

TELEFONICA MOBILE INC

Form 20-F

April 12, 2006

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

SECURITIES AND EXCHANGE COMMISSION

FORM 20-F

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

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

TELEFÓNICA MÓVILES, S.A.

(Exact name of registrant as specified in its charter)

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)

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

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

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

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

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

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

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

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

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

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Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Item 17

Item 18

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

Yes

No

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PRESENTATION OF FINANCIAL INFORMATION

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

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

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

FORWARD-LOOKING STATEMENTS

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

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

Item 3.D Risk Factors ,

Item 4. Information on the Company ,

Item 5. Operating and Financial Review and Prospects , and

Item 11. Quantitative and Qualitative Disclosures About Market Risk

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

CERTAIN TERMS AND CONVENTIONS

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

PART I

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

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

Summary Selected Financial Data

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

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

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

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

Proposed Merger with Telefónica, S.A.

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

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

Exchange Rate Information

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

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

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

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

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

Source: Federal Reserve Bank of New York.

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

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

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

Source: Federal Reserve Bank of New York.

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

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

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

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

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D. RISK FACTORS

Risks Related to Our Business

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

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

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

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

provide increased handset subsidies;

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

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

expand and enhance their networks faster.

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

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

effect on our revenues and overall results of operations.

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

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

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

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

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

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

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

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

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

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

allocation of increasing amounts of cash flow for debt service;

increased difficulty in obtaining future financing;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We face risks associated with litigation.

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

Risks Related to Our Organizational Structure

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

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

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

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

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

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

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

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

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

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

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

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

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

We regularly enter into business transactions and contractual arrangements with companies in the Telefónica Group and plan to continue to do so. Although we believe that prior and existing transactions and arrangements have been fair to us in all material respects and that their terms have reflected market conditions, it is possible that in some instances we could have obtained better terms from third parties. In addition, Telefónica, S.A. engages in certain wireless activities through O₂ plc, a large, well-established United Kingdom-based wireless company, and Cesky Telcom, which operates principally in the Czech Republic. Neither of these companies are part of our group. We could face competition from these and other companies within the Telefónica Group that are not part of our company. Consequently, we could be impeded from pursuing some future business opportunities or obligated to pursue them in conjunction with other companies in the Telefónica Group. Because Telefónica, S.A. is a party to business transactions and contractual arrangements with our company and companies of the Telefónica Group are active in businesses that overlap with ours, there is potential for conflicts of interest between Telefónica, S.A. and its affiliates, on the one hand, and our company and subsidiaries, on the other, in circumstances where our interests and those of Telefónica, S.A. are not aligned.

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

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

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

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

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

Risks Related to Our Industry

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Latin America

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

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

significant governmental influence over local economies;

substantial fluctuations in economic growth;

historically high levels of inflation;

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

exchange controls or restrictions on expatriation of earnings;

high domestic interest rates;

wage and price controls;

changes in governmental economic or tax policies;

imposition of trade barriers;

unexpected changes in governmental regulation;

social unrest; and

overall political and economic instability.

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

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

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

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

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

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

Item 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

Background of Our Company

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

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

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

Acquisitions in 2003

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

Acquisitions in 2004

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

Acquisitions in 2005

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

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

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B. BUSINESS OVERVIEW

Overview

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

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

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

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

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

Year ended December 31, 2005

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

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

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

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Business Strategy

The key elements of our strategy consist of the following:

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

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

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

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

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

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

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

Services and Products

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

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

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

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

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

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

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

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

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

Telefónica Móviles Operations

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

Spain;

Morocco; and

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Latin America.

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

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

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

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

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

Brazil; and

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

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

Reported Information

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

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

Spain

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

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

Year ended December 31,	
2004	2005

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

Source: Telefónica Móviles.

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

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

Market

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

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

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

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

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

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

Network and Technology

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

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

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

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

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

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

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

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

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

Sales and Marketing

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

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

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

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

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

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

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

Customer Care

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

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

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

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

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

Competition

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

Morocco

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

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

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

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

Source: Telefónica Móviles, except population data from Pyramid Research

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

Market

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

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Network and Technology

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

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

Sales and Marketing

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

Competition

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

Latin America

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

Brazil

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

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

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

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

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

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

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

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

Source: Telefónica Móviles, except population data from Pyramid Research

Market

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

Network and Technology

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

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

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

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

Sales and Marketing

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

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

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

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

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

Competition

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

Northern Region

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

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

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

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

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

Network and Technology

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

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

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

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

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

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

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

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

Sales and Marketing

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

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

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

Competition

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

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

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

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

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

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

Andean Region

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

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

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

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

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

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

Network and Technology

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

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

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

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

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

Sales and Marketing

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

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

Competition

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

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

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

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

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

Southern Cone

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

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

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

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

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

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

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

Network and Technology

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

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

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

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

Sales and Marketing

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

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

Competition

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

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

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

Wireless Internet and Data Initiatives

Wireless Internet and Data

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

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

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

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

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

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

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

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

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

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M-Payment

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

Capital Expenditures and Divestitures

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

Public Takeover Offers

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

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

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

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

Patents, Licenses and Other Intellectual Property

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

The Group also owns patents throughout the world and various domain names, such as telefonicamovistar.com, 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

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

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

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

Spain

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

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

Spanish Regulatory Authorities

The following governmental regulatory authorities oversee the Spanish telecommunications industry:

the Commission for the Telecommunications Market (CMT);

the Government Commission for Economic Affairs;

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

the Ministry of Economy; and

The Radiocommunications Agency.

Licenses and Concessions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

to refrain from engaging in anti-competitive conduct;

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

to facilitate interconnection with the networks of other operators;

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

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

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

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

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

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

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

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

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

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

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

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

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

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to interconnect our network with the network of our competitors.

Foreign Ownership/Restrictions on Transfer of Ownership

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

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

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

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

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

Substitution of Telefónica Móviles España s business purpose;

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

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

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

Rates

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

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Interconnection

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

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

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

Other Provisions

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

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

Virtual mobile operators

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

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

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

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

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

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

EC regulation on roaming tariffs.

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

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

European Union

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

New Regulation of the Telecommunications Industry

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

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

Legal Framework of European Operations

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

We hold the following licenses in Europe:

Telefónica Móviles' licenses in Germany (Quam)

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

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

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

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

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

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Telefónica Móviles licenses in Italy (IPSE 2000)

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

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

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

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

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

Telefónica Móviles licenses in Switzerland (3G Mobile)

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

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

Austria

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

Brazil

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

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

Brazilian Regulatory Authorities

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

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

Licenses and Concessions

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

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

Mobile Personal Service (SMP) Regulation

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

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

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

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

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

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

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

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

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

Foreign Ownership/Restrictions on Transfer of Ownership

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

Rates

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

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

Other Provisions

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

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

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

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

Peru

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

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

Peruvian Regulatory Authorities

The following regulatory authorities oversee the telecommunications industry in Peru:

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

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

Licenses and Concessions

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

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

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

Paging service. Frequency in the 450 MHz band.

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

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

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

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

Comunicaciones Móviles del Peru has the following concessions:

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

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

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

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

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

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

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

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

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

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

Rates

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

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

Schedule for fixed to mobile tariff reduction

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

Period	Final maximum tariff (inclusive of taxes) (\$/second)	% of reduction
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.

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

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

Foreign Ownership/Restrictions on the Transfer of Ownership

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

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

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

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

Argentina

Regulation

The following regulatory authorities oversee the Argentine telecommunications industry:

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

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

Licenses and Concessions

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

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

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

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

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

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

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

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

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

Fixed telephony nationwide.

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

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

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

Rates

Rates charged to customers are not regulated in Argentina.

Interconnection

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

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

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

Other Provisions

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

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

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

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

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

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

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

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

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

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

Mexico

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

Mexican Regulatory Authorities

The following governmental agencies oversee the telecommunications industry in Mexico:

The Secretariat of Communications and Transportation, or SCT; and

The Federal Telecommunications Commission, or COFETEL.

Licenses and concessions

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

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

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

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

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

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

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

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Additionally, we have recently acquired the following concessions:

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

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

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

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

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

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

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

Rates

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

Interconnection

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

that the interconnection points of each network be identified;

that access be provided in a non-discriminatory manner;

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

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

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

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

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

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

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

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

Foreign Exchange/Dividend Limitations

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

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

El Salvador

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

Regulatory Authorities

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

Licenses and Concessions

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

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

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

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

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

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

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

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

Rates

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

Other Provisions

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

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

Guatemala

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

Regulatory Authorities

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

Use of Spectrum

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

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

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

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

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

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

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

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Interconnection and Rates

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

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

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

Other Provisions

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

Chile

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

Regulatory Authorities

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

Licenses and Concessions

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

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

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

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

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

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

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

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

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

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

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

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

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

Rates

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

Interconnection

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

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

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Foreign Ownership/Restrictions on Transfer and Change in Ownership

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

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

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

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

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

Morocco

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

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

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

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

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

Moroccan Regulatory Authorities

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

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Licenses and Concessions

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

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

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

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

Rates

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

Interconnection

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

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

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

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

Foreign Ownership/Restrictions on Transfer and Change in Ownership

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

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

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

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Colombia

Regulation

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

Regulatory authorities

The following governmental agencies oversee the telecommunications industry in Colombia:

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

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

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

Licenses and concessions

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

Telefónica Móviles Colombia holds the following concessions:

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

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

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

Interconnection

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

Rates

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

Ecuador

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

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

Licenses and Concessions

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

Telefónica Móviles Ecuador holds the following concessions:

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

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

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

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

Wireless E-mail applications

Mobile Access to Internet applications

Mobile Capture of Data applications

Vehicle localization and administration of fleets (GPS) applications

Mobile Access to Intranets applications

Intelligent Distribution applications

Mobile and Remote Points of Sale

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

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

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

Rates

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

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

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Foreign Ownership/Restrictions on Transfer and Change in Ownership

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

Interconnection

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

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

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

Other provisions

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

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

Nicaragua

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

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

Regulatory Authorities

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

Licenses and Concessions

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

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

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

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

Rates

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

Interconnection

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

Foreign Ownership/Restrictions on Transfer and Change in Ownership

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

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Other

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

Panama

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

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

Licenses and Concessions

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

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

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

Rates

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

Other Provisions

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

Uruguay

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

Regulatory Authorities

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

Licenses and Concessions

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

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

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

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

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

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

Rates

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

Interconnection

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

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

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

Foreign Ownership/Restrictions on Transfer and Change in Ownership

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

Venezuela

Regulation

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

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

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Licenses and Concessions

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

Telcel has been granted the following telecommunications concessions and licenses:

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

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

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

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

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

Rates

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

Interconnection

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

Restrictions on Foreign Investment

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

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

Other provisions

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

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

C. ORGANIZATIONAL STRUCTURE

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

D. PROPERTY, PLANTS AND EQUIPMENT

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

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

switching, transmissions and receiving equipment;

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

land and buildings;

easements; and

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

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

Item 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

First Time Adoption of International Financial Reporting Standards

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

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

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The main exceptions are as follows:

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

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

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

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

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

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

A. OPERATING RESULTS

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

Overview

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

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

Basis of Presentation

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

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

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

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

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

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

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

Foreign Currency Effects and Hedging

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

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

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

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

Acquisition of BellSouth's Wireless Operations in Latin America

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

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

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

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

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

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

Joint Venture with Portugal Telecom

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

Critical Accounting Policies

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

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

accounting for long-lived assets, including goodwill;

deferred taxes; and

provisions.

Accounting for long-lived assets, including goodwill

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

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

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

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

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

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

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

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

Deferred taxes

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

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

Provisions

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

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

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

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

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

SAB No. 107: Shared Based Payment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Recent Accounting Pronouncements under IFRS

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

Amendment to IAS 19 Employee Benefits

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

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

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

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

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

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

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

certain characteristics.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Economic Developments and Outlook

Spain

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

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

Brazil

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

Argentina

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

Chile

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

Colombia

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

Mexico

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

Peru

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

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

Venezuela

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

Introduction to Results of Operations

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

Net Sales and Services

Net sales and rendering of services consist of the following:

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

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

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

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

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

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

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

Other Income

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

Operating Expenses

Our principal operating expenses are:

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

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

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

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

Non-Operating Expenses

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

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

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

Corporate Income Tax

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

Minority Interests

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

Non-GAAP Financial Information

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

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

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

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

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

Year ended December 31, 2005

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

Year ended December 31, 2004

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

Results of Operations

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

	<u>2005</u>	<u>2004</u>	<u>% Change</u>
	(euros in millions)		
Net sales and rendering of services	16,513.5	11,753.9	40.5%
Other income	269.8	198.6	35.9%
Supplies	(5,365.5)	(3,594.9)	49.3%
Personnel expenses	(799.7)	(541.5)	47.7%
Other expenses	(4,801.1)	(3,228.1)	48.7%
Operating income before depreciation and amortization	5,817.0	4,587.9	26.8%
OIBDA margin	35.2%	39.0%	(9.7)%
Depreciation and amortization	(2,374.0)	(1,522.9)	55.9%

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Operating income	3,443.0	3,064.9	12.3%
Share of profit (loss) of associates	(154.2)	(38.1)	304.7%
Net financial income (expense)	(459.1)	(481.9)	4.7%
Profit before taxes	2,829.7	2,544.9	11.2%
Corporate income tax	(946.0)	(868.5)	8.9%
Minority interests	35.2	15.24	131.0%
Profit for the year	1,918.9	1,691.7	13.4%

The following discussion of our results of operations focuses primarily on the results of operations in Spain (including Telefónica Móviles España but excluding the operations of the holding company) and Latin America (excluding Telefónica Móviles Soluciones y Aplicaciones, S.A.), our principal regions of operations. For purposes of this discussion, our intercompany and other eliminations have been excluded from the financial information regarding Spain and Latin America and from individual company results of operations. Some figures may not add up due to these exclusions or to rounding.

Table of Contents**Year Ended December 31, 2005 Compared to Year Ended December 31, 2004***Net sales and rendering of services*

The following table presents information regarding our net sales and rendering of services for the periods indicated.

	Year Ended December 31,		%
	2005	2004	
	(euros in millions)		
Spain	8,834.2	8,213.8	7.6%
Latin America	7,704.5	3,552.4	116.9%
Others and intragroup eliminations	(25.3)	(12.3)	105.1%
Total	16,513.5	11,753.9	40.5%

In 2005 net sales and rendering of services rose 40.5% compared to 2004, to 16,513.5 million, principally due to the contribution of a full year of net sales and rendering of services from the companies we acquired from BellSouth in 2004, as well as for the reasons described below.

The principal reason for the increase was the growth of our customer base. In 2005, we increased our managed customer base by approximately 20 million, or over 26%, to approximately 94 million managed customers by the end of the year. Service revenues were 40.4% higher than in 2004, at 14,354 million, while revenues from handset sales increased 41.4%, to 2,160 million. We recorded organic growth of 14.2% in net sales and rendering of services in 2005 compared to 2004, principally due to growth in net sales and rendering of services across all of our operations.

Net sales and rendering of services in Spain: net sales and rendering of services in Spain increased by 7.6%. Service revenues rose by 7.0% principally due to higher voice and data usage, offset in part by decreases in service prices and lower interconnection tariffs.

Net sales and rendering of services in Latin America: Net sales and rendering of services in Latin America represented 47% of our total consolidated figure and a year-on-year increase of approximately 117%. In organic terms, revenues were 23.5% higher, mainly due to the increase in our customer bases in Colombia (83%), Argentina (44.9%) and Venezuela (38.9%).

The main operating expenses by areas of operation were as follows:

Supplies

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Supplies, which mainly include handset purchases and interconnection costs, increased 49.3% to 5,365.5 million from 3,594.9 million in 2004. Supplies accounted for 32.5% of net sales and rendering of services, a two percentage point increase over 2004 (30.6%).

Operations in Spain: Total supply costs increased 14.7% to 2,359.3 million from 2,056.3 million in 2004, principally due to an increase in commercial activity and initiatives (gross adds, migrations and handset upgrades), as well as to an increase in interconnection expenses, mainly as a result of the growth in outgoing traffic. As a percentage of net sales and rendering of services in Spain, supplies increased nearly two percentage points to 26.7% in 2005 from 25.0% in 2004.

Operations in Latin America: supplies in Latin America totaled 3,026.3 million in 2005, up from 1,544.5 million in 2004, principally due to changes in our scope of consolidation and increased commercial activity in 2005. As a percentage of net sales and rendering of services in Latin America, supplies decreased to 39.3% in 2005 from 43.5% in 2004.

Personnel expenses

The headcount at December 31, 2005 at fully and proportionally consolidated Telefónica Móviles Group companies stood at 23,511 compared to 20,282 at December 31, 2004. This increase was principally due to changes in our scope of consolidation as a result of our acquisitions from BellSouth in Argentina and Chile in January 2005.

Personnel expenses increased 47.7%, from 541.5 million to 799.7 million, representing 4.8% of net sales and rendering of services in 2005 compared to 4.6% in 2004.

Operations in Spain: The Telefónica Móviles Group's operations in Spain represented 34% of Telefónica Móviles Group's total personnel expenses. Personnel expenses increased 2.6%, from

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264.6 million in 2004 to 271.0 million in 2005, principally due to a 2.3% increase in the average workforce and salary increases. Personnel expenses in Spain represented 3.1% of net sales and rendering of services in 2005, the same percentage as in 2004.

Operations in Latin America: The Telefónica Móviles Group's operations in Latin America represented 61.4% of total personnel expenses, principally due to changes in the scope of our consolidation.

Other expenses

Other expenses increased 49% from 3,228.1 million in 2004 to 4,801.1 million in 2005. As a percentage of net sales and rendering of services, other expenses rose to 29.1% in 2005 from 27.5% in 2004, due in part to the launch of a common brand throughout all of the Spanish-speaking countries where we have operations.

Operations in Spain: Operations in Spain accounted for 45.5% of other expenses in 2005, a 21.1% increase, principally due to stronger commercial efforts, which led to increases in subscriber acquisition costs, subscriber retention costs and advertising expenses. Other expenses increased from 1,801.6 million in 2004 to 2,182.5 million in 2005, representing 24.7% of net sales and rendering of services compared to 21.9% in 2004.

Operations in Latin America: Operations in Latin America accounted for 53.5% of total other expenses. Other expenses in Latin America totaled 2,568.5 million in 2005 compared to 1,326.6 million in 2004, principally due to increased commercial activity and changes in the scope of our consolidation. When calculated as a percentage of net sales and rendering of services in Latin America, these expenses fell to 33.3% in 2005 from 37.3% in 2004.

Depreciation and amortization

Depreciation and amortization increased 55.9% to 2,374.0 million in 2005 from 1,522.9 million in 2004 principally due to changes in our scope of consolidation.

Operating income before depreciation and amortization (OIBDA)

The following table presents information regarding OIBDA for the periods indicated.

	<u>2005</u>	<u>2004</u>	<u>% Change</u>
	(euros in millions)		
Spain	4,127.9	4,158.2	(0.7)%
Latin America	1,754.6	551.2	218.4%
Rest of World and intragroup eliminations	(65.5)	(121.5)	(46.1)%
Total	5,817.0	4,587.9	26.8%

OIBDA increased 26.8% from 4,587.9 million in 2004 to 5,817 million in 2005. The consolidated OIBDA margin was 35.2%, down from 39.0% in 2004. OIBDA excluding the effect of our acquisitions during 2005 increased 7.4% for the year.

Operations in Spain: Operations in Spain represented 71.0% of the Telefónica Móviles Group's OIBDA in 2005, a 0.7% decrease from the previous year. The 2005 OIBDA margin was 46.7%, compared to 50.6% in 2004.

Operations in Latin America: OIBDA from Latin American operations increased 218.4% and represented 30.2% of consolidated OIBDA in 2005. In organic terms, OIBDA increased 27.9%, principally due to strong growth in Venezuela, Chile and Argentina.

Net financial income (expense)

Net financial expense decreased 4.7% to 459.1 million in 2005 from 481.9 million in 2004 principally due to positive exchange rate differences on intercompany loans arising from the appreciation of Latin American currencies and the US dollar versus the euro. Without such exchange rate differences, net financial expense would have increased in 2005 compared to 2004 due to the increase in average net debt and a larger proportion of debt denominated in local currencies.

Share of profit (loss) of associates

Losses from associated companies was 154.2 million in 2005 compared to 38.1 million in 2004. The increase in losses from associated companies was due to write-downs at Ipse 2000 S.p.A. (161 million in 2005

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compared to 28 million in 2004), which was offset in part by 8.5 million in profit from associated companies relating to Medi Telecom in 2005 compared to losses relating to Medi Telecom of 8.6 million in 2004.

Corporate income tax

The corporate income tax expense in 2005 was 946.0 million, representing an effective tax rate of 33.4%, compared to corporate tax expense of 868.5 million in 2004, representing an effective tax rate of 34.1%.

Minority interests

Minority interests were 35.2 million in 2005 compared to 15.2 million in 2004. The increase in minority interests was principally due to the participation of minority shareholders in certain of our companies in Mexico which recorded losses during the year.

Profit for the year attributable to equity holders of the parent company

As a result of the above, profit for the year attributable to equity holders of the parent increased to 1,918.9 million in 2005 from 1,691.7 million in 2004.

B. LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Resources

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

Liquidity and Capital Resource Requirements

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

capital expenditures for existing and new operations, including the roll-out of our GSM networks in several Latin America countries;

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acquisition of new licenses, or other wireless operators or companies engaged in complementary or related businesses;

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

costs and expenses relating to the operation of our business.

Capital Expenditures. The following table presents our actual capital expenditures for 2004 and 2005:

	2004	2005
	(millions of euros)	
Spain	630	728
Latin America(1)	987	1,557
Others(2)	1	1
Total	1,618	2,285

(1) Includes capital expenditures for years in which our Latin American operating companies are included in our Consolidated Financial Statements.

(2) Principally Telefónica Móviles, S.A. (parent company) and Terra Mobile (now Telefónica Internacional that was absorbed by Telefónica Móviles España in 2005).

Our total capital expenditures totaled approximately 2,285 million for 2005 and 1,618 million for 2004. In each of these periods, the principal capital expenditures related to the build-out and development of our networks in Spain and the other countries in which we operate. In Spain, we substantially expanded the capacity of our digital network in order to accommodate the growth in our customer base and usage, and continued the roll out of our UMTS network. In 2005, we have also made significant expenditures to increase CDMA 1XRTT and CDMA EVDO coverage in Brasil, to develop 1XEVD0 CDMA technology in Venezuela, to roll out new GSM networks in Colombia, Ecuador, Panamá, Uruguay, and Nicaragua and to continue rolling out our GSM networks in México, Chile, Argentina, Guatemala and El Salvador.

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The following table presents, at December 31, 2005, our historical debt at both the holding company and operating company levels, as well as information regarding interest expense of the weighted average interest rates of such debt:

	Maturity			2005 Interest Expense	Weighted Average Interest Rate(2)
	Short- Term	Long- Term	Total Debt		
(millions of euros)					
Historical debt:					
Spain	3,331	6,196	9,527	518	4.47%
Latin American operations	1,129	1,784	2,913	354	10.39%
Total	4,460	7,981	12,441	872	5.52%

(2) After hedging.

Historical Debt. We had total debt in an aggregate principal amount of 12,441 million at December 31, 2005 and 11,369 million at December 31, 2004. At December 31, 2005, total debt consisted of 4,460 million in short-term debt and 7,981 million in long-term debt. At December 31, 2004, total debt consisted of 2,680 million in short-term debt and 8,444 million in long-term debt.

At December 31, 2005, 9,755 million, or 78%, of our total debt was payable to the Telefónica Group, and 2,686 million, or 22%, of our total debt was payable to banks and other financial institutions. Approximately 10% of our debt payable to the Telefónica Group was incurred in connection with the acquisition of BellSouth's wireless operations in Chile and Argentina. While we are a 92.46%-owned subsidiary of Telefónica, S.A., we believe that historically most of our debt to Telefónica, S.A. was obtained substantially at market terms when arranged or incurred. In connection with the allocation of assets and debt lent to us by the Telefónica Group prior to our initial global public offering, the terms, particularly the weighted average interest rate of our debt to the Telefónica Group, was brought into line with then-prevailing market terms.

Our total debt includes both fixed-rate and variable-rate debt. At December 31, 2005, approximately 25.6% of our debt was fixed-rate and the remainder of our debt was variable-rate. Our total debt consists of debt denominated in euro, U.S. dollars, Brazilian reais, Chilean pesos, Colombian pesos, Mexican pesos and, to a lesser degree, other currencies. At December 31, 2005, and after taking into account hedging transactions, approximately 55.24% of our debt was denominated in euro, 10.5% in U.S. dollars; 9.7% in Brazilian reais, 6.2% in Chilean pesos, 11.2% in Mexican pesos, 3.5% in Colombian pesos, and a small amount in other currencies. We have entered into swaps and other derivative-based transactions, in large measure, to hedge interest-rate and exchange-rate risks relating to our debt. See note 17 to the Consolidated Financial Statements and the discussion under Item 11. Quantitative and Qualitative Disclosure About Market Risks for a discussion of our market risks relating to interest rates and foreign exchange rates at December 31, 2005.

The agreements and instruments pertaining to the debt of our operating companies in Latin America impose various customary financial and negative covenants such as ratios of debt to Operating Income before Depreciation and Amortization and Operating Income before Depreciation and Amortization to financial expenses, limitations on asset sales, mergers, etc., and negative pledges. These debt instruments define Operating

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Income before Depreciation and Amortization as the sum of net income, (income/loss) attributable to minority interests, taxes, financial interests, amortization, depreciation and legal provision that do not require a cash disbursement, minus (gain/loss) of companies accounted for by the equity method.

Debt Service Requirements. We have significant debt service requirements arising from debts payable to the Telefónica Group, which conducts the treasury operations for the Telefónica Group, and debts payable to banks and other financial institutions. These debt service requirements consist of interest payments, which are reflected in our income statements under Net financial income (expense), and principal payments. Net financial income (expense) also includes the effects of foreign currency movements on debt denominated in currencies other than the euro. Our interest expense, excluding the effects of foreign currency movements, totaled approximately 872 million in 2005 as compared with 580 million in 2004. The increase in interest expense (50%) is explained by the increase in the average debt of the Group (57%).

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Historical Dividend Payments

Historically, Telefónica Móviles España, our Spanish operating company, made significant dividend payments to Telefónica, S.A., including 274 million in 1999 and 210 million in 1998.

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

On April 16, 2004, the Shareholders Meeting of Telefónica Móviles resolved the payment of a gross cash dividend, with a charge to profits for fiscal year 2003, in the amount of 0.1838 on each of the Company's current issued and outstanding shares. Payment was made on June 16, 2004, through the entities participating in the securities and clearing institution Iberclear.

On May 6, 2005, the Shareholders Meeting of Telefónica Móviles resolved the payment of a gross cash dividend, with a charge to profits for fiscal year 2004, in the amount of 0.193 on each of the Company's current issued and outstanding shares. Payment was made on June 15, 2005, through the entities participating in the securities and clearing institution Iberclear and the retentions required by applicable legislation will be applied.

On February 27, 2006 the Board of Directors of Telefónica Móviles resolved to propose to the General Shareholders Meeting the payment of a gross cash dividend, with a charge to profits for fiscal year 2005 and reserves, in the amount of 0.205 each of the Company's current issued and outstanding shares. Payment will be made, if approved by the General Shareholders Meeting on July 21, 2006, through the entities participating in the securities and clearing institution Iberclear and the retentions required by applicable legislation will be applied.

On March 29, 2006, the Board of Directors of Telefónica Móviles, in the framework of the negotiation of the exchange ratio for the merger, also proposed for the approval of the General Shareholders Meeting the payment of additional dividends in the amount of 0.085 per share chargeable against the issue premium reserve and other distributable reserves and an interim dividend of 0.35 per share against the results obtained from January 1 through March 28, 2006, which, when aggregated with the dividend proposed by the Board of Directors on February 27, 2006, totals 0.64 per share. The effectiveness of the distribution is subject to approval of the merger by the shareholders meetings of both companies. Payment of the total dividend of 0.64 per share is expected to be made on July 21, 2006, before the merger of Telefónica and Telefónica Móviles is recorded with the Commercial Registry.

Sources of Liquidity and Capital Resources

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

Net Cash Provided by Operating Activities. Our principal source of liquidity has historically been cash provided by operating activities. Our cash provided by operating activities was 4,479 million in 2005 and 3,915 million in 2004.

Debt Financing Strategy. Although, in the future, we may seek to access local and international loan and debt capital markets, we intend to rely principally upon Telefónica, S.A. to make borrowings or issue debt securities on our behalf and then on-lend the net proceeds to us. We anticipate that the on-lending will be based on arm's-length terms and will reflect the prevailing market conditions for borrowers and issuers of debt securities of similar credit quality to our own. We do not expect to pay any fees or other amounts to Telefónica, S.A., other than, possibly, amounts which will be insignificant, for its role in financing our liquidity or capital resource requirements. Telefónica, S.A. is under no obligation, however, to provide us with sources of liquidity or capital resources. Our debt outstanding in credit lines with the Telefónica Group was 6,239 million and 7,479 million at December 31, 2005 and December 31, 2004, respectively.

Shareholders' Equity

We had shareholders' equity of 5,746 million at December 31, 2005 and 3,543 million at December 31, 2004, under IFRS. As reflected in the consolidated and combined balanced sheets, net equity investment by Telefónica, S.A. consists of the accumulated undistributed net income of our company and our operating companies, capital contributions that had been made from time to time by Telefónica, S.A. and translation differences resulting from the effects of exchange rate fluctuations on the net assets of our companies domiciled outside of Spain. We intend to maintain a capital structure that will enable us to obtain and retain investment

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grade ratings from major rating agencies for any debt securities that we may issue in the future. We cannot be certain that our future financial requirements will not be greater than expected or that future conditions in the loan and debt and equity capital markets will not adversely affect our ability to meet these requirements, particularly if the cost of capital increases as we and other wireless operators seek increasingly large amounts of debt and equity financing to develop and expand our and their respective operations.

Committed Credit Lines

We maintain a committed line of credit with the Telefónica Group. This credit line totaled 6,465 million at December 31, 2005 and 7,730 million at December 31, 2004. This credit line contains customary default provisions that could impact the continued availability of credit or result in the acceleration of repayment. These events include bankruptcy, defaults in payment of other indebtedness, judgments against us that are not paid or insured or failure to meet or maintain certain covenants.

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

Related Party Debt

	Telefónica Móviles	Telefónica Móviles España	Móviles Inter- acciona	Móviles México	Inversiones TEM Holding Ltda.	Short Term	Long Term	Weighed average rate (1)
(euro in millions)								
Telefónica, S.A.	9,190					3,306	5,884	4.65%
TELFISA-BEI		271	0			26	245	2.85%
Telfisa México				0		0		11.18%
Telefónica Internacional Chile S.A.					300	0	300	2.80%
Total	9,190	271	0	0	300	3,331	6,429	4.58%

(1) After hedging.

U.S. GAAP*Background on adoption of IFRS*

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As of January 1, 2004, our Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS), which vary in certain respects from accounting principles generally accepted in the United States of America (U.S. GAAP). The tables included in note 20 give the effect that application of U.S. GAAP would have on net income and shareholders' equity as reported under IFRS. Pursuant to current EU law, Telefónica Móviles has applied the International Financial Reporting Standards endorsed by the EU in preparing its Consolidated Financial Statements. Our Consolidated Financial Statements would not present any difference had the standards issued by the International Accounting Standards Board (IASB) been applied instead of those endorsed by the EU.

IFRS 1 provides first-time adopters of IFRS with a number of exemptions and exceptions from full retrospective application, some of which are applicable to Telefónica Móviles (see Note 2). Had IFRS been applied fully retrospectively, net result and shareholders' equity under IFRS shown in the table included in Note 20 would have been different and the reconciling items to U.S. GAAP shown would also have been different.

Reconciliation to U.S. GAAP

The Consolidated Financial Statements have been prepared in accordance with IFRS. Shareholders' equity would have been 7,329 million under U.S. GAAP compared to 6,246 million under IFRS at December 31, 2005 and 4,837 million under U.S. GAAP compared to 3,820 million under IFRS at December 31, 2004.

The increase in shareholders' equity under U.S. GAAP in 2005 and 2004 as compared with shareholders' equity under IFRS is principally related to business combinations, goodwill and other intangible assets and the effect of presentation of minority interests. See Notes 20.6 and 20.1 to our Consolidated Financial Statements.

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Net income would have been 1,901 million under U.S. GAAP compared to 1,919 million under IFRS for 2005 and 1,576 million under U.S. GAAP compared to 1,692 million under IFRS for 2004.

The decrease in net income under U.S. GAAP in 2005 as compared with net income under IFRS is principally related to the effects of business combinations, goodwill and other intangible assets, amortization method of licenses and capitalized interests. See Notes 20.7, 20.6 and 20.3 to our Consolidated Financial Statements.

The decrease in net income under U.S. GAAP in 2004 as compared with net income under IFRS is principally related to the effects of business combinations, goodwill and other intangible assets, amortization method of licenses, revenue recognition, capitalized interests and recognition of tax credits in periods initially awarded. See Notes 20.7, 20.6, 20.5, 20.3 and 20.10 to our Consolidated Financial Statements.

See note 20 to the Consolidated Financial Statements for a description of the principal differences between IFRS and U.S. GAAP as they pertain to us and for a quantitative reconciliation of net income and shareholders' equity from IFRS to U.S. GAAP.

Hedging Policy

Exchange rate fluctuation (especially for Latin American currencies) has positively impacted our results of operations. Specifically, consolidated operating income before depreciation and amortization for fiscal year 2005 was 5,817 million. Excluding the impact of currency fluctuation, consolidated operating income before depreciation and amortization would have been 1.4% lower for 2005 and 0.7% higher for 2004, due to the negative fluctuation during that year. In order to hedge the possible adverse impact of the exchange rate fluctuations on our operating results, we primarily seek to mitigate the impact on the value of our assets by financing the purchase of such assets, as well as our local operations by incurring debt denominated in local currencies when available and under attractive market conditions. We also hedge this risk by entering into other financial instruments including exchange rate swaps. In accordance with our risk management policy in most cases we enter into hedging transactions to cover debt payments or payments denominated in foreign currencies. For further information on the risks we face, please see Item 11 Quantitative and Qualitative Disclosure About Market Risk.

Seasonality of Our Business

Our business is subject to a certain degree of seasonality, characterized by a higher traffic in the summer and, as a result of increased handset sales, a higher number of new customers in the Christmas season. We believe that this seasonality is driven by Christmas marketing campaigns and higher mobile telephony in the residential segment during vacation periods. In addition, roaming revenue derived from visitors who use Telefónica Móviles España's network normally represents 2% to 3% of Telefónica Móviles España's quarterly operating revenue. In the third quarter, such revenue normally increases from 4% to 5%, in line with increased visitors to Spain in the summer months.

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

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We cooperate with the research and development departments of various handset manufacturers to ensure the development and success of CDMA 1XRTT, GPRS and UMTS-ready handsets with capacity to transmit data at high speeds. We engage in our own research and development to ensure compatibility between our services and products and the latest handset models and to develop new services. At the end of 1999 we set up a Development and Technologies Center dedicated to the development of wireless internet products and services. This center develops projects in conjunction with universities and Spanish and international companies in the wireless sector, to increase public awareness of the possibilities offered by wireless communications. We invested approximately 205 million in 2005 and 153 million in 2004 on our research and development activities.

R+D projects carried out by the Telefónica Móviles Group in 2005 were aimed at profitable innovation, process efficiency, the creation of new revenue sources, customer satisfaction, growth in new markets and technological leadership.

D. TREND INFORMATION

The penetration rate in the Spanish market for wireless services was 97% at December 31, 2005. We believe the wireless market in Spain will continue to grow, mainly driven by increased usage of voice and data services. While we believe the penetration rate in Spain will continue to increase, we do not expect that it will continue to grow at the same high rates that it experienced in the past.

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In an increasingly competitive market, with strong competition in number portability and pressure on pricing, including termination rate reductions, along with the potential entry of new competitors, we are focused on key initiatives to preserve our revenue leadership in the market, leading to increased commercial efforts:

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

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

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

In an effort to further increase customer loyalty and usage, Telefónica Móviles España in 2005 has launched several commercial initiatives, including new pricing schemes that are assisting us in our efforts to contain the churn rate. Customers who have signed up for our on-net pricing plans, launched in April 2005 have significantly lower churn rates than those customers that have not signed up for such pricing plans.

Telefónica Móviles España is also launching campaigns to reward customer loyalty, offering favorable prices on handset upgrades to encourage greater customer loyalty. Handset upgrades increased 23.2% to 4.5 million in 2005.

Telefónica Móviles España is also encouraging customer migration from its pre-paid plans to its contract plans. These migrations have contributed to the 5 percentage point increase in the proportion of the contract segment in the total customer base to 54% in 2005 and have also encouraged increased spending from its contract customers. In 2005, migrations from pre-paid to contract plans reached close to 1.0 million customers.

We believe that these activities and our other commercial initiatives are proving to be important loyalty tools.

Telefónica Móviles España's new commercial offers have also helped increase customer usage. The company carried more than 50,000 million minutes in 2005, a 20% increase compared to 2004. On-net traffic also increased 30% in 2005 compared to 2004. At the same time, our customers' use of data and content services also grew. We believe the UMTS/HSDPA deployment will increase wireless data services usage, especially for wireless e-mail management and Internet access.

Our operations in Latin America, although in an expansion phase of development in most countries, have generally been successful in achieving significant market penetration.

In Latin America our managed customer base increased from 52.7 million at December 31, 2004 to 70.5 million at December 31, 2005, mainly due to the increased commercial activity in our markets and our acquisition and consolidation of BellSouth's mobile operators in Argentina and Chile since January 2005. In 2005, all of our operations in Latin America posted double digit customer growth rates. In addition, in Chile, wireless penetration exceeded the 70% mark.

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

We also plan to leverage other strategic business initiatives such as the launch of a single brand for our operations in Spanish-speaking markets, which we carried out during the second quarter of 2005, handset and equipment procurement, infrastructure and IT systems sharing, global solutions for the corporate segment and integrated commercial offerings to consolidate competitive positions in our markets while increasing profitability.

The Latin American wireless communications market has been shaped by several underlying trends that we believe will contribute to growth in this market in the future, including the following:

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

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

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Expanding penetration and usage, above fixed-line penetration rate. The number of wireless customers and wireless penetration levels have steadily increased in Latin America in recent years, to the extent that, in most of the countries in the region, the wireless penetration has become higher than the fixed-line penetration, although wireless penetration in Latin America remains low compared with penetration rates in Western Europe. As the cost of wireless services and handsets has declined, these services have become more affordable for a significantly larger percentage of the Latin American population, and both overall minutes of use and revenues have increased. Greater penetration and wireless traffic means that wireless operators can apportion their fixed costs among a greater number of customers, resulting in lower costs per unit which, together with low handset prices, has resulted in a larger percentage of the population being able to afford wireless services, thereby increasing demand and revenues.

Introduction of new technologies. Voice services as well as mobile Internet and data transmission services have increased through the installation of new 2.5/3G technologies (GSM/GPRS, EDGE and CDMA/CDMA 1XRTT/CDMA EVDO). The progress in introducing GSM/GPRS technology in the region over the last two years has been particularly significant, above all in the principal markets such as Brazil, Mexico, Chile, Colombia and Argentina, where various operators have started migrating their 1G and 2G networks to the standard GSM/GPRS networks. The increase in CDMA 1XRTT data networks has also been significant, especially in some countries such as Brazil and Venezuela, making it possible to increase the data revenues of wireless operators. Also, in Brazil in 2004 Vivo launched CDMA EVDO, a technology that increases data capabilities allowing speeds of up to 2.4 Mbits/s. We launched the same technology in Venezuela in 2005.

Regional consolidation. In recent years, a number of wireless operators in the region have consolidated in order to exploit economies of scale and synergies that will improve profitability through increased cost-efficiencies. We participated actively in this process through the establishment of the Brasilcel joint venture and the acquisition of Tele Centro Oeste Participações S.A. in Brazil in 2003, as well as our acquisition of BellSouth's wireless operators in Latin America in 2004 and January 2005 and the acquisition of Telefónica Móvil de Chile in July 2004. The Mexican cellular group, América Móvil, has also played an important role in this process.

This section contains forward looking statements that are based upon certain assumptions. Such forward looking statements are not guarantees of future performance and involve numerous risks and uncertainties, and actual results may differ materially from those anticipated. For a discussion of important factors that could cause such differences please see the discussion in this section as well as Item 3 Risk Factors, Item 4 Information on the Company, Item 5 Operating and Financial Review and Prospects and Item 11 Quantitative and Qualitative Disclosures about Market Risk.

E. OFF-BALANCE SHEET COMMITMENTS

We have commitments that could require us to make material payments in the future. These commitments are not included in our consolidated balance sheet as of December 31, 2005. A summary of our principal off-balance sheet commitments as of the date of this annual report is provided below. These commitments are primarily contingent obligations in the form of guarantees for our subsidiaries and put and call rights with respect to some of our joint ventures. These arrangements allow us to provide the necessary credit support for some of our subsidiaries to develop their operations and allow us to enter into joint ventures on market terms. As of the date of this annual report, we are not aware of any events that would result in the material reduction to us of any of these off-balance sheet arrangements. For a more detailed discussion of our off-balance sheet commitments please refer to notes 15 and 18 of our consolidated and Consolidated Financial Statements.

IPSE 2000 (Italy)

UMTS Guarantee

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On December 11, 2000, a syndicate of banks agreed to issue a guarantee in an aggregate amount of 1,292 million on behalf of Ipse 2000 to the Italian Ministry of Treasury. This guarantee covered the deferred portion of Ipse 2000's required payment for its UMTS license in Italy. As of December 31, 2005, the amount outstanding for the UMTS license was 601.7 million.

As of December 31, 2005, the guarantee amount was 626.4 million. Telefónica, S.A. has agreed to guarantee to the syndicate of banks up to a maximum amount of 365.5 million as of December 31, 2005. On December 27, 2002, we in turn agreed to guarantee Telefónica, S.A. for 91.79% of the amount guaranteed by Telefónica (approximately 335.5 million as of December 31, 2005).

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Telefónica Móviles España (Spain)

UMTS Bank Guarantees

With respect to our UMTS license in Spain, we were required to provide bank guarantees totaling 1,100 million to secure the commitments assumed in our UMTS license application. These guarantees support several network build-out requirements, research and development requirements and job creation requirements, and were to be released from time to time as milestones were reached.

On June 23, 2004 the Ministry of Industry, Tourism and Commerce, pursuant to a request made by Telefónica Móviles España, issued an order modifying the commitments assumed by Telefónica Móviles España for the exploitation of the UMTS service. As a result of the modification, the amount to be secured by Telefónica Móviles España, as guarantee of the fulfillment of both the commitments prior to the launch of the UMTS service as well as those regarding the first year of service were reduced to 157.5 million. At December 31, 2005, the guarantee amounted to 157.5 million.

Medi Telecom (Morocco)

Telefónica Móviles España, as a stockholder of Medi Telecom, signed in October 2000 a Stockholders Support Agreement together with Portugal Telecom and the BMCE Group. As of December 31, 2005, this commitment requires the signatories to jointly and severally provide up to 118.3 million in the event of noncompliance with financial clauses and up to 50 million in the event of a shortfall in funds at Medi Telecom, S.A. that prevent it from meeting its debt servicing obligations. If Medi Telecom, S.A. obtains certain levels of operating income before depreciation and amortization during a certain period of time and if it fulfills all its obligations under the loan agreement, this financial commitment will be automatically cancelled.

NewComm Wireless (Puerto Rico)

On April 20, 2005, we agreed to counter guarantee Telefónica, S.A. for its guarantee of the NewComm Wireless Services, Inc.'s obligations under a US\$61 million bridge loan granted by ABN AMRO. This loan matures on June 30, 2008, with a possible extension of two additional years. Additionally, on April 20, 2005, we agreed to counter guarantee Telefónica, S.A. for its guarantee of NewComm Wireless Services, Inc.'s obligations under a Subordinated Loan of up to US\$40 million granted by ABN AMRO for the payment of amounts due under NewComm's FCC licenses. This loan matures on June 30, 2010.

GTM

We have issued a support letter in Mexico for our affiliate Grupo de Telecomunicaciones Mexicanos S.A. de C.V., or GTM. This is a letter of support for GTM's request to the Mexican regulator, COFETEL, for a national long distance license. The maximum amount of the support commitment is 124,154,700 Mexican pesos (approximately 9.8 million based on an exchange rate of 12.71445 Mexican pesos per euro) at December 31, 2005.

Portugal Telecom (Brazil)

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

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

we underwent a change of control;

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

Telefónica, S.A. underwent a change of control.

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

For the purposes of the previous paragraph, pursuant to the provisions of the Shareholders Agreement entered into by us, Portugal Telecom SGPS, S.A. and PT Moveis SGPS, S.A., a change of control is considered to exist if (i) a competitor of either party acquires (x) 15% of the share capital of Telefónica, S.A. or Portugal Telecom SGPS, S.A. or (y) the majority of the share capital of any subsidiary of Telefónica, S.A. or Portugal Telecom SGPS, S.A. holding shares in Brasilcel, NV; or (ii) a corporate transaction takes place with respect to Telefónica, S.A. or Portugal Telecom SGPS, S.A. and as a consequence thereof the majority of the members of the board of directors of such entities change.

Telefónica Móviles Colombia

On October 28, 2004, Telefónica Móviles, S.A. entered into counter guarantees on behalf of Telefónica, S.A. for the following obligations guaranteed by Telefónica, S.A.: a) a bridge loan between Telefónica Móviles Colombia, S.A. (formerly BellSouth Colombia, S.A.) and Santander Overseas Bank, Inc. in the amount of US\$274 million, and b) a bridge loan between Telefónica Móviles Colombia, S.A. and Santander Colombia, S.A. in the amount of 59.024 million Colombian pesos. Each loan matured on October 28, 2005. Each was refinanced for another year, in the amount of US\$254 million with Santander Overseas Bank Inc. and 104,762 million Colombian pesos (approximately US\$45.9 million) with Banco Santander de Colombia S.A. This arrangement was guaranteed by Telefónica S.A. and counter-guaranteed by Telefónica Móviles S.A.

Telefónica Finanzas México

On September 30, 2005 Telefónica Móviles, S.A. entered into a counter guarantee in favor of Telefónica, S.A. for the issuance by Telefónica Finanzas México, S.A. of up to 12,000 million pesos of negotiable bonds (*certificados bursátiles*), guaranteed by Telefónica, S.A. As of December 31, 2005, 5,000 million pesos have been issued (approximately US\$464 million). In February 2006, an additional 6,500 million pesos were issued.

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table sets forth aggregate information about our principal contractual obligations by type of obligation at December 31, 2005, and the periods in which payments are due.

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
	(millions of euros)				
Debentures and Bonds	680	0	108	274	299
Notes Payable	98	92	6		
Loans and credits	7,950	3,175	2,908	1,793	75
Loans and credits Foreign Currency	3,434	1,131	608	1,228	468
Financial Guarantee (1)	336	67	201	67	
Derivatives	272	195	60	18	(2)
Total	12,770	4,660	3,891	3,381	839

- (1) Guarantees of Ipse's debt to the State of Italy for the deferred payment of the UMTS license awarded in that country, expressed as the percentage attributable to Telefónica Móviles, S.A. This guarantee initially amounted to 1,292 million, having subsequently been reduced to the total actual guaranteed amount of 626.4 million, in each case expressed as the percentage attributable to Telefónica Móviles, S.A.

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Additionally, the Telefónica Móviles Group has contractual obligations that by their nature are not included in the financial statements as of December 31, 2005. These contractual obligations are shown by type of obligations and payment in the following table:

	Payments Due by Period				After 5 years
	Total	Less than 1 year	1-3 years	3-5 years	
	(millions of euros)				
Operating leases	1,477	213	425	267	572
Unconditional purchase obligations (1)	562	560	2		
Other long term obligations (OPEX)	50	48	2		
Total	2,090	821	429	267	572

(1) Includes mainly purchase obligations relating to handsets and capital expenditures.

Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**A. DIRECTORS AND SENIOR MANAGEMENT***Management**Board of Directors*

Under the Spanish Corporation Law, the Board of Directors is responsible for management, administration and representation of the company in all matters concerning our business, subject to the provisions of the by-laws (*estatutos*) and resolutions adopted at the general shareholders meetings. The Board of Directors will seek to propose candidates for election to the Board of Directors so that a majority of candidates are from outside of our company, including both independent directors and representatives of our controlling shareholder, Telefónica, S.A. The Good Corporate Governance standards of the Spanish National Securities Commission, (*Comisión Nacional del Mercado de Valores*), or CNMV, and the Rules and Regulations governing our Board of Directors, specify that independent directors, are defined as individuals who meet conditions that ensure their impartiality and objectivity, including that:

(i) they do not have or have not had recently any material direct or indirect employment, commercial or contractual relationship with us, our executives, our directors who were nominated for appointment by our controlling shareholder, credit institutions occupying a prominent position in our financing, or organizations that receive significant subsidies from us;

(ii) they are not directors of another listed company whose board of directors includes any directors that serve on our Board of Directors; and

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

Under our by-laws, our Board of Directors consists of a minimum of three and a maximum of nineteen members elected by the holders of ordinary shares at a meeting of shareholders, with the actual number being determined by a resolution passed at the shareholders' meeting. The number of directors is currently fixed at 14. Directors are elected by our shareholders to serve, according to our by-laws a five-year term and may be re-elected to serve for an unlimited number of terms. Pursuant to Article 138 of the Company Law of Spain (*Ley de Sociedades Anónimas*), if during the term of appointment of a director a vacancy occurs (for whatever reason) or if a director does not serve out his or her entire term, the Board of Directors may fill the vacancy by appointing a shareholder as a replacement director to serve until the next general shareholders' meeting. At the general shareholders' meeting, the appointment may be ratified or a new director may be elected to fill the vacancy, which is referred to as a cooptation. A director may resign or be removed from office by the shareholders at the shareholders' meeting. Our by-laws provide that a majority of the members of the board (represented in person or by proxy) constitute a quorum. Except as described below, resolutions of the Board of Directors are passed by an absolute majority of the directors present or represented at a board meeting.

Under the Spanish Corporation Law, the Board of Directors may delegate its powers to an executive committee or delegate committee or to one or more *consejeros delegados* (directors empowered by the board to act on its behalf). The Spanish Corporation Law provides that resolutions appointing an executive committee or any managing director or authorizing the permanent delegation of all, or part of, the board's power require a two-thirds majority of the members of the Board of Directors. Some powers specified in the Spanish Corporation Law and our by-laws, as well as those necessary for an adequate discharge of the board's oversight function, may not be delegated.

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Committees of the Board

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

Delegate Committee

The delegate committee functions as our Executive Committee of the Board of Directors to which all of the powers of the Board of Directors we delegated other than powers specified as non-delegable under the Spanish Corporation Law and our by-laws. On April 29, 2003, the Board of Directors, resolved, without prejudice to the powers already delegated to the Committee and in line with the recommendations on Good Governance, to entrust to the Committee the functions that are normally assigned to strategy committees. The mandate of the Executive Committee has thus been renewed.

Audit and Control Committee

The audit and control committee is responsible for providing support to the Board of Directors in supervising the correct application of generally accepted accounting principles, reviewing compliance with the internal control system, reviewing the registration statements and financial information we furnish to the market and our supervisory boards and maintaining the integrity of the preparation of individual and consolidated audits.

In addition, the Audit and Control Committee is also responsible for:

(i) reporting through its Chairman to the General Shareholders Meetings on the matters raised there by the shareholders on subjects within the Committee's scope;

(ii) proposing to the Board of Directors, for submission to the General Shareholders Meeting, the appointment of the auditor referred to under Article 204 of the Joint Stock Companies Law, as well as the terms of the retainer thereof, the scope of the professional assignment and the renewal or revocation of the appointment, as pertinent;

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(iii) supervising the internal auditing services; as part of this responsibility, in 2005, the audit and control committee supervised several internal investigations performed from time to time in response to allegations of possible breaches of our internal control systems or other wrongdoing, none of which resulted in the audit and control committee determining that there had been a material breach of our internal control system or other wrongdoing;

(iv) examining the financial information reporting process and the internal control oversight systems; and

(v) maintaining the relationship with the auditor, to receive information on such matters as may jeopardize the latter's independence, and any other matters related to the process of conducting financial audits, as well as receiving information and maintaining the communication with the Auditor as provided for in the auditing legislation and in the technical rules for auditing.

Nominating and Compensation Committee

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

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The following are our current directors and their respective positions and ages at April 6, 2006:

Name	Age	Position	Date of first appointment
Antonio Viana-Baptista(1)	48	Chairman and Chief Executive Officer	August 29, 2002
Enrique Corominas Vila(2)	70	Vicepresident	July 26, 2005
Luis Lada Díaz	56	Director	August 10, 2000
José María Álvarez-Pallete López	42	Director	May 6, 2005
Lars M. Berg	58	Director	October 20, 2000
Miguel Angel Canalejo Larrainzar	64	Director	October 20, 2000
Maximino Carpio García	60	Director	October 20, 2000
Victor Goyenechea Fuentes	55	Director	October 20, 2000
Antonio Massanell Lavilla	51	Director	October 20, 2000
Alfonso Merry del Val Gracie	59	Director	October 20, 2000
Fernando de Almansa Moreno-Barreda	57	Director	April 1, 2003
Alejandro Burillo Azcarraga	54	Director	April 1, 2003
Javier Echenique Landiribar	54	Director	May 6, 2005
José María Más Millet(1)	52	Director and Secretary	June 28, 2002

- (1) Mr. Antonio Viana-Baptista and Mr. José María Más Millet were appointed by the Board of Directors and their appointments were ratified by the General Shareholders Meeting held on April 1, 2003. See Management Board of Directors for a description of the cooptation procedure.
- (2) Mr. Enrique Corominas Vila was appointed by the Board of Directors and his appointment has to be ratified by the next General Ordinary Shareholders Meeting to be held 2006.

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

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

The delegate committee of the Board of Directors consists of Messrs. Viana-Baptista, Corominas Vila, Álvarez-Pallete López, Merry del Val Gracie, de Almansa Moreno-Barreda, Canalejo Larrainzar, Echenique Landiribar, Lada Díaz, and Más Millet and is chaired by Mr. Viana-Baptista.

The audit and control committee of the Board of Directors consists of Messrs. Echenique, Canalejo and Merry de Val and is chaired by Mr. Echenique.

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The nominating and compensation committee of the Board of Directors consists of Messrs. Más Millet, Echenique, Carpio García, Merry del Val and Berg and is chaired by Mr. Más Millet.

Table of Contents*Executive Officers*

The executive officers are elected by, and report to, the Board of Directors. Below is a list of our current Executive Officers and their respective positions with our company and ages at April 6, 2006.

<u>Name</u>	<u>Ages</u>	<u>Position</u>
Antonio Viana-Baptista	48	Chairman and Chief Executive Officer
Ernesto López Mozo	41	Chief Financial Officer
Fernando Herrera Santa María	45	Chief Commercial Officer of Telefónica Móviles España, S.A.
Antonio Hornedo Muguero	51	General Counsel and Vice Secretary (non-member) of the Board of Directors
Ignacio Camarero García	56	Chief Operating Officer of Telefónica Móviles España, S.A.
Belén Amatriaín Corbi	47	Managing Director of Telefónica Móviles España, S.A.
Manuel Costa Marques	46	General Manager of Development of Business
Luis Miguel Gilpérez	47	Executive Director of the International Area of Telefónica Móviles
Emilio Gayo Rodríguez	40	General Manager of Operations of Telefónica Móviles
Eduardo Caride	48	Chief Executive officer for south area
Miguel Menchén Alumbrosos	52	General Manager for Telefónica Móviles México
Iñigo Serrano Chacón	41	General Manager of Medi Telecom

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

Antonio Viana-Baptista has served as Chairman and Chief Executive Officer since September 2002. He is an economist who graduated from the Catholic University of Lisbon in 1980. He has a post graduate degree in European Economy (1981), and an MBA, obtained with a distinction mention, from INSEAD (Fontainebleu). He is member of the Board of Directors, the Delegate Committee of Telefónica S.A., the Board of Directors of O₂ plc and the Supervisory Board of Cesky Telecom, a.s. He is also Chairman of Telefónica Móviles España, S.A. and member of the Board of Directors of Telefónica Internacional, S.A., Portugal Telecom SGPS, Brasilcel N.V., Telefónica de España, S.A. and Telefónica de Argentina, S.A. Until July 2002, he served as President of Telefónica Internacional and Executive President of Telefónica Latinoamérica. Before that he also served from 1991 until 1996, as Executive Director of BPI (Banco Portugues de Investimento). From 1985 until 1991 Mr. Viana-Baptista was Principal Partner of McKinsey & Co. in Madrid and Lisbon.

Enrique Corominas Vila serves as Vicepresident of the Board of Directors. He is currently the Chairman of the Control Committee of Caja de Ahorros y Pensiones de Barcelona or La Caixa. He also serves as a member of the Board of Directors of Abertis and AGBAR.

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

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

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Lars M. Berg serves as a director. Since August 2000, Mr. Berg has been an independent investor and consultant and non-executive board member of several companies in the telecommunications and financial industries, and currently serves as a director of Telefónica Móviles Colombia and Telcel Venezuela and, among others, Eniro AB, Ratos AB, Net Insight AB, Wayfinder Systems and Viamare Investment AB. In March 1999, he joined Mannesmann AG, Dusseldorf, as one of the members of the Executive Board, responsible for telecommunications, and from 1994 until 1999 he was President and Chief Executive Officer of Telia AB, a telecommunications operator in the Nordic/Baltic area. Between 1970 and 1994 he held various management positions in the Ericsson Group, including the position of President of Ericsson Venezuela, Ericsson Radio Systems Sweden AB, Ericsson Cables AB and Ericsson Business Networks AB, among others. He was a member of the Ericsson Corporate Management Committee for 10 years. Mr. Berg received a degree in business administration from the Gothenburg School of Economics in 1970.

Miguel Angel Canalejo Larrainzar serves as a director. In 1967 he began working for Union Carbide Corporation. In 1977 he was appointed Chairman and Managing Director of Unión Carbide Navarra and Unión Carbide Ibérica. In July 1984, Mr. Canalejo joined Standard Eléctrica, S.A., as Managing Director. From December 1986 until December 2000 he was Chairman and Chief Executive Officer of Alcatel Spain. From January 1996 until September 2000 he served as President of Alcatel Latinamérica. At present he is, among others, a member of the Board of Directors of Unión Fenosa, S.A., Azcoyen, S.A., Sodena, S.A., Nazca Capital, S.G.E.C.R. and FYCSA and Sodena, S.A. He studied at the Escuela Técnica Superior de Ingenieros Industriales in Madrid and completed his professional training at IESE.

Maximino Carpio García serves as a director. Mr. Carpio is a member of the Board of Directors of Telefónica, S.A. He also serves as a member of the Advisory Committee of Abengoa, S.A. From 1992 to 1995, Mr. Carpio was Dean of the Economics faculty and from 1984 to 1992, he was the head of the Department of Economics and Public Finance, in each case at the Universidad Autónoma de Madrid. Mr. Carpio also received his doctorate degree from the Universidad Autónoma de Madrid.

Victor Goyenechea Fuentes serves as a director. He is also a member of the boards of directors of, among others, Fonytel, and a member of the Advisory Board of Nokia. He served in the past as Deputy Director General of Banco Bilbao Vizcaya Argentaria since 1986 and managed BBVA's Telecommunications, Media and Internet Unit. From 1974 to 1986, he worked at Telefónica de España, S.A. as Deputy General Manager (Subdirector General). Mr. Goyenechea received his undergraduate degree in business and economics from the Universidad Comercial de Deusto, and a masters degree in strategic planning from the same institution. Currently he is retired and works as an independent consultant.

Antonio Massanell Lavilla serves as a director. He is also a senior Executive Vice President of Caja de Ahorros y Pensiones de Barcelona, la Caixa, and member of the Board of Directors of Telefónica, S.A., and among others, Port Aventura, S.A. and Baqueira Beret, S.A. and e-la Caixa. As a representative of Caja de Ahorros y Pensiones de Barcelona, he has worked with the Telefónica group in the deployment of Caja de Ahorros y Pensiones de Barcelona's corporate telecommunications network. Mr. Massanell has a B.A. degree in Economics and Business Administration from the University of Barcelona.

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

Javier Echenique Landiribar serves as a director and is the Chairman of the Audit and Control Committee. He currently serves as a member of the boards of directors of Telefónica Móviles México, S.A. de C.V. and, among others, ACS Actividades de Construcción y Servicios, S.A., URALITA, S.A., Hidrocantábrico, S.A. y Grupo Empresarial ENCE. In recent years he has served as a member of the boards of directors of Telefónica de España, S.A., Sevillana de Electricidad, S.A., Autopistas Concesionaria de España, S.A., Finanzia Banco de Crédito, S.A., Metrovacesa and Grupo AXA Aurora. Mr. Echenique served from 1990 as executive officer at various areas of BBVA. He received a degree in

economics in 1974.

José María Mas Millet serves as a director and Secretary of the Board of Directors and is the Chairman of the Nominating and Compensation Committee. Mr. Mas is a member of the boards of directors of Telefónica Móviles Colombia, S.A., Telcel (Venezuela) and, among others, NH Hoteles, S.A., SOS CUETARA, S.A.,

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SOTOGRANDE, S.A. and Aumar, S.A. From 1997 to April 2001, Mr. Más served as General Counsel of Telefónica, S.A. and Secretary of its Board of Directors. From 1995 to January 2000 he served on the Board of Directors of Caja de Ahorro de Valencia, Castellón y Alicante. Prior to 1997, Mr. Mas holds a degree in law.

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

Alejandro Burillo Azcárraga serves as a director. He is a founding member of Televisa, and participates in different executive positions in various companies such as PanAmSat, Univisión and ECO among others. In 1996, Alejandro Burillo created Grupo Pegaso, to concentrate his different businesses. In 2000, he decided to transfer his participation in Televisa, being at the time the second major shareholder of the company. Currently, he is the President of the Board of Directors of Grupo Pegaso, a holding company which owns interests in several companies such as Pegaso PCS, Grupo Wcom, Televisión Internacional, S.A. de C.V., and PanAmSat de México. He also has interests in sports businesses, (being the owner of different soccer teams in Mexico and the adviser of the FIFA President) and in the cultural area, he is founder of Casa Lamm, which promotes different artists in Mexico, and participates in beneficial institutions in Mexico.

The following is the biographical information for our executive officers:

Ernesto López Mozo serves as Chief Financial Officer. Mr. López is a member of the Board of Directors of Telefónica Móviles España, S.A., Telefónica Móviles México, S.A. de C.V., Brasilcel N.V., MobiPay International, S.A., Telefónica Móviles, S.A. (Perú) and Telefónica Móviles Colombia, S.A. He was previously a senior manager in the financing department of Telefónica, S.A. where he was also responsible for relationships with credit rating agencies. Before joining Telefónica in March 1999, Mr. López worked for five years at J.P. Morgan where he was a Vice President in charge of the interest rate derivatives trading desk for Spain and Portugal for three years. At J.P. Morgan, he was also involved in sales to mutual and pension funds. Prior to joining J.P. Morgan, Mr. López worked as an engineer, managing the construction of highways and other infrastructure. He holds a degree in civil engineering from ETSICCP in Madrid and a Masters in Business Administration from the Wharton School.

Fernando Herrera Santa María serves as Chief Commercial Officer of Telefónica Móviles España, S.A. Mr. Herrera is a member of the Board of Directors of Telefónica Móviles España, S.A. He has a degree in economics from the Universidad Complutense de Madrid and a masters in business administration from IESE. Mr. Herrera has eight years of experience in the telecommunications industry holding various managerial positions within the Telefónica Group. Prior to this appointment he acted as general Manager of Resources and Management Control of Telefónica Móviles España. He also serves on the Board of Directors of Telefónica Móviles España S.A.

Antonio Hornedo Muguero serves as the General Counsel and Vice-Secretary (non-member) of the Board of Directors. He serves as director of Telefónica Móviles El Salvador, S.A. de C.V., Telefónica Móviles Guatemala, S.A., Telefónica Móviles Panamá, S.A. and Multi Holding Corporation. Mr. Hornedo also serves as Secretary (non-member) of Seguros de Vida y Pensiones-ANTARES, S.A. He served as Secretary for Fonditel, EGFP from 1993 to 2000. Until March 1999, he worked as a legal counsel for Telefónica de España.

Ignacio Camarero García serves as Chief Technology Officer. Mr. Camarero currently also serves on the Board of Directors of Telefónica Móviles España, S.A. Telefónica I+D, S.A. and MobiPay España, S.A. From 1996 to 1998 he served as Vice President and General Manager of Southern Europe for Motorola Inc. and from 1998 to 2001 as Manager of Technology at Airtel España. Mr. Camarero received his degree in physics from the Universidad de Valladolid.

Belén Amatriaín Corbi serves, since May 2005, as Chief Executive Officer of Telefónica Móviles España. She was previously, from June 2000, Executive Chairman of Telefónica Publicidad e Información (TPI). She

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joined the Telefónica Group in 1997 as head of marketing at TPI-Yellow Pages. Two years later she was appointed Chief Operating Officer of the Internet and New Technologies area and to the Board of Directors of Euredit, which publishes Europages. Ms. Amatriain began her professional career in American food multinational Kraft General Foods' mass marketing department, where she was Product Manager. She continued her career in the Advertising department of BSB, part of the Saatchi & Saatchi group, as Account Manager. She then joined the advertising multinational GREY, where she was Customer Services Director and Director of Media Relations. She was also the founder of Marketing Plan, a retail marketing consultancy, and was Sales and Marketing Director at King's Educational Group. She earned a degree in law and economics from ICADE.

Luis Miguel Gilpérez serves as Executive Director of the International Area of Telefónica Móviles. Mr. Gilpérez also serves on the Board of Directors of Medi Telecom, S.A., Telefónica Móviles México, S.A. de C.V., Brasilcel, N.V., Telesp Celular Participações, S.A. Telefónica Móviles, S.A. (Perú), Telefónica Móviles Colombia, S.A. (Chairman), Otecel, S.A. (Chairman), Telcel Venezuela, C.A. (Chairman), Telefonía Celular de Nicaragua, S.A., Telefónica Móviles Argentina Holding, S.A., Telefónica Móviles Chile, S.A., Telefónica Móviles de Chile, S.A., Telefónica Móviles Panamá, S.A. (Chairman), Multiholding Corporation (Chairman), Telefónica Móviles Nicaragua, S.A. and Telefónica Móviles Guatemala, S.A. (Chairman), among others. He is also Chairman of MobiPay International, S.A. Mr. Gilpérez has a degree in Industrial Engineering and an MBA. He began his career at an insurance company, where he worked for six years, in various departments. He joined the Telefónica group in 1981, where he has worked since. He has particularly been involved with activities related to mobile telephony. He was in charge of the service's commercial activities from 1987 to 1993, when Telefónica Móviles España was created. At Telefónica Móviles España he has held management positions in virtually all its business areas.

Manuel Costa Marques serves as General Manager of Development of Latin American Business. From 1984 until 1990 he served as Executive Board Member of various financial institutions including a brokerage firm, two leasing companies and CISF, a listed Bank, where he was one of the three members of CISF's Board Executive Committee. From 1990 until 1997 he was President, CEO and major shareholder of SISF, a holding company of various financial companies. SISF later became part of the Banco Portugues de Investimento Group. In 1997 he served as Managing Director of Banco Portugues de Investimento heading privatizations of companies, and as Executive Board member of Finangest, the holding company of all major Portuguese state industrial participations. Mr. Costa Marques also serves as Head of Strategic Planning, M&A and Corporate Finance, and member of the Board of Directors of Telefónica Internacional, S.A. Mr. Costa Marques also served as a member of the Board of Directors of Emergia N.V. from June 1999, until December 2002. He serves on the Board of Directors of Telefónica Móviles México and Otelcel, among others.

Miguel Menchén Alumbroeros is acting General Manager of Telefónica Móviles Mexico. Mr. Menchen also serves on the Board of Directors of Telefónica Móviles México, S.A. de C.V. Mr. Menchén joined the Telefónica Group in 1978 and has held various managerial positions since including positions at Telefónica de España, and Telefónica Móviles España and Medi Telecom. Mr. Menchén holds a degree in Telecommunications engineering from the Madrid Universidad Politécnica.

Emilio Gayo Rodriguez serves as the General Manager of Operations of Telefónica Móviles. Mr. Gayo also serves on the Board of Directors of Mobipay International, S.A. He was previously a senior partner in Europraxis Consulting in charge of Telecommunication Industry and a member of its Board of Directors. Prior to joining Europraxis Consulting, he worked at Bain & Company and ATT Network Systems. Mr. Gayo has a degree in telecommunications engineering from the Universidad Politécnica de Madrid and a masters in business administration from IESE.

Eduardo Caride serves as Chief Executive Officer for the Southern Cone. He began his career with Deloitte & Touche. In 1981, he joined Citibank, holding several management posts until 1990, when he joined Telefónica de Argentina, S.A., where he was responsible for the Finance, Insurance, Internal Auditing, Budget and Investor Relations departments. In 1997, he was appointed Head of the Residential Communications Business Unit. In 1998, he became General Manager. Mr. Caride joined Emergia as Chief Operating Officer and in June 2001 he was appointed Executive Chairman of Telefónica Data and Emergia. In 2004, he was appointed General Manager for Argentina, Chile and Uruguay at Telefónica Móviles. He holds a degree as a certified public accountant and a graduate degree in business administration, both from the Economics Faculty of the University of Buenos Aires. Mr. Caride is a member of the Boards of Directors of Telefónica Móviles, S.A. (Perú),

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Telefónica Móviles Argentina Holding, S.A. Telefónica Móviles Chile, S.A. (Chairman), Telefónica Moviles de Chile, S.A. (Chairman), Telefónica Comunicaciones Personales and Abiatar (Chairman),. Telefónica Móviles Argentina, S.A. (Chairman), Compañía de Radiocomunicaciones Moviles, S.A. (Chairman), Telefónica Moviles Inversora, S.A. (Chairman), B.A. Celular Inversora, S.A. (Chairman), Compañía de Telefonos de la Plata, S.A. (Chairman).

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Iñigo Serrano serves as General Manager for Medi Telecom. Before joining the Telefónica Group in 1996 he held several managerial positions at AT&T Network Systems and Nortel. Subsequently he has held various managerial positions in the Telefónica Group. He is also member of the Boards of Directors of Medi Telecom, S.A. Prior to his actual appointment he served as General Manager of corporate development in Asia. Mr.Serrano holds a degree in Telecommunications engineering from Madrid Universidad Politécnica.

B. COMPENSATION*Compensation of Directors and Executive Officers*

The compensation paid to our directors consists of a fixed and defined allocation, fees for attendance at meetings of our board committees, and, since October 2004, an additional fixed and defined allocation for membership of the board committees, except for the President of the Delegate Committee, who does not receive this additional allocation. The Executive Directors receive the respective payments for discharging their duties.

In 2005, the aggregate compensation of all of our directors paid or accrued by us was 3,789 thousand, as described in the following table:

	Year 2005
	(thousand euro)
Salaries(1)	762
Variable compensation(1)	661
Fixed remuneration (2)	2,085
Attendance fees	96
Benefits in kind(3)	71
External services(4)	114
Total	3,789

- (1) Compensation for Executive Directors.
- (2) Includes fixed remuneration for being members of board committees as well as compensation directors received for belonging to the Board of Directors of other Companies in the Telefónica Móviles Group.
- (3) Includes health insurance, housing, life insurance and pension plans for Executive Directors.
- (4) Includes compensation received by MELOG, BBVA and Mas Querol y Asociados for advisory and consulting services. See Item 7.B Related Party Transactions Agreement with Mr. Lars Berg and Item 7.B Related Party Transactions Agreement with José María Más Millet.

The following tables set forth the compensation received by our Directors in 2005:

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

	<u>Year 2005</u>
	(thousand euro)
Chairman	120
Vicepresident	200
Members	120
Secretary	120

Other Board Committees.

Fixed amount for membership of Board Committees:

<u>Position</u>	<u>At Year-End 2005</u>
	(thousand euro)
President(1)	20
Member	10

(1) Not payable to the President of the Delegate Committee.

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

	Number of	Per diem per	Total paid to
	meetings	meeting	all committee
	(Year 2005)	(thousand euros)	members
	<u>(Year 2005)</u>	<u>meeting</u>	<u>(Year 2005)</u>
Audit and Control Committee	11	1,250	35
Delegate Committee	1	1,250	11
Nominating and Compensation Committee	8	1,250	50

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Our executive officers (excluding the Chairman), as well as those persons who report directly to the Chairman, received compensation of approximately 8,044 thousand in 2005, as described in the following table:

	Year 2005
	(thousand euros)
Salaries	4,928
Variable compensation	2,830
Benefits in kind	172
Pension plans	114
Total	8,042

Other than their eligibility to participate in our share option plan, our directors and executive officers are entitled to the same general employee benefits as the other employees of our company.

Employee Share Option Plan

Our shareholders authorized our Board of Directors to implement an employee share option plan to help attract, retain and motivate employees. The Board of Directors defined the terms of the plan (the MOS Program) in a meeting held on September 21, 2001. This plan covers up to a total of 21,445,962 ordinary shares of our company.

The terms and conditions of the MOS Program described below apply to our executive directors and senior management and to employees of the Telefónica Móviles Group.

Under the MOS Program, each beneficiary who was an executive director or a manager (including general managers and similar posts) and meets the requirements was granted a predetermined number of options (based on their position) of each of the following three classes of options:

Class A Options, with an exercise price of 11.00 per option, which was the price of our shares in our initial public offering in November 2000.

Class B Options, with an exercise price of 16.50 per option. This exercise price was 150% of the price fixed for our shares in our initial public offering in November 2000.

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

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

every 20 options granted to them.

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

In order to provide coverage for the MOS Program, on September 21, 2001, the Board of Directors resolved to carry out the capital increase approved by the Special Stockholders Meeting on October 26, 2000. The Company issued 21,445,962 shares of 0.50 par value each, which were subscribed and paid by BBVA (50%) and La Caixa (50%).

On September 27, 2001, Telefónica Móviles, S.A., on the one hand, and BBVA and La Caixa, on the other, entered into the related share subscription and call option contracts under which the two aforementioned financial institutions granted Telefónica Móviles, S.A. a call option on each of the shares subscribed in order to enable Telefónica Móviles, S.A. to meet its commitments to the beneficiaries of the MOS Program. The capital increase required in connection with physically-settled options was approved by the CNMV on September 28, 2001.

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

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commenced and covered the companies and new employees who fulfilled the requirements envisaged in the plan. The second phase ended on December 31, 2003. The terms and conditions under which they can join are identical to the terms and conditions for those who joined before them, except for the number of options granted, which are reduced by a monthly factor to account for the shorter time at the Móviles Group. See Item 6.E Share Ownership for options granted to directors.

A total of 6,970 beneficiaries under the MOS Program held 9,446,373 options as of December 31, 2005. The first exercise period began on January 2, 2004 and ended April 3, 2004. During this period, a total of 79,823 options were exercised by 778 beneficiaries. Of those only two chose to receive shares, while the remainder chose to receive cash in the total amount of 109 thousand. Additionally, during 2004, we paid approximately 844 thousand to 859 beneficiaries holding 1,681,928 shares who have exited the MOS as a result of early terminations and voluntary resignations. The second exercise period ended in April 2005. A total of 1,019 employees exercised a total of 383,116 options. Of those only six chose to receive shares, while the remainder chose to receive cash in the total amount of 320.4 thousand. Additionally, during 2005, we paid approximately 791.7 thousand to 605 beneficiaries holding 1,307,6552 shares who have exited the MOS as a result of early terminations and voluntary resignations.

As of December 31, 2005 we have set aside a total of 8,000 thousand for benefits and pension plans for our executive Directors.

C. BOARD PRACTICES

The only board member that could potentially be entitled to employee benefits upon termination of employment is Antonio Viana-Baptista, our Chairman and Chief Executive Officer.

D. EMPLOYEES

Human Resources

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

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

Employees

At December 31, 2005, we employed approximately 22,600 individuals in our consolidated operations. The following table sets forth the number of employees by country:

Country	2003	2004	2005
	(in thousands)		
Spain (including headquarters in Madrid, Spain)	4.7	4.6	4.7
Brazil(1)	3.3	3.1	3.0
Argentina	0.8	0.9	2.9
Peru(2)	0.7	1.2	1.2
Mexico	2.0	1.9	2.0
El Salvador	0.3	0.3	0.4
Guatemala(3)	0.3	0.5	0.5
Colombia		1.8	2.0
Uruguay		0.3	0.3
Venezuela		2.4	2.4
Ecuador		0.6	0.7
Panamá		0.5	0.6
Nicaragua		0.2	0.3
Chile(4)	0.1	0.9	1.6
Total	12.2	19.2	22.6

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- (1) Since our Brazilian operations are operated as a joint venture with Portugal Telecom, the number of employees in Brazil represents 50% of the total number of employees of the Brazilian entities which are proportionally consolidated in our financial statements.
- (2) The number of employees in Peru for 2004 and 2005 includes the employees of BellSouth Peru, which we acquired in October 2004.
- (3) The number of employees in Guatemala for 2004 and 2005 includes the employees of BellSouth Guatemala, which we acquired in October 2004.
- (4) The number of employees in Chile for 2004 and 2005 includes the employees of Telefónica Móvil de Chile, which we acquired in July 2004.

We are a party to collective bargaining agreements covering a total of approximately 9,900 employees of Telefónica Móviles España in Spain, Telefónica Móvil in Chile and Vivo in Brazil. New collective bargaining agreements were signed with employees of Telefónica Móviles España and Vivo in 2004. Our collective bargaining agreements typically govern salaries, overtime, length of workday, and benefits, as well as relations with the respective labor union of each company. Employees that are managers, directors or supervisors are ineligible to participate in these collective bargaining agreements. Items not covered by our collective bargaining agreements include organization of tasks and designation of employee responsibilities, recruiting and employee work schedules. All eligible employees in Spain and Brazil are party to such collective bargaining agreements. Neither we nor our operating companies have had any work stoppages or strikes.

We do not currently have any material pending labor-related claims.

E. SHARE OWNERSHIP

As of April 6, 2006, the members of our Board of Directors owned an aggregate of 82,024 of our ordinary shares, representing less than 0.01% of our capital stock, as shown in the table below.

Name	No. of Shares
Antonio Viana-Baptista	10,000
Luis Lada Díaz	13,576
José María Más Millet	10
José María Álvarez-Pallete López	1512
Lars M. Berg	12,500
Miguel Canalejo Larrainzar	0
Maximino Carpio García	3341
Enrique Corominas Vila	400
Victor Goyenechea Fuentes	2,202
Antonio Massanell Lavilla	105
Alfonso Merry del Val Gracie	378
Javier Echenique Landiribar	38,000
Alejandro Burillo Azcarraga	0
Fernando de Almansa Moreno-Barreda	0
Total	82,024

As of April 6, 2006, our executive officers (excluding members of the Board of Directors as noted above) owned an aggregate of 30,763 of our ordinary shares, representing less than 0.01% of our capital stock.

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Pursuant to the MOS Program described in Item 6.B Compensation Employee Share Option Plan above, executive directors and senior management have been granted options on our ordinary shares, some of them have exercised their options in the relevant exercise period, the remaining options granted and not exercise are as follows:

	<u>Class A Options</u>	<u>Class B Options</u>	<u>Class C Options</u>	<u>Total</u>
Antonio Viana-Baptista	45,434	45,434	90,868	181,736
Ignacio Camarero García	38,985	38,985	77,970	155,940
Ernesto López Mozo	18,019	18,019	36,038	72,076
Fernando Herrera Santamaría	18,019	18,019	36,038	72,076
Antonio Hornedo Muguero	17,319	17,319	34,638	69,276
Manuel Costa Marques	20,078	20,078	40,156	80,312
Luis Miguel Gilpérez	24,940	24,940	49,880	99,760
Iñigo Serrano	4,876	4,876	9,752	19,504
Miguel Menchén Alumbrosos	19,195	19,195	38,391	76,781

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

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As of April 6, 2005, according to information known to us or available in the public registers of the CNMV, beneficial owners of 5% or more of our voting stock were as follows:

<u>Title of Class</u>	<u>Identity of Person or Group</u>	<u>Number of Shares</u>	<u>Percent</u>
Ordinary(1)	Telefónica, S.A	3,077,983,129	71.07
Ordinary	Telefónica Internacional, S.A.	927,917,620	21.43

- (1) Number of shares held directly by Telefónica S.A. As of April 6, 2006, Telefónica S.A. owned, either directly or indirectly, through Telefónica Internacional, S.A. (TISA), its 100%-owned subsidiary, 92.5% of our capital stock. Pursuant to the planned merger between Telefónica, S.A. and Telefónica Móviles, S.A., Telefónica, S.A. has announced its intention to purchase the 927,917,620 Telefónica Móviles shares held by Telefónica Internacional, S.A.

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

As of March 29, 2006, holders with registered addresses in the United States owned an aggregate of approximately 1,603,274 of our ordinary shares, representing less than 0.004% of our ordinary shares issued and outstanding.

Limitations on Certain Transactions

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

Following the amendment of Law 5/1995 by Law 62/2003 of December 30, 2003 (the Law accompanying the State Budget for 2004), arrangements are now in force until February 18, 2007 requiring the government to be notified of and giving it the power to veto any disposals of shares in Telefónica Móviles representing at least 10% of its capital stock or any transaction that would decrease Telefónica, S.A.'s interest in us or our interest in our Spanish operating company to less than 50%, as well as any sale, transfer or encumbrance of the material assets of Telefónica Móviles España.

The notification requirement described above does not apply to acquisitions of shares representing 10% or more of the capital stock of Telefónica Móviles, S.A. that are merely for investment purposes and are not for the purpose of taking over the control and/or management of

the Company.

However, pursuant to the reasoned opinion sent by the European Commission to the Spanish government on November 25, 2005, the Spanish Cabinet approved a bill to abolish this framework for the disposal of publicly-owned shareholdings in certain companies. If adopted, this bill would accelerate the abolishment of this system, which, in Telefónica Móviles case, was scheduled to occur on February 18, 2007.

B. RELATED PARTY TRANSACTIONS

Relationship Between Our Company and the Telefónica Group

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

The Telefónica Group also engages in wireless activities through companies that are not part of our group. For instance, Telefónica, S.A. engages in certain wireless activities through O₂ plc, a large, well-established United Kingdom-based wireless company, and Cesky Telecom, which operates principally in the Czech Republic. These companies may have activities which overlap or compete with our activities. As a result, Telefónica, S.A. may be called upon to address competitive conflicts between Telefónica Móviles and other companies in the Telefónica Group. These conflicts would be addressed by the executive committee of the Board of Directors of Telefónica, S.A.

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Proposed Merger with Telefónica, S.A.

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

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

Business Transactions and Contractual Arrangements with Directors and Senior Management

During 2001 and 2002, we entered into the three agreements which currently remain in force with members of our Board of Directors or parties controlled by them. Both agreements were negotiated on an arm's-length basis and are described below.

Agreement with Mr. Lars Berg

In 2001, we entered into a consulting agreement with MELOG, BBVA, a company controlled by one of our directors, Lars M. Berg. This agreement ended during second quarter of 2005. MELOG, BBVA provided telecom technology consulting services to the companies of the Telefónica Móviles Group. In 2005, we paid 54,091 to MELOG, BBVA under the consulting agreement.

Agreement with José María Más Millet

In 2001, we entered into an agreement with José María Más Millet, Secretary of the Board of Directors, to provide legal advisory services to Telefónica Móviles, S.A. This agreement will continue in force for as long as Mr. Más Millet is Secretary of the Board of Directors. Compensation is negotiated on an arm's-length basis and is calculated on a yearly basis. In 2005, we paid 60,777 to Mr. Más Millet's firm under the agreement.

Agreement with the Burillo Group

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

Our agreement with Mr. Burillo at the time that he was an 8% shareholder in Telefónica Móviles Mexico included put rights for the Burillo Group and call rights for us with respect to the Burillo Group's shares in Telefónica Móviles Mexico. Under that agreement the dates for executing our call option would have been the third quarter of 2007 (4% share) and the third quarter of 2008 for the remaining 4% or 8% if the option was not partially exercised in 2007.

In December of 2005 we entered into a share exchange agreement with the Burillo Group whereby we acquired 8% of Telefónica Móviles Mexico, S.A. de C.V., increasing our holding to 100% of Telefónica Móviles Mexico.

The transaction represents a cost to us of 177 million. It is being structured via the exchange of shares of Telefónica Móviles Mexico, S.A. for the shares of Telefónica, S.A. Accordingly, Mr. Burillo will become a stockholder of the parent company of the Telefónica Móviles Mexico Group.

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The operation will not involve any significant increase in our debt as, under IFRS, the minimum price for Grupo Burillo's put option has been booked as debt. At December 31, 2005, such debt would have been 152.8 million.

Business Transactions and Contractual Arrangements with the Telefónica Group

We have entered into, or expect to enter into, business transactions and contractual arrangements with Telefónica, S.A. and other companies within the Telefónica Group covering a broad range of matters, including, among others, transfers of wireless operations to us, financing arrangements, interconnection and other telecommunications services, provision of corporate, administrative and other services, leases of real estate in certain countries, management contracts for operations that have not been transferred to us, use of brand names and intellectual property, and tax-sharing arrangements. It is our policy to ensure that the terms of these transactions and arrangements are at least as favorable to us as we could obtain in an arm's-length transaction between non-affiliated parties, and, whenever possible in light of legal or regulatory constraints, that we obtain services on a preferential or most-favored-customer basis.

The following is a discussion of our principal business transactions and contractual arrangements with Telefónica Group companies:

Agreements and Arrangements Providing for the Transfer of the Interest in NewComm Wireless Services, Inc. to Our Company

In September 2003, the secured convertible promissory notes representing the investment of Telefónica Internacional, S.A. in the Puerto Rican operator NewComm Wireless Services, Inc. were transferred to the Móviles Group. These convertible promissory notes and others directly owned by us, which amounted to \$82 million, entitled us to acquire 49.9% of NewComm's capital stock. We exercised these conversion of this notes on April 20, 2005. During 2005 and the first quarter of 2006, our interest in NewComm has been diluted to approximately 2% as a result of two separate capital increases in which we elected not to participate. Notwithstanding this, we are entitled to purchase after a period of three years commencing on April 20, 2005 the number of shares necessary for us to acquire control of NewComm. Telefónica, S.A. is guaranteeing up to US\$100,000 thousand in loans to the company and we are providing Telefónica, S.A. with a counter guarantee.

Agreements with Terra Networks, S.A.

On June 12, 2003, Telefónica Móviles acquired 20% of Terra Mobile, S.A. from Terra Networks, thus obtaining ownership of all its shares of capital stock. The price agreed on was 1.

Subsequently in June 2003, Telefónica Móviles, as sole stockholder of Terra Mobile, S.A., resolved to merge Termespa, S.A. into Terra Mobile, S.A., with the dissolution without liquidation of Termespa, S.A. and the universal transfer of the assets of the absorbed company to the absorbing company, which acquired by way of universal succession the former's rights and obligations. Also, the business name of Terra Mobile, S.A. was changed to Telefónica Móviles Interacciona, S.A.

In 2005, Terra Networks, S.A. was merged with and into Telefónica, S.A.

Stock Purchase Agreement with Compañía de Telecomunicaciones de Chile

On May 18, 2004, the Board of Directors of Telefónica CTC Chile, S.A., or CTC, accepted our binding offer for the purchase of 100% of the shares of its subsidiary, Telefónica Móvil de Chile, S.A. Telefónica S.A. owns 43.6% of CTC. We have been managing Telefónica Móvil de Chile's operations since 2000. We completed the acquisition on July 23, 2004. The purchase price was \$869.9 million. In addition, we assumed approximately 168,000 million Chilean Pesos in debt owed by Telefónica Móvil de Chile to CTC.

Agreement with Telefónica Sistemas, S.A.

On June 27, 2003, Telefónica Móviles sold its holding in Telefónica Mobile Solutions S.A. to Telefónica Sistemas, S.A. for \$1,129 thousand, the company's book value at the sale date.

Intra-Group Loan and Financing Arrangements

The Telefónica Group has historically extended loans to our company or our subsidiaries to help satisfy our liquidity and capital resource requirements. At December 31, 2005, we had an aggregate of \$9,824.5 million of

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loans and credit due to Telefónica, S.A. and other Telefónica Group companies. We expect that Telefónica, S.A. will continue to provide financing to us by obtaining funds at prevailing market rates and then on-lending these funds to our company. These on-lendings are expected to reflect the rates and terms our company would be able to obtain from third parties.

Interconnection and Related Telecommunications Services

As wireless service providers, our operating companies and the companies in which we hold an interest interconnect their networks with those of fixed-line service providers as well as those of other wireless service providers. We also require network and maintenance services. When possible, we utilize the interconnection and network maintenance services of other companies in the Telefónica Group, including, in Spain, Telefónica de España, S.A. In addition, as a result of the transfer of the Telefónica Group's Peruvian and Argentine wireless operations we inherited established relationships between those wireless operators and Telefónica del Perú and Telefónica de Argentina, respectively. In Spain, as in each of the countries in which we operate, the terms of interconnection agreements are generally regulated by the respective governments to ensure that the same terms are available to all operators and that there is no discrimination based upon inter-company relationships. In 2005 and 2004, the purchase and outside services account accrued by the Telefónica Group amounted to 853 million and 735 million, respectively, which mainly include interconnection fees, use of network and maintenance.

Corporate, Administrative and Other Services

Although we intend to rely primarily on our own employees and resources for the provision of internal corporate and administrative services, including management of our finance, auditing, insurance, payroll, personnel, information technology and data processing needs, we also rely on the Telefónica Group for some of these services. The provision of services by the Telefónica Group would be made pursuant to arm's-length agreements at fair market prices. In addition, some of operating companies may outsource specified corporate and administrative services to shared cost centers in the Telefónica Group, paying for them on a cost basis.

Proposed Merger with Telefónica, S.A.

On March 29, 2006, the Board of Directors of Telefónica Móviles approved Telefónica S.A.'s proposed merger with Telefónica Móviles. The share swap equation of 4 Telefónica shares, each with a par value of one euro, for every 5 Telefónica Móviles shares or ADSs, each with a par value of 0.50 euros, determined on the basis of the real value of the net worth of the two companies, has also been approved by the Boards of Directors of both companies. The merger proposal is subject to approval by the shareholders at the Ordinary and Extraordinary General Shareholders' Meetings of both companies.

Management Contracts

Puerto Rico

In April 2005, our management and technical capacity transfer arrangements with NewComm Wireless Services, Inc. terminated.

Brazil

On October 5, 2000, we entered into an agreement with Telefónica Internacional pursuant to which Telefónica Internacional transferred to us all of its rights and obligations under a Consulting Services Agreement with Telerj Celular, Telest Celular, Telebahia Celular and Telergipe Celular, and under a Services Agreement with TBS Celular Participações, S.A. Pursuant to these agreements, we are entitled to an annual fee, in exchange for our services, varying from 1% to 2% of net revenues of these companies obtained by a formula with different variables. As of December 31, 2005 and 2004, the revenues earned in this connection relating to Telerj Celular, S.A. and Telest Celular, S.A. amounted to 11,499 thousand and 426 thousand, respectively, and those relating to Telebahia Celular, S.A. and Telergipe Celular, S.A. amounted to 753 thousand and 1,347 thousand, respectively.

Pursuant to the consulting service agreement with Celular CRT, S.A., we are entitled, in exchange for our services, to an annual fee equal to 1% of the net revenues of the Celular CRT, S.A., based on the fulfillment of certain contractually established network service quality requirements. The revenues earned in this connection amounted to 2,599 thousand and 2,315 thousand as of December 31, 2005 and 2004, respectively.

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On December 17, 2004 Telefónica Móviles entered into contracts for the Transfer of Technical and Management Capacity with Telefónica Móviles S.A.C., which is Telefónica Móviles' operator in Peru. The contract has an initial term of one year and can be extended for additional one-year periods. The contract for the transfer of technical capacity sets forth a fee equivalent to 1% of the billable income from Telefónica Móviles S.A.C.'s operations. This fee is fixed for the term of the contract. The contract for transfer of management capacity sets forth a detailed fee table in connection with the services to be provided by management capacity specialized professionals and technicians appointed by Telefónica Móviles. The accrued income from these services at year end December 31, 2005 and 2004 was 3,415 thousand and 11,569 thousand, respectively.

El Salvador

Until December of 2005, Telefónica Móviles S.A. was a party to a technical capacity transfer and management contracts with Telefónica Móviles El Salvador, S.A. de C.V. (TELESAL). Pursuant to this agreement, we are entitled, in exchange for our services, to an annual fee, payable quarterly, equal to 1% of the revenues received from services billed in transactions of Telefónica Móviles El Salvador, S.A. de C.V. under the technical capacity transfer contract, and 9% of the operating income reported by TELESAL under the management contract. The revenues earned from these contracts amounted to 2,367 thousand and 1,677 thousand as of December 31, 2004 and 2003, respectively.

Until December 31, 2005, Telefónica Móviles S.A. held applicable contracts for the Transfer of Technical and Management Capacity with Telefónica Móviles El Salvador, S.A. de C.V. (TELESAL). The compensation set forth in these contracts was an annual fee payable quarterly, equivalent to 1% of the income received from billed services of Telefónica Móviles El Salvador, S.A. de C.V.'s operations from the contract for transfer of technical capacity. Also, an annual 9% fee, payable quarterly, was set forth from TELESAL's income derived from the management contract. The accrued income from both of these contracts at year end December 31, 2005 and 2004, was 4,130 thousand and 2,367 thousand, respectively. We are assessing the possibility of entering into a new contract.

Guatemala

Telefónica Móviles S.A. has entered into technical capacity transfer and management contracts with Telefónica Centroamerica Guatemala, S.A. (TCG). Pursuant to this agreement, we are entitled, in exchange for our services to an annual fee, payable quarterly, equal to 1% of the revenues received from services billed in transactions of TCG under the technical capacity transfer contract, and 9% of the operating income obtained by TCG under the management contract. The revenues earned from these two contracts amounted to 1,812 thousand and 793 thousand as of December 31, 2004 and 2003, respectively.

Until December 31, 2005, Telefónica Móviles S.A. held applicable contracts for the Transfer of Technical and Management Capacity with Telefónica Móviles Guatemala, S.A. de C.V. (TMG). The compensation set forth in these contracts was an annual fee payable quarterly, equivalent to 1% of the income received from billed services of TMG's operations from the contract for transfer of technical capacity. Also, an annual 9% fee, payable quarterly, was set forth from TMG's income derived from the Management contract. The accrued income from both of these contracts at year end December 31, 2005 and 2004, was 5,431 thousand and 1,812 thousand, respectively. We are assessing the possibility of entering into a new contract.

Morocco

We currently manage, jointly with Portugal Telecom International, SGPS, S.A. our wireless operations in Morocco under a management agreement executed with Medi Telecom, S.A. on August 5, 1999. See Item 4.B Business Overview Morocco.

Use of Brand Names and Other Intellectual Property

Telefónica, S.A. has transferred to us, in connection with its transfer to us of our operating companies, all the brand names and trademarks held by Telefónica, S.A. and principally related to our company's business, including the *MoviStar* brand. In addition, we have been granted a license to utilize the *Telefónica Móviles* brand in our name for as long as our company is controlled by Telefónica, S.A. The terms of the contributions require payment of annual royalties of less than approximately \$32,000.

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Tax-Sharing Arrangements

We will continue to be part of the Telefónica, S.A. tax consolidation group as long as Telefónica, S.A. beneficially holds at least 75% of our company. So long as this is the case, all tax credits and tax bases, up to the limit applicable to the Telefónica tax group, are transferred to Telefónica, S.A. recognizing the corresponding tax credit or debit with the parent company depending on the outcome of the individual company tax return.

The reorganization of the Telefónica Group along global business lines, including the transfers of its wireless operations to us, has been carried out to eliminate or minimize tax liabilities, both in Spain and in our other countries of operation. In order to achieve and preserve the favorable tax treatment for the reorganization, some limitations and restrictions may apply to future transfers of our interests in some of our operating companies for a period of time. We are controlled by the Telefónica Group and expect to comply with directives from Telefónica, S.A. designed to ensure that our actions do not result in the imposition on the Telefónica Group or our company of avoidable tax liabilities related to the reorganization.

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

Item 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

See Item 18.

Legal Proceedings

We and our operating companies are involved in various legal proceedings arising in the ordinary course of business. While it is not possible to determine the ultimate disposition of each of these proceedings, we believe the outcome of such proceedings, individually and in the aggregate, will not have a material adverse effect on our company's consolidated results of operations or financial condition taken as a whole.

Spain

Antitrust violations for entering into exclusivity agreements

In 1999, the Spanish Antitrust Court fined us 3.66 million for abuse of dominant market position for restricting Airtel S.A.'s entry into the market by entering into exclusivity agreements during 1995 and 1996 and enjoined us to cease such practice. We appealed the decision before the *Audiencia Nacional* (National Court).

On February 3, 2003, the National Court dismissed the appeal filed by us and the two other operators. On September 23, 2003, we submitted our appeal to the *Tribunal Supremo* (Central Court) requesting reversal of the lower court decision. We expect the Central Court's decision on May 16, 2006. We cannot assure you that the antitrust authorities will not find that we have abused our dominant position in the Spanish wireless market by being a party to exclusivity agreements after 1997 and, as a result, may impose further fines on us or rescind our current exclusivity agreements with those distributors.

Challenge to the Spanish Government's increase of Spectrum Fees

The Spanish government adopted legislation imposing additional fees on us totaling approximately 228 million with respect to our use of spectrum both for new UMTS licenses as well as existing analog and digital concessions and other uses for year 2001. We filed claims with the Central Administrative Economic Tribunal (Tribunal Económico Administrativo Central) challenging the increase in fees for that year, which were dismissed in September 2001. We have paid all relevant fees to the State Secretariat of Telecommunications and have appealed before the National Court.

A ruling has since been made in the cases appealing the DCS-1800 and GSM reservation fees, raising the question of unconstitutionality. In the case of the UMTS license, Telefónica Móviles España, S.A. has pleaded to the National Appellate Court to raise the question of unconstitutionality at a higher instance, i.e. the Constitutional Court, and to bring the issue before the European Community Court of Justice for a preliminary ruling.

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Economic-administrative claim relating to business tax (IAE) payment in 2003

In December 2003, Telefónica Móviles España, S.A. filed a claim with the regional tax authorities of Madrid in connection with the 2003 IAE payment of 26,000 thousand euros. Telefónica Móviles España believes the tax authorities committed an administrative error in processing this tax payment, not recognizing a prior wire payment of 3,226 thousand euros.

Telefónica Móviles España, S.A. has paid the amounts in question. The purpose of the claim is to demand the repayment of the amounts the Company believes it overpaid.

Interconnection termination tariffs with RETEVISIÓN MÓVIL, S.A.

The ruling on January 12, 2006 closed the interconnection suit brought by RETEVISIÓN MÓVIL, S.A. against Telefónica Móviles España, S.A. in relation to the call termination tariffs on the former's network. Pursuant to the ruling, Telefónica Móviles España, S.A. must apply the interconnection call-termination fees in effect before October 7, 2004 retroactively from February 4, 2005. Telefónica Móviles España, S.A.'s appeal to this ruling was fully upheld by the CMT (telecommunications regulatory body) in its ruling on February 16. This ruling finds that RETEVISIÓN MÓVIL, S.A.'s termination rates in effect prior to October 7, 2004 are not applicable to Telefónica Móviles España, S.A. Accordingly, Telefónica Móviles España, S.A. is not obliged to pay any amounts, in addition to those actually paid during the conflict in this regard. RETEVISIÓN MÓVIL, S.A. could file a complaint for judicial review by the CMT ruling within two months of the decision.

Germany

Ostheimer

In 2003, Ostheimer GmbH filed a suit against Quam GMBH demanding indemnification of 100 million euros as a result of damages arising from the termination of the framework distribution agreement signed with Quam. The courts ruled in favor of Quam GMBH in 2005. Ostheimer is appealing this ruling.

Cancellation of the license granted to Quam GMBH

In December 2004, the Regulatory Authority for Telecommunications and Post (RegTP) revoked the UMTS license granted to Quam GMBH in 2000. After obtaining a suspension of the revocation order, Quam filed a suit against the revocation order with the German courts. There are two main parts to this claim: the first seeking that the suspension of the license revocation order issued by the RegTP be upheld, and the second, in the event the first is not successful, seeking the partial and total repayment of the original amount paid for the license.

Italy

In the wake of the Italian government's refusal to accept the return by Ipse 2000, S.p.A, of the additional 5Mhz of spectrum awarded to it after it was granted a UMTS license, Ipse 2000, S.p.A. filed a claim based on its right to renounce the rights granted to it by the government and requested a 826 million euro reduction in payments owed (corresponding to the 5Mhz of spectrum).

Simultaneously, in light of the new regulatory framework establishing a maximum annual price per 5Mhz, which is below that set when the license was granted to Ipse, S.p.A., the company filed a suit with the same organism of the Italian Ministry for Communications, requesting the cancellation of pending payments in connection with the UMTS license, which, if successful, would represent a reduction over the initial amount of between approximately 1.2 and 2.3 billion euros. On May 31, 2004, Ipse 2000, S.p.A. also filed a complaint against the Italian government's allocation of GSM frequency free of charge.

Currently, all these claims have been brought under one suit. In August 2005, the Italian courts ruled against the first two claims and delayed its ruling on the last one (the free allocation of GSM frequency).

Additionally on January 31, 2006, the Italian Government notified Ipse 2000 S.p.A., of its decision to revoke the UMTS license granted in 2002. On March, 2006 Ipse 2000 S.p.A. appealed this revocation requesting additionally the reimbursement of losses and damages.

Mexico

Corporate income tax law regarding interest deductibility

Telefónica Móviles México, S.A. de C.V. and its subsidiaries filed a suit against certain temporary provisions of the corporate income tax law limiting deductibility of interest payments on loans under certain circumstances.

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Notification was received in January 2006 that the case was being dismissed on the grounds that since the judge did not consider that it was the right time to call into question the unconstitutionality of the provisions.

The Mexican subsidiaries plan to appeal the ruling on the basis that the provisions in question have been detrimental to the companies since they came into effect.

Annual fees for use and operation of spectrum frequency

The Mexican Federal Rights Act establishes an annual fee for the use and operation of spectrum frequency tendered since 2003. Telefónica Móviles México, S.A. de C.V. was awarded spectrum on the 1900 MHz frequency in the tender process held in April 2005, on which it is obliged to pay spectrum fees.

Telefónica Móviles México, S.A. de C.V. has filed a claim against the unconstitutionality of the fee imposed on the spectrum it was granted.

In December 2005, Telefónica Móviles México, S.A. de C.V. appealed the sentence ruling against its claim.

Telefónica Móviles México, S.A. has paid the fees in question. The purpose of the claim is to demand the repayment of the amounts already paid.

Kargo, Inc., ACK Ventures Holdings, LLC and United Mobile Technologies, LLC.

Kargo, Inc., has filed a suit against Telefónica Móviles México, S.A. de C.V., Pegaso PCS, S.A. de C.V., Pegaso Telecomunicaciones, S.A. de C.V., Telefónica Móviles, S.A. and Telefónica, S.A. for the payment of damages, legal fees and expenses, and any other amounts deemed payable by the courts, for alleged failure to comply with a systems and hosting agreement negotiated by Pegaso PCS, S.A. de C.V.

The case is currently being heard at a Federal court. In January 2006, Telefónica Móviles México, S.A. de C.V. filed a motion to have the case dismissed for lack of grounds.

Challenge to Mexican federal government fee for public concessions

Licensee companies in Mexico pay the Mexican federal government a fee which is calculated as a share of their revenue from operating the public service concessions. On September 11, 2003, the Secretariat of Revenue and Public Credit issued an order stating that the revenues subject to this fee must include revenues obtained from interconnection traffic received from other communications companies under the caller

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pays system. Our Mexican operators. On October 2005, a ruling against Telefónica Móviles was issued. Telefónica Móviles México and our operators in Mexico have been paying according to this order. Accordingly, no additional payment will be required as a result of this decision.

Brazil

Universal service fund (FUST)

The Vivo Group operators have appealed ANATEL's decision to modify the basis for calculating amounts payable into the FUST (Fundo de Universalização de Serviços de Telecomunicações), a fund to pay for telecommunications services providers' obligations to provide universal service (wireline and wireless). On March 13, 2006, the Vivo Group companies were provisionally allowed to calculate amounts payable into FUST as if such modification had not taken place.

Lune

Lune Projetos Especiais em Telecomunicações Com has filed a suit against the VIVO Group companies, alleging to own the patent on caller ID and to have registered the Bina brand. The suit demands the cessation of this service and requests indemnification for an amount equal to the amount customers have paid for this service.

Several wireless infrastructure manufacturers, including subsidiaries of the VIVO Group, have lodged a complaint with the Brazilian institute for industrial property demanding that it declare the patent in question null and void.

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PIS and COFINS

COFINS (Contribuição Social para o Financiamento da Seguridade Social) and PIS (Programa de Integração Social) are gross revenue taxes levied on corporations in Brazil. In 1998, Law 9,718 modified the calculation of these taxes, (i) increasing the COFINS tax from 2% to 3% and (ii) expanding the taxable base. The VIVO Group operators all elected to file a suit with the Brazilian state against this law and to fully provision these amounts, with the exception of Celular CRT S.A., which chose to pay the taxes pursuant to Law 9,718.

In terms of the expanded taxable base issue, two VIVO Group companies (Tele Centro Oeste Celular Participações S.A. and Telergipe Celular S.A.) have been granted favorable rulings. Rulings in favor of the rest of the companies are expected over the course of the coming year.

Venezuela

Appeal for tax review by TELCEL, C.A. in 2002 against the Venezuelan agency (SENIAT) which is demanding TELCEL, C.A. pay approximately 54,364,291 euros for alleged tax irregularities between 11-01-94 and 10-31-95, 11-01-95 and 10-31-96 and between 11-01-96 and 10-31-97.

Medi Telecom s challenge to Moroccan regulator s decision

In March 2002, Medi Telecom filed claims against the Moroccan wireless regulator s decision that interconnection fees be calculated by the second, having the Court ruled against Medi Telecom petition.

B. SIGNIFICANT CHANGES

In December of 2005 we entered into a share exchange agreement with the Burillo Group whereby we acquired 8% of Telefónica Móviles Mexico, S.A. de C.V., increasing our holding to 100% of Telefónica Móviles Mexico.

The transaction represents a cost to us of 177 million. It is being structured via the exchange of shares of Telefónica Móviles Mexico, S.A. for the shares of Telefónica, S.A. Accordingly, Mr. Burillo will become a stockholder of the parent company of the Telefónica Móviles Mexico Group.

On January 7, 2005, pursuant to the March 5, 2004 stock purchase agreement entered into with BellSouth Corporation, Telefónica Móviles, S.A., acquired a 100% interest in BellSouth Chile for a total amount of US\$531.8 million, after receiving the necessary regulatory approvals.

Item 9. THE OFFER AND LISTING

A. OFFER AND LISTING DETAILS

Our ordinary shares are currently listed on the Spanish stock exchanges in Madrid, Barcelona, Bilbao and Valencia and are traded on the Automated Quotation System of the Spanish stock exchanges. The shares are eligible for deposit in the Euroclear system. ADSs representing ordinary shares of Telefónica Móviles are listed on the NYSE under the ticker symbol TEM. Each Telefónica Móviles ADS represents one ordinary share of Telefónica Móviles. Citibank, N.A. is our depository issuing the ADRs evidencing the Telefónica Móviles ADSs. Telefónica Móviles ADSs commenced trading on the NYSE on November 22, 2000.

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The following table shows, for the periods indicated, the highs and lows of the last reported closing prices per Telefónica Móviles ordinary share and ADS. Share prices are as reported on the Automated Quotation System, and ADS prices are as reported on the NYSE.

	Telefónica Móviles			
	Shares(1)		ADS(2)	
	High	Low	High	Low
	(euro)		(U.S. dollars)	
Annual Information for the past five years				
2001	11.01	4.90	10.63	5.00
2002	8.75	5.46	7.80	5.40
2003	8.37	5.30	10.58	5.90
2004	9.51	7.89	12.83	9.71
2005	10.14	8.35	13.14	10.04
Quarterly information for the past two years				
2004				
First Quarter	9.51	8.28	12.09	10.21
Second Quarter	9.17	8.27	11.09	9.97
Third Quarter	8.77	7.89	10.93	9.71
Fourth Quarter	9.40	8.56	12.83	10.64
2005				
First Quarter	10.14	9.14	13.14	11.75
Second Quarter	9.48	8.59	12.18	10.37
Third Quarter	9.45	8.35	11.46	10.04
Fourth Quarter	9.38	8.53	11.12	10.20
Most recent six months				
October	9.21	8.53	11.12	10.21
November	9.38	8.71	10.90	10.26
December	8.93	8.66	10.65	10.20
January	9.29	8.93	11.20	10.46
February	9.95	8.80	11.79	10.49
March	10.95	9.75	13.35	11.62
April (through April 6)	10.72	10.68	13.05	12.88

(1) Source: Madrid stock exchange.

(2) Source: Factiva, a Dow Jones & Reuters Company

Securities Trading in Spain

The Spanish securities market for equity securities consists of four stock exchanges located in Madrid, Bilbao, Barcelona and Valencia and the Automated Quotation System, or *Mercado Continuo*. During 2005, the Automated Quotation System accounted for the majority of the total trading volume of equity securities on the Spanish stock exchanges.

Automated Quotation System

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The Automated Quotation System links the four Spanish stock exchanges, providing those securities listed on it with a uniform continuous market that eliminates certain of the differences among the local exchanges. The principal features of the system are the computerized matching of buy and sell orders at the time of entry of the order. Each order is executed as soon as a matching order is entered, but can be modified or canceled until executed. The activity of the market can be continuously monitored by investors and brokers. The Automated Quotation System is operated and regulated by Sociedad de Bolsas, S.A., a corporation owned by the companies that manage the stock exchanges. All trades on the Automated Quotation System must be placed through a brokerage firm, an official stock broker or a dealer firm that is a member of a Spanish stock exchange. Beginning January 1, 2000, Spanish banks were able to become members of a Spanish stock exchange and are therefore able to place trades on the Automated Quotation System.

In a pre-opening session held from 8:30 a.m. to 9:00 a.m. each trading day, an opening price is established for each security traded on the Automated Quotation System based on a real-time auction in which orders can be entered, modified or cancelled but are not executed. During this pre-opening session, the system continuously displays the price at which orders would be executed if trading were to begin. Market participants only receive

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information relating to the auction price (if applicable) and trading volume permitted at the current bid and offer price. If an auction price does not exist, the best bid and offer price and associated volumes are shown. The auction terminates with a random period of 30 seconds in which share allocation takes place. Until the allocation process has finished, orders cannot be entered, modified or cancelled. In exceptional circumstances (including the inclusion of new securities on the Automated Quotation System) and after giving notice to the CNMV, Sociedad de Bolsas, S.A. may establish an opening price without regard to the reference price (the previous trading day's closing price), alter the price range for permitted orders with respect to the reference price and modify the reference price.

The computerized trading hours are from 9:00 a.m. to 5:30 p.m. During the trading session, the trading price of a security is permitted to vary up to a maximum so-called "static" range of the reference price, provided that the trading price for each trade of such security is not permitted to vary in excess of a maximum so-called "dynamic" range with respect to the trading price of the immediately preceding trade of the same security. If, during the trading session, there exist matching bid and ask orders over a security within the computerized system which exceed any of the above "static" and "dynamic" ranges, trading on the security is automatically suspended and a new auction is held where a new reference price is set, and the "static" and "dynamic" ranges will apply over such reference price. The "static" and "dynamic" ranges applicable to each particular security are set up and reviewed periodically by Sociedad de Bolsas, S.A.

Between 5:30 p.m. and 8:00 p.m., trades may occur outside the computerized matching system without prior authorization from Sociedad de Bolsas, S.A. at a price within the range of 5% above the higher of the average price and closing price for the day and 5% below the lower of the average price and closing price for the day if there are no outstanding bids or offers, respectively, on the system matching or bettering the terms of the proposed off-system transaction and, if, among other things, the trade involves more than 300,000 and more than 20% of the average daily trading volume of the stock during the preceding three months. These trades must also relate to individual orders from the same person or entity and be reported to the Sociedad de Bolsas, S.A. before 8:00 p.m. At any time trades may take place (with the prior authorization of the Sociedad de Bolsas, S.A.) at any price if:

the trade involves more than 1.5 million and more than 40% of the average daily volume of the stock during the preceding three months;

the transaction derives from a merger or spin-off process, or from the reorganization of a group of companies;

the transaction is executed for the purposes of settling a litigation or completing a complex group of contracts; or

Sociedad de Bolsas, S.A. finds other justifiable cause.

Information with respect to the computerized trades between 9:00 a.m. and 5:30 p.m. is made public immediately, and information with respect to trades outside the computerized matching system is reported to Sociedad de Bolsas, S.A. by the end of the trading day and published in the *Boletín de Cotización* and in the computer system by the beginning of the next trading day.

Clearance and Settlement System

A new financial act (*Ley 44/2002 de Medidas de Reforma del Sistema Financiero*) was enacted on November 22, 2002, to increase the efficiency of the Spanish financial markets. The new law introduced a new article, 44-bis to the *Ley del Mercado de Valores* (the Spanish Securities Act) under which Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores S.A.U., or Iberclear, was created.

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Iberclear is regulated by the Spanish Securities Act and where appropriate by Royal Decree 505/1987 of April 3, 1987, Royal Decree 166/1992 of February 14, 1992, and by any other related regulation. This company, which is a wholly owned subsidiary of Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A. (the Sociedad Holding), has the following functions:

bookkeeping of securities represented by means of book entries admitted to trading in the stock markets or in the public debt book entry market.

managing the clearance and settlement system for the brokerage transactions in the stock markets and at the public debt book entry market.

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providing technical and operational services directly linked to the registry, clearance and settlement of securities, or any other service required by Iberclear to be integrated with any other registry, clearance, and settlement systems.

Iberclear will provide the CNMV, the Bank of Spain and the Ministry of Economy with the information that these entities may request regarding the registry, clearance and settlement performed within the systems managed by Iberclear.

Transactions carried out on the Spanish stock exchanges are cleared and settled through Iberclear.

Only members of the system are entitled to use Iberclear, and membership is restricted to authorized broker members of the Spanish stock exchanges, the Bank of Spain (when an agreement, approved by the Spanish Ministry of Economy and Finance, is reached with Iberclear) and, with the approval of the CNMV, other brokers not members of the Spanish stock exchanges, banks, savings banks and foreign settlement and clearing systems. The clearance and settlement system and its members are responsible for maintaining records of purchases and sales under the book-entry system. Shares of listed Spanish companies are held in book-entry form. Iberclear, which manages the clearance and settlement system, maintains a registry reflecting the number of shares held by each of its member entities (each, an *entidad adherida*) as well as the amount of such shares held on behalf of beneficial owners. Each member entity, in turn, maintains a registry of the owners of such shares. Spanish law considers the legal owner of the shares to be the member entity appearing in the records of Iberclear as holding the relevant shares in its own name or the investor appearing in the records of the member entity as holding the shares.

The settlement of any transactions must be made three business days following the date on which the transaction was carried out.

Obtaining legal title to shares of a company listed on a Spanish stock exchange requires the participation of a Spanish official stockbroker, broker-dealer or other entity authorized under Spanish law to record the transfer of shares. To evidence title to shares, at the owner's request, the relevant member entity must issue a certificate of ownership. In the event the owner is a member entity, Iberclear is in charge of the issuance of the certificate with respect to the shares held in the member entity's name.

Brokerage commissions are not regulated. Brokers' fees, to the extent charged, will apply upon transfer of title of shares from the Depositary to a holder of ADRs in exchange for such ADSs, and upon any later sale of such shares by such holder. Transfers of ADSs do not require the participation of an official stockbroker. The Deposit Agreement provides that holders depositing shares with the Depositary in exchange for ADSs or withdrawing shares in exchange for ADSs will pay the fees of the official stockbroker or other person or entity authorized under Spanish law applicable both to such holder and to the Depositary.

Spanish Securities Market Legislation

The Spanish Securities Act, which became effective in 1989, restructured the organization and supervision of the Spanish securities markets. This legislation and the regulations implementing it:

established an independent regulatory authority, the CNMV, to supervise the securities markets;

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established a framework to regulate trading practices, public offerings, tender offers and insider trading;

required stock exchange members to be corporate entities;

required companies listed on a Spanish stock exchange to file annual audited financial statements and to make public quarterly financial information;

established the legal framework for the Automated Quotation System;

exempted the sale of securities from transfer and value added taxes;

deregulated brokerage commissions; and

provided for transfer of shares by book-entry or by delivery of evidence of title.

Effective in November 1998, Law 24/1988 was amended by Law 37/1998, of November 16, 1998. The amendment introduced the following changes:

The concept of the investment services company was created. Brokers, dealers and portfolio managing companies are considered to be investment services companies. These companies are entitled

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to render investment services and complementary activities. Banks are not considered to be investment services companies, although they may render investment services upon becoming members of the Spanish stock exchanges.

An investment services company must be authorized by the Ministry of Treasury in order to render investment services and complementary activities. Once authorization is obtained, the founders of the investment services company must incorporate the company as a *sociedad anónima* or a *sociedad de responsabilidad limitada*, both limited liability corporations and, once incorporated, the company must be registered with the Commercial Registry (*Registro Mercantil*) and the CNMV. This registration must be published in the State Official Gazette.

The European principle of single passport or single license was introduced within the Spanish legal system. Under this principle, an investment services company may render investment services and complementary activities within European Union member countries, either through a branch or directly. Any necessary authorizations and licenses must be obtained from the authorities of the country of domicile (the home country principle), but the applicable market conduct rules are those set forth in the legislation of the country in which the investment services company renders its services (the host country principle).

Spanish investment services companies wishing to render their services overseas must be authorized to do so. However, in the event that they wish to provide services within the European Union, they need only give prior notice to the CNMV.

An investment guarantee fund was created to protect investors from the insolvency of any investment services company. This fund has the same purpose as the deposit guarantee fund, which is currently in charge of refunding deposits made in insolvent Spanish financial entities. Spanish investment services companies are obligated to maintain a stake in the investment guarantee fund through participation in the share capital of the managing company of the fund.

On July 8, 2003, in order to increase the transparency of the Spanish financial markets, the Spanish parliament passed the so-called Transparency Act (*Ley de Transparencia*), also known as the Ley Aldama. The Act regulates the corporate governance structure of listed companies, setting out new reporting obligations and defining the duties of directors and their legal liabilities. The Transparency Act amends the Securities Market Act of 1988 (24/1988) and the Public Companies Act approved by Legislative Royal Decree 1564/1989.

On November 16, 2005, Royal Decree 1310/2005 on admission to trading of securities, public offers and required prospectuses was published. This Royal Decree incorporates Directive 2003/71/CE of the European Parliament and of the Council dated on November 4, 2003 on the prospectus to be published when securities are offered to the public or admitted to trading, into Spanish law. Previously, this Directive has been partially incorporated into Spanish Law with the Royal Decree 5/2005 enacted on March 11, 2005. Royal Decree 1310/2005 repeals Royal Decree 201/1992, of March 27, 1992, regarding admission to trading of securities and public offers and establishes the regulation of the applicable requirements for the admission of securities to the Spanish stock exchanges and the requirements for the preparation, review and distribution of the prospectus to be published when transferable securities are offered to the public.

On November 23, Royal Decree 1333/2005 on insider trading was published. The Royal Decree 1333/2005 develops the Securities market Law 24/1988, July 28, regarding market abuse and completes the incorporation into to Spanish Law of the new European Community Regulation regarding this matter.

B. PLAN OF DISTRIBUTION

Not applicable.

C. MARKETS

See Item 9A.

D. SELLING SHAREHOLDERS

Not applicable.

E. DILUTION

Not applicable.

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F. EXPENSES OF THE ISSUE

Not applicable.

Item 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not applicable.

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

The following summary describes certain material considerations concerning our capital stock and briefly describes certain provisions of our by-laws (estatutos) and Spanish law. Copies of our by-laws are included as an exhibit to this annual report.

Corporate Objects

Article 2 of our by-laws sets forth our corporate purpose, which is to perform all types of activities in the field of telecommunications and value-added services, in the broadest sense of these terms and in accordance with current law. Our activities may include the manufacture, sale, promotion, distribution, marketing, installation and maintenance of, as well as technical assistance for, all types of networks, services and telecommunications equipment involving any type of technology, including computer hardware and software equipment related directly or indirectly to telecommunications. We may perform any activities that are necessary or appropriate in order to offer third parties a full, harmonious range of these types of services, from systems engineering and research and development to training, as well as services which may be rendered with support or through telecommunications or computers, such as the billing, collections management, use and marketing for payment methods, electronic commerce and intermediation. Such activities may be carried out directly by the company or by holding an interest or taking part in other companies with an analogous business purpose. Also included within our corporate purpose are the acquisition, holding, enjoyment and sale of securities, as well as any type of holdings in any corporation or company, using any of the means permitted by law, including the launching of a takeover bid or purchase and sale of shares.

Significant Differences between our Corporate Governance Practices and U.S. Corporate Governance Standards

Corporate Governance Guidelines

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In Spain, companies with securities listed on a Spanish stock exchange are expected to follow the Olivencia Code of Good Governance and the Aldama Report, which include recommendations for corporate governance guidelines and shareholder disclosure. Additionally, listed companies are now required by law to publish an Annual Report on Corporate Governance and also to publish corporate governance information on their websites. We base our corporate governance procedures on the recommendations of the Olivencia Code and the Aldama Report. As part of our corporate governance procedures, we have adopted regulations for our Board of Directors that govern, among other things, director qualification standards, responsibilities, compensation, access to management information, the Board of Directors' purpose and each of our Board Committees' purpose and responsibilities. Moreover, we have a Regulation of the General Shareholders' Meeting that aims to reinforce its transparency, providing shareholders with a framework guaranteeing and facilitating exercise of their rights. The Annual Report on Corporate Governance published by us provides a detailed explanation of our corporate governance procedures and explains the role and duties of our Board of Directors and Board Committees.

Our Annual Report on Corporate Governance is available at our registered office and on our website at www.telefonicomoviles.com. None of the information contained on our website is incorporated in this Annual Report.

Committees

We have had an Audit and Control Committee since 2000, composed of three directors deemed independent by our Board of Directors. Our committee's functions and duties are similar to those required by the NYSE.

We have a Nominating and Compensation Committee, which is composed of one non-executive director and four directors deemed independent by our Board of Directors. The functions, composition and competencies of this committee are determined by our Board of Directors and are very similar to those required by the NYSE.

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Independence of the Board

As of the date of this Annual Report, we had 14 directors, out of which five have been deemed independent by our Board of Directors. A significant majority of our current directors (12) are non-executive directors. The NYSE rules include detailed criteria for determining director independence. We, in accordance with our Board of Directors Regulations, assess the independence of our directors by evaluating, among other things, (i) the contractual, employment and commercial relations between directors and us, (ii) other Board of Directors positions held by directors and (iii) the director's familial relationships. The Nominating and Compensation Committee evaluates these criteria and notifies the Board of Directors of its decision. Our Board of Directors, in turn, is responsible for assessing whether a director is deemed independent as reported in our Annual Report on Corporate Governance.

Internal audit function

We have a General Internal Audit Department responsible for internal audit matters and for ensuring the efficiency of the internal audit control process of our different units. This General Internal Audit Department reports directly to the Audit and Control Committee, thus supporting the adequate performance of all its functions.

Non-executive director meetings

Pursuant to the NYSE listing standards, non-executive directors of U.S. listed companies must meet on a regular basis without management present and the company must disclose a method for any interested parties to communicate directly with the non-executive directors. As a group, our non-executive directors do not meet formally without management present. Our Audit and Control Committee, which is composed of three independent directors, has unanimously approved procedures that allow any employee to anonymously and confidentially report instances of fraud, alterations of financial information or specific risks to the company and its subsidiaries. These procedures are currently in place.

Code of ethics

The NYSE listing standards require U.S. companies to adopt a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. We have adopted, as required by the Sarbanes-Oxley Act, a code of ethics that applies to our principal executive officer, principal financial officer and to our senior financial officers. We also have an Internal Code of Conduct for securities markets issues to prevent insider trading misconduct and to control possible conflicts of interest. In addition, the Regulations of the Board of Directors set out in detail our directors' main obligations relating to conflicts of interest concerning business opportunities, misappropriation of our assets, confidentiality and non-competition.

Director Qualification

The appointment as Board Member does not require to be a shareholder, except in the event of a provisional appointment by the Board itself, in compliance with the provisions of Article 138 of the Public Corporation Law.

Interested Transactions

The Directors must inform the Board of Directors of any situation of direct or indirect conflict with the interests of the company. In the event of conflict, the Director affected shall abstain from intervening in the operation to which the conflict refers. The Directors must abstain from intervening in voting that affects matters in which they or persons related to them have a direct or indirect interest.

We do not provide any loans or salary advances to our directors.

A director must retire upon reaching the age of 70. Such retirement shall take effect at the first Board meeting following the general shareholders meeting that approves the financial statements for the year in which such director turned 70. Directors who also hold management functions must retire upon reaching the age of 65, although this requirement may be dispensed with by the Board of Directors.

Description of Telefónica Móviles Capital Stock

The following summary describes material considerations concerning our capital stock and briefly describes material provisions of our by-laws and Spanish law.

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General

At April 6, 2006, our issued share capital was 2,165,275,448 represented by 4,330,550,896 ordinary shares, with a nominal value per share of 0.50. Non-residents of Spain may hold and vote ordinary shares subject to the restrictions set forth below.

Attendance and Voting at Shareholders Meetings

Each ordinary share entitles the shareholder to one vote. Any share may be voted by written proxy, and proxies may be given to any individual. Proxies are valid only for a single meeting.

Under our by-laws, Regulation of the General Shareholders Meeting and the Spanish Corporation Law, General meetings of shareholders may be either ordinary or extraordinary. Ordinary general meetings must be convened within the first six months of each fiscal year on a date fixed by the Board of Directors. As a general rule, extraordinary general meetings may be called from time to time by our Board of Directors at its discretion or at the request of shareholders representing at least 5% of our share capital. Notices of all shareholders meetings must be published in the Commercial Registry Official Gazette (Boletín Oficial del Registro Mercantil) and in a major local newspaper within the province of Madrid at least one month prior to the date fixed for the meeting.

At ordinary general meetings, shareholders are asked to approve our management, the financial statements for our previous fiscal year and the application of our net income or loss. All other matters may be addressed at extraordinary general meetings called for such purpose. Shareholders can vote on these matters at an ordinary general meeting if they are included on the meeting's agenda.

Only holders of more than 25 ordinary shares duly registered in the book-entry record of the company at least five days prior to the day on which a meeting is scheduled to be held are entitled to attend shareholders meetings.

Our by-laws provide that, on the first call of a general shareholders meeting, a duly constituted general meeting of shareholders requires a quorum of at least one-quarter of our issued and voting share capital. On the second call, there is no quorum requirement. Consideration of extraordinary matters such as modification of our by-laws, changes in our share capital structure, changes in the corporate form, mergers, spin-offs, issues of bonds, dissolution and liquidation require on first call a quorum of at least one-half of our issued and voting share capital, and on second call the presence of shareholders representing at least one-quarter of our issued and voting share capital. If, after the second call, the shareholders present or represented constitute less than one-half of our issued and voting share capital, resolutions relating to extraordinary matters may be adopted only with the approval of two-thirds of the share capital present or represented at such meeting. A shareholders meeting at which 100% of the capital stock is present or represented is validly constituted even if no notice of the meeting was given, and, upon unanimous agreement, shareholders may consider any matter at the meeting.

A resolution passed in a general meeting of shareholders is binding on all shareholders, subject to Spanish law. In some circumstances, such as change of corporate purpose or corporate form, Spanish law gives dissenting or absent shareholders the right to have their shares redeemed by our company at a price determined in accordance with established formulas. In the case of any resolution contrary to law, the right to contest that resolution is extended to all shareholders.

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Under the Spanish Corporation Law, shareholders who voluntarily aggregate their shares so that the share capital represented by the aggregated shares is equal to or greater than the result of dividing the total capital stock by the number of directors have the right to appoint a corresponding proportion of the members of the Board of Directors. Shareholders who exercise this right may not vote on the appointment of other directors.

Preemptive Rights

Under the Spanish Corporation Law, shareholders and holders of any convertible bonds have preemptive rights to subscribe for any new shares issued by us, including the ordinary shares and securities which are convertible into ordinary shares, in an amount proportional to shares held in our company prior to the new issuance. These preemptive rights may be abolished in some circumstances if our shareholders pass a resolution at a shareholders' meeting in accordance with Article 159 of the Spanish Corporation Law. In addition, preemptive rights will not be available in the event of an increase in share capital upon the conversion of convertible bonds or a merger in which shares are issued as consideration.

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Form and Transfer

Our shares are in registered book-entry form. Transfers executed through stock exchange systems are implemented pursuant to the stock exchange clearing and settlement procedures carried out by the Spanish clearing institution. Transfers executed outside of stock exchange systems, that is, over the counter, are implemented pursuant to the general legal regime for book-entry transfer, including registration by the Spanish clearing institution.

There are no restrictions with respect to the transfer of our shares.

Liquidation Rights

Under Spanish law, upon our liquidation, the shareholders would be entitled to receive, on a *pro rata* basis, any assets remaining after the payment of our debts and taxes and liquidation expenses.

C. MATERIAL CONTRACTS

Agreement with Portugal Telecom

On January 23, 2001, we, Telefónica, S.A., Portugal Telecom and its subsidiary PT Moveis agreed to create a joint venture to consolidate our wireless businesses in Brazil with those of Portugal Telecom. Under this joint venture framework agreement, each of the Telefónica Group and the Portugal Telecom Group agreed to contribute to a 50:50 joint venture their respective wireless businesses in Brazil, including interests in operating companies and holding companies that own cellular or wireless licenses in Brazil.

On October 17, 2002, we, Portugal Telecom and PT Moveis entered into a Shareholders Agreement and Subscription Agreement that implemented the joint venture framework agreement signed in January 2001. Additionally, on October 21, 2002 we acquired from Portugal Telecom for approximately 200 million a 14.68% holding in Telesp Celular Participações, S.A., a company that provides wireless services in the Brazilian state of São Paulo through Telesp Celular S.A. and in the Brazilian states of Paraná and Santa Catarina through Global Telecom S.A.

Following the agreements entered into with the Portugal Telecom Group on October 17, 2002 and after having obtained the necessary authorization from the Brazilian authorities for the contribution, on December 27, 2002, we and PT Moveis contributed to Brasilcel, N.V. all the shares held directly or indirectly by the two groups in their wireless communications companies in Brazil. For further information, please see Item 4.B Business Overview Latin America Brazil.

In accordance with the Shareholders Agreement and Subscription Agreement signed by Telefónica Móviles on the one hand and Portugal Telecom SGPS, S.A. and its subsidiary PT Moveis SGPS, S.A. on the other, we and the Portugal Telecom Group have the same voting rights in

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Brasilcel, N.V. This equality in voting rights will continue to exist even if either party's economic and voting interest is diluted below 50%, but not lower than 40%, as a consequence of a capital increase. The equality in voting rights will cease to exist if the percentage of ownership of one of the parties falls below 40% during an uninterrupted period of six months. In this event, if the group with the reduced interest were the Portugal Telecom Group, it would be entitled to sell to us, who would be obliged to buy (directly or through another company) all of Portugal Telecom's ownership interest in Brasilcel N.V. This right expires on December 31, 2007. The price for the acquisition of the Portugal Telecom Group's holding in Brasilcel, N.V. would be calculated on the basis of an independent appraisal (in the terms provided for in the Shareholders Agreement and Subscription Agreement) performed by investment banks, selected using the procedure established in these agreements. Subject to certain conditions, the payment could be made, at our choice, in (i) cash, (ii) our shares and/or Telefónica, S.A. shares, or (iii) a combination of the two. This put option would be exercisable in the 12 months subsequent to the end of the aforementioned six-month period, provided that the Portugal Telecom Group had not increased its ownership interest to 50% of the total capital stock of Brasilcel N.V.

Also, in accordance with the Shareholders' Agreement and Subscription Agreement, the Portugal Telecom Group will be entitled to sell to us, who would be obliged to buy, all of Portugal Telecom Group's ownership interest in Brasilcel, N.V. should there be a change in control at Telefónica, S.A., Telefónica Móviles, S.A. or any other subsidiary of the latter that held a direct or indirect ownership interest in Brasilcel N.V. Similarly, we will be entitled to sell to the Portugal Telecom Group, which would be obliged to buy, our interest in Brasilcel, N.V. if there is a change of control at Portugal Telecom SGPS, S.A., PT Moveis SGPS, S.A. or any other

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subsidiary of either company that held a direct or indirect ownership interest in Brasilcel N.V. The price will be determined on the basis of an independent appraisal (in the terms provided for in the Shareholders' Agreement and Subscription Agreement) performed by investment banks, selected using the procedure established in these agreements. The Portugal Telecom Group and us have agreed to retain the services of a related third party of Telefónica Móviles to provide Brasilcel with financial services.

For the purposes of the previous paragraph, pursuant to the provisions of the Shareholders' Agreement entered into by us, Portugal Telecom SGPS, S.A. and PT Moveis SGPS, S.A., a change of control is considered to exist if (i) a competitor of either party acquires (x) 15% of the share capital of Telefonica, S.A. or Portugal Telecom SGPS, S.A. or (y) the majority of the share capital of any subsidiary of Telefonica, S.A. or Portugal Telecom SGPS, S.A. holding shares in Brasilcel, NV; or (ii) a corporate transaction takes place with respect to Telefonica, S.A. or Portugal Telecom SGPS, S.A. and as a consequence thereof the majority of the members of the board of directors of such entities change.

Acquisition of BellSouth Operations in Latin America

On March 5, 2004, we entered into a stock purchase agreement with BellSouth to acquire 100% of BellSouth's interests in its wireless operations in Argentina, Chile, Peru, Venezuela, Colombia, Ecuador, Uruguay, Guatemala, Nicaragua and Panama. The firm value of the wireless operators that we have agreed to acquire from BellSouth, including the interests of minority shareholders and the net debt of these wireless operators, was valued at US\$5,850 million.

The effective transfer of the shares of these companies was conditional upon the obtainment of the required regulatory authorizations in each country and on the acceptance of the offers by the minority stockholders.

On October 14, 2004, we acquired BellSouth's holdings in its wireless operations in Ecuador, Guatemala and Panama. On October 28, 2004, we acquired BellSouth's holdings in its wireless operations in and the holdings in Colombia, Nicaragua, Peru, Uruguay and Venezuela. Finally, we acquired BellSouth's holdings in its wireless operations in Chile on January 7, 2005 and in Argentina January 11, 2005.

In addition to the acquisition of the BellSouth Group's ownership interests in its wireless telephony operators in Latin America, in compliance with the commitments assumed under share purchase agreements, Telefónica Móviles offered to acquire the ownership interest held by the minority stockholders of each of these companies, and in all cases the acquisition price was equal to that agreed on with BellSouth.

Under the stock purchase agreement, the total assets of the aforementioned operators were valued at US\$4,330 million (US\$5,850 million including the investments in Argentina and Chile acquired in January 2005). The following sets for the values assigned to, and the acquisition cost for Telefónica Móviles of, each Latin American operator acquired from BellSouth during fiscal year 2004:

Acquisition of all the shares of the operator Otecel, S.A. (Ecuador) for a total company value of US\$833 million. The acquisition cost for Telefónica Móviles, adjusted by the company's net debt, was 663.4 million.

Acquisition of 60% of the shares of Telefónica Móviles y Compañía, S.C.A. in Guatemala, representing BellSouth's entire stake in that company and representing a total company value of US\$175 million. Telefónica Móviles subsequently acquired the remaining 40% of the company's shares directly from its minority shareholders. The total acquisition cost for Telefónica Móviles, adjusted by the

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company's net debt, was 92.5 million.

Acquisition of 43.68% of the shares of BellSouth Panamá, S.A., representing BellSouth's entire stake in that company. Telefónica Móviles subsequently acquired an additional 55.88% of the company's shares from its minority shareholders. The company value of BellSouth Panamá, S.A. was US\$657 million. The total acquisition cost for Telefónica Móviles, adjusted by the company's net debt, was 549.3 million.

Acquisition of all the shares of Telcel, S.A. (Venezuela) for a total company value of US\$1,195 million. The acquisition cost for Telefónica Móviles, adjusted by the company's net debt, was 1,224.0 million.

Acquisition of all the shares of Telefónica Móviles Colombia, S.A. for a total company value of US\$1,050 million. The acquisition cost for Telefónica Móviles, adjusted by the company's net debt, was 517.5 million.

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Acquisition of 97.43% of the shares of Comunicaciones Móviles del Perú, S.A. (formerly know as BellSouth Perú, S.A.), representing BellSouth's entire stake in that company, for a total company value of US\$210 million. Telefónica Móviles subsequently acquired an additional 2.42% of the company's shares from its minority shareholders. The acquisition cost for Telefónica Móviles, adjusted by the company's net debt, was 7.7 million.

Acquisition of all the shares of Telefonía Celular de Nicaragua, S.A. for a total company value of US\$150 million. The acquisition cost for Telefónica Móviles, adjusted by the company's net debt, was 148.7 million.

Acquisition of a 68% interest in Abiatar, S.A., representing BellSouth's entire stake in that company. Telefónica Móviles subsequently acquired an additional 32% of the company's shares from its minority shareholders. The total company value of Abiatar, S.A. was US\$60 million. The acquisition cost for Telefónica Móviles, adjusted by the company's net debt, was 49.4 million.

D. EXCHANGE CONTROLS

Exchange Controls and Other Limitations Affecting Security Holders

Preliminary administrative authorization of certain transactions (Golden Share)

On May 13, 2003, the European Court of Justice (ECJ) ruled (in the case C-463/00, European Communities Commission vs. The Kingdom of Spain), that the preliminary authorization rules (golden share) set forth in Law 5/1995, requiring prior governmental approval with respect to a limited number of fundamental corporate and control transactions affecting us and Telefónica, S.A., were no longer valid. In order to adapt Law 5/1995 to the ECJ's May 13, 2003 ruling, Law 5/1995 was modified by virtue of the twenty-fifth additional provision of Law 62/2003, dated December 31, 2003, governing certain tax, administrative and social matters. This regulation establishes a new post-closing notification model, which, for the purposes of the Telefónica Group, is applicable until February 2007.

The post-closing notification requirements described in Law 5/1995 apply to us, Telefónica, S.A., Telefónica de España S.A.U., and Telefónica Móviles España S.A.U., and must be observed in the following transactions:

transfer or encumbrance of strategic assets located in Spain by Telefónica de España and Telefónica Móviles España. Transactions affecting these assets carried out between Telefónica Group companies are exempt and need only be reported through a written communication to the competent regulatory body;

transfer or encumbrance of shares or any other securities of Telefónica de España by Telefónica S.A., Telefónica Móviles S.A. by Telefónica S.A. and Telefónica Móviles España by Telefónica Móviles S.A., when such transactions result in a change of control, or the sale of holdings representing 50% or more;

substitution of Telefónica Móviles España S.A.U.'s business purpose;

direct or indirect acquisition of our or Telefónica, S.A.'s shares representing 10% or more of each company's share capital. Financial transactions which do not result in a change of control or in a change of management are exempt from the requirements of Law

5/1995; and

voluntary winding-up, spin-off or merger need only be reported through a simple written communication, except where these operations affect strategic assets specified in Law 5/1995, which will require the post-closing notification. The above-mentioned transaction between members of the Telefónica Group affecting strategic assets are exempt from the post-closing notification.

Ownership Limitations

The new General Telecommunications Law (GTL) enacted on November 3, 2003 eliminated existing ownership limitations, which prohibited non-European nationals from owning directly or indirectly more than 25% of our assets or share capital, except under certain circumstances. Article 6 of the new GTL provides for the application of the reciprocity principle under existing international treaties or agreements signed and ratified by Spain. The Spanish government, upon request, may authorize exceptions to the reciprocity principle contained in the new GTL.

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Dividend and Liquidation Rights

Payment of a final dividend is proposed by our Board of Directors but must be authorized by our shareholders at the general meeting of shareholders. According to Spanish law and our by-laws, dividends may only be paid out of profits or distributable reserves if the value of our net worth is not, and as a result of such distribution would not be, less than our capital stock. Pursuant to Spanish law, we are required to reserve 10% of our fiscal year net income until the amount in our legal reserve reaches 20% of our capital.

Dividends payable by us to non-residents of Spain are ordinarily subject to a Spanish withholding tax. See Item 10.E Taxation.

Upon a liquidation of us, our shareholders would be entitled to receive pro rata any assets remaining after the payment of our debts and taxes and expenses of the liquidation. Any change in the rights of shareholders to receive dividends and payment upon liquidation would require an amendment to our by-laws by resolution adopted by a general meeting of shareholders. If there were more than one class of shares, such amendment would also require the approval by majority vote of each class of shareholders affected by the amendment.

Trading in Our Own Shares

At December 31, 2005, we held 1,599 shares of treasury stock derived from our employee option scheme. We may from time to time purchase shares in the secondary market subject to the restrictions described below.

The Spanish Corporations Law prohibits the purchase by us and our subsidiaries of shares in the secondary market except in the following limited circumstances:

such a purchase of shares must be authorized by a general meeting of shareholders and, in the case of a purchase of shares by a subsidiary, also by a general meeting of shareholders of the subsidiary;

the shares so purchased have no economic or voting rights while held by us, except for the right to obtain fully paid-up shares issued by our company, and have no voting rights while held by its subsidiaries;

the purchaser must create reserves equal to the purchase price of any shares that are purchased and, if a subsidiary is the acquirer, the reserve must also be recorded by the parent company; and

the total number of treasury shares held by us and our subsidiaries may not exceed 5% of our total capital.

Any acquisition of our own shares exceeding, or that causes us and our subsidiaries' holdings to exceed, 1% of our share capital must be reported to the CNMV. At our general shareholders' meeting on May 6, 2005, our shareholders authorized our Board of Directors to acquire up to 5% of our share capital. This authorization is valid for 18 months from the date of such authorization. A proposal authorizing our Board of Directors to acquire up to 5% of our share capital will be voted on by shareholders at our next general ordinary shareholders' meeting.

E. TAXATION

The following is a general summary of the material Spanish and U.S. federal income tax consequences to U.S. Holders (as defined below) of the ownership and disposition of shares or ADSs. This summary is based upon Spanish and U.S. tax law, (including the U.S. Internal Revenue Code of 1986, as amended (the Code), final, temporary and proposed Treasury Regulations, rulings, judicial decisions and administrative pronouncements), and the Convention Between the United States of America and the Kingdom of Spain for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion With Respect to Taxes on Income (the Treaty), all as currently in effect, and all of which are subject to change or changes in interpretation, possibly with retroactive effect. In addition, the summary is based in part on the representations of the Depository and assumes that each obligation provided for in, or otherwise contemplated by, the Deposit Agreement or any other related agreements will be performed in accordance with its terms.

As used herein, the term U.S. Holder means a beneficial owner of one or more shares or ADSs:

(a) that is, for U.S. federal income tax purposes, one of the following:

(i) a citizen or resident of the United States,

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(ii) a corporation (or other entity taxable as a corporation) created or organized in or under the laws of the United States or any political subdivision thereof, or

(iii) an estate or trust, the income of which is subject to U.S. federal income taxation regardless of its source.

(b) who is entitled to the benefits of the Treaty under the Limitation on Benefits provisions contained in the Treaty;

(c) who holds the shares or ADSs as capital assets for U.S. federal income tax purposes;

(d) who owns, directly, indirectly or by attribution, less than 10% of the share capital or voting stock of Telefónica Móviles, S.A.; and

(e) whose holding is not effectively connected with a permanent establishment in Spain.

This summary does not address tax considerations that may apply to holders that are subject to special tax rules, such as U.S. expatriates, insurance companies, tax-exempt organizations, banks or certain other financial institutions, persons subject to the alternative minimum tax, dealers and certain traders in securities or foreign currencies, retirement plans, investors holding the shares or ADSs as part of a straddle, hedging, conversion or other integrated transaction, persons who acquired their shares or ADSs pursuant to the exercise of employee stock options or otherwise as compensation, partnerships or other entities classified as partnerships for U.S. federal income tax purposes, or persons whose functional currency is not the U.S. dollar. Such holders may be subject to U.S. federal income tax consequences different from those set forth below.

If a partnership holds shares or ADSs, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. A partner in a partnership that holds shares or ADSs is urged to consult its own tax advisor regarding the specific tax consequences of owning and disposing of the shares or ADSs.

The U.S. Treasury has expressed concerns that parties to whom ADSs are pre-released may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. Holders of ADSs. Such actions would also be inconsistent with the claiming of the reduced rate of tax applicable to dividends received by certain non-corporate U.S. Holders. Accordingly, the availability of foreign tax credits to U.S. Holders of ADSs and the reduced tax rate for dividends received by certain non-corporate U.S. Holders of ADRs, both as described below, could be affected by actions that may be taken by parties to whom ADSs are pre-released.

For purposes of the Treaty and U.S. federal income tax, U.S. Holders of American Depositary Receipts (ADRs) will generally be treated as owners of the ADSs evidenced thereby and the shares represented by such ADSs.

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This discussion assumes that Telefónica Móviles, S.A. is not, and will not become, a passive foreign investment company (PFIC), as discussed below under United States Federal Income Tax Considerations Passive Foreign Investment Company Rules.

U.S. Holders of shares or ADSs should consult their own tax advisors concerning the specific Spanish and U.S. federal, state and local tax consequences of the ownership and disposition of shares or ADSs in light of their particular situations as well as any consequences arising under the laws of any other taxing jurisdiction. In particular, U.S. Holders are urged to consult their own tax advisors concerning whether they are eligible for benefits under the Treaty.

Spanish Tax Considerations

Taxation of Dividends

Under Spanish law, dividends paid by Telefónica Móviles to a U.S. Holder are subject to an income tax withheld at source on the gross amount of dividends at a 15% tax rate.

On June 15, 2005, we made a cash dividend distribution of 0.193 per share.

Taxation of Capital Gains

Spanish income tax is generally levied at a 35% tax rate on capital gains obtained by nonresidents of Spain who are not entitled to the benefit of any applicable treaty for the avoidance of double taxation and who do not operate through a fixed base or a permanent establishment in Spain.

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Under the Treaty, capital gains realized by U.S. Holders arising from the disposition of shares or ADSs will not be taxed in Spain provided that the seller has not maintained a direct or indirect holding of at least 25% in our capital during the twelve months preceding the disposition of the shares or ADSs. U.S. Holders will be required to establish that they are entitled to the exemption from tax under the Treaty by providing to the relevant Spanish tax authorities Spanish Form 210 and a certificate of residence on U.S. Internal Revenue Service (IRS) Form 6166 from the IRS stating that to the best knowledge of the IRS, such U.S. Holder is a U.S. resident within the meaning of the Treaty. Since July 5, 2004, U.S. Holders were required to request the IRS Form 6166 certificate of residence by filing IRS Form 8802 with the IRS. The U.S. Holder must attach to IRS Form 8802 a signed statement by the U.S. Holder declaring that the U.S. Holder was or will be a resident of the United States for the period for which the Treaty benefit is claimed. Spanish law requires that both of these forms (Spanish Form 210 and IRS Form 6166) be filed within one month from the date in which the capital gain is realized.

Spanish Wealth Tax

Individual U.S. Holders who hold shares or ADSs located in Spain are subject to the Spanish Wealth Tax (*Impuesto sobre el Patrimonio*) (Spanish Law 19/1991), which imposes tax on property located in Spain on the last day of any year. Individuals who hold shares or ADSs located outside of Spain are not subject to the Spanish Wealth Tax. However, the Spanish tax authorities may argue that all shares of Spanish corporations and all ADSs representing such shares are located in Spain for Spanish tax purposes. If such a view were to prevail, U.S. Holders who held shares or ADSs located or deemed to be located in Spain on the last day of any year would be subject to the Spanish Wealth Tax for such year at marginal rates varying between 0.2% and 2.5% of the average market value of such shares or ADSs during the last quarter of such year, as published by the Spanish Ministry of Economic Affairs. U.S. Holders should consult their own tax advisors with respect to the Spanish Wealth Tax.

Spanish Inheritance and Gift Taxes

Transfers of shares or ADSs on death and by gift to individuals are subject to Spanish inheritance and gift taxes (*Impuesto sobre Sucesiones y Donaciones*), respectively, if the transferee is a resident of Spain for tax purposes, or if the shares or ADSs are located in Spain at the time of death, regardless of the residence of the heir or beneficiary. The applicable tax rate, after applying all relevant factors, ranges from 7.65% and 81.6% for individuals. Gifts of shares granted to corporate U.S. Holders are subject to corporate tax which is generally levied at the rate of 35%.

Expenses of Transfer

Transfers of shares or ADSs will be exempt from any transfer tax (*Impuesto sobre Transmisiones Patrimoniales*) or value-added tax. Additionally, no stamp tax or duties will be levied on such transfers.

United States Federal Income Tax Considerations

Taxation of Dividends

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Distributions received by a U.S. Holder on shares or ADSs, including the amount of any Spanish taxes withheld, other than certain pro rata distributions of shares to all shareholders (including ADS holders), will constitute foreign source dividend income to the extent paid out of Telefónica Móviles' current or accumulated earnings and profits (as determined for U.S. federal income tax purposes). The amount of the dividend a U.S. Holder will be required to include in income will equal the U.S. dollar value of the euro, calculated by reference to the exchange rate in effect on the date the payment is received by the Depositary (in the case of ADSs) or by the U.S. Holder (in the case of ordinary shares), regardless of whether the payment is converted into U.S. dollars on the date of receipt. If a U.S. Holder realizes gain or loss on a sale or other disposition of euro, it will be U.S. source ordinary income or loss. Corporate U.S. Holders will not be entitled to claim the dividends-received deduction with respect to dividends paid by Telefónica Móviles. Subject to applicable limitations and the discussion above regarding concerns expressed by the U.S. Treasury, dividends received by certain non-corporate U.S. Holders in taxable years beginning before January 1, 2009 will be taxable at a maximum rate of 15%. Non-corporate U.S. Holders should consult their own tax advisors to determine whether they are subject to any special rules that limit their ability to be taxed at these favorable rates.

Spanish taxes withheld from dividends on shares or ADSs at a rate not exceeding the rate provided in the Treaty will be creditable against a U.S. Holder's U.S. federal income tax liability, subject to applicable restrictions and limitations that may vary depending upon the U.S. Holder's circumstances and the discussion above regarding concerns expressed by the U.S. Treasury. Instead of claiming a credit, a U.S. Holder may elect

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to deduct such Spanish taxes in computing its taxable income, subject to generally applicable limitations. The limitation of foreign taxes eligible for credit is calculated separately with respect to specific classes of income. The rules governing foreign tax credits are complex. Therefore, U.S. Holders should consult their own tax advisors regarding the availability of foreign tax credits in their particular circumstances.

Taxation Upon Sale or Other Disposition of Shares or ADSs

A U.S. Holder will generally recognize capital gain or loss on the sale or other disposition of shares or ADSs, which will be long-term capital gain or loss if the U.S. Holder has held such shares or ADSs for more than one year. The amount of the U.S. Holder's gain or loss will be equal to the difference between the amount realized on such sale or other disposition and the U.S. Holder's tax basis in the shares or ADSs, as determined in U.S. dollars. Any gain or loss will generally be U.S. source gain or loss for foreign tax credit purposes.

As discussed under *Spanish Tax Considerations-Taxation of Capital Gains* above, gain realized by a U.S. Holder on the sale or other disposition of shares or ADSs may be subject to Spanish tax unless the U.S. Holder provides the relevant Spanish tax authorities with both a certificate of U.S. tax residence on IRS Form 6166 and Spanish Form 210. Spanish law requires that both of these forms be filed within one month from the date on which the capital gain is realized. U.S. Holders are advised to submit IRS Form 8802 and the accompanying declaration to the IRS well in advance of the date on which the IRS Form 6166 that will be issued by the IRS may be required by the Spanish tax authorities, as there may be delays in obtaining the necessary forms. U.S. Holders should consult their own tax advisors regarding the potential Spanish tax consequences of a sale or other disposition of shares or ADSs and the procedures available for an exemption from such tax.

Passive Foreign Investment Company Rules

Telefónica Móviles believes that it was not a PFIC for U.S. federal income tax purposes for its 2004 taxable year. However, since PFIC status depends upon the composition of a company's income and assets and the market value of its assets (including, among others, less than 25% owned equity investments) from time to time, there can be no assurance that Telefónica Móviles will not be considered a PFIC for any taxable year. If Telefónica Móviles were treated as a PFIC for any taxable year during which a U.S. Holder held a share or ADS, certain adverse tax consequences could apply to the U.S. Holder.

If Telefónica Móviles is treated as a PFIC for any taxable year during which a U.S. holder held a share or ADS, gain recognized by such U.S. Holder on a sale or other disposition of shares or ADSs would be allocated ratably over the U.S. Holder's holding period for the shares or ADSs. The amounts allocated to the taxable year of the sale or other disposition and to any year before Telefónica Móviles became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, and an interest charge would be imposed on the amount allocated to each such taxable year. Further, any distribution in respect of shares or ADSs in excess of 125% of the average of the annual distributions on shares or ADSs received by the U.S. Holder during the preceding three years or the U.S. Holder's holding period, whichever is shorter, would be subject to taxation as described above. Certain elections may be available (including a mark-to-market election) to U.S. Holders that may help to mitigate the adverse U.S. federal income tax consequences resulting from Telefónica Móviles being a PFIC.

In addition, if Telefónica Móviles were to be treated as a PFIC in a taxable year in which it pays a dividend or the prior taxable year, the favorable dividend rates discussed above with respect to dividends paid to certain non-corporate U.S. Holders would not apply.

Information Reporting and Backup Withholding

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting and to backup withholding unless the U.S. Holder is a corporation or other exempt recipient or, in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle such U.S. Holder to a refund, provided that the required information is furnished to the IRS.

F. DIVIDENDS AND PAYING AGENTS

Not applicable.

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G. STATEMENTS BY EXPERTS

Not applicable.

H. DOCUMENTS ON DISPLAY

Where You Can Find More Information

We file annual reports on Form 20-F and furnish periodic reports on Form 6-K to the SEC. You may read and copy any of these reports at the SEC's public reference rooms in Washington, D.C. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms.

Our SEC filings are also available to the public from commercial document retrieval services. Some of our SEC filings are also available at the website maintained by the SEC at <http://www.sec.gov>.

Our ADSs are listed on the NYSE under the symbol TEM. Our ordinary shares are listed on the Madrid, Barcelona, Bilbao and Valencia stock exchanges, and the Automated Quotation System of the Spanish stock exchanges under the symbol TEM. You may inspect any periodic reports and other information filed with the SEC by us at the offices of the NYSE, 20 Broad Street, New York, New York 10005.

As a foreign private issuer, we are exempt from the rules under the Exchange Act which prescribe the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

We are subject to the informational requirements of the CNMV and the Spanish stock exchanges and file reports and other information relating to our business, financial condition and other matters with the CNMV and the Spanish stock exchanges. You may read such reports, statements and other information (including the annual and biannual financial statements) at the public reference facilities maintained in Madrid, as well as through our website at <http://www.telefonicomoviles.com>. Some of our filings with the Spanish National Securities Commission are also available at the website maintained by the Spanish securities commission at <http://www.cnmv.es>.

I. SUBSIDIARY INFORMATION

Not applicable.

Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various types of market risk in the normal course of our business, including the impact of changes in interest rates, and foreign currency exchange rates. We actively manage interest rate risk and foreign currency exchange rate risk, in part with financial derivatives. All of our financial derivative transactions are entered into for hedging purposes. However, we are required to classify some of these derivative contracts as held for trading purposes. Instruments that are classified for accounting purposes as trading are carried on the books at market prices, and gains or losses arising therefrom are recorded immediately in the income statement as financial revenue or expense, as appropriate.

Gains or losses on these instruments are recorded as adjustments to the underlying transactions. Our counterparties in our financial derivatives transactions are Telefónica S.A. and financial institutions.

Interest rate risk

We use several derivative strategies, including swaps to manage our exposure to interest rate fluctuations. Giving effect to these derivative transactions, at December 31, 2005 approximately 73.8% of our long-term debt portfolio bore interest at a variable rate. Our floating rate debt portfolio is principally subject to fluctuations in the London Interbank Offered Rate (particularly for the U.S. dollar LIBOR), the European Interbank Offered Rate (EURIBOR) and the Brazilian Selic, Brazil's prime rate.

Exchange rate risk

The exchange rate risk to which we are exposed derives principally from (1) our long-term debt portfolio that is denominated in (or swapped into) currencies other than the euro and (2) the fact that we conduct a

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substantial amount of business in, and have substantial investments in, countries outside of Spain, principally Latin American countries. We hedge our debt-related exchange rate exposure to the extent that we consider necessary and hedges are commercially available. From time to time we hedge our exchange rate exposure arising from attributed net income from our non-Spanish subsidiaries. We use swaps, options and exchange rate forward contracts to manage our exposure to exchange rate fluctuations.

Tabular description of market rate sensitive instruments

The tables below describe the financial instruments bearing interest or exchange rate risk for the companies consolidated in the Telefónica Móviles Group.

The tables below have been prepared as follows:

The debt obligations are ordered according to their final characteristics and taking into account the effect of the associated derivative instruments. They are classified according to the currency in which they are denominated, within the following categories:

Euro (EUR);

U.S. dollar (USD);

Latin American currencies (ARS Argentinean Pesos; BRL Brazilian Reais; CLP Chilean Pesos; COP Colombian Pesos; PEN Peruvian Pesos; MXN Mexican Pesos; GTQ Guatamalan Quetzales);

Japanese Yen (JPY); and

Moroccan dirham (MAD).

Each such group is further divided into:

Floating rate interest; and

Fixed rate interest.

Each column shows the notional amount of each debt obligation maturing in the year indicated at the top of the column through a five-year period. The notional amount outstanding after such five-year period is shown in the next column. The column "Total" is the sum of the notional amounts.

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Notional amounts do not include accrued interest.

The fair value columns show the value for (1) the underlying debt (net present value), (2) the derivatives linked to the underlying debt (Black & Scholes Model for the options and net present value for the others) and (3) the total (the sum of the two previous values).

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Instruments outstanding at December 31, 2005

(Millions of \$, except percentages)

	MATURITY DATES						FAIR VALUE			
	2006	2007	2008	2009	2010	Thereafter	TOTAL	Underlying Debt	Associated Derivatives	TOTAL
EURO	2,320	2,297	487	1,270	479	-22	6,830	7,435	-887	6,547
Floating Rate	2,061	2,094	259	1,227	310	-22	5,930	6,846	-1,255	5,591
Spread Ref Euribor	0.59%	1.52%	-0.08%	0.54%	0.58%	-7.42%	0.91%			
Fixed Rate	259	203	228	43	168		900	588	367	956
Interest Rate	5.42%	5.84%	3.22%	3.63%	6.43%		5.06%			
AMERICA	2,135	738	429	1,180	483	477	5,443	2,618	1,176	3,794
Instruments in USD	-162	-7	96	972	58	341	1,298	3,055	-2,115	940
Floating Rate	-132	-118	10	907	12	73	753	2,280	-1,559	721
Spread	-2.94%	-0.55%	61.78%	0.04%	0.77%	0.56%	1.53%			
Fixed Rate	-30	111	86	64	47	268	546	775	-556	219
Interest Rate	3.32%	5.10%	4.09%	4.75%	5.61%	5.53%	5.26%			
Instruments in ARS	126	57					183	-21	149	128
Floating Rate										
Spread										
Fixed Rate	126	57					183	-21	149	128
Interest Rate	7.35%	9.48%					8.01%			
Instruments in BRL	532	444	18	37	145	17	1,193	37	836	873
Floating Rate	365	444	18	37	145	17	1,026	37	674	712
Spread	0.19%	0.12%	0.12%				3.95%	0.19%		
Fixed Rate	167						167		161	161
Interest Rate	10.40%						10.40%			
Instruments in CLP	430	82	180	79			771	-56	765	709
Floating Rate	260		20	18			298		293	293
Spread			-0.35%	-0.33%			-0.04%			
Fixed Rate	170	82	160	62			474	-56	472	417
Interest Rate	4.05%	4.49%	4.82%	5.14%			4.53%			
Instruments in UFC	1	1	1	1	1	1	4	5		5
Floating Rate										
Spread										
Fixed Rate	1	1	1	1	1	1	4	5		5
Interest Rate	7.85%	7.85%	7.85%	7.85%	7.85%	7.85%	7.85%			
Instruments in PEN	138	25					163	-23	131	108
Floating Rate										
Spread										
Fixed Rate	138	25					163	-23	131	108
Interest Rate	4.72%	5.32%					4.81%			

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Instruments in COP	245	58	128			0	430	31	404	435
Floating Rate	97		0			0	97	0	96	96
Spread	0.00%		6.50%			6.50%	0.00%			
Fixed Rate	148	58	128				334	31	308	339
Interest Rate	9.20%	8.79%	8.04%				8.68%			
Instruments in VEB									-639	-639
Floating Rate										
Spread										
Fixed Rate									-639	-639
Interest Rate										
Instruments in MXN	810	80	7	92	279	118	1,385	239	993	1,232
Floating Rate	702	13	3	88	277		1,084	279	808	1,087
Spread	-0.01%	-0.66%	-0.52%	2.59%	0.60%		0.35%			
Fixed Rate	108	67	3	3	2	118	301	-40	185	145
Interest Rate	7.75%	7.93%	8.83%	8.83%	8.83%	9.25%	8.41%			
Instruments in GTQ	15						15	-10	13	3
Floating Rate	15						15		13	13
Spread										
Fixed Rate									-10	-10
Interest Rate										

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	MATURITY DATES							FAIR VALUE		
	2006	2007	2008	2009	2010	Thereafter	TOTAL	Underlying Debt	Associated Derivatives	TOTAL
ASIA	0	-0	0			1	1	84	-83	2
Instruments in JPY	0	-0	0			1	1	84	-83	2
Floating Rate	0	0	0			1	2	2		2
Spread	3.79%	3.79%	3.79%			3.79%	3.79%			
Fixed Rate	0	-0					-0	83	-83	0
Interest Rate	1.80%	0.03%					0.03%			
AFRICA						91	91		55	55
Instruments in MAD						91	91		55	55
Floating Rate										
Spread										
Fixed Rate						91	91		55	55
Interest Rate						4.54%	4.54%			
TOTAL	4,455	3,035	917	2,450	962	547	12,366	10,137	260	10,397
Exchange Rate Options										7

All amounts are expressed in millions of euro, except for interest rates.

Sensitivity to interest rates at December 31, 2005**Detail for Interest Rate Swaps**

(Millions of €, except percentages)

	MATURITY DATES							TOTAL	Fair Value
	2006	2007	2008	2009	2010	Subsequent			
EURO									1
Fixed to floating									-15
Receiving leg		-66	-313	-49			-428		-41
Average Interest Rate		3.34%	4.32%	3.27%			4.05%		
Paying leg		66	313	49			428		26
Average Spread									
Floating to fixed									-16

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Receiving leg	-66	-498	-255				-819	-50
Average Spread								
Paying leg	66	498	255				819	66
Average Interest Rate	3.34%	3.87%	(4.65)%				4.07%	
USD								-2
Floating to fixed								-2
Receiving leg	-51	-44					-95	-10
Average Spread								
Paying leg	51	44					95	8
Average Interest Rate	3.81%	3.87%					3.84%	
BRL								
Floating to floating								
Receiving leg	-115						-115	-57
Average Spread	9.43%		&n					