

*Telefonica*

Telefónica Móviles, S.A.

*Móviles*

**TELEFÓNICA MÓVILES, S.A. AND  
COMPANIES COMPOSING THE  
TELEFÓNICA MÓVILES GROUP**

CONSOLIDATED FINANCIAL STATEMENTS FOR 2004  
TOGETHER WITH MANAGEMENT REPORT  
AND AUDITORS' REPORT

# Deloitte

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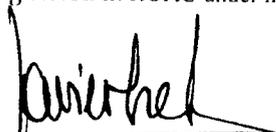
*Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain. In the event of a discrepancy, the Spanish-language version prevails.*

## AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Stockholders of  
Telefónica Móviles, S.A.:

1. We have audited the consolidated financial statements of Telefónica Móviles, S.A. and Subsidiaries comprising the consolidated balance sheet as of December 31, 2004, and the related consolidated statement of income and notes to consolidated financial statements for the year then ended. The preparation of these consolidated financial statements is the responsibility of the Parent Company's directors. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with generally accepted auditing standards, which require examination, by means of selective tests, of the documentation supporting the consolidated financial statements and evaluation of their presentation, of the accounting principles applied and of the estimates made.
2. As required by Spanish corporate law, for comparison purposes the directors present, in addition to the 2004 figures for each item in the consolidated balance sheet and consolidated statements of income and of changes in financial position, the figures for 2003. Our opinion refers only to the 2004 consolidated financial statements. Our auditors' report dated February 18, 2004, on the 2003 consolidated financial statements contained an unqualified opinion.
3. In our opinion, the consolidated financial statements for 2004 referred to above present, in all material respects, a true and fair view of the net worth and financial position of Telefónica Móviles, S.A. and Subsidiaries as of December 31, 2004, and of the results of their operations and of the funds obtained and applied by them in the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with generally accepted accounting principles and standards applied on a basis consistent with that of the preceding year.
4. The accompanying consolidated management report for 2004 contains the explanations which the Parent Company's directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated management report is consistent with that contained in the consolidated financial statements for 2004. Our work as auditors was confined to checking the consolidated management report with the aforementioned scope, and did not include a review of any pro forma information or information other than that drawn from the Consolidated Companies' accounting records.

DELOITTE, S.L.  
Registered in ROAC under no. S0692

  
Javier Ares San Miguel  
March 4, 2005

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 21). In the event of a discrepancy, the Spanish-language version prevails.



Telefónica Móviles, S.A.

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2004 AND 2003

|  | Thousands of Euros |                   |
|--|--------------------|-------------------|
| ASSETS   | 2004               | 2003              |
| <b>FIXED AND OTHER NONCURRENT ASSETS</b>             | <b>14,163,000</b>  | <b>10,372,308</b> |
| Start-up expenses (Note 5-a)                         | 285,272            | 360,506           |
| Intangible assets (Note 5-b)                         | 3,970,422          | 2,692,699         |
| Research and development expenses                    | 8,929              | 6,324             |
| Concessions, patents, licenses and other             | 3,686,561          | 2,398,912         |
| Rights on leased assets                              | 17,756             | 12,682            |
| Computer software and other                          | 1,971,082          | 1,133,980         |
| Accumulated amortization and allowances              | (1,713,906)        | (859,199)         |
| Property, plant and equipment (Note 6)               | 5,639,994          | 4,384,354         |
| Land and structures                                  | 1,451,590          | 942,980           |
| Telephone installations                              | 10,561,333         | 7,563,497         |
| Furniture, fixtures and other                        | 838,681            | 474,992           |
| Computer hardware                                    | 678,739            | 504,168           |
| Construction in progress                             | 887,572            | 605,424           |
| Accumulated depreciation and allowances              | (8,777,921)        | (5,706,707)       |
| Long-term investments (Note 7)                       | 4,267,312          | 2,934,749         |
| Investments in associated companies                  | 58,805             | 121,651           |
| Other investments                                    | 10,959             | 9,115             |
| Other long-term investments                          | 592,040            | 551,869           |
| Loans to Telefónica Group companies (Note 11)        | 2,342,861          | 1,203,205         |
| Receivable from public authorities (Note 13-a)       | 1,316,116          | 1,052,266         |
| Allowances   | (53,469)           | (3,357)           |
| <b>CONSOLIDATION GOODWILL (Note 8)</b>               | <b>3,142,012</b>   | <b>1,146,468</b>  |
| <b>DEFERRED CHARGES</b>                              | <b>38,323</b>      | <b>21,113</b>     |
| <b>CURRENT ASSETS</b>                                | <b>6227,579</b>    | <b>4,124,176</b>  |
| Inventories  | 410,580            | 154,540           |
| Inventories  | 428,956            | 182,506           |
| Advances   | 21,810             | 169               |
| Allowances   | (40,186)           | (28,135)          |
| Accounts receivable                                  | 2,906,983          | 2,163,174         |
| Trade receivables                                    | 2,030,929          | 1,663,644         |
| Receivable from Telefónica Group companies (Note 11) | 361,497            | 409,808           |
| Sundry accounts receivable                           | 80,358             | 79,798            |
| Employee receivables                                 | 4,404              | 3,452             |
| Receivable from public authorities (Note 13-b)       | 782,938            | 315,078           |
| Allowances for bad debts                             | (353,143)          | (308,606)         |
| Short-term investments                               | 2,461,887          | 1,670,074         |
| Loans to Telefónica Group companies (Note 11)        | 1,783,208          | 1,334,286         |
| Other loans  | 678,679            | 335,788           |
| Cash   | 341,287            | 61,920            |
| Accrual accounts                                     | 106,842            | 74,468            |
| <b>TOTAL ASSETS</b>                                  | <b>23,570,914</b>  | <b>15,664,065</b> |

The accompanying Notes 1 to 21 and Exhibit I are an integral part of these consolidated balance sheets.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 21). In the event of a discrepancy, the Spanish-language version prevails.

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2004 AND 2003

|   | Thousands of Euros |                   |
|---|--------------------|-------------------|
|   | 2004               | 2003              |
| <b>STOCKHOLDERS' EQUITY AND LIABILITIES</b>                 |                    |                   |
| <b>STOCKHOLDERS' EQUITY (Note 9)</b>                        | <b>4,719,893</b>   | <b>4,040,435</b>  |
| Capital stock   | 2,165,275          | 2,165,275         |
| Additional paid-in capital                                  | 154,894            | 154,894           |
| Other reserves of the Parent Company                        | 903,785            | 433,055           |
| Legal reserve   | 433,055            | 433,055           |
| Other reserves  | 470,730            |                   |
| Reserves at consolidated companies                          | 1,212,783          | 871,630           |
| Translation differences in consolidation                    | (1,350,754)        | (1,192,257)       |
| Income for the year   | 1,633,910          | 1,607,838         |
| Income of the Parent Company and subsidiaries               | 1,650,422          | 1,667,367         |
| Income of associated companies (Note 14-d)                  | (38,232)           | (80,656)          |
| Loss attributable to minority interests (Note 10)           | 21,720             | 21,127            |
| <b>MINORITY INTERESTS (Note 10)</b>                         | <b>(57,130)</b>    | <b>74,671</b>     |
| <b>DEFERRED REVENUES</b>                                    | <b>119,152</b>     | <b>41,119</b>     |
| <b>PROVISIONS FOR CONTINGENCIES AND EXPENSES (Note 4-m)</b> | <b>1,153,551</b>   | <b>1,149,591</b>  |
| <b>LONG-TERM DEBT</b>                                       | <b>8,552,323</b>   | <b>5,410,343</b>  |
| Security issues   | 74,518             | 69,435            |
| Long-term nonconvertible debentures and bonds               | 69,145             | 69,435            |
| Other marketable debt securities                            | 5,373              | 0                 |
| Payable to credit institutions (Note 12)                    | 434,708            | 310,033           |
| Payable to Telefónica Group companies (Note 11)             | 7,817,441          | 4,864,423         |
| Other payables  | 136,913            | 130,641           |
| Payable to public authorities (Note 13-a)                   | 88,743             | 35,811            |
| <b>CURRENT LIABILITIES</b>                                  | <b>9,083,125</b>   | <b>4,947,906</b>  |
| Security issues   | 9,427              | 20,594            |
| Short-term marketable debt securities                       | 9,427              | 20,594            |
| Payable to credit institutions                              | 868,199            | 553,246           |
| Loans and other payables (Note 12)                          | 829,726            | 545,145           |
| Interest payable  | 38,473             | 8,101             |
| Payable to Telefónica Group companies (Note 11)             | 4,188,109          | 1,473,285         |
| Trade accounts payable                                      | 2,480,710          | 2,190,514         |
| Accounts payable for purchases and services                 | 2,480,710          | 2,190,514         |
| Other nontrade payables                                     | 1,387,568          | 595,969           |
| Payable to public authorities (Note 13-b)                   | 845,672            | 394,386           |
| Other nontrade payables                                     | 541,896            | 201,583           |
| Accrual accounts (Note 4-p)                                 | 149,112            | 114,298           |
| <b>TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES</b>           | <b>23,570,914</b>  | <b>15,664,065</b> |

The accompanying Notes 1 to 21 and Exhibit I are an integral part of these consolidated balance sheets.

*Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 21). In the event of a discrepancy, the Spanish-language version prevails.*

CONSOLIDATED STATEMENTS OF INCOME FOR 2004 AND 2003

Thousands of Euros

| DEBIT   | 2004           | 2003           |
|---|----------------|----------------|
| <b>EXPENSES</b>   |                |                |
| Variation in inventories  | -              | 15291          |
| Procurements  | 3,676,302      | 2592541        |
| Purchases   | 2134534        | 1314574        |
| Purchases from Telefónica Group companies (Note 11)                         | 40374          | 23397          |
| Work performed by other companies   | 1290133        | 1058334        |
| Work performed by Telefónica Group companies (Note 11)                      | 211261         | 196236         |
| Personnel expenses (Note 14-b)  | 539917         | 485993         |
| Depreciation and amortization expense                                       | 1611003        | 1420648        |
| Property, plant and equipment (Note 6)                                      | 1122059        | 1060331        |
| Intangible assets (Note 5-b)  | 390896         | 307961         |
| Deferred charges  | 98048          | 52356          |
| Variation in operating allowances   | 86723          | 99274          |
| Variation in allowances for bad debts and inventories                       | 86723          | 99274          |
| Other operating expenses  | 3040952        | 2581995        |
| Outside services  | 2342526        | 1896019        |
| Outside services provided by Telefónica Group companies (Note 11)           | 529060         | 515577         |
| Taxes other than income tax   | 169366         | 170399         |
| <b>OPERATING INCOME</b>   | <b>3089964</b> | <b>3042236</b> |
| Financial expenses on debts to Telefónica Group companies (Note 11)         | 339366         | 323545         |
| Other interest on debts and similar expenses                                | 254406         | 318660         |
| Exchange losses   | 331946         | 646269         |
| <b>FINANCIAL INCOME</b>   | <b>-</b>       | <b>-</b>       |
| Share in losses of companies accounted for by the equity method (Note 14-d) | 38232          | 80656          |
| Amortization of consolidation goodwill (Note 8-b)                           | 94708          | 101703         |
| <b>INCOME FROM ORDINARY ACTIVITIES</b>                                      | <b>2603256</b> | <b>2481740</b> |
| Variation in fixed asset and control portfolio allowances                   | 6453           | 14528          |
| Losses on intangible assets   | 81             | 6931           |
| Losses on property, plant and equipment                                     | 12168          | 5701           |
| Extraordinary expenses and losses (Note 14-e)                               | 121159         | 32496          |
| <b>EXTRAORDINARY INCOME</b>   | <b>-</b>       | <b>-</b>       |
| <b>INCOME BEFORE TAXES</b>  | <b>2510307</b> | <b>2477204</b> |
| Corporate income tax (Note 13-c)  | 898117         | 890493         |
| <b>INCOME FOR THE YEAR</b>  | <b>1612190</b> | <b>1586711</b> |
| Income attributed to minority interests (Note 10)                           | 45053          | 35930          |
| <b>INCOME FOR THE YEAR</b>  | <b>1633910</b> | <b>1607838</b> |

The accompanying Notes 1 to 21 and Exhibit I are an integral part of these consolidated statements of income.

*Translation of consolidated financial statements originally issued in Spanish and prepared*

in accordance with generally accepted accounting principles in Spain (see Note 21).  
In the event of a discrepancy, the Spanish-language version prevails.

**Telefónica**

Telefónica Móviles, S.A.

**Móviles**

**CONSOLIDATED STATEMENTS OF INCOME FOR 2004 AND 2003**

|   | Thousands of Euros |                |
|---|--------------------|----------------|
| <b>CREDIT</b>   | <b>2004</b>        | <b>2003</b>    |
| <b>REVENUES</b>   |                    |                |
| Net sales to Telefónica Group companies (Note 11)                                       | 1,446,267          | 1,461,320      |
| Net sales and services (Note 14-a)  | 10,381,324         | 8,608,964      |
| Variation in inventories  | 33,983             | -              |
| Capitalized expenses of in-house work on fixed assets                                   | 93,493             | 90,140         |
| Other operating revenues <sup>4</sup>   | 89,794             | 77,554         |
| Non-core and other current operating revenues from Telefónica Group companies (Note 11) | 24,420             | 9,887          |
| Non-core and other current operating revenues   | 53,092             | 41,332         |
| Overprovision for contingencies and expenses  | 12,282             | 26,335         |
| <b>OPERATING LOSS</b>   | <b>-</b>           | <b>-</b>       |
| Revenues from other securities and loans  | 169,830            | 163,992        |
| Telefónica Group companies (Note 11)  | 71,259             | 68,949         |
| Other companies   | 98,571             | 95,043         |
| Exchange gains  | 402,120            | 746,345        |
| <b>FINANCIAL LOSS</b>   | <b>353,768</b>     | <b>378,137</b> |
| <b>LOSS ON ORDINARY ACTIVITIES</b>  | <b>-</b>           | <b>-</b>       |
| Gains on fixed asset disposals  | 1,311              | 3,136          |
| Gains on disposals of investments in consolidated companies (Note 2-c)                  | 10,234             | 14,081         |
| Capital subsidies   | 30                 | 348            |
| Extraordinary revenues (Note 14-e)  | 35,337             | 37,555         |
| <b>EXTRAORDINARY LOSS</b>   | <b>92,949</b>      | <b>4,536</b>   |
| <b>LOSS BEFORE TAXES</b>  | <b>-</b>           | <b>-</b>       |
| <b>LOSS FOR THE YEAR</b>  | <b>-</b>           | <b>-</b>       |
| Loss attributed to minority interests (Note 10)   | 66,773             | 57,057         |
| <b>LOSS FOR THE YEAR</b>  | <b>-</b>           | <b>-</b>       |

The accompanying Notes 1 to 21 and Exhibit I are an integral part of these consolidated statements of income.

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## TELEFÓNICA MÓVILES S.A. AND COMPANIES COMPOSING THE TELEFÓNICA MÓVILES GROUP

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR 2004

#### 1) INTRODUCTION AND GENERAL INFORMATION

On January 12, 2000, the Stockholders' Meeting of Telefónica, S.A. resolved to incorporate a company to group together all the Telefónica Group's wireless communications businesses in the world, which were located in Europe, Latin America and the Maghreb. Pursuant to this resolution, Telefónica Móviles, S.A., with registered office at Goya, 24, Madrid (Spain), was incorporated on February 14, 2000.

Telefónica Móviles, S.A. ("the Company", "the Parent Company" or "Telefónica Móviles") and its subsidiaries and investees make up an integrated group of companies ("the Telefónica Móviles Group", "the Móviles Group" or "the Group") operating mainly in the telecommunications industry.

The corporate purpose of Telefónica Móviles, per Article 2 of its bylaws, is the performance of all manner of business activities in the field of telecommunications and value added services in the broadest sense. All the business activities that constitute the corporate purpose may be performed either directly by the Company or through ownership interests in companies with an identical or a similar corporate purpose.

On October 26, 2000, the Stockholders' Meeting of Telefónica Móviles resolved to launch an initial public offering (IPO) through a capital increase. In November 2000 Telefónica Móviles, S.A. applied for the admission of its shares to listing on the New York Stock Exchange (NYSE), instrumented in American Depositary Shares (ADS), and on the Madrid, Valencia, Barcelona and Bilbao Stock Exchanges, and for the inclusion of its shares in the Spanish computerized trading system (continuous market). All the shares were subscribed in the initial public offering.

The Company's main asset consists of holdings in various telecommunications operators in several different countries. The companies composing the Group as of December 31, 2004, and Telefónica Móviles, S.A.'s direct, indirect and total percentages of ownership in each of them are detailed in Exhibit I to these notes to consolidated financial statements. The main holdings are as follows:

- **Telefónica Móviles España, S.A.:** the company responsible for the management and operation of wireless communications in Spain.
- **Telefónica Móviles Interacciona, S.A.:** a Spanish company whose corporate purpose is to operate content and services through wireless networks using WAP technology or any other technology that may be developed in the future.

- **Mobipay International, S.A.:** a company whose main corporate purpose is the provision of wireless telephony payment services worldwide, except Spain.
- **Mobipay España, S.A.:** a company whose main corporate purpose is the provision of wireless telephony payment services in Spain.
- **Telefónica Comunicaciones Personales, S.A.:** a company which provides wireless communications services in Argentina.
- **Telefónica Móviles, S.A.C.:** a company which provides wireless communications services in Peru.
- **Telefónica de El Salvador, S.A. de C.V.:** a company which provides wireless communications and international long-distance services in El Salvador.
- **Telefónica Centroamérica Guatemala, S.A.:** a company which provides wireless and wireline communications services and radio-paging services in Guatemala.
- **Medi Telecom, S.A.:** a company which provides wireless communications services in Morocco.
- **Telefónica Móviles Soluciones y Aplicaciones, S.A.:** a Chilean company whose main corporate is the development of commercial software and the provision of counseling services for the Telefónica Móviles Group's communications and Internet companies.
- **Brasilcel, N.V.:** a company to which the holdings owned by Telefónica Móviles, S.A. and the Portugal Telecom Group in wireless telephony companies in Brazil were contributed as of December 27, 2002. This joint venture, which is 50% owned and managed by each of the two groups, comprises the following wireless communications operators:
  - **Tele Sudeste Celular Participações, S.A.:** a Brazilian company which provides wireless communications services in the states of Rio de Janeiro and Espírito Santo through its operators Telerj Celular, S.A. and Telest Celular, S.A., respectively.
  - **Tele Leste Celular Participações, S.A.:** a Brazilian company which provides wireless communications services in the states of Bahia and Sergipe through its operators Telebahia Celular, S.A. and Telergipe Celular, S.A., respectively
  - **Celular CRT Participações, S.A.:** a Brazilian company which provides wireless communications services in the state of Rio Grande do Sul through its operator Celular CRT, S.A.
  - **Telesp Celular Participações, S.A.:** a Brazilian company which provides wireless communications services in the states of São Paulo (through its operator Telesp Celular, S.A.), Paraná and Santa Catarina (through its operator Global Telecom, S.A.).
  - **Tele Centro Oeste Celular Participações, S.A.:** A Brazilian company, subsidiary of Telesp Celular Participações, S.A., acquired on April 25, 2003 (see Note 2-c), which provides wireless communications services in the Central-Western region (formed by the States of Brasilia, Goias, Etocantins, Mato Grosso, Mato Grosso do Sul, Rondônia and Acre) and in the Amazonia region (in the states of Amapá, Amazonas, Maranhao, Pará and Roraima).

- **Telefónica Móviles México, S.A. de C.V.:** a Mexican company to which all the shares of the Telefonía Móviles Group and the Pegaso Group in Mexican wireless operators were contributed on September 10, 2002. This company, which is 92% owned by Telefonía Móviles, manages the following wireless communications operators:
  - **Pegaso Telecomunicaciones, S.A. de C.V.:** a Mexican holding company which provides telecommunications services through the operator Pegaso Comunicaciones y Sistemas, S.A. de C.V. This company has a license to operate in all the regions of the Republic of Mexico.
  - **Grupo Corporativo del Norte, S.A. de C.V.:** a Mexican holding company which provides cellular telephony services through the operator Celular de Telefonía, S.A. de C.V. (Cedotel) in the states of Nuevo León, Tamaulipas and part of the state of Coahuila.
  - **Corporación Integral de Comunicación, S.A. de C.V.:** a Mexican holding company which provides cellular telephony services through the operator Telefonía Celular del Norte, S.A. de C.V. (Norcel) in the states of Chihuahua, Durango and part of the state of Coahuila.
  - **Baja Celular Mexicana, S.A. de C.V.:** a Mexican holding company which provides cellular telephony services in the states of Baja California Norte, Baja California Sur and in the municipality of San Luis del Río Colorado in Sonora.
  - **Movitel del Noroeste, S.A. de C.V.:** a Mexican company, subsidiary of Baja Celular Mexicana, S.A. de C.V., which provides cellular telephony services in the States of Sinaloa and Sonora, except for the municipality of San Luis del Río Colorado municipality.
- **Telefónica Móvil de Chile, S.A.:** a company which provides wireless communications services in Chile.
- **Otecel, S.A.:** a company which provides wireless communications services in Ecuador.
- **Telefónica Móviles Guatemala y Cía, S.C.A.** (formerly BellSouth Guatemala y Cía., S.C.A.): a company which provides telecommunications, radio communications, Internet and data transmission services in Guatemala.
- **Telefónica Móviles Panamá, S.A.:** a company which provides wireless communications and international long-distance services in Panama.
- **Telefónica Móviles Colombia, S.A.:** (formerly BellSouth Colombia, S.A.): a Colombian company which provides wireless communications services in the three regions (Eastern, Atlantic Coast and Western) into which Colombia has been divided for the purpose of providing the cellular wireless telephony service in that country.
- **Telefonía Celular de Nicaragua, S.A.:** a company which provides wireless communications and international long-distance services in Nicaragua.
- **Comunicaciones Móviles del Perú, S.A.:** (formerly BellSouth Perú, S.A.): a company which provides wireless communications services in Peru. It also provides national long-distance, international long-distance and public wireline telephony services in the city of Lima and the province of Callao.

- **Abiatar, S.A.:** a company which provides wireless communications, Internet, cordless data transmission and international long-distance telephony services in Uruguay.
- **Telcel, C.A.:** a company which provides wireless communications, international and national local and long-distance wireline telephony, Internet access, data transmission, private network system and vehicle tracking services in Venezuela.

The Móviles Group operators providing telecommunications services as of December 31, 2004, are subject to specific regulatory frameworks, and in some cases the ratemaking system is regulated. Also, some of these companies have commitments to the regulatory bodies whereby they are obliged, for a given time period, to comply with certain installation and service quality indexes. As of December 31, 2004, all the operators had complied with these commitments.

## **2) BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS**

### ***a) True and fair view***

These consolidated financial statements of the Telefónica Móviles Group were prepared from the accounting records of Telefónica Móviles, S.A. and of each of the companies composing the Telefónica Móviles Group. All the accounting regulations in force were applied, and, accordingly, the consolidated financial statements give a true and fair view of the net worth, financial position, results of operation and funds obtained and applied in 2004 and 2003, in accordance with the rules for the preparation of consolidated financial statements.

These consolidated financial statements as of December 31, 2004, which were prepared by the Company's directors, will be submitted for approval by the Stockholders' Meeting, and it is considered that they will be approved without any changes.

The figures shown in the documents composing these consolidated financial statements are expressed in thousands of euros, unless indicated otherwise.

### ***b) Accounting policies***

The items in the consolidated financial statements were valued in accordance with the generally accepted accounting principles in force in Spain. At the companies where accounting methods that differ from those of the Group were applied, the related adjustments were made in consolidation in order to present the consolidated financial statements on a uniform basis.

Consolidation was performed by applying the consolidation methods and procedures contained in the accounting regulations in force:

- The companies over which effective control is exercised were fully consolidated.
- The companies which are managed jointly with third parties were proportionally consolidated.
- The companies in which there is significant influence over their management but not effective control or joint management with third parties are accounted for by the equity method.

The investees which are either not included in the foregoing categories or which, although included, do not have a material impact on consolidation, are carried at cost net of the necessary allowances to reflect their market value if this is lower than cost.

All the accounts receivable and payable, purchases, sales and gains or losses on transactions between fully consolidated companies were eliminated in consolidation.

The accounts payable and receivable, purchases and sales and the gains or losses on transactions between proportionally integrated companies were eliminated in consolidation in proportion to the Group companies' percentage of ownership of the capital of the jointly managed companies.

In accordance with standard practice in Spain, the consolidated financial statements do not include the tax effect, if any, of transferring the reserves and retained earnings of the consolidated companies to the Parent Company's accounts, since it is considered either that such reserves and earnings will not be distributed or that those that might be distributed will not give rise to a material additional tax cost.

The equity of the minority interests in the net worth and result for the year is recorded under the "Minority Interests" and "Income/Loss Attributed to Minority Interests" captions, respectively in these consolidated financial statements.

The consolidated statements of income include the revenues and expenses of the companies that are no longer in the Group up to the date on which the related holding was sold or the company in question was liquidated, and those of the new companies included in the Group from the date on which the holding was acquired or the company in question was formed through year-end.

***c) Comparative information and changes in the consolidated Group***

Except for the acquisitions made and described below, there were no significant events preventing comparison of the amounts relating to the reporting year with those of the preceding year.

The scope of consolidation of the Telefónica Móviles Group has existed since the date of incorporation of the Parent Company, through the formation or acquisition of companies and the contribution, by the majority stockholders, of holdings in companies providing wireless communications services which have historically belonged to other Telefónica Group companies.

The main changes in the consolidated Group in 2004 and 2003 were as follows:

*2004*

On June 10, 2004, an additional holding of 13.95% was acquired in Mobipay Internacional, thereby increasing the total ownership interest in this company to 50%, as a result of which this company, which had been accounted for by the equity method, was proportionally consolidated in 2004.

On July 23, 2004, Telefónica Móviles, S.A. acquired all the shares of Telefónica Móvil de Chile, S.A., which provides wireless telecommunications services in Chile, for US\$ 1,058 million and the assumption of debt amounting to CLP 168,000 million. Since that date, Telefónica Móvil de Chile, S.A. has been fully consolidated in the Móviles Group. The acquisition cost for Telefónica Móviles was €870 million.

At the end of June 2004 Brasilcel N.V. acquired the holdings owned by NTT DoCoMo, Inc. and Itochu Corporation in Sudestecel Participações, S.A. -a holding company which controls a package of shares of the operator Tele Sudeste Celular Participações, S.A.- equal to 10.5% of its capital stock for €20,839 thousand. As a result of this transaction, Brasilcel, N.V. now owns all the shares of Sudestecel Participações, S.A.

In August 2004 Brasilcel, N.V. and Telesp Celular Participações, S.A. (TCP) announced their intention to launch friendly tender offers for Tele Sudeste Celular Participações, S.A., Tele Leste Celular Participações, S.A., Celular CRT Participações, S.A and Tele Centro Oeste Celular Participações, S.A. (TCO). These tender offers were effectively implemented in October, and the following ownership interests were acquired:

|  | Percentage of Ownership before Tender Offers | Percentage of Ownership after Tender Offers |
|--|--|---|
| <b>Brasilcel, N.V.</b>                   |  |   |
| Tele Sudeste Celular Participações, S.A. | 86.7%  | 90.9%                                       |
| Tele Leste Celular Participações, S.A.   | 27.9%  | 50.6%                                       |
| Celular CRT Participações, S.A.          | 51.5%  | 67.0%                                       |

|   | Percentage of Ownership before Tender Offers | Percentage of Ownership after Tender Offers |
|---|--|---|
| <b>Telesp Celular Participações, S.A.</b>     |  |   |
| Tele Centro Oeste Celular Participações, S.A. | 28.9%  | 50.6%                                       |

These tender offers gave rise to a cash payment of approximately BRL 607 million for Brasilcel, N.V. and of BRL 902 million for Telesp Celular Participações, S.A. (TCP).

On October 8, 2004, Telesp Celular Participações, S.A. approved a capital increase of BRL 2,054 million. As a result of this capital increase, which was completed on January 4, 2005, and was fully subscribed, Brasilcel, N.V.'s ownership interest in this company increased from 65.12% to 65.70% (see Note 19).

On March 5, 2004, Telefónica Móviles, S.A. reached an agreement with BellSouth Corporation ("BellSouth") for the acquisition of all the holdings owned by latter in Argentina, Chile, Peru, Venezuela, Colombia, Ecuador, Uruguay, Guatemala, Nicaragua and Panama.

The effective transfer of the shares of these companies was conditional upon the obtainment of the required regulatory authorizations in each country and on the acceptance of the offers by the minority stockholders. The shares were effectively transferred in the last quarter of 2004. BellSouth's holdings in Ecuador, Guatemala and Panama were transferred on October 14, 2004, and the holdings in Colombia, Nicaragua, Peru, Uruguay and Venezuela were transferred on October 28, 2004. Lastly, the holdings in Chile and Argentina were transferred on January 7 and 11, 2005, respectively (see Note 19).

In addition to the acquisition of the BellSouth Group's ownership interests in the wireless telephony operators in Latin America, in compliance with the commitments assumed under share purchase agreements, Telefónica Móviles offered to acquire the ownership interest held by the minority stockholders of these companies, and in all cases the acquisition price was equal to that agreed on with BellSouth.

Under this agreement, the total assets of the aforementioned operators were valued at US\$ 4,330 million (US\$ 5,850 million including the investments in Argentina and Chile acquired in January 2005). The total acquisition cost for Telefónica Móviles, adjusted by the net debt of the

companies at the transfer date, amounted to €3,252,539 thousand (excluding Chile and Argentina).

Following are the values assigned to each transaction and the acquisition cost for Telefónica Móviles:

- Acquisition of all the shares of the operator Otecel, S.A. (Ecuador) for a total company value of US\$ 833 million. The acquisition cost for Telefónica Móviles, adjusted by the company's net debt, was €663,428 thousand.

- Acquisition of all the shares of Telefónica Móviles y Compañía, S.C.A. for a total company value of US\$ 175 million. The acquisition cost for Telefónica Móviles, adjusted by the company's net debt, was €92,538 thousand.

- Acquisition of a 99.57% holding in BellSouth Panamá, S.A. for a total company value of US\$ 657 million. The acquisition cost for Telefónica Móviles, adjusted by the company's net debt, was €549,275 thousand.

- Acquisition of all the shares of Telcel, S.A. (Venezuela) for a total company value of US\$ 1,195 million. The acquisition cost for Telefónica Móviles, adjusted by the company's net debt, was €1,223,984 thousand.

- Acquisition of all the shares of Telefónica Móviles Colombia, S.A. for a total company value of US\$ 1,050 million. The acquisition cost for Telefónica Móviles, adjusted by the company's net debt, was €17,456 thousand.

- Acquisition of a 99.85% holding in Comunicaciones Móviles del Perú, S.A. for a total company value of US\$ 210 million. The acquisition cost for Telefónica Móviles, adjusted by the company's net debt, was €7,697 thousand.

- Acquisition of all the shares of Telefonía Celular de Nicaragua, S.A. for a total company value of US\$ 150 million. The acquisition cost for Telefónica Móviles, adjusted by the company's net debt, was €148,742 thousand.

- Acquisition of all the shares of Abiatar, S.A. for a total company value of US\$ 60 million. The acquisition cost for Telefónica Móviles, adjusted by the company's net debt, was €9,419 thousand.

Pursuant to the agreement with BellSouth, certain procedures were performed to validate the cash and debt of the companies acquired, the end results of which are currently being negotiated by Telefónica Móviles and Bellsouth Corporation. As a result of these negotiations, the debt and cash amounts taken into account for the purpose of calculating the ultimate price of the shares could be subject to slight changes, which in no case would be material with respect to the transaction taken as a whole.

### 2003

On April 25, 2003, Telesp Celular Participações, S.A. (TCP), 65.12% owned by Brasilcel, N.V., acquired from the Brazilian company Fixcel (controlled by the Splice Group) 61.10% of the common voting shares of the Brazilian company Tele Centro Oeste Celular Participações, S.A. (TCO), representing 20.37% of its total capital stock, for BRL 1,505.5 million.

In October 2003 TCP, availing itself of Brazilian legislation, launched a tender offer for the other common voting shares of TCO held by minority stockholders. As a result of this offer, the

acceptance period for which ended on November 18, 2003, TCP acquired 74.23% of the shares targeted by the offer which, together with the shares it already owned, gave it an ownership interest of 86.58% of TCO's common shares (90.73% disregarding the shares of treasury stock owned by TCO), representing 28.87% of the total capital stock (29.31% excluding the shares of treasury stock). The amount paid for this additional holding was BRL 538.8 million.

Although TCP had declared its intention of exchanging (or acquiring) TCO shares to thus become its sole stockholder, this exchange was cancelled on January 12, 2004, as a result of the opinion issued by the Brazilian Securities Market Commission (CVM) which, in the opinion of the Boards of Directors of TCP and TCO, advised against implementing the aforementioned proposal.

On June 12, 2003, Telefónica Móviles acquired a 20% holding in Terra Mobile, S.A., giving it a 100% ownership interest in this company. The price agreed on was €.

On June 24, 2003, Telefónica Móviles, the sole stockholder of Terra Mobile, S.A., resolved to merge Termespa, S.A. into Terra Mobile, S.A., with the dissolution without liquidation of Termespa, S.A. and the transfer *en bloc*, by way of universal succession, of the assets and liabilities of the absorbed company to the absorbing company, which would acquire, by way of universal succession, the former's rights and obligations. Also, the corporate name of Terra Mobile, S.A. was changed to Telefónica Móviles Interacciona, S.A.

On June 27, 2003, Telefónica Móviles sold its holding in Telefónica Mobile Solutions S.A. to Telefónica Sistemas, S.A. for €1,129 thousand, the company's book value at the date of sale.

On July 29, 2003, Medi Telecom, S.A. carried out a capital increase in which Telefónica Móviles España disbursed €1,234 thousand and, since not all the stockholders subscribed to the capital increase, its holding was increased to 32.18%.

In September 2003 the convertible promissory notes representing the investment of Telefónica Internacional, S.A. in the Puerto Rican operator Newcomm Wireless Services, Inc. were transferred to the Móviles Group. These convertible promissory notes, totaling US\$ 60,945 thousand, were recorded under the "Other Long-Term Investments" caption and will entitle the Móviles Group, once it receives the requisite authorizations from the regulatory authorities, to convert the notes into 49.9% of the capital stock. Also, the Móviles Group will be entitled to acquire an additional 0.2% of the capital stock, which would give it a controlling interest in the Puerto Rican operator.

On December 15, 2003, Telefónica Móviles sold all the shares of Telefónica Móviles Interacciona to Telefónica Móviles España, S.A. for €; also on this date, all the loans granted to Telefónica Móviles Interacciona (and the accrued interest receivable) were transferred to Telefónica Móviles España. This transaction did not have any accounting impact on the consolidated financial statements.

On December 23, 2003, Telefónica Móviles España, S.A. and Mobilkom Austria Aktiengesellschaft & Co KG (Mobilkom) entered into an agreement whereby the latter would acquire all the shares of 3G Mobile Telecommunications GmbH, the Austrian subsidiary of Telefónica Móviles España, S.A. and holder of a third-generation wireless telephony license (UMTS). This company was sold for €3,650 thousand, giving rise to a gain of €3,572 thousand.

**3) PROPOSED DISTRIBUTION OF INCOME OF THE PARENT COMPANY**

The Board of Directors will propose for approval by the Stockholders' Meeting the following distribution of 2004 income:

|                            | Thousands<br>of Euros |
|----------------------------|-----------------------|
| <b>Income for the year</b> | <b>854,379</b>        |
| <u>Distribution:</u>       |                       |
| Dividends                  | 835,796               |
| To voluntary reserves      | 18,583                |

**4) VALUATION STANDARDS**

The main valuation methods applied in preparing the consolidated financial statements were as follows:

*a) Consolidation goodwill*

The amount paid for the acquisition of investments in companies in excess of the underlying book value of such investments at the acquisition date and not directly allocable to the companies' assets is recorded as consolidation goodwill. The amounts allocable to the acquired company's assets will be allocated to the related assets and liabilities after the related valuation has been made, up to the limit of their market value.

Consolidation goodwill is amortized during the period in which it contributes to the obtainment of revenues by the companies for which the goodwill was recorded. The maximum goodwill amortization period is 20 years.

*b) Translation of the financial statements of foreign companies included in consolidation*

The financial statements of the companies located abroad were expressed in euros. The assets and liabilities were translated to euros at the year-end exchange rates; capital stock, reserves and first-time consolidation differences at the historical exchange rates; and revenues and expenses at the average exchange rates for the year. The difference arising between translating the related items by the aforementioned methods and translating them at the year-end exchange rates is reflected under the "Stockholders' Equity - Translation Differences" caption in the accompanying consolidated balance sheets, net of the portion of such difference that relates to minority interests (see Note 9-c).

The companies which use accounting methods with adjustments for inflation apply the accounting rules in force in their respective countries, which consist of valuing monetary assets and liabilities at their face value and adjusting the historical cost of nonmonetary assets and liabilities for the inflation between the date on which the related item was first recorded by the company and year-end. Accordingly, the effect of the inflation for the year on the monetary assets and liabilities is included in the statement of income for the year under the "Exchange Losses" or "Exchange Gains" captions. The figures thus adjusted are translated to U.S. dollars at the year-end exchange rates and are subsequently translated to euros using the translation method described in the previous paragraph.

The consolidation of the Group companies located in Argentina constitutes a special case. Pursuant to a ruling of the Spanish Accounting and Audit Institute, the assets of these

companies do not included the effect of applying the adjustment for inflation which, for a transitional period, was permitted under local Argentine accounting legislation in 2002 and the first quarter of 2003.

**c) Start-up expenses**

Start-up expenses, which comprise incorporation, capital increase and preopening expenses, are recorded at cost and are amortized on a straight-line basis over five years from the commencement of the related activities.

**d) Intangible assets**

This caption includes mainly the cost of the licenses obtained by the Group from various public authorities in order to be able to provided wireless communications services, and the value attributed to the licenses held by certain companies when they were included in the Telefónica Móviles Group. The licenses are amortized over the term thereof and, in general, on the basis of their estimated capacity to generate revenues in each period.

The “Computer Software and Other” also includes the amount of the purchase price allocable to customers obtained (see Note 4a), which is amortized over the period that the customers are expected to remain as such. Computer software is amortized on a straight-line basis over 3 to 5 years.

**e) Property, plant and equipment**

Property, plant and equipment are carried at the lower of cost or market.

Cost includes external costs plus internal costs comprising warehouse materials used and direct labor used in installation work. The latter item is recorded under the “Capitalized Expenses of In-House Work on Fixed Assets” caption in the accompanying consolidated statements of income.

The costs of expansion, modernization and improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalized. Upkeep and maintenance expenses are expensed currently.

The Group depreciates its property, plant and equipment by the straight-line method at annual rates based on the following years of estimated useful life:

| <b>Assets</b>                 | <b>Years of Estimated Useful Life</b> |
|-------------------------------|---------------------------------------|
| Structures                    | 5-15                                  |
| Telephone installations       | 5-10                                  |
| Computer hardware             | 3-5                                   |
| Furniture, fixtures and other | 2-10                                  |

**f) Long-term investments**

The investments which are not fully or proportionally consolidated or accounted for by the equity method in the consolidated financial statements are recorded at cost net of the required investment valuation allowances if cost is higher than market value. The market value is taken to be the underlying book value or stock market value of the investment.

**g) Short-term investments**

Short-term investments are valued at face value plus the accrued interest receivable at year-end.

**h) Inventories**

Warehouse installation materials and consumables and spare parts are valued at the lower of weighted average cost or market.

**i) Accounts receivable and payable**

Long- and short-term receivables and payables are recorded in the consolidated balance sheet at face value. The interest included in the face value of receivables and payables maturing at over 12 months is recorded under the “Deferred Revenues” or “Deferred Charges” captions in the consolidated balance sheet, respectively, and credited or charged, as appropriate, to period income by the interest method.

The related allowance for bad debts is recorded on the basis of the age of the debt and of the solvency of the debtor.

**j) Corporate income tax**

The accrued corporate income tax expense of the Group companies is calculated on the basis of book income before taxes, increased or decreased, as appropriate, by the permanent differences from taxable income, defined as those arising between taxable income and book income before taxes that do not reverse in subsequent periods.

Tax assets for unused tax losses and prepaid taxes are recorded when their future recovery is reasonably assured. Prepaid taxes which will foreseeably be reversed over a period exceeding ten years are not recognized, unless there are deferred taxes for the same or a higher amount and their reversal period is the same as that of the prepaid taxes.

Deferrable investment tax credits are recorded under the “Deferred Revenues” caption.

The Spanish companies in which Telefónica, S.A. had a direct or indirect holding of at least 75% in 2004 and 2003 are taxed under Spanish corporate income tax under the consolidated tax regime. Telefónica Móviles, S.A. and the Spanish subsidiaries that fall into this category file consolidated tax returns as part of the Telefónica, S.A. consolidated tax group.

**k) Foreign currency transactions**

Fixed-income securities and receivables and payables denominated in foreign currencies are translated to euros at the exchange rates ruling at the transaction date, and are adjusted at year-end to the exchange rates then prevailing.

Exchange differences arising on adjustment of foreign currency accounts payable and receivable to year-end exchange rates are classified by currency and due date, and for this purpose currencies which, although different, are officially convertible are grouped together.

The resulting positive net differences in each group of currencies are recorded under the "Deferred Revenues" caption on the liability side of the consolidated balance sheet, unless exchange losses have been charged to income in prior years or in the current year, in which case the positive differences are credited to period income up to the limit of the negative net

differences charged to income in prior years or in the current year. Negative differences are charged directly to income.

The positive differences deferred in prior years are credited to income in the year in which the related accounts receivable and payable fall due or are settled early, or as negative exchange differences for the same or a higher amount are recognized in each homogeneous group.

The exchange differences arising from foreign currency transactions to specifically finance investments in investees which hedge the exchange rate risk on these investments are included under the "Translation Differences" caption in the accompanying consolidated balance sheets.

These transactions are deemed to be hedging transactions when the foreign currency in which the financing is denominated is the same as the functional currency of the country in which the investment is made and of the cash flows generated by the investment. Consequently, to ensure uniformity in the treatment of the exchange differences on the subsidiaries' assets and on the liabilities financing such transactions, and to enable the appropriate matching of revenues and expenses, the exchange differences on these loans were allocated, in accordance with International Accounting Standards, to the "Translation Differences" caption.

***l) Recognition of revenues and expenses***

Revenues and expenses are recognized on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

However, in accordance with the accounting principle of prudence, foreseeable contingencies and losses, including possible losses, are recorded as soon as they become known.

Various Móviles Group companies carry out sales promotions based on the obtainment of points by subscribers for telephone usage. These points can be exchanged for discounts on purchases of handsets, for usage or other services, based on the number of points obtained and the type of contract with the companies. The consolidated balance sheets include the related accounting provision based on the estimated value of the accumulated points at those dates.

***m) Provisions for contingencies and expenses***

The balance of this caption includes the estimated amount required for probable or certain third-party liability arising from litigation in progress or from outstanding indemnity payments or obligations of undetermined amount to be borne by the companies.

The balance of this caption as of December 31, 2003, includes a provision of €385,976 thousand relating mainly to the absorption of losses of minority interests of Group 3G UMTS Holding GmbH (see Note 10), and a provision of €727,437 thousand for the decline in the value of the investment in Ipse 2000, S.p.A. As of December 31, 2004, the related amounts were €385,976 thousand and €32,396 thousand, respectively. The decrease of €95,041 thousand relating to Ipse 2000, S.p.A. relates to the reclassification of this provision as reduction of the equity-method amount corresponding to the investment in this company, since certain items for which provisions had previously been recorded by Telefónica Móviles were recorded in Ipse 2000, S.p.A.'s statutory accounts (see Note 7).

Also, this caption includes the provisions recorded by the companies for severance pay based on employees' years of service, in accordance with the legislation applicable in each country or with the contractual agreements entered into, and the provisions recorded for probable third-party liability.

***n) Derivative products***

Transactions whose purpose and effect is to eliminate or significantly reduce exchange, interest rate or market risk on asset and liability positions or on other transactions are treated as hedging transactions. The gains or losses arising during the life of these derivatives are taken to the consolidated statement of income using the same timing of recognition method as that used to recognize the gains or losses on the underlying hedged asset or transaction (see Note 17).

Transactions which, for accounting purposes, were not assigned to hedge risks, are not treated as hedging transactions. In transactions of this kind, the related provision is recorded with a charge to income as soon as potential losses are anticipated; gains are recorded when finally settled.

***o) Pension plans***

Telefónica Móviles, S.A. and its Spanish subsidiaries have arranged a pension plan pursuant to Pension Plans and Funds Law 8/1987, July, 8 of Pensions and Funds Plans, with the following features:

- Contribution of between 4.51% and 6.87% of the participants' regulatory salary.
- Obligatory contribution for participants of a minimum of 2.2% of their salary.
- Individual financial capitalization system.

The plan is assigned to "FONDITEL B, FONDO DE PENSIONES", managed by the Telefónica Group company Fonditel Entidad Gestora de Fondos de Pensiones, S.A ("Fonditel"). The amount of the contributions made by the Group in 2004 and 2003 totaled €6,947 thousand and €6,630 thousand, respectively, and these amounts are included under the "Personnel Expenses" caption in the accompanying consolidated statements of income.

The Brazilian companies have arranged defined-contribution pension plans that cover most of these companies' serving employees. The Brazilian companies contribute the same amounts to the individual plans as the participants. These amounts vary, depending on the company, up to a maximum of 9% of the participant's salary, based on the percentage chosen by the participant.

***p) Liability accrual accounts***

Under this caption the Group companies record mainly the amount of purchases made by subscribers to the prepaid service for topping up or acquiring cards which, at year-end, has not yet accrued or been recorded as a revenue because the subscribers to this service have not used up the full balance of their cards or top-ups.

**5) START-UP EXPENSES AND INTANGIBLE ASSETS**

*a) Start-up expenses*

Start-up expenses comprise incorporation, capital increase and preopening expenses. Preopening expenses relate mainly to direct costs incurred in the launch of various GSM digital telephony services, and expenses relating to third-generation wireless telephony (UMTS) services in Spain, until they started to be marketed (first quarter of 2004). The expenses are recorded at cost and are amortized on a straight-line basis over five years from the date of commencement of the related activities.

The detail of the balances of the start-up expenses and of the variations therein in 2003 and 2004 is as follows:

|                                       | Thousands of Euros  |                        |               |                 |              |                         |                     |
|---------------------------------------|---------------------|------------------------|---------------|-----------------|--------------|-------------------------|---------------------|
|                                       | Balance at 12/31/02 | Inclusion of Companies | Additions     | Amortization    | Transfers    | Translation Differences | Balance at 12/31/03 |
| Incorporation and preopening Expenses | 273,149             | 4,112                  | 47,163        | (32,563)        | 1,717        | 484                     | 294,062             |
| Capital increase expenses             | 98,691              | -                      | 478           | (32,725)        | -            | -                       | 66,444              |
| <b>Total</b>                          | <b>371,840</b>      | <b>4,112</b>           | <b>47,641</b> | <b>(65,288)</b> | <b>1,717</b> | <b>484</b>              | <b>360,506</b>      |

|                                       | Thousands of Euros  |                        |              |                 |              |                         |                     |
|---------------------------------------|---------------------|------------------------|--------------|-----------------|--------------|-------------------------|---------------------|
|                                       | Balance at 12/31/03 | Inclusion of Companies | Additions    | Amortization    | Transfers    | Translation Differences | Balance at 12/31/04 |
| Incorporation and preopening Expenses | 294,062             | -                      | 8,074        | (53,314)        | 2,514        | 246                     | 251,582             |
| Capital increase expenses             | 66,444              | -                      | -            | (32,754)        | -            | -                       | 33,690              |
| <b>Total</b>                          | <b>360,506</b>      | <b>-</b>               | <b>8,074</b> | <b>(86,068)</b> | <b>2,514</b> | <b>246</b>              | <b>285,272</b>      |

*b) Intangible assets*

This caption relates mainly to the value of the licenses and concessions required to provide telecommunications services in the countries in which Telefónica Móviles has an operating presence. The term of these licenses ranges from 15 to 30 years.

The Group's main licenses are as follows:

- Licenses to provide the wireless communications services of the Company's awarded to the Telefónica Group in the privatization of Telebrás in Brazil, as a result of the allocation made when these companies were acquired, since the market value of these assets exceeded the cost thereof per the balance sheets of the acquired companies.
- Licenses to operate nationwide wireless communications services in Mexico. On completion of the related valuations, a portion of the goodwill arising on the acquisition of Telefónica Móviles México was allocated to this account.
- Licenses to operate the UMTS service in Spain, Germany and Switzerland. In the case of Spain, due to the unavailability of the related technology and in accordance with the matching principle of accounting, these licenses started to be amortized when the commercial operation thereof commenced, and the amortization is being taken over the term of the licenses. For the other countries, the initial acquisition cost was written down in 2002

and the carrying value reflects the current estimate of the realizable value of these businesses.

- Licenses to operate telecommunications services in countries where the companies acquired from BellSouth Corporation and in Chile through Telefónica Móvil de Chile, S.A. operate (see Note 2-c).

The detail of the balances of the intangible asset accounts and of the variations therein in 2003 and 2004 is as follows:

*b.1) Cost*

|  | Thousands of Euros  |                        |                        |                |                 |                |                         |                     |
|--|---------------------|------------------------|------------------------|----------------|-----------------|----------------|-------------------------|---------------------|
|  | Balance at 12/31/02 | Inclusion Of Companies | Exclusion Of Companies | Additions      | Retirements     | Transfers      | Translation Differences | Balance at 12/31/03 |
| Research and development expenses        | 8,394               | -                      | -                      | -              | -               | (2,070)        | -                       | 6,324               |
| Concessions, patents, licenses and other | 1,981,335           | 8,297                  | -                      | 3              | (12,292)        | 507,834        | (86,265)                | 2,398,912           |
| Rights on leased assets                  | 7,716               | -                      | -                      | 4,024          | (3,408)         | 4,180          | 170                     | 12,682              |
| Computer software and other              | 902,528             | 14,682                 | (402)                  | 212,796        | (22,847)        | 37,900         | (10,677)                | 1,133,980           |
| <b>Total intangible assets</b>           | <b>2,899,973</b>    | <b>22,979</b>          | <b>(402)</b>           | <b>216,823</b> | <b>(38,547)</b> | <b>547,844</b> | <b>(96,772)</b>         | <b>3,551,898</b>    |

|  | Thousands of Euros  |                        |                        |                |                |               |                         |                     |
|--|---------------------|------------------------|------------------------|----------------|----------------|---------------|-------------------------|---------------------|
|  | Balance at 12/31/03 | Inclusion Of Companies | Exclusion Of Companies | Additions      | Retirements    | Transfers     | Translation Differences | Balance at 12/31/04 |
| Research and development expenses        | 6,324               | -                      | -                      | -              | -              | 2,605         | -                       | 8,929               |
| Concessions, patents, licenses and other | 2,398,912           | 1,257,372              | -                      | 9,863          | (2,814)        | 76,045        | (52,817)                | 3,686,561           |
| Rights on leased assets                  | 12,682              | 7,366                  | -                      | 612            | -              | (3,321)       | 417                     | 17,756              |
| Computer software and other              | 1,133,980           | 554,111                | -                      | 259,509        | (1,163)        | 12,135        | 12,510                  | 1,971,082           |
| <b>Total intangible assets</b>           | <b>3,551,898</b>    | <b>1,818,849</b>       | <b>-</b>               | <b>269,984</b> | <b>(3,977)</b> | <b>87,464</b> | <b>(39,890)</b>         | <b>5,684,328</b>    |

*b.2) Accumulated amortization*

|  | Thousands of Euros  |                        |                        |                |                 |                |                         |                     |
|--|---------------------|------------------------|------------------------|----------------|-----------------|----------------|-------------------------|---------------------|
|  | Balance at 12/31/02 | Inclusion Of Companies | Exclusion Of Companies | Provisions     | Retirements     | Transfers      | Translation Differences | Balance at 12/31/03 |
| Research and development expenses        | 1,352               | -                      | -                      | 1,277          | -               | -              | -                       | 2,629               |
| Concessions, patents, licenses and other | 214,947             | 1,620                  | -                      | 79,615         | (2,578)         | (1)            | (21,998)                | 271,605             |
| Rights on leased assets                  | 5,000               | -                      | -                      | 1,530          | (2,272)         | (2,411)        | (43)                    | 1,804               |
| Computer software and other              | 378,647             | 4,938                  | (50)                   | 225,539        | (14,969)        | (1,566)        | (11,511)                | 581,028             |
| <b>Total accumulated amortization</b>    | <b>599,946</b>      | <b>6,558</b>           | <b>(50)</b>            | <b>307,961</b> | <b>(19,819)</b> | <b>(3,978)</b> | <b>(33,552)</b>         | <b>857,066</b>      |

|                                       |              |          |          |          |             |                |             |              |
|---------------------------------------|--------------|----------|----------|----------|-------------|----------------|-------------|--------------|
| <b>Allowance for decline in value</b> | <b>4,800</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>(21)</b> | <b>(2,636)</b> | <b>(10)</b> | <b>2,133</b> |
|---------------------------------------|--------------|----------|----------|----------|-------------|----------------|-------------|--------------|

|  | Thousands of Euros  |                        |                        |                |                |              |                         |                     |
|--|---------------------|------------------------|------------------------|----------------|----------------|--------------|-------------------------|---------------------|
|  | Balance at 12/31/03 | Inclusion Of Companies | Exclusion of Companies | Provisions     | Retirements    | Transfers    | Translation Differences | Balance at 12/31/04 |
| Research and development expenses        | 2,629               | -                      | -                      | 1,232          | -              | 42           | -                       | 3,903               |
| Concessions, patents, licenses and other | 271,605             | 270,364                | -                      | 107,882        | (2,814)        | (8)          | (10,259)                | 636,770             |
| Rights on leased assets                  | 1,804               | 956                    | -                      | 1,852          | -              | (2,265)      | (19)                    | 2,328               |
| Computer software and other              | 581,028             | 200,266                | -                      | 279,930        | (651)          | 3,686        | 5,422                   | 1,069,681           |
| <b>Total accumulated amortization</b>    | <b>857,066</b>      | <b>471,586</b>         | <b>-</b>               | <b>390,896</b> | <b>(3,465)</b> | <b>1,455</b> | <b>(4,856)</b>          | <b>1,712,682</b>    |

|  |              |          |          |            |              |          |              |              |
|--|--------------|----------|----------|------------|--------------|----------|--------------|--------------|
| <b>Allowances for decline in value</b> | <b>2,133</b> | <b>-</b> | <b>-</b> | <b>140</b> | <b>(944)</b> | <b>-</b> | <b>(105)</b> | <b>1,224</b> |
|--|--------------|----------|----------|------------|--------------|----------|--------------|--------------|

In 2003 the “Inclusion of Companies” column reflects the inclusion in the scope of consolidation of Tele Centro Oeste Celular Participações, S.A. (see Note 2-c). In 2004 this column relates mainly to the inclusions in consolidation of Telefónica Móvil de Chile, S.A. and of the companies acquired from BellSouth (see Note 2-c).

The “Exclusion of Companies” column from 2003 reflects the exclusion from the scope of consolidation of Telefónica Mobile Solutions, S.A. and 3G Mobile Telecommunications GmbH, as indicated in Note 2-c.

The “Additions” column for 2003 includes mainly the investments made in computer and billing systems, and in the development of new services such as the i-mode services.

In 2003, €504,651 thousand were recorded as an addition to the net value of the licenses obtained to operate nationwide wireless communications services in Mexico. This amount was reclassified from the “Consolidation Goodwill” once the related valuations had been completed (see Note 8). In 2004, €76,065 thousand were recorded as an addition to the net value of the licenses of Tele Centro Oeste Celular Participações, S.A. (see Note 8).

Also, in 2004 €730,008 thousand were assigned as an addition to “Licenses” and €276,724 thousand as an addition to “Computer Software and Other” (€1,562 thousand of software and €245,162 thousand as the purchase price allocable to customers obtained) based on valuations by independent appraisers of the assets acquired in the acquisition of both Telefónica Móvil de Chile, S.A. and of BellSouth’s operators (see Notes 4-a and 8). These allocations are included in the “Inclusion of Companies” column. This column also includes investments in information systems and in the development of services.

The “Translation Differences” column shows the effect of the exchange rate fluctuations on the beginning balances of the foreign companies and the monetary adjustment that certain companies apply to their balances to adjust for the effect of inflation in accordance with accounting practices in their respective countries. The effect of exchange rate fluctuations on the period variations is included in the column relating to each variation.

## 6) PROPERTY, PLANT AND EQUIPMENT

The detail of the balances of property, plant and equipment accounts, of the related accumulated depreciation and of the variations therein in 2003 and 2004 are as follows:

### a) Cost

|  | Thousands of Euros  |                        |                        |                |                 |                 |                         |                     |
|--|---------------------|------------------------|------------------------|----------------|-----------------|-----------------|-------------------------|---------------------|
|  | Balance at 12/31/02 | Inclusion Of Companies | Exclusion of Companies | Additions      | Retirements     | Transfers       | Translation Differences | Balance at 12/31/03 |
| Land and structures                        | 804,476             | 6,738                  | -                      | 7,744          | (883)           | 141,051         | (16,146)                | 942,980             |
| Telephone installations                    | 7,323,497           | 156,796                | -                      | 107,217        | (6,958)         | 348,675         | (365,730)               | 7,563,497           |
| Furniture, fixtures and other              | 473,926             | 13,532                 | (1,246)                | 34,624         | (11,648)        | (10,349)        | (23,847)                | 474,992             |
| Computer hardware                          | 479,952             | 5,389                  | (2,618)                | 25,069         | (2,344)         | 15,699          | (16,979)                | 504,168             |
| Construction in progress                   | 349,432             | 7,032                  | -                      | 822,188        | (10,263)        | (541,458)       | (21,507)                | 605,424             |
| <b>Total property, plant and Equipment</b> | <b>9,431,283</b>    | <b>189,487</b>         | <b>(3,864)</b>         | <b>996,842</b> | <b>(32,096)</b> | <b>(46,382)</b> | <b>(444,209)</b>        | <b>10,091,061</b>   |

|  | Thousands of Euros  |                        |                        |                  |                  |                 |                         |                     |
|--|---------------------|------------------------|------------------------|------------------|------------------|-----------------|-------------------------|---------------------|
|  | Balance at 12/31/03 | Inclusion Of Companies | Exclusion of Companies | Additions        | Retirements      | Transfers       | Translation Differences | Balance at 12/31/04 |
| Land and structures                        | 942,980             | 325,930                | -                      | 48,437           | (2,536)          | 147,649         | (10,870)                | 1,451,590           |
| Telephone installations                    | 7,563,497           | 2,381,213              | -                      | 160,195          | (68,034)         | 629,918         | (105,456)               | 10,561,333          |
| Furniture, fixtures and other              | 474,992             | 270,538                | -                      | 49,855           | (19,900)         | 65,999          | (2,803)                 | 838,681             |
| Computer hardware                          | 504,168             | 142,073                | -                      | 34,654           | (6,446)          | 21,928          | (17,638)                | 678,739             |
| Construction in progress                   | 605,424             | 135,875                | -                      | 1,059,159        | (4,428)          | (888,226)       | (20,232)                | 887,572             |
| <b>Total property, plant and Equipment</b> | <b>10,091,061</b>   | <b>3,255,629</b>       | <b>-</b>               | <b>1,352,300</b> | <b>(101,344)</b> | <b>(22,732)</b> | <b>(156,999)</b>        | <b>14,417,915</b>   |

**b) Accumulated depreciation**

|                                       | Thousands of Euros  |                        |                        |                  |                 |            |                         |                     |
|---------------------------------------|---------------------|------------------------|------------------------|------------------|-----------------|------------|-------------------------|---------------------|
|                                       | Balance at 12/31/02 | Inclusion of Companies | Exclusion of Companies | Provisions       | Retirements     | Transfers  | Translation Differences | Balance at 12/31/03 |
| Land and structures                   | 237,534             | 1,892                  | -                      | 70,389           | (211)           | 9,300      | (5,305)                 | 313,599             |
| Telephone installations               | 4,005,720           | 72,836                 | -                      | 839,686          | (4,840)         | (12,472)   | (174,013)               | 4,726,917           |
| Furniture, fixtures and other         | 194,003             | 8,493                  | (301)                  | 54,727           | (5,192)         | 1,076      | (10,836)                | 241,970             |
| Computer hardware                     | 306,153             | 2,310                  | (1,662)                | 95,529           | (1,583)         | 2,744      | (14,717)                | 388,774             |
| <b>Total accumulated depreciation</b> | <b>4,743,410</b>    | <b>85,531</b>          | <b>(1,963)</b>         | <b>1,060,331</b> | <b>(11,826)</b> | <b>648</b> | <b>(204,871)</b>        | <b>5,671,260</b>    |

|                                       |               |          |          |               |                |              |                |               |
|---------------------------------------|---------------|----------|----------|---------------|----------------|--------------|----------------|---------------|
| <b>Allowance for decline in value</b> | <b>26,144</b> | <b>-</b> | <b>-</b> | <b>13,282</b> | <b>(5,215)</b> | <b>2,787</b> | <b>(1,551)</b> | <b>35,447</b> |
|---------------------------------------|---------------|----------|----------|---------------|----------------|--------------|----------------|---------------|

|                                       | Thousands of Euros  |                        |                        |                  |                 |                 |                         |                     |
|---------------------------------------|---------------------|------------------------|------------------------|------------------|-----------------|-----------------|-------------------------|---------------------|
|                                       | Balance at 12/31/03 | Inclusion of Companies | Exclusion of Companies | Provisions       | Retirements     | Transfers       | Translation Differences | Balance at 12/31/04 |
| Structures                            | 313,599             | 140,551                | -                      | 80,196           | (1,282)         | 13,618          | (11,932)                | 534,750             |
| Telephone installations               | 4,726,917           | 1,710,243              | -                      | 854,336          | (57,928)        | (5,940)         | (100,985)               | 7,126,643           |
| Furniture, fixtures and other         | 241,970             | 211,067                | -                      | 119,669          | (12,705)        | (11,927)        | (6,760)                 | 541,314             |
| Computer hardware                     | 388,774             | 94,910                 | -                      | 67,858           | (5,152)         | (8,879)         | (6,898)                 | 530,613             |
| <b>Total accumulated depreciation</b> | <b>5,671,260</b>    | <b>2,156,771</b>       | <b>-</b>               | <b>1,122,059</b> | <b>(77,067)</b> | <b>(13,128)</b> | <b>(126,575)</b>        | <b>8,733,320</b>    |

|                                       |               |              |          |              |                |                |              |               |
|---------------------------------------|---------------|--------------|----------|--------------|----------------|----------------|--------------|---------------|
| <b>Allowance for decline in value</b> | <b>35,447</b> | <b>8,556</b> | <b>-</b> | <b>4,838</b> | <b>(1,275)</b> | <b>(2,076)</b> | <b>(889)</b> | <b>44,601</b> |
|---------------------------------------|---------------|--------------|----------|--------------|----------------|----------------|--------------|---------------|

The "Inclusion of Companies" column in 2003 reflects the inclusion of Tele Centro Oeste Celular Participações, S.A. in the scope of consolidation of the Telefónica Móviles Group, as indicated in Note 2-c.

As in the case of the intangible assets, the Company is performing a valuation of the property, plant and equipment acquired as part of the acquisition of the operators of BellSouth and Telefónica Móvil de Chile, S.A. in order to allocate to them the corresponding portion of the acquisition price up to the limit of their market value. As a result of this valuation, certain assets were identified that had been overstated by approximately €17 million, and this amount is presented as a reduction of the value of the assets acquired. Although at the date of preparation of these consolidated financial statements the aforementioned valuation had not been completed, no material differences are expected to arise with respect to the net book value of the assets recorded.

In 2004 the "Inclusion of Companies" column relates mainly to the inclusion in the scope of consolidation of Telefónica Móvil de Chile, S.A. and of the companies acquired from BellSouth (see Note 2-c).

The “Exclusion of Companies” column in 2003 relates to the exclusion from the scope of consolidation of Telefónica Mobile Solutions, S.A. and 3G Mobile Telecommunications GmbH (see Note 2-c).

In both 2003 and 2004 the “Additions” column includes mainly the increase in and deployment of the capacity of the GSM and GPRS networks and of the UMTS network in Spain.

The “Translation Differences” column shows the effect of the exchange rate fluctuations on the beginning balances of the foreign companies and the monetary adjustment that certain companies apply to their balances to adjust for the effect of inflation in accordance with accounting practices in their respective countries. The effect of exchange rate fluctuations on the period variations is included in the column relating to each variation.

**c) Other information**

The detail of the property, plant and equipment owned by fully consolidated Group companies located abroad is as follows:

|   | Thousands of Euros |                  |
|---|--------------------|------------------|
|   | 12/31/04           | 12/31/03         |
| Cost  | 8,425,367          | 4,529,395        |
| Accumulated depreciation and allowances                   | (4,664,902)        | (2,057,968)      |
| <b>Total property, plant and equipment located abroad</b> | <b>3,760,465</b>   | <b>2,471,427</b> |

The detail of the fully depreciated assets is as follows:

|  | Thousands of Euros |                  |
|--|--------------------|------------------|
|  | 12/31/04           | 12/31/03         |
| Structures   | 98,076             | 23,709           |
| Telephone installations                                      | 3,803,578          | 2,116,558        |
| Furniture, fixtures and other                                | 231,695            | 101,122          |
| Computer hardware  | 381,698            | 231,186          |
| <b>Total fully depreciated property, plant and equipment</b> | <b>4,515,047</b>   | <b>2,472,575</b> |

The Group companies take out insurance policies to reasonably cover the possible risks to which their property, plant and equipment are subject.

**7) LONG-TERM INVESTMENTS**

The main variations in long-term investments in 2003 and 2004 were as follows:

|                                     | Thousands of Euros  |                        |                        |                |                    |                  |                         |                     |
|-------------------------------------|---------------------|------------------------|------------------------|----------------|--------------------|------------------|-------------------------|---------------------|
|                                     | Balance at 12/31/02 | Inclusion of Companies | Exclusion of Companies | Additions      | Retire-ments       | Transfers        | Translation Differences | Balance at 12/31/03 |
| Investments in associated companies | 1,082,845           | -                      | -                      | 9,250          | -                  | (968,808)        | (1,636)                 | 121,651             |
| Other investments                   | 6,986               | -                      | -                      | 567            | (237)              | 1,800            | (1)                     | 9,115               |
| Other long-term investments         | 307,887             | 8,147                  | (205)                  | 208,362        | (78,589)           | 99,854           | 6,413                   | 551,869             |
| Loans to Telefónica Group companies | 1,673,313           | -                      | (958)                  | 392,351        | (1,016,449)        | 134,742          | 20,206                  | 1,203,205           |
| Receivable from public authorities  | 1,136,488           | 3,544                  | (395)                  | 163,569        | (161,822)          | (86,844)         | (2,274)                 | 1,052,266           |
| Allowances                          | (1,354)             | -                      | -                      | (2,433)        | 29                 | 336              | 65                      | (3,357)             |
| <b>Total long-term investments</b>  | <b>4,206,165</b>    | <b>11,691</b>          | <b>(1,558)</b>         | <b>771,666</b> | <b>(1,257,068)</b> | <b>(818,920)</b> | <b>22,773</b>           | <b>2,934,749</b>    |

|                                     | Thousands of Euros  |                        |                        |                |                  |                |                         |                     |
|-------------------------------------|---------------------|------------------------|------------------------|----------------|------------------|----------------|-------------------------|---------------------|
|                                     | Balance at 12/31/03 | Inclusion of Companies | Exclusion of Companies | Additions      | Retire-Ments     | Transfers      | Translation Differences | Balance at 12/31/04 |
| Investments in associated companies | 121,651             | -                      | -                      | 35,602         | 1,680            | (99,939)       | (189)                   | 58,805              |
| Other investments                   | 9,115               | -                      | -                      | 966            | (272)            | 1,067          | 83                      | 10,959              |
| Other long-term investments         | 551,869             | 2,027                  | -                      | 127,123        | (75,079)         | (950)          | (12,950)                | 592,040             |
| Loans to Telefónica Group companies | 1,203,205           | -                      | -                      | 229,617        | (2,248)          | 957,253        | (44,966)                | 2,342,861           |
| Receivable from public authorities  | 1,052,266           | 36,372                 | -                      | 328,161        | (73,850)         | (24,685)       | (2,148)                 | 1,316,116           |
| Allowances                          | (3,357)             | -                      | -                      | (49,143)       | 225              | (1,117)        | (77)                    | (53,469)            |
| <b>Total long-term investments</b>  | <b>2,934,749</b>    | <b>38,399</b>          | <b>-</b>               | <b>672,326</b> | <b>(149,544)</b> | <b>831,629</b> | <b>(60,247)</b>         | <b>4,267,312</b>    |

As indicated in Note 2c, the Group has convertible promissory notes of the Puerto Rican operator Newcomm Wireless Services, Inc. amounting to US\$ 60,945 thousand, which are included under the "Other Long-Term Investments" caption. In 2004, based on this company's financial and net worth situation, a provision of €46,632 thousand was recorded in this connection (see Note 14-e).

The "Other Long-Term Investments" caption includes mainly the balances covering guarantees of Ipse 2000, S.p.A. amounting to €467,675 thousand as of December 31, 2003, and to €400,866 thousand as of December 31, 2004. The balance of these deposits will decrease as and when the respective obligations guaranteed are reduced (see Note 15).

The detail of the "Investments in Associated Companies" caption and of the variations therein in 2004 and 2003 is as follows:

|  | Thousands of Euros  |              |                         |             |                  |                     |
|--|---------------------|--------------|-------------------------|-------------|------------------|---------------------|
|  | Balance at 12/31/02 | Additions    | Translation Differences | Retirements | Transfers        | Balance at 12/31/03 |
| IPSE 2000, S.p.A.                                  | 1,013,691           | 34,338       | -                       | -           | (968,808)        | 79,221              |
| Medi Telecom., S.A.                                | 62,886              | (22,531)     | (1,731)                 | -           | -                | 38,624              |
| Mobipay International, S.A.                        | 5,733               | (1,503)      | -                       | -           | -                | 4,230               |
| Mobipay España, S.A.                               | 2,006               | (766)        | -                       | -           | -                | 1,240               |
| Other companies accounted for by the equity method | (1,471)             | (288)        | 95                      | -           | -                | (1,664)             |
| <b>Total</b>                                       | <b>1,082,845</b>    | <b>9,250</b> | <b>(1,636)</b>          | <b>-</b>    | <b>(968,808)</b> | <b>121,651</b>      |

|   | Thousands of Euros     |               |                            |              |                 |                        |
|---|------------------------|---------------|----------------------------|--------------|-----------------|------------------------|
|   | Balance at<br>12/31/03 | Additions     | Translation<br>Differences | Retirements  | Transfers       | Balance at<br>12/31/04 |
| IPSE 2000, S.p.A.                                     | 79,221                 | 48,579        | -                          | -            | (95,041)        | 32,759                 |
| Medi Telecom., S.A.                                   | 38,624                 | (13,304)      | (284)                      | -            | -               | 25,036                 |
| Mobipay International, S.A.                           | 4,230                  | 668           | -                          | -            | (4,898)         | -                      |
| Mobipay España, S.A.                                  | 1,240                  | (176)         | -                          | -            | -               | 1,064                  |
| Other companies accounted for by the<br>equity method | (1,664)                | (165)         | 95                         | 1,680        | -               | (54)                   |
| <b>Total</b>  | <b>121,651</b>         | <b>35,602</b> | <b>(189)</b>               | <b>1,680</b> | <b>(99,939)</b> | <b>58,805</b>          |

The net exposure of the Móviles Group as of December 31, 2004, in connection with the holding in Ipse 2000, S.p.A., including the financing obtained, amounted to €136 million. Although this company has an unbalanced financial and net worth position, it was not considered necessary to record any allowance additional to that recorded in 2002, as a result of the business opportunities afforded by the regulatory framework in Italy (assignment or sale of the radio spectrum) and of the possibility of optimizing and offsetting the accumulated tax losses.

The “Additions” column includes the share in the income or losses of companies accounted for by the equity method, the underlying book value of the investments at the time of acquisition and the share in the capital increases carried out during the year, except in the case of conversions of loans granted in prior years into capital.

The “Transfers” column for 2003 reflects the transfer of €68,808 thousand of the provision for contingencies and expenses for Ipse 2000 recorded in 2002, since this company partially wrote down the third-generation wireless telephony license in its accounts (see Note 4-m).

The transfers column in 2004 relates to the transfer of €5,041 thousand from the provisions for contingencies and expenses recorded for Ipse 2000, S.p.A., since this company recognized in its statutory accounts items for which Telefónica Móviles had already recorded provisions (see Note 4-m), and the transfer relating to Mobipay International, S.A., since this company, which had been accounted for by the equity method, was proportionally consolidated in 2004 (see Note 2-c).

## 8) CONSOLIDATION GOODWILL

This caption includes the amount paid to acquire holdings in companies in excess of the underlying book value of these holdings at the purchase date and not allocable directly to the companies’ assets. The positive difference between the underlying book value allocable to the acquired company’s assets and their market value will be assigned to the related asset and liability accounts after the respective valuations are completed.

The variations in consolidation goodwill in 2003 and 2004 were as follows:

|                                     | Thousands of Euros |
|-------------------------------------|--------------------|
| <b>Balance at December 31, 2002</b> | <b>1,564,874</b>   |
| Inclusion/Exclusion of companies    | 745                |
| Period additions                    | 251,217            |
| Transfers                           | (504,255)          |
| Amortization                        | (101,703)          |
| Retirements                         | (18,984)           |
| Translation differences             | (45,426)           |
| <b>Balance at December 31, 2003</b> | <b>1,146,468</b>   |
| Inclusion/Exclusion of companies    | 592,989            |
| Period additions                    | 1,573,857          |
| Transfers                           | (81,603)           |
| Amortization                        | (94,708)           |
| Translation differences             | 5,009              |
| <b>Balance at December 31, 2004</b> | <b>3,142,012</b>   |

In accordance with the estimates and forecasts available to Company management, the projected revenues attributable to the Group companies arising from the investments that give rise to goodwill guarantee at least the recovery of both the net assets and the amount yet to be amortized of the related goodwill in the corresponding periods.

*a) Gross consolidation goodwill*

|   | Thousands of Euros  |                        |                |                         |                 |                  |                     |
|---|---------------------|------------------------|----------------|-------------------------|-----------------|------------------|---------------------|
|   | Balance at 12/31/02 | Inclusion of Companies | Additions      | Translation Differences | Retirements     | Transfers        | Balance at 12/31/03 |
| <b>Goodwill relating to fully and proportionally consolidated companies</b>             |                     |                        |                |                         |                 |                  |                     |
| Telefónica Móviles España, S.A.   | 14,569              | -                      | -              | -                       | -               | -                | 14,569              |
| Subsidiaries of Brasilcel, N.V.   | 512,339             | 745                    | 245,758        | 1,886                   | -               | -                | 760,728             |
| TES Holding, S.A. de C.V.   | 24,156              | -                      | -              | -                       | -               | -                | 24,156              |
| Subsidiaries of TES Holding, S.A. de C.V.   | 51,311              | -                      | -              | (8,705)                 | -               | -                | 42,606              |
| Telefónica Móviles Perú Holding, S.A.A.   | 3,438               | -                      | -              | -                       | -               | -                | 3,438               |
| Telefónica Móviles México Group   | 781,256             | -                      | -              | -                       | (17,819)        | (523,773)        | 239,664             |
| Subsidiaries of Mexican companies   | 255,902             | -                      | -              | (53,402)                | (1,165)         | (28,766)         | 172,569             |
| TCG Holdings, S.A.  | 47,556              | -                      | -              | -                       | -               | -                | 47,556              |
| Subsidiaries of TCG Holdings, S.A.  | 3,338               | -                      | -              | (662)                   | -               | -                | 2,676               |
| <b>Total gross goodwill relating to fully and proportionally consolidated companies</b> | <b>1,693,865</b>    | <b>745</b>             | <b>245,758</b> | <b>(60,883)</b>         | <b>(18,984)</b> | <b>(552,539)</b> | <b>1,307,962</b>    |
| <b>Goodwill relating to companies accounted for by the equity method</b>                |                     |                        |                |                         |                 |                  |                     |
| Medi Telecom, S.A.  | 5,097               | -                      | 5,459          | -                       | -               | -                | 10,556              |
| Subsidiaries of Telefónica Móviles Argentina, S.A.                                      | -                   | -                      | -              | -                       | -               | 791              | 791                 |
| <b>Total gross goodwill relating to companies accounted for by the equity method</b>    | <b>5,097</b>        | <b>-</b>               | <b>5,459</b>   | <b>-</b>                | <b>-</b>        | <b>791</b>       | <b>11,347</b>       |
| <b>Total gross consolidation goodwill</b>   | <b>1,698,962</b>    | <b>745</b>             | <b>251,217</b> | <b>(60,883)</b>         | <b>(18,984)</b> | <b>(551,748)</b> | <b>1,319,309</b>    |

|   | Thousands of Euros     |                              |                  |                            |                  |                 |                        |
|---|------------------------|------------------------------|------------------|----------------------------|------------------|-----------------|------------------------|
|   | Balance at<br>12/31/03 | Inclusion<br>of<br>Companies | Additions        | Translation<br>Differences | Retire-<br>ments | Transfers       | Balance at<br>12/31/04 |
| <b>Goodwill relating to fully and proportionally consolidated companies</b>             |                        |                              |                  |                            |                  |                 |                        |
| Telefónica Móviles España, S.A.   | 14,569                 | -                            | -                | -                          | -                | -               | 14,569                 |
| Subsidiaries of Brasilcel, N.V.   | 760,728                | -                            | 111,678          | 4,259                      | -                | (81,603)        | 795,062                |
| TES Holding, S.A. de C.V.   | 66,762                 | -                            | -                | (3,103)                    | -                | 3               | 63,662                 |
| Telefónica Móviles Perú Holding, S.A.A.   | 3,438                  | -                            | -                | -                          | -                | -               | 3,438                  |
| Telefónica Móviles México Group   | 239,664                | -                            | -                | -                          | -                | -               | 239,664                |
| Subsidiaries of Mexican companies   | 172,569                | -                            | -                | (4,815)                    | -                | (1,833)         | 165,921                |
| TCG Holdings, S.A.  | 50,232                 | -                            | -                | (107)                      | -                | -               | 50,125                 |
| Telefónica Móvil de Chile, S.A.   | -                      | -                            | 451,471          | -                          | -                | -               | 451,471                |
| Telcel, C.A.  | -                      | -                            | 376,242          | (11,564)                   | -                | -               | 364,678                |
| Olympic, Ltd.   | -                      | 592,989                      | (91,143)         | 20,613                     | -                | -               | 522,459                |
| Otecel, S.A.  | -                      | -                            | 397,443          | -                          | -                | -               | 397,443                |
| Comunicaciones Móviles de Perú, S.A.  | -                      | -                            | 4,464            | (246)                      | -                | -               | 4,218                  |
| Telefónica Móviles Panamá, S.A.   | -                      | -                            | 238,228          | -                          | -                | -               | 238,228                |
| Telefónica Móviles Guatemala y Cía., S.C.A.   | -                      | -                            | 26,747           | -                          | -                | -               | 26,747                 |
| Telefónica Móviles Uruguay, S.A.  | -                      | -                            | 3,909            | (181)                      | -                | -               | 3,728                  |
| Telefonía Celular de Nicaragua, S.A.  | -                      | -                            | 54,818           | (2,851)                    | -                | -               | 51,967                 |
| <b>Total gross goodwill relating to fully and proportionally consolidated companies</b> | <b>1,307,962</b>       | <b>592,989</b>               | <b>1,573,857</b> | <b>2,005</b>               | <b>-</b>         | <b>(83,433)</b> | <b>3,393,380</b>       |
| <b>Goodwill relating to companies accounted for by the equity method</b>                |                        |                              |                  |                            |                  |                 |                        |
| Medi Telecom, S.A.  | 10,556                 | -                            | -                | -                          | -                | -               | 10,556                 |
| Subsidiaries of Telefónica Móviles Argentina, S.A.                                      | 791                    | -                            | -                | (70)                       | -                | -               | 721                    |
| <b>Total gross goodwill relating to companies accounted for by the equity method</b>    | <b>11,347</b>          | <b>-</b>                     | <b>-</b>         | <b>(70)</b>                | <b>-</b>         | <b>-</b>        | <b>11,277</b>          |
| <b>Total gross consolidation goodwill</b>   | <b>1,319,309</b>       | <b>592,989</b>               | <b>1,573,857</b> | <b>1,935</b>               | <b>-</b>         | <b>(83,433)</b> | <b>3,404,657</b>       |

**b) Amortization of goodwill**

|   | Thousands of Euros  |                |                         |             |                 |                     |
|---|---------------------|----------------|-------------------------|-------------|-----------------|---------------------|
|   | Balance at 12/31/02 | Provisions     | Translation Differences | Retirements | Transfers       | Balance at 12/31/03 |
| <b>Goodwill relating to fully and proportionally consolidated companies</b>                       |                     |                |                         |             |                 |                     |
| Telefónica Móviles España, S.A.   | 1,635               | 726            | -                       | -           | -               | 2,361               |
| Subsidiaries of Brasilcel, N.V.   | 28,953              | 43,620         | (324)                   | -           | -               | 72,249              |
| TES Holding, S.A.   | 1,470               | 1,230          | -                       | -           | -               | 2,700               |
| Subsidiaries of TES Holding, S.A. de C.V.   | 9,080               | 2,384          | (1,795)                 | -           | -               | 9,669               |
| Telefónica Móviles Perú Holding, S.A.A.   | 442                 | 174            | -                       | -           | -               | 616                 |
| Telefónica Móviles México Group   | 31,323              | 38,040         | -                       | -           | (47,493)        | 21,870              |
| Subsidiaries of Mexican companies   | 57,617              | 12,347         | (13,068)                | -           | -               | 56,896              |
| TCG Holdings, S.A.  | 2,450               | 2,391          | -                       | -           | -               | 4,841               |
| Subsidiaries of TCG Holdings, S.A.  | 1,118               | 424            | (270)                   | -           | -               | 1,272               |
| <b>Total amortization of goodwill relating to fully and proportionally consolidated companies</b> | <b>134,088</b>      | <b>101,336</b> | <b>(15,457)</b>         | <b>-</b>    | <b>(47,493)</b> | <b>172,474</b>      |
| <b>Goodwill relating to companies accounted for by the equity method</b>                          |                     |                |                         |             |                 |                     |
| Medi Telecom, S.A.  | -                   | 367            | -                       | -           | -               | 367                 |
| <b>Total goodwill relating to companies accounted for by the equity method</b>                    | <b>-</b>            | <b>367</b>     | <b>-</b>                | <b>-</b>    | <b>-</b>        | <b>367</b>          |
| <b>Total amortization of goodwill</b>   | <b>134,088</b>      | <b>101,703</b> | <b>(15,457)</b>         | <b>-</b>    | <b>(47,493)</b> | <b>172,841</b>      |

|   | Thousands of Euros  |               |                         |             |                |                     |
|---|---------------------|---------------|-------------------------|-------------|----------------|---------------------|
|   | Balance at 12/31/03 | Provisions    | Translation Differences | Retirements | Transfers      | Balance at 12/31/04 |
| <b>Goodwill relating to fully and proportionally consolidated companies</b>                       |                     |               |                         |             |                |                     |
| Telefónica Móviles España, S.A.   | 2,361               | 726           | -                       | -           | -              | 3,087               |
| Subsidiaries of Brasilcel, N.V.   | 72,249              | 43,357        | 433                     | -           | -              | 116,039             |
| TES Holding, S.A.   | 12,369              | 3,396         | (895)                   | -           | 3              | 14,873              |
| Telefónica Móviles Perú Holding, S.A.A.   | 616                 | 174           | -                       | -           | -              | 790                 |
| Telefónica Móviles México Group   | 21,870              | 11,940        | -                       | -           | -              | 33,810              |
| Subsidiaries of Mexican companies   | 56,896              | 9,037         | (2,430)                 | -           | (1,833)        | 61,670              |
| TCG Holdings, S.A.  | 6,113               | 2,778         | (76)                    | -           | -              | 8,815               |
| Telefónica Móvil de Chile, S.A.   | -                   | 9,406         | -                       | -           | -              | 9,406               |
| Telcel, C.A.  | -                   | 3,135         | (96)                    | -           | -              | 3,039               |
| Olympic, Ltd.   | -                   | 4,182         | 20                      | -           | -              | 4,202               |
| Otecel, S.A.  | -                   | 3,312         | -                       | -           | -              | 3,312               |
| Comunicaciones Móviles de Perú, S.A.  | -                   | 37            | (4)                     | -           | -              | 33                  |
| Telefónica Móviles Panamá, S.A.   | -                   | 1,987         | -                       | -           | -              | 1,987               |
| Telefónica Móviles Guatemala y Cía., S.C.A.   | -                   | 223           | -                       | -           | -              | 223                 |
| Telefónica Móviles Uruguay, S.A.  | -                   | 33            | (2)                     | -           | -              | 31                  |
| Telefonía Celular de Nicaragua, S.A.  | -                   | 457           | (24)                    | -           | -              | 433                 |
| <b>Total amortization of goodwill relating to fully and proportionally consolidated companies</b> | <b>172,474</b>      | <b>94,180</b> | <b>(3,074)</b>          | <b>-</b>    | <b>(1,830)</b> | <b>261,750</b>      |
| <b>Goodwill relating to companies accounted for by the equity method</b>                          |                     |               |                         |             |                |                     |
| Medi Telecom, S.A.  | 367                 | 528           | -                       | -           | -              | 895                 |
| <b>Total goodwill relating to companies accounted for by the equity method</b>                    | <b>367</b>          | <b>528</b>    | <b>-</b>                | <b>-</b>    | <b>-</b>       | <b>895</b>          |
| <b>Total amortization of goodwill</b>   | <b>172,841</b>      | <b>94,708</b> | <b>(3,074)</b>          | <b>-</b>    | <b>(1,830)</b> | <b>262,645</b>      |

In 2003 €04,651 thousand were allocated as a net addition to the licenses obtained to operate nationwide wireless communications services in Mexico. This amount was reclassified, once the respective valuations had been completed, to the “Intangible Assets – Concessions, Patents, Licenses and Other” caption (see Note 5-b). In 2004 €76,065 thousand were allocated as a net addition to the licenses of Tele Centro Oeste Celular Participações, S.A. (see Note 5-b).

In 2004 €730,008 thousand were allocated as an addition to the “Concessions, Patents, Licenses and Other” caption and €276,724 thousand were allocated as an addition to the “Computer Software and Other” caption in relation to the operators acquired from BellSouth and Telefónica Móvil de Chile, S.A. (see Note 5-b). Also, certain items of property, plant and equipment overstated by €17 million when these companies were included in the Group were identified. These amounts were allocated on the basis of the preliminary conclusions drawn from the related valuation performed by independent appraisers. However, once the process of allocating the acquisition price to all the assets and liabilities of the companies acquired has been completed at the end of 2005, the amounts of the goodwill recorded could be modified in the form of reclassifications to other balance sheet captions, although it is considered that such reclassifications would not be material.

The 2003 additions to the “Gross Consolidation Goodwill” table relate mainly to the goodwill arising in the acquisition of Tele Centro Oeste Celular Participações (see Note 2-c). In 2004 this column relates mainly to the inclusions in consolidation of Telefónica Móvil de Chile, S.A. and of the companies acquired from BellSouth, as well as increases in ownership interests arising from the friendly tender offers for Brazilian operators (see Note 2-c).

## 9) STOCKHOLDERS' EQUITY

The detail of the equity accounts and of the variations therein in 2003 and 2004 is as follows:

|                              | Thousands of Euros |                            |                |                                      |                        |                         |                            |                  |
|------------------------------|--------------------|----------------------------|----------------|--------------------------------------|------------------------|-------------------------|----------------------------|------------------|
|                              | Capital Stock      | Additional Paid-in Capital | Legal Reserve  | Other Reserves of the Parent Company | Consolidation Reserves | Translation Differences | Income (Loss) for the Year | Total            |
| <b>Balance at 12/31/02</b>   | <b>2,165,275</b>   | <b>4,619,883</b>           |                | <b>(601,630)</b>                     | <b>1,929,898</b>       | <b>(1,135,122)</b>      | <b>(3,730,721)</b>         | <b>3,247,583</b> |
| Offset of accumulated losses | -                  | (3,274,083)                | -              | 601,630                              | -                      | -                       | 2,672,453                  | -                |
| Legal reserve                | -                  | (433,055)                  | 433,055        | -                                    | -                      | -                       | -                          | -                |
| Translation differences      | -                  | -                          | -              | -                                    | -                      | (57,135)                | -                          | (57,135)         |
| Dividends                    | -                  | (757,851)                  | -              | -                                    | -                      | -                       | -                          | (757,851)        |
| Allocation of loss           | -                  | -                          | -              | -                                    | (1,058,268)            | -                       | 1,058,268                  | -                |
| Income for the year          | -                  | -                          | -              | -                                    | -                      | -                       | 1,607,838                  | 1,607,838        |
| <b>Balance at 12/31/03</b>   | <b>2,165,275</b>   | <b>154,894</b>             | <b>433,055</b> | <b>-</b>                             | <b>871,630</b>         | <b>(1,192,257)</b>      | <b>1,607,838</b>           | <b>4,040,435</b> |
| Translation differences      | -                  | -                          | -              | -                                    | -                      | (158,497)               | -                          | (158,497)        |
| Dividends                    | -                  | -                          | -              | (795,955)                            | -                      | -                       | -                          | (795,955)        |
| Distribution of income       | -                  | -                          | -              | 1,266,685                            | 341,153                | -                       | (1,607,838)                | -                |
| Income for the year          | -                  | -                          | -              | -                                    | -                      | -                       | 1,633,910                  | 1,633,910        |
| <b>Balance at 12/31/04</b>   | <b>2,165,275</b>   | <b>154,894</b>             | <b>433,055</b> | <b>470,730</b>                       | <b>1,212,783</b>       | <b>(1,350,754)</b>      | <b>1,633,910</b>           | <b>4,719,893</b> |

### *a) Capital stock and additional paid-in capital*

#### 2004

As of December 31, 2004, the capital stock consisted of 4330,550,896 fully subscribed and paid common shares, of the same series, of €0.5 par value each, recorded by the book-entry

system, which are listed on the Spanish Continuous Market and on the four Spanish Stock Exchanges (Madrid, Barcelona, Valencia and Bilbao) and on the New York Stock Exchange.

On April 16, 2004, the Stockholders' Meeting of Telefónica Móviles approved the payment of a dividend in cash on each of the Company's outstanding shares of €0.1838 gross out of 2004 income. This dividend was paid on June 16, 2004. The aforementioned Stockholders' Meeting also resolved to allocate the remainder of the income for the year, amounting to €470,730 thousand, to voluntary reserves.

Also, on April 16, 2004, the Stockholders' Meeting adopted, inter alia, the following resolutions:

- To authorize the Board of Directors to make derivative acquisitions of Company shares, within the limits and under the terms and conditions established by the Stockholders' Meeting, within a maximum period of 18 months from April 16, 2004, provided that the par value of the shares acquired, added to those already owned by the Company or its subsidiaries, does not exceed 5% of capital stock. The Stockholders' Meeting expressly put on record that this authorization could be exercised fully or partially to acquire shares of "Telefónica Móviles" that the latter had to deliver or transfer to directors or employees of the Company or of companies in its Group as a result of the exercise by the directors or employees of their stock option rights within the framework of the compensation systems tied to the market value of the Company's shares.

As of December 31, 2004, a very small number of shares (496) were held as treasury stock. These shares were acquired in the framework of the partial execution of the MOS Program (see Note 18). These shares will either be delivered to beneficiaries who exercise their options on subsequent dates or will be retired pursuant to the commitments assumed by the Company. In accordance with current legislation, the related restricted reserve of €1,000 was recorded.

The stockholder structure of Telefónica Móviles, S.A. as of December 31, 2004, was as follows:

| Stockholder                    | Number of Shares     | % of Ownership |
|--------------------------------|----------------------|----------------|
| Telefónica S.A.                | 3,075,983,129        | 71.03%         |
| Telefónica Internacional, S.A. | 927,917,620          | 21.43%         |
| Other stockholders             | 326,650,147          | 7.54%          |
| <b>Total at 12/31/04</b>       | <b>4,330,550,896</b> | <b>100.00%</b> |

### 2003

The capital stock as of December 31, 2003 consisted of 4,330,550,896 fully subscribed and paid common shares, of the same series, of €0.5 par value each, recorded by the book-entry system, which are listed on the Spanish Continuous Market and on the four Spanish Stock Exchanges (Madrid, Barcelona, Valencia and Bilbao) and on the New York Stock Exchange.

On April 1, 2003, the Stockholders' Meeting of Telefónica Móviles resolved to record the Company's legal reserve in full (€33,055 thousand) with a charge to the "Additional Paid-in Capital" caption, so that the legal reserve would amount to 20% of capital stock. This Meeting also resolved to pay a dividend of €0.175 gross on each of the Company's outstanding shares, with a charge to the "Additional Paid-in Capital" caption. This dividend was paid on June 18, 2003. The same Meeting also resolved to offset accumulated losses and the 2002 loss with a charge to the "Additional Paid-in Capital" caption.

On April 1, 2003, the Stockholders' Meeting adopted, inter alia, the following resolutions:

- To delegate to the Board of Directors the power to issue nonconvertible, exchangeable and/or convertible debentures, bonds, promissory notes and other fixed-income securities, and to authorize it, in the case of these securities, to exclude the preemptive subscription rights of the stockholders and holders of convertible securities, and to guarantee the issues of the subsidiaries. As of the date of preparation of these consolidated financial statements, the Board of Directors had not made use of this authorization, which remains in force.
- To authorize the Board of Directors to make derivative acquisitions of Company shares, within the limits and under the terms and conditions established by the Stockholders' Meeting, within a maximum period of 18 months from April 1, 2003, provided that the par value of the shares acquired, added to those already owned by the Company or its subsidiaries, did not exceed 5% of capital stock. This authorization was renewed by the Stockholders' Meeting on April 16, 2004, for a maximum period of 18 months.

The stockholder structure of Telefónica Móviles, S.A. as of December 31, 2003, was as follows:

| Stockholder                    | Number of Shares     | % of Ownership |
|--------------------------------|----------------------|----------------|
| Telefónica S.A.                | 3,075,178,440        | 71.01%         |
| Telefónica Internacional, S.A. | 927,917,620          | 21.43%         |
| Other stockholders             | 327,454,836          | 7.56%          |
| <b>Total at 12/31/03</b>       | <b>4,330,550,896</b> | <b>100.00%</b> |

***b) Consolidation reserves***

The variations in the consolidation reserves arose as a result of the prior year's retained earnings.

***c) Translation differences***

The "Translation Differences" caption relates mainly to the effect of exchange rate fluctuations on the net assets of the companies located abroad and the effect of the adjustment for inflation on the assets contributed by companies which use this accounting method (see Note 4b). Negative differences of €42,675 thousand and of €56,140 thousand arose in this connection in 2003 and 2004, respectively.

This caption also includes the exchange gains or losses arising from foreign currency transactions specifically financing investments in investee companies performed by the Parent Company to hedge the exchange rate risk on these investments (see Note 4k). Negative differences of €4,460 thousand and of €2,357 thousand arose in this connection in 2003 and 2004, respectively.

***d) Contribution of Group companies to reserves and translation differences***

The contribution of the Group companies to consolidated reserves and translation differences as of December 31, 2004 and 2003, was as follows:

|  | Thousands of Euros |                         |                  |                         |
|--|--------------------|-------------------------|------------------|-------------------------|
|  | 12/31/04           |                         | 12/31/03         |                         |
|  | Reserves           | Translation Differences | Reserves         | Translation Differences |
| Telefónica Móviles España, S.A.                    | (1,676,319)        | -                       | (3,532,951)      | -                       |
| Group 3G UMTS Holding GmbH                         | (5,853,487)        | -                       | (5,809,071)      | -                       |
| Brasilcel Group                                    | 127,903            | (473,443)               | 180,814          | (481,580)               |
| Telefónica Móviles Soluciones y Aplicaciones, S.A. | 1,855              | 378                     | 476              | (325)                   |
| TES Holding Group                                  | (48,283)           | (22,047)                | (35,391)         | (18,392)                |
| TCG Holdings Group                                 | (73,595)           | (28,764)                | (51,524)         | (26,074)                |
| Telefónica Móviles Interacciona Group              | (299,322)          | 470                     | (276,455)        | 470                     |
| Telefónica Móviles Argentina Group                 | (869,652)          | (49,491)                | (947,026)        | (97,885)                |
| Telefónica Móviles Perú Group                      | 23,476             | (54,750)                | 9,095            | (61,644)                |
| Telefónica Móviles México Group                    | (649,890)          | 182,237                 | (235,221)        | 63,070                  |
| 3G Mobile AG                                       | (137,151)          | 3,683                   | (133,096)        | 3,884                   |
| Medi Telecom, S.A.                                 | (169,697)          | (8,992)                 | (131,363)        | (8,729)                 |
| Ipse 2000, S.p.A.                                  | (149,155)          | -                       | (110,734)        | -                       |
| Telefónica Móviles Guatemala y Cía, S.C.A.         | -                  | (2,062)                 | -                | -                       |
| Otecel, S.A.                                       | -                  | (15,046)                | -                | -                       |
| Telcel Venezuela Group                             | -                  | (51,650)                | -                | -                       |
| Telefónica Móviles Panamá, S.A.                    | -                  | (5,555)                 | -                | -                       |
| Comunicaciones Móviles de Perú, S.A.               | -                  | (419)                   | -                | -                       |
| Telefónica Móviles Colombia Group                  | -                  | 21,797                  | -                | -                       |
| Telefonía Celular de Nicaragua, S.A.               | -                  | (8,677)                 | -                | -                       |
| TEM Inversiones Chile Ltda. Group                  | -                  | 10,854                  | -                | -                       |
| Ablitur, S.A.                                      | -                  | (1,524)                 | -                | -                       |
| Telefónica Móviles and other                       | 12,044,779         | (847,753)               | 12,532,026       | (565,052)               |
| <b>Total Telefónica Móviles Group</b>              | <b>2,271,462</b>   | <b>(1,350,754)</b>      | <b>1,459,579</b> | <b>(1,192,257)</b>      |

***e) Legal reserve***

Under the revised Corporations Law, 10% of income for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of capital stock. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased capital stock amount. Otherwise, until the legal reserve exceeds 20% of capital stock, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

On April 1, 2003, the Stockholders' Meeting of Telefónica Móviles resolved to record the Company's legal reserve in full (€133,055 thousand) with a charge to the "Additional Paid-in Capital" caption. As a result, since 2003 the legal reserve has amounted to 20% of capital stock.

***f) Legislation regulating the sale of holdings***

Following the amendment of Law 5/1995 on the legal regime applicable to the disposal of public shareholdings in certain companies introduced by Law 62/2003 (Law accompanying the State Budget Law), until February 18, 2007, there is a new regime of administrative involvement (need to notify the Spanish State and the latter's power to veto disposals) in relation to the disposal of shares of Telefónica Móviles representing at least 10% of its capital stock. The acquisition of shares representing 10% or more of the capital stock of Telefónica Móviles, S.A. constitutes an exception to this obligation to notify the Spanish State when the

purpose of such acquisition is merely financial and is not to assume control over or the management of the Company.

Also, the acquisition of significant ownership interest in the capital stock of Telefónica Móviles is subject to the notification of significant ownership interests obligations provided for in Royal Decree 377/1991, March 15, as amended by Royal Decree 2590/1998, December 7, on amendments to the legal regime applicable to the securities markets.

## 10) MINORITY INTERESTS

The balances of the “Minority Interests” caption relate to the following direct and indirect holdings of non-Group stockholders in the equity of the companies detailed below:

|   | 12/31/04 | 12/31/03 |
|---|----------|----------|
| Group 3G UMTS Holding GmbH                    | 42.80%   | 42.80%   |
| Telefónica Móviles Perú Holding, S.A.A.       | 2.03%    | 2.03%    |
| Telefónica Móviles Argentina, S.A.            | 2.07%    | 2.07%    |
| Telefónica Móviles México, S.A. de C.V.       | 8.00%    | 8.00%    |
| Subsidiaries of Brasilcel, N.V.               |          |          |
| Tele Sudeste Celular Participações, S.A.      | 4.56%    | 8.06%    |
| Tele Leste Celular Participações, S.A.        | 24.96%   | 36.15%   |
| Celular CRT Participações, S.A.               | 17.03%   | 25.22%   |
| Telesp Celular Participações, S.A.            | 17.44%   | 17.44%   |
| Tele Centro Oeste Celular Participações, S.A. | 33.51%   | 40.60%   |
| Telefónica Móviles Panamá, S.A.               | 0.43%    | -        |
| Comunicaciones Móviles Perú, S.A.             | 0.15%    | -        |
| Sistemas Timetrac, C.A.                       | 25.00%   | -        |

The breakdown, by company, of the balances of the “Minority Interests” caption as of December 31, 2004 and 2003, is as follows:

|   | Thousands of Euros |                 |                                 |                   |                   |
|---|--------------------|-----------------|---------------------------------|-------------------|-------------------|
|   | Net Worth          | Income (Loss)   | Variation in Ownership Interest | Total at 12/31/04 | Total at 12/31/03 |
| Subsidiaries of Brasilcel, N.V.         | 378,592            | 36,264          | (106,841)                       | 308,015           | 387,977           |
| Telefónica Móviles Perú Holding, S.A.A. | 4,552              | (289)           | -                               | 4,263             | 4,410             |
| Telefónica Móviles Argentina, S.A.      | (8,717)            | (1,489)         | -                               | (10,206)          | (9,718)           |
| Telefónica Móviles México, S.A. de C.V. | 72,580             | (52,767)        | -                               | 19,813            | 70,276            |
| Group 3G UMTS Holding GmbH              | (382,442)          | -               | -                               | (382,442)         | (382,442)         |
| Telefónica Móviles Panamá, S.A.         | 392                | 21              | -                               | 413               | -                 |
| Comunicaciones Móviles de Perú, S.A.    | (10)               | (5)             | -                               | (15)              | -                 |
| Sistemas Timetrac, C.A.                 | 2,200              | 93              | -                               | 2,293             | -                 |
| Other companies, net                    | 4,284              | (3,548)         | -                               | 736               | 4,168             |
| <b>Total</b>                            | <b>71,431</b>      | <b>(21,720)</b> | <b>(106,841)</b>                | <b>(57,130)</b>   | <b>74,671</b>     |

The “Variation in Ownership Interest” column includes the effect on minority interests of the changes in the percentage of ownership of various investees of Brasilcel, N.V., as described in Note 2-c.

The variations in the “Minority Interests” caption in 2004 and in 2003 were as follows:

|   | Thousands of Euros  |                        |                 |                         |                |           |                  |                     |
|---|---------------------|------------------------|-----------------|-------------------------|----------------|-----------|------------------|---------------------|
|   | Balance at 12/31/02 | Inclusion of Companies | Income (Loss)   | Translation Differences | Additions      | Transfers | Other Variations | Balance at 12/31/03 |
| Subsidiaries of Brasilcel, N.V.         | 252,054             | 3,414                  | 21,876          | 2,629                   | 120,083        | -         | (12,079)         | 387,977             |
| Telefónica Móviles Interacciona, S.A.   | (18,526)            | -                      | -               | (8)                     | 8,000          | -         | 10,534           | -                   |
| Telefónica Móviles Perú Holding, S.A.A. | 4,822               | -                      | 298             | (710)                   | -              | -         | -                | 4,410               |
| Telefónica Móviles Argentina, S.A.      | (11,708)            | -                      | 1,645           | 345                     | -              | -         | -                | (9,718)             |
| Group 3G UMTS Holding GmbH              | (382,442)           | -                      | -               | -                       | -              | -         | -                | (382,442)           |
| Telefónica Móviles México, S.A. de C.V. | 133,266             | -                      | (42,404)        | (20,586)                | -              | -         | -                | 70,276              |
| Other companies, net                    | 8,117               | -                      | (2,542)         | (1,265)                 | -              | -         | (142)            | 4,168               |
| <b>Total</b>                            | <b>(14,417)</b>     | <b>3,414</b>           | <b>(21,127)</b> | <b>(19,595)</b>         | <b>128,083</b> | <b>-</b>  | <b>(1,687)</b>   | <b>74,671</b>       |

|   | Thousands of Euros  |                        |                 |                         |              |              |                  |                     |
|---|---------------------|------------------------|-----------------|-------------------------|--------------|--------------|------------------|---------------------|
|   | Balance at 12/31/03 | Inclusion of Companies | Income (Loss)   | Translation Differences | Additions    | Transfers    | Other Variations | Balance at 12/31/04 |
| Subsidiaries of Brasilcel, N.V.         | 387,977             | -                      | 36,264          | 4,783                   | 4,245        | 6,590        | (131,844)        | 308,015             |
| Telefónica Móviles Perú Holding, S.A.A. | 4,410               | -                      | (289)           | 142                     | -            | -            | -                | 4,263               |
| Telefónica Móviles Argentina, S.A.      | (9,718)             | -                      | (1,489)         | 1,001                   | -            | -            | -                | (10,206)            |
| Group 3G UMTS Holding GmbH              | (382,442)           | -                      | -               | -                       | -            | -            | -                | (382,442)           |
| Telefónica Móviles México, S.A. de C.V. | 70,276              | -                      | (52,767)        | 2,304                   | -            | -            | -                | 19,813              |
| Telefónica Móviles Panamá, S.A.         | -                   | 420                    | 21              | (28)                    | -            | -            | -                | 413                 |
| Comunicaciones Móviles de Perú, S.A.    | -                   | (12)                   | (5)             | 2                       | -            | -            | -                | (15)                |
| Sistemas Timetrac, C.A.                 | -                   | 2,282                  | 93              | (82)                    | -            | -            | -                | 2,293               |
| Other companies, net                    | 4,168               | -                      | (3,548)         | 66                      | 50           | -            | -                | 736                 |
| <b>Total</b>                            | <b>74,671</b>       | <b>2,690</b>           | <b>(21,720)</b> | <b>8,188</b>            | <b>4,295</b> | <b>6,590</b> | <b>(131,844)</b> | <b>(57,130)</b>     |

In 2003 the “Transfers” column includes mainly the increase in minority interests as a result of the acquisition of Tele Centro Oeste Celular Participações, as indicated in Note 2-c.

The “Other Variations” column in 2004 relates to the increase in Brasilcel, N.V.’s ownership interests in various Brazilian subsidiaries, as indicated in Note 2-c.

The balance receivable from the minority interests of Group 3G UMTS Holdings GmbH amounting to €382,442 thousand (see Note 4-m) has been provisioned in full, and the related amount is recorded under the “Provisions for Contingencies and Expenses” caption in the accompanying consolidated balance sheet.

## 11) BALANCES AND TRANSACTIONS WITH TELEFÓNICA GROUP COMPANIES

The breakdown of the accounts receivable from and payable to Telefónica Group and associated companies as of December 31, 2004 and 2003, is as follows:

|   | Thousands of Euros |                   |                  |                  |
|---|--------------------|-------------------|------------------|------------------|
|   | 2004               |                   | 2003             |                  |
|   | Receivable         | Payable           | Receivable       | Payable          |
| Telefónica, S.A.                            | 2,333,940          | 11,078,319        | 1,149,370        | 5,699,553        |
| Telefónica de España, S.A.                  | 208,730            | 96,191            | 255,068          | 98,402           |
| Telefónica Internacional, S.A.              | 448                | 308,300           | 1,208            | 12,391           |
| Telefónica Investigación y Desarrollo, S.A. | 787                | 20,687            | 1,056            | 18,770           |
| Telescomunicações de Sao Paulo, S.A.        | 24,537             | 44,682            | 26,843           | 16,232           |
| Telefónica Finanzas, S.A. (Telfisa)         | 1,422,843          | 300,649           | 984,953          | 320,170          |
| Teleinformática y Comunicaciones, S.A.      | 19,053             | 9,188             | 53,040           | 7,349            |
| Atento Group                                | 659                | 11,663            | 570              | 12,463           |
| Ipse 2000, S.p.A.                           | 313,694            | -                 | 280,608          | -                |
| Telefónica del Perú, S.A.A.                 | 21,820             | 33,524            | 67,349           | 80,019           |
| Tele Leste Celular Participações, S.A.      | 2,325              | -                 | 2,994            | -                |
| Medi Telecom, S.A.                          | 74,169             | -                 | 70,131           | -                |
| CRT Celular, S.A.                           | 1,241              | -                 | 4,980            | 53               |
| Telesudeste Participações Group             | 9,551              | 533               | 13,414           | 3                |
| Tele Brasil Sul Celular Participações, S.A. | 1,158              | -                 | -                | -                |
| Fisatel Mexico, S.A. de C.V.                | 386                | 40,074            | 1,894            | 19,620           |
| CTC Chile Group                             | 16,411             | 7,324             | 445              | 48               |
| Other Telefónica Group companies            | 35,814             | 54,416            | 33,376           | 52,635           |
| <b>Total</b>                                | <b>4,487,568</b>   | <b>12,005,550</b> | <b>2,947,299</b> | <b>6,337,708</b> |

The breakdown of the accounts payable is as follows:

|   | Thousands of Euros |                  |                  |                  |
|---|--------------------|------------------|------------------|------------------|
|   | 2004               |                  | 2003             |                  |
|   | Short Term         | Long Term        | Short Term       | Long Term        |
| Loans and credit lines                              | 1,797,620          | 7,817,441        | 1,193,605        | 4,864,416        |
| Filing of consolidated corporate income tax returns | 2,058,793          | -                | -                | 7                |
| Purchases, services, etc.                           | 331,696            | -                | 279,680          | -                |
| <b>Total</b>  | <b>4,188,109</b>   | <b>7,817,441</b> | <b>1,473,285</b> | <b>4,864,423</b> |

The breakdown of the balances drawn down against the loans and credit lines granted by Telefónica Group companies as of December 31, 2004 and 2003 is as follows:

**Móviles**

| Company  | Thousands of Euros |                  |                  |                  |
|--|--------------------|------------------|------------------|------------------|
|  | 2004               |                  | 2003             |                  |
|  | Short Term         | Long Term        | Short Term       | Long Term        |
| Telefónica Móviles, S.A.                             |                    |                  |                  |                  |
| - Telfisa credit line in U.S. dollars                | 14,979             | -                | -                | -                |
| - Telefónica, S.A. credit lines in euros             | 972,917            | 5,159,606        | -                | 1,745,762        |
| - Telefónica, S.A. credit lines in U.S. dollars      | 221,593            | 1,060,873        | 4,350            | 180,339          |
| - Telefónica, S.A. loan in euros                     | 240,000            | 867,252          | 999,601          | 2,047,067        |
| - Telefónica, S.A. loans in U.S. dollars             | 133,424            | 111,982          | 130,061          | 391,320          |
| - Other financial debts                              | 139,989            | 68,131           | 7,434            | 161,531          |
| Telefónica Móviles España, S.A.                      |                    |                  |                  |                  |
| - Telfisa-BEI loan in euros                          | 25,718             | 102,875          | 25,718           | 128,594          |
| - Telfisa-BEI loan in U.S. dollars                   | -                  | 146,972          | -                | 158,353          |
| Telefónica Móviles Interacciona, S.A.                |                    |                  |                  |                  |
| - Telfisa credit line in euros                       | 9,303              | -                | 6,988            | -                |
| Telefónica Móviles México, S.A. de C.V.              |                    |                  |                  |                  |
| - Fisatel México, S.A. de C.V. credit line in MXN    | 39,697             | -                | 19,453           | -                |
| Telefónica Móviles Perú Holding, S.A.A.              |                    |                  |                  |                  |
| - Telefónica del Peru, S.A.A loan in U.S. dollars.   | -                  | -                | -                | 51,450           |
| Inversiones Telefónica Móviles Holding Limitada      |                    |                  |                  |                  |
| - Telefónica Internacional Chile, S.A. loan in euros | -                  | 299,750          | -                | -                |
| <b>Total</b>   | <b>1,797,620</b>   | <b>7,817,441</b> | <b>1,193,605</b> | <b>4,864,416</b> |

All the loans and credit lines detailed above bear interest at market rates. The average interest rates on the aforementioned financing in 2004 and 2003 were 4.01% and 4.19%, respectively.

Of the outstanding balance payable to Telefónica Group companies as of December 31, 2003, €1,477,429 thousand were repaid in 2004 (including the repayment of a loan against which €276,028 thousand had been drawn down in 2004). Also, the additional financing drawn down by the Telefónica Móviles Group amounted to €5,058,065 thousand, and this amount was principally used to finance the acquisition of the BellSouth operators in Latin America.

As of December 31, 2004 and 2003, credit lines had been granted by the Telefónica Group totaling €7,730 million and €2,195 million, respectively. Of the credit lines granted as of December 31, 2004, €1,297 million were denominated in U.S. dollars and €54 million were denominated in Mexican pesos. As of December 31, 2003, €291 million were denominated in U.S. dollars and €106 million were denominated in Mexican pesos.

The balances drawn down against the aforementioned credit lines as of December 31, 2004 and 2003, amounted to €7,479 million and €1,956 million, respectively, of which €1,297 million and €85 million, respectively, relate to the credit lines denominated in U.S. dollars. Of the balances drawn down as of December 31, 2004 and 2003, €40 million and €19 million, respectively, were denominated in Mexican pesos.

Although the Group's books reflect a working capital deficiency as of December 31, 2004, based on the 2005 budget no liquidity problems are expected to arise in the coming year.

Telefónica Móviles, S.A., Telefónica Móviles España, S.A. and Telefónica Móviles Interacciona, S.A. centralize all their cash balances at the Telefónica Group company Telefonía y Finanzas, S.A. (Telfisa), through transfers from and to the banks with which it has demand deposits. The balances with Telfisa earn and bear interest at market rates.

The main transactions with Telefónica Group and associated companies in 2003 were as follows:

|  | Thousands of Euros |                    |                    |                                   |
|--|--------------------|--------------------|--------------------|-----------------------------------|
|  | Operating Revenues | Financial Revenues | Financial Expenses | Procurements and Outside Services |
| Telefónica, S.A.                             | 2,515              | 6,779              | 314,064            | 34,920                            |
| Telefónica de España, S.A.                   | 828,155            | -                  | -                  | 415,818                           |
| Telefónica Internacional, S.A.               | 575                | -                  | -                  | 644                               |
| Telefónica Investigación y Desarrollo, S.A.  | 889                | -                  | -                  | 11,977                            |
| Telefónica Telecomunicaciones Públicas, S.A. | 28,417             | -                  | -                  | 275                               |
| Zeleris España, S.A.U                        | 433                | -                  | -                  | 24,763                            |
| Telecomunicações de Sao Paulo, S.A.          | 232,650            | -                  | -                  | 31,393                            |
| Telefonía y Finanzas, S.A. (Telfisa)         | 3                  | 38,477             | 6,688              | -                                 |
| Teleinformática y Comunicaciones, S.A.       | 256,529            | -                  | -                  | 31,191                            |
| Atento Group                                 | 2,906              | 72                 | -                  | 65,693                            |
| Ipse 2000, S.p.A.                            | -                  | 19,520             | -                  | -                                 |
| Telefónica Argentina, S.A.                   | 975                | -                  | -                  | 31,145                            |
| Telefónica del Perú, S.A.A.                  | 96,108             | 1,101              | 2,497              | 22,502                            |
| Medi Telecom, S.A.                           | 541                | 1,397              | -                  | 1                                 |
| Telefónica Mobile Solutions, S.A.            | 599                | 275                | -                  | 16,225                            |
| Other Telefónica Group companies             | 19,912             | 1,328              | 296                | 48,663                            |
| <b>Total</b>                                 | <b>1,471,207</b>   | <b>68,949</b>      | <b>323,545</b>     | <b>735,210</b>                    |

The main transactions with Telefónica Group and associated companies in 2004 were as follows:

|   | Thousands of Euros |                    |                    |                                   |
|---|--------------------|--------------------|--------------------|-----------------------------------|
|   | Operating Revenues | Financial Revenues | Financial Expenses | Procurements and Outside Services |
| Telefónica, S.A.                                      | 14,484             | 8,010              | 327,539            | 41,030                            |
| Telefónica de España, S.A.                            | 745,812            | -                  | -                  | 391,810                           |
| Telefónica Internacional, S.A.                        | 3,113              | -                  | 1,757              | 101                               |
| Telefónica Investigación y Desarrollo, S.A.           | 457                | -                  | -                  | 11,248                            |
| Telefónica Telecomunicaciones Públicas, S.A.          | 31,763             | -                  | -                  | 283                               |
| Zeleris España, S.A.U.                                | 130                | -                  | -                  | 39,459                            |
| Telecomunicações de Sao Paulo, S.A.                   | 256,994            | -                  | -                  | 48,122                            |
| Telefonía y Finanzas, S.A. (Telfisa)                  | 3                  | 38,730             | 5,857              | -                                 |
| Teleinformática y Comunicaciones, S.A.                | 286,249            | -                  | -                  | 40,674                            |
| Atento Group  | 3,380              | 13                 | -                  | 76,992                            |
| Ipse 2000, S.p.A.                                     | -                  | 20,705             | -                  | -                                 |
| Telefónica Argentina, S.A.                            | 996                | -                  | -                  | 39,010                            |
| Telefónica del Perú, S.A.A.                           | 87,345             | 94                 | 321                | 22,480                            |
| Telefónica Gestión Servicios Compartidos Group        | 297                | -                  | -                  | 14,537                            |
| CTC Group   | 22,850             | -                  | 102                | 7,805                             |
| Telefónica Soluciones de Informática y Com. de España | 690                | -                  | -                  | 11,630                            |
| Medi Telecom, S.A.                                    | 616                | 2,857              | -                  | -                                 |
| Other Telefónica Group companies                      | 15,508             | 850                | 3,790              | 35,514                            |
| <b>Total</b>  | <b>1,470,687</b>   | <b>71,259</b>      | <b>339,366</b>     | <b>780,695</b>                    |

The Company has entered into technical capacity transfer and business management and support contracts with Telefónica Móviles El Salvador, S.A. de C.V., Telefónica Móviles Guatemala, S.A. and Telefónica Móviles, S.A.C. Under these contracts the Company receives a fee equal to 1% of the services billed for transactions and 9% of the operating income of the aforementioned companies.

Also, in October 2000 the Company was subrogated to Telefónica Internacional, S.A.'s consulting services contracts with the Brazilian companies Telerj Celular, S.A., Telest Celular, S.A., Telebahia Celular, S.A., Telergipe Celular, S.A. and Celular CRT, S.A. Under these contracts, the Company is entitled to receive a fee ranging from 1% to 2% of the revenues received for services billed in connection with the transactions of these companies.

In the framework of the agreements entered into by Telefónica Móviles and Portugal Telecom for the formation of a joint venture, in 2004 the parties agreed that the amounts obtained by them from January 1, 2003, in connection with the management contracts entered into by the groups with their former Brazilian subsidiaries would be offset so that each party would receive the same amount in this connection.

Also, the Telefónica Móviles Group has entered into a management contract with Medi Telecom, S.A. under which it receives a fee equal to 1% of the gross revenues or 4.5% of the income before interest and taxes of Médi Telecom, S.A., depending on the operating income reported by this company.

In addition, in the period from January 1, 2002 to September 2004 Telefónica Móviles, S.A. provided management services for the operations of Newcomm Wireless Services, Inc. (Newcomm), as a result of the subrogation of Telefónica Móviles, S.A. to the position of Telefónica Larga Distancia de Puerto Rico, Inc. in the management contract that it had entered into with Newcomm.

## 12) PAYABLE TO CREDIT INSTITUTIONS

The detail of the accounts payable to credit institutions as of December 31, 2003 and 2004, is as follows:

| Company  | Thousands of Euros | Maturity       |                |
|--|--------------------|----------------|----------------|
|  |                    | 2003           | 2004           |
| Telefónica Móviles España, S.A.                    | 26,879             | -              | 26,879         |
| Celular CRT, S.A.                                  | 42,584             | 10,501         | 32,083         |
| Tele Sudeste Celular Participações, S.A.           | 25,701             | 20,700         | 5,001          |
| Tele Leste Celular Participações, S.A.             | 30,433             | 11,170         | 19,263         |
| Telesp Celular Participações, S.A.                 | 625,682            | 438,493        | 187,189        |
| TES Holding, S.A. de C.V.                          | 14,865             | 14,865         | -              |
| Telefónica Móviles Argentina, S.A.                 | 17,174             | 9,719          | 7,455          |
| Telefónica Móviles Perú Holding, S.A.A.            | 8,123              | 398            | 7,725          |
| Telefónica Móviles México, S.A.                    | 54,819             | 30,869         | 23,950         |
| Telefónica Móviles Puerto Rico, Inc.               | 8,160              | 8,160          | -              |
| Telefónica Móviles Soluciones y Aplicaciones, S.A. | 758                | 270            | 488            |
| <b>Total</b>                                       | <b>855,178</b>     | <b>545,145</b> | <b>310,033</b> |

| Company  | Thousands of Euros<br>2004 | Maturity       |                |
|--|----------------------------|----------------|----------------|
|  |                            | Short Term     | Long Term      |
| Telefónica Móviles España, S.A.                    | 38,260                     | -              | 38,260         |
| Celular CRT, S.A.                                  | 33,476                     | 12,900         | 20,576         |
| Tele Sudeste Celular Participações, S.A.           | 6,034                      | 6,034          | -              |
| Tele Leste Celular Participações, S.A.             | 46,460                     | 8,212          | 38,248         |
| Telesp Celular Participações, S.A.                 | 575,598                    | 390,897        | 184,701        |
| TES Holding, S.A. de C.V.                          | 4,772                      | 4,772          | -              |
| TCG Holdings, S.A.                                 | 1,276                      | 1,276          | -              |
| Telefónica Móviles Argentina, S.A.                 | 6,913                      | 3,825          | 3,088          |
| Telefónica Móviles Perú Holding, S.A.A.            | 7,165                      | 672            | 6,493          |
| Telefónica Móviles México, S.A.                    | 43,490                     | 17,492         | 25,998         |
| Telefónica Móviles Puerto Rico, Inc.               | 5,602                      | 5,602          | -              |
| Telefónica Móviles Soluciones y Aplicaciones, S.A. | 1,036                      | 478            | 558            |
| Telcel Venezuela Group                             | 16,502                     | 6,601          | 9,901          |
| Comunicaciones Móviles de Perú, S.A.               | 146,963                    | 146,963        | -              |
| Olympic Group                                      | 326,084                    | 219,199        | 106,885        |
| Otecel, S.A.                                       | 4,803                      | 4,803          | -              |
| <b>Total</b>                                       | <b>1,264,434</b>           | <b>829,726</b> | <b>434,708</b> |

All the loans to Group companies bear interest at market rates. Some of these loans are subject to certain financial restrictions. At the date of preparation of these consolidated financial statements, these conditions were either being met satisfactorily or were being negotiated, where appropriate, with the related financial institutions.

The breakdown, by maturity, of the Group's total accounts payable is as follows:

| Company  | Thousands of Euros |                |                |                |               |                  |                  |
|--|--------------------|----------------|----------------|----------------|---------------|------------------|------------------|
|  | Maturity           |                |                |                |               |                  |                  |
|  | 2005               | 2006           | 2007           | 2008           | 2009          | Subsequent Years | Total            |
| Telefónica Móviles España, S.A.                    | -                  | -              | -              | -              | -             | 38,260           | 38,260           |
| Celular CRT, S.A.                                  | 12,900             | 171            | 20,405         | -              | -             | -                | 33,476           |
| Tele Sudeste Celular Participações, S.A.           | 6,034              | -              | -              | -              | -             | -                | 6,034            |
| Tele Leste Celular Participações, S.A.             | 8,212              | 17,811         | 33             | 20,404         | -             | -                | 46,460           |
| Telesp Celular Participações, S.A.                 | 390,897            | 84,743         | 87,073         | 3,915          | 3,426         | 5,544            | 575,598          |
| TES Holding, S.A. de C.V.                          | 4,772              | -              | -              | -              | -             | -                | 4,772            |
| TCG Holdings, S.A.                                 | 1,276              | -              | -              | -              | -             | -                | 1,276            |
| Telefónica Móviles Argentina, S.A.                 | 3,825              | 3,088          | -              | -              | -             | -                | 6,913            |
| Telefónica Móviles Perú Holding, S.A.A.            | 672                | 878            | 1,085          | 1,202          | 1,330         | 1,998            | 7,165            |
| Telefónica Móviles México, S.A. de C.V.            | 17,492             | 6,011          | 5,711          | 5,710          | 5,711         | 2,855            | 43,490           |
| Telefónica Móviles Puerto Rico, Inc.               | 5,602              | -              | -              | -              | -             | -                | 5,602            |
| Telefónica Móviles Soluciones y Aplicaciones, S.A. | 478                | 414            | 144            | -              | -             | -                | 1,036            |
| Telcel Venezuela Group                             | 6,601              | 6,601          | 3,300          | -              | -             | -                | 16,502           |
| Comunicación Móviles de Perú                       | 146,963            | -              | -              | -              | -             | -                | 146,963          |
| Olympic Group                                      | 219,199            | 19             | 17             | 106,660        | 12            | 177              | 326,084          |
| Otecel, S.A.                                       | 4,803              | -              | -              | -              | -             | -                | 4,803            |
| <b>Total</b>                                       | <b>829,726</b>     | <b>119,736</b> | <b>117,768</b> | <b>137,891</b> | <b>10,479</b> | <b>48,834</b>    | <b>1,264,434</b> |

The Group arranges financial instruments, as indicated in Note 17, to hedge its exchange rate risk. In markets where it is not possible to arrange a derivative with the same characteristics and term as the loan being hedged, the Group seeks to renew the derivatives through the maturity of the loans.

As of December 31, 2004 and 2003, there were no credit lines other than those granted by Telefónica Group companies disclosed in Note 11.

The detail of the euro and foreign currency loans as of December 31, 2004 and 2003, is as follows:

| Company  | Foreign<br>Currency<br>(Millions) | Thousands<br>of Euros | Foreign<br>Currency<br>(Millions) | Thousands<br>of Euros |
|--|-----------------------------------|-----------------------|-----------------------------------|-----------------------|
|  | 2004                              |                       | 2003                              |                       |
| Tele Sudeste Celular Participações, S.A.           |                                   |                       |                                   |                       |
| - U.S. dollars                                     | 9                                 | 6,034                 | 32                                | 25,701                |
| Tele Leste Celular Participações, S.A.             |                                   |                       |                                   |                       |
| - U.S. dollars                                     | 57                                | 40,726                | 38                                | 30,433                |
| - Brazilian reais                                  | 21                                | 5,734                 | -                                 | -                     |
| Telesp Celular Participações, S.A.                 |                                   |                       |                                   |                       |
| - Euros  | -                                 | 225                   | 138                               | 138,210               |
| - U.S. dollars                                     | 505                               | 316,466               | 511                               | 300,209               |
| - Brazilian reais                                  | 846                               | 234,015               | 542                               | 145,606               |
| - Japanese yen                                     | 3,470                             | 24,892                | 5,681                             | 41,657                |
| TES Holding, S.A. de C.V.                          |                                   |                       |                                   |                       |
| - U.S. dollars                                     | 6                                 | 4,772                 | 19                                | 14,865                |
| TCG Holdings, S.A.                                 |                                   |                       |                                   |                       |
| - Quetzales  | 13                                | 1,276                 | -                                 | -                     |
| Celular CRT, S.A.                                  |                                   |                       |                                   |                       |
| - U.S. dollars                                     | 51                                | 33,305                | 67                                | 42,584                |
| - Brazilian reais                                  | 1                                 | 171                   | -                                 | -                     |
| Telefónica Móviles México Group                    |                                   |                       |                                   |                       |
| - U.S. dollars                                     | 63                                | 36,360                | 72                                | 47,156                |
| - Mexican pesos                                    | 109                               | 7,130                 | 109                               | 7,663                 |
| Telefónica Móviles Perú Holding, S.A.A.            |                                   |                       |                                   |                       |
| - U.S. dollars                                     | 10                                | 7,165                 | 10                                | 8,123                 |
| Telefónica Móviles Puerto Rico, Inc                |                                   |                       |                                   |                       |
| - U.S. dollars                                     | 8                                 | 5,602                 | 10                                | 8,160                 |
| Telefónica Móviles Argentina, S.A.                 |                                   |                       |                                   |                       |
| - U.S. dollars                                     | 9                                 | 6,913                 | 22                                | 17,174                |
| Telefónica Móviles España, S.A.                    |                                   |                       |                                   |                       |
| - U.S. dollars                                     | 52                                | 38,260                | 34                                | 26,879                |
| Telefónica Móviles Soluciones y Aplicaciones, S.A. |                                   |                       |                                   |                       |
| - Chilean pesos                                    | 785                               | 1,036                 | 569                               | 758                   |
| Otecel, S.A.                                       |                                   |                       |                                   |                       |
| - U.S. dollars                                     | 7                                 | 4,803                 | -                                 | -                     |
| Comunicaciones Móviles de Perú, S.A.               |                                   |                       |                                   |                       |
| - U.S. dollars                                     | 200                               | 146,963               | -                                 | -                     |
| Olympic Group                                      |                                   |                       |                                   |                       |
| - U.S. dollars                                     | 419                               | 307,612               | -                                 | -                     |
| - Colombian pesos                                  | 60,171                            | 18,472                | -                                 | -                     |
| Telcel Venezuela Group                             |                                   |                       |                                   |                       |
| - U.S. dollars                                     | 23                                | 16,502                | -                                 | -                     |
| <b>Total</b>                                       |                                   | <b>1,264,434</b>      |                                   | <b>855,178</b>        |

### 13) TAX MATTERS

The Company files consolidated corporate income tax returns and, accordingly, is not obliged to pay its tax debt directly to the Spanish Treasury. All the tax assets and tax bases up to the ceiling of the deduction applicable to the Telefónica tax group are transferred to Telefónica, S.A., and a balance receivable from or payable to the Parent Company is recorded for the tax loss or taxable income, respectively, of the individual company, which is recorded under the “Loans to Telefónica Group Companies” caption if a tax loss is reported by the Móviles, S.A. Group company, or under the “Payable to Telefónica Group Companies” caption if taxable income is contributed to the Parent Company.

The balance of the “Loans to Telefónica Group Companies” caption is reduced through cash payments by Telefónica, S.A. to the Móviles Group companies that have contributed the tax losses, as the tax losses contributed by the Móviles Group are actually offset by the Telefónica tax group.

The corporate income tax expense was calculated by aggregating the corporate income tax or similar tax expenses recorded by companies reporting taxable income. The tax amounts were determined in accordance with the tax regulations in force in each country and on the basis of the income or loss reflected in the individual financial statements, the sum of which does not necessarily coincide with consolidated income.

The years open for review by the tax inspection authorities vary at each Group company, based on each country’s tax legislation and on their respective statute-of-limitations periods. No material liabilities are expected to arise in the event of a tax audit of the open years.

#### *a) Deferred tax assets and liabilities*

The detail as of December 31, 2004 and 2003, of the Telefónica Móviles Group’s deferred tax assets and liabilities and of the variations therein is as follows:

|                                  | Thousands of Euros  |               |                          |                |
|----------------------------------|---------------------|---------------|--------------------------|----------------|
|                                  | Deferred Tax Assets |               | Deferred Tax Liabilities |                |
|                                  | Long Term           | Short Term    | Long Term                | Short Term     |
| <b>Balance at 12/31/02</b>       | <b>1,136,488</b>    | <b>-</b>      | <b>58,505</b>            | <b>126,148</b> |
| Additions                        | 97,299              | 14,114        | 16,719                   | 3,750          |
| Reversals                        | (128,465)           | (7,754)       | (31,126)                 | (9,397)        |
| Inclusion/Exclusion of companies | 5,119               | 5,433         | 3,529                    | 143,457        |
| Transfers                        | (264,823)           | 21,833        | (42,199)                 | (117,007)      |
| <b>Balance at 12/31/03</b>       | <b>845,618</b>      | <b>33,626</b> | <b>5,428</b>             | <b>146,951</b> |
| Additions                        | 240,383             | 22,774        | 43,320                   | 17,515         |
| Reversals                        | (68,061)            | (12,892)      | (8,273)                  | (43,195)       |
| Inclusion/Exclusion of companies | 5,996               | 312           | 3,033                    | 770            |
| Transfers                        | 38,464              | 17,921        | 13,829                   | (132)          |
| <b>Balance at 12/31/04</b>       | <b>1,062,400</b>    | <b>61,741</b> | <b>57,337</b>            | <b>121,909</b> |

The balance of the “Long-Term Investments - Tax Receivables” caption in the accompanying consolidated balance sheet, which amounted to €1,316,116 thousand as of December 31, 2004, includes, in thousands of euros, deferred tax assets relating to the provisions for contingencies and expenses at the subsidiaries in Germany (€256,870 thousand), Italy (€22,807 thousand), Mexico and Argentina (€286,187 thousand) and Switzerland, Morocco and Puerto Rico (€5,090 thousand). It also includes tax assets amounting to €3,150 thousand recorded by the foreign subsidiaries and €8,295 thousand relating to other items (provisions for expenses that are temporarily not deductible for tax purposes).

In addition to the deferred tax assets described in the preceding paragraph, there are tax credits totaling €88,650 thousand (export, research, development and innovation and international double taxation tax credits, etc.), tax assets relating to the tax losses of companies not included in the Telefónica tax group amounting to €70,488 thousand, and other tax assets (VAT refundable at long term, other taxes refundable, etc.) totaling €4,578 thousand.

The balance of the “Long-Term Debt – Payable to Public Authorities” caption in the accompanying consolidated balance sheet, which amounted to €88,743 thousand as of December 31, 2004, includes various local taxes and the deferred tax liabilities detailed below.

**b) Receivable from and payable to public authorities**

The detail of the “Accounts Receivable – Receivable from Public Authorities” and “Other Nontrade Payables – Payable to Public Authorities” in short term, captions as of December 31, 2004 and 2003, is as follows:

| <b>Receivable from public authorities:</b> | Thousands of Euros |                |
|--|--------------------|----------------|
|  | 2004               | 2003           |
| Indirect taxes refundable                  | 496,986            | 213,936        |
| Deferred tax assets                        | 61,741             | 33,626         |
| Corporate income tax prepayments           | 114,251            | 27,518         |
| Tax assets and other tax receivables       | 109,541            | 37,967         |
| Other                                      | 419                | 2,031          |
| <b>Total</b>                               | <b>782,938</b>     | <b>315,078</b> |

| <b>Payable to public authorities:</b>         | Thousands of Euros |                |
|---|--------------------|----------------|
|   | 2004               | 2003           |
| Indirect taxes payable                        | 482,067            | 181,907        |
| Deferred tax liabilities                      | 121,909            | 146,951        |
| Corporate income tax                          | 137,351            | 24,542         |
| Social security taxes                         | 13,330             | 11,137         |
| Personal income tax withholdings              | 7,896              | 6,314          |
| Withholdings from income from movable capital | 5,358              | 4,253          |
| Other   | 77,761             | 19,282         |
| <b>Total</b>                                  | <b>845,672</b>     | <b>394,386</b> |

**c) Reconciliation of the income per books to the taxable income for corporate income tax purposes**

The reconciliation of the income/loss per books to the tax base for corporate income tax purposes for 2004 and for 2003 is as follows:

|  | Thousands of Euros |                  |
|--|--------------------|------------------|
|  | 2004               | 2003             |
| <b>Income per books</b>                                  | <b>2,510,307</b>   | <b>2,477,204</b> |
| Permanent differences                                    | (281,245)          | (602,833)        |
| Timing differences                                       | 439,249            | (225,230)        |
| <b>Taxable income</b>                                    | <b>2,668,311</b>   | <b>1,649,141</b> |
| Gross tax payable  | 932,524            | 585,428          |
| Tax credits and tax relief                               | (46,948)           | (17,489)         |
| Tax effect of timing differences and deferred revenues   | (156,582)          | 75,444           |
| Prior years' corporate income tax                        | 8,516              | -                |
| <b>Spanish corporate income tax</b>                      | <b>737,510</b>     | <b>643,383</b>   |
| Recognition of deferred tax liabilities in consolidation | 122,075            | 222,247          |
| Foreign taxes  | 38,532             | 24,863           |
| <b>Total income tax</b>                                  | <b>898,117</b>     | <b>890,493</b>   |

The permanent differences arose mainly from the results obtained by the companies located abroad, the amortization of consolidation goodwill and the depreciation/amortization of the assets assigned in consolidation and the positive results attributable to associated companies. These latter two items, which arose in consolidation, do not form part of the individual tax bases resulting from the calculation of the related taxes at each Group company.

The main timing differences arose from the period provisions for bad debts, investment valuation provisions and provisions for the decline in value of property, plant and equipment that are not deductible for tax purposes in the period.

**d) Detail of tax assets**

As of December 31, 2004, the accumulated tax losses incurred by the Móviles Group companies amounted to €9,832,108 thousand. Pursuant to the applicable tax legislation, tax assets for recoverable tax losses amounting to €1,386,275 thousand have been generated, and this amount is recorded under the “Long-Term Investments – Receivable from Public Authorities” or “Receivable from Telefónica Due to Consolidated Taxation” captions in the consolidated balance sheet, depending on whether or not the companies that incurred the losses form part of the Telefónica tax group.

Pursuant to local accounting and corporate law, of the total tax losses indicated above, €2,028,867 thousand have not been recognized in the accounting records.

The detail, by country, of the accumulated tax assets as of December 31, 2004, that will be used in each country is as follows:

| <i>Country /<br/>Thousands<br/>of €</i> | <i>Tax Losses Incurred</i> | <i>Tax Asset<br/>Recognized</i> | <i>Tax Asset Not<br/>Recognized</i> | <i>Period and General Conditions for<br/>Offset per Applicable Legislation</i> |
|---|----------------------------|---------------------------------|-------------------------------------|--|
| Spain                                   | 6,314,184                  | 1,353,258                       | 856,702                             | 15 years (after first year of income)  |
| Brazil (1), (2)                         | 699,338                    | 30,579                          | 207,174                             | No time limit, but annual maximum of 70% of taxable income                     |
| Mexico                                  | 1,679,303                  | -                               | 554,170                             | 10 years   |
| Argentina                               | 452,183                    | -                               | 158,264                             | 5 years  |
| Chile                                   | 3,463                      | 589                             | -                                   | No time or quantitative limits   |
| Ecuador                                 | 3,318                      | 1,194                           | -                                   | 5 years and annual maximum of 25% of taxable income                            |
| Colombia                                | 570,130                    | -                               | 219,500                             | 8 years and annual maximum of 25% of accumulated losses                        |
| Peru                                    | 105,858                    | -                               | 31,758                              | 4 years  |
| Uruguay                                 | 4,331                      | -                               | 1,299                               | 3 years  |
| <b>TOTAL</b>                            | <b>9,832,108</b>           | <b>1,385,620</b>                | <b>2,028,867</b>                    |  |

- (1) For accounting consolidation purposes in Spain, €21,734 thousand were eliminated as a result of goodwill adjustments in Brazil.
- (2) The tax asset recognized includes €30 thousand at short term. The remainder, up to €30,579 thousand is a long-term tax asset.

Also, as of December 31, 2004, in Spain there is an account receivable from Telefónica totaling €5,882 thousand relating to international double taxation tax credits. Also, the Group has tax credits and tax assets relating to timing differences amounting to €39,926 thousand which, in accordance with the accounting legislation in force, were not recorded in the accounting records either because they did not meet the requirements for being recorded or because they did not have to be recorded.

| Country / Thousands of € |   | Total          |
|--------------------------|---|----------------|
| Spain                    | Export tax credit   | 114,185        |
|                          | Other tax credits   | 1,992          |
| Other countries          | Tax credits due to performance of various activities and others arising from timing differences | 23,749         |
| <b>TOTAL</b>             |   | <b>139,926</b> |

Under Spanish tax legislation, under certain circumstances, the goodwill arising from the acquisition of foreign securities can be amortized for tax purposes. The portion of the goodwill that can be deemed to be tax deductible, within certain limits, is the goodwill that remains after the financial goodwill relating to the foreign securities acquired has been allocated to assets, rights and contingent liabilities. The Company is completing an analysis of the portion of the goodwill that might be deductible as a result of the acquisition of the assets of BellSouth and Telefónica Móvil de Chile, S.A.

Lastly, Telefónica Móviles, S.A. made a negative adjustment of €1,137,243 thousand in its corporate income tax settlement for 2002 as a result of the transfer in 2002 of certain holdings acquired in prior years the market value of which differed from the book value at which they had been recorded (underlying book value) because the Company availed itself of Article 159 of the Corporations Law. No accounting effects arising from this adjustment were taken into account, since tax rulings have been handed down by the tax authorities that differ from the Company's interpretation.

#### 14) REVENUES AND EXPENSES

##### a) *Net sales and services*

The breakdown of the "Net Sales and Services" caption in 2004 and 2003 is as follows:

|              | Thousands of Euros |                  |
|--------------|--------------------|------------------|
|              | 2004               | 2003             |
| Spain        | 6,859,711          | 6,106,989        |
| Brazil       | 1,264,714          | 1,145,190        |
| Argentina    | 356,347            | 238,772          |
| Peru         | 176,330            | 151,379          |
| Mexico       | 727,846            | 540,018          |
| Venezuela    | 215,216            | -                |
| Chile        | 159,596            | -                |
| El Salvador  | 100,569            | 93,314           |
| Colombia     | 94,858             | -                |
| Guatemala    | 87,065             | 66,161           |
| Ecuador      | 43,826             | -                |
| Panama       | 23,957             | -                |
| Nicaragua    | 8,296              | -                |
| Uruguay      | 5,596              | -                |
| Other        | 257,397            | 267,141          |
| <b>Total</b> | <b>10,381,324</b>  | <b>8,608,964</b> |

As indicated in Note 2-b, the consolidated statements of income include the revenues and expenses of the companies from the date on which the related holding was acquired or the company was formed through year-end. Therefore, the revenues relating to the companies acquired from BellSouth relate to two months of operations, and the revenues of Telefónica Móvil de Chile, S.A. relate to five months of operations.

**b) Personnel expenses**

The detail of the “Personnel Expenses” caption in 2004 and 2003 is as follows:

|   | Thousands of Euros |                |
|---|--------------------|----------------|
|   | 2004               | 2003           |
| Wages and salaries                            | 374,227            | 327,843        |
| Contributions to pension and other funds      | 9,752              | 9,809          |
| Employee welfare and other personnel expenses | 155,938            | 148,341        |
| <b>Total</b>                                  | <b>539,917</b>     | <b>485,993</b> |

The average number of employees of the Telefónica Móviles Group in 2004 and 2003 was 13,524 and 12,384, respectively. The breakdown, by professional category, for 2004 and 2003 is as follows:

|                            | Average Number of Employees |               |
|----------------------------|-----------------------------|---------------|
|                            | 2004                        | 2003          |
| Senior management          | 21                          | 17            |
| Executives and supervisors | 1,470                       | 1,359         |
| Other employees            | 12,033                      | 11,008        |
| <b>Total</b>               | <b>13,524</b>               | <b>12,384</b> |

**c) Foreign currency transactions**

In addition to the operating transactions carried out by the fully consolidated companies in the currencies of their respective countries, there are other foreign currency transactions carried out by the Group which relate mainly to the payment of interest and the repayment of loans, the amounts of which are shown in Note 11.

**d) Information by groups of companies**

The share in the income for the year of the companies composing the Group in 2004 and 2003 was as follows:

|   | Thousands of Euros |                  |
|---|--------------------|------------------|
|   | 2004               | 2003             |
| Fully and proportionally consolidated companies | 1,672,142          | 1,688,494        |
| Companies accounted for by the equity method    | (38,232)           | (80,656)         |
| <b>Total</b>                                    | <b>1,633,910</b>   | <b>1,607,838</b> |

The contribution to the Group’s income made by the fully consolidated operators in 2004 and 2003 was as follows:

|   | Thousands of Euros |                  |
|---|--------------------|------------------|
|   | 2004               | 2003             |
| Telefónica Móviles España, S.A.                       | 2,152,117          | 1,856,632        |
| Telefónica Mobile Solutions, S.A.                     | -                  | (229)            |
| Group 3G UMTS Holding GmbH                            | (38,390)           | (44,416)         |
| Brasilcel Group                                       | (54,347)           | (52,057)         |
| TES Holding, S.A. de C.V.                             | (17,653)           | (12,893)         |
| TCG Holdings, S.A.                                    | (15,626)           | (22,071)         |
| Telefónica Móviles Interacciona, S.A.                 | (6,631)            | (22,867)         |
| Telefónica Comunicaciones Personales, S.A.            | (70,935)           | 77,374           |
| 3G Mobile AG  | 573                | (4,055)          |
| 3G Mobile Telecommunications GmbH                     | -                  | (6,068)          |
| Telefónica Móviles, S.A.C.                            | (13,977)           | 14,381           |
| Telefónica Móviles México, S.A. de C.V. Group         | (547,892)          | (414,669)        |
| Telefónica Móvil de Chile, S.A.                       | (1,571)            | -                |
| Mobipay International, S.A.                           | (777)              | -                |
| Telefónica Móviles Puerto Rico, Inc.                  | (45,409)           | -                |
| Telcel Venezuela Group                                | 16,444             | -                |
| Comunicaciones Móviles de Perú, S.A.                  | (2,833)            | -                |
| Olympic Group   | (5,078)            | -                |
| Otecel, S.A.  | (5,394)            | -                |
| Telefonía Celular de Nicaragua, S.A.                  | 660                | -                |
| Abiatar, S.A.   | 229                | -                |
| Telefónica Móviles Panamá, S.A.                       | 4,212              | -                |
| Telefónica Móviles Guatemala y Cía, S.C.A.            | 2,083              | -                |
| Holding companies and other consolidation adjustments | 322,337            | 319,432          |
| <b>Total</b>  | <b>1,672,142</b>   | <b>1,688,494</b> |

The “Holding Companies and other Consolidation Adjustments” caption includes mainly the results of Telefónica Móviles, S.A. and the elimination of the variation in investment valuation allowances and intercompany transactions.

The contribution to the Group’s income by the companies accounted for by the equity method in 2004 and 2003 was as follows:

|                             | Thousands of Euros |                 |
|-----------------------------|--------------------|-----------------|
|                             | 2004               | 2003            |
| Medi Telecom, S.A.          | (13,304)           | (38,335)        |
| Mobipay International, S.A. | (773)              | (2,847)         |
| Mobipay España, S.A.        | (684)              | (765)           |
| Ipse 2000, S.p.A.           | (23,308)           | (38,421)        |
| Other                       | (163)              | (288)           |
| <b>Total</b>                | <b>(38,232)</b>    | <b>(80,656)</b> |

*e) Extraordinary revenues and expenses*

The detail of the extraordinary revenues and expenses in 2004 and 2003 is as follows:

| Expenses  | Thousands of Euros |               |
|---|--------------------|---------------|
|   | 2004               | 2003          |
| - Penalties and fines   | 357                | 1,927         |
| - Period provision for contingencies and expenses                           | 26,732             | -             |
| - Prior years' expenses and losses  | 7,153              | 5,204         |
| - Severance costs, indemnities, etc.  | 6,861              | 12,357        |
| - Absorption of minority interests by Telefónica Móviles Interacciona, S.A. | -                  | 10,539        |
| - Insurance claims  | 36                 | 48            |
| - Period provision for long-term loans and other receivables (see Note 7)   | 59,828             | -             |
| - Tax contingencies   | 13,696             | -             |
| - Other extraordinary expenses  | 6,496              | 2,421         |
| <b>Total</b>  | <b>121,159</b>     | <b>32,496</b> |

| Revenues   | Thousands of Euros |               |
|--|--------------------|---------------|
|  | 2004               | 2003          |
| - Recovery of insurance premiums                       | 18                 | 2,487         |
| - Revenues due to halting of UMTS operations in Europe | -                  | 2,468         |
| - Other extraordinary and prior years' revenues        | 2,116              | 4,902         |
| - Loans forgiven                                       | -                  | 5,375         |
| - Taxes recovered                                      | 14,358             | 14,675        |
| - Uncollectible accounts recovered                     | 1,658              | 1,829         |
| - Other  | 17,187             | 5,819         |
| <b>Total</b>   | <b>35,337</b>      | <b>37,555</b> |

## 15) ADDITIONAL DISCLOSURES

### a) *Guarantees*

The most significant guarantees provided as of December 31, 2004, were as follows:

- On April 5 and 10, 2000, as a result of the final guarantee required for the award of the UMTS license, Telefónica Móviles España, S.A. provided guarantees totaling €1,100 million to the Ministry of Development. Telefónica Móviles España, S.A. initiated negotiations with the Ministry of Development with a view to changing the existing system of guarantees. This process was completed through an Official Notice issued by the Secretary of State for Telecommunications and for the Information Society on July 28, 2003, as a result of which the guarantees in force at that date that were securing the commitments assumed under the UMTS license were returned to Telefónica Móviles España, S.A., after the latter had arranged, in the same month, a guarantee of €67.5 million with the Government Depository to secure compliance with the UMTS service commitments prior to launch of the UMTS and the commitments of the first year from the date of commercial launch, in accordance with the new system of guarantees. In September 2003 Telefónica Móviles España, S.A. cancelled the returned guarantees at the respective banks.

On June 23, 2004, the Ministry of Industry, Tourism and Commerce issued an order authorizing the change in the commitments assumed by Telefónica Móviles España, S.A. in connection with the operation of the third-generation wireless telecommunications (UMTS) service. Under this Order, the requests filed by Telefónica Móviles España, S.A. in this respect were upheld, compliance with certain commitments was reinterpreted and other commitments were eliminated for the benefit of the public interest.

As a result of this change, the amount to be guaranteed by Telefónica Móviles España, S.A. as a performance bond for the commitments assumed prior to the launch of the UMTS service and in the first year of service was reduced to €57.5 million. The guarantee therefore amounted to €57.5 million as of December 31, 2004.

- Telefónica Móviles España, S.A., as a stockholder of Medi Telecom, signed a “Stockholders’ Support Agreement” together with Portugal Telecom, SGPS, S.A. and the BMCE Group. This commitment requires the signatories to jointly and severally provide financial assistance to Medi Telecom, S.A. of up to €10 million in the event of noncompliance with financial clauses and of up to €50 million in the event of a shortfall in funds at Medi Telecom, S.A. that prevented it from meeting its debt servicing obligations. If Medi Telecom, S.A. obtains given levels of operating income before depreciation and amortization during a certain period of time and if it fulfills all its obligations under the loan agreement, this financial commitment will be automatically cancelled. As a result of loans, capital increases subscribed, inter alia, by Telefónica Móviles España, S.A. and new commitments, the outstanding amounts in this connection as of December 31, 2004, totaled €18.3 million and €50 million, respectively.
- On December 23, 2003, Telefónica Móviles, S.A. arranged a counterguarantee for Telefónica, S.A. for the obligation of Newcomm Wireless Services, Inc. (Puerto Rico), regarding a bridge loan of US\$ 61 million granted by ABN AMRO which matures on June 30, 2005. These guarantees are deemed to be recoverable on the basis of the company’s business plan and of their seniority for credit ranking purposes with respect to capital stock.
- The Group has granted a bank guarantee to Mobilkom Austria Aktiengesellschaft & Co KG (Mobilkom) to cover possible contingencies relating to the sale in December 2003 of 3G Mobile Telecommunications GmbH for a maximum amount of €1,650 thousand and for a maximum period of validity of two years.
- At 2000 year-end Ipse 2000, S.p.A. acquired a UMTS license for €3,269 million. In accordance with the license terms and conditions, approximately 40% of the amount agreed on will be paid by this company in ten annual installments through 2010.
- On December 27, 2002, Telefónica Móviles, S.A. arranged a counterguarantee for Telefónica, S.A., which in turn was counterguaranteed by Telefónica Móviles España, S.A., whereby, under certain terms and conditions, Telefónica Móviles, S.A. undertakes Telefónica, S.A. to pay for 91.79% of the amounts to be paid by the latter, by law or as a result of a contract or a court order, in connection with the guarantee that Telefónica, S.A. (jointly with other strategic partners of Ipse 2000, S.p.A.) provided to certain banks, which in turn provided a bank guarantee for the Italian authorities as security for the deferred payment for the UMTS license. Payment of the deferred amount for the base license (€16,010 thousand) had been completed as of November 30, 2004. In order to avoid execution of the guarantee by the Italian government and subject to the resolution of the litigation in progress, in addition to and together with the payment of the base license price, Ipse 2000, S.p.A. paid €104,324 thousand as part of the installment outstanding in connection with the deferred payment of the additional 5 MHz of spectrum which was granted to Ipse 2000, S.p.A. by the Italian government for a total amount of €26,331 thousand. This additional 5 MHz of spectrum was returned by Ipse 2000, S.p.A. There is currently a dispute between this company and the Italian government in connection with the validity of this return.
- On October 25, 2000, Ipse 2000, S.p.A. signed an agreement with Ferrovie dello Stato, S.p.A., an Italian railroad company, whereby Ipse 2000, S.p.A. was granted certain access and usage rights on certain specific sites owned by the railroad company. Telefónica, S.A. provided a guarantee of up to €48.2 million to secure the amounts owed under this

agreement. On November 28, 2003, Ipse 2000, S.p.A. gave notice of its decision to terminate the agreement with Ferrovie dello Stato, S.p.A. on the grounds that the agreement was a lease agreement subject to unilateral termination in the event of exceptional circumstances. Since Ferrovie dello Stato, S.p.A. rejected this stance, on July 6, 2004, arbitration proceedings were initiated to resolve the dispute as stipulated in the agreement.

- On October 28, 2004, Telefónica Móviles, S.A. provided counterguarantees to Telefónica, S.A. for the following obligations guaranteed by Telefónica, S.A.:
  - a) Bridge loans of US\$ 273,934 thousand arranged by BellSouth Colombia, S.A. (now Telefónica Móviles Colombia, S.A.) with Santander Overseas Bank, Inc. and of US\$ 23,500 thousand with Santander Colombia, S.A. (both of which are Santander Group companies), maturing in both cases on October 28, 2005.
  - b) Syndicated loan of US\$ 200 million of BellSouth Perú, S.A. (now Comunicaciones Móviles del Perú, S.A.) maturing on February 25, 2005.

Group management considers that the probability of additional liabilities for which provisions have not been recorded arising from the guarantees provided is remote.

**b) *Litigation***

Telefónica Móviles, S.A. and its Group companies are involved in various lawsuits relating to civil, labor, administrative, tax and antitrust law, none of which, taken individually, is significant. The Company considers that it may be reasonably concluded that any adverse outcome of these lawsuits would not have a material effect on the economic and financial position or the solvency of the Group.

**c) *Alliances***

In July 2003 Telefónica Móviles, T-Mobile International, Telecom Italia Mobile (TIM) and Orange entered into a cooperation agreement for the establishment of a strategic alliance in the wireless telephony industry in order to offer their customers in the countries in which they operate more advanced common products and services, thereby strengthening the partners' ability to compete in international markets. This alliance was formalized in December 2003 through the formation of a legal entity (Association) in the Netherlands under the business name (and common trade name) "Freemove".

In February 2003 Telefónica Móviles, Orange, T-Mobile and Vodafone entered into an agreement for the creation of a wireless telephone payment services association, which has been operating under the Simpays brand name since June 2003. The aim of this association is to promote the use of m-commerce among consumers, content suppliers, commercial establishments and banks by creating a wireless telephone payment solution that is open, interoperable and under a common brand name.

**d) *Environmental matters***

The Telefónica Móviles Group, through its investees, and in line with its environmental policy, has been undertaking various activities and projects relating to environmental matters. In 2003 and 2004 it incurred expenses and made investments for scanty significant amounts, which were recorded in the consolidated statements of income and consolidated balance sheets, respectively.

As regards the systems currently in place at the various Group companies aimed at reducing the environmental impact of their facilities, several prevention systems were implemented, and the cost of these items was included in the cost of the facilities in which they are housed.

As regards possible environmental contingencies, there are sufficient internal control mechanisms which are periodically supervised, either in-house or by prestigious outside firms. No significant contingencies have been disclosed in this connection.

**e) Fees paid to auditors**

The fees paid in 2004 and 2003 to the various member firms of the Deloitte & Touche international organization, to which Deloitte & Touche España, S.L., the auditors of the Telefónica Móviles Group, belongs, amounted to €3,839 thousand and €2,947 thousand, respectively.

The detail of the foregoing amount is as follows:

|   | Thousands of Euros |              |
|---|--------------------|--------------|
|   | 2004               | 2003         |
| Audit of financial statements                   | 2,279              | 1,707        |
| Other audit services                            | 1,325              | 1,012        |
| Work additional to or other than audit services | 235                | 228          |
| <b>TOTAL</b>                                    | <b>3,839</b>       | <b>2,947</b> |

The fees paid to other auditors in 2004 and 2003 amounted to €4,778 thousand and €765 thousand, respectively, the detail being as follows:

|   | Thousands of Euros |            |
|---|--------------------|------------|
|   | 2004               | 2003       |
| Audit of financial statements                   | 227                | 106        |
| Other audit services                            | -                  | 145        |
| Work additional to or other than audit services | 4,551              | 514        |
| <b>TOTAL</b>                                    | <b>4,778</b>       | <b>765</b> |

These fees include the amounts paid to the auditors of the fully and proportionally consolidated Spanish and foreign Telefónica Móviles Group companies. In this connection, the amounts paid in 2004 and 2003 include €606 and €917 thousand relating to 50% of the fees of the proportionally consolidated companies (Deloitte Touche Tohmatsu €606 and €703 thousand in 2004 and 2003, respectively; and other auditors €) and €214 thousand in 2004 and 2003, respectively).

**f) International Financial Reporting Standards (IFRS)**

Under Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of July 19, 2002, all companies governed by the law of an EU Member State and whose securities are admitted to trading on a regulated market of any Member State must prepare their consolidated financial statements for the years beginning on or after January 1, 2005, in conformity with the International Financial Reporting Standards (IFRS) previously adopted by the European Union. In conformity with this Regulation, the Group will have to present its consolidated financial statements for 2005 in accordance with the IFRS adopted by the European Union.

Under IFRS 1, First-Time Adoption of International Financial Reporting Standards, although the first consolidated financial statements prepared in accordance with IFRS will, in the case of the Group, be those for the year ending December 31, 2005, it will be necessary to include, for comparison purposes, the figures for the preceding year (2004) prepared on a basis consistent with that used to calculate the figures for 2005. Accordingly, an opening balance sheet will have to be prepared as of the date of transition to IFRS accounting methods (January 1, 2004, in the case of the Group), also in accordance with the IFRS in force as of December 31, 2005.

In order to meet the obligation imposed by Regulation (EC) no. 1606/2002, the Group has established a plan for the transition to IFRS that includes, inter alia, the following steps:

1. Analysis of the differences between the methods provided for in the National Chart of Accounts in force in Spain and IFRS.
2. Selection of the methods to be used in cases or areas in which IFRS permit alternative accounting treatments to be applied.
3. Assessment and determination of the appropriate changes to or adaptations of the operating procedures and systems used for compiling and providing the information required in order to prepare the consolidated financial statements.
4. Preparation of the opening consolidated financial statements, as of the transition date, in accordance with IFRS.

The Group started to implement the plan for the transition to IFRS in 2003 and the stage of completion is currently as planned for the adaptation to be completed in 2005.

## **16) DIRECTORS' COMPENSATION AND OTHER BENEFITS**

### ***a) Directors' compensation and other benefits***

The compensation of Telefónica Móviles, S.A.'s directors is governed by Article 20 of the Company's bylaws, which states that the amount of the compensation to be paid by the Company to its directors shall be that determined by the Stockholders' Meeting for this purpose and this amount shall remain unchanged until the Stockholders' Meeting resolves to change it. The Board of Directors is responsible for setting the exact amount to be paid within the stipulated limits and for distributing it among the directors.

In this connection, on April 1, 2003, the Stockholders' Meeting set the maximum gross annual amount to be paid to the Board of Directors at €2 million, which includes a fixed payment and attendance fees for attending the Board of Directors advisory committee or control committee meetings. Subsequently, on April 29, 2003, the Board of Directors resolved, pursuant to the bylaws, that the exact amount to be paid would be the same as that established when the Company was incorporated in 2002 and that it should be shared out among the directors in the same way.

Also, in 2004 the Appointments and Compensation Committee reviewed, in accordance with Article 25.b) 5) of the Rules of the Board of Directors, the compensation system for the Company's directors, which had not been revised since the Company was incorporated (2000), except as regards the fees for attending the Board of Directors Committee meetings -submitted a proposal to the Board of Directors to change the compensation system-. On October 26, 2004, the Board of Directors resolved to revise the fixed annual amount to be paid as compensation to the members of the Board of Directors and the amount of the fees for attending the meetings of the Board Committees, and to establish a fixed annual amount to be paid as compensation to the

members of these Board Committees; all within the maximum limit set by the Stockholders' Meeting on April 1, 2003.

Therefore, the compensation of the directors of Telefónica Móviles in their capacity as members of the Board of Directors and of the advisory and control committees consists of a fixed amount payable monthly and fees for attending the meetings of the Board Committees. Additionally, executive directors receive the related amounts for discharging their executive duties as stipulated in their respective contracts.

2004

In 2004 the directors of Telefónica Móviles earned €1,593,778.17 for discharging their duties as such, the detail being as follows: €1,473,031.67 of fixed monthly payments, including the compensation earned as members of the Boards of Directors of other Telefónica Móviles companies, and €20,746.5 of attendance fees for attending the Board of Directors Committee meetings. Also, certain directors received a total of €32,198.6 for advisory services provided to the Company.

Also, the Executive Director, as a Company executive, received €1,299,422.76 of salary plus variable compensation; €60,210.56 of compensation in kind, including life and health insurance premiums and housing contributions; and €8,000 of contributions paid by the Company, as sponsor, to pension plans.

The breakdown of the compensation and benefits received by the directors in 2004 is as follows:

**A) Board of Directors:** annual amount of the fixed payment received by each director (in euros):

| Position   | 2004   |
|--|--------|
| Chairman   | 97,614 |
| Directors, nominee directors and independent directors | 97,614 |
| Secretary  | 97614  |

The directors do not receive any fees for attending Board of Directors' meetings.

**B) Board Committees**

a) Fixed amount received by each director who is a member of any of the Board Committees, based on the position held, for October, November and December 2004 (in euros):

| Position                | 2004  |
|-------------------------|-------|
| Chairman <sup>(1)</sup> | 5,000 |
| Directors               | 2,500 |

(1) The Chairman of the Standing Committee does not receive a fixed amount.

Total amounts paid in 2004 for attending the Board Committee meetings received by the directors who are members thereof taken as a whole (in euros):

| Committees                              | 2004   |
|---|--|
| Audit and Control Committee             | Attendance fee per meeting (through 09/30/04): 1,352.28<br>Attendance fee per meeting (from 10/01/04): 1,250.00<br>Number of meetings paid: 12<br>Total received: 39,852.4 |
| Appointments and Compensation Committee | Attendance fee per meeting (through 09/30/04): 901.51<br>Attendance fee per meeting (from 10/01/04): 1,250.00<br>Number of meetings paid: 10<br>Total received: 50,242.5   |
| Standing Committee                      | Attendance fee per meeting (through 09/30/04): 901.51<br>Attendance fee per meeting (from 10/01/04): 1,250.00<br>Number of meetings paid: 5<br>Total received: 30,651.6    |

C) **Executive directors** : total amounts received by the Executive Directors for discharging their executive duties, for the items indicated below:

|                                     | Euros      |
|-------------------------------------|------------|
| Salaries                            | 698,410.76 |
| Variable compensation               | 601,012.00 |
| Compensation in kind <sup>(1)</sup> | 60,210.56  |
| Contributions to pension plans      | 8,000.00   |

(1) Including health and life insurance premiums and housing contributions.

The Executive Directors, as executives of the Móviles Group, are beneficiaries of the “MOS Program” options plan described in Note 18.

Additionally, it should be noted that the nonexecutive directors do not receive and did not receive in 2004 any compensation in the form of pensions or life insurance, and they do not participate in the compensation plans linked to share market price.

The Company does not grant and did not grant in 2004 any advances, bans or credits to the directors, or to its top executives, thus complying with the requirements of the Sarbanes-Oxley Act passed in the U.S. which is applicable to Telefónica as a listed company in that market.

## 2003

In 2003 the Directors of Telefónica Móviles received compensation totaling €2,446 thousand, which included €1,294 thousand relating to the fixed allocation, including compensation for serving on the Boards of Directors of other companies of the Telefónica Móviles Group; €79 thousand of fees for attending meetings of the Board Committees; €127 thousand for advisory services provided by certain directors; €875 thousand relating to the executive directors’ salaries and variable compensation; €63 thousand of compensation in kind paid to the executive directors, which included life and health insurance premiums and housing contributions; and €8 thousand of pension plan contributions made by the Company, as the promoter, for the executive directors.

The compensation and benefits received by the Directors in 2003 were as follows:

A) **Board of Directors** : Fixed allocation received by each director in 2003.

| POSITION   | Thousands of Euros |
|--|--------------------|
| Chairman   | 90                 |
| Directors, nominee directors and independent directors | 90                 |
| Secretary  | 90                 |

The Directors do not receive fees of any kind for attending the Board meetings.

**B) Other Committees of the Board of Directors:** total fees received by the directors as a whole for attending the Advisory and Standing Committee meetings:

| COMMITTEES                                 |  | Thousands of Euros |
|--|--|--------------------|
| Audit and Control Committee <sup>(1)</sup> | Fees per meeting: €1,352.28<br>Number of meetings: 9 | 31                 |
| Appointments and Compensation Committee    | Fees per meeting: €01.51<br>Number of meetings: 9    | 28                 |
| Standing Committee                         | Fees per meeting: €01.51<br>Number of meetings: 3    | 20                 |

<sup>(1)</sup> Although 10 meetings were held, the fees for the last meeting in December 2002 are included. The fees received by the Audit and Control Committee members were established on the basis of the large volume of work and specific duties of these members.

**C) Executive Directors:** total amounts received by the Executive Directors in the following connection:

|                                     | Thousands of Euros |
|-------------------------------------|--------------------|
| Salaries                            | 634                |
| Variable remuneration               | 241                |
| Compensation in kind <sup>(1)</sup> | 63                 |
| Contributions to pension plans      | 8                  |

<sup>(1)</sup> Including health and life insurance and housing contributions.

The Executive Directors, as executives of Grupo Móviles, S.A., are beneficiaries of the “MOS Program” options plan described in Note 18.

**a) Detail of holdings in companies with similar activities and performance of similar activities by the Directors for their on account or for the account of others**

Pursuant to Article 127 ter.4 of the Spanish Corporations Law, introduced by Law 26/2003, July 17, which amends Securities Market Law 24/1988, July 28, and the revised Spanish Corporations Law, in order to reinforce the transparency of listed corporations, following is a detail of the companies engaging in an activity that is identical, similar or complementary to the activity that constitutes the corporate purpose of Telefónica Móviles, S.A. in which the members of the Board of Directors own equity interests, and of the functions, if any, that they discharge thereat.

| <b>Stockholder</b>                 | <b>Investee</b>                        | <b>Percentage of Ownership</b> | <b>Line of Business</b>  | <b>Function Discharged or Position Held</b> |
|------------------------------------|--|--------------------------------|--|---|
| Antonio Viana Baptista             | Telefónica, S.A.                       | < 0.01%                        | Telecommunications   | Director                                    |
| Antonio Viana Baptista             | Portugal Telecom., SGPS.               | < 0.01%                        | Telecommunications   | Director                                    |
| Antonio Viana Baptista             | PT Multimedia                          | < 0.01%                        | Internet   | None  |
| José María Álvarez-Pallete         | Telefónica, S.A.                       | < 0.01%                        | Telecommunications   | Member of Management Committee              |
| Maximino Carpio García             | Telefónica, S.A.                       | < 0.01%                        | Telecommunications   | Director                                    |
| José María Más Millet              | Telefónica, S.A.                       | < 0.01%                        | Telecommunications   | None  |
| Javier Echenique Landiribar        | Telefónica, S.A.                       | < 0.01%                        | Telecommunications   | None  |
| Luis Lada Díaz                     | Telefónica, S.A.                       | < 0.01%                        | Telecommunications   | Director                                    |
| Luis Lada Díaz                     | Sogetel, S.A.                          | < 0.01%                        | Television, telecommunications and audiovisual production services | Director                                    |
| Fernando de Almansa Moreno-Barreda | Telefónica, S.A.                       | < 0.01%                        | Telecommunications   | Director                                    |
| Fernando de Almansa Moreno-Barreda | Lucent Technologies                    | < 0.01%                        | Telecommunications   | None  |
| Antonio Massanell Lavilla          | Telefónica, S.A.                       | < 0.01%                        | Telecommunications   | Director                                    |
| Alejandro Burillo Azcárraga        | PanAmsat, S.R.L. de C.V.               | 51%                            | Provision de satellite Capacity                                    | None  |
| Alejandro Burillo Azcárraga        | Grupo Wcom, S.A. de C.V.               | 99%                            | Value added satellite services                                     | None  |
| Alejandro Burillo Azcárraga        | Televisión Internacional, S.A. de C.V. | 11.7%                          | Cable, Internet and telephone signal routing services              | None  |

Additionally, in accordance with the aforementioned Article, following is a detail of the activities carried on by the directors, as independent professionals or as employees, that are identical, similar or complementary to the activity that constitutes the corporate purpose of Telefónica Móviles, S.A.:

| <b>Name</b>                        | <b>Activity Performed</b>  | <b>Arrangement under which Activity Is Performed</b> | <b>Company through which Activity is Performed</b>            | <b>Position Held or Functions Discharged at Company through which Service is Provided</b> |
|------------------------------------|--|--|---|---|
| Antonio Viana Baptista             | Telecommunications   | Employee   | Telefónica, S.A.  | Director  |
| Antonio Viana Baptista             | Wireline telecommunications  | Employee   | Telefónica  | Director  |
| Antonio Viana Baptista             | Wireless telecommunications  | Employee   | Telefónica Internacional, S.A.                                | Director  |
| Antonio Viana Baptista             | Wireline telecommunications  | Employee   | Telefónica Móviles España, S.A.                               | Director  |
| Antonio Viana Baptista             | Wireless telecommunications  | Employee   | Telefónica de Argentina, S.A.                                 | Director  |
| Antonio Viana Baptista             | Telecommunications   | Employee   | Brasilcel, N.V.   | Director  |
| Antonio Viana Baptista             | Telecommunications   | Employee   | Portugal Telecom., SGPS                                       | Director  |
| José María Álvarez-Pallete         | Telecommunications   | Employee   | Telefónica, S.A.  | Member of Management Committee  |
| José María Álvarez-Pallete         | Wireline telecommunications  | Employee   | Telefónica Internacional, S.A.                                | Executive Chairman  |
| José María Álvarez-Pallete         | Data telecommunications  | Employee   | Telefónica Datacorp, S.A.                                     | Director  |
| José María Álvarez-Pallete         | Wireline telecommunications  | Employee   | Telefónica de España, S.A.                                    | Director  |
| José María Álvarez-Pallete         | Wireless telecommunications  | Employee   | Telefónica Móviles España, S.A.                               | Director  |
| José María Álvarez-Pallete         | Wireline telecommunications  | Employee   | Telefónica de Argentina, S.A.                                 | Director  |
| José María Álvarez-Pallete         | Wireline telecommunications  | Employee   | Telecomunicações de Sao Paulo, S.A.                           | Director  |
| José María Álvarez-Pallete         | Wireline telecommunications  | Employee   | Compañía de Telecomunicaciones de Chile, S.A.                 | Director  |
| José María Álvarez-Pallete         | Telecommunications   | Employee   | Compañía de Teléfonos de Chile Transmisiones Regionales, S.A. | Director  |
| José María Álvarez-Pallete         | Wireline telecommunications  | Employee   | Telefónica del Perú, S.A.                                     | Director  |
| José María Álvarez-Pallete         | Telecommunications   | Employee   | Telefónica Larga Distancia, Inc.                              | Director  |
| José María Álvarez-Pallete         | Telecommunications   | Employee   | Compañía Internacional de Telecomunicaciones, S.A.            | Director  |
| José María Álvarez-Pallete         | Telecommunications   | Employee   | Telefónica Internacional Chile, S.A.                          | Director  |
| José María Álvarez-Pallete         | Telecommunications   | Employee   | Telefónica Publicidad e Información, S.A.                     | Representative of Telefónica de España  |
| Maximino Carpio García             | Telecommunications   | Employee   | Telefónica, S.A.  | Director  |
| Maximino Carpio García             | Supplier of telecommunications equipment                           | Employee   | Abengoa, S.A.   | Member of the Advisory Committee  |
| Fernando de Almansa Moreno-Barreda | Telecommunications   | Employee   | Telefónica, S.A.  | Director  |
| Fernando de Almansa Moreno-Barreda | Wireline telecommunications  | Employee   | Telefónica de Argentina, S.A.                                 | Director  |
| Fernando de Almansa Moreno-Barreda | Wireline telecommunications  | Employee   | Telecomunicações de Sao Paulo, S.A.                           | Director  |
| Fernando de Almansa Moreno-Barreda | Wireline telecommunications  | Employee   | Telefónica del Perú, S.A.                                     | Director  |
| Luis Lada Díaz                     | Telecommunications   | Employee   | Telefónica, S.A.  | Director  |
| Luis Lada Díaz                     | Television, telecommunications and audiovisual production services | Employee   | Sogetel, S.A.   | Director  |
| Luis Lada Díaz                     | Wireline telecommunications  | Employee   | Telefónica Internacional, S.A.                                | Director  |

| <b>Name</b>                 | <b>Activity Performed</b>   | <b>Arrangement under which Activity Is Performed</b> | <b>Company through which Activity is Performed</b> | <b>Position Held or Functions Discharged at Company through which Service is Provided</b> |
|-----------------------------|-----------------------------|--|--|---|
| Luis Lada Díaz              | Wireless telecommunications | Employee   | SudesteCel Participações, S.A.                     | Director  |
| Javier Echenique Landiribar | Wireless telecommunications | Employee   | Telefónica Móviles México, S.A.                    | Director  |
| Antonio Masanell Lavilla    | Telecommunications          | Employee   | Telefónica, S.A.                                   | Director  |
| José María Más Millet       | Wireless telecommunications | Employee   | TELCEL, S.A.                                       | Director  |
| Lars M. Berg                | Wireless telecommunications | Employee   | TELCEL, S.A.                                       | Director  |
| Lars M. Berg                | Wireless telecommunications | Employee   | Telefónica Móviles Colombia, S.A.                  | Director  |
| Alfonso Merry del Val       | Internet                    | Employee   | Terra Networks, S.A.                               | Director  |
| Fernando Xavier Ferreira    | Wireless telecommunications | Employee   | Brasilcel, N.V.                                    | Director  |

| <b>Name</b>              | <b>Activity Performed</b>       | <b>Arrangement under which Activity Is Performed</b> | <b>Company through which Activity is Performed</b>             | <b>Position Held or Functions Discharged at Company through which Service is Provided</b> |
|--------------------------|---------------------------------|--|--|---|
| Fernando Xavier Ferreira | Wireless communications         | Employee   | Tele Sudeste Celular Participações, S.A.                       | Director  |
| Fernando Xavier Ferreira | Wireless communications         | Employee   | Tele Leste Celular Participações, S.A.                         | Director  |
| Fernando Xavier Ferreira | Wireless communications         | Employee   | Telesp Celular, S.A.   | Director  |
| Fernando Xavier Ferreira | Wireless communications         | Employee   | Celular CRT Participações, S.A.                                | Director  |
| Fernando Xavier Ferreira | Wireless communications         | Employee   | Tele Centro Oeste Celular Participações, S.A.                  | Director  |
| Fernando Xavier Ferreira | Wireline telecommunications     | Employee   | SP Telecomunicações Holding, Ltda.                             | Director  |
| Fernando Xavier Ferreira | Wireline telecommunications     | Employee   | Telecomunicações de Sao Paolo, S.A.                            | Director  |
| Fernando Xavier Ferreira | Wireless communications         | Employee   | Telefónica Internacional, S.A.                                 | Director  |
| Fernando Xavier Ferreira | Underwater cable                | Employee   | Aliança Atlântica, B.V.  | Director  |
| Fernando Xavier Ferreira | Underwater cable                | Employee   | Emergia Participações, Ltda.                                   | General Manager   |
| Fernando Xavier Ferreira | On-line trading, e-transactions | Employee   | Mercador, S.A.   | Director  |
| Fernando Xavier Ferreira | Factoring                       | Employee   | Telefónica Factoring do Brasil, S.A.                           | Director  |
| Fernando Xavier Ferreira | Business management services    | Employee   | Telefónica Gestao de Servicos Compartilhados do Brasil, Ltda.. | Chairman of Control Committee   |
| Fernando Xavier Ferreira | Foundation                      | Employee   | Fundación Telefónica   | Chairman of the Board   |
| Fernando Xavier Ferreira | Development of new technologies | Employee   | Telefónica Pesquisas e Desenvolvimento do Brasil, Ltda         | Chairman of the Board   |
| Fernando Xavier Ferreira | Data telecommunications         | Employee   | Telefónica Data Brasil Holding, S.A.                           | Director  |

## 17) FINANCIAL DERIVATIVES

The Company uses derivatives to hedge interest rate and exchange risks on unhedged positions and to adapt its debt structure to market conditions.

## Móviles

As of December 31, 2004 and 2003, the total outstanding balance of derivatives transactions arranged to hedge on-balance-sheet exposure to fluctuations in interest and exchange rates amounted to €7,243 million and €5,593 million, respectively. Of these amounts, €1,955 million related to interest rate risk and €5,288 million to exchange risk as of December 31, 2004, and €729 million related to interest rate risk and €2,864 million to exchange risk as of December 31, 2003.

The detail, by type and maturity, of the Group's derivatives portfolio as of December 31, 2003, is as follows:

| Type of Risk                         | Amounts in Millions      |            |          |                |          |
|--------------------------------------|--------------------------|------------|----------|----------------|----------|
|                                      | Equivalent<br>Euro Value | Group Pays |          | Group Receives |          |
|                                      |                          | Value      | Currency | Value          | Currency |
| <b>Euro interest rate swaps:</b>     | <b>525</b>               |            |          |                |          |
| From floating to fixed               | 340                      | 340        | EUR      | 340            | EUR      |
| From fixed to floating               | 185                      | 185        | EUR      | 185            | EUR      |
| <b>Currency interest rate swaps:</b> | <b>204</b>               |            |          |                |          |
| From floating to fixed               |                          |            |          |                |          |
| MXN/MXN                              | 204                      | 2,900      | MXN      | 2,900          | MXN      |
| <b>Currency swaps:</b>               | <b>2,535</b>             |            |          |                |          |
| <b>- floating to fixed</b>           | <b>196</b>               |            |          |                |          |
| EUR/BRL                              | 97                       | 288        | BRL      | 97             | EUR      |
| EUR/MAD                              | 34                       | 349        | MAD      | 34             | EUR      |
| USD/PEN                              | 36                       | 159        | PEN      | 45             | USD      |
| USD/MXN                              | 29                       | 372        | MXN      | 36             | USD      |
| <b>- floating to floating</b>        | <b>1,237</b>             |            |          |                |          |
| EUR/USD                              | 243                      | 298        | USD      | 243            | EUR      |
| USD/EUR                              | 660                      | 871        | EUR      | 834            | USD      |
| USD/MXN                              | 334                      | 4,261      | MXN      | 422            | USD      |
| <b>- fixed to floating</b>           | <b>1,102</b>             |            |          |                |          |
| USD/EUR                              | 168                      | 183        | EUR      | 212            | USD      |
| USD/BRL                              | 673                      | 1,941      | BRL      | 849            | USD      |
| JPY/BRL                              | 42                       | 152        | BRL      | 5,682          | JPY      |
| EUR/BRL                              | 219                      | 541        | BRL      | 219            | EUR      |
| <b>Exchange rate options</b>         | <b>329</b>               |            |          |                |          |
| <b>- bought</b>                      | <b>237</b>               |            |          |                |          |
| MXN/EUR                              | 237                      | 243        | EUR      | 3,365          | MXN      |
| <b>- sold</b>                        | <b>92</b>                |            |          |                |          |
| BRL/USD                              | 92                       | 150        | USD      | 338            | BRL      |
| <b>Total at 12/31/03</b>             | <b>3,593</b>             |            |          |                |          |

| Type of Transaction                         | Millions of Euros |              |              |              |              |
|---|-------------------|--------------|--------------|--------------|--------------|
|   | Amount            | Up to 1 Year | 1 to 3 Years | 3 to 5 Years | Over 5 Years |
| <b>With underlying asset (loans):</b>       | <b>3,193</b>      | <b>844</b>   | <b>1,507</b> | <b>797</b>   | <b>45</b>    |
| In euros                                    | 1,306             | 123          | 540          | 608          | 35           |
| In foreign currencies                       | 1,887             | 721          | 967          | 189          | 10           |
| <b>Without underlying asset (liability)</b> | <b>400</b>        | <b>396</b>   | <b>4</b>     | <b>-</b>     | <b>-</b>     |
| Exchange rate options                       | 330               | 330          | -            | -            | -            |
| Currency swaps                              | 70                | 66           | 4            | -            | -            |
| <b>Total at 12/31/03</b>                    | <b>3,593</b>      | <b>1,240</b> | <b>1,511</b> | <b>797</b>   | <b>45</b>    |

The detail, by type and maturity, of the Group's derivatives portfolio as of December 31, 2004, is as follows:

| Type of Risk                         | Amounts in Millions      |            |          |                |          |
|--------------------------------------|--------------------------|------------|----------|----------------|----------|
|                                      | Equivalent<br>Euro Value | Group Pays |          | Group Receives |          |
|                                      |                          | Value      | Currency | Value          | Currency |
| <b>Euro interest rate swaps:</b>     | <b>684</b>               |            |          |                |          |
| Fixed to floating                    | 185                      | 185        | EUR      | 185            | EUR      |
| Floating to fixed                    | 499                      | 499        | EUR      | 499            | EUR      |
| <b>Currency interest rate swaps:</b> | <b>718</b>               |            |          |                |          |
| Floating to fixed in MXN             | 187                      | 2,871      | MXN      | 2,871          | MXN      |
| Floating to fixed in BRL             | 443                      | 1,601      | BRL      | 1,601          | BRL      |
| Floating to fixed in USD             | 88                       | 120        | USD      | 120            | USD      |
| <b>Currency swaps:</b>               | <b>2,878</b>             |            |          |                |          |
| <b>- floating to fixed</b>           | <b>671</b>               |            |          |                |          |
| EUR/BRL                              | 97                       | 288        | BRL      | 97             | EUR      |
| USD/ARS                              | 59                       | 233        | ARS      | 80             | USD      |
| EUR/MAD                              | 34                       | 349        | MAD      | 34             | EUR      |
| EUR/CLP                              | 242                      | 183,405    | CLP      | 242            | EUR      |
| USD/PEN                              | 99                       | 464        | PEN      | 135            | USD      |
| USD/COP                              | 115                      | 392,124    | COP      | 156            | USD      |
| USD/MXN                              | 25                       | 348        | MXN      | 34             | USD      |
| <b>- fixed to floating</b>           | <b>1,110</b>             |            |          |                |          |
| USD/EUR                              | 85                       | 126        | EUR      | 116            | USD      |
| USD/BRL                              | 951                      | 3,208      | BRL      | 1,296          | USD      |
| EUR/BRL                              | 25                       | 93         | BRL      | 25             | EUR      |
| JPY/BRL                              | 49                       | 180        | BRL      | 6,827          | JPY      |
| <b>- floating to floating</b>        | <b>1,167</b>             |            |          |                |          |
| EUR/USD                              | 251                      | 308        | USD      | 251            | EUR      |
| USD/EUR                              | 580                      | 791        | EUR      | 790            | USD      |
| USD/MXN                              | 305                      | 4,200      | MXN      | 416            | USD      |
| EUR/CLP                              | 31                       | 22,863     | CLP      | 31             | EUR      |
| <b>Exchange rate options</b>         | <b>962</b>               |            |          |                |          |
| <b>- bought</b>                      | <b>657</b>               |            |          |                |          |
| EUR/USD                              | 657                      | 880        | USD      | 657            | EUR      |
| <b>- sold</b>                        | <b>305</b>               |            |          |                |          |
| EUR/USD                              | 305                      | 290        | EUR      | 415            | USD      |
| <b>Interest rate options</b>         | <b>553</b>               |            |          |                |          |
| <b>- bought</b>                      | <b>184</b>               |            |          |                |          |
| USD                                  | 184                      | 251        | USD      | 251            | USD      |
| <b>- sold</b>                        | <b>369</b>               |            |          |                |          |
| USD                                  | 369                      | 502        | USD      | 502            | USD      |
| <b>Currency forwards</b>             | <b>1,378</b>             |            |          |                |          |
| EUR/USD                              | 220                      | 267        | USD      | 220            | EUR      |
| USD/EUR                              | 749                      | 782        | EUR      | 1,020          | USD      |
| USD/ARS                              | 15                       | 60         | ARS      | 20             | USD      |
| USD/CLP                              | 233                      | 197,508    | CLP      | 317            | USD      |
| USD/COP                              | 95                       | 344,580    | COP      | 130            | USD      |
| USD/PEN                              | 48                       | 216        | PEN      | 65             | USD      |
| USD/MXN                              | 18                       | 285        | MXN      | 25             | USD      |
| <b>Total at 12/31/04</b>             | <b>7,243</b>             |            |          |                |          |

| Type of Transaction                          | Millions of Euros |              |              |              |              |
|--|-------------------|--------------|--------------|--------------|--------------|
|  | Amount            | Up to 1 Year | 1 to 3 Years | 3 to 5 Years | Over 5 Years |
| <b>With underlying asset (loans):</b>        | <b>4,844</b>      | <b>2,110</b> | <b>1,520</b> | <b>1,195</b> | <b>4</b>     |
| In euros                                     | 1,428             | 316          | 298          | 814          | -            |
| In foreign currencies                        | 3,401             | 1,794        | 1,222        | 381          | 4            |
| <b>Without underlying asset (liability):</b> | <b>2,414</b>      | <b>2,064</b> | <b>17</b>    | <b>333</b>   | <b>-</b>     |
| Forwards                                     | 804               | 804          | -            | -            | -            |
| Exchange rate options                        | 962               | 962          | -            | -            | -            |
| Currency swaps                               | 315               | 298          | 17           | -            | -            |
| Interest rate options                        | 333               | -            | -            | 333          | -            |
| <b>Total at 12/31/04</b>                     | <b>7,243</b>      | <b>4,174</b> | <b>1,537</b> | <b>1,528</b> | <b>4</b>     |

## 18) OTHER COMMITMENTS

### *Stock option plan-*

On October 26, 2000, the Special Stockholders' Meeting of Telefónica Móviles, S.A. authorized the establishment of a corporate stock option plan for the executives and employees of Telefónica Móviles, S.A. and its subsidiaries and, in order to facilitate coverage of the Company's obligations to the beneficiaries of the plan, resolved to increase the capital stock of Telefónica Móviles, S.A. by €1,400,000 through the issuance of 22,800,000 shares of €0.50 par value each.

Subsequently, on June 1, 2001, the Stockholders' Meeting of Telefónica Móviles, S.A. approved certain modifications and clarifications of the stock option plan with a view to making it more attractive and a more efficient mechanism for the motivation and loyalty-building of its beneficiaries.

Lastly, on September 21, 2001, the Board of Directors of Telefónica Móviles S.A. resolved to develop and establish, in conformity with the aforementioned resolutions of the Stockholders' Meetings on October 26, 2000 and June 1, 2001, the terms and conditions of the stock option plan. The main features of this plan are as follows:

1. The plan is open to all the executive directors, executives (including general managers or similar) and employees who on December 1, 2001, were working for companies in which Telefónica Móviles, S.A. directly or indirectly, during the term of the plan (i) has a holding carrying voting rights of over 50%; or (ii) has the right to appoint over 50% of the members of the Board of Directors.

Without prejudice to the above, the MOS Program envisaged the possibility of awarding new options at dates subsequent to its initial implementation. In order to carry this out, following the issuance of a report by the Appointments and Compensation Committee, the Board of Directors resolved to assign options to both the employees of the new companies which, when joining the Telefónica Móviles Group, met the aforementioned requirements and the employees hired by companies already participating in the MOS Program. Similarly, the Board resolved that employees could join the plan until December 31, 2003. Consequently, new beneficiaries joined the plan in 2002 and 2003. In 2003 certain companies were excluded from the MOS Program because they ceased to comply with the requirements to remain in it.

2. There are three types of option:
  - Type A options, with an exercise price of €1.
  - Type B options, with an exercise price of €6.5.
  - Type C options, with an exercise price €7.235 euros.
3. Each beneficiary of the Program receives an equal number of type-A and type-B options and a number of type-C options equal to the sum of the type-A and type-B options received.
4. The executive directors and executives who are beneficiaries of the MOS Program must place a deposit on one share of Telefónica Móviles, S.A. for every 20 options assigned to them.
5. Each option, regardless of its type, entitles its holder to receive one share of Telefónica Móviles, S.A.
6. The options may be exercised at a rate of one-third each year from the day after the day on which two, three and four years have elapsed from the option grant date (January 2, 2002). The first exercise period commenced on January 2, 2004. The second period commenced on January 3, 2005.
7. At the exercise date, the options may be settled, at the beneficiary's request, either (i) through delivery of shares of Telefónica Móviles, S.A., once the beneficiary has paid the option exercise price; or (ii) cashless for cash.

The first phase of the Program commenced on January 2, 2002. The second phase of the plan, which included the companies and new employees who fulfilled the requirements envisaged in the plan, commenced on June 1, 2002, and finished on December 31, 2003. The total number of beneficiaries of the MOS Program was 7,575 as of December 31, 2004 (8,434 as of December 31, 2003). Of these beneficiaries, one is an executive director of Telefónica Móviles, S.A. and ten are general managers or similar executives. As of December 31, 2004, 11,137,144 options had been assigned (12,819,072 as of December 31, 2003).

In 2004, in the second exercise period, 778 employees exercised a total of 79,823 options. Of these employees, two beneficiaries opted for the cashless system and the remainder for the cashless for cash system. The amount received by these beneficiaries upon the exercise of their options was €109 thousand.

Additionally, in 2004, 859 employees, owning a total of 1,681,928 options, left the program as a result of early settlement or voluntary withdrawal. €844 thousand were paid in this connection in 2004.

In order to provide coverage for the MOS Program, on September 21, 2001, the Board of Directors resolved to carry out the capital increase approved by the Special Stockholders' Meeting on October 26, 2000. Since not all the shares comprising the capital increase were subscribed, the Company issued 21,445,962 shares of €0.50 par value each, which were subscribed and paid by BBVA (50%) and La Caixa (50%).

On September 27, 2001, Telefónica Móviles, S.A., on the one hand, and BBVA and La Caixa, on the other, entered into the related share subscription and call option contracts under which the two aforementioned financial institutions granted Telefónica Móviles, S.A. a call option on each of the shares subscribed in order to enable Telefónica Móviles, S.A. to meet its commitments to the beneficiaries of the MOS Program, as described above.

The implementation of the MOS Program and the capital increase to provide coverage for the Program were notified to the Spanish National Securities Market Commission (CNMV) and

published in the Abridged Prospectus, which was verified and registered in the CNMV's Official Register on November 2, 2001.

***Agreements with Portugal Telecom-***

On January 23, 2001, Telefónica, S.A. and its subsidiary Telefónica Móviles, S.A., on the one hand, and Portugal Telecom SGPS, S.A. and its subsidiary PT Moveis, SGPS, S.A., on the other, entered into an agreement in order to group together all their wireless telephony businesses in Brazil.

To implement this agreement, on October 17, 2002, Telefónica Móviles, S.A., on the one hand, and Portugal Telecom SGPS, S.A. and its subsidiary PT Móveis SGPS, S.A., on the other, entered into the definitive agreements. On December 27, 2002 (after having obtained the necessary authorizations), the two Groups' holdings in their respective Brazilian wireless telephony operators were contributed to a Dutch joint venture, Brasilcel N.V.

In accordance with the aforementioned definitive agreements, Telefónica Móviles, S.A. and the Portugal Telecom Group will have the same voting rights at Brasilcel, N.V. This equality in voting rights will cease to exist if, as a result of capital increases at Brasilcel, N.V., the percentage of ownership of either of the parties falls below 40% during an uninterrupted period of six months. In this event, if the Group with the reduced interest were the Portugal Telecom Group, it would be entitled to sell to Telefónica Móviles, S.A., which would be obliged to buy (directly or through another company), all the Portugal Telecom Group's ownership interest in Brasilcel N.V. This right expires on December 31, 2007. The price for the acquisition of the Portugal Telecom Group's holding in Brasilcel, N.V. would be calculated on the basis of an independent appraisal (in the terms provided for in the definitive agreements) performed by investment banks, selected using the procedure established in these agreements. Subject to certain conditions, the payment could be made, at Telefónica Móviles' choice, in (i) cash; (ii) Telefónica Móviles S.A. shares and/or Telefónica, S.A. shares; or (iii) a combination of the two. This put option would be exercisable in the 12 months subsequent to the end of the aforementioned six-month period, provided that the Portugal Telecom Group had not increased its ownership interest to 50% of the total capital stock of Brasilcel N.V.

Also, in accordance with the definitive agreements, the Portugal Telecom Group will be entitled to sell to Telefónica Móviles, S.A., which will be obliged to buy, its holding in Brasilcel, N.V. should there be a change in control at Telefónica, S.A., at Telefónica Móviles, S.A. or at any other subsidiary of the latter that held a direct or indirect ownership interest in Brasilcel N.V. Similarly, Telefónica Móviles, S.A. will be entitled to sell to the Portugal Telecom Group, which will be obliged to buy, its holding in Brasilcel, N.V. if there is a change of control at Portugal Telecom SGPS, S.A., at PT Móveis SGPS, S.A. or at any other subsidiary of either company that held a direct or indirect ownership interest in Brasilcel N.V. The price will be determined on the basis of an independent appraisal (in the terms provided for in the definitive agreements) performed by investment banks, selected using the procedure established in these agreements. The related payment could be made, at the choice of the group exercising the put option, in cash or in shares of the wireless telephony operators contributed by the related party, making up the difference, if any, in cash.

***Agreements for the acquisition of Pegaso-***

Under the agreements entered into for the acquisition of Pegaso, the Burillo Group has certain mechanisms with which it can cease to be a stockholder, instrumented through an option to sell its holding in Telefónica Móviles México, S.A. de C.V. The Burillo Group can exercise its put option in 2007 or 2008, or, if its holding in the company falls below 50% of its original ownership interest, on the date on which such decrease occurs. If the Burillo Group did not

exercise its put option, Telefónica Móviles could exercise its purchase option on the shares of the company owned by the Burillo Group. In this case, the purchase price for the shares would be determined on the basis of a valuation of the company on the date on which the rights were exercised. The agreements entered into provide that a portion of the purchase price will be paid in cash, the amount of which will depend upon the Burillo Group's original investment in the company, to which interest will be added and from which any cash distribution received by the Burillo Group will be deducted. The remaining portion of the purchase price, if any, will be paid, at Telefónica Móviles' choice, in cash, in shares of Telefónica Móviles or a combination of the two.

Also, under the stockholders' agreement entered into, the Burillo Group has certain rights to veto agreements on the conversion of shares from one class to another, declarations of bankruptcy or Chapter 11-type insolvency proceedings, dissolution or liquidation, bylaw amendments which adversely affect the rights of the Burillo Group and mergers or corporate reorganizations which do not afford the Burillo Group the opportunity to maintain a given percentage of ownership.

#### ***Long-distance national license obtained by GTM-***

Telefónica Móviles S.A. is backing the commitments assumed by Grupo de Telecomunicaciones Mexicanos, S.A. de C.V. (GTM) to the regulator, COFETEL for the long-distance national license it has obtained. The maximum amount of this support is MXP 124,155 thousand. As of the date of preparation of these consolidated financial statements no disbursements had been made in this connection.

### **19) SUBSEQUENT EVENTS**

#### ***Acquisition of assets of BellSouth***

All the shares of the Chilean and Argentine operators owned by BellSouth were acquired on January 7 and January 11, 2005, thus completing the acquisition of BellSouth's Latin American operators.

BellSouth's Chilean operators were acquired on January 7, 2005. The corporate value of these companies under the share purchase agreement dated March 5, 2004, amounted to US\$ 531,894 thousand. As a result of the companies' net debt at the time of acquisition, the final purchase price was US\$ 405,505 thousand.

The Argentine companies that belonged to the BellSouth Group were acquired on January 11, 2005. The agreed-upon corporate value of these companies amounted to US\$ 988,355 thousand and the price finally paid, after deducting the companies' net debt, was US\$ 673,535 thousand.

The agreement entered into with BellSouth stipulates that, after the acquisition of these companies, Telefónica Móviles will perform various procedures to validate their cash and debt. If as a result of these procedures the debt and cash figures used in the calculation of the final share price at the closing date were found to be inaccurate, the purchase price could be increased or reduced in order to reflect the difference disclosed. Accordingly, the acquisition price might be adjusted slightly upwards or downwards as a result of the validation processes currently under way.

#### ***Chile***

On January 7, 2005, Telefónica Móviles, S.A. provided a counterguarantee to Telefónica, S.A. for the syndicated loan of US\$ 179,615 thousand arranged by BellSouth Comunicaciones and guaranteed by Telefónica, S.A., which matures on January 7, 2006.

***Puerto Rico***

In January 2005 the loan of US\$ 11 million granted by Banco Santander de Puerto Rico to Telefónica Móviles Puerto Rico was repaid. Accordingly, the counterguarantee provided on September 29, 2003, by Telefónica Móviles, S.A. for Telefónica Internacional, S.A. was released.

***Capital increase at Telesp Celular Participações (TCP)***

On October 8, 2004, TCP resolved to increase capital by approximately BRL 2,054 thousand. Through this capital increase, which was completed on January 4, 2005, and was fully subscribed. Brasilcel increased its ownership interest from 65.12% to 65.70% (see Note 2-c).

**20) CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION**

| Application of Funds  | Thousands of Euros |                  | Source of Funds   | Thousands of Euros |                  |
|---|--------------------|------------------|---|--------------------|------------------|
|   | 2004               | 2003             |   | 2004               | 2003             |
| <b>Funds applied in operations</b>  | -                  | -                | <b>Funds obtained from operations</b>                                   | 3,133,778          | 3,783,940        |
| <b>Start-up expenses and deferred charges</b>                                   | 16,248             | 61,043           | <b>Deferred revenues</b>  | 8,162              | 13,228           |
| <b>Fixed asset additions</b>  |                    |                  |   |                    |                  |
| a) Intangible assets  | 269,984            | 216,823          |   |                    |                  |
| b) Property, plant and equipment  | 1,352,300          | 996,842          | <b>Long-term debt</b>   | 4,366,055          | 1,394,980        |
| c) Long-term investments  | 5,639,609          | 1,054,419        |   |                    |                  |
| <i>Acquisition of companies</i>   | <i>4,514,574</i>   | <i>443,038</i>   |   |                    |                  |
| <i>Other long-term investments</i>  | <i>1,125,035</i>   | <i>611,381</i>   |   |                    |                  |
|   |                    |                  | <b>Transfer to long term of current liabilities</b>                     | 6,281              | 120,261          |
| <b>Repayment or transfer of long-term debt</b>                                  | 1,546,521          | 2,990,319        | <b>Redemption of long-term investments</b>                              | 28,472             | 83,213           |
|   |                    |                  | <b>Fixed asset disposals</b>  |                    |                  |
| <b>Dividends</b>  | 795,955            | 757,846          | a) Intangible assets and property, plant and equipment                  | 11,632             | 24,618           |
|   |                    |                  | c) Long-term investments  | 8,826              | 14,318           |
|   |                    |                  | <b>Increase in working capital due to translation differences</b>       | 231,943            | 390,585          |
| <b>Decrease in working capital due to acquisition/contribution of companies</b> | 206,348            | 127,683          | <b>Other funds obtained</b>   | -                  | 17,819           |
| <b>Total funds applied</b>  | <b>9,826,965</b>   | <b>6,204,975</b> | <b>Total funds obtained</b>   | <b>7,795,149</b>   | <b>5,842,962</b> |
| Funds obtained in excess of funds applied (Increase in working capital)         | -                  | -                | Funds applied in excess of funds obtained (Decrease in working capital) | 2,031,816          | 362,013          |
| <b>Total</b>  | <b>9,826,965</b>   | <b>6,204,975</b> | <b>Total</b>  | <b>9,826,965</b>   | <b>6,204,975</b> |

**Variations in working capital**

| Increase in working capital  | Thousands of Euros |                  | Decrease in working capital  | Thousands of Euros |                  |
|------------------------------|--------------------|------------------|------------------------------|--------------------|------------------|
|                              | 2004               | 2003             |                              | 2004               | 2003             |
| Inventories                  | 256,040            | 12,525           | Inventories                  | -                  | -                |
| Accounts receivable          | 743,809            | 508,152          | Accounts receivable          | -                  | -                |
| Accounts payable             | -                  | -                | Accounts payable             | 4,100,405          | 1,365,515        |
| Short-term investments       | 791,812            | 518,766          | Short-term investments       | -                  | -                |
| Cash                         | 279,367            | -                | Cash                         | -                  | 58,626           |
| Accrual accounts             | -                  | 22,685           | Accrual accounts             | 2,439              | -                |
| <b>Total</b>                 | <b>2,071,028</b>   | <b>1,062,128</b> | <b>Total</b>                 | <b>4,102,844</b>   | <b>1,424,141</b> |
| Variation in working capital | 2,031,816          | 362,013          | Variation in working capital | -                  | -                |
| <b>Total</b>                 | <b>4,102,844</b>   | <b>1,424,141</b> | <b>Total</b>                 | <b>4,102,844</b>   | <b>1,424,141</b> |

The reconciliation of the balances of the consolidated statements of income to the funds obtained from operations is as follows:

|   | Thousands of Euros |                  |
|---|--------------------|------------------|
|   | 2004               | 2003             |
| Income  | 1,633,910          | 1,607,838        |
| Loss attributed to minority interests                                       | (21,720)           | (21,127)         |
| Income of associated companies  | 38,232             | 80,656           |
| <b>Add:</b>   |                    |                  |
| Depreciation and amortization expense                                       | 1,611,003          | 1,420,648        |
| Reversal of long-term deferred tax assets and liabilities                   | 65,499             | 126,199          |
| Amortization of consolidation goodwill                                      | 94,708             | 101,703          |
| Fixed asset provisions  | 53,085             | 14,528           |
| Provisions for contingencies and expenses                                   | 71,472             | 7,198            |
| Loss on the disposal of property, plant and equipment and intangible assets | 10,938             | 9,497            |
| Long-term asset due to taxation on a consolidated basis                     | 2,223              | 1,011,825        |
| Deferred revenues   | 68,494             | -                |
| <b>Less:</b>  |                    |                  |
| Gain on disposal of property, plant and equipment and long-term investments | 10,234             | 14,081           |
| Additions to long-term deferred tax assets and liabilities                  | 268,477            | 151,937          |
| Provisions for contingencies and expenses                                   | 12,808             | 19,336           |
| Deferred revenues   | -                  | 25,491           |
| Additions to long-term asset due to taxation on a consolidated basis        | 202,547            | 364,180          |
| <b>Funds obtained from operations</b>                                       | <b>3,133,778</b>   | <b>3,783,940</b> |

**21) EXPLANATION ADDED FOR TRANSLATION TO ENGLISH**

These consolidated financial statements are presented on the basis of accounting principles generally accepted in Spain. Certain accounting practices applied by the Group that conform

with generally accepted accounting principles in Spain may not conform with generally accepted accounting principles in other countries.

*Telefonica*

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Telefónica Móviles, S.A.

| Subsidiaries and their Investments  | Percentage of Ownership |          |               | Consolidation Method | Stockholders' Equity (Thousands of Euros) |           |               |                  | Gross Value per Telefónica Móviles, S.A. Books | Value in Consolidation |
|---|-------------------------|----------|---------------|----------------------|---|-----------|---------------|------------------|--|------------------------|
|   | Direct                  | Indirect | Móviles Group |                      | Capital                                   | Reserves  | Income (Loss) | Interim Dividend |  |                        |
| Brascel, N.V. (1)<br><i>Joint venture</i><br><i>Strawinskylaan 3105 - 1077ZX - Amsterdam</i>  | 50.00%                  | -        | 50.00%        | IP                   | 102                                       | 4,454,242 | 5,628         | -                | 2,179,379                                      | -                      |
| Vivo Brasil Comunicação Ltda<br><i>Holding company</i><br><i>Rua da Consolação, 247 - 6º andar / sala 57-F São Paulo - SP</i>   | -                       | 100.00%  | 50.00%        | IP                   | -   | -         | -             | -                | -  | -                      |
| Tagilo Participações, S.A. (1)<br><i>Ownership of intellectual and industrial property</i><br><i>Rua Martiniano de Carvalho, 851, 20 andar, Parte, Bela Vista, São Paulo.</i> | -                       | 99.99%   | 50.00%        | IP                   | 97,424                                    | 8,659     | 767           | -565             | -  | -                      |
| Sudestecel Participações, S.A. (1)<br><i>Holding company</i><br><i>Rua Martiniano de Carvalho, 851, 20 andar, Parte, Bela Vista, São Paulo.</i>                               | -                       | 100.00%  | 50.00%        | IP                   | 533,607                                   | 3,283     | 2,012         | -1,325           | -  | -                      |
| Avista Part. S.L. (1)<br><i>Holding company</i><br><i>Rua da Consolação, 247 - 6º andar / sala 57-F São Paulo - SP</i>  | -                       | 100.00%  | 50.00%        | IP                   | 170,373                                   | -         | -3,763        | -                | -  | -                      |
| Tele Sudeste Celular Participações, S.A. (1)<br><i>Holding company</i><br><i>Praia de Botafogo 501,20 andar, parte bela Vista, São Paulo</i>                                  | -                       | 90.89%   | 45.44%        | IP                   | 246,560                                   | 279,872   | 25,573        | -7,055           | -  | -                      |
| Telerj Celular, S.A. (1)<br><i>Wireless communications services operator</i><br><i>Praia de Botafogo, 501-5º a 8º Andares, Botafogo - Rio de Janeiro</i>                      | -                       | 100.00%  | 45.44%        | IP                   | 297,224                                   | 142,765   | 9,120         | -2,176           | -  | -                      |
| Telest Celular, S.A. (1)<br><i>Wireless communications services operator</i><br><i>Avda. Nossa Senhora da penha 275 - Praia de Santa Helena, Vitoria - Espiritu Santo</i>     | -                       | 100.00%  | 45.44%        | IP                   | 44,333                                    | 28,321    | 16,909        | -6,361           | -  | -                      |
| Portelcom Fixa, S.A. (1)<br><i>Holding company</i><br><i>Av Brigadeiro Faria Lima, 2277, 15º andar, Conj1503, Jardim Paulistano, São Paulo</i>                                | -                       | 100.00%  | 50.00%        | IP                   | -   | -         | -             | -                | -  | -                      |
| TBS Celular Participações, S.A. (1)<br><i>Holding company</i><br><i>Avda. Martiniano de Carvalho, 851, 20 andar, parte São Paulo, São Paulo</i>                               | 1.12%                   | 96.26%   | 49.25.00%     | IP                   | 161,854                                   | 11,784    | 9,638         | -3,536           | 525  | -                      |
| Celular CRT Participações, S.A. (1)<br><i>Holding company</i><br><i>Rua José Bonifácio, 245, Bon Fim, Porto Alegre - Rio Grande Do Sul</i>                                    | -                       | 66.97%   | 33.27%        | IP                   | 71,162                                    | 192,943   | 50,106        | -20,826          | -  | -                      |
| Celular CRT, S.A. (1)<br><i>Wireless communications services operator</i><br><i>Rua José Bonifácio, 245, Bon Fim, Porto Alegre - Rio Grande Do Sul</i>                        | -                       | 100.00%  | 33.27%        | IP                   | 148,569                                   | 89,465    | 52,485        | -23              | -  | -                      |
| Tele Leste Celular Participações, S.A. (1)<br><i>Holding company</i><br><i>Rua Silveria Martins, n 1036, Cabula, Salvador- Bahia</i>  | -                       | 50.58%   | 25.29%        | IP                   | 84,737                                    | 27,220    | -8,335        | -                | -  | -                      |
| Telebahia Celular, S.A. (1)<br><i>Wireless communications services operator</i><br><i>Rua Silveria Martins, n 1036, Cabula, Salvador- Bahia</i>                               | -                       | 100.00%  | 25.29%        | IP                   | 98,965                                    | 949       | -12,584       | -                | -  | -                      |
| Telergipe Celular, S.A. (1)<br><i>Wireless communications services operator</i><br><i>Avda. Francisco Porto, 686, 13 de julho - Aracaju, Sergipe</i>                          | -                       | 100.00%  | 25.29%        | IP                   | 9,854                                     | 961       | 3,461         | -242             | -  | -                      |
| Ptelecom Brasil, S.A. (1)<br><i>Holding company</i><br><i>Rua Cubatao, 320, 4 andar, Sao Paulo, São Paulo</i>   | -                       | 100.00%  | 49.99%        | IP                   | 726,948                                   | -410,742  | -9,159        | -                | -  | -                      |
| Portelcom Participações, S.A. (1)<br><i>Holding company</i><br><i>Av Brigadeiro Faria Lima, 2277, 15º andar, Conj1503, Jardim Paulistano, São Paulo</i>                       | -                       | 100.00%  | 49.99%        | IP                   | 979,403                                   | -165,203  | -34,417       | -                | -  | -                      |
| Telesp Celular Participações, S.A. (1)<br><i>Holding company</i><br><i>Av. Roque petroni Júnior, nº 1464, 6 andar-parte, bloco B, Morumbi, Sao Paulo, São Paulo</i>           | -                       | 65.12%   | 32.56%        | IP                   | 1,209,667                                 | -269,980  | -134,956      | -                | -  | -                      |
| Telesp Celular S.A. (1)<br><i>Holding company</i><br><i>Av. Roque petroni Júnior, nº 1464, 6 andar-parte, bloco B, Morumbi, Sao Paulo, São Paulo</i>                          | -                       | 100.00%  | 32.56%        | IP                   | 519,921                                   | 172,866   | 127,120       | -                | -  | -                      |
| Global Telcom Telecom, S.A. (1)<br><i>Wireless services operator</i>  | -                       | 100.00%  | 32.56%        | IP                   | 1,119,420                                 | -708,728  | -49,657       | -                | -  | -                      |

| Subsidiaries and their Investments   | Percentage of Ownership |           |               | Consolidation Method | Stockholders' Equity (Thousands of Euros) |            |               |                  | (Thousands of Euros)                           | (Thousands of Euros)   |
|--|-------------------------|-----------|---------------|----------------------|---|------------|---------------|------------------|--|------------------------|
|  | Direct                  | Indirect  | Móviles Group |                      | Capital                                   | Reserves   | Income (Loss) | Interim Dividend | Gross Value per Telefónica Móviles, S.A. Books | Value in Consolidation |
| <i>Av. Higienópolis, nº 1635, Curitiba, Parana</i>   |                         |           |               |                      |   |            |               |                  |  |                        |
| Tele Centro Oeste Celular Participações, S.A. (1)<br><i>Holding company and telecommunications services operator</i><br><i>Sector Comercial Sul, Quadra 2, Bloco C, nº 226, Edif Telebrasília Celular, 7 andar, Brasília</i> | -                       | 50.65%    | 16.49%        | IP                   | 219,319                                   | 352,305    | 140,051       | -11,183          | -  | -                      |
| Telegoiás Celular, S.A. (1)<br><i>Wireless services operator</i><br><i>Rua 136-C, Quadra F-44, nº 150, Setor Sul Goiania, Goias</i>  | -                       | 100.00%   | 16.49%        | IP                   | 68,539                                    | 87,635     | 50,215        | -                | -  | -                      |
| Telemat Celular, S.A. (1)<br><i>Wireless services operator</i><br><i>Av. Getúlio Vargas, nº 1,300, Centro, Cuiabá, Matogrosso</i>  | -                       | 100.00%   | 16.49%        | IP                   | 39,716                                    | 54,409     | 30,574        | -                | -  | -                      |
| Telems Celular, S.A. (1)<br><i>Wireless services operator</i><br><i>Av. Alfonso pena, nº 2,386, Ed Dolor de Andrade, Campo Grande, Matogrosso Do Sul</i>   | -                       | 100.00%   | 16.49%        | IP                   | 31,334                                    | 38,346     | 21,086        | -                | -  | -                      |
| Teleron Celular, S.A. (1)<br><i>Wireless services operator</i><br><i>Av. Getúlio Vargas, 1941, Porto Velho, Rondonia</i>   | -                       | 100.00%   | 16.49%        | IP                   | 9,667                                     | 14,829     | 4,193         | -                | -  | -                      |
| Teacre Celular, S.A. (1)<br><i>Wireless services operator</i><br><i>Rua Minas Gerais, nº 64, Ivete Vargas, Rio Branco-Acre</i>   | -                       | 100.00%   | 16.49%        | IP                   | 5,204                                     | 7,156      | 2,664         | -                | -  | -                      |
| Norte Brasil Telecom, S.A. (1)<br><i>Wireless services operator</i><br><i>Travessa Padre Eutíquio, nº 1,226, Barrio Batista Campos, Belém, Para</i>  | -                       | 100.00%   | 16.49%        | IP                   | 49,784                                    | 2,215      | 9,785         | -                | -  | -                      |
| Tele Centro Oeste IP, S.A. (1)<br><i>Wireless services operator</i><br><i>AC/ Sul Quadra 02, Bloco C, nº 256, 3º Pavimento, Ed Toufic, Plano Piloto, Brasília</i>  | -                       | 100.00%   | 16.49%        | IP                   | 277                                       | -1,496     | -1,389        | -                | -  | -                      |
| Telefónica Móviles El Salvador Holding, S.A. de C.V. (1)<br><i>Holding company</i><br><i>Alameda Roosevelt y Avenida Sur. Torre Telefónica nivel 10 - San Salvador</i>   | 100.00%                 | -         | 100.00%       | IG                   | 130,911                                   | -4,488     | -1,188        | -                | 153,932  | -                      |
| Telefónica Móviles El Salvador, S.A. de C.V. (1)<br><i>Provision of wireless communications and international long-distance services</i><br><i>Alameda Roosevelt y Avenida Sur. Torre Telefónica nivel 10 - San Salvador</i> | -                       | 91.75.00% | 91.75.00%     | IG                   | 102,789                                   | -67,793    | -18,053       | -                | 0  | -                      |
| Telefónica Multiservicios, S.A. de C.V. (1)<br><i>Cable modem services operator</i><br><i>Alameda Roosevelt y Avenida Sur. Torre Telefónica nivel 10 - San Salvador</i>  | -                       | 77.5%     | 71.11%        | IG                   | 6,519                                     | -682       | -760          | -                | 0  | -                      |
| Telefónica Móviles Centroamérica, S.A. de C.V. (1)<br><i>Operating company</i><br><i>Alameda Roosevelt y Avenida Sur. Torre Telefónica nivel 10 - San Salvador</i>   | -                       | 100.00%   | 91.75.00%     | IG                   | 1,049                                     | -81        | 29            | -                | 0  | -                      |
| Telefónica El Salvador, S.A. de C.V. (1)<br><i>Operating company</i><br><i>Alameda Roosevelt y Avenida Sur. Torre Telefónica nivel 10 - San Salvador</i>   | -                       | 100.00%   | 91.75.00%     | IG                   | 18  | -15        | -7            | -                | 0  | -                      |
| TCG Holdings, S.A. (1)<br><i>Holding company</i><br><i>Bulevar Los Próceres 5-56 Zona 10 - Unicentro nivel 11, Guatemala City</i>  | 100.00%                 | -         | 100.00%       | IG                   | 198,309                                   | -1,221     | -393          | -                | 238,540  | -                      |
| Telefónica Móviles Guatemala, S.A. (1)<br><i>Provision of wireless communications, wireline telephony and radio-paging services</i><br><i>Bulevar Los Próceres 5-56 Zona 10 - Univentro Nivel 11, Guatemala City</i>         | -                       | 100.00%   | 100.00%       | IG                   | 193,199                                   | -106,611   | -15,525       | -                | -  | -                      |
| Tele Escucha, S.A. (1)<br><i>Provision of telecommunications and paging services</i><br><i>Bulevar Los Próceres 5-56 Zona 10 - Univentro Nivel 11, Guatemala City</i>  | -                       | 100.00%   | 100.00%       | IG                   | 2,390                                     | -1,583     | -396          | -                | -  | -                      |
| Infraestructura Internacional, S.A. (1)<br><i>Provision of telecommunications and paging services</i><br><i>5ª avenida, 7-76 Zona 10, Guatemala City</i>   | -                       | 70.00%    | 70.00%        | IG                   | 410                                       | -136       | -9            | -                | -  | -                      |
| PageMart de Centroamérica<br><i>Operating company</i><br><i>Bulevar Los Próceres 5-56 Zona 10 - Univentro Nivel 11, Guatemala City</i>   | -                       | 30.00%    | 30.00%        | IG                   | -   | -          | -             | -                | -  | -                      |
| Telefónica Móviles España, S.A., Unipersonal (1)<br><i>Provision of wireless communications services</i><br><i>Plaza de la Independencia, 6 - Pta. 5 - 28001 MADRID</i>  | 100.00%                 | -         | 100.00%       | IG                   | 423,343                                   | -1,011,696 | 2,148,162     | -                | 933,211  | -                      |
| Spiral Investments B.V. (1)  | -                       | 100.00%   | 100.00%       | IG                   | 38,535                                    | -133,511   | -2,533        | -                | -  | -                      |

|  | Percentage of Ownership |          |               | Consolidation<br>Method | Stockholders' Equity<br>(Thousands of Euros) |          |               |                     | (Thousands<br>of Euros)                              | (Thousands<br>of Euros)   |
|--|-------------------------|----------|---------------|-------------------------|--|----------|---------------|---------------------|--|---------------------------|
|  | Direct                  | Indirect | Móviles Group |                         | Capital                                      | Reserves | Income (Loss) | Interim<br>Dividend | Gross Value per<br>Telefónica Móviles,<br>S.A. Books | Value in<br>Consolidation |
| <i>Subsidiaries and their Investments</i><br><br><i>Holding company</i><br><i>Strawinskylaan 3105 - 1077ZX - Amsterdam</i> |                         |          |               |                         |  |          |               |                     |  |                           |

| Subsidiaries and their Investments   | Percentage of Ownership |          |               | Consolidation Method | Stockholders' Equity (Thousands of Euros) |             |               |                  | (Thousands of Euros)                           | (Thousands of Euros)   |
|--|-------------------------|----------|---------------|----------------------|---|-------------|---------------|------------------|--|------------------------|
|  | Direct                  | Indirect | Móviles Group |                      | Capital                                   | Reserves    | Income (Loss) | Interim Dividend | Gross Value per Telefónica Móviles, S.A. Books | Value in Consolidation |
| 3G Mobile AG (1)<br><i>Wireless telephony operator<br/>Bahnhofplatz 4, 8001 Zurich</i>   | -                       | 100.00%  | 100.00%       | IG                   | 35,712                                    | -78,702     | 572           | -                | -  | -                      |
| Mobipay España, S.A. (1)<br><i>Provision of wireless telephony payment services<br/>Avda. Europa, 20 - Alcobendas - Madrid</i>   | -                       | 13.36%   | 13.36%        | PE                   | 16,052                                    | -2,995      | -5,094        | -                | -  | 1,064                  |
| Solvella Investments B.V. (1)<br><i>Holding company<br/>Strawinskylaan 3105 - 1077ZX - Amsterdam</i>   | -                       | 100.00%  | 100.00%       | IG                   | 880,699                                   | -1,553,163  | -50,982       | -                | -  | -                      |
| Ipse 2000, S.p.A. (1)<br><i>Installation and execution of 3G wireless communications systems<br/>Piazza dei Capprettari, 70 - Rome</i>   | -                       | 45.59%   | 45.59%        | PE                   | 150,500                                   | 177,061     | -254,766      | -                | -  | 32,759                 |
| Group 3G UMTS Holding GmbH (1)<br><i>Development of network and provision of 3G telecommunications services<br/>Alois-Wolfmüller-Str. 8 80939 Munich</i>                           | -                       | 57.2%    | 57.2%         | IG                   | 250,025                                   | -10,195,879 | -15           | -                | -  | -                      |
| Quam GmbH (1)<br><i>Provision of UMTS services<br/>Alois-Wolfmüller-Str. 8 80939 Munich</i>  | -                       | 100.00%  | 57.2%         | IG                   | 250,025                                   | -250,018    | -37,663       | -                | -  | -                      |
| Opco Mobile Services GmbH (1)<br><i>Provision of UMTS services<br/>Alois-Wolfmüller-Str. 8 80939 Munich</i>  | -                       | 100.00%  | 57.2%         | IG                   | 50  | -1          | -1,119        | -                | -  | -                      |
| Medi Telecom, S.A. (1)<br><i>Provision of wireless communications services<br/>Twin Center, Tour A. Angle Bd Zertouni et El Massira El Kadra, Casablanca</i>                       | -                       | 32.18%   | 32.18%        | PE                   | 786,833                                   | -666,783    | -42,925       | -                | -  | 25,036                 |
| Gruppo 3G, SRL (2)<br><i>Holding company<br/>Via Lepetit, 4 - Milan</i>  | -                       | 100.00%  | 100.00%       | C                    | 67  | -           | -             | -                | -  | -                      |
| Tempos 21, Innovación en Aplicaciones Móviles, S.A. (1)<br><i>Research, development and marketing of wireless services and applications<br/>Avda. Diagonal, 640 - Barcelona</i>    | -                       | 38.5%    | 38.5%         | C                    | 13,224                                    | -6,323      | -4,263        | -                | -  | 1,096                  |
| Telefónica Móviles Interacciona, S.A. (1)<br><i>Consulting services for wireless environment engineering<br/>Gran Vía, 28 - 28013 Madrid</i>                                       | -                       | 100.00%  | 100.00%       | IG                   | 3,997                                     | -79,402     | -6,644        | -                | -  | -                      |
| Terra Mobile, Brasil Ltd. (1)<br><i>Inactive<br/>22° ANDAR 17 - Bairro ou Distrito FLAMENGO, Rio de Janeiro</i>  | -                       | 100.00%  | 100.00%       | IG                   | 5,650                                     | -5,634      | -             | -                | -  | -                      |
| Simpay, Ltd. (2)<br><i>Wireless payment systems<br/>62-65 Chandos Place, London WC2N 4LP</i>   | 25.00%                  | -        | 25.00%        | C                    | -   | -           | -             | -                | -  | -                      |
| Omicron Ceti, S.L. (2)<br><i>Holding company<br/>José Abascal, Madrid</i>  | 100.00%                 | -        | 100.00%       | C                    | 3   | -           | -1            | -                | 4  | 4                      |
| Telefónica Móviles Puerto Rico, Inc. (1)<br><i>Ownership of holdings in wireless operators in Puerto Rico<br/>Metro Office Park Calle Edificio #17, Suite 600 - 00968 Guaynabo</i> | 100.00%                 | -        | 100.00%       | IG                   | 29  | 981         | -45,409       | -                | 1,212  | -                      |
| Telefónica Móviles USA, Inc. (2)<br><i>Telecommunications consulting services<br/>1221 Brickell Avenue - Miami - Florida</i>   | 100.00%                 | -        | 100.00%       | IG                   | -   | -848        | -76           | -                | 751  | -                      |
| TELCA Gestión Guatemala, S.A.<br><i>Telecommunications services management and advisory services<br/>Guatemala</i>   | 100.00%                 | -        | 100.00%       | C                    | -   | -           | -             | -                | 24   | 24                     |
| MobilPay Internacional, S.A. (4)<br><i>Provision of wireless payment services<br/>Avenida de Europa 20, Alcobendas, Madrid</i>   | 50.00%                  | -        | 50.00%        | IP                   | 11,822                                    | -79         | -3,500        | -                | 5,212  | -                      |
| Telefónica Móviles Perú Holding, S.A.A. (1)<br><i>Holding company<br/>Avda. Arequipa, 1155 Lima, 01</i>  | 97.97%                  | -        | 97.97%        | IG                   | 174,951                                   | 34,163      | 1,027         | -                | 254,457  | -                      |
| Telefónica Móviles, S.A.C. (1)<br><i>Provision of wireless communications services<br/>Avda. Arequipa, 1155 Lima, 01</i>   | -                       | 100.00%  | 97.97%        | IG                   | 201,474                                   | 7,954       | 1,077         | -                | -  | -                      |

|                                    | Percentage of Ownership |          |               | Consolidation<br>Method | Stockholders' Equity<br>(Thousands of Euros) |          |               |                     | (Thousands<br>of Euros)                              | (Thousands<br>of Euros)   |
|------------------------------------|-------------------------|----------|---------------|-------------------------|--|----------|---------------|---------------------|--|---------------------------|
|                                    | Direct                  | Indirect | Móviles Group |                         | Capital                                      | Reserves | Income (Loss) | Interim<br>Dividend | Gross Value per<br>Telefónica Móviles,<br>S.A. Books | Value in<br>Consolidation |
| Subsidiaries and their Investments |                         |          |               |                         |  |          |               |                     |  |                           |
|                                    |                         |          |               |                         |  |          |               |                     |  |                           |

| Subsidiaries and their Investments  | Percentage of Ownership |          |               | Consolidation Method | Stockholders' Equity (Thousands of Euros) |          |               |                  | (Thousands of Euros)                           | (Thousands of Euros)   |
|---|-------------------------|----------|---------------|----------------------|---|----------|---------------|------------------|--|------------------------|
|   | Direct                  | Indirect | Móviles Group |                      | Capital                                   | Reserves | Income (Loss) | Interim Dividend | Gross Value per Telefónica Móviles, S.A. Books | Value in Consolidation |
| Telefónica Móviles Argentina, S.A. (1)<br><i>Holding company</i>  | 97.93%                  | -        | 97.93%        | IG                   | 128,734                                   | -566,579 | -84,577       | -                | 495,786  | -                      |
| <i>Ing HUergo 723,piso 17-Capital Federal-Argentina</i>   |                         |          |               |                      |   |          |               |                  |  |                        |
| Telefónica Comunicaciones personales, S.A. (1)<br><i>Provision of wireless communications services</i>  | -                       | 100.00%  | 97.93%        | IG                   | 131,859                                   | -569,326 | -84,448       | -                | -  | -                      |
| <i>Ing HUergo 723,piso 17-Capital Federal-Argentina</i>   |                         |          |               |                      |   |          |               |                  |  |                        |
| Radio Servicios, S.A. (1)<br><i>Inactive</i>  | -                       | 100.00%  | 97.93%        | PE                   | 244                                       | -286     | -19           | -                | -  | -54                    |
| <i>Ing HUergo 723,piso 17-Capital Federal-Argentina</i>   |                         |          |               |                      |   |          |               |                  |  |                        |
| Telefónica de Centroamérica, S.L. (2)<br><i>Inactive</i>  | 100.00%                 | -        | 100.00%       | C                    | 500                                       | 10       | -127          | -                | 1,326  | 1,326                  |
| <i>Gran Vía, nº 28, Madrid</i>  |                         |          |               |                      |   |          |               |                  |  |                        |
| Telefónica Móviles Holding Uruguay, S.A. (1)<br><i>Inactive</i>   | 100.00%                 | -        | 100.00%       | IG                   | 24,006                                    | -        | 54            | -                | 25,803   | -                      |
| <i>Plza de la Independencia 8, planta baja, Montevideo</i>  |                         |          |               |                      |   |          |               |                  |  |                        |
| Telefónica Móviles Uruguay, S.A. (1)<br><i>Inactive</i>   | -                       | 100.00%  | 100.00%       | IG                   | 24,006                                    | -        | 58            | -                | -  | -                      |
| <i>Plza de la Independencia 8, planta baja, Montevideo</i>  |                         |          |               |                      |   |          |               |                  |  |                        |
| Wireless Network Ventures<br><i>Holding company</i>   | -                       | 100.00%  | 100.00%       | IG                   | -   | -        | -             | -                | 0  | -                      |
| <i>Palm Grove House, PO Box 438, tortola, BVI</i>   |                         |          |               |                      |   |          |               |                  |  |                        |
| Paging de Centroamérica, S.A. (2)<br><i>Provision of telecommunications and paging services</i>   | 99.98%                  | 0.02%    | 100.00%       | C                    | -   | -        | -             | -                | 1  | 1                      |
| <i>Bulevar Los Próceres 5-56 Zona 10 - Univentro Nivel 11, Guatemala City</i>   |                         |          |               |                      |   |          |               |                  |  |                        |
| Telefónica Soporte y Tecnología, S.A. (2)<br><i>Provision of telecommunications and paging services</i>   | 99.98%                  | 0.02%    | 100.00%       | C                    | -   | -        | -             | -                | 1  | 1                      |
| <i>Bulevar Los Próceres 5-56 Zona 10 - Univentro Nivel 11, Guatemala City</i>   |                         |          |               |                      |   |          |               |                  |  |                        |
| Telefónica Móviles México, S.A. de C.V. (1)<br><i>Holding company</i>   | 92.00%                  | -        | 92.00%        | IG                   | 1,443,010                                 | -594,678 | -658,734      | -                | 998,991  | -                      |
| <i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120</i>  |                         |          |               |                      |   |          |               |                  |  |                        |
| Telefónica Finanzas México, S.A. de C.V. (1)<br><i>Promotion, incorporation, organization, exploitation and operation of companies and investment therein</i> | -                       | 100.00%  | 92.00%        | IG                   | 4   | 457      | 529           | -                | -  | -                      |
| <i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120</i>  |                         |          |               |                      |   |          |               |                  |  |                        |
| Baja Celular Mexicana, S.A. de C.V. (1)<br><i>Provision of wireless telephony services</i>  | -                       | 100.00%  | 92.00%        | IG                   | 97,053                                    | -14,044  | -33,985       | -                | -  | -                      |
| <i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120</i>  |                         |          |               |                      |   |          |               |                  |  |                        |
| Movitel de Noroeste, S.A. de C.V. (1)<br><i>Provision of wireless telephony services</i>  | -                       | 90.00%   | 82.80%        | IG                   | 14,062                                    | 107      | -17,749       | -                | -  | -                      |
| <i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120</i>  |                         |          |               |                      |   |          |               |                  |  |                        |
| Moviservicios, S.A. de C.V. (1)<br><i>Technical, administrative, consulting, advisory and supervisory services</i>  | -                       | 99.99%   | 91.99%        | IG                   | 1,585                                     | 669      | 176           | -                | -  | -                      |
| <i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120</i>  |                         |          |               |                      |   |          |               |                  |  |                        |
| Corporación Integral de Comunicación, S.A. de C.V. (3)<br><i>Holding company</i>  | -                       | 100.00%  | 92.00%        | IG                   | 6,513                                     | -13,297  | -1,433        | -                | -  | -                      |
| <i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120</i>  |                         |          |               |                      |   |          |               |                  |  |                        |
| Telefonía Celular del Norte, S.A. de C.V. (1)<br><i>Provision of wireless telephony services</i>  | -                       | 100.00%  | 92.00%        | IG                   | 23,710                                    | -57,125  | -26,646       | -                | -  | -                      |
| <i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120</i>  |                         |          |               |                      |   |          |               |                  |  |                        |
| Grupo Corporativo del Norte, S.A. de C.V. (3)<br><i>Acquisition, disposal and custody of securities</i>   | -                       | 100.00%  | 92.00%        | IG                   | 4,359                                     | -18,897  | -2,993        | -                | -  | -                      |
| <i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120</i>  |                         |          |               |                      |   |          |               |                  |  |                        |
| Celular de Telefonía, S.A. de C.V. (1)<br><i>Provision of wireless telephony securities</i>   | -                       | 100.00%  | 92.00%        | IG                   | 23,027                                    | -68,549  | -50,599       | -                | -  | -                      |
| <i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120</i>  |                         |          |               |                      |   |          |               |                  |  |                        |
| Enlaces del Norte, S.A. de C.V. (1)<br><i>Acquisition, disposal and custody of securities</i>   | -                       | 94.9%    | 87.31%        | IG                   | 34  | 2,394    | -12,079       | -                | -  | -                      |
| <i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120</i>  |                         |          |               |                      |   |          |               |                  |  |                        |
| Grupo de Telecomunicaciones Mexicanas, S.A. de C.V. (1)<br><i>Provision of wireless telephony services</i>  | -                       | 100.00%  | 89.61%        | IG                   | 9   | 13,399   | -22,174       | -                | -  | -                      |
| <i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120</i>  |                         |          |               |                      |   |          |               |                  |  |                        |

|                                    | Percentage of Ownership |          |               | Consolidation<br>Method | Stockholders' Equity<br>(Thousands of Euros) |          |               |                     | (Thousands<br>of Euros)                              | (Thousands<br>of Euros)   |
|------------------------------------|-------------------------|----------|---------------|-------------------------|--|----------|---------------|---------------------|--|---------------------------|
|                                    | Direct                  | Indirect | Móviles Group |                         | Capital                                      | Reserves | Income (Loss) | Interim<br>Dividend | Gross Value per<br>Telefónica Móviles,<br>S.A. Books | Value in<br>Consolidation |
| Subsidiaries and their Investments |                         |          |               |                         |  |          |               |                     |  |                           |
|                                    |                         |          |               |                         |  |          |               |                     |  |                           |

| Subsidiaries and their Investments  | Percentage of Ownership |          |               | Consolidation Method | Stockholders' Equity (Thousands of Euros) |            |               |                  | Gross Value per Telefónica Móviles, S.A. Books | Value in Consolidation |
|---|-------------------------|----------|---------------|----------------------|---|------------|---------------|------------------|--|------------------------|
|   | Direct                  | Indirect | Móviles Group |                      | Capital                                   | Reserves   | Income (Loss) | Interim Dividend |  |                        |
| Pegaso Telecomunicaciones, S.A. de C.V. (1)<br><i>Installation, maintenance and operation of public and private telecommunications networks</i><br><i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120</i>           | -                       | 100.00%  | 92.00%        | IG                   | 723,493                                   | -1,152,076 | -454,607      | -                | -  | -                      |
| Pegaso Comunicaciones y Sistemas, S.A. de C.V. (1)<br><i>Provision of wireless telephony services</i><br><i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120</i>   | -                       | 100.00%  | 92.00%        | IG                   | 573,363                                   | -984,318   | -153,483      | -                | -  | -                      |
| Pegaso PCS, S.A. de C.V. (1)<br><i>Provision of wireless telephony services</i><br><i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120</i>   | -                       | 100.00%  | 92.00%        | IG                   | 10,281                                    | -54,013    | -285,899      | -                | -  | -                      |
| Pegaso Recursos Humanos, S.A. de C.V. (1)<br><i>Provision of professional technical services for the deployment of public telecommunications networks</i><br><i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120</i> | -                       | 100.00%  | 92.00%        | IG                   | 2,265                                     | -1,229     | 2,197         | -                | -  | -                      |
| Pegaso Finanzas, S.A. de C.V. (3)<br><i>Obtainment of financing and loans and grant of loans to entities with which it has business relationships</i><br><i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120</i>     | -                       | 100.00%  | 92.00%        | IG                   | 4   | -          | -             | -                | -  | -                      |
| Pegaso Finco I, S.A. de C.V. (3)<br><i>Operation of public telecommunications networks and of frequency bands</i><br><i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120</i>   | -                       | 100.00%  | 92.00%        | IG                   | 4   | -          | -             | -                | -  | -                      |
| Activos para Telecoms, S.A. de C.V. (1)<br><i>Provision of wireless telecommunications services</i><br><i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120</i>   | -                       | 100.00%  | 92.00%        | IG                   | 3   | -47,671    | -17,236       | -                | -  | -                      |
| Telecomunicaciones Punto a Punto Mexico, S.A. de C.V. (1)<br><i>Provision of wireless telecommunications services</i><br><i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120</i>                                     | -                       | 100.00%  | 92.00%        | IG                   | 3   | -31,782    | 224           | -                | -  | -                      |
| Telefónica Telecomunicaciones México<br><i>Holding company</i><br><i>Río Duero 31, Mexico City 06500</i>  | 94.9%                   | -        | 94.90%        | IG                   | -   | -          | -             | -                | 0  | -                      |
| Telefónica Móviles Soluciones y Aplicaciones, S.A. (1)<br><i>Provision of computer and communications services</i><br><i>Avenida del Cóndor N°720, piso 4, comuna de Huechuraba, Santiago</i>   | 100.00%                 | -        | 100.00%       | IG                   | 9,142                                     | -358       | -4,778        | -                | 9,500  | -                      |
| Inversiones Telefónica Móviles Holding Limitada (1) (5)<br><i>Holding company</i><br><i>Miraflores 130, piso 12, Santiago</i>   | 100.00%                 | -        | 100.00%       | IG                   | 428,232                                   | -          | -22,147       | -                | 423,886  | -                      |
| Tpe Inversiones Chile Limitada (1) (5)<br><i>Holding company</i><br><i>Miraflores 130, piso 12, Santiago</i>  | -                       | 100.00%  | 100.00%       | IG                   | 885,358                                   | 10,624     | -23,858       | -                | -  | -                      |
| Telefónica Móvil de Chile, S.A. (1) (5)<br><i>Operator of wireless communications services</i><br><i>Miraflores 130, piso 12, Santiago</i>  | -                       | 100.00%  | 100.00%       | IG                   | 273,294                                   | 828        | -3,855        | -                | -  | -                      |
| Telefónica Móviles Soluciones, S.A.<br><i>Services company</i><br><i>Miraflores 130 piso 12 Santiago</i>  | -                       | 100.00%  | 100.00%       | IG                   | 13  | -          | -             | -                | -  | -                      |
| Tpe eServices Latin America, Inc. (1) (5)<br><i>Provision of computer services</i><br><i>Mellon Financial Center 1111 Brickell Ave. Suite 1000, Miami, Florida 33131</i>  | 100.00%                 | -        | 100.00%       | IG                   | -   | -          | -             | -                | 0  | -                      |
| Ecuador Cellular Holding, B.V. (1) (5)<br><i>Holding company</i><br><i>Strawinskylaan 3105, Atium 7th, Amsterdam</i>  | 100.00%                 | -        | 100.00%       | IG                   | -   | 219,708    | -6,821        | -                | 663,428  | -                      |
| BS Ecuador Holdings, Ltd.<br><i>Holding company</i><br><i>Palm Grove House, PO Box 438, tortola, BVI</i>  | -                       | 100.00%  | 100.00%       | IG                   | -   | -          | -             | -                | 0  | -                      |
| Otecel, S.A. (1) (5)<br><i>Provision of wireless communications services</i><br><i>Avda. de la República y la Pradera esq. Casilla, Quito</i>   | -                       | 100.00%  | 100.00%       | IG                   | 61,153                                    | 26,561     | -5,187        | -                | -  | -                      |
| Cellular Holdings (Central America), Inc.<br><i>Holding company</i><br><i>Palm Grove House, PO Box 438, tortola, BVI</i>  | 100.00%                 | -        | 100.00%       | IG                   | -   | -          | -             | -                | 37,934   | -                      |
| Guatemala Cellular Holdings, B.V. (1) (5)<br><i>Holding company</i><br><i>Strawinskylaan 3105, Atium 7th, Amsterdam</i>   | 100.00%                 | -        | 100.00%       | IG                   | -   | 4,278      | 822           | -                | 29,387   | -                      |

|                                    | Percentage of Ownership |          |               | Consolidation | Stockholders' Equity<br>(Thousands of Euros) |         |          |               | (Thousands of Euros) | (Thousands of Euros)                           |
|------------------------------------|-------------------------|----------|---------------|---------------|--|---------|----------|---------------|----------------------|--|
|                                    | Direct                  | Indirect | Móviles Group |               | Method                                       | Capital | Reserves | Income (Loss) | Interim Dividend     | Gross Value per Telefónica Móviles, S.A. Books |
| Subsidiaries and their Investments |                         |          |               |               |  |         |          |               |                      |  |
|                                    |                         |          |               |               |  |         |          |               |                      |  |

| Subsidiaries and their Investments   | Percentage of Ownership |          |               | Consolidation Method | Stockholders' Equity (Thousands of Euros) |           |               |                  | (Thousands of Euros)                           | (Thousands of Euros)   |
|--|-------------------------|----------|---------------|----------------------|---|-----------|---------------|------------------|--|------------------------|
|  | Direct                  | Indirect | Móviles Group |                      | Capital                                   | Reserves  | Income (Loss) | Interim Dividend | Gross Value per Telefónica Móviles, S.A. Books | Value in Consolidation |
| TMG (BVI) Holdings Ltd<br><i>Holding company</i><br><i>Palm Grove House, PO Box 438, tortola, BVI</i>  | -                       | 100.00%  | 100.00%       | IG                   | -   | -         | -             | -                | 0  | -                      |
| Centram Communications, LP<br><i>Holding company</i><br><i>Palm Grove House, PO Box 438, tortola, BVI</i>  | -                       | 100.00%  | 100.00%       | IG                   | -   | -         | -             | -                | 0  | -                      |
| Tpe Guatemala Ltd.<br><i>Holding company</i><br><i>Palm Grove House, PO Box 438, tortola, BVI</i>  | -                       | 100.00%  | 100.00%       | IG                   | -   | -         | -             | -                | 0  | -                      |
| Telefónica Móviles Guatemala y Cía, S.C.A. (1) (5)<br><i>Wireless communications operator</i><br><i>Blvd Los Próceres Torre Telefónica 10, Guatemala</i>     | -                       | 100.00%  | 100.00%       | IG                   | 100,815                                   | -46,002   | 2,083         | -                | -  | -                      |
| Central America Servies Holding Ltd<br><i>Inactive</i><br><i>Palm Grove House, PO Box 438, tortola, BVI</i>  | -                       | 100.00%  | 100.00%       | IG                   | -   | -         | -             | -                | 0  | -                      |
| Multi Holding Corporation<br><i>Holding company</i><br><i>Edificio HSBC, Piso 11, Avd Samuel Lewis, Panama</i>   | 99.23%                  | -        | 99.23%        | IG                   | -   | -         | -             | -                | 298,715  | -                      |
| Panamá Cellular Holdings, B.V. (1) (5)<br><i>Holding company</i><br><i>Strawinskylaan 3105, Atium 7th, Amsterdam</i>   | 100.00%                 | -        | 100.00%       | IG                   | -   | 40,138    | 2,292         | -                | 238,174  | -                      |
| BellSouth Panamá, Ltd.<br><i>Holding company</i><br><i>Cayman Islands</i>  | -                       | 100.00%  | 100.00%       | IG                   | -   | -         | -             | -                | 0  | -                      |
| Panamá Cellular Holdings, LLC<br><i>Holding company</i><br><i>Delaware, U.S.A.</i>   | -                       | 100.00%  | 100.00%       | IG                   | -   | -         | -             | -                | 0  | -                      |
| BSC de Panama Holdings, SRL (1) (5)<br><i>Holding company</i><br><i>Avda Samuel Lewis y Calle 54, Edificio Afra, Panama</i>                                  | -                       | 100.00%  | 100.00%       | IG                   | -   | 60,843    | 2,411         | -                | 0  | -                      |
| BSC Cayman<br><i>General partnership</i><br><i>Cayman Islands</i>  | -                       | 100.00%  | 99.615,00%    | IG                   | -   | -         | -             | -                | 0  | -                      |
| Telefónica Móviles Panamá, S.A. (1) (5)<br><i>Wireless telephony services</i><br><i>Edificio Magna Corp. Calle 51 Este y Avda Manuel Maria Icaza, Panama</i> | -                       | 100.00%  | 99.57%        | IG                   | 41,089                                    | 37,429    | 4,497         | -                | -  | -                      |
| Panamá Cellular Investments, LLC<br><i>Management of services</i><br><i>Delaware, U.S.A.</i>   | -                       | 100.00%  | 99.57%        | IG                   | -   | -         | -             | -                | 0  | -                      |
| Latin America Cellular Holdings, B.V. (1) (5)<br><i>Holding company</i><br><i>Strawinskylaan 3105, Atium 7th, Amsterdam</i>                                  | 100.00%                 | -        | 100.00%       | IG                   | 558                                       | 1,284,593 | 6,961         | -                | 1,377,722                                      | -                      |
| Ablitur, S.A. (1) (5)<br><i>Holding company</i><br><i>Constituyente 1467 Piso 23, Montevideo 11200, Uruguay</i>  | -                       | 100.00%  | 100.00%       | IG                   | 35,495                                    | -8,591    | 176           | -                | -  | -                      |
| Redanil, S.A. (1) (5)<br><i>Holding company</i><br><i>Constituyente 1467 Piso 23, Montevideo 11200, Uruguay</i>  | -                       | 100.00%  | 100.00%       | IG                   | 4,700                                     | 10,460    | 176           | -                | -  | -                      |
| Abiatar, S.A. (1) (5)<br><i>Wireless communications and operator and provision of services</i><br><i>Constituyente 1467, Montevideo, Uruguay</i>             | -                       | 100.00%  | 100.00%       | IG                   | 5,451                                     | 19,571    | 229           | -                | -  | -                      |
| Comunicaciones Móviles de Perú, S.A. (1) (5)<br><i>Wireless telephony operator</i><br><i>Av. Republica e Panamá n°3055, San Isidro, Lima</i>                 | 2.42%                   | 97.43%   | 99.85%        | IG                   | 23,094                                    | -30,036   | -1,324        | -                | 167  | -                      |
| BellSouth Nicaragua, S.A.<br><i>Holding company</i><br><i>Managua, Nicaragua</i>   | -                       | 100.00%  | 100.00%       | IG                   | -   | -         | -             | -                | 0  | -                      |
| Pisani Resources y Cía, Ltd.<br><i>Holding company</i><br><i>Managua, Nicaragua</i>  | -                       | 100.00%  | 100.00%       | IG                   | -   | -         | -             | -                | 0  | -                      |

| Subsidiaries and their Investments  | Percentage of Ownership |          |               | Consolidation Method | Stockholders' Equity (Thousands of Euros) |          |               |                  | (Thousands of Euros)                           | (Thousands of Euros)   |
|---|-------------------------|----------|---------------|----------------------|---|----------|---------------|------------------|--|------------------------|
|   | Direct                  | Indirect | Móviles Group |                      | Capital                                   | Reserves | Income (Loss) | Interim Dividend | Gross Value per Telefónica Móviles, S.A. Books | Value in Consolidation |
| Doric Holding y Cía, Ltd.<br><i> Holding company<br/> Managua, Nicaragua</i>  | -                       | 100.00%  | 100.00%       | IG                   | -   | -        | -             | -                | 0  | -                      |
| Kalamai Holdings, Ltd.<br><i> Holding company<br/> Palm Grove House, PO Box 438, tortola, BVI</i>   | -                       | 100.00%  | 100.00%       | IG                   | -   | -        | -             | -                | 0  | -                      |
| Kalamai Hold. y Cía, Ltd.<br><i> Holding company<br/> Managua, Nicaragua</i>  | -                       | 100.00%  | 100.00%       | IG                   | -   | -        | -             | -                | 0  | -                      |
| Telefonía Celular de Nicaragua, S.A. (1) (5)<br><i> Wireless telephony services<br/> Carretera Mazalla, Managua, Nicaragua</i>                                      | -                       | 100.00%  | 100.00%       | IG                   | 11,210                                    | 31,412   | 1,139         | -                | -  | -                      |
| Telecomunicaciones BBS, S.R.L. (1) (5)<br><i> Wireless telephony services<br/> Torre Aba, Calle Veracruz, Las Mercedes, Caracas, 1060</i>                           | -                       | 100.00%  | 100.00%       | IG                   | -   | 486,838  | 16,856        | -                | -  | -                      |
| Comtel Comunicaciones Telefónicas, S.A. (1) (5)<br><i> Holding company<br/> Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela</i>              | 65.14%                  | 34.86%   | 100.00%       | IG                   | 23,229                                    | 127,251  | 5,558         | -27,562          | 153  | -                      |
| Telcel, C.A. (1) (5)<br><i> Wireless telephony operator<br/> Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela</i>                             | 1.00%                   | 99.00%   | 100.00%       | IG                   | 104,374                                   | 365,118  | 17,479        | -86,130          | 240,468  | -                      |
| Sistemas Timetrac, C.A. (1) (5)<br><i> Fleet location services<br/> Calle Pantin, Edificio Grupo Secusat. Piso 3. Caracas, Venezuela</i>                            | -                       | 75.00%   | 75.00%        | IG                   | 1,585                                     | 288      | 394           | 6,940            | -  | -                      |
| Servicios Telcel, C.A.<br><i> Customer service and telecommunications services<br/> Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela</i>      | -                       | 100.00%  | 100.00%       | IG                   | -   | -        | -             | -                | 0  | -                      |
| Telcel International, Ltd.<br><i> Holding company<br/> Cayman Islands</i>   | -                       | 100.00%  | 100.00%       | IG                   | -   | -        | -             | -                | 0  | -                      |
| Corporación 271191, C.A.<br><i> Purchase and sale of movable and immovable property<br/> Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela</i> | -                       | 100.00%  | 100.00%       | IG                   | -   | -        | -             | -                | 0  | -                      |
| Promociones 4222, C.A.<br><i> Purchase and sale of movable and immovable property<br/> Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela</i>   | -                       | 100.00%  | 100.00%       | IG                   | -   | -        | -             | -                | 0  | -                      |
| S.T. Mérida, C.A.<br><i> Customer service and telecommunications services<br/> Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela</i>           | -                       | 100.00%  | 100.00%       | IG                   | -   | -        | -             | -                | 0  | -                      |
| S.T. Ciudad Ojeda, C.A.<br><i> Customer service and telecommunications services<br/> Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela</i>     | -                       | 100.00%  | 100.00%       | IG                   | -   | -        | -             | -                | 0  | -                      |
| S.T. San Cristóbal<br><i> Customer service and telecommunications services<br/> Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela</i>          | -                       | 100.00%  | 100.00%       | IG                   | -   | -        | -             | -                | 0  | -                      |
| S.T. Maracaibo, C.A.<br><i> Customer service and telecommunications services<br/> Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela</i>        | -                       | 100.00%  | 100.00%       | IG                   | -   | -        | -             | -                | 0  | -                      |
| S.T. Punto Fijo, C.A.<br><i> Customer service and telecommunications services<br/> Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela</i>       | -                       | 100.00%  | 100.00%       | IG                   | -   | -        | -             | -                | 0  | -                      |
| S.T. Valera, C.A.<br><i> Customer service and telecommunications services<br/> Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela</i>           | -                       | 100.00%  | 100.00%       | IG                   | -   | -        | -             | -                | 0  | -                      |
| S.T. Valencia, C.A.<br><i> Customer service and telecommunications services<br/> Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela</i>         | -                       | 100.00%  | 100.00%       | IG                   | -   | -        | -             | -                | 0  | -                      |
| SyRed, T.E.I., C.A.<br><i> Customer service and telecommunications services<br/> Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela</i>         | -                       | 100.00%  | 100.00%       | IG                   | -   | -        | -             | -                | 0  | -                      |

|                                    | Percentage of Ownership |          |               | Consolidation<br>Method | Stockholders' Equity<br>(Thousands of Euros) |          |               |                     | (Thousands<br>of Euros)                              | (Thousands<br>of Euros)   |
|------------------------------------|-------------------------|----------|---------------|-------------------------|--|----------|---------------|---------------------|--|---------------------------|
|                                    | Direct                  | Indirect | Móviles Group |                         | Capital                                      | Reserves | Income (Loss) | Interim<br>Dividend | Gross Value per<br>Telefónica Móviles,<br>S.A. Books | Value in<br>Consolidation |
| Subsidiaries and their Investments |                         |          |               |                         |  |          |               |                     |  |                           |
|                                    |                         |          |               |                         |  |          |               |                     |  |                           |

| Subsidiaries and their Investments   | Percentage of Ownership |          |               | Consolidation Method | Stockholders' Equity (Thousands of Euros) |          |               |                  | (Thousands of Euros)                           | (Thousands of Euros)   |
|--|-------------------------|----------|---------------|----------------------|---|----------|---------------|------------------|--|------------------------|
|  | Direct                  | Indirect | Móviles Group |                      | Capital                                   | Reserves | Income (Loss) | Interim Dividend | Gross Value per Telefónica Móviles, S.A. Books | Value in Consolidation |
| Servicios Telcel Acarigua, C.A.<br><i>Customer service and telecommunications services</i><br>Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela     | -                       | 100.00%  | 100.00%       | IG                   | -   | -        | -             | -                | 0  | -                      |
| Servicios Telcel Barquisimeto, C.A.<br><i>Customer service and telecommunications services</i><br>Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela | -                       | 100.00%  | 100.00%       | IG                   | -   | -        | -             | -                | 0  | -                      |
| Serv. Telcel Charallave<br><i>Customer service and telecommunications services</i><br>Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela             | -                       | 100.00%  | 100.00%       | IG                   | -   | -        | -             | -                | 0  | -                      |
| S.T. Cumana, C.A.<br><i>Customer service and telecommunications services</i><br>Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela                   | -                       | 100.00%  | 100.00%       | IG                   | -   | -        | -             | -                | 0  | -                      |
| S.T. Guarenas, C.A.<br><i>Customer service and telecommunications services</i><br>Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela                 | -                       | 100.00%  | 100.00%       | IG                   | -   | -        | -             | -                | 0  | -                      |
| S.T. Los Teques, C.A.<br><i>Customer service and telecommunications services</i><br>Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela               | -                       | 100.00%  | 100.00%       | IG                   | -   | -        | -             | -                | 0  | -                      |
| S.T. Maracay, C.A.<br><i>Customer service and telecommunications services</i><br>Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela                  | -                       | 100.00%  | 100.00%       | IG                   | -   | -        | -             | -                | 0  | -                      |
| S.T. Margarita, C.A.<br><i>Customer service and telecommunications services</i><br>Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela                | -                       | 100.00%  | 100.00%       | IG                   | -   | -        | -             | -                | 0  | -                      |
| S.T. Maturín, C.A.<br><i>Customer service and telecommunications services</i><br>Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela                  | -                       | 100.00%  | 100.00%       | IG                   | -   | -        | -             | -                | 0  | -                      |
| S.T. Puerto Ordaz, C.A.<br><i>Customer service and telecommunications services</i><br>Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela             | -                       | 100.00%  | 100.00%       | IG                   | -   | -        | -             | -                | 0  | -                      |
| Olympic, Ltda. (1) (5)<br><i>Holding company</i><br>Av. 82 N° 10-62, piso 6  | -                       | 100.00%  | 100.00%       | IG                   | 25  | 583,497  | 9,217         | -                | -  | -                      |
| Telefónica Móviles Colombia, S.A. (1) (5)<br><i>Wireless communications operator</i><br>Calle 100, N° 7-33, Piso 15, Bogotá, Colombia                                    | 22.44%                  | 77.56%   | 100.00%       | IG                   | 287                                       | 143,570  | 13,822        | -                | 115,601  | -                      |
| Bautzen Inc. (1) (5)<br><i>Financial services management</i><br>Panama   | -                       | 100.00%  | 100.00%       | IG                   | 211                                       | -202     | -             | -                | -  | -                      |
| Comoviles S.A. (1) (5)<br><i>Telecommunications services</i><br>Calle 100 N° 7-33, piso 17, Bogotá, Colombia   | -                       | 99.97%   | 99.97%        | IG                   | -   | 173      | -2            | -                | -  | -                      |
| Comunicaciones Trunking, S.A. (1) (5)<br><i>Provision of trunking services</i><br>Calle 100 N° 7-33, piso 16, Bogotá, Colombia   | -                       | 99.98%   | 99.95%        | IG                   | 18  | 67       | -2            | -                | -  | -                      |
| Paracomunicar, S.A. (1) (5)<br><i>Telecommunications services</i><br>Calle 100 N° 7-33, piso 17, Bogotá, Colombia  | -                       | 99.35%   | 99.31%        | IG                   | -   | 2        | -             | -                | -  | -                      |
| Kobrocom Electrónica Ltda. (1) (5)<br><i>Telecommunications services</i><br>Calle 100 N° 7-33, piso 15, Bogotá, Colombia   | -                       | 100.00%  | 99.95%        | IG                   | 44  | -18      | 1             | -                | -  | -                      |
| Other investments  | -                       | N/A      | N/A           | C                    | 0   | 0        | 0             | 0                | -  | 1,669                  |
|  |                         |          |               |                      | 3,124                                     | 2,786    | 2,338         | (830)            | 1,626  | (24)                   |

(1) Data obtained from the individual financial statements of these companies as of December 31, 2004. The data relating to companies outside the euro zone were translated to euros by applying the year-end exchange rates to capital and reserves and the average exchange rates for the period to their results.

(2) Data obtained from the individual financial statements of these companies as of December 31, 2003.

(3) Data obtained from the individual financial statements of these companies as of June 30, 2004.

(4) Data obtained from the individual financial statements of these companies as of October 31, 2004.

|                                    | Percentage of Ownership |          |               | Consolidation | Stockholders' Equity<br>(Thousands of Euros) |         |          |               | (Thousands of Euros) | (Thousands of Euros)                           |
|------------------------------------|-------------------------|----------|---------------|---------------|--|---------|----------|---------------|----------------------|--|
|                                    | Direct                  | Indirect | Móviles Group |               | Method                                       | Capital | Reserves | Income (Loss) | Interim Dividend     | Gross Value per Telefónica Móviles, S.A. Books |
| Subsidiaries and their Investments |                         |          |               |               |  |         |          |               |                      |  |

(5) The "Income (Loss)" column reflects the companies' revenues and expenses from the date of acquisition of the holding or incorporation of the company through year-end.

*Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.*

**TELEFÓNICA MÓVILES, S.A.****2004 MANAGEMENT REPORT**

In 2004 the occurrence of several significant events enabled Telefónica Móviles to end the year with 74.4 million managed customers, compared with 52 million at 2003 year-end, thereby consolidating its position as one of the leading operators in the industry. These events included most notably:

- The acquisition of BellSouth's ten wireless telephony operators in Latin America (agreement signed in March 2004 and conclusion of the acquisitions in October 2004 and January 2005) enabled Telefónica Móviles to consolidate its leadership in the region, reinforcing its presence in key countries in which it already had a presence (Argentina, Chile and Peru), while at the same time, achieving a significant position in fast-growing markets where it hitherto had not been present (Venezuela, Colombia, Ecuador and Uruguay) and a large critical mass in Central America (Guatemala, El Salvador, Panama and Nicaragua).
- In December 2004 the eight operators acquired in October 2004 and consolidated in the Telefónica Móviles Group had 10.98 million customers and the BellSouth operators in Argentina and Chile, the acquisition of which was concluded in January 2005, had 3.8 million customers at 2004 year-end.
- Telefónica Móviles, in addition to exploiting the potential for growth in the markets in which it is present, expects to obtain significant synergies by consolidating its position in Argentina, Chile, Peru and Guatemala.
- In July 2004 Telefónica Móvil Chile was acquired from Telefónica CTC (a Telefónica Group company).
- The main Latin American markets were highly dynamic in 2004, driven by strong and growing competitive pressure and a stable macroeconomic climate in the region, which led to a significant increase in commercial activity and to solid year-on-year growth in the total number of customers.
- Noteworthy in this respect was the rapid expansion of the Brazilian market, in which VIVO (the joint venture owned on an equal-footing basis by Telefónica Móviles and Portugal Telecom) maintained its position and gained the largest number of new customers in this country. At 2004 year-end VIVO had 26.5 million customers, with an estimated average market share in its operating areas of 51%.
- Also significant was VIVO's ongoing strategy of launching new data services, backed by the expansion of the coverage of the CDMA 1xRTT network, the quickest in the market, and the launch of services based on EVDO technology, which offers a data transmission speed comparable to that of 3G.
- As proof of the commitment of Telefónica Móviles and Portugal Telecom to the Brazilian cellular market and to VIVO, Brasilcel increased its holdings in certain of its subsidiaries, by launching friendly tender offers for some of the outstanding shares either directly or indirectly through its subsidiary Telesp Celular Participações (TCP) in October 2004.

## **Móviles**

- In Mexico, Telefónica Móviles made significant progress both in the improvement of the capillarity and efficiency of its distribution channel (which had over 10,400 points of sale in December 2004, as compared with 6,200 at 2003 year-end) and in the deployment of its GSM network, which in December 2004 covered a population representing 77% of Mexican GDP.
- Also, in the second half of the year Telefónica Móviles México announced the implementation of EDGE technology on its GSM network, which enables it to offer the most sophisticated wireless broadband service in the Mexican market, and launched new services for the residential segment and for companies. Telefónica Móviles México has thus consolidated its position as the second operator in the market with 5.6 million customers in December 2004, as compared with 3.5 million in 2003.
- In Argentina and Chile, the increase in the commercial activity of all the operators and the deployment of GSM networks made the markets highly dynamic. As a result, in December 2004 Telefónica Móviles had 3.4 million customers in Argentina and 3.3 million in Chile. With the inclusion of the customers of the BS operators, which were effectively acquired at the beginning of January 2005, TEM's customers in these countries would number 5.7 million and 4.8 million, respectively, making TEM the leading operator in both markets.
- The Spanish market was characterized by increasing maturity and by a major change in the competitive environment, with strong commercial pressure brought to bear by the other two operators, particularly in the area of portability, which obliged Telefónica Móviles España (TME) to step up its commercial drive aimed at attracting customers and building customer loyalty. TME concentrated its efforts on higher-value segments and segments with a high potential for growth and, as of December 31, 2004, it continued to lead the Spanish market with almost 18.9 million customers.
- It should be noted that due to the growing trend in the Spanish market towards inactive second lines and shared lines and in order to be able to more accurately monitor the fundamental business ratios and the actual contribution made by customers to the generation of revenues, Telefónica Móviles España decided to exclude for the purposes of the declared number of customers 1.3 million inactive prepaid SIM cards, effective April 1, 2004.
- In line with its commitment to technological leadership, in May 2004 Telefónica Móviles España began to market the first UMTS videotelephony services in Spain, and at the same extended its "Oficin@ Movistar UMTS/GPRS" wireless connectivity service, launched in November 2003, to the residential market. At 2004 year-end, with its 3,800 base stations, Telefónica Móviles España was spearheading the deployment of UMTS in Spain.
- In Morocco, Medi Telecom gained a significant number of new customers, giving it 2.73 million customers at 2004 year-end, thereby significantly improving its market position.
- Lastly, evidence of the progress made by the FreeMove alliance (formed by Telefónica Móviles, T-Mobile International, Telecom Italia Mobile and Orange) in offering common products and services to its customers was the launch in the third quarter of the year of the new Single European Tariff for calls in Western Europe between the networks of the members of the alliance.

On April 16, 2004, the Stockholders' Meeting of Telefónica Móviles approved the payment of a dividend in cash on each of the Company's outstanding shares of €0.1838 gross out of 2004 income. This dividend was paid on June 16, 2004.

The financial statements shown below include in 2004 the full consolidation of Telefónica Móvil Chile, which Telefónica Móviles had been managing since August 2004, following its acquisition in July 2004. They also include the full consolidation in November and December of BellSouth's eight wireless telephony operators in Latin America, the acquisition of which was concluded in October (Colombia, Ecuador, Guatemala, Nicaragua, Panama, Peru, Uruguay and Venezuela).

In 2003 and 2004 the following changes took place in the scope of consolidation:

2003:

- Following the agreement reached with Terra Lycos in the first quarter of 2003 for the restructuring of Terra Mobile, Telefónica Móviles consolidated this company fully in its financial statements. This company had already been fully consolidated in the financial statements since September 2001.
- Following the acquisition of 61.10% of the common voting stock (representing 20.37% of the total capital stock) of Tele Centro Oeste Celular Participações, S.A. ("TCO") by Telesp Celular Participações, S.A., this company was fully consolidated from May 1, 2003, in the consolidated financial statements of Brasilcel. At year-end Telesp Celular Participações, S.A. had an ownership interest of 28.87% in TCO.
- In June 2003 all the shares of Telefónica Mobile Solutions, S.A. were sold to the Telefónica Group company TS Telefónica Sistemas, S.A., effective March 31, 2003. Accordingly, from that date it was excluded from the scope of consolidation of the Telefónica Móviles Group.
- In July 2003 capital was increased at Medi Telecom, as a result of which Telefónica Móviles increased its ownership interest to 32.18%.
- In December 2003 the Austrian subsidiary of the Telefónica Móviles Group, 3G Mobile Telecommunications GmbH, was sold to the wireless operator Mobilkom Austria. Accordingly, from that date it was excluded from the consolidated Group.

2004:

- In June 2004 an additional holding of 13.95% was acquired in Mobipay Internacional, thereby increasing the ownership interest in this company to 50%, as a result of which this company, which had been accounted for by the equity method in 2003, was proportionally consolidated in 2004.
- At the end of June 2004 Brasilcel N.V. acquired the holdings owned by NTT DoCoMo, Inc. and Itochu Corporation in Sudestecel Participações, S.A. (a holding company which controls a package of shares of the operator Tele Sudeste Celular Participações) equal to 10.5% of its capital stock. As a result of this transaction, Brasilcel now owns all the shares of Sudestecel Participações.
- On July 23, 2004, all the shares of Telefónica Móvil Chile, which provides wireless telecommunications services in Chile, were acquired from Telefónica CTC (a Telefónica Group company) for €70 million. Since that date, Telefónica Móvil Chile has been fully consolidated in the Móviles Group.

- After the favorable reception of the friendly tender offers for Tele Sudeste Celular (TSD), Tele Leste Celular (TBE), Celular CRT (CRT) and Tele Centro Oeste (TCO) launched in August 2004 by Brasilcel directly or indirectly through its subsidiary Telesp Celular Participações (TCP) and effectively implemented in October 2004, Brasilcel's ownership interests in these subsidiaries increased to: 90.9% in TSD, 50.6% in TBE, 67.0% in CRT and 50.6% in TCO.
- At the same time, Telesp Celular Participações (TCP) made public the Board of Director's approval of a capital increase of approximately BRL 2,054 million. This capital increase was subscribed in full in January 2004. A portion of the amount received will be used to finance the increase in TCP's holding in Tele Centro Oeste (TCO), and the remainder will be used to partially repay the company's short-term debt and improve its capital structure, providing it with the financial flexibility required to undertake its investment program.
- Following the global agreement entered into in March 2004 for the acquisition by Telefónica Móviles of BellSouth's ten wireless telephony operators in Latin America, for which purpose the ten companies were valued (firm value) at US\$ 5,850 million, in October 2004, once the necessary regulatory authorizations were received, the acquisition of the first eight operators was concluded. The acquisitions were financed through Telefónica Móviles' cash flow generating capacity and debt.
- On October 14, 2004, Telefónica Móviles concluded the acquisition of all the shares owned by the BellSouth Group in its wireless telephony operators in Ecuador, Guatemala and Panama, and on October 28, 2004, the acquisition of all the shares owned by the BellSouth Group in its wireless telephony operators in Venezuela, Colombia, Peru, Nicaragua and Uruguay was also concluded.
- Subsequent to 2004 year-end, the acquisitions of all the shares of the Chilean operator and of all the shares of the Argentine operator were concluded on January 7, 2005 and January 11, 2005, respectively.

**STATEMENTS OF INCOME OF TELEFÓNICA MÓVILES, S.A.**

| <i>(Data expressed in millions of euros)</i> | <b>December 2004</b> | <b>December 2003</b> | <b>% Variation</b> |
|--|----------------------|----------------------|--------------------|
| Operating revenues                           | 11,827.6             | 10,070.3             | 17.5%              |
| Other revenues                               | 217.3                | 152.4                | 42.6%              |
| <b>TOTAL REVENUES</b>                        | <b>12,044.9</b>      | <b>10,222.7</b>      | <b>17.8%</b>       |
| Purchases and procurements                   | (3,676.3)            | (2,592.5)            | 41.8%              |
| Personnel expenses                           | (539.9)              | (486.0)              | 11.1%              |
| Variation in allowances                      | (86.7)               | (99.3)               | (12.6)%            |
| Other operating expenses                     | (3,041.0)            | (2,582.0)            | 27.5%              |
| <b>TOTAL EXPENSES</b>                        | <b>(7,343.9)</b>     | <b>(5,759.8)</b>     | <b>27.5%</b>       |
| EBITDA                                       | 4,701.0              | 4,462.9              | 5.3%               |
| EBITDA as % of net sales                     | 39.7%                | 44.3%                | (4.6)%             |
| Depreciation and amortization expense        | (1,611.0)            | (1,420.6)            | 13.4%              |
| <b>OPERATING INCOME</b>                      | <b>3,090.0</b>       | <b>3,042.2</b>       | <b>1.6%</b>        |
| Financial loss and other                     | (486.7)              | (560.5)              | (13.2)%            |
| Extraordinary loss                           | (92.9)               | (4.5)                | 1,949.1%           |
| <b>INCOME BEFORE TAXES</b>                   | <b>2,510.3</b>       | <b>2,477.2</b>       | <b>1.3%</b>        |
| Corporate income tax                         | (898.1)              | (890.6)              | c.s                |
| Income attributed to minority interests      | 21.7                 | 21.1                 | 2.8%               |
| <b>INCOME FOR THE YEAR</b>                   | <b>1,633.9</b>       | <b>1,607.8</b>       | <b>1.6%</b>        |

<sup>(1)</sup> EBITDA: Operating income before depreciation and amortization.

a) *Operating revenues*

**OPERATING REVENUES**

| <i>(Data expressed in millions of euros)</i> | <b>2004</b>     | <b>2003</b>     | <b>% Variation</b> |
|--|-----------------|-----------------|--------------------|
| Spain  | 8,190.0         | 7,495.5         | 9.3%               |
| Latin America                                | 3,649.8         | 2,568.9         | 42.1%              |
| Other and intercompany eliminations          | (12.2)          | 5.9             | c.s.               |
| <b>TOTAL</b>                                 | <b>11,827.6</b> | <b>10,070.3</b> | <b>17.5%</b>       |

Consolidated operating revenues increased by 17.5% with respect to 2003 to €1,827.6 million. Assuming constant exchange rates and disregarding the changes in the scope of consolidation<sup>1</sup>, revenues would have increased by 13.6%.

The growth in consolidated revenues was mainly brought about by the increase in the customer base. In 2004 the number of Telefónica Móviles' managed active customers rose by over 22 million, representing an annual increase of over 43.6%. Telefónica Móviles ended 2004 with more than 74.4 million managed customers, or 78.2 million if the new companies acquired in Chile and Argentina are included. The increase in the customer base

<sup>1</sup> Disregarding the impact of the consolidation of Telefónica Móvil Chile from August 1, 2004, and of the assets acquired from BellSouth in Latin America from November 1, 2004.

## Móviles

and higher levels of traffic through its operators' networks enabled the Group to obtain service revenues of €10,239 million in 2004, up 15.4% on 2003.

- *Operating revenues in Spain:* operating revenues in Spain increased by 9.3%, due to the 12% growth of traffic in 2004. Data ARPU amounted to €4.3 and the contribution of GPRS services (mainly connectivity with Internet and intranet access, content, game downloads and applications) increased.
- *Operating revenues in Latin America:* operating revenues in Latin America accounted for 31% of consolidated revenues, with a year-on-year gain in euro terms of 42%. Disregarding the impact of exchange rates and the aforementioned inclusions in the scope of consolidation, these revenues would have grown by 27%, due largely to the strong increase in the number of customers in Mexico (63.3%) and Argentina (84.8%).

The variations in the main operating expenses, distributed among the principal operating areas, were as follows

### b) Procurements

Procurements, which include mostly terminal purchase and interconnection items, increased by 41.8% to €3,676.3 million in 2004, as compared with €2,592.5 million in 2003. In 2004 procurements represented 31% of operating revenues, up 5 percentage points from the 25.7% that they accounted for in 2003.

- *Operations in Spain:* total procurement expenses increased by 13.6% from €1,799 million in 2003 to €2,044 in 2004, due to the 3.9% increase in sales campaigns (which included new connections, migrations and exchanges) and to the 15.3% increase in interconnection expenses, due mainly to the growth in outgoing traffic to other wireless operators. However, procurements as a percentage of operating revenues in Spain increased by only 0.9 percentage points to 25% in 2004, as compared with 24% in 2003.
- *Operations in Latin America:* these expenses amounted to €1,638 million in 2004, as compared with €788 million in 2003. Disregarding the impact of changes in the scope of consolidation and exchange rate fluctuations, procurements would have increased by 83.6%, due mainly to the greater commercial activity in Mexico and Argentina. Procurements as a percentage of operating revenues in Latin America rose to 44.9% in 2004, as compared with 30.7% in 2003.

### c) Personnel expenses

At 2004 year-end the fully and proportionally consolidated Telefónica Móviles Group companies had 20,282 employees, up on the 2003 year-end headcount due largely to the changes in the scope of consolidation.

Personnel expenses increased by 11.2% from €486 million in 2003 to €539.9 million in 2004 and, as a percentage of operating revenues, fell from 4.8% in 2003 to 4.6% in 2004.

- *Operations in Spain:* Spain accounts for 48% of the Telefónica Móviles Group's personnel expenses. These expenses increased by 8.2% from €238 million in 2003 to €258 million in 2004, due to the 1.3% growth in the average headcount, the improvement of employee welfare benefits and the revision of the collective labor agreement. Personnel expenses represented 3.2% of operating revenues in Spain.
- *Operations in Latin America:* the Telefónica Móviles Group's operations in Latin America accounted for 44.5% of the total personnel expenses. Disregarding the aforementioned changes in the scope of consolidation and exchange rate fluctuations, personnel expenses would have increased by 12.4%, due mainly to the revision of the collective labor agreement in Brazil.

## Móviles

### d) Other operating expenses

This item, which is made up of the outside services arising from commercial activities, increased by 18% from €2,582.2 million in 2003 to €3,041 million in 2004 and, as a percentage of operating revenues, rose slightly from 25.6% in 2003 to 25.7% in 2004.

- *Operations in Spain:* operations in Spain accounted for 57.8% of these expenses in 2004, up 13%, due to higher advertising and terminal support expenses, from €1,557 million in 2003 to €1,759 million in 2004. These expenses as a percentage of operating revenues in Spain rose from 20.8% in 2003 to 21.5% in 2004.
- *Operations in Latin America:* operations in Latin America accounted for 40.8% of total expenses. These expenses amounted to €1,242 million in 2004, as compared with €1,001 million in 2003. These expenses as a percentage of operating revenues in Latin America dropped from 39% in 2003 to 34% in 2004. Disregarding the changes in the scope of consolidation and exchange rate fluctuations, the other operating expenses would have increased by 16.6%, in line with the increased commercial activity in Brazil, Argentina and Mexico.

### e) EBITDA

#### EBITDA

| (Data expressed in millions of euros) | 2004           | 2003           | % Variation |
|---------------------------------------|----------------|----------------|-------------|
| Spain                                 | 4,202.0        | 3,940.8        | 6.6%        |
| Latin America                         | 567.6          | 579.1          | (2.0)%      |
| Other and intercompany eliminations   | (68.6)         | (57.0)         | 20.4%       |
| <b>TOTAL</b>                          | <b>4,701.0</b> | <b>4,462.9</b> | <b>5.3%</b> |

EBITDA improved by 5.3% from €4,463 million in 2003 to €4,701 million in 2004. Disregarding the effect of exchange rate fluctuations and changes in the scope of consolidation, the annual growth in consolidated EBITDA would have been 3.1%. The consolidated EBITDA margin was 39.7%, as compared with 44.3% in 2003.

- *Operations in Spain:* operations in Spain accounted for 89% of the Telefónica Móviles Group's EBITDA in 2004, up 6.6% from 2003. The EBITDA margin as a percentage of operating revenues was 51.3% in 2004, as compared with 52.6% in 2003. The EBITDA per customer and month of Telefónica Móviles España continued to grow, reaching an average of €8.75 in 2004.
- *Operations in Latin America:* the EBITDA of the operations in Latin America fell by 2% in euro terms and represented 12.1% of the EBITDA of the Telefónica Móviles Group in 2004. Assuming constant exchange rates and disregarding the aforementioned changes in the scope of consolidation, EBITDA would have fallen by 19.3% with respect to December 2003, due to higher losses in Mexico and the lower EBITDA in Argentina, as a result of the increased commercial activity in 2004. EBITDA as a percentage of operating revenues was 15.6% in 2004, as compared with 22.5% in 2003.

### f) Financial revenues and expenses

Financial revenues and expenses include the results of the companies accounted for by the equity method, amortization of consolidation goodwill and financial revenues and expenses. The financial loss in 2004 was 13% lower than in 2003, due mainly to the following:

## Móviles

- Lower losses at the companies accounted for by the equity method, which decreased by 53% with respect to 2003, due mainly to the 65% drop in the losses of Medi Telecom (€13 million attributable to the Móviles Group) and the 39% fall in the losses of IPSE 2000 (€23 million attributable to the Móviles Group).
- Lower consolidation goodwill amortization expense (down 6.9%) than in 2003, due largely to the allocation in 2003 of a portion of the goodwill of Telefónica Móviles México as an addition to the value of the company's license. It should be borne in mind that the figure for 2004 includes five months of amortization of the goodwill generated in the acquisition of Telefónica Móvil Chile and two months of amortization of the goodwill generated in the acquisition of the BellSouth operators in Latin America, and that since October 2004 the amortization of the goodwill of Brasilcel has increased following the completion of the tender offers for its subsidiaries.
- Financial expenses were 6.4% lower than in 2003, due to the inclusions in the scope of consolidation mainly as a result of the 6% reduction in the Móviles Group's average debt.

### g) *Extraordinary items*

The extraordinary loss in 2004 was mainly attributable to the provision recorded for the investment in, and the loans granted to, Movistar Puerto Rico after the operator's management contract was terminated in September 2004.

### h) *Corporate income tax*

In 2004 the corporate income tax expense amounted to €98.1 million. However, the related cash outflow was lower because of the tax assets generated in 2002.

### i) *Net debt*

The consolidated net debt of the Telefónica Móviles Group increased by 61% with respect to December 2003 to stand at €1,176 million at 2004 year-end, due to the inclusion of new operators. Disregarding this effect, net consolidated debt would have been lower due to the cash generated in Spain.

### j) *Capex*

At consolidated level, investments in tangible fixed assets and intangible assets amounted to €1,618 million in 2004, up 33% from 2003, due to heavier investments in the principal markets (deployment of TME's UMTS network and the GSM networks in Argentina and Mexico, and the capacity increase in Brazil) and to the impact of including Telefónica Móvil Chile (investment of €69 million) and the BellSouth Latin American operators (investment of €81 million) in the consolidated Group.

### ***Innovation and R&D***

For the Telefónica Móviles Group, innovation is one of the pillars on which the development of its future transformation process will be based. In line with this strategy, innovation is strengthened as a fundamental means of obtaining sustainable competitive advantages, such as preempting the market and differentiating itself from its rivals by, on the one hand, incorporating new technologies and, on the other, developing new products and services, such as the inclusion of information and communication technologies in business processes in order to become a more effective, efficient and flexible company whose business is built around its customers.

In 2004 Telefónica invested €1,286 million in technological innovation projects. As part of its investment rationalization process, each year Telefónica Móviles continues to raise the percentage of the investment it earmarks for new businesses.

In its quest for innovative solutions, Telefónica remains convinced that to be able to differentiate itself from its competitors and achieve wider acceptance in the market a strategy based on acquired technologies alone is not sufficient. In-house research and development must be fostered to guarantee this differentiation and drive forward other innovative activities. In 2004 the Telefónica Group allocated €153 million to R&D, representing 1.5% of its revenues.

The R&D projects executed by the Telefónica Móviles Group in 2004 focused on profitable innovation, process efficiency, the creation of new revenue sources, customer satisfaction, consolidation of the new markets and technological leadership. These projects were carefully woven into Telefónica Móviles' strategy with the aim of creating value through data and multimedia wireless communications and services that make use of the emerging capabilities of UMTS and the new wireless terminals, and of developing and improving the commercial and network and service management systems.

#### **Treasury stock**

As of December 31, 2004, a total of 496 shares were held as treasury stock. These shares, which were acquired in the framework of the partial execution of the MOS Program, will either be delivered to beneficiaries who exercise their options on subsequent dates or will be retired pursuant to the commitments assumed by the Company. In accordance with current legislation, the related restricted reserve of €1,000 was recorded.