewing the registration statements and financial information we furnish to the market and our supervisory boards and maintaining the integrity of the preparation of individual and consolidated audits.

In addition, as provided for by new article 19 bis, approved by our last General Ordinary Shareholders Meeting held on April 16, 2004, the Audit and Control Committee is responsible for:

- (i) reporting through its Chairman to the General Shareholders Meetings on the matters raised there by the shareholders on subjects within the Committee's scope;
- (ii) proposing to the Board of Directors, for submission to the General Shareholders Meeting, the appointment of the auditor referred to under Article 204 of the Joint Stock Companies Law, as well as the terms of the retainer thereof, the scope of the professional

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assignment and the renewal or revocation of the appointment, as pertinent;

- (iii) supervising the internal auditing services (as part of this responsibility, in 2004, 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.

**Table of Contents***Nominating and Compensation Committee*

The nominating and compensation committee assists in the nomination of directors and is responsible for proposing the compensation and incentive plans for the board of directors and senior management of our company.

*Directors*

The following are our current directors and their respective positions and ages at June 23, 2005:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Date of appointment</u>
Antonio Viana-Baptista(1)	48	Chairman and Chief Executive Officer	August 29, 2002
Luis Lada Díaz	55	Director	August 10, 2000
José María Álvarez-Pallete López	41	Director	May 6, 2005
Lars M. Berg	57	Director	October 20, 2000
Miguel Angel Canalejo Larrainzar	63	Director	October 20, 2000
Maximino Carpio García	60	Director	October 20, 2000
Fernando Xavier Ferreira	56	Director	October 20, 2000
Victor Goyenechea Fuentes	54	Director	October 20, 2000
Antonio Massanell Lavilla	50	Director	October 20, 2000
Alfonso Merry del Val Gracie	58	Director	October 20, 2000
Fernando de Almansa Moreno-Barreda	56	Director	April 1, 2003
Alejandro Burillo Azcarraga	53	Director	April 1, 2003
Javier Echenique Landiribar	53	Director	May 6, 2005
José María Más Millet(1)	51	Director and Secretary	June 18, 2002

- (1) Mr. Antonio Viana-Baptista and Mr. José María Más Millet were appointed by the Board of Directors through a cooptation procedure and their appointments were ratified by the General Shareholders Meeting held on April 1, 2003. See Management Board of Directors for a description of the cooptation procedure.

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

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

The delegate committee of the board of directors consists of Messrs. Viana-Baptista, 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.

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The audit and control committee of the board of directors consists of Messrs. Echenique, Canalejo and Álvarez-Pallete and is chaired by Mr. Echenique.

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.

### *Executive Officers*

The executive officers are elected by, and serve at the pleasure of, the board of directors. Below is a list of our current executive officers and their respective positions with our company and ages at June 23, 2005.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Antonio Viana-Baptista	48	Chairman and Chief Executive Officer
Ernesto López Mozo	41	Chief Financial Officer
Fernando Herrera Santa María	44	Chief Commercial Officer of Telefónica Móviles España, S.A.

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<u>Name</u>	<u>Age</u>	<u>Position</u>
Antonio Hornedo Muguero	50	General Counsel and Vice Secretary (non-member) of the Board of Directors
Ignacio Camarero García	55	Chief Operating Officer of Telefónica Móviles España, S.A.
Belén Amatriaín Corbi	46	Chief Executive Officer of Telefónica Móviles España, S.A.
Manuel Costa Marques	45	General Manager of Development of Latin American Business
Luis Miguel Gilpérez	45	Executive Director of the International Area of Telefónica Móviles
José Molés Valenzuela	49	General Manager of Telefónica Móviles Mexico
Emilio Gayo Rodríguez	40	General Manager of Operations of Telefónica Móviles
Eduardo Caride	49	General Manager for Argentina, Chile and Uruguay

The following is the biographical information for each of our directors:

**Antonio Viana-Baptista** serves as Chairman and Chief Executive Officer since August 2002. He is an economist who graduated from the Catholic University of Lisbon in 1980. He has a post graduate in European Economy (1981), and an MBA, obtained with a distinction mention, from INSEAD (Fontainebleu). He is member of the board of directors, the Delegate Committee of Telefónica S.A. He is also Chairman of Telefónica Móviles España, S.A. and member of the board of directors of Telefónica Internacional, S.A., Portugal Telecom SGPS, Brasilcel N.V., 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.

**Luis Lada Díaz** serves as a director. He is currently board member and General Manager for Corporate Strategy and Regulatory Affairs of Telefónica, S.A. He holds a degree in telecommunications engineering and joined the Telefónica Group in 1973 in the Research and Development Department, rising through the ranks to hold various managerial and executive positions. In 1989, Mr. Lada was Deputy General Manager for Technology, Planning and International Services when he left the Telefónica Group to join Amper Group, a telecommunications systems and equipment manufacturer as General Manager for Planning and Control. Mr. Lada returned to the Telefónica Group in 1993 as Controller of the Subsidiaries and Participated Companies. In 1994, he was appointed as CEO of Telefónica Móviles España S.A., and was promoted to Chairman of Telefónica Móviles, S.A. in August 2000. He served as President until July 2002 after which he accepted his present position. He also serves on the board of directors of Telefónica Internacional, S.A., Telefónica, S.A., Sudestecel Participações, S.A. and Sogecable, S.A.

**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, and Telefónica Larga Distancia de Puerto Rico. Mr. Álvarez-Pallete holds a graduate degree in Economics from the Complutense University of Madrid. He also studied Economics at the Université Libre de Belgique.

**Lars M. Berg** serves as a director. Since August 2000, Mr. Berg has been an independent investor and consultant and non-executive board member of several companies in the telecommunications and financial industries, and currently serves as a director of Telefónica Móviles Colombia and Telcel Venezuela and, among others, Eniro AB, Ratos AB, Net Insight AB, Anoto Group AB 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



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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

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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 Economic and Social Council, a Spanish government advisory entity and member of the Advisory Committee of Abengoa, S.A. From 1992 to 1995, Mr. Carpio was Dean of the Economics faculty and from 1984 to 1992, he was the head of the Department of Economics and Public Finance, in each case at the Universidad Autónoma de Madrid. Mr. Carpio also received his doctorate degree from the Universidad Autónoma de Madrid.

**Fernando Xavier Ferreira** serves as a director. Currently, Mr. Ferreira is the Chief Executive Officer of the Telefónica Group in Brazil and member among others of the Board of Directors of Telesp, S.A., Brasilcel, N.V., Tele Sudeste Celular Participações, S.A., Tele Leste Celular Participações, S.A., Celular CRT Participações, S.A., Tele Centro Oeste Participações, S.A. and Telesp Celular, S.A. During 1998, Mr. Ferreira served as member of ANATEL. From 1995 to 1998, he was General Director of Telebrás and president of the board of directors of Embratel and Telesp S.A. Mr. Ferreira was President of Telecomunicações do Paraná S.A. Telepar from 1997 to 1999 and Vice President of that company from 1979 to 1987. He is currently a member of the Latin-America Committee of the New York Stock Exchange and the Global Infrastructure Commission. Mr. Ferreira received a degree in electric engineering from Rio de Janeiro's Catholic University in 1971.

**Victor Goyenechea Fuentes** serves as a director. He is also a member of the boards of directors of, among others, Hispasat, S.A., IP Sistemas, S.A., 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., ServiHabitat, S.A., and e-la Caixa. As a representative of Caja de Ahorros y Pensiones de Barcelona, he has worked with the Telefónica group in the deployment of Caja de Ahorros y Pensiones de Barcelona's corporate telecommunications network. Mr. Massanell has a B.A. degree in Economics and Business Administration from the University of Barcelona.

**Alfonso Merry del Val Gracie** serves as a director. From 1976 until October 2000 Mr. Merry Del Val was Chief Executive Officer of Hipermercados Continente (España). He currently serves as a member of the board of directors of among others, NH Hoteles, S.A., J. García Carrión, S.A., Corporación Uriach, AEGON Unión Aseguradora, S.A. and Terra Networks, S.A. He has also served as CEO of the merged Company Carrefour in Spain. Mr. Merry Del Val studied Business Administration at Bocconi University in Milan and holds a master degree in Business Administration from Pavia University.

**Javier Echenique Landiribar** serves as a director 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., Parques Reunidos, S.A., Willis Iberia,

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Edhart y Cía. And Grupo Porres (Mexico). Over the last five years he has served as a member of the boards of directors of Telefónica de España, S.A., Sevillana de Electricidad, S.A., Autopistas Concesionaria de España, S.A., Finanzia Banco de Crédito, S.A., Metrovacesa and Grupo AXA Aurora. Mr. Echenique served from 1990 as executive officer at various areas of BBVA. He received a degree in economics in 1974.

**José María 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. and, among others, NH Hoteles, S.A., SOS CUETARA, S.A., SOTOGRADE, S.A., Aumar, S.A. and Telcel Venezuela. 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., and Telcel Venezuela. 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. and Chairman of Group 3G UMTS Holding and 3G Mobile AG. He has a degree in economics from the Universidad Complutense de Madrid and a masters in business administration from IESE. Mr. Herrera has eight years of experience in the telecommunications industry holding various managerial positions within the Telefónica Group. Prior to this appointment he acted as general Manager of Resources and Management Control of Telefónica Móviles España. He also serves on the board of directors of Telefónica Móviles España S.A.

**Antonio Hornedo Muguero** serves as the General Counsel and Vice-Secretary (non-member) of the board of directors. He serves as director of Telefónica Móviles El Salvador, S.A. de C.V., Telefónica Móviles Guatemala,

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S.A., Telefonica Móviles Panamá, S.A. and Telcel Venezuela. 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 Amatriain 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 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., Tele Leste Celular Participações, S.A.A, Tele Sudeste Celular Participações, S.A., Celular CRT Participações, S.A., Telesp Celular Participações, S.A. Tele Centro Oeste Celular Participações, S.A., Comunicaciones Móviles del Perú, Telefónica Móviles Colombia, Telcel Venezuela, Telefónica Móviles Panamá, Telefónica Móviles Nicaragua and Telefónica Móviles Guatemala y Compañía, 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, Brasilcel, Telefónica Móviles el Slavador, Telefónica Móviles Guatemala, Telefónica Móviles Colombia and Telcel Venezuela, among others.

**José Molés Valenzuela** is acting General Manager of Telefónica Móviles Mexico. Mr. Molés also serves on the Board of Directors of Telefónica Móviles México, S.A. de C.V., Telefónica Móviles Guatemala, S.A., Telefónica Móviles El Salvador, S.A. de C.V. and Telefónica Móviles Perú, S.A.C. Mr. Valenzuela began working for the Telefónica group in 1977, where he held various posts with responsibility for fixed-line telephony, engineering, data and mobile telephony in Spain and Argentina. Subsequently, from 1995 to 1996 he was the general manager for Unifón, the then mobile operator of the Telefónica group in Argentina. From 1997 to 2000, Mr. Valenzuela serves as general manager of Celular CRT, the mobile operator of the Telefónica group in Brazil. In February 2000, he became the general manager of Telefónica Móvil de Chile. Mr. Valenzuela holds an engineering degree from UNED, and a masters in business administration.



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**Emilio Gayo** serves as the General Manager of Operations of Telefónica Móviles. 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** 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 Chile, Telefónica Comunicaciones Personales and Abiatar (Uruguay).

**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 2004, the aggregate compensation of all of our directors paid or accrued by us was 3,085,523, as described in the following table:

	<b>Year 2004</b>
	<b>(euro)</b>
Salaries(1)	698,411
Variable compensation(1)	601,012
Fixed remuneration (2)	1,430,532
Fixed remuneration for being members of the committee	42,500
Attendance fees	120,747
Benefits in kind(3)	60,211
External services(4)	132,199
<b>Total</b>	<b>3,085,523</b>

(1) Compensation for Executive Directors.

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

(3) Includes health insurance, housing and life insurance for Executive Directors.

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





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The following tables set forth the compensations received by our Directors in 2004:

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

	<u>Year 2004</u>
	(euro)
Chairman	97,614
Members	97,614
Secretary	97,614

**Other Board Committees.**

Fixed amount for membership of Board Committees:

<u>Position</u>	<u>At Year-End 2004</u>
President(1)	5,000
Member	2,500

(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:

	<u>Number of meetings</u> (Year 2004)	<u>Per diem per meeting</u> (At Year-End 2004)	<u>Total paid to all committee members</u> (Year 2004)
		(euros)	
Audit and Control Committee	12	1,250	39,852
Delegate Committee	5	1,250	30,652
Nominating and Compensation Committee	10	1,250	50,243

In addition, in 2004, members of the board of directors received approximately 2,607 thousand in compensation for duties performed for certain subsidiaries of the Telefónica Móviles Group. Furthermore, an additional 5,524 thousand was paid to members of the board who stepped down in 2004 in the form of fixed and variable compensation and indemnities.

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Our executive officers (excluding the Chairman) received compensation of approximately 3,992 thousand in 2004, as described in the following table:

	<b>Year 2004</b>
	<b>(euro in thousands)</b>
Salaries	2,806
Variable compensation	1,062
Benefits in kind	63
Pension plans	61
<b>Total</b>	<b>3,992</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.

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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 may only be exercised in tranches of one-third, one tranche in each of the three-month periods beginning January 3, 2004, January 3, 2005 and January 3, 2006. In each exercise period, options may only be exercised in full, except that options not exercised in any given exercise period are carried over to the next exercise period, with the limit of the last exercise period. The options may be settled in cash or in ordinary shares, at the election of the holder at the time of each exercise. The holder will bear the cost of any applicable withholdings, deductions and taxes, and any settlement costs arising out of the exercise of the options must be paid by the holder at the time of exercise.

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 Spanish National Securities Commission on September 28, 2001.

The first phase of the MOS Program commenced in December 2001. The options allocated in the first phase were granted on January 2, 2002. Subsequently, in June 2002, the second phase of the MOS Program commenced 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

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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 7,575 beneficiaries under the MOS Program held 11,137,144 options as of December 31, 2004. The first exercise period began on January 2, 2004 and ended April 3, 2004. During this period, a total of 159,646 options were exercised by 7,478 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 1,522,282 shares who have exited the MOS as a result of terminations and voluntary resignations. The second exercise period ended in April 2005. A total of 1,022 employees exercised a

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total of 384,348 options. The company must transfer either the funds or the shares, as elected by the employees, no later than July 2005. As of December 31, 2004 we have set aside a total of 8,000 thousand for benefits and pension plans for our executive Directors.

**C. BOARD PRACTICES**

See Item 6A.

**D. EMPLOYEES****Human Resources**

We believe that our human resources constitute one of our key strengths as an integrated international wireless operator. As part of the Telefónica Group, we benefit from the human resources and recruiting strength of a leading international telecommunications group. The Telefónica Group has long endeavored to give promising managers experience in international markets. Consequently, we benefit from being able to draw managers from a significant pool of talented managers with experience in both Spain and Latin America. Approximately 20% of our senior managers are engineers by training, 20% hold degrees in business or economics, 10% have law degrees, 10% have studied computer science and 25% have other graduate and postgraduate degrees. We also believe that we benefit from the loyalty of our employees, as indicated by our relatively low level of employee turnover.

To provide incentives and make managers' potential compensation more attractive, in addition to base salaries, our standard compensation packages for senior managers include a performance-based bonus that can total between 30% and 50% of a senior manager's annual salary. We have also implemented an employee stock option plan. See Item 6.B Compensation. We provide a comprehensive benefits package that we believe compares favorably in each of our markets.

**Employees**

At December 31, 2004, we employed approximately 19,200 individuals in our consolidated operations. The following table sets forth the number of employees by country:

Country	2002	2003	2004
	(in thousands)		
Spain (including headquarters in Madrid, Spain)	5.0	4.7	4.6
Brazil(1)	3.0	3.3	3.1
Argentina	0.9	0.8	0.9
Peru(2)	0.6	0.7	1.2
Mexico(3)	2.5	2.0	1.9

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El Salvador	0.3	0.3	0.3
Guatemala(4)	0.3	0.3	0.5
Colombia			1.8
Uruguay			0.3
Venezuela			2.4
Ecuador			0.6
Panamá			0.5
Nicaragua			0.2
Chile(5)	0.1	0.1	0.9
<b>Total</b>	<b>12.7</b>	<b>12.2</b>	<b>19.2</b>

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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 includes the employees of BellSouth Peru, which we acquired in October 2004.

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- (3) The number of employees for 2002 includes our Northern Mexico operators and Pegaso.  
 (4) The number of employees in Guatemala for 2004 includes the employees of BellSouth Guatemala, which we acquired in October 2004.  
 (5) The number of employees in Chile for 2004 includes the employees of Telefonica Movil de Chile, which we acquired in July 2004.

We are a party to collective bargaining agreements covering a total of 7,039 employees of Telefónica Móviles España in Spain, Telefónica Móvil de Chile 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 believe that our relations with our employees are good. Telefónica Móviles also maintains good relations with labour unions. We do not currently have any material pending labor-related claims.

**E. SHARE OWNERSHIP**

As of June 23, 2005, the members of our board of directors owned an aggregate of 56,275 of our ordinary shares, representing approximately 0.001% of our capital stock, as shown in the table below.

<u>Name</u>	<u>No. of Shares</u>
Antonio Viana-Baptista	10,000
Luis Lada Díaz	13,576
José María Más Millet	10
José María Álvarez-Pallete López	1,512
Lars M. Berg	12,500
Miguel Canalejo Larrainzar	
Maximino Carpio García	3,341
Fernando Xavier Ferreira	
Victor Goyenechea Fuentes	2,202
Antonio Massanell Lavilla	105
Alfonso Merry del Val Gracie	529
Javier Echenique Landiribar	38,000
Alejandro Burillo Azcarraga	
Fernando de Almansa Moreno-Barreda	
Total	<u>81,775</u>

As of June 23, 2005, our executive officers (excluding members of the board of directors as noted above) owned an aggregate of 59,763 of our ordinary shares, representing less than 0.0013% 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 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

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	<u>Class A Options</u>	<u>Class B Options</u>	<u>Class C Options</u>	<u>Total</u>
Luis Miguel Gilpérez	24,940	24,940	49,880	99,760
José Molés Valenzuela	24,940	24,940	49,881	99,761

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

**Item 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

**A. MAJOR SHAREHOLDERS**

As of June 23, 2005, according to information known to us or available in the public registers of the Spanish National Securities Commission, beneficial owners of 5% or more of our voting stock were as follows:

<u>Title of Class</u>	<u>Identity of Person or Group</u>	<u>Number of Shares</u>	<u>Percent</u>
Ordinary(1)	Telefónica, S.A	3,075,983,129	71.03%
Ordinary	Telefónica Internacional, S.A.	927,917,620	21.43%

(1) Number of shares held directly by Telefónica S.A. As of February 28, 2005, Telefónica S.A. owned, either directly or indirectly, through its subsidiary Telefónica Internacional, S.A. (TISA), 92.46% of our capital stock.

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

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

As of April 8, 2005, holders with registered addresses in the United States owned an aggregate of approximately 2,598,046 of our ordinary shares, representing less than 0.06% of our ordinary shares issued and outstanding.

**Limitations on Certain Transactions**

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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.

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### **B. RELATED PARTY TRANSACTIONS**

#### **Relationship Between Our Company and the Telefónica Group**

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

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

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

#### **Business Transactions and Contractual Arrangements with Directors and Senior Management**

During 2001 and 2002, 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. MELOG, BBVA provides telecom technology consulting services to the companies of the Telefónica Móviles Group. The term of the agreement is one year, renewing automatically for subsequent periods of one year. Compensation is negotiated on an arm's-length basis and is calculated on a yearly basis. In 2004, we paid 72,121 to MELOG, BBVA under the consulting agreement.

##### *Agreement with José María Más Millet*

In 2001, we entered into an agreement with José María Más Millet, Secretary of the board of directors, to provide legal advisory services to Telefónica Móviles, S.A. This agreement will continue in force for as long as Mr. Más Millet is Secretary of the board of directors. Compensation is negotiated on an arm's-length basis and is calculated on a yearly basis. In 2004, we paid 60,077 to Mr. Más Millet under the

agreement.

*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 is an 8% shareholder in Telefónica Móviles Mexico, our holding company for our Mexican operations.

Our agreement with the Burillo Group to create Telefónica Móviles Mexico includes put rights for the Burillo Group and call rights for us with respect to the Burillo Group's shares in Telefónica Móviles Mexico. The Burillo Group has a put right to require us to purchase its shares in Telefónica Móviles Mexico in 2007 or 2008, or if its interest in Telefónica Móviles Mexico decreases to less than 50% of its original ownership interest, after the occurrence of the event that results in such a dilution of its interest. If the Burillo Group does not exercise its put rights, we have a call right, after December 2008, to require the Burillo Group to sell to us its entire interest in Telefónica Móviles Mexico. In each such case, the purchase price will be determined based on a valuation of Telefónica Móviles Mexico performed pursuant to specified procedures at the time the related right is exercised, with a minimum purchase price in an amount based on the Burillo Group's original investment of \$159.9 million in

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Telefónica Móviles Mexico, to which interest will be added, and from which any cash received by the Burillo Group will be deducted. If we are required to purchase the Burillo Group's shares in Telefónica Móviles Mexico under its put right, or if we purchase the Burillo Group's shares in Telefónica Móviles Mexico under our call right, we have agreed to pay a portion of the purchase price in cash equal to the aforementioned minimum purchase price. The remaining portion of the purchase price, if any, will be paid, at our choice, in cash, in our shares or a combination of the two.

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

## **Business Transactions and Contractual Arrangements with the Telefónica Group**

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

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

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

In September 2003, the convertible promissory notes representing the investment of Telefónica Internacional, S.A. in the Puerto Rican operator NewComm Wireless Services, Inc. were transferred to the Móviles Group. These convertible promissory notes, which amounted to \$60,945 thousand, entitled the Móviles Group to acquire 49.9% of the capital stock. We exercised these notes on April 20, 2005. In addition, the Móviles Group is entitled to purchase an additional 0.2% of the capital stock of NewComm Wireless on a period of three years commencing on April 20, 2005 has elapsed, with which it would acquire control of the Puerto Rican operator.

### *Agreements with Terra Networks, S.A.*

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

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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.

### *Stock Purchase Agreement with Compania 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%

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of CTC Chile. 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, 2004, we had an aggregate of \$9,615 million of loans and credit due to Telefónica, S.A. and other Telefónica Group companies. We expect that Telefónica, S.A. will continue to provide financing to us by obtaining funds at prevailing market rates and then on-lending these funds to our company. These on-lendings are expected to reflect the rates and terms our company would be able to obtain from third parties.

### *Interconnection and Related Telecommunications Services*

As wireless service providers, our operating companies and the companies in which we hold an interest interconnect their networks with those of fixed-line service providers as well as those of other wireless service providers. We also require network and maintenance services. When possible, we utilize the interconnection and network maintenance services of other companies in the Telefónica Group, including, in Spain, Telefónica de España, S.A. In addition, as a result of the transfer of the Telefónica Group's Peruvian and Argentine wireless operations we inherited established relationships between those wireless operators and Telefónica del Perú and Telefónica de Argentina, respectively. In Spain, as in each of the countries in which we operate, the terms of interconnection agreements are generally regulated by the respective governments to ensure that the same terms are available to all operators and that there is no discrimination based upon inter-company relationships. In 2004 and 2003, the purchase and outside services account accrued by the Telefónica Group amounted to \$735 million and \$781 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, with the Telefónica Group, we are contemplating establishing shared cost centers through which our operating companies may outsource specified corporate and administrative services to other shared cost centers in the Telefónica Group, paying for them on a cost basis.



**Management Contracts**

*Puerto Rico*

Between January 1, 2002 and September 2004, Telefónica Móviles, S.A. managed the operations of NewComm Wireless Services, Inc. Under this agreement the Company was entitled to an annual fee payable in quarterly installments, equal to the higher of (i) 9% of the operating income obtained by NewComm in the previous year, or (ii) \$750,000. The management fees owed by Newcomm to Telefónica Móviles under this contract amounted to 1,143 thousand and 384 thousand in 2003 and 2004, respectively. These amounts were capitalized by Telefónica Móviles through Telefónica Móviles Puerto Rico and this contract was terminated in September 2004.

Additionally, since February 2000, Telefónica Móviles S.A. has been providing technical capacity transfer services to NewComm Wireless Services, Inc. in Puerto Rico, by virtue of the subrogation of Telefónica Móviles, S.A. to Telefónica Internacional, S.A.'s technical capacity transfer contract. Under this contract the Company receives an annual fee, payable in quarterly installments, of 1% of the revenues received for services billed in the

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previous year for NewComm's transactions. The technical capacity transfer fees owed by NewComm to Telefónica Móviles under this contract amounted to 2,927 thousand and 448 thousand in 2003 and 2004, respectively. These amounts were capitalized by Telefónica Móviles through Telefónica Móviles Puerto Rico and this contract was terminated in September 2004.

### *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, 2004 and 2003, the revenues earned in this connection relating to Telerj Celular, S.A. and Telest Celular, S.A. amounted to 426 thousand and 1,920 thousand, respectively, and those relating to Telebahia Celular, S.A. and Telergipe Celular, S.A. amounted to 1,347 thousand and 475 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 2,315 thousand and 3,257 thousand as of December 31, 2004 and 2003, respectively.

Additionally, in connection with the Shareholders Agreement entered into with Portugal Telecom and certain other parties on October 17, 2002 regarding the incorporation of the Brasilcel Joint Venture, the parties have agreed on December 3, 2004 that the economic interest earned from the management agreements entered into by both parties with their prior subsidiaries will be compensated in a way that ensures that each group receives the same amount for its services. In 2004, Telefónica Móviles registered 11,475 thousand as income due as a result of unequal compensation paid during 2003 and 2004.

### *Peru*

Under the Transfer of Technical Capabilities and Management agreement with Telefónica Móviles, S.A.C entered into on December 2002, we are entitled, in exchange for our management services, to an annual fee, payable quarterly, equal to 1% of the revenues received from services billed in transactions of Telefónica Móviles, S.A.C. under the technical capacity transfer contract, and 9% of the operating income of Telefónica Móviles, S.A.C. under the management contract. The revenues earned in this connection amounted to 11,569 thousand and 17,830 thousand as of December 31, 2004 and 2003.

### *El Salvador*

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

*Guatemala*

Telefónica Móviles S.A. has entered into technical capacity transfer and management contracts with Telefonica Centroamerica Guatemala, S.A. (TCG). Pursuant to this agreement, we are entitled, in exchange for our services to an annual fee, payable quarterly, equal to 1% of the revenues received from services billed in transactions of TCG under the technical capacity transfer contract, and 9% of the operating income obtained by TCG under the management contract. The revenues earned from these two contracts amounted to 1,812 thousand and 793 thousand as of December 31, 2004 and 2003, respectively.

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### *Morocco*

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

### *Use of Brand Names and Other Intellectual Property*

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

### *Tax-Sharing Arrangements*

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

The reorganization of the Telefónica Group along global business lines, including the transfers of its wireless operations to us, is being carried out, whenever possible, to eliminate or minimize tax liabilities, both in Spain and in our other countries of operation. In order to achieve and preserve the favorable tax treatment for the reorganization, some limitations and restrictions may apply to future transfers of our interests in some of our operating companies for a period of time. We are controlled by the Telefónica Group and expect to comply with directives from Telefónica, S.A. designed to ensure that our actions do not result in the imposition on the Telefónica Group or our company of avoidable tax liabilities related to the reorganization.

## **C. INTERESTS OF EXPERTS AND COUNSEL**

Not applicable.

## **Item 8. FINANCIAL INFORMATION**

### **A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION**

See Item 18.

### **Legal Proceedings**

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

#### *Antitrust violations for entering into exclusivity agreements*

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

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lower court decision. We are currently awaiting a decision from the Central Court as to this appeal. We cannot assure you that the antitrust authorities will not find that we have abused our dominant position in the Spanish wireless market by being a party to exclusivity agreements after 1997 and, as a result, may impose further fines on us or rescind our current exclusivity agreements with those providers.

### *Challenge to the Spanish Government's increase of Spectrum Fees*

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

Currently, with regard to the appeals against the Central Administrative Economic Tribunal's decision, the National Court has notified us that it has resolved to submit to the Constitutional Court constitutional questions raised by us regarding the modifications challenged.

### *Complaint by Diarphone*

Diarphone, a former distributor, has sued us for breach of oral agreements that it alleges it had entered into with us and claims damages in the amount of approximately 18.2 million. We are currently awaiting a decision.

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

We have filed a contentious administrative appeal with the National Court against the Comisión del Mercado de las Telecomunicaciones's (CMT) decision to reduce the termination fees of Telefónica Móviles España and other wireless operators in Spain, requesting a precautionary pre-emptive suspension of such price decrease. The State Attorney has served an answer to the appeal which has been furnished to us as well as the other relevant operators. In January 2005, a ruling in favor of Telefónica has rendered and subsequently appealed by the CMT and other parties.

### *Challenge to denial of request for abandonment of TETRA license*

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

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

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

### *Claim for anti-competitive practices*

MCI WorldCom (Spain) filed claims against Telefónica Móviles España, S.A., as well as against the remaining mobile operators in Spain alleging an abuse of dominant position due to anti-competitive practices in their termination call wholesale prices on mobile networks. In December 2004, the Competition Court (TDC) dismissed the claim after declaring the non existence of anti-competitive practices.

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*Claim by Ostheimer GmbH against Quam GmbH*

On June 10, 2003, Ostheimer GmbH filed a complaint against Quam GmbH (in which we hold an interest of 57.20%) in Germany, for the sum of 100 million. Ostheimer GmbH alleges to have suffered damages resulting from a distribution contract it had with Quam, during the period between August of 2002 and March of 2003. An oral hearing was held on March 7, 2005, following which Quam was granted an opportunity to respond to witness testimony in writing. The oral hearing is scheduled to continue on May 27, 2005.

*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. After reviewing certain experts' reports proposing a reduction of close to 10% on interconnection fees, Medi Telecom filed its comments on the experts reports with the court on December 6, 2004 and we are currently awaiting a decision.

The Moroccan wireless regulator filed a claim against Medi Telecom in view of the assumption by Medi Telecom of the technical measures needed to manage 100% of the incoming international traffic as of August 1, 2003. At the same time, Maroc Telecom formally requested arbitration by the Moroccan wireless regulator with respect to the same subject. The Moroccan wireless regulator has declared itself competent to hear the claim. In December 2004, the Moroccan wireless regulator requested that Medi Telecom open its network to allow the incoming international traffic of Maroc Telecom. The incoming international traffic rate has been fixed at 1.6289 dirhams per minute.

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

Our Mexican operators have challenged in Mexican federal courts the application of the Special Tax on Production and Services, as amended by the Mexican Congress on December 31, 2001 and applicable to years 2002 and 2003. These claims have been concluded with our operators winning favorable decisions on their requests for a refund of the taxes paid.

*Challenge to Payment of Value Added Tax over the Amounts Paid by Our Operators to the Mexican Federal Government for the Operation of the Concession*

The Comisión Federal de Telecomunicaciones (COFETEL) notified our Mexican operators Baja Celular Mexicana, S.A. de C.V., Movitel del Noroeste, S.A. de C.V., Telefonía Celular del Norte, S.A. de C.V. and Celular de Telefonía, S.A. de C.V. of their obligation to pay value added tax over the amounts paid by the operators to the Mexican federal government for the operation of the concession. In December 2003, the Secretariat of Revenue and Public Credit (Secretaría de Hacienda y Crédito Público) requested the Mexican operators to provide evidence of their payment of the value added tax since 1995. Our Mexican operators have commenced legal proceedings to nullify the resolution issued by COFETEL.

*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 pays system. Our Mexican operators have contested this order before the *Tribunal Federal de Justicia Fiscal y Administrativa* (Federal Tax and Administrative Court) and have appeared in a consultation proceeding before the Secretariat of Revenue and Public Credit, seeking a reversal of the order stating that revenues obtained from interconnection traffic should be included in the calculation of the fee to be paid to the Mexican federal government. The Federal Tax and Administrative Court has ruled against the petition of our operators. Our operators are currently appealing this decision.

*Claims related to our Brazilian operators*

Some of our Brazilian operators are involved in different disputes with the Brazilian government. These include (i) disputes over the manner in which the Brazilian government calculates the social contributions due from each

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

## **Dividend Information**

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

On April 16, 2004, the Shareholders' Meeting of Telefónica Móviles resolved to pay a gross cash dividend of \$0.1838 per share, with a charge to profits for fiscal year 2004. The dividend was paid on June 16, 2004 to each record holder of our outstanding shares as of that date through the entities participating in Iberclear, resulting in a total cash payment of \$796 million.

On May 6, the Shareholders' Meeting of Telefónica Móviles resolved to pay a gross cash dividend of \$0.193 per share, with a charge to profits for fiscal year 2004. The dividend will be paid on June 15, 2005 through the entities participating in Iberclear.

Any future declaration and payment of dividends will be made at the discretion of our board of directors, subject to shareholder approval, and in compliance with applicable Spanish law, and will depend on our results of operations, financial condition and liquidity and capital resource requirements, any contractual limitations, our future prospects and other factors deemed relevant by our board of directors. Notwithstanding the above, the company intends to analyze other possible options to remunerate its shareholders.

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

## **B. SIGNIFICANT CHANGES**

Our General Shareholders Meeting held on May 6, 2005 resolved the distribution of a cash dividend of \$0.193 per share, with a charge to profits for fiscal year 2004, to be paid on June 15, 2005.

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.

On January 11, 2005, pursuant to the March 5, 2004 stock purchase agreement entered into with BellSouth Corporation, Telefónica Móviles, S.A., acquired a 100% interest in Movicom, BellSouth's wireless operator in Argentina, for a total amount of US\$988 million, after receiving the necessary regulatory approvals. This acquisition completed the acquisition by Telefónica Móviles of all of BellSouth's wireless operations in Latin America.

**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

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NYSE under the ticker symbol TEM. Each Telefónica Móviles ADS represents one ordinary share of Telefónica Móviles. Citibank, N.A. is our depositary issuing the ADRs evidencing the Telefónica Móviles ADSs. Telefónica Móviles ADSs commenced trading on the NYSE on November 22, 2000.

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

	Telefónica Móviles			
	Shares(1)		ADS(2)	
	High	Low	High	Low
	(euro)		(U.S. dollars)	
<b>Annual Information for the past five years</b>				
2000	11.47	9.82	10.00	8.75
2001	11.25	4.35	10.62	5.00
2002	8.83	5.26	7.80	5.40
2003	8.49	5.25	10.72	5.90
2004	9.66	7.82	12.85	9.57
<b>Quarterly information for the past two years</b>				
<b>2003</b>				
First Quarter	7.04	5.25	7.40	5.90
Second Quarter	7.39	6.01	8.55	6.56
Third Quarter	7.53	6.75	8.50	7.70
Fourth Quarter	8.49	6.83	10.72	8.05
<b>2004</b>				
First Quarter	9.66	8.22	12.25	10.10
Second Quarter	9.21	8.22	11.35	9.88
Third Quarter	8.79	7.82	11.05	9.57
Fourth Quarter	9.40	8.38	12.85	10.55
<b>Most recent six months</b>				
November	8.96	8.51	11.65	11.06
December	9.40	8.57	12.85	11.47
January	10.22	9.17	13.28	12.05
February	10.32	9.30	13.28	12.48
March	9.75	9.12	13.00	11.71
April	9.56	8.73	12.25	11.29
May	9.17	8.73	11.80	10.88
June (through June 20)	9.00	8.71	11.12	10.39

(1) Source: Madrid stock exchange.

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

**Securities Trading in Spain**

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

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

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

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

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

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

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

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

Sociedad de Bolsas finds other justifiable cause.

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

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*Clearance and Settlement System.* Transactions carried out on the Spanish stock exchanges are cleared and settled through Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. ( Sociedad de Sistemas or Iberclear ). Only members of the system are entitled to use it, and membership is restricted to authorized broker members of the Spanish stock exchanges, the Bank of Spain (when an agreement,

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

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

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

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

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

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

## **Securities Market Legislation**

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

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

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

required stock exchange members to be corporate entities;



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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.

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

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

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

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

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

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

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

## **B. PLAN OF DISTRIBUTION**

Not applicable.

## **C. MARKETS**

See Item 9A.

## **D. SELLING SHAREHOLDERS**

Not applicable.

**E. DILUTION**

Not applicable.

**F. EXPENSES OF THE ISSUE**

Not applicable.

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### **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.* In Spain, companies with securities listed on a Spanish Stock Exchange are expected to follow the Olivencia Code of Good Governance and the Aldama Report, which include recommendations for corporate governance guidelines and shareholder disclosure. Additionally, listed companies are required by law to publish an Annual Report on Corporate Governance and also to publish corporate governance information on their websites. We base our corporate governance procedures on the recommendations of the Olivencia Code of Good Governance 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 the Board Sub-committees purpose and responsibilities. Moreover we have a Regulation of the General Shareholders Meeting that aims to reinforce transparency providing shareholders with a framework guaranteeing and facilitating exercise of their rights. The annual report on corporate governance we publish provides a detailed explanation of our corporate governance procedures and explains the role and duties of our Board of Directors and Board Sub-committees. Our annual report on corporate governance is available at our registered office and on our website at [www.telefonicomoviles.com](http://www.telefonicomoviles.com). None of the information contained in our website is incorporated in this Annual Report.

*Committees.* We have had an Audit and Control Committee since 2000, composed of one non-executive director, and two directors deemed independent by our Board of Directors. Our committee's functions and duties are similar to those required by the NYSE. Foreign private issuers listed on the New York Stock Exchange, such as Telefónica Móviles, S.A., must have an audit committee composed entirely of independent directors, as defined under the applicable NYSE rule, no later than July 31, 2005. As of the date of this report, Telefónica Móviles, S.A.'s Audit and Control Committee was composed of one non-management director and two directors deemed independent by our Board of Directors in accordance with prevailing Spanish corporate governance norms. We believe that the two directors who are members of the Audit and Control Committee and have been deemed independent by our Board of Directors meet the definition of independence set forth in the NYSE corporate governance rules. This committee's functions and duties are similar to those required by the NYSE.

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

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

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

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

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

### *Director Qualification*

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.

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### *Description of Telefónica Móviles Capital Stock*

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

### *General*

At June 23, 2005, our issued share capital was 2,165,275,448 represented by 4,330,550,896 ordinary shares, with a nominal value per share of 0.50. Non-residents of Spain may hold and vote ordinary shares subject to the restrictions set forth below.

### *Attendance and Voting at Shareholders Meetings*

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

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

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

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

Our by-laws provide that, on the first call of a general shareholders meeting, a duly constituted general meeting of shareholders requires a quorum of at least one-quarter of our issued and voting share capital. On the second call, there is no quorum requirement. Consideration of extraordinary matters such as modification of our by-laws, changes in our share capital structure, changes in the corporate form, mergers, spin-offs, issues of bonds, dissolution and liquidation require on first call a quorum of at least one-half of our issued and voting share capital, and on second call the presence of shareholders representing at least one-quarter of our issued and voting share capital. If, after the second call, the shareholders present or represented constitute less than one-half of our issued and voting share capital, resolutions relating to extraordinary matters may be adopted only with the approval of two-thirds of the share capital present or represented at such meeting. A shareholders meeting at which 100% of the capital stock is present or represented is validly constituted even if no notice of the meeting was given, and, upon



unanimous agreement, shareholders may consider any matter at the meeting.

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

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

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### *Preemptive Rights*

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

### *Form and Transfer*

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

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

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

### *Reporting Requirements*

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

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

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

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

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

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

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

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**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 Brasilcel, N.V. This equality in voting rights will continue to exist even if either party's economic and voting interest is diluted below 50%, but not lower than 40%, as a consequence of a capital increase. The equality in voting rights will cease to exist if the percentage of ownership of one of the parties falls below 40% during an uninterrupted period of six months. In this event, if the group with the reduced interest were the Portugal Telecom Group, it would be entitled to sell to us, who would be obliged to buy (directly or through another company) all of Portugal Telecom's ownership interest in Brasilcel N.V. This right expires on December 31, 2007. The price for the acquisition of the Portugal Telecom Group's holding in Brasilcel, N.V. would be calculated on the basis of an independent appraisal (in the terms provided for in the Shareholders Agreement and Subscription Agreement) performed by investment banks, selected using the procedure established in these agreements. Subject to certain conditions, the payment could be made, at our choice, in (i) cash, (ii) our shares and/or Telefónica, S.A. shares, or (iii) a combination of the two. This put option would be exercisable in the 12 months subsequent to the end of the aforementioned six-month period, provided that the Portugal Telecom Group had not increased its ownership interest to 50% of the total capital stock of Brasilcel N.V.

Also, in accordance with the Shareholders Agreement and Subscription Agreement, the Portugal Telecom Group will be entitled to sell to us, who would be obliged to buy, all of Portugal Telecom Group's ownership interest in Brasilcel, N.V. should there be a change in control at Telefónica, S.A., Telefónica Móviles, S.A. or any other subsidiary of the latter that held a direct or indirect ownership interest in Brasilcel N.V. Similarly, we will be entitled to sell to the Portugal Telecom Group, which would be obliged to buy, our interest in Brasilcel, N.V. if there is a change of control at Portugal Telecom SGPS, S.A., PT Moveis SGPS, S.A. or any other subsidiary of either company that held a direct or indirect ownership interest in Brasilcel N.V. The price will be determined on the basis of an independent appraisal (in the terms provided for in the Shareholders Agreement and Subscription Agreement) performed by investment banks, selected using the procedure established in these agreements. The Portugal Telecom Group and us have agreed to retain the services of a related third party of Telefónica Móviles to provide Brasilcel with financial services.

**Agreement with the Burillo Group**

Our agreement with the Burillo Group to create Telefónica Móviles Mexico includes put rights for the Burillo Group and call rights for us with respect to the Burillo Group's shares in Telefónica Móviles Mexico. The Burillo Group has a put right to require us to purchase its shares in Telefónica Móviles Mexico in 2007 or 2008, or if its

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interest in Telefónica Móviles Mexico decreases to less than 50% of its original ownership interest, after the occurrence of the event that results in such a dilution of its interest. If the Burillo Group does not exercise its put rights, we have a call right, after December 2008, to require the Burillo Group to sell to us its entire interest in Telefónica Móviles Mexico. In each such case, the purchase price will be determined based on a valuation of Telefónica Móviles Mexico performed pursuant to specified procedures at the time the related right is exercised, with a minimum purchase price in an amount based on the Burillo Group's original investment of \$159.9 million in Telefónica Móviles Mexico, to which interest will be added, and from which any cash received by the Burillo Group will be deducted. If we are required to purchase the Burillo Group's shares in Telefónica Móviles Mexico under its put right, or if we purchase the Burillo Group's shares in Telefónica Móviles Mexico under our call right, we have agreed to pay a portion of the purchase price in cash equal to the aforementioned minimum purchase price. The remaining portion of the purchase price, if any, will be paid, at our choice, in cash, in our shares or a combination of the two.

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

## **Acquisition of BellSouth 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 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 total acquisition cost for Telefónica Móviles of BellSouth's wireless operations in Peru, Venezuela, Colombia, Ecuador, Uruguay, Guatemala, Nicaragua and Panama, subsequently adjusted by the net debt of the companies acquired, amounted to \$3,248.6 million. BellSouth's operations in Chile and Argentina were acquired in January 2005 for \$317 million and \$519 million, respectively.



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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 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 1,219.3 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 518.3 million.

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)*



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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;

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

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

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

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

### *Ownership Limitations*

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

### *Dividend and Liquidation Rights*

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

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At December 31, 2004, we held 496 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;

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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.

**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 U.S. tax laws, including the U.S. Internal Revenue Code of 1986, as amended (the Code), final, temporary and proposed Treasury Regulations, rulings, judicial decisions, administrative pronouncements, Spanish tax law, and the Convention Between the United States of America and the Kingdom of Spain for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion With Respect to Taxes on Income, signed February 22, 1990 (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 Depositary 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) who is, for U.S. federal income tax purposes, one of the following:

(i) a citizen or resident of the United States,

(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.

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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, 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.

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 a Spanish resident company to a holder of shares or ADSs not residing in Spain for tax purposes and not operating through a permanent establishment in Spain are subject to an income tax withheld at source on the gross amount of dividends at a 15% tax rate.

On April 16, 2004, we made a cash dividend distribution of 0.1838 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 IRS Form 6166 from the IRS stating that to the best knowledge of the IRS such U.S. Holder is a United States 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 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

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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 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 between 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*

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 this favorable rate.

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 to deduct such Spanish taxes in computing its taxable income, subject to generally applicable limitations. The limitation of foreign taxes eligible



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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. Any gain or loss will generally be U.S. source gain or loss for foreign tax credit purposes.

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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, gain recognized by a U.S. Holder on a sale or other disposition of a share or ADS would be allocated ratably over the U.S. Holder's holding period for the share or ADS. 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 mitigate the adverse tax consequences resulting from PFIC status.

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 15% dividend rate 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.

**G. STATEMENTS BY EXPERTS**

Not applicable.

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### **H. DOCUMENTS ON DISPLAY**

#### **Where You Can Find More Information**

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

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

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

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

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

### **I. SUBSIDIARY INFORMATION**

Not applicable.

### **Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

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

Most of the other financial derivatives we held at December 31, 2004, were classified as hedges under Spanish GAAP. Gains or losses on these instruments are recorded as adjustments to the underlying transactions. Our counterparties in our financial derivatives transactions are Telefónica S.A. and financial institutions.

#### **Interest rate risk**

We use several derivative strategies, including swaps to manage our exposure to interest rate fluctuations. Giving effect to these derivative transactions, at December 31, 2004 approximately 58.3% of our long-term debt portfolio bore interest at a variable rate. Our floating rate debt portfolio is principally subject to fluctuations in the London Interbank Offered Rate (particularly for the U.S. dollar LIBOR), the European Interbank Offered Rate (EURIBOR) and the Brazilian Selic, Brazil's prime rate. We estimate that each increase of 100 basis points, or 1.0%, in the weighted average interest rate per year for our floating-rate debt portfolio at December 31, 2004 and for that portion of our fixed-rate debt portfolio at that date maturing in the succeeding twelve months (*i.e.*, through December 31, 2005) would have resulted in a decrease in net income for 2004 of approximately \$53.0 million.

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### **Exchange rate risk**

The exchange rate risk to which we are exposed derives principally from (1) our long-term debt portfolio that is denominated in (or swapped into) currencies other than the euro and (2) the fact that we conduct a substantial amount of business in, and have substantial investments in, countries outside of Spain, principally Latin American countries. We hedge our debt-related exchange rate exposure to the extent that we consider necessary and hedges are commercially available. From time to time we hedge our exchange rate exposure arising from attributed net income from our non-Spanish subsidiaries (not material in 2003). We use swaps, options and exchange rate forward contracts to manage our exposure to exchange rate fluctuations. Giving effect to these derivative transactions, we were exposed to foreign currency fluctuations on approximately 21% of our long-term debt at December 31. The potential immediate loss we would have incurred from a hypothetical 10% adverse change in foreign currency exchange rates would have been approximately \$82 million at December 31, 2004. In the event of this hypothetical change in exchange rates, our cost of financing would increase in proportion to the change. This assumes an unfavorable 10% fluctuation in all of the exchange rates affecting all the foreign currencies in which our indebtedness is denominated. Because consistently and simultaneously unfavorable movements in all relevant exchange rates are unlikely, this assumption may overstate the effect of exchange rate fluctuations on our results of operations.

### **Tabular description of market rate sensitive instruments**

The tables below describe the financial instruments bearing interest or exchange rate risk for the companies consolidated in the Telefónica Móviles Group.

The tables below have been prepared as follows:

The debt obligations are ordered according to their final characteristics and taking into account the effect of the associated derivative instruments. They are classified according to the currency in which they are denominated, within the following categories:

Euro (EUR)

U.S. dollar (USD)

Latin American currencies (ARS Argentinean Pesos; BRL Brazilian Reals; CLP Chilean Pesos; COP Colombian Pesos; PEN Peruvian Pesos; MXN Mexican Pesos; GTQ Guatemalan Quetzales)

Japanese Yen (JPY)

Moroccan dirham (MAD)

Each such group is further divided into:

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Floating rate interest

Fixed rate interest

Each column shows the notional amount of each debt obligation maturing in the year indicated at the top of the column through a five-year period. The notional amount outstanding after such five-year period is shown in the next column. The column "Total" is the sum of the notional amounts.

Notional amounts do not include accrued interest.

The fair value columns show the value for (1) the underlying debt (net present value), (2) the derivatives linked to the underlying debt (Black & Scholes Model for the options and net present value for the others) and (3) the total (the sum of the two previous values).

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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	Book Value
<b>EURO</b>	2,400	3,096	2,275	306	223	503	8,803	7,904	1,136	9,040	8,803
Floating Rate	1,079	2,853	2,089	95	197	43	6,356	5,856	1,109	6,965	6,356
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	2,447
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>2,258</b>
<b>Instruments in USD</b>	-916	-188	5	121	684	418	124	3,083	-2,303	780	124
Floating Rate	-1,278	-93	-22	121	668	90	-514	2,017	-2,124	-107	-514
Spread	-0.14%	-0.90%	-4.00%	4.49%	0.33%	0.10%	-4.51%				
Fixed Rate	322	-95	27		16	328	598	1,066	-179	887	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		73	73	72
Floating Rate	15						15		15	15	15
Spread											
Fixed Rate		7	50				57		58	58	57
Interest Rate		9.25%	9.48%				9.45%				
<b>Instruments in BRL</b>	416	233	58	85	3	6	801	297	82	379	801
Floating Rate	336	233	58	85	3	4	719	295		295	719
Spread	0.502%	-4.431%	1.284%	1.072%	3.781%		-0.95%				
Fixed Rate	80					2	82	2	82	84	82
Interest Rate	16.364%						15.97%				
<b>Instruments in CLP</b>	260		65	144	63		532		531	531	532
Floating Rate	260			16	14		290		289	289	290
Spread				-0.35%	-0.33%		-0.04%				
Fixed Rate			65	128	49		242		242	242	242
Interest Rate			4.49%	4.82%	5.14%		4.80%				
<b>Instruments in PEN</b>	133	11	8				152		153	153	152
Floating Rate	48						48		48	48	48
Spread											
Fixed Rate	85	11	8				104		105	105	104
Interest Rate	4.53%	5.95%	5.35%				4.75%				
<b>Instruments in COP</b>	129	95	30				254	30	215	245	254
Floating Rate	129	5					134	30	97	127	134
Spread	0.37%	4.00%					0.50%				
Fixed Rate		90	30				120		118	118	120
Interest Rate		9.32%	10.55%				9.63%				
<b>Instruments in MXN</b>	190	92	66	6	6	2	362	7	313	320	362



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Floating Rate	3	3	11	3	3	1	24		175	175	24
Spread	-8.48%	2.97%	-0.66%	-0.52%	-0.52%	-0.52%	-1.14%				
Fixed Rate	187	89	55	3	3	1	338	7	138	145	338
Interest Rate	4.94%	7.75%	7.93%	8.83%	8.83%	8.83%	6.25%				
<b>Instruments in GTQ</b>	1						1	1		1	1
Floating Rate											
Spread											
Fixed Rate	1						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											

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	MATURITY DATES							FAIR VALUE (Euro in millions)			
	2005	2006	2007	2008	2009	Thereafter	TOTAL	Underlying Debt	Associated Derivatives	TOTAL	Book Value
Fixed Rate Interest Rate								25	-2	22	
<b>AFRICA</b>	<b>31</b>						<b>31</b>		<b>31</b>	<b>31</b>	<b>31</b>
<b>Instruments in MAD</b>	31						31		31	31	31
Floating Rate Spread											
Fixed Rate Interest Rate	31						31		31	31	31
	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>11,092</b>
<b>EXCHANGE RATE OPTIONS</b>	22						22		22	22	22

All amounts are expressed in millions of euro, except for interest rates.

**Table of Contents****Instruments Outstanding at December 31, 2003**

	MATURITY DATES							FAIR VALUE (Euro in millions)			
	2004	2005	2006	2007	2008	Thereafter	TOTAL	Underlying Debt	Associated Derivatives	TOTAL	Book Value
<b>EURO</b>	<b>(73)</b>	<b>1,540</b>	<b>555</b>	<b>1,416</b>	<b>450</b>	<b>186</b>	<b>4,075</b>	<b>4,437</b>	<b>471</b>	<b>4,908</b>	<b>4,650</b>
Floating Rate	(610)	405	314	1,231	425		2,340	2,123	320	2,443	2,340
Spread Ref Euribor	(1.74)%	2.76%	(1.17)%	1.10%	(0.24)%		1.31%				
Fixed Rate	537	1,135	241	186	26	186	2,310	2,314	152	2,466	2,310
Interest Rate	5.79%	5.65%	5.60%	6.23%	4.98%	6.45%	5.78%				
<b>AMERICA</b>	<b>398</b>	<b>302</b>	<b>(44)</b>	<b>173</b>	<b>30</b>	<b>121</b>	<b>979</b>	<b>1,537</b>	<b>(470)</b>	<b>1,068</b>	<b>979</b>
<b>Instruments in USD</b>	(95)	(9)	(199)	89	14	113	(88)	1,627	(1,688)	(61)	(88)
Floating Rate	(42)	(65)	(198)	17	21	12	(256)	812	(1,019)	(207)	(256)
Spread	(7.44)%	(3.23)%	(0.94)%	2.66%	1.65%	0.74%	(3.13)%				
Fixed Rate	(53)	57	(1)	72	(7)	100	168	815	(669)	147	168
Interest Rate	5.86%	(1.97)%	15.09%	8.67%	19.84%	7.12%	4.54%				
<b>Instruments in ARS</b>	(16)						(16)	(16)		(16)	(16)
Floating Rate											
Spread											
Fixed Rate	(16)						(16)	(16)		(16)	(16)
Interest Rate	1.35%						1.35%				
<b>Instruments in BRL</b>	431	171	56	13	10		681	(115)	845	731	681
Floating Rate	303	171	8	13	10		506	(115)	688	573	506
Spread	(0.01)%	0.46%	3.20%	1.37%			0.24%				
Fixed Rate	128		47				175		158	158	175
Interest Rate	11.02%						8.05%				
<b>Instruments in PEN</b>	58	4					62	27	37	64	62
Floating Rate											
Spread											
Fixed Rate	58	4					62	27	37	64	62
Interest Rate	5.14%	5.15%					5.14%				
<b>Instruments in MXN</b>	20	135	100	71	6	9	341	15	336	350	341
Floating Rate	3	72	3	11	3	4	97		96	96	97
Spread	(0.52)%	(0.49)%	(0.52)%	(0.66)%	(0.52)%	(0.52)%	(0.52)%				
Fixed Rate	17	63	97	60	3	4	244	15	240	254	244
Interest Rate	6.82%	9.46%	7.75%	7.93%	8.83%	8.83%	8.20%				
<b>ASIA</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>			<b>1</b>	<b>44</b>	<b>(43)</b>	<b>1</b>	<b>1</b>
<b>Instruments in JPY</b>	0	0	0	0			1	44	(43)	1	1
Floating Rate	0	0	0	0			1	1		1	1

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Spread	3.79%	3.79%	3.79%	3.79%			3.79%				
Fixed Rate								43	(43)	0	
Interest Rate											
<b>AFRICA</b>	<b>31</b>						<b>31</b>		<b>32</b>	<b>32</b>	<b>31</b>
<b>Instruments in MAD</b>	<b>31</b>						<b>31</b>		<b>32</b>	<b>32</b>	<b>31</b>
Floating Rate											
Spread											
Fixed Rate	31						31		32	32	31
Interest Rate	8.90%						8.90%				
<b>TOTAL</b>	<b>356</b>	<b>1,842</b>	<b>511</b>	<b>1,590</b>	<b>480</b>	<b>307</b>	<b>5,087</b>	<b>6,019</b>	<b>(9)</b>	<b>6,009</b>	<b>5,662</b>
<b>EXCHANGE RATE OPTIONS</b>	<b>362</b>						<b>362</b>			<b>43</b>	<b>43</b>

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%	

**Sensitivity to interest rates at December 31, 2003****Detail for Interest Rate Swaps**

(Millions of \$)

	MATURITY DATE						Total
	2004	2005	2006	2007	2008	Subsequent	
<b>EURO</b>							

**Fixed to Floating**

Receiving leg	(185)	(185)
Average Interest Rate	5.01%	5.01%
Paying leg	185	185
Average Spread (+EURIB)	-1.23%	-1.23%

**Floating to fixed**

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	MATURITY DATE						Total
	2004	2005	2006	2007	2008	Subsequent	
Receiving leg	(26)	(26)	(26)	(26)	(210)	(26)	(340)
Average Spread					-0.05		-0.03
Paying leg	26	26	26	26	210	26	340
Average Interest Rate	4.98%	4.98%	4.98%	4.98%	5.00%	4.98%	4.99%
<b>MXN</b>							
<b>Floating to fixed</b>							
Receiving leg	(1)	(51)	(95)	(53)	(2)	(2)	(204)
Average Spread (+TIIE)	-0.54%	-0.06%	-0.63%	-0.83%	-0.54%	-0.54%	-0.54%
Paying leg	1	51	95	53	2	2	204
Average Interest Rate	8.43%	9.43%	7.73%	7.94%	8.43%	8.43%	8.23%

**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, 2004 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 16.**

**Item 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

The Board of Directors has determined that Mr. Miguel Canalejo Larrainzar and Mr. Javier Echenique Landiribar are audit committee financial experts as defined in Item 16A of Form 20-F.

**Item 16B. CODE OF ETHICS**

We have adopted a code of ethics that applies, among others, to our Chairman and Chief Executive Officer, our Chief Financial Officer, our Principal Accounting Officer and controller, and persons performing similar functions in Telefónica Móviles, S.A. and subsidiaries consolidated within the Telefónica Móviles group. The code of ethics was filed as exhibit 11.1 to our annual report on Form 20-F for 2003.



**Table of Contents****Item 16C. ACCOUNTANTS FEES AND SERVICES**

The fees accrued for the fiscal years 2004 and 2003 from the various member firms of the Deloitte Touche Tohmatsu, to which Deloitte, S.L., the auditors of the Telefónica Móviles Group, belongs, amounted to 4,476 thousand and 3,650 thousand, respectively.

These fees included the following:

	<u>2004</u>	<u>2003</u>
	<b>(thousands of euros)</b>	
Audit Fees	3,355	2,778
Audit-Related Fees	837	533
Tax Fees	175	61
All Other Fees	109	278
<b>Total Fees</b>	<b><u>4,476</u></b>	<b><u>3,650</u></b>

These fees include all amounts relating to the Spanish and foreign companies in which the Telefónica Móviles Group has effective control or joint control with third parties.

The main services included in each of the categories are as follows:

*Audit-Related Fees.* Services in this category include, among others, due diligence services related to business combinations, advise on International Financial Reporting Standards (IFRS) applicable to the Group and review of the annual and quarterly information required by the Regulator relating to costs and quality parameters.

*Tax Fees.* Services in this category include, among others, consultancy and fiscal advising.

*All Other Fees.* Services in this category include, among others, assistance in relation to compliance with the Sarbanes-Oxley Act of 2002, consultancy in projects of Internet programs not related to financial reporting, etc.

*Audit Committee Pre-approval Policies and Procedures*

Our audit committee policies and procedures, Regulations on Relations with External Auditing of Telefónica Móviles, S.A., are filed as Exhibit 14.1.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

<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	157,670	2.00	157,670	21,288,292
February 1 to February 29				21,288,292
March 1 to March 31				21,288,292
April 1 to April 30				21,288,292
May 1 to May 31				21,288,292
June 1 to June 30	62,823	2.00	62,823	21,225,469
July 1 to July 31				21,225,469
August 1 to August 31	18,569	2.00	18,569	21,206,900
September 1 to September 30	31,452	2.00	31,452	21,175,488

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<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>
October 1 to October 31				21,175,488
November 1 to November 30	20,440	2.00	20,440	21,155,008
December 1 to December 31	165	2.00	165	21,154,843
<b>Total</b>	<b>291,119</b>	<b>2.00</b>	<b>291,119</b>	<b>21,154,843</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 is between January 3, 2006 and April 3 2006. The company must settle any options exercised within three months of the exercise date. The General Shareholders Meeting held prior to the effective settlement of the options 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**

The following financial statements are filed as part of this Form 20-F:

Telefonica Moviles, S.A.

	<b>Page</b>
Independent Auditors Report	F-1
<u>Consolidated Balance Sheets as of December 31, 2003 and 2004</u>	F-2
<u>Consolidated Statements of Operations for the Years Ended December 31, 2002, 2003 and 2004</u>	F-4
	F-5

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Notes to the consolidated financial statements as of December 31, 2003 and 2004, and for the Years Ended December 31, 2002, 2003 and 2004

Exhibit I (Subsidiaries and their investments)

F-111

Ipse 2000 S.p.A.

	<b>Page</b>
Ipse 2000 Financial Statements	A-1
Independent Auditors Report for the year ended December 31, 2002	A-4
Audited Financial Statements as of December 31, 2002	A-5
Unaudited Financial Statements for the two years ended December 31, 2004	A-48

### Item 19. EXHIBITS

<b>Exhibit Number</b>	
---------------------------	--

- |     |  |
|-----|--|
| 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.* |

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- 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.
- 8.1 For a list of subsidiaries, see note 1 to our consolidated financial statements.
- 11.1 Code of Ethics\*\*\*
- 12.1 Certification of the Chairman and Chief Executive Officer of Telefónica Móviles, S.A., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 12.2 Certification of the Chief Financial Officer of Telefónica Móviles, S.A., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 13.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 14.1 Regulations on Relations with External Auditing of Telefónica Móviles, S.A.\*\*\*

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\* 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).

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**

To the Board of Directors and Shareholders of

Telefónica Móviles, S.A.:

We have audited the accompanying consolidated balance sheets of Telefónica Móviles, S.A. and of the companies comprising the Telefónica Móviles Group (see Note 1) as of December 31, 2004 and 2003, and the related consolidated statements of operations for each of the three years in the period ended December 31, 2004. These consolidated financial statements are the responsibility of the controlling Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with 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 audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above 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 2003, and the results of their operations and the funds obtained and applied by them for each of the three years ended December 31, 2004, in conformity with accounting principles generally accepted in Spain.

Accounting principles generally accepted in Spain vary in certain significant respects from accounting principles generally accepted in the United States of America. The application of the latter would have affected the determination of consolidated net income (loss) for each of the three years in the period ended December 31, 2004, and the determination of consolidated shareholders' equity and financial position as of December 31, 2004 and 2003, to the extent summarized in Note 21.

Madrid, Spain

March 4, 2005, except for Note 21, as to which the date is June 21, 2005



**Table of Contents****Telefónica Móviles, S.A.****TELEFÓNICA MÓVILES, S.A. AND COMPANIES COMPOSING THE TELEFÓNICA MÓVILES GROUP**

Consolidated Balance Sheets as of December 31, 2003 and 2004

<b>Assets</b>	<b>Thousands of Euros</b>	
	<b>12/31/03</b>	<b>12/31/04</b>
Start-up expenses (Note 5.a)	360,506	285,272
Intangible assets (net) (Note 5.b)	2,692,699	3,970,422
Property, plant and equipment (net) (Note 6)	4,384,354	5,639,994
Long-term financial investments:		
Investments in associated companies (Note 7.a)	121,651	58,805
Other investments (Note 7.b)	9,115	10,959
Other financial investments	551,869	592,040
Loans to Telefónica Group companies (Note 11)	1,203,205	2,342,861
Prepaid taxes (Note 13.a)	1,052,266	1,316,116
Provisions	(3,357)	(53,469)
	2,934,749	4,267,312
Goodwill (Note 8)	1,146,468	3,142,012
Deferred charges	21,113	38,323
Current assets:		
Inventories	154,540	410,580
Accounts receivable:		
Customer receivables	1,663,644	2,030,929
Receivable from Telefónica Group companies (Note 11)	409,808	361,497
Tax receivables (Note 13.b)	315,078	782,938
Other accounts receivable	83,250	84,762
Allowance for bad debts	(308,606)	(353,143)
	2,163,174	2,906,983
Short-term financial investments:		
Loans to Telefónica Group companies (Note 11)	1,334,286	1,783,208
Other short-term investments	335,788	678,679
	1,670,074	2,461,887
Cash	61,920	341,287
Prepaid expenses and other current assets	74,468	106,842
	4,124,176	6,227,579
<b>Total assets</b>	<b>15,664,065</b>	<b>23,570,914</b>

The accompanying Notes 1 to 20 are an integral part of these Consolidated balance sheets.





**Table of Contents****Telefónica Móviles, S.A.****TELEFÓNICA MÓVILES, S.A. AND COMPANIES COMPOSING THE TELEFÓNICA MÓVILES GROUP**

Consolidated Balance Sheets as of December 31, 2003 and 2004

	Thousands of Euros	
	12/31/03	12/31/04
<b>Liabilities and Shareholders Equity</b>		
Shareholders equity (Note 9)	4,040,435	4,719,893
Minority interests (Note 10)	74,671	(57,130)
Deferred revenues:		
Capital subsidies	29	
Accrual of investment tax credits	21,657	20,049
Other deferred revenues	19,433	99,103
	41,119	119,152
Provisions for contingencies and expenses (Note 4.k)	1,149,591	1,153,551
Long-term liabilities:		
Security issues	69,435	74,518
Payable to banks and other financial institutions (Note 12)	310,033	434,708
Payable to Telefónica Group companies (Note 11)	4,864,423	7,817,441
Other liabilities	130,641	136,913
Deferred taxes (Note 13.a)	35,811	88,743
	5,410,343	8,552,323
Current liabilities:		
Security issues:		
Short-term marketable debt securities	20,594	9,427
Payable to banks and other financial institutions:		
Loans and other accounts payable (Note 12)	545,145	829,726
Interest payable	8,101	38,473
	553,246	868,199
Payable to Telefónica Group companies (Note 11)	1,473,285	4,188,109
Accounts payable to trade creditors	2,190,514	2,480,710
Accrued taxes payable (Note 13.b)	394,386	845,672
Other non-trade payables	201,583	541,896
Accrued expenses and other liabilities (Note 4.o)	114,298	149,112
	4,947,906	9,083,125
<b>Total liabilities and shareholders equity</b>	<b>15,664,065</b>	<b>23,570,914</b>

The accompanying Notes 1 to 20 are an integral part of these Consolidated balance sheets.



**Table of Contents****Telefónica Móviles, S.A.****TELEFÓNICA MÓVILES, S.A. AND COMPANIES COMPOSING THE TELEFÓNICA MÓVILES GROUP**

Consolidated Statements of Operations for the Years Ended December 31, 2002, 2003 and 2004

	Thousands of Euros		
	12/31/02	12/31/03	12/31/04
Wireless communication services	7,946,714	8,579,746	9,928,571
Sales of handsets and accessories	960,052	1,198,587	1,588,989
Other services	233,069	291,951	310,031
<b>Net revenues from operations</b>	<b>9,139,835</b>	<b>10,070,284</b>	<b>11,827,591</b>
Other revenues	91,070	152,403	217,270
Services and goods purchased	(2,406,039)	(2,592,541)	(3,676,302)
External services and local taxes	(2,412,370)	(2,581,995)	(3,040,952)
Personnel expenses (Note 14.a)	(546,381)	(485,993)	(539,917)
Depreciation and amortization (Notes 5 and 6)	(1,316,406)	(1,420,648)	(1,611,003)
Change in operating provisions	(130,245)	(99,274)	(86,723)
Total operating expenses	(6,811,441)	(7,180,451)	(8,954,897)
<b>Operating income</b>	<b>2,419,464</b>	<b>3,042,236</b>	<b>3,089,964</b>
Amortization of goodwill (Note 8)	(87,096)	(101,703)	(94,708)
Losses of associated companies (Note 14.c)	(159,477)	(80,656)	(38,232)
Financial expense (Notes 11, 12, 14.b and 17)	(921,983)	(1,288,474)	(925,718)
Financial income (Notes 11, 12, 14.b and 17)	605,787	910,337	571,950
<b>Income from ordinary activities</b>	<b>1,856,695</b>	<b>2,481,740</b>	<b>2,603,256</b>
Extraordinary income (expense) (Note 14.d)	(12,075,902)	(4,536)	(92,949)
<b>Income before tax and minority interests</b>	<b>(10,219,207)</b>	<b>2,477,204</b>	<b>2,510,307</b>
Corporate income tax (Note 13.c)	2,130,821	(890,493)	(898,117)
Minority interests (Note 10)	4,363,987	21,127	21,720
<b>Net income</b>	<b>(3,724,399)</b>	<b>1,607,838</b>	<b>1,633,910</b>

The accompanying Notes 1 to 20 are an integral part of these Consolidated statements of operations.

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**Telefónica Móviles, S.A.**

**TELEFÓNICA MÓVILES S.A. AND COMPANIES COMPOSING THE TELEFÓNICA MÓVILES GROUP**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR 2004**

**1) INTRODUCTION AND GENERAL INFORMATION**

On January 12, 2000, the Stockholders Meeting of Telefónica, S.A. resolved to incorporate a company to group together all the Telefónica Group's wireless communications businesses in the world, which were located in Europe, Latin America and the Maghreb. Pursuant to this resolution, Telefónica Móviles, S.A., with registered office at Goya, 24, Madrid (Spain), was incorporated on February 14, 2000.

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 the telecommunications industry.

The corporate purpose of Telefónica Móviles, per Article 2 of its bylaws, is the performance of all manner of business activities in the field of telecommunications and value added services in the broadest sense. All the business activities that constitute the corporate purpose may be performed either directly by the Company or through ownership interests in companies with an identical or a similar corporate purpose.

On October 26, 2000, the Stockholders Meeting of Telefónica Móviles resolved to launch an initial public offering (IPO) through a capital increase. In November 2000 Telefónica Móviles, S.A. applied for the admission of its shares to listing on the New York Stock Exchange (NYSE), instrumented in American Depositary Shares (ADS), and on the Madrid, Valencia, Barcelona and Bilbao Stock Exchanges, and for the inclusion of its shares in the Spanish computerized trading system (continuous market). All the shares were subscribed in the initial public offering.

The Company's main asset consists of holdings in various telecommunications operators in several different countries. The companies composing the Group as of December 31, 2004, and Telefónica Móviles, S.A.'s direct, indirect and total percentages of ownership in each of them are detailed in Exhibit I to these notes to consolidated financial statements. The main holdings are as follows:

**Telefónica Móviles España, S.A.:** the company responsible for the management and operation of wireless communications in Spain.

**Telefónica Móviles Interacciona, S.A.:** a Spanish company whose corporate purpose is to operate content and services through wireless networks using WAP technology or any other technology that may be developed in the future.

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**Mobipay International, S.A.:** a company whose main corporate purpose is the provision of wireless telephony payment services worldwide, except Spain.

**Mobipay España, S.A.:** a company whose main corporate purpose is the provision of wireless telephony payment services in Spain.

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**Telefónica Móviles, S.A.**

**Telefónica Comunicaciones Personales, S.A.:** a company which provides wireless communications services in Argentina.

**Telefónica Móviles, S.A.C.:** a company which provides wireless communications services in Peru.

**Telefónica de El Salvador, S.A. de C.V.:** a company which provides wireless communications and international long-distance services in El Salvador.

**Telefónica Centroamérica Guatemala, S.A.:** a company which provides wireless and wireline communications services and radio-paging services in Guatemala.

**Medi Telecom, S.A.:** a company which provides wireless communications services in Morocco.

**Telefónica Móviles Soluciones y Aplicaciones, S.A.:** a Chilean company whose main corporate is the development of commercial software and the provision of counseling services for the Telefónica Móviles Group's communications and Internet companies.

**Brasilcel, N.V.:** a company to which the holdings owned by Telefónica Móviles, S.A. and the Portugal Telecom Group in wireless telephony companies in Brazil were contributed as of December 27, 2002. This joint venture, which is 50% owned and managed by each of the two groups, comprises the following wireless communications operators:

**Tele Sudeste Celular Participações, S.A.:** a Brazilian company which provides wireless communications services in the states of Rio de Janeiro and Espírito Santo through its operators Telerj Celular, S.A. and Telest Celular, S.A., respectively.

**Tele Leste Celular Participações, S.A.:** a Brazilian company which provides wireless communications services in the states of Bahia and Sergipe through its operators Telebahia Celular, S.A. and Telergipe Celular, S.A., respectively.

**Celular CRT Participações, S.A.:** a Brazilian company which provides wireless communications services in the state of Rio Grande do Sul through its operator Celular CRT, S.A.

**Telesp Celular Participações, S.A.:** a Brazilian company which provides wireless communications services in the states of São Paulo (through its operator Telesp Celular, S.A.), Paraná and Santa Catarina (through its operator Global Telecom, S.A.).

**Tele Centro Oeste Celular Participações, S.A.:** A Brazilian company, subsidiary of Telesp Celular Participações, S.A., acquired on April 25, 2003 (see Note 2-c), which provides wireless communications services in the Central-Western region (formed by the States of Brasília, Goiás, Etocantins, Mato Grosso, Mato Grosso do Sul, Rondônia and Acre) and in the Amazonia region (in the states of Amapá, Amazonas, Maranhao, Pará and Roraima).

**Telefónica Móviles México, S.A. de C.V.:** a Mexican company to which all the shares of the Telefónica Móviles Group and the Pegaso Group in Mexican wireless operators were contributed on September 10, 2002. This company, which is 92% owned by Telefónica Móviles, manages the following wireless communications operators:

**Pegaso Telecomunicaciones, S.A. de C.V.:** a Mexican holding company which provides telecommunications services through the operator Pegaso Comunicaciones y Sistemas, S.A. de C.V. This company has a license to operate in all the regions of the Republic of Mexico.



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**Telefónica Móviles, S.A.**

**Grupo Corporativo del Norte, S.A. de C.V.:** a Mexican holding company which provides cellular telephony services through the operator Celular de Telefonía, S.A. de C.V. (Cedotel) in the states of Nuevo León, Tamaulipas and part of the state of Coahuila.

**Corporación Integral de Comunicación, S.A. de C.V.:** a Mexican holding company which provides cellular telephony services through the operator Telefonía Celular del Norte, S.A. de C.V. (Norcel) in the states of Chihuahua, Durango and part of the state of Coahuila.

**Baja Celular Mexicana, S.A. de C.V.:** a Mexican holding company which provides cellular telephony services in the states of Baja California Norte, Baja California Sur and in the municipality of San Luis del Río Colorado in Sonora.

**Movitel del Noroeste, S.A. de C.V.:** a Mexican company, subsidiary of Baja Celular Mexicana, S.A. de C.V., which provides cellular telephony services in the States of Sinaloa and Sonora, except for the municipality of San Luis del Río Colorado municipality.

**Telefónica Móvil de Chile, S.A.:** a company which provides wireless communications services in Chile.

**Otecel, S.A.:** a company which provides wireless communications services in Ecuador.

**Telefónica Móviles Guatemala y Cía, S.C.A.** (formerly BellSouth Guatemala y Cía., S.C.A.): a company which provides telecommunications, radio communications, Internet and data transmission services in Guatemala.

**Telefónica Móviles Panamá, S.A.:** a company which provides wireless communications and international long-distance services in Panama.

**Telefónica Móviles Colombia, S.A.** (formerly BellSouth Colombia, S.A.): a Colombian company which provides wireless communications services in the three regions (Eastern, Atlantic Coast and Western) into which Colombia has been divided for the purpose of providing the cellular wireless telephony service in that country.

**Telefonía Celular de Nicaragua, S.A.:** a company which provides wireless communications and international long-distance services in Nicaragua.

**Comunicaciones Móviles del Perú, S.A.:** (formerly BellSouth Perú, S.A.): a company which provides wireless communications services in Peru. It also provides national long-distance, international long-distance and public wireline telephony services in the city of Lima and the province of Callao.

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**Abiatar, S.A.:** a company which provides wireless communications, Internet, cordless data transmission and international long-distance telephony services in Uruguay.

**Telcel, C.A.:** a company which provides wireless communications, international and national local and long-distance wireline telephony, Internet access, data transmission, private network system and vehicle tracking services in Venezuela.

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**Telefónica Móviles, S.A.**

The Móviles Group operators providing telecommunications services as of December 31, 2004, are subject to specific regulatory frameworks, and in some cases the ratemaking system is regulated. Also, some of these companies have commitments to the regulatory bodies whereby they are obliged, for a given time period, to comply with certain installation and service quality indexes. As of December 31, 2004, all the operators had complied with these commitments.

**2) BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS**

*a) True and fair view*

These consolidated financial statements of the Telefónica Móviles Group were prepared from the accounting records of Telefónica Móviles, S.A. and of each of the companies composing the Telefónica Móviles Group. All the accounting regulations in force were applied, and, accordingly, the consolidated financial statements give a true and fair view of the net worth, financial position, results of operation and funds obtained and applied in 2004 and 2003, in accordance with the rules for the preparation of consolidated financial statements.

These consolidated financial statements as of December 31, 2004, which were prepared by the Company's directors, will be submitted for approval by the Stockholders' Meeting, and it is considered that they will be approved without any changes.

The figures shown in the documents composing these consolidated financial statements are expressed in thousands of euros, unless indicated otherwise.

*b) Accounting policies*

The items in the consolidated financial statements were valued in accordance with the generally accepted accounting principles in force in Spain. At the companies where accounting methods that differ from those of the Group were applied, the related adjustments were made in consolidation in order to present the consolidated financial statements on a uniform basis.

Consolidation was performed by applying the consolidation methods and procedures contained in the accounting regulations in force:

The companies over which effective control is exercised were fully consolidated.

The companies which are managed jointly with third parties were proportionally consolidated.

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The companies in which there is significant influence over their management but not effective control or joint management with third parties are accounted for by the equity method.

The investees which are either not included in the foregoing categories or which, although included, do not have a material impact on consolidation, are carried at cost net of the necessary allowances to reflect their market value if this is lower than cost.

All the accounts receivable and payable, purchases, sales and gains or losses on transactions between fully consolidated companies were eliminated in consolidation.

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**Telefónica Móviles, S.A.**

The accounts payable and receivable, purchases and sales and the gains or losses on transactions between proportionally integrated companies were eliminated in consolidation in proportion to the Group companies' percentage of ownership of the capital of the jointly managed companies.

In accordance with standard practice in Spain, the consolidated financial statements do not include the tax effect, if any, of transferring the reserves and retained earnings of the consolidated companies to the Parent Company's accounts, since it is considered either that such reserves and earnings will not be distributed or that those that might be distributed will not give rise to a material additional tax cost.

The equity of the minority interests in the net worth and result for the year is recorded under the *Minority Interests* and *Income/Loss Attributed to Minority Interests* captions, respectively in these consolidated financial statements.

The consolidated statements of income include the revenues and expenses of the companies that are no longer in the Group up to the date on which the related holding was sold or the company in question was liquidated, and those of the new companies included in the Group from the date on which the holding was acquired or the company in question was formed through year-end.

***c) Comparative information and changes in the consolidated Group***

Except for the acquisitions made and described below, there were no significant events preventing comparison of the amounts relating to the reporting year with those of the preceding year.

The scope of consolidation of the Telefónica Móviles Group has existed since the date of incorporation of the Parent Company, through the formation or acquisition of companies and the contribution, by the majority stockholders, of holdings in companies providing wireless communications services which have historically belonged to other Telefónica Group companies.

The main changes in the consolidated Group in 2004 and 2003 were as follows:

2004

On June 10, 2004, an additional holding of 13.95% was acquired in Mobipay Internacional, thereby increasing the total ownership interest in this company to 50%, as a result of which this company, which had been accounted for by the equity method, was proportionally consolidated in 2004.

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On July 23, 2004, Telefónica Móviles, S.A. acquired all the shares of Telefónica 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 acquisition cost for Telefónica Móviles was 870 million.

At the end of June 2004 Brasilcel N.V. acquired the holdings owned by NTT DoCoMo, Inc. and Itochu Corporation in Sudestecel Participações, S.A. a holding company which controls a package of shares of the operator Tele Sudeste Celular Participações, S.A. equal to 10.5% of its capital stock for 20,839 thousand. As a result of this transaction, Brasilcel, N.V. now owns all the shares 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.,

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**Table of Contents****Telefónica Móviles, S.A.**

CRT Participações, S.A and Tele Centro Oeste Celular Participações, S.A. (TCO). These tender offers were effectively implemented in October, and the following ownership interests were acquired:

<b>Brasilcel, N.V.</b>	<b>Percentage of Ownership before Tender Offers</b>	<b>Percentage of Ownership after Tender Offers</b>
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%

  

<b>Telesp Celular Participações, S.A.</b>	<b>Percentage of Ownership before Tender Offers</b>	<b>Percentage of Ownership after Tender Offers</b>
Tele Centro Oeste Celular Participações, S.A.	28.9%	50.6%

These tender offers gave rise to a cash payment of approximately BRL 607 million for Brasilcel, N.V. and of BRL 902 million for Telesp Celular Participações, S.A. (TCP).

On October 8, 2004, Telesp Celular Participações, S.A. approved a capital increase of BRL 2,054 million. As a result of this capital increase, which was completed on January 4, 2005, and was fully subscribed, Brasilcel, N.V.'s ownership interest in this company increased from 65.12% to 65.70% (see Note 19).

On March 5, 2004, Telefónica Móviles, S.A. reached an agreement with BellSouth Corporation ( BellSouth ) for the acquisition of all the holdings owned by the latter in Argentina, Chile, Peru, Venezuela, Colombia, Ecuador, Uruguay, Guatemala, Nicaragua and Panama.

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, respectively (see Note 19).

In addition to the acquisition of the BellSouth Group's ownership interests in the 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 these companies, and in all cases the acquisition price was equal to that agreed on with BellSouth.

Under this 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 total acquisition cost for Telefónica Móviles, adjusted by the net debt of the companies at the transfer date, amounted to 3,252,539 thousand (excluding Chile and Argentina).

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Following are the values assigned to each transaction and the acquisition cost for Telefónica Móviles:

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 663,428 thousand.

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**Telefónica Móviles, S.A.**

Acquisition of all the shares of Telefónica Móviles y Compañía, S.C.A. for a total company value of US\$175 million. The acquisition cost for Telefónica Móviles, adjusted by the company's net debt, was 92,538 thousand.

Acquisition of a 99.57% holding in BellSouth Panamá, S.A. for a total company value of US\$657 million. The acquisition cost for Telefónica Móviles, adjusted by the company's net debt, was 549,275 thousand.

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 1,223,984 thousand.

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 517,456 thousand.

Acquisition of a 99.85% holding in Comunicaciones Móviles del Perú, S.A. for a total company value of US\$210 million. The acquisition cost for Telefónica Móviles, adjusted by the company's net debt, was 7,697 thousand.

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 148,742 thousand.

Acquisition of all the shares of Abiatar, S.A. for a total company value of US\$60 million. The acquisition cost for Telefónica Móviles, adjusted by the company's net debt, was 49,419 thousand.

Pursuant to the agreement with BellSouth, certain procedures were performed to validate the cash and debt of the companies acquired, the end results of which are currently being negotiated by Telefónica Móviles and Bellsouth Corporation. As a result of these negotiations, the debt and cash amounts taken into account for the purpose of calculating the ultimate price of the shares could be subject to slight changes, which in no case would be material with respect to the transaction taken as a whole.

2003

On April 25, 2003, Telesp Celular Participações, S.A. (TCP), 65.12% owned by Brasilcel, N.V., acquired from the Brazilian company Fixcel (controlled by the Splice Group) 61.10% of the common voting shares of the Brazilian company Tele Centro Oeste Celular Participações, S.A. (TCO), representing 20.37% of its total capital stock, for BRL 1,505.5 million.

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In October 2003 TCP, availing itself of Brazilian legislation, launched a tender offer for the other common voting shares of TCO held by minority stockholders. As a result of this offer, the acceptance period for which ended on November 18, 2003, TCP acquired 74.23% of the shares targeted by the offer which, together with the shares it already owned, gave it an ownership interest of 86.58% of TCO's common shares (90.73% disregarding the shares of treasury stock owned by TCO), representing 28.87% of the total capital stock (29.31% excluding the shares of treasury stock). The amount paid for this additional holding was BRL 538.8 million.

Although TCP had declared its intention of exchanging (or acquiring) TCO shares to thus become its sole stockholder, this exchange was cancelled on January 12, 2004, as a result of the opinion issued by the Brazilian Securities Market Commission (CVM) which, in the opinion of the Boards of Directors of TCP and TCO, advised against implementing the aforementioned proposal.

On June 12, 2003, Telefónica Móviles acquired a 20% holding in Terra Mobile, S.A., giving it a 100% ownership interest in this company. The price agreed on was 1.

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**Telefónica Móviles, S.A.**

On June 24, 2003, Telefónica Móviles, the 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 transfer *en bloc*, by way of universal succession, of the assets and liabilities of the absorbed company to the absorbing company, which would acquire, by way of universal succession, the former's rights and obligations. Also, the corporate name of Terra Mobile, S.A. was changed to Telefónica Móviles Interacciona, 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 date of sale.

On July 29, 2003, Medi Telecom, S.A. carried out a capital increase in which Telefónica Móviles España disbursed 21,234 thousand and, since not all the stockholders subscribed to the capital increase, its holding was increased to 32.18%.

In September 2003 the convertible promissory notes representing the investment of Telefónica Internacional, S.A. in the Puerto Rican operator Newcomm Wireless Services, Inc. were transferred to the Móviles Group. These convertible promissory notes, totaling US\$60,945 thousand, were recorded under the "Other Long-Term Investments" caption and will entitle the Móviles Group, once it receives the requisite authorizations from the regulatory authorities, to convert the notes into 49.9% of the capital stock. Also, the Móviles Group will be entitled to acquire an additional 0.2% of the capital stock, which would give it a controlling interest in the Puerto Rican operator.

On December 15, 2003, Telefónica Móviles sold all the shares of Telefónica Móviles Interacciona to Telefónica Móviles España, S.A. for 1; also on this date, all the loans granted to Telefónica Móviles Interacciona (and the accrued interest receivable) were transferred to Telefónica Móviles España. This transaction did not have any accounting impact on the consolidated financial statements.

On December 23, 2003, Telefónica Móviles España, S.A. and Mobilkom Austria Aktiengesellschaft & Co KG (Mobilkom) entered into an agreement whereby the latter would acquire all the shares of 3G Mobile Telecommunications GmbH, the Austrian subsidiary of Telefónica Móviles España, S.A. and holder of a third-generation wireless telephony license (UMTS). This company was sold for 13,650 thousand, giving rise to a gain of 13,572 thousand.

**3) PROPOSED DISTRIBUTION OF INCOME OF THE PARENT COMPANY**

The Board of Directors will propose for approval by the Stockholders Meeting the following distribution of 2004 income:

	<b>Thousands of Euros</b>
<b>Income for the year</b>	<b>854,379</b>
Distribution:	
Dividends	835,796
To voluntary reserves	18,583



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**Telefónica Móviles, S.A.**

**4) VALUATION STANDARDS**

The main valuation methods applied in preparing the consolidated financial statements were as follows:

*a) Consolidation goodwill*

The amount paid for the acquisition of investments in companies in excess of the underlying book value of such investments at the acquisition date and not directly allocable to the companies' assets is recorded as consolidation goodwill. The amounts allocable to the acquired company's assets will be allocated to the related assets and liabilities after the related valuation has been made, up to the limit of their market value.

Consolidation goodwill is amortized during the period in which it contributes to the obtainment of revenues by the companies for which the goodwill was recorded. The maximum goodwill amortization period is 20 years.

*b) Translation of the financial statements of foreign companies included in consolidation*

The financial statements of the companies located abroad were expressed in euros. The assets and liabilities were translated to euros at the year-end exchange rates; capital stock, reserves and first-time consolidation differences at the historical exchange rates; and revenues and expenses at the average exchange rates for the year. The difference arising between translating the related items by the aforementioned methods and translating them at the year-end exchange rates is reflected under the Stockholders' Equity Translation Differences caption in the accompanying consolidated balance sheets, net of the portion of such difference that relates to minority interests (see Note 9-c).

The companies which use accounting methods with adjustments for inflation apply the accounting rules in force in their respective countries, which consist of valuing monetary assets and liabilities at their face value and adjusting the historical cost of nonmonetary assets and liabilities for the inflation between the date on which the related item was first recorded by the company and year-end. Accordingly, the effect of the inflation for the year on the monetary assets and liabilities is included in the statement of income for the year under the Exchange Losses or Exchange Gains captions. The figures thus adjusted are translated to U.S. dollars at the year-end exchange rates and are subsequently translated to euros using the translation method described in the previous paragraph.

The consolidation of the Group companies located in Argentina constitutes a special case. Pursuant to a ruling of the Spanish Accounting and Audit Institute, the assets of these companies do not include the effect of applying the adjustment for inflation which, for a transitional period, was permitted under local Argentine accounting legislation in 2002 and the first quarter of 2003.

*c) Start-up expenses*

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Start-up expenses, which comprise incorporation, capital increase and preopening expenses, are recorded at cost and are amortized on a straight-line basis over five years from the commencement of the related activities.

### *d) Intangible assets*

This caption includes mainly the cost of the licenses obtained by the Group from various public authorities in order to be able to provide wireless communications services, and the value attributed to the licenses held by certain companies when they were included in the Telefónica Móviles Group. The licenses are amortized over the term thereof and, in general, on the basis of their estimated capacity to generate revenues in each period.

The Computer Software and Other also includes the amount of the purchase price allocable to customers obtained (see Note 4-a), which is amortized over the period that the customers are expected to remain as such. Computer software is amortized on a straight-line basis over 3 to 5 years.

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**Telefónica Móviles, S.A.**

***e) Property, plant and equipment***

Property, plant and equipment are carried at the lower of cost or market.

Cost includes external costs plus internal costs comprising warehouse materials used and direct labor used in installation work. The latter item is recorded under the Capitalized Expenses of In-House Work on Fixed Assets caption in the accompanying consolidated statements of income.

The costs of expansion, modernization and improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalized. Upkeep and maintenance expenses are expensed currently.

The Group depreciates its property, plant and equipment by the straight-line method at annual rates based on the following years of estimated useful life:

<u>Assets</u>	<u>Years of Estimated Useful Life</u>
Structures	5-15
Telephone installations	5-10
Computer hardware	3-5
Furniture, fixtures and other	2-10

***f) Long-term investments***

The investments which are not fully or proportionally consolidated or accounted for by the equity method in the consolidated financial statements are recorded at cost net of the required investment valuation allowances if cost is higher than market value. The market value is taken to be the underlying book value or stock market value of the investment.

***g) Short-term investments***

Short-term investments are valued at face value plus the accrued interest receivable at year-end.

***h) Inventories***

Warehouse installation materials and consumables and spare parts are valued at the lower of weighted average cost or market.

*i) Accounts receivable and payable*

Long- and short-term receivables and payables are recorded in the consolidated balance sheet at face value. The interest included in the face value of receivables and payables maturing at over 12 months is recorded under the *Deferred Revenues* or *Deferred Charges* captions in the consolidated balance sheet, respectively, and credited or charged, as appropriate, to period income by the interest method.

The related allowance for bad debts is recorded on the basis of the age of the debt and of the solvency of the debtor.



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**Telefónica Móviles, S.A.**

***j) Corporate income tax***

The accrued corporate income tax expense of the Group companies is calculated on the basis of book income before taxes, increased or decreased, as appropriate, by the permanent differences from taxable income, defined as those arising between taxable income and book income before taxes that do not reverse in subsequent periods.

Tax assets for unused tax losses and prepaid taxes are recorded when their future recovery is reasonably assured. Prepaid taxes which will foreseeably be reversed over a period exceeding ten years are not recognized, unless there are deferred taxes for the same or a higher amount and their reversal period is the same as that of the prepaid taxes.

Deferrable investment tax credits are recorded under the *Deferred Revenues* caption.

The Spanish companies in which Telefónica, S.A. had a direct or indirect holding of at least 75% in 2004 and 2003 are taxed under Spanish corporate income tax under the consolidated tax regime. Telefónica Móviles, S.A. and the Spanish subsidiaries that fall into this category file consolidated tax returns as part of the Telefónica, S.A. consolidated tax group.

***k) Foreign currency transactions***

Fixed-income securities and receivables and payables denominated in foreign currencies are translated to euros at the exchange rates ruling at the transaction date, and are adjusted at year-end to the exchange rates then prevailing.

Exchange differences arising on adjustment of foreign currency accounts payable and receivable to year-end exchange rates are classified by currency and due date, and for this purpose currencies which, although different, are officially convertible are grouped together.

The resulting positive net differences in each group of currencies are recorded under the *Deferred Revenues* caption on the liability side of the consolidated balance sheet, unless exchange losses have been charged to income in prior years or in the current year, in which case the positive differences are credited to period income up to the limit of the negative net differences charged to income in prior years or in the current year. Negative differences are charged directly to income.

The positive differences deferred in prior years are credited to income in the year in which the related accounts receivable and payable fall due or are settled early, or as negative exchange differences for the same or a higher amount are recognized in each homogeneous group.

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The exchange differences arising from foreign currency transactions to specifically finance investments in investees which hedge the exchange rate risk on these investments are included under the Translation Differences caption in the accompanying consolidated balance sheets.

These transactions are deemed to be hedging transactions when the foreign currency in which the financing is denominated is the same as the functional currency of the country in which the investment is made and of the cash flows generated by the investment. Consequently, to ensure uniformity in the treatment of the exchange differences on the subsidiaries' assets and on the liabilities financing such transactions, and to enable the appropriate matching of revenues and expenses, the exchange differences on these loans were allocated, in accordance with International Accounting Standards, to the Translation Differences caption.

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**Telefónica Móviles, S.A.**

***l) Recognition of revenues and expenses***

Revenues and expenses are recognized 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.

However, in accordance with the accounting principle of prudence, foreseeable contingencies and losses, including possible losses, are recorded as soon as they become known.

Various Móviles Group companies carry out sales promotions based on the obtainment of points by subscribers for telephone usage. These points can be exchanged for discounts on purchases of handsets, for usage or other services, based on the number of points obtained and the type of contract with the companies. The consolidated balance sheets include the related accounting provision based on the estimated value of the accumulated points at those dates.

***m) Provisions for contingencies and expenses***

The balance of this caption includes the estimated amount required for probable or certain third-party liability arising from litigation in progress or from outstanding indemnity payments or obligations of undetermined amount to be borne by the companies.

The balance of this caption as of December 31, 2003, includes a provision of 385,976 thousand relating mainly to the absorption of losses of minority interests of Group 3G UMTS Holding GmbH (see Note 10), and a provision of 727,437 thousand for the decline in the value of the investment in Ipse 2000, S.p.A. As of December 31, 2004, the related amounts were 385,976 thousand and 632,396 thousand, respectively. The decrease of 95,041 thousand relating to Ipse 2000, S.p.A. relates to the reclassification of this provision as reduction of the equity-method amount corresponding to the investment in this company, since certain items for which provisions had previously been recorded by Telefónica Móviles were recorded in Ipse 2000, S.p.A.'s statutory accounts (see Note 7).

Also, this caption includes the provisions recorded by the companies for severance pay based on employees' years of service, in accordance with the legislation applicable in each country or with the contractual agreements entered into, and the provisions recorded for probable third-party liability.

***n) Derivative products***

Transactions whose purpose and effect is to eliminate or significantly reduce exchange, interest rate or market risk on asset and liability positions or on other transactions are treated as hedging transactions. The gains or losses arising during the life of these derivatives are taken to the consolidated statement of income using the same timing of recognition method as that used to recognize the gains or losses on the underlying

hedged asset or transaction (see Note 17).

Transactions which, for accounting purposes, were not assigned to hedge risks, are not treated as hedging transactions. In transactions of this kind, the related provision is recorded with a charge to income as soon as potential losses are anticipated; gains are recorded when finally settled.

*o) Pension plans*

Telefónica Móviles, S.A. and its Spanish subsidiaries have arranged a pension plan pursuant to Pension Plans and Funds Law 8/1987, July, 8 of Pensions and Funds Plans, with the following features:

Contribution of between 4.51% and 6.87% of the participants' regulatory salary.

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**Telefónica Móviles, S.A.**

Obligatory contribution for participants of a minimum of 2.2% of their salary.

Individual financial capitalization system.

The plan is assigned to FONDITEL B, FONDO DE PENSIONES, managed by the Telefónica Group company Fonditel Entidad Gestora de Fondos de Pensiones, S.A ( Fonditel ). The amount of the contributions made by the Group in 2004 and 2003 totaled 6,947 thousand and 6,630 thousand, respectively, and these amounts are included under the Personnel Expenses caption in the accompanying consolidated statements of income.

The Brazilian companies have arranged defined-contribution pension plans that cover most of these companies' serving employees. The Brazilian companies contribute the same amounts to the individual plans as the participants. These amounts vary, depending on the company, up to a maximum of 9% of the participant's salary, based on the percentage chosen by the participant.

***p) Liability accrual accounts***

Under this caption the Group companies record mainly the amount of purchases made by subscribers to the prepaid service for topping up or acquiring cards which, at year-end, has not yet accrued or been recorded as a revenue because the subscribers to this service have not used up the full balance of their cards or top-ups.

**5) START-UP EXPENSES AND INTANGIBLE ASSETS**

***a) Start-up expenses***

Start-up expenses comprise incorporation, capital increase and preopening expenses. Preopening expenses relate mainly to direct costs incurred in the launch of various GSM digital telephony services, and expenses relating to third-generation wireless telephony (UMTS) services in Spain, until they started to be marketed (first quarter of 2004). The expenses are recorded at cost and are amortized on a straight-line basis over five years from the date of commencement of the related activities.

The detail of the balances of the start-up expenses and of the variations therein in 2003 and 2004 is as follows:

**Thousands of Euros**

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	<u>Balance at 12/31/02</u>	<u>Inclusion of Companies</u>	<u>Additions</u>	<u>Amortization</u>	<u>Transfers</u>	<u>Translation Differences</u>	<u>Balance at 12/31/03</u>
Incorporation and preopening Expenses	273,149	4,112	47,163	(32,563)	1,717	484	294,062
Capital increase expense	98,691		478	(32,725)			66,444
<b>Total</b>	<b>371,840</b>	<b>4,112</b>	<b>47,641</b>	<b>(65,288)</b>	<b>1,717</b>	<b>484</b>	<b>360,506</b>

Thousands of Euros

	<u>Balance at 12/31/03</u>	<u>Inclusion of Companies</u>	<u>Additions</u>	<u>Amortization</u>	<u>Transfers</u>	<u>Translation Differences</u>	<u>Balance at 12/31/04</u>
Incorporation and preopening Expenses	294,062		8,074	(53,314)	2,514	246	251,582
Capital increase expenses	66,444			(32,754)			33,690

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**Table of Contents****Telefónica Móviles, S.A.**

	Thousands of Euros					Balance at 12/31/04
	Balance at 12/31/03	Inclusion of Companies	Additions	Amortization	Transfers	
<b>Total</b>	<b>360,506</b>		<b>8,074</b>	<b>(86,068)</b>	<b>2,514</b>	<b>246</b>

**b) Intangible assets**

This caption relates mainly to the value of the licenses and concessions required to provide telecommunications services in the countries in which Telefónica Móviles has an operating presence. The term of these licenses ranges from 15 to 30 years.

The Group's main licenses are as follows:

Licenses to provide the wireless communications services of the Company's awarded to the Telefónica Group in the privatization of Telebrás in Brazil, as a result of the allocation made when these companies were acquired, since the market value of these assets exceeded the cost thereof per the balance sheets of the acquired companies.

Licenses to operate nationwide wireless communications services in Mexico. On completion of the related valuations, a portion of the goodwill arising on the acquisition of Telefónica Móviles México was allocated to this account.

Licenses to operate the UMTS service in Spain, Germany and Switzerland. In the case of Spain, due to the unavailability of the related technology and in accordance with the matching principle of accounting, these licenses started to be amortized when the commercial operation thereof commenced, and the amortization is being taken over the term of the licenses. For the other countries, the initial acquisition cost was written down in 2002 and the carrying value reflects the current estimate of the realizable value of these businesses.

Licenses to operate telecommunications services in countries where the companies acquired from BellSouth Corporation and in Chile through Telefónica Móvil de Chile, S.A. operate (see Note 2-c).

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The detail of the balances of the intangible asset accounts and of the variations therein in 2003 and 2004 is as follows:

*b.1) Cost*

Thousands of Euros								
	Balance at 12/31/02	Inclusion of Companies	Exclusion of Companies	Additions	Retirements	Transfers	Translation Differences	Balance at 12/31/03
Research and development expenses	8,394					(2,070)		6,324
Concessions, patents, licenses and other	1,981,335	8,297		3	(12,292)	507,834	(86,265)	2,398,912
Rights on leased assets	7,716			4,024	(3,408)	4,180	170	12,682
Computer software and other	902,528	14,682	(402)	212,796	(22,847)	37,900	(10,677)	1,133,980
<b>Total intangible assets</b>	<b>2,899,973</b>	<b>22,979</b>	<b>(402)</b>	<b>216,823</b>	<b>(38,547)</b>	<b>547,844</b>	<b>(96,772)</b>	<b>3,551,898</b>

Thousands of Euros								
	Balance at 12/31/03	Inclusion of Companies	Exclusion of Companies	Additions	Retirements	Transfers	Translation Differences	Balance at 12/31/04
Research and development expenses	6,324					2,605		8,929
Concessions, patents, licenses and other	2,398,912	1,257,372		9,863	(2,814)	76,045	(52,817)	3,686,561
Rights on leased assets	12,682	7,366		612		(3,321)	417	17,756
Computer software and other	1,133,980	554,111		259,509	(1,163)	12,135	12,510	1,971,082
<b>Total intangible assets</b>	<b>3,551,898</b>	<b>1,818,849</b>		<b>269,984</b>	<b>(3,977)</b>	<b>87,464</b>	<b>(39,890)</b>	<b>5,684,328</b>

*b.2) Accumulated amortization*

Thousands of Euros								
	Balance at 12/31/02	Inclusion of Companies	Exclusion of Companies	Provisions	Retirements	Transfers	Translation Differences	Balance at 12/31/03
Research and development expenses	1,352			1,277				2,629
Concessions, patents, licenses and other	214,947	1,620		79,615	(2,578)	(1)	(21,998)	271,605
Rights on leased assets	5,000			1,530	(2,272)	(2,411)	(43)	1,804
Computer software and other	378,647	4,938	(50)	225,539	(14,969)	(1,566)	(11,511)	581,028
<b>Total accumulated amortization</b>	<b>599,946</b>	<b>6,558</b>	<b>(50)</b>	<b>307,961</b>	<b>(19,819)</b>	<b>(3,978)</b>	<b>(33,552)</b>	<b>857,066</b>
<b>Allowance for decline in value</b>	<b>4,800</b>				<b>(21)</b>	<b>(2,636)</b>	<b>(10)</b>	<b>2,133</b>



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Thousands of Euros

	<b>Balance at 12/31/03</b>	<b>Inclusion of Companies</b>	<b>Exclusion of Companies</b>	<b>Provisions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Translation Differences</b>	<b>Balance at 12/31/04</b>
Research and development expenses	2,629			1,232		42		3,903
Concessions, patents, licenses and other	271,605	270,364		107,882	(2,814)	(8)	(10,259)	636,770
Rights on leased assets	1,804	956		1,852		(2,265)	(19)	2,328
Computer software and other	581,028	200,266		279,930	(651)	3,686	5,422	1,069,681
<b>Total accumulated amortization</b>	<b>857,066</b>	<b>471,586</b>		<b>390,896</b>	<b>(3,465)</b>	<b>1,455</b>	<b>(4,856)</b>	<b>1,712,682</b>

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**Table of Contents****Telefónica Móviles, S.A.**

Thousands of Euros

	<u>Balance at 12/31/03</u>	<u>Inclusion of Companies</u>	<u>Exclusion of Companies</u>	<u>Provisions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Translation Differences</u>	<u>Balance at 12/31/04</u>
<b>Allowance for decline in value</b>	<b>2,133</b>			<b>140</b>	<b>(944)</b>		<b>(105)</b>	<b>1,224</b>

In 2003 the Inclusion of Companies column reflects the inclusion in the scope of consolidation of Tele Centro Oeste Celular Participações, S.A. (see Note 2-c). In 2004 this column relates mainly to the inclusions in consolidation of Telefónica Móvil de Chile, S.A. and of the companies acquired from BellSouth (see Note 2-c).

The Exclusion of Companies column from 2003 reflects the exclusion from the scope of consolidation of Telefónica Mobile Solutions, S.A. and 3G Mobile Telecommunications GmbH, as indicated in Note 2-c.

The Additions column for 2003 includes mainly the investments made in computer and billing systems, and in the development of new services such as the i-mode services.

In 2003, 504,651 thousand were recorded as an addition to the net value of the licenses obtained to operate nationwide wireless communications services in Mexico. This amount was reclassified from the Consolidation Goodwill once the related valuations had been completed (see Note 8). In 2004, 76,065 thousand were recorded as an addition to the net value of the licenses of Tele Centro Oeste Celular Participações, S.A. (see Note 8).

Also, in 2004 730,008 thousand were assigned as an addition to Licenses and 276,724 thousand as an addition to Computer Software and Other (31,562 thousand of software and 245,162 thousand as the purchase price allocable to customers obtained) based on valuations by independent appraisers of the assets acquired in the acquisition of both Telefónica Móvil de Chile, S.A. and of BellSouth's operators (see Notes 4-a and 8). These allocations are included in the Inclusion of Companies column. This column also includes investments in information systems and in the development of services.

The Translation Differences column shows the effect of the exchange rate fluctuations on the beginning balances of the foreign companies and the monetary adjustment that certain companies apply to their balances to adjust for the effect of inflation in accordance with accounting practices in their respective countries. The effect of exchange rate fluctuations on the period variations is included in the column relating to each variation.

**6) PROPERTY, PLANT AND EQUIPMENT**

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The detail of the balances of property, plant and equipment accounts, of the related accumulated depreciation and of the variations therein in 2003 and 2004 are as follows:

### *a) Cost*

Thousands of Euros								
	Balance at 12/31/02	Inclusion of Companies	Exclusion of Companies	Additions	Retirements	Transfers	Translation Differences	Balance at 12/31/03
Land and structures	804,476	6,738		7,744	(883)	141,051	(16,146)	942,980
Telephone installations	7,323,497	156,796		107,217	(6,958)	348,675	(365,730)	7,563,497
Furniture, fixtures and other	473,926	13,532	(1,246)	34,624	(11,648)	(10,349)	(23,847)	474,992
Computer hardware	479,952	5,389	(2,618)	25,069	(2,344)	15,699	(16,979)	504,168
Construction in progress	349,432	7,032		822,188	(10,263)	(541,458)	(21,507)	605,424
<b>Total property, plant and Equipment</b>	<b>9,431,283</b>	<b>189,487</b>	<b>(3,864)</b>	<b>996,842</b>	<b>(32,096)</b>	<b>(46,382)</b>	<b>(444,209)</b>	<b>10,091,061</b>

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**Table of Contents****Telefónica Móviles, S.A.****Thousands of Euros**

	<b>Balance at 12/31/03</b>	<b>Inclusion of Companies</b>	<b>Exclusion of Companies</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Translation Differences</b>	<b>Balance at 12/31/04</b>
Land and structures	942,980	325,930		48,437	(2,536)	147,649	(10,870)	1,451,590
Telephone installations	7,563,497	2,381,213		160,195	(68,034)	629,918	(105,456)	10,561,333
Furniture, fixtures and other	474,992	270,538		49,855	(19,900)	65,999	(2,803)	838,681
Computer hardware	504,168	142,073		34,654	(6,446)	21,928	(17,638)	678,739
Construction in progress	605,124	135,875		1,059,159	(4,428)	(888,226)	(20,232)	887,572
<b>Total property, plant and Equipment</b>	<b>10,091,061</b>	<b>3,255,629</b>		<b>1,352,300</b>	<b>(101,344)</b>	<b>(22,732)</b>	<b>(156,999)</b>	<b>14,417,915</b>

*b) Accumulated depreciation***Thousands of Euros**

	<b>Balance at 12/31/02</b>	<b>Inclusion of Companies</b>	<b>Exclusion of Companies</b>	<b>Provisions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Translation Differences</b>	<b>Balance at 12/31/03</b>
Land and structures	237,534	1,892		70,389	(211)	9,300	(5,305)	313,599
Telephone installations	4,005,720	72,836		839,686	(4,840)	(12,472)	(174,013)	4,726,917
Furniture, fixtures and other	194,003	8,493	(301)	54,727	(5,192)	1,076	(10,836)	241,970
Computer hardware	306,153	2,310	(1,662)	95,529	(1,583)	2,744	(14,717)	388,774
<b>Total accumulated depreciation</b>	<b>4,743,410</b>	<b>85,531</b>	<b>(1,963)</b>	<b>1,060,331</b>	<b>(11,826)</b>	<b>648</b>	<b>(204,871)</b>	<b>5,671,260</b>
<b>Allowance for decline in value</b>	<b>26,144</b>			<b>13,282</b>	<b>(5,215)</b>	<b>2,787</b>	<b>(1,551)</b>	<b>35,447</b>

**Thousands of Euros**

	<b>Balance at 12/31/03</b>	<b>Inclusion of Companies</b>	<b>Exclusion of Companies</b>	<b>Provisions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Translation Differences</b>	<b>Balance at 12/31/04</b>
Structures	313,599	140,551		80,196	(1,282)	13,618	(11,932)	534,750
Telephone installations	4,726,917	1,710,243		854,336	(57,928)	(5,940)	(100,985)	7,126,643
Furniture, fixtures and other	241,970	211,067		119,669	(12,705)	(11,927)	(6,760)	541,314
Computer hardware	388,774	94,910		67,858	(5,152)	(8,879)	(6,898)	530,613
<b>Total accumulated depreciation</b>	<b>5,671,260</b>	<b>2,156,771</b>		<b>1,122,059</b>	<b>(77,067)</b>	<b>(13,128)</b>	<b>(126,575)</b>	<b>8,733,320</b>
<b>Allowance for decline in value</b>	<b>35,447</b>	<b>8,556</b>		<b>4,838</b>	<b>(1,275)</b>	<b>(2,076)</b>	<b>(889)</b>	<b>44,601</b>

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The Inclusion of Companies column in 2003 reflects the inclusion of Tele Centro Oeste Celular Participações, S.A. in the scope of consolidation of the Telefónica Móviles Group, as indicated in Note 2-c.

As in the case of the intangible assets, the Company is performing a valuation of the property, plant and equipment acquired as part of the acquisition of the operators of BellSouth and Telefónica Móvil de Chile, S.A. in order to allocate to them the corresponding portion of the acquisition price up to the limit of their market value. As a result of this valuation, certain assets were identified that had been overstated by approximately 117 million, and this amount is presented as a reduction of the value of the assets acquired. Although at the date of preparation of these consolidated financial statements the aforementioned valuation had not been completed, no material differences are expected to arise with respect to the net book value of the assets recorded.

In 2004 the Inclusion of Companies column relates mainly to the inclusion in the scope of consolidation of Telefónica Móvil de Chile, S.A. and of the companies acquired from BellSouth (see Note 2-c).

The Exclusion of Companies column in 2003 relates to the exclusion from the scope of consolidation of Telefónica Mobile Solutions, S.A. and 3G Mobile Telecommunications GmbH (see Note 2-c).

**Table of Contents****Telefónica Móviles, S.A.**

In both 2003 and 2004 the Additions column includes mainly the increase in and deployment of the capacity of the GSM and GPRS networks and of the UMTS network in Spain.

The Translation Differences column shows the effect of the exchange rate fluctuations on the beginning balances of the foreign companies and the monetary adjustment that certain companies apply to their balances to adjust for the effect of inflation in accordance with accounting practices in their respective countries. The effect of exchange rate fluctuations on the period variations is included in the column relating to each variation.

**c) Other information**

The detail of the property, plant and equipment owned by fully consolidated Group companies located abroad is as follows:

	<b>Thousands of Euros</b>	
	<b>12/31/04</b>	<b>12/31/03</b>
Cost	8,425,367	4,529,395
Accumulated depreciation and allowances	(4,664,902)	(2,057,968)
<b>Total property, plant and equipment located abroad</b>	<b>3,760,465</b>	<b>2,471,427</b>

The detail of the fully depreciated assets is as follows:

	<b>Thousands of Euros</b>	
	<b>12/31/04</b>	<b>12/31/03</b>
Structures	98,076	23,709
Telephone installations	3,803,578	2,116,558
Furniture, fixtures and other	231,695	101,122
Computer hardware	381,698	231,186
<b>Total fully depreciated property, plant and equipment located abroad</b>	<b>4,515,047</b>	<b>2,472,575</b>

The Group companies take out insurance policies to reasonably cover the possible risks to which their property, plant and equipment are subject.

**7) LONG-TERM INVESTMENTS**

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The main variations in long-term investments in 2003 and 2004 were as follows:

Thousands of Euros								
	Balance at 12/31/02	Inclusion of Companies	Exclusion of Companies	Additions	Retirements	Transfers	Translation Differences	Balance at 12/31/03
Investments in associated companies	1,082,845			9,250		(968,808)	(1,636)	121,651
Other investments	6,986			567	(237)	1,800	(1)	9,115
Other long-term investments	307,887	8,147	(205)	208,362	(78,589)	99,854	6,413	551,869
Loans to Telefónica Group companies	1,673,313		(958)	392,351	(1,016,449)	134,742	20,206	1,203,205
Receivable from public authorities	1,136,488	3,544	(395)	163,569	(161,822)	(86,844)	(2,274)	1,052,266
Allowances	(1,354)			(2,433)	29	336	65	(3,357)
<b>Total long-term investments</b>	<b>4,206,165</b>	<b>11,691</b>	<b>(1,558)</b>	<b>771,666</b>	<b>(1,257,068)</b>	<b>(818,920)</b>	<b>22,773</b>	<b>2,934,749</b>

**Table of Contents****Telefónica Móviles, S.A.**

Thousands of Euros								
	Balance at 12/31/03	Inclusion of Companies	Exclusion of Companies	Additions	Retirements	Transfers	Translation Differences	Balance at 12/31/04
Investments in associated companies	121,651			35,602	1,680	(99,939)	(189)	58,805
Other investments	9,115			966	(272)	1,067	83	10,959
Other long-term investments	551,869	2,027		127,123	(75,079)	(950)	(12,950)	592,040
Loans to Telefónica Group companies	1,203,205			229,617	(2,248)	957,253	(44,966)	2,342,861
Receivable from public authorities	1,052,266	36,372		328,161	(73,850)	(24,685)	(2,148)	1,316,116
Allowances	(3,357)			(49,143)	225	(1,117)	(77)	(53,469)
<b>Total long-term investments</b>	<b>2,934,749</b>	<b>38,399</b>		<b>672,326</b>	<b>(149,544)</b>	<b>831,629</b>	<b>(60,247)</b>	<b>4,267,312</b>

As indicated in Note 2-c, the Group has convertible promissory notes of the Puerto Rican operator Newcomm Wireless Services, Inc. amounting to US\$60,945 thousand, which are included under the Other Long-Term Investments caption. In 2004, based on this company's financial and net worth situation, a provision of 46,632 thousand was recorded in this connection (see Note 14-e).

The Other Long-Term Investments caption includes mainly the balances covering guarantees of Ipse 2000, S.p.A. amounting to 467,675 thousand as of December 31, 2003, and to 400,866 thousand as of December 31, 2004. The balance of these deposits will decrease as and when the respective obligations guaranteed are reduced (see Note 15).

The detail of the Investments in Associated Companies caption and of the variations therein in 2004 and 2003 is as follows:

Thousands of Euros						
	Balance at 12/31/02	Additions	Translation Differences	Retirements	Transfers	Balances at 12/31/03
IPSE 2000, S.p.A.	1,013,691	34,338			(968,808)	79,221
Medi Telecom., S.A.	62,886	(22,531)	(1,731)			38,624
Mobipay International, S.A.	5,733	(1,503)				4,230
Mobipay España, S.A.	2,006	(766)				1,240
Other companies accounted for by the equity method	(1,471)	(288)	95			(1,664)
<b>Total</b>	<b>1,082,845</b>	<b>9,250</b>	<b>(1,636)</b>		<b>(968,808)</b>	<b>121,651</b>

Thousands of Euros



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	<b>Balance at</b>		<b>Translation</b>			<b>Balances at</b>
	<b>12/31/03</b>	<b>Additions</b>	<b>Differences</b>	<b>Retirements</b>	<b>Transfers</b>	<b>12/31/04</b>
IPSE 2000, S.p.A.	79,221	48,579			(95,041)	32,759
Medi Telecom., S.A.	38,624	(13,304)	(284)			25,036
Mobipay International, S.A.	4,230	668			(4,898)	
Mobipay España, S.A.	1,240	(176)				1,064
Other companies accounted for by the equity method	(1,664)	(165)	95	1,680		(54)
<b>Total</b>	<b>121,651</b>	<b>35,602</b>	<b>(189)</b>	<b>1,680</b>	<b>(99,939)</b>	<b>58,805</b>

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**Table of Contents****Telefónica Móviles, S.A.**

The net exposure of the Móviles Group as of December 31, 2004, in connection with the holding in Ipse 2000, S.p.A., including the financing obtained, amounted to 136 million. Although this company has an unbalanced financial and net worth position, it was not considered necessary to record any allowance additional to that recorded in 2002, as a result of the business opportunities afforded by the regulatory framework in Italy (assignment or sale of the radio spectrum) and of the possibility of optimizing and offsetting the accumulated tax losses.

The Additions column includes the share in the income or losses of companies accounted for by the equity method, the underlying book value of the investments at the time of acquisition and the share in the capital increases carried out during the year, except in the case of conversions of loans granted in prior years into capital.

The Transfers column for 2003 reflects the transfer of 968,808 thousand of the provision for contingencies and expenses for Ipse 2000 recorded in 2002, since this company partially wrote down the third-generation wireless telephony license in its accounts (see Note 4-m).

The transfers column in 2004 relates to the transfer of 95,041 thousand from the provisions for contingencies and expenses recorded for Ipse 2000, S.p.A., since this company recognized in its statutory accounts items for which Telefónica Móviles had already recorded provisions (see Note 4-m), and the transfer relating to Mobipay International, S.A., since this company, which had been accounted for by the equity method, was proportionally consolidated in 2004 (see Note 2-c).

**8) CONSOLIDATION GOODWILL**

This caption includes the amount paid to acquire holdings in companies in excess of the underlying book value of these holdings at the purchase date and not allocable directly to the companies' assets. The positive difference between the underlying book value allocable to the acquired company's assets and their market value will be assigned to the related asset and liability accounts after the respective valuations are completed.

The variations in consolidation goodwill in 2003 and 2004 were as follows:

	<b>Thousands of Euros</b>
<b>Balance at December 31, 2002</b>	<b>1,564,874</b>
Inclusion/Exclusion of companies	745
Period additions	251,217
Transfers	(504,255)
Amortization	(101,703)
Retirements	(18,984)
Translation differences	(45,426)
<b>Balance at December 31, 2003</b>	<b>1,146,468</b>

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Inclusion/Exclusion of companies	592,989
Period additions	1,573,857
Transfers	(81,603)
Amortization	(94,708)
Translation differences	5,009
<b>Balance at December 31, 2004</b>	<b>3,142,012</b>

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**Table of Contents****Telefónica Móviles, S.A.**

In accordance with the estimates and forecasts available to Company management, the projected revenues attributable to the Group companies arising from the investments that gave rise to goodwill guarantee at least the recovery of both the net assets and the amount yet to be amortized of the related goodwill in the corresponding periods.

**a) Gross consolidation goodwill**

Thousands of Euros							
	Balance at 12/31/02	Inclusion of Companies	Additions	Translation Differences	Retirements	Transfers	Balance at 12/31/03
<b>Goodwill relating to fully and proportionally consolidated companies</b>							
Telefónica Móviles España, S.A.	14,569						14,569
Subsidiaries of Brasilcel, N.V.	512,339	745	245,758	1,886			760,728
TES Holding, S.A. de C.V.	24,156						24,156
Subsidiaries of TES Holding, S.A. de C.V.	51,311			(8,705)			42,606
Telefónica Móviles Perú Holding, S.A.A.	3,438						3,438
Telefónica Móviles México Group	781,256				(17,819)	(523,773)	239,664
Subsidiaries of Mexican companies	255,902			(53,402)	(1,165)	(28,766)	172,569
TCG Holdings, S.A.	47,556						47,556
Subsidiaries of TCG Holdings, S.A.	3,338			(662)			2,676
<b>Total gross goodwill relating to fully and proportionally consolidated companies</b>	<b>1,693,865</b>	<b>745</b>	<b>245,758</b>	<b>(60,883)</b>	<b>(18,984)</b>	<b>(552,539)</b>	<b>1,307,962</b>
<b>Goodwill relating to companies accounted for by the equity method</b>							
Medi Telecom, S.A.	5,097		5,459				10,556
Subsidiaries of Telefónica Móviles Argentina, S.A.						791	791
<b>Total gross goodwill relating to companies accounted for by the equity method</b>	<b>5,097</b>		<b>5,459</b>			<b>791</b>	<b>11,347</b>
<b>Total gross consolidation goodwill</b>	<b>1,698,962</b>	<b>745</b>	<b>251,217</b>	<b>(60,883)</b>	<b>(18,984)</b>	<b>(551,748)</b>	<b>1,319,309</b>

Thousands of Euros							
	Balance at 12/31/03	Inclusion of Companies	Additions	Translation Differences	Retirements	Transfers	Balance at 12/31/04
<b>Goodwill relating to fully and proportionally consolidated companies</b>							
Telefónica Móviles España, S.A.	14,569						14,569
Subsidiaries of Brasilcel, N.V.	760,728		111,678	4,259		(81,603)	795,062

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TES Holding, S.A. de C.V.	66,762		(3,103)	3	63,662
Telefónica Móviles Perú Holding, S.A.A.	3,438				3,438
Telefónica Móviles México Group	239,664				239,664
Subsidiaries of Mexican companies	172,569		(4,815)	(1,833)	165,921
TCG Holdings, S.A.	50,232		(107)		50,125
Telefónica Móvil de Chile, S.A.		451,471			451,471
Telcel C.A..	592,989	376,242	(11,564)		364,678
Olympic, Ltd.		(91,143)	20,613		522,459
Otecel, S.A.		397,443			397,443

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**Table of Contents****Telefónica Móviles, S.A.**

Thousands of Euros						
Balance at 12/31/03	Inclusion of Companies	Additions	Translation Differences	Retirements	Transfers	Balance at 12/31/04
		44,64	(246)			4,218
		238,228				238,228
		26,747				26,747
		3,909	(181)			3,728
		54,818	(2,851)			51,967
<b>Total gross goodwill relating to fully and proportionally consolidated companies</b>						
<b>1,307,962</b>	<b>592,989</b>	<b>1,573,857</b>	<b>2,005</b>		<b>(83,433)</b>	<b>3,393,380</b>
<b>Goodwill relating to companies accounted for by the equity method</b>						
	10,556					10,556
	791		(70)			721
<b>Total gross goodwill relating to companies accounted for by the equity method</b>						
<b>11,347</b>			<b>(70)</b>			<b>11,277</b>
<b>Total gross consolidation goodwill</b>						
<b>1,319,309</b>	<b>592,989</b>	<b>1,573,857</b>	<b>1,935</b>		<b>(83,433)</b>	<b>3,404,657</b>

**b) Amortization of goodwill**

Thousands of Euros						
Balance at 12/31/02	Provisions	Additions	Translation Differences	Retirements	Transfers	Balances at 12/31/03
<b>Goodwill relating to fully and proportionally consolidated companies</b>						
	1,635	726				2,361
	28,953	43,620	(324)			72,249
	1,470	1,230				2,700
	9,080	2,384	(1,795)			9,699
	442	174				616
	31,323	38,040			(47,493)	21,870
	57,617	12,347	(13,068)			56,896
	2,450	2,391				4,841
	1,118	424	(270)			1,272
<b>Total gross goodwill relating to fully and proportionally consolidated companies</b>						
<b>134,088</b>	<b>101,336</b>		<b>(15,457)</b>		<b>(47,493)</b>	<b>172,474</b>

<b>Goodwill relating to companies accounted for by the equity method</b>					
Medi Telecom, S.A.		367			367
<b>Total gross goodwill relating to companies accounted for by the equity method</b>					
		367			367
<b>Total gross consolidation goodwill</b>	<b>134,088</b>	<b>101,703</b>	<b>(15,457)</b>	<b>(47,493)</b>	<b>172,841</b>

**Table of Contents****Telefónica Móviles, S.A.**

	Thousands of Euros					
	Balance at 12/31/03	Provisions	Translation Differences	Retirements	Transfers	Balances at 12/31/04
<b>Goodwill relating to fully and proportionally consolidated companies</b>						
Telefónica Móviles España, S.A.	2,361	726				3,087
Subsidiaries of Brasilcel, N.V.	72,249	43,357	433			116,039
TES Holding, S.A. de C.V.	12,369	3,396	(895)		3	14,873
Telefónica Móviles Perú Holding, S.A.A.	616	174				790
Telefónica Móviles México Group	21,870	11,940				33,810
Subsidiaries of Mexican companies	56,896	9,037	(2,430)		(1,833)	61,670
TCG Holdings, S.A.	6,113	2,778	(76)			8,815
Telefónica Móvil de Chile, S.A.		9,406				9,406
Telcel C.A..		3,135	(96)			3,039
Olympic, Ltd.		4,182	20			4,202
Otecel, S.A.		3,312				3,312
Comunicaciones Móviles de Perú, S.A.		37	(4)			33
Telefónica Móviles Panama, S.A.		1,987				1,987
Telefónica Móviles Guatemala y Cía, S.A.		223				223
Telefónica Móviles Uruguay, S.A.		33	(2)			31
Telefonia Celular de Nicaragua, S.A.		457	(24)			433
<b>Total amortization of goodwill relating to fully and proportionally consolidated companies</b>	<b>172,474</b>	<b>94,180</b>	<b>(3,074)</b>		<b>(1,830)</b>	<b>261,750</b>
<b>Goodwill relating to companies accounted for by the equity method</b>						
Medi Telecom, S.A.	367	528				895
<b>Total gross goodwill relating to companies accounted for by the equity method</b>	<b>367</b>	<b>528</b>				<b>895</b>
<b>Total gross consolidation goodwill</b>	<b>172,841</b>	<b>94,708</b>	<b>(3,074)</b>		<b>(1,830)</b>	<b>262,645</b>

In 2003 504,651 thousand were allocated as a net addition to the licenses obtained to operate nationwide wireless communications services in Mexico. This amount was reclassified, once the respective valuations had been completed, to the Intangible Assets Concessions, Patents, Licenses and Other caption (see Note 5-b). In 2004 76,065 thousand were allocated as a net addition to the licenses of Tele Centro Oeste Celular Participações, S.A. (see Note 5-b).

In 2004 730,008 thousand were allocated as an addition to the Concessions, Patents, Licenses and Other caption and 276,724 thousand were allocated as an addition to the Computer Software and Other caption in relation to the operators acquired from BellSouth and Telefónica Móvil de Chile, S.A. (see Note 5-b). Also, certain items of property, plant and equipment overstated by 117 million when these companies were included in the Group were identified. These amounts were allocated 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 has been completed at the end of 2005, the amounts of the goodwill recorded could be modified in the form of reclassifications to other balance sheet captions, although it is considered that such reclassifications would not be material.



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The 2003 additions to the Gross Consolidation Goodwill table relate mainly to the goodwill arising in the acquisition of Tele Centro Oeste Celular Participações (see Note 2-c). In 2004 this column relates mainly to the inclusions in consolidation of Telefónica Móvil de Chile, S.A. and of the companies acquired from BellSouth, as well as increases in ownership interests arising from the friendly tender offers for Brazilian operators (see Note 2-c).

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**Table of Contents****Telefónica Móviles, S.A.****9) STOCKHOLDERS EQUITY**

The detail of the equity accounts and of the variations therein in 2003 and 2004 is as follows:

## Thousands of Euros

	Capital Stock	Additional Paid-in Capital	Legal Reserve	Other Resources of the Parent Company	Consolidation Reserves	Translation Differences	Income (Loss) for the Year	Total
<b>Balance at 12/31/02</b>	<b>2,165,275</b>	<b>4,619,883</b>		<b>(601,630)</b>	<b>1,929,898</b>	<b>(1,135,122)</b>	<b>(3,730,721)</b>	<b>3,247,583</b>
Offset of accumulated losses		(3,274,083)		601,630			2,672,453	
Legal reserve		(433,055)	433,055					
Translation differences						(57,135)		(57,135)
Dividends		(757,851)						(757,851)
Allocation of loss					(1,058,268)		1,058,268	
Income for the year							1,607,838	1,607,838
<b>Balance at 12/31/03</b>	<b>2,165,275</b>	<b>154,894</b>	<b>433,055</b>		<b>871,630</b>	<b>(1,192,257)</b>	<b>1,607,838</b>	<b>4,040,435</b>
Translation differences						(158,497)		(158,497)
Dividends				(795,955)				(795,955)
Distribution of income				1,266,685	341,153		(1,607,838)	
Income for the year							1,633,910	1,633,910
<b>Balance at 12/31/04</b>	<b>2,165,275</b>	<b>154,894</b>	<b>433,055</b>	<b>470,730</b>	<b>1,212,783</b>	<b>(1,350,754)</b>	<b>1,633,910</b>	<b>4,719,893</b>

*a) Capital stock and additional paid-in capital*

2004

As of December 31, 2004, the capital stock consisted of 4,330,550,896 fully subscribed and paid common shares, of the same series, of 0.5 par value each, recorded by the book-entry system, which are listed on the Spanish Continuous Market and on the four Spanish Stock Exchanges (Madrid, Barcelona, Valencia and Bilbao) and on the New York Stock Exchange.

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On April 16, 2004, the Stockholders Meeting of Telefónica Móviles approved the payment of a dividend in cash on each of the Company's outstanding shares of 0.1838 gross out of 2004 income. This dividend was paid on June 16, 2004. The aforementioned Stockholders Meeting also resolved to allocate the remainder of the income for the year, amounting to 470,730 thousand, to voluntary reserves.

Also, on April 16, 2004, the Stockholders Meeting adopted, inter alia, the following resolutions:

To authorize the Board of Directors to make derivative acquisitions of Company shares, within the limits and under the terms and conditions established by the Stockholders Meeting, within a maximum period of 18 months from April 16, 2004, provided that the par value of the shares acquired, added to those already owned by the Company or its subsidiaries, does not exceed 5% of capital stock. The Stockholders Meeting expressly put on record that this authorization could be exercised fully or partially to acquire shares of Telefónica Móviles that the latter had to deliver or transfer to directors or employees of the Company or of companies in its Group as a result of the exercise by the directors or employees of their stock option rights within the framework of the compensation systems tied to the market value of the Company's shares.

As of December 31, 2004, a very small number of shares (496) were held as treasury stock. These shares were acquired in the framework of the partial execution of the MOS Program (see Note 18). These shares will either be delivered to beneficiaries who exercise their options on subsequent dates or will be retired pursuant to the commitments assumed by the Company. In accordance with current legislation, the related restricted reserve of 1,000 was recorded.

**Table of Contents****Telefónica Móviles, S.A.**

The stockholder structure of Telefónica Móviles, S.A. as of December 31, 2004, was as follows:

<u>Stockholder</u>	<u>Number of Shares</u>	<u>% of Ownership</u>
Telefónica S.A.	3,075,983,129	71.03%
Telefónica Internacional, S.A.	927,917,620	21.43%
Other stockholders	326,650,147	7.54%
<b>Total at 12/31/04</b>	<b>4,330,550,896</b>	<b>100.00%</b>

2003

The capital stock as of December 31, 2003 consisted of 4,330,550,896 fully subscribed and paid common shares, of the same series, of 0.5 par value each, recorded by the book-entry system, which are listed on the Spanish Continuous Market and on the four Spanish Stock Exchanges (Madrid, Barcelona, Valencia and Bilbao) and on the New York Stock Exchange.

On April 1, 2003, the Stockholders Meeting of Telefónica Móviles resolved to record the Company's legal reserve in full (433,055 thousand) with a charge to the Additional Paid-in Capital caption, so that the legal reserve would amount to 20% of capital stock. This Meeting also resolved to pay a dividend of 0.175 gross on each of the Company's outstanding shares, with a charge to the Additional Paid-in Capital caption. This dividend was paid on June 18, 2003. The same Meeting also resolved to offset accumulated losses and the 2002 loss with a charge to the Additional Paid-in Capital caption.

On April 1, 2003, the Stockholders Meeting adopted, inter alia, the following resolutions:

To delegate to the Board of Directors the power to issue nonconvertible, exchangeable and/or convertible debentures, bonds, promissory notes and other fixed-income securities, and to authorize it, in the case of these securities, to exclude the preemptive subscription rights of the stockholders and holders of convertible securities, and to guarantee the issues of the subsidiaries. As of the date of preparation of these consolidated financial statements, the Board of Directors had not made use of this authorization, which remains in force.

To authorize the Board of Directors to make derivative acquisitions of Company shares, within the limits and under the terms and conditions established by the Stockholders Meeting, within a maximum period of 18 months from April 1, 2003, provided that the par value of the shares acquired, added to those already owned by the Company or its subsidiaries, did not exceed 5% of capital stock. This authorization was renewed by the Stockholders Meeting on April 16, 2004, for a maximum period of 18 months.

The stockholder structure of Telefónica Móviles, S.A. as of December 31, 2003, was as follows:

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<u>Stockholder</u>	<u>Number of Shares</u>	<u>% of Ownership</u>
Telefónica S.A.	3,075,983,129	71.01%
Telefónica Internacional, S.A.	927,917,620	21.43%
Other stockholders	327,454,836	7.56%
<b>Total at 12/31/03</b>	<b>4,330,550,896</b>	<b>100.00%</b>

*b) Consolidation reserves*

The variations in the consolidation reserves arose as a result of the prior year's retained earnings.

**Table of Contents****Telefónica Móviles, S.A.*****c) Translation differences***

The Translation Differences caption relates mainly to the effect of exchange rate fluctuations on the net assets of the companies located abroad and the effect of the adjustment for inflation on the assets contributed by companies which use this accounting method (see Note 4-b). Negative differences of 42,675 thousand and of 156,140 thousand arose in this connection in 2003 and 2004, respectively.

This caption also includes the exchange gains or losses arising from foreign currency transactions specifically financing investments in investee companies performed by the Parent Company to hedge the exchange rate risk on these investments (see Note 4-k). Negative differences of 14,460 thousand and of 2,357 thousand arose in this connection in 2003 and 2004, respectively.

***d) Contribution of Group companies to reserves and translation differences***

The contribution of the Group companies to consolidated reserves and translation differences as of December 31, 2004 and 2003, was as follows:

	Thousands of Euros			
	12/31/04		12/31/03	
	Reserves	Translation Differences	Reserves	Translation Differences
Telefónica Móviles España, S.A.	(1,676,319)		(3,532,951)	
Group 3G UMTS Holding GmbH	(5,853,487)		(5,809,071)	
Brasilcel Group	127,903	(473,443)	180,814	(481,580)
Telefónica Móviles Soluciones y Aplicaciones, S.A.	1,855	378	476	(325)
TES Holding Group	(48,283)	(22,047)	(35,391)	(18,392)
TCG Holdings Group	(73,595)	(28,764)	(51,524)	(26,074)
Telefónica Móviles Interacciona Group	(299,322)	470	(276,455)	470
Telefónica Móviles Argentina Group	(869,652)	(49,491)	(947,026)	(97,885)
Telefónica Móviles Perú Group	23,476	(54,750)	9,095	(61,644)
Telefónica Móviles México Group	(649,890)	182,237	(235,221)	63,070
3G Mobile AG	(137,151)	3,683	(133,096)	3,884
Medi Telecom, S.A.	(169,697)	(8,992)	(131,363)	(8,729)
Ipse 2000, S.p.A.	(149,155)		(110,734)	
Telefónica Móviles Guatemala y Cía, S.C.A.		(2,062)		
Otecel, S.A.		(15,046)		
Telcel Venezuela Group		(51,650)		
Telefónica Móviles Panamá, S.A.		(5,555)		
Comunicaciones Móviles de Perú, S.A.		(419)		
Telefónica Móviles Colombia Group		21,797		
Telefonía Celular de Nicaragua, S.A.		(8,677)		

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TEM Inversiones Chile Ltda. Group		10,854		
Ablitur, S.A.		(1,524)		
Telefónica Móviles and other	12,044,779	(847,753)	12,532,026	(565,052)
<b>Total Telefónica Móviles Group</b>	<b>2,271,462</b>	<b>(1,350,754)</b>	<b>1,459,579</b>	<b>(1,192,257)</b>

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**Telefónica Móviles, S.A.**

*e) Legal reserve*

Under the revised Corporations Law, 10% of income for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of capital stock. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased capital stock amount. Otherwise, until the legal reserve exceeds 20% of capital stock, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

On April 1, 2003, the Stockholders Meeting of Telefónica Móviles resolved to record the Company's legal reserve in full ( 433,055 thousand) with a charge to the Additional Paid-in Capital caption. As a result, since 2003 the legal reserve has amounted to 20% of capital stock.

*f) Legislation regulating the sale of holdings*

Following the amendment of Law 5/1995 on the legal regime applicable to the disposal of public shareholdings in certain companies introduced by Law 62/2003 (Law accompanying the State Budget Law), until February 18, 2007, there is a new regime of administrative involvement (need to notify the Spanish State and the latter's power to veto disposals) in relation to the disposal of shares of Telefónica Móviles representing at least 10% of its capital stock. The acquisition of shares representing 10% or more of the capital stock of Telefónica Móviles, S.A. constitutes an exception to this obligation to notify the Spanish State when the purpose of such acquisition is merely financial and is not to assume control over or the management of the Company.

Also, the acquisition of significant ownership interest in the capital stock of Telefónica Móviles is subject to the notification of significant ownership interests obligations provided for in Royal Decree 377/1991, March 15, as amended by Royal Decree 2590/1998, December 7, on amendments to the legal regime applicable to the securities markets.

**10) MINORITY INTERESTS**

The balances of the Minority Interests caption relate to the following direct and indirect holdings of non-Group stockholders in the equity of the companies detailed below:

	<u>12/31/04</u>	<u>12/31/03</u>
Group 3G UMTS Holding GmbH	42.80%	42.80%
Telefónica Móviles Perú Holding, S.A.A.	2.03%	2.03%
Telefónica Móviles Argentina, S.A.	2.07%	2.07%
Telefónica Móviles México, S.A. de C.V.	8.00%	8.00%
Subsidiaries of Brasilcel, N.V.		
Tele Sudeste Celular Participações, S.A.	4.56%	8.06%



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Tele Leste Celular Participações, S.A.	24.96%	36.15%
Celular CRT Participações, S.A.	17.03%	25.22%
Telesp Celular Participações, S.A.	17.44%	17.44%
Tele Centro Oeste Celular Participações, S.A.	33.51%	40.60%
Telefónica Móviles Panamá, S.A.	0.43%	
Comunicaciones Móviles Perú, S.A.	0.15%	
Sistemas Timetrac, C.A.	25.00%	

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**Table of Contents****Telefónica Móviles, S.A.**

The breakdown, by company, of the balances of the Minority Interests caption as of December 31, 2004 and 2003, is as follows:

	Thousands of Euros				
	Net Worth	Income (Loss)	Variation in Ownership Interest	Total at 12/31/04	Total at 12/31/03
Subsidiaries of Brasilcel, N.V.	378,592	36,264	(106,841)	308,015	387,977
Telefónica Móviles Perú Holding, S.A.A.	4,552	(289)		4,263	4,410
Telefónica Móviles Argentina, S.A.	(8,717)	(1,489)		(10,206)	(9,718)
Telefónica Móviles México, S.A. de C.V.	72,580	(52,767)		19,813	70,276
Group 3G UMTS Holding GmbH	(382,442)			(382,442)	(382,442)
Telefónica Móviles Panamá, S.A.	392	21		413	
Comunicaciones Móviles de Perú, S.A.	(10)	(5)		(15)	
Sistemas Timetrac, C.A.	2,200	93		2,293	
Other companies, net	4,284	(3,548)		736	4,168
<b>Total</b>	<b>71,431</b>	<b>(21,720)</b>	<b>(106,841)</b>	<b>(57,130)</b>	<b>74,671</b>

The Variation in Ownership Interest column includes the effect on minority interests of the changes in the percentage of ownership of various investees of Brasilcel, N.V., as described in Note 2-c.

The variations in the Minority Interests caption in 2004 and in 2003 were as follows:

	Thousands of Euros							
	Balance at 12/31/02	Inclusion of Companies	Income (Loss)	Translation Differences	Additions	Transfers	Other Variations	Balance at 12/31/03
Subsidiaries of Brasilcel, N.V.	252,054	3,414	21,876	2,629	120,083		(12,079)	387,977
Telefónica Móviles Interacciona, S.A.	(18,526)			(8)	8,000		10,534	
Telefónica Móviles Perú Holding, S.A.A.	4,822		298	(710)				4,410
Telefónica Móviles Argentina, S.A.	(11,708)		1,645	345				(9,718)
Group 3G UMTS Holding GmbH	(382,442)							(382,442)
Telefónica Móviles México, S.A. de C.V.	133,266		(42,404)	(20,586)				70,276
Other companies, net	8,117		(2,542)	(1,265)			(142)	4,168
<b>Total</b>	<b>(14,417)</b>	<b>3,414</b>	<b>(21,127)</b>	<b>(19,595)</b>	<b>128,083</b>		<b>(1,687)</b>	<b>74,671</b>

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Thousands of Euros

	<b>Balance at 12/31/03</b>	<b>Inclusion of Companies</b>	<b>Income (Loss)</b>	<b>Translation Differences</b>	<b>Additions</b>	<b>Transfers</b>	<b>Other Variations</b>	<b>Balance at 12/31/04</b>
Subsidiaries of Brasilcel, N.V.	387,977		36,264	4,783	4,245	6,590	(131,844)	308,015
Telefónica Móviles Perú Holding, S.A.A.	4,410		(289)	142				4,263
Telefónica Móviles Argentina, S.A.	(9,718)		(1,489)	1,001				(10,206)

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**Table of Contents****Telefónica Móviles, S.A.**

	Thousands of Euros							Balance at 12/31/04
	Balance at 12/31/03	Inclusion of Companies	Income (Loss)	Translation Differences	Additions	Transfers	Other Variations	
Group 3G UMTS Holding GmbH	(382,442)							(382,442)
Telefónica Móviles México, S.A. de C.V.	70,276		(52,767)	2,304				19,813
Telefónica Móviles Panamá, S.A.		420	21	(28)				413
Comunicaciones Móviles de Perú, S.A.		(12)	(5)	2				(15)
Sistemas Timetrac, C.A.		2,282	93	(82)				2,293
Other companies, net	4,168		(3,548)	66	50			736
<b>Total</b>	<b>74,671</b>	<b>2,690</b>	<b>(21,720)</b>	<b>8,188</b>	<b>4,295</b>	<b>6,590</b>	<b>(131,844)</b>	<b>(57,130)</b>

In 2003 the Transfers column includes mainly the increase in minority interests as a result of the acquisition of Tele Centro Oeste Celular Participações, as indicated in Note 2-c.

The Other Variations column in 2004 relates to the increase in Brasilcel, N.V.'s ownership interests in various Brazilian subsidiaries, as indicated in Note 2-c.

The balance receivable from the minority interests of Group 3G UMTS Holdings GmbH amounting to 382,442 thousand (see Note 4-m) has been provisioned in full, and the related amount is recorded under the Provisions for Contingencies and Expenses caption in the accompanying consolidated balance sheet.

**11) BALANCES AND TRANSACTIONS WITH TELEFÓNICA GROUP COMPANIES**

The breakdown of the accounts receivable from and payable to Telefónica Group and associated companies as of December 31, 2004 and 2003, is as follows:

	Thousands of Euros			
	2004		2003	
	Receivable	Payable	Receivable	Payable
Telefónica, S.A.	2,333,940	11,078,319	1,149,370	5,699,553
Telefónica de España, S.A.	208,730	96,191	255,068	98,402
Telefónica Internacional, S.A.	448	308,300	1,208	12,391

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Telefónica Investigación y Desarrollo, S.A.	787	20,687	1,056	18,770
Telescomunições de Sao Paulo, S.A.	24,537	44,682	26,843	16,232
Telefónica Finanzas, S.A. (Telfisa)	1,422,843	300,649	984,953	320,170
Teleinformática y Comunicaciones, S.A.	19,053	9,188	53,040	7,349
Atento Group	659	11,663	570	12,463
Iperse 2000, S.p.A.	313,694		280,608	
Telefónica del Perú, S.A.A.	21,820	33,524	67,349	80,019
Tele Leste Celular Participações, S.A.	2,325		2,994	
Medi Telecom, S.A.	74,169		70,131	
CRT Celular, S.A.	1,241		4,980	53
Telesudeste Participações Group	9,551	533	13,414	3
Tele Brasil Sul Celular Participações, S.A.	1,158			
Fisatel Mexico, S.A. de C.V.	386	40,074	1,894	19,620

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**Table of Contents****Telefónica Móviles, S.A.**

	Thousands of Euros			
	2004		2003	
	Receivable	Payable	Receivable	Payable
CTC Chile Group	16,411	7,324	445	48
Other Telefónica Group companies	35,814	54,416	33,376	52,635
<b>Total</b>	<b>4,487,568</b>	<b>12,005,550</b>	<b>2,947,299</b>	<b>6,337,708</b>

The breakdown of the accounts payable is as follows:

	Thousands of Euros			
	2004		2003	
	Short Term	Long Term	Short Term	Long Term
Loans and credit lines.	1,797,620	7,817,441	1,193,605	4,864,416
Filing of consolidated corporate income tax returns	2,058,793			7
Purchases, services, etc.	331,696		279,680	
<b>Total</b>	<b>4,188,109</b>	<b>7,817,441</b>	<b>1,473,285</b>	<b>4,864,423</b>

The breakdown of the balances drawn down against the loans and credit lines granted by Telefónica Group companies as of December 31, 2004 and 2003 is as follows:

Company	Thousands of Euros			
	2004		2003	
	Short Term	Long Term	Short Term	Long Term
Telefónica Móviles, S.A.				
Telfisa credit line in U.S. dollars	14,979			
Telefónica, S.A. credit lines in euros	972,917	5,159,606		1,745,762
Telefónica, S.A. credit lines in U.S. dollars	221,593	1,060,873	4,350	180,339
Telefónica, S.A. loan in euros	240,000	867,252	999,601	2,047,067
Telefónica, S.A. loans in U.S. dollars	133,424	111,982	130,061	391,320

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Other financial debts	139,989	68,131	7,434	161,531
Telefónica Móviles España, S.A.				
Telfisa-BEI loan in euros	25,718	102,875	25,718	128,594
Telfisa-BEI loan in U.S. dollars		146,972		158,353
Telefónica Móviles Interacciona, S.A.				
Telfisa credit line in euros	9,303		6,988	
Telefónica Móviles México, S.A. de C.V.				
Fisatel México, S.A. de C.V. credit line in MXN	39,697		19,453	
Telefónica Móviles Perú Holding, S.A.A.				
Telefónica del Peru, S.A.A loan in U.S. dollars				51,450
Inversiones Telefónica Móviles Holding Limitada				
Telefónica Internacional Chile, S.A. loan in euros		299,750		
<b>Total</b>	<b>1,797,620</b>	<b>7,817,441</b>	<b>1,193,605</b>	<b>4,864,416</b>

All the loans and credit lines detailed above bear interest at market rates. The average interest rates on the aforementioned financing in 2004 and 2003 were 4.01% and 4.19%, respectively.

**Table of Contents****Telefónica Móviles, S.A.**

Of the outstanding balance payable to Telefónica Group companies as of December 31, 2003, 1,477,429 thousand were repaid in 2004 (including the repayment of a loan against which 276,028 thousand had been drawn down in 2004). Also, the additional financing drawn down by the Telefónica Móviles Group amounted to 5,058,065 thousand, and this amount was principally used to finance the acquisition of the BellSouth operators in Latin America.

As of December 31, 2004 and 2003, credit lines had been granted by the Telefónica Group totaling 7,730 million and 2,195 million, respectively. Of the credit lines granted as of December 31, 2004, 1,297 million were denominated in U.S. dollars and 54 million were denominated in Mexican pesos. As of December 31, 2003, 291 million were denominated in U.S. dollars and 106 million were denominated in Mexican pesos.

The balances drawn down against the aforementioned credit lines as of December 31, 2004 and 2003, amounted to 7,479 million and 1,956 million, respectively, of which 1,297 million and 185 million, respectively, relate to the credit lines denominated in U.S. dollars. Of the balances drawn down as of December 31, 2004 and 2003, 40 million and 19 million, respectively, were denominated in Mexican pesos.

Although the Group's books reflect a working capital deficiency as of December 31, 2004, based on the 2005 budget no liquidity problems are expected to arise in the coming year.

Telefónica Móviles, S.A., Telefónica Móviles España, S.A. and Telefónica Móviles Interacciona, S.A. centralize all their cash balances at the Telefónica Group company Telefonía y Finanzas, S.A. (Telfisa), through transfers from and to the banks with which it has demand deposits. The balances with Telfisa earn and bear interest at market rates.

The main transactions with Telefónica Group and associated companies in 2002 were as follows:

	Thousands of Euros			
	Operating Revenues	Financial Revenues	Financial Expenses	Procurements and Outside Services
Telefónica, S.A.	2,762		268,103	32,089
Telefónica de España, S.A.	937,859			461,297
Telefónica Internacional, S.A.	69			2
Telefónica Investigación y Desarrollo, S.A.	669			15,585
Telefónica Telecomunicaciones Públicas, S.A.	50,410			170
Telefónica Servicios de Distribución, S.A.	3			11,779
Zeleris España, S.A.U	266			13,273
Telesp Participações, S.A.	14,527			4,113
Telesp Celular Participações, S.A.				2,646
Telefonía y Finanzas, S.A. (Telfisa)	3	68,413	26,769	
Teleinformática y Comunicaciones, S.A.	243,268			35,077



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Atento Group	3,087	140	80,759
Ipse 2000, S.p.A.	1,851	10,425	
Telefónica Argentina, S.A.	1,143	86	31,591
Telefónica del Perú, S.A.A.	121,565	7,239	27,820
Tele Leste Celular Participações, S.A.	793		
Mobipay International, S.A.	203		
Medi Telecom, S.A.	2,540	2,879	

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**Table of Contents****Telefónica Móviles, S.A.**

	Thousands of Euros			
	Operating Revenues	Financial Revenues	Financial Expenses	Procurements and Outside Services
Other Telefónica Group companies	15,900	2,592	435	37,247
<b>Total</b>	<b>1,396,918</b>	<b>84,449</b>	<b>302,632</b>	<b>753,448</b>

The main transactions with Telefónica Group and associated companies in 2003 were as follows:

	Thousands of Euros			
	Operating Revenues	Financial Revenues	Financial Expenses	Procurements and Outside Services
Telefónica, S.A.	2,515	6,779	314,064	34,920
Telefónica de España, S.A.	828,155			415,818
Telefónica Internacional, S.A.	575			644
Telefónica Investigación y Desarrollo, S.A.	889			11,977
Telefónica Telecomunicaciones Públicas, S.A.	28,417			275
Zeleris España, S.A.U	433			24,763
Telecomunicações de Sao Paulo, S.A.	232,650			31,393
Telefonía y Finanzas, S.A. (Telfisa)	3	38,477	6,688	
Teleinformática y Comunicaciones, S.A.	256,529			31,191
Atento Group	2,906	72		65,693
Iipse 2000, S.p.A.		19,520		
Telefónica Argentina, S.A.	975			31,145
Telefónica del Perú, S.A.A.	96,108	1,101	2,497	22,502
Medi Telecom, S.A.	541	1,397		1
Telefónica Mobile Solutions, S.A.	599	275		16,225
Other Telefónica Group companies	19,912	1,328	296	48,663
<b>Total</b>	<b>1,471,207</b>	<b>68,949</b>	<b>323,545</b>	<b>735,210</b>

The main transactions with Telefónica Group and associated companies in 2004 were as follows:

	Thousands of Euros			
	Operating Revenues	Financial Revenues	Financial Expenses	Procurements and Outside Services

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				<u>Services</u>
Telefónica, S.A.	14,484	8,010	327,539	41,030
Telefónica de España, S.A.	745,812			391,810
Telefónica Internacional, S.A.	3,113		1,757	101
Telefónica Investigación y Desarrollo, S.A.	457			11,248
Telefónica Telecomunicaciones Públicas, S.A.	31,763			283
Zeleris España, S.A.U.	130			39,459
Telecomunicações de Sao Paulo, S.A.	256,994			48,122
Telefonía y Finanzas, S.A. (Telfisa)	3	38,730	5,857	
Teleinformática y Comunicaciones, S.A.	286,249			40,674
Atento Group	3,380	13		76,992

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**Table of Contents****Telefónica Móviles, S.A.**

	Thousands of Euros			
	Operating Revenues	Financial Revenues	Financial Expenses	Procurements and Outside Services
Ipse 2000, S.p.A.		20,705		
Telefónica Argentina, S.A.	996			39,010
Telefónica del Perú, S.A.A.	87,345	94	321	22,480
Telefónica Gestión Servicios Compartidos Group	297			14,537
CTC Group	22,850		102	7,805
Telefónica Soluciones de Informática y Com. de España	690			11,630
Medi Telecom, S.A.	616	2,857		
Other Telefónica Group companies	15,508	850	3,790	35,514
<b>Total</b>	<b>1,470,687</b>	<b>71,259</b>	<b>339,366</b>	<b>780,695</b>

The Company has entered into technical capacity transfer and business management and support contracts with Telefónica Móviles El Salvador, S.A. de C.V., Telefónica Móviles Guatemala, S.A. and Telefónica Móviles, S.A.C. Under these contracts the Company receives a fee equal to 1% of the services billed for transactions and 9% of the operating income of the aforementioned companies.

Also, in October 2000 the Company was subrogated to Telefónica Internacional, S.A.'s consulting services contracts with the Brazilian companies Telerj Celular, S.A., Telest Celular, S.A., Tebahia Celular, S.A., Telergipe Celular, S.A. and Celular CRT, S.A. Under these contracts, the Company is entitled to receive a fee ranging from 1% to 2% of the revenues received for services billed in connection with the transactions of these companies.

In the framework of the agreements entered into by Telefónica Móviles and Portugal Telecom for the formation of a joint venture, in 2004 the parties agreed that the amounts obtained by them from January 1, 2003, in connection with the management contracts entered into by the groups with their former Brazilian subsidiaries would be offset so that each party would receive the same amount in this connection.

Also, the Telefónica Móviles Group has entered into a management contract with Medi Telecom, S.A. under which it receives a fee equal to 1% of the gross revenues or 4.5% of the income before interest and taxes of Médi Telecom, S.A., depending on the operating income reported by this company.

In addition, in the period from January 1, 2002 to September 2004 Telefónica Móviles, S.A. provided management services for the operations of Newcomm Wireless Services, Inc. (Newcomm), as a result of the subrogation of Telefónica Móviles, S.A. to the position of Telefónica Larga Distancia de Puerto Rico, Inc. in the management contract that it had entered into with Newcomm.

**12) PAYABLE TO CREDIT INSTITUTIONS**

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The detail of the accounts payable to credit institutions as of December 31, 2003 and 2004, is as follows:

<u>Company</u>	<u>Thousands of Euros</u>	<u>Maturity</u>	
	<u>2003</u>	<u>Short Term</u>	<u>Long Term</u>
Telefónica Móviles España, S.A.	26,879		26,879
Celular CRT, S.A.	42,584	10,501	32,083
Tele Sudeste Celular Participações, S.A.	25,701	20,700	5,001

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**Table of Contents****Telefónica Móviles, S.A.**

<b>Company</b>	<b>Thousands of Euros</b>	<b>Maturity</b>	
	<b>2003</b>	<b>Short Term</b>	<b>Long Term</b>
Tele Leste Celular Participações, S.A.	30,433	11,170	19,263
Telesp Celular Participações, S.A.	625,682	438,493	187,189
TES Holding, S.A. de C.V.	14,865	14,865	
Telefónica Móviles Argentina, S.A.	17,174	9,719	7,455
Telefónica Móviles Perú Holding, S.A.A.	8,123	398	7,725
Telefónica Móviles México, S.A.	54,819	30,869	23,950
Telefónica Móviles Puerto Rico, Inc.	8,160	8,160	
Telefónica Móviles Soluciones y Aplicaciones, S.A.	758	270	488
<b>Total</b>	<b>855,178</b>	<b>545,145</b>	<b>310,033</b>

<b>Company</b>	<b>Thousands of Euros</b>	<b>Maturity</b>	
	<b>2004</b>	<b>Short Term</b>	<b>Long Term</b>
Telefónica Móviles España, S.A.	38,260		38,260
Celular CRT, S.A.	33,476	12,900	20,576
Tele Sudeste Celular Participações, S.A.	6,034	6,034	
Tele Leste Celular Participações, S.A.	46,460	8,212	38,248
Telesp Celular Participações, S.A.	575,598	390,897	184,701
TES Holding, S.A. de C.V.	4,772	4,772	
TCG Holdings, S.A.	1,276	1,276	
Telefónica Móviles Argentina, S.A.	6,913	3,825	3,088
Telefónica Móviles Perú Holding, S.A.A.	7,165	672	6,493
Telefónica Móviles México, S.A.	43,490	17,492	25,998
Telefónica Móviles Puerto Rico, Inc.	5,602	5,602	
Telefónica Móviles Soluciones y Aplicaciones, S.A.	1,036	478	558
Telcel Venezuela Group	16,502	6,601	9,901
Comunicaciones Móviles de Perú, S.A.	146,963	146,963	
Olympic Group	326,084	219,199	106,885
Otecel, S.A.	4,803	4,803	
<b>Total</b>	<b>1,264,434</b>	<b>829,726</b>	<b>434,708</b>

All the loans to Group companies bear interest at market rates. Some of these loans are subject to certain financial restrictions. At the date of preparation of these consolidated financial statements, these conditions were either being met satisfactorily or were being negotiated, where appropriate, with the related financial institutions.

The breakdown, by maturity, of the Group's total accounts payable is as follows:

Company	Thousands of Euros						
	Maturity						
	2005	2006	2007	2008	2009	Subsequent Years	Total
Telefónica Móviles España, S.A.						38,260	38,260
Celular CRT, S.A.	12,900	171	20,405				33,476
Tele Sudeste Celular Participações, S.A.	6,034						6,034

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**Table of Contents****Telefónica Móviles, S.A.**

Company	Thousands of Euros						Total
	Maturity						
	2005	2006	2007	2008	2009	Subsequent Years	
Tele Leste Celular Participações, S.A.	8,212	17,811	33	20,404			46,460
Telesp Celular Participações, S.A.	390,897	84,743	87,073	3,915	3,426	5,544	575,598
TES Holding, S.A. de C.V.	4,772						4,772
TCG Holdings, S.A.	1,276						1,276
Telefónica Móviles Argentina, S.A.	3,825	3,088					6,913
Telefónica Móviles Perú Holding, S.A.A.	672	878	1,085	1,202	1,330	1,998	7,165
Telefónica Móviles México, S.A. de C.V.	17,492	6,011	5,711	5,710	5,711	2,855	43,490
Telefónica Móviles Puerto Rico, Inc.	5,602						5,602
Telefónica Móviles Soluciones y Aplicaciones, S.A.	478	414	144				1,036
Telcel Venezuela Group	6,601	6,601	3,300				16,502
Comunicación Móviles de Perú	146,963						146,963
Olympic Group	219,199	19	17	106,660	12	177	326,084
Otecel, S.A.	4,803						4,803
<b>Total</b>	<b>829,726</b>	<b>119,736</b>	<b>117,768</b>	<b>137,891</b>	<b>10,479</b>	<b>48,834</b>	<b>1,264,434</b>

The Group arranges financial instruments, as indicated in Note 17, to hedge its exchange rate risk. In markets where it is not possible to arrange a derivative with the same characteristics and term as the loan being hedged, the Group seeks to renew the derivatives through the maturity of the loans.

As of December 31, 2004 and 2003, there were no credit lines other than those granted by Telefónica Group companies disclosed in Note 11.

The detail of the euro and foreign currency loans as of December 31, 2004 and 2003, is as follows:

Company	Foreign Currency (Millions)	Thousands of Euros	Foreign Currency (Millions)	Thousands of Euros
	2004		2003	
Tele Sudeste Celular Participações, S.A.				
U.S. dollars	9	6,034	32	25,701
Tele Leste Celular Participações, S.A.				
U.S. dollars	57	40,726	38	30,433
Brazilian reais	21	5,734		
Telesp Celular Participações, S.A.				



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Euros		225	138	138,210
U.S. dollars	505	316,466	511	300,209
Brazilian reais	846	234,015	542	145,606
Japanese yen	3,470	24,892	5,681	41,657
TES Holding, S.A. de C.V.				
U.S. dollars	6	4,772	19	14,865

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**Table of Contents****Telefónica Móviles, S.A.**

Company	Foreign Currency (Millions)	Thousands of Euros	Foreign Currency (Millions)	Thousands of Euros
	2004		2003	
TCG Holdings, S.A.				
Quetzales	13	1,276		
Celular CRT, S.A.				
U.S. dollars	51	33,305	67	42,584
Brazilian reais	1	171		
Telefónica Móviles México Group				
U.S. dollars	63	36,360	72	47,156
Mexican pesos	109	7,130	109	7,663
Telefónica Móviles Perú Holding, S.A.A.				
U.S. dollars	10	7,165	10	8,123
Telefónica Móviles Puerto Rico, Inc				
U.S. dollars	8	5,602	10	8,160
Telefónica Móviles Argentina, S.A.				
U.S. dollars	9	6,913	22	17,174
Telefónica Móviles España, S.A.				
U.S. dollars	52	38,260	34	26,879
Telefónica Móviles Soluciones y Aplicaciones, S.A.				
Chilean pesos	785	1,036	569	758
Otecel, S.A.				
U.S. dollars	7	4,803		
Comunicaciones Móviles de Perú, S.A.				
U.S. dollars	200	146,963		
Olympic Group				
U.S. dollars	419	307,612		
Colombian pesos	60,171	18,472		
Telcel Venezuela Group				
U.S. dollars	23	16,502		
<b>Total</b>		<b>1,264,434</b>		<b>855,178</b>

**13) TAX MATTERS**

The Company files consolidated corporate income tax returns and, accordingly, is not obliged to pay its tax debt directly to the Spanish Treasury. All the tax assets and tax bases up to the ceiling of the deduction applicable to the Telefónica tax group are transferred to Telefónica, S.A., and a balance receivable from or payable to the Parent Company is recorded for the tax loss or taxable income, respectively, of the individual company, which is recorded under the Loans to Telefónica Group Companies caption if a tax loss is reported by the Móviles, S.A. Group company, or under the Payable to Telefónica Group Companies caption if taxable income is contributed to the Parent Company.

The balance of the Loans to Telefónica Group Companies caption is reduced through cash payments by Telefónica, S.A. to the Móviles Group companies that have contributed the tax losses, as the tax losses contributed by the Móviles Group are actually offset by the Telefónica tax group.



**Table of Contents****Telefónica Móviles, S.A.**

The corporate income tax expense was calculated by aggregating the corporate income tax or similar tax expenses recorded by companies reporting taxable income. The tax amounts were determined in accordance with the tax regulations in force in each country and on the basis of the income or loss reflected in the individual financial statements, the sum of which does not necessarily coincide with consolidated income.

The years open for review by the tax inspection authorities vary at each Group company, based on each country's tax legislation and on their respective statute-of-limitations periods. No material liabilities are expected to arise in the event of a tax audit of the open years.

*a) Deferred tax assets and liabilities*

The detail as of December 31, 2004 and 2003, of the Telefónica Móviles Group's deferred tax assets and liabilities and of the variations therein is as follows:

	Thousands of Euros			
	Deferred Tax Assets		Deferred Tax Liabilities	
	Long Term	Short Term	Long Term	Short Term
<b>Balance at 12/31/02</b>	<b>1,136,488</b>		<b>58,505</b>	<b>126,148</b>
Additions	97,299	14,114	16,719	3,750
Reversals	(128,465)	(7,754)	(31,126)	(9,397)
Inclusion/Exclusion of companies and other	5,119	5,433	3,529	143,457
Transfers	(264,823)	21,833	(42,199)	(117,007)
<b>Balance at 12/31/03</b>	<b>845,618</b>	<b>33,626</b>	<b>5,428</b>	<b>146,951</b>
Additions	240,383	22,774	43,320	17,515
Reversals	(68,061)	(12,892)	(8,273)	(43,195)
Inclusion/Exclusion of companies and other	5,996	312	3,033	770
Transfers	38,464	17,921	13,829	(132)
<b>Balance at 12/31/04</b>	<b>1,062,400</b>	<b>61,741</b>	<b>57,337</b>	<b>121,909</b>

The balance of the Long-Term Investments Tax Receivables caption in the accompanying consolidated balance sheet, which amounted to 1,316,116 thousand as of December 31, 2004, includes, in thousands of euros, deferred tax assets relating to the provisions for contingencies and expenses at the subsidiaries in Germany ( 256,870 thousand), Italy ( 322,807 thousand), Mexico and Argentina ( 286,187 thousand) and Switzerland, Morocco and Puerto Rico ( 55,090 thousand). It also includes tax assets amounting to 53,150 thousand recorded by the foreign subsidiaries and 88,295 thousand relating to other items (provisions for expenses that are temporarily not deductible for tax purposes).

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In addition to the deferred tax assets described in the preceding paragraph, there are tax credits totaling 88,650 thousand (export, research, development and innovation and international double taxation tax credits, etc.), tax assets relating to the tax losses of companies not included in the Telefónica tax group amounting to 70,488 thousand, and other tax assets (VAT refundable at long term, other taxes refundable, etc.) totaling 94,578 thousand.

The balance of the Long-Term Debt Payable to Public Authorities caption in the accompanying consolidated balance sheet, which amounted to 88,743 thousand as of December 31, 2004, includes various local taxes and the deferred tax liabilities detailed below.

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**Table of Contents****Telefónica Móviles, S.A.*****b) Receivable from and payable to public authorities***

The detail of the Accounts Receivable Receivable from Public Authorities and Other Nontrade Payables Payable to Public Authorities in short term, captions as of December 31, 2004 and 2003, is as follows:

	Thousands of Euros	
	2004	2003
<b>Receivable from public authorities:</b>		
Indirect taxes refundable	496,986	213,936
Deferred tax assets	61,741	33,626
Corporate income tax prepayments	114,251	27,518
Tax assets and other tax receivables	109,541	37,967
Other	419	2,031
<b>Total</b>	<b>782,938</b>	<b>315,078</b>

	Thousands of Euros	
	2004	2003
<b>Payable to public authorities:</b>		
Indirect taxes payable	482,067	181,907
Deferred tax liabilities	121,909	146,951
Corporate income tax	137,351	24,542
Social security taxes	13,330	11,137
Personal income tax withholdings	7,896	6,314
Withholdings from income from movable capital	5,358	4,253
Other	77,761	19,282
<b>Total</b>	<b>845,672</b>	<b>394,386</b>

***c) Reconciliation of the income per books to the taxable income for corporate income tax purposes***

The reconciliation of the income/loss per books to the tax base for corporate income tax purposes for 2004 and for 2003 is as follows:

Thousands of Euros

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	<u>2004</u>	<u>2003</u>
<b>Income per books</b>	<b>2,510,307</b>	<b>2,477,204</b>
Permanent differences	(281,245)	(602,833)
Timing differences	439,249	(225,230)
<b>Taxable income</b>	<b>2,668,311</b>	<b>1,649,141</b>
Gross tax payable	932,524	585,428
Tax credits and tax relief	(46,948)	(17,489)
Tax effect of timing differences and deferred revenues	(156,582)	75,444
Prior years corporate income tax	8,516	
<b>Spanish corporate income tax</b>	<b>737,510</b>	<b>643,383</b>
Recognition of deferred tax liabilities in consolidation	122,075	222,247
Foreign taxes	38,532	24,863
	<u>          </u>	<u>          </u>
<b>Total income tax</b>	<b>898,117</b>	<b>890,493</b>
	<u>          </u>	<u>          </u>

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**Table of Contents****Telefónica Móviles, S.A.**

The permanent differences arose mainly from the results obtained by the companies located abroad, the amortization of consolidation goodwill and the depreciation/amortization of the assets assigned in consolidation and the positive results attributable to associated companies. These latter two items, which arose in consolidation, do not form part of the individual tax bases resulting from the calculation of the related taxes at each Group company.

The main timing differences arose from the period provisions for bad debts, investment valuation provisions and provisions for the decline in value of property, plant and equipment that are not deductible for tax purposes in the period.

**d) Detail of tax assets**

As of December 31, 2004, the accumulated tax losses incurred by the Móviles Group companies amounted to 9,832,108 thousand. Pursuant to the applicable tax legislation, tax assets for recoverable tax losses amounting to 1,386,275 thousand have been generated, and this amount is recorded under the Long-Term Investments Receivable from Public Authorities or Receivable from Telefónica Due to Consolidated Taxation captions in the consolidated balance sheet, depending on whether or not the companies that incurred the losses form part of the Telefónica tax group.

Pursuant to local accounting and corporate law, of the total tax losses indicated above, 2,028,867 thousand have not been recognized in the accounting records.

The detail, by country, of the accumulated tax assets as of December 31, 2004, that will be used in each country is as follows:

Country/ Thousands of	Tax Losses Incurred	Tax Asset Recognized	Tax Asset Not Recognized	Period and General Conditions for Offset per Applicable Legislation
Spain	6,314,184	1,353,258	856,702	15 years (after first year of income)
Brazil(1)(2)	699,338	30,579	207,174	No time limit, but annual maximum of 70% of taxable income
Mexico	1,679,303		554,170	10 years
Argentina	452,183		158,264	5 years
Chile	3,463	589		No time or quantitative limits
Ecuador	3,318	1,194		5 years and annual maximum of 25% of taxable income
Colombia	570,130		219,500	8 years and annual maximum of 25% of accumulated losses
Peru	105,858		31,758	4 years
Uruguay	4,331		1,299	3 years
<b>TOTAL</b>	<b>9,832,108</b>	<b>1,385,620</b>	<b>2,028,867</b>	

- (1) For accounting consolidation purposes in Spain, 21,734 thousand were eliminated as a result of goodwill adjustments in Brazil.  
(2) The tax asset recognized includes 530 thousand at short term. The remainder, up to 30,579 thousand is a long-term tax asset.



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Also, as of December 31, 2004, in Spain there is an account receivable from Telefónica totaling 15,882 thousand relating to international double taxation tax credits. Also, the Group has tax credits and tax assets relating

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**Table of Contents****Telefónica Móviles, S.A.**

to timing differences amounting to 139,926 thousand which, in accordance with the accounting legislation in force, were not recorded in the accounting records either because they did not meet the requirements for being recorded or because they did not have to be recorded.

Country /Thousands of	Total
Spain	
Export tax credit	114,185
Other tax credits	1,992
Other countries	
Tax credits due to performance of various activities and others arising from timing differences	23,749
<b>TOTAL</b>	<b>139,926</b>

Under Spanish tax legislation, under certain circumstances, the goodwill arising from the acquisition of foreign securities can be amortized for tax purposes. The portion of the goodwill that can be deemed to be tax deductible, within certain limits, is the goodwill that remains after the financial goodwill relating to the foreign securities acquired has been allocated to assets, rights and contingent liabilities. The Company is completing an analysis of the portion of the goodwill that might be deductible as a result of the acquisition of the assets of BellSouth and Telefónica Móvil de Chile, S.A.

Lastly, Telefónica Móviles, S.A. made a negative adjustment of 2,137,243 thousand in its corporate income tax settlement for 2002 as a result of the transfer in 2002 of certain holdings acquired in prior years the market value of which differed from the book value at which they had been recorded (underlying book value) because the Company availed itself of Article 159 of the Corporations Law. No accounting effects arising from this adjustment were taken into account, since tax rulings have been handed down by the tax authorities that differ from the Company's interpretation.

**14) REVENUES AND EXPENSES***a) Net sales and services*

The breakdown of the Net Sales and Services caption, excluding transactions with Group companies, in 2004, 2003 and 2002 is as follows:

	Thousands of Euros		
	2004	2003	2002
Spain	6,859,711	6,106,989	5,535,110
Brazil	1,264,714	1,145,190	1,065,669
Argentina	356,347	238,772	193,564
Peru	176,330	151,379	160,955

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Mexico	727,846	540,018	463,709
Venezuela	215,216		
Chile	159,596		
El Salvador	100,569	93,314	106,473
Colombia	94,858		
Guatemala	87,065	66,161	76,812
Ecuador	43,826		
Panama	23,957		
Nicaragua	8,296		

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**Table of Contents****Telefónica Móviles, S.A.**

	Thousands of Euros		
	2004	2003	2002
Uruguay	5,596		
Other	257,397	267,141	71,010
<b>Total</b>	<b>10,381,324</b>	<b>8,608,964</b>	<b>7,673,302</b>

As indicated in Note 2-b, 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 relate to two months of operations, and the revenues of Telefónica Móvil de Chile, S.A. relate to five months of operations.

**b) Personnel expenses**

The detail of the Personnel Expenses caption in 2004 and 2003 is as follows:

	Thousands of Euros		
	2004	2003	2002
Wages and salaries	374,227	327,843	387,958
Contributions to pension and other funds	9,752	9,809	9,040
Employee welfare and other personnel expenses	155,938	148,341	149,383
<b>Total</b>	<b>539,917</b>	<b>485,993</b>	<b>546,381</b>

The average number of employees of the Telefónica Móviles Group in 2004, 2003 and 2002 was 13,524, 12,384 and 13,520, respectively. The breakdown, by professional category, for 2004 and 2003 is as follows:

	Average Number of Employees	
	2004	2003
Senior management	21	17
Executives and supervisors	1,470	1,359

Other employees	12,033	11,008
	<hr/>	<hr/>
<b>Total</b>	<b>13,524</b>	<b>12,384</b>
	<hr/>	<hr/>

*c) Foreign currency transactions*

In addition to the operating transactions carried out by the fully consolidated companies in the currencies of their respective countries, there are other foreign currency transactions carried out by the Group which relate mainly to the payment of interest and the repayment of loans, the amounts of which are shown in Note 11.

**Table of Contents****Telefónica Móviles, S.A.****d) Information by groups of companies**

The share in the income for the year of the companies composing the Group in 2004, 2003 and 2002 was as follows:

	Thousands of Euros		
	2004	2003	2002
Fully and proportionally consolidated companies	1,672,142	1,688,494	(3,564,922)
Companies accounted for by the equity method	(38,232)	(80,656)	(159,477)
<b>Total</b>	<b>1,633,910</b>	<b>1,607,838</b>	<b>(3,724,399)</b>

The contribution to the Group's income made by the fully consolidated operators in 2004, 2003 and 2002 was as follows:

	Thousands of Euros		
	2004	2003	2002
Telefónica Móviles España, S.A.	2,152,117	1,856,632	(3,350,288)
Telefónica Mobile Solutions, S.A.		(229)	(12,150)
Group 3G UMTS Holding GmbH	(38,390)	(44,416)	(5,778,960)
Brasilcel Group	(54,347)	(52,057)	52,074
TES Holding, S.A. de C.V.	(17,653)	(12,893)	(12,620)
TCG Holdings, S.A.	(15,626)	(22,071)	(17,386)
Telefónica Móviles Interacciona, S.A.	(6,631)	(22,867)	(185,000)
Telefónica Comunicaciones Personales, S.A.	(70,935)	77,374	(326,066)
3G Mobile AG	573	(4,055)	(126,293)
3G Mobile Telecommunications GmbH		(6,068)	(164,057)
Telefónica Móviles, S.A.C.	(13,977)	14,381	(3,809)
Telefónica Móviles México, S.A. de C.V. Group	(547,892)	(414,669)	(200,128)
Telefónica Móvil de Chile, S.A.	(1,571)		
Mobipay International, S.A.	(777)		
Telefónica Móviles Puerto Rico, Inc.	(45,409)		
Telcel Venezuela Group	16,444		
Comunicaciones Móviles de Perú, S.A.	(2,833)		
Olympic Group	(5,078)		
Otecel, S.A.	(5,394)		
Telefonía Celular de Nicaragua, S.A.	660		
Abiatar, S.A.	229		
Telefónica Móviles Panamá, S.A.	4,212		
Telefónica Móviles Guatemala y Cía, S.C.A.	2,083		
Holding companies and other consolidation adjustments	322,337	319,432	6,559,761

<b>Total</b>	<b>1,672,142</b>	<b>1,688,494</b>	<b>(3,564,922)</b>
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The Holding Companies and other Consolidation Adjustments caption includes mainly the results of Telefónica Móviles, S.A. and the elimination of the variation in investment valuation allowances and intercompany transactions.

**Table of Contents****Telefónica Móviles, S.A.**

The contribution to the Group's income by the companies accounted for by the equity method in 2004, 2003 and 2002 was as follows:

	Thousands of Euros		
	2004	2003	2002
Medi Telecom, S.A.	(13,304)	(38,335)	(55,341)
Mobipay International, S.A.	(773)	(2,847)	(4,154)
Mobipay España, S.A.	(684)	(765)	(588)
Iipse 2000, S.p.A.	(23,308)	(38,421)	(97,836)
Other	(163)	(288)	(1,558)
<b>Total</b>	<b>(38,232)</b>	<b>(80,656)</b>	<b>(159,477)</b>

**e) Extraordinary revenues and expenses**

The detail of the extraordinary revenues and expenses in 2004, 2003 and 2002 is as follows:

Expenses	Thousands of Euros		
	2004	2003	2002
Expenses for halting of UMTS operations in Europe			2,581,098
Penalties and fines	357	1,927	4,701
Period provision for contingencies and expenses	26,732		3,262
Prior years' expenses and losses	7,153	5,204	4,034
Severance costs, indemnities, etc.	6,861	12,357	17,519
Write-off of goodwill			154,466
Absorption of minority interests by Telefónica Móviles Interacciona, S.A.		10,539	
Insurance claims	36	48	279
Period provision for long-term loans and other receivables (see Note 7)	59,828		
Tax contingencies	13,696		
Other extraordinary expenses	6,496	2,421	13,483
<b>Total</b>	<b>121,159</b>	<b>32,496</b>	<b>2,778,842</b>

Revenues	Thousands of Euros		
	2004	2003	2002



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Recovery of insurance premiums	18	2,487	872
Revenues due to halting of UMTS operations in Europe		2,468	17,629
Other extraordinary and prior years revenues	2,116	4,902	5,605
Loans forgiven		5,375	
Excess pension plan			2,690
Taxes recovered	14,358	14,675	46,464
Uncollectible accounts recovered	1,658	1,829	
Other	17,187	5,819	7,541
<b>Total</b>	<b>35,337</b>	<b>37,555</b>	<b>80,801</b>

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**Telefónica Móviles, S.A.**

**15) ADDITIONAL DISCLOSURES**

*a) Guarantees*

The most significant guarantees provided as of December 31, 2004, were as follows:

On April 5 and 10, 2000, as a result of the final guarantee required for the award of the UMTS license, Telefónica Móviles España, S.A. provided guarantees totaling 1,100 million to the Ministry of Development. Telefónica Móviles España, S.A. initiated negotiations with the Ministry of Development with a view to changing the existing system of guarantees. This process was completed through an Official Notice issued by the Secretary of State for Telecommunications and for the Information Society on July 28, 2003, as a result of which the guarantees in force at that date that were securing the commitments assumed under the UMTS license were returned to Telefónica Móviles España, S.A., after the latter had arranged, in the same month, a guarantee of 167.5 million with the Government Depository to secure compliance with the UMTS service commitments prior to launch of the UMTS and the commitments of the first year from the date of commercial launch, in accordance with the new system of guarantees. In September 2003 Telefónica Móviles España, S.A. cancelled the returned guarantees at the respective banks.

On June 23, 2004, the Ministry of Industry, Tourism and Commerce issued an order authorizing the change in 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 the public interest.

As a result of this change, the amount to be 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. The guarantee therefore amounted to 157.5 million as of December 31, 2004.

Telefónica Móviles España, S.A., as a stockholder of Medi Telecom, signed a Stockholders Support Agreement together with Portugal Telecom, SGPS, S.A. and the BMCE Group. This commitment requires the signatories to jointly and severally provide financial assistance to Medi Telecom, S.A. of up to 210 million in the event of noncompliance with financial clauses and of up to 50 million in the event of a shortfall in funds at Medi Telecom, S.A. that prevented it from meeting its debt servicing obligations. If Medi Telecom, S.A. obtains given 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. As a result of loans, capital increases subscribed, inter alia, by Telefónica Móviles España, S.A. and new commitments, the outstanding amounts in this connection as of December 31, 2004, totaled 118.3 million and 50 million, respectively.

On December 23, 2003, Telefónica Móviles, S.A. arranged a counterguarantee for Telefónica, S.A. for the obligation of Newcomm Wireless Services, Inc. (Puerto Rico), regarding a bridge loan of US\$61 million granted 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 their seniority for credit ranking purposes with respect to capital stock.

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The Group has granted a bank guarantee to Mobilkom Austria Aktiengesellschaft & Co KG (Mobilkom) to cover possible contingencies relating to the sale in December 2003 of 3G Mobile Telecommunications GmbH for a maximum amount of 1,650 thousand and for a maximum period of validity of two years.

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**Table of Contents****Telefónica Móviles, S.A.**

At 2000 year-end Ipse 2000, S.p.A. acquired a UMTS license for 3,269 million. In accordance with the license terms and conditions, approximately 40% of the amount agreed on will be paid by this company in ten annual installments through 2010.

On December 27, 2002, Telefónica Móviles, S.A. arranged a counterguarantee for Telefónica, S.A., which in turn was counterguaranteed by Telefónica Móviles España, S.A., whereby, under certain terms and conditions, Telefónica Móviles, S.A. undertakes Telefónica, S.A. to pay for 91.79% of the amounts to be paid by the latter, by law or as a result of a contract or a court order, in connection with the guarantee that Telefónica, S.A. (jointly with other strategic partners of Ipse 2000, S.p.A.) provided to certain banks, which in turn provided a bank guarantee for the Italian authorities as security for the deferred payment for the UMTS license. Payment of the deferred amount for the base license ( 16,010 thousand) had been completed as of November 30, 2004. In order to avoid execution of the guarantee by the Italian government and subject to the resolution of the litigation in progress, in addition to and together with the payment of the base license price, Ipse 2000, S.p.A. paid 104,324 thousand as part of the installment outstanding in connection with the deferred payment of the additional 5 MHz of spectrum which was granted to Ipse 2000, S.p.A. by the Italian government for a total amount of 826,331 thousand. This additional 5 MHz of spectrum was returned by Ipse 2000, S.p.A. There is currently a dispute between this company and the Italian government in connection with the validity of this return.

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 usage rights on certain specific sites owned by the railroad company. Telefónica, S.A. provided a guarantee of up to 48.2 million to secure the amounts owed under this agreement. On November 28, 2003, Ipse 2000, S.p.A. gave notice of its decision to terminate the agreement with Ferrovie dello Stato, S.p.A. on the grounds that the agreement was a lease agreement subject to unilateral termination in the event of exceptional circumstances. Since Ferrovie dello Stato, S.p.A. rejected this stance, on July 6, 2004, arbitration proceedings were initiated to resolve the dispute as stipulated in the agreement.

On October 28, 2004, Telefónica Móviles, S.A. provided counterguarantees to Telefónica, S.A. for the following obligations guaranteed by Telefónica, S.A.:

- a) Bridge loans of US\$273,934 thousand arranged by BellSouth Colombia, S.A. (now Telefónica Móviles Colombia, S.A.) with Santander Overseas Bank, Inc. and of US\$23,500 thousand with Santander Colombia, S.A. (both of which are Santander Group companies), maturing in both cases on October 28, 2005.
- b) Syndicated loan of US\$200 million of BellSouth Perú, S.A. (now Comunicaciones Móviles del Perú, S.A.) maturing on February 25, 2005.

Group management considers that the probability of additional liabilities for which provisions have not been recorded arising from the guarantees provided is remote.

**b) Litigation**

Telefónica Móviles, S.A. and its Group companies are involved in various lawsuits relating to civil, labor, administrative, tax and antitrust law, none of which, taken individually, is significant. The Company considers that it may be reasonably concluded that any adverse outcome of these lawsuits would not have a material effect on the economic and financial position or the solvency of the Group.



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**Telefónica Móviles, S.A.**

***c) Alliances***

In July 2003 Telefónica Móviles, T-Mobile International, Telecom Italia Mobile (TIM) and Orange entered into a cooperation agreement for the establishment of a strategic alliance in the wireless telephony industry in order to offer their customers in the countries in which they operate more advanced common products and services, thereby strengthening the partners' ability to compete in international markets. This alliance was formalized in December 2003 through the formation of a legal entity (Association) in the Netherlands under the business name (and common trade name) Freemove .

In February 2003 Telefónica Móviles, Orange, T-Mobile and Vodafone entered into an agreement for the creation of a wireless telephone payment services association, which has been operating under the Simpays brand name since June 2003. The aim of this association is to promote the use of m-commerce among consumers, content suppliers, commercial establishments and banks by creating a wireless telephone payment solution that is open, interoperable and under a common brand name.

***d) Environmental matters***

The Telefónica Móviles Group, through its investees, and in line with its environmental policy, has been undertaking various activities and projects relating to environmental matters. In 2003 and 2004 it incurred expenses and made investments for scanty significant amounts, which were recorded in the consolidated statements of income and consolidated balance sheets, respectively.

As regards the systems currently in place at the various Group companies aimed at reducing the environmental impact of their facilities, several prevention systems were implemented, and the cost of these items was included in the cost of the facilities in which they are housed.

As regards possible environmental contingencies, there are sufficient internal control mechanisms which are periodically supervised, either in-house or by prestigious outside firms. No significant contingencies have been disclosed in this connection.

***e) Fees paid to auditors***

The fees paid in 2004, 2003 and 2002 to the various member firms of the Deloitte & Touche international organization, to which Deloitte & Touche España, S.L., the auditors of the Telefónica Móviles Group, belongs, amounted to 3,839 thousand, 2,947 thousand and 4,011 thousand, respectively.

The detail of the foregoing amount is as follows:

	<b>Thousands of Euros</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
Audit of financial statements	2,279	1,707	1,614
Other audit services	1,325	1,012	508
Work additional to or other than audit services	235	228	1,889
<b>TOTAL</b>	<b>3,839</b>	<b>2,947</b>	<b>4,011</b>

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The fees paid to other auditors in 2004, 2003 and 2002 amounted to 4,778 thousand, 765 thousand and 381 thousand, respectively, the detail being as follows:

	<b>Thousands of Euros</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
Audit of financial statements	227	106	178
Other audit services		145	
Work additional to or other than audit services	4,551	514	203
<b>TOTAL</b>	<b>4,778</b>	<b>765</b>	<b>381</b>

These fees include the amounts paid to the auditors of the fully and proportionally consolidated Spanish and foreign Telefónica Móviles Group companies. In this connection, the amounts paid in 2004 and 2003 include 606 and 917 thousand relating to 50% of the fees of the proportionally consolidated companies (Deloitte Touche Tohmatsu 606 and 703 thousand in 2004 and 2003, respectively; and other auditors 0 and 214 thousand in 2004 and 2003, respectively).

**f) International Financial Reporting Standards (IFRS)**

Under Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of July 19, 2002, all companies governed by the law of an EU Member State and whose securities are admitted to trading on a regulated market of any Member State must prepare their consolidated financial statements for the years beginning on or after January 1, 2005, in conformity with the International Financial Reporting Standards (IFRS) previously adopted by the European Union. In conformity with this Regulation, the Group will have to present its consolidated financial statements for 2005 in accordance with the IFRS adopted by the European Union.

Under IFRS 1, First-Time Adoption of International Financial Reporting Standards, although the first consolidated financial statements prepared in accordance with IFRS will, in the case of the Group, be those for the year ending December 31, 2005, it will be necessary to include, for comparison purposes, the figures for the preceding year (2004) prepared on a basis consistent with that used to calculate the figures for 2005. Accordingly, an opening balance sheet will have to be prepared as of the date of transition to IFRS accounting methods (January 1, 2004, in the case of the Group), also in accordance with the IFRS in force as of December 31, 2005.

In order to meet the obligation imposed by Regulation (EC) no. 1606/2002, the Group has established a plan for the transition to IFRS that includes, inter alia, the following steps:

1. Analysis of the differences between the methods provided for in the National Chart of Accounts in force in Spain and IFRS.



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2. Selection of the methods to be used in cases or areas in which IFRS permit alternative accounting treatments to be applied.
3. Assessment and determination of the appropriate changes to or adaptations of the operating procedures and systems used for compiling and providing the information required in order to prepare the consolidated financial statements.
4. Preparation of the opening consolidated financial statements, as of the transition date, in accordance with IFRS.

The Group started to implement the plan for the transition to IFRS in 2003 and the stage of completion is currently as planned for the adaptation to be completed in 2005.

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**Telefónica Móviles, S.A.**

**16) DIRECTORS' COMPENSATION AND OTHER BENEFITS**

*a) Directors' compensation and other benefits*

The compensation of Telefónica Móviles, S.A.'s directors is governed by Article 20 of the Company's bylaws, which states that the amount of the compensation to be paid by the Company to its directors shall be that determined by the Stockholders' Meeting for this purpose and this amount shall remain unchanged until the Stockholders' Meeting resolves to change it. The Board of Directors is responsible for setting the exact amount to be paid within the stipulated limits and for distributing it among the directors.

In this connection, on April 1, 2003, the Stockholders' Meeting set the maximum gross annual amount to be paid to the Board of Directors at \$2 million, which includes a fixed payment and attendance fees for attending the Board of Directors advisory committee or control committee meetings. Subsequently, on April 29, 2003, the Board of Directors resolved, pursuant to the bylaws, that the exact amount to be paid would be the same as that established when the Company was incorporated in 2002 and that it should be shared out among the directors in the same way.

Also, in 2004 the Appointments and Compensation Committee reviewed, in accordance with Article 25.b) 5) of the Rules of the Board of Directors, the compensation system for the Company's directors, which had not been revised since the Company was incorporated (2000), except as regards the fees for attending the Board of Directors Committee meetings -submitted a proposal to the Board of Directors to change the 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 amount of the fees for attending the meetings of the 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 by the Stockholders' Meeting on April 1, 2003.

Therefore, the compensation of the directors of Telefónica Móviles in their capacity as members of the Board of Directors and of the advisory and control committees consists of a fixed amount payable monthly and fees for attending the meetings of the Board Committees. Additionally, executive directors receive the related amounts for discharging their executive duties as stipulated in their respective contracts.

*2004*

In 2004 the directors of Telefónica Móviles earned \$1,593,778.17 for discharging their duties as such, the detail being as follows: \$1,473,031.67 of fixed monthly payments, including the compensation earned as members of the Boards of Directors of other Telefónica Móviles companies, and \$120,746.5 of attendance fees for attending the Board of Directors Committee meetings. Also, certain directors received a total of \$132,198.6 for advisory services provided to the Company.

Also, the Executive Director, as a Company executive, received \$1,299,422.76 of salary plus variable compensation; \$60,210.56 of compensation in kind, including life and health insurance premiums and housing contributions; and \$8,000 of contributions paid by the Company, as sponsor, to pension plans.

The breakdown of the compensation and benefits received by the directors in 2004 is as follows:

A) **Board of Directors:** annual amount of the fixed payment received by each director (in euros):

<u>Position</u>	<u>2004</u>
Chairman	97,614
Directors, nominee directors and independent directors	97,614
Secretary	97,614

The directors do not receive any fees for attending Board of Directors meetings.

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**Table of Contents****Telefónica Móviles, S.A.****B) Board Committees**

- a) Fixed amount received by each director who is a member of any of the Board Committees, based on the position held, for October, November and December 2004 (in euros):

<u>Position</u>	<u>2004</u>
Chairman(1)	5,000
Directors	2,500

- (1) The Chairman of the Standing Committee does not receive a fixed amount.

- b) Total amounts paid in 2004 for attending the Board Committee meetings received by the directors who are members thereof taken as a whole (in euros):

<u>Committees</u>	<u>2004</u>
Audit and Control Committee	Attendance fee per meeting (through 09/30/04): 1,352.28 Attendance fee per meeting (from 10/01/04): 1,250.00 Number of meetings paid: 12 Total received: 39,852.4
Appointments and Compensation Committee	Attendance fee per meeting (through 09/30/04): 901.51 Attendance fee per meeting (from 10/01/04): 1,250.00 Number of meetings paid: 10 Total received: 50,242.5
Standing Committee	Attendance fee per meeting (through 09/30/04): 901.51 Attendance fee per meeting (from 10/01/04): 1,250.00 Number of meetings paid: 5 Total received: 30,651.6

- C) **Executive directors:** total amounts received by the Executive Directors for discharging their executive duties, for the items indicated below:

	<u>Euros</u>
Salaries	698,410.76
Variable compensation	601,012.00
Compensation in kind (1)	60,210.56
Contributions to pension plans	8,000.00

- (1) Including health and life insurance premiums and housing contributions.

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**Telefónica Móviles, S.A.**

The Executive Directors, as executives of the Móviles Group, are beneficiaries of the MOS Program options plan described in Note 18.

Additionally, it should be noted that the nonexecutive directors do not receive and did not receive in 2004 any compensation in the form of pensions or life insurance, and they do not participate in the compensation plans linked to share market price.

The Company does not grant and did not grant in 2004 any advances, loans or credits to the directors, or to its top executives, thus complying with the requirements of the Sarbanes-Oxley Act passed in the U.S. which is applicable to Telefónica as a listed company in that market.

2003

In 2003 the Directors of Telefónica Móviles received compensation totaling 2,446 thousand, which included 1,294 thousand relating to the fixed allocation, including compensation for serving on the Boards of Directors of other companies of the Telefónica Móviles Group; 79 thousand of fees for attending meetings of the Board Committees; 127 thousand for advisory services provided by certain directors; 875 thousand relating to the executive directors salaries and variable compensation; 63 thousand of compensation in kind paid to the executive directors, which included life and health insurance premiums and housing contributions; and 8 thousand of pension plan contributions made by the Company, as the promoter, for the executive directors.

The compensation and benefits received by the Directors in 2003 were as follows:

A) **Board of Directors:** Fixed allocation received by each director in 2003.

<u>Position</u>	<u>Thousands of Euros</u>
Chairman	90
Directors, nominee directors and independent directors	90
Secretary	90

The Directors do not receive fees of any kind for attending the Board meetings.

B) **Other Committees of the Board of Directors:** total fees received by the directors as a whole for attending the Advisory and Standing Committee meetings:

COMMITTEES		Thousands of Euros
Audit and Control Committee (1)	Fees per meeting: 1,352.28	
	Number of meetings: 9	31
Appointments and Compensation Committee	Fees per meeting: 901.51	
	Number of meetings: 9	28
Standing Committee	Fees per meeting: 901.51	
	Number of meetings: 3	20

- (1) Although 10 meetings were held, the fees for the last meeting in December 2002 are included. The fees received by the Audit and Control Committee members were established on the basis of the large volume of work and specific duties of these members.

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C) **Executive Directors:** total amounts received by the Executive Directors in the following connection:

	<b>Thousands of Euros</b>
Salaries	634
Variable remuneration	241
Compensation in kind (1)	63
Contributions to pension plans	8

(1) Including health and life insurance and housing contributions.

The Executive Directors, as executives of Grupo Móviles, S.A., are beneficiaries of the MOS Program options plan described in Note 18.

***b) Detail of holdings in companies with similar activities and performance of similar activities by the Directors for their on account or for the account of others***

Pursuant to Article 127 ter.4 of the Spanish Corporations Law, introduced by Law 26/2003, July 17, which amends Securities Market Law 24/1988, July 28, and the revised Spanish Corporations Law, in order to reinforce the transparency of listed corporations, following is a detail of the companies engaging in an activity that is identical, similar or complementary to the activity that constitutes the corporate purpose of Telefónica Móviles, S.A. in which the members of the Board of Directors own equity interests, and of the functions, if any, that they discharge thereat.

<b>Stockholder</b>	<b>Investee</b>	<b>Percentage of Ownership</b>	<b>Line of Business</b>	<b>Function Discharged or Position Held</b>
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	None
José María Álvarez-Pallete	Telefónica, S.A.	<0.01%	Telecommunications	Member of Management Committee
Maximino Carpio García	Telefónica, S.A.	<0.01%	Telecommunications	Director
José María Más Millet	Telefónica, S.A.	<0.01%	Telecommunications	None
Javier Echenique Landiribar	Telefónica, S.A.	<0.01%	Telecommunications	None
Luis Lada Díaz	Telefónica, S.A.	<0.01%	Telecommunications	Director
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
Fernando de Almansa Moreno-Barreda	Lucent Technologies	<0.01%	Telecommunications	None
Antonio Massanell Lavilla	Telefónica, S.A.	<0.01%	Telecommunications	Director





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<b>Stockholder</b>	<b>Investee</b>	<b>Percentage of Ownership</b>	<b>Line of Business</b>	<b>Function Discharged or Position Held</b>
Alejandro Burillo Azcárraga	PanAmsat, S.R.L. de C.V.	51%	Provision de satellite Capacity	None
Alejandro Burillo Azcárraga	Grupo 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, Internet and telephone signal routing services	None

Additionally, in accordance with the aforementioned Article, following is a detail of the activities carried on by the directors, as independent professionals or as employees, that are identical, similar or complementary to the activity that constitutes the corporate purpose of Telefónica Móviles, S.A.:

<b>Name</b>	<b>Activity Performed</b>	<b>Arrangement under which Activity is Performed</b>	<b>Company through which Activity is Performed</b>	<b>Position Held or Functions Discharged at Company through which Service is Provided</b>
Antonio Viana Baptista	Telecommunications	Employee	Telefónica, S.A.	Director
Antonio Viana Baptista	Wireless telecommunications	Employee	Telefónica Internacional, S.A.	Director
Antonio Viana Baptista	Wireless telecommunications	Employee	Telefónica Móviles España, S.A.	Director
Antonio Viana Baptista	Wireless telecommunications	Employee	Telefónica de Argentina, S.A.	Director
Antonio Viana Baptista	Wireless telecommunications	Employee	Brasilcel, N.V.	Director
Antonio Viana Baptista	Telecommunications	Employee	Portugal Telecom., SGPS	Director
José María Álvarez-Pallete	Telecommunications	Employee	Telefónica, S.A.	Member of Management Committee
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 España, S.A.	Director
José María Álvarez-Pallete	Wireline telecommunications	Employee	Telefónica de Argentina, S.A.	Director
José María Álvarez-Pallete	Wireline telecommunications	Employee	Telecomunicaciones de Sao Paulo, S.A.	Director
José María Álvarez-Pallete	Wireline telecommunications	Employee	Compañía de Telecomunicaciones de Chile, S.A.	Director
José María Álvarez-Pallete	Telecommunications	Employee		Director

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<b>Name</b>	<b>Activity Performed</b>	<b>Arrangement under which Activity is Performed</b>	<b>Company through which Activity is Performed</b>	<b>Position Held or Functions Discharged at Company through which Service is Provided</b>
José María Álvarez-Pallete	Wireline telecommunications	Employee	Telefónica del Perú, S.A.	Director
José María Álvarez-Pallete	Telecommunications	Employee	Telefónica Larga Distancia, Inc.	Director
José María Álvarez-Pallete	Telecommunications	Employee	Compañía Internacional de Telecomunicaciones, S.A.	Director
José María Álvarez-Pallete	Telecommunications	Employee	Telefónica Internacional Chile, S.A.	Director
José María Álvarez-Pallete	Telecommunications	Employee	Telefónica Publicidad e Información, S.A.	Representative of Telefónica de España
Maximino Carpio García	Telecommunications	Employee	Telefónica, S.A.	Director
Maximino Carpio García	Supplier of telecommunications equipment	Employee	Abengoa, S.A.	Member of Advisory Committee
Fernando de Almansa Moreno-Barreda	Telecommunications	Employee	Telefónica, 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	Telecomunicações de Sao Paulo, S.A.	Director
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	Television, telecommunications and audiovisual production services	Employee	Sogecable, S.A.	Director
Luis Lada Díaz	Wireline telecommunications	Employee	Telefónica Internacional, S.A.	Director
Luis Lada Díaz	Wireless telecommunications	Employee	SudesteCel Participações, S.A.	Director
Javier Echenique Landiribar	Wireless telecommunications	Employee	Telefónica Móviles México, S.A.	Director
Antonio Massanell Lavilla	Telecommunications	Employee	Telefónica, S.A.	Director
José Maria Más Millet	Wireless telecommunications	Employee	TELCEL, S.A.	Director

**Table of Contents****Telefónica Móviles, S.A.**

<b>Name</b>	<b>Activity Performed</b>	<b>Arrangement under which Activity is Performed</b>	<b>Company through which Activity is Performed</b>	<b>Position Held or Functions Discharged at Company through which Service is Provided</b>
Lars M. Berg	Wireless telecommunications	Employee	TELCEL, S.A.	Director
Lars M. Berg	Wireless telecommunications	Employee	Telefónica Móviles Colombia, S.A.	Director
Alfonso Merry del Val	Internet	Employee	Terra Networks, S.A.	Director
Fernando Xavier Ferreira	Wireless telecommunications	Employee	Brasilcel, N.V.	Director
Fernando Xavier Ferreira	Wireless communications	Employee	Tele Sudeste Celular Participações, S.A.	Director
Fernando Xavier Ferreira	Wireless communications	Employee	Tele Leste Celular Participações, S.A.	Director
Fernando Xavier Ferreira	Wireless communications	Employee	Telesp Celular, S.A.	Director
Fernando Xavier Ferreira	Wireless communications	Employee	Celular CRT Participações, S.A.	Director
Fernando Xavier Ferreira	Wireless communications	Employee	Tele Centro Oeste Celular Participações, S.A.	Director
Fernando Xavier Ferreira	Wireline telecommunications	Employee	SP Telecomunicações Holding, Ltda.	Director
Fernando Xavier Ferreira	Wireline telecommunications	Employee	Telecomunicações de Sao Paulo, S.A.	Director
Fernando Xavier Ferreira	Wireless communications	Employee	Telefónica Internacional, S.A.	Director
Fernando Xavier Ferreira	Underwater cable	Employee	Aliança Atlântica, B.V.	Director
Fernando Xavier Ferreira	Underwater cable	Employee	Emergia Participações, Ltda.	General Manager
Fernando Xavier Ferreira	On-line trading, e-transactions	Employee	Mercador, S.A.	Director
Fernando Xavier Ferreira	Factoring	Employee	Telefónica Factoring do Brasil, S.A.	Director
Fernando Xavier Ferreira	Business management services	Employee	Telefónica Gestao de Servicos Compartilhados do Brasil, Ltda.	Chairman of Control Committee
Fernando Xavier Ferreira	Foundation	Employee	Fundación Telefónica	Chairman of the Board
Fernando Xavier Ferreira	Development of new technologies	Employee	Telefónica Pesquisas e Desenvolvimento do Brasil, Ltda	Chairman of the Board
Fernando Xavier Ferreira	Data telecommunications	Employee	Telefónica Data Brasil Holding, S.A.	Director

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The Company uses derivatives to hedge interest rate and exchange risks on unhedged positions and to adapt its debt structure to market conditions.

As of December 31, 2004 and 2003, the total outstanding balance of derivatives transactions arranged to hedge on-balance-sheet exposure to fluctuations in interest and exchange rates amounted to 7,243 million and 3,593 million, respectively. Of these amounts, 1,955 million related to interest rate risk and 5,288 million to exchange risk as of December 31, 2004, and 729 million related to interest rate risk and 2,864 million to exchange risk as of December 31, 2003.

The detail, by type and maturity, of the Group's derivatives portfolio as of December 31, 2003, is as follows:

Type of Risk	Amount in Millions				
	Equivqent Euro Value	Group Pays		Group Receives	
		Value	Currency	Value	Currency
<b>Euro interest rate swaps:</b>	<b>525</b>				
From floating to fixed	340	340	EUR	340	EUR
From fixed to floating	185	185	EUR	185	EUR
<b>Currency interest rate swaps:</b>	<b>204</b>				
From floating to fixed					
MXN/MXN	204	2,900	MXN	2,900	MXN
<b>Currency swaps:</b>	<b>2,535</b>				
<b>- floating to fixed</b>	<b>196</b>				
EUR/BRL	97	288	BRL	97	EUR
EUR/MAD	34	349	MAD	34	EUR
USD/PEN	36	159	PEN	45	USD
USD/MXN	29	372	MXN	36	USD
<b>- floating to floating</b>	<b>1,237</b>				
EUR/USD	243	298	USD	243	EUR
USD/EUR	660	871	EUR	834	USD
USD/MXN	334	4,261	MXN	422	USD
<b>- fixed to floating</b>	<b>1,102</b>				
USD/EUR	168	183	EUR	212	USD
USD/BRL	673	1,941	BRL	849	USD
JPY/BRL	42	152	BRL	5,682	JPY
EUR/BR	219	541	BRL	219	EUR
<b>Exchange rate options</b>	<b>329</b>				
<b>- bought</b>	<b>237</b>				
MXN/EUR	237	243	EUR	3,365	MXN
<b>- sold</b>	<b>92</b>				
BRL/USD	92	150	USD	338	BRL

**Total at 12/31/03**

3,593

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## Telefónica Móviles, S.A.

Type of Transaction	Millions of Euros				
	Amount	Up to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years
<b>With underlying asset (loans):</b>	<b>3,193</b>	<b>844</b>	<b>1,507</b>	<b>797</b>	<b>45</b>
In euros	1,306	123	540	608	35
In foreign currencies	1,887	721	967	189	10
<b>Without underlying asset (liability)</b>	<b>400</b>	<b>396</b>	<b>4</b>		
Exchange rate options	330	330			
Currency swaps	70	66	4		
<b>Total at 12/31/03</b>	<b>3,593</b>	<b>1,240</b>	<b>1,511</b>	<b>797</b>	<b>45</b>

The detail, by type and maturity, of the Group's derivatives portfolio as of December 31, 2004, is as follows:

Type of Risk	Amounts in Millions				
	Equivalent Euro Value	Group Pays		Group Receives	
		Value	Currency	Value	Currency
<b>Euro interest rate swaps:</b>	<b>684</b>				
Fixed to floating	185	185	EUR	185	EUR
Floating to fixed	499	499	EUR	499	EUR
<b>Currency interest rate swaps:</b>	<b>718</b>				
Floating to fixed in MXN	187	2,871	MXN	2,871	MXN
Floating to fixed in BRL	443	1,601	BRL	1,601	BRL
Floating to fixed in USD	88	120	USD	120	USD
<b>Currency swaps:</b>	<b>2,878</b>				
<b>- floating to fixed</b>	<b>671</b>				
EUR/BRL	97	288	BRL	97	EUR
USD/ARS	59	233	ARS	80	USD
EUR/MAD	34	349	MAD	34	EUR
EUR/CLP	242	183,405	CLP	242	EUR
USD/PEN	99	464	PEN	135	USD
USD/COP	115	392,124	COP	156	USD
USD/MXN	25	348	MXN	34	USD
<b>- fixed to floating</b>	<b>1,110</b>				
USD/EUR	85	126	EUR	116	USD
USD/BRL	951	3,208	BRL	1,296	USD
EUR/BRL	25	93	BRL	25	EUR
JPY/BRL	49	180	BRL	6,827	JPY
<b>- floating to floating</b>	<b>1,167</b>				
EUR/USD	251	308	USD	251	EUR
USD/EUR	580	791	EUR	790	USD
USD/MXN	305	4,200	MXN	416	USD
EUR/CLP	31	22,863	CLP	31	EUR

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<b>Exchange rate options</b>	<b>962</b>				
<b>- bought</b>	<b>657</b>				
EUR/USD	657	880	USD	657	EUR
<b>- sold</b>	<b>305</b>				
EUR/USD	305	290	EUR	415	USD

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## Telefónica Móviles, S.A.

Type of Risk	Amounts in Millions				
	Equivalent Euro Value	Group Pays		Group Receives	
		Value	Currency	Value	Currency
<b>Interest rate options</b>	<b>553</b>				
- bought	184				
USD	184	251	USD	251	USD
- sold	369				
USD	369	502	USD	502	USD
<b>Currency forwards</b>	<b>1,378</b>				
EUR/USD	220	267	USD	220	EUR
USD/EUR	749	782	EUR	1,020	USD
USD/ARS	15	60	ARS	20	USD
USD/CLP	233	197,508	CLP	317	USD
USD/COP	95	344,580	COP	130	USD
USD/PEN	48	216	PEN	65	USD
USD/MXN	18	285	MXN	25	USD
<b>Total at 12/31/04</b>	<b>7,243</b>				

Type of Transaction	Millions of Euros				
	Amount	Up to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years
<b>With underlying asset (loans):</b>	<b>4,844</b>	<b>2,110</b>	<b>1,520</b>	<b>1,195</b>	<b>4</b>
In euros	1,428	316	298	814	
In foreign currencies	3,401	1,794	1,222	381	4
<b>Without underlying asset (liability)</b>	<b>2,414</b>	<b>2,064</b>	<b>17</b>	<b>333</b>	
Forwards	804	804			
Exchange rate options	962	962			
Currency swaps	315	298	17		
Interest rate options	333			333	
<b>Total at 12/31/03</b>	<b>7,243</b>	<b>4,174</b>	<b>1,537</b>	<b>1,528</b>	<b>4</b>

**18) OTHER COMMITMENTS***Stock option plan-*

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On October 26, 2000, the Special Stockholders Meeting of Telefónica Móviles, S.A. authorized the establishment of a corporate stock option plan for the executives and employees of Telefónica Móviles, S.A. and its subsidiaries and, in order to facilitate coverage of the Company's obligations to the beneficiaries of the plan, resolved to increase the capital stock of Telefónica Móviles, S.A. by 11,400,000 through the issuance of 22,800,000 shares of \$0.50 par value each.

Subsequently, on June 1, 2001, the Stockholders Meeting of Telefónica Móviles, S.A. approved certain modifications and clarifications of the stock option plan with a view to making it more attractive and a more efficient mechanism for the motivation and loyalty-building of its beneficiaries.

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**Telefónica Móviles, S.A.**

Lastly, on September 21, 2001, the Board of Directors of Telefónica Móviles S.A. resolved to develop and establish, in conformity with the aforementioned resolutions of the Stockholders Meetings on October 26, 2000 and June 1, 2001, the terms and conditions of the stock option plan. The main features of this plan are as follows:

1. The plan is open to all the executive directors, executives (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 carrying voting rights of over 50%; or (ii) has the right to appoint over 50% of the members of the Board of Directors.

Without prejudice to the above, the MOS Program 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. Similarly, the Board 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 ceased to comply with the requirements to remain in it.

2. There are three types of option:

Type A options, with an exercise price of 11.

Type B options, with an exercise price of 16.5.

Type C options, with an exercise price 7.235 euros.

3. Each beneficiary of the Program receives an equal number of type-A and type-B options and a number of type-C options equal to the sum of the type-A and type-B options received.
4. The executive directors and executives who are beneficiaries of the MOS Program must place a deposit on one share of Telefónica Móviles, S.A. for every 20 options assigned to them.
5. Each option, regardless of its type, entitles its holder to receive one share of Telefónica Móviles, S.A.
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.
7. At the exercise date, the options may be settled, at the beneficiary's request, either (i) through delivery of shares of Telefónica Móviles, S.A., once the beneficiary has paid the option exercise price; or (ii) cashless for cash.

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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 7,575 as of December 31, 2004 (8,434 as of December 31, 2003). Of these beneficiaries, one is an executive director of Telefónica Móviles, S.A. and ten are general managers or similar executives. As of December 31, 2004, 11,137,144 options had been assigned (12,819,072 as of December 31, 2003).

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In 2004, in the second exercise period, 778 employees exercised a total of 79,823 options. Of these employees, two beneficiaries opted for the cashless system and the remainder for the cashless for cash system. The amount received by these beneficiaries upon the exercise of their options was 109 thousand.

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 were paid in this connection in 2004.

In order to provide coverage for the MOS Program, on September 21, 2001, the Board of Directors resolved to carry out the capital increase approved by the Special Stockholders Meeting on October 26, 2000. Since not all the shares comprising the capital increase were subscribed, 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, as described above.

The implementation of the MOS Program and the capital increase to provide coverage for the Program were notified to the Spanish National Securities Market Commission (CNMV) and published in the Abridged Prospectus, which was verified and registered in the CNMV's Official Register on November 2, 2001.

***Agreements with Portugal Telecom-***

On January 23, 2001, Telefónica, S.A. and its subsidiary Telefónica Móviles, S.A., on the one hand, and Portugal Telecom SGPS, S.A. and its subsidiary PT Moveis, SGPS, S.A., on the other, entered into an agreement in order to group together all their wireless telephony businesses in Brazil.

To implement this agreement, 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. On December 27, 2002 (after having obtained the necessary authorizations), the two Groups' holdings in their respective Brazilian wireless telephony operators were contributed to a Dutch joint venture, Brasilcel N.V.

In accordance with the 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 of ownership of either 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 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

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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 stock of Brasilcel N.V.

Also, in accordance with the definitive agreements, the Portugal Telecom Group will be entitled to sell to Telefónica Móviles, S.A., which will be obliged to buy, its holding in Brasilcel, N.V. should there be a change in

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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 will be determined on the basis of an independent appraisal (in the terms provided for in the definitive agreements) performed by investment banks, selected using the procedure established in these agreements. The related payment could be made, at the choice of the group exercising the 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.

***Agreements for the acquisition of Pegaso-***

Under the agreements entered into for the acquisition of Pegaso, the Burillo Group has certain mechanisms with which it can cease to be a stockholder, instrumented through an option to sell its holding in Telefónica Móviles México, S.A. de C.V. The Burillo Group can exercise its put option in 2007 or 2008, or, if its holding in the company falls below 50% of its original ownership interest, on the date on which such decrease occurs. If the Burillo Group did not exercise its put option, Telefónica Móviles could exercise its purchase option on the shares of the company owned by the Burillo Group. In this case, the purchase price for the shares would be determined on the basis of a valuation of the company on the date on which the rights were exercised. The agreements entered into provide that a portion of the purchase price will be paid in cash, the amount of which will depend upon the Burillo Group's original investment in the company, to which interest will be added and from which any cash distribution received by the Burillo Group will be deducted. The remaining portion of the purchase price, if any, will be paid, at Telefónica Móviles' choice, in cash, in shares of Telefónica Móviles or a combination of the two.

Also, under the stockholders' agreement entered into, the Burillo Group has certain rights to veto agreements on the conversion of shares from one class to another, declarations of bankruptcy or Chapter 11-type insolvency proceedings, dissolution or liquidation, bylaw amendments which adversely affect the rights of the Burillo Group and mergers or corporate reorganizations which do not afford the Burillo Group the opportunity to maintain a given percentage of ownership.

***Long-distance national license obtained by GTM-***

Telefónica Móviles S.A. is backing the commitments assumed by Grupo de Telecomunicaciones Mexicanos, S.A. de C.V. (GTM) to the regulator, COFETEL for the long-distance national license it has obtained. The maximum amount of this support is MXP 124,155 thousand. As of the date of preparation of these consolidated financial statements no disbursements had been made in this connection.

**19) SUBSEQUENT EVENTS**

***Acquisition of assets of BellSouth***

All the shares of the Chilean and Argentine operators owned by BellSouth were acquired on January 7 and January 11, 2005, thus completing the acquisition of BellSouth's Latin American operators.

BellSouth's Chilean operators were acquired on January 7, 2005. The corporate value of these companies under the share purchase agreement dated March 5, 2004, amounted to US\$531,894 thousand. As a result of the companies' net debt at the time of acquisition, the final purchase price was US\$405,505 thousand.

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The Argentine companies that belonged to the BellSouth Group were acquired on January 11, 2005. The agreed-upon corporate value of these companies amounted to US\$988,355 thousand and the price finally paid, after deducting the companies' net debt, was US\$673,535 thousand.

The agreement entered into with BellSouth stipulates that, after the acquisition of these companies, Telefónica Móviles will perform various procedures to validate their cash and debt. If as a result of these procedures the debt and cash figures used in the calculation of the final share price at the closing date were found to be inaccurate, the purchase price could be increased or reduced in order to reflect the difference disclosed. Accordingly, the acquisition price might be adjusted slightly upwards or downwards as a result of the validation processes currently under way.

***Chile***

On January 7, 2005, Telefónica Móviles, S.A. provided a counterguarantee to Telefónica, S.A. for the syndicated loan of US\$179,615 thousand arranged by BellSouth Comunicaciones and guaranteed by Telefónica, S.A., which matures on January 7, 2006.

***Puerto Rico***

In January 2005 the loan of US\$11 million granted by Banco Santander de Puerto Rico to Telefónica Móviles Puerto Rico was repaid. Accordingly, the counterguarantee provided on September 29, 2003, by Telefónica Móviles, S.A. for Telefónica Internacional, S.A. was released.

***Capital increase at Telesp Celular Participações (TCP)***

On October 8, 2004, TCP resolved to increase capital by approximately BRL 2,054 thousand. Through this capital increase, which was completed on January 4, 2005, and was fully subscribed. Brasilcel increased its ownership interest from 65.12% to 65.70% (see Note 2-c).

**20) CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION**

	Thousands of Euros		Source of Funds	Thousands of Euros	
	2004	2003		2004	2003
<b>Application of Funds</b>					
<b>Funds applied in operations</b>			<b>Funds obtained from operations</b>	3,133,778	3,783,940
<b>Start-up expenses and deferred charges</b>	16,248	61,043	<b>Deferred revenues</b>	8,162	13,228
<b>Fixed asset additions</b>					

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a) Intangible assets	269,984	216,823		
b) Property, plant and equipment	1,352,300	996,842	<b>Long-term debt</b>	4,366,055 1,394,980
c) Long-term investments	5,639,609	1,054,419		
Acquisition of companies	4,514,574	443,038		
Other long-term investments	1,125,035	611,381		
			<b>Transfer to long term of current liabilities</b>	6,281 120,261
<b>Repayment or transfer of long-term debt</b>	1,546,521	2,990,319		
			<b>Fixed assets disposals</b>	
			a) Intangible assets and property, plant and equipment	11,632 24,618

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<b>Application of Funds</b>	<b>Thousands of Euros</b>		<b>Source of Funds</b>	<b>Thousands of Euros</b>	
	<b>2004</b>	<b>2003</b>		<b>2004</b>	<b>2003</b>
<b>Dividends</b>	795,955	757,846	c) Long-term investments	8,826	14,318
			<b>Increase in working capital due to translation differences</b>	231,943	390,585
<b>Decrease in working capital due to acquisition/contribution of companies</b>	206,348	127,683	<b>Other funds obtained</b>		17,819
<b>Total funds applied</b>	<b>9,826,965</b>	<b>6,204,975</b>	<b>Total funds obtained</b>	<b>7,795,149</b>	<b>5,842,962</b>
Funds obtained in excess of funds applied (Increase in working capital)			Funds applied in excess of funds obtained (Decrease in working capital)	2,031,816	362,013
<b>Total</b>	<b>9,826,965</b>	<b>6,204,975</b>	<b>Total</b>	<b>9,826,965</b>	<b>6,204,975</b>

*Variations in working capital*

<b>Increase in Working Capital</b>	<b>Thousands of Euros</b>		<b>Decrease in working capital</b>	<b>Thousands of Euros</b>	
	<b>2004</b>	<b>2003</b>		<b>2004</b>	<b>2003</b>
Inventories	256,040	12,525	Inventories		
Accounts receivable	743,809	508,152	Accounts receivable		
Accounts payable			Accounts payable	4,100,405	1,365,515
Short-term investments	791,812	518,766	Short-term investments		
Cash	279,367		Cash		58,626
Assrual accounts		22,685	Accrual accounts	2,439	
<b>Total</b>	<b>2,071,028</b>	<b>1,062,128</b>	<b>Total</b>	<b>4,102,844</b>	<b>1,424,141</b>
Variation in working capital	2,031,816	362,013	Variation in working capital		
<b>Total</b>	<b>4,102,844</b>	<b>1,424,141</b>	<b>Total</b>	<b>4,102,844</b>	<b>1,424,141</b>

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The reconciliation of the balances of the consolidated statements of income to the funds obtained from operations is as follows:

	Thousands of Euros	
	2004	2003
Income	1,633,910	1,607,838
Loss attributed to minority interests	(21,720)	(21,127)
Income of associated companies	38,232	80,656
<b>Add:</b>		
Depreciation and amortization expense	1,611,003	1,420,648
Reversal of long-term deferred tax assets and liabilities	65,499	126,199
Amortization of consolidation goodwill	94,708	101,703
Fixed asset provisions	53,085	14,528
Provisions for contingencies and expenses	71,472	7,198
Loss on the disposal of property, plant and equipment and intangible assets	10,938	9,497
Long-term asset due to taxation on a consolidated basis	2,223	1,011,825
Deferred revenues	68,494	
<b>Less:</b>		
Gain on disposal of property, plant and equipment and long-term investments	10,234	14,081
Additions to long-term deferred tax assets and liabilities	268,477	151,937
Provisions for contingencies and expenses	12,808	19,336
Deferred revenues		25,491
Additions to long-term asset due to taxation on a consolidated basis	202,547	364,180
<b>Funds obtained from operations</b>	<b>3,133,778</b>	<b>3,783,940</b>

**21. DIFFERENCES BETWEEN SPANISH AND UNITED STATES OF AMERICA GENERALLY****ACCEPTED ACCOUNTING PRINCIPLES AND OTHER REQUIRED DISCLOSURES**

The consolidated financial statements of Telefónica Móviles, S.A. were prepared in accordance with generally accepted accounting principles in Spain ( Spanish GAAP ), which differ in some respects from generally accepted accounting principles in the United States of America ( U.S. GAAP ). A reconciliation of net income and shareholders' equity from Spanish GAAP to U.S. GAAP is provided below. The most significant differences are as follows:

**Reconciliation of Net Income and Shareholders' Equity to Generally Accepted Accounting Principles in the United States of America**

The following table ( Reconciliation Table ) sets forth the most significant adjustments to consolidated net income and shareholders' equity that would have been required had U.S. GAAP been applied instead of Spanish GAAP:

	<b>Thousands of Euros</b>	
	<b>12/31/03</b>	<b>12/31/04</b>
<b>Shareholders equity under Spanish GAAP</b>	<b>4,040,035</b>	<b>4,719,893</b>
Additions (deductions) for U.S. GAAP purposes:		

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	Thousands of Euros	
	12/31/03	12/31/04
Capital increase expenses (Note 21.1.a)	(66,444)	(33,690)
Start-up expenses (Note 21.1.b)	(259,728)	(223,307)
Reflagging expenses (Note 21.1.c)	(5,636)	(3,064)
Capitalized interests (Note 21.1.d)	1,378	(2,094)
Research and development costs (Note 21.2)	(3,695)	(4,937)
Revenue recognition SAB 101 (Notes 21.4 and 21.5):	(44,102)	
Revenue recognition EITF 00-21 (Notes 21.4 and 21.5)		(32,775)
Business combinations, goodwill, another intangible assets and impairments (Note 21.6)	643,744	822,658
Goodwill transactions under common control (Note 21.6.g)		(187,573)
Effective interest rate (Note 21.12)	(3,729)	(3,193)
Foreign currency exchange rate (Note 21.13)	19,432	97,724
Assets retirement obligations SFAS 143 (Note 21.14)	(16,448)	(16,809)
Derivatives and Hedging Activities SFAS 133 (Note 21.7)	(8,595)	(31,791)
U.S. GAAP adjustments related to companies consolidated by the equity method (Note 21.8)	(1,002)	(1,305)
U.S. GAAP adjustments related to Brasilcel (Note 21.9)	(13,538)	44,915
Effect on Prior-Periods of Transactions under common control net of taxes and minority interests (Note 21.6g)(*)	110,046	107,131
Tax effect of the above adjustments	186,690	97,721
Shares in Deposit at Finance Entities acting as Agents in Stock Option Plans (Note 21.10)	(42,892)	(42,310)
Employees terminations (Note 21.11)	130	
Recognition of tax credits in period initially awarded SFAS 109 (Note 21.3)	165,858	(305,922)
Effect of minority interests on the above adjustments	7,149	578
<b>Total additions (deductions)</b>	<b>668,618</b>	<b>281,957</b>
<b>Shareholders' equity under U.S. GAAP(*)</b>	<b>4,709,053</b>	<b>5,001,850</b>

(\*) Shareholders Equity under U.S.GAAP as of 12/31/03 has been restated as a consequence of the effect of transactions under common control occurred in July, 2004 (see Note 21.6.g)

	Thousands of Euros		
	12/31/02	12/31/03	12/31/04
<b>Net income under Spanish GAAP</b>	<b>(3,724,399)</b>	<b>1,607,838</b>	<b>1,633,910</b>
Additions (deductions) for U.S. GAAP purposes:			
Capital increase expenses (Note 21.1.a)	37,309	32,725	32,754
Start-up expenses (Note 21.1.b)	71,104	(32,034)	38,889
Reflagging expenses (Note 21.1.c)	6,860	3,737	2,572
Capitalized interests (Note 21.1.d)	7,173	(807)	(2,802)
Research and development costs (Note 21.2)	(4,175)	3,347	(1,242)
Revenue recognition SAB 101 (Notes 21.4 and 21.5)	(71,100)	1,022	
Revenue recognition EITF 00-21 (Note 21.4 and 21.5)			

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	Thousands of Euros		
	12/31/02	12/31/03	12/31/04
- Effect in period (Note 21.4)			(8,996)
- Cumulative effect of change in accounting principle, net of tax and minority interests (Notes 21.4 and 21.5)			(49,052)
Business combinations, goodwill, another intangible assets and impairments (Note 21.6)	104,190	51,398	16,452
Effective interest rate (Note 21.12)		(4,151)	231
Foreign currency exchange rate (Note 21.13)		19,432	78,292
Assets retirement obligations SFAS 143			
- Effect in period (Note 21.14)		(3,071)	(361)
- Cumulative effect of a change in accounting principle (Note 21.5), net of tax and minority interests		(8,761)	
Derivatives and Hedging Activities SFAS 133 (Note 21.7)	(56,917)	(31,282)	3,478
U.S.GAAP adjustments related to companies consolidated by the equity method (Note 21.8)	(3,338)	744	319
U.S.GAAP adjustments related to Brasilcel (Note 21.9)		118,298	49,715
Effect on Prior-Periods of Transactions under common control net of taxes and minority interests (Note 21.6g)(*)	2,512	2,958	(5,083)
Tax effect on the above adjustments	2,153	5,110	(38,152)
Employees terminations (Note 21.11)	4,288	(4,262)	(130)
Recognition of tax credits in period initially awarded (Note 21.3)	(36,092)	55,795	(128,658)
Effect of minority interests on the above adjustments	15,690	60	(455)
<b>Net income under U.S. GAAP(*)</b>	<b>(3,644,742)</b>	<b>1,818,096</b>	<b>1,621,681</b>

(\*) Net income under U.S.GAAP as of 12/31/03 and as of 12/31/02 have been restated as a consequence of the effect of transactions under common control occurred in July, 2004 (see Note 21.6.g)

Additionally, movements in Shareholders equity under U.S. GAAP for the years ended December 31, 2002, 2003 and 2004 are as follows:

	Thousands of Euros		
	12/31/02	12/31/03	12/31/04
<b>Shareholders equity beginning balance under U.S. GAAP previously reported</b>	<b>9,496,119</b>	<b>4,005,739</b>	<b>4,709,053</b>
Effect on Prior-Periods of Transactions under common control net of taxes and minority interests (Note 21.6g)(*)	84,350	108,795	
<b>Shareholders equity beginning balance under U.S. GAAP after effect of transactions under common control</b>	<b>9,580,469</b>	<b>4,114,534</b>	<b>4,709,053</b>
Variations:			
Net income for the year	(3,644,742)	1,818,096	1,621,681

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	Thousands of Euros		
	12/31/02	12/31/03	12/31/04
Capital increase	244,419		
Goodwill generated in acquisition	82,874		
Goodwill transactions under common control (Note 21.6g)			(187,573)
Dividends		(757,851)	(795,955)
Reserves not contributed	(6,322)		
Capital increase expenses	(146)	(311)	
SFAS 133 OCI adjustments net of taxes and minority interests	500	(3,889)	(18,056)
Other	(3,039)	6,149	129
Translation differences	(2,139,479)	(467,675)	(327,429)
<b>Shareholders' equity ending balance under U.S. GAAP(*)</b>	<b>4,114,534</b>	<b>4,709,053</b>	<b>5,001,850</b>

(\*) Shareholders' equity under U.S. GAAP as of 12/31/03 and as of 12/31/02 have been restated as a consequence of the effect of transactions under common control occurred in July, 2004 (see Note 21.6.g)

The reconciliation of net income under U.S. GAAP previously reported and net income under U.S. GAAP after effect of transactions under common control is as follows:

	Thousands of Euros	
	12/31/02	12/31/03
<b>Net income under U.S. GAAP previously reported</b>	<b>(3,647,254)</b>	<b>1,815,138</b>
Effect on Prior-Periods of Transactions under common control net of taxes and minority interests (Note 21.6.g)	2,512	2,958
<b>Net income under U.S. GAAP after effect of transactions under common control</b>	<b>(3,644,742)</b>	<b>1,818,096</b>

Shareholders' rights and all dividend distributions are based on the financial statements as reported for local Spanish statutory purposes by Telefónica Móviles, S.A.

The differences included in the Reconciliation Tables above are explained in the following paragraphs:

**1) Accruals and deferrals**



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Different criteria are applied under Spanish and U.S. GAAP to accrue certain items and, accordingly, the related adjustments have to be made in the reconciliation of Shareholders' equity and Net income from Spanish to U.S. GAAP:

a. Capital increase expenses. In accordance with Spanish GAAP, expenses associated with equity issues are capitalized and amortized over five years. Under U.S. GAAP, capital increase expenses must be deducted from the proceeds of the new capital.

b. Start-up expenses. In accordance with Spanish GAAP, period expenses incurred during the start-up of a business which will contribute to the development of future revenues may be capitalized and are amortized over five years. Under U.S. GAAP, except for those costs that are directly related to and specifically identifiable with

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system construction or those; which are clearly related to any asset acquisition, all costs incurred during the start-up period should be expensed in accordance with issued Statements of Position (SOP) 98-5, Reporting on the Costs of Start-up Activities. This includes pre-operating costs such as organizational expenses, advertising fees and promotion, market research and administrative costs. The portion relating to the start-up expenses of Brasilcel, N.V. are included in item 9 of the reconciliation.

c. Reflagging expenses. As a result of increasing competition in wireless communications, the Telefónica Móviles Group has invested certain amounts in reflagging and remodeling the stores in its distributor network, in order to increase distributor loyalty and to assure that they continue to sell the Telefónica Móviles Group's products exclusively. Under Spanish GAAP, such expenses have been deferred for a period of three years, which is the term of the exclusive distribution agreement for Telefónica Móviles Group products entered into with these distributors, and have been included under the Deferred charges caption of the consolidated balance sheet as of December 31, 2003 and 2004. Under U.S. GAAP, reflagging expenses are expensed as incurred.

d. Capitalized Interests. In accordance with Spanish GAAP, interests incurred during periods exceeding 12 months in which assets were under construction may be capitalized. Under U.S. GAAP, interests incurred during periods in which qualifying assets, as defined by SFAS No. 34, Capitalization of Interest Costs, are under construction are capitalized and amortized over the expected life of the assets. The portion relating to the capitalized interest of Brasilcel, N.V. are included in item 9 of the reconciliation.

**2) Research and development**

In accordance with Spanish GAAP, research and development expenses are capitalized and amortized over a period not exceeding five years. Under U.S. GAAP, research and development expenses are expensed as incurred, in accordance with SFAS No. 2, Accounting for Research and Development Costs.

**3) Corporate income tax**

For U.S. GAAP purposes, the Group utilizes the liability method of accounting for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes. Under the liability method, deferred taxes are determined based on differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. Valuation allowances are recorded to reduce deferred tax assets, including credits and loss carryforwards, when it is more likely than not that a tax benefit will not be realized.

Spanish GAAP procedures for recording income taxes differ from those under U.S. GAAP with regard to the period in which certain prepaid and deferred taxes must be recorded and with respect to the required disclosures. In this connection, the differences affecting the Telefónica Móviles Group are as follows:

a. Under Spanish GAAP, deductible temporary differences that are expected to reverse in more than ten years from the balance sheet date are not recorded as deferred tax assets. U.S. GAAP requires deferred taxes to be provided for all differences between financial reporting and tax bases

of assets and liabilities.

b. Under Spanish GAAP, tax credit carryforwards are not recognized until they are utilized, as opposed to when they are more likely than not to be realized under U.S. GAAP.

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c. Under Spanish GAAP, for investment tax credits generated subsequent to January 1, 1996, the reduction in income taxes for financial reporting purposes is reflected over the life of the related fixed asset. The amortization begins in the year the investment tax credit is realized on the tax return. Under U.S. GAAP, the Telefónica Móviles Group continues to record investment tax credits in the year generated, subject to a valuation allowance, if necessary.

d. According to Spanish accounting policies, the Group companies have not provided tax liabilities in their accounts for reserves pending distribution either by the subsidiaries or by the equity method investees. For the purpose of U.S. GAAP, the Group has not recorded a deferred tax liability for such potential tax obligation where such reserves are the subject of distribution, as, in most cases, it will be entitled to a double tax deduction for the dividends it receives (or the parts of the capital gain obtained in the sale in respect of reserves accumulated during the period of ownership of the shareholdings), so that the Group believes that any future tax it may bear on reserves pending distribution would not be in a significant amount.

An analysis of the differences generated and the amounts recognized in income at December 31, 2003 and 2004 under U.S. GAAP is presented below:

	Thousands of Euros			
	Tax asset increase (decrease)	Valuation allowance (increase) decrease	Deferred tax (increase) decrease	Net income (increase) decrease
<b>Balance at December 31, 2002</b>	<b>445,720</b>	<b>(355,832)</b>	<b>20,175</b>	<b>36,092</b>
Credits arising in 2003(a, b, c)	941,671		12,981	(954,652)
Credit taken from preceding years	(26,440)	26,440	(11,499)	11,499
Increase of valuation allowance(a, b)		(887,358)		887,358
Translation differences and other	(28,172)	28,172		
<b>Balance at December 31, 2003</b>	<b>1,332,779</b>	<b>(1,188,578)</b>	<b>21,657</b>	<b>(55,795)</b>
Credits arising in 2004(b)	152,563		8,162	(160,725)
Deferred tax in Business Combinations(i)			(362,374)	
Income from Deferred tax			17,151	(17,151)
Credit taken from preceding years	(36,811)	6,766	(9,770)	39,815
Increase of valuation allowance(b, c)		(266,719)		266,719
Translation differences and other	(17,747)	17,747	19,252	
<b>Balance at December 31, 2004</b>	<b>1,430,784</b>	<b>(1,430,784)</b>	<b>(305,922)</b>	<b>128,658</b>

The difference of the figures shown in the column Tax asset with respect to the Tax asset not recognized included in Note 13.d amounting to a total of 2,028,867 thousand corresponds basically to certain tax losses carryforward in Brasilcel (that are consolidated under the equity method under USGAAP) and other tax assets in other countries generated previously to the respective acquisitions (that were considered not recoverable and treated in accordance to EITF 93-7 Uncertainties related to income taxes in a purchase Business Combinations ).

The tax asset column includes, as of the periods presented:

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- a) The Company included 2,137,243 thousand in its corporate income tax settlement for tax year 2002, arising as a result of the transfer in 2002 of certain holdings acquired in prior years differing their acquisition market value from the book value at which they were recorded (underlying book value) because the Company availed itself of Article 159 of the Corporations Law. This tax deduction to be applied in future years was not taken into account for accounting purposes under Spanish GAAP because the stance taken by the tax authorities could differ from the Company's interpretation of this issue. As a consequence of this tax deduction considered in the

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corporate income tax settlement for tax year 2002, a tax credit of 748,035 thousand would arise. This tax credit is fully provided for under US GAAP as the Company considers that is more likely than not, that this tax credit will not be recovered in the future.

- b) As of December 31, 2004 and to 2003, there are tax losses available for carryforward that come from Group companies, amounting (net of minority interests) to 1,681 million and 1,273 million, respectively. These tax losses can be offset within a variable period depending on the legislation of the countries where these tax losses arise. Under Spanish GAAP, no amount of these losses has been capitalized. Therefore as of December 31, 2004 and 2003, under U.S.GAAP, tax losses for carryforward amounting (net of minority interests) to 1,681 million and 1,273 million, giving rise to a tax asset of (net of minority interests) 569 million and 441 million respectively, would exist. This tax credit is fully provided for under US GAAP as the Company considers that is more likely than not that this tax credit will not be recovered in the future.
- c) And finally, tax asset increase column includes a deduction arising from investments in foreign entities aiming to export goods and services. Due to some European Community discussion about the future restriction for the utilization of tax credits for export activities, the Company has recorded a valuation allowance for such tax benefit since it was more likely than not to be realized.

The deferred tax column includes, as of the periods presented:

- i) Temporary differences arising from different accounting and tax values of assets allocated in the acquisitions of BellSouth and Telefónica Móvil Chile: Because the amounts allocated to certain assets are non deductible under Spanish Tax Law, additional goodwill (Note 21.6) and the corresponding deferred tax liabilities have been considered under USGAAP. The detail of the total amount is as follows:

	<b>Thousand of Euros</b>
Deferred tax generated as a result of BellSouth allocation	299,408
Deferred tax generated as a result of Telefónica Móvil Chile allocation	62,966
	<b>362,374</b>

- ii) Under Spanish GAAP, for investment tax credits generated subsequent to January 1, 1996, the reduction in income taxes for financial reporting purposes is reflected over the life of the related fixed asset. The amortization begins in the year the investment tax credit is realized on the tax return. Under U.S. GAAP, the Telefónica Móviles Group continues to record investment tax credits in the year generated, subject to a valuation allowance, if necessary. The company recorded 20,049 thousand and 21,657 thousand as of December 31, 2004 and 2003, respectively, of Investment tax credit as equity under USGAAP.

**4) Recognition of revenues and expenses**

Under Spanish GAAP, revenues and expenses are recognized on an accrual basis, i.e., when the goods and services are actually provided, regardless of when the resulting monetary or financial flow occurs. The Group accounts for its revenues and expenses following the below mentioned criteria.

**Net Revenues from Operations-**

Under Spanish GAAP, the Group categorizes the revenue sources in the statements of operations as follows:

a. Wireless communication services: (a) monthly fee for use of wireless network; (b) interconnection fees and (c) initial connection fees.

b. Sales of handsets and accessories: revenues from (a) sales of handsets as part of contracts and pre-paid (b) sales of accessories.

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c. Other services: revenues from other wireless communication services

The Group recognizes revenues from the following sources:

*Contracts with customers-*

The Group enters into contracts with customers to provide a variety of wireless communication services. The minimum contractual period is generally one year for substantially all of the Group's wireless contracts. Under these contracts, the customer generally is charged the following fees:

a. A nominal fee for the initial connection of the wireless service and a nominal charge for the handset. This charge is often less than the cost of the handset itself.

b. A monthly fee for use of the Group's wireless networks.

c. Call fees consisting of an initial fee for establishing the call plus fees based on airtime used by the caller, destination of the call and service.

d. On occasion, an additional monthly fee or fee based on usage of airtime for added value services, such as short messages services and data services.

The collection of the contractual revenue is probable and the contract is enforceable and it is the intention to the Group to enforce it. Nevertheless, over the past few years the Company's mix of business has changed due to growth in Latin America regions and an increase in competition, usually contracts for this area are not enforceable. Additionally, in the mentioned area, sales of prepaid phone cards comprise a significant portion of the Company's sales and as a consequence the total number of contracts that the Company sells with a contractually enforceable minimum contract periods has declined. The Company expects these trends to continue into the foreseeable future.

The Group recognizes revenues related to the monthly network fees in the month that the wireless service is provided to the customer.

The Group recognizes interconnection fees arising from wireless to fixed calls and fees from other services utilized by the customers in the period in which the related calls are completed.



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The Group charges roaming per-minute fees to other wireless companies for the use of its network by their customers.

Group companies recognize initial connection fees, when charged, upon initial signing of the contract with customers. However, the amount of such fees has been de minimis during all periods presented.

The Group recognizes revenues from the sale of the handset upon the initial signing of the contract.

### *Pre-paid phone cards-*

The Group also sells to customers pre-paid phone cards, separately or bundled together with a handset. These cards allow customers to make a predetermined allotment of wireless phone calls and/or take advantage of other services offered by the Group, such as short messages and sending or receiving faxes.

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At the time that the pre-paid phone card is purchased, the Group records the receipt of cash as deferred revenues. Group companies recognize revenues from the phone cards in the period that time (measured as subscribed airtime minutes applying the respective prices) under the phone cards is used by purchasers of the card. Unused time on sold phone cards is not recognized as revenues until the time is used or the card expires.

*Sales of handsets and accessories-*

Group companies sell handsets and accessories, such as phone cases. Revenues from these sales are recognized at the time that the customer purchases the item.

The Group also records provisions for estimated returns and allowances as a direct reduction of sales at the time the related sales are recorded.

*Expenses-*

Under Spanish GAAP, the primary expenses incurred by the Group in relation to the provision of wireless communication services relate to interconnection costs, costs of handsets and other accessories sold, commissions payable to agents for obtaining wireless customers on behalf of the Group and marketing, depreciation and maintenance of the network and leases of circuits.

Calls made by the Group's customers from areas outside of Telefónica Móviles, S.A.'s territories are subject to roaming fees charged by the wireless provider in those territories. These roaming charges are recorded as revenues on a gross basis, with the related roaming charges being recorded as an operating expense, as the Telefónica Móviles Group acts as the principal in the transaction with the customer and bears the risk of non-collection from the customer.

The costs of the handset, whether sold to customers through the distribution channel as part of the contract or provided to customers purchasing pre-paid phone cards are expensed as Services and goods purchased at the time that the phone is issued to the customer.

Commissions paid to agents related to new subscriptions are also expensed in the period that the related customer initiates wireless communication services with a Group company.

*Revenues and expenses under U.S. GAAP until December 31, 2003-*

Under US GAAP, until December 31, 2003, in accordance with SEC Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements (SAB 101), the Company has deferred revenues from obtaining new customers over the expected period that the customer will use

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the services as it has historical experience indicating that customers generally extend their contracts beyond one year.

Under US GAAP the Company also defers and amortizes the related cost associated with obtaining new customers over the same period as the related revenues are being recognized. The Company believes that this is the only accounting difference with Spanish GAAP until December 31, 2003.

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

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

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

The effect of the SAB 101 adjustment included in the reconciliation of net income has been presented netted and represents an increase in revenues and expenses, respectively, amounting to 5,026 and 143,619 thousand, as of December 31, 2001; 6,923 and 78,023 thousand, as of December 31, 2002 and 1,889 and 867 thousand, as of December 31, 2003.

***Revenues and expenses under US GAAP after December 31, 2003-***

We have 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 entered into after December 31, 2003.

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 among the different deliverables, based on their relative fair values (the relative fair value of each of the component deliverables to the aggregated relative fair value of the bundled deliverables).

Handsets are sold many times in a bundled package to the customers, as the handsets and the air-time are price-sensitive and, thus, volatile in a competitive marketplace, the determination of fair values in the mobile phone sector business is quite complex. Revisions to our estimates of these relative fair values may significantly affect the allocation of sales values among the different deliverables, affecting our future operating results.

Because we enter in thousands of revenue arrangements every period, an analysis has been made of the products and services provided by the Company in order to conclude when those products and services are sold in a bundled package and if they fall under scope of EITF 00-21. The main activities affected by this new literature are the prepaid and postpaid contract businesses.

For the mentioned activities, upon customer activation, arrangement consideration received is allocated to each unit of accounting based on their relative fair values. As any nonrefundable, up-front connection fee charged does not meet the criteria of a separate unit of accounting, the additional arrangement consideration received from connection fees or up-front fees is allocated to the other delivered item(s) to the extent that the aggregate handsets and connection fee or up-front fee proceeds do not exceed the allocated fair value of the handsets. Any connection fee or up-front fees proceeds not allocated to the delivered handsets are deferred upon connection and recognized as service revenue over the expected

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customer relationship period. The amount allocable to a delivered item (the handset) is always limited to the amount that is not contingent upon the delivery of additional service (the airtime) or meeting other specified performance conditions (the non contingent amount).

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Some arrangements entered into 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 Spanish and US GAAP, and are subject to the appropriate provisions when entered into. These offers have not had any impact upon adoption of EITF 00-21 because they are specifically excluded from the scope of Issue 00-21.

***Change in revenue accounting model of revenue and cost deferral under US GAAP upon application of EITF 00-21***

The Task Force agreed not to provide guidance in EITF 00-21 on accounting for direct costs and expenses related to an arrangement with multiple deliverables due to the broad, general nature of the issue.

Because upon application of EITF 00-21 the accounting for deferred customer acquisition costs would create a mixed model, that is, in some circumstances the entire amount of costs will be eligible for deferral and, in other circumstances; EITF 00-21 will limit the amount eligible for deferral to a very significant amount or nil, by adopting an accounting policy whereby these costs are expensed when incurred, all customer acquisitions costs will be accounted for consistently and the mixed model will be eliminated.

For the reasons described below, we believe this accounting change is preferable:

1 We understand that a change from one generally accepted method of accounting (as it was the SAB 101 revenue and cost deferral accounting policy until December 2003) to another generally accepted method of accounting preferable when such change eliminates this type of a mixed model of accounting.

2 Additionally, when we originally adopted our accounting policy with respect to customer acquisition costs, a significant portion of the Company's sales were contract sales with 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 America regions and an increase in competition. Sales of prepaid phone cards now 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 periods has declined. The Company expects these trends to continue into the foreseeable future. As a result of this change in business, the amount of deferred customer acquisition costs has decreased over the last years and the amount is now considered to be immaterial.

3 Under IFRS adoption which has not taken place yet, the Company's accounting policy will be to expense customer acquisition costs when incurred. As such, changing the Company's accounting to a similar method under US GAAP will eliminate one of the reconciling items between IFRS and US GAAP.

4 Lastly, the effect of deferring customer acquisition costs eligible for capitalization in 2003 was approximately an increase of \$1 million euros in net income. Therefore, we believe that the effect of this accounting change is not significant for the results of operations and the financial position of the Company.

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The closing balances of 2003 and 2002 of the SAB 101 adjustment in the US GAAP reconciliation have not been restated and represent deferred revenues and costs under SAB 101.

On a pro forma basis, assuming EITF 00-21 had been adopted at the beginning of each period that is presented, the effect in Telefónica Móviles Group's Statements of Income for 2003 and 2002 would not have been significant.

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As indicated in Note 21.14, Telefónica Móviles, S.A. adopted effective on January 1, 2003 the SFAS N° 143, which suppose a change in accounting principles related with accounting for asset retirement obligations.

As indicated in Note 21.4, Telefónica Móviles, S.A. adopted effective on January 1, 2004 the EITF 00-21, which suppose a change in accounting principles related with revenue recognition. The earnings per share (basic and diluted) computed on the change in the accounting principles are as follows:

	<u>12/31/03</u>	<u>12/31/04</u>
<b>Basic:</b>		
Earnings per share before cumulative change in accounting principles	0.42	0.40
Cumulative effect of a change in accounting principle, net of tax and minority interests (SFAS 143)	(8,761)	
Total effect of a change in accounting principles in revenue recognition, net of tax and minority interest		(49,052)
Earnings per share	0.00	(0.02)
Earnings per share after cumulative change in accounting principles	0.42	0.38
Weighted average number of common shares used in calculation	4,309,104,934	4,309,104,934
<b>Diluted:</b>		
Earnings per share before cumulative change in accounting principles	0.42	0.40
Effect of cumulative change in accounting principle, net of tax and minority interests (SFAS 143)	(8,761)	
Effect of cumulative change in accounting principle, net of tax and minority interests (EITF 00-21)		(49,052)
Earnings per share before cumulative change in accounting principles	0.42	0.40
Earnings per share	0.00	(0.02)
Earnings per share after cumulative change in accounting principles	0.42	0.38
Weighted average number of common shares used in calculation	4,330,550,896	4,310,130,551

The Group has recorded to the U.S. GAAP result the cumulative effect as of January 1, 2003 and 2004 of the change in these accounting principles.

**6) Business combinations, goodwill, another intangible assets and impairments**

	<u>2003</u>	<u>2004</u>
Not amortization of goodwill according to SFAS 142(a)	121,375	176,102
Additional goodwill T.Móviles México(b)	1,450,152	1,450,152
Additional goodwill Mesotel(c)	70,311	70,311
SFAS 52(d)	(987,298)	(1,184,542)



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	<u>2003</u>	<u>2004</u>
Other(e)	(10,796)	(10,796)
Deferred tax in Business Combinations (Note 21.3) (f)(g)		362,374
Difference in Goodwill in Bellsouth(f)		(40,943)
<b>Total</b>	<b><u>643,744</u></b>	<b><u>822,658</u></b>

- a) Under U.S. GAAP, in accordance with SFAS No. 142, Goodwill and Other Intangible Assets, goodwill and certain intangible assets deemed to have indefinite lives should no longer be amortized, but instead be subject to periodic, impairment testing under a fair value approach. This consideration results in lower amortization expense, of 59,674 thousand and 54,727 thousand as of December 31, 2003 and 2004, respectively. The provisions of SFAS No. 142. are applied beginning January 1, 2002 for U.S. GAAP reporting purposes.

SFAS No. 142 requires to test all goodwill and indefinite-lived intangibles for impairment as of January 1, 2002. Under Spanish GAAP, the Group utilized a fair-value approach to test goodwill for impairment. An impairment is recognized for the amount, if any, by which the carrying amount of goodwill exceeds a computed fair value. The fair value of the reporting units and the related implied fair value of its respective goodwill was established using a discounted cash flows approach. As appropriate, comparative market multiples were used to corroborate the results of the value derived from the discounted cash flows. The results of the transitional impairment test did not indicate an impairment as of January 1, 2002.

In 2002 the goodwill arising on the acquisition of Iobox Oy was written down (Note14.e) by 154 million, due to the dissolution of Iobox Oy and the closure of its subsidiaries. This goodwill is included in the segment Spain in the Segment Data included in Note 7 in the Additional Disclosures Required Under U.S. GAAP . Telefónica Móviles continues with the activities performed by Iobox Oy. As a consequence, the results of operations of Iobox Oy have not been reported as Discontinued Operations, according to SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets.

In the fourth quarter of 2003 and 2004, impairment tests were performed for all the reporting units as required by SFAS 142. The results of the first step tests did not indicate that the carrying value of the reporting units and its assigned goodwill exceeded their estimated fair value. As a result, as of December 31, 2003 and 2004, the Company did not record any impairment charge both, under Spanish and US GAAP.

- b) In June 2001, Telefónica, S.A. acquired a 100% holding in Baja Celular Mexicana, S.A. de C.V., Celular de Telefonía, S.A. de C.V. and Telefonía Celular del Norte, S.A. de C.V. and a 90% holding in Movitel del Noroeste, S.A. de C.V. in exchange of 122,560,575 new Telefónica, S.A. s ordinary shares of 1 par value each and additional paid-in capital of 4.5 per share, transferring these interests to Telefónica Móviles, S.A. through an exchange of shares on July 5, 2001. Under Spanish GAAP, goodwill of 371,251 thousand was recorded based on the difference between the stated value of the shares issued and the fair value of the net assets acquired. However, for U.S. GAAP purposes, the goodwill should be based on the fair value of the shares issued. This additional consideration would result in additional goodwill of 1,450,152 thousand.
- c) On July 22, 2002, Telefónica Móviles, S.A. carried out a capital increase, for a total amount (par value plus additional paid-in capital) of 27,658 thousand. Mesotel subscribed and paid the 14,557,046 new shares of 0.5 par value each and additional paid-in capital of 1.4 per share, in full through the contribution of the shares of the following companies still held by it: TES Holding, S.A. de C.V., Telca Gestión, S.A. de C.V., TCG Holdings, S.A., Telca Gestión Guatemala, S.A., Paging de Centroamérica, S.A. and Telefónica de Centroamérica, S.L. Under Spanish GAAP, goodwill of 14,184 thousand was recorded based on the difference



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between the stated value of the shares issued and the fair value of the net assets acquired. However, for U.S. GAAP purposes, the goodwill should be based on the fair value of the shares issued. This additional consideration would result in additional goodwill of 70,311 thousand as of December 31, 2002.

- d) Under U.S. GAAP, after a business combination accounted for by the purchase method, the amount allocated at the date of acquisition to the assets acquired and the liabilities assumed (including goodwill or an excess of acquired net assets over cost as those terms are used in SFAS No. 141, Goodwill and Other Intangible Assets) should be translated at the current exchange rate, in conformity with the requirements of SFAS No. 52, Foreign Currency Translation. This translation effect is not recorded under Spanish GAAP, and thus an adjustment is required. The impact of this GAAP difference in net income was 2,520 thousand as of December 31, 2003 and 2,668 thousand as of December 31, 2004. The accumulated negative effect in Shareholders' Equity is 987,298 thousand as of December 31, 2003 and of 1,184,542 thousand as of December 31, 2004.
- e) On April 26, 2002, we signed agreements to purchase a 65.23% of Pegaso from Sprint, Leap Wireless, Qualcomm and other financial investors. Pegaso operates in 14 cities throughout Mexico (Tijuana, Guadalajara, México D.F., Monterrey, Ensenada, Nuevo Laredo, Reynosa, Toluca, Chapala, Mexicali, Saltillo, Cuernavaca, Puebla and León) and owns licenses to operate on a nationwide basis. In connection with this agreement, we also agreed with the Burillo Group, who held a 34.77% interest in Pegaso at the time of our acquisition, to contribute our interests in Pegaso and our other Mexican operators with the Burillo Group's interest in Pegaso into a new company, Telefónica Móviles Mexico.

On September 10, 2002, having obtained authorization from the related Mexican authorities, Telefónica Móviles acquired a 65.23% holding in Pegaso Telecomunicaciones, S.A. de C.V. (Mexico) for 92,870 thousand. Subsequently, in order to strengthen its net worth position, Pegaso Telecomunicaciones, S.A. de C.V. carried out a capital increase in which Telefónica Móviles, S.A. paid 211,454 thousand corresponding to its 65.23% holding. The agreements entered into with the Pegaso Group envisaged the integration of the holdings in the northern Mexican companies and in Pegaso Telecomunicaciones, S.A. de C.V. into a single company of which the two groups would be stockholders. This transaction was implemented through the sale of the holdings to Telefónica Móviles Mexico, followed by the conversion of the debt into equity by the creditors, giving Telefónica Móviles a nationwide presence in Mexico. We hold a 92% interest in Telefónica Móviles Mexico and the Burillo Group owns the remaining 8%.

The Company adopted SFAS No. 141 to account for this acquisition. As this business combination was made in the last quarter of 2002, there was an amount of goodwill from the acquisition of Pegaso that was pending to be allocated to any potential intangibles that could exist. Considering that the intangibles that could result, if any, would have a long useful life, the effect of the amortization of those intangibles in year 2002 (three month period from acquisition) was not considered to be significant. The amount of goodwill at the time of acquisition was the same under Spanish and US GAAP.

In order to account for the acquisition of Pegaso Telecomunicaciones, S.A. de C.V. and the integration of the holding in the northern Mexican companies in Telefónica Móviles México, EITF 90.13 literature was considered. In determining the values assigned to Pegaso (Target) and to the Mexican northern companies contributed (Subsidiary), assets and liabilities and the minority interest for purposes of Telefónica Móviles, S.A. consolidated financial statements, Telefónica Móviles, S.A. should step up Pegaso's assets and liabilities to the extent acquired by Telefónica Móviles, S.A. and should step up the Mexican northern companies assets and liabilities to the extent sold to Burillo. The result obtained in the sale of the 8% of the northern Mexican companies to Burillo which were contributed to Telefónica Móviles México was not significant and therefore was not considered in the reconciliation to US GAAP. In September, 2002, the new cost basis in Telefónica Móviles México amounts to 1,885.87 million, which equals to the 92% of the fair value of Telefónica Móviles México and the historic cost of the net assets contributed to Telefónica Móviles México amounts to 1,362.9



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million ( 1,452.8 million from the northern Mexican companies and (89.9) million from Pegaso). In 2003, after the allocation process required by SFAS No. 141, 504.6 million, were allocated as a net additional value of the licenses obtained to operate nationwide wireless communications services in Mexico; this allocation has also been considered for Spanish GAAP purposes. This amount was reclassified, once the respective valuations were completed, to the Intangible Assets Concessions, Patents, Licenses and Other caption (Note 5.b). These licenses are being amortized over the concession period based on the estimated capacity to generate revenues in each period.

Under US GAAP, the allocation performed in 2003 from this purchase was as follows:

	<b>Millions of Euros</b>
Current assets	290.9
Property, plant and equipment	572.9
Intangible assets	764.1
Goodwill	18.2
<b>Total assets acquired</b>	<b>1,646.0</b>
Current liabilities	643.5
Long-term debt and other	569.6
<b>Total liabilities assumed</b>	<b>1,213.1</b>
<b>Total net assets acquired(1)</b>	<b>432.9</b>

(1) Relating to the net additional value of the license and the net assets contributed from Pegaso, and the goodwill not allocated.

In Note 18 certain agreements relating to the acquisition of the remaining 8% of Telefónica Móviles México are explained. The options included in these agreements have a minimum value at December 31, 2003 and 2004 as the minimum value to be paid to Burillo is lower than the fair value of the 8% of Telefónica Móviles México as of December 31, 2003 and 2004.

Pegaso Telecomunicaciones, S.A. de C.V. did not have any Research and Development assets.

Under U.S. GAAP, in accordance with SFAS No. 142, Goodwill and Other Intangible Assets, goodwill and certain intangible assets deemed to have indefinite lives should no longer be amortized, but instead be subject to periodic, impairment testing under a fair value approach. This consideration results in lower amortization expense. Consequently, the allocation above mentioned, generate a GAAP difference for the amortization of the asset assigned not registered during the pending period. The negative impact of this GAAP difference in net income as of December 31, 2003 was 10,796 thousand. The negative impact in shareholders' equity was 10,796 thousand as of December 31, 2003 and 2004.

f) On March 5, 2004, Telefónica Móviles, S.A. reached an agreement with BellSouth Corporation ( BellSouth ) for the acquisition of all the holdings owned by latter in Argentina, Chile, Peru, Venezuela, Colombia, Ecuador, Uruguay, Guatemala, Nicaragua and Panama, making it the only cellular operator in all the key Latin American markets (population over 421 million) and leaving it an excellent position to capture the region's strong growth potential.

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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 effective 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

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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 of 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.

There are no Research and Development assets acquired in these companies. There are no contingent considerations in connection with the mentioned acquisitions.

In addition to the acquisition of the BellSouth Group's ownership interests in the 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 these companies, and in all cases the acquisition price was equal to that agreed on with BellSouth.

Under this agreement, the total assets of the aforementioned operators were valued based on external valuations at US\$ 4,330 million (US\$ 5,850 million including the investments in Argentina and Chile acquired in January 2005). The total acquisition cost for Telefónica Móviles under Spanish GAAP, adjusted by the net debt of the companies at the transfer date, amounted to 3,252,539 thousand (excluding Chile and Argentina). The acquisition cost considered under US GAAP amounts to 3,211,596 thousand. The difference in the acquisition cost between Spanish and US GAAP of 40,943 thousand is due to specific derivative transactions that were entered into in order to hedge the forecasted business combinations. The expense incurred as a consequence of the mentioned transactions do not qualify for hedge accounting under US GAAP, according to SFAS 133 and can not be considered as additional goodwill and therefore have been considered as expenses under US GAAP.

The values assigned to each transaction and the acquisition cost for Telefónica Móviles under Spanish GAAP are described in Note 2c.

Pursuant to the agreement with BellSouth, certain procedures were performed to validate the cash and debt of the companies acquired, the end results of which are currently being negotiated by Telefónica Móviles and BellSouth Corporation. As a result of these negotiations, the debt and cash amounts taken into account for the purpose of calculating the ultimate price of the shares could be subject to slight changes, which in no case would be material with respect to the transaction taken as a whole.

The 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 has been completed at the end of 2005, the amounts of the goodwill recorded could be modified in the form of reclassifications to other balance sheet captions, although it is considered that such reclassifications would not be material.

Under US GAAP, the allocation performed in 2004 from this purchase was as follows:

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	<u>Millions of Euros</u>
Current assets	926.3
Property, plant and equipment	696.9
Intangible assets	1,116.1
Other long-lived assets	32.3
Goodwill	1,862.2
<i>Total assets acquired</i>	4,633.8
Current liabilities	732.7
Deferred tax liability (Note 21.3)	299.4

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	<b>Millions of Euros</b>
Long-term debt and other	390.1
<i>Total liabilities assumed</i>	<i>1,422.2</i>
<b>Total net assets acquired</b>	<b>3,211.6</b>

The following unaudited proforma information presents a summary of the effect in Telefónica Móviles consolidated financial statements of operations as if the acquisitions described above had occurred on January 1, 2004 and 2003.

	<b>Millions of Euros</b>	
	<b>Year ended</b>	<b>Year ended</b>
	<b>December 31, 2003</b>	<b>December 31, 2004</b>
Revenues	11,960	14,212
Net income	1,790	1,583
Basic EPS (Euros)	0.41	0.37

These unaudited proforma results have been prepared for comparative purposes only and include certain adjustments, such as amortization of the intangibles allocated and investees' results of operations for each entire period. They do not purport to be indicative of the results of operations that actually would have resulted had these operations occurred at January 1, 2004 and 2003, or future results of operations of the consolidated entities.

- g) On July 23, 2004, Telefónica Móviles, S.A. acquired to Telefónica CTC Chile, a 44.89% subsidiary of Telefónica, S.A. (which is the parent company of Telefónica Moviles, S.A.), all the shares of Telefónica 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 Spanish GAAP, amounted to 870 million. The acquisition cost considered under US GAAP amounts to 865.7 thousand, the difference in the acquisition cost between Spanish and US GAAP of 4.3 thousand is due to specific derivative transactions that were entered into in order to hedge the forecasted acquisition that have not been considered as part of the acquisition cost under US GAAP.

Prior to this date, this company was operated as 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 Spanish and US GAAP.

Under Spanish GAAP, this acquisition has been recorded as whether it had been acquired from third parties in 2004 and no restatement of financial statements of prior years has been considered in the primary financial statements as this accounting is not allowed under Spanish

GAAP.

When accounting for a transfer of assets or exchange of shares between entities under common control, Telefónica Moviles, 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.

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Telefónica Moviles, 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 Moviles, S.A under US 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, 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 effects of intercompany transactions on current assets, current liabilities, revenue, and cost of sales for periods presented and on retained earnings at the beginning of the periods presented have been eliminated.

Similarly, under US GAAP, Telefónica Moviles presents the statement of shareholders' equity as of the beginning of the period as though the assets and liabilities had been transferred at that date. Financial statements and financial information presented for prior years under US GAAP have also been restated to furnish comparative information.

The effect in net assets of this accounting treatment under US GAAP, would have been an increase of 201,870 thousand, 201,206 thousand, as of December 31, 2002, and 2003.

Under US GAAP, the allocation performed in 2004 from this purchase was as follows:

	<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 (Note 21.3)	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 this accounting treatment, under US GAAP, the excess paid to Telefónica Group companies related to the book value Telefónica had in its books at the date of the acquisition has to be deducted from net equity as it is considered a "Capital distribution". It is shown as "Goodwill transactions under common control" in the reconciliation of the shareholders' equity and amounts to 187,573 thousand. This amount is deducting the "Total net assets acquired" in this table, as the total acquisition cost under USGAAP was 865.7 million.

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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 years 2004, 2003 and 2002.

	Millions of Euros			
	Móviles Group consolidated	Telefónica Móvil Chile	Móviles Group consolidated	Móviles Group combined from
	from January 1, 2004 to July 31, 2004	from January 1, 2004 to July 31, 2004	from August 1, 2004 to December 31, 2004	January 1, 2004 to December 31, 2004(*)
YEAR 2004	2004	2004	2004	2004(*)
Revenues	6,360	231	5,685	12,276

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	Millions of Euros			
	Móviles Group consolidated from January 1, 2004 to July 31, 2004	Telefónica Móvil Chile from January 1, 2004 to July 31, 2004	Móviles Group consolidated from August 1, 2004 to December 31, 2004	Móviles Group combined from January 1, 2004 to December 31, 2004(*)
<b>YEAR 2004</b>				
Minority interests	(1)	7	23	29
Net income	1,061	(5)	573	1,629

(\*) This column reflects the revenues, minorities and net income although 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 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.

	Millions of Euros		
	Móviles Group consolidated year 2003	Telefónica Móvil Chile year 2003	Móviles Group combined year 2003(*)
<b>YEAR 2003</b>			
Revenues	10,223	362	10,585
Minority interests	21	(4)	17
Net income	1,608	3	1,611

(\*) This column reflects the revenues, minorities and net income although the transfer of net assets had occurred at the beginning of the period.

	Millions of Euros		
	Móviles Group consolidated year 2002	Telefónica Móvil Chile year 2002	Móviles Group combined year 2002(*)
<b>YEAR 2002</b>			
Revenues	9,231	312	9,543
Minority interests	4,364	(3)	4,361
Net income	(3,724)	3	(3,721)

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(\*) This column reflects the revenues, minorities and net income although the transfer of net assets had occurred at the beginning of the period.

The Basic EPS (Euros) if the transfer of net assets had occurred on January 1, 2004 and 2003 had been 0.38 and 0.37, respectively.

The effect in the cash flows is not significant.

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**7) Derivative instruments and hedging activities**

Under U.S. GAAP, Statement of Financial Accounting Standard No. 133 ( SFAS 133 ), Accounting for Derivative Instruments and Hedging Activities, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (embedded derivatives) and for hedging activities. SFAS No. 133 requires that all derivatives, whether designated in hedging relationships or not, be recorded on the balance sheet at fair value. The difference between a derivative's previous carrying amount and its fair value shall be reported as a transition adjustment in net income or other comprehensive income, as appropriate, as the effect of a change in accounting principle. The accounting for changes in fair value of a derivative instrument depends on its intended use and the resulting designation.

If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive income ( OCI ) and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings. The gain or loss on a hedging derivative instrument that is designated as, and is effective as, an economic hedge of the net investment in a foreign operation shall be reported in the same manner as a translation adjustment to the extent it is effective as a hedge. The ineffective portion of net investment hedges shall be reported in earnings.

***Fair Value Hedges***

Under U.S. GAAP all derivatives, whether designated in hedging relationships or not, are recorded on the balance sheet at fair value. The fair value hedges under Spanish GAAP are considered as trading under US GAAP for the years presented in the US GAAP reconciliation, and accordingly, all derivatives are marked to market under US GAAP.

***Net Investment Hedges***

Telefónica Móviles' policy is to attempt to finance some of its activities, considering the specific market conditions, in the same currencies as those used for its foreign investments or in a currency that matches the functional currency of the investee's country, in order to hedge foreign currency exposure of net investments in foreign operations. This strategy is implemented through by financing in the related currency or in a currency that matches the functional currency of the investee's country, thereby reducing the exchange risk.

For the year ended December 31, 2002, approximately 2,841 thousand of net income related to non-derivative instruments that qualified as net investment hedges were considered as a cumulative translation adjustment under Spanish GAAP and U.S. GAAP.

For the year ended December 31, 2003, there were not any amounts related to non-derivative instruments used as net investment hedges that were included as a cumulative translation adjustment under U.S. GAAP.

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For the year ended December 31, 2004, approximately an amount of 1,692 thousand related to non-derivative instruments that qualified as net investment hedges for the investments made in Chile were included as a cumulative translation adjustment under U.S. GAAP. This amount principally offset the net gains recorded on the respective net investments in foreign currencies being hedged. These hedge instruments resulted in no amount of ineffectiveness.

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As of December 31, 2002, 2003 and 2004 the adjustments considered into the reconciliation to U.S. GAAP, from cumulative translation adjustment to net income amount to a total of 20,597 thousand, ( 5,794) thousand, ( 6,145) thousand in 2002, 2003 and 2004, respectively.

***Cash Flow Hedges***

As part of its overall risk management strategy, Telefónica Móviles, S.A. uses derivatives to convert its variable-rate notes into fixed-rate debt. Most of these derivatives, considered effective according to SFAS No. 133, are designated as cash flow hedges to manage the cash flow exposure due to interest rate fluctuations.

As of December 31, 2003 and 2004, Telefónica Móviles, S.A. has recognized 479 thousand and 39,267 thousand in other comprehensive income for the effective portion of hedges of future cash flows. Derivative gains and losses included in other comprehensive income are reclassified into earnings concurrently with the recognition in earnings of the cash flow item being hedged.

Under U.S. GAAP all derivatives, whether designated in hedging relationships or not, are recorded on the balance sheet at fair value. Additionally, those hedging relationships which are designated as cash flow hedges under U.S. GAAP have their respective effective portion of the gain or loss recorded in other comprehensive income until it is necessary to be adjusted against net income in order to offset the respective change in expected future cash flows on the hedged transaction. All of the ineffective portion and excluded component of the derivative instruments is included in earnings.

Telefónica Móviles estimates that an insignificant amount of the net derivative gains included in OCI as of December 31, 2003 and 2004 will be reclassified into earnings within the next twelve months, respectively. The maximum time over which Telefónica Móviles is hedging exposure to variability of cash flows is 5 years.

***Other Derivative Contracts***

Telefónica Móviles, S.A. holds various interest rate and foreign exchange derivative instruments, which were not formally designated under SFAS 133 for the application of hedge accounting.

Under Spanish GAAP these derivatives are recorded at lower of cost or market value. Under U.S. GAAP all derivatives not designated as certain hedges are recorded on the balance sheet at fair value being recorded as a component of income from continuing operations during the period that such contracts remain outstanding. The impact of this GAAP difference in net income as of December 31, 2003 and 2004 was ( 25,647) thousand and 9,623 thousand, respectively.

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Derivative instruments are reported on a net-by-counter party basis on the consolidated balance sheet where management believes a legal right of setoff exists under an enforceable netting agreement. The fair value of derivative instruments, as of December 31, 2003 is set forth below:

	<b>Thousands of Euros</b>	
	<b>December 31, 2003</b>	
	<b>Assets</b>	<b>Liabilities</b>
Interest rate swaps		7,665
Foreign currency Swap contracts	21,927	202,645
Options	3,831	

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The fair value of derivative instruments, as of December 31, 2004 is set forth below:

	<b>Thousands of Euros</b>	
	<b>December 31, 2004</b>	
	<b>Assets</b>	<b>Liabilities</b>
Interest rate swaps		3,043
Foreign currency Swap contracts	9,746	199,726
Options and forwards	23,000	42,100
Other		11,419

**8) U.S. GAAP adjustments related to companies consolidated by the equity method**

It reflects the U.S. GAAP adjustments made in the companies consolidated by the equity method. All the adjustments made in these companies have the same nature as the adjustments described above. The main adjustments refer to Recognition of Revenues and Expenses (Note 21.4) and to Start-up expenses (Note 21.1.b) in the companies Médi Telecom, S.A., Ipse 2000, S.p.A., Mobipay España, S.A. and Mobipay International, S.A.

**9) 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, Telefónica Móviles, S.A. use as method of accounting for Brasilcel, N.V. under Spanish GAAP the proportional integration method from the date above mentioned. For US GAAP purposes, Brasilcel, N.V. would be accounted for under the equity method from such date. In addition, for 2004 and 2003, this reconciliation item includes the US GAAP adjustments to shareholders' equity of the investment that would be accounted for under the equity method of accounting. The US GAAP adjustments relating to the net income related to Brasilcel have been considered in 2003 and in 2004, as the transaction took place at December 27, 2002, and the net income statements of the Brazilian companies were fully consolidated, under Spanish and US GAAP in 2002.

The fair value of the contribution to Brasilcel, N.V. of the wireless assets owned by Telefónica Móviles, S.A. was 1,898 million. Its balance sheet was proportionally consolidated in the consolidated financial statements and the results for the whole year of the Brazilian companies contributed by Telefónica Móviles were recorded in the consolidated statement of operations when this transfer was made (on December 27, 2002). Under U.S. GAAP, Telefónica Móviles, S.A. should consolidate these companies under equity method. According to EITF Issue 01 / 02 Interpretation of APB Opinion N° 29, the exchange of a consolidated business for an interest in a joint venture, would not result in a gain recognition, absent the receipt of cash or near cash consideration; as a consequence, Brasilcel, N.V. has been considered in the consolidation for U.S. and Spanish GAAP at historical cost of the consolidated business in Brazil prior to the transaction.

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The following unaudited proforma information presents a summary of the effect in Telefónica Móviles' combined statements of operations as if the acquisitions described above had occurred on January 1, 2002.

	<b>Millions of Euros</b>
	<b>Year ended</b>
	<b>December 31, 2002</b>
Revenues	9,305

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	<b>Millions of Euros</b>
	<b>Year ended</b>
	<b>December 31, 2002</b>
Net income	(3,973)
Basic EPS (Euros)	(0.93)

These unaudited proforma results have been prepared for comparative purposes only and include certain adjustments, such as amortization of goodwill and investees' results of operations for each entire period. They do not purport to be indicative of the results of operations that actually would have resulted had these operations occurred at January 1, 2002 and 2001, or future results of operations of the consolidated entities.

The main impacts in shareholders' equity reconciliation, as of December 31, 2004 and 2003, and in net income reconciliation as of December 31, 2004 and 2003 are as follows:

	<b>2003</b>	<b>2004</b>
Start-up expenses (Note 21.1.a)	(5,822)	501
Capitalized interests (Note 21.1.d)	7,898	14,574
Business combinations	(60,311)	(4,116)
SFAS 133	110,491	117,986
Other adjustments		(26,226)
Tax effect on the above adjustments	(39,129)	(37,687)
Effect of minority interests on the above adjustments	(26,665)	(20,117)
<b>Total effect in equity</b>	<b>(13,538)</b>	<b>44,915</b>

	<b>2003</b>	<b>2004</b>
Start-up expenses (Note 21.1.a)	10,707	6,325
Capitalized interests (Note 21.1.d)	1,772	4,428
Business combinations (c)(d)(e)	46,798	50,430
SFAS 133	149,985	4,881
Other adjustments		(26,226)
Tax effect on the above adjustments	(56,862)	3,143
Effect of minority interests on the above adjustments	(34,102)	6,734
<b>Total effect in net income</b>	<b>118,298</b>	<b>49,715</b>

*Business combinations*

The main effects considered in the adjustment for business combinations are the following:

	<u>2003</u>	<u>2004</u>
Additional goodwill(a)	1,654,072	1,654,072
Impairment Telesudeste(b)	(361,792)	(361,792)
SFAS 142(c)	70,986	114,776
TCO acquisition goodwill allocation(d)	(2,286)	(11,273)

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	<u>2003</u>	<u>2004</u>
SFAS 52(e)	(1,421,291)	(1,399,899)
<b>Total effect in equity</b>	<b>(60,311)</b>	<b>(4,116)</b>

- a) On July 6, 2000, Telefónica, S.A. issued 90,517,917 new shares of 1 par value each and additional paid-in capital of 2.995 per share, in exchange for shares of Tele Sudeste Celular Participações, S.A., held by public shareholders of this company. As result of this transaction, the Telefónica Group acquired an additional 68.41% interest in Tele Sudeste Celular Participações, S.A. The accounts of this company have been reflected in the consolidated financial statements of Telefónica Móviles, S.A. from the date of acquisition by the Telefónica Group of the initial interest in this company in July 1998.

Under Spanish GAAP, negative goodwill of 38,831 thousand was recorded based on the difference between the stated value of the shares issued, as determined by Telefónica S.A.'s board of directors, and the fair value of the net assets acquired. Under U.S. GAAP, the goodwill resulting from this transaction would be based on the fair value of the shares issued. This difference results in additional goodwill of 1,774,603 thousand. Such additional goodwill resulted in additional amortization expense of 44,367 thousand as of December 31, 2000 and of 88,727 thousand as of December 31, 2001.

Other similar minor transactions related to Brasilcel, N.V. carry out an additional goodwill under U.S. GAAP of 12,563 thousand as of December 31, 2002.

- b) In December, 2001, a goodwill impairment analysis was performed on the Company's recorded goodwill. From this analysis, the Company determined that the goodwill related to Tele Sudeste Celular Participações, S.A. was impaired, and thus reduced the goodwill by approximately Euros 362 million.
- c) Under U.S. GAAP, in accordance with SFAS No. 142, Goodwill and Other Intangible Assets, goodwill and certain intangible assets deemed to have indefinite lives should no longer be amortized, but instead be subject to periodic, impairment testing under a fair value approach. This consideration results in lower amortization expense of 43,620 thousand as of December 31, 2003 and of 43,357 thousand as of December 31, 2004.
- d) As described in Note 2.c, during 2003, Telesp Celular Participações, S.A. (TCP), 65.12% owned by Brasilcel, N.V., acquired from the Brazilian company Fixcel (controlled by the Splice Group) a percentage of the capital stock of the Brazilian company Tele Centro Oeste Celular Participações, S.A (TCO). As a consequence of this acquisition a goodwill was recorded based on the difference between the stated value of the shares issued, as determined by TCP's board of directors, and the fair value of the net assets acquired. Under U.S. GAAP, the goodwill resulting was allocated as a net additional value of the licenses obtained to operate nationwide wireless communications services in the Brazilian areas where the acquired company runs.

Also, as described in Note 2.c, during 2004 TCP acquired in a tender offer an additional 21.7% of TCO. Under USGAAP, the goodwill resulting was allocated as net additional value of the licenses and other intangible assets.

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The adjustment amounts as of December 31, 2003 and 2004 to a negative net equity of 2,286 thousand and 11,273 thousand, respectively and to a loss of 10,225 thousand and 8,987 thousand, respectively.

- e) The translation adjustment, in conformity with the requirements of SFAS No. 52, Foreign Currency Translation, related to goodwill of Brasilcel, N.V. amounts a gain of 13,403 thousand as of December 31, 2003 and of 16,060 thousand as of December 31, 2004 and the accumulated negative effect in Shareholders' Equity is 1,421,291 thousand and 1,399,899 thousand as of December 31, 2003 and 2004, respectively.

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**Table of Contents****Telefónica Móviles, S.A.****10) Shares in Deposit at Finance Entities acting as Agents in Stock Option Plans**

On October 11, 2001, Telefónica Móviles, S.A. carried out the capital increase authorized by the Stockholders Meeting on October 26, 2000, the objective of which is the coverage of the stock options plan of Telefónica Móviles, S.A. (MOS Program), through the issue of a total of 21,445,962 common shares with a par value of 0.5 each. These shares were subscribed and paid 50% by Banco Bilbao Vizcaya Argentaria, S.A. and 50% by Caja de Ahorros y Pensiones de Barcelona with additional paid-in capital of 32,169,000 (Note 18).

In the Spanish GAAP financial statements, the amount paid by the two finance entities, Banco Bilbao Vizcaya Argentaria (BBVA) and Caja de Ahorros y Pensiones de Barcelona (La Caixa), acting as agents in the Stock Option Plan for Telefónica Móviles, S.A.'s employees is recorded as a capital increase subscribed to by the afore-mentioned companies. For U.S. GAAP reporting purposes, this amount is shown as a component of the long-term liabilities.

According to Spanish GAAP, the Company has not recorded any compensation expense relating to the MOS Plan for the year ended December 31, 2004.

Under U.S. GAAP, the Company accounts for stock-based awards to employees using the intrinsic value method in accordance with APB 25, *Accounting for Stock Issued to Employees*. Compensation cost for stock options granted to employees is measured as the excess of the quoted market price of the Company's stock on the measurement date over the amount an employee must pay to acquire the stock (the intrinsic value), and is recognized over the vesting period. As this stock option plan permits at the option of the holder either exercise for cash or in shares, according to US GAAP, the option should be accounted for as a variable plan. On December 31, 2003 the closing market share price was Euro 8.28 and on December 31, 2004 the closing market share price was Euro 9.26. There are three tranches of Options: tranche A, with an exercise price of 11; tranche B, with an exercise price of 16.5 and tranche C, with an exercise price 7.235; each beneficiary of the Program will receive an equal number of tranche A and tranche B options and a number of tranche C options equal to the sum of the tranche A and tranche B options received. For the tranche C options (in the money at the end of 2003), the Company's charge for the year ended 2003 and 2004 would not have been significant in net income or basic earnings per share.

Had compensation expense for options granted under MOS Program been determined based on fair value at each of the period closing dates in accordance with SFAS No. 123, the Company's charge for the years ended December 31, 2002, 2003 and 2004 would not have been significant in net income or basic earnings per share. Additionally, the weighted-average grant-date fair value of options granted during the year has been less than the market price of the stock on the grant date. The fair value of each option granted was estimated using the Black-Scholes option pricing model, for each option with the same vesting period, using the following average assumptions: December 31, 2002: risk-free interest rate of 4.08%; expected dividend yield of 0.00 percent; and assumed volatility of 45.27%. December 31, 2003: risk-free interest rate of 2.27%; expected dividend yield of 2.63 percent; and assumed volatility of 29.18%. December 31, 2004: risk-free interest rate of 2.27%; expected dividend yield of 2.07 percent; and assumed volatility of 17.75%.

The status of the Company's stock option plan is summarized below as of December 31, 2004:

**Number of Stock  
Options**

<b>Outstanding at December 31, 2002</b>	<b>16,392,164</b>
Granted	606,895
Cancelled(1)	(2,262,513)
Exercised(2)	(1,917,472)

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	<b>Number of Stock Options</b>
<b>Outstanding at December 31, 2003</b>	<b>12,819,072</b>
Granted	
Cancelled(3)	(563,262)
Exercised(4)	(1,118,665)
<b>Outstanding at December 31, 2004</b>	<b>11,137,144</b>

- (1) Options of employees who left the Group from 1-01-01 until 30-09-03 with no exercise value.
- (2) Options settled before the maturity date to the employees who work for companies out of the Group and to the employees who left the Group from 1-10-03 until 31-12-03.
- (3) Options of employees who left the group during 2004.
- (4) Includes both, options exercise in First Exercise period and options early settled during 2004.

As of January 3, 2004 one third of each tranche of options were exercisable. 778 employees exercised a total of 79,823 options. Additionally during 2004, 859 employees, owning a total of 1,602,105 options, left the program as a result of early settlement or voluntary withdrawal.

As of January 3, 2005 another third of each tranche of shares were exercisable.

**11) Employees terminations**

Under local GAAP, as of December 2002, 4,288 thousand were provided for employees terminations that do not fulfill the mentioned requirements in EITF 94-3 or either in SFAS 146 and therefore this amount was adjusted under US GAAP. As of December 2003, 4,262 thousand have been reversed as these employees terminations have been paid. As of December 2004, the pending 130 thousand have also been reversed.

**12) Effective interest rate**

Several contracts in Telefónica Comunicaciones Personales, S.A. accrue increasing interest rates. This practice is allowed under Spanish GAAP. However, for US GAAP purposes according to APB 21, it is necessary to calculate an effective interest rate (an Investment Return Rate equivalent) for the period in which the contract is effective.

**13) Foreign currency exchange rate**

Spanish GAAP requires unrealized foreign currency exchange gains in excess of recorded foreign currency exchange loss to be deferred. Under U.S. GAAP, foreign currency exchange gains are included in income, in accordance with SFAS No. 52, Foreign Currency Translation.

**14) Assets retirement obligations**

Effective January 1, 2003, Telefónica Móviles Group adopted the provisions of SFAS No. 143, Accounting for Asset Retirement Obligations. An asset retirement obligation represents a legal obligation associated with the retirement of a tangible long-lived asset that is incurred upon the acquisition, construction, development or normal operation of that long-lived asset. This standard requires Telefónica Móviles Group to recognize asset retirement obligations in the period in which they are incurred, if a reasonable estimate of fair value can be made. The asset

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retirement obligations are accreted to their present value at the end of each reporting period. The associated estimated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depreciated over its useful life.

Telefónica Móviles Group evaluated its assets, particularly wireless network installations, utilized in its operations in Spain and overseas. During this evaluation, it was determined that it had legal obligations to return certain assets to their condition before Telefónica Móviles Group obtained ownership or use of the related assets.

Adoption of this standard resulted in an increase in non-current assets and non-current liabilities of 34,3 million and 44,1 million, respectively, and a cumulative effect adjustment reducing net income by 8,8 million after-tax (Note 21.5).

On a pro forma basis, assuming SFAS 143 had been adopted at the beginning of the period, Telefónica Móviles Group's Statements of Income for 2002 would have decreased by 1,9 million, net of tax, and the liability for asset retirement obligations as of December 31, 2002 would have been 42,3 million. Because the amounts related to the income for 2002 would have been no significant there would not have any effect in the earning per share (EPS) for 2002 .

As of December 2004, 361 thousand have been expensed under USGAAP.

**Additional Disclosures Required Under U.S. GAAP**

**1) Use of estimates in preparation of the consolidated financial statements**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from such estimates.

**2) Consolidation method**

Under Spanish GAAP, unlisted companies in which a holding of at least 20% (or 3% if listed) is owned, are carried by the equity method. On the other hand, investments in companies in which the Company owns less than 50% of the common voting stock must be consolidated when such companies are considered for Spanish GAAP purposes to be controlled by the Company. In general, under U.S. GAAP, companies in which a holding of between 20% and 50% is owned are carried by the equity method, unless there is evidence that significant influence is exercised over their management.

*2002 - 2004*

The balance sheet of Brasilcel, N.V. and its dependent companies has been consolidated during 2002 (the net income statements in this year were fully consolidated, under Spanish and US GAAP), 2003 and 2004 under Spanish GAAP under the proportional integration method. However, under U.S. GAAP, Telefónica Móviles, S.A. should consolidate these companies under equity method.

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The following summarizes the effect on the balance sheet at December 31, 2003 and 2004, and on the statements of operations and cash flows for the years ended December 31, 2002, 2003 and 2004, of reversing the consolidation of these investments and accounting for them under the equity method under U.S. GAAP:

	Thousands of Euros	Thousands of Euros
	12/31/03	12/31/04
<b>Condensed balance sheets</b>		
Start-up expenses	(34,334)	(28,275)
Intangible assets	(1,186,714)	(1,249,377)
Property, plant and equipment	(853,924)	(890,674)
Investments in associated companies	1,831,336	2,065,102
Other financial investments	(783,874)	(781,857)
Current assets	(757,341)	(985,225)
	(1,784,851)	(1,870,306)
Minority interests	(387,985)	(308,015)
Long-term liabilities	(369,286)	(383,506)
Current liabilities	(1,027,581)	(1,178,785)
	(1,784,851)	(1,870,306)

	Thousands of Euros		
	12/31/02	12/31/03	12/31/04
Net revenues from operations	(1,377,840)	(1,521,699)	
Other revenues	(41,051)	(47,927)	
Operating Expenses:			
Services and goods purchased	401,601	504,206	
External services and local taxes	365,036	419,173	
Personnel expenses	83,128	90,312	
Depreciation and amortization	336,531	317,826	
Other operating expenses	25,700	9,484	
<b>Operating Income</b>	<b>(206,896)</b>	<b>(228,625)</b>	
Amortization of Goodwill	43,617	43,357	
Losses of associated companies	(52,057)	(54,348)	
Financial expense	621,676	272,359	
Financial income	(481,776)	(121,856)	
<b>Income (losses) from ordinary activities</b>	<b>(75,436)</b>	<b>(89,113)</b>	
Extraordinary income (expense)	(11,531)	(5,687)	
<b>Income (losses) before tax and minority interest</b>	<b>(86,967)</b>	<b>(94,800)</b>	
Corporate income tax	65,091	58,536	

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Minority interest		21,876	36,264
<b>Net Income (losses) for the year</b>			

There is no effect on the statements of operations in 2002, as the contributions of the shares were made on December 27, 2002.



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<b>Condensed statements of cash flow</b>	<b>Thousands of Euros</b>		
	<b>12/31/02</b>	<b>12/31/03</b>	<b>12/31/04</b>
Net cash provided by operating activities		(304,663)	(144,054)
Net cash used in investing activities	(69,052)	353,592	435,652
Net cash used in financing activities		4,369	(303,385)
Net change in cash and cash equivalents	(69,052)	53,298	(11,787)
Cash and cash equivalents at beginning of year		(69,052)	(15,754)
<b>Cash and cash equivalents at year-end</b>	<b>(69,052)</b>	<b>(15,754)</b>	<b>(27,541)</b>

**3) Disclosure about fair value of financial instruments**

SFAS No. 107, Disclosure about Fair Value of Financial Instruments, requires that the Group disclose the estimated fair value of its financial instruments at December 31, 2003 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.

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f. Off-balance sheet risks-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 12/31/03		Balance at 12/31/04	
	Carrying value	Fair Value	Carrying value	Fair Value
<b>Liabilities:</b>				
Short-term payables	3,920,325	3,932,539	7,904,335	7,906,268
Security issues			5,373	5,373
Other payables	125,737	140,527	133,016	141,162
Payable to banks and other financial institutions	66,497	69,307	191,183	202,969
Payable to Telefónica Group companies	4,864,423	5,183,557	7,817,441	8,294,189
<b>Derivative financial instruments:</b>				
Foreign currency swaps, options and forwards	(175,957)	(176,887)	(191,570)	(209,080)
Interest rate swaps		(7,665)	(181)	(3,043)
Others				(11,419)

**4) Comprehensive Income**

SFAS No. 130 defines comprehensive income as a measure of all changes in equity of an enterprise during a period that result from transactions and other economic events of the period other than transactions with owners. Under Spanish GAAP, comprehensive income components are recorded as separate items in Shareholders' equity.

The following represents the statement of comprehensive income prepared under U.S. GAAP:

Thousands of Euros
Year ended

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<u>Statement of Comprehensive Income</u>	<u>12/31/02</u>	<u>12/31/03</u>	<u>12/31/04</u>
Net Income under U.S. GAAP	(3,644,742)	1,818,096	1,621,681
Other Comprehensive Income:			
Foreign currency translation adjustments	(2,139,479)	(467,675)	(327,429)
SFAS 133 adjustment	500	(3,889)	(18,056)
<b>Comprehensive income</b>	<b>(5,783,721)</b>	<b>1,346,532</b>	<b>1,276,196</b>

The following chart describes changes in accumulated Other comprehensive income :

<u>Other Comprehensive Income</u>	<u>Thousands of Euros</u>
	<u>Foreign Currency Items</u>
Ending balance at December 2002	(3,033,765)
Period change	(471,564)
Ending balance at December 2003	(3,505,329)
Period change	(345,485)
Ending balance at December 2004	(3,850,814)

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The following chart describes the accumulated balances of Other comprehensive income as of December 31, 2002, 2003 and 2004:

Components of accumulated other comprehensive Income (Loss)	Thousands of Euros		
	Year ended		
	12/31/02	12/31/03	12/31/04
Foreign currency translation adjustments, net of tax	(3,042,643)	(3,510,318)	(3,837,747)
Derivatives and hedging activities SFAS 133, net of tax	8,878	4,989	(13,067)
<b>Comprehensive income</b>	<b>(3,033,765)</b>	<b>(3,505,329)</b>	<b>(3,850,814)</b>

**5) Statements of cash flows**

Spanish GAAP does not require presentation of a statement of cash flows.

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments (or investments) purchased to be cash equivalents, i.e., cash and banks and short-term investments.

The following are consolidated statements of cash flows based on the financial statement amounts reported under Spanish GAAP:

Net income under Spanish GAAP:	Thousands of Euros		
	Year ended		
	12/31/02	12/31/03	12/31/04
<b>Net income under Spanish GAAP:</b>	<b>(3,724,399)</b>	<b>1,607,838</b>	<b>1,633,910</b>
Adjustments to reconcile net income to net cash Provided by operating activities:			
Depreciation and amortization	1,403,502	1,522,351	1,705,711
Provision for contingencies and expenses	2,085,586	(12,138)	105,296
Other provisions	(27,843)	14,528	6,453
Participation in results of associated companies	159,477	80,656	38,232
Loss on disposal of fixed assets	9,383,619	9,497	10,938
Gain on sale of fixed assets and financial investment disposals	(1,955)	(14,081)	(10,234)
Results attributed to minority interests	(4,363,987)	(21,127)	(21,720)
Change in operating assets and liabilities, net of effects from purchase of new investments:			
Decrease (increase) in inventory	23,024	(12,887)	(368,668)
Decrease (increase) in accounts receivable	(241,915)	(537,566)	(682,761)

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Decrease (increase) in prepayments and income tax receivable	(2,212,611)	(118,279)	(522,662)
Increase (decrease) in accounts payable and accrued expenses	715,927	354,957	562,770
Increase (decrease) in interest payable	7,509	(3,024)	30,786
Increase (decrease) in income tax payable	(1,049,178)	810,757	1,443,303
Total adjustments	5,881,155	2,073,643	2,297,445
<b>Net cash provided by (used in) operating activities</b>	<b>2,156,756</b>	<b>3,681,481</b>	<b>3,931,355</b>

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	Thousands of Euros		
	12/31/02	12/31/03	12/31/04
<b>Cash flow from investing activities:</b>			
Proceeds from sale of property, plant and equipment	41,212	24,618	11,632
Proceeds from financial investments, net of purchases	566	14,318	8,826
Proceeds from capital grants	(355)		
Capital expenditures	(1,046,596)	(834,879)	(1,397,317)
Purchase of new investments, net of cash acquired	(797,238)	(346,429)	(4,583,062)
Payments for deferred charges	46,192	(12,740)	(8,086)
<b>Net cash provided by (used in) investing activities</b>	<b>(1,756,219)</b>	<b>(1,155,113)</b>	<b>(5,968,007)</b>
<b>Cash flow from financing activities:</b>			
Proceeds from other loans, credit facilities and notes payable	5,807,619	2,236,641	5,603,177
Repayments from other loans, credit facilities and notes payable	(6,139,841)	(4,081,009)	(2,589,934)
Dividends paid and contributions from minority interest owners	17,874	(767,760)	(795,955)
<b>Net cash provided by (used in) financing activities</b>	<b>(314,348)</b>	<b>(2,612,128)</b>	<b>2,217,288</b>
Effects of exchange rate changes on cash	(37,055)	27,134	98,731
<b>Net change in cash</b>	<b>49,134</b>	<b>(58,626)</b>	<b>279,367</b>
Cash at beginning of year	71,412	120,546	61,920
<b>Cash at end of year</b>	<b>120,546</b>	<b>61,920</b>	<b>341,287</b>

Supplementary information required by SFAS 95, Interest and income tax payments made during 2002, 2003 and 2004, is as follows:

	Thousands of Euros		
	12/31/02	12/31/03	12/31/04
Interest	502,261	648,490	572,376
Income taxes	934,119	51,231	55,780

**6) Earnings per share**

Spanish GAAP does not require the net earnings per share to be disclosed in the financial statements.

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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>12/31/02</u>	<u>12/31/03</u>	<u>12/31/04</u>
<b>Earnings per share (U.S. GAAP):</b>			
Basic	(0.85)	0.42	0.38

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	<u>12/31/02</u>	<u>12/31/03</u>	<u>12/31/04</u>
Diluted	(0.85)	0.42	0.38
<b>Weight average number of shares used in calculation:</b>			
Basic	4,290,372,979	4,309,104,934	4,309,104,934
Diluted	4,311,818,941	4,330,550,896	4,310,130,551

**7) Segment data**

The Group is organized and managed by geographic segments.

The Company views operating income or loss before depreciation and amortization as one of the primary measures of segment profit (loss).

The accounting principles used in accounting for the segments are the same as those used in the consolidated financial statements. Transactions between segments were immaterial during 2002, 2003 and 2004.

Segment information for 2002, 2003, and 2004 was as follows:

2002	Thousands of Euros				
	<u>Spain</u>	<u>Latin America</u>	<u>Europe and Mediterranean Basin</u>	<u>Consolidation Adjustments and other(*)</u>	<u>Total</u>
Net revenues from operations	6,833,740	2,291,446	51,895	(37,246)	9,139,835
Other revenues	69,642	38,239	8,623	(25,434)	91,070
Operating expenses (excluding depreciation and amortization)	(3,442,804)	(1,736,793)	(285,770)	29,668	(5,495,035)
Operating income before depreciation and amortization	3,460,578	592,892	(225,252)	(92,348)	3,735,870
Depreciation and amortization	(683,634)	(514,942)	(62,422)	(55,408)	(1,316,406)
Operating Income	2,776,944	77,950	(287,674)	(147,756)	2,419,464
Amortization of goodwill	(18,672)	(19,411)		(49,013)	(87,096)
Income (losses) of associated companies	(4,742)	(1,558)	(153,177)		(159,477)
Financial income (expense)	(192,924)	(450,483)	(49,332)	376,543	(316,196)
Extraordinary income (expense)	(7,408,067)	(30,685)	(11,418,991)	6,781,841	(12,075,902)
Income before tax and minority interests	(4,847,461)	(424,187)	(11,909,174)	6,961,615	(10,219,207)
Corporate income tax	(1,874,440)	67,730	33,959	(358,070)	(2,130,821)
Minority interests		65,874		4,298,113	4,363,987
Net income (loss)	(2,973,021)	(426,043)	(11,943,133)	11,617,798	(3,724,399)

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Capital expenditures	524,546	311,683	203,393	6,974	1,046,596
Property, plant and equipment (net)	2,098,049	2,558,127	3,263	2,290	4,661,729
Total assets	7,915,218	5,492,704	1,224,842	1,598,950	16,231,714

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**Table of Contents****Telefónica Móviles, S.A.**

Thousands of Euros					
2003	Spain	Latin America	Europe and Mediterranean Basin	Consolidation Adjustments and other(*)	Total
Net revenues from operations	7,513,076	2,588,250		(31,042)	10,070,284
Other revenues	83,729	44,966	1,883	21,825	152,403
Operating expenses (excluding depreciation and amortization)	(3,658,010)	(2,050,913)	(10,229)	(40,651)	(5,759,803)
Operating income before depreciation and amortization	3,938,795	582,304	(8,346)	(49,869)	4,462,884
Depreciation and amortization	(707,189)	(676,009)	(60)	(37,390)	(1,420,648)
Operating Income	3,231,606	(93,705)	(8,406)	(87,259)	3,042,236
Amortization of goodwill		(131,732)		(30,029)	(101,703)
Income (losses) of associated companies	(765)	(288)	(76,756)	(2,847)	(80,656)
Financial income (expense)	(181,199)	(213,016)	(45,715)	61,793	(378,137)
Extraordinary income (expense)	(252,435)	(940)	(415)	249,254	(4,536)
Income before tax and minority interests	2,797,207	(439,681)	(131,292)	250,970	2,477,204
Corporate income tax	974,353	62,660	3	(146,523)	890,493
Minority interests		(19,335)		40,462	21,127
Net income (loss)	1,822,854	(521,676)	(131,295)	437,955	1,607,838
Capital expenditures	522,112	690,967	41	545	1,213,665
Property, plant and equipment (net)	1,912,924	2,474,870	100	(39,451)	4,384,353
Total assets	5,480,253	7,794,874	127,266	2,261,671	15,664,063

Thousands of Euros					
2004	Spain	Latin America	Europe and Mediterranean Basin	Consolidation Adjustments and other(*)	Total
Net revenues from operations	8,194,457	3,658,826		(25,692)	11,827,591
Other revenues	77,257	120,352	371	19,290	217,270
Operating expenses (excluding depreciation and amortization)	(4,071,645)	(3,217,028)	(3,255)	(51,966)	(7,343,894)
Operating income before depreciation and amortization	4,200,069	562,150	(2,884)	(58,368)	4,700,967
Depreciation and amortization	(720,225)	(805,371)	(24)	(85,383)	(1,611,003)
Operating Income	3,479,844	(243,221)	(2,908)	(143,751)	3,089,964
Amortization of goodwill		(125,624)		30,916	(94,708)
Income (losses) of associated companies	(1,457)	(164)	(36,612)	1	(38,232)
Financial income (expense)	(108,197)	(357,544)	(39,077)	151,050	(353,768)
Extraordinary income (expense)	(145,870)	(59,111)	4,289	107,743	(92,949)
Income before tax and minority interests	3,224,321	(785,663)	(74,308)	145,957	2,510,307
Corporate income tax	(1,081,068)	(79,822)	(121)	262,894	(898,117)
Minority interests		(44,026)		65,746	21,720
Net income (loss)	2,143,253	(909,511)	(74,429)	474,597	1,633,910
Capital expenditures	630,009	987,074	3	5,198	1,622,284

**Table of Contents****Telefónica Móviles, S.A.**

2004	Thousands of Euros				Total
	Spain	Latin America	Europe and Mediterranean Basin	Consolidation Adjustments and other(*)	
Property, plant and equipment (net)	1,881,460	3,880,473	77	(122,016)	5,639,994
Total assets	9,107,123	11,650,734	64,629	2,748,428	23,570,914

(\*) Include holding companies

*Measurement of Segments:*

We include in the disclosure of segment data those measures of profit or loss which are reviewed by the operating management to assess the performance of each segment, basically operating revenues (sales to external clients and to other segments), operating expenses, operating income before depreciation and amortization, and capital expenditures.

The budgets and strategic plans of the segments include the above mentioned measures, and our chief operating decision maker reviews them on a monthly basis in order to assess the performance of the segments and make decisions to improve it and also to evaluate the accomplishment of the management of each segment.

The rest of the measures disclosed are also considered for purposes of making decisions about allocating resources to each segment. Management uses more than one measure of a segment's profit or loss, however, the reported measures are those that management believes are determined in accordance with the measurement principles most consistent with Spanish GAAP.

*Accounting principles:*

All transactions between segments are made at market prices or at prices which have been approved and published by the regulatory authority.

**8) External services (Advertising)**

The Company advertises its branded services and products through national and regional media in the countries in which it operates. These advertising costs are expensed as incurred, and are charged against Other operating expenses, except those related to reflagging expense, as described in Note 21.1.c. Advertising expenses for 2002, 2003 and 2004 amounted to 306,223 thousand, 501,003 thousand and 768,967 thousand, respectively.

**9) Financial statement classifications**

In the Spanish GAAP financial statements, amortization of goodwill is shown separately in the consolidated statement of operations below operating income. For U.S. GAAP reporting purposes, amortization of goodwill is shown as a deduction before operating income. Also, goodwill arising from acquisition of equity method investees would be accounted for as part of the carrying amount of the investment under U.S. GAAP, rather than been shown as goodwill on the balance sheet under Spanish GAAP. This would increase the carrying amount of the equity investments and decrease goodwill respectively by 5,097 thousand, 11,044 thousand and 10,382 thousand at December 31 2002, 2003 and 2004, respectively.

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As it is explained in Caption 2 Consolidation method in the Additional Disclosures Required under U.S. GAAP, Brasilcel, N.V. and its dependent companies have been consolidated during 2002, 2003 and 2004 under Spanish GAAP under the proportional integration method. However, under U.S. GAAP, Telefónica Móviles, S.A. should consolidate these companies under equity method. This Caption summarizes the effect on the balance sheet at December 31, 2003 and 2004, and on the statements of operations and cash flows for the years ended December 31, 2002, 2003 and 2004, of reversing the consolidation of these investments and accounting for them under the equity method under U.S. GAAP.

Spanish GAAP requires certain income and expenses, which are not ordinary income and expenses, to be classified as extraordinary income and expenses. Under U.S. GAAP, income and expenses must be both unusual in nature and infrequent in occurrence in order to be classified as extraordinary. Accordingly, no extraordinary income and expenses exist under U.S. GAAP for 2002, 2003 and 2004.

Internal expenditures capitalized consist of the internal direct labor and allocable portion of the indirect costs. Under Spanish GAAP internal capitalized expenses of in-house work of fixed assets are capitalized in Other revenues by 74,461 thousand, 90,140 thousand and 93,493 thousand in 2002, 2003 and 2004, respectively. For U.S. GAAP purposes, the cost capitalized should be netted against the related cost.

Variation in finished goods inventories represents the net change in finished goods inventories during the period. This includes beginning finished goods inventory plus purchases less sales and obsolescence provisions. Under Spanish GAAP, the net changes in finished goods inventories are included in Other revenues by (45,021) thousand, (15,291) thousand and 33,983 thousand in 2002, 2003 and 2004, respectively. Under U.S. GAAP the net change in finished goods inventories is included in operating expenses.

As of December 31, 2002, 1,700 million relating to the provision recorded for the value of the investment in Ipse 2000, S.p.A. are recorded under the caption Provisions for contingencies and expenses. Under U.S. GAAP, this amount would be reflected decreasing the investment and the accounts receivable. In 2003 and 2004, Telefónica Móviles reclassified 969 million and 95 million, respectively, of these provisions to reflect a lower balance of the equity investment, since Ipse 2000 recorded the impairment of its assets in its separate accounts.

The provision recorded is broken down as follows:

	<b>Millions of Euros</b>		
	<b>12/31/02</b>	<b>12/31/03</b>	<b>12/31/04</b>
IPSE 2000, S.p.A impairment(a)	884.3		
Allowance for loan losses in accounts receivable from IPSE 2000 and provision for contingencies(b)	815.6	736.3	656.1
<b>Total</b>	<b>1,699.9</b>	<b>736.3</b>	<b>656.1</b>

a) IPSE 2000, S.p.A. impairment

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During the first half of 2002 there were significant changes in the marketplace, from a competitive, technological, financial and regulatory perspective which caused Telefónica Móviles to reevaluate and update the assumptions of the business plans of its affiliate in Italy and to reconsider its overall short and medium term strategy in this country.

Based on the assessments obtained in 2002, and to ensure that the investments were correctly valued, Telefónica Móviles decided in 2002 to reduce the risk exposure in its books relating to this equity investment in Italy, both

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**Telefónica Móviles, S.A.**

under US and Spanish GAAP. According to APB 18, as the fair value for this investment obtained from independent appraisals was significantly lower than the carrying value, it clearly indicated a loss in the value of the investment; that was other than a temporary decline. Therefore, an impairment loss was recognized in the value of the investment.

Under Spanish GAAP, this correction in the value of the investment was registered as a provision. Under US GAAP, it should be registered as a reduction of the cost of that investment. Under Spanish GAAP the equity value of Ipse 2000, S.p.A., accounted for as Investment in associated companies amounted to 1,013.7 million, 79.2 million and 32.8 million, as of December 31, 2002, 2003 and 2004, respectively. Under USGAAP, this equity investment would have been 129.4 million (1,013.7 less 884.3 of provision), 79.2 million and 32.8 million in 2002, 2003 and 2004, respectively. The difference between Spanish GAAP and US GAAP in the amount shown in the caption of Investment in associated companies-Ipse in 2002 is only due to different classification of assets and liabilities related to this investment and, consequently, there is no difference in net income or shareholder's equity in 2002.

b) Allowance for loan losses in accounts receivable from IPSE 2000 and provision for contingencies

In accordance with SFAS 114, the account receivable that Telefónica Móviles had with Ipse 2000, S.p.A. as of December 31, 2002, 2003 and 2004 amounting to 231.7 million, 280.6 million and 313.7 million have been provided based on the calculation performed on the possible recoverability of this account receivable.

Paragraph 19 of APB 18 states that an investor should not provide for additional losses unless the investor has guaranteed obligations of the investee or is otherwise committed to provide further financial support for the investee. Additionally, according to SFAS 5, any estimated loss from a contingency should be accrued by a charge to income if the conditions required under paragraph 8 are met. Based on the available facts, the management considered that these conditions were met, and therefore a provision was recorded under Spanish GAAP as of December 31, 2002, 2003 and 2004 relating to guarantees given by Telefónica Móviles to certain banks, which provided a bank guarantee to the Italian authorities as security for the deferred payments for the UMTS licenses. Also, a provision was recorded as of December 31, 2002, 2003 and 2004 for a further guarantee to Ferrovie dello Stato, S.p.A., an Italian railway company, as Ipse 2000 entered into an agreement with this company, pursuant to which Ipse 2000 has been granted certain access rights to and rights of use of a specified portfolio of such railway company's sites.

**10) Impairment of long-lived assets**

Telefónica Móviles, S.A. evaluates the recoverability of the carrying amount of its long-lived assets, including its administrative concessions, when events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable.

In performing the review for recoverability of long-lived assets under Spanish GAAP and U.S. GAAP, Telefónica Móviles, S.A. estimates its future cash flows expected to result from each respective long-lived asset. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the long-lived assets, an impairment loss is recognized under U.S. GAAP. Otherwise, an impairment loss is not recognized under both GAAP. Measurement of an impairment loss is based on the fair value of the long-lived assets under Spanish GAAP (discounted cash flows).



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The estimates for the demand of 3G services have been revised downwards as result of the actual data services demand and the ongoing delay in the availability of a stable and competitive UMTS technology. The demand for data services has been hampered by the impossibility to coordinate the value chain and by the conflicts between suppliers and software and application developers which have hindered the adoption of interoperable devices. On

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the other hand, the delay in the introduction of a commercially viable UMTS technology has allowed incumbent operators to make a much smoother migration to the new technology, thus hampering the successful introduction of new entrants. In addition, the delay has caused the major European markets to approach saturation, reducing the potential market for new entrants to capturing low value marginal clients or those clients that have not been retained by existing operators. At the same time, there has been an increased perception of the difficulty of success of new entrants, even using proven technologies such as GSM. The international footprint issue, so important a couple of years ago, is no longer a critical factor and is more important to have sufficient scale in a particular market to obtain reasonable returns.

Taking into account these circumstances and considering SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, Telefónica Móviles, S.A. compared the value obtained from undiscounted cash flows with the carrying value of the licenses and considering that this carrying value was higher, decided, using a discounted cash flow approach, to estimate the fair value of the UMTS licenses, resulting a write down of these long-lived assets. The discount rate used in this discounted cash flow was calculated considering the interest rate in Europe and the risk of this business. A sensitivity analysis would not show significant differences, due to the fair value obtained in the cash flow approach. Based on the assessments obtained, and to ensure that the investments are correctly valued at all times, Telefónica Móviles decided in 2002 to eliminate the risk exposure in its books relating to the investments in Germany, Austria and Switzerland, basically.

**11) Voting interest**

Telefónica Móviles, S.A. owns the following voting interest in its investments:

<b>Companies</b>	<b>Voting Interest</b>		
	<b>At December, 31</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
Brasilcel, N.V.	50.00%	50.00%	50.00%
Tagilo Participações, Ltda.	50.00%	50.00%	50.00%
SudesteCel Participações, S.A.	44.75%	44.75%	50.00%
Avista Part. S.L.			50.00%
Tele Sudeste Celular Participações, S.A.	40.25%	40.81%	45.88%
Telerj Celular, S.A.	40.25%	40.81%	45.88%
Telest Celular, S.A.	40.25%	40.81%	45.88%
Portelcom Fixa, S.A.	50.00%	50.00%	50.00%
TBS Celular Participações, S.A.	48.13%	49.25%	49.25%
Celular CRT Participações, S.A.	42.32%	42.65%	44.31%
Celular CRT, S.A.	42.32%	42.65%	44.31%
Iberoleste Participações, S.A.	50.00%	50.00%	
Tele Leste Celular Participações, S.A.	29.21%	29.21%	34.33%
Telebahia Celular, S.A.	29.21%	29.21%	34.33%
Telergipe Celular, S.A.	29.21%	29.21%	34.33%
Intertelecom Ltda.	44.75%	49.99%	
Ptelecom Brasil, S.A.	75.73%	49.99%	49.99%
Portelcom Participações, S.A.	75.73%	49.99%	49.99%
Telesp Celular Participações, S.A.	46.83%	48.33%	46.83%

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Telesp Celular, S.A.	46.83%	48.33%	46.83%
Daini do Brasil, S.A.	46.83%		

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<b>Companies</b>	<b>Voting Interest</b>		
	<b>At December, 31</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
Global Telecom Telecom, S.A.	46.83%	48.33%	46.83%
Inepar S.A. Part. Invest. de Telecom.	46.83%		
Global Telecom, S.A.	46.83%		
Tele Centro Oeste Celular Participações, S.A.		40.54%	40.36%
Telegoiás Celular, S.A.		39.98%	40.36%
Telemat Celular, S.A.		41.64%	40.36%
Telems Celular, S.A.		40.35%	40.36%
Teleron Celular, S.A.		39.84%	40.36%
Teacre Celular, S.A.		40.53%	40.36%
Norte Brasil Telecom, S.A.		40.54%	40.36%
Tele Centro Oeste IP, S.A.		40.54%	40.36%
Telefónica Móviles El Salvador Holding, S.A. de C.V.	100.00%	100.00%	100.00%
Telefónica Móviles El Salvador, S.A. de C.V.	90.30%	90.30%	91.75%
TCG Holdings, S.A.	100.00%	100.00%	100.00%
Telefónica Móviles Guatemala, S.A.	100.00%	100.00%	100.00%
Telescucha, S.A.	100.00%	100.00%	100.00%
Infraestructura Internacional, S.A.		70.00%	70.00%
Telefónica Móviles España, S.A. (sole-stockholder company)	100.00%	100.00%	100.00%
Mobipay España, S.A.	13.33%	13.33%	13.36%
Main Ito. Sup. Tecnología y Empresa, S.L.	20.00%	20.00%	
Tempos 21 Innovación en Aplicaciones Móviles, S.A.	38.50%	38.50%	38.50%
Grupo 3G, S.R.L.	100.00%	100.00%	100.00%
Nuevo Cosmos	100.00%		
Spiral Investments B.V.	100.00%	100.00%	100.00%
3G Mobile A.G.	100.00%	100.00%	100.00%
Serea Investments B.V.	100.00%		
ST 3G, S.A.	40.00%		
Setaber Investments B.V.	100.00%		
Senda Investments B.V.	50.00%		
Mediaways UK	100.00%	100.00%	
3G Mobile Telecommunications GmbH	100.00%		
Solivella Investments B.V.	100.00%	100.00%	100.00%
IPSE 2000, S.p.A.	45.59%	45.59%	45.59%
Group 3G UMTS Holding GmbH	57.20%	57.20%	57.20%
Quam GmbH	57.20%	57.20%	57.20%
Opco Mobile Services GmbH	57.20%	57.20%	57.20%
Médi Telecom, S.A.	31.34%	32.18%	32.18%
Telefónica Mobile Solutions, S.A.	100.00%		
Telefónica Mobile Solutions Chile, S.A.C.	99.90%		
Telefónica Mobile Solutions Perú, S.A.C.	99.90%		
Telefónica Mobile Solutions Brasil, L.T.D.A.	99.90%		
Telefónica Mobile Solutions Argentina, S.A.	99.90%		
Telefónica Móviles Interacciona, S.A.	80.00%	100.00%	100.00%

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<b>Companies</b>	<b>Voting Interest</b>		
	<b>At December, 31</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
Terra Mobile Brasil, Ltd.	80.00%	100.00%	100.00%
Termespa, S.A.U.	80.00%	(*)	(*)
Terra Mobile (Finland) Oy.	80.00%	(**)	(**)
Terra Mobile UK, Ltd.	80.00%	(**)	(**)
I.O. Box Deutschland GMBH	80.00%	100.00%	(**)
Simpay		25.00%	25.00%
Omicron Ceti, S.L.		100.00%	100.00%
Telefónica Móviles Puerto Rico, Inc.		100.00%	100.00%
Telefónica Móviles U.S.A., Inc.	100.00%	100.00%	100.00%
TELCA Gestión Guatemala, S.A.	100.00%		
TELCA Gestión S.A. de C.V.	100.00%	100.00%	100.00%
Mobipay International, S.A.	36.00%	36.05%	50.00%
Telefónica Móviles Perú Holding, S.A.A.	97.97%	97.97%	97.97%
Telefónica Móviles, S.A.C.	97.97%	97.97%	97.97%
Telefónica Móviles Argentina, S.A.	97.93%	97.93%	97.93%
Telefónica Comunicaciones Personales, S.A.	97.93%	97.93%	97.93%
Radio Servicios, S.A.	97.92%	97.92%	97.93%
Radio Móvil Digital Argentina, S.A.	97.92%	97.92%	
Telefónica de Centroamérica, S.L.	100.00%	100.00%	100.00%
Telefónica Móviles Holding Uruguay, S.A.	100.00%	100.00%	100.00%
Telefónica Móviles Uruguay, S.A.	100.00%	100.00%	100.00%
Paging de Centroamérica, S.A.	100.00%	100.00%	100.00%
Telefónica Soporte y Tecnología, S.A.	99.99%	99.99%	100.00%
Telefónica Móviles México, S.A. de C.V.	92.00%	92.00%	92.00%
Telefónica Finanzas México, S.A. de C.V.	92.00%	92.00%	92.00%
Baja Celular Mexicana, S.A. de C.V.	92.00%	92.00%	92.00%
Baja Celular Servicios Corporativos, S.A. de C.V.	92.00%	92.00%	
Tamcel, S.A. de C.V.	92.00%	92.00%	
Movitel de Noroeste, S.A. de C.V.	82.80%	82.80%	82.80%
Movicelular, S.A. de C.V.	82.80%	82.80%	
Moviservicios, S.A. de C.V.	82.80%	82.80%	91.99%
Corporativo Integral Comunicación, S.A. de C.V.	92.00%	92.00%	92.00%
Telefonía Celular del Norte, S.A. de C.V.	92.00%	92.00%	92.00%
Todo para Celulares, S.A. de C.V.	92.00%	92.00%	
Grupo Corporativo del Norte, S.A. de C.V.	92.00%	92.00%	92.00%
Celular de Telefonía, S.A. de C.V.	92.00%	92.00%	92.00%
Soluciones Celulares, S.A. de C.V.	92.00%	92.00%	
Enlaces del Norte, S.A. de C.V.(***)	87.31%	87.31%	87.31%
Grupo de Telecomunicaciones Mexicanas, S.A. de C.V.	92.00%	89.60%	89.61%
Pegaso Telecomunicaciones, S.A. de C.V.	92.00%	92.00%	92.00%
Pegaso Comunicaciones y Sistemas, S.A. de C.V.	92.00%	92.00%	92.00%
Pegaso PCS, S.A. de C.V.	92.00%	92.00%	92.00%
Pegaso Recursos Humanos, S.A. de C.V.	92.00%	92.00%	92.00%

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<b>Companies</b>	<b>Voting Interest</b>		
	<b>At December, 31</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
Pegaso Finanzas, S.A. de C.V.	92.00%	92.00%	92.00%
Pegaso Finco I, S.A. de C.V.	92.00%	92.00%	92.00%
Activos para Telecomunicación, S.A. de C.V.		92.00%	92.00%
Telecomunicaciones Punto a Punto México, S.A. de C.V.		92.00%	92.00%
Telefónica Móviles Aplicaciones y Soluciones, S.A.	100.00%	100.00%	100.00%
Inversiones Telefónica Móviles Holding Limitada			100.00%
TEM Inversiones Chile Limitada			100.00%
Telefónica Móvil de Chile, S.A.			100.00%
Telefónica Móviles Soluciones, S.A.			100.00%
TEM eServices Latin America, Inc			100.00%
Ecuador Cellular Holding, B.V.			100.00%
BS Ecuador Holdings, Ltd			100.00%
Otecel, S.A.			100.00%
Cellular Holdings (Central America), Inc.			100.00%
Guatemala Cellular Holdings, B.V.			100.00%
TMG (BVI) Holdings Ltd			100.00%
Centram Communications, LP			100.00%
TEM Guatemala Ltd.			100.00%
Telefónica Móviles Guatemala y Cía, S.C.A.			100.00%
Central America Servies Holding Ltd			100.00%
Multi Holding Corporation			99.23%
Panamá Cellular Holdings, B.V.			100.00%
Bellsouth Panamá, Ltd			100.00%
Panamá Cellular Holdings, LLC			100.00%
BSC de Panamá Holdings, SRL			100.00%
BSC Cayman			99.62%
Telefónica Móviles Panamá, S.A.			99.57%
Panamá Cellular Investments, LLC			99.57%
Latin America Cellular Holdings, B.V.			100.00%
Ablitur, S.A.			100.00%
Redanil			100.00%
Abiatar, S.A.			100.00%
Comunicaciones Móviles de Perú, S.A.			99.85%
Bellsouth Nicaragua, S.A.			100.00%
Pisani Resources y Cía, Ltd			100.00%
Doric Holding y Cía, Ltd			100.00%
Kalamai Holdings, Ltd			100.00%
Kalamai Hold. Y Cía, Ltd			100.00%
Telefonía Celular de Nicaragua, S.A.			100.00%
Telecomunicaciones BBS, S.R.L.			100.00%
Comtel Comunicaciones Telefónicas, S.A.			100.00%
Telcel, C.A.			100.00%
Olympic, Ltda.			100.00%

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**Telefónica Móviles, S.A.**

<b>Companies</b>	<b>Voting Interest</b>		
	<b>At December, 31</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
Telefónica Móviles Colombia, S.A.			100.00%
Bautzen Inc.			100.00%
Comoviles, S.A.			99.97%
Comunicaciones Trunking, S.A.			99.95%
Paracomunicar S.A.			99.31%
Kobrocom Electrónica Ltda..			99.95%

(\*) This Company was merged with Telefónica Móviles Interaccion, S.A. (formerly Terra Mobile, S.A.) during 2003.

(\*\*) These Companies were liquidated during 2003 and 2004.

(\*\*\*) Although Celular de Telefonía, S.A. de C.V has a 49.00% economic interest in this entity, Celular de Telefonía, S.A. de C.V. can appoint all the directors and, therefore, can control the day to day operation of this company.

**12) Financial expense and income**

The detail of financial expense is as follows:

	<b>Thousands of Euros</b>		
	<b>12/31/02</b>	<b>12/31/03</b>	<b>12/31/04</b>
Interest on payables to Telefónica s Group companies (Note 11)	302,632	323,545	339,366
Other interest on payables and loans	117,191	318,660	254,406
Exchange losses	502,160	646,269	331,946
<b>Total</b>	<b>921,983</b>	<b>1,288,474</b>	<b>925,718</b>

The detail of financial income is as follows:

	<b>Thousands of Euros</b>		
	<b>12/31/02</b>	<b>12/31/03</b>	<b>12/31/04</b>
Revenues from securities and loans	124,146	163,992	169,830
Exchange gains	481,641	746,345	402,120

<b>Total</b>	<b>605,787</b>	<b>910,337</b>	<b>571,950</b>
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**13) New accounting standards**

***SAB No. 104 Revenue Recognition***

In December 2003, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition. SAB 104 updates portions of the interpretive guidance included in Topic 13 of the



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**Telefónica Móviles, S.A.**

codification of Staff Accounting Bulletins in order to make this interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. The company believes it is currently following the guidance of SAB 104. SAB 104 also revises or rescinds certain interpretive guidance regarding SAB 101 that was in conflict with the provisions of EITF 00-21.

***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 for our fiscal year ending December 31, 2005. 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.

***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 by the end of the first reporting period ending after June 15, 2005. 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.



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**Telefónica Móviles, S.A.**

***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.

***FASB Interpretation No. 47: Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143***

On March 2005, FASB issued FASB Interpretation No. 47. The Board concluded that asset retirement obligations within the scope of Statement 143 that meet the definition of a liability in Concepts Statement 6 should be recognized as a liability at fair value if fair value can be reasonably estimated. The Board believes that when an existing law, regulation, or contract requires an entity to perform an asset retirement activity, an unambiguous requirement to perform the retirement activity exists, even if that activity can be deferred indefinitely. At some point, deferral is no longer possible, because no tangible asset will last forever, except land. Therefore, the obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. The use of an expected value technique to measure the fair value of the liability reflects any uncertainty about the amount and timing of future cash outflows. This Interpretation is effective no later than December 31, 2005, for calendar-year enterprises. The Company does not anticipate that adoption of FIN 47 will have any effect on its financial position, results of operations or cash flows.

***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. 151 will be effective for accounting changes made in fiscal years beginning after December 15, 2005. 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.

**Table of Contents****Telefónica Móviles, S.A.****Exhibit I**

As of December 31, 2004

Subsidiaries and their Investments	Percentage of Ownership		Móviles Group	Consolidation Method	Stockholders Equity (Thousands of Euros)				Gross Value per Telefónica Móviles, S.A. Books (Thousands of Euros)	Value in Consolidation (Thousands of Euros)
	Direct	Indirect			Capital	Reserves	Income (Loss)	Interim Dividend		
Brasilcel, N.V. (1) Joint venture Strawinskylaan 3105 - 1077ZX Amsterdam	50.00%		50.00%	IP	102	4,454,242	5,628		2,179,379	
Vivo Brasil Comunicação Ltda		100.00%	50.00%	IP						
Holding company										
Rua da Consolação, 247 - 6º andar / sala 57-F São Paulo - SP										
Tagilo Participações, S.A. (1)		99.99%	50.00%	IP	97,424	8,659	767	(565)		
Ownership of intellectual and industrial property										
Rua Martiniano de Carvalho, 851, 20 andar, Parte, Bela Vista, São Paulo.										
Sudestecel Participações, S.A. (1)		100.00%	50.00%	IP	533,607	3,283	2,012	(1,325)		
Holding company										
Rua Martiniano de Carvalho, 851, 20 andar, Parte, Bela Vista, São Paulo.										
Avista Part. S.L. (1)		100.00%	50.00%	IP	170,373			(3,763)		
Holding company										
Rua da Consolação, 247 - 6º andar / sala 57-F São Paulo - SP										
Tele Sudeste Celular Participações, S.A. (1)		90.89%	45.44%	IP	246,560	279,872	25,573	(7,055)		

Holding company

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Prai de Botafogo 501,20 andar,  
parte bela Vista, São Paulo

Telerj Celular, S.A. (1)	100.00%	45.44%	IP	297,224	142,765	9,120	(2,176)
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Wireless communications  
services operator

Praia de Botafogo, 501-5° a 8°  
Andares, Botafogo - Rio de  
Janeiro

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**Table of Contents****Telefónica Móviles, S.A.**

As of December 31, 2004

Subsidiaries and their Investments	Percentage of Ownership		Móviles Group	Consolidation Method	Stockholders Equity (Thousands of Euros)				Gross Value per Telefónica Móviles, S.A. Books	Value in Consolidation (Thousands of Euros)
	Direct	Indirect			Capital	Reserves	Income (Loss)	Interim Dividend		
Telest Celular, S.A. (1) Wireless communications services operator Avda. Nossa Senhora da penha 275 - Praia de Santa Helena, Vitoria - Espiritu Santo		100.00%	45.44%	IP	44,333	28,321	16,909	(6,361)		
Portelcom Fixa, S.A. (1)		100.00%	50.00%	IP						
Holding company										
Av Brigadeiro Faria Lima, 2277, 15ª andar, Conj1503, Jardim Paulista, São Paulo										
TBS Celular Participações, S.A. (1)	1.12%	96.26%	49.25.00%	IP	161,854	11,784	9,638	(3,536)	525	
Holding company										
Avda. Martiniano de Carvalho, 851, 20 andar, parte São Paulo, São Paulo										
Celular CRT Participações, S.A. (1)		66.97%	33.27%	IP	71,162	192,943	50,106	(20,826)		
Holding company										
Rua José Bonifacio, 245, Bon Fim, Porto Alegre - Rio Grande Do Sul										
Celular CRT, S.A. (1)		100.00%	33.27%	IP	148,569	89,465	52,485	(23)		
Wireless communications services operator										
Rua José Bonifacio, 245, Bon Fim, Porto Alegre - Rio Grande Do Sul										
		50.58%	25.29%	IP	84,737	27,220	(8,335)			

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Tele Leste Celular Participações,  
S.A. (1)

Holding company

Rua Silveria Martins, n 1036,  
Cabula, Salvador - Bahia

Telebahia Celular, S.A. (1)	100.00%	25.29%	IP	98,965	949	(12,584)
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Wireless communications  
services operator

Rua Silveria Martins, n 1036,  
Cabula, Salvador- Bahia

Telergipe Celular, S.A. (1)	100.00%	25.29%	IP	9,854	961	3,461	(242)
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Wireless communications  
services operator

Avda. Francisco Porto, 686, 13  
de julho - Aracaju, Sergipe

Ptelecom Brasil, S.A. (1)	100.00%	49.99%	IP	726,948	(410,742)	(9,159)
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Holding company

Rua Cubatao, 320, 4 andar, Sao  
Paulo, São Paulo

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**Table of Contents****Telefónica Móviles, S.A.**

As of December 31, 2004

Subsidiaries and their Investments	Percentage of Ownership		Móviles Group	Consolidation Method	Stockholders Equity (Thousands of Euros)			Interim Dividend	Gross Value per Telefónica Móviles, S.A. Books	Value in Consolidation (Thousands of Euros)
	Direct	Indirect			Capital	Reserves	Income (Loss)			
Portelcom Participações, S.A. (1)		100.00%	49.99%	IP	979,403	(165,203)	(34,417)			
Holding company										
Av. Brigadeiro Faria Lima, 2277, 15ª andar, Conj1503, Jardim Paulistano, São Paulo										
Telesp Celular Participações, S.A. (1)		65.12%	32.56%	IP	1,209,667	(269,980)	(134,956)			
Holding company										
Av. Roque petroni Júnior, nº 1464, 6 andar-parte, bloco B, Morumbi, Sao Paulo, São Paulo										
Telesp Celular S.A. (1)		100.00%	32.56%	IP	519,921	172,866	127,120			
Holding company										
Av. Roque petroni Júnior, nº 1464, 6 andar-parte, bloco B, Morumbi, Sao Paulo, São Paulo										
Global Telcom Telecom, S.A. (1)		100.00%	32.56%	IP	1,119,420	(708,728)	(49,657)			
Wireless services operator										
Av. Higienópolis, nº 1635, Curitiba, Parana										
Tele Centro Oeste Celular Participações, S.A. (1)		50.65%	16.49%	IP	219,319	352,305	140,051	(11,183)		
Holding company and telecommunications services operator										
Sector Comercial Sul, Quadra 2, Bloco C, nº 226, Edif Telebrasilía Celular, 7 andar,										



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Brasília  
Telegoiás Celular, S.A. (1)

100.00%	16.49%	IP	68,539	87,635	50,215
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Wireless services operator

Rua 136-C, Quadra F-44, nº 150,  
Setor Sul Goiania, Goias

Telemat Celular, S.A. (1)

100.00%	16.49%	IP	39,716	54,409	30,574
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Wireless services operator

Av. Getúlio Vargas, nº 1,300,  
Centro, Cuibá, Matogrosso

Telems Celular, S.A. (1)

100.00%	16.49%	IP	31,334	38,346	21,086
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Wireless services operator

Av. Alfonso pena, nº 2,386, Ed  
Dolor de Andrade, Campo  
Ggrande, Matogrosso Do Sul

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**Table of Contents****Telefónica Móviles, S.A.**

As of December 31, 2004

Subsidiaries and their Investments	Percentage of Ownership			Consolidation Method	Stockholders Equity (Thousands of Euros)			Interim Dividend	Gross Value per Telefónica Móviles, S.A. Books (Thousands of Euros)	Value in Consolidation (Thousands of Euros)
	Direct	Indirect	Móviles Group		Capital	Reserves	Income (Loss)			
Teleron Celular, S.A. (1) Wireless services operator Av. Getúlio Vargas, 1941, Porto Velho, Rondonia		100.00%	16.49%	IP	9,667	14,829	4,193			
Teacre Celular, S.A. (1) Wireless services operator Rua Minas Gerais, nº 64, Ivete Vargas, Rio Branco-Acre		100.00%	16.49%	IP	5,204	7,156	2,664			
Norte Brasil Telecom, S.A. (1) Wireless services operator Travessa Padre Eutíquio, nº 1,226, Barrio Batista Campos, Belém, Para		100.00%	16.49%	IP	49,784	2,215	9,785			
Tele Centro Oeste IP, S.A. (1) Wireless services operator AC/ Sul Quadra 02, Bloco C, nº 256, 3º Pavimento, Ed Toufic, Plano Piloto, Brasilia		100.00%	16.49%	IP	277	(1,496)	(1,389)			
Telefónica Móviles El Salvador Holding, S.A. de C.V. (1) Holding company Alameda Roosevelt y Avenida Sur. Torre Telefónica nivel 10 - San Salvador	100.00%		100.00%	IG	130,911	(4,488)	(1,188)		153,932	
Telefónica Móviles El Salvador, S.A. de C.V. (1) Provision of wireless communications and international long-distance		91.75.00%	91.75.00%	IG	102,789	(67,793)	(18,053)		0	

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services

Alameda Roosevelt y Avenida  
Sur. Torre Telefónica nivel 10 -  
San Salvador

Telefónica Multiservicios, S.A. de C.V. (1)	77.5%	71.11%	IG	6,519	(682)	(760)	0
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Cable modem services operator

Alameda Roosevelt y Avenida  
Sur. Torre Telefónica nivel 10 -  
San Salvador

Telefónica Móviles Centroamérica, S.A. de C.V. (1)	100.00%	91.75.00%	IG	1,049	(81)	29	0
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Operating company

Alameda Roosevelt y Avenida  
Sur. Torre Telefónica nivel 10 -  
San Salvador

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**Table of Contents****Telefónica Móviles, S.A.**

As of December 31, 2004

Subsidiaries and their Investments	Percentage of Ownership		Móviles Group	Consolidation Method	Stockholders Equity (Thousands of Euros)			Interim Dividend	Gross Value per Telefónica Móviles, S.A. Books	Value in Consolidation (Thousands of Euros)
	Direct	Indirect			Capital	Reserves	Income (Loss)			
Telefónica El Salvador, S.A. de C.V. (1) Operating company		100.00%	91.75.00%	IG	18	(15)	(7)		0	
Alameda Roosevelt y Avenida Sur. Torre Telefónica nivel 10 - San Salvador TCG Holdings, S.A. (1) Holding company	100.00%		100.00%	IG	198,309	(1,221)	(393)		238,540	
Bulevar Los Próceres 5-56 Zona 10 - Unicentro nivel 11, Guatemala City Telefónica Móviles Guatemala, S.A. (1) Provision of wireless communications, wireline telephony and radio-paging services		100.00%	100.00%	IG	193,199	(106,611)	(15,525)			
Bulevar Los Próceres 5-56 Zona 10 - Univentro Nivel 11, Guatemala City Tele Escucha, S.A. (1) Provision of telecommunications and paging services		100.00%	100.00%	IG	2,390	(1,583)	(396)			
Bulevar Los Próceres 5-56 Zona 10 - Univentro Nivel 11, Guatemala City										

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Infraestructura Internacional, S.A. (1)	70.00%	70.00%	IG	410	(136)	(9)	
Provision of telecommunications and paging services							
5ª avenida, 7-76 Zona 10, Guatemala City							
PageMart de Centroamérica	30.00%	30.00%	IG				
Operating company							
Bulevar Los Próceres 5-56 Zona 10 - Univentro Nivel 11, Guatemala City							
Telefónica Móviles España, S.A., Unipersonal (1)	100.00%	100.00%	IG	423,343	(1,011,696)	2,148,162	933,211
Provision of wireless communications services							
Plaza de la Independencia, 6 - Pta. 5 - 28001 MADRID							
Spiral Investments B.V. (1)	100.00%	100.00%	IG	38,535	(133,51)	(2,533)	
Holding company							

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**Table of Contents****Telefónica Móviles, S.A.**

As of December 31, 2004

Subsidiaries and their Investments	Percentage of Ownership		Móviles Group	Consolidation Method	Stockholders Equity (Thousands of Euros)			Interim Dividend	Gross Value per Telefónica Móviles, S.A. Books	Value in Consolidation (Thousands of Euros)
	Direct	Indirect			Capital	Reserves	Income (Loss)			
Strawinskylaan 3105 - 1077ZX - Amsterdam 3G Mobile AG (1)		100.00%	100.00%	IG	35,712	(78,702)	572			
Wireless telephony operator										
Bahnhofplatz 4, 8001 Zurich Mobipay España, S.A. (1)		13.36%	13.36%	PE	16,052	(2,995)	(5,094)			1,064
Provision of wireless telephony payment services										
Avda. Europa, 20 - Alcobendas - Madrid Solivella Investments B.V. (1)		100.00%	100.00%	IG	880,699	(1,553,163)	(50,982)			
Holding company										
Strawinskylaan 3105 - 1077ZX - Amsterdam Ipse 2000, S.p.A. (1)		45.59%	45.59%	PE	150,500	177,061	(254,766)			32,759
Installation and execution of 3G wireless communications systems										
Piazza dei Caprettari, 70 - Rome Group 3G UMTS Holding GmbH (1)		57.2%	57.2%	IG	250,025	(10,195,879)	(15)			
Development of network and provision of 3G telecommunications services										
Alois-Wolfmüller-Str. 8 80939 Munich Quam GmbH (1)		100.00%	57.2%	IG	250,025	(250,018)	(37,663)			
Provision of UMTS services										

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Alois-Wolfmüller-Str. 8 80939

Munich

Opco Mobile Services GmbH (1)	100.00%	57.2%	IG	50	(1)	(1,119)	
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Provision of UMTS services

Alois-Wolfmüller-Str. 8 80939

Munich

Medi Telecom, S.A. (1)	32.18%	32.18%	PE	786,833	(666,783)	(42,925)	25,036
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Provision of wireless communications services

Twin Center, Tour A. Angle Bd  
Zertouni et El Massira El Kadra,  
Casablanca

Gruppo 3G, SRL (2)	100.00%	100.00%	C	67			
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Holding company

Via Lepetit, 4 - Milan

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As of December 31, 2004

Subsidiaries and their Investments	Percentage of Ownership			Consolidation Method	Stockholders Equity (Thousands of Euros)			Interim Dividend	Gross Value per Telefónica Móviles, S.A. Books	Value in Consolidation
	Direct	Indirect	Móviles Group		Capital	Reserves	Income (Loss)			
Tempos 21, Innovación en Aplicaciones Móviles, S.A. (1)		38.5%	38.5%	C	13,224	(6,323)	(4,263)			1,096
Research, development and marketing of wireless services and applications										
Avda. Diagonal, 640 - Barcelona Telefónica Móviles Interacciona, S.A. (1)		100.00%	100.00%	IG	3,997	(79,402)	(6,644)			
Consulting services for wireless environment engineering										
Gran Vía, 28 - 28013 Madrid Terra Mobile, Brasil Ltd. (1)		100.00%	100.00%	IG	5,650	(5,634)				
Inactive										
22° ANDAR 17 - Bairro ou Distrito FLAMENGO, Rio de Janeiro										
Simpay, Ltd. (2)	25.00%		25.00%	C						
Wireless payment systems										
62-65 Chandos Place, London WC2N 4LP Omicron Ceti, S.L. (2)	100.00%		100.00%	C	3		(1)		4	4
Holding company										
José Abascal, Madrid Telefónica Móviles Puerto Rico, Inc. (1)	100.00%		100.00%	IG	29	981	(45,409)		1,212	
Ownership of holdings in wireless operators in Puerto Rico										



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Metro Office Park Calle Edificio  
#17, Suite 600 - 00968  
Guaynabo

Telefónica Móviles USA, Inc. (2)	100.00%	100.00%	IG	(848)	(76)	751
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Telecommunications consulting  
services

1221 Brickell Avenue - Miami -  
Florida

TELCA Gestión Guatemala, S.A.	100.00%	100.00%	C			24	24
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Telecommunications services  
management and advisory  
services

Guatemala

MobiPay Internacional, S.A. (4)	50.00%	50.00%	IP	11,822	(79)	(3,500)	5,212
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Provision of wireless payment  
services

Avenida de Europa 20,  
Alcobendas, Madrid

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As of December 31, 2004

Subsidiaries and their Investments	Percentage of Ownership		Móviles Group	Consolidation Method	Stockholders Equity (Thousands of Euros)			Interim Dividend	Gross Value per Telefónica Móviles, S.A. Books	Value in Consolidation (Thousands of Euros)
	Direct	Indirect			Capital	Reserves	Income (Loss)			
Telefónica Móviles Perú Holding, S.A.A. (1)	97.97%		97.97%	IG	174,951	34,163	1,027		254,457	
Holding company										
Avda. Arequipa, 1155 Lima, 01										
Telefónica Móviles, S.A.C. (1)		100.00%	97.97%	IG	201,474	7,954	1,077			
Provision of wireless communications services										
Avda. Arequipa, 1155 Lima, 01										
Telefónica Móviles Argentina, S.A. (1)	97.93%		97.93%	IG	128,734	(566,579)	(84,577)		495,786	
Holding company										
Ing HUergo 723,piso 17-Capital Federal-Argentina										
Telefónica Comunicaciones personales, S.A. (1)		100.00%	97.93%	IG	131,859	(569,326)	(84,448)			
Provision of wireless communications services										
Ing HUergo 723,piso 17-Capital Federal-Argentina										
Radio Servicios, S.A. (1)		100.00%	97.93%	PE	244	(286)	(19)			(54)
Inactive										
Ing HUergo 723, piso 17-Capital Federal-Argentina										
Telefónica de Centroamérica, S.L. (2)	100.00%		100.00%	C	500	10	(127)		1,326	1,326
Inactive Gran Vía, nº 28, Madrid										
Telefónica Móviles Holding Uruguay, S.A. (1)	100.00%		100.00%	IG	24,006		54		25,803	

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Inactive

Plza de la Independencia 8, planta baja, Montevideo Telefonica Móviles Uruguay, S.A. (1)	100.00%	100.00%	IG	24,006	58
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Inactive

Plza de la Independencia 8, planta baja, Montevideo Wireless Network Ventures	100.00%	100.00%	IG		0
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Holding company

Palm Grove House, PO Box 438, tortola, BVI Paging de Centroamérica, S.A. (2)	99.98%	0.02%	100.00%	C	1	1
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Provision of telecommunications  
and paging services

Bulevar Los Próceres 5-56 Zona  
10 - Univentro Nivel 11,  
Guatemala City

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**Telefónica Móviles, S.A.**

As of December 31, 2004

Subsidiaries and their Investments	Percentage of Ownership		Móviles Group	Consolidation Method	Stockholders Equity (Thousands of Euros)			Interim Dividend	Móviles, S.A. Books	Value in Consolidation (Thousands of Euros)
	Direct	Indirect			Capital	Reserves	Income (Loss)			
Telefonica Soporte y Tecnología, S.A. (2)	99.98%	0.02%	100.00%	C					1	1
Provision of telecommunications and paging services										
Bulevar Los Próceros 5-56 Zona 10 - Univentro Nivel 11, Guatemala City										
Telefónica Móviles México, S.A. de C.V. (1)	92.00%		92.00%	IG	1,443,010	(594,678)	(658,734)		998,991	
Holding company										
Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120										
Telefónica Finanzas México, S.A. de C.V. (1)		100.00%	92.00%	IG	4	457	529			
Promotion, incorporation, organization, exploitation and operation of companies and investment therein										
Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120										
Baja Celular Mexicana, S.A. de C.V. (1)		100.00%	92.00%	IG	97,053	(14,044)	(33,985)			
Provision of wireless telephony services										

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Paseo de los Tamarindos  
No. 400-A, piso 4, Col.  
Bosques de las Lomas,  
Mexico City 05120

Movitel de Noroeste, S.A. de C.V. (1)	90.00%	82.80%	IG	14,062	107	(17,749)
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Provision of wireless  
telephony services

Paseo de los Tamarindos  
No. 400-A, piso 4, Col.  
Bosques de las Lomas,  
Mexico City 05120

Moviservicios, S.A. de C.V. (1)	99.99%	91.99%	IG	1,585	669	176
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Technical, administrative,  
consulting, advisory and  
supervisory services

Paseo de los Tamarindos  
No. 400-A, piso 4, Col.  
Bosques de las Lomas,  
Mexico City 05120

Corporación Integral de Comunicación, S.A. de C.V. (3)	100.00%	92.00%	IG	6,513	(13,297)	(1,433)
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Holding company

Paseo de los Tamarindos  
No. 400-A, piso 4, Col.  
Bosques de las Lomas,  
Mexico City 05120

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As of December 31, 2004

Subsidiaries and their Investments	Percentage of Ownership		Móviles Group	Consolidation Method	Stockholders Equity (Thousands of Euros)			Interim Dividend	Gross Value per Telefónica Móviles, S.A. Books	Value in Consolidation (Thousands of Euros)
	Direct	Indirect			Capital	Reserves	Income (Loss)			
Telefonía Celular del Norte, S.A. de C.V. (1)		100.00%	92.00%	IG	23,710	(57,125)	(26,646)			
Provision of wireless telephony services										
Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120										
Grupo Corporativo del Norte, S.A. de C.V. (3)		100.00%	92.00%	IG	4,359	(18,897)	(2,993)			
Acquisition, disposal and custody of securities										
Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120										
Celular de Telefonía, S.A. de C.V. (1)		100.00%	92.00%	IG	23,027	(68,549)	(50,599)			
Provision of wireless telephony securities										
Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120										
Enlaces del Norte, S.A. de C.V. (1)		94.9%	87.31%	IG	34	2,394	(12,079)			
Acquisition, disposal and custody of securities										
Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120										
Grupo de Telecomunicaciones Mexicanas, S.A. de C.V. (1)		100.00%	89.61%	IG	9	13,399	(22,174)			

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Provision of wireless telephony services

Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120

Pegaso Telecomunicaciones, S.A. de C.V. (1)	100.00%	92.00%	IG	723,493	(1,152,076)	(454,607)
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Installation, maintenance and operation of public and private telecommunications networks

Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120

Pegaso Comunicaciones y Sistemas, S.A. de C.V. (1)	100.00%	92.00%	IG	573,363	(984,318)	(153,483)
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Provision of wireless telephony services

Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120

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As of December 31, 2004

Subsidiaries and their Investments	Percentage of Ownership		Móviles Group	Consolidation Method	Stockholders Equity (Thousands of Euros)			Interim Dividend	Gross Value per Telefónica Móviles, S.A. Books	Value in Consolidation (Thousands of Euros)
	Direct	Indirect			Capital	Reserves	Income (Loss)			
Pegaso PCS, S.A. de C.V. (1) Provision of wireless telephony services Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120		100.00%	92.00%	IG	10,281	(54,013)	(285,899)			
Pegaso Recursos Humanos, S.A. de C.V. (1) Provision of professional technical services for the deployment of public telecommunications networks Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120		100.00%	92.00%	IG	2,265	(1,229)	2,197			
Pegaso Finanzas, S.A. de C.V. (3) Obtainment of financing and loans and grant of loans to entities with which it has business relationships Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120		100.00%	92.00%	IG	4					
Pegaso Finco I, S.A. de C.V. (3) Operation of public telecommunications networks and of frequency		100.00%	92.00%	IG	4					



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bands

Paseo de los Tamarindos  
No. 400-A, piso 4, Col.  
Bosques de las Lomas,  
Mexico City 05120

Activos para Telecoms., S.A. de C.V. (1)	100.00%	92.00%	IG	3	(47,671)	(17,236)
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Provision of wireless  
telecommunications  
services

Paseo de los Tamarindos  
No. 400-A, piso 4, Col.  
Bosques de las Lomas,  
Mexico City 05120

Telecomunicaciones Punto a Punto Mexico, S.A. de C.V. (1)	100.00%	92.00%	IG	3	(31,782)	224
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Provision of wireless  
telecommunications  
services

Paseo de los Tamarindos  
No. 400-A, piso 4, Col.  
Bosques de las Lomas,  
Mexico City 05120

Telefónica Telecomunicaciones México Holding company Río Duero 31, Mexico City 06500	94.9%	94.90%	IG			0
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As of December 31, 2004

Subsidiaries and their Investments	Percentage of Ownership		Móviles Group	Consolidation Method	Stockholders Equity (Thousands of Euros)			Interim Dividend	Gross Value per Telefónica Móviles, S.A. Books	Value in Consolidation (Thousands of Euros)
	Direct	Indirect			Capital	Reserves	Income (Loss)			
Telefónica Móviles Soluciones y Aplicaciones, S.A. (1)	100.00%		100.00%	IG	9,142	(358)	(4,778)		9,500	
Provision of computer and communications services										
Avenida del Cóndor N°720, piso 4, comuna de Huechuraba, Santiago										
Inversiones Telefónica Móviles Holding Limitada (1) (5)	100.00%		100.00%	IG	428,232		(22,147)		423,886	
Holding company										
Miraflores 130, piso 12, Santiago										
Tpe Inversiones Chile Limitada (1) (5)		100.00%	100.00%	IG	885,358	10,624	(23,858)			
Holding company										
Miraflores 130, piso 12, Santiago										
Telefónica Móvil de Chile, S.A. (1) (5)		100.00%	100.00%	IG	273,294	828	(3,855)			
Operator of wireless communications services										
Miraflores 130, piso 12, Santiago										
Telefónica Móviles Soluciones, S.A.		100.00%	100.00%	IG	13					
Services company										
Miraflores 130 piso 12 Santiago										

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Tpe eServices Latin America, Inc. (1) (5)	100.00%	100.00%	IG				0
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Provision of computer services

Mellon Financial Center  
1111 Brickell Ave. Suite  
1000, Miami, Florida 33131

Ecuador Cellular Holding, B.V. (1) (5)	100.00%	100.00%	IG	219,708	(6,821)		663,428
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Holding company

Strawinskylaan 3105, Atium  
7th, Amsterdam

BS Ecuador Holdings, Ltd.	100.00%	100.00%	IG				0
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Holding company

Palm Grove House, PO Box  
438, tortola, BVI

Otecel, S.A. (1) (5)	100.00%	100.00%	IG	61,153	26,561	(5,187)	
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Provision of wireless communications services

Avda. de la República y la Pradera esq. Casilla, Quito

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As of December 31, 2004

Subsidiaries and their Investments	Percentage of Ownership		Móviles Group	Consolidation Method	Stockholders Equity (Thousands of Euros)			Interim Dividend	Gross Value per Telefónica Móviles, S.A. Books	Value in Consolidation (Thousands of Euros)
	Direct	Indirect			Capital	Reserves	Income (Loss)			
Cellular Holdings (Central America), Inc. Holding company Palm Grove House, PO Box 438, tortola, BVI	100.00%		100.00%	IG				37,934		
Guatemala Cellular Holdings, B.V. (1) (5) Holding company	100.00%		100.00%	IG	4,278	822		29,387		
Strawinskylaan 3105, Atium 7th, Amsterdam TMG (BVI) Holdings Ltd Holding company		100.00%	100.00%	IG				0		
Palm Grove House, PO Box 438, tortola, BVI Centram Communications, LP Holding company		100.00%	100.00%	IG				0		
Palm Grove House, PO Box 438, tortola, BVI Tpe Guatemala Ltd. Holding company		100.00%	100.00%	IG				0		
Palm Grove House, PO Box 438, tortola, BVI Telefónica Móviles Guatemala y Cía, S.C.A. (1) (5) Wireless communications operator		100.00%	100.00%	IG	100,815	(46,002)	2,083			

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Bldv Los Próceres Torre  
Telefónica 10, Guatemala

Central America Servies Holding Ltd	100.00%	100.00%	IG			0
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Inactive

Palm Grove House, PO Box  
438, tortola, BVI

Multi Holding Corporation	99.23%	99.23%	IG			298,715
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Holding company

Edificio HSBC, Piso 11, Avd  
Samuel Lewis, Panama

Panamá Cellular Holdings, B.V. (1) (5)	100.00%	100.00%	IG	40,138	2,292	238,174
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Holding company

Strawinskylaan 3105, Atium  
7th, Amsterdam

BellSouth Panamá, Ltd.	100.00%	100.00%	IG			0
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Holding company

Cayman Islands

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As of December 31, 2004

Subsidiaries and their Investments	Percentage of Ownership		Móviles Group	Consolidation Method	Stockholders Equity (Thousands of Euros)			Interim Dividend	Gross Value per Telefónica Móviles, S.A. Books	Value in Consolidation (Thousands of Euros)
	Direct	Indirect			Capital	Reserves	Income (Loss)			
Panamá Cellular Holdings, LLC		100.00%	100.00%	IG					0	
Holding company										
Delaware, U.S.A.										
BSC de Panama Holdings, SRL (1) (5)		100.00%	100.00%	IG		60,843	2,411		0	
Holding company										
Avda Samuel Lewis y Calle 54, Edificio Afra, Panama										
BSC Cayman		100.00%	99615.00%	IG					0	
General partnership										
Cayman Islands										
Telefónica Móviles Panamá, S.A. (1) (5)		100.00%	99.57%	IG	41,089	37,429	4,497			
Wireless telephony services										
Edificio Magna Corp. Calle 51 Este y Avda Manuel Maria Icaza, Panama										
Panamá Cellular Investments, LLC		100.00%	99.57%	IG					0	
Management of services										
Delaware, U.S.A.										
Latin America Cellular Holdings, B.V. (1) (5)	100.00%		100.00%	IG	558	1,284,593	6,961		1,377,722	
Holding company										
Strawinskylaan 3105, Atium 7th, Amsterdam										
Ablitur, S.A. (1) (5)		100.00%	100.00%	IG	35,495	(8,591)	176			

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Holding company

Constituyente 1467 Piso  
23, Montevideo 11200,  
Uruguay

Redanil, S.A. (1) (5)	100.00%	100.00%	IG	4,700	10,460	176
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Holding company

Constituyente 1467 Piso  
23, Montevideo 11200,

Uruguay

Abiatar, S.A. (1) (5)	100.00%	100.00%	IG	5,451	19,571	229
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Wireless communications  
and operator and provision  
of services

Constituyente 1467,  
Montevideo, Uruguay

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	Direct	Indirect			Capital	Reserves	Income (Loss)			
Comunicaciones Móviles de Perú, S.A. (1) (5) Wireless telephony operator	2.42%	97.43%	99.85%	IG	23,094	(30,036)	(1,324)		167	
Av. Republica e Panamá n°3055, San Isidro, Lima BellSouth Nicaragua, S.A. Holding company		100.00%	100.00%	IG					0	
Managua, Nicaragua Pisani Resources y Cía, Ltd. Holding company		100.00%	100.00%	IG					0	
Managua, Nicaragua Doric Holding y Cía, Ltd. Holding company		100.00%	100.00%	IG					0	
Managua, Nicaragua Kalamai Holdings, Ltd. Holding company		100.00%	100.00%	IG					0	
Palm Grove House, PO Box 438, tortola, BVI Kalamai Hold. y Cía, Ltd. Holding company		100.00%	100.00%	IG					0	
Managua, Nicaragua Telefonía Celular de Nicaragua, S.A. (1) (5) Wireless telephony services		100.00%	100.00%	IG	11,210	31,412	1,139			



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Carretera Mazalla, Managua,  
Nicaragua

Telecomunicaciones BBS, S.R.L. (1) (5)	100.00%	100.00%	IG	486,838	16,856
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Wireless telephony services

Torre Aba, Calle Veracruz,  
Las Mercedes, Caracas,

1060

Comtel Comunicaciones Telefónicas, S.A. (1) (5)	65.14%	34.86%	100.00%	IG	23,229	127,251	5,558	(27,562)	153
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Holding company

Av. Francisco de Miranda,  
Edif Parque Cristal, Caracas  
1060, Venezuela

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As of December 31, 2004

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	Direct	Indirect			Capital	Reserves	Income (Loss)	Interim Dividend		
Telcel, C.A. (1) (5) Wireless telephony operator Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela	1.00%	99.00%	100.00%	IG	104,374	365,118	17,479	(86,130)	240,468	
Sistemas Timetrac, C.A. (1) (5) Fleet location services Calle Pantin, Edificio Grupo Secusat. Piso 3. Caracas, Venezuela		75.00%	75.00%	IG	1,585	288	394	6,940		
Servicios Telcel, C.A. Customer service and telecommunications services Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela		100.00%	100.00%	IG					0	
Telcel International, Ltd. Holding company		100.00%	100.00%	IG					0	
Corporación 271191, C.A. Purchase and sale of movable and immovable property Av. Francisco de Miranda, Edif Parque Cristal, Caracas		100.00%	100.00%	IG					0	

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1060, Venezuela				
Promociones 4222. C.A.	100.00%	100.00%	IG	0
Purchase and sale of movable and immovable property				
Av. Francisco de Miranda, Edif Parque Cristal, Caracas				
1060, Venezuela				
S.T. Mérida, C.A.	100.00%	100.00%	IG	0
Customer service and telecommunications services				
Av. Francisco de Miranda, Edif Parque Cristal, Caracas				
1060, Venezuela				
S.T. Ciudad Ojeda, C.A.	100.00%	100.00%	IG	0
Customer service and telecommunications services				
Av. Francisco de Miranda, Edif Parque Cristal, Caracas				
1060, Venezuela				

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As of December 31, 2004

Subsidiaries and their Investments	Percentage of Ownership		Móviles Group	Consolidation Method	Stockholders Equity (Thousands of Euros)				Gross Value per Telefónica Móviles, S.A. Books (Thousands of Euros)	Value in Consolidation (Thousands of Euros)
	Direct	Indirect			Capital	Reserves	Income (Loss)	Interim Dividend		
S.T. San Cristóbal Customer service and telecommunications services Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela		100.00%	100.00%	IG					0	
S.T. Maracaibo, C.A. Customer service and telecommunications services Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela		100.00%	100.00%	IG					0	
S.T. Punto Fijo, C.A. Customer service and telecommunications services Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela		100.00%	100.00%	IG					0	
S.T. Valera, C.A. Customer service and telecommunications services Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela		100.00%	100.00%	IG					0	
S.T. Valencia, C.A. Customer service and telecommunications services Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela		100.00%	100.00%	IG					0	

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SyRed, T.E.I., C.A.	100.00%	100.00%	IG	0
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Customer service and telecommunications services

Av. Francisco de Miranda, Edif  
Parque Cristal, Caracas 1060,  
Venezuela

Servicios Telcel Acarigua, C.A.	100.00%	100.00%	IG	0
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Customer service and telecommunications services

Av. Francisco de Miranda, Edif  
Parque Cristal, Caracas 1060,  
Venezuela

Servicios Telcel Barquisimeto, C.A.	100.00%	100.00%	IG	0
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Customer service and telecommunications services

Av. Francisco de Miranda, Edif  
Parque Cristal, Caracas 1060,  
Venezuela

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As of December 31, 2004

Subsidiaries and their Investments	Percentage of Ownership		Móviles Group	Consolidation Method	Stockholders Equity (Thousands of Euros)				Gross Value per Telefónica Móviles, S.A. Books (Thousands of Euros)	Value in Consolidation (Thousands of Euros)
	Direct	Indirect			Capital	Reserves	Income (Loss)	Interim Dividend		
Serv. Telcel Charallave Customer service and telecommunications services Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela		100.00%	100.00%	IG					0	
S.T. Cumana, C.A. Customer service and telecommunications services Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela		100.00%	100.00%	IG					0	
S.T. Guarenas, C.A. Customer service and telecommunications services Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela		100.00%	100.00%	IG					0	
S.T. Los Teques, C.A. Customer service and telecommunications services Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela		100.00%	100.00%	IG					0	
S.T. Maracay, C.A. Customer service and telecommunications services Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela		100.00%	100.00%	IG					0	

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S.T. Margarita, C.A.	100.00%	100.00%	IG	0
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Customer service and telecommunications services

Av. Francisco de Miranda, Edif  
Parque Cristal, Caracas 1060,  
Venezuela

S.T. Maturín, C.A.	100.00%	100.00%	IG	0
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Customer service and telecommunications services

Av. Francisco de Miranda, Edif  
Parque Cristal, Caracas 1060,  
Venezuela

S.T. Puerto Ordaz, C.A.	100.00%	100.00%	IG	0
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Customer service and telecommunications services

Av. Francisco de Miranda, Edif  
Parque Cristal, Caracas 1060,  
Venezuela

**Table of Contents****Telefónica Móviles, S.A.**

As of December 31, 2004

Subsidiaries and their Investments	Percentage of Ownership			Consolidation Method	Stockholders Equity (Thousands of Euros)			Interim Dividend	Gross Value per Telefónica Móviles, S.A. Books (Thousands of Euros)	Value in Consolidation (Thousands of Euros)
	Direct	Indirect	Móviles Group		Capital	Reserves	Income (Loss)			
Olympic, Ltda. (1) (5)		100.00%	100.00%	IG	25	583,497	9,217			
Holding company										
Av. 82 N° 10-62, piso 6 Telefónica Móviles Colombia, S.A. (1) (5)	22.44%	77.56%	100.00%	IG	287	143,570	13,822		115,601	
Wireless communications operator										
Calle 100, N° 7-33, Piso 15, Bogotá, Colombia										
Bautzen Inc. (1) (5)		100.00%	100.00%	IG	211	(202)				
Financial services management										
Panama										
Comoviles S.A. (1) (5)		99.97%	99.97%	IG		173	(2)			
Telcommunications services										
Calle 100 N° 7-33, piso 17, Bogotá, Colombia										
Comunicaciones Trunking, S.A. (1) (5)		99.98%	99.95%	IG	18	67	(2)			
Provision of trunking services										
Calle 100 N° 7-33, piso 17, Bogotá, Colombia										
Paracomunicar, S.A. (1) (5)		99.35%	99.31%	IG		2				
Telecommunications services										
Calle 100 N° 7-33, piso 16, Bogotá, Colombia										



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Kobrocom Electrónica Ltda. (1) (5)	100.00%	99.95%	IG	44	(18)	1		
Telecommunications services								
Calle 100 N° 7-33, piso 17, Bogotá, Colombia								
Other investments	N/A	N/A	C	0	0	0	0	1,669
				3,124	2,786	2,338	(830)	1,626 (24)

- (1) Data obtained from the individual financial statements of these companies as of December 31, 2004. The data relating to 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) Data obtained from the individual financial statements of these companies as of December 31, 2003.
- (3) Data obtained from the individual financial statements of these companies as of June 30, 2004.
- (4) Data obtained from the individual financial statements of these companies as of October 31, 2004.
- (5) The Income (Loss) column reflects the companies' revenues and expenses from the date of acquisition of the holding or incorporation of the company through year-end.

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As of December 31, 2003

	Percentage of Ownership			Consolidation Method	Stockholders Equity (Thousands of Euros)				(Thousands of Euros)	(Thousands of Euros)
	Direct	Indirect	Móviles Group		Capital	Reserves	Income (Loss)	Interim Dividend	Gross Book Value	Value in Consolidation
Brasilmcel, N.V. Joint Venture Strawinskylaan 3105 - 1077ZX - Amsterdam	50.00%		50.00%	Proportional	100	3,796,441	1,075		1,899,422	
Tagilo Participações, S.A. (*)		100.00%	50.00%	Proportional	96,531	5,514	4,252	(1,235)		
Ownership and intellectual and industrial property										
Rua Martiniano de Carvalho, 851, 20 andar, Parte, Bela Vista, Sao Paulo.										
Sudestecel Participações, S.A. (*)		89.50%	44.75%	Proportional	369,927	291	10,536	(7,009)		
Holding company										
Rua Martiniano de Carvalho, 851, 20 andar, Parte, Bela Vista, Sao Paulo.										
TeleSudesteCelularParticipações,S.A.(*)		86.19%	41.94%	Proportional	213,436	277,125	45,434	(11,950)		
Holdingcompany										
Praide Botafogo 501, 20 andar, partebela Vista, Sao Paulo										
Telerj Celular, S.A.(*)		100.00%	41.94%	Proportional	273,078	131,206	33,459			
Wireless communications services operator										
Praia de Botafogo,501-5ºa8ºAndares, Botafogo-Riode Janeiro										
Telest Celular,S.A.(*)		100.00%	41.94%	Proportional	41,644	18,674	12,329			
Wireless communications services operator										
Avda. Nossa Senhorada Penha 275-Praide Santa Helena, Vitoria-Espiritu Santo										
Portelcom Fixa,S.A.(*)		100.00%	50.00%	Proportional	40,256	(938)	3,405			
Holding company										

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Av Brigadeiro Faria Lima, 2277, 15<sup>a</sup>  
 andar, Conj1503, Jardim Paulistano, Sao  
 Paulo

Telefónica Brasil Sul Celular Participações, S.A. (*)	1.12%	96.26%	49.25%	Proportional	160,370	3,569	14,028	(5,171)	525	525
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Holding company

Avda. Martiniano de Carvalho, 851, 20  
 andar, parte Sao Paulo, Sao Paulo

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**Telefónica Móviles, S.A.**

As of December 31, 2003

Subsidiaries and Their Investments	Percentage of Ownership		Consolidation	Method	Stockholders Equity			Interim Dividend	Gross Book Value	Value in Consolidation
	Direct	Indirect			(Thousands of Euros)	(Loss)	(Thousands of Euros)			
Celular CRT Participações, S.A. (*)		50.55%	25.08%	Proportional	43,267	180,821	55,642	(15,072)		
Holding company										
Rua José Bonifacio, 245, Bon Fim, Porto Alegre - Rio Grande Do Sul										
Celular CRT, S.A. (*)		100.00%	25.08%	Proportional	138,083	67,925	55,534			
Wireless communications services operator										
Rua José Bonifacio, 245, Bon Fim, Porto Alegre - Rio Grande Do Sul										
Iberoleste Participações, S.A. (*)		100.00%	50.00%	Proportional	130,851	(9,747)	(3,553)			
Holding company										
Rua Martiniano de Carvalho, 851, 20 andar, Parte, Bela Vista, Sao Paulo.										
Tele Leste Celular Participações, S.A. (*)										
Holding company										
Rua Silveria Martins, n 1036, Cabula, Salvador - Bahia										
Telebahía Celular, S.A. (*)		27.70%	13.85%	Proportional	83,691	37,713	(12,081)			
Wireless communications services operator										
Rua Silveria Martins, n 1036, Cabula, Salvador - Bahia										
Telegipe Celular, S.A. (*)		100.00%	13.85%	Proportional	98,058	10,161	(11,876)			
		100.00%	13.85%	Proportional	9,495	1,643	(488)			

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Wireless communications  
services operator

Avda. Francisco Porto, 686, 13  
de julho - Aracaju, Sergipe

Intertelecom, Ltda. (*)	99.99%	49.99%	Proportional	141,262	(20,809)	(5,779)
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Holding company

Rua Cubatao, 320, 4 andar, Sao  
Paulo, Sao Paulo

Ptelecom Brasil, S.A. (*)	99.99%	49.99%	Proportional	609,564	(398,447)	(9,075)
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Holding company

Rua Cubatao, 320, 4 andar, Sao  
Paulo, Sao Paulo

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As of December 31, 2003

Subsidiaries and Their Investments	Percentage of Ownership			Consolidation Method	Stockholders Equity (Thousands of Euros)			Interim Dividend	(Thousands of Euros) Book Value	(Thousands of Euros) Value in Consolidation
	Direct	Indirect	Group		Capital	Reserves	(Loss)			
Portelcom Participações, S.A. (*)		100.00%	49.99%	Proportional	970,420	(125,654)	(40,436)			
Holding company										
Av Brigadeiro Faria Lima, 2277, 15ª andar, Conj1503, Jardim Paulistano, Sao Paulo										
Telesp Celular Participações, S.A. (*)		65.12%	32.56%	Proportional	1,198,572	(93,248)	(188,580)			
Holding company										
Av. Roque Petroni Júnior, nº 1464, 6 andar-parte, bloco B, Morumbi, Sao Paulo, Sao Paulo										
Telesp Celular, S.A. (*)		100.00%	32.56%	Proportional	515,152	155,777	143,364			
Holding company										
Av. Roque Petroni Júnior, nº 1464, 6 andar-parte, bloco B, Morumbi, Sao Paulo, Sao Paulo										
Global Telecom Telecom, S.A. (*)		100.00%	32.56%	Proportional	973,170	(582,739)	(126,238)			
Wireless services operator										
Av. Higienópolis, nº 1635, Curitiba, Parana										
Tele Centro Oeste Celular Participações, S.A. (*)		28.87%	9.40%	Proportional	156,231	215,888	83,428			
Holding company telecommunications service operator										
Sector Comercial Sul, Quadra 2, Bloco C, nº 226, Edif Telebrasilá Celular, 7 andar, Brasília DF										
Telegoiás Celular, S.A. (*)		97.14%	9.13%	Proportional	56,324	60,616	27,468			
Wireless services operator										

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Rua 136-C, Quadra F-44, nº 150,  
Setor Sul Goiania, Goias

Telemat Celular, S.A. (*)	97.83%	9.20%	Proportional	31,063	36,030	16,636
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Wireless services operator

Av. Getúlio Vargas, nº 1,300,  
Centro, Cuiabá, Matogrosso

Telems Celular, S.A. (*)	98.54%	9.26%	Proportional	27,196	26,340	11,688
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Wireless services operator

Av. Alfonso Pena, nº 2,386, Ed  
Dolor de Andrade, Campo  
Grande, Matogrosso Do Sul

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As of December 31, 2003

Subsidiaries and Their Investments	Percentage of Ownership			Consolidation Method	Stockholders Equity (Thousands of Euros)			(Thousands of Euros)	(Thousands of Euros)	
	Direct	Indirect	Group		Capital	Reserves	(Loss)	Dividend	Book Value	Consolidation Value in
			Móviles				Income	Interim	Gross	
Teleron Celular, S.A. (*)		97.23%	9.14%	Proportional	8,762	7,455	4,200			
Wireless services operator										
Av. Getúlio Vargas, 1941, Porto Velho, Rondonia										
Teacre Celular, S.A. (*)		98.35%	9.24%	Proportional	4,009	4,801	2,138			
Wireless services operator										
Rua Minas Gerais, nº 64, Ivete Vargas, Rio Branco-Acre										
Norte Brasil Telecom, S.A. (*)		100.00%	9.40%	Proportional	49,328	4,611	4,076			
Wireless services operator										
Travessa Padre Eutíquio, nº 1,226, Barrio Batista Campos, Belém, Para										
Tele Centro Oeste IP, S.A. (*)		99.99%	9.40%	Proportional	274	(683)	(992)			
Wireless services operator										
AC/ Sul Quadra 02, Bloco C, nº 256, 3º Pavimento, Ed Toufic, Plano Piloto, Brasília, DF										
Telefónica Móviles El Salvador Holding, S.A. de C.V. (*)	100.00%		100.00%	Full	124,563	(3,671)	(1,309)		136,638	
Holding company										
Alameda Roosevelt y Avenida Sur. Torre Telefónica nivel 10 - San Salvador										
Telefónica Móviles El Salvador, S.A. de C.V. (*)		90.30%	90.30%	Full	94,179	(62,499)	(11,881)		101,234	
Provision of wireless communications and international long-distance services										



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Alameda Roosevelt y Avenida  
Sur. Torre Telefónica nivel 10 -  
San Salvador

TCG Holdings, S.A. (*)	100.00%	100.00%	Full	206,682	(915)	(404)	238,540
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Holding company

Bulevar Los Próceres 5-56 Zona  
10 - Unicentro nivel 11, Ciudad  
de Guatemala

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As of December 31, 2003

Subsidiaries and Their Investments	Percentage of Ownership			Consolidation Method	Stockholders Equity (Thousands of Euros)			(Thousands of Euros)	(Thousands of Euros)	
	Direct	Indirect	Móviles Group		Capital	Reserves	Income (Loss)	Interim Dividend	Gross Book Value	Value in Consolidation
Telefónica Centroamérica Guatemala, S.A. (*) Provision of wireless and wireline communications and radio-paging services Bulevar Los Próceres 5-56 Zona 10 - Univentro Nivel 11, Ciudad de Guatemala Telescucha, S.A. (*)		100.00%	100.00%	Full	201,355	(91,807)	(21,828)		201,347	
Provision of telecommunications and paging services Bulevar Los Próceres 5-56 Zona 10 - Univentro Nivel 11, Ciudad de Guatemala Infraestructura Internacional, S.A.(*)		70.00%	70.00%	Full	428	(105)	(41)		299	
Provision of wireless communications services Bulevar Los Próceres 5-56 Zona 10 - Univentro Nivel 11, Ciudad de Guatemala Telefónica Móviles España, S.A.U. (*)	100.00%		100.00%	Full	423,343	(2,868,328)	1,856,632		933,211	

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Plaza de la Independencia, 6 - Pta. 5 - 28001 MADRID									
Spiral Investment, B.V. (*)	100.00%	100.00%	Full	38,535	(132,385)	250		42,690	
Strawinskylaan 3105 - 1077ZX - Amsterdam									
3G Mobile AG (*)	100.00%	100.00%	Full	35,368	(73,985)	(4,055)		90,872	
MobiPay España, S.A. (*)	13.33%	13.33%	EM	15,048		(5,746)		3,237	1,240
Provision of wireless telephony payment services									
Avda. Europa, 20 - Alcobendas - Madrid									
Mediaways UK (*)	100.00%	100.00%	C						
Solvella Investment, B.V. (*)	100.00%	100.00%	Full	880,699	(1,497,288)	(55,930)		891,787	
Strawinskylaan 3105 - 1077ZX - Amsterdam									
Ipse 2000, S.p.A. (*)	45.59%	45.59%	EM	2,150,000	303,872	(2,280,125)		1,218,147	79,221
Installation and execution of third-generation wireless communications systems									
Piazza dei Capprettari, 70 - Roma									
Group 3G UMTS Holding, GmbH (*)	57.20%	57.20%	Full	250,025	(10,157,736)	91		5,540,061	
Network development and provision of third-generation communications services									
Lilienthalallee, 40 Munich									

**Table of Contents****Telefónica Móviles, S.A.**

As of December 31, 2003

Subsidiaries and Their Investments	Percentage of Ownership			Consolidation Method	Stockholders Equity (Thousands of Euros)			(Thousands of Euros)	(Thousands of Euros)
	Direct	Indirect	Group		Capital	Reserves	(Loss)	Dividend	Gross Book Value
Quam, GmbH (*)		100.00%	57.20%	Full	250,025	(250,025)	(41,489)		
Provision of UMTS services									
Munich									
Opc Mobile Services GmbH (*)		100.00%	57.20%	Full	50				
Provision of UMTS services									
Munich									
Médi Telecom, S.A. (*)		32.18%	32.18%	EM	796,968	(551,745)	(123,793)	274,653	38,624
Provision of wireless communications services									
Twin Center, Tour A. Angle Bd Zertouni et El Massira El Kadra Casablanca									
Gruppo 3G, S.R.L.		100.00%	100.00%	C	67	(12)		103	103
Via Lepetit, 4 - Milán									
Tempos 21 Innovación en Aplicaciones Móviles, S.A. (*)		38.50%	38.50%	C	13,224	(977)	(5,302)	5,091	3,489
Research, development and commercial operation of wireless services and applications.									
Avda. Diagonal, 640 - Barcelona									
Main Instituto Superior de Tecnología y Empresa, S.L. (*)		20.00%	20.00%	C	750	(744)	(37)	150	(59)
Educational programs relating to new corporate technologies									
Españoleto, 19 - Madrid									
Telefónica Móviles Interacciona, S.A. (*)		100.00%	100.00%	Full	3,997	(56,566)	(22,836)		
Advisory services for wireless environment engineering									

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Gran Vía, 28 - 28013 Madrid							
Terra Mobile Brasil, Ltd. (*)	100.00%	100.00%	Full	5,598	(5,609)	28	7,514
I.O.Box Deutschland, GmbH (*)	100.00%	100.00%	Full	25	(188)	182	5,859
Simpay	25.00%	25.00%	C				

Wireless payment systems

62-65 Chandos Place, London  
WC2N 4LP

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As of December 31, 2003

Subsidiaries and Their Investments	Percentage of Ownership		Móviles Group	Consolidation Method	Stockholders Equity (Thousands of Euros)			Interim Dividend	(Thousands of Euros) Book Value	(Thousands of Euros) Value in Consolidation
	Direct	Indirect			Capital	Reserves	Income (Loss)			
Omicron Ceti, S.L. (*)	100.00%		100.00%	C	3		(1)		4	4
Holding company										
José Abascal, Madrid										
Telefónica Móviles Puerto Rico, Inc. (*)	100.00%		100.00%	Full	600	10	(95)		639	
Ownership of holdings in Puerto Rican wireless communications operators										
Metro Office Park Calle Edificio #17, Suite 600 - 00968										
Guaynabo										
Telefónica Móviles USA, Inc.	100.00%		100.00%	Full		(915)	(83)		751	
Telecommunications advisory services										
1221 Brickell Avenue - Miami - Florida										
TELCA Gestión, S.A. de C.V.	100.00%		100.00%	C	18				24	24
Telecommunications services management and advice										
63 Avda. Sur y Alameda Roosevelt, Torre B nivel 10 - San Salvador										
MobiPay Internacional, S.A. (*)	36.05%		36.05%	EM	32,256	(12,623)	(7,899)		12,168	4,230
Provision of wireless telephony payment system services										
Telefónica Móviles Perú Holding, S.A.C. (*)	97.97%		97.97%	Full	184,003	20,161	14,679		254,457	
Holding company										
Avda. Arequipa, 1155 Lima, 01										

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Telefónica Móviles, S.A.C. (*)	100.00%	97.97%	Full	196,253	8,128	14,778	
Provision of wireless communications services							
Avda. Arequipa, 1155 Lima, 01							
Telefónica Móviles Argentina, S.A. (*)	97.93%	97.93%	Full	141,154	(674,641)	56,968	495,786
Holding company							
Ing HUergo 723,piso 17-Capital Federal-Argentina							
Telefónica Comunicaciones Personales, S.A. (*)	100.00%	97.93%	Full	144,580	(677,713)	57,036	
Provision of wireless communications services							
Ing HUergo 723,piso 17-Capital Federal-Argentina							
Radio Servicios, S.A. (*)	99.99%	97.92%	EM	268	(310)	(4)	(45)
Inactive							
Ing HUergo 723,piso 17-Capital Federal-Argentina							

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As of December 31, 2003

Subsidiaries and Their Investments	Percentage of Ownership			Consolidation Method	Stockholders Equity (Thousands of Euros)			(Thousands of Euros)	(Thousands of Euros)
	Direct	Indirect	Group		Capital	Reserves	Income (Loss)	Interim Dividend	Gross Book Value
Radio Móvil Digital Argentina, S.A. (*)		99.99%	97.92%	EM	1,690	(3,209)	(113)		(1,619)
Telecommunications under SRCE license (trunking)									
Ing HUergo 723,piso 17-Capital Federal-Argentina									
Telefónica de Centroamérica, S.L. (*)	100.00%		100.00%	C	500	10	(127)	1,326	1,326
Inactive									
Gran Vía, nº 28, Madrid									
Telefónica Móviles Holding Uruguay, S.A. (*)	100.00%		100.00%	C	18	(10)	(1)	50	50
Inactive									
Plza de la Independencia 8, planta baja, Montevideo									
Telefónica Móviles Uruguay, S.A. (*)		100.00%	100.00%	C	19	(10)	(1)		
Inactive									
Plza de la Independencia 8, planta baja, Montevideo									
Paging de Centroamérica, S.A.	100.00%		100.00%	C				1	1
Provision of telecommunications and paging services									
Bulevar Los Próceres 5-56 Zona 10 - Univentro Nivel 11, Ciudad de Guatemala									
Telefónica Soporte y Tecnología, S.A.	99.99%		99.99%	C				1	1
Provision of telecommunications and paging services									



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Bulevar Los Próceres 5-56 Zona  
10 - Univentro Nivel 11, Ciudad  
de Guatemala

Telefónica Móviles México, S.A. de C.V. (*)	92.00%	92.00%	Full	1,483,310	(131,215)	(530,032)	998,991
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Holding company

Paseo de los Tamarindos No.  
400-A, piso 4, Col. Bosques de  
las Lomas, México, D.F. 05120

Telefónica Finanzas México, S.A. de C.V. (*)	100.00%	92.00%	Full	52	2,114	4,553	
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Promotion, constitution, use and  
operation of and

investment in companies capital  
stock

Paseo de los Tamarindos No.  
400-A, piso 4, Col. Bosques de  
las Lomas, México, D.F. 05120

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As of December 31, 2003

Subsidiaries and Their Investments	Percentage of Ownership			Consolidation Method	Stockholders Equity (Thousands of Euros)			Interim Dividend	Gross Book Value (Thousands of Euros)	Value in Consolidation (Thousands of Euros)
	Direct	Indirect	Móviles Group		Capital	Reserves	Income (Loss)			
Baja Celular Mexicana, S.A. de C.V. (*)		100.00%	92.00%	Full	99,764	5,266	(20,967)			
Provision of cellular telephony services										
Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120										
Baja Celular Servicios Corporativos, S.A. de C.V. (*)		100.00%	92.00%	Full	2	517	(45)			
Promotion, organization and administration of all kinds of corporations or general partnerships										
Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120										
Tamcel, S.A. de C.V. (*)		99.99%	92.00%	Full	40,242	(6,535)	(12,516)			
Holding company										
Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120										
Movitel de Noroeste, S.A. de C.V. (*)		90.00%	82.80%	Full	14,451	14,090	(15,410)			
Provision of cellular telephony services										
Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120										
Movicelular, S.A. de C.V. (*)		90.00%	82.80%	Full	4	(223)	9			
Technical, administrative, advisory and supervisory services										

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Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120							
Moviservicios, S.A. de C.V. (*)	90.00%	82.80%	Full	4	427	97	
Technical, administrative, advisory and supervisory services							
Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120							
Corporativo Integral de Comunicación, S.A. De C.V.	100.00%	92.00%	Full	7,043	(7,666)	(4,873)	
Holding company							
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.**

As of December 31, 2003

Subsidiaries and Their Investments	Percentage of Ownership		Móviles Group	Consolidation Method	Stockholders Equity (Thousands of Euros)			Interim Dividend	Gross Book Value (Thousands of Euros)	Value in Consolidation (Thousands of Euros)
	Direct	Indirect			Capital	Reserves	Income (Loss)			
Telefonía Celular del Norte, S.A. de C.V. (*)		100.00%	92.00%	Full	25,627	(44,428)	(23,217)			
Provision of cellular telephony services										
Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120										
Todo para Celulares, S.A. de C.V. (*)		100.00%	92.00%	Full		69	(31)			
Manufacture, distribution and retailing of all systems associated with mobile telephones and their accessories										
Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120										
Grupo Corporativo del Norte, S.A. de C.V. (*)		100.00%	92.00%	Full	5,272	(5,069)	(15,634)			
Acquisition, disposal and custody of securities										
Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120										
Celular de Telefonía, S.A. de C.V. (*)		100.00%	92.00%	Full	12,392	10,833	(59,717)			
Provision of cellular telephony services										
Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120										
Soluciones Celulares, S.A. de C.V. (*)		100.00%	92.00%	Full	1,857	(486)	(43)			
Holding company										

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Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120						
Enlaces del Norte, S.A. de C.V. (*)	94.90%	87.31%	Full	37	1,967	722

Acquisition, disposal and custody of securities

Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120						
Grupo de Telecomunicaciones Mexicanas, S.A. de C.V. (*)	100.00%	89.61%	Full	10	11,001	2,456

Provision of cellular telephony services

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.**

As of December 31, 2003

Subsidiaries and Their Investments	Percentage of Ownership		Móviles Group	Consolidation Method	Stockholders Equity (Thousands of Euros)			Interim Dividend	Gross Book Value (Thousands of Euros)	Value in Consolidation (Thousands of Euros)
	Direct	Indirect			Capital	Reserves	Income (Loss)			
Pegaso Telecomunicaciones, S.A. de C.V. (*)  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%	92.00%	Full	743,699	(886,795)	(326,566)			
Pegaso Comunicaciones y Sistemas, S.A. de C.V. (*)  Provision of cellular telephony services  Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120		100.00%	92.00%	Full	589,384	(821,263)	(304,630)			
Pegaso PCS, S.A. de C.V. (*)  Provision of cellular telephony services  Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120		100.00%	92.00%	Full	10,568	(30,986)	(21,149)			
Pegaso Recursos Humanos, S.A. de C.V. (*)  Provision of professional technical services for the deployment of public telecommunications networks  Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120		100.00%	92.00%	Full	2,320	(2,076)	909			

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Pegaso Finanzas, S.A. de C.V. (*)	100.00%	92.00%	Full	4
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Obtainment of funding and loans and grant of loans to entities with which it has business relationships

Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120

Pegaso Finco I, S.A. de C.V. (*)	100.00%	92.00%	Full	4
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Operation of public telecommunications networks and of frequency bands

Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120

Activos para Telecomunicación., S.A. de C.V.	100.00%	92.00%	Full	
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Provision of wireless telecommunications services

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.**

As of December 31, 2003

Subsidiaries and Their Investments	Percentage of Ownership		Móviles Group	Consolidation Method	Stockholders Equity (Thousands of Euros)			Gross Book Value (Thousands of Euros)	Value in Consolidation (Thousands of Euros)
	Direct	Indirect			Capital	Reserves	Income (Loss)		
Telecomunicaciones Punto a Punto Mexico, S.A. de C.V. Provision of wireless telecommunications services Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120		100.00%	92.00%	Full					
Telefónica Móviles Soluciones y Aplicaciones, S.A. (*)	100.00%		100.00%	Full	9,158	532	1,327	9,500	
Other investments		N/A	N/A	C				1,840	294
Other investments		N/A	N/A	EM					

(\*) Data obtained from the individual financial statements of these companies as of December 31, 2003. The data relating to companies located outside the eurozone were expressed in euros by translating the capital and reserves at the year-end exchange rates and the income (loss) at the average exchange rates for the year.

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**Table of Contents****Telefónica Móviles, S.A.**

As of December 31, 2002

Subsidiaries and Their Investments	Percentage of Ownership		Móviles Group	Consolidation Method	Stockholders Equity (Thousands of Euros)			Interim Dividend	Gross Book Value	Value in Consolidation
	Direct	Indirect			Capital	Reserves	Income (loss)			
Brasilcel, N.V.	50.00%		50.00%	Full	100	3,796,450	(9)		1,899,422	
Tagilo Participações, S.A. (*)		100.00%	50.00%	Full	95,064	5,435	721	(540)		
SudesteCel Participações, S.A. (*)		89.50%	44.75%	Full	364,307	379	12	(93)		
Tele Sudeste Cacular Participações, S.A. (*)		85.59%	41.79%	Full	184,954	284,623	52,194	(28,035)		
Telerj Celular, S.A. (*)		100.00%	41.79%	Full	245,356	130,906	48,719	(8,592)		
Telest Celular, S.A. (*)		100.00%	41.79%	Full	39,346	29,344		(2,602)		
Portelcom Fixa, S.A. (*)		100.00%	50.00%	Full	39,644	(2,904)		2,011		
TBS Celular Participações, S.A. (*)		96.26%	48.13%	Full	157,933	2,924	4,103	(2,324)		
Celular CRT Participações, S.A. (*)		49.38%	24.24%	Full	36,308	155,250	53,650	(10,154)		
Celular CRT, S.A. (*)		100.00%	24.24%	Full	127,001	60,296	54,154	(7,746)		
Ibero Leste Participações, S.A. (*)		100.00%	50.00%	Full	128,863	(8,887)		(958)		
Tele Leste Celular Participações, S.A. (*)		27.70%	13.85%	Full	82,420	38,070		(1,856)		
Telebahia Celular, S.A. (*)		100.00%	13.85%	Full	96,568	31,737		(29,602)		
Telergipe Celular, S.A. (*)		100.00%	13.85%	Full	9,351	1,312		413		
Intertelecom Ltda. (*)		99.99%	49.99%	Full	139,116	(14,753)		(7,787)		
Ptelecom Brasil, S.A. (*)		99.99%	49.99%	Full	600,304	(368,225)		(32,650)		
Portelcom Participações, S.A. (*)		100.00%	49.99%	Full	955,677	(73,877)		(67,558)		
Telesp Celular Participações, S.A. (*)		65.12%	32.56%	Full	1,180,405	209,712		(414,587)		
Telesp Celular S.A. (*)		100.00%	32.56%	Full	507,326	308,430		91,036		
Daini do Brasil S.A. (*)		100.00%	32.56%	Full	120,752	(219,580)		277,558		
Global Telecom Telecom S.A. (*)		100.00%	32.56%	Full	22,121	(44,920)		57,761		
Inepar S.A. Part. Invest. de Telecom (*)		100.00%	32.56%	Full	11,099	(26,844)		32,047		
Global Telecom S.A. (*)		100.00%	32.56%	Full	897,963	(357,536)		(280,257)		
TES Holding, S.A. de C.V. (*)	100.00%		100.00%	Full	150,019	(2,887)		(1,709)		136,638
Telefónica Móviles El Salvador, S.A. de C.V. (*)		90.30%	90.30%	Full	113,426	(61,968)		(13,840)		121,919
TCG Holdings, S.A. (*)	100.00%		100.00%	Full	230,511	(635)		(557)		216,008

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Telefónica Centroamérica Guatemala, S.A. (*)	100.00%	100.00%	Full	223,871	(96,036)	(20,321)	223,871
Telescucha, S.A. (*)	100.00%	100.00%	Full	3,105	(2,231)	344	3,105
Telefónica Móviles España, S.A., Sole-Stockholder Company (*)	100.00%	100.00%	Full	423,343	481,960	(3,350,288)	933,211
Serea Investments B.V. (*)	100.00%	100.00%	Full	53	7,188	(7,192)	60

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**Table of Contents****Telefónica Móviles, S.A.**

As of December 31, 2002

Subsidiaries and Their Investments	Percentage of Ownership		Móviles Group	Consolidation Method	Stockholders Equity (Thousands of Euros)			Interim Dividend	Gross Book Value	Value in Consolidation
	Direct	Indirect			Capital	Reserves	Income (loss)			
ST 3G, S.A.		40.00%	40.00%	C						
Nuevo Cosmos		100.00%	100.00%	C	60				61	61
Spiral Investments B.V.(*)		100.00%	100.00%	Full	38,535	(15,671)	(118,929)		38,535	
3G Mobile AG (*)		100.00%	100.00%	Full	37,937	36,836	(118,224)		86,765	
Mobipay España, S.A.(*)		13.33%	13.33%	EM	20,495	(880)	(4,566)		2,733	2,006
Telefónica UK		100.00%	100.00%	C						
3G Mobile Telecommunications GmbH (*)		100.00%	100.00%	Full	32,000	26,016	(157,261)		68,543	
Solivella Investments B.V (*)		100.00%	100.00%	Full	880,699	(45,781)	(1,462,576)		880,660	
Iipse 2000, S.p.A. (*)		45.59%	45.59%	EM	2,150,000	289,326	(167,979)		1,143,832	1,013,691
Group 3G UMTS Holding GmbH (*)		57.20%	57.20%	Full	250,025	8,658,675	(8,968,360)		5,518,961	
Group 3G UMTS GmbH (*)		100.00%	57.20%	Full	250,025	8,782,211			9,247,232	
Opco Mobile Services GmbH (*)		100.00%	57.20%	Full	50	(1)			50	
Medi Telecom, S.A (*)		31.34%	31.34%	EM	780,717	(394,495)	(168,038)		253,419	62,886
Setaber Investments B.V (*)		100.00%	100.00%	C	55	(22)	(20)		55	26
Senda Investments B.V. (*)		50.00%	50.00%	C	545	(515)	(40)		65	(278)
Gruppo 3G, SRL (*)		100.00%	100.00%	C	67		(12)		103	103
Tempos 21, S.A.		38.50%	38.50%	C	13,224		(974)		5,091	4,717
Main Ito. Sup. Tecnología y Empresa, S.L.		20.00%	20.00%	C	750	(189)	(548)		150	
Telefónica Mobile Solutions, S.A. (*)	100.00%		100.00%	Full	60	102	(12,400)		60	
Telefónica Mobile Solutions Chile, S.A.C.(*)		99.90%	99.90%	Full	133	15	(1,071)		189	
Telefónica Mobile Solutions Peru, S.A.C. (*)		99.90%	99.90%	Full		259	(14)			
Telefónica Mobile Solutions Brasil, L.T.D.A.(*)		99.90%	99.90%	Full	3	149	(1,438)		5	
Telefónica Mobile Solutions Argentina, S.A. (*)		99.90%	99.90%	Full	3		(140)		13	
Terra Mobile, S.A. (*)	80.00%		80.00%	Full	3,597	135,023	(231,250)		201,770	

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Terra Mobile, Brasil Ltd. (*)	100.00%	80.00%	Full	4,785	(1,527)	(9,953)	6,727
Termespa, S.A.U. (*)	100.00%	80.00%	Full	6,100	(1,845)	(3,601)	6,100
Terra Mobile (Finland) Oy (*)	100.00%	80.00%	Full	908	(850)	36	1,408
Terra Mobile UK Ltd. (*)	100.00%	80.00%	Full	22,749	(13,794)	(9,542)	8,831
Iobox Deutschland GmbH (*)	100.00%	80.00%	Full	25	5,884	(6,344)	5,587
Telefónica Móviles USA, Inc (*)	100.00%	100.00%	Full		(1,101)	(100)	
TELCA Gestion Guatemala, S.A. (*)	100.00%	100.00%	Full				
TELCA Gestion, S.A. de C.V. (*)	100.00%	100.00%	Full	22	1	(1)	24

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**Table of Contents****Telefónica Móviles, S.A.**

As of December 31, 2002

Subsidiaries and Their Investments	Percentage of Ownership		Móviles Group	Consolidation Method	Stockholders Equity (Thousands of Euros)			Gross Book Value (Thousands of Euros)	Value in Consolidation (Thousands of Euros)
	Direct	Indirect			Capital	Reserves	Income (loss)		
MobiPay Internacional, S.A.(*)	36.00%		36.00%	EM	30,051	(2,663)	(11,460)	10,818	5,733
Telefónica Móviles Peru Holding, S.A.A.(*)	97.97%		97.97%	Full	214,103	11,316	13,520	254,457	
Telefónica Móviles, S.A.C.(*)		100.00%	97.97%	Full	228,357	15,367	1,440		
Telefónica Móviles Argentina, S.A.(*)	97.93%		97.93%	Full	147,804	(64,961)	(760,052)	495,786	
Telefónica Comunicaciones Personales, S.A. (*)		100.00%	97.93%	Full	151,391	(68,223)	(760,173)		
Radio Servicios, S.A. (*)		99.99%	97.92%	EM	280	(322)	(2)		
Radio Móvil Digital Argentina, S.A.(*)		99.99%	97.92%	EM	1,770	(3,117)	(97)		
Telefónica de Centroamérica, S.L.	100.00%		100.00%	C				1,326	1,326
Telefónica Móviles Holding Uruguay, S.A. (*)	100.00%		100.00%	C	22	(3)	(11)	50	50
Telefonica Móviles Uruguay (*)		100.00%	100.00%	C	23	(3)	(11)		
Paging de Centroamérica, S.A.	100.00%		100.00%	C				1	1
Telefonica Soporte y Tecnología, S.A.	99.99%		99.99%	C				1	1
Telefónica Móviles México, S.A. de C.V.(*)	92.00%		92.00%	Full	1,874,455		(180,563)	995,616	
Telefónica Finanzas México (*)		100.00%	92.00%	Full	51		2,036		
Baja Celular Mexicana, S.A. de C.V. (*)		100.00%	92.00%	Full	126,071	29,961	(27,917)		
Baja Celular Servicios Corporativos, S.A. de C.V. (*)		100.00%	92.00%	Full	3	513	156		
Tamcel, S.A. de C.V. (*)		99.99%	92.00%	Full	48,075	6,271	(13,053)		
Movitel de Noroeste, S.A. de C.V. (*)		90.00%	82.80%	Full	17,263	32,874	(15,624)		
Movicelular, S.A. de C.V. (*)		90.00%	82.80%	Full	5	(297)	18		
Moviservicios, S.A. de C.V. (*)		90.00%	82.80%	Full	5	242	332		
Corporativo Integral Comunicación, S.A. de C.V. (*)		100.00%	92.00%	Full	8,228	(7,916)	(4,366)		
Telefonía Celular del Norte, S.A. de C.V. (*)		100.00%	92.00%	Full	29,942	(28,457)	(20,802)		
		100.00%	92.00%	Full		108	(24)		

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Todo para Celulares, S.A. de C.V. (*)						
Grupo Corporativo del Norte, S.A. de C.V. (*)	100.00%	92.00%	Full	6,236	5,862	(15,323)
Celular de Telefonía, S.A. de C.V. (*)	100.00%	92.00%	Full	53,899	(7,691)	(58,531)
Soluciones Celulares, S.A. de C.V. (*)	100.00%	92.00%	Full	2,169	(1,198)	519
Enlaces del Norte, S.A. de C.V. (*)	94.90%	87.31%	Full	5	179	2,353
Grupo de Telecomunicaciones Mexicanas, S.A. de C.V. (*)	100.00%	92.00%	Full	5	9,396	5,838
Pegaso Telecomunicaciones, S.A. de C.V. (*)	100.00%	92.00%	Full	939,810	(315,566)	(896,316)
Pegaso Comunicaciones y Sistemas, S.A. de C.V. (*)	100.00%	92.00%	Full	744,802	(294,985)	(827,018)
Pegaso PCS, S.A. de C.V. (*)	100.00%	92.00%	Full	13,354	(15,653)	(26,109)

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**Table of Contents****Telefónica Móviles, S.A.**

As of December 31, 2002

Subsidiaries and Their Investments	Percentage of Ownership		Móviles Group	Consolidation Method	Stockholders Equity (Thousands of Euros)			Gross Book Value (Thousands of Euros)	Value in Consolidation (Thousands of Euros)
	Direct	Indirect			Capital	Reserves	Income (loss)		
Pegaso Recursos Humanos, S.A. de C.V. (*)		100.00%	92.00%	Full	2,931	(781)	(2,123)		
Pegaso Finanzas, S.A. de C.V. (*)		100.00%	92.00%	Full	5				
Pegaso Finco I, S.A. de C.V. (*)		100.00%	92.00%	Full	5				
Telefónica Móviles Aplicaciones y Soluciones, S.A. (*)	100.00%		100.00%	Full	8,567	214	501	9,215	
Other companies accounted for by the equity method		N/A	N/A	C				88	(370)
Other companies carried at cost		N/A	N/A	EM				N/A	(1,471)

(\*) Data obtained from the individual financial statements of these companies as of December, 31 2002. The data relating to companies located outside the eurozone were expressed in euros by translating the capital and reserves at the year-end exchange rates and the income (loss) at the average exchange rates for the year.

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**IPSE 2000 S.p.A.**

**Financial Statements as of December 31, 2002**

**The Financial Statements have been extracted and translated into the English language, from the Official Financial Statements filed with Italian Authorities, and updated in order to consider subsequent events occurred between July 8, 2002 and June 15, 2005.**

**No adjustments have been reported to the figures included in the financial statements filed with the Italian Authorities.**

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**INDEPENDENT AUDITORS REPORT**

**To the Board of Directors and Shareholders of**

**Ipse 2000 S.p.A.:**

We have audited the accompanying balance sheet of Iperse 2000 S.p.A. (the Company or Iperse) as of December 31, 2002 and the related statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2002 and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles in Italy.

The abovementioned financial statements in accordance with Italian GAAP vary in certain respects from accounting principles generally accepted in the United States of America (US GAAP). A description of these differences and adjustments required to conform the net loss for the period ended December 31, 2002 and shareholders' equity as of December 31, 2002 to U.S. GAAP are set forth in the notes to the financial statements.

As discussed in the notes to the financial statements, the Company and Rete Ferroviaria Italiana (RFI) have reached a settlement on March 2005, which was formalized and executed on May 9, 2005, regarding the dispute that both parties had since November 27, 2003, when Iperse exercised its withdrawal rights according to the agreement previously signed between them. The effect of the settlement will be recorded as a loss of approximately 40 million Euros in Iperse's 2004 financial statements.

As discussed in the notes to the financial statements, on October 29, 2002, Iperse notified the Ministry of Communications of its intention to relinquish its right to be allocated and hold additional 2x5MHz spectrum. The Company, supported by expert legal advice, did not consider that any formal acceptance by the Ministry of Communications or the Telecommunications Authority was necessary. However, the Italian authorities challenged this decision. As of the date of this auditors' report this issue remains unsolved.

As discussed in the notes to the financial statements, in 2003 and 2004 the Company decided to revise its strategy and prepared new business plans for which the main assumptions are detailed in the notes to the financial statements. The reasons for this change were the continuing slowdown in the main industrial economies, changes in the financial markets and specific delays in the UMTS market and the provisions of a set of EU directives enacted in 2003, which allow so-called spectrum trading activities.

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The main consequences of these changes, as discussed in the notes to the financial statements, were the intention to become an operator subject to a definitive transference of the Company's spectrum and the impairment of the UMTS license by approximately EUR 2,073 million, as reflected by the financial statement for fiscal year 2002.

Additionally as at June 30, 2004, the Company did not comply with the coverage obligation set forth by article 8 of the terms and conditions of the UMTS license. The Company is of the opinion that it is not required to fulfill the original coverage obligation provided for by the UMTS license. However, as indicated in the notes to the financial statements, the Italian authorities disagreed with this opinion and have asked Ipse for the fulfillment of the coverage obligation indicating that failure to comply with coverage obligations may result in sanctions, up to and including the revocation of the License.

In September 2004, Ipse received expressions of interest for the acquisition of a block of frequencies. At the same time, negotiations were initiated between some of the Company's shareholders and third parties to sell 100% of Ipse's equity. None of these potential transactions have occurred as of the date of this auditors' report.

DELOITTE & TOUCHE S.p.A.

Roma, Italy

July 8, 2003 (June 15, 2005, as to Notes of Subsequent events occurred between July 8, 2003 and June 15, 2005 and U.S. GAAP reconciliation )

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**Table of Contents****Financial statements as of December 31, 2002**

BALANCE SHEET - ASSETS	31.12.2003	31.12.2002	31.12.2001
(Euro)	Unaudited (*)		Unaudited (*)
<b>A) UNPAID CALLED-UP SHARE CAPITAL</b>			
<b>B) FIXED ASSETS</b>			
<b>I- Intangible fixed assets</b>			
1) start-up and expansion costs	25.141	50.282	75.423
2) research, development and advertising expenses			1.642.523
3) industrial patents and intellectual property rights	90.204	339.131	3.226.692
4) permits, licenses, trademarks and similar rights	450.430.431	450.430.431	3.557.969.954
6) intangible fixed assets in process and advances			39.051.270
7) other		4.196.864	22.607.777
	450.545.777	455.016.709	3.624.573.639
<b>II- Tangible fixed assets</b>			
2) plant and machinery	496	319.488	16.908.660
3) industrial and commercial equipment	7.528	283.062	345.446
4) other	273.690	3.137.107	10.192.279
5) tangible fixed assets under construction and advances			399.702
	281.714	3.739.657	27.846.087
<b>III- Fixed asset investments</b>			
5) long Term Deposit	10.053.369	9.852.137	9.612.001
	10.053.369	9.852.137	9.612.001
<b>Total fixed assets (B)</b>	<b>460.880.859</b>	<b>468.608.503</b>	<b>3.662.031.727</b>
<b>C) CURRENT ASSETS</b>			
<b>I- Inventories</b>			
4) finished goods and goods for resale			1.211.717
			1.211.717
<b>II- Receivables</b>			
1) due from customers	616.589	2.801.452	10.729.541
5) due from others	128.021.973	107.494.071	73.776.919
	128.638.562	110.295.522	84.506.460
<b>III- Short-term investments</b>			
7) Short term deposits			14.500.000
			14.500.000
<b>IV- Cash on hand and in banks</b>			
1) bank and post office deposits	1.744.644	12.054.931	3.667.149
3) cash and notes on hand	3.206	60	351

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	1.747.850	12.054.990	3.667.500
<b>Total current assets (C)</b>	<b>130.386.412</b>	<b>122.350.512</b>	<b>103.885.677</b>
<b>D) ACCRUED INCOME AND PREPAID EXPENSES</b>	<b>264.244.992</b>	<b>287.766.952</b>	<b>121.249.667</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>TOTAL ASSETS</b>	<b>855.512.263</b>	<b>878.725.968</b>	<b>3.887.167.071</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>

(\*) Unaudited under US GAAS, although these Financial Statements were audited under Italian GAAS.

**Table of Contents****Financial statements as of December 31, 2002****BALANCE SHEET -  
SHAREHOLDERS**

<b>EQUITY AND LIABILITIES</b>	<b>31.12.2003</b>	<b>31.12.2002</b>	<b>31.12.2001</b>
(Euro)	Unaudited (*)		Unaudited (*)
<b>A) SHAREHOLDERS EQUITY</b>			
I- Share capital	2.150.000.000	2.150.000.000	2.150.000.000
IV- Legal reserve	359.347	359.347	359.347
VII- Other reserves	518.040.678	357.832.444	185.355.527
VIII-Retained earnings (accumulated deficit)	(2.415.508.615)	(79.535.356)	
IX- Loss for the period	(105.131.170)	(2.335.973.260)	(79.535.356)
<b>Total shareholders equity (A)</b>	<b>147.760.241</b>	<b>92.683.175</b>	<b>2.256.179.518</b>
<b>B) ALLOWANCES FOR RISKS AND CHARGES</b>			
	<b>2.155.000</b>		
<b>C) EMPLOYEE TERMINATION INDEMNITIES</b>			
	<b>246.587</b>	<b>959.805</b>	<b>788.519</b>
<b>D) PAYABLES</b>			
3) payables to banks	0	419.103	189
4) due to other financial institutions (shareholders loan)	315.594.413	253.266.034	24.508.048
6) due to suppliers (**)	330.240.000 370.962.552	351.360.000 384.368.761	367.200.000 484.775.802
11) taxes due	359.003	1.267.994	789.597
12) due to social security institutions	231.330	647.529	2.305.460
13) other payables			
a) due to other related parties	90.657	1.296.721	26.610.331
b) due to others	17.305.024	16.010.000 142.885.109	962.676.000 1.087.975.526
<b>Total payables (D)</b>	<b>704.542.979</b>	<b>784.151.250</b>	<b>1.626.964.953</b>
<b>E) ACCRUED EXPENSES AND DEFERRED INCOME</b>			
	<b>807.457</b>	<b>931.738</b>	<b>3.234.081</b>
<b>TOTAL SHAREHOLDERS EQUITY AND LIABILITIES</b>	<b>855.512.263</b>	<b>878.725.968</b>	<b>3.887.167.071</b>
<b>MEMORANDUM ACCOUNTS</b>			
	<b>31.12.2003</b>	<b>31.12.2002</b>	<b>31.12.2001</b>
<b>A) Guarantees received</b>			
1) guarantees received by banks	970.452.619	1.105.536.709	1.237.067.320

<b>MEMORANDUM ACCOUNTS</b>	<b>970.452.619</b>	<b>1.105.536.709</b>	<b>1.237.067.320</b>
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(\*) Unaudited under US GAAS, although these Financial Statements were audited under Italian GAAS.  
(\*\*) due beyond next commercial year

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**Table of Contents****Financial statements as of December 31, 2002**

INCOME STATEMENT	2003	2002	2001
(Euro)	Unaudited (*)		Unaudited (*)
<b>A) VALUE OF PRODUCTION</b>			
1) revenues from sales	0	491.165	14.827.578
4) capitalised costs and expenses			22.805.034
5) other income and revenues	66.134	231.756	90.237
<b>Total value of production (A)</b>	<b>66.134</b>	<b>722.921</b>	<b>37.722.849</b>
<b>B) OPERATING COSTS</b>			
6) raw, ancillary and consumable materials and goods for resale	4.767	71.723	20.203.342
7) services	10.080.363	11.073.636	36.299.027
8) leases and rentals	22.119.774	25.615.451	3.512.110
9) personnel:			
a) wages and salaries	4.870.561	17.551.615	21.432.976
b) social security contributions	1.648.723	5.084.897	5.869.652
c) termination indemnities	392.945	1.184.077	861.187
e) other			7.515
10) amortisation, depreciation and write-downs			
a) amortization of intangible fixed assets	1.114.817	1.187.415	6.452.511
b) amortization of tangible fixed assets	312.067	959.285	2.735.873
d) svalutazioni dei crediti compresi nell attivo circolante e delle disponibilità liquide	27.628.637	64.807.928	
11) changes in inventories of raw, ancillary and consumable materials and goods for resale		1.211.717	(1.211.717)
12) Risks allocations	2.155.000		
14) other operating costs	386.341	501.889	584.119
<b>Total operating costs (B)</b>	<b>70.713.994</b>	<b>129.249.634</b>	<b>96.746.595</b>
<b>OPERATING INCOME</b>	<b>(70.647.860)</b>	<b>(128.526.713)</b>	<b>(59.023.746)</b>
<b>C) FINANCIAL INCOME AND EXPENSE</b>			
16) other financial income			
a) income from investment	279.997	240.136	246.616
d) other			
2) from others	84.069	447.294	1.709.923
17) interest expense and other financial charge			
b) to others	(24.923.206)	(12.561.187)	(391.291)
<b>Total financial income (expense), net (C)</b>	<b>(24.559.139)</b>	<b>(11.873.757)</b>	<b>1.565.248</b>
<b>E) EXTRAORDINARY INCOME AND EXPENSE</b>			
20) revenues			
a) others	1.452.461	8.977.857	
21) expenses			
a) others	11.376.631	131.563.647	22.076.858
b) write-downs	0	2.072.987.000	

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<b>Total extraordinary income and expense (E)</b>	<b>(9,924.170)</b>	<b>(2.195.572.790)</b>	<b>(22.076.858)</b>
<b>INCOME BEFORE INCOME TAXES (A-B+-C+-D+-E)</b>	<b>(105.131.170)</b>	<b>(2.335.973.260)</b>	<b>(79.535.356)</b>
22) income taxes for the period			
<b>23) LOSS FOR THE PERIOD</b>	<b>(105.131.170)</b>	<b>(2.335.973.260)</b>	<b>(79.535.356)</b>

(\*) Unaudited under US GAAS, although these Financial Statements were audited under Italian GAAS.

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**Table of Contents****Financial statements as of December 31, 2002**

STATEMENT OF CASH FLOWS	31.12.2003	31.12.2002	31.12.2001
(Euro)	Unaudited (*)		Unaudited (*)
<b>A) CASH AND CASH EQUIVALENTS - OPENING BALANCE</b>	<b>11.635.887</b>	<b>3.667.500</b>	<b>67.659.405</b>
<b>B) CASH FLOWS FROM (FOR) OPERATING ACTIVITIES:</b>			
Loss for the period before income taxes	(105.131.170)	(2.335.973.260)	(79.535.356)
Current taxes			
Depreciation and amortisation of tangible and intangible fixed assets	1.426.884	2.146.700	9.188.384
Net change in funds for risks and charges	2.155.000		
Net change in employee termination indemnities	(713.218)	171.286	788.519
<b>Total</b>	<b>(102.262.504)</b>	<b>(2.333.655.274)</b>	<b>(69.558.453)</b>
Change in net working capital:			
Change in inventories	0	1.211.717	(1.211.717)
Change in receivables	(18.343.040)	(25.789.062)	(83.563.443)
Change in payables	(79.189.168)	(843.232.805)	410.263.001
Change in accrued income and prepaid expenses	23.397.680	(168.819.629)	(113.361.695)
<b>TOTAL B)</b>	<b>(176.397.032)</b>	<b>(3.370.285.053)</b>	<b>142.567.693</b>
<b>C) CASH FLOWS FROM (FOR) INVESTING ACTIVITIES:</b>			
Disinvestment in tangible fixed assets	3.145.877	23.147.145	(29.056.508)
Disinvestment in intangible fixed assets	3.356.116	3.168.369.515	(338.746.616)
Investment in fixed asset investments	(201.232)	(240.136)	(9.612.001)
<b>TOTAL C)</b>	<b>6.300.761</b>	<b>3.191.276.524</b>	<b>(377.415.125)</b>
<b>D) CASH FLOWS FROM (FOR) FINANCING ACTIVITIES:</b>			
Payments from shareholders	160.208.234	172.476.917	185.355.527
Change in short-term investments	0	14.500.000	(14.500.000)
<b>TOTAL D)</b>	<b>160.208.234</b>	<b>186.976.917</b>	<b>170.855.527</b>
<b>E) CASH AND CASH EQUIVALENTS - CLOSING BALANCE (A+B+C+D)</b>	<b>1.747.850</b>	<b>11.635.887</b>	<b>3.667.500</b>

(\*) Unaudited under US GAAS, although these Financial Statements were audited under Italian GAAS.

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### **Notes to the Financial Statements as of December 31, 2002**

#### **Form and Content of the Financial Statements**

The Financial Statements as of and for the year ended December 31, 2002 have been prepared in accordance with the provisions of the Italian Civil Code and consist of the Balance Sheet, the Profit and Loss Account and the following Notes.

The Notes provide the information required by article 2427 of the Italian Civil Code, in addition to other information considered necessary to give a true and fair view of the Company's financial position, cash flows and operating results, even where not required by specific provisions of the law.

No exceptional circumstances arose during the year necessitating recourse to the departures permitted by article 2423, paragraph 4° of the Italian Civil Code.

The Balance Sheet and Profit and Loss Account are based on the formats established by articles 2424 and 2425 of the Italian Civil Code. However, the accounting items preceded by Arabic numbers having nil balances for both the current and prior year have been eliminated.

All amounts reported in the Notes are expressed in thousands of euros, unless otherwise indicated.

#### **The Company as a Going Concern and Recoverability of the Book Value of Assets**

As explained in detail in the Report on Operations, the slowdown in the major industrialised economies, changes in the financial markets and specific delays related to the UMTS market have led to a high degree of uncertainty with regard to business models. This has considerably prolonged the time necessary to yield a return on investment.

Consequently, taking into account the provisions of a set of EU directives adopted in March 2002 (to be incorporated within the new Telecommunications Code and due for introduction by July 2003), which will also enable implementation of spectrum trading, the Company decided to focus its strategy on the opportunities that will be granted by such frequency trading, which has already been approved by a Cabinet Meeting held on May 23, 2003. However, it should be pointed out that this decision does not preclude the possibility, if the right conditions should occur, of defining a new strategy that would enable the Company to take advantage of any opportunities that may arise.

In particular, the Company has developed a new business plan scenario, which provides for launching spectrum-trading activities during the first quarter of 2004, which was approved at the Board of Directors' Meeting held on May 29, 2003. On the basis of this plan, the Company has determined the return of investment that should be obtained from developing this activity, and therefore the resulting value of the UMTS licence. This value was fixed, and the related write-down posted to the Financial Statements, as indicated in the section on Permits, licences, trademarks

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and similar rights . Such valuation was carried out with the assistance and on the advice of expert consultants.

The book value of other assets was deemed to be recoverable through measures that will be implemented subsequent to approval of the Financial Statements.

The Company drew up its strategy and formulated the new business plan on the basis of the following overall assumptions:

introduction of the new Telecommunications Code will enable the transfer of UMTS frequencies to the holders of third generation mobile telecommunications licences alone;

compliance with nationwide coverage obligations to come into effect by June 30, 2004 will be transferred to the new operator using the frequencies;

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developments in the UMTS market and the resulting migration of captive customers and current market operators from the GSM/GPRS to the UMTS platform, will generate demand for additional frequencies among operators;

the Company's structure, and especially the size of the workforce, will be adapted to make it compatible with the new strategy.

The majority of strategic shareholders have pledged their financial support to implementing the spectrum trading strategy envisaged in the new business plan.

The related calculations and assumptions were made on the basis of the best available information and on the basis of estimates that are subject to uncertainty. We cannot, therefore, exclude the possibility that such calculations and assumptions may be subject to review in order to reflect future developments.

## **Accounting Policies**

The valuation of items in the Financial Statements has been carried out in compliance with the going concern and prudence principles.

The accounting policies adopted in the preparation of the Financial Statements comply with the provisions of article 2426 of the Italian Civil Code, and are consistent with those adopted in the prior year's Financial Statements.

All costs and revenues accrued during the year have been recorded, regardless of the date of collection or payment.

Pursuant to the final paragraph of art. 2423-bis, the accounting policies regarding the rental fees due on the contract signed with Ferrovie dello Stato S.p.A. (renamed on July 1, 2001 as R.F.I. Rete Ferroviaria Italiana S.p.A., hereafter R.F.I.) were modified. This was done following the reclassification carried out in response to legal opinion, which redefined the nature of the contract as a long-term lease.

### ***Intangible fixed assets***

Intangible fixed assets are stated at purchase or production cost, plus any incidental costs and costs directly chargeable to the assets.

Should there be other than a temporary impairment in the above value of such intangible fixed assets, the relevant asset is written down accordingly. The appropriate value of the asset is reinstated in future years if the reasons for any write-down cease to apply.

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Such assets are systematically amortised in accordance with the rates shown below, which are representative of their residual useful economic lives.

Start-up and expansion costs represent the cost of the Company's incorporation and are amortised over a period of five years. Start-up and expansion and research, development and advertising costs are recorded under assets in the Balance Sheet on the basis of the policies discussed and agreed with the Board of Statutory Auditors.

Industrial patents and intellectual property rights include the purchase cost of software licenses, which is amortised over a period of five years.

Permits, licences, trademarks and similar rights include the costs incurred in order to obtain a public UMTS licence for the operation of third-generation mobile telecommunications. This item also includes the cost of acquiring the right of usufruct and possession from R.F.I., for 1,500 sites to be used for the installation and maintenance of transmission equipment. Such costs were reclassified among accrued income and prepaid expenses as they are considered as prepaid invoiced lease rentals.

For further details on the write-down of the UMTS licence and reclassification of the R.F.I. contract, see the notes below.

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Intangibles in process and advances primarily include:

start-up costs providing long-term benefits. Such costs derive from the activities of specific departments within the Company during the start-up phase;

the costs incurred for the development and purchase of software applications in the process of completion at year end;

the costs incurred for the design and development of the network and the implementation and development of information systems in the process of completion at year end.

Such costs were fully written down during 2002 following the Company's decision to focus its strategy on opportunities arising from the new Telecommunications Code regarding spectrum trading.

Other intangible fixed assets include the costs relating to leasehold improvements, which are amortised over the shorter of the residual useful life of the improvement and the residual duration of the related property lease.

Costs relating to design and development of the network and implementation and development of information systems, were also fully written down in the light of the above-mentioned events.

***Tangible fixed assets***

Tangible fixed assets are stated at purchase or production cost, plus any incidental costs and costs directly chargeable to the assets.

The value of such assets is systematically depreciated applying the economic and technical rates of depreciation shown below, which are held to reflect the residual useful lives of the assets. Tangible fixed assets purchased during the year are depreciated at 50% of the above ordinary rates to reflect the reduced usage of the related asset.

Should there be other than a temporary impairment in value, such tangible fixed assets are written down accordingly. The appropriate value of the relevant asset is reinstated in future years if the reasons for any write-downs cease to apply.

Routine maintenance costs are expensed as incurred.

***Fixed asset investments***



Fixed asset investments consist of a current account deposit pledged to Banca di Roma as a back-to-back guarantee for the surety issued by the bank to R.F.I.

Debtors and creditors

*Debtors are recorded at their estimated realisable value.*

Creditors are recorded at their nominal value.

*Current asset investments*

This item, posted in the financial statements for 2001, referred solely to short-term deposits. The amount recorded in the accounts represented the value of the investment. The relevant accrued interest was posted to Accrued income .

*Accruals and deferrals*

Such items regard revenues and expenses referring to two or more accounting periods recorded on an accruals basis.

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### ***Provision for employee termination indemnities***

The provision for employee termination indemnities represents the entire accrued liability to employees in compliance with established legislation and labour contracts.

### ***Revenues and costs***

Revenues and costs are recorded on an accruals basis.

### ***Income taxes***

Current income taxes are calculated on the basis of estimated taxable income, determined in accordance with established regulations and tax rates.

In the event of timing differences between the values recorded in the tax accounts and the published accounts, deferred tax liabilities or assets are recorded solely if there is reasonable certainty that such liabilities or assets will be payable or recoverable in future years.

### ***Memorandum accounts***

The accounting policies and content of the memorandum accounts comply with Italian Accounting Profession Principle No. 22. Such items regard guarantees, risks and commitments to which the Company is subject.

## **Notes to the Balance Sheet - Assets**

### **Fixed Assets**

As established by art. 2427 of the Italian Civil Code, movements in intangible and tangible fixed assets are reported in schedules that specify, for each item, the historical cost, prior year provisions for amortisation and depreciation, movements during the year and the closing balance. As described in more detail in the following notes, during this and the previous year the Company wrote down intangible and tangible fixed assets with no residual useful lives. This followed the Company's decision to delay its market launch, thereby abandoning the original plan to introduce services using GSM/GPRS technology and refocus its strategy on spectrum trading activities.

*Intangible fixed assets*

Intangible fixed assets decreased by 3,169,558 thousand euros, as shown in the following schedule:

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	<u>Start-up and expansion costs</u>	<u>Research, development and advertising costs</u>	<u>Industrial patents and intellectual property rights</u>	<u>Permits, licences, trademarks and similar rights</u>	<u>Intangibles in progress and advances</u>	<u>Other</u>	<u>Total</u>
<b>A) Opening balance</b>							
1. Historical cost	126	2.053	4.033	3.557.970	39.051	27.818	3.631.051
2. Allowances for amortisation	(50)	(411)	(807)			(5.210)	(6.478)
<b>Balances as of December 31, 2001</b>	<b>75</b>	<b>1.643</b>	<b>3.227</b>	<b>3.557.970</b>	<b>39.051</b>	<b>22.608</b>	<b>3.624.574</b>
<b>B) Movements during the year</b>							
3. Purchases			2	66.433	68	1.231	67.735
4. Disposals			(0)			(794)	(794)
5. Extraordinary items		(207)	(33)			(1.587)	(1.827)
6. Other decreases				(826.331)			(826.331)
7. Increased assessments 2001					(4.319)		(4.319)
8. Decrease in allowances for amortisation						130	130
9. Amortisation	(25)		(113)			(1.049)	(1.187)
10. Reduction of interest				(64.808)			
11. Write-downs		(1.436)	(2.744)	(2.072.987)	(34.529)	(16.613)	(2.128.309)
12. Transfers and reclassifications				(209.847)	(271)	271	-209.847
<b>Total</b>	<b>(25)</b>	<b>(1.643)</b>	<b>(2.888)</b>	<b>(3.107.540)</b>	<b>(39.051)</b>	<b>(18.410)</b>	<b>(3.169.558)</b>
<b>C) Closing balance (A+B)</b>							
13. Historical cost	126	2.053	4.035	450.430	0	28.526	485.170
14. Allowances for amortisation	(75)	(410)	(920)			(6.129)	(7.534)
15. Write-downs and extraordinary items		(1.643)	(2.777)			(18.200)	(22.620)
<b>Balances as of December 31, 2002</b>	<b>50</b>	<b>0</b>	<b>339</b>	<b>450.430</b>	<b>0</b>	<b>4.197</b>	<b>455.017</b>

**Table of Contents***Start-up and expansion costs*

Start-up and expansion costs represent the costs incurred at the time of the Company's incorporation in 2001, providing long-term benefits.

*Research, development and advertising costs*

The costs incurred during 2001 for the production of a corporate advertising campaign, designed to develop awareness of the Company's brand name and prepare for the market launch, were fully written down during the year.

*Industrial patents and intellectual property rights*

Industrial patents and intellectual property rights refer solely to software applications purchased outright and on the basis of long-term licences, and in service as of December 31, 2002.

*Permits, licences, trademarks and similar rights*

This item underwent the following movements during the year:

	Net value 31.12.01	Increases	Decreases	Other decreases	Write-downs	Net value 31.12.02	000
UMTS licences	3.360.456	54.100	(826.331)	(64.808)	(2.072.987)	450.430	
Other similar rights							
(Rete Ferroviaria Italiana S.p.A.)	197.514		(197.514)			0	
<b>Total</b>	<b>3.557.970</b>	<b>54.100</b>	<b>(1.023.845)</b>	<b>(64.808)</b>	<b>(2.072.987)</b>	<b>450.430</b>	

Permits, licences, trademarks and similar rights regard the cost of obtaining a public UMTS licence for the operation of third-generation mobile telecommunications, issued on January 10, 2001 with resolution no. 3/01/CONS, and having a duration of 20 years from January 1, 2002.

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After careful consideration, the costs relating to usufruct and possession of 1,500 sites owned by R.F.I., for the installation and maintenance of transmission equipment, were reclassified among accrued income and prepaid expenses as they were deemed to be prepaid invoiced lease rentals. For further information on the accounting details of the contract, see the above-mentioned item.

The following schedule provides details of such costs and the nature of the incidental costs capitalised.

	000				
	Net value			Net value	
Licences and capitalised incidental costs	31.12.01	Increases	Decreases	Write-downs	31.12.02
<b>a) Licences</b>	<b>3.360.456</b>	<b>54.100</b>	<b>(891.139)</b>	<b>(2.072.987)</b>	<b>450.430</b>
Award of UMTS licence (main spectrum)	2.442.841			(2.006.794)	436.047
Award of 2 X 5 MHz licence (additional spectrum)	826.331		(826.331)		0
Interest expense on deferred payment of residual licence fee	61.090	34.059	(64.808)	(24.925)	5.416
Contributions paid to appraisers (UMTS auction)	1.549			(1.273)	277
Charges for surety granted by Mediocredito	25.562	19.815		(37.277)	8.100
Other surety charges	774			(636)	138
Cost of government advisors and technical consultants for UMTS auction	2.033			(1.670)	363
Consultants and other	275	226		(412)	89
<b>b) Similar rights</b>	<b>197.514</b>		<b>(197.514)</b>		<b>0</b>
Discounted cost of the right of usufruct for Rete Ferroviaria Italiana S.p.A. sites	190.839		(190.839)		0
Implicit interest on the right of usufruct for Rete Ferroviaria Italiana S.p.A. sites	5.544		(5.544)		0
One-off cost of BdR surety for R.F.I. sites (flat fee)	500		(500)		0
Accrued commissions on BdR surety for the right of usufruct for R.F.I. sites (annual fee)	631		(631)		0
<b>Total</b>	<b>3.557.970</b>	<b>54.100</b>	<b>(1.088.653)</b>	<b>(2.072.987)</b>	<b>450.430</b>

The cost incurred for assignment of one of the five blocks of frequencies provided for by art. 3 of Communications Authority resolution 410/99 amounts to 2,442,841 thousand euros.

Moreover, as foreseen in point 8.2.1 of the auction regulations, the Company took advantage of the possibility granted to new entrants, pursuant to Authority resolution 388/00/CONS, to have access to additional asymmetrical spectrum for a sum of 826,331 thousand euros.

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Art. 9.1-f) of the auction regulations states that companies awarded UMTS licences should *pay a sum of 2,056,827,596.36 euros, the minimum amount that allows for the award of a licence. At the same time, it is required that payment of the difference between the total amount offered including any sum for additional blocks and the minimum amount be made in no more than 10 annual instalments from 2001* .

As mentioned in other sections of these Explanatory Notes, the Company paid the said sum of 2,056,827,596.36 euros and deferred payment of the remaining expense totalling 1,203,344,574.88 euros.

Taking into account current unfavourable market prospects, and after careful analysis backed up by expert legal opinion (from Professor Franco Bonelli, Professor Berardino Libonati, Professor Roberto Mastroianni, Paolo Colucci and Domenico Luca Scordino), the Company decided to exercise its right to return the additional frequency spectrum (2x5MHz) and, at the same time, to be released from its obligation to pay the remaining instalments of the cost of such frequency. This right is based on the following principal reasons:

From a legal standpoint, allocation of additional spectrum constitutes a supplementary provision issued in the sole interest of the beneficiary, and for which the beneficiary, via a recognised principle, has the right of relinquishment.

In the light of changed market conditions and prospects, the financial commitments relating to additional spectrum produce an effect opposite to that originally intended, thereby transforming an asymmetrical advantage into a competitive disadvantage for IPSE and as such constituting an unjustified and unsustainable burden.

The frequency spectrum and related maintenance therefore did not meet the expectations of the Ministry of Communications and the Company at the time of allocation.

The unavailability and resulting postponement of the development and production of new network technologies, as well as of the production of reliable handsets capable of exploiting the full potential of UMTS services, contributed to rendering IPSE's payment for additional frequencies untenable as they put back the date of widespread distribution and effective use of the new services.

The haphazard transformation of the market to IPSE's competitive disadvantage was compounded by Italy's failure to comply with EU regulations regarding the introduction of UMTS, as well as the recent allocation of additional GSM frequencies to second-generation operators with Resolution 286/02/CONS. This allocation has enabled aggressive expansion of GPRS services and further widened the gap between second-generation and new-entry UMTS operators, thus contributing to delays in the development of the UMTS market and also diminishing the strategic importance of additional UMTS spectrum.

The reduction of debt relating to the amounts due for the additional frequency spectrum, totalling 826,331 thousand euros, thus derives from IPSE's exercise of its right to relinquish the said right. Such reduction was posted, despite the Ministry of Communications' objection to the Company's request notified on May 19, 2003. Indeed, the Company intends to defend its right via appropriate legal action that is currently under consideration.

With regard to the reduction of debt, no provisions for risk were made in compliance with Italian Accounting Profession Principle No. 19, which states that such provisions for potential liability should be made if an unfavourable event is deemed likely and not just possible. In this case, according to the legal opinion sought by the Company, the unfavourable event if litigation should follow represented by the obligation to effect payment of the charges for the additional spectrum relinquished by the Company, is considered to be possible rather than likely.

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Furthermore, IPSE has the right deemed to be enduring, full and effective to request payment of the said amount relating to frequency spectrum by its shareholders, if such sum turns out to be due (in which case the unfavourable event considered as possible would become a concrete event that would compel IPSE to effect payment). In this respect, it should also be pointed out that IPSE's shareholders have pledged a back-to-back guarantee to MCC (and also launched a progressive cash collateralisation of the amount guaranteed) for the surety issued by MCC to the Ministry of the Economy and Finance Treasury Department.

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Therefore, the risk that the Company's finances and operations might be detrimentally affected by the withdrawal of shareholders' guarantees may be reasonably considered as remote.

Moreover, IPSE, in accordance with its asserted right to return the additional frequency spectrum, entered an amount due in relation to the higher amount paid for interest on the above-mentioned deferred payment regarding such spectrum.

In line with the previous year, the Company capitalised the financial charges and incidental costs, which derive from the deferral of payment in the form of ten annual instalments. This facility was granted by point 5 a) of the Call for Bids (Official Gazette no. 117, July 31, 2000, part II) for the auction of licences to install and operate third-generation UMTS mobile telecommunications systems IMT 2000 (hereafter the Call for Bids). Such charges and costs also include the difference, totalling 1,203,345 thousand euros, between the final bid made in order to obtain the licence and the minimum bid price already paid. In particular, the following costs have been capitalised:

interest expense on the deferral of payment to the Ministry of the Economy – the Treasury Department, amounting to 30,341 thousand euros, net of the above-mentioned higher amounts paid regarding additional frequency spectrum;

commissions relating to the Guarantee Facility Agreement signed by Mediocredito Centrale in relation to the bank surety issued to the Ministry of the Economy – the Treasury Department, totalling 46,151 thousand euros.

Finally, the Company carried out a prudent and accurate assessment of the hypothetical value of the UMTS licence – which in the light of the above information related solely to the main frequency spectrum – taking into account current market conditions. Two independent advisors (Arthur D. Little and Banca IMI) were then commissioned to give their opinion on the assessment. This was done with a view to benchmarking the Company's valuation.

In accordance with the advice of these independent third parties the Company wrote down the historical cost incurred for allocation of one of the five blocks, and the related incidental charges capitalised as of December 31, 2002, for an amount equivalent to around 82% of the total of 2,072,987 thousand euros.

The write-down was carried out on the basis of:

- a) the new business plan scenario, which foresees the start-up of spectrum trading during the first half of 2004, based on the industry regulations currently being implemented;
- b) the opinions, based on the new scenario, of authoritative independent advisors.

Naturally, the decision to adopt a new business model does not preclude the possibility, if the right conditions should occur, of defining a new strategy that would enable the Company to take advantage of any opportunities that may arise.

The write-down was applied on a prudent basis given that:



1) the value attributed to the licence (450,430 thousand euros) is close to the lower limit of the intervals established by the advisors (between a minimum of 450 million euros and a maximum of 1,150 million euros) and is based on existing uncertainties regarding:

Ipse 2000's share of the savings that may be available to operators potentially interested in acquiring the Company's frequencies;

the discount rate to be applied to revenues deriving from likely spectrum trading;

future traffic growth and the size and timing of market penetration of the new UMTS services;

extensive saturation of the GSM market;

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2) the Company remains committed to extracting the highest possible value from spectrum trading and, in this sense, there are no grounds for asserting with certainty that the full value of the write-down is of a permanent nature;

3) it was necessary to take account of the absence to date of agreements with other operators and thus the uncertainty of being able to realise a higher value for the licence over time.

The costs incurred in 2000 for government advisors during the auction, and the fees charged by the consultants hired in order to obtain the licence, which were previously capitalised, were also written down in the same proportion.

Further details regarding the amount due to the Ministry and the surety are provided below.

*Intangibles in process and advances*

Movements in Intangibles in process and advances are shown in the following schedule:

	Net value 31.12.01	Increases	Write-downs	Increased assessments 2001	Reclass.	Net value 31.12.02
Start-up costs	26.710	68	(24.339)	(2.440)		0
Information technology	6.715		(5.363)	(1.081)	(271)	0
Network	5.625		(4.827)	(798)		0
<b>Total</b>	<b>39.051</b>	<b>68</b>	<b>(34.529)</b>	<b>(4.320)</b>	<b>(271)</b>	<b>0</b>

Start-up costs, shown in detail in the following schedule, refer to the costs, providing long-term benefits, deriving from the activities of specific departments within the Company during the start-up phase. Such costs, which in 2001 maintained their useful lives even though the market launch of the service was postponed, were fully written down following the Company's decision to concentrate its strategy on the development of spectrum trading.

Other items under intangibles in process regard the cost of design and development of the network, and the charges incurred for the development and implementation of information systems relating to projects to be completed. Such items were also written down following the above-mentioned decision.

*Other*

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This item underwent the following movements during 2002:

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	<u>Net value</u>				<u>Extraordinary</u>	<u>Decrease in</u>			<u>Net value</u>
	<u>31.12.01</u>	<u>Increases</u>	<u>Disposals</u>	<u>Write-downs</u>	<u>items</u>	<u>for amort.</u>	<u>Amort.</u>	<u>Reclass.</u>	<u>31.12.02</u>
Leasehold improvements	8.838	240	(794)	(2.577)	(591)	130	(1.049)		4.197
Information technology	2.652	983		(3.672)	(234)			271	0
Network	11.118	8		(10.364)	(762)				0
<b>Total</b>	<b>22.608</b>	<b>1.231</b>	<b>(794)</b>	<b>(16.613)</b>	<b>(1.587)</b>	<b>130</b>	<b>(1.049)</b>	<b>271</b>	<b>4.197</b>

Leasehold improvements primarily related to the restructuring of the property in via Depero, while the costs sustained during 2001 relating to the restructuring of the property in via Noale were totally written down due to interruption of the lease contract. Such costs are amortised on the basis of the minimum duration of the lease contract.

Other intangible fixed assets, which in 2001 included the cost of design and development of the network and the implementation and development of information systems completed at year end, were fully written down in the light of the Company's new strategic decisions.

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The following schedule summarises the rates of amortisation applied to the above intangible fixed assets:

**Rates of amortisation applied to intangible fixed assets**

Software applications	5 years
Leasehold improvements	6 years

**Tangible fixed assets**

Net tangible fixed assets fell by 24,107 thousand euros, as the following schedule shows:

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	<u>Plant and machinery</u>	<u>Industrial and commercial equipment</u>	<u>Otherassets</u>	<u>Work in progress and advances</u>	<u>Total</u>
A) Opening balance					
1. Historical cost	18.555	395	11.233	400	30.582
2. Allowances for depreciation	(1.646)	(49)	(1.040)		(2.736)
<b>Balances as of December 31, 2001</b>	<b>16.909</b>	<b>345</b>	<b>10.192</b>	<b>400</b>	<b>27.846</b>
B) Movements during the year					
3. Purchases	246	50	1.832	18	2.146
4. Disposals	(9.599)	(12)	(3.999)	(178)	(13.788)
5. Write-downs	(7.790)		(3.984)		(11.774)
6. Extraordinary items	(438)		(277)	(61)	(776)
7. Allowances for depreciation	864	1	180		1.045
8. Depreciation	(51)	(102)	(807)		(960)
9. Transfers and reclassifications	178			(178)	(0)
<b>Total</b>	<b>(16.590)</b>	<b>(63)</b>	<b>(7.055)</b>	<b>(400)</b>	<b>(24.107)</b>
C) Closing balance (A+B)					
7. Historical cost	9.380	433	9.066	0	18.879
9. Allowances for depreciation	(833)	(150)	(1.667)		(2.651)
10. Write-downs and extraordinary items	(8.228)		(4.261)		(12.489)
<b>Balances as of December 31, 2002</b>	<b>319</b>	<b>283</b>	<b>3.137</b>	<b>0</b>	<b>3.739</b>

As of December 31, 2002, tangible fixed assets are not subject to mortgages, liens or other collateral guarantees that might limit their availability to the Company.

*Plant and machinery*

This item underwent the following movements during the year:

	Net value 31.12.01	Increases	Disposals	Write-downs	Extraordinary items	Decrease in allowances for deprec.	Amort.	Reclass.	Net value 31.12.02
Exchanges and electronic equipment	15.446	50	(9.599)	(6.342)	(214)	864	(41)		165
Access and transmission equipment	1.382	28		(1.186)	(224)				0
General equipment	3	(9)					(10)	170	155
Other equipment	77	176		(262)				8	0
<b>Total</b>	<b>16.909</b>	<b>246</b>	<b>(9.599)</b>	<b>(7.790)</b>	<b>(438)</b>	<b>864</b>	<b>(51)</b>	<b>178</b>	<b>319</b>

The most significant decreases regarded Exchanges and electronic equipment and related to the sale of switching and traffic management equipment and of intelligent network systems, as well as the write-down of internet, voice and message transmission platforms.

Access and transmission equipment, which included the cost of purchasing transmission equipment (the national and pan-European backbone), was completely written down due to the impossibility of reusing it for UMTS purposes.

The item General equipment includes internal equipment, cables and auxiliary network apparatus.

**Table of Contents***Industrial and commercial equipment*

This item underwent the following movements during the year:

	Net value 31.12.01	Increases	Disposals	Decrease in allowances for deprec.	Amort.	Net value 31.12.02
Equipment	345	50	(12)	1	(102)	283
<b>Total</b>	<b>345</b>	<b>50</b>	<b>(12)</b>	<b>1</b>	<b>(102)</b>	<b>283</b>

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This item primarily includes the cost of purchasing equipment and instruments necessary to the operation of the network (probes, testers, measuring equipment, etc.).

*Other assets*

This item underwent the following movements during the year:

	Net value 31.12.01	Increases	Disposals	Write-downs	Extraordinary items	Decrease in allowances for deprec.	Amort.	Net value 31.12.02
Furniture	2.130	20	(1.259)	(358)	(20)	76	(74)	514
Office machines and computers	2.164	1.808	(2.712)		(90)	101	(269)	1.001
Peripheral and centralised hardware	5.705	1	(23)	(3.626)	(167)	2	(421)	1.472
Other electronic equipment	193	3	(5)			1	(42)	149
Assets with a unit value of less than 516,456								
<b>Total</b>	<b>10.192</b>	<b>1.832</b>	<b>(3.999)</b>	<b>(3.984)</b>	<b>(277)</b>	<b>180</b>	<b>(807)</b>	<b>3.137</b>

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The items, Office machines and computers, Peripheral and centralised hardware and Other electronic equipment include the cost of purchasing the hardware used in the Company's information systems. Such hardware primarily regards mainframe computers, servers and office automation equipment. The decrease in the item Peripheral and centralised hardware is due to the write-down of such equipment, which in the light of the Company's change in strategy, is no longer useful. The decrease in the item Office machines and computers is due to the sale of dealer stations acquired during the year and of workstations of outgoing and other employees. The decrease in the item Furniture derives from sales to Enel R.E. S.p.A. and the write-down of non-recoverable assets from the offices in via Noale.

### *Work in progress and advances*

This item underwent the following movements during the year:

	000				
Net value 31.12.01	Increases	Disposals	Extraordinary items	Reclass.	Net value 31.12.02
Other plant	8			(8)	0
Equipment	170			(170)	0
Furniture	160	18	(178)		0
Peripheral and centralised hardware	61	0		(61)	0
<b>Extraordinary items</b>	<b>400</b>	<b>18</b>	<b>(178)</b>	<b>(61)</b>	<b>0</b>

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The following schedule shows a summary of the rates of depreciation applied by the Company.

<u>Tangible fixed assets</u>	<u>Ordinary rates of depreciation</u>
<b>Plant and machinery</b>	
Exchanges and electronic equipment	18%
Access, transmission and technical equipment	15%
Internal and general equipment	12%
<b>Industrial and commercial equipment</b>	
Equipment	25%
<b>Other assets</b>	
Office machines and computers	20%
Furniture	12%
Assets with a unit value of less than 516,456	100%

**Fixed asset investments**

Fixed asset investments consist of a current account deposit, amounting to 9,852 thousand euros, pledged to Banca di Roma as a back-to-back guarantee for the surety issued by the bank to Ferrovie dello Stato S.p.A.

**Current Assets****Debtors**

None of the accounts recorded in the Financial Statements are formally due after 12 months. The following notes provide information regarding individual items.

**Trade**

As of December 31, 2002 trade debtors amount to 2,801 thousand euros.

Such accounts mainly derive from the sale of Plant and machinery and Furniture and fittings to Ericsson Telecomunicazioni SpA and Enel R.E. S.p.A.

**Other**



This item underwent the following movements during the year:

	( 000)	
<b>Other debtors</b>	<b>31.12.02</b>	<b>31.12.01</b>
<i>Due from tax authorities</i>		
VAT	82.501	71.740
Withholding tax on interest earned	503	842
<i>Total due from tax authorities</i>	<u>83.004</u>	<u>72.582</u>
Due from Ministry for higher interest paid	64.808	
Minority shareholders	23.263	
Publitel	613	613
Advances paid to suppliers	70	461
Personnel	32	73
Other	512	47
Provisions for accounts due from the Ministry	(64.808)	
<b>Total other debtors</b>	<b><u>107.494</u></b>	<b><u>73.776</u></b>

The amount due from the tax authorities further increased during 2002, partly due to the collection of invoices due for services rendered that were charged to 2001.

The amount due from the Ministry of the Economy and Finance Treasury Department is due as previously indicated under the item Permits, licences, trademarks and other rights with regard to reduction of the debt relating to the return of additional frequency spectrum and the resulting higher interest payments made during 2001 and 2002. Taking into account IPSE's absolute right to recover such sum, this amount was prudently written down in consideration of the discussions underway.

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The amount due from minority shareholders derives from non-strategic shareholders' failure to pay their share of the capital contribution requested by IPSE and approved by the General Meeting of November 22, 2002, relating to payment of the instalment to the Ministry of the Economy and Finance - Treasury Department falling due on November 30, 2002.

The amount due from the shareholder, Publitel S.p.A., for which an injunction was issued in 2002, derives from the shareholder's failure to pay in its share of the capital contribution approved by the General Meeting of November 29, 2001.

***Current asset investments***

As of December 31, 2002 this item no longer figures in the Balance Sheet.

***Cash at bank and in hand***

As of December 31, 2002 the balance of this item includes the following:

	( 000)	
<b>Cash at bank and in hand</b>	<b>31.12.02</b>	<b>31.12.01</b>
<u>Bank and post office deposits</u>	<u>12.055</u>	<u>3.667</u>
Cash and notes in hand	<u>          </u>	<u>          </u>
<b>Total cash at bank and in hand</b>	<b>12.055</b>	<b>3.667</b>

The Company's cash at bank and in hand rose by 8,388 thousand euros with respect to the previous year, due to the increased amounts deposited in bank and post office current accounts at year end.

The cash deposited with Banca di Roma as of December 31, 2002 amounts to 2,263 thousand euros, and is subject to restrictions on its use.

The available funds, with the exception of interest accrued and/or due to accrue, may be used solely to effect the following payments:

repayment of the financing deriving from the deferral allowed by point 5 a) of the Call for Bids;

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payment of any sum connected to the Guarantee Facility Agreement (hereafter the GFA), of which the second amendment was signed on December 3, 2002.

Such payments may be made in favour of the Ministry of the Economy and Finance, the State Provincial Treasury and Mediocredito Centrale S.p.A. as the GFA Agent, or in favour of any other beneficiary indicated by the relevant authorities in compliance with the indicated purposes.

### *Accrued income and prepaid expenses*

Accrued income and prepaid expenses break down as follows:

	( 000)	
<b>Accrued income and prepaid expenses</b>	<b>31.12.02</b>	<b>31.12.01</b>
Accrued income		16
Prepaid expense on R.F.I. Contract	284.516	118.617
Prepaid fees for MCC surety	2.494	2.394
Prepaid fees for Capitalia surety	498	
Other prepaid expenses	259	223
<b>Total accrued income and prepaid expenses</b>	<b>287.767</b>	<b>121.250</b>

The item Prepaid expense on R.F.I. contract relates to the contract the Company signed with R.F.I. on October 25, 2000. The terms of the contract, which were finalised once the UMTS licence was formally assigned during 2001, require the Company to pay a total of 315 million euros, excluding VAT, in return for the rights granted. As defined in the contract, such amount is to be paid in 16 annual instalments, without interest, due on December 31 of each year.

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In 2001 the current total value of the contract was determined in compliance with Italian Accounting Profession Principle no. 19 regarding the accounting treatment of debt, via the discounting of the sum due under the contract, based on the 15-year IRS offered rate on July 3, 2001, equal to 5.81%. This amount, totalling 190,839 thousand euros, was classified among intangible fixed assets under the item *Permits and licences*, while the implicit interest charge, determined as the difference between the contracted value and the capitalised amount, was classified under the item *Accrued income and prepaid expenses* and was taken to the Profit and Loss Account on an accruals basis.

In view of the reduced number of sites selected as of December 31, 2001, the capitalised cost was not subjected to amortisation in 2001. Moreover, the implicit interest accrued in 2001, amounting to 5,544 thousand euros, was capitalised.

In 2002, after careful examination of the contract, backed up by expert legal advice (given by Mr Speroni from the legal firm Gianni, Origoni, Grippo & Partners), the Company concluded that the contract could be more accurately described as a lease agreement rather than as a concession of the right of usufruct and possession. Consequently, the total amount was reclassified under this item, taking to the Profit and Loss Account the rentals falling due in the period July 1, 2001 - December 31, 2002, totalling 30,484 thousand euros.

Prepaid expenses deriving from the bank surety issued by Mediocredito Centrale in favour of the Ministry of the Economy and Finance Treasury Department, described in the note to the memorandum accounts, regard the sums paid on December 31, 2002, with the unaccrued portion held over as a prepayment. The accrued portion was treated as an incidental cost of obtaining the licence and, therefore, posted as an increase in the value of said licence.

Prepaid expenses deriving from the bank surety issued by Banca di Roma regard the cost of commissions for the bank surety in favour of R.F.I. relating to the first quarter of 2003, which were paid on December 31, 2002.

**Notes to the Balance Sheet Liabilities and Shareholders Equity****Shareholders Equity**

The following schedule shows movements in shareholders equity during 2002:

<u>Movements in shareholders equity</u>	<u>Share capital</u>	<u>Legal reserve</u>	<u>Other reserves</u>	<u>Loss carried forward</u>	<u>Net loss for the year</u>	<u>Total shareholders equity</u>
<b>Balances as of 31.12.2001</b>	<b>2.150.000</b>	<b>359</b>	<b>185.356</b>		<b>(79.535)</b>	<b>2.256.180</b>
Net loss for the year carried forward in accordance with the resolution passed by the General Meeting of April 22, 2002				(79.535)	79.535	
Capital contributions (Art. 24.1 of Articles of Association) in accordance			172.476			172.476

( 000)

with the resolutions passed by the Board of Directors meeting and the General Meeting						
Net profit (loss) for the year					(2.335.973)	(2.335.973)
<b>Balances as of 31.12.2002</b>	<b>2.150.000</b>	<b>359</b>	<b>357.832</b>	<b>(79.535)</b>	<b>(2.335.973)</b>	<b>92.683</b>

*Share capital*

As of December 31, 2002 the share capital consisted of 2,150,000,000 ordinary shares with a par value of 1 euro each. The share capital is fully subscribed and paid in by the shareholders.

In compliance with the requirements of art. 2427, section 1, point 18 of the Italian Civil Code, the Company has not issued dividend-bearing shares or convertible bonds.

*Capital contributions (other reserves)*

This item registered an increase totalling 172,476 thousand euros. This increase was due to the second instalment of payment over ten years of the UMTS licence granted by the Ministry of the Economy and Finance

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Treasury Department and other related financial charges, and payment of the instalment falling due on December 31, 2002 for the R.F.I. contract. Such payments have been fully made, except for amounts due from non-strategic shareholders, as reported in the item "Other" under the heading "Debtors". Such requests for payment were carried out in implementation of Board of Directors' resolutions during the year, which, in accordance with the articles of association, were ratified by General Meeting.

*Loss for the year*

The loss for the year amounts to 2,335,973 thousand euros.

	( 000)
<b>Provision for empl. sev. indemnities</b>	
<hr/>	
Balance as of December 31, 2001	789
Advances and releases	(972)
Provisions for the period	1.184
Transfers to supplementary pension funds	(41)
	<hr/>
<b>Balance as of December 31, 2002</b>	<b>960</b>
	<hr/>

*Provisions for Risks*

In compliance with Italian Accounting Profession Principle No. 19, the Company did not allocate provisions in relation to cancellation of the debt regarding return of the additional frequency spectrum. For further information on the reasons for this decision, including the Company's full and absolute right to request payment of such debt by its shareholders, see the item "Permits, licences, trademarks and similar rights".

*Provision for Employee Termination Indemnities*

Movements in the provision for employee termination indemnities during 2002 are shown in the following schedule:

	( 000)
<b>Provision for empl. sev. indemnities</b>	
<hr/>	
Balance as of December 31, 2001	789
Advances and releases	(972)
Provisions for the period	1.184
Transfers to supplementary pension funds	(41)
	<hr/>
<b>Balance as of December 31, 2002</b>	<b>960</b>
	<hr/>

**Creditors**

An aging schedule for creditors as of December 31, 2002 is provided at the end of the notes to liabilities and shareholders' equity.

*Other lenders*

	( 000)	
<b>Other lenders</b>	<b>31.12.02</b>	<b>31.12.01</b>
Atlanet	8.080	4.200
Capitalia (formerly Banca di Roma)	6.725	3.500
Telefonica Moviles España S.A.	25.384	1.843
Solivella Investments	206.082	14.965
Edison	3.335	
Sonera	3.660	
<b>Total other lenders</b>	<b>253.266</b>	<b>24.508</b>

**Table of Contents**

This item breaks down as follows:

The loans granted by Atlanet, Capitalia (formerly Banca di Roma), Telefonica Moviles España and Solivella Investments in December 2001 fell due on December 31, 2002. The Company has requested postponement of repayment, until December 31, 2003. Such request, carried out in accordance with the wishes expressed at the Board of Directors Meeting held on February 19, 2003, and ratified by the Shareholders Meeting held on the same day, was accepted by the parties, who also agreed to capitalisation of the interest accrued as of December 31, 2002 and falling due on that date.

The line of credit requested from Telefonica Moviles España and Solivella Investments on March 3, 2002, in order to cover operating requirements for 2002, amounts to 189,619 thousand euros. A request to extend this facility, which provides for the repayment of principal and interest by December 31, 2002, for a further year was submitted. Such request was also ratified as mentioned above, and the interest accrued to such date was capitalised.

A further loan agreement, similar to those above, was entered into on October 9, 2002 with Edison for an amount of 1,843 thousand euros. A request was also made to postpone repayment of the principal and interest, falling due on December 31, 2002, until December 31, 2003.

Finally, in December 2002, the strategic shareholders (Telefonica Moviles España, Solivella Investments, Atlanet, Capitalia and Sonera) were asked to make payments totalling 24,832 thousand euros to cover the failure by certain shareholders to pay amounts due (of which the Company is a third-party beneficiary as a result of binding agreements entered into between the shareholders) in relation to payment of the second instalment of the licence and related financial charges.

*Trade creditors*

This item breaks down as follows:

	( 000)	
<b>Trade creditors</b>	<b>31.12.02</b>	<b>31.12.01</b>
<u>Ferrovie dello Stato</u>	<u>376.320</u>	<u>376.320</u>
Other Italian suppliers	5.063	45.778
Overseas suppliers	270	1.693
Bills to be received	3.091	62.423
Credit notes to be received	(375)	(1.438)
<b>Total trade creditors</b>	<b>384.369</b>	<b>484.776</b>

As mentioned above, the Company has entered into a contract with R.F.I., with a value of 315 million euros, plus VAT. Such amount is to be paid in 16 annual instalments, without interest due on December 31 of each year. The instalment falling due as December 31, 2002 was paid in



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January and February 2003. The aging of this account is shown in the schedule provided at the end of the notes to liabilities and shareholders equity.

The amount referring to bills to be received regards trade creditors for services and goods supplied by the end of the year and not yet billed.

### *Taxes due*

Taxes due primarily relate to withholding tax (IRPEF) deducted from the wages and salaries of employees and freelance professionals, and subsequently paid to the tax authorities in January 2003.

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**Table of Contents***Social security institutions*

This item breaks down as follows:

	( 000)	
<b>Social security institutions</b>	<b>31.12.02</b>	<b>31.12.01</b>
<u>INPS</u>	448	871
Contributions on deferred remuneration	10	781
<u>INAIL</u>	134	310
<u>INPDAI</u>	38	197
<u>Other social security institutions</u>	17	146
<b>Total social security institutions</b>	<b>648</b>	<b>2.305</b>

This item refers to the amount due to INPS (448 thousand euros) for contributions due from the Company and its employees for the month of December.

*Other creditors*

This item breaks down as follows:

	( 000)	
<b>Other creditors</b>	<b>31.12.02</b>	<b>31.12.01</b>
<i>Other related parties</i>		
Telefonica mobile Solution, S.A.U.	82	7.576
Telefonica Moviles Intercontinental, S.A.		259
Related parties for bills to be received	830	18.453
Other amounts due to related parties	385	322
<i>Total other related parties</i>	<i>1.297</i>	<i>26.610</i>
<i>Other:</i>		
Ministry of the Economy	136.345	1.083.010
Deferred remuneration due to personnel	5.637	4.217
Shareholders	394	394
Directors and Statutory Auditors	324	180
Other	186	174
<i>Total other</i>	<i>142.885</i>	<i>1.087.975</i>

<b>Total other creditors</b>	<b>144.182</b>	<b>1.114.585</b>
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As mentioned above, the amount due to the Ministry of the Economy – Treasury Department derives from charges for the UMTS licence, representing the difference between the final bid made in order to obtain the licence and the minimum bid price already paid, with deferred payment in the form of 10 annual instalments.

During 2002 this amount was reduced in the following ways:

As already mentioned in the notes to the item – Permits, licences, trademarks and similar rights – recorded among intangible fixed assets, it was reduced following the Company’s decision to exercise its right to return 5 MHz of frequency spectrum, which was duly notified to the Ministry of Communications and the Ministry of the Economy – Treasury Department. Consequently, the Company, with the adequate backing of expert legal advice, reduced its debt to the Ministry of the Economy – Treasury Department by 826,331 thousand euros, which is equivalent to the amount of additional frequency allocated.

The amount was further reduced following payment of the second instalment on November 30, 2002. The total value of the instalment, totalling 156,647 thousand euros, consisted of the payment of principal totalling 120,334 thousand euros and the payment of interest amounting to 36,313 thousand euros. Interest was calculated on the basis of the rate established by point 9.1 f) of the auction regulations and confirmed by the ministerial communiqué of December 11, 2002. The interest that accrued in the subsequent month of December has been posted to accrued expenses.

Amounts due to employees consist of redundancy payments granted to outgoing employees, which were negotiated at year end and will be paid during 2003.

**Table of Contents***Other creditors related parties*

This item regards relations with Telefonica group companies and breaks down as follows:

	( 000)	
<b>Other related parties</b>	<b>12.31.02</b>	<b>12.31.01</b>
Telefonica mobile Solution, S.A.U.	82	7.576
Telefonica Moviles Intercontinental, S.A.		259
<i>Total</i>	<i>82</i>	<i>7.835</i>
Bills to be received from Telefonica mobile Solution, S.A.U.		509
Bills to be received from Telefonica Moviles Intercontinental, S.A.		639
Bills to be received from Telefonica Moviles España, S.A.	745	17.220
Bills to be received from Telefonica Sistemas, S.A.	85	85
<i>Total</i>	<i>830</i>	<i>18.453</i>
Other amounts due to related parties	385	322
<b>Total other related parties</b>	<b>1.297</b>	<b>26.610</b>

The amount due to Telefonica Moviles de España S.A., amounting to 745 thousand euros, regards activities carried out in preparation for the market launch, originally planned for 2001, and not yet invoiced as of December 31, 2002.

Further information on relations with the Telefonica group is provided in the Management Report on Operations, in the section dealing with related party transactions.

**Accrued Expenses and Deferred Income**

This item breaks down as follows:

	( 000)	
<b>Accrued expenses and deferred income</b>	<b>31.12.02</b>	<b>31.12.01</b>
Accrued interest due to the Ministry	772	3.026
Accrued interest due to other lenders	160	144

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Other accrued expenses		64
<b>Total accrued expenses and deferred income</b>	<b>932</b>	<b>3.234</b>

Accrued expenses include 772 thousand euros regarding interest accrued to December 2002 on the deferral of payment to the Ministry of Communications.

This item also covers the interest accrued on the loans from shareholders, falling due in December 2002 as described above. Such interest amounts to 160 thousand euros, of which 87 thousand euros is due to the Telefonica group.

The aging schedule for creditors and accrued expenses is provided below:

Creditors	( 000)			total
	within 12 months	between 2 and 5 years	over 5 years	
Banks	419			419
Other lenders	253.266			253.266
Trade	33.008	94.200	257.160	384.368
Taxes due	1.268			1.268
Social security institutions	648			648
Other				
Other related parties	1.297			1.297
Others	126.885	16.000		142.885
<i>Total other</i>	<i>128.182</i>	<i>16.000</i>		<i>144.182</i>
<b>Total creditors</b>	<b>416.791</b>	<b>110.200</b>	<b>257.160</b>	<b>784.151</b>
Accrued expenses	932			932
<b>Total creditors and accrued expenses</b>	<b>417.723</b>	<b>110.200</b>	<b>257.160</b>	<b>785.083</b>

**Table of Contents****Memorandum Accounts**

As of December 31, 2002 the Memorandum accounts refer to bank guarantees.

	( 000)	
<b>Memorandum accounts</b>	<b>31.12.02</b>	<b>31.12.01</b>
Mediocredito surety	1.006.444	1.136.733
Capitalia surety (R.F.I.)	99.000	100.000
Other sureties	92	334
<b>Total guarantees granted</b>	<b>1.105.536</b>	<b>1.237.067</b>

The total of 1,105,536 thousand euros represents the balance of the following sureties:

a surety of 1,006,444 thousand euros issued by MCC in favour of the Ministry of the Economy and Finance Treasury Department guaranteeing the commitments, described in paragraph 9.1, letter f) of the auction regulations, given by the licensee following a request for the deferral of payment to the Ministry, in accordance with point 5 a) of the Call for Bids. The value of the surety is based on the residual principal due before the Company exercised its right to relinquish additional spectrum. Awaiting formal notification from the Ministry of Communications on the related reduction, the surety was recorded at the afore-mentioned value of 962,675 thousand euros, plus three six-monthly instalments of interest totalling 43,768 thousand euros; the interest was calculated at a rate of 3.031%. As of December 31, 2002, the surety was pledged in a current account deposit as a back-to-back guarantee of 142,889 thousand euros by the Company's shareholders.

a surety of 99,000 thousand euros issued by Capitalia in favour of R.F.I. S.p.A. as guarantee for the payments due under the 15-year contract with IPSE, relating to the concession of the right of usufruct and possession regarding a portion of the real estate assets of R.F.I. in order to install telecommunications equipment.

the remaining amount of 92 thousand euros regards sureties issued in relation to property leases.

**Table of Contents****Notes to the Profit and Loss Account***Turnover**Revenues from sales and services*

Revenues from sales and services, totalling 723 thousand euros, derived from the sale of mobile handsets.

*Capitalised costs and expenses*

No capitalised costs and expenses were suspended during the year.

*Other income*

Other income primarily regards lease rentals recharged to employees in return for use of company cars.

*Operating Costs**Raw, ancillary and consumable materials and goods for resale*

The following schedule shows a breakdown of the cost of raw and ancillary materials and goods for resale:

	( 000)	
<b>Raw, ancillary and consumable materials and goods for resale</b>	<b>2002</b>	<b>2001</b>
Goods for resale	23	18.061
Gadgets	16	678
Other consumables	32	1.214
Stationery and printers	71	250
<b>Total</b>	<b>71</b>	<b>20.203</b>

The sharp decrease is due to the interruption of marketing activities in December 2001.

*Services*

	( 000)	
<u>Services</u>	<u>2002</u>	<u>2001</u>
Consultants fees	2.704	14.618
Surety expenses	1.004	
Seconded personnel		8.759
Advertising and promotion	5	4.153
Fairs and expositions		1.585
Insurance	211	129
Travel expenses	372	1.112
Utilities	719	71
Removals and transport	720	97
Maintenance	914	162
Sponsorship of fairs and events		847
Security and cleaning	995	629
Agents commissions	272	521
Canteen costs and luncheon vouchers	506	493
Telecommunications	871	485
Personnel training	21	479
Other personnel-related costs	150	356
Fees paid to Directors and Statutory Auditors	217	180
Entertainment expenses	14	123
Recruitment costs		94
Other services	1.380	1.407
<b>Total</b>	<b>11.074</b>	<b>36.299</b>



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The cost of services breaks down as follows:

The overall contraction in the cost of services is directly linked to the Company's current cost-cutting strategy. The most significant amounts regard consultancy and sureties relating to payments made to Capitalia for the surety issued in favour of R.F.I. in connection with the contract entered into with the latter as described above.

*Leases and rentals*

This item breaks down as follows:

	( 000)	
<b>Leases and rentals</b>	<b>2002</b>	<b>2001</b>
R.F.I. contract	20.323	
Property leases	1.423	1.035
Transmission capacity (line rentals)	1.622	1.038
Car hire	1.619	550
Residential accommodation	187	193
Sundry hire charges	442	697
<b>Total</b>	<b>25.615</b>	<b>3.513</b>

As the schedule shows, leases and rentals primarily refer to the rental due to R.F.I. in relation to the afore-mentioned contract for the period January 1, 2002 – December 31, 2002.

Other items include costs incurred during 2002 for renting properties in via Depero and via Noale. The latter property, which was vacated by the Company in August 2002, was subject to a penalty due to the owners (see the section below on extraordinary expense).

The sum of 1,622 thousand euros regards the cost of using the lines and cables used for transmission between the Company's offices.

Substantial costs were also incurred for car rentals.

*Personnel costs*

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Personnel costs break down as follows:

	( 000)	
<u>Personnel costs</u>	<u>2002</u>	<u>2001</u>
Ordinary and variable remuneration	17.552	21.433
Other contributions	5.085	5.869
Termination indemnities	1.184	861
Other		8
<b>Total</b>	<b>23.821</b>	<b>28.171</b>

The following schedule summarises the number of employees at year end.

<u>Headcount Ipse 2000</u>	
Managers	11
Supervisors	54
Administrative staff	126
<b>Total employees</b>	<b>191</b>

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As required by art. 2427 of the Italian Civil Code, the following schedule shows the average number of employees for 2002.

<b>Average headcount Ipse 2000</b>	
Managers	30
Supervisors	96
Administrative staff	262
<b>Total employees</b>	<b>388</b>

*Amortisation, depreciation and write-downs*

The technical and economic amortisation and depreciation of tangible and intangible fixed assets continued during the year.

The following schedule provides a breakdown by category of asset.

	000
<b>B.I. Intangible fixed assets</b>	
1 start-up and expansion costs	(25)
2 research, development and advertising costs	
3 rights	(113)
4 permits, licences, trademarks and similar rights	
7 other	(1.049)
<b>Total intangible fixed assets</b>	<b>(1.187)</b>
<b>B.II Tangible fixed assets</b>	
2 plant and machinery	(51)
3 industrial and commercial equipment	(102)
4 other assets	(807)
<b>Total tangible fixed assets</b>	<b>(960)</b>
<b>Total amortisation and depreciation</b>	<b>(2.147)</b>

The write-down of amounts due included under current assets, totalling 64,808 thousand euros, regards the amount due from the Treasury Ministry for higher interest paid during 2001 and 2002. This derives from the return of additional frequency spectrum and the subsequent reduction in the amount due to said Ministry as described above in the item Permits and licences .



**Table of Contents****Financial Income and Expense**

Financial income and expense is summarised below:

	( 000)	
<b>Financial income and expense</b>	<b>2002</b>	<b>2001</b>
<b>Interest on term deposit</b>	240	247
<b>Interest on short-term deposit</b>	291	1,083
<b>Interest on ordinary current account</b>	125	626
<b>Other financial income</b>	31	1
	<b>687</b>	<b>1,957</b>
<b>Total financial income</b>	<b>687</b>	<b>1,957</b>
<b>Interest expense on borrowing</b>	43	144
<b>Interest expense paid to shareholders</b>	11,449	150
<b>Other financial expense</b>	19	36
<b>Other financial expense (commitment fees)</b>	1,030	
<b>Losses on foreign currency translation</b>	20	62
<b>Total financial expense</b>	<b>12,561</b>	<b>392</b>
	<b>(11,874)</b>	<b>1,565</b>
<b>Total financial income (expense), net</b>	<b>(11,874)</b>	<b>1,565</b>

Financial income for the year amounted to 687 thousand euros. This sum includes 291 thousand euros deriving from investment in money market deposits during 2002, and 240 thousand euros in accrued interest consisting of a current account deposit pledged to Capitalia as a back-to-back guarantee for the surety issued by the bank to R.F.I., and accrued interest amounting to 125 thousand euros on bank and post office current accounts.

Financial expense primarily includes interest paid to shareholders on loans granted as described above.

Net financial expense amounted to 11,874 thousand euros.

**Extraordinary Income and Expense**

The following schedule provides a breakdown of expense arising outside the Company's ordinary activities.

( 000)

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<u>Extraordinary expense</u>	<u>2002</u>	<u>2001</u>
Penalties for cancellation of advertising campaigns		8.673
Write-downs of fixed assets	67.234	13.211
Agents' termination indemnities	1.889	
Fines and penalties	11.140	
Redundancy payments	27.292	
Losses on disposals	10.189	
Extraordinary expense	2.527	
R.F.I. contract	11.292	
Write-downs of costs capitalised in 2001		193
<b>Total</b>	<b>131.564</b>	<b>22.077</b>

The sum of 67,234 thousand euros refers to the write-down of tangible and intangible assets, initially posted to fixed assets, whose lives are no longer deemed useful, due to the definitive abandonment of the market launch of GSM/GPRS services and the refocusing of strategy on spectrum trading activities.

Fines and penalties derive from interruption of existing contracts. The most significant amount, totalling 7,700 thousand euros, was paid to Agricola Liete S.p.A. following cancellation of the lease on the offices in via Noale.

Redundancy payments, as previously mentioned, relate to agreements negotiated at year end with outgoing employees, of which a portion amounting to 5,637 thousand euros will be paid during 2003.

Losses on disposals relate to sales of fixed assets that cannot be adapted to use within the field of UMTS technology.

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Finally, expense relating to the R.F.I. contract refers to costs regarding 2001 previously capitalised among intangible assets. Such costs relate to rentals for the period July 1, 2001 – December 31, 2001 and surety charges incurred during the same year.

*Extraordinary write-downs*

As explained under the item *Permits and licences*, the Company decided to write down the original cost incurred for acquisition of one of the five blocks and related financial charges incurred as of December 31, 2002, for an amount of 2,072,987 thousand euros, equal to 82% of the original cost.

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**Other Information**

*Legal and Tax-Related Proceedings*

As of December 31, 2002 the Company was not party to any such proceedings.

*Remuneration of Directors and Statutory Auditors*

The Ordinary General Meeting of November 28, 2000 resolved to pay members of the Board of Directors total remuneration of 75,000 euros per annum. During 2002, a new Chairman of the Board of Directors, Vittorio Ripa di Meana, was appointed with remuneration of 60,000 euros per annum.

The remuneration due to members of the Board of Statutory Auditors for 2002 amounts to 105,000 euros.

Such expense is posted to operating costs.

*General Aspects*

Information regarding the Company's business purpose, subsequent material events and related party transactions is provided in the Management Report on Operations.



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### Subsequent Material Events (from December 31, 2002 to July 8, 2003)

#### *Initiatives with regard to regulatory bodies*

On October 29, 2002, Ipse 2000 S.p.A. notified the Ministry of Communications of its intention to relinquish its right to be allocated and hold additional 2x5MHz spectrum. In particular, the Company declared that technical, economic and fair trading regulations had compelled them to submit such a request, which was, for the above reasons, justified from a legal viewpoint. Ipse also asked that its relinquishment of supplementary spectrum should release the Company from the obligation to pay the related expenses.

Indeed, the additional spectrum was allocated during the auction and at a price that should have been particularly favourable with the deliberate purpose of creating an asymmetrical advantage. However, market changes altered such effects turning them into an *asymmetrical disadvantage* for IPSE, and as such an unsustainable burden.

On November 29, Ipse 2000 S.p.A. sent a second letter to the Ministry of Communications confirming its request, whilst also making further observations on the demand for urgent measures to reinstate fair trading conditions with regard to UMTS systems.

For its part, the Ministry of Communications decided to seek the opinion of the Communications Authority, particularly regarding the changed effectiveness of the asymmetrical measures. The Authority expressed its view in a letter sent to the Ministry of Communications on February 4, 2003. Whilst stating that any decision on this matter rested exclusively with the Ministry, the Authority saw no substantial objections, and above all no regulatory or legal obligations, that prevented return of the additional spectrum.

Subsequent to this letter sent by the Authority, the assessment process of IPSE 2000 S.p.A.'s motives was deemed to be concluded, as the Company, backed by expert legal advice, did not consider that any formal acceptance by the Ministry of Communications or the Telecommunications Authority was necessary. On May 2, 2003, the Company formally notified the Ministry of Communications, the Communications Authority and the Ministry of the Economy of its decision to relinquish the additional spectrum.

The relinquishment and its effects on Ipse's assets and commitments were reflected in the financial statements by removing the corresponding value of the additional spectrum from the value of the UMTS licence. At the same time, the debt due to the Ministry of the Economy regarding the additional spectrum was cancelled, despite the fact that such a debt is nevertheless guaranteed by the Company's shareholders.

On May 19, 2003, the Ministry of Communications objected that *modifications to licence conditions (...) are determined by the granting authority in accordance with the principles of proportionality, transparency and non-discrimination*, and that as return of the frequencies had not been *determined by this ministry, (...) the said notification may not take effect*.

The Company intends to defend its right through appropriate legal measures that are currently being studied, whilst maintaining the above accounting treatment in the balance sheet.

***Renewal of shareholder loan***

The loans granted by Atlanet, Capitalia (formerly Banca di Roma), Telefonica Moviles España and Solivella Investments in December 2001 and by Edison in October 2002 all fell due on December 31, 2002. The Company has requested postponement of repayment, until December 31, 2003. Such request, carried out in accordance with the wishes expressed at the Board of Directors Meeting held on February 19, 2003, and ratified by the Shareholders Meeting held on the same day, was accepted by the parties, who also agreed to capitalisation of the interest accrued as of December 31, 2002 and falling due on that date.

The line of credit requested from Telefonica Moviles España and Solivella Investments on March 3, 2002, in order to cover operating requirements for 2002, amounts to 189,619 thousand euros. A request to extend this facility, which provides for the repayment of principal and interest by December 31, 2002, for a further year was submitted. Such request was also ratified as mentioned above, and the interest accrued to such date was capitalised.

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### **Subsequent Events Occurred Between July 8, 2003 and June 15, 2005**

#### *Relinquishment of the additional frequency spectrum*

In November 2003 the Company submitted another petition to the TAR of the Lazio Region for the application of the provisions of the new Electronic Communication Code. In this petition, the Company argued that the right to relinquish (the frequency spectrum, network or service operation) is now expressly laid down by the Code. Moreover, the Company indicated that one of the effects of the Code was the full change of the sums to be paid as contribution for the UMTS frequencies and, in that respect, the Company paid excess amounts, which should be returned.

A further action, before the Court, has been brought on May 31, 2004 by IPSE against the Italian Government, challenging the subsequent assignment by the Ministry of certain GSM frequencies to the incumbent operators, basically for free. IPSE contends that this assignment has worsened its position as a new entrant and reinforced the arguments set out in the above petition, actually confirming the Government's illegitimate behavior in relation to UMTS operators and technology, therefore artificially depressing the value of frequencies. IPSE also contends, *inter alia*, that the Code of Telecommunications (the code) has entirely superseded all prior rules in the sector, including the laws, regulations and implementing rules (including UMTS License terms and conditions) applicable to IPSE; as a result:

(a) because the Code states that, in principle, the value of each 5MHZ block payable as a fee to the Government is of 7,2 millions Euro per year, and because the Code is expressly retroactive, IPSE has paid amounts in excess for the License and the spectrum (principal and additional), therefore the Government must reimburse these excess payments to IPSE. Depending on the calculations, IPSE is requesting reimbursement of an amount ranging from 1.4 and 1.7 billion Euros, in addition to the release from the residual debt of 826 millions Euros for the additional spectrum;

(b) based on a number of other provisions of the Code, IPSE believes that all of its arguments and allegations set out in all the other proceedings are confirmed and actually reinforced.

The legal and technical arguments raised by IPSE, if accepted in whole or in part by a Court of law, would have a very significant effect also on the other operators and on the UMTS Licenses as a whole. Potentially, the Italian Government could be required, in case of negative outcome, to reimburse material amounts (previously cashed in the UMTS auction procedure) and/or to materially amend or suspend the application of the Code, in whole or in part. All the actions filed by IPSE have been joined, and the hearing WAS on June 8, 2005. A final decision is expected to be taken by the Court in two or three months time. However such decision could be appealed by the parties.

As related to the European Commission, the Company submitted in June 2003 a petition alleging a violation of community laws. Upon receipt of this petition, the European Commission sent a letter (of a so-called administrative nature) whereby clarifications were sought from the Italian State, concerning both the rejection of the Company's relinquishment and the other measures adopted (on the allocation of new frequencies to the GSM operators), which according to the Directors gave rise to anti-competitive effects on the Italian market. By letter dated December 21, 2004, the Commission informed IPSE of its intention not to pursue IPSE's case. In response thereto, IPSE has filed a further complaint, dated February 2, 2005, inviting the Commission to reconsider its position and requested a meeting. Further to such meeting, the Commission reserved a decision and pointed out, especially with regard to the assignment of GSM frequencies (see point 1.b above), that an additional separate claim be posted by IPSE directly with the Competition Services of the Commission.

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On December 1, 2003, when the installment due to the Ministry of the Economy on November 30, 2003 was paid, the Company also paid the interest accrued until November 30, 2003 on the debt for the additional spectrum, which had been eliminated from company accounts in fiscal year 2002. This payment gave rise to an amount receivable from the Ministry of the Economy for the same amount. The Company's shareholders paid the interest accrued on the debt for the additional spectrum (reserving the right to seek restitution) in order not to undermine the Company's claims, for which proceedings had been initiated or would eventually be initiated, and to spare the shareholders the additional payments triggered by reason of the guarantees presented, and the resulting requests for restitution to the State.

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### *License valuation and realization*

In 2004 the Company asked to Banca IMI for an updating of its Fairness Opinion on the UMTS License valuation performed one year earlier. In June 2004, Banca IMI confirmed the fairness valuation of the UMTS License from the previous year, based on improved market conditions (three out of four operators had already launched their 3G services), lower operating costs and a lower tax rate, compared with the previous year figures.

The value of the license was determined on the basis of the best information available and estimates subject to significant uncertainty, especially concerning:

- (i) The lack, to date, of any agreement with other operators, and the resulting effects on the coverage obligation;
  
- (ii) The expected developments in the UMTS market, the ability to estimate the time necessary for users to migrate from the GSM/GPRS to the UMTS platform, the mix of services applicable in individual high-migration geographic areas and the dimensioning of the technological structures on which the calculation of cost savings is based;
  
- (iii) The bargaining ability to obtain a sum today for an asset that will begin to yield its benefits several years from now.

Furthermore, as of June 30, 2004, the Company did not comply with the coverage obligation set forth by article 8 of the terms and conditions of the UMTS license. In fact, as explained in the pending administrative proceedings, especially those before the Regional Administrative Court (locally known as TAR) of the Lazio Region in November 2003, and on the basis of the new legal framework introduced by the Electronic Communication Code, the Company is of the opinion that it is not required to fulfill the original coverage obligation provided for by the UMTS license. However, the Ministry of Communications is considering the original coverage obligation enforceable and on April 26, 2005 the Company has received a follow up letter, which would likely be followed by a sanctioning procedure against the Company. In 2004, a proceeding between IPSE and the Government has been commenced by IPSE before the Court since:

- (i) IPSE contends that, again, the Code provides no such requirement and has superseded the prior coverage obligations; as a result, it is no longer bound thereto;
  
- (ii) IPSE, as permitted under Art. 14 of the Code and in furtherance of EU Directives, has notified the Ministry its intention to become a spectrum trader i.e. disposing commercially of its frequencies and license. IPSE argues that, under the Code, spectrum trading exonerates the trader from any coverage requirement, which (if any, see above) should fall on the counterparty of a spectrum trading transaction.

The Ministry, after an initial approach seemingly confirming IPSE's position, has later changed its position, hinting that failure to comply with coverage obligations (which, in its view, have survived) may result in sanctions, up to and including the revocation of the License. IPSE has therefore proceeded to challenge the Ministry's official documents on this aspect, again before the Rome Administrative Court, by writ notified on October 13, 2004.

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Based on the foregoing there are significant uncertainties in interpreting the law on the dissolution of the coverage obligations, as claimed by the Company, and the nature of the sanctions that might be inflicted at the end of an inquiry, considering that the Electronic Communication Code allows the Ministry of Communications, in the presence of *serious* violations, to adopt measures designed to..... *prevent a company from continuing to provide, in whole or in part, networks or electronic communication services, suspending or canceling rights of use* . Any such measure would give rise to significant effects on the ability of the Company to implement its spectrum trading strategy.

As permitted under the New Telecommunications Code, entered into force on August 1, 2003, and by decision of the Board of Directors, IPSE started negotiations with all the Italian Mobile Operators, for the rent or sale of its

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frequency spectrum. Consequently, IPSE has notified the Ministry of Communications of its intention to opt for the spectrum trading business model stating, as requested by the Ministry, that it would be prepared in case of successful outcome of the negotiations to renounce in order to become a direct operator (as a consequence of the transfer of the spectrum awarded with the licence). During September 2004, IPSE has received from all the Italian mobile operators (Tim, Vodafone, Wind, and H3G) expressions of interest for the acquisition of blocks of frequencies. The Company is now evaluating how to proceed with any possible negotiation in order to obtain the best available conditions for the sale. At the same time, negotiations were commenced between some of IPSE's shareholders and third parties, to sell 100% of IPSE's equity. To the best of IPSE's Management knowledge, in addition to the value of the frequencies, a factor to be taken into account would be that the acquisition of IPSE's shares by a profit making company could be accompanied by a future tax benefit for the purchaser, therefore increasing the value of IPSE's spectrum. In this respect, on December 24, 2004, ENEL (national electricity utility company, owner of 100% of equity of the integrated telecommunication operator Wind) announced its intention to buy 100% of IPSE's shares for a maximum price of 792 million. On December 31, 2004 both IPSE and ENEL announced the interruption of these negotiations mainly for reasons internal to ENEL.

During the first months of 2005, additional discussions with other potentially interested third parties commenced. However, such discussions have not to date produced any concrete development.

As of the date hereof, Management has no elements to make any statement or assessments about the possible outcome of any negotiation already completed or on-going with third parties.

### ***RFI contract settlement***

The Company through a letter dated November 27, 2003 exercised its withdrawal rights, for serious reasons, from the agreement with Rete Ferroviaria Italiana (RFI), covering the use of 1,500 sites owned by this company. In December 2003, the Company initiated legal proceedings under article 700 of the code of civil procedure in order to obtain legal forced relief in order for such withdrawal effects to take place immediately. The claim was rejected on December 31, 2003, as the Court of Rome denied the existence of "a danger" in all the cases presented by the Company, rebutting all the arguments to support the dissolution of IPSE 2000 S.p.A.'s contractual obligations, but indicating repeatedly the possible application to this agreement of the rules typically applicable to leasing. Subsequently, as required under the contract, Ipse started an arbitration procedure against RFI seeking confirmation of the validity of its withdrawal from the contract. In March 2005, the parties reached a settlement, which was formalized and executed on May 9 2005, for the following terms and conditions:

Ferrovie acknowledges the validity of IPSE's withdrawal dated November 27, 2003, and further that IPSE has neither selected, nor obtained the use of any sites;

Both parties acknowledge that the amount of 120 million Euros (including VAT) is the sum owed by IPSE as consideration for:

(i) the exclusivity granted by Ferrovie to IPSE for 4 years, during which Ferrovie could not dispose of any of the sites;

(ii) the preference right granted to IPSE by Ferrovie for the subsequent 3 years.

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Given the amount already paid by IPSE and to be offset against the above, IPSE shall pay to Ferrovie, in full and final settlement of the contract and the controversy being arbitrated, the sum of Euro 93,360,000 (VAT included). The effect of the foregoing settlement will be recorded as a loss of 40.7 million Euros in IPSE's 2004 financial statements.

In relation to all legal matters discussed above, it must be noted that the foregoing is a summary report of the current status of proceedings pending and issues involved; though the foregoing statements are a true and fair summary, they however must be qualified to the extent that the full legal analysis thereof is contained in the company legal counsel reports, which shall be deemed to be the sole comprehensive legal analysis applicable to the cases and issues.

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**Table of Contents***Others*

The Company has been sued in 2004 and 2005 by several former employees challenging their dismissal as well as claiming certain professional damages severance payments. Based on the opinion of its legal advisor, the Company will book in 2004 Financial Statements an accrual of approximately 4 million Euro corresponding to its best estimate of the possible sentences of such litigations.

**Reconciliation Between Net Income and Shareholders Equity Determined Under Italian GAAP and U.S. GAAP**

The following table summarizes the significant adjustments to net income for the year ended December 31, 2002 that would be required if U.S. GAAP had been applied instead of Italian GAAP:

	<u>2002</u>
	(Thousands of Euro)
Net income (loss) as reported in the statements of income	(2,335,973)
Items increasing (decreasing) reported net income:	
Start-up, marketing, research & development and incidental costs (Note 3)	44,306
Extinguishment of liabilities and related additional asset impairment (Note 9)	(826,331)
Net income (loss) in accordance with U.S. GAAP	(3,117,998)

Earnings per Ordinary Shares in accordance with US GAAP:

Basic EPS:	-1.45 euro
Diluted EPS:	-1.45 euro

The following table summarizes the significant adjustments to shareholders equity as of December 31, 2002 that would be required if U.S. GAAP had been applied instead of Italian GAAP:

	<u>2002</u>
	(Thousands of Euro)
Shareholders equity as reported in the balance sheet	92,683
Items increasing (decreasing) reported shareholders equity:	
Receivable from Minority Shareholders (Note 2)	(23,263)
Start-up, marketing, research & development and incidental costs (Note 3)	(50)
Extinguishments of liabilities and related additional asset impairment (Note 9)	(826,331)
Deferred taxes	
Tax effects of reconciling items	
Shareholders equity in accordance with U.S. GAAP	(756,961)

The balance sheet and the statement of income as of December 31, 2002 presented below have been restated to reflect the differences between Italian GAAP and U.S. GAAP.



**Table of Contents***(Thousands of euro)*

Description	December 31, 2002 (Italian GAAP)	Adjustments/ Riclassifications	December 31, 2002 (US GAAP)
<b>Assets &amp; Liabilities</b>			
<i>(Thousands of Euro)</i>			
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalent	12.055		12.055
Short-term investments			
Receivables, net (Note 6)	87.032	(56.677)	30.355
Receivables from minority shareholders (Note 2)	23.263	(23.263)	
Inventories, net			
Accrued interest and other (Note 6)	287.767	(281.705)	6.062
	<b>410.117</b>	<b>(361.645)</b>	<b>48.472</b>
<b>Total current assets</b>			
<b>Non-current assets</b>			
Fixed assets, net of accumulated depreciation, amortization and writedowns	3.740		3.740
Investments	9.852		9.852
Intangible assets (Note 3)	455.017	(50)	454.967
	<b>468.609</b>	<b>(50)</b>	<b>468.559</b>
<b>Total non-current assets</b>			
	<b>878.726</b>	<b>(361.695)</b>	<b>517.031</b>
<b>TOTAL ASSETS</b>			
<b>LIABILITIES AND SHAREHOLDER S EQUITY</b>			
<b>Current Liabilities</b>			
<i>Financial borrowings (Note 8):</i>			
- banks	419		419
- Shareholders	253.266		253.266
- Ministry of Economy (current portion)	120.334		120.334
Trade accounts payable (Note 6)	33.009		33.009
Taxes payable	1.268		1.268
Payables due to social security institution	648		648
Personnel	5.637		5.637
Other payables due to related parties	1.297		1.297
Other payables	902		902
Accrued expenses	932		932
	<b>417.712</b>		<b>417.712</b>
<b>Total current liabilities</b>			
<b>Non-current liabilities</b>			
<i>Financial borrowings:</i>			
- Ministry of Economy (Note 9)	16.011	826.331	842.342
Trade account payable (Note 6)	351.360	(338.382)	12.978
Reserve for employee termination indemnities	960		960

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<b><i>Total non-current liabilities</i></b>	<b>368.331</b>	<b>487.949</b>	<b>856.280</b>
<b>TOTAL LIABILITIES</b>	<b>786.043</b>	<b>487.949</b>	<b>1,273,992</b>
<b>Shareholder s equity</b>			
Capital stock 2,150,000,000 fully paid shares nominal value 1 euro each (2,150,000,000 fully paid shares at 12.31.2002)	2,150,000		2,150,000
Reserves	358.191		358.191
Receivable from minority shareholders (Note 2)		(23.263)	(23.263)
Retained earnings (accumulated deficit)	(79.535)	(44.356)	(123.891)
Loss for the year	(2,335,973)	(782.025)	(3,117,998)
<b><i>Total shareholder s equity</i></b>	<b>92.683</b>	<b>(849.644)</b>	<b>(756.961)</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>878.726</b>	<b>(361.695)</b>	<b>517.031</b>

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**Table of Contents****STATEMENTS OF INCOME***(Thousands of Euro)*

Description	December 31, 2002 (Italian GAAP)	Adjustments/ Riclassifications	December 31, 2002 (US GAAP)
<b>Revenues:</b>			
Net sales from operations	491		491
Other income and revenues	232		232
<b>Total revenues</b>	<b>723</b>		<b>723</b>
<b>Operating expenses:</b>			
Purchases, services and other (Note 12)	(38,474)	(4,690)	(43,164)
Payroll and related costs (Note 12)	(23,821)	(29,181)	(53,002)
Depreciations, amortization and write-downs (Note 12 - Note 9)	(66,954)	(2,932,435)	(2,999,389)
<b>Operating income (loss)</b>	<b>(128,526)</b>	<b>(2,966,306)</b>	<b>(3,094,832)</b>
<b>Interest and other income (expense)</b>			
Financial income (expense)	(11,874)		(11,874)
Extraordinary income (expense) (Note 12)	(2,195,573)	2,184,281	(11,292)
<b>Income before income taxes</b>	<b>(2,335,973)</b>	<b>(782,025)</b>	<b>(3,117,998)</b>
Income taxes			
<b>Net income (loss)</b>	<b>(2,335,973)</b>	<b>(782,025)</b>	<b>(3,117,998)</b>

**Additional U.S. GAAP Disclosures****Note 1 - Classification of assets under Italian GAAP**

Under Italian GAAP assets are classified in relation to their economical destination as Fixed Assets or Current Assets. Under U.S. GAAP, items that are expected to be realized in one year or less are classified as current while items that are expected to be realized beyond one year are classified as non-current. Therefore the classification of current assets under Italian GAAP would not necessarily qualify for the same classification under U.S. GAAP.

**Note 2 - Receivables from minority shareholders**

The amount due from minority shareholders derives from non-strategic shareholders share of the capital contribution requested by Ipse.

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According to Italian Accounting Principles an increase in the Shareholders Equity can be registered based on the commitment of the Shareholders to pay their capital contribution.

Under U.S. GAAP Shareholders Equity increases are booked with the cash payment of the capital contribution. Accordingly the receivables due from minority shareholders is booked as a reduction of the Shareholders equity under US GAAP.

### *Note 3 - Start up, marketing, research & development and incidental costs*

Under Italian Accounting Principles, certain costs related to the formation, start up, marketing, research and development and incidental costs (technical consultants and other) of a company may be deferred and capitalized as an intangible asset and amortized on a straight-line basis over a period not exceeding five years, if certain conditions are met. These costs are written down to their recoverable amount when an impairment exists.

Under U.S. GAAP, marketing, research and development and other incidental costs are expensed as incurred. Under U.S. GAAP, all costs incurred during the start-up period should be expensed in accordance with SOP 98-5, Reporting on the Costs of Start-Up Activities, except for those costs that are directly related to and specifically identifiable with system construction or those that are clearly related to asset acquisitions. Start-up costs include pre-operating costs such as organizational costs, advertising and promotion, market research and administrative matters.

**Table of Contents*****Note 4 - Asset Impairment***

According to Italian Accounting Principles long-lived assets are generally tested for impairment, when circumstances indicate a potential impairment. When an impairment other than temporary is identified, an impairment loss should be charged to income. When there is a change in the economic conditions, previous impairment can be reversed. Italian Accounting Principles do not address the concept of an asset group, which exists under U.S. GAAP.

Under U.S. GAAP a long-lived asset (asset group) shall be tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. For purposes of recognition and measurement of an impairment loss, a long-lived asset or assets shall be grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. The carrying amount of a long-lived asset (asset group) is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset (asset group). If a fixed asset is impaired, an impairment loss shall be measured as the amount by which the carrying amount of a long-lived asset (asset group) exceeds its fair value. Once an impairment under U.S. GAAP is recognized, it cannot be reversed, except in certain circumstances such as when assets are classified held for sale or reclassified from assets held for sale to assets held for use.

The application of U.S. GAAP has not resulted in any adjustment to the amounts recorded under Italian GAAP (see also note Extinguishments of Liabilities ).

***Note 5 - Intangible Assets***

The estimate aggregate amortization expense for the next five years for intangible assets as of December 31, 2002 is as follows:

	<b>Amount</b>
	<b>(Millions of Euro)</b>
2003	1,1
2004	0,1
2005	26,6
2006	26,5
2007	26,5

***Note 6 - Lease Commitments***

Under Italian GAAP if the rental fee of a long-term operating lease contract is billed in advance, a debt is booked and the related cost is deferred as prepayment. The cost is expensed to the profit & loss over the contract length on a straight-line basis.

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Under U.S. GAAP no debt is recorded if the invoice is not paid while the cost is expensed as under Italian GAAP. Accordingly the deferred prepayment, the trade payables and the corresponding VAT receivables have not been included in the balance sheet under U.S. GAAP.

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The following is a summary of all future minimum lease payments as of December 31, 2002:

	<u>RFI lease contract</u>	<u>Other operating leases</u>	<u>Total</u>
	<i>(Thousands of Euro)</i>		
2003	9,120	1,454	10,574
2004	15,840	209	16,049
2005	44,880	221	45,101
2006	24,360	239	24,599
2007	24,960	241	25,201
Thereafter	257,160		257,160
<b>Total</b>	<b>376,320</b>	<b>2,364</b>	<b>378,684</b>

A surety of 99,000 thousand euros has been issued by Banca di Roma (which is directly guaranteed for an amount of 89,148 thousand euro by other strategic Shareholders on a pro-rata basis) in favour of R.F.I. S.p.A. as guarantee for the payments due under the 15-year operating lease contract with IPSE, relating to the concession of the right of usufruct and possession regarding a portion of the real estate assets of R.F.I. in order to install telecommunications equipment. Also an account deposit of Euro 9,852 thousands is classified as a non current asset investment, and has been pledged to Banca di Roma as a back to back guarantee for the surety issued by the bank to RFI (Ferrovie dello Stato).

**Note 7 - Deferred Tax Assets**

The differences between Italian GAAP and U.S. GAAP are primarily related to the recognition of certain deferred tax assets, including net operating losses and the deferred taxes established for the basis differences of assets and liabilities. With respect to the deferred tax benefit of net operating losses or other deferred tax assets, the Company under Italian GAAP generally recognizes such deferred tax assets when they are reasonably certain to be realized. Under U.S. GAAP, the deferred tax assets related to net operating losses and other deferred tax assets are always recognized but are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not (i.e. a likelihood of more than 50 per cent), that some portion or all of the deferred tax asset will not be realized. Therefore the valuation allowance is sufficient to reduce the deferred tax asset to the amount that is more likely than not to be realized.

Under SFAS No. 109, Accounting for Income Taxes, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

A detail of the provision for income taxes under U.S. GAAP for the year ended December 31, 2002 is as follows:

2002  
(Thousands of Euro)

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Current income taxes  
Deferred income taxes  
Total tax benefit

A reconciliation of the Company's statutory and effective income tax (provision) benefit for the year ended December 31, 2002 is as follows:

	<u>2002</u>
	<b>(Thousands of Euro)</b>
Loss of the year	3,117,998
Tax benefit at Italian tax rate 40,25% (Irpeg and Irap)	1,254,994

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	2002
	(Thousands of Euro)
Unrecognized tax carry forward on Irap tax (4,25%)	(5,582)
Valuation allowance	
- tax loss carryforward (Irpeg 36%)	(47,285)
- Asset impairment deductible in future years (40,25%)	(1,195,054)
- bad debt provision (36%)	(23,331)
Release of valuation allowance from prior years (40,25%)	17,833
Permanent difference	(1,575)
Income taxes recorded in the financial statements	0

The components of the deferred tax assets (liabilities) under U.S. GAAP as of December 31, 2002 are as follows:

	2002
	(Thousands of Euro)
Deferred tax assets:	
Tax loss carry forwards	74,937
Asset impairment	1,195,054
Bad debt provision	23,331
Other	20
Less: Valuation Allowance	(1,293,342)
Subtotal	0
Deferred tax liabilities	0
Net deferred tax liabilities	0

No valuation allowance was recorded prior to January 1, 2002.

The tax loss carry forwards as of December 31, 2002 are not subject to expiration.

As of December 31, 2002, the Company has not recorded any deferred tax liabilities or deferred tax assets, taking into consideration that the deferred tax assets are reserved for in total with the valuation allowance.

There is no difference between Italian GAAP and U.S. GAAP in the classification of deferred tax assets and liabilities.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.



**Table of Contents****Note 8 - Financial Borrowings**

	December 31,		Minimum Annual Repayments				
	2002	2003	2004	2005	2006	2007	Thereafter
Atlanet	8,080	8,080					
Capitalia	6,725	6,725					
Telefonica Moviles	25,384	25,384					
Solvivella	206,082	206,082					
Edison	3,335	3,335					
Sonera	3,660	3,660					
Ministry of Economy							
-spectrum base	136,345	120,334	16,011				
-additional spectrum	826,331		104,323	120,334	120,334	120,334	361,006
<b>TOTAL 12.31.2002</b>	<b>1.215.942</b>	<b>373.600</b>	<b>120,334</b>	<b>120,334</b>	<b>120,334</b>	<b>120,334</b>	<b>361,006</b>

Interest Rate is variable:

- Shareholders Loans are at Euribor + 500 bp. (in a range between 7% and 8%)

- Government Loan is at Euribor.

Management expects fair value of outstanding debt at December 31, 2002 to approximate its book value.

A surety of 1,006,444 thousand euros has been issued by Mediocredito Centrale (MCC) in favour of the Ministry of the Economy guaranteeing the commitments, described in paragraph 9.1, letter f) of the auction regulations, given by the licensee (Ipse), following a request for the deferral of the payment of the licence to the Ministry, in accordance with point 5 a) of the Call for Bids. At December 31, 2002 the surety of 1,006,444 thousand euros refers to the debt towards the Ministry of Economy of 962,676 thousand euros, plus three six-monthly instalments of interest totalling 43,768 thousand euros.

The Company's shareholders have a commitment to pledge in a bank deposit ( cash collateral ) the above described surety for the entire amount by December 31, 2003. As of December 31, 2002, the surety was pledged in a current account deposit as a back-to-back guarantee of 142,889 thousand euros by the Company's shareholders.

All the other debts are not guaranteed.

*Note 9 - Extinguishment of Liabilities*

Italian GAAP does not provide specific guidelines regarding the extinguishment of a liability. As a normal practice when a discrepancy exists between a legal interpretation of the law of the creditor, which relates to existence of the obligation for the Company, an independent legal opinion from a third party is obtained to support the Company's positions. Therefore, the Board of Directors appropriately supports its decision to consider the liability extinguished under Italian GAAP through an independent legal opinion.

Under U.S. GAAP a debtor shall derecognize a liability if and only if it has been extinguished. A liability has been extinguished if either of the following conditions is met: (a.) The debtor pays the creditor and is relieved of its obligation for the liability. Paying the creditor includes delivery of cash, other financial assets, goods, or services or reacquisition by the debtor of its outstanding debt securities whether the securities are cancelled or held as so-called treasury bonds, or (b.) The debtor is legally released from being the primary obligor under the liability, either judicially or by the creditor.

In a legal defeasance, generally the creditor legally releases the debtor from being the primary obligor under the liability. Whether the debtor has in fact been legally released from being the primary obligor under the liability, either judicially or by the creditor is a matter of law.

As outlined in the notes to the financial statements prepared under Italian GAAP, taking into account current unfavourable market prospects, and after careful analysis backed up by expert legal opinion (from Professor Franco Bonelli, Professor Berardino Libonati, Professor Roberto Mastroianni, Paolo Colucci and Domenico Luca Scordino), the Company decided to exercise its right to return the additional frequency spectrum (2x5MHz) and, at the same time, to be released from its obligation to pay the remaining instalments of the cost of such frequency.

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Accordingly, the debt relating to the amounts due for the additional frequency spectrum, totalling 826,331 thousands euro, has been removed from the balance sheet in accordance with the Italian GAAP. Such transaction does not qualify as debt extinguishments under US GAAP. Accordingly financial borrowings under US GAAP have been increased for the same amount and, since the additional frequency spectrum cost is not considered to be recoverable by the Company through future cash flow, an additional impairment of 826,311 Euro thousands has been recorded to profit and loss under US GAAP.

### ***Note 10 - Revenue Recognition***

Under Italian GAAP, revenues and expenses are recognized on an accrual basis, i.e., when the goods and services are actually provided, regardless of when the resulting monetary or financial flow occurs. Under U.S. GAAP, revenue is generally realized or realizable and earned when all of the following conditions have been satisfied: (a) persuasive evidence of an arrangement exists; (b) goods are delivered or service is rendered with a resultant transfer of risks and reward to the buyer; (c) price is fixed or determinable; and (d) collectibility is reasonably assured.

### ***Note 11 - Restructuring Costs***

Under Italian GAAP, expenses related to restructuring at December 31, 2002 have been considered probable and based on management's best estimate of the costs to be incurred in connection to the restructuring program at the time the program is formally decided. Under U.S. GAAP at December 31, 2002 restructuring charges follow the requirements set forth in EITF 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring). The primary difference between Italian GAAP and U.S. GAAP relates to the timing of when restructuring costs were expected to be incurred. Under U.S. GAAP, the time frame for utilization of restructuring reserves should not be more than one year, while under Italian GAAP, the utilization of the restructuring reserves does not have a specified limited time frame.

The application of U.S. GAAP has not required any adjustments in the circumstance.

The restructuring plan in 2002 resulted in 423 employees being terminated. The amount charged to expense in 2002 was Euro 27,292 thousands and was recorded in the payroll and related costs account. At December 31, 2002, a liability of Euro 5,637 thousands was recorded in the other payables account.

### ***Note 12 - Extraordinary Income and Expenses***

Extraordinary income and expenses reported in the Company's income statement prepared in accordance with Italian GAAP do not qualify as extraordinary items under U.S. GAAP, therefore accordingly may be classified as operating or financial income and expense under U.S. GAAP.

### ***Note 13 - Use of Estimates in the Preparation of Financial Statements***

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The preparation of financial statements in conformity with Italian GAAP, along with the reconciliation to U.S. GAAP, requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### *Note 14 - Fair Value of Financial Instruments*

The carrying amounts of cash, accounts receivable, and accounts payable approximate fair value because of the short-term nature of these items.

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**Table of Contents****Note 15 - Related parties transactions**

The Company entered into transactions of a mainly financial nature with its shareholders and their subsidiaries. Such transactions relate to contributions received from Telefonica group companies to finance operations during 2002.

The following transactions are included in the Balance Sheet as of December 31, 2002:

	<b>Balance Sheet</b>	
	<b>(Thousands of Euro)</b>	
	<b>Debtors</b>	<b>Creditors</b>
Telefonica Moviles de Espana S.A.		25,384
Solivella Investments		206,082
Total Telefonica group		231,466
Atlanet S.p.A.		8,080
Capitalia S.p.A.		6,725
Edison S.p.A.		3,335
Sonera Holding B.V.		3,660
Publitel S.p.A.	6	
Total Other Shareholders	6	21,800
Total financial relations	6	253,266

The balance sheet includes also trade payables to the Telefonica Group and the other shareholders, amounting to Euro 1,297 thousands.

The profit and loss includes Euro 12,497 thousands relating to financial interests due on the loans issued by the shareholders.

**Note 16 - Earnings per Share**

In accordance with SFAS No. 128 Earnings per Share, basic earnings per share is computed by dividing income available to ordinary shareholders by the weighted average number of ordinary shares outstanding. The computation of diluted earnings per share is increased to include any potential ordinary shares. Potential ordinary shares are those securities that, if converted to shares, would increase the total number of shares outstanding and reduce the earnings attributable to each share. The effects of any potential ordinary shares are omitted when the effects of including them is anti-dilutive. Potential ordinary shares include options, warrants, and convertible securities. For the basic earnings per share calculation, the weighted average number of shares outstanding was approximately 2,150,000,000 in 2002. As no additional shares were issued in 2002, the weighted average number of shares outstanding is the same as the number of shares outstanding as of December 31, 2001.

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In 2002 no potential ordinary shares were considered dilutive, therefore basic and diluted shares were the same.

### *Note 17 - Comprehensive Income*

U.S. GAAP requires the reporting and display of comprehensive income, net of related tax effect, and its components in accordance with SFAS No. 130, Reporting Comprehensive Income . Components of other comprehensive income include variations in equity accounts. In 2002, the Company did not have any transactions that met the definition of comprehensive income.

### *Note 18 - Supplemental Cash Flow Disclosures*

In 2002, the Company paid interest, net of capitalized interest, Euro 36,313 thousands. The Company did not pay any tax or received any tax refund.

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***Note 19 - Recently Issued Accounting Pronouncements***

In June 2001, the FASB issued SFAS No.143, *Accounting for Asset Retirement Obligations* ( SFAS No. 143 ). SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible, long-lived assets and the associated asset retirement costs. This Statement requires that the fair value of an asset retirement obligation be recorded as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or the normal use of the asset. A corresponding asset is recorded, which is depreciated over the life of the asset to be retired. Subsequent to the initial measurement of the asset retirement obligation, the liability is adjusted at the end of each period to reflect the passage of time and changes in estimated future cash flows underlying the obligation. The adoption of SFAS No. 143 is effective on January 1, 2003.

In November 2002, the FASB issued FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34) ( FIN 45 ). FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. This Interpretation does not prescribe a specific approach for subsequently measuring the guarantor's recognized liability over the term of the related guarantee. This Interpretation also incorporates, without change, the guidance in FASB Interpretation No. 34, *Disclosure of Indirect Guarantees of Indebtedness of Others*, which is being superseded. The disclosure requirements of FIN 45 were applicable for the year ended December 31, 2002. The initial recognition and initial measurement provisions of FIN 45 are applicable starting on January 1, 2003.

In July 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* ( SFAS 146 ). SFAS 146 addresses financial and accounting reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including certain costs Incurred in a Restructuring)*. The provisions of SFAS 146 are effective for exit or disposal activities initiated after December 31, 2002.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets*, an amendment of APB Opinion No. 29. SFAS No. 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets of APB Opinion No. 29, and replaces it with an exception for exchanges that do not have commercial substance. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005.

Carlos J. Macra

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Chief Executive Officer

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**Ipse 2000 SpA**

**Financial Statements**

**as of**

**December 31st 2004**

**The Financial Statements have been extracted and translated into the English language, from the Official Financial Statements approved by IPSE s Board of Directors on June 10, 2005, and schedule for General Shareholders Meeting approbation on June 28, 2005.**

**No adjustments have been reported to the figures included in the financial statements filed with the Italian Authorities.**

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**Table of Contents****Financial statements as of December 31, 2004**

	<u>31.12.2004</u>	<u>31.12.2003</u>
	<u>Unaudited under US GAAS</u>	<u>Unaudited under US GAAS</u>
<b>BALANCE SHEET - ASSETS</b>		
<hr/>		
(in euros)		
<b>A) UNPAID CALLED-UP SHARE CAPITAL</b>		
<b>B) FIXED ASSETS</b>		
<b>I- Intangible fixed assets</b>		
1) start-up and expansion costs	0	25.141
3) industrial patents and intellectual property rights	0	90.204
4) permits, licenses, trademarks and similar rights	450.430.431	450.430.431
6) intangible fixed assets in process and advances		
7) other		0
	<hr/>	<hr/>
	450.430.431	450.545.777
<b>II- Tangible fixed assets</b>		
2) plant and machinery	0	496
3) industrial and commercial equipment	0	7.528
4) other	0	273.690
5) tangible fixed assets under construction and advances		
	<hr/>	<hr/>
	0	281.714
<b>III- Fixed asset investments</b>		
5) Term bank deposits	7.935.098	10.053.369
Long-term deposits	0	0
<b>Total fixed assets (B)</b>	<b>458.365.530</b>	<b>460.880.859</b>
<b>C) CURRENT ASSETS</b>		
<b>I- Inventories</b>		
4) finished goods and goods for resale		
<b>II- Receivables</b>		
1) due from customers	0	616.589
5) due from others	83.340.544	128.021.973
	<hr/>	<hr/>
	83.340.544	128.638.562
<b>III- Short-term investments</b>		
7) Short term deposits		
<b>IV- Cash on hand and in banks</b>		
1) bank and post office deposits	563.951	1.744.644

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3) cash and notes on hand	486	3.206
	<u>564.437</u>	<u>1.747.850</u>
<b>Total current assets (C)</b>	<b>83.904.981</b>	<b>130.386.412</b>
<b>D) ACCRUED INCOME AND PREPAID EXPENSES</b>	<b>255.764.896</b>	<b>264.244.992</b>
	<u>798.035.407</u>	<u>855.512.263</u>
<b>TOTAL ASSETS</b>	<b>798.035.407</b>	<b>855.512.263</b>

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**Table of Contents****Financial statements as of December 31, 2004**

	<u>31.12.2004</u>	<u>31.12.2003</u>
	<u>Unaudited under US GAAS</u>	<u>Unaudited under US GAAS</u>
<b>BALANCE SHEET - SHAREHOLDERS EQUITY AND LIABILITIES</b>		
<b>(in euros)</b>		
<b>A) SHAREHOLDERS EQUITY</b>		
I- Share capital	150.500.000	2.150.000.000
IV- Legal reserve	359.347	359.347
VII- Other reserves	152.892.840	518.040.678
VIII- Retained earnings (accumulated deficit)	(3.099.106)	(2.415.508.615)
IX Loss for the period	(272.658.902)	(105.131.170)
<b>Total shareholders equity (A)</b>	<b>27.994.179</b>	<b>147.760.241</b>
<b>B) ALLOWANCES FOR RISKS AND CHARGES</b>	<b>46.558.784</b>	<b>2.155.000</b>
<b>C) EMPLOYEE TERMINATION INDEMNITIES</b>	<b>202.195</b>	<b>246.587</b>
<b>D) PAYABLES</b>		
3) payables to banks		0
4) due to other financial institutions (shareholder loan)	367.721.041	315.594.413
6) due to suppliers	354.526.730	370.962.552
11) taxes due	118.923	359.003
12) due to social security institutions	120.961	231.330
13) other payables		
a) due to other related parties	0	90.657
b) due to others	792.594	17.305.024
<b>Total payables (D)</b>	<b>723.280.249</b>	<b>704.542.979</b>
<b>E) ACCRUED EXPENSES AND DEFERRED INCOME</b>	<b>0</b>	<b>807.457</b>
<b>TOTAL SHAREHOLDERS EQUITY AND LIABILITIES</b>	<b>798.035.407</b>	<b>855.512.263</b>
<b>MEMORANDUM ACCOUNTS</b>		
	<u>31.12.2004</u>	<u>31.12.2003</u>
	<u>Unaudited (*)</u>	<u>Unaudited (*)</u>
<b>D) Guarantees received</b>		
1) guarantees received from banks	843.951.949	970.452.619
<b>TOTAL MEMORANDUM ACCOUNTS</b>	<b>843.951.949</b>	<b>970.452.619</b>

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Financial statements as of December 31, 2004

	2004	2003
	Unaudited under US GAAS	Unaudited under US GAAS
<b>INCOME STATEMENT</b>		
(in euros)		
<b>A) VALUE OF PRODUCTION</b>		
1) revenues from sales		0
4) capitalised costs and expenses		
5) other income and revenues	17.726	66.134
<b>Total value of production (A)</b>	<b>17.726</b>	<b>66.134</b>
<b>B) OPERATING COSTS</b>		
6) raw, ancillary and consumable materials and goods for resale	1.355	4.767
7) services	2.357.234	10.080.363
8) leases and rentals	8.858.187	22.119.774
9) personnel:		
a) wages and salaries	1.145.219	4.870.561
b) social security contributions	232.492	1.648.723
c) termination indemnities	89.208	392.945
e) other		
10) amortisation, depreciation and write-downs		
a) amortization of intangible fixed assets	70.243	1.114.817
b) amortization of tangible fixed assets	81.015	312.067
c) other write-downs of fixed assets		
d) provisions for doubtful accounts	190.564.402	27.628.637
11) changes in inventories of raw, ancillary and consumable materials and goods for resale		0
12) Provisions for risks and charges	44.682.451	2.155.000
14) other operating costs	281.571	386.341
<b>Total operating costs (B)</b>	<b>248.363.378</b>	<b>70.713.994</b>
<b>OPERATING INCOME (A-B)</b>	<b>(248.345.651)</b>	<b>(70.647.860)</b>
<b>C) FINANCIAL INCOME AND EXPENSE</b>		
16) other financial income:		
a) from long-term deposits	132.056	279.997
d) other		
2) from others	32.883	84.069
17) interest expense and other financial charges		
b) to others	(24.398.407)	(24.923.206)
<b>Total financial income (expense), net (C)</b>	<b>(24.233.468)</b>	<b>(24.559.139)</b>
<b>E) EXTRAORDINARY INCOME AND EXPENSE</b>		
20) income		



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a) other	311.316	1.452.461
21) expense		
a) other	190.320	11.376.631
b) write-downs	200.778	0
	<u>                    </u>	<u>                    </u>
<b>Total extraordinary income and expense (E)</b>	<b>(79.782)</b>	<b>(9.924.170)</b>
<b>LOSS BEFORE INCOME TAXES (A-B+-C+-D+-E)</b>	<b>(272.658.902)</b>	<b>(105.131.170)</b>
22) income taxes for the period		
	<u>                    </u>	<u>                    </u>
<b>23) LOSS FOR THE PERIOD</b>	<b>(272.658.902)</b>	<b>(105.131.170)</b>

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Financial statements as of December 31, 2004

	2004	2003
	Unaudited under US GAAS	Unaudited under US GAAS
<b>STATEMENT OF CASH FLOWS</b>		
<b>(in euros)</b>		
<b>A) CASH AND CASH EQUIVALENTS - OPENING BALANCE</b>	<b>1.747.850</b>	<b>11.635.887</b>
<b>B) CASH FLOWS FROM (FOR) OPERATING ACTIVITIES:</b>		
Loss for the period before income taxes	(272.658.902)	(105.131.170)
Current taxes		
Depreciation and amortisation of tangible and intangible fixed assets	151.258	1.426.884
Write-downs of fixed assets		
Net change in provisions for risks and charges	44.403.784	2.155.000
Net change in employee termination indemnities	(44.392)	(713.218)
<b>Total</b>	<b>(228.148.252)</b>	<b>(102.262.504)</b>
Change in net working capital:		
Change in inventories		0
Change in receivables	45.298.018	(18.343.040)
Change in payables	18.737.271	(79.189.168)
Change in accrued income and prepaid expenses	7.672.638	23.397.680
<b>TOTAL B)</b>	<b>(156.440.326)</b>	<b>(176.397.032)</b>
<b>C) CASH FLOWS FROM (FOR) INVESTING ACTIVITIES:</b>		
Disinvestment of tangible fixed assets	200.699	3.145.877
Disinvestment of intangible fixed assets	45.102	3.356.116
Fixed asset investments	2.118.270	(201.232)
<b>TOTAL C)</b>	<b>2.364.072</b>	<b>6.300.761</b>
<b>D) CASH FLOWS FROM (FOR) FINANCING ACTIVITIES:</b>		
Shareholder contributions	152.892.840	160.208.234
Change in net financial receivables		0
<b>TOTAL D)</b>	<b>152.892.840</b>	<b>160.208.234</b>
<b>E) CASH AND CASH EQUIVALENTS - CLOSING BALANCE (A+B+C+D)</b>	<b>564.437</b>	<b>1.747.850</b>

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### **Notes to the Financial Statements as of December 31, 2004**

#### **Form and Content of the Financial Statements**

The Financial Statements as of and for the year ended December 31, 2004 have been prepared in accordance with the provisions of the Italian Civil Code and consist of the Balance Sheet, the Profit and Loss Account and the following Notes.

The Notes provide the information required by article 2427 of the Italian Civil Code, in addition to other information considered necessary to give a true and fair view of the Company's financial position, cash flows and operating results, even where not required by specific provisions of the law.

The Balance Sheet and Profit and Loss Account are based on the formats established by articles 2424 and 2425 of the Italian Civil Code. However, the accounting items preceded by Arabic numbers having nil balances for both the current and prior year have been eliminated.

No exceptional circumstances arose during the year necessitating recourse to the departures permitted by article 2423, paragraph 4 of the Italian Civil Code.

All amounts reported in the Notes are expressed in thousands of euros, unless otherwise indicated.

#### **The Company as a Going Concern and Recoverability of the Book Value of Assets**

The change in the financial situation and delays in the rollout of UMTS services witnessed in 2002 and 2003 were again evident in 2004, despite the fact that certain operators have now formally launched UMTS services. The high degree of market uncertainty (and barriers to effective competition) remain largely unchanged. For this reason, the Company proceeded with implementation of its business plan in 2004, focusing its strategy on so-called *spectrum trading*, as defined by art. 14 of the Electronic Communications Code.

The value of the UMTS licence and, therefore, of Permits, licences, trademarks and similar rights was confirmed as being unchanged with respect to the value reported in the 2003 Financial Statements (in turn carried out with the assistance and on the advice of expert external advisors and based on the Business Plan prepared by the Company for such purpose).

Whilst the effective start-up of spectrum trading has been put back with respect to the Company's original plans, the essential reasons (described below) behind the strategy remain valid, and we continue to expect this activity to generate a return on the Company's investments.

The Company has based its strategy on the following overall assumptions:

introduction of the new Electronic Communications Code, which enables the transfer of UMTS frequencies; IPSE is in a position to benefit from this provision, although the frequencies may only be transferred to existing holders of UMTS licences;

compliance with nationwide coverage obligations to come into effect by June 30, 2004 will be transferred to the new operator using the frequencies; however, as noted in the Management Report on Operations with regard to this point, IPSE has appealed to the Lazio Regional Administrative Court (still pending) in relation to the effective existence of coverage obligations and, in any event, the application of the specific provisions of the Code itself (art. 33);

developments in the UMTS market, and the resulting migration of captive customers and current market operators from the GSM/GPRS to the UMTS platform, will generate demand for additional frequencies

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among operators; in this regard, it should be noted that the incumbent operators proceeded with the commercial launch of UMTS services in 2004; this launch (although delayed) may result in the progressive migration of customers to UMTS services in the near future (with progressive growth in the related demand);

the size of the Company's structure, and especially that of the workforce, will be adapted to make it compatible with the new strategy.

It should also be noted that:

as reported in the Management Report on Operations, during 2004 the Company has received expressions of interest in the purchase of frequencies from operators authorised to provide UMTS services; although the Company has not yet received permission to transfer its frequencies (not due to failure to obtain regulatory approval, but to the absence of final agreements), this fact demonstrates the effective revenue potential of the frequencies that the Company plans to transfer;

according to the figures previously estimated by the external advisors and, moreover, confirmed in the documents from at least one of the incumbent operators, the possession of an increased number of frequencies reduces the need for investment in network infrastructure; such savings may be significant and provide an undoubted basis on which to determine a potential and reasonable value for the sale of the frequencies.

Based on the above assumptions, and in the absence of any outcome to the complex legal action brought by the Company (which as reported in the Management Report on Operations, may result in additional returns compared with those estimated in the 2004 Financial Statements), it was decided that there were no valid reasons for modifying the estimates made during the previous year.

Despite the above, the following conditions continue to apply:

the related calculations and assumptions were made on the basis of the best available information and on the basis of estimates that are subject to uncertainty, and we cannot, therefore, exclude the possibility that such calculations and assumptions may be subject to review in order to reflect future developments; and

similarly, the shareholders may be called on to support the Company in the event of future losses in value relating to the recoverability of the estimated value of the UMTS licence; no events that may prejudice the Company's ability to honour its commitments are therefore foreseeable at this time.

## **Accounting Policies**

The valuation of items in the Financial Statements has been carried out in compliance with the going concern and prudence principles.

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The accounting policies adopted in the preparation of the Financial Statements comply with the provisions of article 2426 of the Italian Civil Code, and are consistent with those adopted in the prior year's Financial Statements.

All costs and revenues accrued during the year have been recorded, regardless of the date of collection or payment.

### *Intangible fixed assets*

Intangible fixed assets are stated at purchase or production cost, plus any incidental costs and costs directly chargeable to the assets.

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Should there be other than a temporary impairment in the above value of such intangible fixed assets, the relevant asset is written down accordingly.

Such assets are systematically amortised in accordance with the rates shown below, which are representative of their residual useful economic lives.

Start-up and expansion costs represent the cost of the Company's incorporation and are amortised over a period of five years. Start-up and expansion and research, development and advertising costs are recorded under assets in the Balance Sheet on the basis of the policies discussed and agreed with the Board of Statutory Auditors.

Industrial patents and intellectual property rights include the purchase cost of software licenses, which is amortised over a period of five years.

Permits, licences, trademarks and similar rights include the costs incurred in order to obtain a public UMTS licence for the operation of third-generation mobile telecommunications.

***Tangible fixed assets***

Tangible fixed assets are stated at purchase or production cost, plus any incidental costs and costs directly chargeable to the assets.

The value of such assets is systematically depreciated applying the economic and technical rates of depreciation shown below, which are held to reflect the residual useful lives of the assets.

Should there be other than a temporary impairment in value, such tangible fixed assets are written down accordingly. The appropriate value of the relevant asset is reinstated in future years if the reasons for any write-downs cease to apply.

Routine maintenance costs are expensed as incurred.

***Fixed asset investments***

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Fixed asset investments consist of a current account deposit pledged to Banca di Roma as a back-to-back guarantee for the surety issued by the bank to Rete Ferroviaria Italiana SpA (RFI), in addition to other term deposits relating to the properties leased by the Company.

### *Debtors and creditors*

Debtors are recorded at their estimated realisable value.

Creditors are recorded at their nominal value.

### *Accruals and deferrals*

Such items regard revenues and expenses referring to two or more accounting periods recorded on an accruals basis.

### *Provision for employee termination indemnities*

The provision for employee termination indemnities represents the entire accrued liability to employees in compliance with established legislation and labour contracts.



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*Revenues and costs*

Revenues and costs are recorded on an accruals basis.

*Memorandum accounts*

The accounting policies and content of the memorandum accounts comply with Italian Accounting Profession Principle No. 22. Such items regard guarantees, risks and commitments to which the Company is subject.

**Notes to the Balance Sheet    Assets**

**Fixed Assets**

As established by art. 2427 of the Italian Civil Code, movements in intangible and tangible fixed assets are reported in schedules that specify, for each item, the historical cost, prior year provisions for amortisation and depreciation, movements during the year and the closing balance.

*Intangible fixed assets*

The net value of intangible fixed assets as of December 31, 2004 amounts to 450,430 thousand euros, representing a decrease of 116 thousand euros compared with the previous year, as shown in the following schedule:

( 000)

	<u>Start-up and expansion costs</u>	<u>Industrial patents and intellectual property rights</u>	<u>Permits, licences, trademarks and similar rights</u>	<u>Other</u>	<u>Total</u>
A) Opening balance					
1. Historical cost	126	565	450.430	6.228	457.349

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2.	Allowances for amortisation	(101)	(135)	(3.092)	(3.463)
3.	Write-downs and extraord. items		(340)	(3.136)	(3.339)
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	<b>Balances as of Dec 31, 2003</b>	<b>25</b>	<b>90</b>	<b>450.430</b>	<b>0</b>
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
B) Movements during the year					
3.	Purchases				
4.	Disposals				
8.	Decrease in allowances for amort.				
9.	Amortisation	(25)	(45)		(70)
11.	Write-downs		(45)		(45)
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	<b>Total</b>	<b>(25)</b>	<b>(90)</b>		<b>(115)</b>
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
C) Closing balance (A+B)					
13.	Historical cost	126	565	450.430	450.781
14.	Allowances for amortisation	(126)	(180)		(306)
15.	Write-downs and extraord. items		(385)		(385)
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	<b>Balances as of Dec 31, 2004</b>	<b>0</b>	<b>0</b>	<b>450.430</b>	<b>0</b>
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

*Start-up and expansion costs*

Start-up and expansion costs represent the costs incurred in 2000 relating to the Company's incorporation and providing long-term benefits. Such costs are amortised over a period of 5 years.

*Industrial patents and intellectual property rights*

Industrial patents and intellectual property rights refer solely to software applications purchased outright and on the basis of long-term licences, and in service as of December 31, 2004. Such costs, which are amortised over a period of 5 years, have been fully written down.

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*Permits, licences, trademarks and similar rights*

As of December 31, 2004, this item is unchanged at the 450,430 thousand euros reported in the prior year Financial Statements.

With specific reference to the value assigned to the blocks of frequencies still owned by IPSE, the considerations previously made by the external advisors acting on the Company's behalf in 2003 (May) and 2004 (June) remain valid. Such considerations regarded the potential returns deriving solely from the sale of the frequencies on the market, in accordance with art. 14 of the Electronic Communications Code.

The assessment carried out by the external advisors acting on the Company's behalf was based on the fact that:

radioelectric frequencies are a limited resource and as such, based on the provisions of art. 14 of the Electronic Communications Code and prior to this of EU directives, are (or at least are likely to become) a marketable commodity (or, in other words, an asset for which there is growing demand) as the UMTS market progressively grows in size and there is a greater need for operators to develop their network infrastructure;

the greater availability of frequencies, from this point of view, and in relation to available traffic volumes, enables operators to achieve savings on investment in new network infrastructure;

given that the frequencies do not have, in the strict sense of the term, a market value (also in view of the innovative nature of spectrum trading), a reasonable valuation must be linked to the estimated savings to be obtained by incumbent operators in relation to investment in network infrastructure, and thus to a reasonable estimate of the price that, in order to achieve such savings, operators would be willing to pay (a price that must obviously enable the operator to benefit from a large part of the above expected savings); moreover, such an estimate also depends on the type of agreement reached, whether based on a fixed price or a form of lease arrangement (or similar);

the market penetration of UMTS services is inevitably slowed by the continuing strength of GSM/GPRS and should be considered as progressive over the medium term, based on the fact that, again in accordance with reasonable estimates of the foreseeable rollout of the network and services by incumbent operators (from GPRS to UMTS), the need to improve and extend UMTS network infrastructure, and thus the need to achieve the savings on investment made possible by the availability of additional frequencies, becomes a reality in over the medium term (by 2008);

above all, the estimated potential increase in UMTS customers (and the resulting need for network expansion) should lead to a significant rise in traffic within three to four years of the rollout of services, which largely took place during 2004 (at least in the case of Vodafone, Wind and TIM);

prior to 2008, it is therefore reasonable to expect that investment in network infrastructure by incumbent operators (who are inevitably most interested in having access to additional frequencies) will take place regardless of the availability of such additional resources.



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Based on these assumptions, the values assignable in 2004 to the frequencies available to IPSE (i.e. two blocks of frequencies of 2x5MHz) are confirmed (and even increased with respect to the values reported in 2003) as falling within the following ranges:

	Estimated value according to DCF method		
	WACC 6.8%		
	Value on transfer of frequencies to third parties		
	20%	30%	40%
<i>market scenario</i>			
<i>most favourable</i>	554 million	844 million	1,133 million
<i>most conservative</i>	369 million	565 million	762 million

During the transition period, and whilst awaiting the large-scale rollout of UMTS, the Company has achieved the targeted reductions in operating costs. At the same time, the Company has also succeeded in terminating its contract with Ferrovie dello Stato (now RFI SpA).

The above aspects are in addition to the above-mentioned events that took place in 2004: the interest expressed in acquiring the spectrum owned by IPSE by a greater number of parties than the number of such frequencies, the valuations carried out by third parties, and (above all) the absence of any outcome to the complex legal action brought by the Company against the Italian government.

This latter aspect is fundamental, also with regard to regulatory questions regarding coverage obligations (an issue dealt with below in relation to the content of the appeals brought by IPSE).

The above considerations have not led us to determine values as of December 31, 2004 that are reasonably different from those reported in the 2003 Financial Statements (and which, in any event, already reflected a significant write-down of the value of the frequencies compared with their original cost).

With regard to the same item, the following aspects should be noted.

Taking into account current unfavourable market prospects, and after careful analysis backed up by expert legal opinion, during the previous year the Company decided to exercise its right to return the additional spectrum (2x5MHz) and, at the same time, to be released from its obligation to pay the remaining instalments of the cost of such frequencies.

IPSE's right to relinquish the so-called additional spectrum is based on the following principal reasons:

from a legal standpoint, allocation of additional spectrum constitutes a supplementary provision issued in the sole interest of the beneficiary, and for which the beneficiary, via a recognised principle, has the right of relinquishment.

in the light of changed market conditions and prospects, the financial commitments relating to additional spectrum produce an effect opposite to that originally intended, thereby transforming an asymmetrical advantage into a competitive disadvantage for IPSE and as such constituting an unjustified and unsustainable burden.

the spectrum and related maintenance therefore did not meet the expectations of the Ministry of Communications and the Company at the time of allocation.

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the unavailability and resulting postponement of the development and production of new network technologies, as well as of the production of reliable handsets capable of exploiting the full potential of UMTS services, contributed to rendering IPSE's payment for additional frequencies untenable as they put back the date of widespread distribution and effective use of the new services.

the distorting transformation of the market to IPSE's competitive disadvantage was compounded by Italy's failure to comply with EU regulations regarding the introduction of UMTS, as well as the recent allocation of additional GSM frequencies to second-generation operators with Resolution 286/02/CONS. This allocation has enabled aggressive expansion of GPRS services and further widened the gap between second-generation and new-entry UMTS operators, thus contributing to delays in the development of the UMTS market and also diminishing the strategic importance of additional UMTS spectrum.

All the above reasons supporting IPSE's position (and which contrast with the Ministry of Communications' opposition) formed the basis of IPSE's appeal before the Lazio Regional Administrative Court (previously referred to in the management Report on Operations). The outcome of the appeal in first instance will presumably be made known during 2005.

The reduction of debt relating to the amounts due for the additional spectrum, totalling 826,331 thousand euros, thus derives from IPSE's exercise of its right to relinquish the said spectrum.

As in the 2003 Financial Statements, no provisions for risks were made in compliance with Italian Accounting Profession Principle No. 19, which states that such provisions for potential liabilities should be made if an unfavourable event is deemed likely and not just possible.

In this specific case, according to the legal opinion sought by the Company and the further legal actions brought by the Company (and still pending), the unfavourable event, if necessary as a result of litigation, is represented by the obligation to effect payment of the charges for the additional spectrum relinquished by the Company, is considered to be possible rather than likely.

Moreover:

the Company's shareholders have completed and maintained the term deposit held with MCC SpA (the bank that has issued the surety in favour of the Ministry of the Economy and Finance - Treasury Department), representing all the funds that will be necessary should the Company be required to pay for the above additional spectrum;

IPSE has the right deemed to be enduring, full and effective to request payment of the said amount relating to frequency spectrum by its shareholders, if such sum turns out to be due (in which case the unfavourable event considered as possible would become a concrete event that would compel IPSE to effect payment); this would entail the payment (either directly or indirectly in the absence of withdrawal) of capital contributions to the Company, capable of covering any losses deriving from the above negative outcome of the legal action.

Therefore, the risk that the Company's financial position or results of operations might be detrimentally affected, that is that a capital deficit may occur, resulting from negative outcome of the legal action, should be considered as remote.

Likewise, the Company may request its shareholders to intervene in the form of capital contributions or the Company's recapitalisation if necessary should the realisable value of the frequencies, once spectrum trading effectively starts, be lower than the estimates held to be valid on the basis of the overall assumptions made and the information available.

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**Table of Contents***Tangible fixed assets*

The net value of tangible fixed assets amounts to zero, following the disposal of a number of assets, depreciation for the year and the write-down of certain assets, as shown in the following schedule:

	<b>Plant and machinery</b>	<b>Industrial equipment</b>	<b>Other assets</b>	<b>Total</b>
( 000)				
<b>A) Opening balance</b>				
1. Historical cost	1	131	580	711
2. Allowances for depreciation	(0)	(124)	(306)	(430)
<b>Balances as of Dec 31, 2003</b>	<b>0</b>	<b>8</b>	<b>274</b>	<b>282</b>
<b>B) Movements during the year</b>				
3. Purchases	2			2
4. Disposals		(44)	(143)	(187)
5. Write-downs	(2)	(1)	(153)	(156)
<b>6. Extraordinary items</b>				
7. Allowances for depreciation	(0)	38	103	141
8. Depreciation	(0)	(1)	(80)	(81)
<b>Total</b>	<b>(0)</b>	<b>(8)</b>	<b>(274)</b>	<b>(282)</b>
<b>C) Closing balance (A+B)</b>				
7. Historical cost	2	88	436	526
9. Allowances for depreciation	(0)	(87)	(282)	(370)
10. Write-downs and extraord. items	(2)	(1)	(153)	(156)
<b>Balances as of Dec 31, 2004</b>				

As of December 31, 2004, tangible fixed assets are not subject to mortgages, liens or other collateral guarantees that might limit their availability to the Company.

*Plant and machinery*

This item underwent the following movements during the year:

( 000)

	<u>Net value</u> <u>31.12.03</u>	<u>Increases</u>	<u>Write-downs</u>	<u>Decrease</u> <u>in allow.</u> <u>for deprec.</u>	<u>Deprec.</u>	<u>Net value</u> <u>31.12.04</u>
Exchanges and electronic equipment						
General equipment	0	2	(2)			0
<b>Total</b>	<b>0</b>	<b>2</b>	<b>(2)</b>			<b>0</b>

*Industrial and commercial equipment*

This item underwent the following movements during the year:

	<u>Net value</u> <u>31.12.03</u>	<u>Disposals</u>	<u>Write-downs</u>	<u>Extraord.</u> <u>items</u>	<u>Decrease</u> <u>in allow.</u> <u>for deprec.</u>	<u>Deprec.</u>	<u>Net value</u> <u>31.12.04</u>
Equipment	8	(44)	(1)		38	(1)	0
<b>Total</b>	<b>8</b>	<b>(44)</b>	<b>(1)</b>		<b>38</b>	<b>(1)</b>	<b>0</b>

**Table of Contents***Other assets*

The item underwent the following movements during the year:

( 000)

	Net value 31.12.03	Disposals	Write-downs	Extraord. items	Decrease in allow. for deprec.	Deprec.	Net value 31.12.04
Furniture	80	(75)	(48)		53	(10)	
Office machines and computers	80	(61)	(37)		43	-25	
Peripheral and centralised hardware	109	(5)	(66)		5	-43	
Other electronic equipment	5	(3)	(2)		2	-2	
<b>Total</b>	<b>274</b>	<b>(144)</b>	<b>(153)</b>		<b>103</b>	<b>(80)</b>	

The items Office machines and computers , Peripheral and centralised hardware and Other electronic equipment include the cost of purchasing the hardware used in the Company s information systems. Such hardware primarily regards mainframe computers, servers and office automation equipment. Such assets have been fully written down.

The following schedule shows a summary of the rates of depreciation applied by the Company.

<b>Tangible fixed assets</b>	<b>Ordinary rates of Depreciation</b>
<b>Plant and machinery</b>	
Exchanges and electronic equipment	18%
Access, transmission and technical equipment	15%
Internal and general equipment	12%
<b>Industrial and commercial equipment</b>	
Equipment	25%
<b>Other assets</b>	
Office machines and computers	20%
Furniture	12%
Assets with a unit value of less than 516,456	100%

*Fixed asset investments*

Fixed asset investments of 7,935 thousand euros include a current account deposit, amounting to 7,838 thousand euros, pledged to Banca di Roma, as a back-to-back guarantee for the surety issued by the bank to Rete Ferroviaria Italiana SpA (RFI). Moreover, the remaining balance is represented by term deposits with the Banca di Roma.

**Current Assets**

***Debtors***

None of the accounts recorded in the Financial Statements are formally due after 12 months. The following notes provide information regarding individual items.

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**Table of Contents***Trade debtors*

As of December 31, 2004, no trade debtors are reported as, given the age of debtors (after 36 months) and the fact that they are of a doubtful nature and subject to ongoing disputes, such amounts were fully written down, as shown below:

	( 000)	
<b>Trade debtors</b>	<b>31.12.04</b>	<b>31.12.03</b>
Trade debtors	253	240
Amounts due from Factorit	398	470
Provisions for doubtful accounts	(253)	
Provisions for amounts due from Factorit	(398)	(94)
<b>Total trade debtors</b>		<b>617</b>

*Other*

This item, totalling 83,341 thousand euros, primarily regards accrued VAT credits, amounting to 83,146 thousand euros at the balance sheet date, as shown below:

	( 000)	
<b>Other debtors</b>	<b>31.12.04</b>	<b>31.12.03</b>
<i>Due from tax authorities</i>		
VAT	83.146	83.390
Withholding tax on interest earned	135	98
<b>Total due from tax authorities</b>	<b>83.281</b>	<b>83.489</b>
Due from Ministry for additional instalment paid	104.324	
Due from Ministry for additional interest paid	110.826	90.202
Minority shareholders	67.195	46.123
Amounts due from shareholders for Banca di Roma fees		481
Personnel	36	34
Other	25	31
Provisions for accounts due from minority shareholders	(67.195)	(2.135)
Provisions for accounts due from the Ministry and others	(215.151)	(90.202)
<b>Total other debtors</b>	<b>83.341</b>	<b>128.022</b>

The amount due from the tax authorities in the form of VAT credits regards purchases made in previous year.

The amount due from the Ministry of the Economy and Finance – Treasury Department regards the additional instalment and interest paid during previous years, totalling 124,949 thousand euros, and the instalment falling due on November 30, 2004. This amount is posted as previously indicated under the item – Permits, licences, trademarks and other rights – with regard to reduction of the debt relating to the return of additional frequency spectrum.

The shareholders held it necessary to disburse the additional interest paid on November 30, 2004, totalling 20,625 thousand euros, solely in order to protect the Company’s rights, whether asserted or to be asserted, and solely to avoid the shareholders having to accelerate payment of even larger sums to be subsequently recovered from the state.

Despite taking into account IPSE’s absolute right to recover such sum, the amount due has been prudently written down in view of the legal action in progress and the underlying nature of the costs already incurred by the Company.

The amount due from minority shareholders primarily derives from non-strategic shareholders’ failure to pay their share of the capital contribution requested by IPSE and approved by the General Meetings of November 22, 2002 and January 20, 2004, relating to payment of the instalment to the Ministry of the Economy and Finance – Treasury Department falling due on November 30, 2002, 2003 and 2004.

As previously reported in the management Report on Operations, the Company has withdrawn from legal actions undertaken in order to recover the above amounts from minority shareholders, who have taken part in the

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settlement agreed with the Company and the majority shareholders. Partly in view of the above, the Company has fully written down the amounts due from such minority shareholders, including amounts due from two shareholders (Milano Commerciale ed Immobiliare and Rest Non Verba Holding) who, although they are not party to the above settlement, are unable to raise the sums due.

***Cash at Bank and in Hand***

As of December 31, 2004 the balance of this item regards bank current accounts, as shown below:

	( 000)	
<b>Cash at bank and in hand</b>	<b>31.12.04</b>	<b>31.12.03</b>
Bank and post office deposits	564	1,745
Cash and notes in hand		3
<b>Total cash at bank and in hand</b>	<b>564</b>	<b>1,748</b>

**Accrued Income and Prepaid Expenses**

Accrued income and prepaid expenses, which consist prepaid expenses relating to commercial agreements, primarily regards advance payment of amounts due in return for use of sites owned by Ferrovie dello Stato. Such items break down as follows:

	( 000)	
<b>Accrued income and prepaid expenses</b>	<b>31.12.04</b>	<b>31:12:03</b>
Accrued income		
Prepaid expense on RFI Contract	255.726	264.194
Prepaid fees for MCC surety		
Prepaid fees for Capitalia surety		
Other prepaid expenses	39	51
<b>Total accrued income and prepaid expenses</b>	<b>255.765</b>	<b>264.245</b>

Notes to the Balance Sheet    Liabilities and Shareholders    Equity

*Shareholders Equity**Share capital*

At the balance sheet date the share capital amounts to 150,500 thousand euros, representing a decrease of 1,999,500 thousand euros compared with the previous year. This is due to the heavy losses incurred in past years.

In compliance with the requirements of art. 2427, section 1, point 18 of the Italian Civil Code, the Company has not issued dividend-bearing shares or convertible bonds.

						( 000)
<u>Movements in shareholders equity</u>	<u>Share capital</u>	<u>Legal reserve</u>	<u>Other reserves</u>	<u>Loss carried forward</u>	<u>Net loss for the year</u>	<u>Total shareholders equity</u>
<b>Balances as of Dec 31, 2003</b>	<b>2.150.000</b>	<b>359</b>	<b>518.041</b>	<b>(2.415.509)</b>	<b>(105.131)</b>	<b>147.760</b>
Coverage of losses (Gen. Meeting July 20, 2004)	(1.999.500)					(1.999.500)
Use of other reserves			(518.041)			(532.176)
Coverage of losses (Gen. Meeting July 20, 2004)				2.412.410		2.412.410
Coverage of losses (Gen. Meeting July 20, 2004)					105.131	105.131
Capital contributions			152.893			152.893
Net loss for the year					(272.659)	(272.659)
<b>Balances as of Dec 31, 2004</b>	<b>150.500</b>	<b>359</b>	<b>152.893</b>	<b>(3.099)</b>	<b>(272.659)</b>	<b>27.994</b>



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*Capital contributions (other reserves)*

At the balance sheet date, other reserves amount to 152,893 thousand euros, representing a decrease of 365,148 thousand euros compared with the previous year. In 2004, this item was used to cover the losses reported for 2003, in accordance with the resolution passed by the General Meeting of July 20, 2004.

*Loss for the year*

The loss for the year amounts to 272,659 thousand euros.

*Provisions for Risks*

Such provisions amount to 46,559 thousand euros at the balance sheet date, representing an increase of 44,404 thousand euros compared with the previous year.

Such provisions include 5,833 thousand euros set aside to cover potential liabilities arising as a result of the Company's restructuring, relating to both potential legal actions brought by former employees of the Company made redundant and the interruption of contracts previously entered into with a number of major suppliers.

The remaining provisions of 40,726 thousand euros regard provisions made in 2004 in relation to the settlement agreed with RFI on May 9, 2005. This sum represents the estimated loss to be incurred as a result of the termination of the contract.

Above all, as part of the above settlement, the parties have agreed the following conditions:

- a) RFI has acknowledged termination of the lease agreement notified by the Company in a letter dated November 27, 2003 and has also acknowledged that IPSE has not selected and has, therefore, not made use of any site;
- b) The parties (RFI and IPSE), on the other hand, have agreed (and jointly determined) that IPSE shall pay RFI the sum of 120 million euros (VAT inclusive), part of which has already been paid by IPSE:

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- i. in return for the concession of an exclusive right to use FS infrastructure (by RFI in favour of IPSE) over a period of 4 years, during which RFI was unable to make such infrastructure available to other mobile operators, and
- ii. in return for the concession of a right, with a duration of a further 3 years, during which time IPSE was to be given preference over a third party wishing to use FS infrastructure to install equipment to be used in the supply of mobile telecommunications services.

The remaining amount due to RFI from IPSE, totalling 93,360,000.00 euros (VAT inclusive), and representing the difference between the above 120 million euros due and the VAT inclusive sum already paid by IPSE, amounting to 26,640,000.00 euros, has already been paid in full to RFI from the financial resources made available by the Company's majority shareholders. Payment resulted in the release of the guarantee previously issued by Banca di Roma SpA in the interests of IPSE (back-to-back guarantee issued by the Company's shareholders), and thus resolved the outstanding dispute between IPSE and RFI, including the effects of the settlement. In May 2005 RFI SpA also issued a credit note to IPSE worth 215,000 thousand euros plus VAT of 43,000 thousand euros, amounting to a total of 258,000 thousand euros.

The loss calculated, and represented by the above provisions, is based on the difference between the prepayment of rentals due to RFI, amounting to 255,726 thousand euros, and the credit note issued by RFI SpA.

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Movements in the provisions during the year are shown below:

	( 000)
<b><u>Provisions for risks</u></b>	
Balance as of Dec 31, 2003	2.155
Advances and releases	(929)
Other provisions transferred	650
Provisions for the year	44.683
<b>Balance as of Dec 31, 2004</b>	<b>46.559</b>

***Provision for Employee Termination Indemnities***

Movements in the provision for employee termination indemnities during 2004 are shown in the following schedule:

	( 000)
<b><u>Provisions for employee severance indemnities</u></b>	
Balance as of December 31, 2003	247
Advances and releases	(134)
Provisions for the period	89
<b>Balance as of Dec 31, 2004</b>	<b>202</b>

***Creditors***

At the balance sheet date this item amounts to 723,280 thousand euros.

***Other lenders***

At the balance sheet date this item totals 367,721 thousand euros and primarily regards loans granted by the majority shareholders.

( 000)

<b>Other lenders</b>	<b>31.12.04</b>	<b>31:12:03</b>
Banca di Roma	4.413	4.108
Capitalia	13.068	8.680
Telefonica Moviles Espana S.A.	34.246	30.490
Solivella Investments	278.029	247.552
Edison	7.875	5.037
Sonera	11.262	7.558
Accea	6.266	4.016
Fiat partecipazioni	6.266	4.016
Telefonica Data Corp.	6.296	4.138
<b>Total other lenders</b>	<b>367.721</b>	<b>315.594</b>

*Trade creditors*

This item totals 354,527 thousand euros and primarily regards the amount payable to Ferrovie dello Stato.

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	( 000)	
<b>Trade creditors</b>	<b>31.12.04</b>	<b>31.12.03</b>
<b>RFI SpA</b>	<b>351.360</b>	<b>367.200</b>
Other Italian suppliers	1.308	2.121
Overseas suppliers	248	137
Bills to be received	1.611	1.636
Credit notes to be received		(132)
<b>Total trade creditors</b>	<b>354.527</b>	<b>370.963</b>

As mentioned above, the Company has entered into a contract with RFI (latterly terminated by letter dated November 27, 2003), with a value of 315 million euros, plus VAT. Such amount is to be paid in 16 annual instalments, without interest due, on December 31 of each year.

The instalment falling due as December 31, 2004, totalling 15,840 thousand euros, was paid during February of the following year (solely with a view to provoking enforcement of the guarantees issued).

As mentioned above, the Company has negotiated its withdrawal from the contract and its termination, resulting in an agreement signed with RFI SpA and more fully described above.

The amount referring to bills to be received regards trade creditors for services and goods supplied by the end of the year and not yet billed.

*Taxes due*

Taxes due, amounting to 119 thousand euros, primarily relate to withholding tax (IRPEF) deducted from the wages and salaries of employees and freelance professionals, and subsequently paid to the tax authorities on January 16, 2005.

*Social security institutions*

At the balance sheet date this item amounts to 121 thousand euros and breaks down as follows:

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( 000)

Social security institutions	31.12.04	31:12:03
INPS	29	69
Contributions on deferred remuneration	84	138
INAIL	1	17
INPDAI	1	1
Other social security institutions	6	6
<b>Total social security institutions</b>	<b>121</b>	<b>231</b>

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**Table of Contents***Other creditors*

This item amounts to 792,594 thousand euros. Movements during the year are shown in the following schedule:

	( 000)	
<b>Other creditors</b>	<b>31.12.04</b>	<b>31:12:03</b>
<i>Related parties</i>		
Other amounts due to related parties		91
<i>Total related parties</i>		<i>91</i>
<i>Other</i>		
Ministry of the Economy		16.010
Deferred remuneration due to personnel	265	893
Shareholders		
Directors and Statutory Auditors	419	383
Other	109	20
<i>Total other</i>	<i>793</i>	<i>17.305</i>
<b>Total other creditors</b>	<b>793</b>	<b>17.396</b>

*Accrued Expenses and Deferred Income*

This item shows a nil balance as of December 31, 2004.

**Memorandum Accounts**

At the balance sheet date the Memorandum accounts refer to bank guarantees and amount to 843,952 thousand euros. This total represents the balance of the following sureties:

a surety of 746,873 thousand euros issued by MCC in favour of the Ministry of the Economy and Finance Treasury Department guaranteeing the commitments, described in paragraph 9.1, letter f) of the auction regulations, given by the licensee following a request for the deferral of payment to the Ministry, in accordance with point 5 a) of the Call for Bids. The value of the surety is based on the residual principal due before the Company exercised its right to relinquish additional spectrum. As notified by the Ministry of Communications, the surety is recorded at the value of 722,007 thousand euros, plus three six-monthly instalments of interest totalling 24,866 thousand euros;

a surety of 97,000 thousand euros issued by Capitalia in favour of RFI as guarantee for the payments due under the 16-year contract between IPSE and RFI (formerly Ferrovie dello Stato), relating to the concession of the right of usufruct and possession regarding a

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portion of the real estate assets of RFI in order to install telecommunications equipment.

the remaining amount of 79 thousand euros regards sureties issued primarily in relation to property leases.

( 000)

<b>Memorandum accounts</b>	<b>31.12.04</b>	<b>31:12:03</b>
Mediocredito surety	746.873	873.360
Capitalia surety (RFI)	97.000	97.000
Other sureties	79	92
<b>Total guarantees issued</b>	<b>843.952</b>	<b>970.452</b>

**Notes to the Profit and Loss Account**

*Turnover*

*Revenues from sales and services*

No revenues generated by the Company's principal activity were reported during the year.



**Table of Contents***Capitalised costs and expenses*

No costs and expenses were capitalised during the year.

*Other income*

Other income, totalling 18 thousand euros, primarily regards lease rentals recharged to employees in return for use of company cars.

***Operating Costs****Raw, ancillary and consumable materials and goods for resale*

The cost of raw materials decreased further during the year.

*Services*

Service costs amounted to 2,357 thousand euros, falling as a result of the Company's inactivity.

	( 000)	
<b>Cost of services</b>	<b>2004</b>	<b>2003</b>
Consultants' fees	871	1648
Guarantee costs	1.027	6.597
Advertising	5	
Insurance	10	20
Travel Expenses	48	74
Utilities	27	312
Removals and transport	0	33
Maintenance	0	195
Cleaning and Security	31	288
Agents' fees		
Meal services	39	268
Telephone expenses	89	166

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Personnel training costs	1	3
Other personnel costs	3	7
Directors and Statutory Auditors fees	164	249
Entertainment	4	4
Auditors fees	30	83
Other	8	133
<b>Total</b>	<b>2.357</b>	<b>10.080</b>

*Leases and rentals*

This item, totalling 8,858 thousand euros, declined further compared with the previous year, mainly due to termination of the contract with RFI.

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	( 000)	
<b>Leases and rentals</b>	<b>2004</b>	<b>2003</b>
	<u>          </u>	<u>          </u>
RFI Contract	8.468	20.323
Property leases	118	1.362
Line rental	27	8
Car rental	154	274
Appartment rental	89	96
Other rentals	2	58
	<u>          </u>	<u>          </u>
<b>Total</b>	<b>8.858</b>	<b>22.120</b>
	<u>          </u>	<u>          </u>

*Personnel costs*

Personnel costs amounted to 1,467 thousand euros.

	( 000)	
<b>Personnel costs</b>	<b>2004</b>	<b>2003</b>
	<u>          </u>	<u>          </u>
Wages and bonuses	1.146	4.871
Contributions	232	1.649
Termination indemnities	89	393
	<u>          </u>	<u>          </u>
<b>Total</b>	<b>1.467</b>	<b>6.912</b>
	<u>          </u>	<u>          </u>

The following schedule summarises the number of employees at year end:

<b>Employees of Ipse 2000</b>	
	<u>          </u>
Directors	3
Managers	—
Administrative staff	13
	<u>          </u>
<b>Total employees</b>	<b>16</b>
	<u>          </u>

*Amortisation, depreciation and write-downs*

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The technical and economic amortisation and depreciation of tangible and intangible fixed assets continued during the year.

The following schedule provides a breakdown by category of asset.

	( 000)
<b>B.I. Intangible fixed assets</b>	
1. start-up and expansion costs	(25)
2. research, development and advertising costs	
3. intellectual property rights	(45)
4. other	
	<hr/>
<b>Total intangible fixed assets</b>	<b>(70)</b>
	<hr/>
<b>B.II. Tangible fixed assets</b>	
2. plant and machinery	
3. industrial and commercial equipment	(1)
4. other	(80)
	<hr/>
<b>Total tangible fixed assets</b>	<b>(81)</b>
	<hr/>
<b>Total amortisation and depreciation</b>	<b>(151)</b>
	<hr/>

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Write-downs of 190,564 thousand euros were also charged, primarily in relation to the additional instalment and interest paid to the Ministry of Communications, amounting to 124,949 thousand euros, and the write-down of amounts due from minority shareholders, totalling 65,059 thousand euros.

*Provisions for risks*

Provisions for risks amounted to 44,682 thousand euros and include 3,957 thousand euros to cover the potential liabilities arising as a result of legal actions brought by employees, and 40,726 thousand euros to cover the loss deriving from termination of the contract with RFI, which came into force prior to December 31, 2004.

	( 000)	
<b>Provisions for risks</b>	<b>2004</b>	<b>2003</b>
Provisions for labour disputes	3.957	2.155
Provisions for RFI contract	40.726	
<b>Total provisions for risks</b>	<b>44.682</b>	<b>2.155</b>

*Other operating costs*

This item amounted to 282 thousand euros and a breakdown is shown in the following schedule:

	( 000)	
<b>Other operating costs</b>	<b>2004</b>	<b>2003</b>
Contributions	184	175
Association fees	19	89
Magazines	1	6
Other operating costs	2	117
Other taxes	76	
<b>Total</b>	<b>282</b>	<b>386</b>

*Financial Income and Expense*

Financial income and expense is summarised below:

	( 000)	
<b>Financial income and expense</b>	<b>2004</b>	<b>2003</b>
Interest on term deposit	132	276
Interest on short-term deposit		1
Interest on ordinary current account	33	84
Other financial income		3
<b>Total financial income</b>	<b>165</b>	<b>364</b>
Interest expense	55	30
Interest expense due to Ministry	366	3.875
Interest expense on shareholder loan	3.122	21.000
Other financial expense	2	14
Interest paid to the Group	20.853	
Foreign currency losses		4
<b>Total financial expense</b>	<b>24.398</b>	<b>24.923</b>
<b>Total financial income and expense</b>	<b>(24.233)</b>	<b>(24.559)</b>

Financial income for the year amounted to 165 thousand euros and regards accrued interest on a current account deposit pledged to Banca di Roma as a back-to-back guarantee for the surety issued by the bank to RFI, and accrued interest of 33 thousand euros on bank current accounts.



Besides the legal proceedings regarding the additional spectrum, application of the Electronic Communications Code, new allocations of GSM frequencies, coverage obligations, and labour disputes (all described in the management Report on Operations), as of December 31, 2004 the Company was not involved in any other significant legal proceedings as either plaintiff or defendant.

*Preparation of the Security Planning Document*

Article 19 of Annex B (Technical Rules regarding minimum security measures) to Legislative Decree 196 of June 30, 2003, the Data Protection Act, requires that the data owner prepare a security planning document by March 31 of each year. Such document should contain information regarding:

a list of the uses made of personal data by the organisation;

the distribution of roles and responsibilities within the unit with responsibility for processing the data;

the outcome of analyses of the risks related to the data;

a description of the measures adopted to ensure the protection and availability of the data, and to protect the areas and locations in which the data is stored and accessed;

a description of the criteria and the methods used in recovering data following their destruction or damage;



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a summary of the training to be given to staff responsible for processing the data;

a description of criteria to be adopted in order to ensure the adoption of minimum security measures in the event of personal data acquired by the Company, in compliance with the Code, being made available outside the owner's organisation;

the identification of the criteria adopted in order to codify or separate details of a person's health and sexuality from the other data regarding the person.

Article 26 of the Technical Rules requires that the preparation or updating of the Security Planning Document must be referred to in the report accompanying the financial statements, if required.

The Security Planning Document was prepared by internal staff, in collaboration with specialist consultants certified as lead auditor BS7799 by the British Standards Institution.

*Remuneration of Directors and Statutory Auditors*

The Ordinary General Meeting of June 25, 2002 resolved to elect a new Board of Directors. Total remuneration for members of the new Board was held unchanged at 75,000 euros per annum.

The Board of Directors' meeting of October 28, 2002 established the remuneration of the new Chairman of the Board, Mr. Vittorio Ripa di Meana, at 60,000 euros per annum, to be paid from the date of the General Meeting by which he was elected (June 25, 2002).

The remuneration due to members of the Board of Statutory Auditors for 2004 includes 22,500 euros per annum for the Chairman and 15,000 euros for each serving Auditor, as resolved by the Ordinary and Special General Meetings of June 30, 2004, representing a total of 67,500 euros.

Such expense is posted to operating costs.

*General Aspects*

Information regarding the Company's business purpose, subsequent material events and related party transactions is provided in the Management Report on Operations.

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With reference to the provisions of article 2497 and following articles of the Italian Civil Code, we declare that the Company is not subject to the management and coordination of another company or entity.

Finally, it should be noted that the activities provided for by art. 2497-ter of the Italian Civil Code were carried out during the year.

For the Board of Directors  
The Chairman  
Vittorio Ripa di Meana

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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

Name: Antonio Viana-Baptista

Title: Chairman and Chief Executive Officer

Date: June 23, 2005